



IMPROVING NEW ZEALAND'S MARKETS

OUR PLAN FOR 2013-2016

Our purpose

We achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

Our outcomes

Our goals for New Zealanders are that:

- markets are more competitive
- consumers' interests are protected
- regulation is better targeted and more effective.

Our values

Excellence

We produce excellent work that stands up to scrutiny.

We continually look for ways to improve.

We recruit and retain excellent people and support their development.

Integrity

Our independence inspires the trust and confidence of New Zealanders.

We are fair, honest and impartial.

Accountability

We answer to New Zealanders for the work we do and the money we spend.

We take individual responsibility to deliver what we say we will.

Respect

We work together, and support and respect each other.

We value the diversity of people and their opinions.

Good judgement

We understand the environment in which we operate and the impact of our actions.

What we do is relevant and useful.

We are proactive and flexible and look for common-sense solutions.

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For a relatively small organisation, our mandate is broad and our influence far-reaching.

Our responsibilities cover competitive and regulated markets and our work touches the lives of all New Zealanders as businesses and consumers.

To achieve our statutory goals – that markets are more competitive; consumers' interests are protected; and regulation is better targeted and more effective – we have to work smartly. We focus on areas where we can have the biggest impact through the most efficient use of taxpayer resources. We work within the statutory frameworks that prescribe our role and responsibilities and we are guided by the Government's priorities.

The next few years herald a period of significant law reform across the breadth of our work. With these changes come greater powers and opportunities, but also some uncertainty in terms of timeframes and the potential impact on our role and responsibilities. We therefore stand prepared – remaining focused on business as usual, while working to inform policy makers as appropriate and to develop the necessary systems, policies and guidance to enforce new legislation as and when it passes.

Consumer law

The Consumer Law Reform Bill is one of the more significant pieces of reform ahead. The Bill aims to modernise New Zealand consumer law and improve alignment with Australia. It brings layby sales and uninvited direct sales (previously door to door sales) under the Fair Trading Act and creates new prohibitions, such as unsubstantiated claims and unfair contract terms. It also increases penalties – from \$60,000 to \$200,000 for individuals and from \$200,000 to \$600,000 for companies.

Obviously we are very supportive of these moves to strengthen consumer law in New Zealand. The new powers will allow us to be more timely and effective in our interventions. And greater consistency with Australian consumer law means businesses operating trans-Tasman will have greater certainty in terms of their obligations to consumers in both countries. It will also strengthen what we can achieve with the Australian Competition and Consumer Commission (ACCC) in tackling any breaches of our respective legislation.

The Credit Contracts and Consumer Finance (CCCF) Act is also under review with proposed changes including new responsible lending provisions and other protections for borrowers. As we await the changes, we continue to target lower-tier lenders in our advocacy and enforcement of the CCCF Act as it currently stands.

Competition law

The Commerce Act faces change under the Commerce (Cartels and Other Matters) Amendment Bill, including a new criminal regime for cartel conduct in the medium term. Meanwhile, we are starting to see the effects of introducing and promoting our updated cartel leniency policy in 2010. We have received two applications for leniency in relation to domestic cartels and will be progressing these cases as appropriate.

Telecommunications

Our regulatory work is also facing potential reform with the Government's review of telecommunications regulation in New Zealand brought forward. We will also be working to implement anticipated changes arising from the Government's final report on trans-Tasman roaming.

Our pricing review of wholesale prices for access to Chorus' unbundled copper local loop will also see us enter largely uncharted waters. We have not completed an exercise of this type for the telecommunications sector before and expect to face considerable challenges, given the complexity of the work and the competing objectives of the parties who requested the review.

Part 4 regulatory regime

Under Part 4 of the Commerce Act, we continue to bed down the new regime. Three years in, we are faced with the challenges of a young regime where certainty has been hindered by considerable litigation. While we expect some clarity from the High Court's judgments on input methodologies, the potential for appeals means it may be some time before we achieve the certainty that everyone wants.

Our approach

What is clear, and what is consistent across all the work we do, is the need to communicate well with those affected by the laws we enforce and the decisions we make. Our work can be complex and technical, but we know that by improving understanding of what we do and why, and by taking on board the views of our stakeholders, we can be a better enforcer and regulator.

We may be small, but we are effective, and for that I give credit to my fellow Commissioners and staff. We are flexible and prepared for the opportunities and challenges that lie ahead.



Dr Mark Berry
Chair

The Commerce Commission is New Zealand's competition authority and regulatory agency.

We are responsible for enforcing laws relating to competition, fair trading, and consumer credit, and have regulatory responsibilities in the electricity, gas, telecommunications, dairy and airport sectors. Our purpose is to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

We are an independent Crown entity, with some quasi-judicial functions, established under the Commerce Act. We are primarily accountable to the Minister of Commerce for our performance. We are not subject to direction from the government in carrying out our enforcement and regulatory control activities. This independence requires us to be an impartial promoter and enforcer of the law. Where relevant, we use our experience to provide advice on policy development and legislative reviews. Our outputs are delivered under an Output Agreement with the Minister of Commerce and the Minister for Communications and Information Technology.

We report to these ministers on our outputs through Triannual Reports. Our outputs are funded through Vote Commerce and Vote Communications.

What we do

We enforce, adjudicate on, and provide information and guidance relating to New Zealand's competition law, the Commerce Act 1986. The Act prohibits anti-competitive behaviour and acquisitions that lead to anti-competitive structures in markets.

Under the Commerce Act, the Commission can approve a merger that does not substantially lessen competition (known as a clearance). We can also approve a merger or a restrictive trade practice that is anti-competitive but would ultimately benefit New Zealand consumers (known as an authorisation). Clearances and authorisations offer businesses protection from legal action under the Commerce Act.

We also enforce two pieces of consumer legislation that help protect the interests of consumers and promote fair competition. The Fair Trading Act 1986 prohibits false and misleading behaviour by businesses. It also specifies when consumers must be given information about certain products and promotes product safety. The Credit Contracts and Consumer Finance (CCCF) Act 2003 covers consumer lending, consumer leases and buy-back transactions. It requires lenders to disclose certain information to consumers when they enter into a credit contract and sets out rules about interest, payments and credit fees.

Providing information and advice to businesses and consumers about these Acts and how they apply is an important part of our role.

We also play a key role in regulating markets where competition is limited and there is little prospect of future competition. When this is the case, there is the risk that consumers are overcharged or don't receive the quality of service they require.

Under the Commerce Act, we have regulatory responsibility for suppliers of electricity lines and gas pipeline services (distribution and transmission) and specified airport services (at Auckland, Christchurch and Wellington International Airports). Our responsibilities for these regulated industries include:

- administering an information disclosure regime (for all services)
- setting and enforcing price-quality paths (which specify maximum revenue or maximum prices, and quality standards) for gas pipeline services, non-consumer-owned electricity distribution services and Transpower
- setting and reviewing input methodologies (upfront regulatory rules and processes) for all regulated services
- conducting inquiries under the Commerce Act into whether particular goods or services should be regulated or controlled, and making recommendations to the Minister.

The Telecommunications Act 2001 regulates the supply of telecommunications services in New Zealand. The Act is administered by the Office of the Telecommunications Commissioner, within the Commerce Commission. Under the Act, we make determinations on designated access and specified services and undertake costing and monitoring activities.

Under the recently amended Dairy Industry Restructuring Act 2001, we have both enforcement and adjudication roles in relation to Fonterra's obligations in the domestic dairy market and new responsibilities to oversee Fonterra's approach to setting the base milk price.

Currently there is considerable legislative reform underway in relation to the Fair Trading Act, CCCF Act, Commerce Act and Telecommunications Act. This will have an impact on our responsibilities and priorities over the next three years. We discuss the implications of these reforms in more detail later.

Our work is influenced by a wide range of external factors, including the domestic economy, policy developments and law reform, the litigation environment and our relationships with other agencies.

The economy and marketplace

The state of the economy is a significant backdrop to the work we do because of the impact it has on the New Zealand marketplace and how businesses operate and consumers behave.

Our work is influenced by these external market forces as much as it is driven by our own assessment of where best to focus our attention. For example, while we have discretion as to which competition or consumer issues we target, our mergers and authorisations work is entirely market driven, and requires us to use our best estimates of the level of business activity we expect to see.

The economy continues to face uncertain times. While New Zealand businesses continue to face pressures in export markets due to the slower-growing global economy, high Kiwi dollar and tighter local fiscal policy, there is a trend towards modest economic growth domestically, with reconstruction efforts in Canterbury, low interest rates and historically high commodity prices. The net effect of these economic conditions, based on the latest consensus forecasts from the New Zealand Institute of Economic Research, is that the economy is expected to grow about 2.5-3.0% a year over the next two years.

The \$30 billion rebuild of Christchurch will make it a hub for economic activity and growth for the New Zealand economy for the next 10 years. From our perspective, however, overseas experience demonstrates that, post-disaster, there is considerable potential for collusion and misleading practices as money begins to flow in the reconstruction phase. We will be doing all we can to improve markets' understanding about the benefits of competition and about anti-competitive practices that may be undermining that competition.

The Government's drive for effective fiscal management continues to colour our approach. We remain focused on improving the efficiency and effectiveness of our work and being financially sustainable.

Policy developments and law reform

Changes to the legislative frameworks we operate within can have a significant impact on the work we do. Currently law reform is being undertaken across several relevant areas.

The Consumer Law Reform Bill aims to modernise consumer law and improve alignment with Australia. The new powers will allow our interventions to be more timely and effective. We anticipate that the new law will come into effect in late 2013. Changes to the CCCF Act, which include new responsible lending provisions and other amendments to improve the protection for borrowers, are also likely to be progressed this year.

