

Hon Bill English
Minister of Finance
Parliament House
WELLINGTON

Dear Minister

Budget 2009 – Report on Review of Vote: Food Safety

This report responds to your letter of 17 December 2008 requesting an expenditure review of Vote: Food Safety to identify areas that do not align with Government priorities, opportunities for improved efficiencies and effectiveness and savings that can be made for Budget 2009. Each of the major points made below is covered in further detail in attachments to this report.

NZFSA is a newly established department that was subject to an internal baseline review prior to establishment in 1 July 2007. Cost efficiencies identified at that time included the implementation of shared services arrangements with MAF. Around two thirds of NZFSA's funding comes from industry through cost recovery, the remainder being from the Crown. A summary of the context within which NZFSA operates is at Attachment 1.

The NZFSA 2008/09 budget is \$99.6m (\$61.9 cost recovered, \$36.1m Crown, \$1.6m other revenue). This includes a \$2.2m carry forward from 2007/08. In 2009/10 the budget will reduce to \$94.8m through reductions in Crown funding to \$31.3m. Separately, there is a Non-Departmental Output Class allocation of \$1.901m to meet New Zealand's pro-rated share of the development of Australia and New Zealand food labelling and composition standards as provided for in the *Agreement between the Government of Australia and the Government of New Zealand concerning a Joint Food Standards System*.

NZFSA has sought only limited increases in Crown funding since Vote: Food Safety was established in 2002. Detail of new initiative bids since inception of Vote: Food Safety is provided in Attachment 2.

As noted above, the department's revenue is around two thirds cost recovered from industry (70% forecast 2009/10). This is largely demand driven and is based primarily on the estimated needs of the relevant industry group for each year. Scrutiny of overheads and work programmes from industry groups subject to cost recovery is intense and occurs annually.

Of particular relevance is that for 2007/08, NZFSA sought \$6.5m to address shortfalls in crown funding in areas of core work and the domestic food review. NZFSA received \$2.5m Crown funding for two years only and reprioritised a further \$1.5m internally to address the critical issues. In 2007/08, \$2.2m was approved for carry forward to 2008/09. In effect, Crown Funding for NZFSA reduces by \$3.5m in 2009/10 representing a decrease of 11.2% in Crown funding between 2008/09 and 2009/10.

NZFSA has reassessed programmes and services as required and identified savings for 2009/10 but has, at the same time, identified an ongoing requirement for an estimated \$2.944m (not including costs of Free Trade Agreement negotiation and implementation totalling \$1.1m) of Crown funding over the new base appropriation in 2009/10. This requirement is to continue providing core services which includes provision of more modern, relevant and cost efficient regulatory regime for small to medium sized businesses, development of standards and tools for local government delivery of food regulatory requirements, policy and legal advice, multilateral market access activities, compliance and enforcement, monitoring and food borne illness reduction programmes and consumer publications.

Potential baseline savings totalling \$2.70m, and capital savings totalling \$1.050m, have been identified and comprise the following:

Revenue	Description	Amount
1. Baseline	Wine testing and certification	\$1.985m
2. Baseline	Enforcement (prosecutions)	\$0.120m
3. Baseline	Random testing of imported foods	\$0.475m ¹
4. Baseline	Reduction in NZFSA contract with District Health Boards	\$0.150m
	2009/10 Total Baseline Saving	\$2.730m
5. Capital	Web-based, wine export certification (e-cert) system	\$1.050m

For each of the foregoing savings, a detailed description is contained in Attachment 3. The most significant is the first relating to wine testing and certification. Crown funding of this activity is an anomaly in that no other export food sector receives Crown funding for meeting overseas market access requirements.

NZFSA has analysed the impact of removal of this funding and notes that while the exact figure is unclear, estimates put foreign interests at 85% of export wine production while other estimates have it lower with some going to 50%. However, based on export data NZFSA believes that around 11% of exporting wineries are 'small' (as determined by New Zealand Winegrowers statistics and based on production of less than 200,000 litres per annum), and that the impact on small wineries is likely to be, on average, around \$960 per annum per small winery. The loss of this funding is not expected to limit the exporting activities of any single small exporting winery.

I am seeking to have the baseline savings carried forward for NZFSA to draw on in 2009/10, noting that the savings relating to wine testing and certification require a change in position regarding Crown funding of the activity. The consequences for NZFSA of otherwise sustaining a reduction of such magnitude in Crown funding would be severe and would impact on the delivery of core services for New Zealand industry and consumers. These include reductions in investigations, non-continuance of recent initiatives for small exporters and Pacific Island trade, further reductions in standards setting and consequent risks to the credibility of the New Zealand food safety regime. A full summary of the need for NZFSA to draw on the identified savings through them being carried forward and the consequences of the department not having access to this Crown funding is provided in Attachment 4.

¹ This saving reduces to \$0.175m in each of 2010/11 and 2011/12 and \$zero in outyears beyond 2011/12. The original funding for an enhanced imports programme was for four years only.

NZFSA will be reviewing other programmes and delivery mechanisms and practices over time in order to accommodate the reduction in Crown funding not covered by the carry forward and to ensure the best value for money for industries subject to cost recovery. These will potentially result in a review of, and reduction in, the voluntary implementation programme for the new Food Bill, reduced multilateral work especially in standards setting covering trade, and further examination of inputs to programme delivery.

NZFSA has joined with a number of other departments in a budget requirement led by the Ministry of Foreign Affairs and Trade for funding for the negotiation and implementation of Free Trade Agreements. These international obligations are significant for New Zealand's trade and our standing in the global trade arena. NZFSA has no capacity to meet negotiation and implementation requirements from existing Crown funding.

In this second half of 2008/09 NZFSA is overseeing an external 'value for money' review of the NZFSA Verification Agency. The Verification Agency is a fully cost recovered business group within NZFSA that undertakes primarily audit and inspection of exporting businesses where government to government assurances are required to gain access to markets. Verification Agency costs for 2008/09 are around \$34m.

Over 2009/2010, NZFSA will continue to seek efficiencies and savings in its activities to ensure the existing culture of value for money continues into the future.

Yours sincerely

Hon Kate Wilkinson
MINISTER FOR FOOD SAFETY