



OFFICE OF FILM &
LITERATURE CLASSIFICATION

Te Tari Whakarōpū Tukuata, Tuhituhinga

Statement of Intent 2010 - 2013

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Presented to the House of Representatives pursuant to s149 of the Crown Entities Act 2004

PURPOSE AND VISION

Our Purpose

To provide and communicate impartial classification decisions and information services.

Our Vision

New Zealand society is protected from the harm
caused by the
unrestricted availability of restricted and objectionable publications.

*We will achieve this by
balancing the values inherent in freedom of expression
with the need to protect society from injury.*

STRUCTURE AND ROLE OF THE OFFICE

The Role of the Office

The Office of Film and Literature Classification (the Classification Office or the Office) is established by section 76 of the Films, Videos, and Publications Classification Act 1993 (the Classification Act).

The functions of the Classification Office are to determine the classification of any publication submitted to it, to disseminate to the public information about the classification system, to receive complaints and inquiries, and to provide research services to the Office. Submissions can be made by the Film and Video Labelling Body, the Secretary for Internal Affairs, the Comptroller of Customs, the Commissioner of Police, the Courts and members of the public. These responsibilities are set out in the Classification Act.

The Classification Office is one of four bodies established by Part 6 of the Classification Act. Also established are the labelling body (currently the Film and Video Labelling Body Inc.), the Film and Literature Board of Review and the Inspectors of Publications. Each body plays a separate role in the classification system.

The Structure of the Office

The Classification Office has a Board which consists of the Chief Censor and the Deputy Chief Censor, who are chairperson and deputy chairperson respectively. The Chief Censor is also the Office's Chief Executive.

The Office is structured into two units responsible for each of the two main outputs of the Office. The Classification Unit and the Information Unit are supported by a Corporate Services Unit and a Registry. The functions of the Information Unit are to disseminate to the public information about the classification system, to receive complaints and inquiries, and to provide research services to the Classification Unit and the Office.

Accountability and Governance of the Office

The Classification Office is an independent Crown entity.

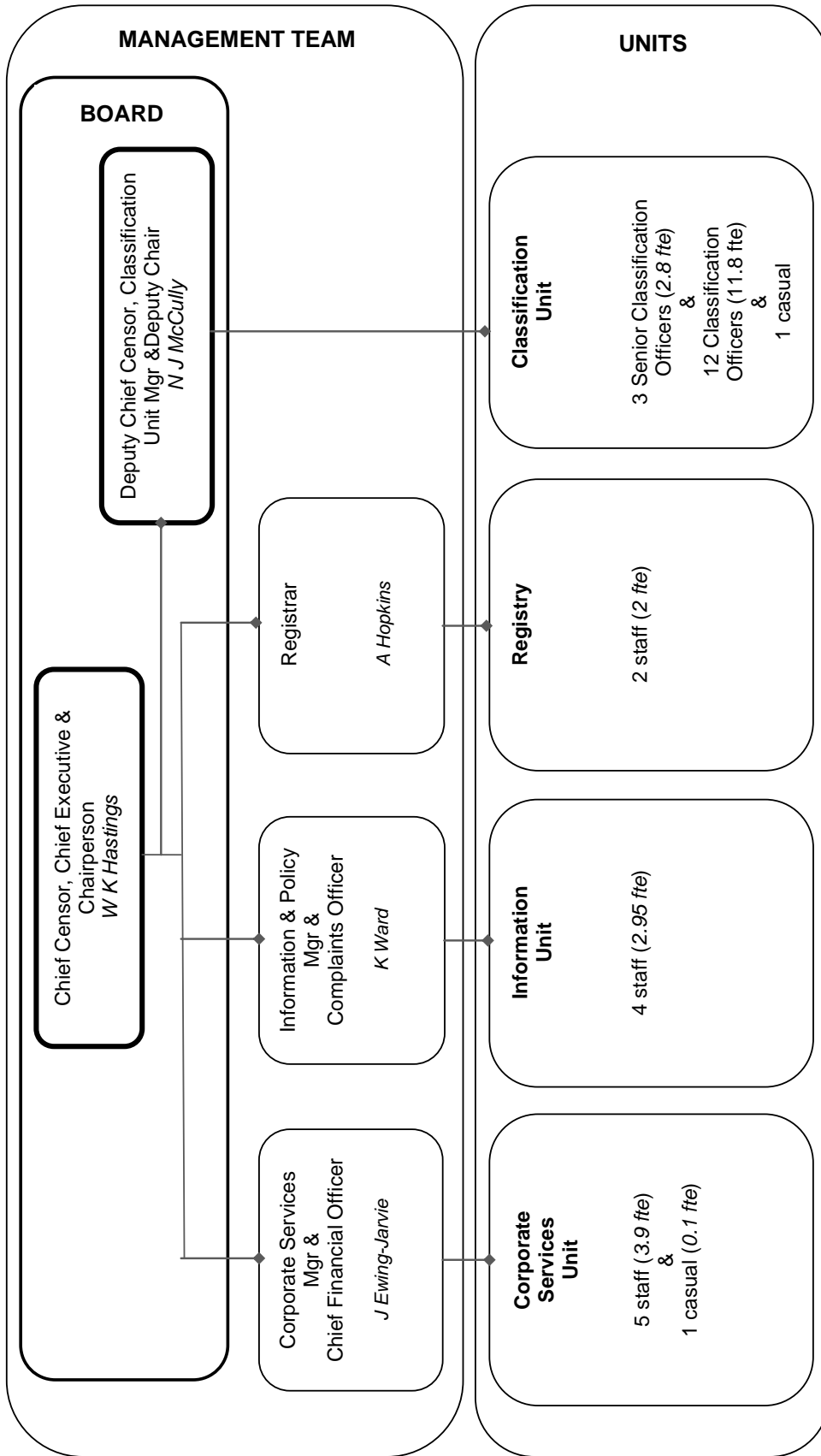
In order to provide a mechanism for ensuring appropriate accountability to the Crown, a Memorandum of Understanding is in place between the Minister of Internal Affairs (on behalf of the Crown) and the Chief Censor (as Chair of the Board of the Classification Office). This memorandum reflects the standards set out in the Statement of Intent (SOI) and is an output agreement for the purposes of the Crown Entities Act. The Chief Censor makes quarterly reports to the Minister of Internal Affairs on the financial and non-financial performance of the Office.

The Ministry of Justice is responsible for the administration of the Classification Act.

Funding of the Office

The Classification Office receives crown funding under Vote Internal Affairs, Non-Departmental Output Expense 'Classification of Films, Videos, and Publications' and fees from the submission of commercial publications to the Office for classification.

Figure 1: Classification Office Organisation Chart



The Chief Censor, Deputy Chief Censor, Information & Policy Manager, Corporate Services Manager and Registrar form the Office's management team.

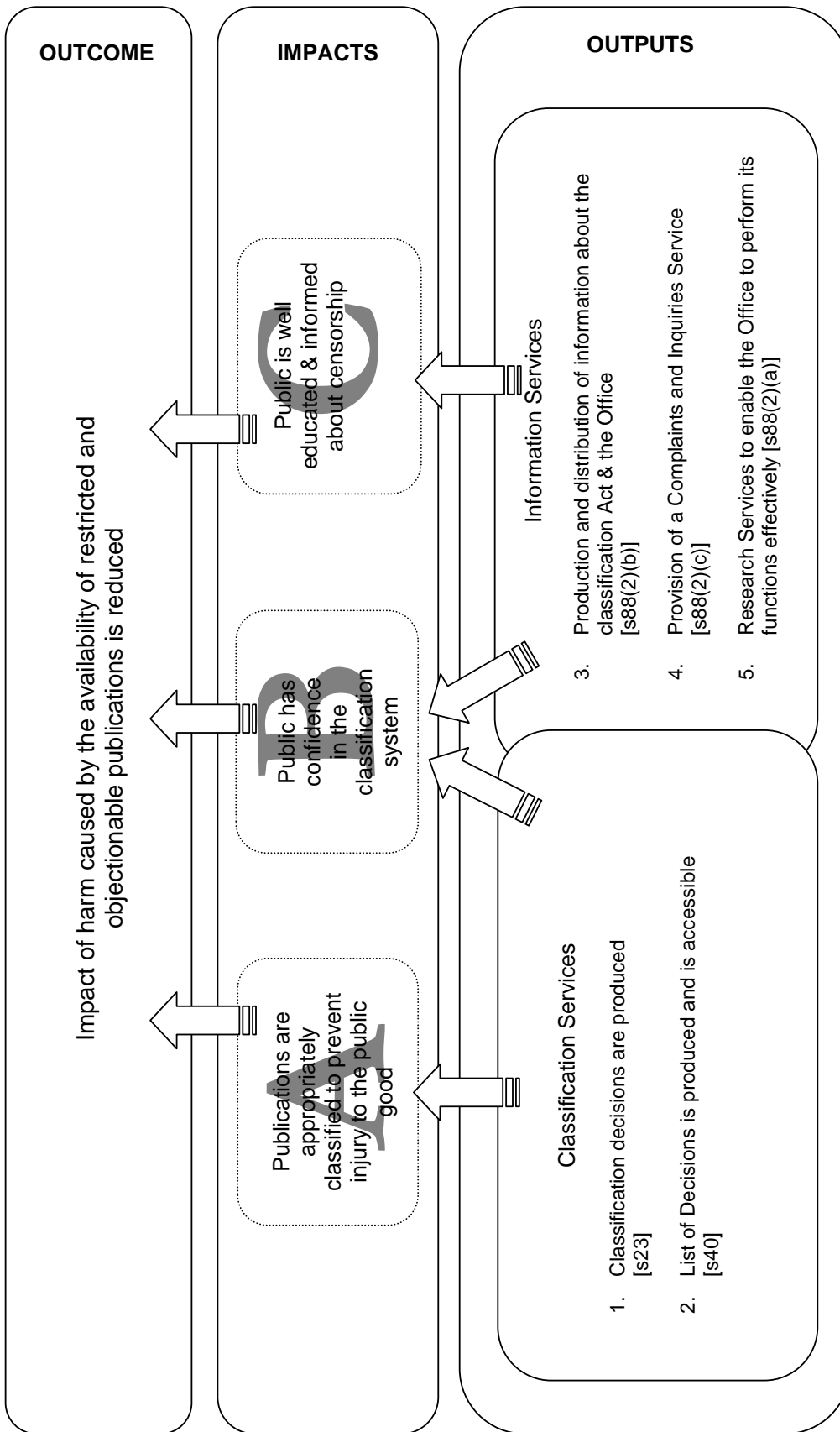
OUTCOME STRUCTURE

The outcome sought by Parliament in establishing the Classification Office is that the harm to our society, which is caused by the unrestricted availability of restricted and objectionable publications, is reduced.