The Commerce (Cartels and Other Matters) Amendment Bill clarifies the civil price-fixing prohibition, introduces criminal sanctions for cartel conduct and proposes a clearance regime for collaborative activities that do not substantially lessen competition. We expect the amendments to be in place later this year, with the criminal sanctions coming into force two years later.

We are working to provide guidance to business, promote awareness of the law changes and develop the necessary systems, processes and policies to effectively implement the updated legislation.

In the regulatory area, the Government has announced the immediate review of the Telecommunications Act, and the Telecommunications Services Obligations. The roll-out of the Government's Ultra-Fast Broadband (UFB) project and the increased activity around mobile networks will be key factors in these reviews. We will also be working to implement the Government's recent policy announcements associated with trans-Tasman roaming.

The Government will also be considering its response to our reports to the Ministers of Commerce and Transport on the effectiveness of information disclosure by suppliers of specified airport services in achieving the outcomes sought under Part 4 of the Commerce Act.

We continue to work constructively with officials on the implications of any reforms.

Litigation

Our litigation workload varies considerably each year based on a range of factors, including the number and types of cases we choose to litigate, any appeals we defend, the complexity of the cases we have before us and the court timetables. Court judgments can also impact on our workload and the approach we take to our work.

We have come to the end of a period of unprecedented levels of litigation relating to significant Commerce Act cases, judicial reviews of our work under Part 4 and the merits reviews of input methodologies. We are now awaiting a judgment from the High Court on the merits reviews. Giving effect to the Court's judgment may require us to revisit the rules that we have already put in place. We do not know how extensive that work will be or its timing, given that parties may decide to appeal the judgment.

Uncertainty also remains around our application of section 36 of the Commerce Act, which deals with monopolistic conduct. The way in which section 36 has been interpreted by New Zealand's courts has created difficulties in applying the law. Given the inherent complexity and cost of these types of cases, we will choose which cases to investigate very carefully and will contribute to any consideration given by policy makers to reform in this important area.

Working with other agencies

We work cooperatively with relevant government agencies to ensure that we achieve our goals without duplication or conflict, and ensure that we share information and expertise where required. Where appropriate we also work closely with other enforcement agencies and regulators, such as the Financial Markets Authority (FMA), Serious Fraud Office (SFO), the Electricity Authority, the Gas Industry Company and New Zealand Police, to achieve more effective outcomes.

We are an active participant in all-of-government initiatives where appropriate. We seek to foster cross-government links where we can and to understand the roles of different government agencies as we work collectively to achieve common goals for all New Zealanders.

Internationally, we are actively involved with our counterpart agencies through forums such as the Organisation for Economic Co-operation and Development (OECD), the International Competition Network, the International Consumer Protection Network and the Utility Regulators Forum.

We have always had a close and productive working relationship with the Australian Competition and Consumer Commission (ACCC). This relationship has further strengthened with amendments to the Commerce Act allowing us to share compulsorily acquired information with the ACCC, and provide investigative assistance to each other. Our close working relationship is aided by Commissioner cross-appointments and cooperation on a day-to-day basis at staff level, including secondments.

New Zealanders benefit when markets work well.

Businesses benefit from a competitive environment that encourages innovation and investment or there is effective regulation. Consumers benefit from optimal prices, quality and choice.

We seek to achieve the following outcomes for New Zealanders.

- Markets are more competitive.
- Consumers' interests are protected.
- Regulation is better targeted and more effective.

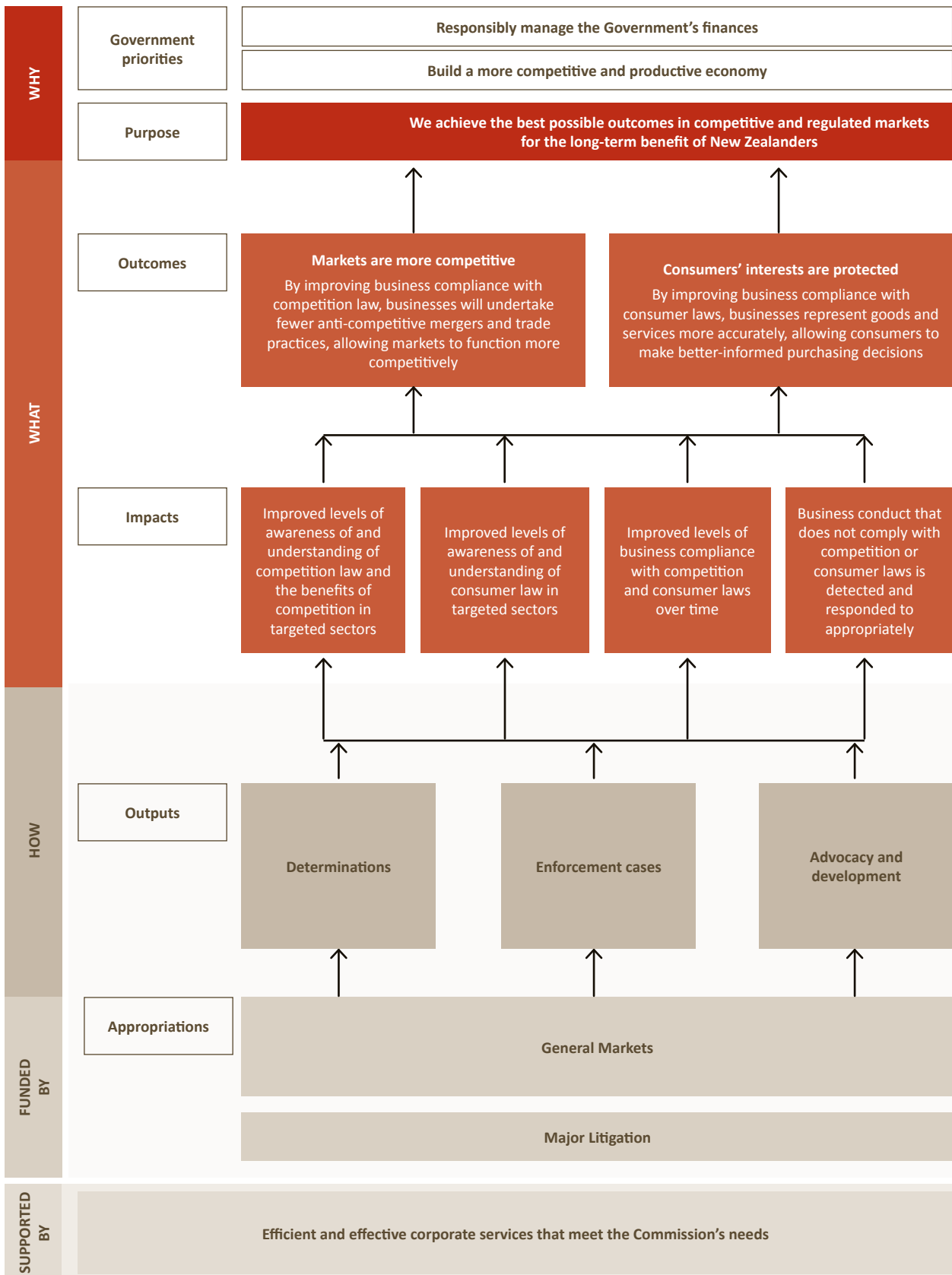
These outcomes contribute to the Government's broader priorities.

Everything we do as an organisation contributes to achieving our outcomes. Through fostering competition, or putting in place well-targeted regulation where competition is not possible or practical, we encourage businesses to be efficient and innovative, and to meet consumer demands. When businesses operate outside the law and harm consumers, we take action aimed at stopping the behaviour, deterring future breaches and remedying the harm. While these high-level outcomes guide our work, it is not practical or cost-effective to directly measure our performance against them. We have chosen instead to measure the direct impact of our work, as this demonstrates how we are contributing to achieving our outcomes.

Our strategic framework (page 8) shows the links between our critical outputs, impacts and outcomes (what we do and why) and how we contribute to the Government's priorities. We have changed our consumer outcome statement from *Consumers are better informed* to *Consumers' interests are protected* in order to reflect the purpose statement of the Fair Trading Act under the Consumer Law Reform Bill.

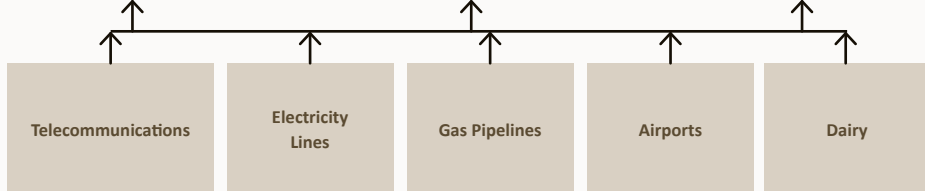
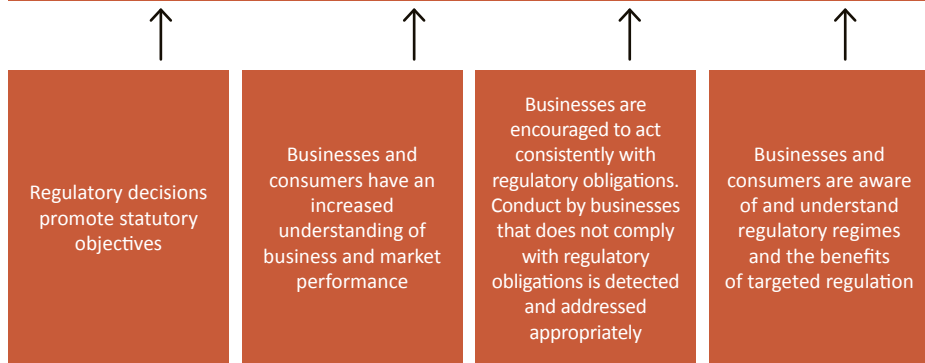
We have reviewed and refined our current impact and output performance measures to ensure we are focusing on critical, meaningful measures of our success. In some areas, this has meant reducing or aggregating specific measures.

