



13 December 2007

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T2007/2344

Minister of Foreign Affairs

For action by 17 December 2007

Minister of Finance

For action by 17 December 2007

MFAT 2008/09 - 2012/13 BUDGET BID

Submission: Issues

Purpose: To provide an update on discussions between MFAT and The Treasury on the Ministry's New Initiatives bid for Budget 2008 "Response to Foreign and Trade Policy Challenges"

Comments: Budget Sensitive

Recommended Referrals

Minister of Trade

For information by 20 December 2007

Prime Minister

For information by 20 December 2007

Contacts

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

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

Minister's Office Comments

Signed / Noted / Referred / Agreed / Approved

Date: ___/___/___

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Key Points

On 28 August the Secretary of Foreign Affairs and Trade submitted a detailed business case to the Minister of Foreign Affairs proposing a “step change increase in the Ministry’s baseline resource over the next five years” to:

- enable it to maintain current capacity and capability in an environment of rising costs, and
 - respond to challenges in key areas by lifting the tempo and capability of New Zealand’s diplomatic engagement at home and abroad.
- On 31 October, the Minister of Finance and the Minister of Foreign Affairs agreed on a funding package to respond to this proposal, i.e. \$523m for operating expenditure and \$98m for capital expenditure for Vote: Foreign Affairs and Trade over the five years beginning 2008/09.
 - Officials of The Treasury and the Ministry have developed a funding path approach for implementing the funding increase:
 - A mix of baseline appropriations and a contingency for between-Budget spend in Budget 2008
 - A set of pre-commitments against Budgets 2009 - 2012
 - The details of this funding path will be agreed in the 2008 Budget bilateral before approval by Cabinet and inclusion in the Estimates and Economic and Fiscal Update.
 - The Minister of Foreign Affairs has indicated he wishes to start signalling in speeches from February 2008 the need for new investment in New Zealand’s international engagement – including the opening of new overseas posts – to meet the key foreign and trade policy challenges facing New Zealand. He will discuss this issue separately with the Minister of Finance.
 - No public reference to the size and nature of the package will be made until after Cabinet has taken its formal decisions on Budget 2008.

Recommendations

It is recommended that you:

- | | | |
|---|---|----------|
| 1 | Note that the Minister of Finance and Minister of Foreign Affairs agreed on 31 October that the total amount of new funding for the Ministry and the agencies funded from Vote: Foreign Affairs and Trade over the next five years should be \$523m operating and \$98m capital | Yes / No |
|---|---|----------|

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- 2 Note that part of the package is to allow the Ministry to maintain current capability and capacity in an environment of rising costs, and part is to increase the tempo and capability of New Zealand's diplomatic engagement on key issues and areas Yes / No
- 3 Note that officials have developed a funding mechanism that provides for some of the funding envelope to be appropriated and the balance to be approved as a pre-commitment against future budgets over the five year period Yes / No
- 4 Note that officials will report on the details of the proposed funding path at your budget bilateral early next year. Yes / No
- 5 Note that the Minister of Foreign Affairs proposes to discuss a communications strategy with the Minister of Finance, including the possibility of signalling in speeches from February 2008 the need for additional investment in New Zealand's international diplomatic engagement and offshore footprint – including the opening of new overseas posts. Yes / No

Simon Murdoch
Secretary of Foreign Affairs and Trade

John Whitehead
Secretary to the Treasury

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Report

On 28 August the Secretary of Foreign Affairs and Trade submitted a detailed business case to the Minister of Foreign Affairs proposing a “step change increase in the Ministry’s baseline resource over the next five years” to:

- enable it to maintain current capacity and capability in an environment of rising costs, and
- respond to challenges in key areas by lifting the tempo and capability of New Zealand’s diplomatic engagement at home and abroad.

2 This bid builds on the Ministry’s new initiatives budget bid submitted in the 2007/08 Budget process and for which a fiscal risk was formally noted.

3 On 31 October, the Minister of Finance and the Minister of Foreign Affairs agreed on a funding package of \$523m for operating expenditure and \$98m for capital expenditure for Vote: Foreign Affairs and Trade over the five years beginning 2008/09. The package will also cover all funding requirements of the agencies funded from the Vote over the same period i.e. New Zealand Antarctic Institute, Asia New Zealand Foundation, and Pacific Cooperation Foundation. It does not include NZAID funding.

4 The Ministry’s budget bid comprises two parts: **Maintaining Organisation Capability** and **Deepening Operational Capacity** (including flow-on costs from capital injection). The former addresses uncontrollable price increases but represents a “standing still” state with no extra capacity for increasing the tempo and capability of New Zealand’s international engagement. The latter addresses the new investment required to respond to the challenges detailed in the full business case. The specific outcomes to be pursued with this funding will be reflected in the 2008 budget documentation.

5 The challenges and argumentation articulated in the 29 August business case in essence boil down to risks and opportunities for New Zealand around:

- i. increasing stresses and instabilities in the Pacific
- ii. the dangers of exclusionary regionalism
- iii. a more intense bilateral and plurilateral trade agenda
- iv. the urgency of building new markets and economic networks
- v. pressures and enforceability of rules around resource diplomacy
- vi. meeting public expectations of rapid responses to crises

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6 The response that the Ministry proposes, and has sought funding for, is to deliver more across the following four outcomes:

- a Safeguarding New Zealand's Security Interests
- b Advancing Sustainable Economic Growth
- c Promoting Transboundary Solutions and Effective International Rules
- d Protecting New Zealanders Abroad.

7 Officials have developed a funding mechanism for implementing the five-year funding package. It consists of a mix of baseline appropriation and pre-commitment for each of the five years. Provision will also be made for a contingency for any between Budget spending.

8 The split between appropriation and pre-commitment will allow the flexibility to adjust planning in light of changes in the operating environment. It is envisaged that in the current budget year, the specific contingency would be drawn down as required, with Cabinet (and the Vote Minister) agreement.

9 Officials are continuing to discuss the details of a phased funding path. Their final proposal will be brought to Ministers for the budget bilateral and reporting in the 2008 Budget documentation.

10 The fiscal risk noted in the 2007/08 Budget has already been the subject of parliamentary and public enquiry and a communications strategy is desirable. The Minister of Foreign Affairs has indicated his wish to start signalling in speeches from February that additional investment – including the opening of new overseas posts – is required if New Zealand is to respond to the rising number of risks and opportunities in the international environment, eg climate change, intensifying trade negotiating agenda, widening instabilities in the Pacific, growing pace of regional integration in Asia, and threats of proliferation and terrorism. The Minister proposes to raise this issue separately with the Minister of Finance.

Consultation MFAT/NZAID

11 Although this bid is quite separate from the multiyear funding increase approved last year for NZAID and there is no direct impact upon activities funded under Vote: Official Development Assistance, NZAID's Executive Director has been fully consulted at every stage of the development of this proposal.

Consultation MFAT/EAB

12 Not required.