



OFFICE OF FILM  
& LITERATURE CLASSIFICATION  
*Te Tari Whakarōpū Tukuata, Tubitubinga*

STATEMENT OF  
PERFORMANCE  
EXPECTATIONS

2019/20

# Statement of Performance Expectations of the OFFICE OF FILM & LITERATURE CLASSIFICATION *TE TARI WHAKARŌPŪ TUKUATA, TUHITUHINGA*



This work is licensed under the Creative Commons Attribution 3.0 New Zealand licence. In general, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Office of Film and Literature Classification and abide by the other license terms.

To view a copy of this license, please visit <http://creativecommons.org/licenses/by/3.0/>. Please note that the Office of Film and Literature Classification may not be used in any way that infringes any provision of the Flags, Emblems, and Names Protection Act 1981. Attribution to the Office of Film and Literature Classification should be in written form and not by reproduction of any such emblem or logo.

# CONTENTS

<b>Statement of Board Responsibility .....</b>	<b>4</b>
<b>Output Class: Classification of Films, Videos and Publications.....</b>	<b>5</b>
Activity 1 - Production of Classification Decisions	
Activity 2 - Dissemination of Information	
Activity 3 - Inquiries and Complaints	
Activity 4 - Research	
<b>Reporting to the Minister .....</b>	<b>9</b>
<b>Discussion of Financial Information .....</b>	<b>11</b>
<b>Forecast Financial Statements .....</b>	<b>13</b>
<b>Statement of Significant Assumptions .....</b>	<b>17</b>
<b>Glossary .....</b>	<b>22</b>
<b>Figures</b>	
1. Purpose, Impacts and Outputs	pg 4
2. Performance Framework	pg 21

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

## STATEMENT OF BOARD RESPONSIBILITY

The Statement of Performance Expectations for the Office of Film & Literature Classification presented in this report for the year ending 30 June 2020 has been prepared in accordance with section 38 of the Public Finance Act 1989 and the Crown Entities Act 2004.

This Statement is to be read in conjunction with the Classification Office's 2017-2021 Statement of Intent, which outlines the Office's longer-term strategic focus and operating environment. The Outcome Framework figure on page 21 shows the alignment of the Office's activities and intended outcomes.

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



D E Shanks  
*Chairperson*



J S Mullen  
*Deputy Chairperson*

*On behalf of the Board of the Office of Film & Literature Classification*

*DATED: 30 JUNE 2019*

## OUTPUT CLASS: Classification of Films, Videos and Publications

The functions and powers of the Classification Office and its accountabilities are set out in the Films, Videos, and Publications Classification Act 1993 and the Crown Entities Act 2004.

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 (M41).

### Scope of Appropriation 2019/20

*“The examination and classification of films, videos and publications by the Office of Film and Literature Classification under the Films, Videos, and Publications Classification Act 1993.”*

The Classification Office is an independent Crown Entity under the Crown Entities Act 2004. The Minister is accountable for the financial and non-financial performance of the Office and oversees the Crown’s interests in the Office. The Minister’s role in relation to the Office is set out in the Cabinet Office Manual and s27 of the Crown Entities Act 2004.

In addition to the Office’s funding under Vote: Internal Affairs, the Classification Office is funded by:

- third party revenue derived from fees and charges, including commercial applicants and members of the public lodging applications; and
- interest revenue earned on funds held by the Office.

