THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Bilateral Briefing for Votes Foreign Affairs and Trade, Official Development Assistance, and Sport and Recreation

Date:	13 March 2009	**Report No:**	

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**read** the attached briefing	Before 9.30 a.m. on Monday 16 March 2009
Associate Minister of Finance (Hon Simon Power)	**read** the attached briefing	Before 9.30 a.m. on Monday 16 March 2009

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Colin Hall	Manager, International	*[Information deleted in order to protect the privacy of natural persons, including deceased people]*	
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Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Bilateral Briefing for Votes Foreign Affairs and Trade, Official Development Assistance, and Sport and Recreation

Attached is a briefing for the bilateral between the Minister of Finance and the Minister of Foreign Affairs at 9.30 a.m. on 16 March 2009 to discuss the Budget initiatives for Votes Foreign Affairs and Trade, Official Development Assistance (ODA) and Sport and Recreation.

The bilateral briefing is structured as follows:

We expect the key issues for discussion will be:

- **Scope for further savings from Vote Foreign Affairs and Trade and Vote ODA.** MFAT recommends scaling back half of the 2008 Step Change package. NZAID recommends delaying reaching $600 million by one year. Both Votes would still have large rising baselines compared with other agencies and we see scope for further savings in both Votes.

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

- **The future direction for ODA.** Two Cabinet papers are in train on institutional form, and on ODA mandate and objectives. We suggest you seek agreement to two specific issues: a report back on performance information, and de-linking future Budget increases from GNI percentages.

- **Scope for savings and expenditure reviews in Vote Sport and Recreation.** A line-by-line review was not submitted. We suggest you seek some immediate savings, and propose reviewing all expenditure in the Vote to inform Budget 2010.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with the Minister of Foreign Affairs at 9.30 a.m. on 16 March 2009.

[*Information deleted in order to protect the privacy of natural persons, including deceased people*]

Hon Bill English
Minister of Finance

Overview of the Vote

VOTE FOREIGN AFFAIRS AND TRADE

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

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	(9.500)	(6.500)	(14.400)	(20.800)	(29.7)
Emergency pressures	-	0.453	2.453	2.453	2.453
Policy priorities	-	-	-	-	-
Total funding requested	(9.500)	(6.047)	(11.947)	(18.347)	(27.247)

2. The proposed savings total $275 million over five years, made up of:

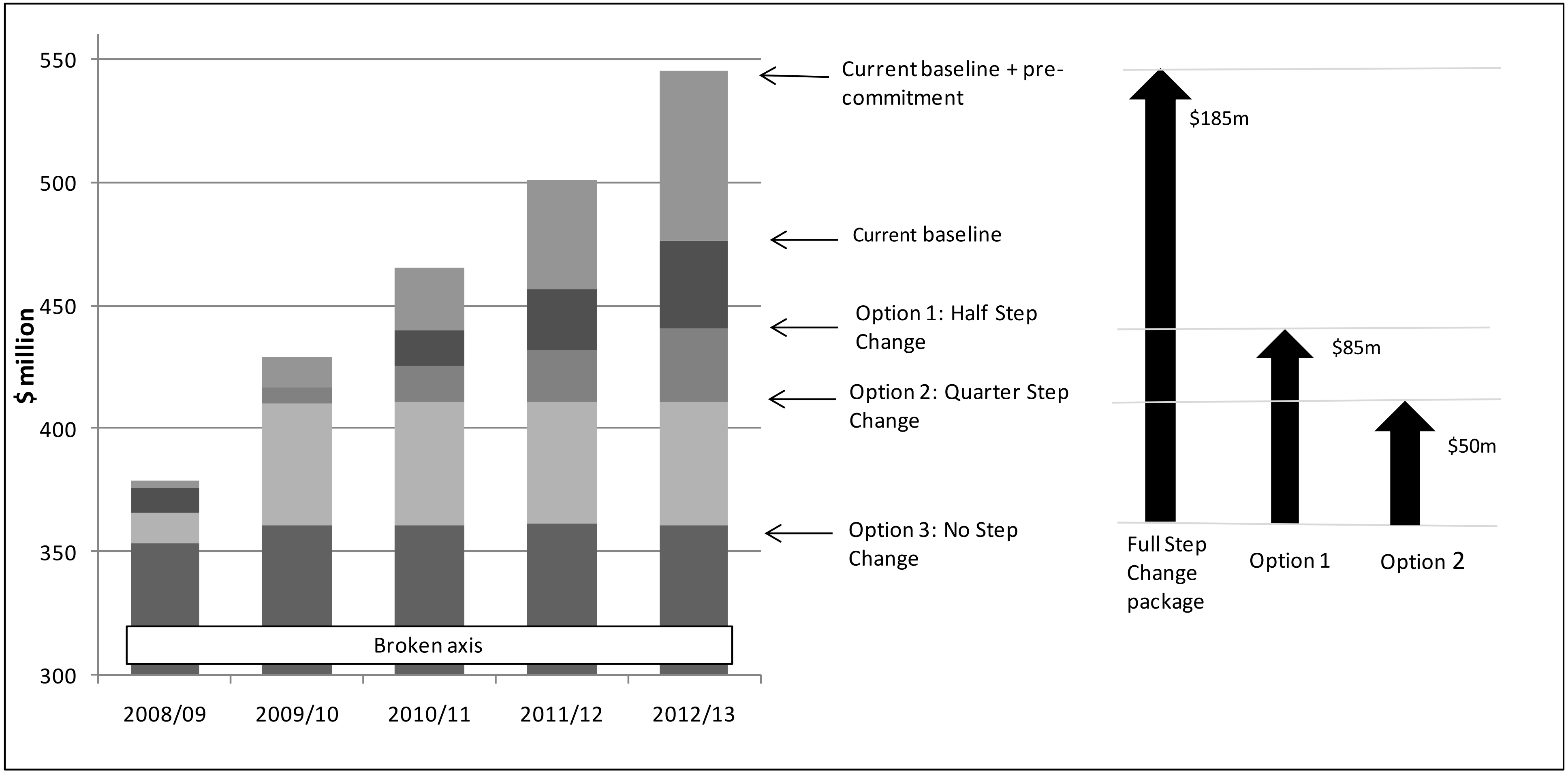
- $194 million from unwinding pre-commitments against future Budgets for both operating and capital; and
- $81 million reduction in baselines (as shown on the table above).

