



Statement of Performance Expectations

Our plan for 2020/21



Commonly used terms

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



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Legislation enforced by the Commerce Commission

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

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Presented to the House of Representatives pursuant to section 150(3) of the Crown Entities Act 2004.

Overview

Introduction

The Commission is New Zealand's primary competition, consumer and economic regulatory agency. We aim to make New Zealanders better off through our strategic objectives of making markets work well and helping to ensure that consumers and businesses are confident market participants.

These objectives support the Government's desire to build a productive, sustainable and inclusive economy. In particular, the Commission will support the following three government outcomes:

- Grow and share more fairly New Zealand's prosperity;
- Support thriving and sustainable regions; and
- Transition to a clean, green and carbon neutral New Zealand.

While the Commission is part of the wider public sector, we are independent. We are primarily accountable to the Minister of Commerce and Consumer Affairs and the Minister of Broadcasting, Communications and Digital Media for our performance. We are not subject to direction from the Government in carrying out our enforcement and regulatory 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.

We are not alone in contributing to well-functioning markets and confident market participants. There are a range of organisations that also work in this area including consumer and business user groups, other state entities, as well as the Ministers and ministries which oversee policy work across our competition, consumer and regulatory work streams. The Commission works with these agencies and organisations to achieve our strategic objectives and contribute to our vision of making New Zealanders better off.

Purpose of this Statement of Performance Expectations

This Statement of Performance Expectations (SPE) sets out and communicates our annual performance expectations for the 2020/21 financial year and provides a base against which actual performance can be assessed.

Our SPE 2020/21 supports our Statement of Intent 2020-2024 (SOI) and is part of the Commission's accountability to the public. It details our output classes, our prospective financial statements and how we will assess our performance for the financial year.

Statement of responsibility

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

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

The Board acknowledges responsibility for the preparation of this SPE, which reflects the forecast performance and the forecast financial position of the Commission for the financial year ending 30 June 2021.



Anna Rawlings
Chair



Sue Begg
Deputy Chair



How we will make New Zealanders better off

In everything that we do, we work towards making New Zealanders better off. This work supports the Government’s economic and well-being objectives by ensuring that there is a more competitive, confident and productive business environment that delivers positive outcomes for all New Zealanders.

We focus our efforts where we can have the greatest impact addressing consumer harm, especially harm to the most vulnerable members of society. We are committed to protecting the interests of consumers and promoting competition. This is because competition is usually an effective way to help make New Zealanders better off. Where competition is not possible, our regulation work aims to help ensure monopoly providers of critical national infrastructure have incentives to deliver strong and sustainable services to New Zealanders at the lowest cost.

Ensuring that consumers and all businesses, large and small, properly understand and apply all of the laws that we enforce, will help to deliver the best possible outcomes in markets as the economic effects of the COVID-19 pandemic on the economy continue to be realised. We are committed to ensuring that we engage with the needs of all New Zealanders and adapt to our operating environment as it continues to evolve. In this way we can contribute best to the lives of all New Zealanders.

Our vision and framework

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

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



Strategic objectives

Our two strategic objectives reinforce each other.

Well-functioning markets help to provide confidence for consumers and businesses to participate in them. At the same time, the more confidence participants have, the better markets are likely to function. The table below outlines the Commission's strategic objectives.

Markets work well

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

- businesses understand and operate according to the rules
- there is effective competition between businesses
- competition is not undermined by anti-competitive arrangements
- market power is not used to frustrate competition
- mergers do not substantially lessen competition
- regulated sectors are incentivised to perform efficiently, and
- accurate information is available to both consumers and businesses.

Consumers are confident market participants

Our role in contributing to consumer confidence is to:

- educate New Zealanders about consumer laws so they can be empowered
- help ensure consumers have access to information so they can make informed purchasing choices
- monitor terms and conditions related to purchase of goods and services to ensure they are fair and clear
- help ensure consumers are not misled about the price, characteristics and quality of goods and services and credit terms
- help ensure consumers benefit from dependable and efficient regulated services
- help ensure consumers have access to innovative products and services, and
- promote compliance with the law, prosecute violations of the law and deter wrongful behaviour.

