

## Improving value for money in the State sector - Outcome of line-by-line review of Vote Consumer Affairs

### Purpose

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This report outlines the results of the Ministry's recent work on the line-by-line review of Vote Consumer Affairs, and seeks your agreement to sign the attached letter outlining the outcome of the review to the Minister of Finance.

<b>Date:</b>	5 February 2009	<b>Priority:</b>	High
<b>Security Level:</b>		<b>File Number:</b>	M/001/BR004/006/001

### Action Sought

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	Action Sought	Deadline
Minister of Consumer Affairs	<b>Consider and discuss</b> this report with us and if comfortable with the conclusions, <b>agree to</b> sign the attached letter to the Minister of Finance and forward it to him.	February 2009

### Ministry Contacts

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#### Principal Author

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		Work	After Hours
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File:

5 February 2009

Minister for Consumer Affairs

## **Improving value for money in the State sector - Outcome of line-by-line review of Vote Consumer Affairs**

### **Executive summary**

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- 1 This report outlines the results of the Ministry's recent work on the line-by-line review of Vote Consumer Affairs, and asks you to sign the attached letter outlining the outcome of the review to the Minister of Finance.
- 2 The Ministry has reviewed all appropriations within Vote Consumer to identify discretionary activities that are inconsistent with Government priorities, or core government processes that could be reduced, deferred, or delivered more efficiently.
- 3 In addition to this line-by-line work, the Ministry has carried out a value-for-money review of departmental outputs provided by the Ministry of Economic Development across the six Votes we administer, including reviewing the corporate support provided within the Ministry. This review was intended to ensure that savings were captured across all the Ministry's activities - not just those low priority ones identified through the line-by-line process.
- 4 As a result of both these processes, we have identified potential savings of \$ 0.223 million in 2009/10 and outyears in Vote Consumer Affairs. This represents approximately 4 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.
- 5 The table below summarises the savings identified under Vote Consumer Affairs

<b>Appropriation title</b> <b>\$ million</b>	<b>2008/09</b> <b>Savings</b>	<b>2009/10</b> <b>Savings</b>
Policy Advice and Support on Consumer Issues <sup>1</sup>		0.223
<b>Total Savings</b>		0.233

- 6 While we are confident that the Ministry's ability to deliver its core functions will not be compromised by these savings, the scope for further savings will be limited in the future.
- 7 We recommend that you consider and discuss this report with us and, if you are comfortable with its conclusions, sign the attached letter to the Minister of Finance.

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<sup>1</sup> \$0.752 million of this output expense is the provision of policy advice. The remainder funds the provision of information and advice to consumers and trader including on rights, responsibilities and access to remedies and redress.

# Improving Value for Money in the State Sector - Outcome of Line by Line review of Vote Consumer Affairs

## Purpose of report

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- 8 This report outlines the results of the Ministry's recent work on the line-by-line review of Vote Consumer Affairs, and asks you to sign the attached letter outlining the outcome of the review to the Minister of Finance.

## Background

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- 9 As discussed, Ministers have asked all departmental Chief Executives to undertake "line-by-line" expenditure reviews to identify:
- programmes that are inconsistent with the Government's priorities, and should be discontinued
  - programmes that may be inconsistent with these priorities and should be looked into
  - programmes and expenditure that are not efficient or effective
  - savings that can be freed up for Budget 2009
  - areas where performance information is insufficient to make a judgement about efficiency and effectiveness, and actions agencies should take to make improvements by the next review period.
- 10 The Ministry has reviewed all appropriations within the Consumer Affairs Vote to identify discretionary activities that are inconsistent with Government priorities, or core government processes that could be reduced, deferred, or delivered more efficiently. We have discussed this work with you as it has progressed, and your feedback has been incorporated.
- 11 In addition to this line-by-line work, the Ministry has carried out a value-for-money review of departmental outputs provided by the Ministry of Economic Development across the six Votes we administer, with a view to identifying further savings across all activities - not just those low priority ones identified through the line-by-line process. This included reviewing the corporate support provided within the Ministry.

## Overview of the Consumer Affairs Vote

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- 12 Total appropriations for Vote Consumer Affairs within the 09/10 baseline are \$5.9m. This represents a fall from \$6.1m in 08/09. The main reason for this fall is the one-off expense transfers from 2007/08 to 2008/09 due to delays in projects in the previous year resulting from factors outside the control of Ministry staff.

### Departmental Expenses

- 13 Of the \$5.9m total, \$5.8 is for Departmental Output expenses. These funds can be further subdivided into three main areas, two service-delivery focussed and one relating to the provision of policy advice.