Strategic framework





We achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders



Major Litigation

Efficient and effective corporate services that meet the Commission's needs

Markets are more competitive and consumers' interests are protected

The Commission helps promote competition and ensure consumers' interests are protected.

When businesses compete on their merits, and provide fair and accurate information, consumers benefit from improved price, quality and choice.

We are responsible for administering and enforcing the Commerce Act, the Fair Trading Act and the CCCF Act. Through our work, we seek to improve compliance with competition and consumer laws so that businesses:

- undertake fewer anti-competitive mergers and trade practices, allowing markets to function more competitively
- represent goods and services more accurately, allowing consumers to make better-informed purchasing decisions.

This work contributes to the Government's priority of building a more competitive and productive economy.

What impacts do we have?

We work towards the outcomes *Markets are more competitive* and *Consumers' interests are protected* by seeking, over time, to have the following impacts:

- Improved levels of awareness of and understanding of competition law and the benefits of competition in targeted sectors.
- Improved levels of awareness of and understanding of consumer law in targeted sectors.
- Improved levels of business compliance with competition and consumer laws over time.
- Business conduct that does not comply with competition or consumer laws is detected and responded to appropriately.

How do we achieve these impacts?

Businesses that understand the law are more likely to comply with it. An important aspect of our work is to help businesses understand competition and consumer law and their obligations, and to provide incentives to encourage compliance.

We continue to refine our approach, which is based on the premise that most businesses want to comply with the law so we need to make compliance easy. We do this by providing information and guidance to businesses and by supporting them to have effective compliance programmes in place. We target our education and advocacy efforts at specific industry sectors where we see emerging issues or have ongoing areas of concern. This allows us to focus our efforts cost-effectively where there is the most opportunity to improve compliance, and therefore market outcomes, and protect consumers' interests. Among other things, we produce fact sheets and guidelines, meet with and present to industry groups and contribute to industry publications. We work to see marked improvements in levels of awareness of and understanding of competition and/or consumer laws in the sectors we target and measure the effectiveness of our interventions, refining our approach as necessary.

We also promote a wider awareness of and understanding of the laws we enforce (and any changes to those laws), so that businesses know their obligations and consumers understand their rights. We continue to improve our communications by writing in plain English and listening to feedback from stakeholders.

Our approach to compliance



Publicising and explaining our enforcement decisions and determinations is another way we try to improve understanding of the approach we take to our work. We provide guidance about our approach and make every effort to provide timely decisions to businesses seeking clearance or authorisation. We are also working to improve our checks on the impact of our adjudication decisions by more systematically reviewing competitive conditions in markets where we have granted a clearance or authorisation.

While we put considerable resource into educating businesses about the laws we enforce, there will always be businesses that operate outside the law, whether intentionally or unintentionally.

We detect breaches of the law through a number of different sources. One of these is from the complaints we receive from businesses and consumers. We provide a complaints process that is easy to use, and assess complaints in a timely manner against our enforcement criteria, considering the extent of the harm, the seriousness of the conduct, and the public interest. Our intelligence unit routinely monitors and assesses specific market sectors, analysing areas where we are seeing high or increasing levels of complaints, and sources information from local and overseas agencies. Through our leniency and cooperation policies, we offer incentives for businesses and individuals to share information about potential breaches of the laws we enforce.

We follow robust investigative and litigation practices, and work with other enforcement agencies where it is appropriate to do so. We use our enforcement response guidelines to decide what action to take. Our response is aimed at stopping the behaviour, deterring future breaches and remedying the harm. We seek to achieve appropriate penalties, refunds and/or compensation for consumers and an overall improvement in businesses' compliance with competition and consumer laws. When we take cases to court, we have good reason for doing so. But we recognise that highly effective outcomes can be achieved without litigation and we will take other courses of action where issues can be resolved more readily and cost-effectively, with redress for affected consumers.

Outcome: Markets are more competitive

By improving business compliance with competition law, businesses will undertake fewer anti-competitive mergers and trade practices, allowing markets to function more competitively.

Impacts

- Improved levels of business compliance with competition laws over time
- Improved levels of awareness of and understanding of competition law in targeted sectors

Impact measures	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
The percentage of businesses that have an active compliance programme under the Commerce Act increases over time	Not measured ¹	Businesses with 100+ employees 38% ¹	Survey of businesses with 100+ employees to be completed in June 2013	45%	50%	55%
Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand competition law than before the intervention	Target sector non-residential construction: 30% (9 out of 30 firms)	Target sector non-residential construction: 47% (14 out of 30 firms ²)	Target sector health: 53% ³	An increase in awareness and understanding in the targeted sector ⁴		

1. In the Annual Report 2011/12 we reported for 2010/11 and 2011/12 that 24% of smaller businesses (< 100 employees) had an active compliance programme under the Commerce Act. From 2013/14 we will only measure the levels of compliance programmes in businesses with 100+ employees.
2. In the Annual Report 2011/12 we reported a figure of 47% for the non-residential construction sector. As our focus is now on the health profession, it is not directly comparable.
3. In 2012/13 we surveyed three different health professional groups and are currently surveying a different group of health professionals.
4. As the targeted sector is not always the same each year, it is not appropriate to set specific percentage targets. It is more appropriate to seek an increase in awareness and understanding in the sector currently being focused on.

Outcome: Consumers' interests are protected

By improving business compliance with consumer laws, businesses will represent goods and services more accurately, allowing consumers to make better-informed purchasing decisions.

Impacts

- Improved levels of business compliance with consumer laws over time
- Improved levels of awareness of and understanding of consumer law in targeted sectors
- Business conduct that does not comply with competition or consumer law is detected and responded to appropriately

Impact measures	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
The percentage of businesses that have an active compliance programme under the Fair Trading Act increases over time	Not measured ⁵	Businesses with 100+ employees 41% ⁶	Businesses 100+ survey to be completed in June	45%	50%	55%
Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand consumer law than before the intervention	Not measured	Not measured	Survey of non-bank lenders to be completed in May 2013	An increase in awareness and understanding in the targeted sector ⁷	An increase in awareness and understanding in the targeted sector	An increase in awareness and understanding in the targeted sector
We obtain penalties in court for breaches of the Acts we enforce	\$35.4 million in penalties	\$6.6 million in penalties	\$22.0 million in penalties has been obtained as at 28 February 2013	Not appropriate to set targets due to the undesirable incentives this creates		
We achieve refunds or compensation for affected consumers either in court or by settlement	\$2.9 million in refunds or compensation	\$4.4 million in refunds or compensation	\$64.4 million in refunds or compensation has been obtained as at 12 February 2013	Not appropriate to set targets due to the undesirable incentives this creates		
As a result of our interventions, the number of businesses who receive more than one enforcement response decreases over time ⁸	Not measured	Fair Trading Act: 26% Credit Contracts and Consumer Finance Act: 16% Commerce Act: 0%	Fair Trading Act: 27% Credit Contracts and Consumer Finance Act: 15% Commerce Act: 0%	Fair Trading Act: 20% Credit Contracts and Consumer Finance Act: 15% Commerce Act: 0%	Fair Trading Act: 19% Credit Contracts and Consumer Finance Act: 15-20% ⁹ Commerce Act: 0%	Fair Trading Act: 18% Credit Contracts and Consumer Finance Act: 15-20% Commerce Act: 0%

5. In the Annual Report 2011/12 we reported that 31% of smaller businesses (< 100 employees) had an active compliance programme under the Fair Trading Act. From 2013/14 we will only measure the levels of compliance programmes in businesses with 100+ employees.
6. In the Annual Report 2011/12 we reported a figure of 42% for businesses with fewer than 100 employees. Our focus is now only on businesses with 100 or more employees as smaller businesses will not have the same level of resources to create compliance programmes as larger businesses.
7. As the targeted sector is not always the same each year, it is not appropriate to set specific percentage targets. It is more appropriate to seek an increase in awareness and understanding in the sector currently being focused on.
8. This measure looks at enforcement responses in the preceding three years. An enforcement response can include compliance advice, warning, settlement or prosecution.
9. We expect to see a temporary increase in reoffending during 2014/15 and 2015/16 if the Credit Contracts and Consumer Finance Amendment Bill expected to be introduced to the House this year becomes law. It will take some time for lenders to familiarise themselves with the new provisions of the Act.

Service performance outlook for 2013-2016

The work we do in the competition and consumer area falls into three broad categories – determinations, enforcement cases, and advocacy and development.

Legislative reform will touch all these areas over the next three years as we work to develop the systems, processes and policies necessary to enforce the new legislation and provide guidance and information to businesses and consumers about the changes.

We expect to process a similar steady level of applications for clearances and authorisations unless market conditions change significantly. However, our adjudication role will expand when the collaborative activity clearance regime is introduced as part of the amendments to the Commerce Act. While we cannot estimate the number of applications we are likely to receive because of the uncertainties of when the reform will be introduced, we are prepared from a budget perspective to process any applications as and when they start coming in.

We remain committed to working smartly, focusing our energies and resources where we can have the most impact and where harm is greatest. This means using an intelligence-based approach to help us prioritise effectively and being guided by our enforcement criteria and enforcement response guidelines. Our low level inquiry unit clearly demonstrates the benefit of working alongside business and intervening early. We will continue to resource this area to achieve speedy and effective resolution of straightforward consumer matters.

