The Treasury

Budget 2012 Information Release

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[1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

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Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [4] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Budget 2012: Four-Year Budget Plan

Ministry of Economic Development

Covering:

Vote Economic Development

Vote Commerce

Vote Communications

Vote Consumer Affairs

Vote Energy

Vote Tourism

Four-Year Budget Plan

31 January 2012

Forwarded by:

David Smol

Section 1: Overview

The Ministry of Economic Development's purpose is to foster economic development and prosperity for all New Zealanders. This contributes to the Government's key goal of lifting the long-term performance of the economy.

The Ministry's work programme is diverse, spanning six Votes: Economic Development, Commerce, Communications, Consumer Affairs, Energy and Tourism.

The Ministry advises the Government and implements policy in relation to a wide range of economic issues – including telecommunications and information technology, energy and resources, intellectual property, business law, financial markets, competition policy, tariff and trade remedies policy, standards and conformance, regulatory reform, government procurement, industry development, small business, tourism, consumer affairs, and economic development generally.

It delivers services to business and consumers, including administering company registrations and insolvencies; administering the trade remedies regime and tariff concessions scheme; issuing patents and trade marks; licensing petroleum and minerals activity; investigating and prosecuting offences under various laws; managing the radio spectrum; providing economic development, energy, and tourism data and statistics; and ensuring the safe supply and use of electricity and gas.

The Ministry has monitoring responsibilities for eleven Crown entities[1] and works closely with two Crown companies[2]. Much of the policy decided by Ministers is implemented through these bodies, and they account for a significant proportion of funding under each of their respective Votes.

The Ministry also supports the Minister for Economic Development in leading the overall development and implementation of a medium-term cross-cutting and sectoral action plan to enhance support for science, innovation, and trade – one of the Government's six main economic policy drivers.

In addition to the above, the Ministry has, over the past few years, been tasked with a number of urgent priorities, with some of these being outside its core business. Recent examples include support for the Rugby World Cup, responding to the Canterbury earthquakes and the Pike River disaster, and the development of a National Cybersecurity Strategy.

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[1] Commerce Commission; Electricity Authority; Energy Efficiency and Conservation Authority; External Reporting Board; Financial Markets Authority; New Zealand Tourism Board; New Zealand Trade and Enterprise; Retirement Commission; Standards Council; Takeovers Panel; and the Testing Laboratory Registration Council

[2] New Zealand Venture Investment Fund and Crown Fibre Holdings

Summary of Changes (applies to all agencies and votes)

1. *Operating changes sought* *(Refer to tables 3 to 5 below for breakdown to Departmental, Non Departmental and Crown Entity impacts.)*	**Impact $m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Current Baseline	*1,301.597*	*825.982*	*732.973*	*726.286*	*696.355*
Cost pressures resulting from existing policies/settings [**section 3**]	*1.246*	*2.937*	*5.727*	*10.167*	*0.177*
Cost of new/increased activities [**section 4**]	*1.014*	*7.897*	*7.752*	*5.217*	*5.000*
Efficiency savings [**section 4**]	-	*(2.516)*	*(2.636)*	*(2.636)*	*(2.636)*
Amount reprioritised [**section 4**]	*(27.626)*	*1.158*	*(0.342)*	*(0.342)*	*(0.342)*
Net impact	***(25.366)***	***9.476***	***10.501***	***12.406***	***2.199***
New baseline	***1,276.231***	***835.458***	***743.474***	***738.692***	***698.554***

2. *Baseline capital expenditure*	**Impact $m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Departmental					
Baseline funding available for departmental capital expenditure **[section 5, table 7, row e]**	*22.282*	*18.311*	*18.028*	*19.959*	*21.956*
Investments funded from departmental capital expenditure **[section 5, table 7, row f]**	*14.788*	*12.000*	*10.000*	*10.000*	*10.000*
Non-departmental					
Total **[section 5, table 8]**	*24.759*	*20.172*	*13.760*	*10.550*	*10.550*

The Ministry is not seeking any new funding in relation to capital investments for Budget 2012 or future Budgets.

