The Treasury

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

NEW ZEALAND
FOREIGN AFFAIRS & TRADE

BUDGET 2013

NEW ZEALAND MINISTRY OF FOREIGN AFFAIRS & TRADE (MFAT) FOUR YEAR PLAN

- **VOTE FOREIGN AFFAIRS & TRADE**
- **VOTE OFFICIAL DEVELOPMENT ASSISTANCE**

5 February 2013

1.0 Introduction

The Ministry is emerging from a substantial modernisation programme that has resulted in the development of a new Ministry Business Model (MBM).

The MBM aims to promote greater flexibility in the allocation of resources offshore to respond more quickly to international opportunities and challenges. A number of decisions have been made in the past 12 months that affect the offshore footprint. These decisions have resulted in $33.884 million of efficiency savings from 2013/14 increasing to $44.830 million from 2015/16 and out-years and are reflected in this Four-year Plan.

The Ministry has achieved significant savings to date and will continue work to identify further savings. However, in order to achieve Government objectives, such as broadening New Zealand's representation requiring resourcing new posts in strategic locations and lifting services, including the prospect of servicing a UNSC seat, an increase in baseline funding will be required for both Vote Foreign Affairs and Trade and Vote ODA from 2015/16. Specific funding requirements are under development.

2.0 Summary of Total Financial Impact

The tables below are based on the October 2012 baseline update (OBU). They reflect the Ministry's current Cabinet approved operating budget (FY12/13) and the budget baseline looking ahead for the next four years as agreed with Treasury.

A. Vote Foreign Affairs and Trade

Baseline profile – OBU 2012	2012/13 ($0.000m)	2013/14 ($0.000m)	2014/15 ($0.000m)	2015/16 ($0.000m)	2016/17 ($0.000m)
Operating expenditure – departmental	367.640	334.555	323.880	323.968	323.968
Operating expenditure – non-departmental	79.731	77.663	77.328	77.286	77.077

B. Vote Official Development Assistance

Baseline profile – OBU 2012	2012/13 ($0.000m)	2013/14 ($0.000m)	2014/15 ($0.000m)	2015/16 ($0.000m)	2016/17 ($0.000m)
Operating expenditure – departmental	58.966	55.213	55.213	55.213	55.213
Operating expenditure – non-departmental	532.930	494.945	494.945	544.945	544.945

C. Total Ministry of Foreign Affairs and Trade

Baseline profile – OBU 2012	2012/13 ($0.000m)	2013/14 ($0.000m)	2014/15 ($0.000m)	2015/16 ($0.000m)	2016/17 ($0.000m)
Operating expenditure – departmental	426.606	389.768	379.093	379.181	379.181
Operating expenditure – non-departmental	612.661	572.608	572.273	622.231	622.022

The tables below summarise the total financial impact of intended changes to medium-term intentions. Medium-term intentions are described further below.

Operating – Departmental

The following table summarises the total financial implications of planned changes and cost pressures on the departmental operations of the Ministry and the available funding for those changes.

	2012/13 ($0.000m)	**2013/14 ($0.000m)**	**2014/15 ($0.000m)**	**2015/16 ($0.000m)**	**2016/17 ($0.000m)**
Current operating expenditure baseline	426.606	389.768	379.093	379.181	379.181
Financial Implication of Planned Changes and Cost Pressures					
Financial implication arising from changes to outputs, services or deliveries: Myanmar	0	0.700	0.700	0.700	0.700
Direct employment cost pressures	0	3.296	6.658	10.115	13.966
Operational cost pressures arising from capital	0	1.873	4.648	7.024	6.302
Other operational operating cost pressures	0	2.755	5.513	8.708	11.686
Total of all changes and pressures on operating expenses	0	8.624	17.519	26.547	32.654
Funding for Changes and Cost Pressures Available From					
Operational efficiencies/reprioritisation	(6.407)	(28.884)	(31.630)	(34.830)	(34.830)
Savings arising from changes to European footprint	(2.963)	(5.000)	(7.500)	(10.000)	(10.000)
Reduction in third-party revenue	3.071	4.809	4.809	4.809	4.809
Total funds available	(6.299)	(29.075)	(34.321)	(40.021)	(40.021)
Savings required but not yet identified	-	-	-	-	-
Savings required as % of baselines	-	-	-	-	-
New Funding Sought from the Centre					
Total new funding sought	-	-	-	-	-
Savings required if new funding received	0	0	0	0	0

Operating – Non-departmental

The following table identifies that there are no financial implications or cost pressures on the non-departmental operations of the Ministry.