## Revenue and Proposed Expenses 2019/20

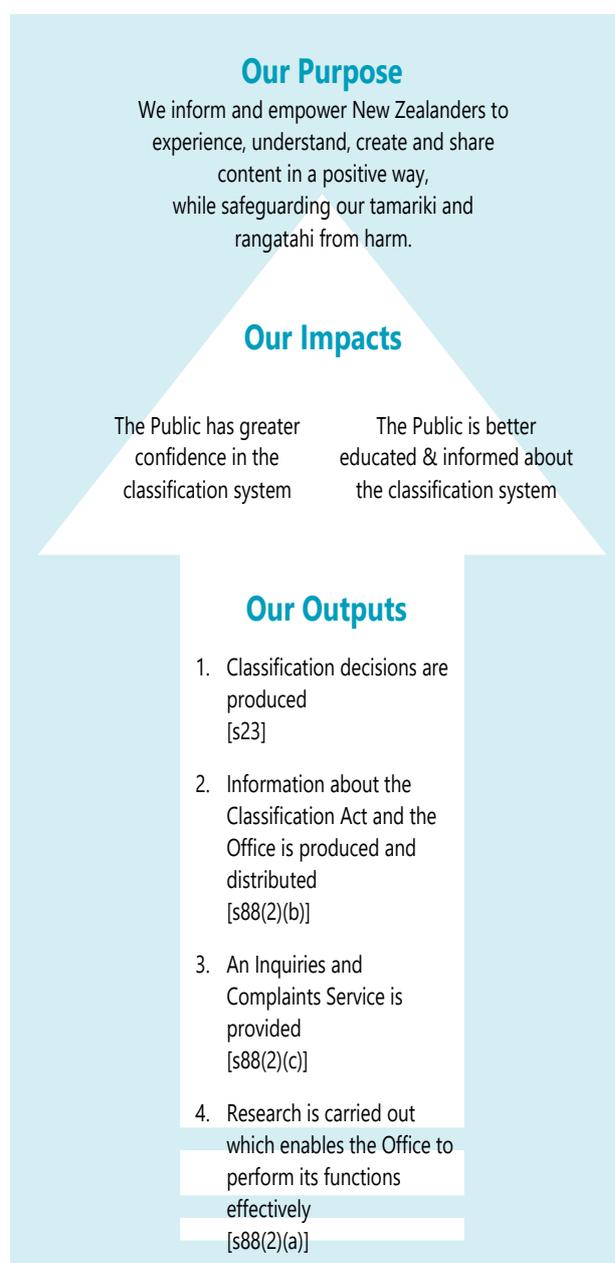
	Ex GST \$'000
Crown Appropriation	2,752
Third Party Revenue	595
Interest Revenue	22
<b>Total Revenue</b>	<b>3,342</b>
Expenses	3,353
<b>Expected Surplus/(Deficit)</b>	<b>(11)</b>

## Payments of Crown Appropriation

The total amount paid by the Crown for the provision of outputs in 2019/20 is \$2.752m (GST exclusive).

Payments are made on an annual basis within 20 working days of the commencement of the year.

Figure 1: Outcome Structure



# HOW WE WILL ASSESS OUR PERFORMANCE

## OUTPUT 1 - PRODUCTION OF CLASSIFICATION DECISIONS

### Description

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

### How this will be assessed

1.1 QUANTITY <sup>1</sup>		Targets
1.1.1	Third Party Number of publications classified.	896 - 1,270 per year
1.1.2	Crown Number of publications classified.	355 - 754 per year
1.1.3	Registrations Number of classification decisions registered.	1,251 - 2,024 per year
1.2 QUALITY		Targets
1.2.1	Classification decisions are consistent with the standards set down in the Practice Manual.	95%
1.2.2	Classification decisions (a) are soundly reasoned (b) are written in a style which is accessible to a range of readers.	A sample of classification decisions is externally reviewed, and 75% rank decisions as acceptable, good or very good on a 5-point scale in terms of how well the reader both understands the reasoning of the decision and supports the classification decision.
1.3 TIMELINESS <sup>2</sup>		Targets
1.3.1	Standard s12 & s42 Percentage of Standard s12 and s42 submissions which are classified within 30 working days of receipt.	90%
1.3.2	Complex s12 & s42 Percentage of Complex s12 and s42 submissions which are classified within 35 working days of receipt.	70%
1.3.3	s13 Percentage of s13 submissions which are classified within 55 working days of receipt, where statutory obligations enable this.	70%

1. This is a demand driven activity.
2. Timeliness and Quality targets are set at the minimum levels which are acceptable to the Office. Therefore actual results are expected to be higher than the target.