We are also expecting to investigate several coordinated behaviour cases in the coming year as a result of recent leniency applications about domestic and international cartels.

We continue to focus on educating more and litigating less. With several high-profile, long-running cases now concluded, the number of cases we have before the courts is likely to be lower than in previous years. However, we will continue to take cases to court where we believe this is likely to achieve the most effective outcome, or where we are seeking to achieve useful precedence – particularly under the CCCF Act or in relation to recent changes to the law.

From an advocacy and education perspective, we have been refining the areas of greatest focus so that we can deliver further positive results.

The Christchurch rebuild will be a focus, as we work to increase awareness of competition and consumer laws so that any potentially collusive activity or misleading or deceptive behaviour is detected and deterred.

We will also continue to work in the health area to improve compliance with competition and consumer laws among health professionals. In New Zealand the health sector is shifting to more integrated models of care, with greater collaboration between different health professional groups. This can bring with it risks under the Commerce Act.

We remain focused on the telecommunications sector from a consumer protection perspective. We have seen a rise in levels of compliance as a result of our interventions, but there is still considerable room for improvement.

In the consumer credit area we will continue to tackle the problem of lower-tier lenders targeting vulnerable consumers, by helping ensure consumers are given the protections afforded by the CCCF Act. We will promote understanding of the law (including the upcoming changes to the Act) by both lenders and consumers, and will monitor compliance, taking enforcement action where necessary.

We will also be increasing our work promoting product safety under the Fair Trading Act, taking enforcement action where necessary.

In 2013/14 our strategic focus will be on:

- law reform – we will prepare for the law reform affecting each of the Acts we enforce, consulting with the public and stakeholders as appropriate, to ensure that we are ready to provide education and guidance to businesses and consumers, and to take appropriate enforcement action when the laws come into effect
- intelligence – we will continue to embed market intelligence in our work, including implementing a structural change so that our intelligence and investigations teams are better integrated, with the goal of ensuring we are able to proactively identify sectors and matters that warrant investigation.

General market output measures are on pages 40-41.

When competition in a market is limited and there is little prospect of future competition, consumers can end up paying prices that don't reflect the cost of goods or services they receive.

When this is the case, regulation can help mimic the effects seen in competitive markets so that consumers benefit in the long term.

The Commission is currently responsible for administering regulatory regimes under Part 4 of the Commerce Act (electricity lines, gas pipelines and specified airport services), the Telecommunications Act and the Dairy Industry Restructuring Act.

By delivering targeted and effective regulation of goods and services in markets where there is little or no competition, we work to ensure that consumers receive goods and services at a price and quality that would have been available if the market was competitive.

This work contributes to the Government's priority of building a more competitive and productive economy.

What impacts do we have?

We work towards the outcome *Regulation is better targeted and more effective* by seeking, over time, to have the following impacts across all sectors we regulate.

- Regulatory decisions promote statutory objectives.
- Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and addressed appropriately.
- Businesses and consumers have an increased understanding of business and market performance.
- Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation.

How do we achieve these impacts?

For regulation to be effective, it needs to be appropriately targeted. Our role is therefore to understand the markets, industries and businesses we regulate, monitor how well those markets work, and adjust our approach as necessary. This may include amending regulatory rules so that regulation becomes better targeted, advising government on types of regulation that should (or should not) apply, or directly putting in place (or removing) regulation ourselves where we have the authority to do so.

We also work to ensure regulation meets the objectives the law intends. While statutory objectives vary across the regulatory regimes we administer, the broad focus is on promoting the long-term benefit of consumers. The reference to long-term is important. Prices that are too low may benefit consumers in the short term, but the benefits can be greatly outweighed by higher long-term costs, if regulated businesses do not make the necessary returns to allow investments in replacing equipment or in new technology. Given that very large investments are sometimes at stake, understanding these trade-offs is important.

Clearly, regulation will only be effective if suppliers meet regulatory requirements. We seek to achieve voluntary compliance wherever possible, helping suppliers understand the rules and their obligations. We also engage with suppliers when we are developing regulatory rules, to ensure our processes are robust and transparent. But if regulated businesses do not comply, we can take enforcement action. We use our discretion to decide when to intervene, and tailor our approach to each issue. This involves selecting the most appropriate enforcement action, which can include issuing a warning letter, reaching a settlement, seeking penalties or compensation, or taking court action.

Increasing understanding by the wider business community and consumers of New Zealand's regulated markets about how these regulatory regimes work and what the benefits are is also part of our job. This includes communicating often technical information in plain English. We are also well aware of the impact that regulatory decisions can have on the value of companies. In the case of listed companies, we continue to work with market analysts and commentators to ensure they understand the regulatory framework in which we operate, given the role they play in putting our work in context.

Telecommunications

We regulate telecommunications services to promote competition in telecommunications markets for the long-term benefit of end-users of those services. Our role in this sector includes regulating access to wholesale bottleneck services and removing regulation of services where competition has become effective.

The telecommunications sector will be going through significant changes in the next three years. Key developments include:

- the statutory review of the Telecommunications Act and the review of the telecommunications service obligations (TSO)
- ongoing implementation of the government's Ultra Fast Broadband initiative
- emerging new technologies (eg, Long Term Evolution mobile networks) and evolving market structures.

In this context we will continue to promote targeted and effective regulation of telecommunications services by:

- promoting an increased understanding of telecommunication market performance by further developing our approach to monitoring, and broadening our approach to communicating this analysis
- providing advice to officials and government in a way that supports effective regulatory design
- responding effectively to any new regulatory roles (such as trans-Tasman roaming)
- promoting effective compliance by suppliers of telecommunications services with existing regulatory requirements. These requirements include Chorus' compliance with its undertakings, and suppliers' notification of liability in relation to the Telecommunications Development Levy.

We have simplified how we measure whether our regulatory decisions promote statutory objectives by focusing on measures of competitiveness in New Zealand markets.

We will also continue to monitor the effectiveness of the Mobile Termination Access Services determination. We use the Herfindahl-Hirschman Index (HHI)¹⁰ as an indicator of competitiveness in this SOI, however, we plan to review this in the next year as we refresh our approach to monitoring telecommunications markets to ensure it remains relevant given changing technologies and market structure.

Electricity, gas and airports (Part 4)

The purpose of Part 4 of the Commerce Act is to promote the long-term benefit of consumers in regulated markets by promoting outcomes that are consistent with outcomes produced in competitive markets so that suppliers of regulated services:

- have incentives to innovate and invest
- have incentives to improve efficiency and provide services at a quality that reflects consumer demands
- share with consumers the benefits of efficiency gains
- are limited in their ability to extract excessive profits.

In the electricity lines and gas pipelines sectors, our focus is on promoting certainty, setting price-quality paths (where required), monitoring the performance of regulated services (through information disclosure), and ensuring compliance with regulatory requirements.

We also monitor Auckland, Wellington and Christchurch International Airports on their delivery of aircraft and freight services, airfield activities and specified passenger terminal services.

We assess how well regulation under Part 4 is working based on the performance of monopoly services. We monitor a range of measures to ensure Part 4 regulation is targeted and effective.

For electricity lines services and gas pipeline services subject to price-quality regulation, we want to see suppliers delivering quality services and achieving at least normal returns over a five-year regulatory period, without extracting excessive profits.

For suppliers of airport services (which are not subject to price-quality regulation), we want to see ongoing increases in passenger satisfaction. By early 2013/14 we will have assessed the effectiveness of the information disclosure regime in achieving the purpose of Part 4 of the Commerce Act. Our first report on Wellington International Airport Limited (WIAL) found that, while information disclosure has been effective in some areas (such as quality), it has not constrained WIAL from achieving excessive profits. Further regulation of specified airport services is now a matter for policy consideration by government. We had anticipated incorporating an impact measure in our SOI that set targets associated with constraining excessive profits for airports; however, we have deferred this in the light of the findings of our review, and pending the outcome of policy considerations.

10. The Herfindahl-Hirschman Index (HHI) is a commonly accepted measure of market concentration and is calculated by squaring the market share of each market participant that has a material number of subscribers and adding these together. The maximum possible score is 10,000.

We expect all businesses subject to Part 4 to comply with information disclosure requirements so that we have quality information about supplier performance. As we receive disclosures under the new information disclosure regime, we are getting a clearer picture of the level of investment, innovation, quality and profitability of these businesses. We will continue to work with suppliers to help them understand the disclosure requirements and to develop effective compliance systems.

We also seek to ensure that breaches of price-quality paths (where they apply) do not increase over time. There are significant areas for improvement in terms of compliance, particularly in relation to quality. We are working to understand what is behind these breaches so we can respond appropriately and promote better compliance in the future. Quality of performance will be a focus when we set new price-quality paths.

Dairy

Among other things, the purpose of the Dairy Industry Restructuring Act is to promote the efficient operation of dairy markets in New Zealand. Our role involves facilitating competition in dairy markets. We monitor contestability in the industry through the entry and expansion of other dairy processors besides Fonterra. In 2012 the Dairy Industry Restructuring Amendment Act gave us additional regulatory responsibility to review Fonterra's approach to setting the base milk price.

We are now in a position to put in place some impact measures for this new milk monitoring regime.

A key policy assumption of the regime is that Fonterra will respond to any negative findings of the Commission's reviews by amending its approach to setting the base milk price so it is consistent with the legislative purpose. Although we cannot require Fonterra to change its approach, we consider it is important to assess whether Fonterra does respond to any findings that its approach is inconsistent with the legislative purpose, and have included a new impact measure around this. If Fonterra does not respond, the regime may not be achieving its intended purpose.

Outcome: Regulation is better targeted and more effective

By delivering targeted and effective regulation of goods and services in markets where there is little or no competition, consumers receive the goods and services that would have been available if the market was competitive.