	2012/13 ($0.000 m)	2013/14 ($0.000 m)	2014/15 ($0.000 m)	2015/16 ($0.000 m)	2016/17 ($0.000 m)
Current operating expenditure baseline	611.661	572.608	572.273	622.231	622.022
Financial Implication of Planned Changes and Cost Pressures					
Financial implication arising from changes to outputs, services or deliveries	0	0	0	0	0
Total of all changes and pressures on operating expenses	0	0	0	0	0
Funding for Changes and Cost Pressures Available from					
Operational efficiencies/reprioritisation	0	0	0	0	0
Total funds available	0	0	0	0	0
New Funding Sought from the Centre					
Total new funding sought	0	0	0	0	0
Savings required if new funding received	0	0	0	0	0

Capital expenditure

The following table summarises the total financial implications of planned changes and cost pressures on the departmental capital operations of the Ministry and the available funding for those changes.

	Increase/(Decrease)				
Departmental Expenditure	**2012/13 ($0.000m)**	**2013/14 ($0.000m)**	**2014/15 ($0.000m)**	**2015/16 ($0.000m)**	**2016/17 ($0.000m)**
Opening balance funding available	**115.316**	**115.399**	**67.921**	**50.185**	**45.012**
Depreciation funding	21.259	23.132	25.907	26.583	25.961
Sale of assets	28.300	0.300	0.300	0.300	0.300
Other (Capital injections)	-	-	20.000	-	-
Total baseline funding available (a+b+c+d)	**164.875**	**138,831**	**114.128**	**77.068**	**71.273**
Capital funded from baselines	49.476	70.910	63.943	32.056	26.630
New capital funding sought	0	0	0	0	0
Closing baseline funding available	**115.399**	**67.921**	**50.185**	**45.012**	**44.643**

Major departmental investments to be funded from baselines from 2012/13 to 2016/17

All capital projects can be funded from within baseline and no capital projects have a whole-of-life cost of over $25 million.

Name	10-year capex ($m)	10-year opex ** ($m)	Project commence Year	Driver	Description	Benefits
1. Beijing – Owned Chancery and Official Residence rebuild	20.000	8.495	2011/12	• Capacity constraints. • Asset has exceeded its useful economic life.	Rebuild of Beijing - chancery and official residence. (Currently in concept design stage)	Long term fit for purpose NZ Inc asset in key strategic location. Hedge against increasing rents.
2. Paris – Replace Official Residence	12.000	2.150	2012/13	• Avoid costly refurbishment programme and increasingly high cost of maintenance.	Replace current Official Residence with lower cost property. (Currently at planning stage)	Long term fit for purpose asset. Reduce total cost of ownership.
3. New Delhi – Compound refurbishment / construction	11.500	4.945	2012/13	• Infrastructure has exceeded its useful economic life. • Optimise use of land to deliver long term cost savings.	Redevelopment of New Delhi infrastructure, chancery and staff housing on leased compound	Long term fit for purpose NZ Inc asset in key strategic location. Intensification of land use provides hedge against increasing rents.

**** Includes depreciation and excludes capital charge**

3.0 Medium-term Intentions

The following suite of medium-term intentions illustrates some key areas of focus for the Ministry over the next 12-18 months.

