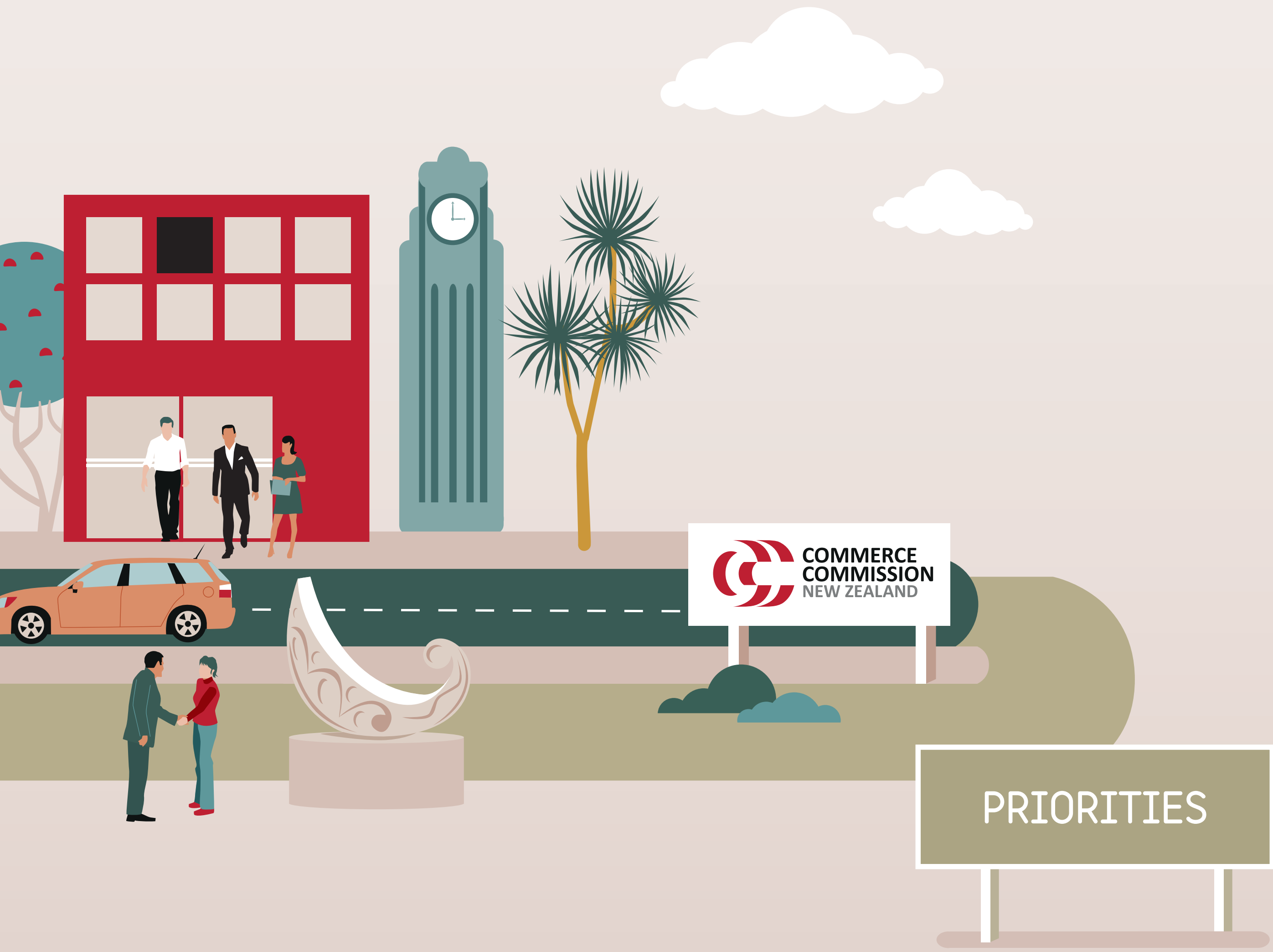
G.34

COMMERCE COMMISSION
NEW ZEALAND

STATEMENT OF PERFORMANCE EXPECTATIONS

OUR PLAN FOR 2014/15



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

Contents

Overview

Our statement of performance expectations (SPE) details the Commission's annual performance measures and forecast financial statements for the 2014/15 year. It outlines in detail our planned performance and the targets we have set. It is designed to provide the reader with a clear picture of what each of our appropriations is intended to achieve and how we will assess our performance in each area.

The SPE is complemented by our statement of intent (SOI), which describes our strategic intentions for the next four years. The SOI also outlines in detail the overall direction of the Commission, our outcomes and impacts, and how we achieve them. This is the first SPE released by the Commerce Commission and has been prepared in accordance with section 149C of the Crown Entities Act 2004.

Dr Mark Berry
Chairman

Pat Duignan
Member

Non-financial performance overview

General markets

To determine our progress towards our desired outcomes – markets are more competitive and consumers' interests are protected, we measure our performance against outputs. We focus on quantity, quality and timeliness and include measures such as the number of days taken to make a determination or decision, the number of guidelines and fact sheets published, and the percentage of stakeholders who find our communications clear and useful.