Safer communities are robust communities that value the freedom of expression, but also recognise that freedom is not without limits. The limits must be reasonable, clearly defined in law, and demonstrably justifiable in a free and democratic society. Children are healthier as a result of the imposition of restrictions on the availability of publications that are likely to adversely influence vulnerable young minds. For this reason, such restrictions are a reasonable limit on the freedom of expression that is demonstrably justifiable in a democratic society. Communities are safer as a result of imposing restrictions on the availability of publications that actively promote or support the exploitation of children for sexual purposes, sexual violence and torture. Restricting the availability of material that would otherwise make communities less safe is also a demonstrably justifiable and reasonable limit on the freedom of expression. Parliament has given the Classification Office the responsibility of using the law to determine precisely where these limits are. The Office's work then inevitably takes it to the margins of expression. The job of the Classification Office is to protect the public good from injury by establishing beacons that illuminate the often foggy boundary between what is and is not legally acceptable expression. In order to achieve this outcome, publications must be appropriately classified, the public must have confidence in the classification system, and they must be well informed about censorship.

Figure 2 shows the impacts of the outputs, which contribute to the outcome sought by Parliament.

Figure 2: Outcome Structure



OUR ENVIRONMENT AND OUR CAPABILITY TO MEET ITS CHALLENGES

The legal, political, technological and social environments in which the Classification Office operates significantly affect our work. This section sets out how the Office will use its resources to achieve its impacts and outcome in this environment.

Regulatory environment

The Films, Videos, and Publications Classification Act 1993 (the Act) governs censorship in New Zealand. The primary function of the Classification Office is to determine the classification of any publication submitted to it. Under the Act a publication is objectionable if it describes, depicts or otherwise deals with matters such as sex, horror, crime, cruelty or violence in such a way that the unrestricted availability is likely to be injurious to the public good.

The Classification Act was amended in 2005 to toughen penalties and clarify classification provisions. While those changes have been implemented and well established, the Classification Office continues to monitor and adapt to changes in the wider regulatory environment and the impact of these changes. The Office continues to work with other media regulatory agencies whose jurisdiction overlaps that of the Office.

In addition to regulation by government agencies, self-regulation is assisted by the Classification Office's provision of information. Industry and public preference for digital technology continues unabated and enforcement of the law in terms of limiting the availability of injurious publications is the responsibility of many individuals and groups, including parents, libraries, teachers, retailers and consumers.

The Office has adopted a number of strategies to achieve its mandate to minimise the risk to New Zealand society caused by the unrestricted availability of digital publications depicting matters such as sex, horror, crime, cruelty and violence. Some of these strategies require the help of the executive and Parliament.

The first strategy is to manage issues raised by digital technology with other regulators and content providers. Such management involves the identification of overlapping jurisdictions, or gaps in jurisdiction, and informing providers of digital content of their legal obligations. The Office maintains regular dialogue with the Broadcasting Standards Authority, the Film and Video Labelling Body and overseas regulators with respect to issues raised by digital technology.

The second strategy is to identify areas where legislative or regulatory reform is needed to cope with digital technology. For example, the definition of "publication" and the offence provisions were updated in 2005 to cover digital content. The labelling provisions were not updated, only partly provide for digital labelling on trailers and television advertisements, and need to be made consistent with the offence provisions and current haphazard voluntary practice. Protection of the public good

from injury, and public confidence in the classification system, would be enhanced by amendments to the Classification Act and Regulations that would

- require previously rated or classified content accessible by podcast or download to carry digital labels displaying those classifications; and
- require unrated and unclassified content accessible by podcast or download to be rated and digitally labelled.

The Office will work with the Minister of Internal Affairs and the Ministry of Justice to introduce an amendment Bill to this effect to Parliament as soon as possible.

The publications marketplace

Technological advances, such as pxt-capable and internet-capable cellphones, allow instantaneous and easy distribution of content covered by the Classification Act. Such content is capable of being easily distributed to a wide audience without reference to any censorship authority. Since the private use of content covered by the Act can affect the public good, the Classification Office must ensure it is technically capable of classifying any type of publication that may be submitted. We must also explore other means of limiting the potential of new technology to injure the public good.

The mediums in which we receive publications to classify continues to change, as the chart below shows.

Figure 3: Publications Classified by Medium 1999-2009

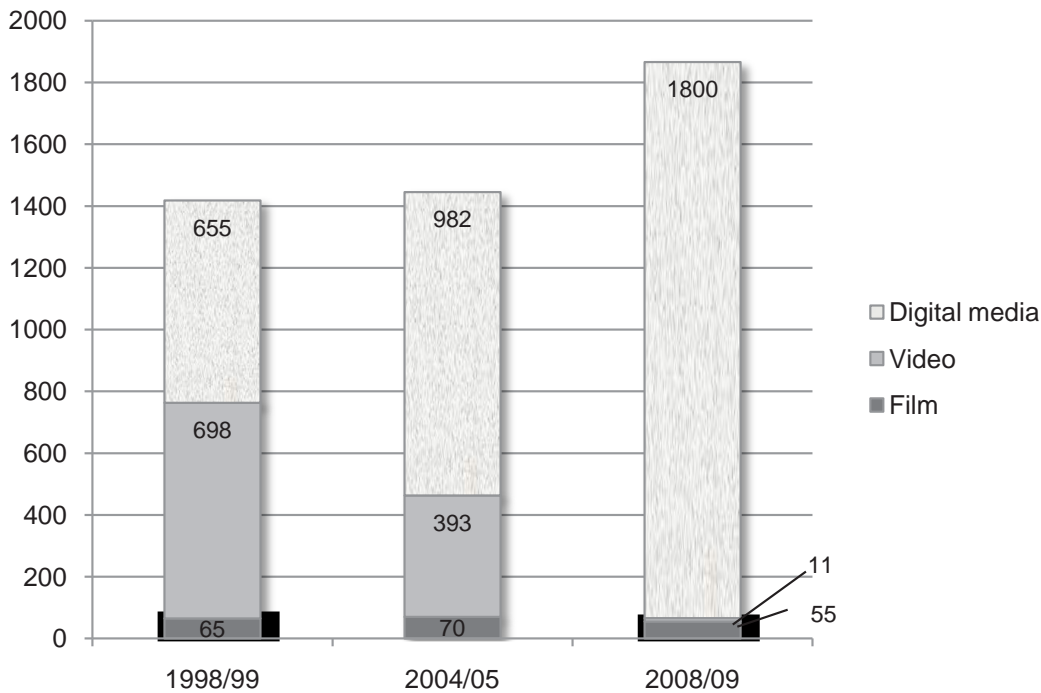
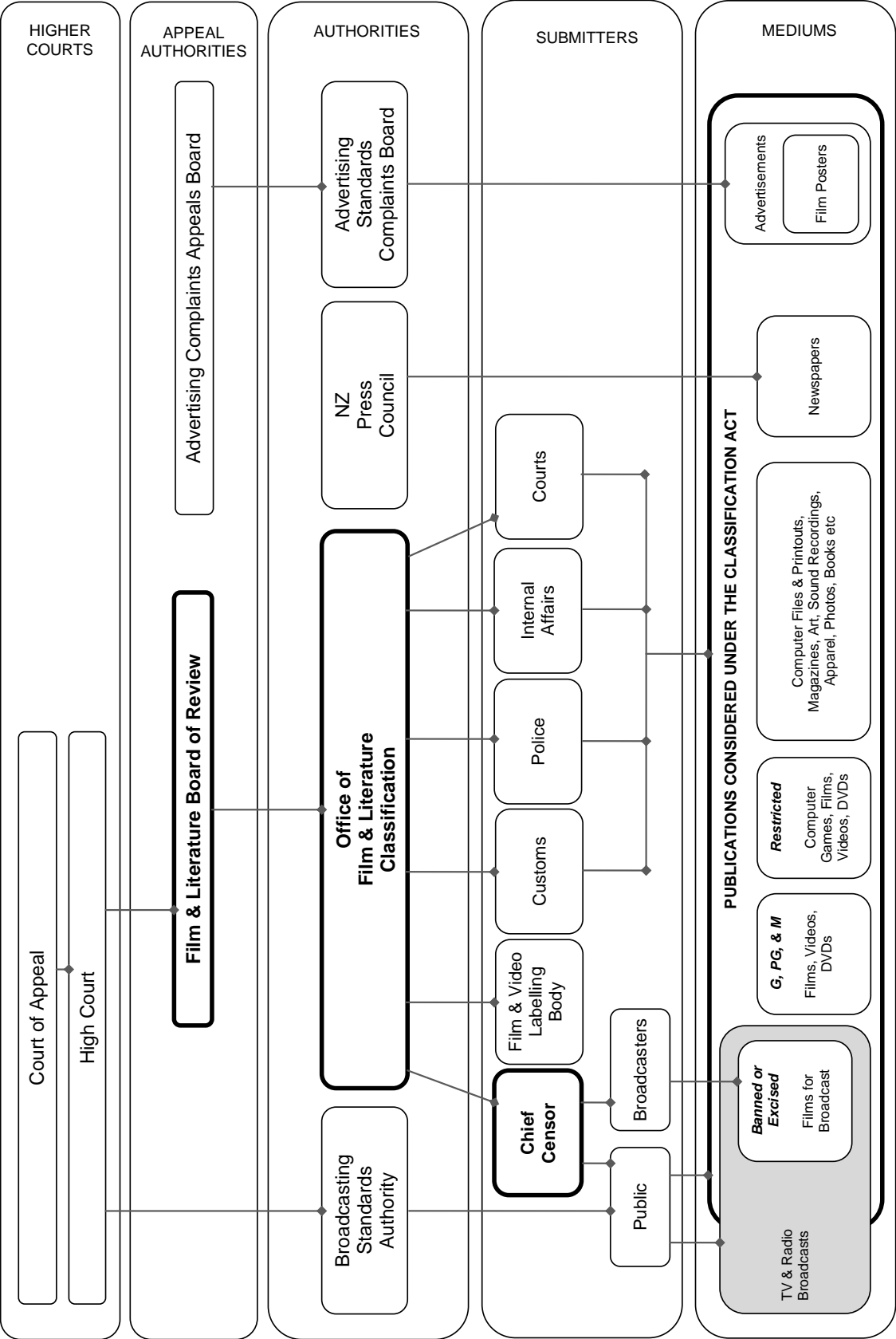


