



STATEMENT OF PERFORMANCE EXPECTATIONS

OUR PLAN FOR 2018/19



Commonly used terms

Appropriation	A parliamentary authorisation for Ministers of the Crown or an Office of Parliament to incur expenses or capital expenditure.
Authorisation	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.
Clearance	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.
Determination	A formal and binding decision made by the Commission under the legislation it administers.
Information disclosure	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.
Letter of issues	A letter that the Commission sends to an applicant during either a merger clearance application or a collaborative activity application when there are potential competition concerns inviting the applicant to respond and/or provide further information. The Commission will not send a letter of issues in every case.
Merger	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.
Output class	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.
Outputs	Goods or services provided by the Commission.
Part 4	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.
Product safety and consumer information standards cases	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.
Regulated supplier	A supplier of goods or services regulated under either the Commerce Act or the Telecommunications Act.
Strategic objective	A broadly defined objective that an organisation must achieve to make its strategy succeed.
Substantially lessen competition	A reduction in competition which is real or of substance, which will be reflected in higher prices or lower quality goods or services.
Vote	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.



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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 150(3) of the Crown Entities Act 2004.

OVERVIEW

Introduction

The Commerce Commission is New Zealand's primary 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 are responsible for enforcing laws relating to competition, fair trading and consumer credit contracts. We also 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. Competition creates incentives for businesses to innovate, improve efficiency and produce products and services at a price and quality demanded by consumers. When traders operate by the rules and we hold those who do not comply to account, consumers can be confident about purchasing goods and services.

In markets where competition is limited, our regulatory role is to ensure consumers are not disadvantaged by the lack of competition. These sectors include electricity lines, gas pipelines, telecommunications, dairy and our three major airports.

Our Statement of Intent 2017–2022 (SOI) provides insight into the overall direction of the Commission. Our Statement of Performance Expectations 2018/19 (SPE) accompanies the SOI and promotes the Commission's accountability to the public by detailing our output classes, our prospective financial statements and how we will assess our performance against our strategic objectives.

Progress against our performance expectations will be reported in the Commission's 2019 Annual Report.

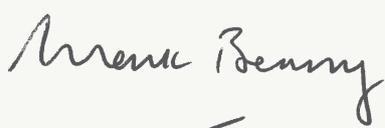
Further information on our strategic objectives and operations is contained in our SOI.

Statement of responsibility

The SPE is prepared in accordance with the requirements of section 149C of the Crown Entities Act 2004 and should be read together with the Commission's SOI.

The prospective financial statements have been prepared in accordance with general accepted accounting practice. The prospective financial statements and performance expectations have not been audited and should not be relied upon for any other purpose.

In our opinion, the prospective financial statements, performance expectations and the assumptions on which they are based, fairly reflect our forecast financial position and our financial and service performance results for the period ending 30 June 2019.



Dr Mark Berry
Chairman



Sue Begg
Deputy Chair

Strategic framework

Our strategic framework brings together our vision, strategic objectives, strategies and values. Our Vision and Strategy 2017–2022 sets out the context for what we are doing, why we are doing it and what we aspire to achieve.

Our vision is that New Zealanders are better off because markets work well and consumers and businesses are confident market participants.

The Commission's 5 year strategy is illustrated in the diagram below:

Strategic framework



The layers of this framework are outlined in more detail in our SOI.

Our two strategic objectives reinforce each other. Well-functioning markets help to provide confidence for consumers and businesses to participate in them. At the same time, the more confidence participants have, the better markets are likely to function.

To have an impact and contribute to the achievement of our strategic objectives, we have three overarching strategies that drive our work:

1. Seize opportunities to have the greatest impact
2. Protect, inform and empower consumers and businesses
3. Be trusted, influential and high-performing.

The first two strategies determine what we are going to do and how we will do it. The third strategy sets out how we must shape our organisational health and capability to successfully deliver on the other strategies.

This SPE describes our strategic objectives and output classes, how we undertake our work to achieve those objectives, and how we will assess this at the end of the financial year.