Our areas of priority for 2014/15 are:

- → continuing our programme of lower tier lender visits and looking for innovative ways to stop harm to people in debt
- → focussing on businesses that have models that harm vulnerable consumers and providing education to groups targeted by these traders to increase their awareness
- → increasing our work promoting product safety under the Fair Trading Act, taking enforcement action where necessary
- → continuing to provide advice, education and support to businesses and consumers throughout New Zealand with the construction sector continuing to be a particular focus area
- → continuing our major trader programme which aims to improve trader compliance through a cooperative approach. We will be using our new risk based approach to identify major traders to focus on
- → ensuring businesses and consumers are aware of legislative changes to the Fair Trading Act, the Credit Contracts and Consumer Finance (CCCF) Act and the Commerce Act.

Telecommunications, Dairy and Part 4 (Electricity lines, Gas pipelines and Airports)

To determine our progress towards our desired outcome – the performance of regulated suppliers and markets provides long-term benefits for consumers – we deliver a range of outputs that are measured in terms of volume, quality and timeliness.

Our major focus in telecommunications is the large and technically complex work associated with completing the cost models for Chorus' unbundled copper local loop (UCLL) and unbundled bitstream access (UBA) services. We are aiming to complete this work by 30 April 2015.

In Part 4 our near-term areas of priority are:

- → setting the default price-quality path for electricity distribution businesses
- → setting the new price-quality path for Transpower
- → undertaking a review of the use of the 75th percentile for the weighted average cost of capital[1]
- → assessing a higher than anticipated number of major capital expenditure investments from Transpower
- → reviewing Wellington Airport's revised prices for the period to 2019.

1. This project responds to comments made by the High Court merits appeal judgment.

Financial performance overview

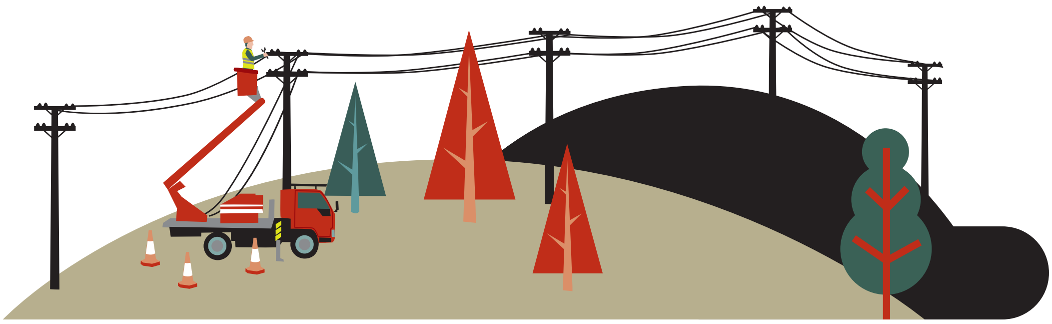
The Commission expects to receive $41.588 million in revenue for the 2014/15 financial year, from a variety of sources. Approximately 58% of our revenue comes directly from the Crown, with 40% from industry levies, and the remainder from interest and third-party revenue. The 2014/15 year is the first year of three new multi-year appropriations for the Commission in our Part 4 work programme, allowing us to manage costs more flexibly for these regimes over the regulatory timeframe, rather than through annual appropriations. It is also the first year of a new funding arrangement for our major litigation activities, which gives us more flexibility to choose the most cost-effective mix of internal and external legal resourcing.

The Commission is budgeting to spend $41.584 million in the 2014/15 financial year, an increase of $2.091 million on 2013/14. More than half of this additional expenditure is in the Regulatory area, where our focus over the 2014/15 year is on completing a variety of determinations and reviews, as discussed above. In our General markets space, we will continue to focus on enforcement activity, particularly in the credit contracts and consumer finance area. We are also budgeting for at least one Part 4 inquiry beginning in the 2014/15 financial year, which may need to be funded from our reserves.

Overall, the Commission's reserves will remain effectively stable over the 2014/15 year. Our budget indicates that we will repay $0.062 million of Crown funding in 2014/15, compared with $0.582 million budgeted in 2013/14. This difference is partly due to our new multi-year Part 4 appropriations more effectively managing revenue and our expenditure, but also the significant costs we are incurring in Telecommunications in 2014/15.

A significant focus for the Commission over the 2014/15 year is the completion of a Telecommunications cost model, primarily for UBA and UCLL services (though with some other applications to our work). This involves not only significant operating expenditure, but also a significant capital investment. This investment, together with other software projects, reflects a shift in emphasis towards capital investment in software aimed at improving our work efficiency. However, we also expect to begin capital investment on fitout for our new Christchurch office location, as part of the Government's project to relocate public sector departments and agencies into the central business district to support the recovery of central Christchurch.