Figure 4: Regulatory Environment



New content unanticipated when the Classification Act was passed in 1993 continues to be submitted. The Office will continue to review the technology required to carry out its function of classifying publications in new mediums and where necessary will obtain the required technology and advice to enable it to do so. The Office will continue to review its training expenditure to ensure that staff remain competent to respond to the challenges raised by technological change, and works with submitters to facilitate the classification process.

Public knowledge and understanding of the classification system

The growth in the popularity, complexity and visual quality of electronic games was not foreseen when the Classification Act was passed. Unlike films, DVDs and video recordings, unrestricted electronic games are allowed by s8(1)(q) of the Classification Act to keep their foreign rating labels. The Classification Office's research on underage gamers¹ shows that 44% do not understand the meaning of the Australian labels that appear on the unrestricted games. These games comprise approximately 90% of all games on sale in New Zealand. Public confusion over the meaning of labels undermines the classification system because labels are the primary means of obtaining information about the classification, nature and suitability of a publication.

The Classification Office's 2006 survey on public understanding of censorship showed that the public had high levels of understanding of most classification labels and parents, in particular, found them useful in making viewing choices. The general public was aware of the work of the Office and mainly considered that the censorship system was operating well.

It is important that the increase in the consumption of entertainment media is matched by greater public knowledge of, and trust in, the classification system.

The Office will strengthen its capacity to disseminate censorship information so that people can equip themselves to cope with potentially injurious publications. The outcome of this strategy will be felt in private homes. The Office disseminates information on the classification system via its "Censor for a Day" high schools' programme, material to support NCEA Media Studies Level 3 Achievement Standard AS90779 supported by a website for students (www.censor.org.nz), its website (www.censorship.govt.nz), community group talks, advertisements, and information brochures and posters distributed to libraries, cinemas, and game retailers. The Office has invested in improvements to its publicly searchable database, produced a DVD and has conducted and made available research on new technologies.

We will continue to monitor the extent to which Board of Review and Classification Office decisions diverge to ensure publications are appropriately classified. We will continue to research and monitor the extent to which public confidence is maintained in the classification system by monitoring trends in complaints and inquiries and conducting surveys and during 2010/11 we will conduct a survey of public understanding of censorship. We will continue to disseminate information on the classification system to various groups through public speaking engagements, the websites and social networking sites and our Censor for a Day high schools programme and DVD.

¹ *Underage Gaming Research* (2005) p.17.

The Classification Office is required to maintain and supply a variety of information which, although held in the Office's official records, is often difficult to retrieve and compile. The Classification Act deems censorship decisions made by now abolished authorities such as the Video Recordings Authority, the Indecent Publications Tribunal and the Chief Censor's of Films, to be current legally binding decisions. The Classification Office is therefore taking steps to preserve the information contained in these decisions. Current decisions are available to the public as they are registered.

The Classification Office must have access to accurate information about classification decisions to:

- inform classification decisions
- respond to public inquiries
- inform operational and policy decisions
- be accountable.

The Office has also begun a two year implementation project to create, maintain and preserve its public records within the framework for recordkeeping compliance provided by the Public Records Act 2005 and the subsequent mandatory recordkeeping standards.

Value for money

The current fiscal environment

The Classification Office is funded by the Crown and by classification fees paid by the private sector. Crown funding has been fixed since 1998 and fees for classification services were last increased in July 1997. Due to increases in submissions, the Office's dependence on Crown funding decreased from 82% in 1998 to 57% in 2008. Increases in third party revenue from increased submissions have been able to offset increases in the cost to run the Classification Office. Third party revenue increased an average of 15% per annum since 1999.

The Classification Office has produced surpluses since the 1998/99 year by rationalising internal processes and staffing, and through increasing third party revenue. Taxpayers' equity has increased to a level in excess of the Crown's original investment in the Office.

The Classification Office has invested in the integration of our in-house information systems. This provides workflow guidance and monitoring and has allowed the Office to meet the demands of the growing number of submissions without compromising the integrity of the Office's decisions and processes. The Office used funds set aside for asset replacement for this development.

About 80% of our expenditure is required to meet the fixed costs of personnel, rent and depreciation. While efficient operating expenditure has consistently resulted in surpluses over recent years, further reduction of non-fixed operating expenditure will begin to impact on the long term production and timeliness of outputs. In 2008/09 third party revenue dropped 9% and has remained at this level during the first half of 2009/10. The Classification Office currently has sufficient cash reserves to cover the forecast budget shortfall however this is not a sustainable strategy.

As every householder knows, costs of operation continue to increase as other agencies look to cover their own increasing expenses. Rental fees increase, audit fees increase, ACC levies increase, but the Office can not legally raise the fees it charges for its services. The Office will take the following performance improvement actions to improve the value of the Crown's investment.

Performance Improvement Actions

1. Information Services

The Office is reviewing the provision of information services. While this function is integral to the effective operation of the classification system, the Office is changing how some of these services are delivered.

During 2009/10 a DVD of the Censor for a Day programme was produced which will enable more students to benefit from this programme while decreasing delivery costs to the Office.

Research is being focused on areas with lower cost with more immediate and practical benefits. Public understanding of censorship and young people's use of entertainment mediums will be surveyed and a comparison of New Zealand and Australian classifications with those of other jurisdictions will contribute to the legislative review work being undertaken by the Ministry of Justice and the Department of Internal Affairs.

2. Review of Outsourced Services

Supply and service agreements are reviewed for cost saving opportunities prior to any renewal. The Classification Office is reviewing its participation in areas which may be seen as 'best practice'. While this may increase risk to the Crown and the Office, many 'best practice' activities carry significant cost.

3. Reporting on the Cost of Classification

Reporting to the Minister now incorporates value for money measures including the average number of classifications per staff member as well as the average cost per classification.

4. Staffing Levels

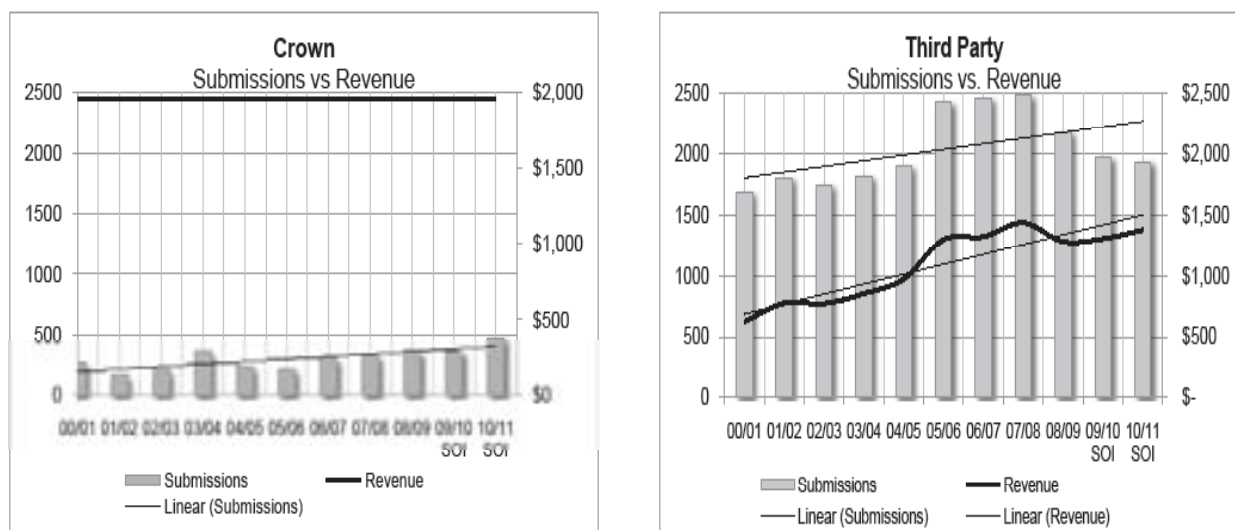
The Classification Office is considering whether to put in place a policy of attrition. Ultimately this may impact on the achievement or maintenance of the current output standards of the Office.

As seen in figure 5, the total volume of work of the Office is not expected to change significantly, although the composition of the work is altering. The downward trend in third party submissions is not expected to continue but submission volumes are not expected to return to 2007/08 levels in the foreseeable future. Increases in third party revenue are therefore unlikely. Crown submissions are increasing. Historically, Crown submission volumes have been a small proportion of the Office's work but recent trends indicate this is unlikely to continue. A rise in non-fee-bearing Crown submissions will mean current resourcing levels will need to be maintained if current output levels and standards are to be maintained. The Office's largest single expense is personnel.