PERFORMANCE EXPECTATIONS

Strategic objectives

How we will assess our performance in the Annual Report

We will explain our performance against each strategic objective, using evidence from a range of sources.

At the end of the financial year we will assess our performance and contribution towards achieving our strategic objectives by drawing upon 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.

The Annual Report will also report back against the performance measures contained in the Estimates of Appropriations.



Strategic objective 1: Markets work well

Our fundamental role is to support an environment that enables markets in New Zealand to function 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 work well businesses are 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 drivers which affect the level of competition in the market: these include private sector activities, and the role of government and non-government agencies. As part of this wider picture, the Commission plays a small, but important part in making markets function better.

We make markets function better by stopping market power from being used for an anti-competitive purpose, ensuring 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 promote outcomes for the regulated businesses and consumers similar to those seen in well-functioning competitive markets.

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 related to competition, and the nature of New Zealand as a small and geographically isolated economy.

We will use the indicators outlined below in our Annual Report to establish baseline performance, assess how well we have met our target of markets working well and facilitate a discussion of the Commission's contribution to this.

Indicators	Source of information
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
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 ¹ relating to the performance of regulated suppliers
Case studies on stakeholders views on our regulatory processes	Qualitative assessment of our regulatory processes including stakeholder feedback and court decisions



1. Metrics to be used will be tailored to the individual industry but could include metrics around profitability and quality of services.

Strategic objective 2: Consumers and businesses are confident market participants

Well-functioning markets build consumer and business confidence by allowing participants to understand and take part in a transactional economy. Consumers need access to information to make informed choices and assess whether a business is trading fairly.

Consumers are confident market participants

Consumers' confidence in markets is built on trust. They need to be able to trust that they are not being misled by businesses over the terms and conditions, 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. We work to educate New Zealanders about consumer laws so they can be empowered and confident to stand up for their rights. When that trust is breached, consumers want to feel assured we can, and do, take action.

We promote consumer confidence by taking a leading role in promoting compliance, prosecuting and deterring the worst violations of consumer trust and confidence. We take enforcement action when anti-competitive behaviour such as cartel practices and cases involving market power occurs. We also promote consumer confidence through our work by preventing mergers and acquisitions that could substantially lessen competition or harm consumers.

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. 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. We also support this by publishing analysis of how regulated businesses are performing.

We will use the indicators outlined below in our Annual Report to establish baseline performance, assess how well we have met our target of consumers being confident market participants and facilitate a discussion of the Commission's contribution to this.

Indicators	Source of information
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 conducted every 2 years with the next survey in 2018/19 financial year Target: Maintain or increase confidence
Consumers are confident when accessing consumer credit	Survey of consumers conducted every 2 years with the next survey in 2018/19 financial year Target: Maintain or increase confidence
Consumers are confident that regulated suppliers are providing services at an appropriate price and quality	Survey of consumers conducted every 2 years with the next survey in 2018/19 financial year Target: Maintain or increase confidence

Businesses are confident market participants

Businesses are confident market participants when they know other businesses are following the rules and if 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. Business confidence and investment are affected by economic and market conditions as well as factors specific to each entity such as availability of capital and ability to access finance.

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 unlawful behaviour so that all businesses can have confidence to invest without that being undermined by anti-competitive or misleading conduct by competitors. This includes stopping market power from being used for an anti-competitive purpose and that activity that could substantially lessen competition such as cartel behaviour; is deterred or addressed where it does occur.

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.

We will use the indicators outlined below in our Annual Report to establish baseline performance, 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	Source of information
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 conducted every 2 years with the next survey in 2018/19 financial year Target: Maintain or increase confidence
Businesses understand their responsibilities under competition and consumer law	Survey of businesses conducted every 2 years with the next survey in 2018/19 financial year Target: Maintain or increase confidence
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 strategies across 10 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	This output class is intended to achieve the prevention, identification, investigation and remediation of market behaviour that is anti-competitive.
Consumer	This output class is intended to achieve the prevention, identification, investigation and remediation of market behaviour that is harmful for consumers.
Telecommunications	This output class is intended to achieve the promotion of competition in the telecommunications markets for the long-term benefit of end users. ²
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.
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 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.
Competition studies	This output class is intended to achieve improved market performance and outcomes by providing for the Commission to carry out detailed research into a particular market, or markets, where there are concerns that the market could be functioning sub-optimally.



