

Vote Food Safety
Baseline Alignment Proposal

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Submitted by:
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Section 1: Alignment to Government Priorities

What the Minister intends to achieve:

NZFSA is delivering New Zealand's food regulatory programme that assists in reducing foodborne illness and improving public health. The programme provides NZFSA with the platform to issue assurances on food exports valued at 60 percent of New Zealand's export trade in goods. In doing so NZFSA is making tangible contributions to the Government's priorities in the areas of economic growth, skills, regulation (better and less) and business innovation. These programmes will also deliver on the specific priorities the Minister identified earlier this year covering trans-Tasman trade in food, enhancing and maintaining market access, and improving the food and food related regulatory regime.

The key outcomes and impacts that NZFSA work programmes will operate within are:

- **Improved safety and suitability of food:** The direct impact that the department is expecting to achieve with this outcome, is that
 - domestic producers, importers and exporters know what they must do to produce safe and suitable food and food related products
 - businesses take responsibility for such production and
 - systems and processes are monitored to ensure compliance.

Passage of the Food Bill will:

- remove unnecessary regulation
- simplify food safety processes
- clarify responsibilities of key players.

Training and support around the Food Bill's implementation will significantly enhance the skills of local government personnel in the food area and businesses understanding of food safety and suitability requirements.

- **Enhanced and sustained commerce and market access:** The direct impacts that the department is expecting to achieve with this outcome, includes;
 - expanded export opportunities for food producers especially for trans-Tasman trade growth
 - new market access standards are challenged where they are WTO incompatible
 - domestic regulatory regime does not impose unnecessary burdens on food producers or importers.

A third set of programmes deals with public concerns for food safety and is intended to raise the broader community's skills in relation to food safety and public health.

- **Consumer food practices and choices that support better health:** The direct impacts that the department is expecting to achieve with this outcome, includes;
 - food labelling is sufficient to support healthier and safe food decisions
 - science-based and authoritative information is provided to the public

How the Minister's intentions fit with:

- **Strategic direction of government**
- **Minister's priorities**

Strategic direction of government

The Government's strategic direction is largely focussed on economic growth. Growing the economy to deliver greater prosperity, security and opportunities to all New Zealanders is the key goal.

Other areas of strategic focus relevant to Vote: Food Safety are skills, regulation (better and less), and business assistance and innovation.

A strong and supported food sector that has the confidence of markets and consumers here and overseas, supports these areas of strategic focus and grows New Zealand food and food related businesses and New Zealand's economy.

In other areas, skills in the domestic food sector, for small and medium sized exporters and for importers will be enhanced. Better and less food regulation will be delivered by the Food Bill and amendments to other legislation administered by NZFSA in the Regulatory Reform package. Business assistance to transition to the new domestic food regulatory regime is being developed as part of the Food Bill's implementation. Business innovation and opportunities are generated by the results of market access work. Consumer confidence in the food system is enhanced by greater consumer awareness and information about food safety and food issues.

Minister's priorities

Food safety and related programmes make a significant and critical contribution to our economy domestically and internationally. NZFSA will deliver on three key priority areas that will contribute to the Government's overarching goal of economic growth.

Enhancing and sustaining Market Access: New Zealand relies more heavily on the food sector for the strength and resilience of its trade than do other countries. Countries change their market access requirements to reflect higher levels of protection either legitimately (that is WTO compliant – risk and science based) or illegitimately (where they are introduced for political reasons and effectively become 'technical barriers to trade'). Challenging overseas market access requirements where they are incompatible or inappropriate and thereby sustaining current market access arrangements or opening new markets for New Zealand exports is crucial to New Zealand's economy. As well, NZFSA has a major role in implementing completed and contributing to in-progress free-trade agreements, economic cooperation programmes and plurilateral arrangements.

One of the key initiatives in the market access area is the Meat Hygiene Reform Taskforce, an innovative partnership between NZFSA and the meat industry looking at ways to reduce unnecessary processing and inspection methods.

