



STATEMENT OF PERFORMANCE EXPECTATIONS

OUR PLAN FOR 2019/20



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 lower quality goods or services. 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 for 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 Government's overarching aims are to *build a productive, sustainable and inclusive economy and improving the wellbeing of New Zealanders and their families*. Within the overarching aim of building a productive, sustainable and inclusive economy, the Government has asked the Commission to support the following two outcomes:

- Grow and share more fairly New Zealand's prosperity
- Support thriving and sustainable regions.

The Commerce Commission is New Zealand's primary competition, consumer and regulatory agency. Our two core strategic objectives of markets working well and consumers and businesses being confident market participants provide the framework for our work to contribute to these outcomes.

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 are protected and 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 (including fibre networks), dairy and our three major airports.

Our Statement of Intent 2017–2022 (SOI) outlines the overall direction of the Commission. Our Statement of Performance Expectations 2019/20 (SPE) accompanies the SOI and is part of the Commission's accountability to the public, 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 2020 Annual Report.

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

Statement of responsibility

The information contained in this SPE has been prepared and presented to the House of Representatives in accordance with Part 4 of the Crown Entities Act 2004.

The prospective financial statements and performance expectations, prepared in accordance with generally accepted accounting standards for this SPE, were not audited and may not be relied upon for any other purpose.

The Board acknowledges responsibility for the preparation of this SPE, which reflects the forecast performance and the financial position of the Commission for the financial year ending 30 June 2020.



Anna Rawlings
Chair



Sue Begg
Deputy Chair

Strategic framework

The Commerce Commission supports the Government’s economic strategy to improve the wellbeing of New Zealanders through sustainable and inclusive growth. In everything that we do, we work towards making “New Zealanders better off”. This work supports the Government’s economic strategy by ensuring that there is a more competitive, confident and productive business environment that delivers positive outcomes for all New Zealanders.

Our work is focused on where we have the greatest impact on addressing consumer harm, especially on the more vulnerable members of society. We are committed to protecting the interests of consumers and promote competition, particularly where there is no or little competition. When there is a more competitive, confident and productive business environment, the wellbeing of New Zealanders is improved through increased confidence as market participants.

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.

The Commission’s strategic framework is illustrated in the diagram below:



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

Strategic objectives

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.

Strategies

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

- Seize opportunities to have the greatest impact
- Protect, inform and empower consumers and businesses
- 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 2020 Annual Report

We will assess the Commission's contribution towards achieving our strategic objectives by using evidence from a range of sources such as case studies and key indicators at the end of the financial year. These performance indicators are summarised in the tables below.

It is intended that these indicators, when viewed together and connected to our work, will help describe and demonstrate our performance against each of the strategic objectives. While the strategic objectives and indicators are also influenced by factors that are outside our control, the Commission plays a small but important role.

We will also report the results of our output performance measures contained in this SPE and the Estimates of Appropriations in the 2020 Annual Report.



Strategic objective 1: Markets work well

We support an environment that enables markets in New Zealand to function well. Well-functioning markets allow businesses and consumers to experience the benefits of competition.

Whether markets work well (including regulated industries) is not solely dependent on the work we do. The New Zealand economy is affected by wider circumstances such as global economic conditions, government policy and programmes related to competition, and New Zealand being a small and geographically isolated economy.

Our role in encouraging markets to work well is to provide that:

- businesses understand and operate according to the rules
- competition is not undermined by anti-competitive arrangements
- market power is not abused
- mergers do not substantially lessen competition
- regulated sectors or sectors with little or no competition are incentivised to perform efficiently
- accurate information is available to both consumers and businesses.

Effective competition creates an incentive for businesses to innovate, improve efficiency, and produce products and services at a price and quality demanded by consumers. In markets with little or no competition and prospect of future competition, regulation can help create similar outcomes to those seen in competitive markets.

Markets work well performance indicators

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

Case studies are examples of our work which help to illustrate our contribution to markets working well.

Performance indicator	Source of information	Baseline	2020 target
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	Completed – reported in previous Annual Reports	Case studies completed
Intensity of competition	World Economic Forum Global Competitiveness Index Business Omnibus Survey	5.25	Maintain or improve
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	Achieved	Achieved

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

New Zealanders are better off when they are confident market participants. Well-functioning markets build consumer and business confidence by allowing participants to understand and take part in a transactional economy. This is not about how confident consumers and businesses are in the economy and their ability to spend money, but their confidence to participate in markets, regardless of economic performance.

Consumers are confident market participants

Consumers have confidence to participate in markets when they have access to information that helps them to make informed purchasing decisions, they can assess whether businesses are trading fairly and they feel that the system is working to protect their rights.