## OUTPUT 2 – 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.

### How this will be assessed

2.1 Development of Web Presence		Targets
2.1.1	QUANTITY Number of visits to the Classification Office websites (average per day).	250
2.1.2	QUALITY Website regularly updated with Editor and Moderator approved content.	<ul style="list-style-type: none"> <li>• New content added every month</li> <li>• 12-36 items each year</li> </ul>
2.2 Public Engagement		Targets
2.2.1	QUANTITY Number of public engagement activities.	25 - 35 each year
2.2.2	QUALITY Responses to Client Satisfaction surveys ‘Very Good’ or better.	80%

## OUTPUT 3 – INQUIRIES AND COMPLAINTS

### Description

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

### How this will be assessed

3. Inquiries and Complaints		Targets
3.1	QUANTITY <sup>1</sup> Inquiries and Complaints answered.	600 - 800 each year
3.2	QUALITY Responses to ‘request for feedback’ on inquiries and complaints service are ‘Satisfied with service’.	80%
3.3	TIMELINESS Inquiries and Complaints responded to promptly within 5 working days within 20 working days.	80% 100%

1. This is a demand driven activity

## OUTPUT 4 - 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 will be assessed*

4. Research		Targets
4.1	<p><b>QUANTITY</b>                      Research projects per year</p>	1
4.2	<p><b>QUALITY</b>                      Published research helps inform the wider public about censorship issues.</p>	Research reports make up at least 10% of resources downloaded.
4.3	<p><b>TIMELINESS</b>                      Research findings are published within 1 month of report being finalised.</p>	100%

# REPORTING TO THE MINISTER

## Quarterly Reports

The Classification Office provides the Minister with four quarterly reports relating to the quarters ending September, December, March and June each year. These reports are provided within six weeks of the quarter end and a copy is provided to the Department of Internal Affairs and Audit New Zealand.

For 2019/20 the quarterly reports are due:

Quarter	Report provided to the Minister by:
Qtr 1: 1 July - 30 September	11 November 2019
Qtr 2: 1 October - 31 December	11 February 2020
Qtr 3: 1 January - 31 March	12 May 2020
Qtr 4: 1 April - 30 June	11 August 2020

The quarterly reports contain information about matters set out in the Statement of Intent and the Statement of Performance Expectations. These reports cover service and financial performance and are based upon unaudited internal management information, including:

- the environment and the Office's capability to meet its challenges;
- the Office's performance in each quarter measured against standards set out in the Statement of Performance Expectations;
- explanations of significant variances and any action proposed to correct them and the factors driving them; and
- a summary of key events, significant activities or risks over the period, with particular emphasis on events or activities that occurred that were unforeseen, unusual and/or likely to:
  - have a major impact on the ability of the Classification Office to satisfy its obligations under the Classification Act; or
  - affect the current financial year viability of the Classification Office; or
  - lead to a financial surplus or deficit for the financial year, unless forecast.

## Consultation between the Office and the Minister

The Classification Office ensures the Minister is kept informed in a timely manner on all significant matters for which the Classification Office has responsibility. The Classification Office acknowledges the importance of keeping the Minister informed of the Classification Office's activities, for purposes of financial and non-financial accountability, service performance and the Minister being briefed on important matters in the public interest relating to censorship.

The Minister acknowledges the importance of keeping the Classification Office informed in a timely manner of any matter of significance to the Classification Office or that could affect the performance of the Classification Office's functions.

The Office and the Minister have agreed that the main priorities for 2019/20, as set out in the Minister's 2019/20 Letter of Expectations, are:

- *Stewardship*  
Continue the clarification exercise around roles, responsibilities and statutory decision-making frameworks within the Office.
- *Strategic Direction*  
Contribute, as appropriate, to the work the Department of Internal Affairs is leading to reform

the media content regulatory regime and the review of fees payable under the Films, Videos, Publications and Classification Act 1993.

- *Financial Management*  
Closely monitor the Office's financial performance, at all times.
- *Service delivery*  
Ensure that regulatory practices, operating policies and processes reflect the current environment and best practice.

Continue public education initiatives and research to inform classification decisions and the prevention of harm from media content.

Continue, as resources allow and consistent with OFLC's overall role, to collaborate with other agencies and participate in the cross-government work resulting from the Christchurch terrorist attacks.

# DISCUSSION OF FINANCIAL INFORMATION

## Overview

Following a one-off increase in the Office's baseline funding for 2019/20 the Office is forecasting an operating deficit of just \$11K. This is a significant improvement on the 2018/19 position and reflects a conservative approach to forecasting in a volatile environment. However significant levels of deficit remain forecast for out years. The Office is projecting a positive cash flow from operating activities for 2019/20, returning to a negative cash flow in 2020/21. We currently have sufficient working capital, made up of funds set aside for asset replacement, to fund this in the short term. However equity is forecast to be fully eroded during 2021/22.