Finally, this is the first financial year in which our accounts are prepared using the new public benefit entity (PBE) standards issued by the External Reporting Board (applying from 1 July 2014). There are several revenue recognition and also presentational changes which affect the look of our prospective financial statements. We have restated our comparative 2013/14 Budget and funding information so it is consistent with the new PBE standards.



Service performance

General markets

What do we intend to achieve?

This appropriation is intended to achieve more competitive markets and ensure consumers' interests are protected.

How performance will be assessed in 2014/15

General market appropriation	Actual 2012/13	Estimated actual 2013/14	Target 2014/15
Determinations			
Quantity			
Number of clearance applications processed (demand driven)	9	14	10-22
Number of authorisation applications processed (demand driven)	0	0	0-4
Quality and timeliness			
Percentage of successfully defended determinations appeals over five years	100%	100%	100%
Average number of working days from date of registration to date of decision for merger clearance applications	66.75 days	55 days	40 days[2]
Average number of working days from date of decision to date of publication of reasons for declined clearance applications	25.50 days	N/A No declines	10 days
Enforcement cases			
Quantity			
Number of market structure cases	2	1	0-5
Number of coordinated behaviour cases	10	8	8-14
Number of unilateral conduct cases	1	5	2-6
Number of Fair Trading Act cases	412	260	200-300
Number of product safety and information standards cases	48	60	100-150
Number of CCCF Act cases	47	43	40-60

2. The target of 40 working days is appropriate for the majority of our applications but is difficult to achieve for those applications that are more complex or involve multiple jurisdictions. This means there is likely to be a variance between our target and the actual result we will report in our Annual Report for 2014/15.

General market appropriation	Actual 2012/13	Estimated actual 2013/14	Target 2014/15
Quality and timeliness			
Percentage of investigations undecided for more than 18 months (at any point during the year)	3%	5%	0%
Percentage of investigations decided within 12 months of the investigation being opened	95%	93%	90%
The percentage of surveyed businesses that have received a compliance advice or warning letter from the Commission in the last 12 months report that the Commission's communications and guidance are clear and useful	84%	Survey to be completed in June 2014	95%
Education			
Quantity			
Number of Commission guidelines or fact sheets published	16	18	5-20
Number of substantial pieces of advice provided to inform policy design	11	4	5-15
Quality			
Percentage of stakeholders who find our publications clear and useful	Not measured	Survey to be conducted in June 2014	Target to be set once baseline established
Quality measure for all outputs			
Number of successful legal challenges of the Commission's processes	0	0	0

Vote Commerce – enforcement of general market regulation

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	16,435	13,935
Other revenue	773	907
Total revenue	**17,208**	**14,842**
Operating expenses		
Determinations	3,558	2,661
Enforcement cases	8,394	9,505
Advocacy and development	2,616	2,499
Reports to ministers	0	673
Total general market expenses	14,568	15,338
Internal major litigation expenses		
Competitive markets	2,130	0
Fair Trading Act	593	0
CCCF Act	241	0
Telecommunications	0	0
Input methodologies	103	0
Regulation	53	0
Total internal major litigation expenses	3,120	0
Total expenses	**17,688**	**15,338**
Surplus/(deficit)	(480)	(496)

Internal major litigation expenses are now part of Vote Commerce – Commerce Commission Litigation Fund (multi-category appropriation).

Vote Commerce – Commerce Commission litigation fund (multi-category appropriation)

	Budget 2013/14 $000	Budget 2014/15 $000
Externally-sourced litigation		
Externally-sourced litigation revenue		
Crown revenue	7,118	6,757
Total externally-sourced litigation revenue	7,118	6,757
Externally-sourced litigation operating expenses		
Competitive markets	4,031	2,530
Fair Trading Act	760	2,570
CCCF Act	457	302
Input methodologies	1,020	0
Regulation	350	855
Total externally-sourced litigation expenses	6,618	6,257
Externally-sourced litigation surplus/(deficit)	500	500
Internally-sourced litigation		
Internally-sourced litigation revenue		
Crown revenue	0	3,482
Other revenue	0	13
Total internally-sourced litigation revenue	0	3,495
Internally-sourced litigation operating expenses		
Competitive markets	0	2,290
Fair Trading Act	0	812
CCCF Act	0	167
Regulation	0	226
Total internally-sourced litigation expenses	0	3,495
Internally-sourced litigation surplus/(deficit)	0	0

Internally-sourced litigation expenses were previously part of Vote Commerce – enforcement of general market regulation.

This appropriation used to cover only the external costs of the Commission's major litigation activity, but is now a multi-category appropriation covering both the externally-sourced and internally-sourced costs of our major litigation.

Telecommunications, Dairy and Part 4

What do we intend to achieve?

Telecommunications

This appropriation is intended to achieve more competition in the telecommunications market for the long-term benefit of end-users.

Dairy

This appropriation is intended to achieve more efficient operation of dairy markets through the facilitation of competition.

Part 4 (Electricity lines, gas pipelines and major international airports)

Electricity lines

This appropriation 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 pipelines

This appropriation 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.