Our role in improving consumer confidence is to:

- educate New Zealanders about consumer laws so they can be empowered
- promote compliance, prosecute violations of the law and deter wrongful behaviour
- take enforcement action when anti-competitive behaviour such as cartel practices exists
- prevent mergers and acquisitions that could substantially lessen competition or harm consumers.

For regulated industries, our role is to help to ensure consumers are confident that regulated suppliers are providing services at an appropriate price and quality. We support this by publishing analysis of how regulated businesses are performing.

Consumers are confident market participants performance indicators

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

Case studies are examples of our work which help to illustrate the Commission’s contribution to consumer confidence as market participants.

Performance indicator	Source of information	Baseline	2020 target
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	Completed – reported in previous Annual Reports	Case studies completed
Consumers are confident that competition and consumer laws are being appropriately enforced	Information from the MBIE Consumers Survey conducted in 2018/19 Next survey to be conducted in the 2020/21 financial year	40%	Maintain or increase
Consumers are confident when accessing consumer credit	Information is from the MBIE Consumers Survey conducted in 2018/19 Next survey to be conducted in the 2020/21 financial year	Baseline will be established and reported in 2018/19 Annual Report	Maintain or increase
Consumers are confident that regulated suppliers are providing services at an appropriate price and quality	Information from the MBIE Consumers Survey conducted in 2018/19, and/or other relevant consumer surveys Next MBIE survey to be conducted in the 2020/21 financial year	Baseline will be established and reported in 2018/19 Annual Report	Maintain or increase

Businesses are confident market participants

Businesses are confident market participants when they know other businesses are following the rules and if they are not, then appropriate action will be taken. 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.

Our role in improving business confidence is to:

- enhance business understanding of legislation so they do not unintentionally breach the law
- remedy unlawful behaviour through our enforcement work so that all businesses can have confidence to invest without that being undermined by anti-competitive or misleading conduct by competitors
- ensure anti-competitive activity that could substantially lessen competition such as cartel behaviour is deterred or addressed where it does occur.

In regulated markets we set and enforce the rules and regulations that apply 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. This approach to economic regulation reinforces stability to the regime we look after, enhancing the confidence of regulated businesses.



Businesses are confident market participants performance indicators

We will use the indicators outlined below in our Annual Report to assess how well we have met our objective of businesses being confident market participants and facilitate a discussion of the Commission’s contribution to this.

Case studies are examples of our work which help to illustrate the Commission’s contribution to business confidence as market participants.

Performance indicator	Source of information	Baseline	2020 target
Case studies of our contribution to business confidence as market participants	Examples of our work in focus areas that have had an impact on how confident businesses are as market participants	Completed – reported in previous Annual Reports	Case study completed
Businesses are confident other businesses are following the rules	Information from the Commission’s Business Survey conducted in 2018/19 Next survey to be conducted in the 2020/21 financial year	Baseline will be established and reported in 2018/19 Annual Report	Maintain or increase
Businesses understand their responsibilities under competition and consumer law	Information from the Commission’s Business Survey conducted in 2018/19 Next survey to be conducted in the 2020/21 financial year	Baseline will be established and reported in 2018/19 Annual Report	Maintain or increase
Regulated suppliers are confident to invest in regulated assets	High level assessment of aggregate level of investment (and/or major transactions involving regulated assets)	Achieved	Achieved



Outputs

We will achieve our strategic objectives by implementing our plan and carrying out our functions across our 11 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	The prevention, identification, investigation and remediation of market behaviour that is anti-competitive.
Consumer	The prevention, identification, investigation and remediation of market behaviour that is harmful for consumers.
Telecommunications	The promotion of competition in the telecommunications markets for the long-term benefit of end-users.
Fibre	The regulation of wholesale fibre fixed-line broadband services and the work in relation to broadcasting transmission service providers.
Electricity lines services	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	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	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	Incentives for Fonterra to operate efficiently while providing for contestability in the market for the purchase of milk from farmers.
Part 4 inquiries	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	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	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.



How performance will be assessed in 2019/20

Measure	Output class	2018 actual	2019 estimated actual	2020 target
The performance for Competition and Consumer output classes will be assessed by case studies of the Commerce Commission's contribution to markets working well and consumer and business confidence.	Competition and Consumer	Achieved	Achieved	Achieved
Percentage of merger clearance decisions made within 40 working days when no letter of issues is sent to parties	Competition	20%	75%	75%
Average number of working days from date of decision to date of publication of reasons for declined merger clearance applications	Competition	27 days	10 days	10 days
Number of Commerce Act 1986 matters completed	Competition	13	20	5–20
Percentage of competition investigations decided within 18 months of the investigation being opened	Competition	100%	90%	75% ²
Percentage of investigations involving a court action, statutory undertaking or negotiated settlement response, meeting our internal process quality standards	Competition	New measure in 2019/20		100%
Number of Credit Contracts and Consumer Finance Act matters completed	Consumer	131	55	50–100
Number of product safety and information standards matters completed	Consumer	103	80	75-150
Number of Fair Trading Act matters completed	Consumer	206	180	175-300
Percentage of Fair Trading Act investigations decided within 12 months of the investigation being opened	Consumer	89%	90%	95%
Percentage of credit investigations decided within 18 months of the investigation being opened	Consumer	Revised measure in 2019/20		95%
Percentage of investigations involving a court action, statutory undertaking or negotiated settlement response, meeting our internal process quality standards	Consumer	New measure in 2019/20		100%
Number of determinations (includes determinations, clarifications, reviews, codes and amendments)	Telecommunications	4	4	0–10
	Fibre	New measure in 2018/19		1
	Electricity lines services	11	6	6-16
	Gas pipeline services	6	3	2–5
	Specified airports services	3	3	2–4
Average time to complete telecommunications determinations ³	Telecommunications	6 months	6 months	6 months