In May 2019 the Minister of Internal Affairs the Hon. Tracey Martin opened consultation on options for classifying content on Commercial Video on-Demand (CVoD) services such as Netflix and Lightbox. The Office welcomes the opportunity for positive change to resolve the current situation, where streaming video-on-demand providers operate in New Zealand without any recognised regulatory oversight.

In the interim, we continue to work with local and international distributors of online material to encourage and assist them to provide the New Zealand public with the information they need and we are working with the Department of Internal Affairs to put in place a sustainable solution to the funding shortfall in out years.

## Revenue

### Crown Revenue

The Classification Office is funded by the Crown and by classification fees paid by the private sector. Crown funding was set in 1998 at \$1,960K per annum and remains at this level for out years. However additional funding of \$765K has been approved for 2019/20 in order to address cost pressures faced by the Office.

### Third Party Revenue

Fees for classification are set in regulation (Films, Videos, and Publications Classification (Fees) Regulations 1994) which was last updated in 1996.

Third party revenue forecasts are driven by the expected volume of third party submissions. The leave of the Chief Censor is not required for the bulk of submissions

and while classification is compulsory for films, DVDs, and electronic games that contain content that may be restricted, streaming video-on-demand content is not currently covered by the classification system.

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 and distributors 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 processed by the Office. The Office expects to meet demand and allocates resources to enable this.

Forecast volumes have been adjusted to reflect the continuing contraction of the DVD market, which is partially offset by a stable slow growth in cinematic releases and a strong games industry. Correspondingly the Office is forecasting a reduction in third party revenue in 2019/20 and further reduction in out years. The Office is expecting an increase in submissions from members of the public in this time of heightened awareness and concern about terrorist and extremist material available and following the high profile classification decisions related to the Christchurch terrorist attack. While such submissions from members of the public tend to require significant resources to process, the fee for non-commercial submissions is just \$25.50, so have very little bearing on forecast revenue.

### Interest Revenue

As of 2018/19 the Department of Internal Affairs moved away from a quarterly funding schedule, replacing this with an annual lump sum payment. This has enabled the Office to forecast relatively stable interest revenue despite the deteriorating financial position.

## Expenditure

### Allocation of Additional Funding for 2019/20

The Office will receive funding of \$765K in 2019/20, in addition to baseline funding of \$1,960K. These additional funds have been provided to address cost pressures faced by the Office. As such these funds will be used to support the Office's statutory obligations and to support sector change.

The primary statutory obligation is to bring the Office back into a positive cash flow position and reverse the deterioration of cash reserves caused by ongoing deficits.

This is expected to account for \$338K (44%) of the additional funding.

Secondly the Office is preparing for sector changes which may result from the current review of the regulatory regime. The shape of this remains to be determined following the recent public consultation. It is expected that this will require operating and personnel expenditure as well as increased capital expenditure. We have allocated \$150K across our operating budget in this area, together with at least an additional \$100K from our capital budget. In addition this project will require the allocation of staff to resource education, industry engagement, communications and international linkages.

Additional statutory obligations which have been allocated additional funds are the Office's research programme and increases to staffing levels and contracted resources. This staffing resource will support both the Office's service performance activities as well as activities which are likely to result from sector changes.

### Personnel

Personnel expenditure consistently makes up approximately 60% of the Office's total expenditure. Expenditure on staffing has been budgeted to increase in 2019/20 by the equivalent of 1.5 FTE positions in comparison to 2018/19. As discussed above, this resource will support both business as usual activities and additional work which is likely to result from changes to the regulatory regime. Personnel expenditure reduces by one position in out years due to budget constraints. At this level the Office is unlikely to be able to maintain current service performance levels.

Due to the current financial position the Office has not budgeted for any general salary increases or salary movement for out years. Any such increases are funded from reduced expenditure in other areas.

### Operating

The operating budget has increased in 2019/20 by 31% in comparison to the 2018/19 budget. This increase, as discussed above, is principally driven by increased expenditure required to meet our statutory obligations and changes which will be required in 2019/20 to respond to sector changes. In addition there are ongoing increased costs for accommodation rental, travel and IT support.