Major international airports

This appropriation is intended to achieve the delivery of regulated airport services at prices and quality that would have been available if the market were competitive, for the long-term benefit of consumers.

How performance will be assessed in 2014/15

Telecommunications, Dairy and Part 4 appropriations	Actual 2012/13	Estimated actual 2013/14	Target 2014/15
Determinations			
Quantity			
Number of determinations (includes determinations, clarifications, reviews and amendments)	Telecommunications: 4 Gas: 11 Electricity: 7 Airports: 2 Dairy: 0	Telecommunications: 4 Gas: 10 Electricity: 15 Airports: 3 Dairy: 0	Telecommunications: 2-4 Gas: 6-16 Electricity: 10-29 Airports: 2-5 Dairy: 0-1
Quality and timeliness			
Percentage of Part 4 determinations completed by statutory deadlines[3]	Gas: 91% Electricity: 100% Airports: 100%	Gas: 90% Electricity: 100% Airports: 100%	100%
Average time to complete Telecommunications determinations[4]	7 months	10.5 months	6 months
Completion date for UBA and UCLL FPP determinations	Not measured	Not measured	30 April 2015
Average time taken to complete Dairy determinations	N/A	N/A	120 days
Percentage of stakeholders who find the Commission's determinations and supporting reasons clear	74%	Survey to be conducted in June 2014	80%
Public reports and advice to officials			
Quantity			
Number of reports completed (monitoring reports, summary and analysis reports, information disclosure reports, ministerial reports)	Telecommunications: 5 Gas: 0 Electricity: 1 Airports: 1 Dairy: 2	Telecommunications: 5 Gas: 1 Electricity: 3 Airports: 3 Dairy: 2	Telecommunications: 3-8 Gas: 1-3 Electricity: 1-4 Airports: 1-4 Dairy: 2
Number of substantial pieces of advice provided to officials to inform policy design	Telecommunications: 2 Gas: 1 Electricity: 2 Airports: 1 Dairy: 0	Telecommunications: 2 Gas: 0 Electricity: 0 Airports: 0 Dairy: 0	Telecommunications:2-4 Gas: 0-4 Electricity: 0-7 Airports: 1-4 Dairy: 0-2
Quality and timeliness			
Percentage of stakeholders who rate our reports good or above	42%	Survey to be conducted in June 2014	80%
Percentage of reports completed by the set date	100%	100%	100%

3. One gas determination was late because Powerco changed its disclosure years and the timeframes became unachievable. The MDL determination was missed due to an administrative oversight. There was no adverse impact on suppliers or consumers.

4. This measure excludes the UCLL FPP determination.

Compliance and enforcement			
Quantity			
Number of compliance assessments completed	Telecommunications: 0 Gas: 0 Electricity: 64 Airports: 5	Telecommunications: 2 Gas: 5 Electricity: 48 Airports: 6	Telecommunications: 0-4 Gas: 10 Electricity: 48 Airports: 3
Number of enforcement cases to be taken	0	0	Telecommunications: 0-1 Gas: 0-1 Electricity: 0-3 Airports: 0-1
Quality and timeliness			
Percentage of compliance assessments completed by the set date	90%	100%	100%
Quality measure for all outputs			
Number of successful legal challenges of the Commission's processes	0	0	0

Consolidated financial output table (all regulation appropriations)

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	14,788	16,449
Fees and recoveries	355	0
Other revenue	44	45
Total revenue	15,187	16,494
Operating expenses		
Determinations	8,158	9,240
Compliance and enforcement	2,235	2,226
Public reports and advice to officials	4,794	5,028
Total expenses	**15,187**	**16,494**
Surplus/(deficit)	0	0

Vote Communications – enforcement of telecommunications sector regulation

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	5,479	5,954
Other revenue	16	15
Total revenue	5,495	5,969
Operating expenses		
Determinations	2,832	3,884
Compliance and enforcement	328	318
Public reports and advice to officials	2,335	1,767
Total expenses	**5,495**	**5,969**
Surplus/(deficit)	0	0

Vote Commerce - enforcement of dairy sector regulation and auditing of milk price setting

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	1,231	1,140
Other revenue	3	3
Total revenue	1,234	1,143
Operating expenses		
Determinations	21	21
Compliance and enforcement	281	43
Public reports and advice to officials	932	1,079
Total expenses	**1,234**	**1,143**
Surplus/(deficit)	0	0

Vote Commerce – regulation of electricity lines businesses

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	5,924	0
Fees and recoveries	355	0
Other revenue	18	0
Total revenue	6,297	0
Operating expenses		
Determinations	4,389	0
Compliance and enforcement	1,252	0
Public reports and advice to officials	656	0
Total expenses	**6,297**	**0**
Surplus/(deficit)	0	0

This appropriation ends at 30 June 2014, and is replaced by a new multi-year appropriation for the same work, as shown below.

