



# STATEMENT OF PERFORMANCE EXPECTATIONS

OUR PLAN FOR 2017/18





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## LEGISLATION ENFORCED BY THE COMMERCE COMMISSION

Commerce Act	Commerce Act 1986
CCCF Act	Credit Contracts and Consumer Finance Act 2003
DIR Act	Dairy Industry Restructuring Act 2001
Fair Trading Act	Fair Trading Act 1986
Telecommunications Act	Telecommunications Act 2001

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Presented to the House of Representatives pursuant to section 149L(3) of the Crown Entities Act 2004.

## Commonly used terms

<b>Appropriation</b>	A parliamentary authorisation for Ministers of the Crown or an Office of Parliament to incur expenses or capital expenditure.
<b>Authorisation</b>	Under the Commerce Act, certain agreements and mergers are prohibited as they can lead to anti-competitive outcomes, such as increased prices or lack of choice. However, the Commerce Act recognises that in some circumstances an anti-competitive transaction may lead to sufficient public benefits that would outweigh the competitive harm. In this case the Commission can grant an authorisation for the agreement or merger to proceed.
<b>Clearance</b>	Under the Commerce Act, the Commission can grant a clearance for a proposed merger if we are satisfied that it is not likely to substantially lessen competition in a market. We compare the likely state of competition if the merger proceeds with the likely state of competition if the merger does not proceed.
<b>Determination</b>	A formal and binding decision made by the Commission under the legislation it administers.
<b>Information disclosure</b>	Under Part 4 of the Commerce Act (subpart 4), sufficient information is to be readily available to interested persons so that they can assess whether the purpose of Part 4 is being met. Under the Telecommunications Act, regulated telecommunication services are required to make reliable and timely information prescribed by the Commission publicly available so that a wide range of people are informed about their operation and behaviour.
<b>Merger</b>	An amalgamation of two or more business enterprises into a single enterprise. Colloquially, mergers also include business acquisitions that involve the acquisition of assets or shares of a business.
<b>Output class</b>	A grouping of outputs or activities with similar objectives. A reportable class of outputs is a class of outputs the Crown entity proposes to supply in the financial year and that is directly funded (in whole or in part) by the Crown. The Commission's output classes are primarily funded by appropriations from the Crown via the Ministry of Business, Innovation and Employment.
<b>Outputs</b>	Goods or services provided by the Commission.
<b>Part 4</b>	Part 4 of the Commerce Act. Under Part 4 of the Commerce Act, the Commission has a role regulating the price and quality of goods or services in markets where there is little or no competition and little prospect of future competition.
<b>Product safety and information standards cases</b>	Investigations of products such as bikes, cots and children's toys that might be unsafe, as well as the incorrect labelling of footwear and clothing, and failure to display required information on motor vehicles offered for sale.
<b>Regulated supplier</b>	A supplier of goods or services regulated under either the Commerce Act or the Telecommunications Act.
<b>Strategic objective</b>	A broadly defined objective that an organisation must achieve to make its strategy succeed.
<b>Substantially lessen competition</b>	A reduction in competition which is real or of substance, which will be reflected in higher prices or lower quality goods or services.
<b>Vote</b>	A grouping of one or more appropriations that are the responsibility of one or more Ministers of the Crown and are administered by one department.

# OVERVIEW

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## Introduction

The Commerce Commission is New Zealand's competition, consumer and regulatory agency. Our vision is that New Zealanders are better off because markets work well and consumers and businesses are confident market participants. We have an impact and contribute to the achievement of this vision through our work enforcing laws relating to competition, fair trading, and consumer credit contracts, and have regulatory responsibilities in the electricity lines, gas pipelines, telecommunications, dairy and airport sectors.

Well-functioning markets allow businesses and consumers to experience the benefits of competition. When traders operate according to the rules and we hold those who do not comply to account, consumers can be confident about purchasing goods and services. Competition also creates incentives for businesses to innovate, improve efficiency and produce products and services at a price and quality demanded by consumers.

In markets where competition is limited, our regulatory responsibilities ensure that consumers are not disadvantaged by that lack of competition. These sectors include electricity lines, gas pipelines, telecommunications, dairy and our three major airports. Through regulation we work to deliver similar benefits to those provided by competition.

In 2016 we published a new strategic framework in Our Vision and Strategy 2017-2022. This set out the context for what we are doing, why we are doing it and what we aspire to. Our Statement of Intent 2017-2022 (SOI) provides further information on the overall direction of the Commission, our strategic objectives, and how we seek to achieve these through three strategies.

This Statement of Performance Expectations 2017/18 (SPE) accompanies the SOI and is intended to promote accountability to the public by detailing the Commission's output classes, our prospective financial statements and how we will assess our performance against our strategic objectives.

