

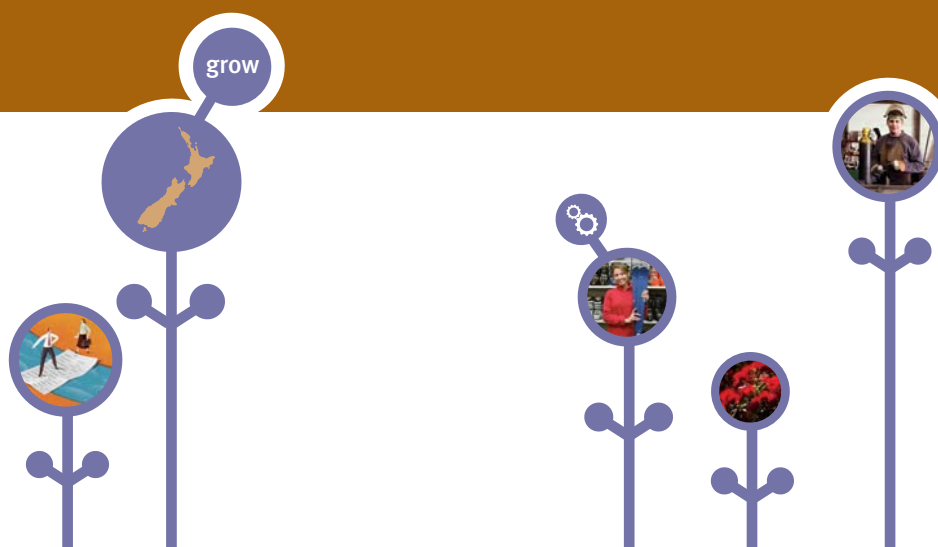
This Statement of Intent describes the Ministry's strategy for building and maintaining an effective environment in which business can succeed.

Statement of Intent 2006 | 2009

Ministry of Economic Development

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ISSN 1175-8481
G.46 SOI (2006)



Ministry of Economic Development
Manatū Ōhanga

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Ministerial Statement

Economic transformation is at the heart of the Government's policy programme. We are working to transform New Zealand into a high-income, knowledge-based market economy; a place where innovation and creativity are fostered and valued; a place where New Zealanders enjoy high living standards and a unique quality of life.

The Government has identified five key areas of focus for its work on economic transformation:

- Growing globally competitive firms
- World-class infrastructure
- Innovative and productive workplaces, underpinned by high standards in education, skills and research
- An internationally competitive city – Auckland
- Environmental sustainability.

The Ministry of Economic Development has a critical role in progressing this work and in advancing a range of other issues which will contribute to economic transformation.

This Statement of Intent for 2006-2009 describes the strategy the Ministry is adopting to play its part in improving New Zealand's sustainable economic development. The Ministry has identified five strategic priorities to support the drive for economic transformation and a rise in per capita incomes. It will continue to provide leadership across the public sector on these issues, and it will work with local government, business and communities to advance the strategic priorities.

We endorse the strategy in this Statement of Intent as reflecting and supporting the Government's overall strategy for economic transformation. We confirm that the information it contains is consistent with the policies and performance expectations of the Government.

The Ministry works across nine portfolios to deliver economic development outcomes. This reflects the complexity and centrality of economic development issues to government policy-making. Given this broad scope, it is crucial to focus on the things that will make the most difference. The strategic priorities provide that focus.



Hon Trevor Mallard

MINISTER FOR ECONOMIC DEVELOPMENT
MINISTER FOR INDUSTRY AND REGIONAL DEVELOPMENT
ACTING MINISTER OF ENERGY
RESPONSIBLE MINISTER



Hon Lianne Dalziel

MINISTER OF COMMERCE
MINISTER FOR SMALL BUSINESS



Hon Damien O'Connor

MINISTER OF TOURISM



Hon David Cunliffe

MINISTER OF COMMUNICATIONS
MINISTER FOR INFORMATION TECHNOLOGY



Hon Judith Tizard

MINISTER OF CONSUMER AFFAIRS

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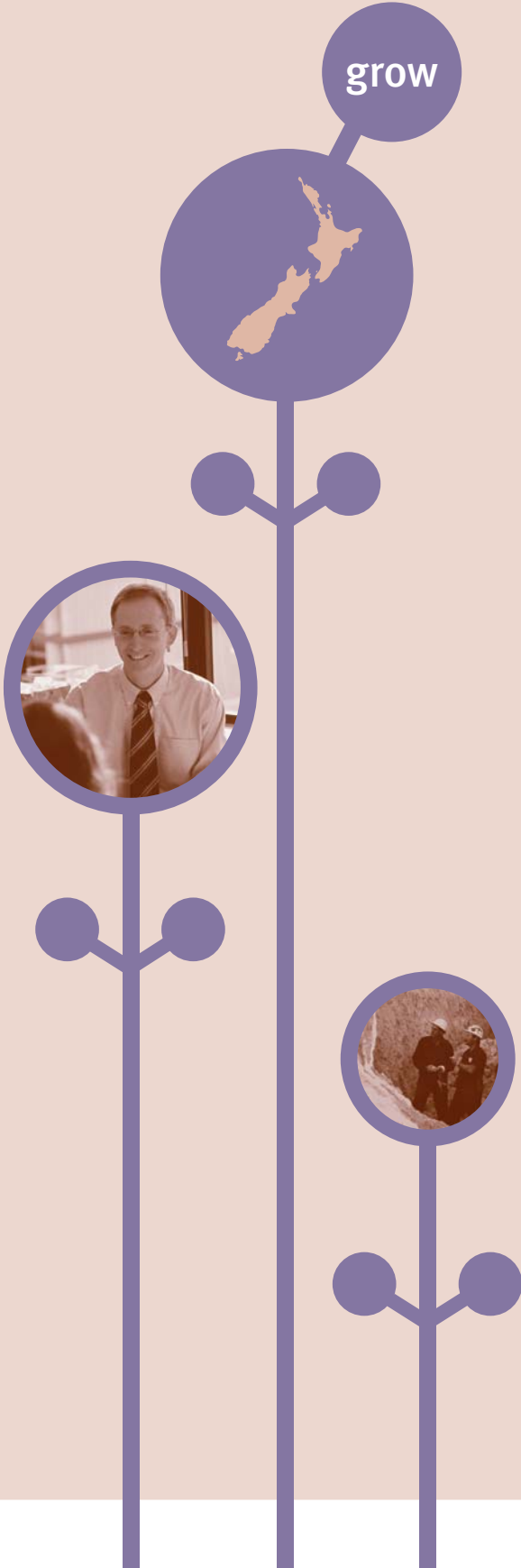
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Part A

Strategic Direction

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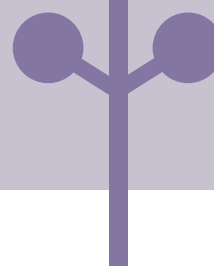
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Chief Executive's Introduction

The Ministry of Economic Development assists the Government to develop and implement policies and services that promote growth. It leads the public sector-wide effort to advance the Government's agenda for economic transformation.

Economic growth contributes to the Government's objectives by underpinning the living standards of New Zealanders. It also supports social cohesion and sound environmental management.

The Ministry's broad goal is working to ensure that the business environment promotes productivity growth, and it undertakes a broad range of activities across six Votes in pursuit of this goal. To prioritise our effort and ensure that expertise and resources are focused on areas with the highest potential for growth, we have identified five key strategic priorities.

In summary, these are:

→ **Leadership**

Leading a whole-of-government approach to economic development

→ **International Linkages**

Improving the international linkages that allow firms to benefit from trade, knowledge transfer and investment

→ **Innovation**

Fostering entrepreneurship and innovation in New Zealand firms

→ **Regulatory Environment**

Strengthening the growth focus in the regulatory environment for business

→ **Infrastructure**

Improving the quality and reliability of key infrastructure services

This Statement of Intent shows why these five strategic priorities have been chosen, what the Ministry is trying to achieve within each, what the critical issues are and which output classes contribute to each strategic priority.

While the strategic priorities focus on particular areas where increased effort is likely to be most positive for growth, all the Ministry's work aims to enhance growth. The diversity of the Ministry's contribution to growth is reflected in its 12 business environment outcomes. These have been revised since the previous Statement of Intent to improve their effectiveness as a practical device for guiding business-level strategy.

The Statement of Intent also outlines the Ministry's organisational development strategy. This strategy is designed to build the Ministry's capability, so it can realise its vision. It has three key aims: building an integrated organisation, making the Ministry an employer of choice and developing its leadership capability. The organisational development strategy also describes how the Ministry manages risks that could jeopardise achievement of its strategic priorities, business environment outcomes and operational services.

The Ministry's scope of activity is large. The strategic plan contained in this Statement of Intent shows how it intends focusing its resources to help to achieve the Government's economic transformation goals.

Geoff Dangerfield

MAY 2006

Section 1

Economic Development Context

This section sets out:

- the Government's objective of increasing sustainable economic growth;
- how the Ministry of Economic Development contributes to this objective; and
- the major opportunities and challenges that face the New Zealand economy.



The Government's Objective for Economic Development



If New Zealand is to catch up with other countries, the economy must perform better still, sustaining growth rates at high levels over several decades.

The Government's aim is to achieve a step change in sustainable economic growth. Over the next decade, it intends "working to progress our economic transformation to a high-income, knowledge-based market economy, which is both innovative and creative and provides a unique quality of life to all New Zealanders". The New Zealand economy has performed well over the past decade, halting the long-term slide in its GDP per capita ranking relative to other developed countries. Growth in income per capita has been 2.1 per cent per annum since 1994 – slightly above the average for developed economies.

Despite this good performance, New Zealand still ranks 21st in income per capita at US\$23,000, 10 places behind Australia at US\$29,600.¹ If New Zealand is to catch up with other countries, the economy must perform better still, sustaining growth rates at high levels over several decades (see Graph 1).

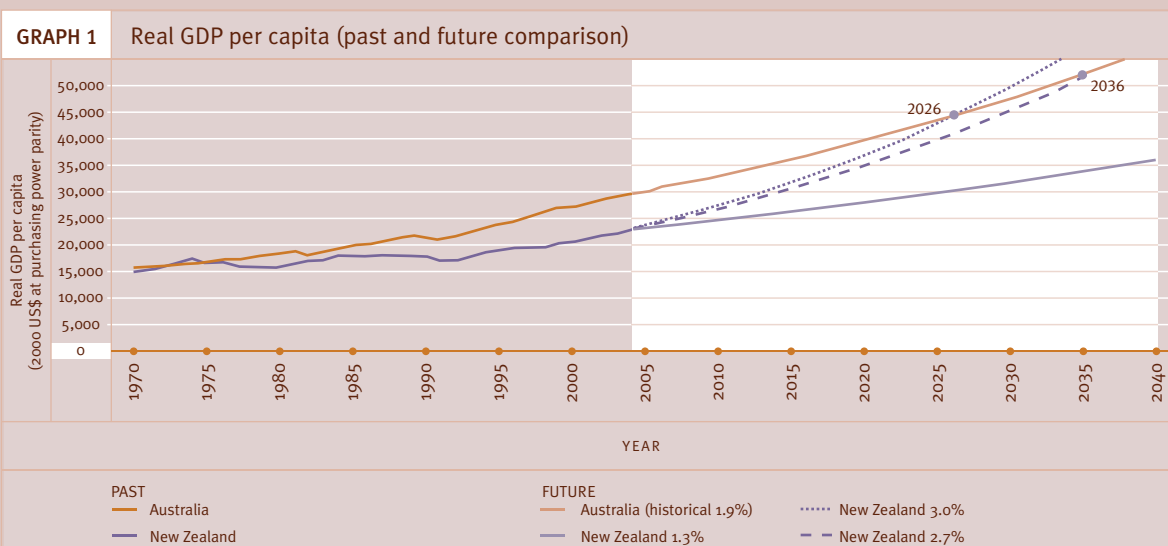
This will require high and sustained rates of growth in productivity as evidenced by the number and importance of innovative and globally competitive firms in New Zealand. Achieving this is likely to require continuing and significant change in what is produced in terms of goods and services, and how they are produced, and also in our trading relations with overseas markets.

Role of government in economic development

While firms are central to raising the productivity performance of an economy, the government plays an important role by shaping the business environment to help firms identify innovation opportunities, investing in the capabilities an economy needs in order to innovate, and influencing a wide variety of social and economic factors that underlie changes in how firms operate. Choices made in government's approach to research and development, education, infrastructure and our international linkages can materially impact the pace and direction of economic development. The way government policy influences the business environment, and so productivity growth, is illustrated in the stylised productivity model shown in Figure 1.

Innovation opportunities rarely seem to present themselves to firms in transparent ways. An innovation opportunity often represents a complex interplay between governments (who may be procuring or regulating an innovation), businesses, financial systems and research infrastructures. For example, the idea that mobile telephony was a technological opportunity emerged slowly over many years in Scandinavia as an interplay between state-owned telecom labs, electronics firms, telecom service providers, standards agencies and regional authorities.

¹ USD PPP 2000.



In a small economy, these opportunities will frequently include international linkages. The opportunity for mechanical harvesting of grapes in Australia developed in an interaction between public research organisations, American machinery producers, universities and major incumbent vineyard owners.

Innovation often rests on specific innovation inputs extending beyond R&D, such as design skills, the analysis and assessment of markets, engineering capabilities and software skills. Many of these inputs depend on the capabilities of the education and training system.

Innovation and growth rely on availability of infrastructure services. Infrastructure investment poses special problems for public policy. It usually entails large costs with significant financing burdens, and often calls for construction in an integrated rather than an ad hoc way. Costs and benefits can be spread widely, meaning that normal investment appraisal techniques are often unsuited to investment decisions. These characteristics explain why states have typically played major roles in decisions about infrastructure.

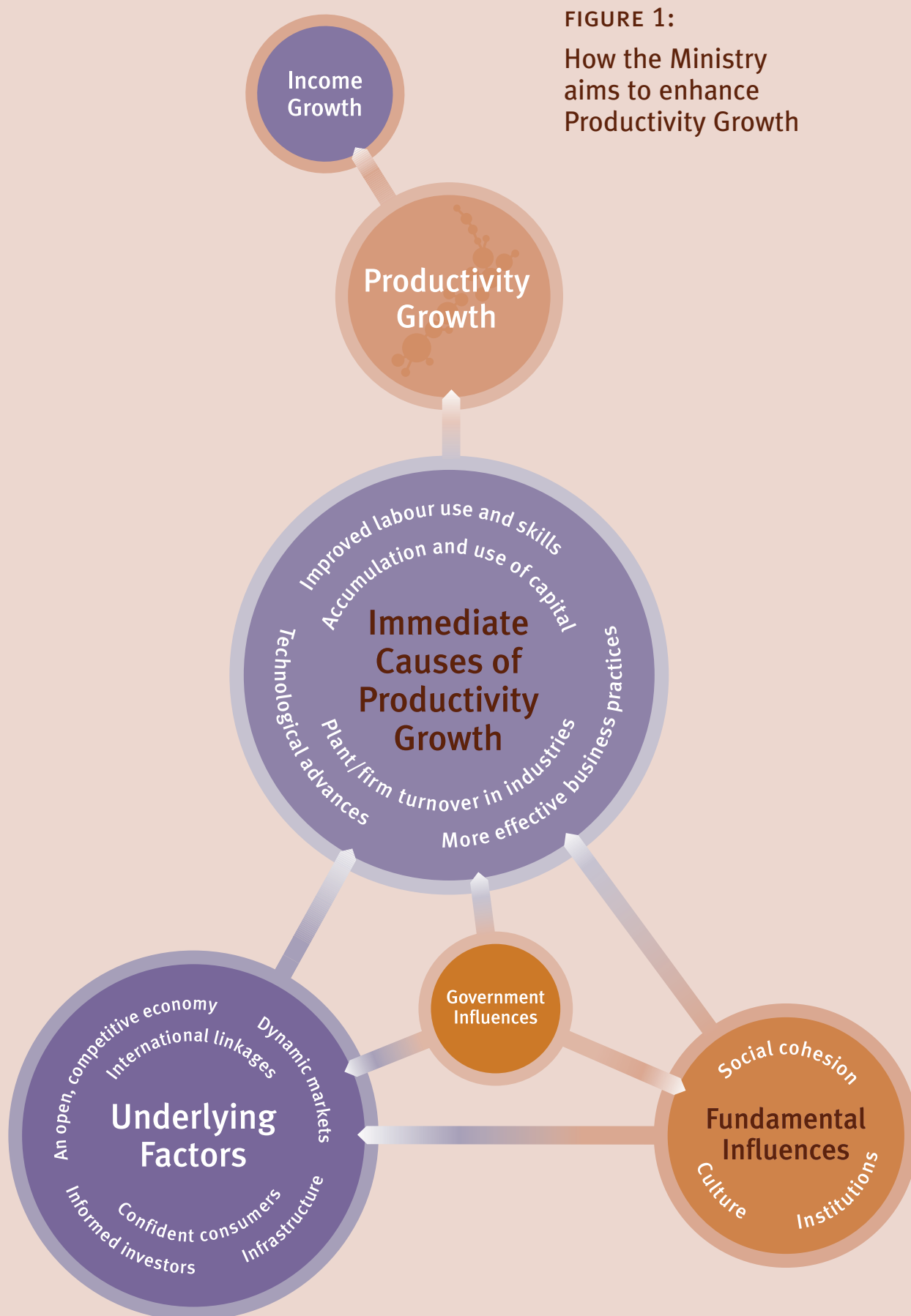
The Ministry of Economic Development assists the Government to develop and implement policies and

services that promote growth, including leading work on the Government's economic transformation agenda. This includes encouraging all government agencies to maintain a focus on economic growth.

Sustained economic growth is not an end in itself. Economic growth contributes to the Government's objectives by underpinning the living standards of New Zealanders. Economic growth also supports social cohesion and sound environmental management. The link between economic growth and social cohesion is exemplified by the recent significant decline in unemployment rates to 3.6 per cent, the lowest rate in the OECD. The economy generated 100,000 additional jobs in the last two years.

The following challenges and opportunities have been highlighted here because:

- they are known to be important for growth, productivity and innovation in advanced economies;
- they have particular resonance in a small and open economy; and
- New Zealand stands out from other countries in terms of relatively good or poor performance.



Opportunities and challenges facing the New Zealand economy

The New Zealand economy has a strong emphasis on agriculture, a small manufacturing sector concentrated on low- and medium-technology sectors, and a large service sector.

A key question facing the New Zealand economy and government is the extent to which its industry structure constrains economic growth. However, the above characteristics are shared with such countries as Finland, Sweden, Norway, Denmark, the Netherlands, Canada and Australia, and do not, in themselves, suggest New Zealand is destined to a future of low productivity growth. Several of these countries outstrip the United States in output per worker, and most of

them have sustained high growth rates of output and productivity in recent decades.

These countries rested their development paths on resource-based sectors, and out of them developed low- and medium-technology industries that have driven growth. Sweden shifted from iron ore production to iron and steel, to fabricated metal products (most notably cars and trucks), and then to machine tools and electronic systems. Finland went from paper production to chemicals for paper, and then to paper machinery – a major sector in which it is a world leader (see Table 1). The economic transformation of these countries emerged, over a number of years, from a complex interplay between various economic actors – governments, businesses, financial systems and research infrastructures.

TABLE 1: Historical industries and contemporary specialisations

Country	Historical growth industries	Some contemporary specialisations
Norway	Fishing Timber products Marine transport Non-ferrous metals Hydro power	Fishing and aquaculture Marine biotechnology Timber products Oil Marine transport Marine electronics (navigation and sub-sea technologies, including sonar and imaging) Non-ferrous metals and aluminium
Sweden	Timber products Iron ore Iron and steel Marine transport	Timber products Engineering products and vehicles Telecommunications Aerospace (military and civilian) Ships and boats
Finland	Timber products Machinery Transport equipment (especially ships) Chemicals	Newsprint and high-quality paper Machinery (especially for paper industry) Chemicals (especially for paper industry) Telecommunications equipment Ships and boats
Netherlands	Agriculture Trade and finance Machinery	Agriculture (including extension into new products, e.g. flowers) Agricultural trading and commodity exchanges Electronics Finance and banking
Denmark	Agriculture	High-value agriculture Domestic and office furniture Architecture and interior design Agricultural equipment Electronics Pharmaceuticals

Canada, Sweden, the Netherlands and Finland have also succeeded in creating important electronics and telecommunications sectors. However, in each of these countries, electronics remain a relatively small sector, and prosperity still depends a lot on continuously upgraded traditional industries. Moreover, the Netherlands and Denmark remain heavily agricultural economies, with substantial export earnings from food products.

New Zealand shares the low-tech emphasis and the widely distributed economic structures of these other small economies. Economic development policy for New Zealand cannot simply be based on high-tech sectors, but will need to have an extensive base in the industries that New Zealand actually possesses. However, this cannot be a recipe for complacency or inaction. Critical to improving our economic future will be to technologically upgrade and to innovate, in such sectors as food and beverages, textiles and clothing, printing and publishing, and timber products.

To achieve this process of upgrading and sustain high growth rates, the New Zealand economy faces some significant challenges and opportunities.

New Zealand is one of the smallest advanced economies, with total GDP of US\$94 billion;² it is also distant from the world's major markets and technology leaders. As a result, businesses have to overcome significant hurdles as they try to grow and innovate. For example, discovering information on how the technology frontier is shifting in an industry is harder from a distance. Face-to-face contact is important in getting access to this information for firms.

New Zealand firms have low levels of investment in capital and research and development. Investment in capital has been lower than the OECD median for most of the years from 1987 to 2003, though it has increased rapidly over the last few years. New Zealand businesses invested \$677 million in research and development in 2004. If New Zealand businesses invested at the OECD average rate, they would have invested around \$2 billion more in R&D. New Zealand businesses are both under-represented in R&D-intensive industries and invest less in R&D in industries that are usually R&D intensive.

As New Zealand's largest city, the performance of Auckland is critical to both innovation and growth. Cities are places where innovations in firms typically occur at disproportionately high rates. Cities with high levels of education have grown faster in recent decades, and

human capital has become more concentrated in cities. While Auckland has grown strongly in recent years, much of this growth has been a function of increasing population rather than productivity improvements. Auckland's contribution to growth needs to increase more than proportionately with its population, if it is likely to need to grow in order to compete with other Australasian cities to attract and retain firms and skilled people. The quality of growth is also important, for example, in terms of the provision of infrastructure and other policies to counteract congestion.



As New Zealand's largest city, the performance of Auckland is critical to both innovation and growth.

New Zealand firms have access to an increasingly skilled workforce, and there is an efficient labour market. Participation in tertiary education and investment in on-the-job training have risen substantially. Between 1994 and 2004, the number of people holding a bachelor's degree or higher increased from 195,000 to 413,000 (or 17 per cent of the workforce). Skilled immigration has, on average, exceeded skilled emigration over the last five years.

Even though there has been significant investment in skills and education, the economy is still facing skills shortages, and firms report this as a major constraint to expansion. Whether this is a short-term or long-term issue is hard to ascertain, but it is clear the Government has a significant role in continuing to overcome this constraint. This role relates to government's responsibilities as the major provider and subsidiser of skills and education, labour market regulator and immigration policy maker.

Firms also face the risk that vital infrastructure they need is not available and that this will constrain their growth. The World Economic Forum's *Global Competitiveness Report* ranks New Zealand 22nd in the world (19th in the OECD) for the overall quality of its infrastructure, while the IMD *World Competitiveness Yearbook* ranks New Zealand 21st in the OECD for the adequate planning and financing of our infrastructure. Large investments are coming on-stream in land transport, electricity and gas.

² USD PPP 2000.

More specifically, New Zealand is faced with growing demand for energy, driven by economic and population growth. It also faces increasing pressure on supply, including the need to control greenhouse gas emissions. Risks to energy supply in New Zealand are exacerbated by the dry-year hydro constraint, the run-down in the Maui gas field and the relative lack of investment in the electricity transmission system in recent years. On current projections, significant new sources of generation will be needed by around 2010. A number of projects are being progressed but, as yet, relatively few firm commitments have been made.

Oil supplies are finite and, at some point, world production will peak. Estimates about timing vary widely from around 2010 to around 2040. Mainstream opinion is that, after the “peak”, there will be a gradual decline in conventional oil supply. During this period, oil prices will rise and new technologies, previously uneconomic oil resources, and increasing alternatives to oil are likely to come on-stream. The nature and timing of these factors is uncertain. New Zealand government and business leaders need to plan early for the eventual end of “cheap oil” to ensure that the economy is resilient to any transitional problems.

Global trade in goods and services is fundamental to economic growth in New Zealand and the process of upgrading existing industries. World trade as a proportion of world GDP increased from 20 per cent in the early 1970s to about 55 per cent in 2003. As global trade flows have increased, manufacturing production has become more fragmented. There is greater international competition, lower mark-ups available to firms and a reduction in the home bias of production, with a declining share of domestically produced inputs in many countries.³

Exporting is crucial for New Zealand firms and industries to achieve economies of scale and scope. There remains room for improving overall export performance. New Zealand’s export growth was slower than that of comparable OECD countries and slower than the world average. As a result, our share of world exports actually shrank from 0.27 per cent in 1990 to 0.21 per cent in 2005, which is indicative of a loss in New Zealand’s competitiveness.

On the positive side, New Zealand’s exports are less import intensive than other countries (that is, for every dollar of goods we export, they have more domestic value added than in other countries) and the proportion of exports in unprocessed form fell from 27 per cent to 15.5 per cent between 1988 and 2001.

For an advanced economy, New Zealand continues to rely on agricultural commodity production, which often faces significant regulatory trade barriers. The top three export sectors in 2005 were dairy products, meat and wood.

Moreover, the bulk of world trade now takes place within, not between, industries. This reflects the growth of global value chains, with countries specialising in varieties of particular goods rather than industries. This kind of trade tends to occur between close neighbours and amongst rich countries. New Zealand, however, has a low level of within-industry trade in manufacturing.⁴ In part, this simply reflects New Zealand’s isolation from all countries apart from Australia, but explaining the phenomenon does not lessen the importance of finding ways to counteract it. This represents a significant challenge for government and business alike.

Australia is our largest trading partner. Australia enjoyed strong growth in GDP per capita over the last decade,



Exporting is crucial for New Zealand firms and industries to achieve economies of scale and scope.

³ IMF 2005 World Economic Outlook – Globalization and External Balances.

⁴ OECD Economic Globalisation Indicators 2005.

with the longest run of uninterrupted growth in its post-war history. In 2005, New Zealand sent \$5.9 billion, or 20 per cent of exports, to Australia. Australia is also the largest source of short-term visitors to New Zealand.

One of the clearest shifts in world trade patterns is the growing importance of emerging Asian countries, which represent an on-going opportunity for New Zealand. New Zealand businesses have been successful in entering the Chinese market. China is now our 4th largest export market, with \$1.5 billion of goods exports going there in 2005.

China is also by far the largest source of overseas students in New Zealand. New Zealand is currently negotiating a Free Trade Agreement with China, which presents an opportunity to enhance this relationship further. Geopolitically, as a small economy, New Zealand is also able to play the role of an honest broker, particularly in bridging South-East Asia and the Americas.

As global trade flows have increased, there have been large decreases in transport and information sharing costs and reductions in trade barriers. At face value, this would seem to offer important benefits to New Zealand firms. However, the income people forego when they travel is actually rising as their incomes rise, and better telecommunications do not always substitute for face-to-face meetings. Furthermore, recent analysis of the telecommunications costs New Zealand businesses face indicates prices are higher than in many other countries.⁵ The overall impact of the reduction in transport and information costs for New Zealand firms remains unclear.

The New Zealand economy is very open and flexible, which makes it relatively easy for entrepreneurs to get started in business. This is reflected in the healthy level of firm entry and exit. There are low barriers to inward trade, with tariffs being on average 3.3 per cent. The regulation of business is generally efficient, and institutions are perceived to be free from corruption. The World Bank has assessed New Zealand as the best place in the world to do business, and our competition policy and its enforcement are also highly ranked. Nevertheless, given New Zealand's particular challenges, we must continue to take opportunities to improve regulation.