2. The target has been set at 75% to reflect the complexity and lower volume nature of competition investigations.

3. 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.

Measure	Output class	2018 actual	2019 estimated actual	2020 target
Fibre Input Methodology determination completed by 30 June 2020	Fibre	New measure in 2019/20		Achieved
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	1	10	0–9
	Electricity lines services	2	6	0–7
	Gas pipeline services	2	2	0–4
	Specified airports services	0	3	0–3
	Dairy	2	2	1–2
Number of Part 4 inquiries completed	Part 4 inquiries	0	0	0–1
Quality assurance processes for determinations and code amendments are in place and applied	Telecommunications	New measure in 2019/20		100%
	Fibre	New measure in 2019/20		100%
	Electricity lines services	New measure in 2019/20		100%
	Gas pipeline services	New measure in 2019/20		100%
	Specified airports services	New measure in 2019/20		100%
All competition studies undertaken are completed within agreed timeframes	Competition Studies	New measure in 2019/20		Achieved
Using the Fund according to conditions for use	Major litigation	Achieved	Achieved	Achieved



Financial information

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

Output class	Appropriation
Competition	Commerce and Consumer Affairs Enforcement of General Markets Regulation multi-category appropriation <ul style="list-style-type: none"> Enforcement of Competition Regulation
Consumer	Commerce and Consumer Affairs Enforcement of General Markets Regulation multi-category appropriation <ul style="list-style-type: none"> Enforcement of Consumer Regulation
Competition studies	Competition Studies
Telecommunications	Enforcement of Telecommunications Sector Regulation
Fibre	Enforcement of Telecommunications Sector Fibre and Broadcasting Transmission Service Regulation 2018–2022 (multi-year appropriation)
Electricity lines services	Economic Regulation of Electricity Lines Services 2019–2024 (multi-year appropriation)
Gas pipeline services	Economic Regulation of Gas Pipeline Services 2019–2024 (multi-year appropriation)
Specified airport services	Economic Regulation of Specified Airport Services 2019–2024 (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.

	2019 Budget \$000	2020 Budget \$000
Competition		
Revenue – Crown	8,043	8,193
Other revenue	349	264
Total operating revenue	8,392	8,457
Operating expenses	8,391	8,806
Surplus/(deficit)	1	(349)
Consumer		
Revenue – Crown	11,144	15,144
Other revenue	458	423
Total operating revenue	11,602	15,567
Operating expenses	11,601	16,413
Surplus/(deficit)	1	(846)
Competition studies		
Revenue – Crown	1,500	1,500
Other revenue	7	28
Total operating revenue	1,507	1,528
Operating expenses	1,507	1,528
Surplus	0	0

	2019 Budget \$000	2020 Budget \$000
Telecommunications		
Revenue – Crown	6,000	6,300
Other revenue	517	323
Total operating revenue	6,517	6,623
Operating expenses	10,014	6,623
Surplus/(deficit)	(3,497)	0
Electricity lines services		
Revenue – Crown	7,942	7,200
Other revenue	37	146
Total operating revenue	7,979	7,346
Operating expenses	7,979	7,346
Surplus	0	0
Fibre		
Revenue – Crown	0	5,000
Other revenue	0	101
Total operating revenue	0	5,101
Operating expenses	0	5,101
Surplus	0	0
Gas pipeline services		
Revenue – Crown	1,857	1,500
Other revenue	7	31
Total operating revenue	1,864	1,531
Operating expenses	1,864	1,531
Surplus	0	0
Specified airport services		
Revenue – Crown	763	800
Other revenue	4	16
Total operating revenue	767	816
Operating expenses	767	816
Surplus	0	0
Dairy		
Revenue – Crown	595	600
Other revenue	2	12
Total operating revenue	597	612
Operating expenses	597	612
Surplus	0	0
Major litigation: Internally-sourced litigation		
Revenue – Crown	3,468	3,500
Other revenue	21	96
Total operating revenue	3,489	3,596
Operating expenses	3,489	3,729
Surplus/(deficit)	0	(133)
Major litigation: Externally-sourced litigation		
Revenue – Crown	6,981	7,000
Total operating revenue	6,981	7,000
Operating expenses	6,981	7,000
Surplus	0	0

Prospective financial statements

Statement of significant underlying assumptions

The prospective financial statements are presented on pages 17-23 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 2019/20. 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 area of consumer credit.
- Revenue from the Crown received by the Commission is consistent with the 2019/20 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 2019.