## Statement of responsibility

This SPE has been prepared in accordance with section 149C of the Crown Entities Act 2004. The prospective financial statements and performance expectations may not be appropriate for any other purpose and are unaudited.

In the Board's opinion the prospective financial statements and performance expectations contained in this SPE, and the assumptions on which they are based, fairly reflect our expected forecast financial position as at 30 June 2018 and the forecast results of our operations in the 2018 financial year.



**Dr Mark Berry**  
Chairman



**Sue Begg**  
Deputy Chair



# PERFORMANCE EXPECTATIONS

## Strategic objectives

We have revised the way we approach our performance expectations against our strategic objectives this year. We will seek to explain performance against each strategic objective, using evidence from a range of sources.

At the end of the year we will assess our performance and contribution towards achieving our strategic objectives by drawing on case studies, as well as a few key indicators of each of the strategic objectives. These indicators are summarised in the tables below. It is intended that these indicators, when viewed together and connected to the work we have undertaken throughout the year, will help describe and demonstrate our performance against each of the strategic objectives, even though they are also influenced by factors that are outside our control.

Our annual report will also report back against the performance measures contained in the Estimates of Appropriations, which includes some telecommunications industry specific measures.

### Strategic objective 1: Markets work well

Markets work well when there is effective competition, market power is not abused, and accurate information is available to consumers and businesses to make informed choices.

When markets are working well businesses will be incentivised to innovate, improve efficiency, and produce products and services at a price and quality demanded by consumers.

An important indicator of markets working well is the intensity of competition in markets. There are many influences on the intensity of competition in New Zealand, and many government and non-government agencies in New Zealand that contribute to increasing competition. As a part of this wider picture, the Commission plays a small but important part in making markets function better.



We do this by working to ensure that market power is not able to be used for an anti-competitive purpose, that businesses provide consumers with accurate information about products and services, and that activity that could substantially lessen competition or harm consumers, including cartel behaviour, is deterred or addressed where it does occur.

We also support markets to work well where there is little or no competition by setting and enforcing rules and regulations to incentivise suppliers in selected regulated industries. These incentives aim to ensure regulated suppliers provide strong and sustainable infrastructure that benefits New Zealanders.

Whether markets, including regulated industries, work well is also affected by circumstances outside the Commission's control, such as global economic conditions, government policy and programmes to increase competition, and the particular nature of New Zealand as a small and geographically isolated economy.

We will use the indicators outlined below in our annual report to assess how well we have met our target of markets working well and facilitate a discussion of the Commission’s contribution to this.

Indicators	Description
Case studies of our contribution to markets working well	Examples of our work in focus areas or specific markets that has had an impact on how well markets work <sup>1</sup>
Intensity of competition	World Economic Forum Global Competitiveness Index Business Omnibus Survey
Regulated suppliers provide strong and sustainable infrastructure that benefits New Zealanders	An assessment by the Commission based on analysis of a range of metrics <sup>2</sup> relating to the performance of regulated suppliers

## Strategic objective 2: Consumers and businesses are confident market participants

### Consumers are confident market participants

Consumers need to be confident that they are not being misled by businesses over the price and quality of products or services and that accurate information is available to allow them to make informed choices. In particular we want consumers to feel confident when accessing consumer credit or goods and services. Consumers are also confident market participants when they understand their rights and are empowered to stand up for these rights if they are not being upheld. When misconduct occurs, consumers also need to be confident that competition and consumer laws will be appropriately enforced to prevent behaviour that could cause them harm.

In regulated industries, it is often not possible to switch infrastructure providers. Although infrastructure is a feature of daily life in New Zealand, consumers often only pay attention to it when things go wrong, or when household bills fall due. Economic regulation can therefore play a role in helping to ensure consumers are confident that regulated suppliers are providing services at an appropriate price and quality.

While we cannot control consumers’ confidence to participate in markets, the Commission does have an important role to play to support this confidence. We provide information to consumers so that they understand their rights under competition and consumer law. We also ensure that these laws are appropriately enforced to prevent harm to consumers. In regulated markets, we support consumer confidence by ensuring regulation has a positive impact on the performance of regulated suppliers, as well as by publishing analysis of how regulated businesses are performing.

We will use the indicators outlined below in our annual report to assess how well we have met our target of consumers being confident market participants and to facilitate a discussion of the Commission’s contribution to this.

Indicators	Description
Case studies of our contribution to the confidence of consumers as market participants	Examples of our work in focus areas that have had an impact on how confident consumers are as market participants
Consumers are confident that competition and consumer laws are being appropriately enforced	Survey of consumers to be developed during 2017/18
Consumers are confident when accessing consumer credit	Survey of consumers to be developed during 2017/18
Consumers are confident that regulated suppliers are providing services at an appropriate price and quality	Survey of consumers to be developed during 2017/18

1. We plan to cover telecommunications, including service quality, within our case study work.
2. Metrics to be used will be tailored to the individual industry but could include metrics on profitability and quality of services.