Summary

To improve living standards, New Zealand needs to enhance the creation of globally competitive firms. There is a need to:

- ➔ foster entrepreneurship and innovation in New Zealand firms;
- ➔ improve the international linkages that allow firms to benefit from trade, knowledge transfer and investment;
- ➔ improve the quality and reliability of key infrastructure services; and
- ➔ strengthen the growth focus in the regulatory environment for business.

The Ministry will lead work across government agencies to meet these challenges and opportunities.



China is now our 4th largest export market, with \$1.5 billion of goods exports going there in 2005.

5 OECD Economic Survey New Zealand 2005.

Section 2

The Ministry's Strategy for Growth

The Ministry advises the Government on its strategy for economic development and transformation. We work to ensure New Zealand is one of the best places in the world to do business, to create the conditions to lift productivity and prosperity, and to make New Zealand business successful on the world stage.

This section summarises the five strategic priorities the Ministry has identified to most effectively support the Government's economic goals, focusing on:

- Leadership
- International Linkages
- Innovation
- Regulatory Environment
- Infrastructure





The Ministry's Strategic Priorities

The Government's goal is a dynamic and internationally competitive economy that increases the prosperity of all New Zealanders. To support that goal, the Ministry works to ensure that

*the business environment
promotes productivity growth.*

The Ministry undertakes a diverse range of activities to pursue this outcome. We need to prioritise our effort by focusing expertise and resources on activities likely to impact most positively on the business environment and sustainable growth. On the basis of the evidence and judgements summarised in Section 1, we have derived five strategic priorities.

Within each strategic priority, we have identified a set of key issues that need to be addressed to achieve the Government's economic goals. Our strategic priorities are outlined briefly below and described in more detail in Section 3.

We intend to review our choice of strategic priorities every three years, to ensure we remain focused on the things that matter most. Within each strategic priority, we review our understanding of the key issues more frequently, to make sure we are addressing the most significant issues as they emerge. External consultative groups assist us to identify key issues for each strategic priority. These groups comprise leading businesspeople, academics and local community representatives.



Within each strategic priority, we have identified a set of key issues that need to be addressed to achieve the Government's economic goals.

Ministry of Economic Development Strategic Priorities



Leadership

Leading a whole-of-government approach to economic development

Achieving a step-change improvement in New Zealand's sustainable rate of growth depends on getting many aspects of economic strategy right – a supportive business environment, labour market and educational outcomes, effective research and development policy, and so on.

Our role is to lead the development of the Government's economic transformation agenda and to work in partnership with the key economic players to achieve it. This sectoral leadership role is about focusing on the key points of leverage for transforming the New Zealand economy and achieving greater alignment and consistency of effort both within government and between government, the private sector and other economic agents.



International Linkages

Improving the international linkages that allow firms to benefit from trade, knowledge transfer and investment

Being well connected with the rest of the world is key to New Zealand's growth prospects. Trading internationally not only gives firms access to larger markets, it also leads to productivity improvements as businesses discover and embrace new technologies, markets and production methods to compete with foreign firms. This is particularly important for New Zealand, because the domestic market is small and a long way from major global markets.

The Ministry will work on policies to ensure New Zealand firms are well placed to take advantage of international opportunities. In particular, we will emphasise a deeper economic relationship with China across a broad front of business and regulatory activity. We will focus on creating a Single Economic Market with Australia, and on aligning Australia and New Zealand's economic development policies to strengthen the trans-Tasman economy as a whole. We will work with other agencies to co-ordinate New Zealand's regulatory environment more closely with those of our major trading partners, and to promote stronger business networks.

Innovation

Fostering entrepreneurship and innovation in New Zealand firms

An improved rate of growth relies on the performance of businesses and individual entrepreneurs. Business success requires entrepreneurs continually to seek out opportunities and to develop, produce and market innovative products that consumers want. The performance of New Zealand businesses is variable, and relatively few evolve into world-class firms.

This strategic priority focuses on improving the conditions that spur innovation in firms – such as increasing the linkages between the private sector and the public science system, and ICT capability within firms. It also focuses on the suite of facilitative policies that seek to improve the ability of firms to identify opportunities and translate them into commercial success.



Regulatory Environment

Strengthening the growth focus in the regulatory environment for business

One of the most important ways government influences the business environment is through regulation affecting businesses. This includes regulation that sets standards for goods and services, provides incentives for innovation, encourages competition in markets, and provides assurance to consumers and investors.

The Ministry will focus on promoting improvements in the quality of regulations that shape the business environment, to minimise the compliance burden and provide as much certainty and flexibility as possible. We will also work to ensure that regulations designed to achieve non-economic outcomes do not unnecessarily detract from achieving the Government's economic objective of increasing sustained economic growth.



Infrastructure

Improving the quality and reliability of key infrastructure services

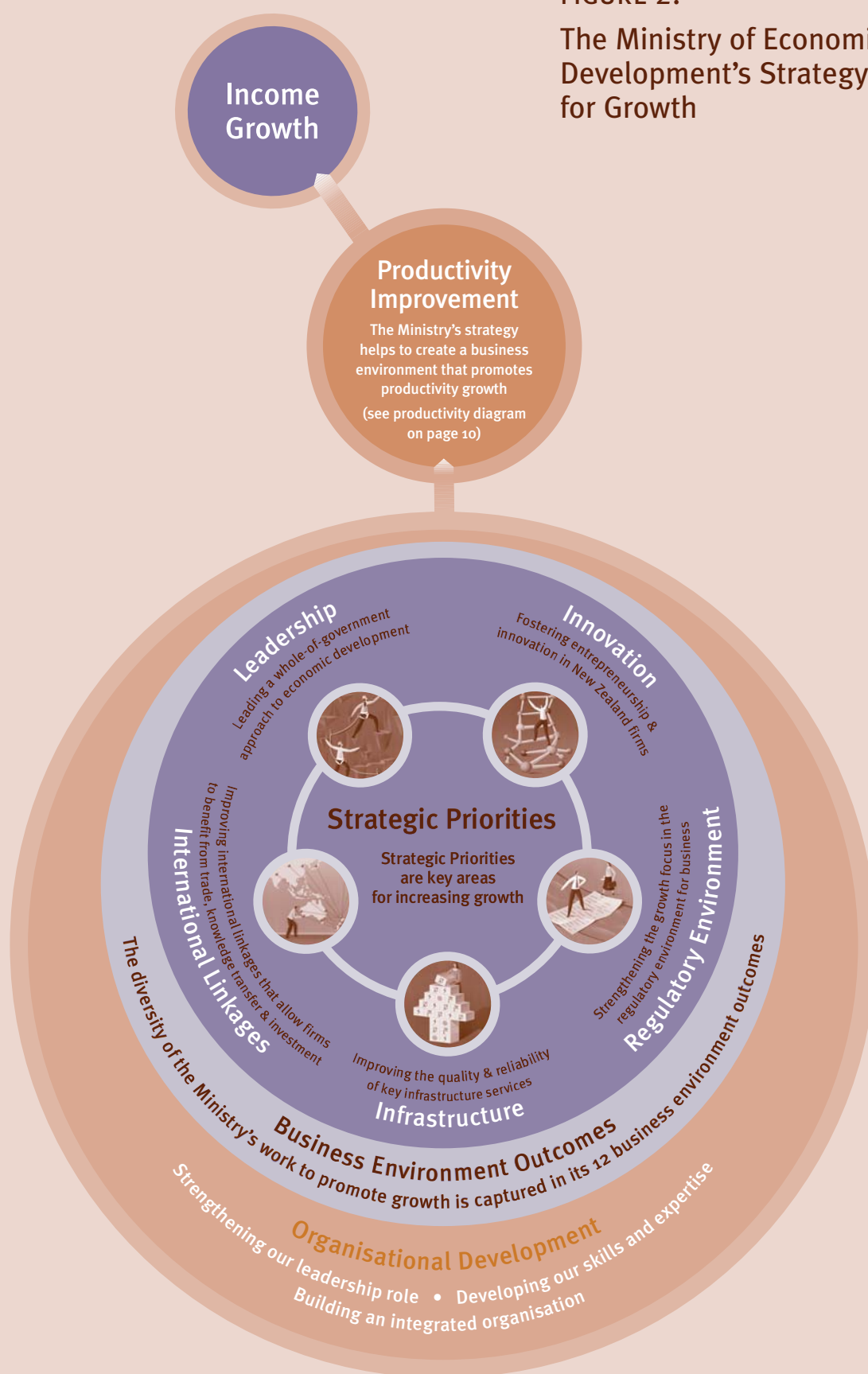
Effective infrastructure – such as energy, transport, communications and water distribution – is crucial to New Zealand's productive capacity and growth prospects. Key areas of infrastructure have lacked investment in the past. Shortages in supply have major economic and social effects, which can be exacerbated by our challenging geography and widely-dispersed population.

The Ministry will focus on improving the functioning of the New Zealand energy system and enhancing our connectivity through an effective telecommunications environment. More widely, we will work to create an environment that encourages and enables timely and well-targeted investment in infrastructure.



FIGURE 2:

The Ministry of Economic Development's Strategy for Growth



Section 3

The Strategy in Action

The five strategic priorities represent the areas of Ministry activity with most potential to increase economic growth. This section explains the rationale behind the choice of each strategic priority, and what the Ministry is trying to achieve within them.

It also describes work being done to address the critical issues for each strategic priority, and shows which output classes contribute to them.





Leadership

Leadership > Leading a whole-of-government approach to economic development

Why is this a priority?

The Ministry has a sectoral leadership role across the public sector to ensure that a coherent and challenging economic development strategy is both developed and implemented. The Government's economic transformation agenda requires agencies to work together on broad issues. Take productivity, for example. While enhancing productivity is a key aim of the Ministry, other agencies are responsible for some of the key policy areas which influence it, such as access arrangements for international trade, the development of skills and talent, and advising on macro-economic stability.

This sectoral leadership role is about focusing on the key points of leverage for transforming the New Zealand economy and achieving greater alignment and consistency of effort within the government, the private sector and other economic agents. Where we have a legitimate role, we will act; where we cannot make a direct difference, we will work to influence outcomes.

It is ultimately the private sector that drives economic growth. Building consensus around what is required to achieve economic transformation is therefore essential. Our leadership role will be grounded in strong links with a wide range of businesses and organisations, to both enhance and share our understanding of what is needed for economic development.

How the public sector is structured, financed and managed encourages managers to focus on delivering specified outputs. Vertical accountability to Ministers and Parliament is essential, but can work against the cross-agency effort needed to achieve economic development goals. The Leadership Strategic Priority

will identify opportunities for improving the overall system by which departments work in a joined-up way to pursue the Government's economic agenda.

What are we aiming to achieve?

The objective of this strategic priority is for the Ministry to work in partnership with key economic players to increase the public sector's effectiveness in shaping and delivering on the Government's economic transformation agenda. This involves:

- providing both the policy development machinery and the ideas for shaping a whole-of-government economic transformation strategy;
- helping to identify areas of complementary work and identifying policy gaps;
- working with other agencies to focus on the "big picture" and our respective roles within it, to increase mutual understanding of our roles in economic development and ensure a more cohesive set of government actions; and
- testing where the Ministry needs to adapt its own strategy.

To achieve this objective, the Ministry will focus on:

- exercising a cross-public-sector leadership role to focus economic development effort;
- building a coherent and shared understanding of economic transformation across the public sector, so objectives, priorities, roles and actions to achieve the objectives are clear; and
- identifying and ameliorating generic or systemic barriers to achieving better collaboration across government on economic transformation.

What are the key issues and how are we addressing them?

Building a shared understanding of the policy approach

Agencies are looking for leadership from the Ministry in developing a consensus around what economic transformation means. Leadership, in this context, is not about encroaching on other agencies' respective patches. It is about building shared understanding and influencing others through the strength of our ideas. It is about challenging ourselves and others to think differently and test our assumptions. It involves a two-way learning process and using that new learning to improve mutual knowledge. In pursuit of this goal, the Ministry will develop a clear statement of what taking an economic transformation approach is likely to mean.

Our particular focus in 2006/07 will be on leading cross-government work to identify and implement actions aimed at three important themes in the Government's economic transformation agenda:

- Putting Auckland in a stronger position to contribute to New Zealand's economic transformation. This includes leading central government work to complement efforts at a local level in the Auckland region, such as involvement in the development of the long-term framework for the Auckland region, a strategy development process that has emerged from the Regional Strategy review.
- Facilitating infrastructure development. We will lead a cross-government work programme aimed at ensuring that New Zealand has the infrastructure necessary to support economic transformation into the future. This includes improving the functioning of the New Zealand energy system, better harnessing the potential of broadband to support transformative

activity and focusing on the infrastructure Auckland needs in order to contribute to New Zealand's economic transformation.

- Helping more New Zealand firms to become globally competitive. This will include working across government to improve the linkages between the private sector and the public science system and ensuring New Zealand businesses have the skills to identify business opportunities and to translate them into commercial success.

Working with the private sector to enhance mutual understanding of economic transformation

The private sector drives economic growth. Stakeholder feedback suggests that there is room for improving how the Ministry engages with business. We need to engage on the right issues and at a level of specificity that is meaningful to business. This requires staff with good knowledge and communication skills.

Productivity is the key growth challenge for New Zealand. The Ministry will create and maintain dialogue with key influencers in the private sector, to enhance understanding of the economic development framework and how government and the private sector can work together to promote productivity growth. Our work with the Growth and Innovation Advisory Board is an example of this kind of dialogue.



The Leadership Strategic Priority will identify opportunities for improving the overall system by which departments work in a joined-up way to pursue the Government's economic agenda.

Improving how agencies work together on economic transformation strategy and policies

The public sector is organised, funded and managed on the basis of vertical accountability. Chief Executives are accountable to Vote Ministers for the production of agreed outputs. But to enhance economic growth requires horizontal engagement across public sector agencies on a range of complex issues. Institutional factors can work against this cross-cutting effort, even in the face of managerial buy-in.

The Leadership Strategic Priority will identify opportunities for improving the overall system by which departments work in a joined-up way to pursue the Government's economic agenda.

The Growth and Innovation Framework has been the key tool for aligning economic development strategy and policies in this way. The Ministry's leadership of it has raised the level of understanding of growth objectives, and increased the alignment of resources and activities across agencies.

The Ministry will advise on improved ways of developing and implementing Government economic development strategy across agencies, to achieve better alignment. This will support Ministers to identify and implement priority economic transformation agendas.

Accountability tools and levers within the public management system can provide ways of achieving more effective alignment of activity across the public sector. The Ministry will work to improve these mechanisms, where it can, so they are more effective in meeting this objective. To assist with this, we will disseminate and implement a best practice guide to managing our relationship with Crown entities we monitor.

Building a cross-sector evidence base

Continually building, maintaining and sharing robust cross-sector evidence on what matters for growth in New Zealand is essential to achieving greater cross-government buy-in to those things that will make a difference. This is because it provides the platform for making judgements about priority areas of focus. The Economic Development Indicators provide a potentially powerful part of this evidence base, and this report will be a key tool in the Ministry's economic development leadership.

The Ministry will advise on improved ways of developing and implementing Government economic development strategy across agencies, to achieve better alignment.





International Linkages

International Linkages > Improving the international linkages that allow firms to benefit from trade, knowledge transfer and investment

Why is this a priority?

International trade, knowledge transfer and investment between New Zealand and other countries stimulate innovation and hence drive higher productivity and economic growth. They do so by:

- helping innovators to identify and take advantage of new opportunities, and exploit their competitive advantage;
- boosting productivity by enabling firms to seek out and access new markets, new technologies and knowledge, skilled labour, and best practice work and management techniques; and
- enhancing incentives for firms to innovate by creating competitive pressure from offshore and providing much greater consumer choice.

As a small, isolated economy, New Zealand faces unique barriers when endeavouring to form and maintain international linkages that support business activity. While transport and communication costs have declined substantially, distance still has important impacts on person-to-person contact and business relationships, and on the transfer of tacit knowledge, such as subtle

differences in consumer preferences. Institutional, legal and regulatory differences also create costs for firms. Finding a niche in large international markets can be daunting, difficult and risky, particularly for some of our smaller businesses.

These barriers form a major impediment to improving New Zealand's growth rate. Government can help by reducing the impact of borders on firms, by promoting connections that allow knowledge transfer to occur, and by promoting high-value international trade.

What are we aiming to achieve?

The outcome of this strategic priority is for New Zealand's international connections to support transformation of the New Zealand economy through growth in trade, and through improved flows of investment, skills and technology.

This will be achieved by:

- reducing the impact of small firm scale, distance and international borders so that domestic and foreign firms do not regard them as significant barriers to trade; and



The outcome of this strategic priority is for New Zealand's international connections to support transformation of the New Zealand economy through growth in trade, and through improved flows of investment, skills and technology.

- assisting New Zealand firms and other institutions in their efforts to connect with the rest of the world.

Many of the connections opportunities are external to the Ministry, so we need to work across government to agree overall strategic priorities. We work closely with the Ministry of Foreign Affairs and Trade (MFAT) and New Zealand Trade and Enterprise (NZTE) to pursue our objectives in this area. This collaborative partnership is reflected by the three agencies sharing this outcome.

The Ministry leads specific issues in keeping with our role and expertise. Areas of focus include:

- our relationship with NZTE, and business capability development initiatives that build internationally competitive businesses; and
- most aspects of the regulatory framework for business, where domestic and international frameworks are frequently merging and blurring. These include protection of intellectual property rights, trade rules and remedies, tariff policy, and standards and conformance policy.

In concert with MFAT, NZTE and other agencies contributing to building New Zealand's international connections, the Ministry will focus on countries or regions that are most important to our future. This includes those "bedrock" countries with which New Zealand maintains important economic relationships (Australia, the US, the EU, Japan, the Pacific Island countries and China) plus other important international linkage opportunities that emerge (for example, in the ASEAN region).

What are the key issues and how are we addressing them?

The Ministry is involved in a wide range of international issues across many fora, but we are giving priority to three areas we believe have most potential to produce gains for growth:

- Global connections. We will support the efforts of business to build networks and deepen relationships in other economies that are important to New Zealand.
- Developing a Single Economic Market with Australia. We will advance work on deepening New Zealand's relationship with Australia to advance a Single Economic Market.
- Building a deeper economic relationship with China. We will endeavour to achieve substantial liberalising commitments under a China Free Trade Agreement (FTA), and form strategies to develop

broader economic connections, including strategies to leverage an FTA.

Global connections

Successive governments have worked to open New Zealand's economy to world trade, particularly through the World Trade Organization, and the agenda to achieve this is relatively well established. The Ministry and other agencies involved in this process, such as MFAT and NZTE, continue to build understanding of how best to facilitate connections between local firms and markets overseas. This is relevant in the context of our work on Australia and China, as well as more generally.

To advance a more strategic, "New Zealand Inc" approach to engagement with the rest of the world, we will be:

- improving our understanding about the main ways in which external linkages drive economic development in New Zealand, including in such areas as foreign direct investment, migration and education, science and technology, and knowledge flows;
- carrying out activities designed to support the development of many more globally competitive firms in New Zealand, including work on the Government's Export 2007 project;
- carrying out activities designed to ensure improved policy and regulatory alignment between New Zealand and the rest of the world. This includes relationships between New Zealand standards setters and regulators, and their counterparts overseas, in areas such as standards and conformance, and financial reporting; and
- aligning international connections activities across government in New Zealand, such as work with NZTE to implement the strategy resulting from the global services review.

Developing a Single Economic Market with Australia

Australia is our most important economic partner and the largest market for New Zealand goods and services. New Zealand already enjoys uniquely close social, institutional and business linkages with Australia. It is logical to build on this and to emphasise this relationship, as we seek to forge the international economic connections that will benefit New Zealand businesses.

The Single Economic Market is a vehicle to ensure that developing the trans-Tasman relationship remains a high priority. It provides a broader framework for the

deepening of economic links that allows for the possibility of more joint policy development, more institutional co-ordination, and the possibility of broader policy trade-offs across issues. Much progress has already been made in removing trade barriers.

We will be:

- establishing effective networks across government, business and the community, on both sides of the Tasman, to contribute to the achievement of consumer and industry policy objectives. This will include further developing the industry development co-operation agenda; and
- deepening regulatory co-ordination, such as implementing the work programme agreed as a result of the 2005 review of the Memorandum of Understanding on the co-ordination of business law, and the Trans-Tasman Mutual Recognition Arrangement.

We will advance work on deepening New Zealand's relationship with Australia to advance a Single Economic Market.

Deeper economic relationship with China

Our relationship with China presents a significant opportunity for New Zealand, through opening up access to large and rapidly expanding markets, especially in primary products, education and tourism.

To make the most of the opportunities, we need to:

- ensure that New Zealand firms have the capability to take advantage of opportunities arising from an FTA with China;
- ensure that sector-specific strategies take account of China's impact on global and regional trading, investment and production patterns;
- make a long-term investment in developing relationships with Chinese institutions. We are developing a programme of co-operation with the Chinese Administration for Quality, Standards, Inspection and Quarantine;
- reduce regulatory barriers and related costs for New Zealand firms doing business in China; and
- build our understanding of the impact of China on New Zealand's economic development, including through our China Impacts project.

Contributions of Output Classes to the International Linkages Strategic Priority

Vote and associated contributing output class(es)

Outputs within the output class

Vote: Economic, Industry and Regional Development

Policy Advice – Policy Advice and Sector Leadership
– Firm Capability, Sectoral and Regional Development
Policy Advice – Small Business

Sector Development Policy
Regional Development Policy
Growth and Innovation Framework (GIF)
Small Business Policy

Vote: Commerce

Policy Advice – Business Law and Completion Policy

Business Environment, Business Law and Competition Policy
Business Facilitation Policy
Trade Policy and Rules

Vote: Commerce

Registration and Granting of Intellectual Property Rights

Registration and Granting of Intellectual Property Rights

Vote: Consumer Affairs

Policy Advice and Support on Consumer Issues

Consumer Policy

Vote: Tourism

Policy Advice – Tourism

Tourism Policy



Innovation

Innovation > Fostering entrepreneurship and innovation in New Zealand firms

Why is this a priority?

New Zealand's economic success depends on the performance of its businesses. Innovation is vital to international business success, as it is difficult for our firms to compete successfully on the basis of scale of operation, or to sustain a position as the least-cost producer. If our businesses are to succeed and be highly productive, relative to their international competitors, they must innovate by finding new opportunities and ways of producing goods and services. Innovation involves a combination of:

- creating and marketing new or improved products and services that consumers both here and abroad value highly; and
- creating and adapting to new forms of organisation and new technologies.

Entrepreneurs are at the heart of this process, spotting new opportunities and motivating those around them to devote resources to innovation. There is a mixed picture of how innovative and entrepreneurial local firms are. New Zealand has relatively high and dynamic levels of entrepreneurship as measured by business start-ups, exits and a business's chance of surviving once up and

running. But New Zealand ranks low on the formal technological measures of innovation, such as private sector R&D and patenting. While this can be explained by the relative absence of larger firms in New Zealand, our distance from major world centres of R&D and our industry composition, we still need to do better to lift our growth performance.

Other small developed countries that have ascended to the top half of the OECD productivity rankings have invested heavily in technological innovation.

This overall picture masks a lot of variation between and within industries in New Zealand. The best New Zealand businesses compete very successfully. The challenge for New Zealand is to become increasingly innovative and entrepreneurial overall. This is essential if we are to catch up with other developed countries and achieve the Government's economic objective.

Our innovation-related outcomes are linked to the Ministry of Research, Science and Technology's outcomes for the research, science and technology sector, recognising that both agencies have intertwined roles in fostering innovation.

Other small developed countries that have ascended to the top half of the OECD productivity rankings have invested heavily in technological innovation.



What are we aiming to achieve?


Factors that the Ministry of Economic Development can influence that are particularly relevant to the level and quality of innovation and entrepreneurship include:

- Effective and competitive markets. New Zealand's product, input, labour and capital markets need to support innovation and business activity. This involves a variety of factors, such as maintaining the competitive pressures that generate incentives for innovation, and ensuring the quality and quantity of infrastructure in New Zealand facilitates the flow of ideas, goods and services, and people.
- A dynamic research and development system. Through work on the Government's economic transformation agenda, we need to work with the Ministry of Research, Science and Technology (MoRST) and other agencies to ensure that the public and private R&D systems are operating effectively. These systems need to take into account the unique New Zealand context of few very large firms, distance from large R&D centres and a relatively large primary sector.
- High-quality skills and basic business information for innovation and entrepreneurship. Government policies for education and skills development need to ensure that our firms and emerging entrepreneurs have access to the skills necessary to identify business opportunities and to translate them into commercial success. Effective use of ICT is a particular example.
- Well designed, targeted and evaluated business assistance programmes. Recent governments have significantly increased investment in policies and programmes aimed at improving the productive and innovative capacity of New Zealand's firms, sectors and regions. These programmes are mainly delivered by New Zealand Trade and Enterprise. If we are to achieve a material lift in sustainable economic growth, it is critical that these interventions are consistent with international best practice, are shaped to address the specific needs and challenges facing New Zealand enterprises and are focused on achieving maximum impact for the resources invested.
- Capital markets that can effectively recognise New Zealand innovation opportunities. Venture capital, and other forms of equity investment, play a key role in innovation. There are gaps in the market provision of capital and expertise for early stage companies with high growth potential, which the government has addressed by creating the Venture Capital Fund and Seed Co-investment Fund.

- Effective business links. Strong links between businesses (either in New Zealand or overseas) are often part of innovating. Such links maximise opportunities for businesses to take advantage of information, skills, knowledge and technology residing elsewhere.
- Improving the performance of the innovation system. The Ministry and MoRST work together to keep an overview of government policy on innovation performance as a whole.

The Ministry works collaboratively with a range of other agencies on these issues, including New Zealand Trade and Enterprise; the Department of Labour; the Foundation for Research, Science and Technology; the New Zealand Venture Investment Fund Limited; the Treasury; the Ministry of Education; and MoRST.

The macro-economic framework also affects business innovation and success. Fiscal and monetary policy settings influence the "big picture" context in which businesses operate, through their effects on inflation, interest rates, exchange rates and taxation. However, these issues are addressed more directly by other agencies. We have some input into particular issues, such as the review of corporate taxation.



The Ministry will undertake a focused programme of policy development, evaluation and research aimed at lifting innovation performance in New Zealand.

What are the key issues and how are we addressing them?

The Ministry will undertake a focused programme of policy development, evaluation and research aimed at lifting innovation performance in New Zealand. Within the themes identified above, we have prioritised the following areas of work:

- improving the innovation system;
- effective, competitive markets, including capital markets;
- the research and development system;
- the skill development system;
- improving business assistance programmes; and
- effective business linkages.

Improving the innovation system

To influence innovation outcomes to best effect, we have been developing a better understanding of the New Zealand innovation system as a whole and the best points of leverage for government. This national perspective is essential to identifying changes that may be needed to enable New Zealand to be fully competitive in the global economy. The National Innovation System project started last year is continuing and will provide an improved framework for innovation policy advice, by developing a clearer understanding of significant influencing factors and effects on innovation outcomes in a New Zealand context.

Improving labour productivity is the key challenge for New Zealand's economic growth prospects. There is a wide variety of views on what behaviours and strategies within firms make the most contribution to raising productivity and innovation. We are working to improve our understanding of what matters most for lifting firm productivity.

Effective, competitive markets

New Zealand is less capital-intensive than other OECD countries and has low levels of business investment relative to Australia. Business investment impacts directly on labour productivity by increasing the amount of capital and technology available per worker. Similarly, if access to finance is constrained, it may limit business development (including capital deepening) and is particularly likely at the earlier stages of business growth. The Ministry of Economic Development will continue to develop its understanding of the issues and options for improving capital investment.

