

Treasury Report: Budget 2009: Vote Commerce

Date:	11 March 2009	Report No:	T2009/546
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Read this report before the Bilateral with Minister Power	Before 11am Thursday 12 th March 2009
Associate Minister of Finance (Hon Simon Power)	Read this report before the Bilateral with Minister Power	Before 11am Thursday 12 th March 2009

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
James Beard	Principal Advisor - Economic Performance Group	<i>[Deleted – Privacy]</i>	✓

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Bilateral Briefing for Vote Commerce

This is an update to the previous Vote Commerce briefing. Please use this version.

Attached is a briefing for the bilateral between the Minister of Finance and Minister Power at 11a.m. on 12th February 2009 to discuss the Budget initiatives for Vote Commerce.

The bilateral briefing is structured as follows:

Overview of the Vote	p. 3
Savings component & recommendations	p. 3
Value for Money & Strategic Direction	p. 7
Policy priority initiatives & recommendations	p. 8

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with Minister Power at 11a.m on 12th February 2009.

James Beard
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Overview of the Vote

VOTE COMMERCE

1. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Commerce submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	(0.983)	(0.249)	(0.249)	(0.249)
Emergency pressures	-	-	-	-	-
Policy priorities	-	3.254	2.925	3.491	3.505
Increase funding through levy		1.900	0.400		
Total funding requested (excluding levy)		2.271	2.676	3.242	3.256
<i>Capital (GST excl)</i>					
Savings	-	2.000	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	1.250	1.230	-	-
Total funding requested	-	(0.750)	1.230	-	-

From a vote of \$104.9 million in 2009/10, only \$0.249 million of ongoing savings have been identified. \$0.734 million of savings in 2009/10 are from policy advice, however the \$0.249 million of ongoing savings are not derived from activities that have been curtailed or reprioritised, but from activities that had already stopped or funds that are no longer required. No reprioritisation has been found from the non departmental side of the vote.

Minister Power has indicated that the lead option under the standard business reporting programme is now not proceeding. The \$1.1 million of operating expenditure remaining will be used to investigate alternative options under the SBR badge, such as the single business number. The \$3 million of capital funding is being held on a contingency basis until these options have been investigated. We recommend that the capital funding be returned as a saving and that a future bid be submitted for funding should any options progress.

We recommend accepting the savings offered plus the \$3 million in capital funding for the standard business reporting programme. Further, as outlined below, we recommend that the Crown seeks to recover money already appropriated for the implementation of the Financial Advisors Act.