Fortunately the Office is well placed to manage these pressures. Investment in the Classification Database Application and associated infrastructure has already seen improvements in the Office's timeliness in processing submissions, as well as providing easy and reliable reporting for internal and

external stakeholders. Cash reserves from retained earnings will enable the Office to run at a deficit in the short term should Labelling Body submission levels not increase, or increase slowly.

Figure 5: Comparison of Crown and Third Party



Please note that different scales have been used for the volume of submissions from Crown and Third Party submitters. This has been done to highlight the changing trends in submissions and the relationship between changes in the volume of submissions and changes in revenue.

Organisational Health and Capability

Staffing levels in the Office have remained relatively stable since 1999, despite a 56% increase in classification activity¹ and 60% increase in information activity² since that time. This increase is in spite of a notable reduction in submissions to the Classification Office 2007/08 to 2008/09, with a 12.5% reduction in the total number of submissions and a 16% reduction in fee-bearing submissions. This has enabled the Office to improve performance on the timeliness measures and reduce personnel expenditure in the short to medium term by leaving 3 vacancies unfilled.

Staff work in an environment where they are exposed to objectionable material. In order to minimise the harmful effects of such material we will continue to ensure that staff receive suitable peer and professional support. We will encourage staff to pursue interests outside of the workplace and assist them in developing their skills and experience to enable them to pursue other careers in the future.

The Office considers average length of service as an indicator of the health of its staff. An unstable workforce with a high turn-over is expensive in terms of recruitment costs and productivity as well as loss of corporate knowledge. The average length of service at the Office is 6 years.

The Office's EEO committee conducted a workplace survey and a work profile questionnaire in 2008/09. On the basis of this the EEO committee has prioritised family and work/life balance, conflict in the work place and awareness of the issues surrounding disability.

¹ Based on a comparison of total publications registered in 1999 (1,625) and 2009 (2,535).

² Based on a comparison of total inquiries & complaints in 1999 (793) and 2009 (1,270).

Management of significant relationships

The Minister of Internal Affairs is the Minister responsible for the Classification Office for the purposes of the Crown Entities Act 2004. The Ministry of Justice is the ministry responsible for the administration and amendment of the Films, Videos, and Publications Classification Act 1993 and associated regulations.

We will continue the mutual “no surprises” approach that has characterised our relationship with the Minister of Internal Affairs. Such an approach ensures that the Minister and officials inform the Classification Office in a timely manner of any matter of significance to the Office or that could affect the performance of its functions to a high standard. It also ensures that the Classification Office keeps the Minister informed in a timely manner of significant activities and initiatives, and briefed on censorship matters of importance or of current interest to the public.

Finally, the Classification Office’s responsibility to issue classifications which protect the public good from injury means that private sector distributors will not always get the classifications they want and for which they will have paid a fee. In short, the Office has a responsibility to protect the public good from injury. This must be balanced against its responsibility to the fee payer to provide an effective and timely classification service. To do this, the Classification Office will ensure that its classification processing meets the timeliness and quality targets set out in this SOI.

Goodwill

We will protect the Classification Office’s reputation as a respected and impartial provider of classification and information services that contribute to a society better protected from the harm caused by the availability of restricted and objectionable publications. To achieve a society protected from harm, the Office must, on a daily basis, limit one of the touchstones of western democracies that New Zealanders hold dear, the freedom of expression. The impact our work has on the freedom of expression increases the importance of maintaining this reputation. Damage to the Office’s reputation from any source could adversely affect the confidence New Zealanders have in our ability to apply the law impartially and in a manner that balances the freedom of expression with Parliament’s intention to protect the public good from injury. Damage to reputation causing loss of public confidence could significantly affect the Office’s ability to perform its statutory functions to a high standard, and could negatively impact on the currently high level of industry compliance with classification law.

The Classification Office can do much to protect its reputation as a respected and impartial provider of classification and information services by performing its functions to a high standard and in a transparent, legal and accountable manner. The Office is, however, less able to protect its reputation from external sources of damage. Therefore, ongoing ministerial and official support of the Office and our work is also essential to the maintenance of public faith and confidence in the Classification Office and the classification system.

EVALUATION OF OUTCOME

The outcome sought by Parliament in establishing the Classification Office is that the public good is protected from the injury that can be caused by the unrestricted availability of restricted and objectionable publications. We aim to achieve this by making high quality classification decisions that limit the availability of restricted and objectionable publications, and by educating the public so that it understands the harm that can be caused by such publications and can make informed viewing decisions.

It is difficult to develop a framework to assess whether or not we have achieved our outcome independently of the measures we have developed to assess whether or not our outputs have had the intended impact. A number of measures could be used, however many are inherently ambiguous. Take, for example, quantitative trends over time. An increasing number of inquiries could mean either an increased awareness of, and confidence in, our decisions, or, increased concern about the availability of objectionable and restricted material. Likewise an increasing number of publications submitted by the Crown could indicate either an increase in criminal activity related to objectionable publications, or that greater resources have been allocated to prosecuting such activity.

The extent to which our outputs have had the desired impact of appropriately classifying publications in order to prevent injury to the public good can be assessed directly by measures such as internal quality and timeliness standards and by external standards such as consistency between the decisions of the Classification Office and decisions of the Film and Literature Board of Review, and public confidence in the system. The extent to which the public has confidence in the classification system and is well educated and informed about censorship can be assessed through quantitative indicators such as website visits or inquiries answered. It can also be assessed qualitatively by responses to information initiatives and formal feedback on public presentations.

The public good is best protected when people understand the classification system, are able to make informed viewing decisions, and when the Classification Office operates in a transparent manner. Logically, if our outputs are assessed as meeting targets and our impacts are being achieved, there is a greater likelihood that the public good has been better protected from the injury caused by the availability of restricted and objectionable publications.

The following indicators assist the Office with understanding our progress towards our outcome.

Impact A: Publications are appropriately classified to prevent injury to the public good

Research

Research plays an important role in informing the Classification Office and the public about attitudes, trends and issues in society that affect the classification of publications. We carry out research that assists in understanding public attitudes and behaviour relevant to our work to better inform our classification decisions.

This will incorporate surveys of public opinion, international literature reviews, and research into substantive issues such as sexuality and violence and emerging trends in the use and impact of entertainment media.

The restrictions the Office places on the availability of publications are intended to prevent or reduce injury to the 'public good'. It is essential for the Office to understand the nature of injury to the individual or society and the factors which contribute to the injury.

The following research has been undertaken and published by the Office. It contributes to public confidence in the classification system, to a public that is well educated and informed about censorship and to the outcome of a society better protected from the harm caused by the unrestricted availability of restricted and objectionable publications.

- A Review of Research on Sexual Violence in Audio-Visual Media (2009)
- Public Perceptions of a Violent Video Game X-Men Origins: Wolverine (2009)
- Viewing Violence: Audience Perceptions of Violent Content in Audio-Visual Entertainment (2008)
- Public Perceptions of Highly Offensive Language (2007)
- Young People's Use of Entertainment Mediums (2006)
- The viewing habits of users of sexually explicit movies (2004, 2005)
- Underage Gaming (2005)

Decisions of the Board of Review

The Board of Review and the Classification Office are both tasked with applying the criteria established by the Films Videos and Publications Classification Act 1994. A review over time of decisions of the Board of Review and the related Classification Office decisions should not show a significant divergence.

In terms of a single publication, significant divergence may exist if the classification issued by the Board is vastly different from the classification issued by the Office. An example of this is an unrestricted classification replaced by an objectionable classification.

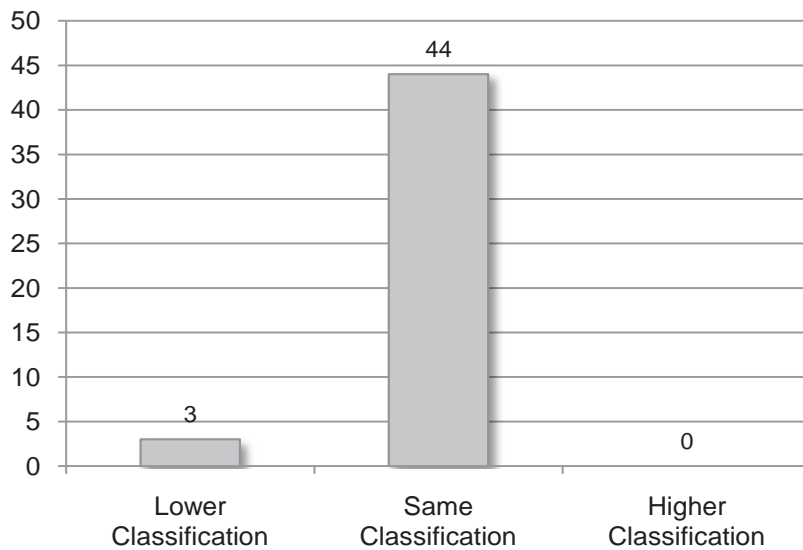
In terms of a trend across time, significant divergence could exist if the Board consistently gave publications higher, or lower classifications, than those given by the Office.

Over the past 10 years the Board of Review has made between 1 and 17 decisions each year. Figure 6 shows that between 2004 and 2009 the Board reviewed 47 publications classified by the Office. With respect to 44 of those publications, the Board issued classifications identical to those issued by the Office.

The Classification Office monitors Board of Review classifications to identify and report on any significant divergence in classifications and/or rationale of classification decisions between the Office and the Board of Review as this could indicate that publications were not appropriately classified.