The Minister's priorities fit with this priority through the intervention logic which links NZFSA's outputs to our impacts, intermediate outcomes and outcomes. The outcome 'enhanced and sustained commerce and market access' and associated impacts 'expanded export opportunities for food producers' and 'new market access standards challenged' are the long term outcomes and medium-term impacts which will directly contribute to this priority. The outputs which will have a major contribution to this priority include:

- verification services
- certification services
- compliance monitoring
- participation in international standards setting forums and market access negotiations
- development and implementation of standards for emerging issues.
- changes to the regulatory framework
- preparation for and response to emergencies and events
- science-based tools to support industry compliance

Improving the Regulatory Regime: A sound domestic regulatory regime is critical to protecting consumers and building the credibility needed to assist New Zealand's market access activities. The department is concluding the drafting of a Food Bill to replace the Food Act 1981. The aim is to have the Food Bill passed by the end of 2010. Implementation planning for the Food Bill is well advanced and a voluntary implementation programme, operating since June 2008, will continue through to commencement of the replacement food legislation. Similarly, changes to the handling of imports have been made to the extent possible under the current Food Act. Further enhancements are to be implemented with passage of the Food Bill. The regulatory performance system will also be fully implemented at that time. It will monitor whether or not the Food Bill is meeting its regulatory goals.

The intervention logic underpinning these programmes links NZFSA's outputs to its impacts, intermediate outcomes and outcomes. The outcome 'enhanced and sustained commerce and market access' and associated impacts 'expanded export opportunities for food producers' and 'new market access standards challenged' and the outcome 'improved safety and suitability of food' with the associated impact 'domestic producers, importer and exporters know what they must do to produce safe and suitable food and systems and processes are monitored to ensure compliance' are the longer term outcomes and medium-term impacts which will directly contribute to this priority. The outputs which will have a major contribution to this priority include:

- Policy advice for changes to the regulatory framework
- Develop and implement standards for emerging issues.

Enhancing the Australia-New Zealand relationship concerning food issues: The *Agreement between the Government of Australia and Government of New Zealand Concerning a Joint Food Standards System* (Food Treaty), together with the Trans-Tasman Mutual Recognition Arrangement (TTMRA), forms the basis for the highly integrated trans Tasman food trade. In accordance with the Prime Minister's agenda, implementation of the current Food Treaty amendment negotiations will occur around mid 2010. A further round associated with initiatives sought by the Council of Australian Governments (COAG) will commence during 2010 as will other programmes associated with COAG initiatives notably a review of food labelling and law and centralisation of interpretive guidance on the Australia New Zealand Joint Food Standards Code.

The Minister's intentions fit with this priority through the intervention logic which links NZFSA's outputs to our impacts, intermediate outcomes and outcomes. All long-term outcomes and medium-term impacts contribute in some part to this priority. The outputs which will have a major contribution to this priority include;

- policy advice for changes to the regulatory framework
- international participation in standards setting and negotiations
- develop and implement standards for emerging issues
- manage emergencies and events
- contribute to Joint Food Standard setting

What are the critical things that have to happen to achieve what the Minister intends?

Resourcing (personnel and financial) the priority work programmes within NZFSA are critical to delivering on the Minister's and Government's priorities. Also critical is the ability of NZFSA to maintain robust systems and integrity in standards setting, be responsive to environmental changes, refine priorities and, in overseas markets, challenge new national standards and import barriers.

What risks (fiscal and policy) are associated with the Minister's intentions? Could the services/ outputs be increased or decreased if needed?

The key policy risk to delivering New Zealand's food regulatory programme is that the improvements sought through passage of the Food Bill are delayed, and that the regulatory programme does not provide the necessary platform for New Zealand's export trade assurances. As well, there are policy risks associated with maintaining capability for the food related market access, development of international food standards and free trade agreement negotiations and maintenance. In the last mentioned area, this is of particular consequence to the Australia - New Zealand relationship.

Fiscal risks are limited so long as the baseline is maintained at existing levels. The main fiscal risks will be supporting implementation of the Food Bill, minimising compliance costs for industry, sustaining market access and other international agreement activity, and ensuring sufficient increased revenue or cost reductions are feasible to maintain organisational capability for the above activities. The fiscal risks around retaining suitably qualified personnel are associated with the ability to maintain relativity for similar capability in the face of future market remuneration movements. There are also fiscal risks in the cost of investing sufficient capital for the development and maintenance of modern and enabling technology to support the regulatory programme and market access activity in future.