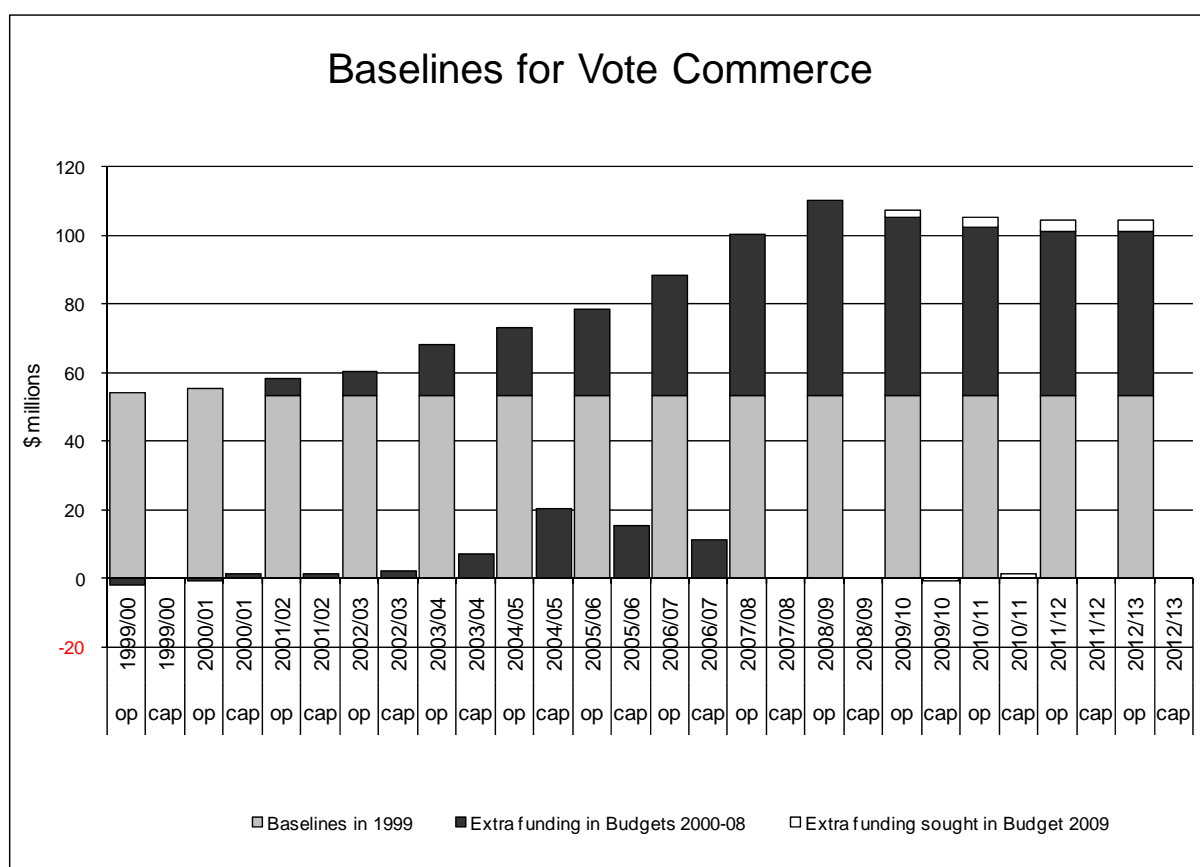
In a number of MED Votes, we are recommending baseline reductions, beyond the savings identified by the department. We do not feel that this is appropriate in this Vote due to a number of pressures in Vote Commerce.

Analysis of Vote

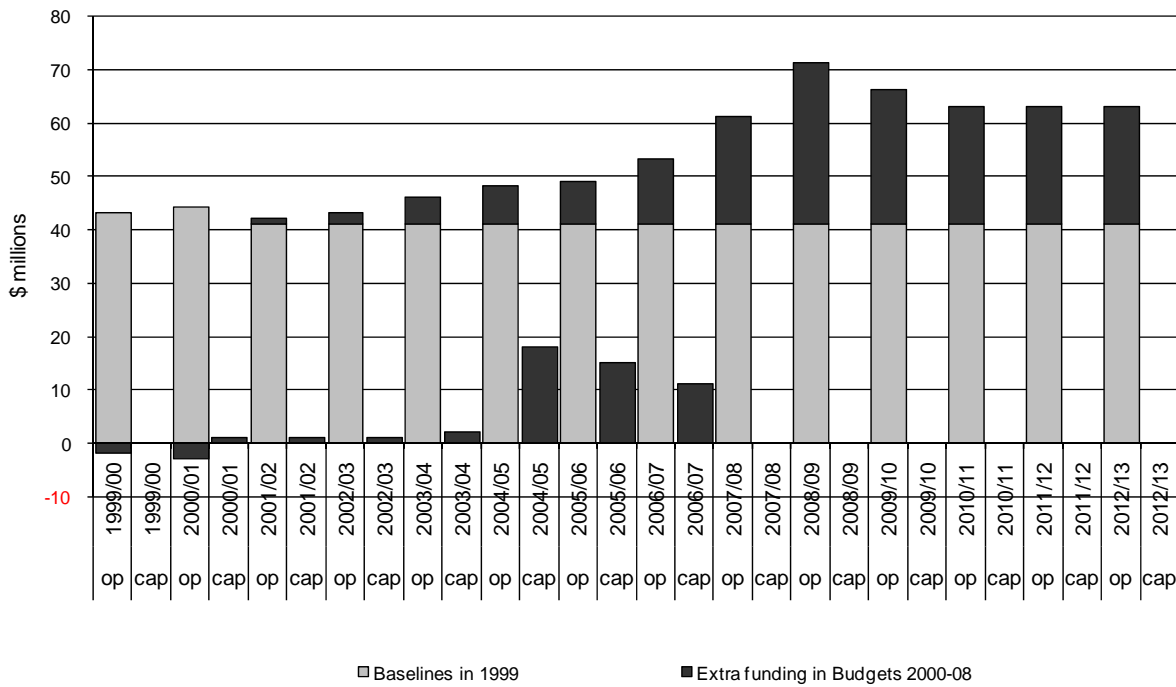
3. Vote Commerce baselines are shown in the graphs below.