Because the Classification Office does the lion's share of classifications, it is important that we are perceived to be accurate or slightly conservative in our classification of publications. We will therefore have achieved our target if the Board of Review issues classifications that are the same as, or lower than, the classifications issued by the Office with respect to the publications it reviews each year.

Figure 6: Comparison of Office and Board of Review Classifications 2000-2009



Impact B: Public has confidence in the classification system

The most direct avenue for members of the public to express their level of confidence in the classification system is through contact with the Office. Reports provided to the Minister of Internal Affairs under output 4.2 incorporate analysis of any trends in inquiries and complaints received by the Office.

Public surveys to understand public knowledge and use of the classification system are carried out in association with Research under output 5. This assists in evaluating the extent to which our outputs have contributed to public confidence in the classification system. When this research was carried out in 2006 we found that nearly two-thirds of those surveyed were happy with the current classification system. Three-quarters of those surveyed felt the classification system was either “about right” or, in fact, “too strict”. One quarter felt it was too lenient. This suggested that the public had confidence in the classification system and were reasonably well educated about censorship.

Every five years we will conduct a survey of public confidence. We will have achieved our target if 60% or more of those surveyed indicate that they are satisfied with the classification system because they are of the view that it is neither too lenient nor too strict. The next survey will be conducted in the 2010/2011 financial year.

Impact C: Public is well educated and informed about the classification system

The Office provides targeted information to key groups such as industry, young people and parents through dedicated sections of the website and through other communication with these groups such as school visits, responding to inquiries, and our Censor for a Day high schools’ programme. The Classification Office also provides speakers on request to educational institutions, community groups, the publications industries and other groups.

Talks are tailored to the audience and promote understanding of the classification system and the importance of complying with classification decisions and the law. The Office has commenced collecting information about the number of people who attend these presentations. This data, in conjunction with an assessment of audience size of targeted information and public surveys, assists the Office in determining the degree to which we contribute to a well educated and informed public.

If those members of the public to whom we speak indicate, as a result of our presentation, that they have gained a very good or excellent understanding of the classification system, then we will have achieved our target of contributing to a well educated and informed public.

EVALUATION OF OUTPUTS

Output 1 - Production of Classification Decisions

Supports:

Impact A: Publications are appropriately classified to prevent injury to the public good

Impact B: Public has confidence in the classification system

Description:

This output is concerned with the examination and classification of publications in accordance with the law.

Section 39 of the Classification Act requires the Chief Censor to maintain a register of classification decisions.

Context:

A classification is a legal statement about the status of a publication that may place limits on its availability or invoke criminal sanctions. It is essential that classifications are carried out in a robust decision-making environment to ensure that consistent, impartial and lawful decisions are made. Classification decision-making is informed by research, and, when appropriate, by expert advice and public consultation.

Third Party submissions are principally made by the Film and Video Labelling Body which submits publications to the Office on behalf of the industry. Submissions from the Crown are made by the Secretary for Internal Affairs, the Comptroller of Customs, the Commissioner of Police, the Chief Censor and the Courts. Members of the public can also seek the leave of the Chief Censor to make submissions to the Office.

Quantity of Classifications

The number of classifications registered vary each year, and is primarily a demand-driven activity as the leave of the Chief Censor is not required for the bulk of submissions. Classification is compulsory for films, DVDs, videos and electronic games that contain content that may be restricted.

For each financial year the Classification Office determines an estimated range of the number of publications it expects to receive. This is done on the basis of trends in the level of activity of previous years and discussion with submitters on the number of publications they expect to submit in the upcoming year. On the basis of this estimate, the Office establishes targets for the number of publications which will be classified and registered.

Quality of Classifications

The quality of a classification decision has three components and each of these components is monitored and measured in a different way.

A classification decision must consider and apply the relevant sections of the Classification Act and the New Zealand Bill of Rights Act and follow due process. Compliance with this quality standard is

reviewed via sampling on a monthly basis across all submission channels and reported internally and externally. These standards have been consolidated under performance criterion 1.2.

A classification decision must be open to public inspection. The List of Decisions is a monthly compilation of classification decisions registered in a given month. Its accuracy is measured on a monthly basis reported under performance criterion 2.2.

A classification decision may be reviewed. Correct and consistent application of the law should result in similar classification by the Office and the Board of Review. Consistency with Board of Review decisions is reported quarterly under Impact A.

Timeliness of Classifications

The timeliness targets assume that the numbers of submissions are within the estimated range. Variations in the number of submissions impact on the Office's ability to achieve its timeliness targets.

The Office closely manages its queue of publications awaiting examination, and scheduling of work is reviewed on a weekly basis. This includes consideration of the needs of various submitters and distributors. The Office liaises with the Film and Video Labelling Body, distributors, crown agencies and other submitters on scheduling matters.

Timeliness standards are set for both Queue Time and Processing Time for a publication. Variations in performance against Queue Time targets demonstrate fluctuations in volume and timing of submissions to the Office. Variations in Processing Time targets demonstrate efficiency of internal processes. Standards for Queue Time and Processing Time are set on the basis of the submission channel and the nature of the publication. Compliance with this aspect of timely classification decisions is measured on a monthly basis and reported internally and externally. These standards have been consolidated under performance criterion 1.3.

Output 2 - Production of List of Decisions

Supports:

Impact B: Public has confidence in the classification system

Impact C: Public is well educated and informed about the classification system

Description:

Section 40 of the Classification Act requires the Classification Office to produce a monthly, alphabetical list of classification decisions made by the Office and the Film and Literature Board of Review.

The list must be available for public inspection during ordinary office hours. The time available to seek a review of a publication by the Film and Literature Board of Review (under s47 of the Act) or a reconsideration of a publication by the Classification Office (under s42 of the Act) is determined by the date on which the List of Decisions is made available for inspection.

Quality

The Quality measure for the production of the List of Decisions has quality, quantity and timeliness components for both the List and the decisions which it contains. While the List itself must be produced within 10 working days of the end of the month, it must also contain all publications which were classified (and therefore registered) during that month. The List must be complete (contain all relevant decisions), accurate (all aspects of all decisions recorded correctly) and available in a timely manner. Compliance with these standards are recorded on a monthly basis and reported internally and externally. These standards have been consolidated under performance criterion 2.2.

Output 3 - Dissemination of Information

Supports:

Impact B: Public has confidence in the classification system

Impact C: Public is well educated and informed about the classification system

Description:

Section 88(2)(b) of the Classification Act requires the Classification Office's Information Unit to disseminate information about the functions, powers and procedures of the Office.

This activity is concerned with the production and distribution of information about the Classification Act and the Classification Office and the representation of the Classification Office at speaking engagements and other forums.

Context:

The public good is protected when people understand the classification system, are able to make informed viewing decisions, and when the Classification Office operates in a transparent manner. In order for this to occur, the public must understand the classification system and the potential for injury caused by the availability of such material.

Output 4 - Inquiries and Complaints

Supports:

Impact B: Public has confidence in the classification system

Impact C: Public is well educated and informed about the classification system

Description:

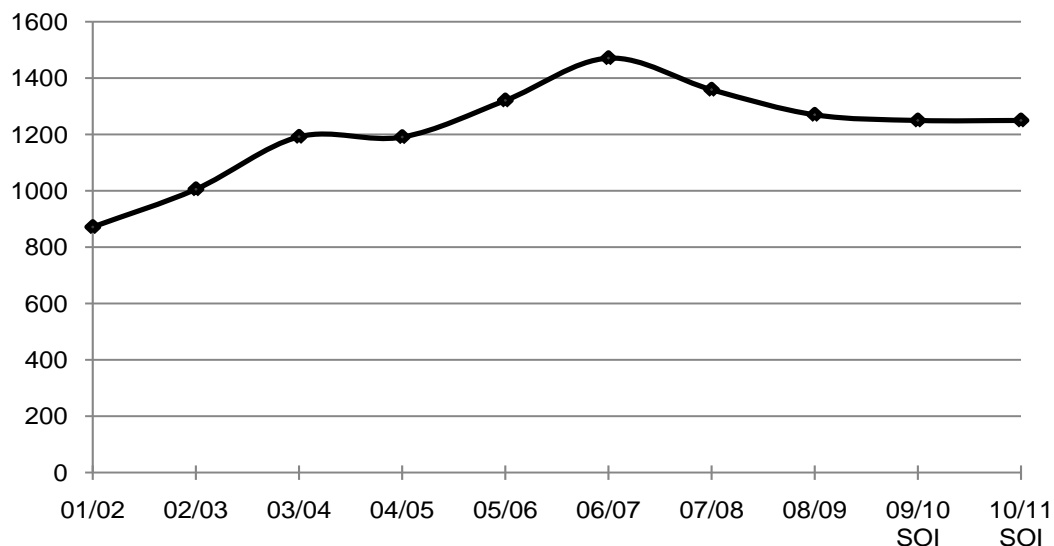
This activity is concerned with the provision of the inquiries and complaints service required under s88 of the Classification Act.

Context:

Censorship places limits on the public's right to free expression. For this reason, it is important that people are able to seek information about the classification system, and able to register their satisfaction or dissatisfaction with it.

For each financial year the Office estimates, on the basis of previous trends, the number of complaints and inquiries likely to be received. From this estimate the Office establishes targets for the number of inquiries the Office will answer.

Figure 7: Complaints and Inquiries by Year



Output 5 - Research

Supports:

Impact A: Publications are appropriately classified to prevent injury to the public good

Impact B: Public has confidence in the classification system

Impact C: Public is well educated and informed about the classification system

Description:

Section 88(2)(a) of the Classification Act requires the Classification Office's Information Unit to provide research services to enable the Office to perform its functions effectively.

Research is published and also made available on the Classification Office's website. It will be used to inform our work, contribute to debate, foster further research on censorship issues and provide an evidentiary base for censorship policy-making.

The research we do will be rigorous, ethical, of high quality, and when appropriate, reviewed by an external expert.