Even though New Zealand is seen internationally to have high-quality competition and consumer law, challenges remain. In particular, we have to compensate for the lower short-term competitive pressures experienced because of our small size and distance from major markets. In this context, the effective application of competition law becomes critical, and policies that foster domestic consumer sophistication may create significant opportunities. It is important, therefore, that the Ministry keeps the implementation of competition law under review and builds understanding of the sophistication of consumer behaviour in order to make any appropriate policy changes.

The research and development system

Institutional arrangements for the public science system (including CRIs and TEIs) affect critically the rates of knowledge creation, application and diffusion. A strong perception is that there are significant opportunities to improve performance in this system, in particular in strengthening linkages to the private sector both in terms of technology transfer and improved demand-side responsiveness. Addressing this issue will form a critical component of our National Innovation System project.

Improving New Zealanders' ability to capture the benefits accruing from their own and others' innovation is critical to increased economic growth.

New Zealand has one of the lowest rates of private sector research and development in the developed world. While a significant review of current public policy in this area was conducted in the past year (resulting in increases in the quantum of grants), significant analytical challenges remain. In particular, it is critical to deepen our understanding of the reasons for low levels of private sector research and development and to develop specific policy proposals based on that understanding.

One focus of work in this area will be on assessing New Zealand's absorptive and adaptive capacity, particularly from international technological development (given foreign technology dwarves New Zealand technology development) and developing necessary policy advice.

Improving New Zealanders' ability to capture the benefits accruing from their own and others' innovation is critical to increased economic growth. Establishing the right balance between protection of property rights and diffusion is critical to this goal.

The skill development system

Whatever matters most within firms for productivity and innovation, managers are the principal agents for change within firms – they largely control what is identified as mattering and what is done about it. As part of the Government's broader workplace productivity agenda, the Ministry has facilitated the Business Capability project to better match supply and demand for services. If effective, this project will improve the capability of managers to make critical business judgements and respond more effectively to the challenges they face. Furthering this work remains a critical goal for the year ahead.

Behaviours which are specific to New Zealand culture will impact on New Zealand's economic development in ways that are different from other countries. Anecdotal evidence suggests there are a variety of New Zealand-specific behaviours which could be an impediment to productivity and growth, as well as a variety which may be uniquely supportive. Over the past year, the Ministry has undertaken some exploratory work to deepen its understanding of cultural processes. It is important to continue to build understanding in this area in order to develop policy advice, if necessary, and to respond effectively to anticipated calls for government activity in this area.

Improving business assistance programmes

It is critical to ensure that the programmes government has introduced to support business growth are effective and achieve the objectives envisaged. The choice of how, when and why to engage at the firm, regional or sectoral level is critical and there are risks that must be managed. Over the past year, a more robust framework for addressing many of these issues has been developed and adopted. However, there remains a significant challenge to take this framework to one level of sophistication further. Particular issues to focus on are how best to ensure New Zealand-grown businesses can generate benefit to the wider economy and the extent to which policy in industry development should be focused on incremental (and therefore low risk, low return) or more radical (and therefore higher risk, but potentially higher return) change.

Irrespective of the precise approach adopted, regular and rigorous evaluation is critical. Quality evaluation can enable effective programmes to be given more resources and ineffective programmes to be downsized or eliminated. The evaluation of NZTE's services is the critical activity for the Ministry in this regard. Although many of these services have only been in place for a short time, almost all of them have now been evaluated for a first time and will continue to be evaluated at regular intervals. This is enabling us to identify ways to increase impact per dollar spent. In parallel with such evaluations, New Zealand Trade and Enterprise, with Ministry and MFAT support, has been working on sharpening and improving operational strategies and performance measurement frameworks. A review of business assistance programmes is underway to pull together all the key lessons from these pieces of work and identify further opportunities to increase the impact of the programmes on business capability and performance.

Effective business linkages

It is important that the Ministry develops a view on the extent of problems in this area and the likely benefit of improved cohesion in service delivery. While there appears to be a need for continuous improvement to the delivery of government services to business, in most cases, the largest gains from the perspective of business appear to lie in standard service improvements by individual agencies rather than integrated delivery across agencies. However, there may be benefits from increased integration with regards to specific services – particularly NZTE and FRST services to business.

Government and state agencies engage with regions to identify barriers and foster new information flows. Considerable experience has been gained through these engagements and questions have emerged about the best way of engaging with regions. We will be seeking to refine our approach to such engagements based on what we have learned. Over the next few years, it will be critical to review and revamp the tools. Continued, focused engagement on Auckland issues will be especially important, given the significance of Auckland to the wider New Zealand economy.



Government and state agencies engage with regions to identify barriers and foster new information flows.

Contributions of Output Classes to the Innovation Strategic Priority

Vote and associated contributing output class(es)	Outputs within the output class
Vote: Commerce	
Policy Advice – Business Law and Completion Policy	Business Environment, Business Law and Competition Policy Trade Policy and Rules
Vote: Commerce	
Registration and Granting of Intellectual Property Rights	Registration and Granting of Intellectual Property Rights
Vote: Communications	
Policy Advice – Communications	Information Technology Policy
Vote: Consumer Affairs	
Policy Advice and Support on Consumer Issues	Consumer Policy
Vote: Economic, Industry and Regional Development	
Policy Advice – Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development	Sector Development Policy Research, Evaluation and Monitoring Regional Development Policy Firm Capability Growth and Innovation Advisory Board
Vote: Economic, Industry and Regional Development	
Policy Advice – Small Business	Policy Advice





Regulatory Environment

Regulatory Environment › Strengthening the growth focus in the regulatory environment for business

Why is this a priority?

Regulation plays a critical role in shaping the business environment in which economic activity takes place. The goal of this strategic priority is to ensure that regulation is well designed and implemented to support economic objectives, while ensuring that social and environmental objectives are met.

The OECD ranks New Zealand highly in terms of “growth-friendly” regulation. However, continual improvement is needed for three reasons:

- Other countries continue to improve their regulatory environment for business, and New Zealand needs to keep abreast of regulatory best practice to maintain its comparative advantage.
- The regulatory environment is continually changing, with growing volume and complexity, internationalisation, increased expectations of meeting multiple objectives, and stronger expectations of community and business involvement in regulatory design.
- There is continuing demand from business for reduced compliance costs.

What are we aiming to achieve?

The Ministry’s primary aim is to ensure that the regulatory environment supports sustainable growth as much as possible. This means ensuring that regulation affecting business is designed and implemented to minimise the burden of regulations on firms, while achieving the objectives of those regulations. Our objectives are to improve the quality of regulation, reduce the regulatory burden imposed on firms (especially small firms), and give them as much certainty and flexibility as possible in meeting their regulatory obligations.

Where regulation has non-economic (social, cultural or environmental) objectives, the Ministry aims to ensure that economic growth objectives are given due weight when framing the legislation. This includes:

- ensuring that the regulation achieves its other objectives in a way that ideally is complementary to, and at least does not unnecessarily detract from, achieving sustainable economic growth; and
- ensuring that the trade-off between the various objectives and economic growth gives due weight to the sustainable economic growth objective.



The Ministry’s primary aim is to ensure that the regulatory environment supports sustainable growth as much as possible.

When the regulation primarily has an economic objective (e.g. competition, intellectual property, insolvency and consumer policy), our goal is to ensure that regulation is designed to foster sustainable growth in income per capita.

For all regulation, therefore, the economic objective is to foster sustainable growth in income per capita, whilst also recognising that the Government will have broader regulatory objectives.

What are the key issues and how are we addressing them?

The Ministry is working to improve the quality of regulation in three priority areas:

- designing and implementing Ministry-led regulation that is key for innovation and economic growth;
- ensuring regulatory design across the public sector takes into account impacts on the business environment; and
- focusing on a small number of key regulatory regimes led by other agencies that have potentially high impacts on economic growth.

When identifying issues and opportunities to improve the quality of regulation, we need to consider:

- if it is or is not appropriate to regulate;
- how important regulation is as either a means of achieving growth or a constraint on growth, both in absolute terms and relative to other factors that affect growth;
- the relationship between regulation and innovation and reflect this in policy settings;
- the balance between improving overall regulatory quality versus reducing compliance costs; and
- the sensitivity of regulatory outcomes to the design of the rules themselves versus their implementation and on-going enforcement.

Improving the design and implementation of key Ministry-led regulation

Surveys conducted by the World Bank and others suggest that regulations administered by the Ministry tend to be high quality and to involve low compliance costs. For example, the innovative use of technology, for which the Ministry has been recognised internationally, has reduced the costs of setting up a company in New Zealand to among the lowest in the world. While the opportunities for change in Ministry-administered regulation therefore may be incremental, we need to ensure that New Zealand maintains high-quality regulation in these areas.

Regulation covering effective functioning of financial markets is a key area, with an important impact on growth. There are a range of reviews in these areas, including Financial Products and Providers, the Securities Act, non-bank financial institutions and insurance companies regulation. The outcomes of these reviews have the potential for substantial impacts on the operation of financial markets.

Promoting high-quality regulatory design across the public sector

There is a very large range of regulations that impact on business activity. The regulatory system needs to adapt over time to changing pressures and expectations. The Ministry has an important role in promoting good regulatory design in general and, in particular, design that adapts over time to take into account changing impacts on economic growth.

We can best promote high-quality regulation across the public sector by keeping abreast of international best practice, monitoring departmental performance in the design of regulation, and measuring the impact of regulation on business and growth.

In addition to ensuring that the broader economic costs of regulation are minimised as far as possible, the way regulation is implemented and enforced is as important



Surveys conducted by the World Bank and others suggest that regulations administered by the Ministry tend to be high quality and to involve low compliance costs.

as the rules themselves. This presents several challenges. We need to ensure that the processes that firms are required to adopt do not create undue compliance costs. The Ministry has already made significant headway regarding implementation of its own regulation, for example, our use of web-based technology has reduced the costs of searching or registering a security interest against personal property.

The second challenge for a small country like New Zealand is to ensure that the institutions that monitor and administer business regulations have the people, skills and resources to do so effectively, and that regulation is appropriately designed to reflect the capabilities available to implement them. Finally, regulators need well-developed and effective relationships with stakeholders and regulatory partners.

Our work on regulatory design across the public sector includes:

- promoting industry-led regulation to achieve shared responsibility for the delivery of outcomes, through reviewing the effectiveness of self-regulation regimes;
- understanding and acting on business concerns about regulation, by developing proposals for applying appropriate international models for identifying the impact of regulation;
- strengthening processes for developing high-quality regulation, with a focus on the Regulatory Impact Analysis regime and engagement with business;

- developing a methodology for examining regulation and compliance cost issues on a sectoral basis and applying this to selected sectors;
- examining whether more flexible application of regulation could ease costs for Small to Medium Enterprises (SME); and
- building strong relationships with regulators for whom the Ministry has a lead responsibility.

Focusing on key regulatory regimes led by other departments

Much of the regulation that impacts on business is developed and/or implemented and monitored by other agencies. This includes the six legislative frameworks about which concerns tend to be raised when businesses are surveyed – Resource Management, Employment Relations, Hazardous Substances and New Organisms (HSNO), Health and Safety in Employment, ACC and taxation. International research also identifies several of these areas of regulation as having potentially important impacts on economic growth.

The Ministry has recently contributed to major reviews of the Resource Management Act (RMA) and the Employment Relations Act, to on-going implementation of the Hazardous Substances Strategy, and to climate change regulation.

Currently we are involved in a multi-year research programme on the impacts on the business environment of the RMA and HSNO. We are also contributing to work on the government's review of corporate taxation.

Contributions of Output Classes to the Regulatory Environment Strategic Priority

Vote and associated contributing output class(es)

Outputs within the output class

Vote: Commerce

Policy Advice – Business Law and Completion Policy

Business Environment, Business Law and Competition Policy
Business Facilitation Policies
Environmental Policy

Vote: Consumer Affairs

Policy Advice and Support on Consumer Issues

Consumer Policy

Vote: Economic, Industry and Regional Development

Policy Advice – Small Business

Policy Advice



Infrastructure

Infrastructure > Improving the quality and reliability of key infrastructure services

Why is this a priority?

Sound infrastructure services, such as transport, energy, communications and water distribution, are essential to New Zealand's growth prospects and our general quality of life. Efficient and reliable infrastructure services reduce the costs of production, increase the attractiveness of New Zealand as a location for investment, and facilitate the flow of ideas, goods and services, and people. Infrastructure bottlenecks or shortages of critical services jeopardise the productivity, profitability and even viability of firms. Even a small risk of supply disruption adds substantially to the uncertainty that firms face, and can be an impediment to growth and sustainable development.

It is therefore important that firms and consumers have access to the infrastructure services they need, when they need them. In recent years, however, some significant issues have emerged. These include challenges to the short- and long-term security of New Zealand's energy supply, increasing traffic congestion in and around Auckland, and the need to ensure that New Zealanders have access to and are able to use new telecommunications technologies. The Ministry continues to work with other government agencies and the private sector to address these issues.

In the longer term, infrastructure presents a number of challenges for government policy. For example, the long lead times involved in developing new infrastructure mean that any constraints can impact on businesses and other consumers for extended periods. In addition, because of the small market for infrastructure services, there are often few competing providers – even in those sectors where technology and cost structures make competition possible. This can sharpen the focus on reliability of supply, and where there is less opportunity for competition there is also a risk of less innovation and excessive pricing.

Given the complexity of these issues, and the fundamental importance of infrastructure in a modern, export-led economy, this is an on-going area of strategic importance for the Ministry.

What are we aiming to achieve?

The overarching goal is to ensure that businesses and consumers have access to reliable infrastructure services they need, at reasonable cost. The hallmarks of effective infrastructure performance include:

- early identification of bottlenecks and shortages, leaving time to implement cost-effective solutions;
- high levels of confidence by investors and the community that an appropriate level of infrastructure services will be available when needed, at “reasonable” prices; and

The overarching goal is to ensure that businesses and consumers have access to reliable infrastructure services they need, at reasonable cost.

- pricing and other arrangements (such as education and information provision) that avoid unnecessary volatility and that encourage investors and consumers to take into account the full effects of their decisions.

What are the key issues and how are we addressing them?

The Ministry is addressing a range of important issues in each of the following sectors:

- Energy (Ministry has lead role)
- Information and Communications Technologies (Ministry has lead role)
- Transport
- Water
- Overarching infrastructure.

Energy

Energy outcomes and the evolving energy landscape

Local and global demand for energy will inevitably increase over time, putting pressure on our energy supplies. Pressure on supply will be reflected in higher energy prices. The challenge over the medium to long term is to meet New Zealand's energy needs in a way that protects our way of life, economy and the environment. More specifically, our aim is to maintain an energy system over time that balances three high level outcomes:

- a high level of supply security (short- and long-term), balanced against the costs involved;
- acceptable environmental impact; and
- competitive and efficient pricing (which also reflects the cost of negative aspects of our energy use).

It will be a challenge to achieve these goals over time in the face of global climate change and a tightening demand/supply balance for traditional energy forms, including oil. Innovations and uptake of cleaner and more sustainable energy sources will help reduce supply constraints and mitigate the effects of climate change. With the Electricity Commission now leading work on most of New Zealand's short-term electricity issues, the Ministry is increasingly focusing on the longer-term issues.

Overarching energy policy/strategy

Government can help co-ordinate energy decisions of strategic significance to New Zealand by providing consistent policy signals and ensuring the planning process allows for the development of sustainable energy infrastructure and fast take-up of better energy options as they emerge. This includes being clearer about desired outcomes, the role of government, and setting expectations about when certain infrastructure will need to be in place. The Ministry will be leading work to develop a National Energy Strategy to address these issues.

The challenge over the medium to long term is to meet New Zealand's energy needs in a way that protects our way of life, economy and the environment.

Energy security of supply

Ensuring we can meet energy demand over the long term, at reasonable prices, is critical to the global competitiveness of New Zealand firms and our way of life in general. To avoid surprises, we will be developing and maintaining information on energy supply and demand scenarios. This will help us to maintain a good shared understanding of current and likely future energy requirements and trends, as well as their implications for policy and investment.

We also need to make sure our energy system is diverse and resilient, and encourages the best use of existing and new generation options, including gas and other traditional thermal fuels as well as new, longer-term options such as wind. This is a significant challenge, particularly as New Zealand transitions to a post-Maui gas environment.

The Ministry's work to address these issues includes:

- reviewing a range of electricity market arrangements to ensure that they are effective in meeting the Government's desired outcomes; and
- advising government on the role for thermal fuel in electricity generation and appropriate actions to ensure thermal fuel security.



Significant investment is required to strengthen the national grid to ensure that agreed standards are met. The Ministry will be monitoring the progress of major transmission upgrade projects and leading efforts to manage any issues that require a response from government.

We can also reduce the pressure on electricity supply by promoting more efficient use of electricity, potentially deferring the need for new investment in generation and transmission. EECA and the Electricity Commission are both carrying out on-going work in this area.

There is on-going interest in ensuring that electricity market arrangements are effective, for the Government's desired outcomes for the electricity market to be met. We need to ensure that the Electricity Commission is supported so that it can make its best contribution, and that its performance is monitored so that any issues that may impact on outcomes are identified and dealt with effectively.

Climate change

The economy needs to be prepared for the change in relative prices that will be brought about by the need to respond to climate change. We will be playing a role in ensuring that climate change policy creates sensible and stable incentives and is robust enough to facilitate a faster reduction of emissions if required, and that climate change is a focus of New Zealand's publicly funded energy research priorities.

Mitigating the effects of rising oil prices

New Zealand is well short of self-sufficiency in oil and is therefore exposed to price increases. We are also relatively transport-intensive, through our dispersed population, geography and physical isolation from trading partners.

While New Zealand is relatively less dependent on oil and oil products than some other countries, like the United States, we also need to consider more fully the government's role in reducing our medium- to long-term dependence on oil and ensuring a smooth transition to alternative fuels, while ensuring that energy needs continue to be met.

We also need to ensure that New Zealand maintains adequate petroleum reserves (as well as meeting international obligations) and that any regulation to increase stocks is justified by community benefits.

Ensuring that broadband's ever-increasing potential is effectively utilised is a key step in advancing our economic development objectives.

Information and Communications Technologies

ICT outcomes and the evolving ICT landscape

The ICT sector is notable for on-going and rapid developments in technology, leading to very large quantity and quality improvements, and cost reductions.

Ensuring that broadband's ever-increasing potential is effectively utilised is a key step in advancing our economic development objectives. New Zealand is relatively well-connected for internet, but uptake of broadband services is still slow. Furthermore, many New Zealand firms have a poor understanding of how ICT is changing market requirements and opportunities, and they lack the skills to integrate ICT into business processes to obtain the strongest gains in productivity.

Nevertheless, use of ICT in daily commercial and social interactions (e.g. internet auctioning and blogging) has been expanding, in part reflecting falling costs. This is accompanied by increasing concern/awareness of security and safety.

Voice, data and video are converging into single transmission mechanisms (e.g. the voice over internet protocol), serving diverse devices. Next generation networks, based on IP technology, are just around the corner. Technological change is a threat to the market power of incumbent firms in traditional services. In the future, market power may arise in delivery of content, e.g. from merging communications and media activities.

Overall, the challenge remains to maintain investment incentives while reducing bottlenecks. Against this backdrop, the Ministry's main goals in the ICT area are:

- ➔ seamless and easy access to information resources to support commercial, research and other productive activity (content);

- enhancing the skills needed to utilise the resources available (confidence and capability); and
- availability of ICT networks, particularly high-speed/high-quality-of-service broadband, to enable access to resources (connection).

Supporting the uptake of new technology

New Zealand consumers (including firms) may need support to ensure satisfactory levels of uptake of new ICT technology. Ministry initiatives include:

- implementing measures under the Government's Digital Strategy;
- monitoring and enhancing the telecommunications regulatory regime, particularly a review of the Telecommunications Act and a stocktake review of the telecommunications sector.

Technological change brings some regulatory challenges and opportunities

We need to monitor industry developments with an eye on implications for market power and the current regulatory regime. For example, technology is eroding telecommunication companies' traditional sources of market power, and there is a risk that they may seek to lever market advantages in residual communication links where they may retain control (e.g. local loop) or insist on standards that impede change (e.g. in ITU negotiations).

New technology also offers opportunities to enable greater private sector development of innovative technologies and services, including methods of approaching radio spectrum allocation and management.

We will provide advice to government on technological developments likely to significantly influence the regulatory and economic growth environments.

Transport and water

The Ministry's role in these areas is to provide supporting advice to the lead agencies and government on particular transport and water issues significant to economic development. For example, our focus in transport over the next year will include participating in work led by other agencies on road pricing and transport funding. Our involvement in key water issues includes participating in the Sustainable Development Programme of Action for Water, led by the Ministry for the Environment.

Overarching infrastructure issues

Differences in ownership, governance, regulatory and funding arrangements across the energy, ICT, transport and water sectors mean that most infrastructure policy needs to be tailored to the circumstances of individual sectors. Nevertheless, some general issues apply across several or all sectors, such as suitable mechanisms for financing infrastructure. The Ministry's main areas of focus in the next year and beyond include:

- developing national policy statements for electricity transmission, electricity generation and telecommunications; and
- engaging with local government in Auckland to assist in the development of the long-term framework to offer an infrastructure and economy-based view aimed at fostering Auckland's contribution to national economic development.



Contributions of Output Classes to the Infrastructure Strategic Priority

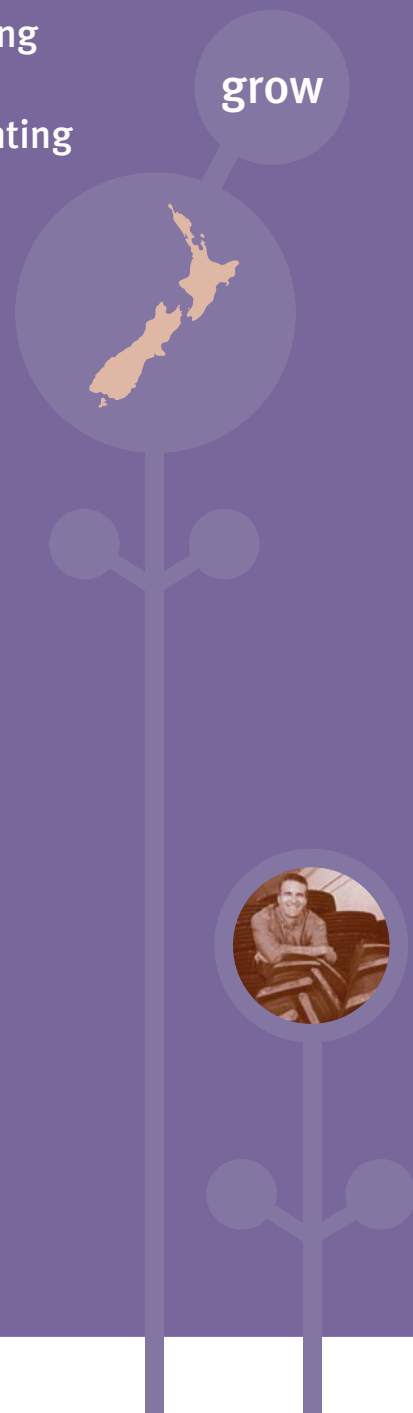
Vote and associated contributing output class(es)	Outputs within the output class
Vote: Communications	
Policy Advice – Communications	Telecommunications and Postal Policy Advice Information Technology Policy
Vote: Economic, Industry and Regional Development	
Policy Advice – Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional	Infrastructure Advice
Vote: Energy	
Policy Advice on Energy and Resource Issues	National Energy Strategy Electricity Gas, Oil and Other Resources Energy and the Environment
Vote: Energy	
Management of the Crown Mineral Estate	Petroleum and Minerals Investment
Vote: Tourism	
Policy Advice – Tourism	Tourism Policy

Section 4

Managing for Outcomes

The strategic priorities focus on particular areas where increased effort is likely to be most positive for growth, but all the Ministry's work aims to enhance growth.

This section describes the diversity of the Ministry's contribution to growth by outlining its 12 business environment outcomes. It also shows how the Ministry is implementing systems and processes to achieve its strategically identified outcomes and priorities.



Managing for Outcomes



While not all of our work contributes to the strategic priorities, all our work aims to enhance growth.

The process of economic development is complex. The Ministry undertakes a wide range of activities to foster it. The strategic priorities focus on particular areas and issues where increased effort is likely to be most positive for growth. For this reason, they do not represent the whole of the Ministry's activity. While not all of our work contributes to the strategic priorities, all our work aims to enhance growth. The diversity of our contribution to promoting growth is reflected in the Ministry's 12 business environment outcomes, which are summarised later in this section.

Beyond the organisational focus of the business environment outcomes, there are also some important cross-cutting principles that influence the way we think about our work to achieve these outcomes. These include:

- designing policy and services in a way that fosters innovation;
- being conscious of where policy and services need to be designed and delivered in different ways to be effective for particular population groups, such as Māori and Pacific peoples;
- considering the impact of the business environment on small business;
- following principles of good regulatory design; and
- ensuring that economic development activities are effectively aligned across key economic players.

Working with other departments to achieve our outcomes

The Ministry cannot achieve its major outcome on its own. We also recognise that achieving our business environment outcomes will often be influenced by a range of factors outside the direct influence of the Ministry.

We encourage all government agencies to maintain a focus on productivity and income growth, and seek to ensure that policies aimed at achieving non-economic objectives assist – or at least do not detract from – efforts to improve growth. This work with other agencies is the focus of our Leadership Strategic Priority.

For example, for several years the Ministry has had a shared outcome with the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise in the area of international linkages, and linked outcomes in the area of innovation with the Ministry of Research, Science and Technology. More recently, the Ministry has been developing a closer relationship with Statistics New Zealand to build better data and indicators across a range of activity that is important to the Ministry's growth outcome. This will improve the quality of the evidence base that we can use to develop more effective policy.

Contributing to wider government goals

Our activities to promote economic growth and a supportive business environment need to be seen in the context of wider economic, social, cultural and environmental development objectives, because there are interdependencies between these different dimensions. Social cohesion is an important underpinning for economic prosperity.

Because of these interdependencies, the Ministry needs to collaborate and consult with other agencies to ensure that the total contribution of government agencies is greater than the sum of its parts. In particular, we need to take account of this wider context to ensure that policies are designed to be as effective as possible in contributing to growth, by tailoring our approach to the needs and characteristics of particular sectors. We need to be mindful of such themes that flow across the Ministry's work.

Some of our work contributes to Te Puni Kōkiri's outcome of *Māori succeeding as Māori*. The Ministry seeks to contribute to Māori economic development where it has the experience and expertise to do so. For example, certain characteristics of the Māori community and the structure of Māori businesses – such as tribal ownership of assets – may provide opportunities for a more tailored approach by the Ministry to certain applications of business regulation. The Ministry has also been doing work to reconcile the relationship between intellectual property and traditional knowledge. For several years, we have sought guidance on our areas of focus from our external Māori economic development advisory group.

Similarly, some of the Ministry's work contributes to the Ministry of Pacific Island Affairs' overall outcome of *Pacific families and communities achieving their full potential and contributing to New Zealand society*.

Improving our ability to manage for outcomes

The Ministry is continually sharpening its strategic focus. We want to concentrate effort and resources on the things that matter most for growth, as reflected in our major outcome and strategic priorities. This means we need to adapt our strategy over time to fit the changing external environment and incorporate our evolving understanding about how we can best influence economic growth in New Zealand.

The strategic priorities have become embedded as a focusing device for our activities, and for the “strategic conversations” that help determine these activities. Each strategic priority has:

- an agenda, setting out why the strategic priority is critical to achieving our major outcome, and key issues or opportunities that need to be addressed; and
- a work programme, describing the projects we will deliver to address the critical issues over the next year and beyond, as well as explaining how each project will address the critical issues. The strategic priority agenda and work programme together contain the intervention logic that links our work to our major outcome.