3. The sources of the savings are:

- scaling back the Step Change package agreed at Budget 2008 by around half (savings of $69 million in 2012/13 from removing the pre-commitment), with the impact of reducing the deepening of resources across MFAT’s offshore network and stop the previously planned opening of two new posts.
- departmental efficiencies (savings of $30 million in 2012/13) from remuneration, office rental costs, overseas travel and lowering the assumed cost increases for New Zealand’s offshore network over the next five years.

4. Options for greater savings and/or reprioritisation were not considered in the line-by-line review. MFAT would argue that further savings and/or reprioritisation have not been explored because: (i) the savings identified exceeds the Minister of Foreign Affairs savings target announced last year; and, (ii) the distribution of the Ministry’s baseline resources and those added under Step Change are well aligned with the Government’s foreign policy and trade goals, and will be subject to ongoing discussions with the Minister of Foreign Affairs.

5. The main cost drivers for MFAT are its people and running its offshore network. Any large scale savings are unlikely to be found through further departmental efficiencies, and would need to come from additional scaling back of Step Change and/or reprioritisation.


550
500
450
400
350
300
$ million
Broken axis
2008/09
2009/10
2010/11
2011/12
2012/13
Current baseline + pre-commitment
Current baseline
Option 1: Half Step Change
Option 2: Quarter Step Change
Option 3: No Step Change
$185m
$85m
$50m
Full Step Change package
Option 1
Option 2

6. Three possible options for savings are set out below and summarised on the chart on the previous page.

Option 1: Keep Half Step Change (MFAT recommended option)

7. As discussed above, the savings identified in the line-by-line review total $81 million over the next five years:

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	(9.500)	(6.500)	(14.400)	(20.800)	(29.700)
Baseline (based on OBU)[1]	366.585	410.750	425.744	436.046	446.731

8. This option would allow MFAT to retain a rising baseline profile over the next five years. This profile would incorporate the growth implemented so far as part of the Step Change package, including the establishment of 114 new positions and three recently opened overseas posts (Stockholm, Brisbane and Melbourne).

Option 2: Keep Quarter Step Change (Treasury recommended option)

9. Scaling back Step Change further to around a quarter of the original package agreed at Budget 2008 would result in savings of around $156 million over the next five years:

	$million – increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	(9.500)	(6.500)	(29.016)	(45.453)	(65.188)
Baseline (based on OBU)	366.085	410.750	411.128	411.393	411.243

10. This option is not based on a detailed underlying scenario, but represents an indicative option half way between the proposed savings and the pre-Step Change baseline.[2] It is equivalent to a further 10 per cent reduction relative to option 1.

11. Under this option, MFAT would need to stop their growth strategy and reprioritise resources away from lower priority activities. The staff increases already implemented

[1] The baselines in this briefing are based on OBU. Changes at MBU, due largely to foreign currency movements and capital charge, will increase baselines by around $20 million. The proposed savings will be unaffected: i.e. Ministers are agreeing to the savings, not the baseline.

[2] The exact phasing of this option would need to be worked through with MFAT, but Ministers would be agreeing to an outyear figure.

in 2008/09 would need to be scaled back to around 50 FTEs, which could potentially be achieved through natural staff turnover. Reprioritisation would need to be considered across a number of dimensions, including: the split between onshore and offshore staff, resources devoted by region, and the weight put on different objectives (e.g. economic versus political/security).

Option 3: No Step Change

12. Completely reversing the baseline increases agreed at Budget 2008 would result in approximately $289 million of savings over the next five years:

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	(9.500)	(21.393)	(56.784)	(85.453)	(115.188)
Baseline (based on OBU)	366.585	395.857	383.360	371.393	361.243

13. This option would require extensive reprioritisation of MFAT's activities both onshore and offshore. The staff increases during 2008/09 would most likely have to be reduced back to pre-Step Change numbers, possibly requiring redundancies. The breadth and depth of MFAT's offshore network would also need to be reassessed, most likely resulting in the closing of low priority posts.

14. The funding profile set out in option 3 would allow for a rising profile in the short-term to manage the costs of staff hired in 2008/09 and would slowly fall back to pre-Step Change levels by 2012/13 and outyears. It should be noted that this would result in a real decrease in MFAT's baselines. We do not recommend Ministers agree to this option without a review of the consequences.