All regulated services: Part 4, Dairy, and Telecommunications

Regulation impacts

→ Regulatory decisions promote statutory objectives¹¹

Sector	Impact measures	Actual 2009/10	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Telecommunications	The fixed telephone retail market concentration by connection as measured by the HHI	5,286	4,725	3,843	One-off step change increase in HHI ¹²	Ongoing improvement		
Telecommunications	The fixed broadband line retail market concentration by connection as measured by the HHI	4,026	3,677	3,335	One-off step change increase in HHI	Ongoing improvement		
Telecommunications	The mobile retail market concentration by connection as measured by the HHI	4,237	3,876	3,514	Expected to improve – results due in April 2014	Ongoing improvement		
Telecommunications	A decrease in the difference in prices between mobile on-net and off-net calls	Not measured	Not measured	7.6% (voice percentage point discount January 2012)	5.7% estimated decrease in voice percentage point discount	Year-on-year decrease		

11. The statutory objectives are: a) incentives to innovate and invest, b) incentives to improve efficiency and high-quality services, c) sharing efficiency gains and d) limited ability to extract excessive profits.

12. This one-off step change in the HHI measure is expected as a result of the merger of Vodafone and TelstraClear. Notwithstanding this change in HHI measure, our more detailed merger analysis found that there was likely to be no material loss of competition.

Sector	Impact measures	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Electricity Lines	No deterioration in the quality of electricity distribution services, for businesses on a default price-quality path (DPP), as indicated by aggregate industry SAIDI ¹³ and SAIFI ¹⁴ measures	Weighted average SAIDI=174 Weighted average SAIFI=1.92	Weighted average SAIDI=162 Weighted average SAIFI=1.81	Results due by June 2013 Baseline will be set by 30 June 2013	Aggregate industry SAIDI and SAIFI do not increase ¹⁵		
Electricity	Transpower meets or exceeds established quality targets as detailed in the Individual Price-Quality Path Determination of 22 December 2010 ¹⁶	System minutes target exceeded by 6.9 minutes – target not met Number of planned interruptions – target met ¹⁷	3 out of 4 quality targets exceeded (1 target not met) (see https://www.transpower.co.nz/sites/default/files/publications/resources/annual-regulatory-report-2011-2012.pdf)	Results due in October 2013	Transpower meets or exceeds all quality targets		
Electricity Distribution and Gas Pipelines	Regulated suppliers that do not breach the price-quality path achieve at least normal returns over a regulatory period, but do not achieve excessive profits Excessive profits exclude above normal returns achieved as a result of efficiency gains	Not measured (this will be measured at the end of the regulatory period in 2015)			Regulated suppliers are able to achieve at least normal returns but do not achieve excessive profits over the regulatory period (period concludes June 2015)		
Airports	Suppliers of specified services maintain or improve the quality of services provided to passengers	Not measured	Passenger Satisfaction Survey results for year ended June 2011: Christchurch → Domestic 3.9/5 → International 4.1/5 Auckland → Domestic 4.0/5 → International 4.1/5 Wellington → Domestic 4.1/5 → International 4.0/5 These survey results are collected as part of the Airports Information Disclosures received in May 2012	Airports survey results due in May 2013	Passenger satisfaction scores are 4/5 or higher		
Dairy	Assumptions, inputs and processes identified as inconsistent with the legislative purpose in our review of the base milk price calculation are no longer identified as inconsistent in the following year's review	Not measured			Baseline to be set in 2013 (first review due September 2013)	100% of material inconsistencies identified in the previous year have been addressed	

13. System Average Interruption Duration Index.

14. System Average Interruption Frequency Index.

15. We will adjust this calculation to account for the Christchurch earthquakes and/or any changes to quality paths set as part of a customised price-quality path determination.

16. Quality targets in the 2012 Individual Price-Quality Path (Transpower) Reasons Paper are: 1) number of loss of supply events >0.05, system minutes ≤21, 2) number of loss of supply events >1.0, system minutes ≤3, 3) HVAC circuit unavailability (unplanned) ≤0.056 and 4) total impact of interruptions, total system minutes 16.69.

17. This was the last year of the Administration Settlement before the 2012 individual price-quality path (IPP) determination applied. The targets set in the Administration Settlement are different from the current quality targets.

Impact

- Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and addressed appropriately.

Impact measures	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Breaches of the regulatory requirements by businesses reduce over time: – Number of default price path breaches	1	6	7	6	5	4
Breaches of the regulatory requirements by businesses reduce over time: – Information Disclosure breaches	Not measured		2011/12 assessments currently underway Information will be available in June 2013 Targets to be set once 2011/12 baseline established	Targets to be set once 2011/12 baseline established		

Impact

- Businesses and consumers have an increased understanding of business and market performance

Impact measures	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Understanding of the performance of regulated services by targeted business and consumer groups increases over time	Not measured	57% rated their understanding as good or very good (EDBs only)	60% ¹⁸	65% rate their understanding as good or very good	70% rate their understanding as good or very good	75% rate their understanding as good or very good

Impact

- Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation

Impact measures	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Understanding and awareness by stakeholders, of the regulatory regimes and the benefits of regulation, increases over time	Not measured	Percentage of sector stakeholders that correctly identified the forms of regulation that applied to their sectors: Electricity: 73% Gas: 68% Airports: 88%	Survey methodology under review for all sectors Survey results available in June 2013	75%	77%	80%

18. This measure will be changed to include stakeholders from all sectors.

Service performance outlook for 2013-2016

Despite the varied sectors we have responsibility for regulating, what we do across all our regulation work falls into three broad categories – determinations; public reports and advice to officials; and compliance and enforcement.

Telecommunications

The Government's decision to bring forward a review of the wider regulatory framework alongside the planned review of the telecommunications service obligations (concerned with rural connectivity) will provide a backdrop to our work over the next few years. While we continue to progress other work as usual, we are likely to need to increase our policy advice and reporting to officials over this time. We will also be working to implement the anticipated changes to the Telecommunications Act associated with trans-Tasman roaming.

A major piece of work for us will be the final pricing review requested by both Chorus and a range of access seekers of the wholesale price for access to Chorus' unbundled copper local loop (UCLL). Building a cost-based model of the access network is likely to be very complex, time-consuming and resource intensive, and we anticipate it will take up to two years. This will have an impact on the average time we take to deliver determinations.

As we finalise the information disclosure regime for local fibre companies, associated with the roll-out of the UFB network, we will be focusing on promoting voluntary compliance with the new requirements. We will also be responding to any complaints about the local fibre companies' and Chorus' compliance with copper undertakings.

We will continue to refine our market monitoring and broadband quality reports and look at how to include new and emerging technologies in that work.

In 2013/14 our focus will be on:

- working on the final pricing review for UCLL
- contributing to the government's reviews of the telecommunications service obligations and Telecommunications Act
- setting the cost-based price for the unbundled bitstream access (UBA) service
- expanding our broadband quality monitoring on copper to include fibre-based services
- bedding in the new Telecommunications Development Levy
- monitoring the market, particularly around local fibre company information disclosure and Chorus' non-discrimination requirements
- continuing to brief commentators and market analysts on our regulatory processes, particularly where decisions are market sensitive.

Telecommunications output measures are on pages 42-43.

Electricity, gas and airports (Part 4)

We are close to having all of the requirements of Part 4 of the Commerce Act in place but still face some uncertainty and possible changes as a result of the merits appeals of input methodologies which were heard in late 2012 and early 2013.

Our focus over the next few years is on bedding in the regime and monitoring performance. We will receive disclosures from electricity distribution and gas pipeline businesses under the new information disclosure requirements this year. Analysing this information will be a priority for us and the information we receive will assist us with the next price-quality resets. Improving incentives for quality and efficiency will be key areas of focus. We received our first customised price-quality path (for Orion) in February 2013 and will evaluate future customised price-quality paths as required.

After completing our reviews for Wellington, Auckland and Christchurch International Airports, we will engage officials as required as they consider the implications of our findings.

In 2013/14 our focus will be on:

- responding effectively to the outcomes of the merits reviews
- preparing draft decisions of price-quality path resets for Transpower and the electricity distribution businesses by 30 June 2014
- determining a customised price-quality path for Orion by November 2013
- continuing to brief commentators and market analysts on our regulatory processes, particularly where decisions are market sensitive
- completing the section 56G reviews of airport services and undertaking comparative performance analysis across the airports
- continuing to provide support to suppliers implementing new regulatory requirements.

Part 4 output measures are on pages 42-43.

Dairy

Our focus in dairy is on monitoring Fonterra's approach to setting the base milk price. Other dairy work, including determinations and investigations, is demand driven.

In 2013/14 our focus will be on:

- completing our first statutory review of Fonterra's farm gate milk price calculation in September 2013
- completing our second statutory review of Fonterra's milk price manual in December 2013.

Dairy output measures are on pages 42-43.

We achieve our outcomes not only by what we do as an organisation, but by how we do it.

This involves providing the right environment, tools, support and leadership to enable our people to do their jobs effectively and grow our capability as an organisation.

The Commission continues to embrace structural and cultural changes that help us do our job better. We work to realise the benefits of these changes by making sure everything we do has value and is achieved to a high standard, as efficiently as possible. We also continuously review and improve how we do things.

Capability themes

In 2010/11 we established five strategic programmes aimed at managing and improving our organisational capability and health in order to achieve our outcomes. The programmes were *Simplify our business*, *Understand our value*, *Better connect*, *Stronger future focus* and *Better investment in people*. These programmes provided a framework to target capability improvements across a number of areas. They were intended to have a three-year timeframe, clarify accountability for delivering change, and promote leadership of this change via senior management.

