

# The Treasury

## Budget 2011 Information Release

### Release Document

June 2011

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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.

The Chair  
CABINET ECONOMIC GROWTH AND INFRASTRUCTURE COMMITTEE

**VOTE ECONOMIC DEVELOPMENT: NEW ZEALAND TRADE AND ENTERPRISE OUTPUT CLASS REVIEW**

**PROPOSAL**

- 1 This paper proposes a new appropriation structure for the Non-Departmental Output Expenses in Vote Economic Development that are used to purchase outputs from New Zealand Trade and Enterprise (NZTE). The proposed changes would take effect from 1 July 2011.

**EXECUTIVE SUMMARY**

- 2 The proposed new output class structure allocates NZTE's Non-Departmental Output Expenses across three new output classes:
  - Business Capability Building Services;
  - International Business Growth Services; and
  - Services to Support Sector Development and Special Events.
- 3 The proposed new structure improves transparency and gives NZTE flexibility to respond to Government priorities, in particular the science, innovation and trade driver. It will be supported by enhanced performance measures that will enable NZTE to better manage the taxpayer's investment and monitor the effectiveness of its economic development programmes.
- 4 The proposed changes to NZTE's output class structure are fiscally neutral.
- 5 No changes are proposed to the grants and awards within the Vote Economic Development Non-Departmental Other Expenses for NZTE.

**BACKGROUND**

- 6 In the 2010/2011 Letter of Expectations to NZTE's Chairman, Ministers agreed in principle to three priority areas for the organisation:
  - business capability development;
  - international engagement; and
  - major events and projects.
- 7 Outputs contributing to these priority areas are currently spread across six<sup>1</sup> output classes. This makes managing for outcomes and reporting more difficult. This was

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<sup>1</sup> From 1 July 2011 the output classes reduce in number to five as the Shanghai Expo activity ceases on 30 June 2011.

highlighted in the 2009 Review of Business Assistance. The review recommended that the Ministry of Economic Development (MED), NZTE and Treasury report back to Ministers on a modified output class structure that better reflects what is being purchased under the sector engagement output. The findings of the 2009 review were reinforced by a recently completed MED-led evaluation of *Output Class 2 – Regional and Sector Development Services*.

- 8 In 2010, MED reviewed NZTE's output class structure, in conjunction with NZTE and the Treasury.
- 9 The review took into account changes to policy, operating and service delivery models, programmes, Ministerial expectations and Government priorities since the last output class review in 2007. It did not consider the Non-Departmental Other Expenses that NZTE administers as business assistance grants. No changes are proposed for the grants and awards that fall within the Non-Departmental Other Expenses for NZTE.

#### PROPOSED NZTE OUTPUT CLASS STRUCTURE

- 10 As a result of the 2010 output class review referred to above, a new output class structure is proposed. The three output classes proposed in the new output structure reflect the Government's priorities for NZTE, and contribute to the science, innovation and trade driver through:
  - better business innovation
  - smarter capital – improving the flow of outward direct investment and foreign direct investment
  - stronger international connections
  - joined-up public investment – co-ordinating with government research and development organisations.
- 11 The objectives for the output classes are described below.
  - *Output Class 1 Business Capability Building Services*: To develop business and management capability to improve individual firm and wider business performance and generate economic benefits for New Zealand;
  - *Output Class 2 International Business Growth Services*: To assist firms to develop and grow their international business and exports to generate economic benefits for New Zealand; and
  - *Output Class 3 Services to Support Sector Development and Special Events*: To support key sector initiatives and special events that can provide significant economic benefits for New Zealand.
- 12 The objectives will be in the Estimates for Budget 2011. They may be modified in subsequent years to align with changing government priorities.
- 13 The proposed scope of activities to be funded from each output class is set out in Table 1 below. The proportion of appropriation under Vote Economic Development in each output class reflects government priorities and the role of NZTE in supporting the Government's wider economic agenda.