## Businesses are confident market participants

Businesses are confident market participants when they feel confident that other businesses are following the rules and that, where they are not, the behaviour will be identified and addressed. Confident businesses, including regulated suppliers, also need to understand their responsibilities under competition and consumer laws and how these laws will be applied.

When regulated businesses are confident market participants, they will continue to invest to ensure these essential services remain strong, sustainable and fit-for-purpose.

The advocacy and enforcement work of the Commission plays an important role in promoting business confidence as market participants. Our advocacy work seeks to enhance business understanding of the legislation we enforce as well as to empower businesses to create compliance strategies to ensure they do not unintentionally breach the law. Our enforcement work seeks to remedy instances of unlawful behaviour so that all businesses can have confidence to invest without anticompetitive or misleading conduct by competitors undermining that investment.

In regulated markets we set as well as enforce the rules and regulations applying to regulated suppliers. It is therefore important that we make the rules and regulations as clear as possible and apply them in a predictable manner to enhance the confidence of regulated businesses.

However, business confidence is affected by a range of other elements outside the control of the Commission. In particular the confidence of businesses, including regulated suppliers, to invest is affected by factors such as ownership, ability to access finance, and other economic or market conditions.

We will use the indicators outlined below in our annual report to assess how well we have met our target of businesses being confident market participants and facilitate a discussion of the Commission's contribution to this.

Indicators	Description
Case studies of our contribution to business confidence as market participants	Examples of our work in focus areas that has had an impact on how confident businesses are as market participants
Businesses are confident other businesses are following the rules	Survey of businesses to be developed during 2017/18
Businesses understand their responsibilities under competition and consumer law	Survey of businesses to be developed during 2017/18
Regulated suppliers are confident to invest in regulated assets	High-level assessment of aggregate level of investment (and/or major transactions involving regulated assets)

# Outputs

We will achieve our strategic objectives by implementing our new strategies across eight output classes. These output classes are outlined below along with what we intend to achieve, how we will assess our performance, and the expected revenue and proposed expenditure.

## What we intend to achieve

Output class	What is intended to be achieved
Competition and consumer	This output class is intended to achieve the prevention, identification, investigation and remediation of market behaviour that is anti-competitive or harmful for consumers, to support markets working well and consumer and business confidence.
Telecommunications	This output class is intended to achieve the promotion of competition in the telecommunications markets for the long-term benefit of end users.
Electricity lines services	This output class is intended to achieve the delivery of regulated electricity lines services at prices and quality that would have been available if the market were competitive, for the long-term benefit of consumers.
Gas pipeline services	This output class is intended to achieve the delivery of regulated gas pipeline services at prices and quality that would have been available if the market were competitive, for the long-term benefit of consumers.
Specified airport services	This output class is intended to achieve the delivery of specified airport services at prices and quality that would have been available if the market were competitive, for the long-term benefit of consumers.
Input methodologies	This output class is no longer active, with the work completed during 2016/17.
Dairy	This output class is intended to achieve incentives for Fonterra to operate efficiently while providing for contestability in the market for the purchase of milk from farmers.
Part 4 inquiries	This output class is intended to achieve better long-term outcomes for consumers by providing for the Commerce Commission to undertake economic regulation inquiries under Part 4 of the Commerce Act in markets where there is little or no competition and little or no likelihood of a substantial increase in competition.
Major litigation	This output class is intended to achieve the best possible outcomes for New Zealanders in competitive and regulated markets by enabling the Commission to undertake major or complex litigation where appropriate.

## How performance will be assessed in 2017/18

Measure	Output class	2016 actual	2017 estimated actual	2018 target
Number of clearance applications processed (demand driven)	Competition and consumer	12	11	10-22
Number of authorisation applications processed (demand driven)	Competition and consumer	1	3	0-4
Percentage of decisions on merger clearance applications made within 40 working days from date of registration <sup>3</sup>	Competition and consumer	N/A – new measure in 2016/17	60%	75%
Average number of working days from date of decision to date of publication of reasons for declined clearance applications	Competition and consumer	8 days	10 days	10 days
Number of mergers, clearances and authorisations under the Commerce Act completed	Competition and consumer	9	10	6-20
Number of Fair Trading Act matters completed	Competition and consumer	257	200	175-300
Number of product safety and information standards matters completed	Competition and consumer	87	80	75-150
Number of CCCF Act matters completed	Competition and consumer	56	55	50-100
Percentage of investigations decided within 12 months of the investigation being opened	Competition and consumer	91%	95%	95%
Number of determinations (includes determinations, clarifications, reviews and amendments)	Telecommunications Electricity Gas Airports	6 8 7 3	4 7 9 3	0-3 3-12 2-4 0-2
Average time to complete telecommunications determinations <sup>4</sup>	Telecommunications	4 months	6 months	6 months
Percentage of Part 4 of the Commerce Act 1986 determinations completed by statutory deadlines	Electricity Gas Airports	100% 100% 100%	100% 100% 100%	100% 100% 100%
Number of reports completed (monitoring reports, summary and analysis reports and information disclosure reports)	Telecommunications Electricity Gas Airports Dairy	4 2 2 1 3	2 4 1 0 2	1-3 2-5 1-2 0-3 2
Number of Part 4 inquiries completed	Part 4 inquiries	N/A - new measure in 2017/18	N/A - new measure in 2017/18	0-1
Using the Fund according to conditions for use	Major litigation	Achieved	Achieved	Achieved