Businesses are confident market participants

Our role in improving business confidence is to:

- enhance business understanding of the legislation we are responsible for so that businesses do not unintentionally breach the law
- ensure the rules and regulations in relation to regulated businesses are applied equally and impartially
- minimise anti-competitive or misleading conduct by competitors, and
- provide a predictable regulatory regime to businesses.



Strategies

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

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

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

Values

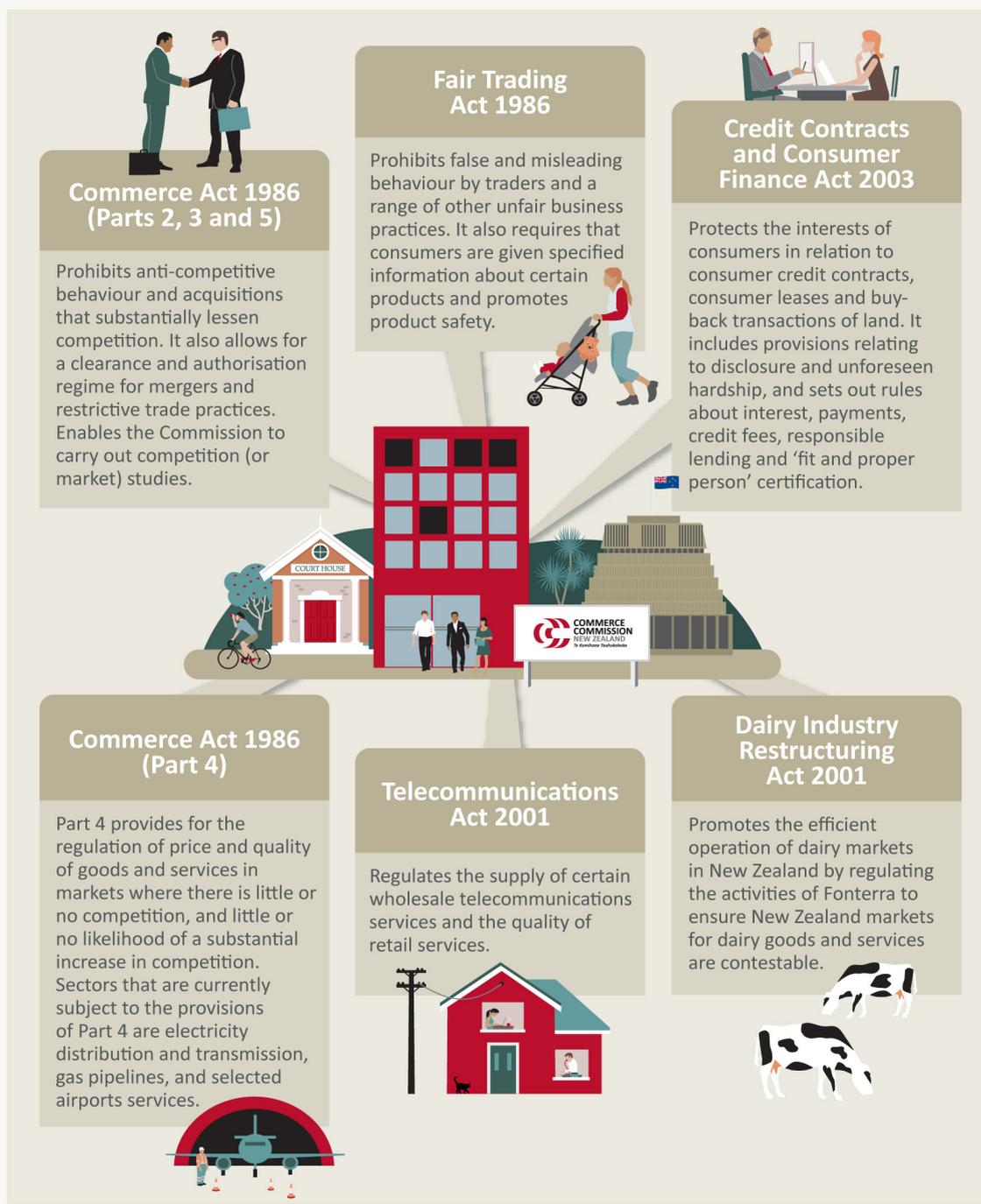
Our values form the foundation of our strategic framework and guide the way we operate.