Treasury Comment

15. We see scope to find further savings because:

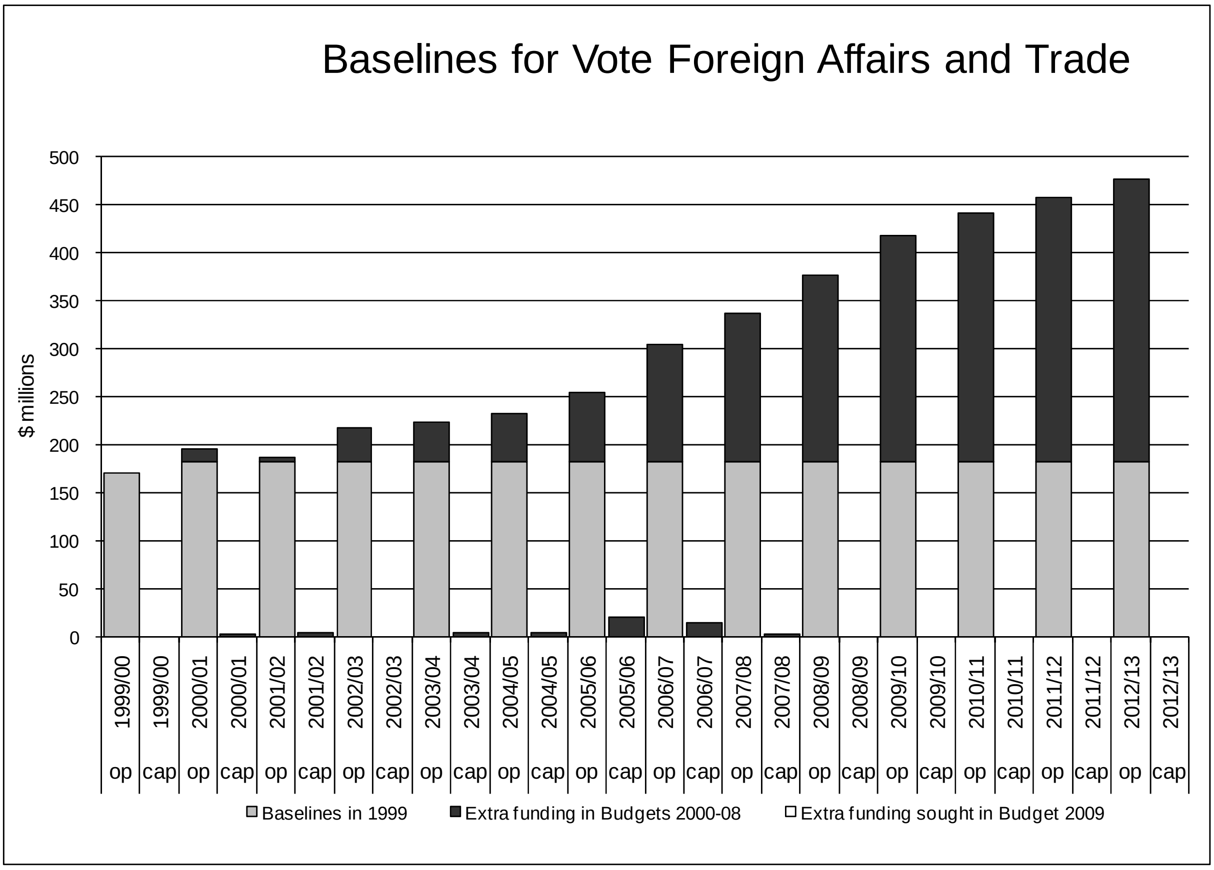
- the line-by-line review did not consider reprioritisation from within the baseline, and we think there are likely to be some areas that are relatively lower priority and less aligned with the Government's objectives, such as work related to environmental diplomacy or UN and human rights, or activities related to lower priority geographical regions; and
- in the current fiscal environment, the proposed growth trajectory is still significant, especially compared with other agencies.

16. We do not have a view on an exact level of recommended savings, but we think option 2 would be feasible without compromising the Government's highest priority foreign policy and trade objectives.

17. We have set out some possible talking points for you in Annex 1.

Analysis of Vote

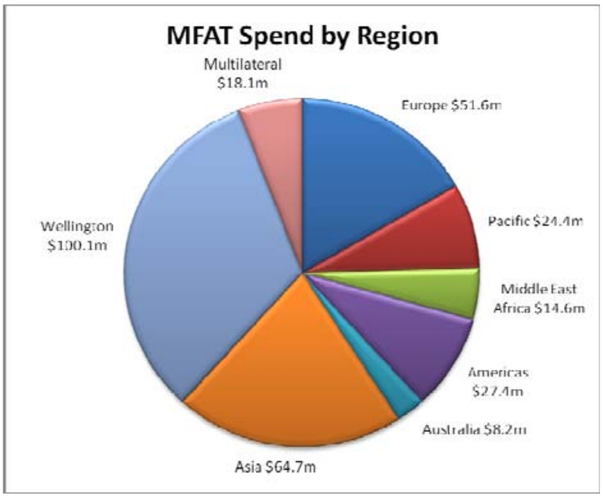
18. Vote Foreign Affairs and Trade baselines are shown in the graph below. The Vote has received significant increases in funding in the past 6 years due to the implementation of a five year capability plan to increase staff numbers and improve remuneration, property, information systems and training. More recently, the $621 million Step Change package, agreed as part of Budget 2008, is aimed at broad based growth in staff both onshore and offshore.