Vote Commerce – economic regulation of electricity lines services

for the period 2014-2019 (multi-year appropriation)

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	0	7,202
Other revenue	0	20
Total revenue	0	7,222
Operating expenses		
Determinations	0	4,616
Compliance and enforcement	0	1,388
Public reports and advice to officials	0	1,218
Total expenses	**0**	**7,222**
Surplus/(deficit)	0	0

Vote Commerce – regulation of natural gas services

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	1,577	0
Other revenue	5	0
Total revenue	1,582	0
Operating expenses		
Determinations	828	0
Compliance and enforcement	297	0
Public reports and advice to officials	457	0
Total expenses	**1,582**	**0**
Surplus/(deficit)	0	0

This appropriation ends at 30 June 2014, and is replaced by a new multi-year appropriation for the same work, as shown below.

Vote Commerce – economic regulation of natural gas pipeline services

for the period 2014-2019 (multi-year appropriation)

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	0	1,564
Other revenue	0	5
Total revenue	0	1,569
Operating expenses		
Determinations	0	550
Compliance and enforcement	0	433
Public reports and advice to officials	0	586
Total expenses	**0**	**1,569**
Surplus/(deficit)	0	0

Vote Commerce – regulation of specified airport services

	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	577	0
Other revenue	2	0
Total revenue	579	0
Operating expenses		
Determinations	88	
Compliance and enforcement	77	0
Public reports and advice to officials	414	0
Total expenses	**579**	**0**
Surplus/(deficit)	0	0

This appropriation ends at 30 June 2014, and is replaced by a new multi-year appropriation for the same work, as shown below.

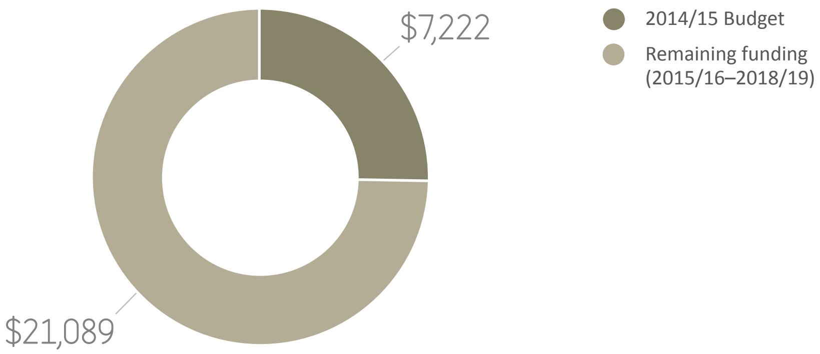
Vote Commerce – economic regulation of airport services

for the period 2014-2019 (multi-year appropriation)

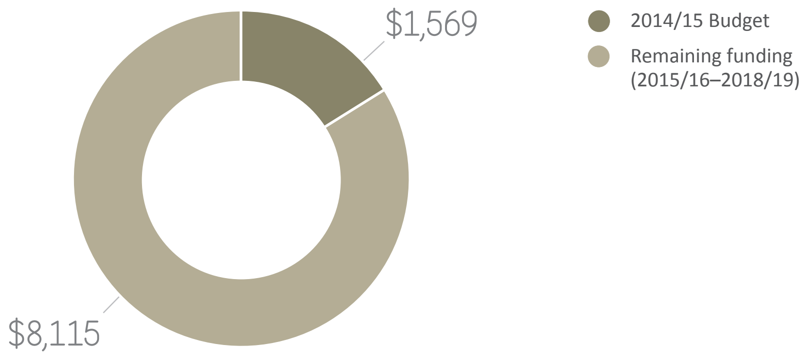
	Budget 2013/14 $000	Budget 2014/15 $000
Revenue		
Crown revenue	0	589
Other revenue	0	2
Total revenue	0	591
Operating expenses		
Determinations	0	147
Compliance and enforcement	0	66
Public reports and advice to officials	0	378
Total expenses	**0**	**591**
Surplus/(deficit)	0	0

Multi-year appropriations for the period 2014-2019 ($000)

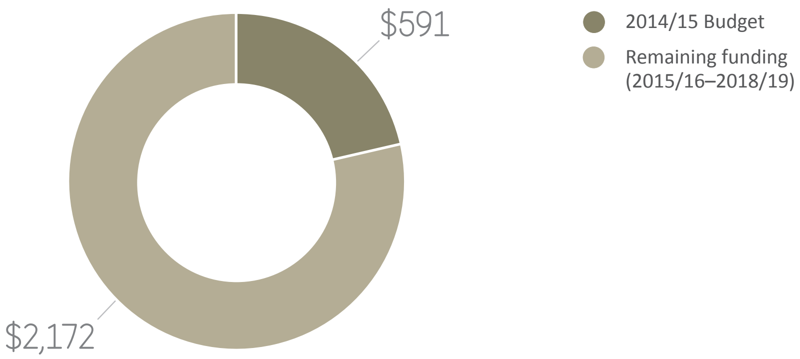
Economic regulation of electricity lines services
Multi-year appropriation $28,311



Economic regulation of natural gas pipeline services
Multi-year appropriation $9,684



Economic regulation of airport services
Multi-year appropriation $2,763



Prospective financial statements

Statement of responsibility

The Crown Entities Act 2004 requires the Commission to prepare a Statement of Performance Expectations, including prospective financial statements, before the start of each financial year to promote our accountability to the public. The prospective financial statements may not be appropriate for any other purpose and are unaudited.