The focus over the last year

Over the last year we have:

- implemented and improved a system for reviewing our strategy, particularly the strategic priority agendas and work programmes, ensuring that our strategy adapts to new issues and knowledge;
- improved our understanding of how we can be most effective, through policy-guided research, and connecting better to New Zealand business. We have also continued our on-going programme of evaluative activity of particular policies and programmes; and
- revised our set of Business Environment Outcomes, so that the Ministry's business units better identify with them. This will improve the effectiveness of these outcomes as a practical device for guiding business-level strategy, and understanding where “shared outcomes” exist within the Ministry – supporting the strategic priorities in aligning the organisation towards common outcomes.



We want to concentrate effort and resources on the things that matter most for growth, as reflected in our major outcome and strategic priorities.

With the annual strategy review becoming a stable and accepted part of the way we do business, our attention has also turned, over the last year, to improving the quality of the strategic thinking and conversations that take place within this review. As part of this, we have instituted a more structured environmental scanning practice by our Strategic Leadership Team, and put more focus on synthesising our research and other learning to distil the implications for our strategy.

The focus over the next few years

Improving the quality of strategic thinking within the formal and informal strategy processes in the Ministry will remain our focus over the next few years. This will include an increased focus, over time, on the strategies being developed by individual business units to contribute to the Ministry's overall strategy.

The following table shows the Ministry's progress with developing the strategic priority action plans, and the next steps over the years ahead.

Improving the quality of strategic thinking within the formal and informal strategy processes in the Ministry will remain our focus over the next few years.

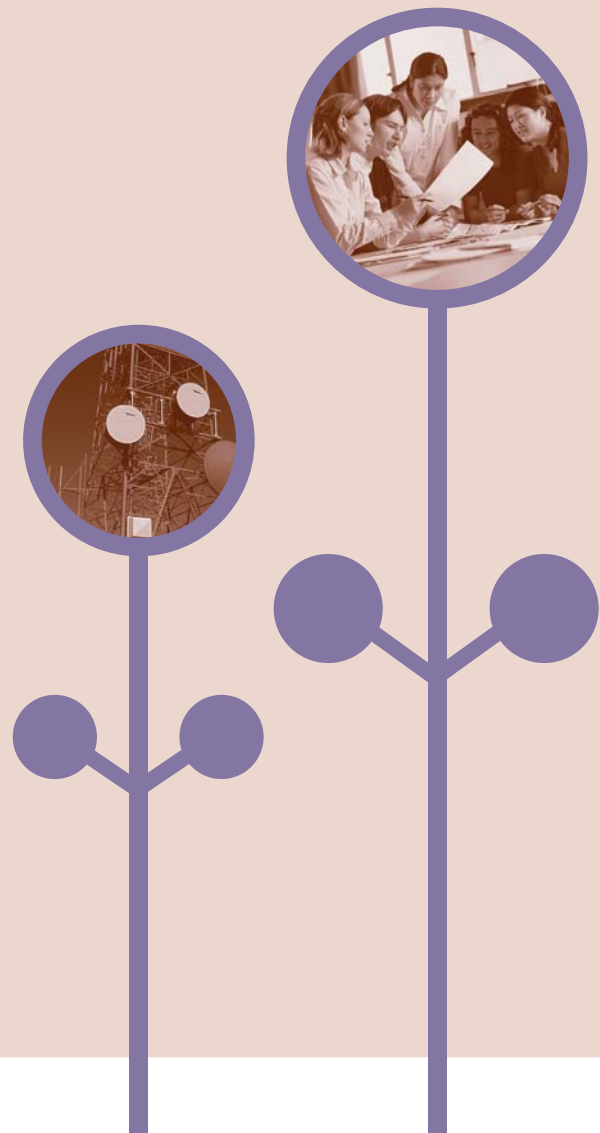
Strategic priority action plan development proposals over time

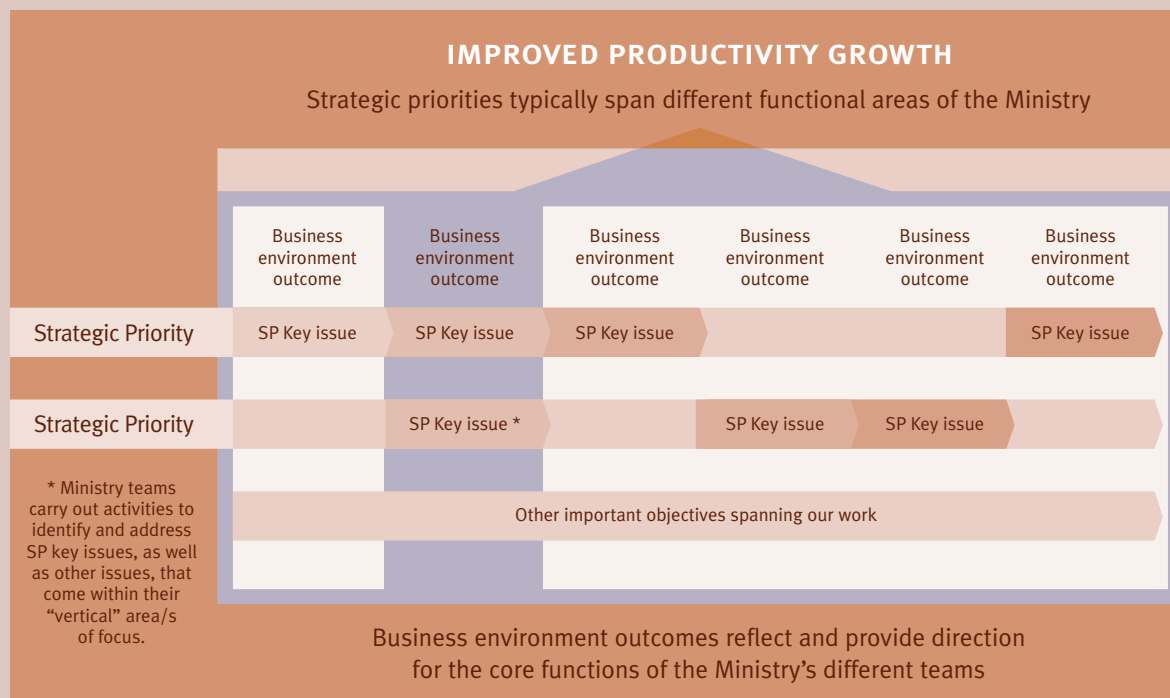
	2003/2004	2004/2005	2005/2006	2006/2007 and beyond
SP Agenda Priority policy areas and SP outcomes	Develop description of high-level SP rationale and areas of focus	Enhance statement of SP rationale and identify specific key issues and opportunities for the SP	Formal environmental scanning and review of key issues under each SP Design and embed processes for annual agenda review	Annual SP agenda review Clarify SP outcomes where appropriate High-level review of the strategic priorities (every 3 years)
SP Work Programme Outputs, rationales and intended impacts	Business units refer to high-level SP rationale as context for planning	Develop multi-year SP work programmes based on addressing critical issues (and improve rationales connecting outputs to SP issues)	Design and embed processes for annual work programme review Update work programmes to reflecting changing issues and improved understanding about how to address them	Annual work programme review Focus attention during SP work programme development on research and evaluation questions
SP Learning and Evaluation	No specific development	Clarify knowledge gaps and develop proposals Develop a knowledge management tool for recording and sharing information on research and evaluation	Develop synthesis of learning to inform a strategic conversation	
SP Alignment	No specific development	Identify SP-specific alignment issues and a plan for addressing them, including cross-cutting issues, including work on the inter-agency strategy system for identifying and addressing priorities.		

The Ministry's Business Environment Outcomes

Our strategic priorities represent the main challenge for the Ministry and are the focal point of our strategy. However, our overall strategy encompasses a wide range of activities aimed at promoting growth, including activities that do not contribute directly to the strategic priorities, as well as activities that do contribute. It is therefore important for each functional part of the Ministry to understand how they contribute to a business environment that lifts productivity and prosperity, to have a clear direction for their own business-level strategies, and to understand which other parts of the Ministry are working toward similar intermediate outcomes. Accordingly, our business environment outcomes are designed to both reflect and provide direction for the primary activities of the Ministry's different groups.

The relationship between the strategic priorities and the business environment outcomes is shown in the figure on the following page.





Growing business capability > Businesses are capable of being more internationally competitive.

Innovation, entrepreneurialism and the ability to operate internationally are fundamental drivers of success and productivity improvement in firms of all sizes. Business success requires entrepreneurs continually to spot opportunities and to produce and market innovative products that consumers want. The Ministry works on policies to help businesses build capability at both firm and sector levels, as well as improving the business environment so that it stimulates innovation, and improving connections between private and public sector research and development. We also help shape the environment for networks at firm, sector

and regional levels that will foster greater levels of collaboration and knowledge transfer.

Groups in the Ministry whose primary activities contribute to this outcome include Firm Capability, Growth and Innovation Framework Group, Regional Policy, Monitoring and Evaluation Unit, Sector Policy, and Small and Medium Size Enterprises. Some of our work on the Innovation Strategic Priority contributes significantly to this outcome. This outcome is linked to MoRST's outcomes for the research, science and technology sector.

Making the most of intellectual property › Intellectual property rights in New Zealand support investment in innovation and the sharing of ideas.

Intellectual property rights underpin innovation in New Zealand. By ensuring that people who generate innovative business ideas can benefit commercially from them, these rights provide incentives for continued innovation and invention. Innovation is also generated through access to knowledge and ideas, and building on the work of others. Legal protection for intellectual property must take account of all these factors by aiming to reward innovators, while also encouraging the dissemination of new ideas. The Ministry is responsible

for intellectual property policy and also offers efficient intellectual property registration services to support entrepreneurial activity in New Zealand.

Groups in the Ministry whose primary activities contribute to this outcome include Intellectual Property Policy and the Intellectual Property Office of New Zealand. Specific activities under the Innovation Strategic Priority contribute to this outcome.

Protecting dynamic competition › Competition regulation promotes dynamic markets and innovation.

Businesses can start and thrive, and consumers get a fair deal, when anti-competitive behaviour is restricted and firms compete for business in well-functioning markets under clear and transparent rules. Beyond sector-specific market regulation in the energy and ICT areas, which are covered under the specific outcomes below, the Ministry's work on competition policy aims to protect the competitive process so that it promotes

innovation, investment, competitive prices and good business practice.

Groups in the Ministry whose primary activities contribute to this outcome include Corporate and Competition Policy, and the Ministry of Consumer Affairs (through the *Empowering consumers* outcome). Certain activities under the Innovation Strategic Priority contribute to this outcome.

Promoting dynamic and trusted capital markets › The business community has confidence in the integrity and effectiveness of New Zealand capital and financial markets.

Well-functioning, efficient and dynamic capital and financial markets are essential to the maintenance and growth of productive business activity, because firms need the right financial capital arrangements to innovate and be globally competitive. For these markets to work well, market participants must have confidence in the firms, intermediaries, rules and institutions that operate within the investment environment. The financial system must also be resilient in the face of economic and financial shocks, allow firms and individuals to undertake effective risk management by pooling and mitigating risk, and should aim to facilitate increased savings for individuals. The Ministry works to

ensure that capital and financial markets are regulated efficiently and effectively so that they deliver a range of high-quality and trusted financial products and services. We also investigate the ability of firms in New Zealand to access finance and work towards addressing any barriers, where appropriate.

Groups in the Ministry whose primary activities contribute to this outcome include Financial Sectors, Firm Capability, and the Ministry of Consumer Affairs (through the *Empowering consumers* outcome). Certain activities under the Regulatory Environment Strategic Priority contribute to this outcome.

Empowering consumers > Consumers can transact with confidence.

For markets to work well and support innovation, consumers need to have confidence in the products and services they purchase, confidence in the parties with whom they transact, and confidence in the market rules and institutions that govern their transactions. Without this confidence, they are less likely to participate actively in markets, or will spend time and effort protecting

themselves against unknown dangers. The Ministry provides advice on a wide range of consumer issues.

The Ministry of Consumer Affairs, an operating branch of the Ministry of Economic Development, contributes significantly to this outcome.

Harnessing ICTs > Information and communications services and technologies make a significant contribution to productivity improvement and quality of life in New Zealand.

Rapid and on-going developments in information and communications services and new digital technologies have high potential to enhance the productivity of New Zealand firms, and our quality of life in general. Through the Ministry's activities relating to ICT, radio spectrum and firm capability, we are aiming to promote seamless and easy access to information resources, enhance the skills needed to utilise the resources and technologies available, and ensure the availability of

ICT networks, particularly high-speed/high-quality-of-service broadband.

Groups in the Ministry whose primary activities contribute to this outcome include Radio Spectrum Management, Radio Spectrum Policy and Planning, IT and Telecommunications Policy, Sector Policy, and Firm Capability. Activities under the Infrastructure Strategic Priority contribute significantly to this outcome.

Building international links > New Zealand's international connections support transformation of the New Zealand economy through growth in trade, and through improved flows of investment, skills and technology.

International connections enable growth. This is particularly true for New Zealand, because the domestic market is small and distant from global markets. The Ministry works closely with other agencies to co-ordinate New Zealand's regulatory environment more closely with those of our major trading partners and to promote stronger business networks. This outcome is shared with the Ministry of Foreign Affairs and Trade, and New Zealand Trade and Enterprise.

Groups in the Ministry whose primary activities contribute to this outcome include International Technical and Regulatory Co-ordination, Trade Remedies, Tariff Policy and Trade Rules, and Sector Policy. Activities under the International Linkages Strategic Priority contribute significantly to this outcome, including a number of projects run by cross-Ministry project teams.

Promoting sustainable tourism > Tourism makes a sustainable and increasing contribution to the New Zealand economy.

Tourism is an important contributor to New Zealand's economy and is an area that has significant growth potential. We aim to contribute to the growth of a high-value, sustainable tourism industry by providing policy advice on the role of tourism as a contributor to local and regional economic development, developing Māori tourism capability, improving the environmental performance of tourism, and conserving and sustaining

the sector's long-term future. We also develop research and core data to provide information to the private and public sectors to enable high-quality decision-making. The Ministry's primary contribution to this outcome is via the Ministry of Tourism, a semi-autonomous organisation within the Ministry. Implementation of the New Zealand Tourism Strategy 2010 is a key focus for the Ministry of Tourism and the New Zealand Tourism Board.

Securing our energy future > New Zealanders have reliable and safe access to the energy they need, at reasonable and efficient cost, and with acceptable impact on the environment.

Local and global demand for energy will inevitably increase over time, putting pressure on our energy supplies. Pressure on the system will be reflected in higher energy prices. The challenge over the medium to long term is to meet New Zealand's energy needs in a way that maintains our way of life, economy and the environment. The Ministry is responsible for a range of energy-related activities, including advice on the overall direction of energy policy and performance of energy markets, energy safety, the provision of energy statistics,

and overall management of New Zealand's oil and gas resources.

Groups in the Ministry whose primary activities contribute to this outcome include Crown Minerals, Electricity Policy, Energy and the Environment, Energy Information and Modelling, the Energy Safety Service, and Fuel and Crown Resources. Activities under the Infrastructure Strategic Priority contribute significantly to this outcome.

Managing our natural resources > Government enables business to generate economic benefits sustainably from New Zealand's natural resources.

Crown resources for which the Ministry is responsible, such as the mineral estate and the radio spectrum, need to be managed and allocated to maximise opportunities for sustainable economic development, whilst recognising the need for the use of these resources to be managed sustainably. The Ministry advises on the management of a range of these assets and allocates rights to utilise them, taking into account the Crown's obligations under the Treaty of Waitangi. The Ministry

also contributes an economic development policy perspective on specific natural resource issues, such as bioprospecting and oceans policy.

Groups in the Ministry whose primary activities contribute to this outcome include Crown Minerals, Energy and the Environment, Fuel and Crown Resources, Radio Spectrum Management, and Radio Spectrum Policy and Planning.

Promoting responsible business governance > The rules governing corporate behaviour in New Zealand effectively balance accountability with the need to support innovation.

Confidence in the integrity of the New Zealand business environment depends in part on the effectiveness of rules that establish business accountability and promote responsibility, and the institutions and powers required to ensure effective monitoring and enforcement of these rules. Businesses, their managers and directors need to be accountable to their stakeholders. The Ministry is responsible for developing and administering a range of rules affecting the operation and governance of different types of corporate entity. Regulation both prescribes this accountability and ensures that

shareholders have the information they need to hold managers accountable. However, in designing and administering these rules, we strive to strike the right balance between the need for corporate accountability, and supporting entrepreneurs to be innovative.

Groups in the Ministry whose primary activities contribute to this outcome include Corporate and Competition Policy, Financial Sectors, Business Registries and Insolvency and Trustee Service.

Boosting the productivity of Auckland > Auckland continues to grow as a world-class city, balancing economic growth with improvements to the quality of life of its citizens.

Auckland is the country's largest city and its greatest concentration of businesses and economic activity. It lies at the centre of the country's largest region and generates almost a third of New Zealand's wealth. The future economic health of Auckland is vital to the future economic health of the country as a whole, and Government has identified Auckland's development as a priority. The Ministry of Economic Development has led

the creation of the Government Economic and Urban Development Office, co-locating Ministry staff with staff from the Department of Labour, the Department of Transport and the Ministry for the Environment. The purpose is to provide advice to government on a co-ordinated approach to Auckland's sustainable economic and urban development.

Cost-effectiveness of the outputs the Ministry delivers or administers

This section outlines our approach to assessing the cost-effectiveness of the outputs that the Ministry delivers or administers. Although performance can be difficult to quantify in some areas, we use a variety of measures, including evaluation, to provide assurance that our activities have an impact on our outcomes. The Ministry will continue to adopt strategies to ensure we can provide efficient and effective services to Ministers and third party fee-payers, within the resources available to us. To achieve this, the Ministry will:

- improve the efficiency of our own processes and systems to reduce costs to purchasers of our services;
- invest in people and systems to develop the skills needed to deliver;
- ensure our support structures are delivered efficiently and effectively; and
- ensure efficient decision-making around priority work and effective identification of financial implications and capital expenditure.

Therefore, the short-term focus is on prioritising operating expenditure and managing within budgets. The long-term focus is in examining ways to meet increasing cost pressures within relatively fixed revenue, while maximising the impact of our strategic priorities. Our business planning processes are intended to support this by:

- encouraging an approach that is driven by the Ministry's strategic priorities and outcomes;
- ensuring there is a clear basis for identification of outputs; and
- developing and implementing processes around prioritisation of resources across the Ministry.

The Ministry undertakes a wide range of activities to foster economic development. In its diverse roles, the Ministry develops policy for implementation by other agencies, or through services provided by the Ministry, especially by the Business Services branch.

Policy advice

The Ministry's core work of providing policy advice does not easily lend itself to direct cost-effectiveness analysis (cost per unit of benefit obtained). Our business environment outcomes do not have readily quantifiable measures of impact. They are typically realised incrementally over a period of years from a cumulative series of interventions on the economic environment – often from a number of government agencies. There can also be unanticipated international events that impact on New Zealand businesses, given much more global influence on the domestic business environment. So it is not an easy task to isolate the impacts and the effectiveness of this Ministry's policy advice outputs, especially within the time period of a Statement of Intent.

In these circumstances, we work to find a variety of measures that allow us to assess the quality of our policy advice and its desired impact. For example, the Ministry has a key role in promoting measures to improve the quality of regulatory analysis and processes across government, combined with taking an overview of business compliance cost reduction. These same principles are applied to the work and advice provided by the Ministry in the policy work it undertakes.

Furthermore, successful programmes comprise activities that deliver real results and essential services. Accordingly, in assessing the effectiveness of policy development, the Ministry focuses on its approach to help translate these policies into appropriately targeted programmes that deliver measurable results. The Ministry uses a monitoring and evaluation approach to support evidence-based policy development, which in turn serves to strengthen the overall efficiency and effectiveness of the interventions it recommends or implements. In particular:

- Because evaluation activities help us to learn more about what works and what does not, evaluation results are important for presenting the case for the direction of economic development policy within government, and in explaining the approach more widely.
- A number of the policy interventions are piloting approaches not previously used in New Zealand. Good evaluation enables these pilots to be refined, discontinued or more fully implemented. The process for doing this is through evaluation reports-back to Ministers, after sufficient time has elapsed, to test policy impacts and decide on policy refinement.

- While policy interventions are targeted to very specific activity, it is important to gauge the policy mix. Evaluation does this by indicating relative impacts, scale issues and complementarities.
- It is important that policy implementation, including the work of New Zealand Trade and Enterprise, develops a performance culture so service delivery is as efficient and effective as possible. Evaluation has an important role in building this performance culture and in improving the relevance and coverage of monitoring information.

As part of the 2006/07 work programme, a number of programmes will be evaluated to determine whether the design and delivery of these major interventions is meeting the original objectives or as input to looking at how they could be improved. Evaluation is a key component of Vote: Economic, Industry and Regional Development. This work will include the evaluation of a number of specific programmes and completion of the Government's expenditure review of business assistance programmes. All programmes will be evaluated within a four-year cycle.

Service delivery and enforcement systems

Government regulatory regimes require effective enforcement and service delivery systems. These, in turn, need to be supported by efficient, high-quality information systems. The Ministry runs the corporate and intellectual property registers and enforces the corporate governance statutes. Six business units in the Ministry deliver such services to both business and the public (for example, the Companies Office, the Intellectual Property Office, and the Radio Spectrum Management Group). Each of these units provides registry and/or licensing functions in parallel with compliance and enforcement responsibilities.

A key objective of these units is to lower the cost of services to business. This, in turn, contributes to an objective of minimising transaction costs for consumers and businesses in domestic and international markets. The specific priorities for the next three years to achieve this outcome are:

- continuing to enhance the online services the Ministry offers and look at vehicles for new choices

in service delivery, and introducing new on-line licensing and registration facilities;

- reviewing annual fees to further simplify categories, removing fee differentials unrelated to administration costs, and providing incentives for on-line payments;
- providing integrated services, with other government agencies, to small to medium enterprises via the internet. For instance, the joint Companies Office/IRD initiative allows someone setting up a new company to ask IRD for a tax number at the same time as they submit their application to the Companies Office; and
- offering increased access to Australian corporate information (through an agreement with the Australian Securities and Investment Commission) to New Zealand businesses, assessing opportunities for co-ordination with Australia in areas such as patent examination and trade mark and plant variety rights processes, or supporting mutual recognition arrangements for electrical product compliance.

The most recent *Doing Business – Benchmarking Business Regulations* survey issued by the World Bank Group (based on January 2005 data), showed New Zealand ranked 1st for ease of doing business, 4th for starting a business and 21st for closing a business. Often, improvements in the *Doing Business* indicators proxy for broader reforms, which affect more than the procedures, time and cost to comply with business regulation, among other things.

While the Ministry is not the only player in these processes and cost is not the only metric that is assessed, as an international benchmark, it provides some guidance on how cost-effectively the services of the Ministry are being provided. For example, the cost of setting up a business in New Zealand amounts to just 0.2 per cent of per capita income, compared with an OECD average of 6.8 per cent. Similarly, in New Zealand the cost of resolving a bankruptcy is four per cent of the estate value, compared with an OECD average of 7.4 per cent. However, New Zealand's recovery rate of 71.0 cents in the dollar from an insolvent firm is lower than the OECD average of 73.8 cents.



The Ministry runs the corporate and intellectual property registers and enforces the corporate governance statutes.

Section 5

Organisational Development Strategy

This section outlines initiatives to build the Ministry's capability so it can realise its vision. The Organisational Development Strategy has three key aims: building an integrated organisation; making the Ministry an employer of choice; and developing its leadership capability.

This section also describes the Ministry's approach to managing risks which could jeopardise achievement of its strategic priorities, business environment outcomes and operational services.



Our Vision for the Ministry of Economic Development

We're striving to...





Organisational Development Strategy

Three elements of the Ministry's vision will drive our organisational development strategy over the next three years. Our commitment to leadership, building an integrated organisation and being an employer of choice are crucial to achieving our strategic priorities and business environment outcomes.

We have also taken into account the State Sector Development Goals, and our part in building a system of world-class professional state services serving the government of the day and meeting the needs of New Zealanders.

We will commit resources and managerial effort to develop our people, process and system capabilities to achieve these goals in the short and medium term.

Leadership: Strengthening our leadership role

With regard to the economic development agenda, we seek to *lead in partnership with the key economic players* to achieve our strategic priorities. We seek to contribute to the State Services Development Goal of *Co-ordinated state agencies* and ensure that the total contribution of government agencies is greater than the sum of its parts.

As our Leadership Strategic Priority explains, we need to work with and influence other agencies by articulating the Government's economic transformation agenda and

its implications for their work. We will deepen our capability to influence and assist other agencies to align their work with this agenda.

Working in partnership with others requires us to be good listeners, responsive to the needs of business, local communities and local government. We must be able to build and maintain effective on-going working relationships. We need to have a clear, shared understanding of the outcomes we are working towards, so we can articulate them to others.

Key action points

We will:

- ➔ Enhance our ability to foster effective working relationships by ensuring cross-Ministry support for the vital projects in the Leadership Strategic Priority. Our primary focus will be on projects which build our capability to maintain effective relationships with Crown entities and ensure strong leadership of the economic transformation agenda across the state sector.
- ➔ Build our understanding and use of our economic development policy system. This is key to establishing the critical competencies and requirements for effective delivery of one of our core business systems. Work on this system will help to deepen our understanding of key knowledge and skills required at each stage of the policy



We need to work with and influence other agencies by articulating the Government's economic transformation agenda and its implications for their work.

During 2005/06, the Ministry established the Government Economic and Urban Development Office (GEUDO) to build our understanding and ability to respond to the challenge of making Auckland a world-class city.

analysis process so that we can more effectively target our learning and development activity. The outcomes from this project will shape the work on other parts of the Organisational Development Strategy.

- Continue dialogue with stakeholders on the economic transformation agenda. Our managers and staff need to converse confidently with external audiences, including state agencies, business and local government, about what matters for economic development. In addition to our day-to-day dealings with stakeholders, this dialogue will be conducted through a targeted relationship management programme, including speeches, briefings and selected conference attendance. We will develop information packages, presentations and tools (such as our on-line newsletter *Business Update*) to assist staff with this task.
- Inform our understanding of business and the economic challenges New Zealand faces, through initiatives such as industry visits, secondments and regular engagement with business. The strategic leadership team will continue to support the Industry Insite programme and other forms of business engagement involving spending time with business and business-related organisations. This enables our senior managers to understand economic development issues from a business perspective, and to hear first-hand how government agencies can best interact with business. This programme, and similar activities, will be extended to a broader range of staff. The aim is to deepen our overall understanding of the external business environment.
- During 2005/06, the Ministry established the Government Economic and Urban Development Office (GEUDO) to build our understanding and ability to respond to the challenge of making

Auckland a world-class city. We took a leadership role in establishing the office and have co-located with three other central government agencies working on economic development. This team will work to develop effective policy initiatives reflecting the economic development needs of business, local government and other Auckland stakeholders. To ensure the success of this initiative, the Ministry will support the GEUDO office to develop its capability. The short-term focus will be on ensuring the clarity of the work programme, the effectiveness of its stakeholder engagement and the clear definition and monitoring of success measures.

Working Together: Building an integrated organisation

Our vision is to *harness our combined expertise as an integrated organisation*. We also are committed to *analysis and open debate* and to *adding value to others' work*. We constantly strive to do things better and add value to the work of others. We seek to contribute to the State Services Development Goal of *Excellent state servants* by developing a strong culture of constant learning in the pursuit of excellence.

The Ministry works across nine portfolios to deliver on the Government's economic development agenda. To be effective, we need to ensure all parts of our organisation work together to a common purpose. We will continue to align our internal structures, systems and processes with our strategic priorities and business environment outcomes.

We continue to build our understanding of the strategic issues underpinning our decision-making and advice to government. To help build that understanding, we will deepen the dialogue we have with a range of stakeholders. We will also continue to test our understanding of the drivers of economic development.

This testing comes through our dialogue with Ministers and other learning activity such as research and evaluation. To take leadership of the Government's economic transformation agenda requires our managers to be articulate and influential with others, both internally and in the wider community. Training and support will assist them to be effective in this role.