We are now building on this progress and simplifying our approach to organisation-wide change and improvement. As a result, we have refocused organisational improvement into three capability themes: *Connect*, *People* and *Efficiency*.

Connect

We recognise that to do our job better we need to improve how we connect with our stakeholders. This means listening to their needs and communicating with them in ways that are easy to understand. We also need to communicate better amongst ourselves, sharing information and knowledge.

Our work in this area involves building on initiatives aimed at improving external and internal engagement.

In terms of our external engagement, a key focus will continue to be on our advocacy, education and information work involving changes to competition, consumer laws, and new regulatory requirements to promote voluntary compliance. We will also use targeted sector-specific advocacy where there is evidence of competition problems.

We will continue our regular programme of stakeholder meetings and presentations, building transparent and robust consultation processes with stakeholders involved in

regulatory decisions, and maintaining high levels of engagement with market analysts and advisers around market sensitive regulatory decisions.

Online tools such as our website and e-newsletter, improve the way external stakeholders access the Commission, including how we communicate enforcement decisions and determinations, and supplier and sector performance.

We recognise the need to engage better with Parliament, government agencies and other regulators to explain our role and our priorities, and ensure cooperation where appropriate.

Our internal communications will focus on extending current knowledge sharing and plain English initiatives and making better use of the Commission's intranet and face-to-face communication to share information and knowledge.

People

To ensure we have the capability to achieve our outcomes, we aim to attract, develop and retain great people. We do this by investing in programmes that help our people and organisational capability grow.

In 2013/14 we will continue to use feedback from employee surveys to inform development and business improvement opportunities.

We recognise that professional development is a key driver for our staff. In this context we continue to develop more tailored professional development opportunities linked to the sectors that we work with, and the specialist skills and knowledge that we require (eg, economics, law, finance, engineering and investigations). Along with professional development, we recognise that the capability of our people can be improved by sharing knowledge and providing appropriate training and guidance when there are law changes or changes to underlying processes.

We also intend to implement a Manager Development Programme, undertake 360-degree feedback surveys and provide a coaching programme to develop leadership capability. We will continue providing learning and development opportunities to further develop our people capability. We will continue to promote our values and the organisational culture they represent.

Efficiency

By simplifying our processes and the way we work, we want to make it easier to do business with the Commission and within the Commission. In 2013/14 we will analyse a number of existing processes and implement changes to simplify and improve them. We will also continue to make improvements to our policies so they are easy to read and accessible to all employees.

Key contributors to our ability to operate more efficiently are the delivery of programmes in our Information Systems Strategic Plan (ISSP) and our ongoing commitment to resource sharing across agencies where this can deliver cost savings or quality improvements. We also intend to update Cogent (our in-house online operations manual for investigations), review investigation process guidelines and look at information management as a whole across the Commission.

Information systems strategy

Well-matched information systems are integral to achieving our outcomes. Our ISSP continues to provide clarity about what we need from our information systems to support our business over the long term.

We will continue to implement and deliver on the ISSP, including implementing systems that will improve the way we manage the information we gather from businesses we regulate and how we share information internally and with our stakeholders.

Resource sharing

We continue to look for service improvements and achieving cost efficiencies within the tight fiscal environment. As part of that, we seek out opportunities to use or provide shared services with other agencies where it makes good business sense to do so.

We have put in place a number of shared service arrangements with the Electricity Authority. We will continue to explore other possible back-office shared services arrangements.

We will continue to adopt all-of-government contracts to achieve value-for-money improvements.

Evaluating our capability and health

An important part of our operating philosophy is continuous improvement, which requires us to measure and monitor our progress towards achieving our outcomes. We also have good processes in place to monitor our organisational health and capability. This helps ensure we are making the right investments to support our long-term capability needs.

We continue to use the Benchmarking Administration and Support Services (BASS) metrics to evaluate our HR, finance, procurement, information and communications technology, and corporate and executive services functions. While we are not one of the agencies directly involved in the programme, we actively use the framework and benchmark ourselves against BASS metrics to identify strengths and weaknesses, and areas for improvement.

We aim to keep our administrative and support costs as a proportion of our total organisation running costs in line with the median for the BASS small agency cohort.

In addition to benchmarking, we will use the following measures to monitor and report on our overall organisational health and capability:

	2012/13 Estimated actual	2013/14 Forecast performance
The overall level of employee engagement shows an improvement year on year	Improvement achieved	Improvement achieved
The percentage of total organisation running costs spent on administrative and support functions decreases year on year	The percentage decreases	The percentage decreases
Staff turnover	18%	18%
The average number of years of experience of our employees	6.2	6.6

The continued difficult economic times and the need to meet the expectations of the government and the public continue to influence our focus on delivering value from our activities.

We will continue to carefully manage our expenditure to stay within our funding, and manage our reserves to maintain the Commission’s ability to cope with future challenges we cannot foresee. We will also continue to look for ways to increase our efficiency and effectiveness, while seeking better value for money from our existing spending.

Where our funding comes from

We receive our funding from a variety of sources, including industry levies, interest income and Crown revenue.

In general, the Commission’s industry regulation (electricity lines, gas pipelines, airports, telecommunications and dairy) is funded by levies on the industries themselves.

The Crown uses general taxation to fund our work in the general market area, which includes fair trading, and consumer credit.

In the 2013/14 year, 59% of our revenue will come from the Crown, 38% from industry levies, and the remainder from interest and other third-party sources.

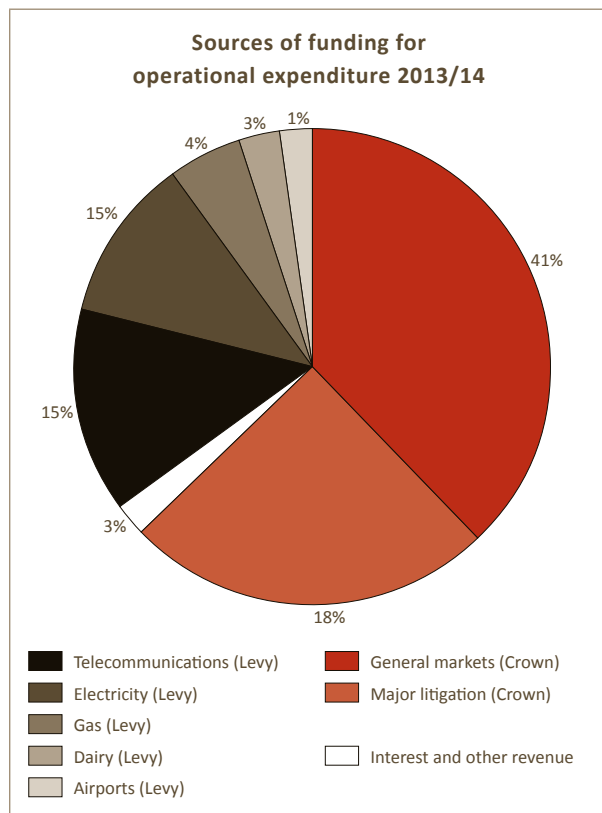
Medium-term (2013-2016) funding and expenditure

Over the last several years, the Commission has been managing a peak in its expenditure due to several long-running litigation cases reaching critical court phases. The effect of these cases reaching important court phases at the same time was a budgeted peak in expenditure on the cases themselves at a level greater than we were funded for, which had to be managed by prudent cost management and support from our reserves. Our litigation expenditure is expected to decline from 2013/14 onwards and settle at a lower level than in previous years.

During 2013/14 our expenditure focus will move from litigation to our normal work programme. We will incur additional costs in our general market functions, due to an increased focus on credit contracts and consumer finance, and changes to our functions due to the Consumer Law Reform Bill and cartel criminalisation. Telecommunications expenditure will increase due to the number and nature of pricing determinations and the start of a review of the telecommunications regulation regime. Dairy expenditure will continue to focus on milk price monitoring and reporting.

In our Part 4 activities, our focus for work and expenditure in 2013/14 will be the Electricity area, where we must make price determinations for distribution businesses and Transpower. Our expenditure on Gas and Airports regulation will decline, as our focus on those areas changes from setting price determinations and reporting on the effectiveness of airport regulation to monitoring compliance and analysing performance.

Funding of our Part 4 activities from 2014/15 still remains uncertain. In 2011 Cabinet addressed our Part 4 funding levels through to 2013/14 but deferred the decision on funding arrangements past that time. Part 4 funding from 2014/15 is subject to review and will be decided by Cabinet. We have begun assessing future funding requirements and our regulatory responsibilities with our oversight Ministry, to help Cabinet make informed decisions on our funding after 2013/14 based on what they wish us to achieve. Funding for our regulatory responsibilities under the Dairy Industry Restructuring Act will also be reviewed by December 2014.



Net surplus

The Commission has budgeted a net surplus of \$602,000 for the year ending 30 June 2014.

We have budgeted to retain \$20,000 of the 2013/14 surplus in our reserves, and to repay the levy-based funding surplus total of \$582,000 to the Crown.

The table below shows the result from individual appropriations (funding streams from the Crown for specific pieces of work):

	2013/14 Budget Surplus/ (deficit) \$000	Movement within reserves \$000	Levy-based surplus repayable to the Crown \$000
Vote Commerce – enforcement of general market regulation	(480)	(480)	0
Vote Commerce – litigation fund	500	500	0
Vote Communications – enforcement of telecommunications sector regulation	521	0	521
Vote Commerce – regulation of electricity lines businesses	15	0	15
Vote Commerce – regulation of gas pipeline businesses	9	0	9
Vote Commerce – regulation of airport services	23	0	23
Vote Commerce – enforcement of dairy sector regulation and auditing of milk price setting	14	0	14
Total	602	20	582

Carefully managing our reserves

The Commission is allowed to retain its surplus from general market activities. We also receive a small amount of funding each year to build a contingency fund, in case we lose a court case and have to pay cost awards. Over a number of years we built up reserves to help manage our financial risks through the changes we have made to our structure and operating approach, tight management of costs, and as a result of the reduction in business activity flowing from the economic downturn.