#### *Trade Measurement and Product Safety Services (\$2.21 million).*

- 14 These funds purchase *Trade Measurement services* to ensure compliance with the Weights and Measures Act and the maintenance of the NZ Trade Measurement infrastructure (including the auditing of the network of accredited persons and organisations). These services also include working with businesses to improve their compliance strategies and the efficiency of their measurement techniques. The funds are also used maintain our membership of and actively participate in key International Legal Metrology organisations which make technical decisions that can affect the ability of our businesses to export.
- 15 A small portion (\$160,000) of the \$2.21 million appropriation is set down as third-party funded (revenue from service fees including those charged to accredited persons and organisations). What this means is that regardless of the amount of revenue collected, Consumer Affairs is only permitted to spend up to \$160,000. In practice, revenue collected in this area is generally around \$70,000.
- 16 The funds are also used to purchase *Consumer Product Safety compliance services*. These services are focussed on ensuring that those consumer products that are placed on the NZ market, and are not covered by any specific laws or standards, comply with the general requirement under the Fair Trading Act and the Consumer Guarantees Act to be safe. This includes undertaking those activities necessary to support the Minister of Consumer Affairs powers to ban and mandatorily recall unsafe products and put in place mandatory product safety standards.
- 17 Both of these services are provided through the Measurement and Product Safety Service of the Ministry of Consumer Affairs.

### *Consumer Capability and Information (\$1.625 million)*

- 18 These funds are used to support consumer's ability to make informed choices and solve their own problems as far as possible through the provision of information and advice to consumers and businesses on legal rights and responsibilities and access to remedies, disputes resolution and redress. The funds are used in three key ways:
- National consumer enquiries infrastructure – frontline provision is primarily through the community and voluntary sector. Quality assurance is provided through annual training of trainers, provision and maintenance of a manual, and the ability to escalate complex enquiries to a small team of consumer law experts for resolution.
  - Consumer Representative Nominations service – maintenance of a network of trained consumer representatives from which representatives are sourced for decision-making and advisory bodies (such as district health boards and standards committees).
  - Provision of information through website, pamphlets, and information campaigns on key consumer laws, issues, services.
- 19 There is also a sum of \$0.090 million which is appropriately specifically to promote, evaluate and provide information on the Motor Vehicles Sales Act. Examples of use of the funds include supporting an operational review of the Act and a campaign aimed at raising the awareness of low income Pacific consumers on the true cost of credit associated with motor vehicles. This activity is levy funded (the monies come from the annual registration fees paid by motor vehicle sales firms). The funds cannot be used for any other purpose.

### *Consumer Policy Advice (\$ 0.752 million)*

- 20 These funds purchase policy advice on the consumer laws administered through the Consumer Affairs portfolio, and on emerging consumer issues. This includes providing a consumer perspective on policy proposals from other portfolios that are likely to have a significant impact on the welfare of consumers.

### *Non-Departmental Expenses*

- 21 Vote Consumer Affairs has one non-departmental expense. This is the sum of \$0.081 million for the purchase of data from non-governmental organisations. These funds came about as a result of a successful budget bid which saw the Ministry of Consumer Affairs win funds to support the development of an internet-based data capture system for one its key stakeholders, the New Zealand Citizen's Advice Bureaux (who receive 75,000 consumer-related enquiries a year).

## Results of line-by-line review

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- 22 As a result of the line-by-line review exercise, together with the value for money review of the departmental outputs, we have identified potential savings of \$0.223 million in 2009/10 in Vote Consumer Affairs. This represents approximately 4 percent of the Vote's current 2009/10 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.
- 23 We have based our savings estimates both on an assessment of the efficiency and effectiveness of the current spend and on feedback from yourself on your priorities. You have signalled that your two key priorities are the modernisation and simplification of consumer law and making it simpler for consumers to access information and complaints and dispute resolution services.
- 24 Given the very small size of the policy team, and the significant legislative reform exercise you have prioritised, we have not suggested taking savings from this area.
- 25 The Trade Measurement and Product Safety functions have been identified to yourself and the previous government as an area of significant service delivery risk. As you are aware, in the 1990s staffing was reduced by 75%. This led to the development of the accredited persons and organisation approach which allowed the government to continue providing the core weights and measures function at a fraction of the previous cost. Even so, in order to operate within baselines, we have reduced from 18 field staff in 2006/07 to 15 field staff in 2008/09. We are continuing to look for efficiency savings, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
- 26 The savings we have identified come from both departmental and non-departmental expenses. In the Departmental Expense category they would involve:
- Reducing the consumer representative nominations function. We would still be able to operate this service but would no longer run the annual representative network workshop. As the representatives are largely from the not-for-profit sector, the Ministry picked up the cost of travel and accommodation. Our view is that we can find other, less costly ways of building the capability of the representatives.
  - Moving further towards the provision of consumer information in an "online only" format.
  - Reducing corporate support costs.