3. Departmental budgets	**Impact $m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Current Baseline	*160.702*	*148.146*	*151.746*	*151.246*	*151.246*
Cost pressures resulting from existing policies/settings	*1.246*	*0.177*	*0.177*	*0.177*	*0.177*
Cost of new/increased activities	*1.014*	*0.507*	*0.362*	*0.217*	-
Efficiency savings	-	*(2.516)*	*(2.636)*	*(2.636)*	*(2.636)*
Amount reprioritised	-	*0.400*	-	-	-
Net impact	***2.260***	***(1.432)***	***(2.097)***	***(2.242)***	***(2.459)***
New baseline	***162.962***	***146.714***	***149.649***	***149.004***	***148.787***

4. Non-departmental budgets	**Impact $m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Current Baseline	376.789	187.522	125.539	129.335	99.905
Cost pressures resulting from existing policies/settings	-	*2.760*	*5.550*	*9.990*	-
Cost of new/increased activities	-	*2.390*	*2.390*	-	-
Efficiency savings	-	-	-	-	-
Amount reprioritised	*(20.626)*	*11.758*	*(0.342)*	*(0.342)*	*(0.342)*
Net impact	***(20.626)***	***16.908***	***7.598***	***9.648***	***(0.342)***
New baseline	***356.163***	***204.430***	***133.137***	***138.983***	***99.563***

5. Funding provided to Crown Entities	**Impact $m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Current Baseline	764.106	490.314	455.688	445.705	445.204
Cost pressures resulting from existing policies/settings	-	-	-	-	-
Cost of new/increased activities	-	*5.000*	*5.000*	*5.000*	*5.000*
Efficiency savings	-	-	-	-	-
Amount reprioritised	*(7.000)*	*(11.000)*	-	-	-
Net impact	***(7.000)***	***(6.000)***	***5.000***	***5.000***	***5.000***
New baseline	***757.106***	***484.314***	***460.688***	***450.705***	***450.204***

6. Decisions pending	$m				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
[6]					
Square Kilometre Array (SKA)+	-	*TBA*	*TBA*	-	-
International Convention Centre*	*1.014*	*0.507*	*0.362*	*0.217*	-
Legacy activities for the America's Cup*	-	*2.390*	*2.390*	-	-
[6]					
[1]					
[6]					
[6]					
Total	***1.014***	***9.557***	***107.302***	***129.207***	***17.310***

** Currently these cost pressures are proposed to be funded through reprioritisation within existing baselines.*

+ Funding for this will be sought by way of a Cabinet paper

Section 2: Priorities

The Ministry works to give effect to the Government's objectives by regularly re-evaluating the relative priorities of different work programmes, and directing resources to areas of highest priority and most need. This helps the Ministry ensure that its resources are well-aligned with Government priorities. Below is a summary of key priorities across our six votes:

- continuing to lead the Science Innovation and Trade driver of the medium term economic growth agenda, including ongoing delivery of priority initiatives (cross-Vote)
- increasing investor confidence and participation in New Zealand's financial markets (Vote Commerce)
- improving New Zealand's regulatory environment through reviews of security law and regulatory barriers to export growth, the financial reporting framework and development of regulatory reform bills that reduce compliance costs to business (Vote Commerce)
- implementing and encouraging up-take of key Government broadband policies, the Digital Switchover and allocation of the 700MHz spectrum, key regulatory reform, and a resilience and cyber-security programme of work (Vote Communications)
- maintaining momentum on the Government Procurement Reform Agenda (Vote Economic Development)
- maximising the benefits to New Zealand from its natural and diverse resources, in an environmentally responsible way (Vote Energy)
- continuing to deliver energy efficiency and renewable energy programmes (Vote Energy)
- ensuring that the decisions arising from the Electricity Market Review are implemented effectively and focus remains on secure and affordable energy (Vote Energy)
- supporting the passage, enactment and implementation of key consumer law reforms, including those focussed on incentivising responsible lending (Vote Consumer Affairs)
- raising awareness and effective use of consumer dispute resolution schemes (Vote Consumer Affairs)
- sharpening focus on offerings suited to higher value visitor markets/market segments and on capturing greater value from all international visitors (Vote Tourism)
- completing the New Zealand Cycle Trail and transitioning it to a new management structure (Vote Tourism).

This list of priorities may evolve following discussions with incoming Ministers.

In addition to the above the Ministry provides a wide range of services that underpin our business environment, including:

- Vote Economic Development: Provision of the Government Electronic Tender System (GETS) solution for transparent access to tenders
- Vote Communications: Radio Spectrum Management
- Vote Commerce: Companies Office, Insolvency and Trustee Service, Intellectual Property Office, trade remedies
- Vote Consumer Affairs: Measurement and Product Safety Service, providing consumers and businesses with online information on their rights and responsibilities under consumer laws, and training and advice to community organisations who provide front-line services to consumers
- Vote Energy and Resources: New Zealand Petroleum and Minerals, Energy Safety Service and Fuel Quality monitoring.