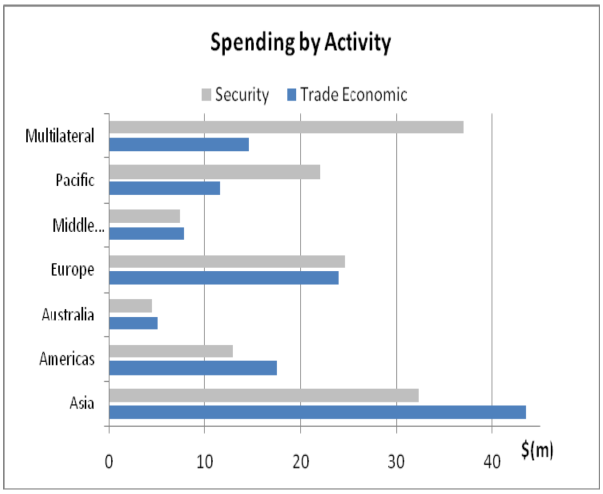


19. In line with their baseline increases, MFAT staff numbers have increased by approximately 40 percent over the period. Onshore staff has risen from 332 in 2002/03 to 509 in 2008/09, while offshore staff numbers have risen from 193 to 244 over the same period.

20. MFAT's growth over the last decade has seen a general shift in resources toward new policy priorities, such as trade negotiations (e.g. China, ASEAN-Australia-New Zealand FTA), environmental and resource diplomacy, and the Asia region.

21. New Zealand's offshore network has expanded during this period to 54 posts. New posts have been established in: Brasilia, Dili, Warsaw, Cairo, Stockholm, Brisbane, and a re-established presence Melbourne. Resources have also been deepened in existing posts, with a significant amount of new positions in Asia, the Pacific and Europe.





Recommendations

Treasury recommends that you:

(i) **agree** to the following savings from Vote Foreign Affairs and Trade:

[Please circle the preferred option]

Option 1: Half Step Change [MFAT recommended]	Option 2: Quarter Step Change [Tsy recommended]	Option 3: No Step Change
$81 million over five years	$156 million over five years	$289 million over five years

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Technical Changes

Global Environmental Facility

22. The Global Environmental Facility (GEF) is one of New Zealand's principal mechanisms for delivering global environment funding. Due to overlaps between different replenishment rounds, payments to GEF for 2009/10 will increase to $3.7 million resulting in a shortfall of $0.5 million against the $3.2m appropriated in the baseline. MFAT proposes that the $0.5 million shortfall be met by a transfer from Departmental Output Expenses to Non-Departmental Other Expense appropriation for one-year only in 2009/10. We support this technical change.

Trade Negotiations Fund

23. MFAT currently administers the inter-agency Growth and Innovation Fund (GIF) which is used to fund additional resources for trade negotiation activities that are over and above core, on-going reprioritised departmental activity. Ministers raised concerns around the nature and use of the GIF fund.

24. Treasury and MFAT intend to propose some changes that may address some of these concerns. In particular, we intend to clarify that the scope of activities funded should be limited to those that are for a short time period and proximate to trade negotiations, and should not include day-to-day or ongoing activities that should be met from within departments' baselines. We will report back to you with these changes.

25. We also propose changing the name of the funding pool to the "Trade Negotiations Fund" to better reflect the Government's priorities.

Recommendations

Treasury recommends that you:

(i) **approve** the fiscally neutral adjustment within Vote Foreign Affairs and Trade of $0.5 million from Departmental Output Expense to Non-Departmental Other Expense to cover a shortfall for Global Environmental Facility payments.

Agree/Disagree

(ii) **agree** that the Growth and Innovation Fund be renamed the "Trade Negotiations Fund" to better reflect the Government's priorities.

Agree/Disagree

(iii) **agree** that the guidelines for the "Trade Negotiations Fund" be amended to clarify that the scope of activities funded should be limited to those that are for a short time period and proximate to trade negotiations, and should not include day-to-day or ongoing activities that should be met from within departments' baselines.

Agree/Disagree

Overview of the Vote

VOTE OFFICIAL DEVELOPMENT ASSISTANCE

Savings

1. As part of the Foreign Affairs and Trade line-by-line review, the Minister of Foreign Affairs recommended **no change** to Vote ODA's current growth path. We understand that the Minister's current position is to agree to **savings of $157.576 over five years** (option 2 below). The line-by-line review set out five possible savings scenarios which the following four options are based on[3]:

Option 1: Maintain current funding track

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	-	-	-	-	-
Baseline (based on OBU)[4]	521.769	502,007	611,768	611,768	611,768

Maintaining the current level of funding would see Vote ODA increase to $612 million by 2010/2011, in line with the manifesto commitment to reach $600 million by 2010/11.

[3] Scenarios 2 and 3 were very similar, and have been represented by option 2 here.
[4] If changes at MBU result in an increase in baselines, the savings in options 2, 3 and 4 will increase by that amount, i.e. Ministers are agreeing to the baseline, not the savings.

Option 2: Reaching $600 million (Vote ODA) by 2011/12 (NZAID recommended)

Savings of $97.311 over five years as follows:

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	-	(2.007)	(71.768)	(11.768)	(11.768)
Baseline (based on OBU)	521.769	500.000	540.000	600.000	600.000

This slower funding growth track would see Vote ODA reach $600 million by 2011/12, achieving the manifesto commitment one year later than 2010/11. Total reported ODA includes ODA in Votes other than Vote ODA, so total ODA would reach $638 million in 2011/12 under this option.