The main risk we faced arose from a peak in several major litigation cases which occurred in 2012/13. We also faced the potential for significant costs if we lost those cases and had to pay cost awards. With the advancing and conclusion of a number of those cases, our budgeted litigation expenditure is within funded levels, and our risk of exposure to cost awards has reduced.

We will continue to manage our reserves wisely, and return any excess funds to the Crown, as we did in 2012/13 when we voluntarily returned \$3.5 million from our General funds. In 2013/14 we will use a small portion of reserves to fund additional work in our general market area, including additional one-off costs we face as a result of upcoming changes to the Commerce Act, Fair Trading Act, and CCCF Act. We will also review our reserves to ensure we have sufficient funds to manage possible future litigation risks, while ensuring that any reserves not required in the medium to long term for these purposes are returned to the Crown for use elsewhere.

Better connecting with businesses and consumers

In 2012/13 we began to invest in improving our online presence as a cost-effective way of improving our connections with businesses and consumers. We also began to develop the capabilities of our website, so that we can improve the way we manage information disclosure for regulated businesses. In 2013/14 we intend to roll out these improvements, and also develop additional projects which improve the way we work and communicate with others.

Getting better value for money

We will continue our focus in 2013/14 and future years on ways to achieve better value for money. One way we are seeking better value for money is in managing our back-office corporate costs. We have already achieved savings by reducing our office space and rental costs, and through adopting all-of-government contracts. To help support and reinforce our drive for efficiency in our corporate costs, we have introduced a formal measure to our Statement of Intent this year to recognise a continuing decrease in corporate costs year on year.

Another way of achieving better value for money is to share services, and provide services, with other agencies. 2013/14 is the first full year of our arrangement to provide infrastructure hosting and shared IT services to the Electricity Authority, which will help both our agencies by providing high-quality IT services at a lower cost per employee. During 2013/14 and in future years, we will continue to look for opportunities to share services or provide services, using our own staff and infrastructure, to make our funding go further.

Statement of responsibility

The Crown Entities Act 2004 requires the Commission to prepare a Statement of Intent, 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 Intent. 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 2014 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 2014 and the results of our operations, cash flows and service performance for the period ending on that date.



Dr Mark Berry
Chair – Commerce Commission



Anita Mazzoleni
Convenor – Audit, Finance and Risk Management Committee

Statement of significant underlying assumptions

We have prepared the prospective financial statements presented on pages 26-37 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. 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. We will manage these additional costs within our existing funding, and through utilising our reserves.
- Crown Revenue received by the Commission agrees with the 2013/14 Estimates of Appropriation.
- The Commission will accept and consider the Customised electricity price-quality path proposal made by Orion, requiring additional resources to meet the assessment deadline and our ongoing work under the Part 4 regime. We have assumed that we will not receive any further proposals, from either the gas or electricity sectors, during the year. If we do receive additional proposals, it is likely that additional expenditure that will be incurred by the Commission will be funded by the third parties.
- 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 upon 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 historic activity.

The Commission has adopted these assumptions as at 26 April 2013.

Statement of prospective comprehensive income for the year ended 30 June 2014

	2012/13 Budget \$000	2012/13 Estimated actual \$000	2013/14 Budget \$000
Operating income			
Crown revenue	42,389	39,048	38,923
Fees and recoveries	50	802	405
Interest	534	659	607
Other income	50	385	160
Total operating income	43,023	40,894	40,095
Operating expenditure			
Members and personnel	22,222	21,838	23,875
Legal and other professional fees	14,887	10,447	10,702
Computer, information, and information technology	622	467	602
Occupancy	1,681	1,628	1,677
Depreciation and amortisation	832	676	896
Other expenditure	2,138	1,732	1,741
Total operating expenditure	42,382	36,788	39,493
Surplus/(deficit)	641	4,106	602
Total comprehensive income/(loss) for the year	641	4,106	602

Statement of prospective changes in equity for the year ended 30 June 2014

	2012/13 Budget \$000	2012/13 Estimated actual \$000	2013/14 Budget \$000
Balance at 1 July	15,071	15,814	13,202
Comprehensive income/(loss)			
Surplus/(deficit)	641	4,106	602
Total comprehensive income/(loss)	641	4,106	602
Transactions with owner			
Repayment of surplus to the Crown	(1,528)	(3,218)	(582)
Repayment of reserves to the Crown	0	(3,500)	0
Total transactions with owner	(1,528)	(6,718)	(582)
Balance at 30 June	14,184	13,202	13,222

Statement of prospective financial position as at 30 June 2014

	2012/13 Budget \$000	2012/13 Estimated actual \$000	2013/14 Budget \$000
Equity			
General funds	11,095	10,113	9,633
Litigation costs reserve	1,589	1,589	2,089
Litigation fund reserve	1,500	1,500	1,500
Total equity	14,184	13,202	13,222
Current assets			
Cash and cash equivalents	15,759	12,800	6,969
Fees and recoveries receivable	35	125	95
Crown revenue receivable	2,877	1,817	3,144
Short-term investments	0	5,000	6,000
Prepayments	110	130	110
Total current assets	18,781	19,872	16,318
Non-current assets			
Property, plant and equipment	1,000	1,025	740
Intangibles	648	527	1,675
Total non-current assets	1,648	1,552	2,415
Total assets	20,429	21,424	18,733
Current liabilities			
Creditors and other payables	1,900	1,404	1,404
Accrued expenses	1,090	1,468	1,538
Provision for Crown funding to be repaid	1,528	3,218	582
Penalties and cost awards held in trust	0	0	0
Employee entitlements	1,500	1,837	1,707
Total current liabilities	6,018	7,927	5,231
Non-current liabilities			
Provision for reinstatement of lease occupancy	185	253	253
Other non-current liability	42	42	27
Total non-current liabilities	227	295	280
Total liabilities	6,245	8,222	5,511
Net assets	14,184	13,202	13,222

Statement of prospective cash flows for the year ended 30 June 2014

	2012/13 Budget \$000	2012/13 Estimated actual \$000	2013/14 Budget \$000
Cash flow from operating activities			
Government funding received	42,487	39,153	37,769
Fees and recoveries received	100	1,182	565
Receipts and payment of penalties (net)	(13,936)	(13,936)	0
Interest received	534	656	637
Member and employee payments	(22,222)	(21,838)	(24,005)
Supplier payments	(19,943)	(14,268)	(14,650)
Goods and services tax (net)	15	18	(170)
Net cash inflow/(outflow) from operating activities	(12,965)	(9,033)	146
Cash flow from investing activities			
Investment receipts/(deposits)	0	0	(1,000)
Property, plant and equipment purchases	(376)	(326)	(225)
Intangible assets purchases	(634)	(472)	(1,534)
Net cash inflow/(outflow) from investing activities	(1,010)	(798)	(2,759)
Cash flow from financing activities			
Repayment of reserves	0	(3,500)	0
Repayment of surplus	(4,962)	(4,798)	(3,218)
Net cash inflow/(outflow) from financing activities	(4,962)	(8,298)	(3,218)
Net increase/(decrease) in cash and cash equivalents	(18,937)	(18,129)	(5,831)
Opening cash and cash equivalents	34,696	30,929	12,800
Closing cash and cash equivalents	15,759	12,800	6,969

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 as a net item because the Commission is not entitled to keep these funds. The Commission holds these funds in trust in accordance with agreements.

Statement of accounting policies for the year ended 30 June 2014

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 have designated ourselves as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), due to our role as a public service provider.

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 NZ IFRS and other applicable reporting standards which apply for a public benefit entity. The Commission authorised the financial statements for issue on 26 April 2013.

The prospective financial statements comply with FRS 42 – *Prospective Financial Statements*. We are required to prepare a statement of intent 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. Revenue is based on the estimates included in the Crown's 2013/14 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 income, 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 significant accounting policies are:

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

Crown revenue – The Commission receives appropriations from the Crown. These are restricted in their use to the purpose of meeting the Commission's objectives, as outlined in this Statement of Intent. Appropriation revenue we receive but do not spend (ie, a surplus) is refunded to the Crown after year end for all appropriations except Vote Commerce – General Markets, which the Commission is allowed to retain as reserves. Also, we may retain specific ring-fenced revenue provided to build up our ability to meet the cost of adverse cost awards.

Appropriations from the Crown are recognised as revenue when received. We treat surpluses on appropriations which we must return as a creditor and show them in the Statement of financial position as a provision for the refund of surpluses to the Crown.

Expenditure – All expenditure we incur in providing services for the Crown or other third parties is recognised in the Statement of comprehensive income 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 income 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 income 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 income 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 income 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 3 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 financial 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 income in the period in which we first identified 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. Any gains or losses arising from impairment or writing off an investment are recognised in the Statement of comprehensive income 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 income 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 Statement of comprehensive income 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 three 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 income 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, any unpaid employee entitlements are recognised as a liability in the Statement of financial position and charged to the Statement of comprehensive income. 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 contingent asset respectively. An award for costs, whether for or against the Commission, is only recognised in the Statement of comprehensive income 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 Intent. 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. We have simplified and clarified some of the definitions to assist readers.

Appropriation income and expenditure tables

The tables below outline the income and expenditure relating to the delivery of the various outputs we are responsible for.