In the Non-Departmental Expense category we are recommending that you offer up as savings the \$81,000 appropriated for the purchase of data from Non-Government Organisations. We do not believe this is a risk. *[Information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information]*. Should the Ministry wish to purchase this data in the future it will need to reprioritise its expenditure.

27 The following table summarises the savings identified:

<b>Appropriation title</b> <b>\$ million</b>	<b>2008/09 Savings</b>	<b>2009/10 Savings</b>
Policy Advice and Support on Consumer Issues		0.233
<b>Total Savings</b>		0.233

- 28 In carrying out these reviews, we have sought to maximise the savings available in policy advice and “back office” functions (including corporate costs), while ensuring we maintain service levels in front office and business-facing activities as efficiently as possible.
- 29 It is also important to note that these reviews are not seen as a one-off exercise, but as part of an ongoing approach to ensure the Ministry is focused on delivering the Government’s priorities as cost-effectively as possible.
- 30 With this in mind, the Ministry is also looking at how it can review some of its costs in the longer term to see whether they can be reduced over time. These costs include accommodation rental, annual IT software, and IT depreciation.

**Ensuring the Ministry can continue to deliver its outputs**

- 31 In carrying out these reviews, the Ministry has taken a rigorous approach in order to maximise the savings made. However, we are confident that the Ministry’s ability to deliver the Government’s priorities and its core functions under Vote Consumer Affairs will not be compromised - although the scope for further savings, along with the Ministry’s or other delivery agencies’ ability to absorb new activities, may be limited in the future.
- 32 In a number of areas where there are already significant service delivery pressures, there may be a need to shift some identified Ministry-wide savings between activities, rather than offering up these savings.
- 33 As discussed above, the key area of service delivery risk in Vote Consumer Affairs is in the trade measurement and product safety enforcement area delivered through the Ministry’s Measurement and Product Safety Service.
- 34 As you aware, we are currently undertaking a number of pieces of work in order to provide you with advice on longer-term solutions in this area. This includes assessing New Zealand’s risk profile with respect to high risk consumer products in light of global trends, in order to provide advice of the robustness of the current regime. Should this work identify the need to additional resourcing it is likely that the Ministry of Economic Development would seek to have some of the savings identified from other activities redirected into this area.



35 While officials are doing everything to manage funding pressures, there are a number of residual risks that are likely to have consequences for the ongoing work programme under Vote Consumer Affairs. To this end, potential savings are likely to be contingent on the following assumptions:

- In order to meet the many challenges facing the Ministry as a result of delivering a broad range of outputs across six Votes, our Vote Ministers will provide ongoing support for the Ministry to reprioritise across its baselines by seeking fiscally neutral adjustments across output expense appropriations to mitigate fiscal risks, and meet ongoing work programme demands
- Future bids for additional funding may need to be made to address any new, unforeseen demands that require significant investment and capability. Conversely should further programmes of work be considered lower priority then other savings may be identified.

## Recommendations

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36 We recommend you:

- i. **consider** and **discuss** your views on this preliminary advice with us
- ii. subject to that discussion, **agree** to sign the attached letter and forward it together with this report to the Minister of Finance.

David Smol  
Chief Executive

Hon Heather Roy  
Minster of Consumer Affairs

Agree/Disagree

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 Consumer Affairs.

The Ministry of Economic Development has now completed its "line-by-line" expenditure review of Vote Consumer Affairs. This review involved considering each output class under Vote Consumer Affairs 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 Consumer Affairs, 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.

In addition, the Ministry has written to Crown entity chief executives, asking them to undertake a similar exercise to the Ministry in assessing the cost effectiveness of their activities, and identifying savings that could be freed up.

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 Consumer Affairs.

### **Proposed savings under Vote Consumer Affairs**

The following table outlines potential savings within Vote Consumer Affairs for 2008/09 and 09/10 at the appropriation level. The \$0.0233 million savings identified represent approximately 4% 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. More detail on where savings are coming from and why is contained in Annex One to this letter.

<b>Vote Consumer Affairs: Appropriation</b>	<b>2008/09 Savings</b>	<b>2009/10 Savings</b>
<b>\$ million</b>		
Policy Advice and Support on Consumer Issues		0.233
<b>Total Savings</b>		0.233

Annex Two to this letter sets out more information about Vote Consumer Affairs.

### **Risks and impacts of the savings exercise**

While I am confident that the Ministry's ability to deliver its core functions under Vote Consumer Affairs will not be compromised through this savings exercise, the scope for further savings, along with the Ministry's or other delivery agencies' ability to absorb new activities, is extremely limited.