Option 3: Reaching $600 million (total reported ODA) by 2012/13 (Treasury recommended)

Savings of $330.18 million over five years as follows:

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	-	(61.176)	(130.468)	(91.768)	(46.768)
Baseline (based on OBU)	521.769	440.831	481.300	520.000	565.000

This slower funding growth track would see reported ODA reach $600 million by 2012/13 (some of this outside Vote ODA), achieving the manifesto commitment two years later than 2010/11.

Option 4: Flatline at $481million (2008/09 level agreed at Budget 08[5])

Savings of $452.580 over five years as follows:

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	-	(61.176)	(130.468)	(130.468)	(130.468)
Baseline	521.769	440.831	481.300	481.300	481.300

Treasury Comment

2. We recommend **savings of $330.18 over five years** (option 3 above). Considerable funding increases in recent years have resulted in organisational "growing pains" as highlighted in the 2007 Audit New Zealand findings. While recognising that NZAID has made good progress in response to these findings, a slower funding growth would allow for consolidation of recent improvements, as well as room for further improvements to be made, such as in the area of performance information. In addition, proposed changes in institutional form are likely to divert managerial attention and put further pressure on in the short term.

3. Options 2, 3 and 4 would require varying degrees of reprioritisation of funding and reallocation of aid from non-Pacific programmes in order to achieve the Government's stated objectives of increasing aid to the Pacific and programmes focussed on economic growth. The line-by-line review did not outline the trade-offs of lower funding growth in detail.

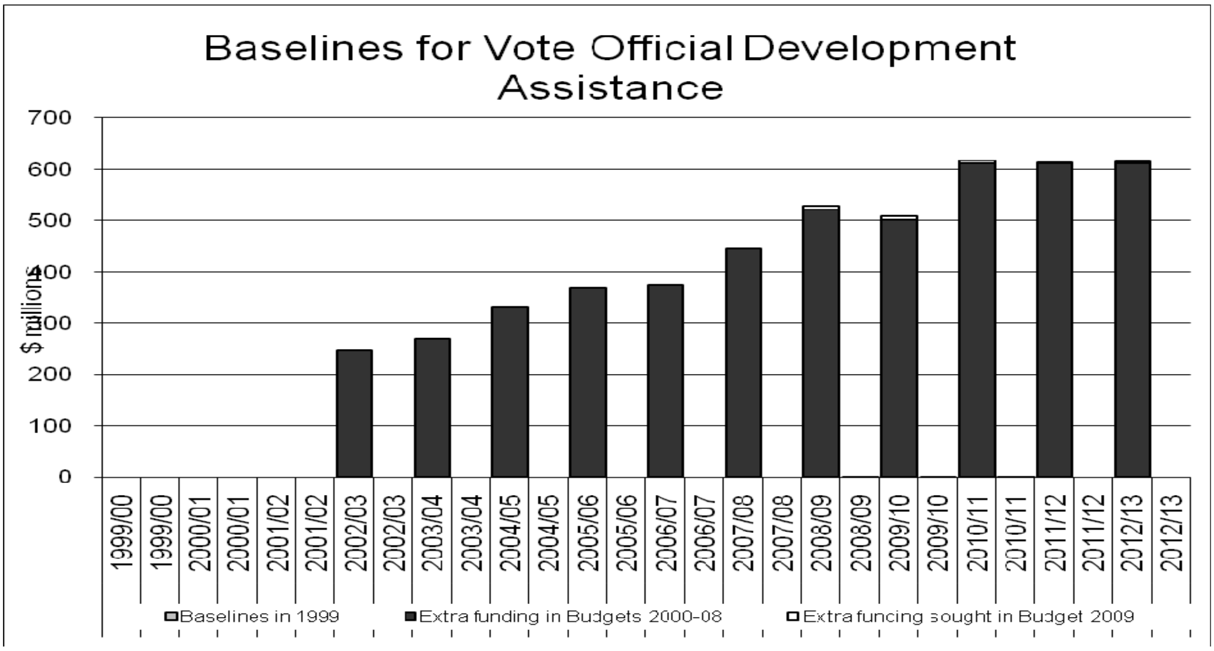
4. As none of the above options involve reducing funding below current baselines, the current level of aid activity could be maintained under any of the above options, though activities may be ceased due to changes in priorities. Option 4 may create some need to curtail or stop announced increases in specific bilateral programmes in future years. We support option 3 because of the potential risks with option 4, which Ministers should consider:

- Loss of reputation internationally (through being seen as "reneging" on New Zealand's previous commitments and also by moving further down the OECD donor rankings from our current position of 17th out of 22 countries); and
- Potential damage to bilateral relationships where longer term commitments to increased funding may need to be broken.

Analysis of Vote

5. NZAID has received a series of significant funding boosts since its establishment as a semi-autonomous body (SAB) in 2002. Funding levels are set to reach $611 million by 2010/11. No funding package has been agreed past 2010/11 thus funding has been flat-lined at the 2010/11 level from 2011/12 onwards. Growth in Vote Official Development Assistance baselines is shown in the graph below.