Vote Commerce – enforcement of general market regulation

	2012/13 Budget \$000	2013/14 Budget \$000
Income		
Crown revenue	16,435	16,435
Other income	634	773
Total income	17,069	17,208
Operating expenditure		
Determinations	3,363	3,558
Enforcement cases	7,964	8,394
Advocacy and development	2,105	2,616
Reports to ministers	0	0
Total general market expenditure	13,432	14,568
Internal major litigation expenditure		
Competitive markets	2,096	2,130
Fair Trading Act	987	593
CCCF Act	450	241
Telecommunications	54	0
Input methodologies	790	103
Regulation	0	53
Total internal major litigation expenditure	4,377	3,120
Total expenditure	17,809	17,688
Surplus/(deficit)	(740)	(480)

Vote Communications – enforcement of telecommunications sector regulation

	2012/13 Budget \$000	2013/14 Budget \$000
Income		
Crown revenue	6,000	6,000
Other income	0	16
Total income	6,000	6,016
Operating expenditure		
Determinations	1,886	2,832
Compliance and enforcement	426	328
Public reports and advice to officials	2,308	2,335
Total expenditure	4,620	5,495
Surplus/(deficit)	1,380	521

Vote Commerce – regulation of electricity lines businesses

	2012/13 Budget \$000	2013/14 Budget \$000
Income		
Crown revenue	4,744	5,939
Fees and recoveries	0	355
Other income	0	18
Total income	4,744	6,312
Operating expenditure		
Determinations	3,441	4,389
Compliance and enforcement	698	1,252
Public reports and advice to officials	537	656
Total expenditure	4,676	6,297
Result	68	15

Vote Commerce – regulation of natural gas services

	2012/13 Budget \$000	2013/14 Budget \$000
Income		
Crown revenue	2,156	1,586
Other income	0	5
Total income	2,156	1,591
Operating expenditure		
Determinations	1,507	828
Compliance and enforcement	297	297
Public reports and advice to officials	291	457
Total expenditure	2,095	1,582
Result	61	9

Vote Commerce – regulation of airport services

	2012/13 Budget \$000	2013/14 Budget \$000
Income		
Crown revenue	1,019	600
Other income	0	2
Total income	1,019	602
Operating expenditure		
Determinations	69	88
Compliance and enforcement	92	77
Summary and analysis reports	842	414
Total expenditure	1,003	579
Result	16	23

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

	2012/13 Budget \$000	2013/14 Budget \$000
Income		
Crown revenue	1,245	1,245
Other income	0	3
Total income	1,245	1,248
Operating expenditure		
Determinations	283	21
Compliance and enforcement	21	281
Public reports and advice to officials	938	932
Total expenditure	1,242	1,234
Result	3	14

Vote Commerce – litigation fund

	2012/13 Budget \$000	2013/14 Budget \$000
Income		
Crown revenue	10,790	7,118
Total income	10,790	7,118
Operating expenditure		
Competitive markets	5,405	4,031
Fair Trading Act	584	760
CCCF Act	869	457
Dairy	50	0
Input methodologies	3,779	1,020
Electricity	250	0
Regulation	0	350
Total expenditure	10,937	6,618
Result	(147)	500

Financial statements glossary

The following table provides definitions for some terms which are 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 that we interpret and apply accounting standards.

Accounts payable	Debts owed to somebody (eg, a company) for goods or services provided to us which 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 which 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 income	Comprehensive income is a broader concept of income 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 which can be converted into cash or used to pay a liability within 12 months. A current liability is a liability which 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.
Financial instruments	Financial instruments are assets or liabilities which 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 which 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 which 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 which are cash, or will become cash in a short timeframe (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 which we cannot ordinarily turn into cash within 12 months. A non-current liability is a liability which we would not ordinarily have to repay within 12 months.
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	An entity which aims to provide goods or services to the general public to meet a specific need, rather than to make a profit for its owners.
Related party	Another person or entity which 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 which 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 income	A statement which shows our surplus or deficit from our operating activities, plus or less any movements in non-owner equity items (see comprehensive income above).
Statement of financial position	A statement which shows what assets we own or control, what liabilities we have, and the remainder (equity) at the balance date.

Output measures 2013/14

Competition output measures	Actual 2008/09	Actual 2009/10	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Determinations								
Quantity								
Number of clearance applications processed (Demand driven)	11	8	10	8	12	10-22	10-22	10-22
Number of authorisation applications processed (Demand driven)	11	4	3	3	0	0-4	0-4	0-4
Quality and timeliness								
Percentage of successful defended determinations appeals over five years	N/A	100%	100%	100%	100%	100%	100%	100%
Average number of working days from date of registration to date of decision for merger clearance applications	46 days	38 days	32 days	63.70 days	50 days	40 days	40 days	40 days
Average number of working days from date of decision to date of publication of reasons for declined clearance applications	52 days	N/A No declines	N/A No declines	N/A No declines	13 days	10 days	10 days	10 days
Enforcement cases								
Quantity								
Number of market structure cases	6	3	1	3	2	0-5	0-5	0-5
Number of coordinated behaviour cases	10	17	22	9	11	8-14	8-14	8-14
Number of unilateral conduct cases	14	8	11	2	2	2-6	2-6	2-6
Number of Fair Trading Act cases	298	384	372	462	400	300-400	250-450	250-450
Number of product safety and information standards cases	35	50	76	56	35	60-100	100-150	100-150
Number of CCCF Act cases	43	46	39	49	30	40-60	40-60	40-60

Competition output measures	Actual 2008/09	Actual 2009/10	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Quality and timeliness								
Percentage of investigations undecided for more than 18 months (at any point during the year)	Not measured	Not measured	2%	2%	2%	0%	0%	0%
Percentage of investigations decided within 12 months (Commerce Act, Fair Trading Act, Product Safety and CCCF Act investigations)	Not measured	Not measured	Commerce Act: 70% Fair Trading Act, Product Safety and CCCF Act: 97% ¹⁹	Commerce Act: 92% Fair Trading Act, Product Safety and CCCF Act: 98%	97%	90%	90%	90%
Percentage of stakeholders that rate our investigation process as transparent and fair	Not measured	Not measured	Not measured	Not measured	Not measured	Baseline to be set	Target to be set once baseline established	Target to be set once baseline established
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	Not measured	Not measured	Not measured	95% ²⁰	Survey to be completed in June 2013	95%	96%	97%
Advocacy and development								
Quantity								
Number of Commission guidelines or fact sheets published	28	9	23	20	20	5-20	5-20	5-20
Number of substantial pieces of advice provided to inform policy design	24	17	49	20	10	5-20	5-20	5-20
Quality and timeliness								
Percentage of stakeholders that find our publications clear and useful	Not measured	Not measured	Not measured	Not measured	Not measured	Baseline to be set	Target to be set once baseline established	Target to be set once baseline established
Quality measure for all outputs								
Number of successful legal challenges of the Commission's processes	0	1	0	0	0	0	0	0

19. In 2010/11 and 2011/12 this timeliness measure was split by Commerce Act and Fair Trading Act, Product Safety and CCCF Act. We revised this measure and combined them to simplify the measure and to better reflect internal business processes.

20. In the Annual Report 2011/12 we reported that although 98% of the businesses who responded to our survey found our publications clear and useful, the sample size was small so we set a more appropriate baseline of 95%.

Regulation output measures								
	Actual 2008/09	Actual 2009/10	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Determinations								
Quantity								
Number of determinations (includes determinations, clarifications, reviews and amendments)	15	20	17	31	32	23-53	20-49	16-46
Quality and timeliness								
Percentage of Part 4 determinations completed by statutory deadlines	Not measured	Not measured	100%	100%	100%	100%	100%	100%
Average time to complete Telecommunications determinations	11.4 months	4.83 months	4.8 months	5.35 months	11 months	10 months	15 months ²¹	10 months
Average time taken to complete Dairy determinations	10.9 months	N/A	N/A ²²	N/A – no determinations	NA – no determinations	120 working days	120 working days	120 working days
Percentage of stakeholders who find the Commission determinations and supporting reasons clear	Not measured	Not measured	Not measured	Not measured	Survey to be completed in May 2013	75%	80%	85%
Public reports and advice to officials								
Quantity								
Number of reports completed (monitoring reports, summary and analysis reports, information disclosure reports, ministerial reports)	9	11	9	10	10	10-23	8-21	6-13
Number of substantial pieces of advice provided to officials to inform policy design	0	9	9	14	2	4-23	3-21	2-28
Quality and timeliness								
Percentage of stakeholders who rate our reports good or above	Not measured	Not measured	Not measured	Not measured	Survey to be completed in May 2013	75%	80%	85%
Percentage of reports completed by the set date	Not measured	Not measured	Not measured	100%	100%	100%	100%	100%

21. This target reflects the fact that the work programme is likely to be dominated by the UCLL determination applying the final pricing principle, which is significantly longer and more complex than other determinations.

22. In the 2010/11 Annual Report we reported that two determinations were completed for dairy in 2010/11. We did not complete any dairy determinations in 2010/11. The correct figure is 0 and therefore the timeliness measure is not applicable.

Regulation output measures	Actual 2008/09	Actual 2009/10	Actual 2010/11	Actual 2011/12	Estimated actual 2012/13	Target 2013/14	Target 2014/15	Target 2015/16
Compliance and enforcement								
Quantity								
Number of compliance assessments completed	5	1	35	33	80	61-65	61-65	61-65
Number of enforcement cases taken	1	0	2	1	0	0-6	0-6	0-6
Quality and timeliness								
Percentage of compliance assessments completed by the set date	Not measured	Not measured	Not measured	60%	100%	100%	100%	100%
Quality measure for all outputs								
Number of successful legal challenges of the Commission's processes	0	0	0	2	0	0	0	0

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