**Table 1: Proposed scope of activities**

Output Class 1: Business Capability Building Services	Output Class 2: International Business Growth Services	Output Class 3: Services to Support Sector Development and Special Events
<p>Scope:</p> <p>This appropriation is limited to building and enhancing business and management capability through providing access to effective assessment, advice, training, mentoring and information.</p>	<p>Scope:</p> <p>This appropriation is limited to helping firms export and internationalise by identifying and exploiting market and investment opportunities; overcoming internationalisation barriers; providing customised advice and support; and enabling access to international business networks.</p>	<p>Scope:</p> <p>This appropriation is limited to securing and capitalising on significant economic development opportunities for New Zealand, with a focus on sectors and special events.</p>
Total appropriation \$16.7m	Total appropriation \$104.2m reducing to \$102.0m in outyears	Total appropriation \$30.9m reducing to \$26.9m in outyears

*Output Class 1: Business Capability Building Services*

- 14 Goods and services in this output class will generally support small to medium enterprises (SMEs) with growth potential that may have aspirations to break into the global market or to add value in the supply chain of large firms. It aims to help overcome information problems and transaction costs for SMEs in sourcing advice and expertise. Outputs will generally, but not exclusively, be delivered through the new Regional Partners Network or other third party providers.

*Output Class 2: International Business Growth Services*

- 15 Goods and services in this output class will generally support individual firms to develop their capability to grow internationally. It aims to overcome barriers to internationalisation and facilitate investment opportunities. Outputs will generally be delivered through staff in NZTE's onshore and offshore offices.

*Output Class 3: Services to Support Sector Development and Special Events*

- 16 Goods and services in this output class will generally focus on NZTE working with groups of firms, sectors and with other government agencies on projects and activities that capitalise on significant economic growth opportunities for New Zealand. Promoting New Zealand business capability offshore is a significant aspect of activity in this output class. Activities in this output class focus more on collaborative ventures (for example, to build scale in a sector) and improving coordination in sectors, regions (such as Auckland) or events (for example, Rugby World Cup 2011). These activities aim to deliver benefits to the wider economy (spillovers).
- 17 A comparison of the proposed new output class structure with the current one is set out in Appendix 1.
- 18 The proposed new structure:
- improves transparency, by grouping goods and services that are similar in nature;
  - gives NZTE flexibility to respond to the evolving policy environment, Ministerial expectations and Government priorities;
  - more accurately reflects NZTE's priorities agreed with responsible Ministers; and
  - is aligned with the Government's science, innovation and trade driver.

- 19 Cabinet approval is sought to establish the three new appropriations, agree the respective scope statements and the re-configure of NZTE's outputs into the three new output classes. All proposed changes are fiscally neutral. There are no changes to government policy, or the cost, outcomes and delivery of any outputs by either NZTE or third parties as a result of the new output class structure.

#### PERFORMANCE MEASURES

- 20 NZTE and MED have completed initial work on NZTE's performance measures to ensure they align with the new output class structure. These are presented in Appendix 2. Some of the performance measures have been finalised and will be included in the Estimates for Budget 2011. Others are under development for implementation in 2011/12 or 2012/13.
- 21 The performance measures are intended to provide information on:
- the quantity and cost of NZTE services to businesses;
  - the quality of NZTE's services and programmes; and
  - the impact of NZTE's services on business performance.
- 22 The proposed new performance measurement framework will better enable value for money to be assessed and reported. It will also enable NZTE to more readily determine the contribution of its activities to Government priorities.

#### *Further work*

- 23 NZTE, in consultation with other agencies, will engage in further work to progress the performance measures in the coming months. It recognises that decision making is supported by having a set of effective measures. NZTE will adhere to the following in undertaking the additional work.
- Align reporting and management measures to capture data once and use for multiple purposes.
  - Focus performance measures on NZTE's core business.
  - Create a set of performance measures to support a clear line of sight from NZTE's outputs through to the Government's goals.
  - Ensure robust processes and systems are in place to gather and analyse data.
  - Develop performance measures from the top-down, but capture data from the bottom-up allowing granular data to aggregate to organisation-level measures.
  - Join up measurement, planning, budgeting and organisation improvement systems.
  - Maintain a focus on performance improvement.
- 24 Particular attention is being paid to how direct economic impact is measured, including spillovers to firms and to the wider economy. The direct economic impact model has been developed in consultation with MED, and will be tested and refined over the next 12 months. Case studies will be undertaken and reported on in NZTE's 2011/12 Annual Report.
- 25 NZTE is being assessed under the State Services Commission-led Performance Improvement Framework (PIF). It is also undertaking an independent review of its activities led by private sector leaders within the successful Better by Design programme.

These processes will inform further enhancements to NZTE's suite of performance measures for inclusion in the 2011–2014 Statement of Intent.

- 26 I have directed officials to report to me, the Minister of Trade and the Minister of Finance by 30 June 2011 on a finalised set of the performance measures for 2011/12, as part of the response to the findings of the PIF process.