We also provide economic development, energy, and tourism data and statistics; investigate and prosecute offences under various laws; and support emergency telecommunications services.

Section 3: Cost Pressures

Over recent years, the Ministry has been able to largely absorb increased cost pressures arising from additional activities (such as the Rugby World Cup and Petroleum Action Plan) by reprioritising funds within and across our six votes. This has been achieved by focusing on Crown funded appropriations across our Votes and ensuring these are directed to priority areas.

The Ministry will not be able to absorb any further significant new initiatives or significantly increased funding requirements should the Government decide to pursue these, unless Ministers simultaneously curtail existing programmes and initiatives. Some new initiatives [6] will require a response from across a range of government agencies.

<u>Short term cost pressures</u>

The Ministry has examined the costs pressures faced across each of its Votes. The summary below describes cost pressures over the next four years which we plan to absorb within our baselines:

Vote Economic Development:

- Additional costs of $0.466M incurred in relation to Rugby World Cup policy advice (2011/12).

- Additional resources that will be required in the development and on-going support of the GETS ($0.800M in 2012/13 and out-years).

Vote Consumer Affairs

- On-going pressures of $0.350M per annum as a result of relatively static or declining baselines (2012/13 and out-years).

<u>Future work-streams that will require Ministerial decisions</u>

There are also some additional areas that the Government will need to consider over the next four years. In particular, these relate to:

Vote Economic Development

- [6]

- Square Kilometre Array (SKA) - A decision from the International Governing Board is expected by the end of the first quarter of 2012. This will determine the project's location, scale and timing. If Australia and New Zealand jointly win the bid, there may be some pressure to contribute an additional host premium over the life of the project. The scale and timing of New Zealand's contribution would be subject to further negotiation with our Australian co-hosts and the international community. Cabinet will need to decide how any additional costs should be met across Government (if any).

- The costs (up to $2.1M) the Crown will incur in ensuring the design and facilities of the New Zealand International Convention Centre meet the Government's aspirations (if the project proceeds). The costs will be met through reprioritisation of savings within Vote Economic Development.

- Realising the economic benefits of leveraging and legacy activities for the America's Cup (2012/13 and 2013/14), to the extent Ministers choose to do so. [6]

Vote Commerce

- Financial pressures on front-facing registry systems as a result of insufficient fee revenue. A proposed reinstatement of the annual return fee for companies will address this pressure. We propose reviewing the annual return fee at least every three years to ensure that outputs are fully cost recovered from third parties and to ensure MED does not benefit from over-recovery. A discussion paper on this proposed fee increase is currently out for public consultation; we anticipate that Cabinet will consider this proposed increase in the New Year.

Vote Communications

- [6]

- [1]

Vote Energy

- Costs of meeting New Zealand's oil stock reserve requirements [6] As a member of the International Energy Agency (IEA), New Zealand is required to maintain oil stocks equal to 90 days of oil imports. This requirement acts as a form of insurance against international oil market disruption. [6]

[6]

[6]

[6]

Costs will be incurred for the storage of diesel fuel in Z-Energy’s tanks at the Port of Napier until this fuel can be sold. This fuel (approximately 20 million litres) is the residual fuel not sold to Contact Energy with the sale of the Whirinaki Power Station on 22 December 2011. The current appropriation ceases 30 June 2012, and is sufficient to meet these costs for the 2012 year.

Efforts to sell the fuel are proceeding, but are constrained because the fuel cannot be sold into the New Zealand automotive market between 1 April and 31 August as it is not ‘winter-grade’ fuel. Accordingly, the fuel is unlikely to be sold by the time the current appropriation ends and therefore a new appropriation will be needed to cover these costs until such time as the fuel is disposed of. These costs are estimated at $600,000 per annum (it is anticipated that these costs will increase once the services contract with Z-Energy expires on 30 September 2012). Note that the Crown received about $700,000 (net) from operation of the Whirinaki plant on 13 December 2011.

Operating changes sought	**Impact $m increase/(decrease)**			
	2012/13	**2013/14**	**2014/15**	**2015/16**
Current Appropriation Maintenance and Operation of Whirinaki	-	-	-	-
Forecasted increase in appropriation	*0.600*	-	-	-
Revised Appropriation	***0.600***	**-**	**-**	**-**

Section 4: Proposed Changes for 2012/13 to 2015/16

The current six Vote structure that MED manages is used to differentiate the various portfolios that contribute significantly to the development of the New Zealand economy. Across the six Votes, various areas are third party funded. This vote structure results in administrative inefficiency and limits MED's (and Ministers') ability to prioritise effectively.