Context:

Research undertaken by the Office falls into three categories:

- To directly inform the classification process in relation to a specific publication or range of publications,
- To indirectly inform the classification process by assisting the Office's understanding of people's attitudes and behaviours, foster debate and provide an evidence base to censorship policy making, and
- To provide qualitative and quantitative measurement of the Office's progress towards its impact.

STATEMENT OF RESPONSIBILITY

The Statement of Intent for the Office of Film and Literature Classification presented in this report for the year ending 30 June 2011 has been prepared in accordance with section 38 of the Public Finance Act 1989 and the Crown Entities Act 2004.

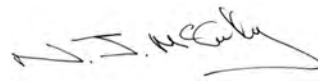
The Chairperson and Deputy Chairperson of the Board of the Office of Film and Literature Classification acknowledge, in signing this statement, that they are responsible for the information contained in this Statement of Intent.

The financial performance forecast to be achieved by the Classification Office for the year ending 30 June 2011, specified in the Statement of Intent, is as agreed with the Minister of Internal Affairs, who is the Minister responsible for the financial performance of the Office of Film and Literature Classification.

We certify that the information contained in this report is consistent with the existing appropriations, and the appropriations contained in the Estimates for the year ending 30 June 2011, that are being laid before the House of Representatives under section 13 of the Public Finance Act 1989.



W K Hastings
Chairperson



N J McCully
Deputy Chairperson

On behalf of the Board of the Office of Film and Literature Classification

STATEMENT OF SERVICE PERFORMANCE

The Classification Office is funded in the Estimates under Vote: Internal Affairs Non-Departmental Output Expense for a single output class: Classification of Films, Videos, and Publications. The appropriation for this output class is \$1,960,000. The scope of the appropriation is:

“This Output covers the examination and classification of films, videos and publications under the Films, Videos, and Publications Classification Act 1993. The Office of Film and Literature Classification will maintain a register of decisions for public inspection, and...”

“...operate an information unit to provide research, disseminate to the public information about the Office and classification procedure, and receive inquiries and complaints about the classification system.”

The Classification Office also receives revenue from fees paid by third parties and other sundry revenue. The shortfall in forecast revenue will be met by cash reserves.

Total forecast revenue for 2010/11 is	\$3,419,829
Total forecast expenditure is	\$3,745,571
Total forecast deficit is	(\$325,743)

Within the Classification Office, this is broken into two services.

Classification Services

<i>Revenue</i>	Ex GST	Inc GST
	\$	\$
Crown Revenue	1,176,647	1,323,728
Third Party Revenue (estimated)	1,379,421	1,551,858
Sundry Income	1200	1350
Interest Income	79,200	

Outputs of the Classification Service

1. Production of Classifications Decisions
2. Production of List of Decisions

Information Services

<i>Revenue</i>	Ex GST	Inc GST
	\$	\$
Crown Revenue	783,353	881,272
Third Party Revenue	Nil	Nil

Outputs of the Information Service

3. Dissemination of Information
4. Inquiries and Complaints
5. Research

Output 1 - Production of Classification Decisions

Description:

This activity is concerned with the examination and classification of publications in accordance with the law.

Section 23 of the Classification Act requires that publications which are submitted for classification are examined as soon as practicable.

Section 39 of the Classification Act requires the Chief Censor to maintain a register of classification decisions.

How this will be measured

Performance Criteria 1. Production of classifications		Targets		<i>Achieved in</i>	
		2010/11	2009/10	2008/09	2007/08
1.1.1	Quantity¹ - Third Party Number of publications classified	1,706-2,164	1,708-2,232 ^{1,2}	2,202	2,491
1.1.2	Quantity - Crown Number of publications classified	360-595	296-427	333	330
1.1.3	Quantity - Registrations Number of publications registered	2,066-2,759	2,004-2,659	2,535	2,821
1.2	Quality Percentage of classification decisions and directions which are consistent with the standards set down in the Classification Office Practice Manual. ²	95%	95%	99%	99%
1.3.1	Timeliness of Standard s12 & s42³ Percentage of Standard s12 and s42 publications which are classified within 30 working days of receipt.	90%	90%	92%	88%
1.3.2	Timeliness of Complex s12 & s42 Percentage of Complex s12 and s42 publications which are classified within 35 working days of receipt.	70%	70%	89%	61%

Performance Criteria 1. Production of classifications		Targets		<i>Achieved in</i>	
		2010/11	2009/10	2008/09	2007/08
1.3.3	Timeliness of s13 Percentage of s13 submissions which are classified within 55 working days of receipt, where statutory obligations enable this.	70%	70%	42%	65%

- The target range is set by balancing expected numbers of submissions and the capacity of the Office to process these submissions. Therefore the target set for 2010/11 has been reduced from that achieved in 2008/09. The Office expects to receive fewer publications and has a reduced capacity to process publications as a result of reduced numbers of staff. This has been offset to some extent by process improvements which have resulted from the new submission processing system (CDA).
- The Classification Office Practice Manual ensures classification procedures are subject to external audit.
- s12 and s42 publications requiring assistance under s21 of the Classification Act are excluded from the timeliness measures.

Output 2 - Production of List of Decisions

Description:

Section 40 of the Classification Act requires the Classification Office to produce a monthly, alphabetical list of classification decisions made by the Office and the Film and Literature Board of Review.

How this will be measured

Performance Criteria 2. Production of the List of Decisions		Targets		<i>Achieved in</i>	
		2010/11	2009/10	2008/09	2007/08
2.1	Quantity Number of monthly List of Decisions produced.	12	12	12	12
2.2	Quality Percentage of Corrigenda which are issued on all entries into the List of Decisions. ¹	Fewer than 2.5%	<i>Fewer than 2.5%</i>	0.17%	0.86%

- Corrigenda may be issued on current and previous years' Lists of Decisions and the corresponding Register page replaced.

Output 3 - Dissemination of Information

Description:

Section 88(2)(b) of the Classification Act requires the Classification Office's Information Unit to disseminate information about the functions, powers and procedures of the Office.

This activity is concerned with the production and distribution of information about the Classification Act and the Classification Office and the representation of the Classification Office at speaking engagements and other forums.

How this will be measured

Performance Criteria 3.1 Growing www.censorship.govt.nz		Targets		Achieved in	
		2010/11	2009/10	2008/09	2007/08
3.1.1	Quantity Estimated number of visits to the Classification Office website (average per day ¹).	100-150	100-150	130	-
3.1.2	Quality Significant errors identified on the website are corrected within 1 working day.	90%	90%	100%	-
3.2 Speaking engagements		Targets		Achieved in	
		2010/11	2009/10	2008/09	2007/08
3.2.1	Quantity² Estimated number of presentations given by members of the Office.	24-48	24-48	54	46
3.2.2	Quality³ Percentage of client satisfaction surveys which assess the presentations as 'Very Good', or better.	80%	80%	100%	100%

1. The Office has changed the way in which this criterion is measured; therefore data is not available for 2007/08.

2. The target range is set lower than the actual number of presentations given in 2008/09 as most presentations carry cost. While the Office attempts to deliver presentations whenever they are requested the number able to be delivered is limited by budget constraints.

3. Quality targets are set at the minimum level which is acceptable to the Office. Therefore actual achieved may be higher than the target.

Output 4 - Inquiries and Complaints

Description:

Section 88(2)(c) of the Classification Act requires the Information Unit to receive inquiries and complaints concerning the operation of the classification system.

How this will be measured

Performance Criteria 4. Inquiries and Complaints		Targets		<i>Achieved in</i>	
		2010/11	2009/10	2008/09	2007/08
4.1	Quantity¹ Number of Inquiries answered.	1,000-1,500	1,000-1,500	956	1,359
4.2	Quality Quarterly reports to the Minister will incorporate analysis of trends in Inquiries and Complaints received by the Office.				

1. This is a demand driven activity.

Output 5 - Research

Description:

Section 88(2)(a) of the Classification Act requires the Classification Office's Information Unit to provide research services to enable the Office to perform its functions effectively.

How this Activity will be measured

Performance Criteria 5. Research		Targets		<i>Achieved in</i>	
		2010/11	2009/10	2008/09	2007/08
5.1	Quantity Number of Research projects.	1	<i>1</i>	<i>1</i>	<i>1</i>
5.2	Timeliness Supplier engaged to provide research services.	By 30 March 2011	<i>By 30 March 2010</i>	<i>By 30 March 2009</i>	<i>(New measure)</i>
5.3	Draft report on research supplied.	By 30 June 2011	<i>By 30 June 2010</i>	<i>By 30 March 2009-</i>	<i>(New measure)</i>
5.4	<p>Quality - Peer Review Projects with a budget exceeding \$20,000 will be peer reviewed and recommendations addressed. All projects will be published.</p> <p>The outcome of any research inquiry cannot be predicted. The extent to which a research outcome can influence classification decision-making is limited by our legal inability to fetter in advance the expert judgment Parliament deems the Classification Office to have in s4 of the Classification Act each time a publication is classified. We will report whether or not any particular research outcome has influenced any particular classification decision.</p>				

PROSPECTIVE FINANCIAL INFORMATION

The management of the Classification Office's finances is set out in the following statements of Prospective Financial Information. Significant factors affecting this information are:

- (a) baseline Crown funding remaining at its 1998/99 level without adjustment for inflation;
- (b) reduction in third party revenue;
- (c) reduction in cash reserves; and
- (d) increased depreciation due to expenditure on the classification database application which is being amortised over 7 years.