The Commission has prepared the prospective financial statements using our best estimates and assumptions of expected future events. As the financial statements are prospective, actual results will be different from the information presented in this Statement of Performance Expectations. We will explain all material variations from the prospective financial statements in our subsequent annual report.

The Commission accepts responsibility:

→ for the preparation of the prospective financial statements in accordance with generally accepted accounting practice in New Zealand, and the judgements we have made in their preparation

→ that the prospective financial statements fairly reflect our expected forecast financial position as at 30 June 2015 and the results of our operations, cash flows and service performance for the period ending on that date

→ for the establishment and maintenance of a system of internal controls which we have designed to provide reasonable assurance as to the integrity and reliability of our financial and non-financial reporting.

In the opinion of the Commission, the prospective financial statements fairly reflect the expected forecast financial position of the Commission as at 30 June 2015 and the results of our operations, cash flows and service performance for the period ending on that date.

Dr Mark Berry
Chairman

Pat Duignan
Member

Statement of significant underlying assumptions

We have prepared the prospective financial statements presented on pages 19–26 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 had to make some assumptions about our work and funding. You should read the prospective financial statements 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. However, we will incur additional costs as a result of implementing the Consumer Law Reform Bill and planning for the implementation of the Commerce (Cartels and Other Matters) Amendment Bill. These additional costs can be managed within our existing funding.
- Crown Revenue received by the Commission agrees with the 2014/15 Estimates of Appropriations.
- The Commission will complete a final pricing principle for both the unbundled copper local loop and unbundled bitstream access within the 2014/15 year. This will result in significant one-off costs which we will manage by reprioritising our other telecommunications work to focus on this work. If necessary we will fund additional telecommunications work either from Commission reserves, or if approved from any unspent funds in the 2013/14 Telecommunications appropriation.
- The Commission plans to initiate at least one Part 4 inquiry during the 2014/15 financial 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 complaints we receive. In preparing the prospective financial statements, we have assumed that some activity (particularly in General markets) will occur at a level in line with historical activity.

The Commission has adopted these assumptions as at 28 May 2014.

Statement of prospective comprehensive revenue and expense
for the year ended 30 June 2015

	Budget 2013/14 $000	Estimated actual 2013/14 $000	Budget 2014/15 $000
Operating revenue			
Revenue from non-exchange transactions			
Crown revenue	38,341	34,652	40,623
Court cost awards	50	44	50
Total revenue from non-exchange transactions	38,391	34,696	40,673
Revenue from exchange transactions			
Fees and recoveries	405	906	50
Interest	607	655	757
Other revenue	110	110	108
Total revenue from exchange transactions	1,122	1,671	915
Total operating revenue	**39,513**	**36,367**	**41,588**
Operating expenses			
Members and personnel	23,875	22,431	26,086
Legal and other professional fees	10,702	8,488	10,562
Computer, information, and information technology	602	582	620
Occupancy	1,677	1,656	1,715
Depreciation and amortisation	896	690	890
Other expenditure	1,741	1,483	1,711
Total operating expenses	**39,493**	**35,330**	**41,584**
Surplus/(deficit)	20	1,037	4
Total comprehensive revenue and expense for the year	20	1,037	4

Statement of prospective changes in equity
for the year ended 30 June 2015

	Budget 2013/14 $000	Estimated actual 2013/14 $000	Budget 2014/15 $000
Balance at 1 July	**13,202**	**15,435**	**14,972**
Comprehensive revenue and expense			
Surplus/(deficit)	20	1,037	4
Total comprehensive revenue and expense	20	1,037	4
Transactions with owner			
Repayment of reserves to the Crown	0	(1,500)	0
Total transactions with owner	0	(1,500)	0
Balance at 30 June	**13,222**	**14,972**	**14,976**

Statement of prospective financial position

for the year ended 30 June 2015

	Budget 2013/14 $000	Estimated actual 2013/14 $000	Budget 2014/15 $000
Equity			
General funds	9,633	12,883	12,387
Litigation costs reserve	2,089	2,089	2,589
Litigation fund reserve	1,500	0	0
Total equity	13,222	14,972	14,976
Current assets			
Cash and cash equivalents	6,969	1,607	1,052
Fees and recoveries receivable	95	243	221
Crown revenue receivable	3,144	0	0
Short-term investments	6,000	16,500	13,500
Prepayments	110	307	305
Total current assets	16,318	18,657	15,078
Non-current assets			
Property, plant and equipment	740	802	988
Intangibles	1,675	762	2,641
Total non-current assets	2,415	1,564	3,629
Total assets	18,733	20,221	18,707
Current liabilities			
Creditors and other payables	1,404	1,010	750
Accrued expenses	1,538	850	890
Crown funding repayable	582	1,232	62
Penalties and cost awards held in trust	0	0	0
Employee entitlements	1,707	1,894	1,781
Total current liabilities	5,231	4,986	3,483
Non-current liabilities			
Provision for reinstatement of lease occupancy	253	236	236
Other non-current liability	27	27	12
Total non-current liabilities	280	263	248
Total liabilities	5,511	5,249	3,731
Net assets	**13,222**	**14,972**	**14,976**

