

5 February 2009

Hon Bill English
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Bill

Value for Money and Budget 2009

You wrote to me on 17 December 2008 setting out the priorities and process for the 2009 Budget and the beginning of the review process. In December 2008 Cabinet also directed [CBC (08) 563] chief executives to undertake a review of expenditure in the Votes their departments administer by 5 February 2009.

I have worked with the Chief Executive of the Ministry for the Environment to review Vote Environment and Vote Climate Change and have found savings in 2008/09 and 2009/10. The detailed information required by Cabinet on the Ministry's review is appended to this letter.

I have been working with the Ministry to reposition it so that it will be well placed to deliver on government objectives and priorities, such as the reform of the Resource Management Act and related issues such as water quality and allocation. In the context of this review of expenditure, I have also sought to ensure that the Ministry makes real savings in areas that do not correspond with the government's priorities. The savings I am proposing have been found by closing down work areas that are not government priorities and by scaling back lower priority areas. In making these savings, the Ministry's funding profile and work programmes will better align with government priorities.

I have also asked the Ministry to ensure that, while making savings, it is fully capable of focusing on the priority areas that will make the biggest contribution to the government's goals.

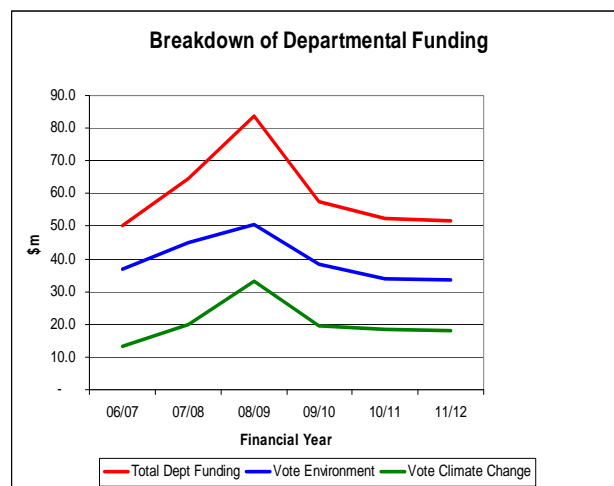
On this note, I have written to the Prime Minister about my immediate priorities under Vote Environment and Vote Climate Change, which are:

1. Reforming the Resource Management Act
2. Redesign and implementation of the Emissions Trading Scheme

3. Improving New Zealand's freshwater management
4. Creating an Environmental Protection Authority
5. Ensuring New Zealand constructively assists in achieving a successor agreement to the Kyoto Protocol on climate change
6. Advancing new legislations for the management of the Exclusive Economic Zone (EEZ).
7. Implementing the Waste Minimisation Act
8. Improving New Zealand's environmental reporting systems

The Ministry for the Environment's Baseline

The graph on the following page shows that the Ministry faces a significant decrease in budget over the next few years as short-term funding allocated for specific initiatives comes to an end. However, in many cases the work will not come to an end. The Ministry will continue to deal with significant and ongoing issues that are priorities for the government. This includes work in priority areas such as strengthening freshwater management and allocation, the Emissions Trading Scheme and the implementation of the Waste Minimisation Act.



The departmental funding decrease demonstrated above will have its greatest impact in 2009/10. The reduction in funding, compared with the current budget, is nearly \$26 million – about 30 per cent of the Ministry's current departmental funding. This will be followed by a further 10 per cent decrease in 2010/11.

This decrease is mainly in the policy advice output classes of both Vote Environment and Vote Climate Change, which together fund most the Ministry's work.

The following table shows the decrease in these Votes from 2008/09 to 2009/10, additional funding needed for priority work programmes and potential savings.

Ministry funding	2008/09	2009/10	Shortfall
Shortfall per appropriation * Shortfall comprises mainly priority programmes not funded beyond 2008/09, in particular: – Emissions Trading Scheme – Waste Minimisation Act	\$83.7 M	\$57.6 M	\$26.1 M*
Known activity reducing in line with funding	\$27.7 M	\$11.1 M	(\$16.6 M)
Resources required (over 2008/09 baseline costs) to meet government priorities (eg, RMA reform, freshwater quality and allocation)	\$22.2 M	\$27.7M	\$5.5 M
Revised shortfall			\$15.0 M

Approach to address shortfall: Potential savings in 2009/10 from:			
<ul style="list-style-type: none"> Programmes that could be discontinued (e.g. Govt3 programme, Bioethics Council, Carbon Neutral Public Service) Programmes that could be scaled back (e.g. Recycling in Public Places programme, Sustainable Business and Sustainable Households Projects) (see Annex A)		\$4.2 M	(\$4.2 M)
		\$3.2 M	(\$3.2 M)
<i>[deleted – confidentiality of advice]</i>			
Savings found in 2008/09 to be transferred to 2009/10 (including 2008/09 impact of programmes scaled or discontinued above)		\$6.6 M	(\$6.6 M)
Total			(\$15.0 M)

The Ministry's approach to the Value for Money review and 2009/10 budget

I have asked the Ministry to approach this review by reorienting the Ministry to meet the government priorities and objectives. In doing this, it has reviewed its expenditure from both a short-term and a medium-term perspective. This is because it needs to immediately address the 30 percent decrease in funding to ensure the Ministry has a stable funding path for the medium to longer term.

