Hon Bill English
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Bill

This letter provides you with my advice on improving value for money within Vote Commerce.

The Ministry of Economic Development has now completed its "line-by-line" expenditure review of Vote Commerce. This review involved considering each output class under Vote Commerce against the criteria provided in the Cabinet paper on the Value for Money exercise.

To ensure all savings were captured, the Ministry of Economic Development also undertook a separate value-for-money review of departmental outputs, with a view to identifying further savings across all the Ministry's activities - not just those low priority ones identified through the line-by-line process. This includes corporate support for the Ministry. Some of the savings identified through this exercise fall under Vote Commerce, and have therefore been incorporated into the total savings under this Vote summarised below.

It is also important to note that my officials and I do not see the reviews undertaken to date as a one-off exercise, but as part of an ongoing approach to ensure the appropriations and the activities provided within this Vote are focused on delivering the Government's priorities as cost-effectively as possible.

I have now considered the Ministry's final advice, and am providing my views as the responsible Minister as to where potential savings could be found within Vote Commerce.

Proposed savings under Vote Commerce

The following table outlines potential savings within Vote Commerce for 2009/10 at the appropriation level. This represents approximately 5.3 percent of the Vote's current 2009/10 output expense baselines - after allowing for the scheduled reductions in the Vote's 2008/09 budget that are largely due to the end of a number of time-limited projects.

Appropriation title	2009/10 Savings - Crown funded $ million	2009/10 Savings - Third Party funded $ million
Departmental appropriations		
Policy Advice – Business Competition	0.710	
Policy Advice and Administration of Trade Remedies	0.024	
Administration of Import Legislation		0.006
Administration of Insolvencies		
Registration and Granting of Intellectual Property Rights		1.014
Registration and Provision of Statutory Information		1.762
Total Departmental Savings	**0.734**	**2.782**
Non-departmental appropriations		
Risk Capital Fund – Director's Fees	0.005	
Takeovers Panel Litigation Fund	0.244	
Total Non-departmental Savings	**0.249**	

Annex One to this letter sets out more information about Vote Commerce.

Expense transfers

I also intend seeking an expense transfer of $1.2 million within the Vote, which I would like to action through the March Baseline Update.

In addition, I understand that the Minister of Economic Development is considering an expense transfer of $600,000 from Vote Economic Development to Vote Commerce in order to fund the work on government procurement.

The reasons for these transfers and the risks if the transfers do not occur are discussed in Annex Two to this report.

Risks and impacts of the savings exercise

The declining Vote Commerce baseline will create significant challenges over the next few years. However, in recognition of the real need for savings, we have been rigorous in our approach in order to identify and recommend the above savings are made in the Vote. Further, you should note that our ability to provide high quality policy advice may be compromised should additional demands be put on the Vote.

In addition, there are a number of residual risks that are likely to have consequences for the ongoing work programme under Vote Commerce. To this end, potential savings are likely to be contingent on the following assumptions:

- A number of one-off expense transfers are made from 2008/09, enabling the completion of a number of projects that could not otherwise be completed within a reduced 2009/10 baseline without compromising the delivery of other areas of priority work;

- Fiscally neutral adjustments are made as needed across output expense appropriations to mitigate fiscal risks, and meet ongoing work programme demands; and

- Future bids for additional funding may need to be made to address any new, unforeseen demands that require significant investment and capability.

I look forward to discussing the results of this exercise with you.

Kind regards

Hon Simon Power
Minister of Commerce

Non-departmental Output Expenditure: Risk Capital Fund – Director's Fees

This funding totals $5,000. It relates to the Greenstone Fund which was wound up in 2006 and, as a result, this funding is no longer needed.

Non-departmental Output Expenditure: Takeovers Panel Litigation Fund

This appropriation is for $444,000 in 2008/09 and outyears. Over the last four years, we have seen a trend of decreasing takeover activity and this is expected to continue in the short term. We propose to reduce the Panel's litigation fund by $244,000 per year (thereby leaving the Panel with a fund of $200,000).[1]

[1] We note that over the last four years, the Panel has spent no more than $152,000 of its total litigation fund in any one financial year.

Annex One: Overview of Vote Commerce

Total appropriations for Vote Commerce within the 09/10 baseline are $104.9m. This represents a fall from $110m in 08/09. This cut in budget largely reflects a reduction in the funding available for policy advice which is reducing from $17.4m to $13.2m in 2009/10. This reduction is largely a result of funding decreasing at the end of 08/09 in relation to the following key areas of work:

- Ecoverification;
- Free Trade Agreements;
- Capital Markets Development Taskforce; and
- Government procurement.

Of the $104.9m total:

- $66m is for Departmental Output expenses of which the largest item ($52.8m) is for the registration and provision of statutory information and the administration of insolvencies undertaken by the Business Services Branch. $13.2m of this output relates to the provision of policy advice; and

- $38.9m is for Non-Departmental Output expenses of which the largest items are the Enforcement of General Market Regulation by the Commerce Commission ($17.1m), Securities Commission funding ($7.9m) and the Commerce Commission's Litigation Fund ($8m). This area also includes funding for the Takeovers Panel and Accounting Standards Review Board, along with litigation funds for the Securities Commission and Takeovers Panel.

Vote Commerce is primarily used to deliver enforcement and service delivery systems through the Companies Office, New Zealand Insolvency and Trustee Service and the Intellectual Property Office to both businesses and the public. In addition, the Vote includes the provision of policy advice in relation to a broad range of commercial law, business and related areas and covers funding for the Commerce Commission, Securities Commission, Takeovers Panel and the Accounting Standards Review Board.

Annex Two: Details of proposed expense transfers within Vote Commerce

I intend to seek an expense transfer of $1.2 million from 2008/09 in order to enable key priority areas of work in the area of policy advice to be completed in 2009/10. These savings relate to funding obtained in the 2008/09 year in the following areas:

- Capital Markets Development Taskforce,
- Ecoverification;
- Free Trade Agreement negotiations; and
- The creation of sector advisory boards by Standards NZ

If this expense transfer does not go ahead, each of these areas will need to be stopped. I also note that in outyears 2010/11 onwards there is a further decline in the Vote Commerce baseline which would mean that, should this roll-over not go ahead, cuts will need to be made across the policy advice vote which could impact on priority areas for the government and on the provision of core policy advice around our commercial law framework.

In addition, I understand that the Minister of Economic Development is considering an expense transfer of $600,000 from Vote Economic Development to Vote Commerce in order to fund the government procurement work. Without this funding, the outcomes of the proposed review of government procurement (which is due to be completed by 30 June 2009) will be unable to be implemented in the next financial year.