Summary of Medium-term Intentions

Intention		Type of Action	Success measures
A	UN Security Council: 2014 election and 2015/16 term on Council.	change	NZ serves a successful term on the UNSC in 2015/16, reforming Council working methods, strengthening the multilateral system and building NZ's international reputation.
B	FTA Agenda: Targeting of resource to complete existing negotiations, and in particular Trans-Pacific Partnership and new Regional Comprehensive Economic Partnership (East Asia). Focus will shift over time from negotiation to implementation.	change (resource deployed to different negotiations at different times)	Increased coverage of FTAs[1], achieving highest possible level of ambition. Increased utilisation of FTAs by NZ businesses.
C	Myanmar: Strengthened bilateral relationship, including establishment of diplomatic presence in Yangon, aid programme, and interactions with government.	new	NZ's actions support and encourage Myanmar's democratisation, and enable pursuit of emerging economic and other opportunities in that country.
D	Europe: Reshaping of diplomatic footprint.	change	Diplomatic footprint in Europe reshaped, costing $10m less p/a, and demonstrably delivering for NZ.
E	New Zealand Aid Programme: Strategic prioritisation with increased focus on partnerships and results.	change	Sharpened focus of NZ Aid Programme delivers fewer, larger, deeper and more strategic contributions with priority on sustainable economic growth in the Pacific. Partnerships are leveraged to increase impact of NZ assistance. Measurable results clearly demonstrate effectiveness and increase accountability of NZ Aid Programme.

[1] Currently 46% of our exports go to countries with which we have concluded FTAs.

Summary of financial implications from medium-term intentions[2]

Financial implications arising from changes to outputs, services or deliveries	2012/13 ($0.000m)	2013/14 ($0.000m)	2014/15 ($0.000m)	2015/16 ($0.000m)	2016/17 ($0.000m)
Operating impact – departmental	(2.963)	(4.300)	(6.800)	(9.300)	(9.300)
Operating impact – non-departmental	-	-	-	-	-
Capital impact – departmental	-	-	-	-	-

Summary of new funding sought from the centre

Value of new funding sought	2012/13 ($0.000m)	2013/14 ($0.000m)	2014/15 ($0.000m)	2015/16 ($0.000m)	2016/17 ($0.000m)
Operational expenditure – departmental	0	0	0	0	0
Operational expenditure – non-departmental	0	0	0	0	0
Capital expenditure – departmental	0	0	0	0	0

4.0 Cost pressures

DEPARTMENTAL EXPENDITURE

Around 52% of the Ministry's operating costs are incurred offshore. The Ministry is exposed to the cost pressures associated with the labour markets both in New Zealand and within each country of representation. The Ministry is also exposed to the cost pressures associated with property markets offshore for its leased offices and staff accommodation. All of these costs are also exposed to foreign exchange risk.

The key drivers of cost within the Ministry are people (50%) and property and infrastructure (37%), which together account for 87% of the total budget. We estimate that the costs of running the Ministry, with its current structure and offshore network, will increase by $25.6 million over the budget period. [9]

In addition, services the Ministry provides on behalf of other New Zealand agencies are changing as both MFAT and some agencies change their offshore business models. Depending on the scale of implementation of other agencies changes, the Ministry may lose up to $7 million per annum in revenue. The revenue includes recovery of fixed costs such as infrastructure and accommodation

[2] Savings identified reflect financial implications from medium-term intentions. The net savings will contribute to the efficiency dividend funding reduction and to the wider spectrum of change within the overall plan as part of implementing the Ministry Business Model.

costs. The loss of revenue will mean that these fixed costs will need to be met by the Ministry in the medium term until steps can be taken to reduce these costs.

NON-DEPARTMENTAL EXPENDITURE

Potential cost drivers in respect of Vote Official Development Assistance (ODA) non departmental expenditure are New Zealand's indicative bilateral commitments, multilateral and regional commitments, and the need to respond to humanitarian issues and provide disaster relief. The expenditure is allocated across 24 programmes within the baseline. The programmes are communicated to bilateral and multilateral partners on a three year indicative time frame; enabling them to prioritise and undertake long term planning. The Ministry is focused on improving aid effectiveness, and ensuring efficient delivery of assistance.