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

- Fiscally neutral adjustments are made as needed across output expense appropriations to mitigate fiscal risks, and meet ongoing work programme demands
- Future bids for additional funding may need to be made to address any new, unforeseen demands that require significant investment and capability.
- It may be necessary to seek access to savings reprioritised from other parts of the wider Ministry of Economic Development to mitigate service delivery risks in the Measurement and Product Safety area. Work currently being undertaken by the Ministry of Consumer Affairs which is due for completion in June 2009 regarding the robustness of New Zealand's product safety regime in the face of a change in the global balance of risk will be particularly pertinent in this regard.

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

Kind regards

Hon Heather Roy  
**Minister of Consumer Affairs**

## **Annex One: Details of proposed savings under Vote Consumer Affairs**

The savings in the Consumer Affairs area are derived from:

### *Departmental Expenses (\$0.142m)*

- Cutting back on the consumer representatives nomination function currently performed by the Ministry of Consumer Affairs. This includes eliminating an annual consumer representatives network workshop, the aim of which is to build the capability of members to participate effectively in governance and other settings.
- Shifting further towards “online only” provision of information to consumers, community agencies and traders.
- Reductions in corporate support costs

### *Non Departmental Expenses (\$0.081 million)*

- These funds were provided to allow the Ministry of Consumer Affairs to purchase data from non-Government agencies (particularly the NZ Citizen’s advice Bureau) for research and evaluation purposes and ultimately to improve the quality of policy advice.

## **Annex Two: Overview of Vote Consumer Affairs**

Total appropriations for Vote Consumer Affairs within the 09/10 baseline are \$5.9m. This represents a fall from \$6.1m in 08/09. The main reason for this fall is the one-off expense transfers from 2007/08 to 2008/09 due to delays in projects in the previous year resulting from factors outside the control of Ministry staff.

### ***Departmental Expenses***

Of the \$5.9m total, \$5.8 is for Departmental Output expenses. These funds can be further subdivided into three main areas, two service-delivery focussed and one relating to the provision of policy advice.

Trade Measurement and Product Safety Services (\$2.21 million). These funds purchase *Trade Measurement services* to ensure compliance with the Weights and Measures Act and the maintenance of the NZ Trade Measurement infrastructure (including the auditing of the network of accredited persons and organisations). These services also include working with businesses to improve their compliance strategies and the efficiency of their measurement techniques. The funds are also used maintain New Zealand's membership of and active participation in key International Legal Metrology organisations which make technical decisions that can materially affect compliance costs for exporting firms.

A small portion (\$160,000) of the \$2.21 million appropriation is set down as third-party funded (revenue from service fees including those charged to accredited persons and organisations). What this means is that regardless of the amount of revenue collected, Consumer Affairs is only permitted to spend up to \$160,000. In practice, revenue collected in this area is generally around \$70,000.

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Both of these services are provided through the Measurement and Product Safety Service of the Ministry of Consumer Affairs.

### Consumer Capability and Information (\$1.625 million)

These funds are used to support the ability of consumers to make informed choices and solve their own problems as far as possible through the provision of information and advice to consumers and businesses on legal rights and responsibilities and access to remedies, disputes resolution and redress. The funds are used in three key ways:

- National consumer enquiries infrastructure – frontline provision is primarily through the community and voluntary sector. Quality assurance is provided through annual training of trainers, provision and maintenance of a manual, and the ability to escalate complex enquiries to a small team of consumer law experts for resolution.
- Consumer Representative Nominations service – maintenance of a network of trained consumer representatives from which representatives are sourced for decision-making and advisory bodies (such as district health boards and standards committees).
- Provision of information through website, pamphlets, information campaigns on key consumer laws, issues, services.

There is also a sum of \$0.090 million which is appropriated specifically to promote, evaluate and provide information on the Motor Vehicles Sales Act. Examples of use of the funds include supporting an operational review of the Act and a campaign aimed at raising the awareness of low income Pacific consumers on the true cost of credit associated with motor vehicles. This activity is levy funded (the monies come from the annual registration fees paid by motor vehicle sales firms). The funds cannot be used for any other purpose.

Consumer Policy Advice (\$ 0.752 million) These funds purchase policy advice on the consumer laws administered through the Consumer Affairs portfolio, and on emerging consumer issues. This includes providing a consumer perspective on policy proposals from other portfolios that are likely to have a significant impact on the welfare of consumers.

### *Non-Departmental Expenses*

A Non-Departmental Expense is a sum of money appropriated to a government department for the purchase of services from another entity. The Department is essentially acts as a conduit for the funds. Vote Consumer Affairs has one non-departmental expense. This is the sum of \$0.081 million for the purchase of data from non-governmental organisations. These funds came about as a result of a successful budget bid which saw the Ministry of Consumer Affairs win funds to support the development of an internet-based data capture system for one its key stakeholders, the New Zealand Citizens' Advice Bureaux (who receive 75,000 consumer-related enquiries a year).