We are investigating recommending the consolidation of the six Votes into one Vote. This would provide greater flexibility for the Ministry in optimising funding utilisation and in streamlining our internal organisational structure.

The Ministry will continue to actively seek to find savings and reprioritise effectively across its Votes to deliver on Ministers' priorities, meet efficiency savings targets agreed by Cabinet, and manage within baselines.

The outcome will be that we do less with less. We will be engaging with the incoming Minister for Economic Development and with our other Ministers on how best to organise a prioritisation process across all our Votes that will enable longer term cost pressures to be managed.

New Initiatives

Vote Energy

There are a number of options with regard to energy efficiency programmes and seismic exploration that have strong cost benefit arguments that Ministers may wish to consider.

[6]

Additional funding is required for the Electricity Authority (the Authority) to implement a direction given to it under the Electricity Industry Act 2010 for it to create a mechanism for electricity market participants to manage purchase risk. To meet this requirement the Authority is creating a market for Financial Transmission rights (FTRs). This requires the Authority to setup a new service provider – the FTR manager – and to develop the necessary supporting software. [6]

hese costs will be fully recovered from electricity market participants through the electricity industry levy.

Operating changes sought	**Impact $m increase/(decrease)**			
	2012/13	**2013/14**	**2014/15**	**2015/16**
Current Appropriation Electricity Industry Governance and Market Operations	*63.214*	*63.913*	*64.633*	*64.633*
Forecasted increase in appropriation	[6]	*0.960*	*0.960*	*0.960*
Revised Appropriation	[6]	***64.873***	***65.593***	***65.593***

Vote Tourism

Prior to the general election the Minister of Tourism and the previous Minister for Economic Development supported an increase of the funding available to Tourism New Zealand (TNZ) to market and promote New Zealand as a destination for business events – conferences and incentives. [6]

With an increase in funding for enhancing business events' activities, the considerable opportunities for attracting business tourists who visit longer and spend more than domestic convention attendees can be leveraged more effectively. This will also enable the returns from the proposed Government investment in the New Zealand International Convention Centre to be optimised. This investment will support the Government's priorities of enhancing the value of tourism's contribution to the economy, attracting tourists in non-peak seasons and benefitting from business and other connections made during events.

We will discuss with TNZ and with the Ministers of Tourism and Economic Development whether some, or all, of this money can be found through reprioritisation across TNZ's marketing expenditure. A significant 30-40% reduction in general, base-level marketing investment in one or more of TNZ's priority markets, such as Australia or China, would be required. TNZ has already had to significantly re-prioritise and reduce its international marketing efforts following the reduction in its funding from $100 million to $85 million per annum. To divert further funding from its general marketing effort to business events marketing could increase the value of a small portion of our international visitors at the risk of significantly reducing the less valuable but numerous holiday and Visiting Friends and Relatives travellers.

Non-Departmental Appropriation extension to 30 June 2012

Expenditure within the non-departmental MYA other expenses – The National Cycleway Fund - to 30 June 2012 for the National Cycle Trail project will be approximately $35m (over the 3 years of the appropriation), leaving a balance of at least $12.5m to be expended in 2012/13 financial year.

The original plan was to complete all funding by 30 June 2012. However, delays in obtaining resource consents and negotiating adequate land access have affected the start of construction for a number of the trails. Also, instead of fast-tracking each project, the trails preferred to win-over community support and obtain full buy-in before commencing construction. All these factors have resulted in slower than anticipated drawdown of funds.

The way that the funding works is that recipients are reimbursed based on invoices received for actual work completed. Some of the recipients, in particular the larger Councils which have the cash-flow to fund three or four months of construction at the time, do not invoice each month. This has resulted in a lag in funding drawdown. Also, a number of trails have elected to utilise co-funding first, hence pushing out the timing of the drawdown of New Zealand Cycle Trails (NZCT) funding.

When the cycle trail project was established a new multi-year NDOE appropriation was established in Vote Tourism for the trails' funding. Some additional funding was also provided in the Tourism policy advice output for the costs of managing and administering the Fund and co-ordinating the development of the New Zealand cycle trails project, but that has had to be augmented through a reallocation of departmental funds in Vote Tourism.