3. This measure includes a 'stop the clock' provision. The criteria for stopping the clock are:
- requests from the merger or third parties for further time to respond to information requests if this would cause delay to our investigation
  - time spent assessing divestment undertakings, or
  - if the review of the merger by another jurisdiction(s) is causing delays to our investigation.
4. This measure only includes routine determinations that are completed on a regular basis. Distinct one-off determinations are excluded as inclusion would skew the average for the year in which they were completed so it is no longer comparable with other years.

## Financial information

Our work is primarily funded by the Crown through eight appropriations from Vote Business, Science and Innovation.

Output class	What is intended to be achieved
Competition and consumer	Enforcement of General Market Regulation
Telecommunications	Enforcement of Telecommunications Sector Regulation
Electricity lines services	Economic Regulation of Electricity Lines Services 2014-2019 (multi-year appropriation)
Gas pipeline services	Economic Regulation of Gas Pipeline Services 2014-2019 (multi-year appropriation)
Specified airport services	Economic Regulation of Specified Airport Services 2014-2019 (multi-year appropriation)
Dairy	Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting
Part 4 inquiries	Economic Regulation Inquiries
Major litigation	Commerce Commission Litigation Fund multi-category appropriation <ul style="list-style-type: none"> <li>• Internally-sourced litigation</li> <li>• Externally-sourced litigation</li> </ul>

We also receive revenue which funds our work from third party application fees, interest revenue, cost awards from successful non-major litigation cases and where settlements include a contribution towards investigation costs, and cost recovery of shared corporate services.

The table below breaks down the expected Crown revenue and other revenue for each output class as well as proposed expenditure. We have not budgeted for any Part 4 inquiries, as no inquiries have yet been approved or confirmed.

	2017 Budget \$000	2018 Budget \$000
<b>Competition and consumer</b>		
Crown revenue	17,485	17,823
Other revenue	1,004	1,120
Total operating revenue	18,489	18,943
Operating expenses	18,486	18,938
<b>Surplus</b>	<b>3</b>	<b>5</b>
<b>Telecommunications</b>		
Crown revenue	5,487	6,499
Other revenue	503	542
Total operating revenue	5,990	7,041
Operating expenses	5,990	7,041
<b>Surplus</b>	<b>0</b>	<b>0</b>
<b>Electricity lines services</b>		
Crown revenue	5,153	5,294
Other revenue	26	1,387
Total operating revenue	5,179	6,681
Operating expenses	5,179	6,681
<b>Surplus</b>	<b>0</b>	<b>0</b>

<b>Gas pipeline services</b>		
Crown revenue	3,477	1,434
Other revenue	18	14
Total operating revenue	3,495	1,448
Operating expenses	3,495	1,448
<b>Surplus</b>	<b>0</b>	<b>0</b>
<b>Specified airport services</b>		
Crown revenue	544	932
Other revenue	2	6
Total operating revenue	546	938
Operating expenses	546	938
<b>Surplus</b>	<b>0</b>	<b>0</b>
<b>Input methodologies</b>		
Crown revenue	1,722	0
Other revenue	8	0
Total operating revenue	1,730	0
Operating expenses	1,730	0
<b>Surplus</b>	<b>0</b>	<b>0</b>
<b>Dairy</b>		
Crown revenue	753	748
Other revenue	3	6
Total operating revenue	756	754
Operating expenses	756	754
<b>Surplus</b>	<b>0</b>	<b>0</b>
<b>Major litigation: Internally-sourced litigation</b>		
Crown revenue	3,405	3,473
Other revenue	22	46
Total operating revenue	3,427	3,519
Operating expenses	3,427	3,519
<b>Surplus</b>	<b>0</b>	<b>0</b>
<b>Major litigation: Externally-sourced litigation</b>		
Crown revenue	6,238	6,482
Total operating revenue	6,238	6,482
Operating expenses	6,238	6,482
<b>Surplus</b>	<b>0</b>	<b>0</b>

# PROSPECTIVE FINANCIAL STATEMENTS

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## Statement of significant underlying assumptions

The prospective financial statements are presented on pages 12-18 on the basis of existing government policies, in consultation with our oversight ministry, the Ministry of Business, Innovation and Employment. Because these prospective financial statements are forward-looking, we have made some assumptions about our work and funding. The prospective financial statements should be read with these assumptions in mind.