Key action points

We will:

- ➔ Continue to build an integrated approach to our strategy, planning and review systems to allow informed management choices around short- and long-term focus and priorities. This work focuses both on the formulation and execution of strategy. We remain committed to enhancing and streamlining our strategy and planning processes and, where appropriate, developing our supporting systems so that we have a centralised and accessible repository of all activity and research. We will continue to refine planning and budget systems and processes, so we can prioritise and effectively manage risk. We will further develop processes for regular review of progress against our plans. Finally, we will continue to undertake new and varied ways of communicating our strategy internally and will monitor levels of staff understanding.
- ➔ Increase investment in the strategic thinking capability across the Ministry, via appointments to chief adviser roles, creating a working paper series, knowledge sharing activity, particularly across communities of interest, and a focus on how we inform our "economic development thinking" as a core element of the policy/learning system. This work will be underpinned by our research and development activity to ensure that we have a richer understanding of what will achieve sustainable growth. Our research and development programme will focus on deepening understanding of the factors that will ensure the success of our strategic priorities. To achieve this, we will develop the research skills of our staff and create stronger linkages with external groups that can assist with this work.

- ➔ Further develop a knowledge-sharing culture and supporting systems, so we can promote internal knowledge sharing, co-operative learning and effective production of outputs. Integrating knowledge across the Ministry's various work units and Votes will lead to better integration of advice to Ministers, ensuring a consistent focus on the Government's economic transformation agenda.

Employer of Choice: Developing our skills and expertise

Our vision is to *be an employer of choice for talented and committed people*. We aim to maintain a culture of excellence, personal development, enthusiasm and mutual support that attracts and retains talented and enthusiastic people. In doing so, we contribute to the State Services Development Goal of *Employer of choice*, ensuring the state services are attractive to high achievers with a commitment to service.

The Ministry aims to recruit, retain and develop talented people with skills in economics, law, policy analysis, commerce, research, corporate support, economic development and other relevant disciplines. We seek to build an organisation of experienced and capable individuals who understand economic development and the role government and business play in growing our economy, and who have the interpersonal skills to effectively work with others. We need to be attractive to new staff and able to develop the talents of our current staff.

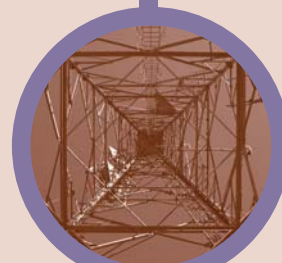
To make the most of our existing skills base, we need to offer targeted development opportunities to enrich the individual in their role and assist us to deliver on our strategy and outcomes. Our approach to organising and managing work needs to allow staff to build and utilise a portfolio of skills and experiences. In addition to professional development, we offer targeted management development programmes to equip managers with the skills needed to build the capability of our staff.

Key action points

We will:

- ➔ Continue to develop our leadership management skills with a focus on developing individual managers' practical management skills and ability to lead and influence others. We will achieve this by more clearly articulating the manager role, providing assessment tools, focusing on training, and building our managers' interpersonal and feedback skills. We will continue emphasising the importance of the performance management system and development plans.
- ➔ We will build systems and processes to develop high-potential staff, sharpening the processes we use to target the development of staff in roles to grow and maintain the required functional and interpersonal capabilities. To do this we will offer specialised targeted development for staff in technical roles, relevant to their work responsibilities, which increases their skills and ability to produce effective outcomes for the Ministry and motivates them to continue to invest their knowledge and experience with us. We will seek clearer statements of our development requirements from our planning processes, provide increased support from our human resource professionals to managers, to assist employee development planning, and provide a clearer framework for utilising whole-of-organisation training initiatives and measuring the impact of our learning and development activity.
- ➔ Focus on investing in and extracting greater value from key systems which support managers to effectively manage the organisation's performance. Our focus in the next three years will be on our management information systems, IT infrastructure, "fit for purpose" accommodation and facilities, and core HR systems (performance management, remuneration and recruitment).

grow



Risks to Achieving the Ministry's Outcomes

Why assess risk?

Effective strategy development, planning, prioritisation and review are all core parts of the Ministry's approach to managing risk. Given the diverse range of activity the Ministry is responsible for, it is essential we prioritise the critical things that will make the biggest contribution to improving growth in New Zealand. We need to continually refine the activities under our five strategic priorities and ensure that these are adequately resourced.

As our goals and objectives are identified, so too are the risks to achieving them and the most effective risk treatment methods. Accordingly, we work to ensure that our planning processes incorporate risk profiling, and that the Ministry's structure and systems promote risk management at all levels.

The Ministry's risk framework

In our strategic and business planning process, we identify and review the key risks to achieving our outcomes. For each key risk, we develop specific risk management strategies. We allocate accountability to senior managers for the management and mitigation of these risks. As part of our operating review process, we monitor those risks at both strategic and operational levels.

While the Ministry is constantly seeking to anticipate risks, to avert them or to mitigate their effects, we also seek ways to encourage intelligent, calculated decision-making, where judgement is exercised and opportunities for innovative solutions are pursued. We do not want risk management to be a brake on innovation.

In our policy work, risks are identified and managed through excellence in analysis, peer review, and understanding the main challenges facing the New Zealand economy. We seek to ensure that the policy analysis process identifies relevant risks and

ways of managing them. For our operational activities, the Ministry identifies and manages risk through project planning, operating review, and review of projects, audits and risk profiling.

We will continue to strengthen the use of our operating review systems, so we more efficiently and effectively monitor our performance and priorities across the Ministry. We will manage our audit programme to cover systemic, process and project risk.

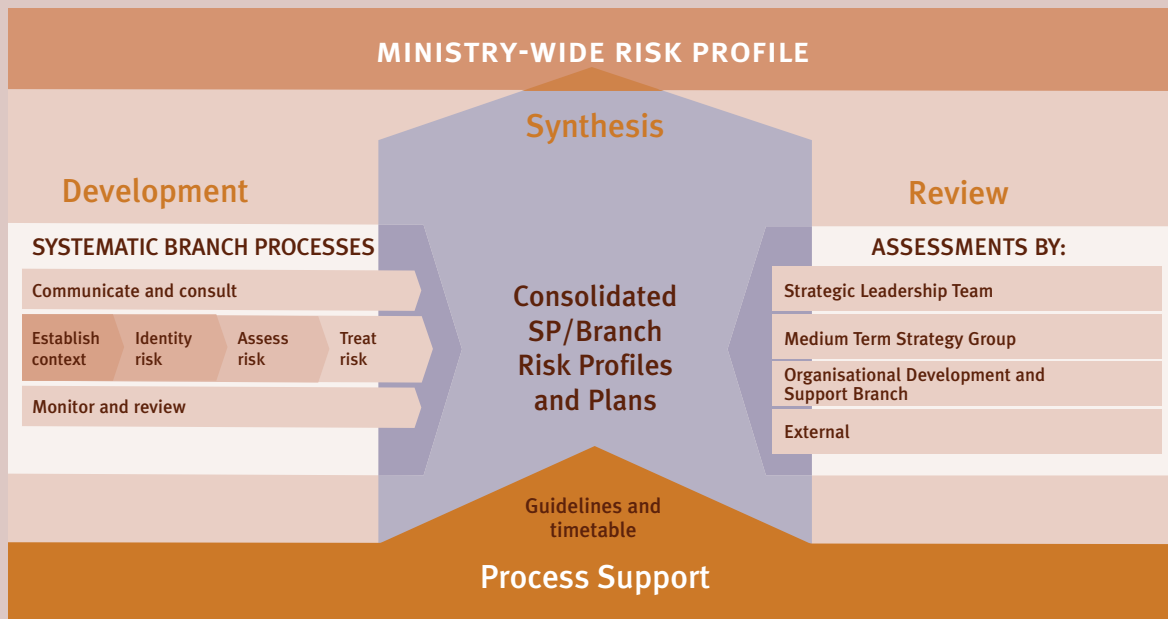
The identification and management of risks is an iterative process. While the Ministry has a risk profile and is implementing a process of quarterly reviews, the majority of the Ministry's risks are managed through strong management systems, for example, knowledge sharing, performance management and operating review. These systems build on the strategy and planning frameworks and provide a basis for refining strategic priorities and business plan activities at all business levels. This ensures alignment with strategic priorities and cascades down to the business plan level, so that well-informed decisions can be made. These systems focus on providing managers and staff with tools to better identify and manage their risks.

The way in which the branch risk profiles inform the Ministry-wide risk profile, and therefore the strategic debate, is illustrated in the diagram below. The Ministry faces different types of risk, each requiring a different treatment.

Policy advice

The following risks could threaten achievement of the Government's and Ministry's strategic objectives in relation to advice on policy options:

- risk of inadequate policy advice in areas that could lead to systemic failure of key economic development settings;



- risk of underachieving relative to the Government's expectations, because of a failure to achieve organisational focus on priorities for policy development; and
- shortage of capability in the employment market to meet the needs of the Ministry.

The development of the core skills of our staff and managers will be critical to ensuring these risks are addressed. Building our economic development policy capability through recruitment and internal development will also ensure that comprehensive, timely and appropriate advice is offered to government.

Service delivery

Operationally, the Ministry must also manage significant risk potential, in areas such as:

- failure of technology systems in the delivery of on-line services;
- effectiveness of our internal management systems;
- failure of individuals to meet the standards of behaviour expected of public servants and Ministry employees; and
- failure to prepare for incidents outside the Ministry's control (e.g. natural disasters).

The Ministry manages these risks through clear expectations of behaviours that support the Public Service and the Ministry Codes of Conduct, an emphasis on the Ministry's values, emergency preparedness, business continuity planning and well-managed contracting with suppliers.

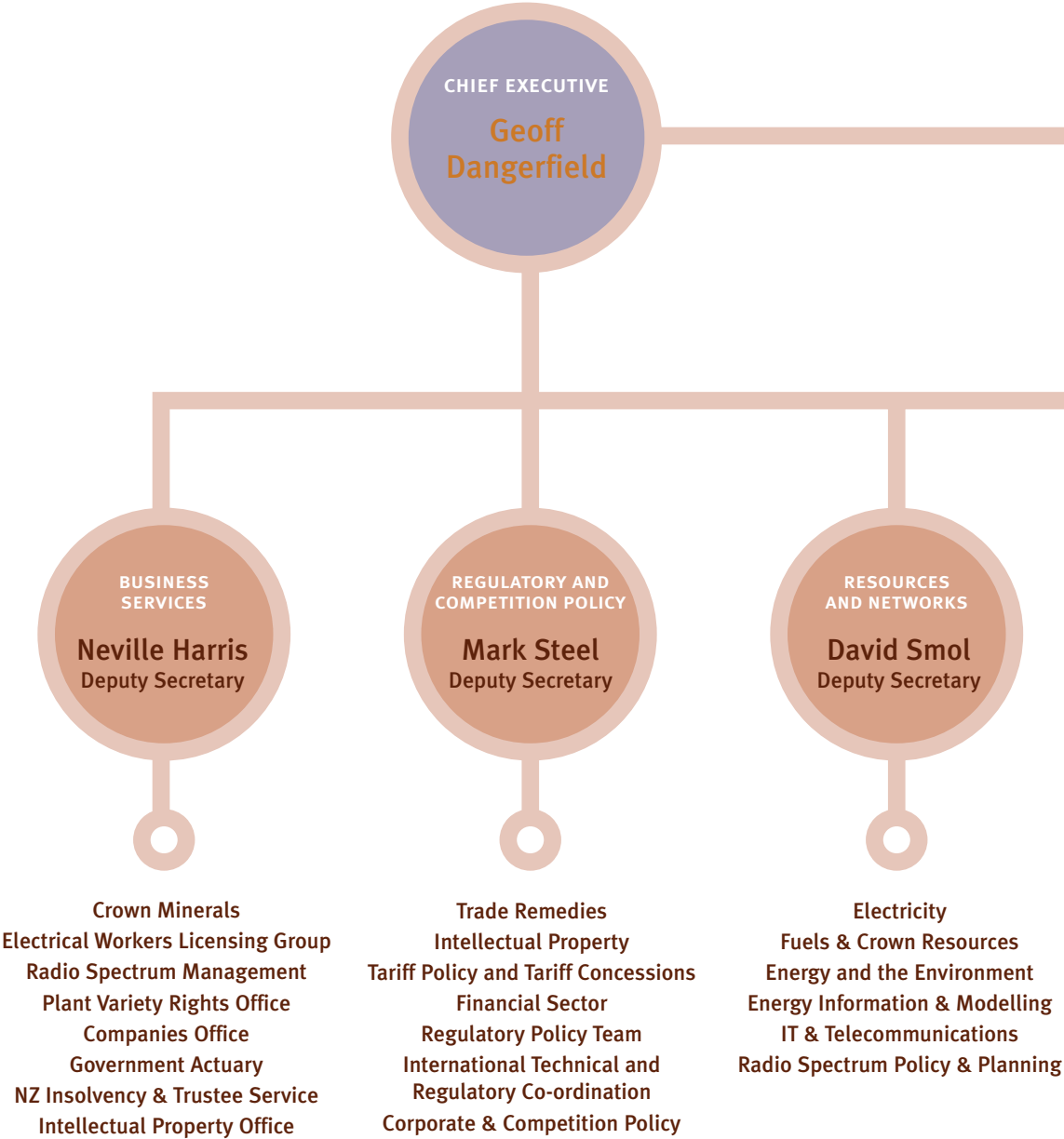
The Ministry will continue to refine its strategies to ensure we can provide efficient and effective services to Ministers and third party fee-payers, within the resources available to us.

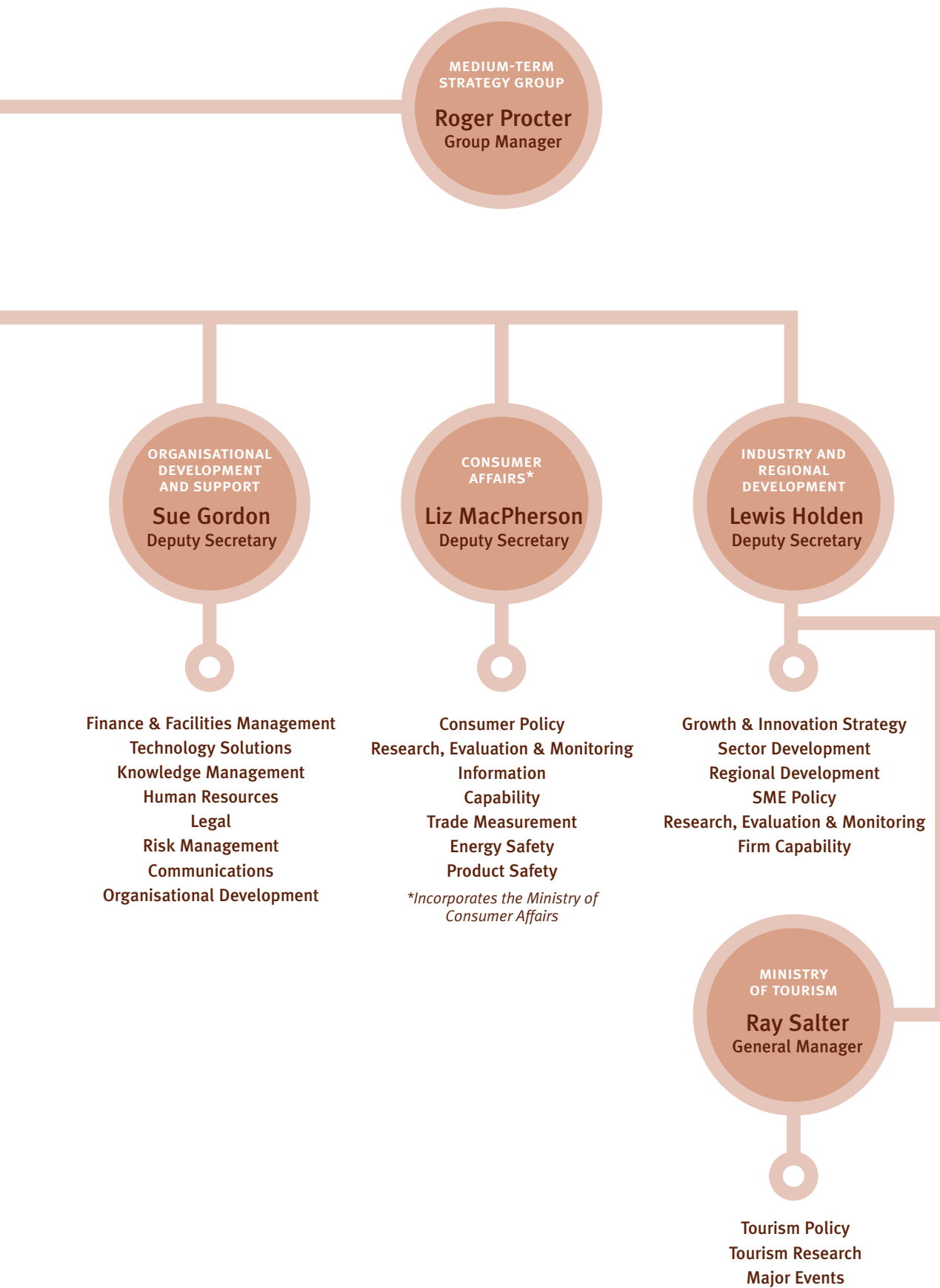
We will continue to strengthen our strategic and business planning processes to address risks through improved direction setting, accountabilities, capability building and knowledge management strategies across the organisation.

Accountability for the alignment of strategy, planning, operating review and risk systems is assigned to the Deputy Secretary, Organisational Development and Support. This role has the delegated authority to ensure that the appropriate systems are designed and used.

Good risk management also requires good management information. The Ministry is introducing new management information systems to ensure that managers have easy-to-access up-to-date financial and personnel data.

Ministry of Economic Development Organisational Chart





Financial Summary

In 2006/07, the Ministry expects to earn \$59.748 million (GST exclusive) in revenue from the Crown and \$42.318 million (GST exclusive) from other purchasers of the services it will supply under the 18 departmental output classes detailed in this report. The Ministry expects to incur expenses of \$107.890 million (GST exclusive) in providing these services.

The Ministry expects to incur a deficit of \$5.824 million in 2006/07.

In addition, the Ministry administers the following non-departmental (GST exclusive) appropriations:

→ Output classes across six Votes (Commerce; Communications; Consumer Affairs; Energy; Economic, Industry and Regional Development; and Tourism) totalling \$331.903 million for services supplied by the Commerce Commission, Securities Commission, Accounting Standards Review Board, Takeovers Panel, New Zealand Trade and Enterprise, Electricity Commission, New Zealand Tourism Board, New Zealand Citizens Advice Bureaux, and local and national delivery organisations for economic, industry and regional development programmes.

→ Appropriations across five Votes (Commerce; Communications; Energy; Economic, Industry and Regional Development; and Tourism) totalling \$120.597 million for regional development programme initiatives and grants, subscriptions and other expenses.

→ Five multi-year appropriations of \$185.892 million for the five-year period 2004/05 – 2008/09. These appropriations reflect:

- a multi-year appropriation in Vote: Communications totalling \$19.267 million over a four-year term between 2005/06 to 2008/09 for digital strategy initiatives;
- three multi-year appropriations totalling \$120 million in Vote: Energy over a 3–5 year term between 2004/05 to 2008/09 to provide for non-operating and maintenance security of supply costs relating to the Whirinaki reserve generation station,

purchase of demand side management and reserve energy production, and for the acquisition of seismic data in New Zealand's offshore petroleum basins; and

- one multi-year appropriation in Vote: Economic, Industry and Regional Development totalling \$46.625 million, applying over a three-year term between 2004/05 and 2006/07 for advice and grants to help regional partnerships to identify, develop and implement sustainable economic growth strategies.

→ Capital investments totalling \$35.480 million (GST exclusive) to New Zealand Trade and Enterprise (\$1.870 million) for development of the business (biz) portal website, to New Zealand Venture Investment Fund Limited for the Seed Co-investment Fund (\$8 million) and the Venture Investment Fund (\$25 million), and to Sprint International New Zealand (\$610,000) for the provision of text phones and relay services for hearing- and speech-impaired people.

The Ministry is responsible for making payments for the services supplied within appropriation under non-departmental output classes and for other expenditures on behalf of the relevant Vote Ministers. Each non-departmental output class provider is directly accountable to the responsible Minister for its performance. The Ministry is responsible for managing and monitoring contracts with non-departmental output class providers on behalf of the responsible Minister.

The Ministry expects to collect \$257.949 million of Crown revenue in 2006/07, with the major portion coming from levies on electricity industry participants and energy resource levies and royalties.

Details of how the non-departmental appropriations will be applied appear in Parts B1, B2, C2, D and E of Votes: Commerce; Communications; Consumer Affairs; Energy; Economic, Industry and Regional Development; and Tourism, in the Estimates of Appropriations for the Government of New Zealand for the year ended 30 June 2007.

Financial Highlights

	2005/06	2005/06	2006/07	Change between 2005/06 Budget and 2006/07	
	Budget ¹ \$000	Estimated Actual \$000	Forecast \$000	\$000	% change
Revenue: Crown	61,118	60,818	59,748	(1,370)	(2.24)
Revenue: Other	47,458	47,458	42,318	(5,140)	(10.83)
Output expenses	114,418	114,118	107,890	(6,528)	(5.71)
Net surplus/(Deficit)	(5,842)	(5,842)	(5,824)	(18)	(0.31)
Equity	21,152	19,952	20,569	(583)	(2.76)

The most significant movements in budgets between 2005/06 and 2006/07 are explained below.

Revenue Crown

Revenue Crown forecast to be earned for departmental outputs is forecast to reduce by \$1.370 million, mainly reflecting the following:

- the phasing of implementing a regional statistics programme where more funding was provided in 2005/06;
- the phasing of funding to develop mechanisms to give national guidance on network infrastructure under the Resource Management Act 1991;
- one-off funding provided in 2005/06 for research to develop a blueprint enabling Small and Medium Enterprises (SME) to enter export markets using e-commerce, and for growing and sustaining SME in NZ policy work;
- higher funding provided in 2005/06 for travel costs in support of WTO negotiations and bilateral CEP/FTAs;
- the phasing of funding between years to run the tender process for KiwiSaver, and providing input into the policy and legislative processes;

- one-off funding provided in 2005/06 only for the Tourism Offshore Marketing Baseline Review; and
- one-off funding provided in 2005/06 only for the development policy phase of the Local Authority Tourism Infrastructure Grant Scheme.

These changes are partly offset by the following forecast increases resulting from:

- increased costs associated with the administration and management of new proceeds of crime orders by the Official Assignee and to respond appropriately to the increasing complexity and risks associated with these orders;
- increased responsibilities to ensure that providers of KiwiSaver products comply with statutory minimum standards and that investors in KiwiSaver products are adequately protected;
- funding for co-ordination of public sector activity related to the hosting of the 2011 Rugby World Cup; and
- a phased increase in funding for enhancing policy and research in the Tourism portfolio.

¹ This column incorporates both Main Estimates for 2006/07 and Supplementary Estimates appropriations for 2005/06.

Other revenue

Other revenue forecast to be earned for departmental outputs is forecast to reduce by \$5.140 million, mainly reflecting the following:

- the transfer of functions of the Electrical Workers Registration System to the Department of Building and Housing from 1 September 2006;
- one-off increase in 2005/06, mainly due to marginal cost increases relating to the increase in statutory registration activity;
- one-off increase in forecast revenue associated with holding the 2006 New Zealand Petroleum Conference; and
- forecast increases in 2005/06 relating to demand-driven increases in permit applications.

These changes are partly offset by the following forecast increases:

- the forecast introduction of new levies associated with the implementation of the LPG safety regime; and
- forecast marginal cost increases and associated revenue relating to trade mark and patent applications.

Output expenses

Output expenses are forecast to reduce by \$6.528 million, mainly reflecting the expense side of the non-forecast related revenue changes referred to above.

Forecast net surplus/(deficit)

The Ministry’s net deficit is forecast to reduce slightly (\$18,000) mainly reflecting the forecast impact of a long-term strategy to reduce memorandum account balances administered by the Ministry.

Memorandum accounts are operated in Registration and Provision of Statutory Information, the Registration and Granting of Intellectual Property Rights (both in Vote: Commerce), Administration of the Radiocommunications Act 1989 (Vote: Communications), the Motor Vehicle Traders Registration activities (Vote: Commerce and Vote: Consumer Affairs), and Administration of Gas and Electricity Regulations (Vote: Energy).

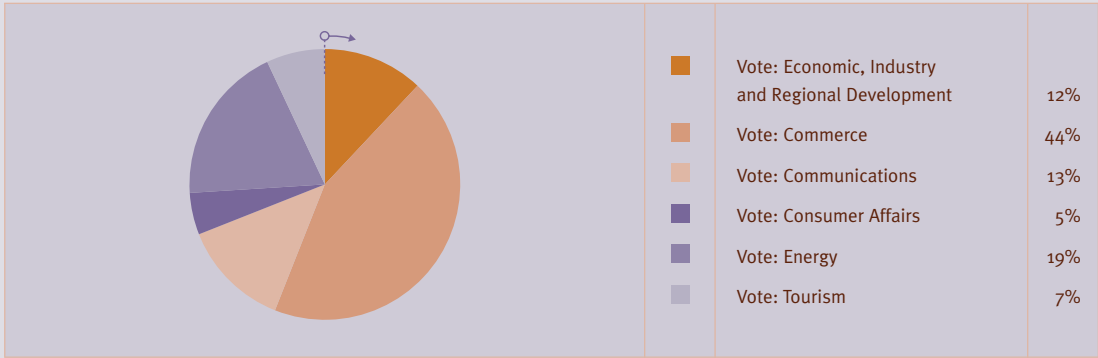
Further information on how the Ministry is working towards reducing surpluses further are outlined in the Forecast of Memorandum Accounts Balances statement that forms part of the forecast financial statements.

Equity

Taxpayers’ Funds are forecast to reduce during the year by \$583,000, due to the transfer of the Electrical Workers Registration functions and net assets to the Department of Building and Housing from 1 September 2006.

Additional capital is also forecast to be provided, totalling \$8.322 million, to fund the forecast deficits noted above in the memorandum accounts operated in Registration and Provision of Statutory Information (Vote: Commerce), and Administration of the Radiocommunications Act 1989 (Vote: Communications).

The following diagram represents the contribution each Vote makes to the Ministry’s total departmental output class appropriation base:



Departmental Capital Expenditure

(To be incurred in accordance with section 24 of the Public Finance Act 1989)

The forecast capital expenditure for the 2006/07 financial year reflects both the replacement and/or upgrade of existing assets, including the further development of registry databases, to assist the Ministry to deliver on its programme of work.

Departmental Capital Expenditure	Forecast 2006/07 \$000	Estimated Actual 2005/06 \$000	Budget 2005/06 \$000	Actual 2004/05 \$000	Actual 2003/04 \$000	Actual 2002/03 \$000	Actual 2001/02 \$000
Leasehold Fitout	350	2,350	2,350	2,990	1,987	1,139	471
Information Technology	6,500	9,939	9,939	6,644	3,503	1,734	2,930
Vehicles	250	173	172	281	336	127	99
Other Assets	930	352	352	1,630	896	1,164	315
Total	8,030	12,814	12,813	11,545	6,722	4,164	3,815

The profile of the Ministry's capital expenditure programme reflects the Ministry's need to ensure that all necessary capital expenditure is undertaken to protect its capability, ensuring that priority goes to those that meet its overall strategic objectives.

The Ministry will continue to adopt processes which:

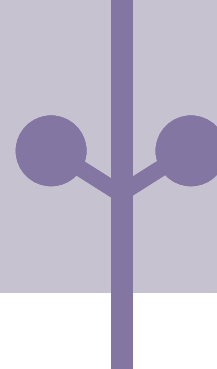
- ensure capital is directed to highest priorities across the Ministry and we gain benefits from rationalisation where possible;
- ensure that capital is invested in areas that meet the medium- to long-term objectives associated with building a learning organisation;
- develop strategies well in advance to address forecast capital requirements; and
- integrate effective capital planning into Ministry-wide priorities and strategies.