Increasing departmental baselines are due to increased funding to support the implementation of the Insolvency Act 2006, increases in trademark and patent renewals applications, funding for the eco-verification programme, implementation of a single government procurement policy and increases to fund insolvency law reform. The baseline is falling between 2008/09 to 2010/11 due to the end of a number of one-off projects.

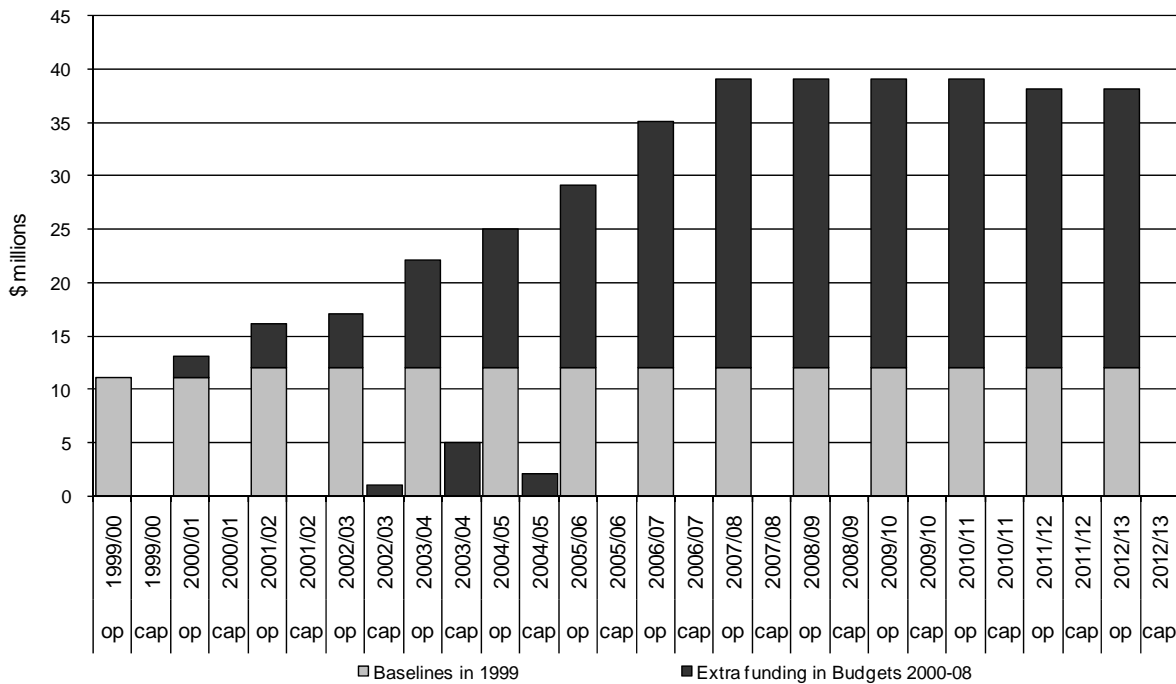
Increasing non-departmental baselines from 2003/04 reflect funding to the Securities Commission to meet the costs of enhancing its enforcement and market surveillance and funding for the Commerce Commission to meet enforcement activity and statutory obligations.



Baselines for Vote Commerce: Departmental Activities



Baselines for Vote Commerce: Non-departmental Activities



Recommendations

Treasury recommends that you:

- (i) Support the savings submitted for Vote Commerce

Agree/Disagree

- (ii) Agree that the \$3 million of capital funding allocated to the standard business reporting programme be returned as a saving to the Crown in 2008/09

Agree/Disagree

Value for Money/Strategic Direction

MED will be reviewing the structural changes required within MED as a result of the Budget 2009 line by line review process.