We have made the following significant underlying assumptions in preparing the prospective financial statements:

- The Commission's functions will remain broadly the same as in the previous year.
- Crown revenue received by the Commission is consistent with the 2017/18 Estimates of Appropriations.
- We will not commence any Part 4 inquiries during the year.
- We have based our expected expenditure on major litigation activities on our estimate of the timing and extent of court hearings for existing and expected litigation cases. If delays, settlements, or significant other litigation matters arise from Commission cases, then expenditure on major litigation will change, favourably or unfavourably, for the year.
- A significant portion of our work is reactive, based on requests from ministers or the public, and on complaints we receive. In preparing the prospective financial statements, we have assumed that some activity (particularly in our competition and consumer work) will occur at a level in line with historical activity.

The Commission has adopted these assumptions as at 7 June 2016.

# Prospective financial statements

## Statement of prospective comprehensive revenue and expense

for the year ended 30 June 2018

	2017 Budget \$000	Estimated actual 2017 \$000	2018 Budget \$000
<b>Operating revenue</b>			
Revenue from non-exchange transactions			
Crown revenue	44,264	40,890	42,685
Court cost awards	50	30	50
<b>Total revenue from non-exchange transactions</b>	<b>44,314</b>	<b>40,920</b>	<b>42,735</b>
Revenue from exchange transactions			
Fees and recoveries	526	526	2,044
Interest	800	813	800
Other revenue	210	214	227
<b>Total revenue from exchange transactions</b>	<b>1,536</b>	<b>1,553</b>	<b>3,071</b>
<b>Total operating revenue</b>	<b>45,850</b>	<b>42,473</b>	<b>45,806</b>
<b>Operating expenses</b>			
Members and personnel	28,880	26,524	28,482
Legal and other professional fees	10,569	9,353	10,494
Computer, information, and information technology	878	898	1,444
Occupancy	1,832	1,739	1,786
Depreciation and amortisation	1,741	1,638	1,877
Other expenditure	1,947	1,573	1,718
<b>Total operating expenses</b>	<b>45,847</b>	<b>41,725</b>	<b>45,801</b>
<b>Surplus</b>	<b>3</b>	<b>748</b>	<b>5</b>
<b>Total comprehensive revenue and expense for the year</b>	<b>3</b>	<b>748</b>	<b>5</b>

## Statement of prospective changes in equity

for the year ended 30 June 2018

	2017 Budget \$000	Estimated actual 2017 \$000	2018 Budget \$000
<b>Balance at 1 July</b>	<b>17,106</b>	<b>14,311</b>	<b>15,059</b>
Comprehensive revenue and expense			
Surplus	3	748	5
<b>Total comprehensive revenue and expense</b>	<b>3</b>	<b>748</b>	<b>5</b>
Transactions with owner			
Repayment of reserves to the Crown	0	0	0
<b>Total transactions with owner</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at 30 June</b>	<b>17,109</b>	<b>15,059</b>	<b>15,064</b>

## Statement of prospective financial position

as at 30 June 2018

	2017 Budget \$000	Estimated actual	2017 actual \$000	2018 Budget \$000
<b>Equity</b>				
General funds	14,109		12,059	12,064
Litigation costs reserve	3,000		3,000	3,000
<b>Total equity</b>	<b>17,109</b>		<b>15,059</b>	<b>15,064</b>
<b>Current assets</b>				
Cash and cash equivalents	1,917		2,934	976
Fees and recoveries receivable	385		130	30
Short-term investments	13,000		14,000	12,000
Prepayments	325		471	500
<b>Total current assets</b>	<b>15,627</b>		<b>17,535</b>	<b>13,586</b>
<b>Non-current assets</b>				
Property, plant and equipment	4,254		4,660	3,955
Intangibles	4,041		2,940	3,468
<b>Total non-current assets</b>	<b>8,295</b>		<b>7,600</b>	<b>7,423</b>
<b>Total assets</b>	<b>23,922</b>		<b>25,135</b>	<b>21,009</b>
<b>Current liabilities</b>				
Creditors and other payables	1,340		1,340	1,360
Accrued expenses	650		650	600
Lease incentive	180		238	238
Provisions	0		99	0
Penalties and cost awards held in trust	50		50	50
Crown funding repayable	1,289		3,880	63
Employee entitlements	2,182		2,182	2,235
<b>Total current liabilities</b>	<b>5,691</b>		<b>8,439</b>	<b>4,546</b>
<b>Non-current liabilities</b>				
Provisions	33		33	33
Lease incentive	1,089		1,604	1,366
<b>Total non-current liabilities</b>	<b>1,122</b>		<b>1,637</b>	<b>1,399</b>
<b>Total liabilities</b>	<b>6,813</b>		<b>10,076</b>	<b>5,945</b>
<b>Net assets</b>	<b>17,109</b>		<b>15,059</b>	<b>15,064</b>