Statement of prospective cash flows

for the year ended 30 June 2015

	Budget 2013/14 $000	Estimated actual 2013/14 $000	Budget 2014/15 $000
Cash flow from operating activities			
Crown funding received	37,769	36,452	40,685
Fees and recoveries received	565	(387)	208
Receipts and payment of penalties (net)	0	(1,492)	0
Interest received	637	580	779
Member and employee payments	(24,005)	(22,625)	(26,199)
Supplier payments	(14,650)	(11,828)	(14,807)
Repayment of Crown funding	(3,218)	(3,023)	(1,232)
Goods and services tax (net)	(170)	139	(34)
Net cash inflow/(outflow) from operating activities	(3,072)	(2,184)	(600)
Cash flow from investing activities			
Investment receipts/(deposits)	(1,000)	(4,000)	3,000
Property, plant and equipment purchases	(225)	(389)	(554)
Intangible assets purchases	(1,534)	(630)	(2,401)
Net cash inflow/(outflow) from investing activities	(2,759)	(5,019)	45
Cash flow from financing activities			
Repayment of reserves	0	(1,500)	0
Net cash inflow/(outflow) from financing activities	0	(1,500)	0
Net increase/(decrease) in cash and cash equivalents	**(5,831)**	**(8,703)**	**(555)**
Opening cash and cash equivalents	12,800	10,310	1,607
Closing cash and cash equivalents	**6,969**	**1,607**	**1,052**

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.

We have presented receipts and payment of penalties and cost awards as a net item because the Commission holds these funds in trust in accordance with agreements.

Statement of accounting policies

for the year ended 30 June 2015

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 (or controlling entity) 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. As a Tier 1 public sector PBE, we are required to report in accordance with Tier 1 PBE Accounting Standards.

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 28 May 2014.

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.

These prospective financial statements are the first set of prospective financial statements we have prepared in accordance with PBE standards. We have restated comparative financial information where required to comply with PBE standards, in accordance with PBE FRS 46 – *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*.

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. Revenue is based on the estimates included in the Crown's 2014/15 Budget. 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. These are the significant accounting policies.

Revenue – Revenue is measured at the fair value of consideration (eg, cash) received or receivable. We earn revenue from providing specific services (known as outputs) for the Crown, for services (such as clearances, authorisations, or customised determinations) 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, as outlined in our statement of intent and statement of performance expectations. Appropriation revenue with a levy-payer source, and most of the funding in Vote Commerce – Commerce Commission Litigation Fund (other than a small provision that may be used to fund any adverse cost awards), is provided on the condition we repay all unspent funds to the Crown after year end. Appropriation revenue from Vote Commerce – General markets is provided without any condition requiring repayment if unused.

We recognise appropriations from the Crown with conditions attached as a liability when received, and transfer the funds to revenue when we have incurred expenditure against that appropriation. Unspent funds at year end remain on our Statement of financial position as a liability. We recognise appropriations with no conditions attached as revenue when received.

Fees and recoveries – The Commission receives application fees for clearances, authorisations, and other determinations. We also receive cost-recovered revenue for services provided to other agencies, and for customised determinations from some regulated businesses. We treat these fees and recoveries as exchange transactions, as the entity receives a service directly from us in relation to the fee it pays. We recognise fees and recoveries as revenue when received or receivable, unless we are receiving revenue in advance of services provided on a cost recovery basis. If we receive revenue in advance, we hold the received funds as a liability on our Statement of financial position and recognise revenue as we incur costs to provide the services.

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.

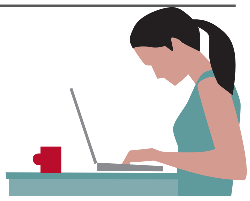
Foreign currency transactions – Transactions in foreign currencies are converted into the Commission's functional currency (New Zealand dollars) at exchange rates on the dates of the transactions. Monetary liabilities in foreign currencies at the reporting date are converted to New Zealand dollars at the exchange rate on that date. Any gain or loss on monetary liabilities is the difference between the cost in the functional currency at the beginning of the period and payments during the period, and is recognised in the Statement of comprehensive revenue and expense during that period.

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 in the Statement of comprehensive revenue and expense 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 in the Statement of financial position.

The Commission does not enter into, and is not allowed to enter into, any finance leases.

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 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 within an appropriation. Personnel costs are allocated to outputs based on budgeted staff resourcing. The indirect costs of support groups and corporate overhead costs are charged to outputs based on the budgeted relative staff resourcing of each output.