Part B

Forecast Financial Statements

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Introduction

These forecast financial statements contain:

- a statement of responsibility signed by the Chief Executive, Ministry of Economic Development, in respect of the statements contained in this report;
- a statement of forecast financial performance for the Ministry of Economic Development for the year ending 30 June 2007;
- a statement of forecast financial position for the Ministry of Economic Development as at 30 June 2007;
- a statement of forecast cash flows for the Ministry of Economic Development for the year ending 30 June 2007;
- a statement of forecast movements in taxpayers' funds for the Ministry of Economic Development for the year ending 30 June 2007;
- a forecast of memorandum accounts balances managed by the Ministry of Economic Development for the period ending 30 June 2007;
- a statement of departmental expenditure and appropriations by Activity for the period ending 30 June 2007;
- a statement of significant underlying assumptions and significant accounting policies to explain the basis on which the Ministry of Economic Development has compiled the forecast financial statements; and
- a statement of objectives including output class operating statements, financial performance indicators, descriptions and the cost of output classes to be supplied by the Ministry of Economic Development.



Statement of Responsibility

The information contained in this statement of intent for the Ministry of Economic Development has been prepared in accordance with section 38 of the Public Finance Act 1989.

As Chief Executive of the Ministry of Economic Development, I acknowledge, in signing this statement, my responsibility for the information contained in this Statement of Intent.

The financial performance forecast for the Ministry of Economic Development in the forecast financial statements is as agreed with the Minister for Economic Development, who is the Minister responsible for the financial performance of the Ministry of Economic Development.

The performance specified in the Statement of Objectives for each class of outputs forecast to be achieved by the Ministry, for the year ending 30 June 2007, is as agreed with the Minister responsible for each Vote administered by the Ministry.

We certify that the information contained in this report is consistent with existing appropriations, and with the appropriations set out in the Appropriations (2006/07 Estimates) Bill.

Signed:



Geoff Dangerfield

CHIEF EXECUTIVE
3 APRIL 2006

Countersigned:



Fergus Welsh

CHIEF FINANCIAL OFFICER
3 APRIL 2006



Statement of Forecast Financial Performance

for the year ending 30 June 2007

	2005/06	2005/06	2006/07
	Budget ² \$000	Estimated Actual \$000	Forecast \$000
Revenue			
Crown	61,118	60,818	59,748
Departments	1,644	1,644	1,682
Other	45,814	45,814	40,636
Total Revenue	108,576	108,276	102,066
Expenses			
<i>Output Expenses:</i>			
Personnel	50,900	50,900	51,594
Operating	57,452	57,152	48,432
Depreciation	4,900	4,900	6,300
Capital charge	1,166	1,166	1,564
Total Output Expenses	114,418	114,118	107,890
Net Surplus/(Deficit)	(5,842)	(5,842)	(5,824)

2 This column incorporates both Main Estimates for 2006/07 and Supplementary Estimates appropriations for 2005/06.

Statement of Forecast Financial Position

as at 30 June 2007

Actual Financial Position as at 30 June 2005 \$'000		Budget Financial Position as at 30 June 2006 \$'000	Estimated Financial Position as at 30 June 2006 \$'000	Forecast Financial Position as at 30 June 2007 \$'000
Assets				
<i>Current Assets</i>				
8,802	Cash and bank balances	10,371	9,134	5,051
157	Prepayments	180	180	115
9	Inventories	74	74	74
5,714	Receivables and advances	5,702	5,702	4,633
6,487	Debtor – Crown	1,500	1,500	2,800
21,169	Total Current Assets	17,827	16,590	12,673
<i>Non-current Assets</i>				
20,662	Physical assets	28,551	28,551	30,030
20,662	Total Non-current Assets	28,551	28,551	30,030
41,831	Total Assets	46,378	45,141	42,703
Liabilities				
<i>Current Liabilities</i>				
14,279	Creditors and payables	13,512	13,475	12,524
2,544	Provision for payment of net surplus	2,819	2,819	2,498
2,880	Provision for employee entitlements ³	2,380	2,380	2,307
4,493	Unearned income	3,556	3,556	1,995
24,196	Total Current Liabilities	22,267	22,230	19,324
<i>Term Liabilities</i>				
2,664	Provision for employee entitlements ⁴	2,664	2,664	2,613
393	Provision for onerous contracts	295	295	197
3,057	Total Term Liabilities	2,959	2,959	2,810
27,253	Total Liabilities	25,226	25,189	22,134
<i>Taxpayers' Funds</i>				
14,578	General funds	21,152	19,952	20,569
14,578	Total Taxpayers' Funds	21,152	19,952	20,569
41,831	Total Liabilities and Taxpayers' Funds	46,378	45,141	42,703

³ Provision for annual, long service and retiring leave.

⁴ Provision for actuarial long service and retiring leave.

Statement of Forecast Cash Flows

for the Year Ending 30 June 2007

	2005/06	2005/06	2006/07
	Budget ⁵ \$000	Estimated Actual \$000	Forecast \$000
Cash Flows from Operating Activities			
<i>Cash provided from:</i>			
Supply of outputs to: Crown	66,105	65,805	58,448
Departments	1,755	1,755	1,682
Other	44,760	44,760	40,069
<i>Cash disbursed to:</i>			
Cost of producing outputs: Output expenses	(109,763)	(109,499)	(101,029)
Capital charge	(1,166)	(1,166)	(1,564)
Net Cash Flows from Operating Activities	1,691	1,655	(2,394)
Cash Flows from Investing Activities			
<i>Cash provided from:</i>			
Sale of fixed assets	-	-	-
<i>Cash disbursed to:</i>			
Purchase of fixed assets	(12,813)	(12,814)	(8,030)
Net Cash Flows from Investing Activities	(12,813)	(12,814)	(8,030)
Cash Flows from Financing Activities			
<i>Cash provided from:</i>			
Capital contribution from Crown for Ministry Working Capital	4,000	4,000	-
Capital contribution from Crown for development of Climate Change Register	2,574	1,374	1,200
Memorandum Account Deficit	8,661	8,661	8,322
<i>Cash disbursed to:</i>			
Payment of surplus to the Crown	(2,544)	(2,544)	(2,819)
Repayment of Capital to Crown – EWLG Transfer	-	-	(362)
Net Cash Flows from Financing Activities	12,691	11,491	6,341
Net increase/(decrease) in cash held	1,569	332	(4,083)
Opening total cash balance at 1 July	8,802	8,802	9,134
Closing Total Cash Balances at 30 June	10,371	9,134	5,051

5 This column incorporates both Main Estimates and Supplementary Estimates appropriations for 2005/06.

Reconciliation of Operating Surplus to Net Operating Cash Flows

for the Year Ending 30 June 2007

	2005/06	2005/06	2006/07
	Budget ⁶ \$000	Estimated Actual \$000	Forecast \$000
Net Surplus/(Deficit) from Statement of Forecast Financial Performance	(5,842)	(5,842)	(5,824)
Add/(less) non-cash items			
Depreciation	4,900	4,900	6,300
Fixed asset write off	18	18	18
Movements in working capital items			
(Increase)/Decrease in inventories	(65)	(65)	-
(Increase)/Decrease in receivables and advances	12	12	1,069
(Increase)/Decrease in prepayments	(23)	(23)	65
Increase/(Decrease) in payables and provisions	(743)	(779)	(921)
Increase/(Decrease) in unearned income	(1,053)	(1,053)	(1,677)
Increase/(Decrease) in current employee entitlements	(500)	(500)	(124)
(Increase)/Decrease in debtor Crown	4,987	4,987	(1,300)
Items classified as investing activities			
Net (gain)/loss on sale of fixed assets	-	-	-
Net Cash Flows from Operating Activities	1,691	1,655	(2,394)

6 This column incorporates both Main Estimates and Supplementary Estimates appropriations for 2005/06.

Statement of Forecast Movements in Taxpayers' Funds

for the Year Ending 30 June 2007

	2005/06	2005/06	2006/07
	Budget ⁷ \$000	Estimated Actual \$000	Forecast \$000
Taxpayers' Funds brought forward as at 1 July	14,578	14,578	21,152
Taxpayers' Funds as at 30 June	21,152	19,952	20,569
Change in Taxpayers' Funds	6,574	5,374	583
<i>Analysed as follows:</i>			
Net surplus	(5,842)	(5,842)	(5,824)
Capital contribution	6,574	5,374	-
Memorandum account deficits	8,661	8,661	8,322
Asset/Liability transfers between departments	-	-	(583)
Capital withdrawal	-	-	-
Provision for payment of surplus to the Crown	(2,819)	(2,819)	(2,498)
Change in Taxpayers' Funds	6,574	5,374	(583)

⁷ This column incorporates both Main Estimates and Supplementary Estimates appropriations for 2005/06.

Forecast of Memorandum Accounts Balances

for the Period Ending 30 June 2007

Memorandum accounts are notional accounts to record the accumulated balance of surpluses and deficits incurred for outputs operating on a full cost recovery basis. They are intended to provide a long-run perspective to the pricing of outputs.

	Estimated Closing Balance 30 June 2006 \$'000	Forecast Closing Balance 30 June 2007 \$'000
<i>Vote: Commerce</i>		
Registration and Provision of Statutory Information		
Opening Balance 1 July	19,660	13,163
Forecast annual surplus/(deficit) ⁸	(5,010)	(4,866)
Other movements		
– ASRB related activities funded from financial reporting fees	(953)	(953)
– Securities Commission related activities funded from financial reporting fees and prospectus registration fees	(534)	(534)
Closing Balance 30 June	13,163	6,810
<i>Motor Vehicle Traders Register and Information Programme:</i>		
<i>Vote: Commerce</i>		
Registration and Provision of Statutory Information		
Opening Balance 1 July	256	141
Forecast annual surplus/(deficit)	(115)	(116)
Closing Balance 30 June	141	25
<i>Vote: Consumer Affairs</i>		
Policy Advice and Support on Consumer Issues		
Opening Balance 1 July	(223)	(123)
Forecast annual surplus/(deficit)	100	100
Closing Balance 30 June	(123)	(23)

8 The movement consists of the surplus/deficit in Vote: Commerce Registration and Provision of Statutory Information output class, excluding the surplus/deficit for the Insurance and Superannuation Unit and late filing fees.

	Estimated Closing Balance 30 June 2006 \$'000	Forecast Closing Balance 30 June 2007 \$'000
<i>Vote: Commerce</i>		
Registration and Granting of Intellectual Property Rights		
Opening Balance 1 July	2,552	3,756
Forecast annual surplus/(deficit)	1,204	1,505
Closing Balance 30 June	3,756	5,261
<i>Vote: Communications</i>		
Management and Enforcement of Radiocommunications Act 1989		
Opening Balance 1 July	9,104	6,669
Forecast annual surplus/(deficit) ⁹	(2,435)	(2,436)
Closing Balance 30 June	6,669	4,233
<i>Vote: Energy</i>		
Administration of Gas and Electricity Regulations		
– Operations of Electrical Workers Registration Board		
Opening Balance 1 July	1,124	
Forecast annual surplus/(deficit) ¹⁰	596	
	1,720	
Responsibility transferred to Department of Building and Housing	(1,720)	
Closing Balance 30 June 2007	-	

9 The movement consists of the surplus/deficit in Vote: Communications Management and Enforcement of the Radiocommunications Act 1989 output class.

10 The movement consists of the surplus/deficit in Vote: Energy Administration of Gas and Electricity Regulations output class relating to the operations of the Electrical Workers Registration Board only.

Action Taken to Address Surpluses in the Memorandum Accounts

Registration and Provision of Statutory Information

The impact of substantial overall increases in volumes within the Companies Office has been incorporated in a 10-year strategy model to address the impact of the shift from annual to electronic services and the fee adjustment required to meet the long-term strategy to reduce the memorandum account.

Annual reviews will continue to be undertaken to incorporate any volume impacts and to ensure this strategy is successful.

Motor Vehicle Traders Register and Information Programme

A fee strategy has been agreed to whereby the amortised costs associated with establishing the register and undertaking a mixed media education campaign and ongoing client communication and training will be recovered over a five-year period to 2007/08 through registration fee surpluses.

Registration and Granting of Intellectual Property Rights

A memorandum account has been established under this output class to accumulate a surplus balance to the year 2010 when the impact of changes in the timing of the fee receipts brought into effect by the Trade Marks Act 2002. From 2010–2017, it is anticipated that there will be fluctuations in revenue levels resulting in deficits in this period.

Management and Enforcement of Radiocommunications Act 1989

As a result of the review undertaken within the Radio Spectrum Management Group in 2002/03, a fees review proposing a new fee structure to reflect the shift in strategic direction and business process and accurately assess the cost structure of the new group has been undertaken, with a new fee structure implemented in 2005/06. A revised fees schedule, based on ongoing reviews and continuation of the longer-term strategy for reducing the memorandum account, is due to be implemented in 2007.

Administration of Gas and Electricity Regulations

A review of the current costs and fees structure has been undertaken which includes a strategy for reducing the memorandum account and a new fee schedule which will be implemented in 2006/07.

These activities are transferring to the Department of Building and Housing on 1 September 2006.

Details of Fixed Assets by Category

	Forecast 30 June 2007			Estimated Actual 30 June 2006		
	Cost \$'000	Accumulated Depreciation \$'000	Net Book Value \$'000	Cost \$'000	Accumulated Depreciation \$'000	Net Book Value \$'000
Buildings	39	39	0	39	37	2
Plant and equipment	13,192	3,910	9,282	12,225	3,058	9,167
Furniture and fittings	3,381	761	2,620	3,414	473	2,941
Motor vehicles	1,612	996	616	1,564	792	772
Computer hardware and software	24,410	9,198	15,212	22,323	11,444	10,879
Work in progress	2,300	0	2,300	4,790	0	4,790
Totals	44,934	14,904	30,030	44,355	15,804	28,551

Statement of Departmental Expenditure and Appropriations by Activity

During 2006/07 the Ministry of Economic Development is appropriated to supply services under 18 departmental output classes across six Votes.

Appropriations approved for 2006/07 total \$107.890 million (GST exclusive), and are to be funded through a mix of Crown (\$59.748 million, GST exclusive) and third party (\$42.318 million, GST exclusive) revenue.

This funding covers the following types of services (GST inclusive):

Activity	2006/07	2006/07	2005/06	2005/06
	Estimates \$000	Estimates % of Total Funding	Supplementary Estimates \$000	Supplementary Estimates % of Total Funding
Policy advice, Crown funded, relating to strategic priorities (for example, developing, monitoring and overseeing of sustainable economic development policies, business and consumer law, improving regulatory regimes)	41,303	38%	43,270	38%
Activities, principally Crown funded, relating to the administration of legislation (for example, trade measurement, trade remedies, insolvencies)	27,570	26%	28,844	25%
Activities, principally third party funded, (for example, trade mark and patent registration, Companies Office services, gas and electricity regulation, radio communications)	39,017	36%	42,304	37%
Total Departmental Output Classes	107,890	100%	114,418	100%

Statement of Significant Underlying Assumptions Followed in Compiling the Forecast Financial Statements

These statements have been compiled on the basis of Government policies at the time the statements were finalised.

These forecast financial statements comply with generally accepted accounting practice. The measurement base applied is historical cost adjusted for revaluations of assets. Revaluations are made to reflect the forecast service potential or economic benefit to be obtained through the control of assets.

Accrual accounting has been used to prepare these financial statements.

These statements have been prepared on a going-concern basis.

Statement of Significant Accounting Policies

Reporting entity

The Ministry of Economic Development is a government department as defined by section 2 of the Public Finance Act 1989.

Revenue recognition

Revenue is derived through the provision of outputs to the Crown, from services to third parties and from interest on deposits with the New Zealand Debt Management Office. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Realised gains arising from sales of fixed assets are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Expenditure

Expenses are recognised in the financial period to which they relate. Realised losses arising from sale of fixed assets are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Unrealised losses arising from changes in the value of fixed assets are recognised in the period in which they occur. Unrealised losses are first applied against the revaluation reserve for that class of asset. The balance, if any, is charged to the Statement of Financial Performance.

Cost allocation

The Ministry has derived costs shown in these statements using a costing system which will directly charge 81% of 2006/07 actual costs and indirectly allocate the remaining 19%.

Direct costs are those attributable to outputs on the basis of resource consumption. Costs which bear no direct relationship to outputs are classified as indirect. In this Ministry, these indirect costs are confined to Ministry-wide support costs.

The cost drivers that will be employed to assign direct and indirect costs to outputs for the major cost groupings are as follows:

Cost Groupings	Cost Driver
Direct Costs	
Accommodation	Amount of floor space occupied
Cafeteria administration	Staff numbers
Depreciation on leasehold improvements	Amount of floor space occupied
Depreciation on furniture and fittings	Amount of floor space occupied
Other personnel and operating	Direct charging
Indirect Costs	
Corporate overheads and time	Assessed usage, staff numbers

Receivables

Receivables are recorded at estimated realisable value, after providing for doubtful debts.

Inventories

Inventories are stated at the lower of cost or net realisable value.

Operating leases

The Ministry leases office premises and office equipment, mainly photocopiers. As the lessor retains all the risks of ownership, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

Fixed assets

Leasehold improvements are stated at net current values determined by an independent registered valuer. A revaluation of all leasehold improvements will be completed on 30 June 2006. Leasehold improvements are revalued every five years.

Items of computer software costing \$5,000 (excluding GST) or more are capitalised and recorded at historical cost.

All other fixed assets costing \$2,000 (excluding GST) or more are capitalised and recorded at historical cost.

Depreciation

Depreciation of fixed assets, other than leasehold improvements and work in progress, is provided on a straight-line basis so as to allocate the depreciable amount of assets over their useful lives. The depreciable amount is the historical cost or revalued amount, less the residual value. The estimated useful lives are:

Buildings	20 years
Computer equipment and software	4 years
Furniture and fittings	5 years
Office equipment	5 years
Testing equipment	10 years
Motor vehicles	5 years

All assets other than “motor vehicles” (\$5,000) are assumed to have no residual value.

The cost (or valuation) of leasehold improvements is capitalised and amortised over the unexpired period of the lease.

Capital work in progress is recognised as costs are incurred. Depreciation is not recorded until the asset is fully operational.

Gains/losses on fixed assets

Realised gains and losses arising from the disposal or sale of physical assets are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Provision for employee entitlements

Provision is made in respect of the Ministry’s liability for annual leave, long service leave and retirement leave. Annual leave is recognised as it accrues to employees at current rates of pay. Long service leave and retirement leave is determined on an actuarial basis based on the present value of expected future entitlements.

Taxation

The Ministry of Economic Development, as an institution of the Crown, is not required to pay income tax. The Ministry is subject to Fringe Benefit Tax, Goods and Services Tax and Pay-As-You-Earn tax (PAYE).

Goods and Services Tax (GST)

The Statement of Financial Position is exclusive of GST, except for Payables and Receivables which are GST inclusive. All other statements are GST exclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Payables or Receivables (as appropriate).

Financial instruments

The Ministry is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, receivables, payables and foreign currency forward contracts. The Ministry enters into foreign currency forward contracts to hedge currency transactions. Any exposure to gains or losses on those contracts is generally offset by a related loss or gain on the item being hedged. Apart from foreign currency forward contracts, all financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

Statement of Cash Flows

The following are definitions of the terms used in the Statement of Cash Flows:

- cash means coins, notes and current accounts;
- investing activities are those activities relating to the acquisition and disposal of non-current assets;
- financing activities comprise changes in the capital structure; and
- operating activities include all transactions and other events that are not investing as financing activities.

Changes in accounting policies

There are no changes in accounting policies for 2006/07.

All policies, other than as noted above, have been applied on a basis consistent with other years.

Output Class Specific Performance Measures

VOTE | Economic, Industry and Regional Development

Output Class > Policy Advice and Sector Leadership > Firm Capability, Sectoral and Regional Development

This output class provides policy advice encompassing the development, evaluation and overview of economic, industry and regional development policies and initiatives to promote sustainable economic development.

This includes the development and implementation of the Government's economic transformation agenda; the researching and analysis of factors influencing the capability and performance of firms, industry sectors, and regions; undertaking work on the overall management and adequacy of New Zealand's infrastructure; and the monitoring and evaluation of New Zealand Trade and Enterprise (NZTE) programmes and services.

The following outputs are included in this output class for 2006/07:

- ➔ **Regional Development Policy** – which relates to economic development in the regions of New Zealand, with a focus on policies and programmes to improve the business environment at the regional level, a key influence on individual firm performance. Key areas of focus include:
 - progressing with implementation of a refreshed framework for regional economic development policy for the future; and
 - understanding what contributes to cities performing well and applying this learning to our work on improving Auckland's contribution to New Zealand's economic performance.

- ➔ **Economic Transformation** – which relates to the ongoing development and implementation of the Government's cross-agency economic

transformation agenda and promotion of associated activities undertaken in regions, sectors and firms. Key areas of focus include:

- supporting the alignment of economic policy activity;
- reviewing the National Innovation System with the intention of creating an evidence base to support the future development of innovation policy; and
- publishing the new edition of the *Economic Indicators* report.

- ➔ **Firm Capability** – which relates to the issues that affect and influence management, business capability and overall performance at the firm level. It includes advice on the design, implementation and ongoing operation of industry programmes delivered through NZTE. Key areas of focus include:

- contributing to Export Year 2007 by aiming to draw the links between the importance of exporting and the Government's broader economic transformation agenda;
- promoting a well-functioning market for management and business capability development services through involvement with the Business Capability Partnership, an initiative comprising public and private representation; and
- developing measures of innovative firm activity and examining the two-way causal relationship between practices and performance, in particular the ways firms respond (through

changes in practices) to market signals of their performance.

- ➔ **Growth and Innovation Advisory Board** – providing support to the Growth and Innovation Advisory Board and their focus of strengthening the role of non-government stakeholders in informing the development of the Economic Transformation Strategy.
- ➔ **Research, Evaluation and Monitoring** – which relates to the evaluation and monitoring of industry and regional development programmes and the performance of New Zealand Trade and Enterprise and the Venture Investment Fund Ltd. In 2006/07, this output includes the evaluation of a number of specific programmes and completion of the government's expenditure review of business assistance programmes. All programmes will be evaluated within a four-year cycle.
- ➔ **Sector Policy Development** – which relates to the factors that influence the level and quality of sustainable economic growth from an industry development perspective. The focus is on those factors that influence the growth of industry sectors and New Zealand's international connections, and includes the design, implementation and on-going operation of programmes delivered through NZTE. Key areas of focus include:
 - in consultation with the industry, developing the Government's response to the Food and Beverage Taskforce recommendations, including development of a work programme and addressing the key challenges identified by the Taskforce;

- identifying the indicators, critical issues and actions (short-term and long-term) that will foster more globally competitive firms in New Zealand; and
- in consultation with key stakeholders, develop policy and operational parameters for the Government's Buy Kiwi Made initiative.

➔ **Major Events** – provide secretariat support to the Major Events Development Fund as part of the Major Events Strategy and ensure that expenditure on approved events is properly monitored and accounted for.

➔ **Infrastructure Advice** – which relates to work on a range of infrastructure issues not covered under Votes: Energy or Communications. The work is directed to advice on improving the contribution of the transport and water sectors, and of infrastructure generally, to economic development. The Ministry also leads the development of national guidance for infrastructure under the Resource Management Act 1991 (RMA).¹¹

Service performance

Policy advice will be delivered as agreed with the Minister and as detailed in the Ministry of Economic Development Output Plan.

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in Quality Standards for Policy Advice and Ministerial Servicing.

Costs: Output Class – Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	11,514	11,913	11,913
Third Party Revenue	119	115	115
Expenses	11,633	12,028	12,028
Surplus/(Deficit)	-	-	-

¹¹ The Ministry for the Environment has overall leadership on RMA work.

Output Class > Policy Advice > Small Business

This output class provides policy advice on issues relating to lifting the capability and performance of Small and Medium Enterprises (SME), including development, co-ordination and implementation of policy advice concerning SME.

The following outputs are included in this output class for 2006/07:

- **Small Business Advisory Group (SBAG)** – which relates to facilitating the work of the SBAG in considering SME issues and providing advice to the government.
- **Examining how regulatory flexibility can be applied to ease compliance costs for SME.**

- **Communication with SME** – which relates to building communication channels between government and SME, including through the SBAG, to promote the development and success of SME.

Service performance

Policy advice will be delivered as agreed with the Minister and as detailed in the Ministry of Economic Development Output Plan.

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in Quality Standards for Policy Advice and Ministerial Servicing.

Costs: Output Class – Policy Advice – Small Business

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	1,636	1,921	1,921
Third Party Revenue	10	9	9
Expenses	1,646	1,930	1,930
Surplus/(Deficit)	-	-	-

VOTE | Commerce

Output Class > Policy and Purchase Advice > Business Law and Competition Policy

This output class provides advice on the effective and low-cost regulation of economic activity. It includes strategic and technical policy advice on the creation and maintenance of a regulatory environment that provides greater certainty for, and positively encourages business innovation and growth. This work is being pursued in the following broad strategic context:

- the international convergence of norms and rules and the need to ensure that New Zealand's regulatory approaches and technical infrastructure reflect the evolving expectation around these approaches, and support innovation and economic development;
- advancing a Single Economic Market with Australia;
- the emerging implications of the growth of China's economy, its interaction with New Zealand's economy, the negotiation of a bilateral free trade agreement, and development of ways to deepen regulatory co-operation and business; and
- the priority that must be accorded multilateral efforts to improve market access and trade rules under the Doha Round.

The following outputs are included in this output class for 2006/07:

→ **Business Environment, Business Law and Competition Policy** – which relates to providing policy advice on corporate and commercial law, including capital markets, insurance, insolvency, intellectual property law, and competition law and policy, with the aim of enhancing opportunities for business to innovate and grow, allowing investors to make choices with confidence, and reducing the costs of doing business. Key areas of focus include:

Business Law

- Participating in the implementation of KiwiSaver, the workplace savings scheme, by contributing to the development of legislation and regulations to enact KiwiSaver; leading the tender process for default providers for the scheme and leading the implementation of the scheme relating to the Government Actuary; and taking part in the implementation and evaluation project around the scheme.
- Conducting a review of financial products and providers and, connected to this review, work

with Treasury to consider the desirability of a single New Zealand prudential regulator and a trans-Tasman council to co-ordinate the interface between New Zealand and Australian prudential regulation.

- Implementing the work programme under the Memorandum of Understanding on Business Law Co-ordination following its review, including:
 - advancing the work programme on competition and consumer policy and law co-ordination with Australia, notably putting in place processes for information sharing, cross-appointments and enhanced policy dialogue; and
 - implementing the Trans-Tasman Mutual Recognition Arrangement (TTMRA) review recommendations.

Intellectual Property

- Advancing the following legislative reform programmes: introduction and passage of the Geographical Indications (Amendment) Bill and regulations, Copyright (Digital Technology and Performers' Rights) Amendment Bill, Patents Bill and Plant Variety Rights Bill.
- Providing advice to Government on its response to aspects of the Wai 262 claim.

→ **Business Facilitation Policy** – which relates to providing strategic, economic and technical policy advice on enhancing the effectiveness of, and reducing the costs to business from compliance with laws and regulations, and standards and conformance issues. Key areas of focus include:

Regulatory Policy

- Strengthening processes for developing high-quality regulation, with a focus on the Regulatory Impact Analysis regime, engagement with business, and guidance material for the Policy Development Toolkit.
- Developing proposals for application of a standard cost model for measuring certain compliance costs, depending on the outcome of the feasibility study.
- Developing a methodology for examining regulation and compliance cost issues on a sectoral basis, taking into account the standard

cost model feasibility study and the need to improve engagement with the business community, and apply the methodology to selected sectors.

Standards and Conformance

- Following the release of a public discussion document, conducting Stage 4 of the review on the strengths and weaknesses of New Zealand's standards and conformance infrastructure.