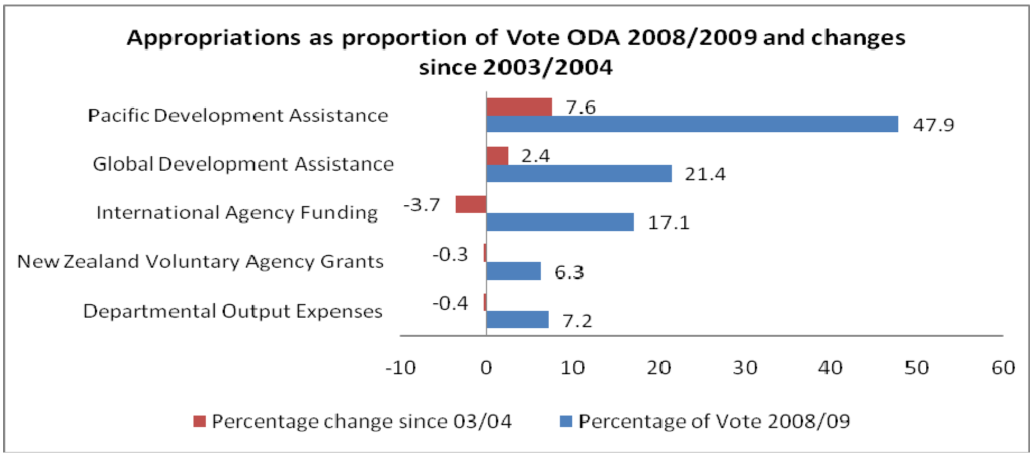
[5] A timing issue where a large rollover from 07/08 to 08/09 was deducted from 09/10, has meant that the baseline for 08/09 has been inflated relative to 09/10.



6. NZAID has experienced "growing pains" as their funding profile has increased. An Audit New Zealand review in 2007 identified critical weaknesses in funding and procurement practices, as well as weaknesses in monitoring and evaluation. NZAID has responded well and made good progress towards rectifying these issues through their control strengthening programmes and the development of a new performance monitoring framework, though they are still on an improvement track.

7. Establishing NZAID as a SAB has allowed NZAID to build up a staff of dedicated aid professionals. Staff numbers have been increasing by approximately 30 staff per year since 2007, in-line with baseline increases. These increases have been necessary to administer New Zealand's aid activities to an appropriate level. Around 27% of NZAID staff are located off-shore at MFAT posts and are involved in direct delivery, monitoring and evaluation of aid programmes.

8. The proportion of Vote ODA targeted towards bilateral aid in the Pacific has increased by 7.6% since 2003/2004, in line with governmental priorities. Significant progress has been made towards streamlining activities by focussing on fewer, longer and deeper aid partnerships - winding down programmes in Africa and Latin America, and focussing international agencies funding on organisations of key interest to New Zealand such as the United Nations and the Asian Development Bank.



9. Moves have been made to focus programmes on improving governance, growth and livelihoods, health and education and reducing vulnerabilities to disasters and climate change.

Recommendations

(i) **agree** to the following savings [Please circle the preferred option]:

1. Maintain current funding track	***2. Reaching $600m by 2011/12 [NZAID recommended]***	***3. Reaching $600m by 2012/13 [Treasury recommended]***	***4. Flatline current baseline***
$0 million over five years	$97 million over five years	$330 million over five years	$453 million over five years

(ii) **agree** that funding pressures should be managed within NZAID's funding envelope for the duration of the three-year multi-year appropriations (i.e. until Budget 2012)

Value for Money/Strategic Direction

10. The main issues that we see affecting Vote Foreign Affairs and Trade over the coming years are set out in the A3 sheet in Annex 2.

11. Two important pieces of work concerning the future strategic direction of NZAID are currently underway, which you may wish to ask the Minister about:

- <u>NZAID's institutional arrangements:</u> A Cabinet paper is being drafted by SSC (jointly with MFAT) and proposes removing NZAID's status as a semi-autonomous body (SAB) and is due for Cabinet consideration in late March. We do not see a strong case for reintegrating NZAID into MFAT and we see some risks around transparency, staff skillsets and best practice aid delivery, though these could be mitigated through some safeguards.
- <u>NZAID's policy direction:</u> A Cabinet paper is being drafted by MFAT and NZAID and will consider issues such as foreign policy alignment, and the geographic/sectoral mix of aid. The paper is due for Cabinet consideration in late March. We have not yet seen a draft of this paper.

11. We suggest two particular value-for-money issues you could seek agreement on in the bilateral:

1) Improving performance information

We see improving performance information as a high priority for NZAID (see Annex 2 "Aid Effectiveness"). A performance reporting framework has been developed and implementation is in train, but is still in the early stages of collecting information. A requirement that NZAID reports back to ECC on progress in implementing and preliminary findings of their reporting framework would provide a further incentive for improvement. We expect NZAID would be comfortable with such a report back.

2) Revising the funding mechanism

In combination with improved performance information, we consider that it would be worthwhile de-linking funding from GNI percentages and ensuring that future Budget increases are based on performance information on the likely impact of further funding. This would increase the incentive for NZAID to use its funds where they are most effective at achieving their objectives, and would provide additional impetus for detailed and accurate performance information. We expect the Minister of Foreign Affairs would agree with this recommendation.