## Statement of prospective cash flows

for the year ended 30 June 2018

	2017 Budget \$000	Estimated actual \$000	2018 Budget \$000
<b>Cash flow from operating activities</b>			
Crown funding received	45,553	44,789	42,748
Fees and recoveries received	786	779	2,321
Receipts and payment of penalties (net)	0	(69)	0
Interest received	800	797	820
Member and employee payments	(28,806)	(25,702)	(28,409)
Supplier payments	(15,486)	(14,249)	(15,854)
Repayment of Crown funding	(1,027)	(5,765)	(3,880)
Goods and services tax (net)	19	(3)	(4)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,839</b>	<b>577</b>	<b>(2,258)</b>
<b>Cash flow from investing activities</b>			
Investment receipts/(deposits)	2,000	(2,000)	2,000
Property, plant and equipment purchases	(2,234)	(2,400)	(288)
Intangible assets purchases	(2,595)	(1,528)	(1,412)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(2,829)</b>	<b>(5,928)</b>	<b>300</b>
<b>Cash flow from financing activities</b>			
Reserves returned to the Crown	0	0	0
<b>Net cash inflow/(outflow) from financing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(990)</b>	<b>(5,351)</b>	<b>(1,958)</b>
Opening cash and cash equivalents	2,907	8,285	2,934
<b>Closing cash and cash equivalents</b>	<b>1,917</b>	<b>2,934</b>	<b>976</b>

The GST (net) component of operating activities reflects the net GST paid and received from the Inland Revenue Department. We have presented the GST (net) component on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Penalty receipts and payment and cost awards are shown net because the Commission holds these funds in trust in accordance with agreements.

# Statement of accounting policies

for the year ended 30 June 2018

## Reporting entity

The Commerce Commission is a Crown entity (as defined by the Crown Entities Act 2004), established under the Commerce Act 1986, and operating solely within New Zealand. The ultimate parent of the Commission is the New Zealand Crown.

The Commission's main objective is to provide services to the New Zealand public, instead of making a financial return. We provide public services to meet our responsibilities under the Commerce Act 1986, the Fair Trading Act 1986, the Dairy Industry Restructuring Act 2001, the Telecommunications Act 2001, and the Credit Contracts and Consumer Finance Act 2003.

We are a public sector public benefit entity (PBE) for the purposes of the Accounting Standards Framework issued by the New Zealand External Reporting Board, because we are a public entity as defined in the Public Audit Act 2001.

## Measurement base and statement of compliance

We have prepared these prospective financial statements to comply with the requirements of the Crown Entities Act 2004. We prepared these financial statements on a historical cost basis for a going concern to comply with New Zealand generally accepted accounting practice (GAAP), which includes the PBE accounting standards which apply for a public sector PBE. The Commission authorised the financial statements for issue on 7 June 2017.

The prospective financial statements comply with PBE FRS 42 – Prospective Financial Statements. We are required to prepare a statement of performance expectations, including prospective financial statements, at or before the start of each financial year to promote public accountability. The prospective financial statements may not be appropriate for any other purposes.



We have prepared the prospective financial statements on the basis of the best estimates and assumptions as to future events that we expect to occur. As the financial statements are prospective, actual results will vary from the information presented. We will disclose and explain all material variations in the subsequent annual report.

## Functional and presentation currency

The Commission's functional currency is the New Zealand dollar, so we have presented these financial statements in New Zealand dollars (rounded to the nearest thousand).

## Significant accounting policies

We have applied the significant accounting policies that significantly affect the measurement of comprehensive revenue and expenditure, financial position and cash flows consistently for all reporting periods covered by these financial statements, including the comparative (prior year budget and estimated actual) information. The following are the significant accounting policies.

**Revenue** – Revenue is measured at the fair value of consideration (eg, money) received or receivable. We earn revenue from providing specific services (known as outputs) for the Crown, for services to other third parties, court cost award recoveries and interest income.

**Crown revenue** – The Commission receives funding via appropriations from the Crown. Crown revenue is a form of non-exchange transaction, because there is no direct relationship between the services we provide (funded through taxation and levies) and the general public we ultimately provide the services to. Our appropriations are restricted in their use to the purpose of meeting the Commission’s objectives and the scope of the relevant appropriations. Crown revenue we receive but do not spend is refunded to the Crown after year end for all output classes except Vote Business, Science and Innovation – General Markets, which the Commission is allowed to retain as reserves. Also, we may retain specific ring-fenced revenue provided to build up our ability to meet the cost of adverse cost awards.