What has to wait?

Some lower priority programmes have been delayed, deferred or accommodated within other work streams. These actions are intended to strengthen the focus of the Department on the Minister's and Government's priorities and are part of robust departmental management and governance. Examples of programmes deferred are review of the maximum residue level setting system, some of the support activities for industry sectors involving guidelines, explanatory notes, training and workshops, work around dietary fibre and some compliance calibration programmes.

What is the Minister choosing not to do?

No major programme has been stopped although, as noted above, several lesser programmes or elements of programmes have been addressed to better focus the department's overall work programme.

Reprioritisation

In February 2009, NZFSA's Chief Executive (CE) challenged its management and staff to increase overall productivity due to the emerging economic crisis and the pressures on Crown funding as well as not wanting to increase fees in our cost recovered revenue. The CE reviewed the need for all work to be carried out in particular ways (or at all), prioritisation of projects and the smart use of technology to improve information sharing.

To date, the productivity gains have included:

- reduction in staffing levels of 18 staff with another six scheduled to leave in March 2010;
- reduction in costs for certification services to the dairy industry and clearance activities for food importers;
- meeting the government's requirements to reduce base line expenditure with savings of \$2.5 million in Crown funding (8% of total Crown funding) while continuing to deliver key outputs;
- holding cost recovery rates at current levels apart from one industry agreed exception despite increased cost and reduced activity in many sectors;

- undertaking a significant increase in the amount of work to prepare for implementation of the Food Bill;
- savings made by centralising corporate functions and streamlining corporate systems.

The Authority's Crown Funding baseline will reduce again in 2010/11 by a gross \$700k (around 0.8%).

The Minister proposes internal reprioritisation in two areas as follows:

1. NZFSA continues to undertake internal reorganisation and reprioritisation of its activities in order to deliver the food regulatory programme and achieve the Minister's priorities. The reduction in the 2010/11 year is attributed to funding appropriated for import systems and testing concluding in 2009/10. Development of import systems and protocols nonetheless needs to continue in order to be fully implemented once the Food Bill is enacted. Risk-based testing of imported foods also needs to continue at a cost of \$350k.
2. To increase the scientific capability of the authority, in line with the "Food Safety Risk Management in the New Zealand Food Safety Authority: A review of the New Zealand Food Safety Authority's risk management framework and its application" undertaken by Dr Stuart Slorach in 2008. In particular an additional 2 scientists should be added in the fields of toxicology and microbiology to increase ability to respond to new and emerging food safety issues as they arise. This would have a cost of approximately \$350K. This science capability would be increased as funding became available from reduced wine testing requirements.

The funding for the above reprioritisation is proposed from underspent wine testing for export to the European Union. NZFSA introduced a more targeted funding arrangement for wine testing, based on actual wine exports to the EU rather than expected exports. Estimates of the EU wine trade provided by the Wine Institute of New Zealand and are proving higher than actual exports, resulting in fewer wine tests being required. As the new regime settles in, it is unclear what the ongoing the cost of wine testing will be. Present indications imply that future funding requirements for wine testing will be less than they have been to date. On this basis, it is proposed that once a pattern is established, an amount of the underspent funds from wine tasting be reprioritised to fund the imports and science capability.

This reprioritisation will occur within the Standards output class and require no financial movement.

The output classes for Vote: Food Safety have been adjusted and reduced in number from six output classes to five output classes. The adjustment was made to better reflect homogeneous functions and improve reporting. The proposed new output structure and the justification are contained in appendix 1. If the proposal is accepted, the financial implications will result in Crown and Other revenue moving from output classes Standards and Response to output class Assurance.

The movements between classes are set out in the table in the Summary of Financial Movements section below.

What would be new or different?

The current output class structure and descriptions will be amended to create more accurate and homogenous output classes. This does not impact the reprioritisation process.