2. Ministry of Business, Innovation and Employment and Parliament are currently reviewing the Telecommunications Act. If the Telecommunications Act is changed, our intentions in the telecommunications area may change over the forecast period.

How performance will be assessed in 2018/19

Measure	Output class	2017 actual	2018 estimated actual	2019 target
Number of merger clearance applications processed (demand driven)	Competition	6	9–12	5–20
Number of authorisation applications processed (demand driven)	Competition	3	1–2	0–5
Percentage of merger clearance decisions made within 40 working days when no letter of issues is sent to parties ³	Competition	N/A – new measure in 2018/19	N/A – new measure in 2018/19	75%
Average number of working days from date of decision to date of publication of reasons for declined clearance applications	Competition	32.5 days	15–20 days	10 days
Number of Commerce Act cases completed	Competition	8	10–15	5–20
Percentage of competition investigations decided within 18 months of the investigation being opened	Competition	86%	100%	95%
Number of Fair Trading Act cases completed	Consumer	235	180–200	175–300
Number of product safety and information standards matters completed	Consumer	108	90–110	75–150
Number of Credit Contracts and Consumer Finance Act cases completed	Consumer	53	110–130	50–100
Percentage of consumer investigations decided within 12 months of the investigation being opened	Consumer	96%	88%	95%
Number of determinations (includes determinations, clarifications, reviews and amendments)	Telecommunications	13	2	0–3
	Electricity lines services	8	10	2–10
	Gas pipeline services	10	7	2–7
	Specified airports services	4	3	2–4
Average time to complete telecommunications determinations ⁴	Telecommunications	5 months	6 months	6 months
Percentage of Part 4 of the Commerce Act determinations completed by statutory deadlines	Electricity lines services	100%	100%	100%
	Gas pipeline services	100%	100%	100%
	Specified airports services	100%	100%	100%
Number of reports completed (monitoring reports, summary and analysis reports and information disclosure reports)	Telecommunications	3	2	0–5
	Electricity lines services	4	2	0–7
	Gas pipeline services	1	1	0–3
	Specified airports services	1	1	0–3
	Dairy	2	2	2
Number of Part 4 inquiries completed	Part 4 inquiries	N/A – new measure in 2017/18	0	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 parties or third parties for further time to respond to information requests if this would cause delay to the Commerce Commission's investigation,
 - time spent assessing divestment undertakings, or
 - if the review of the merger by another jurisdiction(s) is causing delays to the Commerce Commission's investigation.
4. This measure only includes routine determinations that are completed on a regular basis under the existing Telecommunications Act 2001. 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 nine appropriations from Vote Business, Science and Innovation.

Output class	Appropriation
Competition	Commerce and Consumer Affairs Enforcement of General Market Regulation multi-category appropriation <ul style="list-style-type: none"> Enforcement of Competition Regulation
Consumer	Commerce and Consumer Affairs Enforcement of General Market Regulation multi-category appropriation <ul style="list-style-type: none"> Enforcement of Consumer Regulation
Competition studies	Competition Studies
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"> Internally-sourced litigation Externally-sourced litigation

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 Revenue – Crown 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.

	2018 Budget \$000	2019 Budget \$000
Competition		
Revenue – Crown	0	8,043
Other revenue	0	349
Total operating revenue	0	8,392
Operating expenses	0	8,391
Surplus	0	1
Consumer		
Revenue – Crown	0	11,144
Other revenue	0	458
Total operating revenue	0	11,602
Operating expenses	0	11,601
Surplus	0	1
Competition and consumer⁵		
Revenue – Crown	17,823	0
Other revenue	1,120	0
Total operating revenue	18,943	0
Operating expenses	18,938	0
Surplus	5	0

5. The competition and consumer output class is no longer active. It was disaggregated into two new consumer and competition output classes.