Clearly the volume and costs of the administrative efforts reduced as decisions were made on the allocation of the Fund. However, although the subsequent timing of draw-down from the Fund has been slower than anticipated, managing fund flows is only a small part of the NZCT work. The role of the NZCT team in planning, co-ordinating, promoting the trails, servicing the Minister and mediating disputes around the development of trails has continued as anticipated. At 30 June 2012 the original new funding for administering the Fund will cease. It is expected that during 2012/13 most of the committed monies remaining in the Fund will be drawn-down (any residual administration costs in subsequent years will be absorbed within Vote Tourism) and that responsibility for the future of the trails will be suitably vested in an appropriate national governance structure that is funded by the agencies involved, within existing baselines.

Given that the non-departmental appropriation needs to be extended a further financial year to enable completion of all the trails, it is estimated that approximately $400k of the Fund will need to be used to cover the costs of the staff who will administer the Fund.

Savings

Efficiency savings - departmental

The Ministry's departmental expenditure is largely driven by personnel, consultancies, information technology (IT), travel, and accommodation, and it is committed to improving its efficiency and effectiveness across these cost drivers.

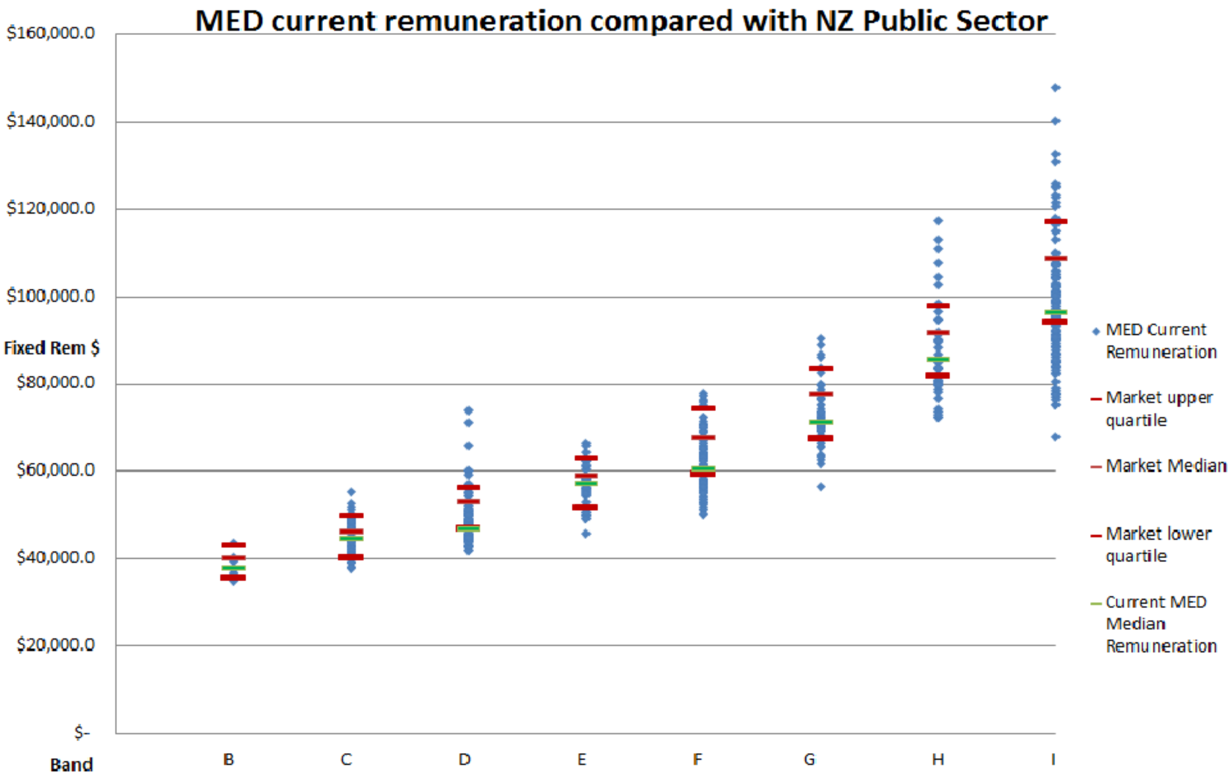
Personnel/consultancy costs

The Ministry will ensure that staffing (including contracting/non-employee) numbers and costs are effectively managed over the next 4 years, while delivering required outputs and improving overall capability, productivity and engagement. In particular:

Workforce Strategy – Capability: The workforce strategy will review the capability required at the more senior policy levels, and how these roles are structured to ensure there is no duplication of activity. The Ministry will also focus on improving succession planning and retaining and developing talent to ensure that there is internal capability to fill these roles. HR will implement a number of initiatives in 2012 to identify, develop and retain staff with high leadership potential and aim to increase the number of leadership roles filled internally.