Revenue from the Crown is initially recognised as a liability when received, and then as revenue when we have provided services which entitle us to the funding.

**Expenditure** – All expenditure we incur in providing services for the Crown or other third parties is recognised in the statement of comprehensive revenue and expense when an obligation to pay arises on an accruals basis.

**Foreign currency transactions** – Transactions in foreign currencies are converted into the Commission’s functional currency (New Zealand dollars) at exchange rates on the dates of the transactions. Monetary liabilities in foreign currencies at the reporting date are converted to New Zealand dollars at the exchange rate on that date.

**Leases** – The Commission is party to various operating leases as a lessee. As the lessors retain substantially all of the risk and rewards of ownership of the leased property, plant and equipment, the operating lease payments are recognised as expenses only in the period in which they arise. Any lease incentives received or obligations to reinstate the condition of leased premises are recognised in the statement of comprehensive revenue and expense over the term of the lease. At balance date, any unamortised lease incentive and outstanding obligation for reinstatement is recognised as a liability.



**Depreciation and impairment** – Depreciation (and amortisation for intangible assets) is provided on a straight-line basis on all assets to allocate the cost of the asset (less any estimated residual value) over its useful life. The residual values and remaining useful lives of property, plant and equipment components are reviewed at least annually. All items of property, plant and equipment are subject to an annual test of impairment to test the recoverable amount. Any impairment losses are recorded as an expense in the statement of comprehensive revenue and expense in the period in which they are first identified. The estimated useful lives of the major asset classes are:

Computer and office equipment	3-4 years
Furniture and fittings	Up to 5 years
Leasehold improvements	For the period of lease
Motor vehicles	Up to 5 years
Software and other intangible assets	Up to 5 years

**Taxation** – The Commission is exempt from income tax under section CW 38 of the Income Tax Act 2007.



**Cost allocation** – Direct costs are charged directly to outputs. Personnel costs are allocated to outputs based on time records. The indirect costs of support groups and corporate overhead costs are charged to outputs based on the budgeted relative time records of each output.

**Goods and services tax** – All items in the financial statements are presented exclusive of GST, except for receivables and payables, and unearned Crown revenue received in advance, which are presented on a GST-inclusive basis. Where we cannot claim a portion of GST, we recognise the GST portion as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or creditors in the statement of financial position, and classified as an operating cash flow in the statement of cash flows.

**Equity** – Equity is the Crown’s ownership interest in the Commission and is measured as the difference between total assets and total liabilities. We have classified equity into components and disclosed these separately to allow clearer recognition of the specified uses that we have for our equity.

**Cash and cash equivalents** – Cash and cash equivalents are our cash on hand, transactional cash balances in bank accounts, and some term deposits with maturities of less than 90 days held with New Zealand registered banks.

**Investments** – Investments are term deposits issued by New Zealand registered banks with maturities of more than 90 days. Term deposits are initially measured at fair value plus any transaction costs. After initial recognition, investments are re-measured at amortised cost using the effective interest rate method.

**Property, plant and equipment** – All items of property, plant and equipment owned are recorded at historical cost of purchase, less accumulated depreciation and any impairment losses. An item of property, plant and equipment acquired in stages is not depreciated until the item of property, plant and equipment is in its final state and ready for its intended use. Any later expenditure that extends the useful life or enhances the service potential of an existing item of property, plant and equipment is also capitalised and depreciated.

All other costs we incur in maintaining the useful life or service potential of an existing item of property, plant and equipment are recognised as expenditure when incurred. Any gain or loss arising from the sale or disposal of an item of property, plant and equipment is recognised in the period in which the item is sold or disposed of.

**Intangible assets** – Computer software that is not integral to the operation of the hardware is recorded as an intangible asset, less accumulated amortisation.



**Employee entitlements** – Employee entitlements are unpaid salaries, bonuses, and annual leave which we owe to our personnel. At balance date, we recognise any unpaid employee entitlements as a liability and charged as an expense. Entitlements are calculated on an actual entitlement basis using current salary rates.

**Contingencies** – As the Commission is a quasi-judicial body, it is engaged in litigation activity which may result in costs being ordered against or in favour of the Commission. The outcome of an order for costs may not be certain until all appeal processes are completed. Therefore, the possibility of a costs award being incurred or received is disclosed firstly as either a contingent liability or a contingent asset respectively. An award for costs, whether for or against the Commission, is only recognised in the statement of comprehensive revenue and expense when it is probable that there will be a payment or receipt of resources (eg, cash) and we can measure the amount reliably.