The short term approach is based on:

- closing down work areas that are not consistent with government priorities and scaling back lower priority areas (this will include staff reductions)
- seeking approval to carry forward all unspent funding to 2009/10 (\$6.6 million)
- seeking approval to transfer funding between both output classes and Votes.

In the short to medium term the Ministry is focused on building its capabilities and in ensuring it is in the best possible shape to meet the government's priorities. It assures me that it will reduce staff numbers in a managed way through attrition, and minimise redundancies by transferring affected staff to fill vacancies in priority work areas where possible (depending on skill fit).

As the Ministry is not proposing to put forward a Budget bid, the approval of the approach above is critical to the Ministry's short-term ability to fund next year's priority work.

I am seeking to progress the proposed changes with some urgency and, therefore, I am requesting a Budget bilateral meeting with you soon to discuss the savings that can be freed up and my approach to Budget 2009. Following our discussion, I propose to develop, in consultation with you, an omnibus Cabinet paper which I will put to Cabinet by late February. I have directed my officials to begin work on this.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

I look forward to discussing my approach to the portfolios with you as soon as possible.

Yours sincerely

Hon Dr Nick Smith
Minister for the Environment
Minister for Climate Change Issues

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Summary of annexes

The information required by Cabinet [CBC (08) 563] on the Ministry for the Environment's review of expenditure in the Votes it administers is contained in the following annexes:

Annex A	Savings that can be freed up for Budget 2009 and Programmes that are inconsistent with Government priorities
Annex B	Programmes or areas for review in the medium term
Annex C	Actions for improvements by the next review period
Annex D	Initiatives of the previous Government that are not funded
Annex E	Fiscal risks

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Annex A: Savings that can be freed up for Budget 2009 and Programmes that are inconsistent with Government priorities

- Savings could be made in 2009/10 by closing down some areas of work that are inconsistent with current government priorities and scaling back some other lower priority areas.
- The following programmes could be discontinued because they are not government priorities or are of a low priority:

	Work area	Possible savings 2009/10 year
1	Govt ³ Programme	\$1.1 million
2	Communities for Climate Protection Programme	\$350,000
3	Bioethics Council	\$1.3 million
4	Carbon Neutral Public Service Programme	\$1.4 million
	Total	\$4.15 million

- The following work areas could potentially be scaled back in order to make savings:

	Work area	Possible savings 2009/10 year
5	Agrichemicals collections	\$300,000
6	Flood Risk work area	\$330,000
7	Recycling in Public Places programme	\$800,000
8	Sustainable Business and Sustainable Households Projects (integrated into a single programme)	\$1.5 million
9	Urban development agency work	\$300,000
	Total	\$3.23 million

	Savings to be found in non-departmental funding	
10	Recycling in Public Places (one-off in 2009/10)	\$550,000
11	<i>[deleted – confidentiality of advice]</i>	

The proposals above have public implications and raise a number of transitional issues, not just for the Ministry for the Environment. I am working with officials on transitional arrangements and management of risks associated with discontinuing or scaling back these programmes. For example, I propose that the Recycling in Public Places programme be continued until December 2009, at which stage ongoing arrangements can be considered as part of the implementation of the Waste Minimisation Act.

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Annex B: Programmes or areas for review

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Annex C: Actions for improvements by the next review period

Cabinet has indicated the need for a more focused, efficient and productive state sector that delivers better quality services more cost-effectively.

The Ministry is working on the following areas for improvement by the next review period to ensure that it is an organisation that is highly capable of delivering work programmes which make the best use of public funding. This is a major focus of the Ministry's senior management.

- implementing the Ministry's strategic business plan, *Towards 2013*, and the related six strategies for change to build our capability and improve performance
- continue working on ensuring that the Ministry has a clear strategic direction and is more strongly outcome-driven, so that it can concentrate resources on priority issues, projects and policy interventions. This will be supported by a strong evidence and evaluation base and aligned to the goals of the government.

Work has also begun on the way the Ministry is arranged to ensure that the organisation has a durable structure and allows it to meet the priorities of the Government.

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Annex D: Initiatives of the previous Government that are not funded

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Annex E: Fiscal Risks

- The specific fiscal risks published in the Pre-election Economic and Fiscal Update and their status are:

Risks	Value of Risk: 2008/09 – 2023/24	Explanation
Energy – ETS Household Assistance Package	2009/10 – 2010/11: \$180 million 2008/09 – 2023/24: \$1 billion	This risk relates to the \$1 billion Household Fund established in the Climate Change Response Act 2002 and the \$180 million household assistance package that the previous government agreed to. Neither of these have been appropriated for. As the \$1 billion Household Fund is established in legislation, this part of the risk cannot be removed until such a time as the legislation is amended. The Government is committed to reviewing the Emissions Trading Scheme, including the nature and extent of any household/consumer assistance package. Because of these two factors, this risk is still under consideration.
Environment – Purchase of Kyoto Compliant Emission Units	\$500 million capital	The Crown may need to purchase emission units before the end of 2012 but this will depend on the final design of the Emissions Trading Scheme, developments with carbon accounting methodologies in the land use sector, levels of economic activity over the Kyoto period, and the price of carbon.