Workforce Strategy – staff numbers: MED's FTE number has been steadily decreasing over the last 3 years (769 in December 2009 to 739 in December 2011) despite taking on significant new work in the last two years that required between 40 and 60 extra FTE staff. This included establishing a new petroleum and minerals work programme (requiring up to another 40 staff, with 20 new staff on board now), the cycle trails project (between 5 and 8 staff), Rugby World Cup project (up to 15 FTE's), the procurement reform programme (additional 15 to 20 FTE's), the establishment of the Financial Markets Authority and the Ultra-fast Broadband project. The Ministry has successfully staffed the projects with a combination of secondments (internal and external to MED) and fixed term agreements with minimal use of consultants and additional permanent staff. Some functions have moved such as the Emissions Trading Scheme (ETS) to the new Environment Protection Agency but these are not significant numbers (11 staff with the ETS) compared to the number of staff needed to take on new work.

Remuneration: In line with the Government's expectations, the Ministry limited remuneration increases to an average of 3.1% across the board in 2010/11. Alongside this, the Ministry also reduced staffing levels by 11.4 FTE's. The key themes in the Ministry's recently reviewed remuneration strategy are to continue to pay near the median of the public sector, to pay against specific markets where needed (e.g. geologists), to drive engagement by continuing to offer attractive development opportunities and strong managerial leadership, to remove minimum pay points for ranges (remove automatic movement to 80% of range for example), and to increasingly allow more discretion to pay based on performance (the focus here is to make smaller or no pay movement to less strong performers thus permitting people to fall in the ranges relative to the market). Current pay practice is significantly lower than the market median for a number our job bands (based on Hay point ranges) and yet engagement has increased significantly in the last year and the overall MED score is at the 77th percentile of the NZ Public Service. Turnover is around 20% and higher than desired, but exit interview analysis shows that only part of this is relating to pay. The graph below shows the current MED pay practice relative to various markets. The Ministry will direct most pay movement to policy/senior policy analyst (the F and I bands) and manager policy roles where there is a combination of a pay gap relative to the market median, as well as where the Ministry most needs to retain and develop capability. Expectations are for around 2% remuneration increases over the next four years.



The total salary costs for the Ministry, as at 31 December 2011, was $58.8 million. We will meet our on-going salary costs while remaining within baselines through a combination of reducing expenditure on consultants[6] One of the mechanisms for reducing headcount is the merging of policy teams. For example we have reduced four energy policy teams to three, three ICT policy teams to two and are in the process of reducing four Wellington-based economic development policy teams to three. This reduces the cost of managers and, over time the number of policy analysts will reduce. We will reduce administrative and corporate support numbers commensurately.

Staff numbers for Procurement Reform over the next few years will depend on activity levels, but are funded through a transaction fee.

Staff numbers in the New Zealand Petroleum and Minerals (NZP&M) group are likely to increase by up to ten from current numbers (this was anticipated in the reprioritisations agreed to by Ministers when deciding to step-up NZP&M's capability).

Process, system, and technology efficiencies: Over the next 4 years the Ministry will focus on reducing staffing numbers through improved efficiencies in processes, investment in technology that allows for short and medium term cashable savings and ensuring work is undertaken at the right levels in the organisation. The BASS report highlights opportunities to make staffing efficiencies in support services and the Ministry will focus on how to improve efficiency measures. The Ministry is participating in the HR Quick Start Initiative and planning to implement improved technology to drive greater efficiency and effectiveness in delivery of HR services. We will pursue any potentially cost-saving/value-adding shared service possibilities.

The Business Service Branch, which employs nearly half of all the Ministry staff, has an on-going programme of making efficiency gains, delivering fit for purpose services, and maximising use of technology. In the next 12 months it will focus on realising staff efficiencies generated as a result of investing in new technology.

The Ministry has also initiated a number of initiatives coming out of our recent Performance Improvement Framework (PIF) review. Some areas of particular value to achieving increased productivity and efficiency across MED include:

- being more rigorous about priority setting
- having more urgency in progressing priorities that are not being driven by Ministerial timeframes – we will use the '90-days' method (where we set goals for, and evaluate progress after, a 90-day period) for this purpose
- making explicit decisions about what we should not be doing, supported by feasible exit strategies
- collecting better management information to measure and drive improved cost effectiveness, underpinned by a fit-for-purpose time recording system and the use of objective benchmarks of quality wherever possible.