Rental costs will be increasing due to the expiry of the Office's 6 year lease, which is due for renewal in 2020. Travel expenditure has increased over the last two years and is expected to remain at this higher level due to the increasing demands of public engagement as well as activities supporting the Office's 2019/20 research

programme. Similarly the budget for IT support has been increased to align with actual expenditure over prior years. An increase in the Office's risk profile has also resulted in additional expenditure on security from March 2019, and these costs will be ongoing.

The Office conducts a line by line review each year to identify where savings are possible and ensures the best allocation of resources to deliver on our outputs.

### Capital Expenditure and Depreciation

Over \$900K of capital funds which had been set aside for asset replacement have been used to fund the deficit of prior years. This limits the Office's ability to invest in, and replace, capital assets.

The additional funding received in 2019/20 has resulted in a significantly improved deficit position which has enabled the Office to increase its investment in the development of tools to support self-classification of commercial video on-demand content. This expenditure impacts on the depreciation charge which is forecast to increase by 23% in 2019/20 and out years. However other major components of the Office's depreciation charge are the fit-out on the Office's premises and the Classification Database Application (CDA) which are due to be fully depreciated in 2019/20 and 2020/21 respectively. This will generate annual savings of \$160k on depreciation, which will fully offset the depreciation on the new tools being developed.

While not an issue in 2019/20, there is also an accumulating gap between the required levels of depreciation and expenditure necessary for asset replacement for the period of this report. The Office typically spends between \$50K- \$130K per year on property, plant, equipment and intangible assets, however the annual depreciation expense is in the region of \$250K, which contributes to the Office's deficit position.

The CDA is the core system of the Office's classification function and was developed and deployed in 2008/09. It has retained its value to the Office and capital was invested in 2018/19 to ensure the CDA remains compatible with our wider IT environment. As discussed earlier the use of capital funds to fund the ongoing deficit limits the Office's ability to replace the CDA when this becomes necessary.

The forecast financial information has been prepared as a best efforts indication of the Classification Office's future financial performance. Actual financial results for the period covered are likely to vary from the information presented, potentially in a material manner.

# FORECAST FINANCIAL INFORMATION

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

In New Zealand Dollars

	Prior Year 2018/19 \$'000	Year 1 2019/20 \$'000	Year 2 2020/21 \$'000	Year 3 2021/22 \$'000
<b>REVENUE</b>				
Crown Revenue	1,960	2,725	1,960	1,960
Third Party Revenue	625	595	552	509
<b>Sundry Revenue</b>	0	0	0	0
Interest Revenue	16	22	31	22
<b>Total Revenue</b>	2,601	3,342	2,543	2,491
<b>LESS EXPENSE</b>				
Personnel	1,773	1,933	1,816	1,816
Operating	864	1,135	921	921
Depreciation	232	285	240	105
<b>Total Expenditure</b>	2,869	3,353	2,977	2,842
<b>Net Operating Surplus/(Deficit)</b>	(268)	(11)	(434)	(351)
<b>Attributable to:</b>				
Equity holders	(268)	(11)	(434)	(351)
<b>Net Profit/(Loss)</b>	(268)	(11)	(434)	(351)

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

**Note 2:** The above financial information does not include any allowance in 2019/20 or out years for inflation.

# FORECAST FINANCIAL INFORMATION

## STATEMENT OF FINANCIAL POSITION

As at 30 June

In New Zealand Dollars

	Prior Year 2018/19 \$'000	Year 1 2019/20 \$'000	Year 2 2020/21 \$'000	Year 3 2021/22 \$'000
<b>CURRENT ASSETS</b>				
Cash & Cash Equivalents	368	570	279	(38)
Investments	0	0	0	0
Debtors & Other Receivables	86	83	79	75
GST Refund	0	0	0	0
<b>Total Current Assets</b>	454	653	358	37
CURRENT LIABILITIES				
Employee Entitlements	174	175	175	175
Creditors	83	109	88	88
Fees Received in Advance	15	15	15	15
GST Refund	21	28	21	20
<b>Total Current Liabilities</b>	293	327	299	298
<b>Net Current Assets</b>	161	326	59	(261)
NON-CURRENT ASSETS				
Property, Plant & Equipment	142	115	125	138
Intangible Assets	409	260	83	39
<b>Total Non-Current Assets</b>	551	375	208	177
<b>Net Assets</b>	712	701	267	(84)
<i>Represented by:</i>				
EQUITY				
Closing Equity	712	701	267	(84)
<b>TOTAL EQUITY</b>	712	701	267	(84)