Current cost estimates are based on assumptions around foreign exchange rates, current indicative multilateral/regional agency demands, the estimated price of delivery and New Zealand's estimated commitments to possible disasters. However unforeseen events could result in increased costs, for example if there were increases in multilateral agency commitments (e.g., World Bank and Asian Development Bank) or international organisation subscriptions United Nation peace building contributions, or if there were negative movements in foreign exchange rates or significant unexpected humanitarian crises or disasters. These would need to be referred to Cabinet in the event that there was not sufficient baseline to meet them without impacting other priorities.

Baseline Movements 2012/13 to 2016/17

Baseline Movements: DEPARTMENTAL

The Ministry's five year forecasts show that there is some room for new operational initiatives in the short to medium term, and challenges beyond that. Operational initiatives will include changes to the overseas network; where these become an on-going additional cost we will continue to ensure that the Ministry can meet the costs in out-years through regular evaluation of its business model and reallocation of resources in its offshore network, consistent with changing priorities.

Significant movement in the baseline over the next four years is a downward trend, from $426.606 million in 2012/13 to $379.181 million in 2016/17, a reduction of $47.181 million. The reductions mainly relate to the one off expense transfers totalling $32.750 million into 2012/13, the efficiency dividend savings reducing the baseline by $19.825 million per annum over the next two years and totals $23.825 million per annum on-going from 2014/15. In addition 2012/13 included one off savings of $10 million given up in Budget 2011. Other changes are mainly the result of technical adjustments for CPI and foreign exchange movements totalling $4.810 million. The Ministry will however take every opportunity for one off funding transfers between years arising from operational savings.

While the Ministry is well placed to manage demands on its resources within baseline funding in the short term, after 2014/15 this will become progressively more difficult especially as inflationary pressures alone add up to around $10 million per annum. While the Ministry will continue work to identify further savings there is a risk that those savings will be insufficient and an increase in baseline funding will be required in departmental expenditure from both Vote Foreign Affairs and Trade and Vote ODA in the future.

Baseline Movements: NON-DEPARTMENTAL

Non-Departmental expenditure in **Vote ODA** is now structured under two multi-year appropriations totalling $1.523 billion over three years from 2012/13 to 2014/15. Beyond that the baseline for the following three years will total $1.635 billion from 2015/16 to 2017/18. The annual total of $532.930 million in 2012/13 includes the under-spend of $33.817 million, and $4.168 million for the Sustainable Development Fund transferred from 2011/12.

Vote ODA Non-Departmental appropriations were restructured from 2012/13 to ensure efficient and effective delivery, by enabling enhanced flexibility and allowing for reprioritisation to achieve Government objectives within existing baselines. It also enables reprioritisation of programmes within the broader Aid Programme - between countries and between years - if there are changes in the timing of expenditure or in priorities. Despite significant and growing international pressure, Vote ODA has a flat baseline over the next two years of $440.158 million per annum. The Government remains committed to increasing Aid Development expenditure to at least $600 million per annum from 2015/16 as reflected in the OBU baselines for Vote ODA. However, in order to maintain international credibility for New Zealand, it is judged that the ODA spend will need to rise to a figure in the order of $625 million in 2015/16.

In **Vote FAT** the only significant movement is a one off increase in 2012/13 for Climate Change transferred from 2011/12, other changes are minor and reflect forecasting changes relating to UN peacekeeping missions budget assessments.

5.0 Organisational Capability and Workforce

In addition to the reduction in Corporate Services staff, the Ministry is now downsizing IT, HR, Communications and Property functions. As at 30 June 2012, the Ministry had a 'back office' to 'front office' ratio of 31% / 69%. That is targeted to shift to 21% / 79% by the end of the 2012/13 financial year as the Ministry aims for a top quartile in performance in this area across government.

Workforce pressures will be carefully monitored and addressed through better prioritisation and resource allocation, and through greater reliance on skilled locally engaged staff to meet post resourcing requirements. There will also be a focus on lifting leadership and management capability within the Ministry and developing a stronger career development pipeline.