	2018 Budget \$000	2019 Budget \$000
Competition studies⁶		
Revenue – Crown	0	1,500
Other revenue	0	7
Total operating revenue	0	1,507
Operating expenses	0	1,507
Surplus	0	0
Telecommunications		
Revenue – Crown	6,499	6,000
Other revenue	542	517
Total operating revenue	7,041	6,517
Operating expenses	7,041	10,014
Surplus/(deficit)	0	(3,497)
Electricity lines services		
Revenue – Crown	5,294	7,942
Other revenue	1,387	37
Total operating revenue	6,681	7,979
Operating expenses	6,681	7,979
Surplus	0	0
Gas pipeline services		
Revenue – Crown	1,434	1,857
Other revenue	14	7
Total operating revenue	1,448	1,864
Operating expenses	1,448	1,864
Surplus	0	0
Specified airport services		
Revenue – Crown	932	763
Other revenue	6	4
Total operating revenue	938	767
Operating expenses	938	767
Surplus	0	0
Dairy		
Revenue – Crown	748	595
Other revenue	6	2
Total operating revenue	754	597
Operating expenses	754	597
Surplus	0	0
Major litigation: Internally-sourced litigation		
Revenue – Crown	3,473	3,468
Other revenue	46	21
Total operating revenue	3,519	3,489
Operating expenses	3,519	3,489
Surplus	0	0
Major litigation: Externally-sourced litigation		
Revenue – Crown	6,482	6,981
Total operating revenue	6,482	0
Operating expenses	6,482	6,981
Surplus	0	0

6. The funding for competition studies is dependent on the Commerce Amendment Bill being passed in the 2018/19 financial year.

PROSPECTIVE FINANCIAL STATEMENTS

Statement of significant underlying assumptions

The prospective financial statements are presented on pages 13-19 on the basis of existing government policies, in consultation with our oversight ministry, the Ministry of Business, Innovation and Employment. There are a number of assumptions used in preparing the prospective financial statements assuming that the level of work and funding will not change in 2018/19. 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, outside of the areas of competition studies and telecommunications fibre regulation.
- Revenue from the Crown received by the Commission is consistent with the 2018/19 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 2018.

Prospective financial statements

Statement of prospective comprehensive revenue and expense

for the year ended 30 June 2019

	2018 Budget \$000	Estimated actual \$000	2018 Budget \$000
Operating revenue			
Revenue from non-exchange transactions			
Revenue – Crown	42,685	43,071	48,293
Court cost awards	50	50	50
Total revenue from non-exchange transactions	42,735	43,121	48,343
Revenue from exchange transactions			
Fees and recoveries	2,044	2,339	526
Interest	800	600	600
Other revenue	227	227	226
Total revenue from exchange transactions	3,071	3,166	1,352
Total operating revenue	45,806	46,287	49,695
Operating expenses			
Members and personnel	28,482	27,026	32,218
Legal and other professional fees	10,494	11,827	13,960
Computer, information, and information technology	1,444	1,444	1,175
Occupancy	1,786	1,786	1,831
Depreciation and amortisation	1,877	1,859	2,197
Other expenditure	1,718	1,718	1,809
Total operating expenses	45,801	45,660	53,190
Surplus/(deficit)	5	627	(3,495)
Total comprehensive revenue and expense for the year	5	627	(3,495)

Statement of prospective changes in equity

for the year ended 30 June 2019

	2018 Budget \$000	Estimated actual \$000	2018 Budget \$000
Balance at 1 July	15,059	15,122	15,749
Comprehensive revenue and expense			
Surplus	5	627	(3,495)
Total comprehensive revenue and expense	5	627	(3,495)
Balance at 30 June	15,064	15,749	12,254