**Note 1:** 2017/18 Actual closing position is used as the opening positive of the forecasted statements.

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

## FORECAST FINANCIAL INFORMATION STATEMENT OF CHANGES IN EQUITY

In New Zealand Dollars

	Prior Year 2018/19 \$'000	Year 1 2019/20 \$'000	Year 2 2020/21 \$'000	Year 3 2021/22 \$'000
<b>Opening Equity</b>	980	<b>712</b>	701	267
<b>Net Surplus/(Deficit) and Revaluations</b> Surplus/(Deficit)	(268)	<b>(11)</b>	(434)	(351)
<b>Comprehensive Income for Period</b>	(268)	<b>(11)</b>	(434)	(351)
<b>Closing Equity</b>	712	<b>701</b>	267	(84)

## FORECAST FINANCIAL INFORMATION

### STATEMENT OF CASH FLOWS

In New Zealand Dollars

	Prior Year 2018/19 \$'000	Year 1 2019/20 \$'000	Year 2 2020/21 \$'000	Year 3 2021/22 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<i>Cash was provided from:</i>				
Crown Revenue	1,960	<b>2,725</b>	1,960	1,960
Receipts from Customers	619	<b>597</b>	556	513
Interest Received	16	<b>22</b>	31	22
Net Goods & Services Tax Received	387	<b>498</b>	377	371
	2,982	<b>3,842</b>	2,924	2,866
<i>Cash was disbursed to:</i>				
Payment to Suppliers & Employees	2,666	<b>3,045</b>	2,755	2,737
Net Goods & Services Tax Paid	387	<b>487</b>	386	371
<b>Net Cash Flow from Operating Activities</b>	(71)	<b>310</b>	(217)	(242)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<i>Cash was provided from:</i>				
Sale of Property, Plant & Equipment	0	<b>0</b>	0	0
Sale of Investments	0	<b>0</b>	0	0
	0	<b>0</b>	0	0
<i>Cash was distributed to:</i>				
Purchase of Property, Plant & Equipment	51	<b>80</b>	60	60
Purchase of Intangibles	133	<b>28</b>	14	14
Acquisition of Investments	0	<b>0</b>	0	0
<b>Net Cash Flow from Investing Activities</b>	(184)	<b>(108)</b>	(74)	(74)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Net Cash Flow from Financing Activities</b>	0	<b>0</b>	0	
Net Increase/(Decrease) in Cash Held	(255)	<b>202</b>	(291)	(316)
Cash Balance at 1 July	623	<b>368</b>	570	279
<b>Cash balance (overdraft) at 30 June</b>	368	<b>570</b>	279	(37)

# STATEMENT OF SIGNIFICANT ASSUMPTIONS

## 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 that of making a financial return.

Accordingly, the Classification Office has designated itself as a public benefit entity (PBE) for financial reporting purposes.

## Key Judgements and Assumptions

The preparation of financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue 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.

The Classification Office does not intend to update these prospective financial statements subsequent to presentation.

## 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 Classification Office is a public sector Public Benefit Entity

and has elected to prepare these Financial Statements in accordance with Tier 2 PBE Standards with Reduced Disclosure Requirements applicable to public sector entities, as it does not have public accountability and is not large. The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

### 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 and all values are rounded to the nearest thousand 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

Revenue is measured at the fair value of consideration received or receivable.

### 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 meeting its objectives as specified in the Statement of Performance Expectations.

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

### Interest

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

### 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 Comprehensive Revenue and Expenses.

#### 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 Comprehensive Revenue and Expenses. 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 Revenue and Expenses.

#### 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	6 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 to 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 development and maintenance of the Classification Office's websites 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 Comprehensive Revenue and Expenses.