The layers of this framework are outlined more in our SOI 2020-2024.



Legislative responsibilities

To support well-functioning markets and confident market participants, the Commission has responsibilities under five key pieces of legislation.



In addition to carrying out our responsibilities under these, we also contribute to the development and implementation of consumer, competition, and economic regulation policy settings and laws.

How we will assess our performance

This section describes our activities and how we will measure performance.

Outputs

We will achieve our strategic objectives by implementing our plan and carrying out our functions across our 12 output classes.

What we intend to achieve

Output class	What is intended to be achieved
Competition	The prevention, identification, investigation and remediation of market behaviour that is anti-competitive. Administration of the clearance and authorisation regimes.
Consumer	The prevention, identification, investigation and remediation of market behaviour that is harmful for consumers.
Fuel	The implementation of the liquid fuels monitoring and enforcement regime.
Competition studies	Improved market performance and outcomes by carrying out detailed research into a particular market, or markets, where there are concerns that the market could be functioning sub-optimally.
Telecommunications	The promotion of competition in the telecommunications markets for the long-term benefit of end-users.
Fibre	The regulation of wholesale fibre fixed-line broadband services and the work in relation to broadcasting transmission service providers.
Electricity lines services	The delivery of regulated electricity lines services at prices and quality that would have been available if the market were competitive, for the long-term benefit of consumers.
Gas pipeline services	The delivery of regulated gas pipeline services at prices and quality that would have been available if the market were competitive, for the long-term benefit of consumers.
Specified airport services	To help ensure the delivery of specified airport services at prices and quality that would have been available if the market were competitive, for the long-term benefit of consumers.
Dairy	Provide incentives for Fonterra to operate efficiently while providing for contestability in the market for the purchase of milk from farmers.
Inquiries into markets with limited competition	Better long-term outcomes for consumers by undertaking economic regulation inquiries (if required) under Part 4 of the Commerce Act in markets where there is little or no competition and little or no likelihood of a substantial increase in competition.
Major litigation	The best possible outcomes for New Zealanders in competitive and regulated markets by undertaking major or complex litigation where appropriate.

How we will assess performance in 2020/21

The COVID-19 situation is continuing to evolve at the time of publication. Therefore, there is uncertainty around what the impacts will be on the 2020/21 financial year. As a result, the targets established in this SPE have been set based on historical levels of performance. Actual performance may differ from these targets, as the Commission continues to adapt approaches to best assist New Zealand's economic recovery. We will provide commentary on our performance, including any impacts and operational changes that occurred as a result of COVID-19 in our 2021 Annual Report.

Output class	Measure	2019 actual	2020 estimated actual	2021 target
Competition	Percentage of merger clearance decisions made within 40 working days when no statement of issues is published.	100%	100%	75%
	Average number of working days from date of decision to date of publication of reasons for declined merger clearance applications	N/A	N/A	10 days
	Number of Commerce Act 1986 matters completed	14	10	5–20
	Percentage of competition investigations decided within 18 months of the investigation being opened	100%	88%	75%
	Percentage of investigations involving a court action, statutory undertaking or negotiated settlement response, meeting our internal process quality standards	New measure in 2019/20	100%	100%
Consumer	Number of Credit Contracts and Consumer Finance Act 2003 matters completed	63	55	At least 50
	Number of product safety and information standards matters completed	90	60	At least 75
	Number of Fair Trading Act 1986 matters completed	230	260	At least 175
	Percentage of Fair Trading Act investigations decided within 12 months of the investigation being opened	95%	96%	95%
	Percentage of credit investigations decided within 18 months of the investigation being opened	Revised measure in 2019/20	97%	95%
	Percentage of investigations involving a court action, statutory undertaking or negotiated settlement response, meeting our internal process quality standards	New measure in 2019/20	100%	100%
Competition studies	All competition studies undertaken are completed within agreed timeframes	New measure	Achieved	Achieved