**Comparatives** – To ensure consistency with the current year, all comparative information including the prior year budget has been restated or reclassified where appropriate. The budget comparatives are those approved by the Commission at the beginning of the prior year for inclusion as prospective financial statements in our last statement of performance expectations. The estimated actual is our current expectation of the outcome for the financial year prior to the budget presented in this statement of performance expectations. We prepared the budget to comply with GAAP, and used accounting policies consistent with what we have used to prepare these financial statements.

### **Changes in accounting policies**

The accounting policies adopted are consistent with the previous year.

## Financial statements glossary

The following table provides definitions for some terms used in our financial statements. Please note that these definitions are only provided as a help to readers, and are not part of the financial statements; nor do they necessarily reflect the way we interpret and apply accounting standards.

<b>Accounts payable</b>	Debts owed to somebody (eg, a company) for goods or services provided to us that we have not yet paid at balance date.
<b>Accounts receivable</b>	Debts owed to us by somebody (eg, a company) for a service we have provided where we have not been paid at balance date.
<b>Amortisation</b>	Basically the same as depreciation (see below), except that it is applied to intangible assets (eg, software).
<b>Asset</b>	Something that we own, expect to receive in the future, or control.
<b>Balance date</b>	The date at which a set of accounts is prepared. For the Commission, that date is 30 June of each year.
<b>Cash equivalents</b>	Assets like term deposits which share most of the characteristics of cash. They are cash equivalent because we can quickly turn them into cash, but they are technically not cash in a bank account or in the hand.
<b>Comprehensive revenue and expense</b>	A broader concept of revenue which includes a surplus (or loss) from an entity's operations, and movements in parts of equity that aren't the result of surpluses or owner transactions. An example is a revaluation gain on the value of assets, which increases equity by increasing the value of an asset revaluation reserve.
<b>Current asset (or liability)</b>	An asset that can be converted into cash or used to pay a liability within 12 months. A current liability is a liability that we expect to repay within 12 months.
<b>Depreciation</b>	The charge of an asset's cost over a certain time period. Depreciation recognises that assets decline in their value and usefulness over time.
<b>Equity</b>	Represents the value of an entity to its owners, and is the amount left over after deducting all liabilities from all assets. It is also known as net assets.
<b>Exchange transactions</b>	Transactions where goods or services are received in exchange for payment of approximately equal value. The vast majority of transactions in everyday life are exchange transactions.
<b>Financial instruments</b>	Assets or liabilities that are tradable in some way, such as cash, shares or loans. Other financial instruments include 'derivatives', which are traded securities that get their value from an underlying asset (like a future oil shipment or a future foreign currency purchase).
<b>Generally accepted accounting practice (GAAP)</b>	Short-hand for the series of standards, interpretations and concepts that are followed by accountants. NZ GAAP is defined by law to include standards issued by the External Reporting Board and, where that (or a specific law) does not cover a matter, accounting policies considered authoritative by the accounting profession in New Zealand.
<b>Going concern</b>	An assumption made by an entity that it will continue to operate into the foreseeable future. If this is incorrect, then the entity has to prepare its accounts as if it was being wound up.

<b>Intangible assets</b>	Assets that do not have a physical substance, and are not cash.
<b>Liability</b>	Something we owe, expect to pay in the future, or may have to pay in the future.
<b>Monetary assets</b>	Assets that are cash, or will become cash in a short time frame (eg, bank account balances, term deposits, accounts receivable).
<b>Monetary liabilities</b>	Debts owed to another party, such as accounts payable, loans or unpaid salaries.
<b>Non-current asset (or liability)</b>	An asset that we cannot ordinarily turn into cash within 12 months. A non-current liability is a liability that we would not ordinarily have to repay within 12 months.
<b>Non-exchange transactions</b>	Transactions where goods or services are received, but there is no direct payment for those services. Taxes paid to the Government and then passed on to a public sector agency like the Commission to fund services are a form of non-exchange transaction.
<b>Provision</b>	An estimate of an amount that an entity may (or will) have to pay as a result of an obligation the entity has to another party.
<b>Public benefit entity (PBE)</b>	An entity that aims to provide goods or services to the general public to meet a specific need, rather than to make a profit for its owners.
<b>Public sector</b>	Government departments, local and regional councils, Crown entities such as the Commission, and other agencies that are part of the government.
<b>Related party</b>	Another person or entity that is related to us because of, for example, a common owner or person in a position of authority (eg, director, senior management).
<b>Statement of cash flows</b>	A statement that shows how much cash we have received from various sources (investments, operating activities, cash injections received from the Crown) and cash payments we have made.
<b>Statement of comprehensive revenue and expense</b>	A statement that shows our surplus or deficit from our operating activities, plus or less any movements in non-owner equity items (see comprehensive revenue and expense above). This is the public sector equivalent of a statement of comprehensive income, which we used to prepare.
<b>Statement of financial position</b>	A statement that shows what assets we own or control, what liabilities we have, and the remainder (equity) at the balance date.



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