The Classification Office has cash reserves as a result of operating surpluses for most of the last decade. Although these reserves may be returned to the consolidated fund, they are sufficient to cover a short-term operating deficit. Taxpayers' equity is in excess of the Crown's original investment in the Office. By the end of the three financial years covered by this SOI, we are predicting that annual operating deficits will have depleted our cash reserves by approximately \$ 1 million. By this time, the Classification Office will have had no increase in Crown funding for 15 years, and is likely to have experienced little if any increase in revenue from classification fees for 5 years. By 30 June 2013, personnel expenditure will realistically be able to be controlled at predicted levels by not replacing staff. Operating expenditure will come under pressure from the cost of goods and services, including government services, that have risen when our revenue streams and the fees we charge for our services have remained static. The situation is clearly unsustainable beyond 2013.

The financial health of the Classification Office will improve if an economic upturn results in the submission of more private sector fee-bearing publications to the Office for classification. Any optimism in this regard must be tempered however by the likely swing away from physical mediums such as film and DVD to digital delivery systems by 2013 that are likely to pose technological challenges to the current pervasive enforceability of labelling and classification laws. The financial health of the Classification Office will be better secured by strategies that will have to be adopted by agencies outside the Office. Classification fees that have not changed since 1997 will have to be reviewed and brought up to date by amending the Fees Regulation which is administered by the Ministry of Justice. Any change in classification fees will necessitate a review of the Office's Crown baseline funding, unchanged since 1998, by the Department of Internal Affairs. Technological changes in how recorded entertainment is supplied and exhibited to the public will require Parliament to amend the Act to facilitate application of the labelling and classification regime to digital delivery systems. Or the Executive could decide that these changes should logically be accompanied, or replaced, by a more extensive review designed to rationalise the way a number of agencies currently regulate media content.

In the medium term there are few areas where the Office can improve its financial performance without impacting on the quality of its outputs and services. Initiatives that could be investigated and which do not require legislative or regulatory change include reducing the degree to which the Office makes

it decisions open to public scrutiny with written reasons, reducing the level of specialised information, research and training which is made available to staff to inform the decision-making process, reducing the Office's public, statutory, professional association and employer liability insurance, delivering timely decisions to commercial submitters ahead of crown agencies, and classifying only the predicted number of publications submitted to the Office for classification each year. The Office will continue to evaluate risks and benefits of any such proposal and seek guidance from stakeholders including the Minister, Audit NZ and submitters.

In the short term however, the Classification Office has little room for any significant reduction in operating expenditure. 80% of expenditure is required to meet the relatively fixed costs of rent, depreciation and personnel. Savings have been made in many areas of operating expenditure following a line by line review of expenditure, however increased costs in other areas have resulted in an increase in budgeted operating expenditure of \$6,600 over that budgeted in 2009/10.

In order to constrain depreciation expense as far as possible, the capital expenditure budget has been substantially cut. Despite this, depreciation is expected to be \$18,000 higher than budgeted in 2009/10.

Personal expenditure has been reduced by \$41,000, in response to the reduction in submissions from the Labelling Body.

2010/11 prospective third party revenue is slightly higher than 2009/10 prospective third party revenue. Third party revenue projections are driven by the expected volume of third party submissions. At the time of the preparation of this statement, s12 (Labelling Body) submissions were above the midpoint of the forecast range on which the revenue forecast is based.

Allowance has been made in 2012/13 for an increase in rental expenditure. Rent is the single largest item of operating expenditure, and is approximately 33% of the monthly operating budget. The next rent review will be effective from 1 October 2012.

Forecast interest revenue has been kept steady as increasing interest rates and funds set aside for asset replacement are expected to off set the reduction of funds due to the deficit.

On the Balance Sheet, forecast investments held as current assets are reducing over subsequent years as funds are transferred from term investments into the operating account. This ensures that the Office does not go into overdraft despite operating at a deficit.

The actual results for 2009/10 and subsequent years are likely to vary from the information presented and the variations could be material.

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The Office of Film and Literature Classification is a Crown Entity formed under the Films, Videos, and Publications Classification Act 1993. These statements have been prepared in accordance with the Crown Entities Act 2004.

The Office of Film and Literature Classification's primary objective is to provide public services to the New Zealand public, as opposed to making a financial return. Accordingly, the Office has designated itself as a public benefit entity for the purposes of the New Zealand Equivalents to International Financial Reporting Standards.

The Office of Film and Literature Classification works with a number of other agencies to maintain the censorship system and is the Government body responsible for classifying publications that may need to be restricted or banned.

Key Judgements and Assumptions

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revisions and future periods.

Basis of Preparation

Statement of compliance

The forecast financial statements of the Classification Office have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice ("NZ GAAP"). The financial statements also comply with NZ IFRS.

Basis of measurement

The forecast financial statements have been prepared on the historical cost basis.

Functional and presentation currency

The forecast financial statements are presented in New Zealand dollars (\$), which is the Classification Office's functional currency. All financial information is presented in New Zealand dollars.

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these forecast financial statements.

Budget Figures

The budget figures are those approved by the Board of the Classification Office at the beginning of the financial year. The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with those adopted by the Office for the preparation of the financial statements.

Revenue

Crown revenue

The Classification Office is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the Classification Office supplying its outputs which are specified in the Statement of Intent.

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.

Other revenue

Labelling Body income, other fee income and sundry income are recognised when earned and are reported in the financial period to which they relate.

Expenses

Operating lease

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Classification Office are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the statement of financial performance.

Finance leases

The Classification Office has no finance leases.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than 3 months.

Short Term Investments

Investments comprise term deposits of more than 3 months and less than 12 months.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the Classification Office will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. When the receivable is uncollectible, it is written off against the allowance account for receivables.

Property, plant & equipment

Items of property, plant and equipment are shown at cost less any accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Classification Office and the cost of the item can be measured reliably.

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the forecast statement of comprehensive income.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at the rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

- Computer hardware 3 – 4 years
- Fitout 8 – 9 years
- Furniture and fittings 10 years
- Office equipment 4 – 5 years
- Other equipment 4 – 5 years
- Technical equipment 4 – 5 years
- Vehicles 5 – 6 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring in use the specific software.

Costs that are directly associated with the development of software for internal use by the Classification Office, are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the website development and maintenance are recognised as an expense when incurred.

Intangible assets are reviewed annually for impairment.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of financial performance.

The useful lives and associated amortisation rates of intangible assets have been estimated as follows:

- Software 3 – 4 years
- Classification Database 7 years

Impairment

Property, plant and equipment and intangibles that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement costs of an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where the Classification Office would, if deprived of the asset, replace its remaining future economic benefits or service potential.

For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in revaluation reserve, the balance is recognised in the statement of financial performance.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the statement of financial performance.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employee benefits

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to sick leave are calculated based on an actuarial approach to assess the level of leave that is expected to be taken over and above the annual entitlement, and calculated using current pay rates at the time of creation.

Superannuation Schemes

Defined contribution schemes

Obligations for contributions to Kiwisaver are accounted for as defined contribution superannuation scheme and is recognised as an expense in the forecast statement of comprehensive income.

Provisions

The Classification Office recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Goods and services tax (GST)

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 GST is not recoverable as input tax then it is recognised 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 payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income Tax

The Classification Office is exempt from the payment of income tax in terms of the First Schedule to the Films, Videos, and Publications Classification Act 1993.

Cost of service statements

The Resources Employed statements, as reported in the statement of service performance, report the net cost of services for the outputs of the Classification Office and are represented by the costs of providing the output less all the revenue that can be allocated to these activities.

Cost Allocation: The Classification Office has derived the net cost of service for each significant activity of the Office using the cost allocation system outlined below.

Definition of Terms: Direct costs are those costs which are directly attributable to an output. Indirect costs are all other costs that cannot be identified with an output in an economically feasible manner. These costs include financial and administration costs, property costs, depreciation and computing costs.

Method of Assigning Costs to Outputs: Direct costs that can be readily identified with a single output are assigned directly to that output class. For example, personnel costs are charged on the basis of actual time incurred.

Indirect costs are allocated to outputs based on a mix of salary costs, floor space, staff numbers and time spent on each output.

Commitments

Future payments are disclosed as commitments at the point when a contractual obligation arises, to the extent that they are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

Contingent Liabilities

Future payments are disclosed as commitments at the point when a contractual obligation arises, to the extent that they are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

PROSPECTIVE FINANCIAL INFORMATION

Statement of Comprehensive Income - Consolidated

For the Four Years Ending 30 June 2013

In New Zealand Dollars

ALL OUTPUTS	Year 1 2009/10 \$	Year 2 2010/11 \$	Year 3 2011/12 \$	Year 4 2012/13 \$
Income				
Crown Revenue	1,960,000	1,960,000	1,960,000	1,960,000
Third Party Revenue	1,305,812	1,379,429	1,379,429	1,379,429
Sundry	2,400	1,200	1,200	1,200
Interest	90,000	79,200	79,200	79,200
Total Income	3,358,212	3,419,829	3,419,829	3,419,829
Expenditure				
Personnel	2,344,294	2,302,520	2,302,520	2,302,520
Operating	1,070,362	1,077,051	1,077,051	1,116,423
Depreciation	348,000	366,000	350,000	350,000
Total Expenditure	3,762,656	3,745,571	3,729,571	3,768,943
Nett Profit/(Loss)	(404,444)	(325,743)	(309,743)	(349,115)
Attributable to:				
Equity holders	(404,444)	(325,743)	(309,743)	(349,115)
Nett Profit/(Loss)	(404,444)	(325,743)	(309,743)	(349,115)

Note 1: All financial information is GST exclusive unless otherwise stated.

Note 2: The financial information does not include any allowance in 2010/11 or out years for inflation and reflects a steady approach to expenses (excluding Depreciation and Rent).