MED have indicated they will be undertaking a further savings review for 2010/11 in time for Budget 2010. A number of reviews over the next 12 months will affect the performance of this Vote and should be taken into account to inform the future funding requirement for Vote Commerce. These include:

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- The Securities Commission fees review, and
- The Securities Act review

Recommendations

Treasury recommends that you:

Agree that MED report back with proposals for further savings in Vote: Commerce by January 2010, taking into account findings from the reviews of *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*, the Securities Commission's fees and of the Securities Act

Agree/Disagree

Vote commerce – Analysis of Policy Priorities

8. Vote Commerce has submitted the following policy priority initiatives:

a Implementation of the Financial Advisors Act (FAA) 2008

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	1.220	(0.930)	-	-
Treasury	-	1.220	(0.930)	(1.400)	(1.400)
<i>Capital (GST excl)</i>					
Department	-	0.750	0.930	-	-
Treasury	-	0.750	0.930	-	-

9. At Budget 2008, funding was appropriated for the implementation of the FAA: \$0.8 million in 2008/09 and \$1.4 million per annum for 2009/10 onwards. Additional crown funding is being sought in 2009/10 in order to cover the initial costs of this regime. No further crown funding is being sought beyond 2009/10 as additional costs will be covered by fees revenue.
10. From 2011/12 onwards, the \$1.4 million of crown funding per annum, already appropriated, will be used to part fund the FAA regime beyond that covered by fees (\$0.280 million) and to cover the operational deficit run by the Securities Commission (\$1.120 million), which until 2011/12 is funded from reserves.
11. In our view, the issue of the operating deficit should be handled separately, and preferably in the context of any findings flowing out of the review of the Securities Act. This would allow Ministers to take a holistic and overall view of the Commission's core functions and costs.
12. We also consider that the full costs of implementing the FAA regime from 2011/12 onwards should be met from levy fees i.e. an additional \$0.280 million. We do not see a strong public benefit case for subsidisation of this activity from government revenue.
13. We therefore recommend that crown funding of this bid be reduced by \$1.4 million in 2011/12 and 2012/13 and outyears to recover the funding appropriated at Budget 2008.

Recommendations

Treasury recommends that you:

- (i) Support this initiative but at a reduced level of Crown funding (-\$1.4 million in 2011/12, 2012/13 and outyears)

Agree/Disagree

b Development of input methodologies to implement under Part 4 of the Commerce act

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	1.6	0.4	-	-
Treasury	-	1.6	0.4	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

14. **This bid is fully funded by levies on the electricity sector, gas sector and airports.**
15. As required by part four of the Commerce Act 1986, the department seeks funding to develop input methodologies that will set the rules regulating the electricity, gas and airport sectors. For example, these would provide rules for how the cost of capital, valuation of assets, treatment of taxation and allocation of common costs would be valued in determining price.
16. In order to implement the new regime, a short burst of increased activity is required. MED, in consultation with the Commerce Commission, have significantly reduced the magnitude of the bid over the previous months, and MED now advise that this is the minimum required to meet statutory obligations.
17. The successful implementation of input methodologies is a fundamental component of part 4 of the Commerce Act, and will be open to legal challenge. Therefore, particularly given the risks of poor implementation, we support the bid.
18. As this is levy funded, the option of reprioritising from other areas of the Commerce Commission, outside of the network performance branch, in order to reduce the amount of the levy is not desirable. This would result in a cross subsidy of this activity from the crown.
19. Ministers should be aware that this increase in the levy has not been consulted on or signalled to the industry.

Recommendations

Treasury recommends that you:

- (i) Support this initiative at the proposed amount **Agree/Disagree**

c Development of airport regulation under Part 4 of the Commerce act

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	0.3	-	-	-
Treasury	-	0.3	-	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

20. **This bid is fully funded by a levy on the major international airports.**
21. The department seeks funding to review and align information disclosure requirements with the input methodologies for airports and to conduct monitoring and analysis. This would include a full review with industry consultation.
22. As this is levy funded it could not be met through reprioritisation without incurring a cross-subsidy of this activity. We support the bid.

Recommendations

Treasury recommends that you:

- (ii) Support this initiative at the proposed amount **Agree/Disagree**

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

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

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