Multilateral, Regional, Bilateral Trade Agreements

- Building effective relationships with the Chinese regulatory system, particularly the Chinese General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ), with a view to reducing transaction costs and improving access for exporters of goods and services, with particular priority on advancing a Mutual Recognition Arrangement (MRA) on electrical safety and electro-magnetic compatibility.
- Providing policy and technical advice and negotiating expertise on tariffs, trade remedies, rules of origin, intellectual property, competition, and government procurement for the Free Trade Agreement (FTA) negotiations with China, Malaysia and ASEAN.
- Providing support for the WTO Doha negotiation and, in particular, providing direct support and technical expertise to the Chair of the WTO Rules Committee to deliver new negotiated rules in New Zealand interests.

→ **Environmental Policy** – which relates to providing policy advice on the impact of environmental measures on economic development, with a particular focus on the Resource Management Act 1991 (RMA) and the Hazardous Substances and New Organisms Act (HSNO), climate change, and multilateral environmental agreements that impact directly on New Zealand businesses. Key areas of focus include:

- providing advice (in conjunction with the Ministry for the Environment and other interested parties) on measures to improve the RMA, including undertaking a case study research project to understand the impacts of the RMA on economic performance; and
- providing advice (in conjunction with the Ministry for the Environment and other interested parties) on measures to improve the operation of the HSNO for business.

Service performance

Policy advice will be delivered as agreed with the Minister and as detailed in the Ministry of Economic Development Output Plan.

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in Quality Standards for Policy Advice and Ministerial Servicing.

Costs: Output Class – Policy and Purchase Advice – Business Law and Competition Policy

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	9,180	10,381	10,081
Third Party Revenue	143	138	138
Expenses	9,323	10,519	10,219
Surplus/(Deficit)	-	-	-

Output Class > Administration of Trade Remedies

This output class provides investigative services to establish whether New Zealand industries require remedies to prevent injury caused by dumped or subsidised imports or sudden import surges.

The investigative service is conducted under the Temporary Safeguard Authorities Act 1987 and the Dumping and Countervailing Duties Act 1988 in relation to dumped and subsidised goods.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

Quantity

- An estimated 8 (10) product-by-country investigations, reviews and reassessments resulting from applications from New Zealand industries will be under action during 2006/07.

This work is demand-driven, dependent on applications from New Zealand industries. It is therefore difficult to estimate numbers of applications.

Quality

Investigations and reporting will:

- be recognised by the parties involved as consistent with the requirements of either the Dumping and Countervailing Duties Act 1988 or the Temporary Safeguard Authorities Act 1987;
- provide no grounds for successful court challenges during that period; and
- provide no grounds for successful World Trade Organization dispute settlement action against New Zealand.

Timeliness

- All (100%) interested parties will be advised of essential facts and conclusions on which a final determination will be based, no later than 150 (150) days from initiation.
- All (100%) reports will be made in sufficient time to allow the Minister of Commerce to make final determinations no later than 180 (180) days from initiation of an investigation.

Costs: Output Class – Administration of Trade Remedies

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	1,084	1,014	1,014
Third Party Revenue	16	15	15
Expenses	1,100	1,029	1,029
Surplus/(Deficit)	-	-	-

Output Class > Administration of Part II Tariff Concessions

This output class provides for the administration of tariff concessions, as required under section 8 of the Tariff Act 1988, through the timely assessment of applications by importers for exemption from import duties as defined by the tariff concessions policy.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

Quantity

- Action an estimated 500 (480) applications lodged by importers.

Quality

- Processes will comply with the standards contained in current Ministerial delegations and the policies contained in the Tariff Concessions Guidance Manual, with no more than 3% (3%) of review decisions reversed on appeal.

Timeliness

- 90% (90%) of initial decisions to advertise or decline an application will be made within five (five) working days of receipt.
- 90% (90%) of final decisions on applications will be made within 10 (10) working days of the end of the advertising period.

Costs: Output Class – Administration of Part II Tariff Concessions

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	-	-	-
Third Party Revenue	361	361	170
Expenses	352	352	352
Surplus/(Deficit)	9	9	(182)

Output Class > Registration and Granting of Intellectual Property Rights

This output class provides services relating to the administration of legislation providing for the protection of intellectual property rights in New Zealand by granting patents under the Patents Act 1953, registering trade marks under the Trade Marks Act 2002, registering designs under the Designs Act 1953, granting plant variety rights under the Plant Variety Rights Act 1987, providing registers of information relating to intellectual property, conducting hearings, and acting as a Receiving Office for the World Intellectual Property Organisation.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

Quantity

Action estimated numbers of:

New applications

- 5,500 (5,500) patents;

- 29,100 (24,000) trade marks (classes);
- 1,200 (1,200) designs; and
- 155 (155) plant variety rights.

Renewals

- 9,700 (8,100) patents;
- 10,800 (10,400) trade marks;
- 670 (610) designs; and
- 1,000 (1,000) plant variety rights.

Quality

- 99% (99%) of decisions to accept, grant or register intellectual property rights made by the Intellectual Property Office and the Plant Variety Rights Office will be upheld.

Timeliness

- 98% (98%) of completed applications¹² will be receipted, acknowledged and a filing date confirmed within one (one) clear business day of receipt.

Costs: Output Class – Registration and Granting of Intellectual Property Rights

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	85	85	85
Third Party Revenue	11,847	11,542	11,542
Expenses	10,427	10,423	10,423
Surplus/(Deficit)	1,505	1,204	1,204

¹² A completed application is one where all information required by the relevant legislation has been provided, and the prescribed fees have been paid in full.

Output Class > Administration of Insolvencies

This output class provides services relating to the administration of bankruptcies and liquidations by the Official Assignee pursuant to the Insolvency Act 1967 and the Companies Act 1993, and the management or disposal of property restrained or forfeited under the Proceeds of Crime Act 1991, and provides enforcement functions under the Insolvency Act 1967.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

Quantity

Administer estimated numbers:

- 2,900 (2,700) bankruptcies;
- 150 (180) liquidations; and
- 40 (25) proceeds of crime orders.

Quality

- The annual average quality assurance rating for estate administration as assessed from an internal audit programme demonstrates that at least “an acceptable level” (level 2¹³) of compliance was achieved.

Timeliness¹⁴

To achieve a maximum percentage of case closures as measured against total cases received:

- 80% (80% bankruptcy cases; 60% liquidation cases) or more of cases that are between six months and one year old will be closed;
- 90% (90% bankruptcy cases; 85% liquidation cases) or more of cases that are between one and two years old will be closed; and
- 95% (95% bankruptcy and liquidation cases) or more of cases that are between two and three years old will be closed.

Costs: Output Class – Administration of Insolvencies

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	9,148	8,648	8,648
Third Party Revenue	1,714	1,709	1,709
Expenses	10,146	9,641	9,641
Surplus/(Deficit)	716	716	716

¹³ The internal audit programme rates the quality of estate administration on a rating level of 1 to 5, with 1 being the highest and 5 being the lowest. Each rating level is defined as follows: 1 a high level of compliance; 2 an acceptable level of compliance; 3 a marginal level of compliance; 4 an unacceptable level of compliance; 5 the office does not comply.

¹⁴ Covers both bankruptcies and liquidations administered by the Insolvency and Trustee Service.

Output Class > Registration and Provision of Statutory Information

This output class provides services relating to the registration and provision of a range of documents and information required to be filed on a public record by corporate and non-corporate entities, insurance and superannuation funds, issuers of securities and holders of securities over personal property interests, motor vehicle traders, and the provision of information services related to the same. It also provides a prosecution and enforcement function under the Companies Act 1993, Securities Act 1978 and Corporations (Investigation and Management Act) 1989.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

Quantity

Companies Office

Expected numbers of documents filed:

- 55,780 (62,500) company incorporations, of which 99% (99%) will be electronic;
- 870 (950) incorporated societies, all of which are manual;
- 1,000 (1,000) incorporations of other entities, all of which are manual;
- 86,850 (90,000) name approvals, of which 99% (99%) will be electronic;
- 700 (700) prospectuses;
- 358,000 (328,500) annual returns, of which 99% (98%) will be electronic; and
- 638,000 (536,000) personal property security interest registrations;

An estimated:

- 6,477,000 projected electronic searches;
- 24,000 (20,000) company dissolutions will be actioned;
- 1,600 (2,500) incorporated society dissolutions will be actioned; and
- 2,600,000 (1,465,000) Personal Property Securities Register electronic searches will be conducted.

Insurance and Superannuation Unit

- An estimated 592 (612) Trustee Annual Reports will be filed; and
- 24 (14) new scheme registrations are expected to be actioned.

Quality

Companies Office

- 99% (99%) of documents entered into the database will be free of material errors, as defined in the Companies Office Standards,¹⁵ for both electronic and manual information.
- 99% (99%) of images entered into the database will be to the required standard to ensure clarity, accuracy and completeness of the data captured.

Timeliness

- 99% (99%) of material documents¹⁶ will be processed within one (one) clear business day of receipt for paper documents and within 45 (45) minutes of receipt for documents filed electronically.

Costs: Output Class – Registration and Provision of Statutory Information

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	467	149	149
Third Party Revenue	10,245	11,227	11,227
Expenses	16,599	17,206	17,206
Surplus/(Deficit)	(5,887)	(5,830)	(5,830)

¹⁵ Companies Office Standards dated 12 February 2003.

¹⁶ Material documents are all company registration documents except for client modified annual returns.

VOTE | Communications

Output Class > Policy Advice > Communications

This output class provides strategic and technical policy advice on information technology, the Government's Digital Strategy, telecommunications (including broadband), postal services and the allocation and management of radio spectrum. The following outputs are included in this output class for 2006/07.

→ **Information Technology Policy** – which relates to providing policy advice on information technology, including international technical developments and regulatory frameworks relevant to the Government's broadband and industry development strategies. Key areas of focus include:

- implementing the Government's Digital Strategy for New Zealand, covering the major areas of transforming government, digital divide, business growth, security, infrastructure, and content; and
- supporting the enactment of the Unsolicited Electronic Messages Bill.

→ **Telecommunications and Postal Policy Advice** – which relates to providing policy advice on services and activities under the Telecommunications Act 2001 and on the letter post market. The output includes the development of regulations, where required, and representing New Zealand's interests at international fora relating to telecommunications and postal services. Key areas of focus include:

- monitoring and enhancing the telecommunications regulatory regime, including:
 - completing a stocktake review of the telecommunications sector;

- managing the implementation review of the Telecommunications Act;
- evaluating the effectiveness of the operation of the cellular market;

- monitoring and maintaining the ICT regulatory regime to ensure it keeps pace with technological change; and
- providing advice on the Telecommunications Service Obligation (TSO).

→ **Radio Spectrum Policy Advice** – which relates to providing policy advice on the management and allocation of the radio spectrum. Key areas of focus include:

- providing advice on spectrum allocations for new radio spectrum technologies, including wireless broadband, digital television, and digital radio broadcasting technologies; and
- developing and implementing a programme of future spectrum allocations, including allocations to promote shared access and self management techniques.

Service performance

Policy advice will be delivered as agreed with the Minister and as detailed in the Ministry of Economic Development Output Plan.

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in Quality Standards for Policy Advice and Ministerial Servicing.

Costs: Output Class – Policy Advice – Communications

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	3,621	4,118	4,118
Third Party Revenue	27	26	26
Expenses	3,648	4,144	4,144
Surplus/(Deficit)	-	-	-

Output Class > Management and Enforcement of the Radiocommunications Act 1989

This output class provides services in relation to the management of the Radiocommunications Act 1989 by establishing technical arrangements for the allocation of radio spectrum, including international co-ordination and representation; issuing licences; providing licence registration services and access to the information held on the register of radio frequencies; assisting with the resolution of radio spectrum interference complaints; ensuring compliance with, and enforcement of, the statutory responsibilities of all spectrum users and suppliers of interfering equipment; and management of radio spectrum sales.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

→ **Licensing, Compliance Management, and Registration** – this output involves:

Quantity

Action an estimated:

- 3,500 (3,000) new radio licence applications;
- 300 (250) new spectrum licences in Crown-owned management rights;
- 1,800 (4,000) modifications to radio licences;
- 1,000 (800) instrument registrations in Crown and private management rights; and
- 1,000 (1,100) interference investigations including 670 (720) TV/broadcasting interference, 250 (280) commercial interference and 80 (100) public safety interference.

The Ministry expects to conduct:

- 650 (650) product standard compliance audits. (All electrical and electronic products supplied in New Zealand are required to meet standards protecting the radio spectrum, with suppliers subject to audit of the documentation and product labelling confirming compliance); and
- 1,750 (1,500) licence audits.

Quality

- The granting and registration of licences, along with licence and product audits, will be made in accordance with ISO9001. ISO certification for these procedures will be retained following quality audits.

Timeliness

- Correctly completed, paid and engineered planned licences will be granted/registered within an overall mean turnaround of five working days.

Documented interference complaints will be responded to and remedial action commenced as follows:

- for public safety services, within two (two) hours of being lodged in 95% (95%) of cases;
- for commercial radiocommunications, within one (one) working day of being lodged in 95% (95%) of cases; and
- for radio and television broadcasting, within two (two) working days of being lodged in 90% (90%) of cases.

→ **Radio Spectrum Planning** – which relates to providing advice on technical arrangements for the management and allocation of radio spectrum, including:

- representing New Zealand's radiocommunications interests at the International Telecommunications Union and other international fora;
- conducting sales of radio spectrum rights as directed by the government;
- designing regulatory and technical frameworks to support the introduction of new radio spectrum technologies;
- providing engineering advice to support the development and implementation of radio spectrum policy advice; and
- providing engineering advice to support the management and enforcement of the Radiocommunications Act 1989.

Costs: Output Class – Management and Enforcement of the Radiocommunications Act 1989

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	320	445	445
Third Party Revenue	7,093	7,091	7,091
Expenses	9,849	9,971	9,971
Surplus/(Deficit)	(2,436)	(2,435)	(2,435)

VOTE | Consumer Affairs

Output Class > Policy Advice and Support on Consumer Issues

This output class provides policy advice and information on issues, policies and programmes affecting or potentially affecting the ability of consumers to transact with confidence. The following outputs are included in this output class for 2006/07.

➔ **Consumer Policy** – which relates to providing policy advice on issues concerning an effective legal and regulatory framework for business/consumer transactions. Key areas of focus include:

- advising government on emerging consumer issues and international consumer policy developments;
- progressing changes to the Fair Trading Act 1986, including any proposed changes arising from a review of consumer enforcement and redress law;
- implementing the recommendations of the review of the operation of the Motor Vehicle Sales Act 2003, related to amending the Act and associated regulations;
- continuing work towards harmonising trans-Tasman consumer law with Australian government consumer agencies;
- reviewing the role of government in assisting industry to develop and operate effective industry-led regulatory schemes; and
- providing advice on the role of consumer law in promoting a competitive and well-functioning marketplace and innovative firms.

➔ **Consumer Research, Information and Capability Building** – which relates to researching key consumer issues, providing information to consumers, community agencies and businesses with respect to their legal rights and obligations, and the promotion of effective consumer representation. Key areas of focus include:

- contributing to trans-Tasman work to prevent consumer fraud, including researching New Zealand consumer experience and behaviour in respect of non-investment type scams;
- participating in international fora including those that address issues of international deceptive practices targeting New Zealand consumers;
- promoting the value of the representation of consumer interests on decision-making bodies;
- capability building to enable communities and community organisations to identify and address consumer issues;
- reviewing the effectiveness of consumer policy and legislation through systematic monitoring and evaluation, with a particular focus in 2006/07 on monitoring the Credit Contracts and Consumer Finance Act 2003; and
- funding the Powerswitch comparative information facility for domestic electricity consumers.

➔ **Motor Vehicle Sales Act 2003 (MVSA)** – this output involves promotion, education and evaluation of the effectiveness of the MVSA. Particular focus in 2006/07 will be placed on ongoing monitoring of the effectiveness of the MVSA, and on promotions targeted at raising public awareness of aspects of the Motor Vehicle Sales Act 2003.

Service performance

Policy advice will be delivered as agreed with the Minister and as detailed in the Ministry of Economic Development Output Plan.

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in Quality Standards for Policy Advice and Ministerial Servicing.

Costs: Output Class – Policy Advice and Support on Consumer Issues

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	3,234	3,234	3,234
Third Party Revenue	470	468	468
Expenses	3,604	3,602	3,602
Surplus/(Deficit)	100	100	100

Output Class > Promotion and Enforcement of Measurement and Product Safety Infrastructure

This output class provides for the promotion and enforcement of a supportive measurement and product safety infrastructure for businesses and consumers, particularly through the administration of the Weights and Measures Act 1987 and the product safety provisions of the Fair Trading Act 1986.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

Measurement and Product Safety

➔ **Measurement** – this output involves:

- implementing the recommendations made from the review of the Trade Measurement Accreditation Scheme;
- managing New Zealand's trade measurement environment to meet international standards in relation to goods sold by weight, measure or number; and
- participating in the activities of inter-governmental organisations dealing with legal metrology, including the International Organisation of Legal Metrology (OIML) and the Asia-Pacific Legal Metrology Forum (APLMF) to enhance the credibility of the New Zealand measurement system.

Quantity

- Surveillance visits will be made to 400 (400) traders to check the correctness of weighing and measuring equipment and pre-packaged goods.
- Participating in the development of 10 (10) recommendations/documents by the OIML.

Quality

- Maintaining a type approvals regime that ensures measuring instruments do not facilitate fraud, by complying with ISO 17025 accreditation and OIML recommendations.

Timeliness

- Timeframes set by the OIML for reply on each circulated draft recommendation and document will be met in all cases.

➔ **Product Safety** – this output involves providing product safety services including:

- developing and reviewing relevant voluntary and mandatory consumer safety standards, and contributing to the development of consumer safety policies;
- educating and informing consumers and businesses about consumer product safety;
- investigating and resolving consumer product safety complaints;
- administering the mandatory powers provisions of the Fair Trading Act 1986;
- building and maintaining national and international consumer product safety networks; and
- contributing to the interdepartmental injury prevention activities through the New Zealand Injury Prevention Strategy Steering Group.

Quantity

- Surveillance visits will be made to 300 (300) traders/suppliers to check product safety.

Quality

- All investigations of product safety complaints will be carried out in accordance with the Measurement and Product Safety Service Complaints and Procedures Manual.

Timeliness

- 95% (95%) of complaints will be acknowledged within seven (seven) working days of receipt of notification.

Costs: Output Class – Promotion and Enforcement of Measurement and Product Safety Infrastructure

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	2,033	2,033	2,033
Third Party Revenue	176	176	176
Expenses	2,209	2,209	2,209
Surplus/(Deficit)	-	-	-

VOTE | Energy

Output Class > Policy Advice on Energy and Resource Issues

This output class provides policy advice on the effective operation of energy and resource markets (electricity, oil, gas, geothermal, coal, minerals and other natural resources). The following outputs are included in this output class for 2006/07.

→ **National Energy Strategy** – which relates to leading the development of a national energy strategy. The development of the strategy will involve leading a whole-of-government process and significant engagement with stakeholders and the wider public. This output has strong linkages with providing advice on climate change policies for the energy sector, and the replacement of the National Energy Efficiency and Conservation Strategy (NEECS).

→ **Electricity** – which relates to monitoring and advising the government on effective governance and operation of the electricity market and implementation of regulations as required. In particular, it will seek to ensure that electricity industry arrangements and policy settings promote reliability, good environmental outcomes, and efficient and fair prices, focusing on:

- effective management of security of supply, including dry-year risk (both short- and long-term);
- effective wholesale and retail competition;
- effective governance of the electricity sector; and
- efficient line services (including transmission security and efficient prices).

→ **Fuels and Crown Resources** – which relates to monitoring and advising the government on effective operation of the gas and oil markets, including fuel quality and implementation of regulations as required. The output also involves advice on the allocation and management of natural resources, particularly Crown-owned resources, and Treaty of Waitangi claims in respect of natural resources. An area of focus will be in ensuring that gas industry governance and market arrangements are implemented by market

participants to promote a smooth transition to the post-Maui environment, focusing on:

- security of supply in the gas sector;
- effective governance of the gas sector;
- effective gas industry arrangements, rules and regulations; and
- improving the regulatory environment on gas pipelines.

→ **Energy and the Environment** – which relates to contributing to policy advice on the development of a response to New Zealand's climate change obligations under the Kyoto Protocol, monitoring and providing advice on plans and policies under the Resource Management Act 1991 (RMA), and contributing to the development of policy advice for freshwater. Key areas of focus include:

- participating actively in the development of advice on the domestic climate change policy package, as co-ordinated by the Ministry for the Environment (Climate Change Office);
- participating actively in the inter-departmental process relating to the development of policy advice for freshwater; and
- monitoring and advising on policies and plans under the RMA with respect to their potential impact on significant energy developments, infrastructure and renewable energy sources.

Service performance

Policy advice will be delivered as agreed with the Minister and as detailed in the Ministry of Economic Development Output Plan.

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in Quality Standards for Policy Advice and Ministerial Servicing.

Costs: Output Class – Policy Advice on Energy and Resource Issues

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	4,447	4,077	4,077
Third Party Revenue	32	169	169
Expenses	4,479	4,246	4,246
Surplus/(Deficit)	-	-	-

Output Class > Management of the Crown Mineral Estate

This output class provides services relating to the development and management of the Crown's petroleum and mineral resources, comprising all in-ground petroleum, gold and silver, and approximately half of the coal and other minerals. The three principal services provided under this output are:

- allocation of interests in the Crown mineral estate and monitoring ongoing regulatory compliance;
- promoting international investment in exploration and production; and
- providing policy advice on matters affecting the Crown's interests in petroleum and minerals.

→ **Permit Allocation and Regulatory Compliance** – which provides an efficient and effective management regime for the exploration of petroleum, mineral and coal resources, including allocating and managing prospecting, exploration and mining permits; managing the geotechnical resource data; and collecting all royalties, levies and fees payable to the Crown.

Quantity

Process an estimated:

- 190 (175) permit applications; and
- 200 (250) permit change applications including surrenders, extensions of land/duration and transfers.

Estimated Crown revenue collected:

- Royalties – \$52.1 (\$47.1) million; and
- Energy resource levies – \$71.5 (\$71.5) million.

Quality

Petroleum and mineral permits (including licences) will be monitored for compliance with work programme conditions to maintain the integrity of the allocation system by conducting on-site field inspections on:

- 40 (35) mineral/coal mining permits; and
- 30 (25) mineral/coal prospecting and exploration permits.

A minimum of 25 (15) compliance audits of energy resource levy or royalty payers will be undertaken and any shortfalls pursued.

Timeliness

- 90% (90%) of new permit applications that are priority one¹⁷ (including changes to area, minerals and duration) will be processed within five working days following receipt of the Land and Minerals Status Report, completion of iwi consultation, and all other permit holder obligations.
- 100% (95%) of permits with outstanding fees or royalty obligations will have compliance action commenced within one month of due date.

→ **Petroleum and Minerals Investment** – which relates to promoting New Zealand for international and domestic investment to enable the Crown's petroleum and mineral resources to contribute to the economic development of New Zealand. Key areas of focus include:

- identifying and pursuing overseas organisations likely to invest in exploration and production, particularly in oil and gas;
- promoting relevant financial, geo-technical and other investment data; and
- promoting New Zealand's petroleum and mineral resources at key international conferences.

Quantity and timeliness

- Conclude two (three) block offers in offshore petroleum basins by 1 April 2007.
- Develop and implement a marketing and promotions plan for minerals by 30 September 2006.

→ **Petroleum and Minerals Policy** – which provides policy advice on the management of the Crown mineral estate, including periodic reviews of the Crown Minerals Act and preparation of minerals programmes and regulations prescribed under the Crown Minerals Act 1991. Key areas of focus include:

- conducting a review of the Crown Minerals Act by 31 December 2006; and
- conducting a review of the Minerals Programme for Petroleum and implementing any approved changes by 30 June 2007.

¹⁷ Applications for a permit are processed numerically in the order in which they are received; first application received is priority one, second is priority two, etc.

Costs: Output Class – Management of the Crown Mineral Estate

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	3,003	3,454	3,454
Third Party Revenue	3,197	4,121	4,121
Expenses	6,106	7,481	7,481
Surplus/(Deficit)	94	94	94

Output Class > Administration of Gas and Electricity Regulations

This output class provides advice on the administration of gas and electricity safety and associated policy work, and administers regimes on supply, quality and measurement for gas and electricity safety; petroleum quality monitoring; electrical worker licensing; and information disclosure for the gas industry.

Service performance

Where appropriate, comparative figures for the previous year are shown in parentheses.

- **Energy Safety Advice** – which relates to providing advice on energy safety issues associated with the safe supply and use of gas and electricity. The key areas of focus include:
- providing support for the passage of the Energy Safety Review Bill and the Energy (Miscellaneous Matters) Amendment Bill (LPG levy) in accordance with the legislative timetable; and
 - reviewing and amending the Electricity Regulations 1997 and the Gas Regulations 1997, in particular as required by the Energy Safety Review Bill when passed into legislation.

Quality

Generic quality performance measures for policy advice, Ministerial services and briefings as detailed in the Ministry of Economic Development's Quality Standards for Policy Advice and Ministerial Servicing will apply to this output.

- **Energy Safety Enforcement and Conformance** – which relates to operating an effective investigation, compliance, enforcement and communication regime for gas and electricity safety,

including reviewing and implementing changes in legislation, regulations and standards.

Quantity

- 80¹⁸ (80) audits of networks and distribution systems, and installations and appliances will be undertaken.
- 50–70 (30) significant gas and electricity accidents and incidents, where there is serious injury or loss as defined in section 16 of the Electricity Act 1992 and section 17 of the Gas Act 1992,¹⁹ are expected to be investigated.

Quality

- Electrical and gas safety representative organisations surveyed rate, on average, that they are (3) satisfied to (4) very satisfied with the Energy Safety Service's performance, as evidenced by an annual survey.²⁰

Timeliness

- 90% (90%) of audit and inspection reports will be completed within 30 (30) working days of the audit or inspection.
- 90% (90%) of accident investigations will be responded to and action commenced within 24 (24) hours of notification of the accident.

- **Petroleum Monitoring** – which relates to monitoring the quality of petroleum to ensure its safety.

Quantity

- The Ministry will oversee the testing of a minimum of 90 (90) sample sets in accordance with a statistically-based sampling plan to meet the requirements of the Petroleum Products Specifications Regulations 2002.

¹⁸ Completion of the target number of audits is dependent upon the safety environment and the commitment to accident investigations during the year.

¹⁹ The Energy Safety Service is concentrating resources on these significant accidents and incidents.

²⁰ The range is (1) very dissatisfied, (2) dissatisfied, (3) satisfied, and (4) very satisfied.

Quality

- All testing laboratory reports on petroleum quality will be reviewed monthly to ensure that appropriate action has been taken on the test results and report recommendations.

Timeliness

- 95% (95%) of analysis of results from petroleum testing laboratories and recommendations will be completed within 15 (15) working days from receipt of reports.

→ **Electrical Workers Licensing** – this output involves:

Quantity

Expected numbers:

- Action an estimated 400 (1,000) electrical workers registrations.
- Issue an estimated 11,000 (20,500) practising licenses.

Conduct an estimated:

- 600 (3,000) electrical audits; and
- 40 (200) competency audits of electrical workers who hold a provisional licence and/or are supervised trainees.

Note: The administration of the Electrical Workers Licensing Regime is to transfer from the Ministry of Economic Development to the Department of Building and Housing from 1 September 2006. These quantities are based on projections for the two-month period to 31 August 2006.

Quality

All referrals to the Electrical Workers Registration Board are approved and all legislative requirements are met.

Timeliness**Licensing and registrations**

- 95% (95%) of correctly completed practising licence applications will be processed within 10 (10) clear business days of receipt.
- 95% (95%) of correctly completed registration applications (New Zealand-based trainees) will

be processed within 10 (10) clear business days of receipt.

- 65% (65%) of correctly completed overseas registration applications will be processed within 10 (10) clear business days of receipt.