Output class	Measure	2019 actual	2020 estimated actual	2021 target
Telecommunications	Number of determinations (includes determinations, clarifications, reviews, codes and amendments)	3	9	At least 2
Fibre		0	0	1
Electricity lines services		5	11	At least 3
Gas pipeline services		3	2	At least 2
Specified airports services		3	1	At least 2
Telecommunications	Average time to complete telecommunications determinations ¹	3.5 months	2.5 months	6 months
Fibre	Fibre Input Methodology determination completed by 30 June 2020	New measure in 2019/20	Not achieved	Replaced by measure below
	Fibre Input Methodology determination completed by 30 June 2021	New measure	New measure	Achieved
Electricity lines services	Percentage of Part 4 of the Commerce Act 1986 determinations completed by statutory deadlines	N/A	100%	100%
Gas pipeline services		N/A	N/A	100%
Specified airports services		N/A	N/A	100%
Telecommunications	Number of reports completed (monitoring reports, summary and analysis reports and information disclosure reports)	6	4	At least 4
Electricity lines services		6	4	At least 2
Gas pipeline services		1	2	At least 1
Specified airports services		2	0	At least 1
Dairy		2	2	At least 2
Part 4 inquiries	Part 4 inquiries will be completed as required	0	Achieved	Achieved
Telecommunications	Quality assurance processes for determinations and code amendments are in place and applied	New measure	100%	100%
Fibre		New measure	N/A	100%
Electricity lines services		New measure	100%	100%
Gas pipeline services		New measure	100%	100%
Specified airports services		New measure	100%	100%
Major litigation	Litigation fund is used in accordance with the conditions for use	Achieved	Achieved	Achieved

1. This measure only includes routine determinations that are completed on a regular basis under the existing Telecommunications Act 2001. Distinct one-off determinations are excluded as inclusion would skew the average for the year in which they were completed so it is no longer comparable with other years.

Output financial Information

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

Output class	What is intended to be achieved
Competition	Commerce and Consumer Affairs: Enforcement of General Market Regulation multi-category appropriation <ul style="list-style-type: none"> Enforcement of Competition Regulation
Consumer	Commerce and Consumer Affairs: Enforcement of General Market Regulation multi-category appropriation <ul style="list-style-type: none"> Enforcement of Consumer Regulation
Fuel	Commerce and Consumer Affairs: Enforcement of General Market Regulation multi-category appropriation <ul style="list-style-type: none"> Liquid Fuels Monitoring and Enforcement
Competition studies	Commerce and Consumer Affairs: Competition Studies
Telecommunications	Communications: Enforcement of Telecommunications Sector Regulation
Electricity lines services	Commerce and Consumer Affairs: Regulation of Electricity Lines Services 2019–2024 (multi-year appropriation)
Fibre	Communications: Enforcement of Telecommunications Sector Fibre and Broadcasting Transmission Service Regulation 2018–2022 (multi-year appropriation)
Gas pipeline services	Commerce and Consumer Affairs: Regulation of Gas Pipeline Services 2019–2024 (multi-year appropriation)
Specified airport services	Commerce and Consumer Affairs: Regulation of Specified Airport Services 2019–2024 (multi-year appropriation)
Dairy	Commerce and Consumer Affairs: Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting
Inquiries into markets with limited competition	Commerce and Consumer Affairs: Economic Regulation Inquiries
Major litigation	Commerce Commission Litigation Fund multi-category appropriation <ul style="list-style-type: none"> Internally-sourced litigation Externally-sourced litigation

The largest contribution to our revenue is from the Crown, through a combination of general taxes and industry levies (for instance to pay for the regulation of electricity lines companies).