Statement of prospective financial position

as at 30 June 2019

	2018 Budget \$000	Estimated actual 2018 \$000	2019 Budget \$000
Equity			
General funds	12,064	12,749	9,254
Litigation costs reserve	3,000	3,000	3,000
Total equity	15,064	15,749	12,254
Current assets			
Cash and cash equivalents	976	1,989	1,696
Fees and recoveries receivable	30	130	130
Short-term investments	12,000	13,000	8,000
Prepayments	500	660	673
Total current assets	13,586	15,779	10,499
Non-current assets			
Property, plant and equipment	3,955	3,584	4,379
Intangibles	3,468	2,264	2,460
Total non-current assets	7,423	5,848	6,839
Total assets	21,009	21,627	17,338
Current liabilities			
Creditors and other payables	1,360	1,030	1,005
Accrued expenses	600	700	650
Lease incentive	238	238	238
Penalties and cost awards held in trust	50	50	50
Crown funding repayable	63	824	244
Employee entitlements	2,235	1,670	1,769
Total current liabilities	4,546	4,512	3,956
Non-current liabilities			
Provisions	33	0	0
Lease incentive	1,366	1,366	1,128
Total non-current liabilities	1,399	1,366	1,128
Total liabilities	5,945	5,878	5,084
Net assets	15,064	15,749	12,254

Statement of prospective cash flows

for the year ended 30 June 2019

	2018 Budget \$000	Estimated 2018 actual \$000	2019 Budget \$000
Cash flow from operating activities			
Crown funding received	42,748	43,895	48,537
Fees and recoveries received	2,321	2,754	802
Receipts and payment of penalties (net)	0	(245)	0
Interest received	820	665	600
Member and employee payments	(28,409)	(26,991)	(32,114)
Supplier payments	(15,854)	(17,226)	(19,074)
Repayment of Crown funding	(3,880)	(3,780)	(824)
Goods and services tax (net)	(4)	17	(32)
Net cash inflow/(outflow) from operating activities	(2,258)	(911)	(2,105)
Cash flow from investing activities			
Investment receipts/(deposits)	2,000	1,000	5,000
Property, plant and equipment purchases	(288)	(400)	(1,988)
Intangible assets purchases	(1,412)	(402)	(1,200)
Net cash inflow/(outflow) from investing activities	300	198	1,812
Cash flow from financing activities			
Reserves returned to the Crown	0	0	0
Net cash inflow/(outflow) from financing activities	0	0	0
Net increase/(decrease) in cash and cash equivalents	(1,958)	(713)	(293)
Opening cash and cash equivalents	2,934	2,702	1,989
Closing cash and cash equivalents	976	1,989	1,696

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 2019

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 2018.

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.

Revenue – Crown – The Commission receives funding via appropriations from the Crown. Revenue from the Crown 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. Revenue from the Crown 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 Revenue – Crown 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 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.

Accounts payable	Debts owed to somebody (eg, a company) for goods or services provided to us that we have not yet paid at balance date.
Accounts receivable	Debts owed to us by somebody (eg, a company) for a service we have provided where we have not been paid at balance date.
Amortisation	Basically the same as depreciation (see below), except that it is applied to intangible assets (eg, software).
Asset	Something that we own, expect to receive in the future, or control.
Balance date	The date at which a set of accounts is prepared. For the Commission, that date is 30 June of each year.
Cash equivalents	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.
Comprehensive revenue and expense	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.
Current asset (or liability)	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.
Depreciation	The charge of an asset's cost over a certain time period. Depreciation recognises that assets decline in their value and usefulness over time.
Equity	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.
Exchange transactions	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.
Financial instruments	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).
Generally accepted accounting practice (GAAP)	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.
Going concern	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.

Intangible assets	Assets that do not have a physical substance, and are not cash.
Liability	Something we owe, expect to pay in the future, or may have to pay in the future.
Monetary assets	Assets that are cash, or will become cash in a short time frame (eg, bank account balances, term deposits, accounts receivable).
Monetary liabilities	Debts owed to another party, such as accounts payable, loans or unpaid salaries.
Non-current asset (or liability)	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.
Non-exchange transactions	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.
Provision	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.
Public benefit entity (PBE)	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.
Public sector	Government departments, local and regional councils, Crown entities such as the Commission, and other agencies that are part of the government.
Related party	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).
Statement of cash flows	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.
Statement of comprehensive revenue and expense	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.
Statement of financial position	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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