PROSPECTIVE FINANCIAL INFORMATION

Statement of Comprehensive Income - Classification Services

For the Four Years Ending 30 June 2013

In New Zealand Dollars

	Year 1	Year 2	Year 3	Year 4
	2009/10	2010/11	2011/12	2012/13
	\$	\$	\$	\$
Income				
Crown Revenue	1,255,301	1,176,647	1,179,451	1,168,258
Third Party Revenue	1,305,812	1,379,429	1,379,429	1,379,429
Sundry	2,400	1,200	1,200	1,200
Interest	90,000	79,200	79,200	79,200
Total Income	2,653,513	2,636,476	2,639,280	2,628,087
Expenditure				
Personnel	1,975,967	1,889,490	1,889,490	1,889,490
Operating	781,442	770,866	770,866	799,045
Depreciation	300,547	301,863	288,667	288,667
Total Expenditure	3,057,957	2,962,219	2,949,022	2,977,202
Nett Profit/(Loss)	(404,444)	(325,743)	(309,743)	(349,115)
Attributable to:				
Equity holders	(404,444)	(325,743)	(309,743)	(349,115)
Nett Profit/(Loss)	(404,444)	(325,743)	(309,743)	(349,115)

PROSPECTIVE FINANCIAL INFORMATION

Statement of Comprehensive Income - Information Services

For the Four Years Ending 30 June 2013

In New Zealand Dollars

	Year 1 2009/10 \$	Year 2 2010/11 \$	Year 3 2011/12 \$	Year 4 2012/13 \$
Income				
Crown Revenue	704,699	783,353	780,549	791,742
Third Party Revenue	0	0	0	0
Sundry	0	0	0	0
Total Income	704,699	783,353	780,549	791,742
Expenditure				
Personnel	368,326	413,030	413,030	413,030
Operating	288,920	306,185	306,185	317,378
Depreciation	47,453	64,137	61,333	61,333
Total Expenditure	704,699	783,353	780,549	791,742
Nett Profit/(Loss)	0	0	0	0
Attributable to:				
Equity holders	0	0	0	0
Nett Profit/(Loss)	0	0	0	0

PROSPECTIVE FINANCIAL INFORMATION

Balance Sheet

As At 30 June

In New Zealand Dollars

	Year 1 2009/10 \$	Year 2 2010/11 \$	Year 3 2011/12 \$	Year 4 2012/13 \$
Non-Current Assets				
Property, Plant and Equipment	295,972	269,095	258,472	251,539
Intangible Assets	1,430,372	1,184,349	965,972	745,405
Total Non-Current Assets	1,726,344	1,453,444	1,224,444	996,944
Current Assets				
Cash and Bank Balances	1,571,143	65,167	84,386	66,034
Investments	0	1,450,000	1,350,000	1,250,000
Debtors, Receivables, Prepayments	158,590	165,379	165,379	165,379
GST Refund	0	0	0	0
Total Current Assets	1,729,733	1,680,546	1,599,765	1,481,413
Total Assets	3,456,077	3,133,990	2,824,209	2,478,357
Equity				
Establishment Fund	1,743,877	1,743,877	1,743,877	1,743,877
Revaluation Reserve	63,591	63,591	63,591	63,591
Retained Earnings	1,151,688	825,945	516,203	167,088
Total Equity	2,959,156	2,633,413	2,323,671	1,974,556
Liabilities				
Accrued Leave/ACC	282,881	282,881	282,881	282,881
Creditors	100,346	100,974	100,974	104,665
Fees Received in Advance	92,333	92,333	92,333	92,333
GST Payable	21,361	24,389	24,351	23,922
Total Current Liabilities	496,921	500,577	500,539	503,801
Total Equity and Liabilities	3,456,077	3,133,990	2,824,209	2,478,357

Note 1: 2008/09 Actual closing position is used as the starting point for these projections.

Note 2: Some cash held is earmarked for asset replacement over time.

PROSPECTIVE FINANCIAL INFORMATION

Statement of Movements in Tax Payers' Funds

For the Four Years Ending 30 June 2013

In New Zealand Dollars

	Year 1 2009/10 \$	Year 2 2010/11 \$	Year 3 2011/12 \$	Year 4 2012/13 \$
Tax Payers' Funds as at 1 July	3,363,600	2,959,156	2,633,413	2,323,671
Surplus/(Deficit) and Revaluations				
Surplus/(Deficit)	(404,444)	(325,743)	(309,743)	(349,115)
Increase in Revaluation Reserve	-	-	-	-
Total Recognised Revenues and Expenses	(404,444)	(325,743)	(309,743)	(349,115)
Other Movements				
Capital Contribution	-	-	-	-
Total Other Movements	-	-	-	-
Equity at End of Year	2,959,156	2,633,413	2,323,671	1,974,556

PROSPECTIVE FINANCIAL INFORMATION

Statement of Cash Flows

For the Four Years Ending 30 June 2013

In New Zealand Dollars

	Year 1 2009/10 \$	Year 2 2010/11 \$	Year 3 2011/12 \$	Year 4 2012/13 \$
Cash Flow from Operating Activities				
<i>Cash was provided from:</i>				
Supply of outputs to Crown	1,960,000	1,960,000	1,960,000	1,960,000
Supply of outputs to Third Parties	1,309,697	1,374,594	1,380,629	1,380,629
Interest Received	90,000	79,200	79,200	79,200
Goods and Services Tax Received	408,712	416,824	417,579	417,579
	<u>3,768,409</u>	<u>3,830,618</u>	<u>3,837,407</u>	<u>3,837,407</u>
<i>Cash was disbursed to:</i>				
Cost of producing outputs	3,395,029	3,379,014	3,379,571	3,415,662
Goods and Services Tax Paid	387,183	414,480	417,617	417,597
Net Cash Flow from Operating Activities	<u>(13,803)</u>	<u>37,124</u>	<u>40,219</u>	<u>4,147</u>
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Sale of fixed assets	-	-	-	-
<i>Cash was disbursed to:</i>				
Purchase of fixed assets	167,000	93,100	121,000	122,500
Net Cash Flow from Investing Activities	<u>(167,000)</u>	<u>(93,100)</u>	<u>(121,000)</u>	<u>(121,500)</u>
Cash Flows from Financing Activities				
<i>Cash was provided from:</i>				
Capital contribution from the Crown	-	-	-	-
Net Cash Flow from Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase/(Decrease) in Cash Held	(180,803)	(55,976)	(80,781)	(118,353)
Cash Balance at 1 July	1,751,946	1,571,143	1,515,167	1,434,386
Cash balance (overdraft) at 30 June	<u>1,571,143</u>	<u>1,515,167</u>	<u>1,434,386</u>	<u>1,316,034</u>

PROSPECTIVE FINANCIAL INFORMATION

Reconciliation of Net Cash Flows from Operating Activities

For the Four Years Ending 30 June 2013

In New Zealand Dollars

	Year 1	Year 2	Year 3	Year 4
	2009/10	2010/11	2011/12	2012/13
	\$	\$	\$	\$
Operating Profit/(Loss)	(404,444)	(325,743)	(309,743)	(349,115)
Add/(Less) Non Cash Items				
Depreciation	348,000	366,000	350,000	350,000
	(56,444)	40,257	40,257	885
Add/(Less) Movements in Working Capital				
Decrease/(Increase) in accounts receivable	1,671	(6,789)	-	-
Decrease/(Increase) in GST	18,890	3,029	(38)	(429)
(Decrease)/Increase in creditors and payables	22,080	627	-	3,691
	42,641	(3,133)	(38)	3,262
Net Cash Flow From Operating Activities	(13,803)	37,124	40,219	4,148

CAPITAL EXPENDITURE SUMMARY

For the period 2005/06 to 2010/11

In New Zealand Dollars

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Actual	Actual	Actual	Actual	Budget	Budget
	\$	\$	\$	\$	\$	\$
Property, Plant & Equipment						
Fitout	36,496	22,912	6,642	0	10,000	10,000
Furniture and Fittings	13,318	40,327	3,063	1,262	12,000	7,100
Computer Hardware	43,841	50,385	101,953	70,694	28,000	26,500
Office Equipment	0	12,229	5,797	2,976	2,500	5,000
Other Equipment	755	3,786	1,500	345	1,000	1,500
Vehicles	0	0	0	0	23,000	0
Technical Equipment	4,263	934	1,588	9,462	10,500	8,000
Total Property, Plant & Equipment	98,673	130,573	120,543	84,739	87,000	58,100
Intangible Assets						
Computer Software	3,634	343,984	844,875	545,316	80,000	35,000
Total	102,307	474,557	965,418	630,055	167,000	93,100

GLOSSARY

Submissions Channels - Third Party	
Section 12(1)	Submission channel where the Labelling Body is not permitted to assign a rating
Section 12 (3)	Submission channel where the Labelling Body is having difficulty in assigning a rating
Section 13(1)(c)	Submission channel for any other person subject to the Chief Censor's discretion
Section 42	Application channel for persons seeking reconsideration of classifications
Regulation 27(3)	Application channel for persons seeking poster approvals
Regulation 27(4)	Application channel for persons seeking poster approvals where the Labelling Body has declined to approve

Submission Channels - Crown	
Section 13(1)(a)	Submission channel for the Comptroller of Customs
Section 13(1)(ab)	Submission channel for the Commissioner of Police
Section 13(1)(b)	Submission channel for the Secretary of Internal Affairs
Section 13(3)	Chief Censor's Own Motion to either the Comptroller of Customs or the Secretary of Internal Affairs to submit publications for classification
Section 29(1)	Referral from the Courts
Section 41(3)	Court referral for reconsideration of a classification brought at the instigation of the defendant

s21 Consultation	In examining a publication the Classification Office may show a publication to any person who may be able to assist the Office in forming an opinion of the publication.
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Timeliness Measures	
Standard Publications	A publication for which the Classification Office does not offer excisions is categorised as 'Standard'.
Complex Publications	A publication for which the Classification Office offers excisions is categorised as 'Complex'. The submitter may choose to accept or refuse the excision/s offered.
Timeliness Parameters	The number of working days between the receipt of a publication and the date the decision is despatched, being the combined queue and processing time.

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