Information Technology

A key area of investment for the Ministry is in Information Technology (IT). The Ministry runs a predominantly out-sourced IT delivery model. As a result, we carry higher service provider fees and lower in-house costs relative to other comparator organisations that are not predominantly outsourced. This operating model enables us to ensure that costs for service delivery fall where they accrue with direct accountability to the provider of the IT services.

Over the last few years, the Ministry's investments in IT have been substantial. This has been driven by two reasonably significant capital investments in the service delivery part of the Ministry on top of the important and on-going business-as-usual investments in service delivery platforms.

Over recent years MED has proactively sought to improve its business interface and underlying capability of the IT infrastructure by sourcing solutions from the market for commodity IT functions and by re-negotiating supply arrangements with most functional suppliers. Moving forward, this Ministry will be an early adopter of the Infrastructure as a Service ("IaaS") offering negotiated by DIA. This will enable us to remove the last of the aging and commoditised IT infrastructure assets from our balance sheet, resulting in a significantly higher quality solution with net savings (inclusive of depreciation) – again without any capital "spike". We will have more predictable expenses with agreed service levels and we will be able to ensure that any capital injections are directed at applications that are specific to Ministry deliverables. Across the IaaS contract term (10 years), it is likely that the net savings would be in the vicinity of $12.5M. It should be noted however that the Ministry's operating position is likely to be neutral in the first two years, with savings kicking in thereafter.

Accommodation and Travel

The Ministry has also been working on reducing its accommodation costs and moving towards the $16m^2$ target. The Ministry is also committed to reducing its total travel spend and in the 2010/11 year spent $3.5M on travel, which was $36k less than in 2009/10 and $886k less than in 2008/09. A small reduction was achieved in 2010/11 despite additional costs as a result of the Canterbury earthquakes, the Pike River disaster, Rugby World Cup, and whole-of-government procurement activity.

The 3% efficiency dividend has been met for each of the six Votes[3].

While MED will absorb the efficiency dividend an inequality is created in third party funded activities. The basis for the efficiency dividend is 3% of Revenue Crown with an offset for SSRSS and Kiwisaver costs. However a large part of MED activities are public facing and as such there is no Revenue Crown yet they have a significant SSRSS and Kiwisaver component. As a result these third party funded areas are then contributing more than 3%.

The initiatives described will incrementally improve activities for savings.

Efficiency savings – non-departmental

The Ministry has continued to seek value-for money improvements by evaluating the effectiveness of the various programmes delivered by the Ministry or its Crown entities, and by proactively working with its Crown entities to identify savings and increase their efficiency and effectiveness. In particular, the following efficiency savings/underspends have been identified:

Vote Economic Development

- savings of $4.193M from Grants Funding (2011/12)
- savings of $2.000M from the Major Events Development Fund (2011/12)
- savings of $1.133M from the Management Development Fund (2011/12)
- savings of $0.800M from the Escalator Fund (2011/12).

Vote Tourism

- [6]
- [6]

In Vote Commerce, the Commerce Commission has a significantly increased workload while it implements the amended Part 4 of the Commerce Act. The Commission will meet these

[3] It should be noted that an adjustment to the Vote Energy efficiency dividend figure relates to the transfer of the ETS and Climate Change functions from the Ministry of Economic Development to the Environmental Protection Authority

pressures through internal reprioritisation. The Financial Markets Authority is still in set-up phase.

The Ministry works with our partner Crown entities to identify savings and increase efficiency and effectiveness. As some of the entities are relatively new (and therefore, their budgets have only recently been established)[4] we have focussed recent efforts where we believe further efficiencies could be made, i.e.:

- NZTE: The Ministry worked closely with NZTE on its new output class structure, which has provided greater flexibility to re-deploy resources to priority areas. NZTE's recent PIF review has also identified a number of efficiencies.