Complaints

- 70% (70%) of complaints against registered electrical workers will be processed to notification of the Complaints Assessment Committee decision (subject to external parties, e.g. legal intervention) within 18 (18) weeks.
- 70% (70%) of complaints against registered electrical workers will be processed to notification of the Board's decision (subject to external parties, e.g. legal intervention) within 15 (15) weeks.

→ **Information Disclosure** – this output involves:

Quantity and timeliness

- Annual compliance checks of all gas information disclosures will be undertaken, with 80% (80%) of checks completed within 60 (60) working days of their receipt by the Ministry.
- Any cases of non-compliance will be followed up with the companies concerned within 30 (30) working days of the non-compliance being detected, with the aim of achieving full compliance within 120 (120) working days of the detection. (Note in some cases it is possible that prosecution could be required in order to achieve full compliance, and as a result there could be a considerable delay before full compliance is achieved.)

Quality

- All financial information disclosures will be accompanied by an audit certificate.
- All information disclosures will be accompanied by a declaration form completed by a director of the company concerned.
- All information entered into the Ministry database will be subject to validation checks for accuracy and completeness.

Costs: Output Class – Administration of Gas and Electricity Regulations

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	895	816	816
Third Party Revenue	5,623	8,330	8,330
Expenses	6,443	8,846	8,846
Surplus/(Deficit)	75	300	300

Output Class > Provision of Climate Change Unit Register and Information

This output class provides services relating to the development, implementation and operation of a register to enable the allocation and trading of emission units under the Climate Change Response Act 2002. This Act was passed in order to meet New Zealand's obligations under the Kyoto Protocol which came into force on 16 February 2005. The first Commencement Period will start on 1 January 2008 and the register must be available for international audit in September 2006.

Service performance

The key areas of focus in 2006/07 will include:

- development of the software needed to support the register by 1 September 2006 (the register will not be publicly launched until the United Nations

Framework Convention on Climate Change (UNFCCC) has initialised the International Transaction Log (ITL) in 2007;

- implementation of the connection to the ITL in 2007; and
- input into the Registry System Administrator (RSA) Forum co-ordinated by the Secretariat of the UNFCCC.

Implementation of the register will be in accordance with the Ministry of Economic Development standards and practices for information technology projects. This work will also need to comply with the international requirements for national registers as specified by the UNFCCC in their technical documentation.

Costs: Output Class – Provision of Climate Change Unit Register and Information

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	1,556	919	919
Third Party Revenue	-	-	-
Expenses	1,556	919	919
Surplus/(Deficit)	-	-	-

Output Class > Energy and Resource Information Services

This output class covers the provision of information and technical advice on energy and resources, the management of the response to any international disruption in oil supplies, and the management of New Zealand's energy-related international relationships.

Service performance

Outputs in this output class will be delivered as detailed in the Ministry of Economic Development Output Plan and include:

- updating and publishing Energy Data Files, the Energy Sector Greenhouse Gas Inventory Report, and the Energy Outlook;
- updating and publishing crude oil, petrol and diesel prices;
- managing New Zealand's response to any international disruption to oil supplies; and
- managing New Zealand's international energy relationships.

Quality

Generic quality performance measures for policy advice, Ministerial services and briefings as detailed in the Ministry of Economic Development's Quality Standards for Policy Advice and Ministerial Servicing will apply to this output class.

All material produced for publication will be reviewed for completeness and accuracy prior to publication in accordance with internal systems and procedures and, where relevant, international requirements.

Timeliness

All publications and briefings will be produced to deadlines specified in the Ministry of Economic Development Output Plan.

Costs: Output Class – Energy and Resource Information Services

	2006/07	2005/06	2005/06
	Forecast \$000	Supplementary Estimates \$000	Estimated Actual \$000
Revenue Crown	749	1,302	1,302
Third Party Revenue	1,051	1,769	1,769
Expenses	1,800	3,071	3,071
Surplus/(Deficit)	-	-	-

VOTE | Tourism

Output Class > Policy Advice > Tourism

This output class provides advice on economic, environmental and social policy affecting tourism, including implementation of programmes to advance the recommendations of the New Zealand Tourism Strategy 2010 (NZTS 2010) and the Government's wider objectives as they relate to the sector, including tourism aspects of major events. It includes the provision and management of tourism research and data to assist in sector decision-making. Further outputs include advice on the government's interests as owner of Tourism New Zealand, the New Zealand Māori Arts and Crafts Institute, and on the government's land and property holdings. The following outputs are included in this output class for 2006/07.

→ **Core Policy Advice** – reflecting the government's role as having primary responsibility for implementing the NZTS 2010, the Ministry will provide advice on priorities and will take responsibility to implement these, in partnership with other sector stakeholders as appropriate. Within this context, significant output areas that will be the focus of this portfolio over the next three years include:

- providing leadership to NZTS 2010 through the mid-term review, and ensuring that the objectives of the strategy are achieved through effective use of the strategy implementation fund;
- developing a better understanding of the economic performance of the tourism sector, the financial performance of tourism firms, and undertaking initiatives to enhance sectoral performance;
- undertaking initiatives with the Department of Conservation to enhance management of the conservation estate and ensure better environmental outcomes, while ensuring that visitors continue to enjoy opportunities on the conservation estate;
- developing a comprehensive understanding of the labour market and skills requirements for the tourism sector and implementing a strategy to ensure that constraint issues for the sector are addressed to achieve sustainable growth for the tourism sector; and

- initiatives that increase local authorities' capability to manage local infrastructure requirements to meet increased tourism demands in key tourist destinations.

The Ministry will deliver programmes that have resulted from policy work over the past two years including:

- a tourism demand subsidy scheme which will assist communities with small ratepayer bases to develop or expand their water and wastewater infrastructure to meet tourism demands; and
- a business assessment and mentoring programme for Māori tourism businesses to assist in raising the quality and quantity of Māori tourism businesses in New Zealand.

→ **Advice on Purchase, Grants and Ownership** – which relates to providing advice on the purchase of services from Tourism New Zealand (TNZ). In 2006/07, particular focus will be placed on ensuring that the structure, content and performance measures of the Statement of Intent and the Output Plan allows for efficient and effective monitoring of TNZ's activities and spending.

Advice on the New Zealand Māori Arts and Crafts Institute is also included in this output.

→ **Research and Statistics** – which relates to providing tourism research and statistics and policy advice on the research needs of the tourism sector. In particular, the Ministry will ensure that the government's current tourism data set is increasingly accessible to and used by the private sector in its decision-making, and that an applied research programme that is relevant to both public and private sector needs is developed.

The Ministry will deliver the following programmes to enhance understandings of the dynamics of the tourism sector in New Zealand and to build on initiatives undertaken over the past two years:

- A tourism flows model using a wide body of tourism and related data to determine the flows of tourism activity in New Zealand. This will be set out on a Geographic Information System framework and will integrate sector forecasts to provide future focus.

- An analysis programme to utilise tourism and other data to provide in-depth understandings of key topic areas of the tourism sector such as domestic tourism, the accommodation industry and a range of other areas.
- Broadening the participation by regional tourism organisations in the Regional Visitor Monitor in order to deliver relevant regional-level tourism information to support regional tourism organisation (RTO) activities.

→ **Advice and Assistance on Major Events** – which relates to providing policy advice on the implementation of the Major Events Strategy to retain, grow and attract major events that complement New Zealand's image and existing infrastructure and achieve a greater contribution to economic growth.

→ **Land and Property Management** – which relates to providing the management of tourism and other

concessions at Wairakei and Rotorua to ensure that risks are appropriately managed, commercial returns are achieved on property holdings, and all legal and contractual obligations are met. Advice will be provided on ensuring that tourism concessionaires are protected throughout the process of resolving outstanding land occupation issues with Contact Energy.

Service performance

Policy advice will be delivered as agreed with the Minister and as detailed in the Ministry of Economic Development Output Plan.

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in Quality Standards for Policy Advice and Ministerial Servicing.

Costs: Output Class – Policy Advice – Tourism

	2006/07 Forecast \$000	2005/06 Supplementary Estimates \$000	2005/06 Estimated Actual \$000
Revenue Crown	6,776	6,609	6,609
Third Party Revenue	194	192	192
Expenses	6,970	6,801	6,801
Surplus/(Deficit)	-	-	-

Crown Entity/Statutory Board Monitoring

The Ministry will provide advice to support the government in its role as “purchaser” and/or “owner” of a number of Crown entities and statutory boards. This includes advice to the government on appointments, roles and functions, and on the overall contribution of each organisation to the Government’s policy objectives.

These organisations are directly accountable to Ministers for their performance in supplying agreed output classes. They are funded through a mix of Crown and third party revenue. The Ministry of Economic Development administers non-departmental appropriations to particular Crown entities through Votes administered by the Ministry.

Service performance

Generic quantity, quality and timeliness performance measures for all policy advice, Ministerial services and briefings supplied by the Ministry of Economic Development are detailed in the Ministry of Economic Development’s Quality Standards for Policy Advice and Ministerial Servicing.

Crown entities to be monitored in 2006/07

Vote: Economic, Industry and Regional Development

- New Zealand Trade and Enterprise

Vote: Commerce

- Accounting Standards Review Board
- Commerce Commission
- Securities Commission
- Takeovers Panel
- Standards Council
- Testing Laboratory Registration Council.

Vote: Energy

- Electricity Commission

Vote: Tourism

- New Zealand Tourism Board

Monitoring and reporting to the Minister on the financial and non-financial performance of Crown entities will be provided within agreed timelines, as reflected through:

- the Statement of Intent (annually);
- the Memorandum of Understanding (annually);
- the Output Agreement (annually);
- the Annual Report (annually); and
- other reporting as required.

Cost

These activities form part of the Policy Advice Output Class in each of Vote: Economic, Industry and Regional Development; Vote: Commerce; Vote: Energy; and Vote: Tourism.

In addition, the Ministry will provide advice, as required, and manage appointments to the boards listed below:

- Banking Ombudsman
- Complaints Assessment Committee
- Chartered Professional Engineers Council
- Copyright Tribunal
- Digital Strategy Advisory Group
- Electrical Workers Registration Board (until 31 August 2006)
- Electricity and Gas Complaints Commission
- Engineers Registration Board
- Engineering Associates Registration Board
- Growth and Innovation Advisory Board
- Insurance and Savings Ombudsman
- Joint Accreditation System of Australia and New Zealand
- Māori Trade Marks Advisory Committee
- Motor Vehicle Disputes Tribunal
- New Zealand Māori Arts and Crafts Institute
- Small Business Advisory Group
- Temporary Safeguard Authority
- Tourism Research Council New Zealand
- Trans-Tasman Accounting Standards Advisory Group.

Cost

These activities form part of Output Class D1 in each of Vote: Economic, Industry and Regional Development; Vote: Commerce; Vote: Energy; Vote: Communications; and Vote: Tourism.

Quality Standards for Policy Advice and Ministerial Servicing

Quality management

The quality of policy advice will be supported by a quality management process including:

- an external review of scope and methodology for major analytical work;
- circulation of drafts for critiquing by other government agencies and other parties as appropriate;
- internal peer review and checking procedures; and
- adherence to the Ministry's Policy Framework.

Note: A large part of the Ministry's policy advice requires the co-operation of other government agencies and is determined by the priorities and timetables of Cabinet and its Committees. The Ministry's performance in terms of the standards may be affected by these factors which are outside its control. These factors will be included in the assessment process and will be acknowledged whenever they impact performance.

Policy advice

The Ministry will seek a written response, at least six-monthly, from Ministers on its performance against the following quality standards.

Quantity

Project work is agreed in the year's work programme, and modified by agreement between Ministers, the Chief Executive of the Ministry of Economic Development and, where appropriate, the General Manager of the Ministry of Consumer Affairs and the General Manager of the Ministry of Tourism in the course of the year.

Quality

The Ministry will supply high-quality individual products conforming to the quality characteristics outlined below and assessed by the Ministers' satisfaction, as reported in the Ministers' six-monthly response sheets.

Coverage

The Ministry will provide a comprehensive service that:

- has the capacity to react urgently;
- offers timely and relevant briefings on significant issues; and

- supports Ministers as required in Cabinet Committees, Select Committees and in the House.

Quality characteristics

Purpose

An objective for the policy advice has been clearly stated, including its relationship to the Government's desired outcomes and objectives.

Focus

There is a clear and logical statement of the issue or problem and why it necessitates Ministerial action.

Viability

Viable options to address the issue are presented and the costs/benefits and winners/losers for each (relative to the policy objective) are assessed, and any value judgement is brought to the attention of Ministers.

Logic

The assumptions behind the advice and the logic of how options will resolve issues and achieve objectives are clear.

Accuracy

The facts are accurate and based on reliable research or evaluation findings or other appropriate information.

Practicality

The advice draws on appropriate knowledge and experience and the practicalities of implementing it are clearly explained, including any legal, machinery of government, Treaty of Waitangi, or other issues or risks that require management.

Consultation

Interested government agencies and affected parties have been consulted and their views considered.

Presentation

The advice is presented clearly, logically, in plain and grammatically correct English, free from any typographical or spelling errors, and conforms to Cabinet Office requirements.

Recommendations

Recommendations are clear, logical, action-oriented and can stand alone from the rest of the advice.

Timeliness

Specified reporting deadlines are met.

Cost

The outturn is within budget. This is assessed by comparing the outturn with the Estimates of Appropriations.

Ministerial servicing performance

Draft replies to Ministerial correspondence are to be submitted to Ministers within 10 working days of receipt in the Ministry in 100% of cases in all Votes.

Parliamentary questions and Ministerial correspondence will be responded to within agreed and statutory timeframes. Expected quantities of Ministerial servicing for each output class will be as stated in the table set out in this report.

Performance measures for departmental output classes

This section describes the generic and specific output class performance measures and performance standards for departmental policy advice output classes provided to Ministers in 2006/07.

Generic standards and measures for policy advice

The generic performance measures and standards for policy advice, included in Quality Standards for Policy Advice and Ministerial Servicing and those set out below, apply specifically to the following output classes:

Vote: Economic, Industry and Regional Development

- Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development
- Policy Advice – Small Business

Vote: Commerce

- Policy and Purchase Advice – Business Law and Competition Policy

Vote: Communications

- Policy Advice – Communications

Vote: Consumer Affairs

- Policy Advice and Support on Consumer Issues

Vote: Energy

- Policy Advice on Energy and Resource Issues
- Management of the Crown Mineral Estate

Vote: Tourism

- Policy Advice – Tourism

2006/07 performance measures and standards**Quantity****Work programme**

Policy advice will be delivered in accordance with the prioritised requirements of a work programme negotiated annually with the Minister, or as amended by the Minister during the course of the year.

Ministerial servicing in the form of letters and Parliamentary Questions is undertaken as required by the Minister.

Quality

The Ministry's Policy Framework includes the quality characteristics listed in the sections above that apply to policy advice and to Ministerial servicing as appropriate.

In respect of policy advice, Ministerial servicing and the provision of advice on Crown entity governance (including the Crown's ownership interest and any risks and issues):

- Ministers' feedback will be within the range (3) "met my expectations" to (5) "greatly exceeded my expectations" in the six-monthly review of the Ministry's performance.²¹

Timeliness

100% of reports and oral advice to the Minister are delivered within the timeframes required by, and agreed with, the Minister.

100% of draft Ministerial correspondence is submitted to the Minister within 10 working days of receipt in the Ministry.

Where only an interim reply is possible, a final reply shall be provided within the following timeframes:

- 90% within 20 working days of the original receipt in the Ministry and 100% within 30 working days of receipt in the Ministry.

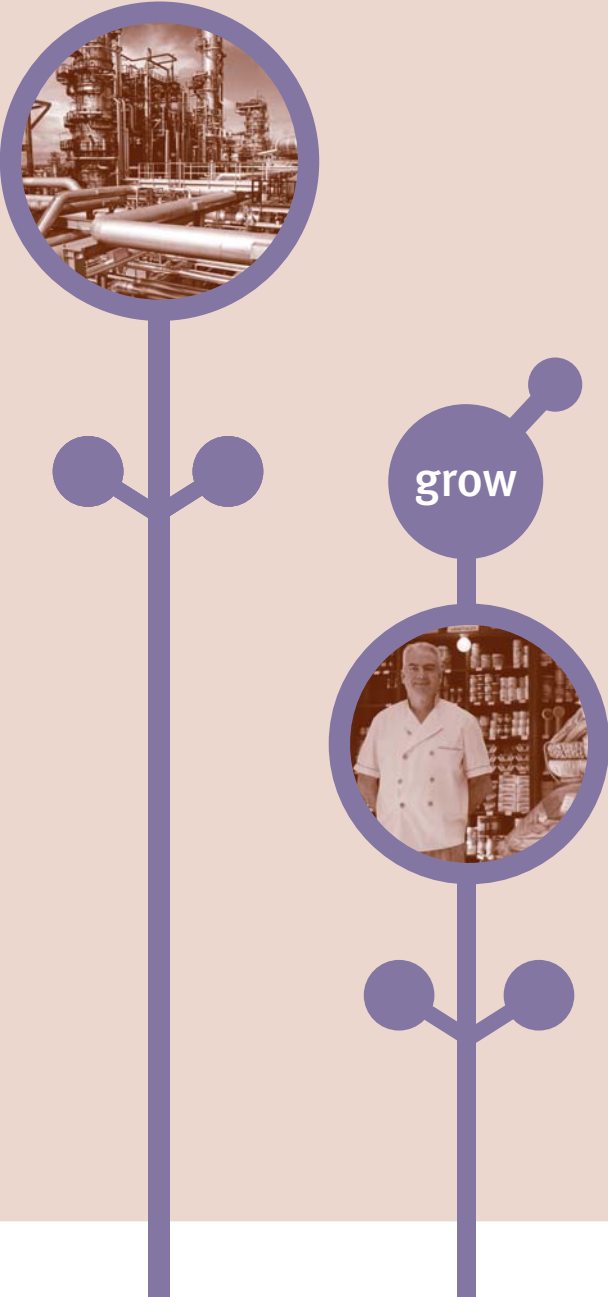
Advice to the Minister on statutory appointments to Crown entity boards as positions for renewal or appointment fall due.

- 100% within agreed timelines.

21 The range is (1) was not satisfactory, (2) fell short of my expectations in some respects, (3) met my expectations, (4) met and sometimes exceeded my expectations, and (5) greatly exceeded my expectations.

Ministerial Servicing – Expected Quantities

Quantity: estimated numbers	Output Class					
Vote: Economic, Industry and Regional Development	Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development	Policy Advice – Small Business				
Ministerial Correspondence	80 – 110	60 – 80				
Parliamentary Questions	120	30				
Vote: Commerce	Policy and Purchase Advice – Business Law and Competition Policy	Administration of Part II Tariff Concessions	Administration of Trade Remedies	Registration and Granting of Intellectual Property Rights	Administration of Insolvencies	Registration and Provision of Statutory Information
Ministerial Correspondence	150 – 200	0 – 5	0 – 5	0 – 10	10 – 20	0 – 10
Parliamentary Questions	50 – 75	-	-	-	-	-
Vote: Communications	Policy Advice – Communications	Management and Enforcement of the Radio-communications Act 1989				
Ministerial Correspondence	300 – 350	0 – 10				
Parliamentary Questions	50 – 80	-				
Vote: Consumer Affairs	Policy Advice and Support on Consumer Issues	Promotion and Enforcement of Measurement and Product Safety Infrastructure				
Ministerial Correspondence	60 – 80	10 – 15				
Parliamentary Questions	10 – 15	-				
Vote: Energy	Policy Advice on Energy and Resource Issues	Management of the Crown Mineral Estate	Administration of Gas and Electricity Regulations	Provision of Climate Change Register and Information	Energy and Resource Information Services	
Ministerial Correspondence	600 – 700	40 – 50	33	0 – 10	20 – 50	
Parliamentary Questions	80 – 120	-	8	0 – 5	0 – 5	
Vote: Tourism	Policy Advice – Tourism					
Ministerial Correspondence	200					
Parliamentary Questions	80					



Part C

Additional Information

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Statement of Forecast Financial Performance for Non-Departmental Activities Administered by the Ministry of Economic Development

for the Year Ending 30 June 2007

	2005/06	2005/06	2006/07
	Budget ²² \$'000	Estimated Actual \$'000	Forecast \$'000
Revenue			
Tax	63,500	63,500	57,500
Non-tax	302,649	302,571	200,449
Total Revenue	366,149	366,071	257,949
Expenses			
Output Expenses – Annual	409,099	408,481	318,617
Output Expenses – Multi-year Appropriation's	80,335	80,335	19,700
Other expenses to be incurred by the Crown – Annual	154,633	149,653	120,597
Other expenses to be incurred by the Crown – Multi-year Appropriation	19,882	19,882	22,778
Depreciation Expense	12,739	12,739	13,286
GST	66,556	65,856	43,810
Total Expenses	743,244	736,946	538,788
Net Surplus/(Deficit)	(377,095)	(370,875)	(280,839)

22 This column incorporates both Main Estimates and Supplementary Estimates appropriations for 2005/06.

Statement of Forecast Financial Position for Non-Departmental Activities Administered by the Ministry of Economic Development

as at 30 June 2007

Actual Financial Position as at 30 June 2005 \$000		Budget Financial Position as at 30 June 2006 \$000	Estimated Financial Position as at 30 June 2006 \$000	Forecast Financial Position as at 30 June 2007 \$000
Assets				
<i>Current Assets</i>				
11,008	Cash and bank balances	54,643	52,433	32,423
49,753	Receivables and advances	36,108	36,108	30,143
11,298	Inventory	11,298	11,298	11,298
72,059	Total Current Assets	102,049	99,839	73,864
<i>Non-current Assets</i>				
16,661	Investments	42,844	42,844	58,844
133,460	Physical assets	116,374	116,374	103,165
150,121	Total Non-current Assets	159,218	159,218	162,009
222,180	Total Assets	261,267	259,057	235,873
Liabilities				
<i>Current Liabilities</i>				
89,691	Creditors and payables	101,561	100,806	89,655
89,691	Total Current Liabilities	101,561	100,806	89,655
<i>Term Liabilities</i>				
47,992	Creditors and payables	47,992	47,992	47,992
47,992	Total Term Liabilities	47,992	47,992	47,992
137,683	Total Liabilities	149,553	148,798	137,647
Crown Balance				
84,323	Operating balance	111,540	110,085	98,052
174	Revaluation reserves	174	174	174
84,497	Total Crown Balance	111,714	110,259	98,226
222,180	Total Liabilities and Crown Balance	261,267	259,057	235,873

Non-Departmental Revenue

In 2006/07, the Ministry (on behalf of the Crown) will collect \$257.949 million (excluding GST) in non-departmental revenue as follows:

	\$ million
<i>Tax Revenue</i>	
Energy Resource Levies – Gas	49.000
Energy Resource Levies – Coal	8.500
	57.500
<i>Non-tax Revenue</i>	
Levy on electricity industry participants	89.246
Energy royalties	58.052
Telecommunications levy	3.801
Levy on electricity line businesses	4.267
Control of natural gas services	1.000
Whirinaki operations and maintenance recoveries	4.000
Whirinaki availability	25.000
Whirinaki electricity generation	9.656
Rent from reserve lands	0.511
Sale of trees and concession fees	0.301
Accounting Standards Review Board	0.830
Proceeds of crime	3.685
Residual Ministry of Energy commitments	0.080
Trade Measurement Unit infringement fees	0.020
	200.449

Non-Departmental Expenditure

In 2006/07, the Ministry (on behalf of the Crown) will incur non-departmental expenditure of \$494.978 million (excluding GST of \$43.810 million). This is made up of:

Non-Departmental Output Expenses	\$ million
Vote: Commerce	
Enforcement of general market regulation	13.343
Performance of securities market functions	6.501
Administration of the Takeovers Code	1.344
Enforcement of dairy sector regulation	0.905
Approval and review of financial reporting standards	0.830
	22.923
Vote: Communications	
Enforcement of telecommunications sector regulation	4.000
Provision of textphone access (excluding depreciation)	0.528
	4.528
Vote: Consumer Affairs	
Consumer Data Capture pilot	0.166
	0.166
Vote: Economic, Industry and Regional Development	
Facilitating the development and implementation of sector and regional strategies	40.192
Promotion of New Zealand business and development of investment opportunities	25.169
Business information and advice	8.220
Training and capability building	11.784
Customised information and advice	20.480
Identifying and leveraging new business opportunities	27.442
Grant administration and management	3.949
Investment fund management	1.890
	139.126
Vote: Energy	
Performance of electricity governance functions	49.043
Performance of security of supply functions	29.981
Maintenance and operation of Whirinaki (excluding depreciation)	3.260
Performance of electricity efficiency functions	9.778
Enforcement of electricity sector regulation	4.267
Control of natural gas services	1.000
	97.329

Non-Departmental Output Expenses continued	\$ million
<i>Vote: Tourism</i>	
Marketing of New Zealand as a visitor destination	53.099
Implementation of the Tourism Strategy	1.446
	54.545
Total Non-Departmental Output Expenses	318.617
Other Expenses to be incurred by the Crown	
<i>Vote: Economic & Industry Regional Development</i>	
Regional and Industry Development Fund	1.867
Enterprise Development Fund	5.274
Growth Services Fund	9.427
Sector Strategies and Facilitation Fund	6.219
Regional Partnerships and Facilitation Fund	2.756
International Biotechnology Partnerships	4.000
Large Budget Screen Production Fund	35.556
GIF Industry Governed Bodies Fund	1.014
GIF Sector Project Fund	0.933
Film New Zealand	0.578
Market Development Assistance Fund	25.907
Management Development Fund	1.156
Major Events Development Fund	3.022
Enterprise, Culture and Skills Activities Fund	1.511
	99.220
<i>Vote: Communications</i>	
Contributions to international telecommunications organisations	0.930
	0.930
<i>Vote: Tourism</i>	
Promotion of New Zealand associated with the America's Cup 2007	5.000
Local Authority Tourism Infrastructure Grant Scheme	4.444
Tourism facilities development grants	0.267
	9.711

Other Expenses to be incurred by the Crown continued	\$ million
<i>Vote: Energy</i>	
Ministry of Energy residual liabilities	0.199
International Energy Agency contributions and subscriptions	0.165
Petroleum joint venture development	0.089
Electricity Commission Litigation Fund	0.444
	0.897
<i>Vote: Commerce</i>	
Commerce Commission Litigation Fund	6.400
Securities Commission Litigation Fund	2.470
Takeovers Panel Litigation Fund	0.444
Contributions to international organisations	0.520
Risk Capital Fund – Directors' Fees	0.005
	9.839
Total Other Expenses to be incurred by the Crown	120.597
Other Expenses to be incurred by the Crown – Multi-year appropriation	
<i>Vote: Economic, Industry and Regional Development</i>	
Regional Partnerships and Facilitation Fund	19.625
<i>Vote: Communications</i>	
Digital Strategy – High-speed connectivity growth	3.153
Non-Departmental Output Expenses – Multi-year appropriation	
<i>Vote: Energy</i>	
Security of Supply – Procurement Costs	1.000
Acquisition of petroleum exploration data	8.700
Generating reserve electricity at Whirinaki	10.000
Total Multi-year Appropriations (to be incurred in 2006/07)	42.478
Depreciation Expense	
<i>Vote: Communications</i>	
Textphones	0.547
<i>Vote: Energy</i>	
Whirinaki	12.739
Total Depreciation Expenses	13.286

Non-Departmental Capital Expenditure

In 2006/07, the Ministry (on behalf of the Crown) will incur non-departmental capital related expenditure of \$35.480 million. This is made up of:

Capital Contributions to Other Persons or Organisations	\$ million
<i>Vote: Economic, Industry and Regional Development</i>	
Investment in New Zealand Trade and Enterprise	1.870
Venture Investment Fund	25.000
Seed Co-Investment Fund	8.000
Total Capital Contributions to Other Persons or Organisations	34.870
Purchase or Development of Capital Assets by the Crown	
<i>Vote: Communications</i>	
Acquisition of textphone equipment	0.610
Total Purchase or Development of Capital Assets by the Crown	0.610