Recommendations

(i) **direct** NZAID to report to the Expenditure Control Committee by 30 September 2009 on progress in implementing, and the preliminary findings of, its performance reporting framework for ODA;

Agree/Disagree

(ii) **agree** that future Budget increases for Vote ODA will be based on performance information and the outcomes that would be delivered, rather than a target percentage of GNI;

Agree/Disagree

(iii) **note** that policy priorities have not yet been agreed by Cabinet and, as such, the overall levels of funding for Vote ODA and priorities for allocation within ODA have yet to be finalised;

(iv) **agree** that NZAID report back to the Minister of Foreign Affairs and Minister of Finance by March 31 2009 on how funding should be allocated between appropriations, once funding levels and high-level ODA priorities have been finalised,

Agree/Disagree

Technical Changes

12. Budget 2009/10 represents the end of Vote ODA's multi-year appropriations (MYAs) for development assistance programmes. Treasury recommends that two MYAs be established to replace the two expiring MYAs - Pacific Development Assistance and Global Development Assistance. Treasury supports the use of MYAs for ODA because timing of programmes is naturally fluid in the field of aid administration and MYAs provide the necessary flexibility of funding on a programme, rather than annual, basis.

13. There are a number of other technical matters for this Bilateral:

- approval of two fiscally neutral transfers which need Cabinet approval as they are transfers between MYAs and fall outside the delegation of joint ministers;
- authorising rollover of the unspent MYAs expiring in 2008/09 into the new MYAs;
- delegating to joint ministers the authority to approve transfers between MYAs and from MYAs to annual appropriations (instead of needing to be approved by Cabinet) and to agree the ratio of Department to Crown funding once funding levels have been set.

14. We support all these technical changes.

Recommendations

(i) **note** that there are two existing Multi-Year Appropriations (MYAs) due to expire on 30 June 2009.

(ii) **agree** to establish two new three year Multi-Year Appropriations (MYAs) Other Expenses to be titled “Pacific Development Assistance” and “Global Development Assistance” in Vote Official Development Assistance with effect from 1 July 2009.

Agree/Disagree

(iii) **agree** to;

- a fiscally neutral adjustment of $1.3 million from the Other Expense “Pacific Development Assistance” MYA 2006/07-2008/09 to the Other Expense “Global Development Assistance” MYA 2006/07-2008/09 to meet the changes to the Global Agencies Fund (GAF) where the assistance of the Fund has moved outside the Pacific, and

- a fiscally neutral adjustment of $3.15 million from the Other Expense “Global Development Assistance” MYA 2006/07-2008/09 to the Other Expense “International Organisations” in 2008/09 to meet increased costs associated with payments to international organisations, particularly UNIDO, arising from movements in the NZ$/Euro exchange rate.

Agree/Disagree

(iv) **delegate** the Minister of Finance and the Minister of Foreign Affairs to:

- approve the transfer of unspent funds from the Vote Official Development Assistance (ODA) MYAs “Pacific Development Assistance” and “Global Development Assistance” expiring on 30 June 2008 to the new MYAs that come into force on 1 July 2009.
- approve the transfer of funds between the MYAs over the term of the MYAs and from MYAs to single year appropriations.
- approve the allocation of funds between Department and Crown once funding levels have been set, in conjunction with advice from officials, with any required changes being implemented in OBU 2009.

Agree/Disagree

VOTE SPORT AND RECREATION

1. The Vote Minister has not submitted a line-by-line review for Vote Sport and Recreation. Further, baselines have not been investigated by the administering department for potential savings – we understand on the instructions of the Vote Minister. No emergency pressure or other bids have been submitted for this Vote for Budget 2009.

	$million - increase/(decrease)				
	2008/09	*2009/10*	*2010/11*	*2011/12*	*2012/13 & Outyears*
Operating (GST excl)					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested	-	-	-	-	-
Capital (GST excl)					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested	-	-	-	-	-

2. Treasury's view is that there are opportunities for immediate ongoing savings in the Vote in areas such as the Mission-On programme, other social marketing, and the Prime Minister's sport scholarships. These are discussed in the Value for Money section below.

Analysis of Vote

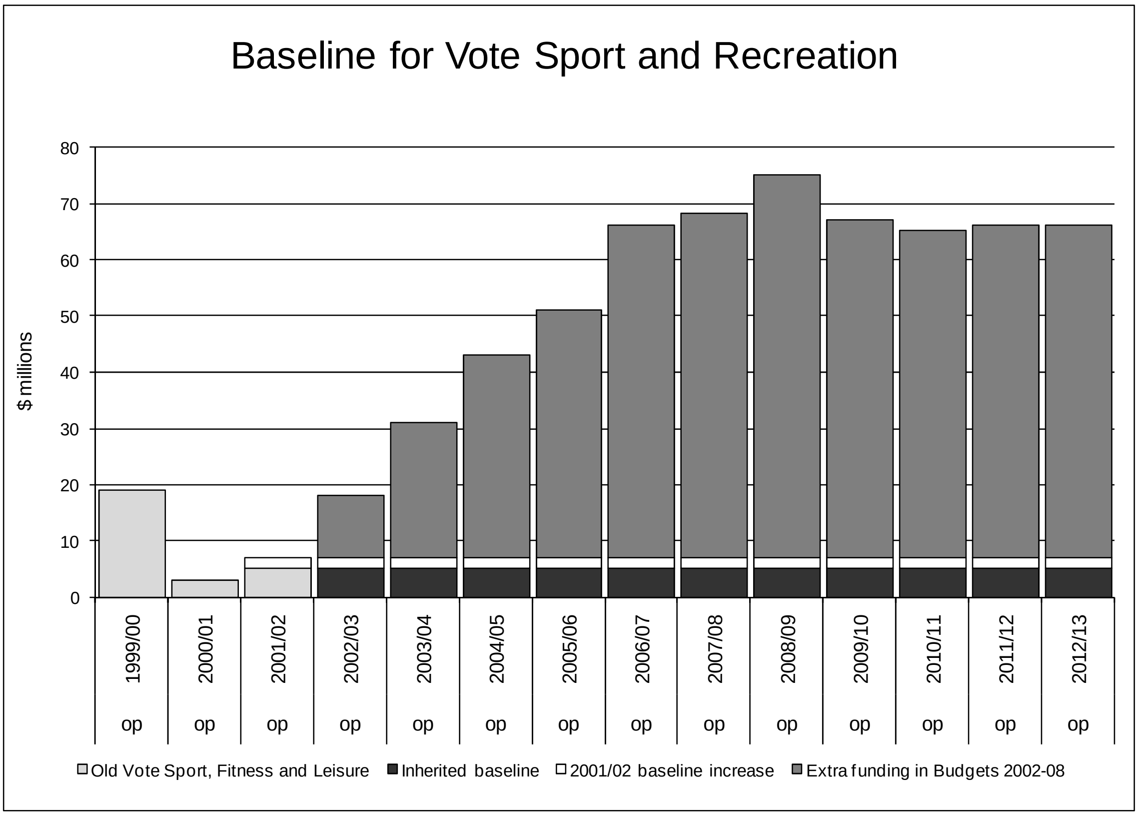
3. Vote Sport and Recreation currently has a baseline of approximately $75 million, the majority of which comprises direct Crown funding to Sport and Recreation NZ (SPARC) via the Ministry for Culture and Heritage (MCH). The Vote also contains a small amount of departmental funding in relation to the MCH monitoring function.