- TNZ is committed to a practice of continuous improvement in pursuit of improved efficiency while maintaining or improving organisational effectiveness, in particular:

    - TNZ has reviewed and consolidated its IT vendors, reduced its floor space in the Wellington office, and demonstrated improvements in its Management Practice Indicators (MPIs) through the Better Administration Support Services (BASS) programme. TNZ is also reviewing its finance system which is expected to yield efficiency and organisational effectiveness improvements, and is currently exploring further opportunities for improving efficiencies through co-location of offices offshore as leases come up for renewal. Specific projects from 2009/10 and 2010/11 included: implementation of a new IT strategy that included a review and consolidation of IT vendors, reduction of floor space in the Wellington TNZ office (and sub leasing the new space). These initiatives are expected to realise cost savings of approximately $1.0 million per annum from 2012/13, as well as delivering significant improvements to the reliability and effectiveness of TNZ's IT infrastructure as demonstrated through improvements in the benchmarking of TNZ through the Better Administration Support Services (BASS) programme, where improvements in six Management Practice Indicators were observed from 2009/10 to 2010/11.

    - A review of the finance system used by TNZ is also expected to yield efficiency and organisational effectiveness improvements. An increased focus on joint venture marketing partnerships with aviation and tourism industry partners enables TNZ both to extend its reach through partnership funding and to increase effectiveness through providing an improved call to action for potential visitors. Reductions in TNZ travel costs are arising from increased use of video, phone and web conferencing.

    - As part of its drive to seek efficiency improvements and improve cooperation between NZ Inc agencies, opportunities for co-locating TNZ offices with other NZ Inc agencies off shore have been identified and pursued. To date, TNZ has co-located with other New Zealand government agencies in Mumbai and Shanghai and has reached agreement to do the same with offices in

[4] For example, the Financial Markets Authority; the Electricity Authority; and the External Reporting Board.

Singapore. Further opportunities for improving efficiencies through co-location of offices offshore will be explored as leases come up for renewal.

- In addition to cost savings, the benchmarking of TNZ through the BASS programme has seen a more efficient use of resources. This is demonstrated through Management Practice Indicator (MPI) improvements within the Information and Communication Technologies (6 MPI improvements), Communication (3 MPI improvements), and Human Resources (2 MPI improvements) areas over the last two years.

- EECA: MED and EECA have recently completed a value for money review of EECA's electricity efficiency and renewables programmes and initiatives. The review process provided a basis to identify efficiencies for delivery of the programmes, including consolidating outputs and undertaking programme evaluations and development of a centralised grant administration system. The review found that EECA's programmes focussed on the right things especially in targeting investment just outside the range of investment that businesses would have undertaken without assistance. The review identified that improvements could be made in tracking energy savings and where EECA focuses its resources. MED has also commissioned independent reviews of EECA's two largest programmes: Warm Up New Zealand: Heat Smart and the Business programme. The outcomes of these reviews are expected in the New Year.

Section 5: Baseline capital expenditure

The Ministry's capital intentions over the five-year period from 2011 to 2016 are shown below.

7. **Departmental capital expenditure**	**$m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
a. Opening baseline funding available[5]	*13.300*	*7.494*	*6.311*	*8.028*	*9.959*
b. Depreciation funding (1:51:1, 199)	*8.982*	*10.817*	*11.717*	*11.931*	*11.997*
c. Sale of assets (1:52:0, 1999)	-	-	-	-	-
d. Other (please specify)	-	-	-	-	-
e. Total baseline funding available (a+b+c+d)	*22.282*	*18.311*	*18.028*	*19.959*	*21.956*
f. Capital investments funded from baselines	*14.788*	*12.000*	*10.000*	*10.000*	*10.000*
g. Closing baseline funding available (e-f)	*7.494*	*6.311*	*8.028*	*9.959*	*11.956*

8. **Non-departmental capital expenditure**	**$m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Capital investment in organisations other than departments (0:6:X & 0:7:X, 599)	*24.759*	*20.172*	*13.760*	*10.550*	*10.550*
Baseline funding available for the purchase or development of Crown capital assets (0:6:X & 0:7:X, 699)	-	-	-	-	-
Total	*24.759*	*20.172*	*13.760*	*10.550*	*10.550*

All planned expenditure will be funded from depreciation. We are not planning any capital bids.

[5] For the 2011/12 year, this figure should represent assets held on the balance sheet (e.g. cash and debtor Crown) that are available to fund future purchases of property, plant and equipment. The figure in row (g) for 'closing baseline funding available' becomes the figure in row (a) for 'opening baseline funding available' in the following year.

Section 6: Further options

Natural Resources sector

MED is engaged in discussions across the Natural Resources Sector with the aim of seeking new ways to deliver and ultimately improve our efficiency. We are still at the early stages of this process. Work will continue in 2012 to assess options for future service delivery models, particularly in the administration and support service areas.

MED considers that there are some potential revenue raising options in relation to the royalty regime for minerals in particular. MED will be undertaking work in 2012 to review the merit of such options.