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

- Software 3 - 4 years
- Classification Database 12 years

### Impairment

Property, plant and equipment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Value in use is depreciated replacement costs for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's 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.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. 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 Comprehensive Revenue and Expenses.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the Statement of Comprehensive Revenue and Expenses.

### 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 are recognised as an expense in the forecast Statement of Comprehensive Revenue and Expenses as incurred.

### Provisions

The Classification Office recognises a provision for future expenditure of uncertain amount or timing where 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 under the First Schedule to the Films, Videos, and Publications Classification Act 1993.

#### 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

Contingent liabilities are disclosed at the point at which the contingency is evident.

Figure 2: Performance Framework

Our Purpose	This will happen when...	Measured by...	Activities	Targets (2019/20)
<p><b>We inform and empower New Zealanders to experience, understand, create and share content in a positive way, while safeguarding our tamariki and rangatahi from harm.</b></p> <p><i>Indicator: Percentage of people who say they feel that they, and their children, are safe in their homes and neighbourhoods. (Source: Quality of Life survey)</i></p>	<p>A. Public has greater confidence in the classification system</p>	<p>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 (Source: OFLC Data)</p>	<p>1. Classification Decisions are produced [s23]</p>	<p><i>Quantity</i> Number of Publications Classified Third Party: 896 - 1,270 per annum Crown: 355 - 754 per annum 1,254 - 2,024 per annum</p> <p><i>Timeliness</i> Number of Decisions Registered 90% within 30 working days 70% within 35 working days 70% within 55 working days</p> <p><i>Quality</i> Classification decisions are consistent with set standards (as documented in the Classification Office Practice Manual) 95%</p> <p>Classification decisions: (a) are soundly reasoned (b) are written in a style which is accessible to a range of readers</p> <p>A sample of classification decisions are externally reviewed, and 75% rank decisions as acceptable, good or very good on a 5-point scale in terms of how well the reader both understands the reasoning of the decision and supports the classification decision.</p>
	<p>B. Public is better educated and informed about the classification system</p>	<p>An increasing proportion of those surveyed indicate that they use classification information when making viewing choices for children. (Source: OFLC Data)</p>	<p>2. Information about the Classification Act and the Office is produced and distributed [s88(2)(b)]</p>	<p><b>Development of a Quality Web Presence</b></p> <p><i>Quantity</i> Number of visits to Classification Office websites Average of visits: 250 per day</p> <p><i>Quality</i> Website regularly updated with Editor and Moderator approved content New content is added every month. 12-36 items per annum.</p> <p><b>Public Engagement</b></p> <p><i>Quantity</i> Number of public engagement activities 25-35 per annum</p> <p><i>Quality</i> Responses to Client Satisfaction surveys 80% 'Very Good' or better</p>
			<p>3. An Inquiries and Complaints Service is provided [s88(2)(c)]</p>	<p><i>Quantity</i> Inquiries and Complaints answered 600 - 800 per annum</p> <p><i>Quality</i> Responses to 'request for feedback' on inquiries and complaints service are satisfied with service 80%</p> <p><i>Timeliness</i> Inquiries and Complaints responded to promptly 80% within 5 working days 100% within 20 working days</p>
			<p>4. Research is carried out which enables the Office to perform its functions effectively [s88(2)(a)]</p>	<p><i>Quantity</i> Research project 1 per year</p> <p><i>Quality</i> Published research helps inform the wider public about censorship issues Research Reports make up more than 10% of resources downloaded from the OFLC Website</p> <p><i>Timeliness</i> Research findings are published 100% within 1 month of report being finalised</p>

## GLOSSARY

Section references are for the Films, Videos, and Publications Classification Act 1993.

Regulation references are the Films, Videos, and Publications Classification Regulations 1994.

### SUBMISSION 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

### CONSULTATION

Section 21	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.
------------	--

### 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.



OFFICE OF FILM AND LITERATURE CLASSIFICATION

PO Box 1999, WELLINGTON

[WWW.CLASSIFICATIONOFFICE.GOVT.NZ](http://WWW.CLASSIFICATIONOFFICE.GOVT.NZ)

[INFO@CLASSIFICATIONOFFICE.GOVT.NZ](mailto:INFO@CLASSIFICATIONOFFICE.GOVT.NZ)

FREE CALL: 0508 CENSOR (236 767)