4. Vote Sport and Recreation was established on 1 January 2002. Administration was transferred to MCH from the Ministry of Economic Development and the name changed from Vote Sport, Fitness and Leisure. Originally the Vote was administered by the Department of Internal Affairs (it transferred to Ministry of Economic Development on 1 July 2000).

5. In 1999 following the election, the baseline for Vote Sport, Fitness and Leisure was increased by around $17 million, on a one-off basis, to provide additional funding for the Sydney 2000 Olympics team and other high-performance sport programmes for that year.

6. The Mission-On programme was established in September 2006. This added an additional 29% in a single year to a Vote that had already grown dramatically in previous years (by a total of 630% or $44 million between 2001/02 and 2005/06). Previous funding increases had largely been related to expansion of programmes to encourage Māori to participate in physical activity, implementation of the recommendations of the Ministerial Taskforce on Sport, and compensation for reduction in funding available from Lottery Grants.

7. Mission-On was initially funded at $67 million over four years only (2006/07 to 2009/10) from within Health, Education and SPARC baselines. Ongoing baseline funding was subsequently confirmed in Budget 2008 (at $8.7 million per annum for the Vote Sport and Recreation contribution – see below) after only two years of the programme, and despite the planned evaluation not yet having been completed.



Value for Money

8. Treasury considers that several of the programmes currently funded within Vote Sport and Recreation are a poor fit with government priorities and/or likely represent poor value for money – these are discussed below. More generally, it would be useful in our view for MCH and SPARC to review all expenditure within the Vote to test efficiency, effectiveness, performance information and ‘fit’ with government priorities, in time to inform Budget 2010 decisions.

Mission-On

9. Many of the projects within Mission-On either overlap with or fit more clearly inside other agencies/Votes (particularly Health and Education). Others do not align with

the government's preference to move away from funding social marketing toward more 'frontline' activities, such as sport initiatives for school-age children. Further, the establishment of Mission-On has expanded SPARC's role beyond promoting organised sport and recreation to include health promotion.

10. For these reasons it is Treasury's view that SPARC baseline funding for Mission-On ($7.9 million in 2008/09[6] and $8.7 million per annum from 2009/10) should be removed from Vote Sport and Recreation and either returned to the centre or reprioritised (in whole or part) to Health and Education.

Other savings or reprioritisation options

11. The Prime Minister's scholarships are discretionary grants payments of questionable value for money. In particular, the expected outputs and performance measures are not clearly linked to any specific outcome. In Treasury's view, the baseline funding for these grants ($4 million per annum) should be returned to the centre.

12. Funding is also likely able to be freed up from other social marketing programmes run by SPARC, and either returned to the centre or reprioritised to fund government priorities such as sports initiatives for school-age children. However, it is not possible to estimate the level of funding that could be freed up in the absence of a line-by-line review submission.

Recommendations

Treasury recommends that you:

(i) **Direct** the Ministry for Culture and Heritage, in consultation with Sport and Recreation New Zealand, to:

a. examine the efficiency, effectiveness, performance information and 'fit' with government priorities of expenditure within Vote Sport and Recreation; and
b. report findings to ECC by 30 November 2009, in time to inform savings opportunities for Budget 2010.

Agree/Disagree

(ii) **Invite** the Minister for Sport and Recreation to write to Sport and Recreation New Zealand, and:

a. invite the entity to carry out comprehensive value for money reviews to assess how it could deliver its existing services at existing or less cost; and
b. report back to him by 30 September 2009 to enable the findings to be incorporated into the report-back referred to in recommendation (i) above.

Agree/Disagree

[6] The total 2008/09 baseline for the Mission-On programme is $14.7 million per annum $7.9 million per annum is spent by SPARC on initiatives that it is the primary lead on (some of which is provided by Health and Education). Health spends an additional $5.4 million pa on the Mission-On initiatives that it leads, and Education another $2.7 million.

[Information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]

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