Goods and services tax – All items in the financial statements are presented exclusive of GST, except for receivables and payables, 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. The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

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. The components of equity are general funds and restricted funds (litigation fund reserve and litigation costs reserve). Restricted funds are reserves where the Commission must meet specific conditions of use that are agreed with the Crown.

Cash and cash equivalents – Cash and cash equivalents are our cash on hand, transactional cash balances in bank accounts, and some term deposits held with New Zealand registered banks.

Term deposits are included in cash and cash equivalents when they are easily turned into cash, will mature within three months of the date they were purchased (eg, a 90 day term deposit), and are used as part of our day-to-day cash management.

Receivables – Receivables are stated at their estimated net realisable value, after providing for doubtful and bad debts. All known bad debts are written off and charged to the Statement of comprehensive revenue and expense in the period in which we first identify them.

Investments – Investments are term deposits issued by New Zealand registered banks and are classified as loans and receivables. Term deposits which meet the definition of a cash equivalent (see above) are excluded from this definition. Loans and receivables 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. We recognise any gains or losses arising from impairment or writing off an investment in the Statement of comprehensive revenue and expense in the period in which they are first identified.

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 in the Statement of comprehensive revenue and expense as expenditure when incurred. We recognise any gain or loss arising from the sale or disposal of an item of property, plant and equipment in the Statement of comprehensive revenue and expense in the period in which the item of property, plant and equipment 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. We amortise software on a straight-line basis over its estimated useful life, to a maximum of five years.

Financial instruments – The Commission is naturally a party to financial instruments as part of its day-to-day operations. Financial instruments are monetary assets (eg, cash) and liabilities and are initially recognised at their fair value. We subsequently measure them at their amortised cost, less any impairment losses. All revenue and expenditure arising from the financial instruments are recognised in the Statement of comprehensive revenue and expense when earned or when an obligation exists.

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 in the Statement of financial position and charge this cost owing to the Statement of comprehensive revenue and expense. Entitlements are calculated on an actual entitlement basis at our personnel's current salary rates.

Cash flows – Operating, investing and financing cash flows are prepared using the direct method subject to the netting of certain cash flows. The cash flows in respect of bank deposits that have been rolled over under arranged banking facilities have been netted in order to ensure meaningful disclosures. Penalties which are received by the Commission and then paid to the Crown are netted, as the Commission is acting as an agent in collecting these penalties, must pass them on within a week of receipt, and does not benefit (eg, by earning interest) from receiving the penalties on behalf of the Crown.

Operating cash flows include all cash received from all operating revenue sources and all cash payments for all operating expenditure items. Investing cash flows reflect the payments for property, plant and equipment or intangible asset purchases, proceeds from the sale of property, plant and equipment or intangible assets, and the net movement in bank deposits (excluding bank deposits treated as cash and cash equivalents).

The Commission reconciles its surplus/deficit with the net cash flows from operating activities in our annual report using the direct method.

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 intent. 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

We have changed our policy on the maximum allowable useful life (and resulting amortisation) for intangible assets to up to five years, from up to three years, to recognise that some intangible assets we intend to invest in have a longer useful life than three years. There is no effect on the estimates applied to existing intangible assets from this change in policy. Otherwise, the accounting policies adopted are consistent with the previous year.

We have revised certain statements, specifically around the treatment of our various types of revenue, to comply with PBE standards in accordance with PBE FRS 46 – *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*.

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.
Asset	An asset is something that we own, expect to receive in the future, or control.
Amortisation	Amortisation is basically the same as depreciation (see below), except it is applied to intangible assets (eg, software).
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	Cash equivalents are 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	Comprehensive revenue and expense is 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)	A current asset is 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	Depreciation is 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	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	Exchange transactions are 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	Financial instruments are 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)	GAAP is 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	Intangible assets are assets that do not have a physical substance, and are not cash.
Liability	A liability is something we owe, expect to pay in the future, or may have to pay in the future.
Monetary assets	Monetary assets are assets that are cash, or will become cash in a short time frame (eg, bank account balances, term deposits, accounts receivable).
Monetary liabilities	Monetary liabilities are debts owed to another party, such as accounts payable, loans or unpaid salaries.

Non-current asset (or liability)	A non-current asset is 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	Non-exchange transactions are 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).
SOI	Statement of Intent
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.

Glossary

CPP	Customised price-quality path as in Part 4 of the Commerce Act 1986.
FPP	Final pricing principle as in the Telecommunications Act 2001.
MDL	Maui Development Limited
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.
UBA	Unbundled bitstream access. Regulated service giving wholesale access to Chorus' DSL full speed broadband service. It allows telecommunications companies to supply broadband services to customers without the need to replicate Chorus' electronics or software.
UCLL	Unbundled copper local loop. Wholesale access to the copper line connecting a phone user to the local exchange.
WACC	Weighted average cost of capital.

ISSN: 2382-0462 (Print)
ISSN: 2382-0470 (Online)

Phone: 0800 943 600
Write : Contact Centre, PO Box 2351, Wellington 6140
Email : contact@comcom.govt.nz

www.comcom.govt.nz