Summary of Financial Movements

The reprioritisation section above sets out a proposal for consideration by Ministers. The Financial implication of the reprioritisation proposals are set out under two areas in this section:

- Implications for reprioritisation
- Implications of the proposed output class changes

Implications for reprioritisation

The proposed reprioritisation proposals set out in the section reprioritisation above have no impact on the overall financial position of NZFSA. The funding associated will, in one instance, be contained within the output class Standards and in the second instance will require a movement in appropriation from output class Standards to output class Policy.

Implications of the proposed output class changes

If the proposal is accepted the financial implications will result in moving Crown and Other revenue from output class Standards and Response to output class Assurance with the corresponding movements in Appropriation. All these movements are fiscally neutral

The provisional movements between Output Expenditure Classes for Fiscal 2010 are set out in the table below:

New Output Class name	<u>Policy Advice</u>	<u>Standards</u>	<u>Information</u>	<u>Assurances</u>	<u>Response</u>	<u>Response to</u>		<u>Total</u>
						<u>Food</u>	<u>Departmental</u>	
Revenue Crown as per FBU 2010	6,592	17,035	3,427	2,201	3,059	338		32,652
Output Class changes								
Approvals		-547		547				0
Systems Audit				1,095	-1,095			0
Emergency Response					338	-338		0
Codex	130	-130						0
Revised Revenue Crown	6,722	16,358	3,427	3,843	2,302	0		32,652
Other Revenue as per FBU 2010								
Revenue Dept	115	1,809	26	2,035	65	0		4,050
Revenue Other	0	10,290	664	50,178	1,440	0		62,572
Output Class changes								
Approvals		-3,526		3,526				0
Systems Audit				1,474	-1,474			0
Emergency Response				0		0		0
Codex								0
Revised Other revenue	115	8,573	690	57,213	31	0		66,622
Revised Total Revenue	6,837	24,931	4,117	61,056	2,333	0		99,274
Appropriation as per FBU 2010	6,613	28,261	4,110	52,262	4,559	338		96,143
Output Class changes								
Approvals		-4,290		4,290				0
Systems Audit				2,569	-2,569			0
Emergency Response					338	-338		0
Codex	130	-130						0
Revised Appropriation	6,743	23,841	4,110	59,121	2,328	0		96,143
surplus/deficit	94	1,090	7	1,935	5	0		3,131

PROPOSED CHANGES TO NZFSA OUTPUT CLASSES

Proposal

It is proposed that the current OUTPUT CLASS structure be changed and output class descriptions be amended to create more accurate and homogenous output classes.

Background

The NZFSA output class structure was revised for the 2008/09 year. The current classes/order/descriptions are:

Current output class structure	Output class description
Food Safety Information and Participation	This appropriation is limited to activities to engage and inform stakeholders about food safety and suitability and to encourage participation in NZFSA's regulatory programme. The appropriation encompasses the provision of information (and information gathering) through a range of channels including consumer help-lines, web based tools, consumer education and events. It also covers the provision of information to the media.
Monitoring and Assurance	This appropriation is limited to delivering assurances to consumers, the public and overseas authorities that food, food-related products, and inputs into the production of food are managed and delivered in accordance with New Zealand legislation and importing countries' market access requirements.
Policy Advice on Food Safety and Suitability	This appropriation is limited to delivering assurances to consumers, the public and overseas authorities that food, food-related products, and inputs into the production of food are managed and delivered in accordance with New Zealand legislation and importing countries' market access requirements.
Response to Food Related Emergencies and Events	This appropriation is limited to managing preparedness and operational response to food related events and food safety emergencies.
Standards Setting	This appropriation is limited to the development, implementation, monitoring and review of food related standards and inputs into food production for both the domestic and export markets. The appropriation encompasses inputs into joint standard setting arrangements with Australia as well as influencing standards for trade set by international organisations.
Systems Audit and Enforcement	This appropriation is limited to the audit and enforcement programme administered by NZFSA, as well as investigations of and response to problems, complaints and suspected breaches of legislation.
NDOC ¹	This appropriation is limited to the development of joint food standards and codes of practice for Australia and New Zealand by Food Standards Australia New Zealand in accordance with the Joint Food Standards Setting treaty

Changes Proposed

Feedback on the NZFSA output class structure during the 2009 Audit NZ assessment reinforced the view that the current structure does not support well-crafted performance indicators or scope statements. The

¹ For FSANZ funding

output class structure is out-of-balance. There are some extremely small output classes with a range of output indicators and some very large output classes with relatively few output indicators. As well, the scope statements do not always provide an accurate reflection of the outputs contained within the classes.