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

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

	2020 Budget \$000	2021 Budget \$000
Competition		
Revenue – Crown	8,193	11,493
Other revenue	264	319
Total operating revenue	8,457	11,812
Operating expenses	8,806	11,812
Surplus/(deficit)	(349)	0
Consumer		
Revenue – Crown	15,144	18,984
Other revenue	423	404
Total operating revenue	15,567	19,388
Operating expenses	16,413	19,388
Surplus/(deficit)s	(846)	0
Fuel		
Revenue – Crown	0	500
Other revenue	0	7
Total operating revenue	0	507
Operating expenses	0	507
Surplus	0	0
Competition studies		
Revenue – Crown	1,500	2,732
Other revenue	28	48
Total operating revenue	1,528	2,780
Operating expenses	1,528	2,780
Surplus/(deficit)	0	0
Telecommunications		
Revenue – Crown	6,300	6,550
Other revenue	323	81
Total operating revenue	6,623	6,631
Operating expenses	6,623	6,631
Surplus	0	0
Electricity lines services		
Revenue – Crown	7,200	6,000
Other revenue	146	1,604
Total operating revenue	7,346	7,604
Operating expenses	7,346	7,604
Surplus	0	0
Fibre		
Revenue – Crown	5,000	3,633
Other revenue	101	51
Total operating revenue	5,101	3,684
Operating expenses	5,101	3,684
Surplus	0	0

	2020 Budget \$000	2021 Budget \$000
Gas pipeline services		
Revenue – Crown	1,500	1,500
Other revenue	31	17
Total operating revenue	1,531	1,517
Operating expenses	1,531	1,517
Surplus	0	0
Specified airport services		
Revenue – Crown	800	350
Other revenue	16	5
Total operating revenue	816	355
Operating expenses	816	355
Surplus	0	0
Dairy		
Revenue – Crown	600	650
Other revenue	12	10
Total operating revenue	612	660
Operating expenses	612	660
Surplus/(deficit)	0	0
Major litigation: Internally-sourced litigation		
Revenue – Crown	3,500	4,658
Other revenue	96	95
Total operating revenue	3,596	4,753
Operating expenses	3,729	4,753
Surplus	(133)	0
Major litigation: Externally-sourced litigation		
Revenue – Crown	7,000	7,000
Total operating revenue	7,000	7,000
Operating expenses	7,000	7,000
Surplus	0	0

Our prospective finances

Statement of significant underlying assumptions

The prospective financial statements are presented on pages 15–17 on the basis of existing government policies, in consultation with our oversight ministry, the Ministry of Business, Innovation and Employment. There are a number of assumptions used in preparing the prospective financial statements. The prospective financial statements should be read with these assumptions in mind.

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

- The Commission's functions will remain broadly the same as in the previous year, outside of the area of Liquid Fuels Monitoring and Enforcement.
- Revenue from the Crown received by the Commission is consistent with the 2020/21 Estimates of Appropriations and the anticipated Supplementary Estimates of Appropriations.
- The Commission's operations are largely unaffected by COVID-19 restrictions, as staff can continue to operate remotely. While the Commission is continuing to adapt a range of activities in response to COVID-19, the Commission's core operations are largely unaffected.
- We will not commence any Part 4 inquiries during the year.
- We have based our expected expenditure on major litigation activities on our estimate of the timing and extent of court hearings for existing and expected litigation cases. If delays, settlements, or significant other litigation matters arise from Commission cases, then expenditure on major litigation will change, favourably or unfavourably, for the year.
- A significant portion of our work is reactive, based on requests from ministers or the public, and on complaints we receive. In preparing the prospective financial statements, we have assumed that some activity (particularly in our competition and consumer work) will occur at a level in line with historical activity.

The Commission has adopted these assumptions as at 30 June 2020.

Prospective financial statements

Statement of prospective comprehensive revenue and expense

for the year ended 30 June 2021

	2020 Budget \$000	2020 Estimated actual \$000	2021 Budget \$000
Operating revenue			
Revenue from non-exchange transactions			
Revenue – Crown	56,737	53,954	64,050
Court cost awards	50	38	100
Total revenue from non-exchange transactions	56,787	53,992	64,150
Revenue from exchange transactions			
Fees and recoveries	525	528	1,550
Interest	600	595	600
Other revenue	265	261	391
Total revenue from exchange transactions	1,390	1,384	2,541
Total operating revenue	58,177	55,376	66,691
Operating expenses			
Members and personnel	37,004	36,774	42,894
Legal and other professional fees	14,363	10,886	15,723
Computer, information, and information technology	1,385	1,414	1,953
Occupancy	2,417	2,229	2,384
Depreciation and amortisation	2,007	1,914	1,909
Other expenditure	2,329	2,375	1,828
Total operating expenses	59,505	55,592	66,691
Surplus/(deficit)	(1,328)	(216)	0
Total comprehensive revenue and expense for the year	(1,328)	(216)	0