Prospective financial statements

Statement of prospective comprehensive revenue and expense

for the year ended 30 June 2020

	2019 Budget \$000	Estimated	2019 actual \$000	2020 Budget \$000
Operating revenue				
Revenue from non-exchange transactions				
Revenue – Crown	48,293		49,981	56,737
Court cost awards	50		50	50
Total revenue from non-exchange transactions	48,343		50,031	56,787
Revenue from exchange transactions				
Fees and recoveries	526		526	525
Interest	600		611	600
Other revenue	226		226	265
Total revenue from exchange transactions	1,352		1,363	1,390
Total operating revenue	49,695		51,394	58,177
Operating expenses				
Members and personnel	32,218		32,152	37,004
Legal and other professional fees	13,960		11,885	14,363
Computer, information, and information technology	1,175		1,166	1,385
Occupancy	1,831		1,976	2,417
Depreciation and amortisation	2,197		2,080	2,007
Other expenditure	1,809		1,802	2,329
Total operating expenses	53,190		51,061	59,505
Surplus/(deficit)	(3,495)		333	(1,328)
Total comprehensive revenue and expense for the year	(3,495)		333	(1,328)

Statement of prospective changes in equity

for the year ended 30 June 2020

	2019 Budget \$000	Estimated	2019 actual \$000	2020 Budget \$000
Balance at 1 July	15,749		15,759	16,092
Comprehensive revenue and expense				
Surplus/(deficit)	(3,495)		333	(1,328)
Total comprehensive revenue and expense	(3,495)		333	(1,328)
Balance at 30 June	12,254		16,092	14,764

Statement of prospective financial position

as at 30 June 2020

	2019 Budget \$000	Estimated 20198 actual \$000	2020 Budget \$000
Equity			
General funds	9,254	13,092	11,764
Litigation costs reserve	3,000	3,000	3,000
Total equity	12,254	16,092	14,764
Current assets			
Cash and cash equivalents	1,696	5,306	2,216
Fees and recoveries receivable	130	160	160
Short-term investments	8,000	13,000	11,000
Prepayments	673	530	541
Total current assets	10,499	18,996	13,917
Non-current assets			
Property, plant and equipment	4,379	3,319	4,631
Intangibles	2,460	1,479	1,730
Total non-current assets	6,839	4,798	6,361
Total assets	17,338	23,794	20,278
Current liabilities			
Creditors and other payables	1,005	1,080	1,120
Accrued expenses	650	550	500
Lease incentive	238	181	170
Penalties and cost awards held in trust	50	50	50
Crown funding repayable	244	2,430	181
Employee entitlements	1,769	2,221	2,473
Total current liabilities	3,956	6,512	4,494
Non-current liabilities			
Lease incentive	1,128	1,190	1,020
Total non-current liabilities	1,128	1,190	1,020
Total liabilities	5,084	7,702	5,514
Net assets	12,254	16,092	14,764

Statement of prospective cash flows

for the year ended 30 June 2020

	2019 Budget \$000	20198 Estimated actual \$000	2020 Budget \$000
Cash flow from operating activities			
Crown funding received	48,537	52,421	56,917
Fees and recoveries received	802	796	840
Receipts and payment of penalties (net)	0	(164)	0
Interest received	600	646	600
Member and employee payments	(32,114)	(31,778)	(36,732)
Supplier payments	(19,074)	(17,228)	(20,717)
Repayment of Crown funding	(824)	(1,669)	(2,430)
Goods and services tax (net)	(32)	(22)	2
Net cash inflow/(outflow) from operating activities	(2,105)	3,002	(1,520)
Cash flow from investing activities			
Investment receipts/(deposits)	5,000	1,000	2,000
Property, plant and equipment purchases	(1,988)	(963)	(2,570)
Intangible assets purchases	(1,200)	(179)	(1,000)
Net cash inflow/(outflow) from investing activities	1,812	(142)	(1,570)
Net increase/(decrease) in cash and cash equivalents	(293)	2,860	(3,090)
Opening cash and cash equivalents	1,989	2,446	5,306
Closing cash and cash equivalents	1,696	5,306	2,216

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 2020

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 2019.

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 those funded by Vote Business, Science and Innovation – Enforcement of General Markets Regulation, 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	Up to 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 (expenses, salaries, repayment of money to the Crown).
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.



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

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