Aspects of the current class structure reiterate an internal view of services rather than the external view required of output service delivery eg “Systems Audit”. NZFSA has also been advised to reconsider using the word “and” in output class titles because this could be an indication that the outputs contained within the class are not homogenous.

The output classes were reviewed with the above in mind and the following is a summary ‘picture’ of proposed changes:

Current output class titles	to	Proposed output class titles
Food Safety Information and Participation	→	Information
Monitoring and Assurance	→	Assurance
Policy Advice on Food Safety and Suitability	→	Policy Advice
Response to Food Related Emergencies and Events	→	
Systems Audit and Enforcement	→	Response
Standards Setting	→	Standards
NDOC	→	NDOC

Rationale for change

The following rationale applies:

- a) As a department, there is no need to differentiate output classes with reference to ‘food safety’. This results in:
 - “Food Safety Information and Participation” becoming “Information”; and
 - “Policy Advice on Food Safety and Suitability” becoming “Policy Advice”;
- b) the current “Systems Audit and Enforcement” class does not contain homogenous outputs. “Systems Audit” functions are externally focussed and primarily related to monitoring for compliance or providing assurances about the system. The function should be added to “Assurance”;
- c) Approvals/registrations/accreditations etc are part of the regulatory programme that gives assurance to the user/consumer. These activities should be included in “Assurance”
- d) the output class “Response to Food Related Emergencies and Events” is too small to justify an output class on its own. As well, enforcement (investigations and prosecutions) outputs are often related to the appropriate response to an incident or event and are therefore best placed in a class with emergency and event response outputs. A combined class called “Response” is more homogeneous;

e) “Standards setting” could more accurately be termed “Standards” in order for the title to better reflect any activity associated with standards including researching, developing, setting, implementing and reviewing/evaluating;

f) “NDOC” remains unchanged.

The changes would largely be achieved by taking the “Systems Audit” outputs from “Systems Audit and Enforcement” and the approvals outputs from “Standards setting” and placing both in “Assurance” and adding “Emergency etc” outputs to “Response”.

Output Class Descriptions

Proposed Output Class Descriptions

Policy Advice	This appropriation is limited to analysis, policy, strategic and legal advice and decision-making support relating to domestic and international arrangements concerning food safety, food suitability, enforcement, inputs related to food production and ministerial services.
Standards	This appropriation is limited to the scientific inputs and development and implementation of food related standards (including as appropriate international and joint Australia/New Zealand standards) and standards related to inputs into food production, imports, exports, new and emerging issues and the domestic market.
Information	This appropriation is limited to engagement of and information for stakeholders about food safety and suitability, to encourage participation in, and compliance with, the food regulatory programme, and to enable consumers to make appropriate food choices.
Assurance	This appropriation is limited to justifying and delivering assurances to consumers, the public, overseas authorities and other stakeholders that food, food-related products and inputs into the production of food (whether undertaken or produced in New Zealand or imported) are managed and delivered in accordance with New Zealand legislation and, for exports, relevant importing countries’ market access requirements. This is effected through auditing for compliance, systems audit, systems improvement, performance monitoring, assurances, approvals and registrations.
Response	This appropriation is limited to the investigation of, preparedness for, and response to, food related events, incidents, emergencies, complaints and suspected breaches of legislation and taking appropriate sanctions and enforcement action.
Joint Food Standards Setting Treaty (NDOC)	This appropriation is limited to the development of joint food standards, codes of practice, and guidance material for Australia and New Zealand by Food Standards Australia New Zealand in accordance with the Joint Food Standards Setting Treaty.