Statement of prospective changes in equity

for the year ended 30 June 2021

	2020 Budget \$000	2020 Estimated actual \$000	2021 Budget \$000
Balance at 1 July	16,092	16,271	16,055
Comprehensive revenue and expense			
Surplus/(deficit)	(1,328)	(216)	0
Total comprehensive revenue and expense	(1,328)	(216)	0
Balance at 30 June	14,764	16,055	16,055

Statement of prospective financial position for the year ended 30 June 2021

	2020 Budget \$000	2020 Estimated actual \$000	2021 Budget \$000
Equity			
General funds	11,764	13,055	13,055
Litigation costs reserve	3,000	3,000	3,000
Total equity	14,764	16,055	16,055
Current assets			
Cash and cash equivalents	2,216	4,713	2,154
Fees and recoveries receivable	160	617	114
Short-term investments	11,000	13,098	14,000
Prepayments	541	700	720
Total current assets	13,917	19,128	16,988
Non-current assets			
Property, plant and equipment	4,631	3,809	3,255
Intangibles	1,730	1,402	2,190
Total non-current assets	6,361	5,211	5,445
Total assets	20,278	24,339	22,433
Current liabilities			
Creditors and other payables	1,120	1,480	1,612
Accrued expenses	500	900	930
Lease incentive	170	170	170
Penalties and cost awards held in trust	50	335	50
Crown funding repayable	181	1,394	126
Employee entitlements	2,473	2,985	2,640
Total current liabilities	4,494	7,264	5,528
Non-current liabilities			
Lease incentive	1,020	1,020	850
Total non-current liabilities	1,020	1,020	850
Total liabilities	5,514	8,284	6,378
Net assets	14,764	16,055	16,055

Statement of prospective cash flows for the year ended 30 June 2021

	2020 Budget \$000	2020 Estimated actual \$000	2021 Budget \$000
Cash flow from operating activities			
Crown funding received	56,917	55,385	64,266
Fees and recoveries received	840	834	2,041
Receipts and payment of penalties (net)	0	(274)	115
Interest received	600	626	600
Member and employee payments	(36,732)	(35,695)	(43,180)
Supplier payments	(20,717)	(17,526)	(22,045)
Repayment of Crown funding	(2,430)	(1,659)	(1,394)
Goods and services tax (net)	2	15	83
Net cash inflow/(outflow) from operating activities	(1,520)	1,706	486
Cash flow from investing activities			
Investment receipts/(deposits)	2,000	(98)	(902)
Property, plant and equipment purchases	(2,570)	(1,393)	(577)
Intangible assets purchases	(1,000)	(704)	(1,566)
Net cash inflow/(outflow) from investing activities	(1,570)	(2,195)	(3,045)
Net increase/(decrease) in cash and cash equivalents	(3,090)	(489)	(2,559)
Opening cash and cash equivalents	5,306	5,202	4,713
Closing cash and cash equivalents	2,216	4,713	2,154

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

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

Statement of accounting policies

for the year ended 30 June 2021

Reporting entity

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

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

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

Measurement base and statement of compliance

We have prepared these prospective financial statements to comply with the requirements of the Crown Entities Act 2004. We prepared these financial statements on a historical cost basis for a going concern to comply with New Zealand generally accepted accounting practice (GAAP), which includes the PBE accounting standards which apply for a public sector PBE. The Commission authorised the financial statements for issue on 30 June 2020.

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

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

Functional and presentation currency

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

Significant accounting policies

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

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

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

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

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

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

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

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

The estimated useful lives of the major asset classes are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in accounting policies

The accounting policies adopted are consistent with the previous year.

Financial statements glossary

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

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

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

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

www.comcom.govt.nz