

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 Energy.

The Ministry of Economic Development has now completed its “line-by-line” expenditure review of Vote Energy. This review involved considering each output class under Vote Energy 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 Energy, 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. The Ministry will work closely with the Electricity Commission and the Energy Efficiency and Conservation Authority to ensure potential savings are identified – and the results of this exercise will be forwarded to you shortly.

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 Energy.

Proposed savings under Vote Energy

As a result of both these processes, we have identified potential Departmental savings of \$3.540 million in 2009/10 in Vote Energy. This represents approximately 11.8 percent of the Vote's current 2009/10 Departmental 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	Explanation
Departmental appropriations			
Policy Advice on Energy and Resource Issues	0.831	-	Removing the biofuels communications campaign, administration of marine generation grant fund and reduction in controllable costs
Management of the Crown Mineral Estate	0.073	-	Reduction in support costs
Provision of Climate Change Unit Register and Information	0.106	-	
Emissions Trading Implementation	1.509	-	Delays in the ETS implementation
Administration of Gas, Electricity and Energy Efficiency Regulations and related Acts	0.646	0.220	Removal of residual activity and reduction of controllable costs
Energy and Resource Information Services	0.092	0.062	Reduction in controllable costs
Total Departmental Savings	3.260	0.280	

Risks and impacts of the savings exercise

While I am confident that the Ministry's ability to deliver its core functions under Vote Energy 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, may be limited in the future.

In addition, there are a number of residual risks that are likely to have consequences for the ongoing work programme under Vote Energy. 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.

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

Kind regards

Hon Gerry Brownlee
Minister of Energy and Resources