#### **CONSULTATION**

- 27 MED, NZTE and The Treasury reviewed NZTE's output class structure. The Ministry of Foreign Affairs and Trade and the Ministry of Science and Innovation were consulted. There is broad support across all these agencies for the proposed NZTE output class structure and performance measurement framework in this paper.
- 28 Audit New Zealand, the Office of the Audit-General and the Department of Prime Minister and Cabinet have been informed.

#### **FISCAL IMPLICATIONS**

- 29 The changes outlined in this paper are fiscally neutral.

#### **HUMAN RIGHTS, LEGISLATIVE AND REGULATORY IMPLICATONS**

- 30 There are no human rights, legislative or regulatory implications.

#### **PUBLICITY**

- 31 None required.

## RECOMMENDATIONS

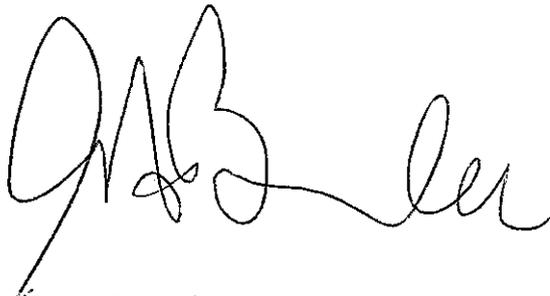
32 It is recommended that the Committee:

- 1 **Note** that a new appropriation structure for Non-Departmental Output Expenses in Vote Economic Development will be used to purchase outputs from New Zealand Trade and Enterprise.
- 2 **Note** that the proposed changes are fiscally neutral and that there are no changes proposed to government policy, cost, outcomes or delivery of any outputs by either New Zealand Trade and Enterprise or third parties as a result of changes proposed to the output class structure.
- 3 **Note** that new output class structure provides a clearer focus for New Zealand Trade and Enterprise's operations and better flexibility to respond to Government priorities.
- 4 **Note** that an initial set of performance measures has been developed to align with the new output class structure. These may be adjusted as a result of recommendations from the State Services Commission-led review under the Performance Improvement Framework.
- 5 **Note** that I have directed the Ministry of Economic Development and New Zealand Trade and Enterprise to report to me, the Minister of Trade and the Minister of Finance on New Zealand Trade and Enterprise's 2011/12 performance measures by 30 June 2011 as part of the response to the findings of the Performance Improvement Framework process.
- 6 **Agree** to establish new Non-Departmental Output Expense appropriations in Vote Economic Development, to purchase outputs from New Zealand Trade and Enterprise, with the following output class titles and scope statements to be included in the Estimates of Appropriations for Budget 2011:

Output Class	Scope Statement
Business Capability Building Services	This appropriation is limited to building and enhancing business and management capability through providing access to effective assessment, advice, training, mentoring and information.
International Business Growth Services	This appropriation is limited to helping firms export and internationalise by identifying and exploiting market and investment opportunities; overcoming internationalisation barriers; providing customised advice and support; and enabling access to international business networks.
Services to Support Sector Development and Special Events	This appropriation is limited to securing and capitalising on significant economic development opportunities for New Zealand, with a focus on sectors and special events.

- 7 **Approve** the following fiscally neutral transfers with no impact on the operating balance:

Vote Economic Development Minister for Economic Development	\$m – increase/(decrease)			
	2011/12	2012/13	2013/14	2014/15 and Outyears
Non-Departmental Output Expense : Standardised Training and Advisory Services	(15.415)	(15.415)	(15.415)	(15.415)
Non-Departmental Output Expense : Regional and Sector Development Services	(35.074)	(33.074)	(31.074)	(31.074)
Non-Departmental Output Expense : Analysis and Development Services for Firms	(16.198)	(16.198)	(16.198)	(16.198)
Non-Departmental Output Expense : Identification and Coordination of International Market Opportunities	(71.464)	(69.004)	(69.003)	(69.003)
Non-Departmental Output Expense : International Investment Facilitation Services Expenses	(13.629)	(13.629)	(13.629)	(13.629)
Non-Departmental Output Expense : Business Capability Building Services	16.659	16.659	16.659	16.659
Non-Departmental Output Expense : International Business Growth Services	104.225	101.765	101.764	101.764
Non-Departmental Output Expense : Services to Support Sector Development and Special Events	30.896	28.896	26.896	26.896
Total Operating	-	-	-	-

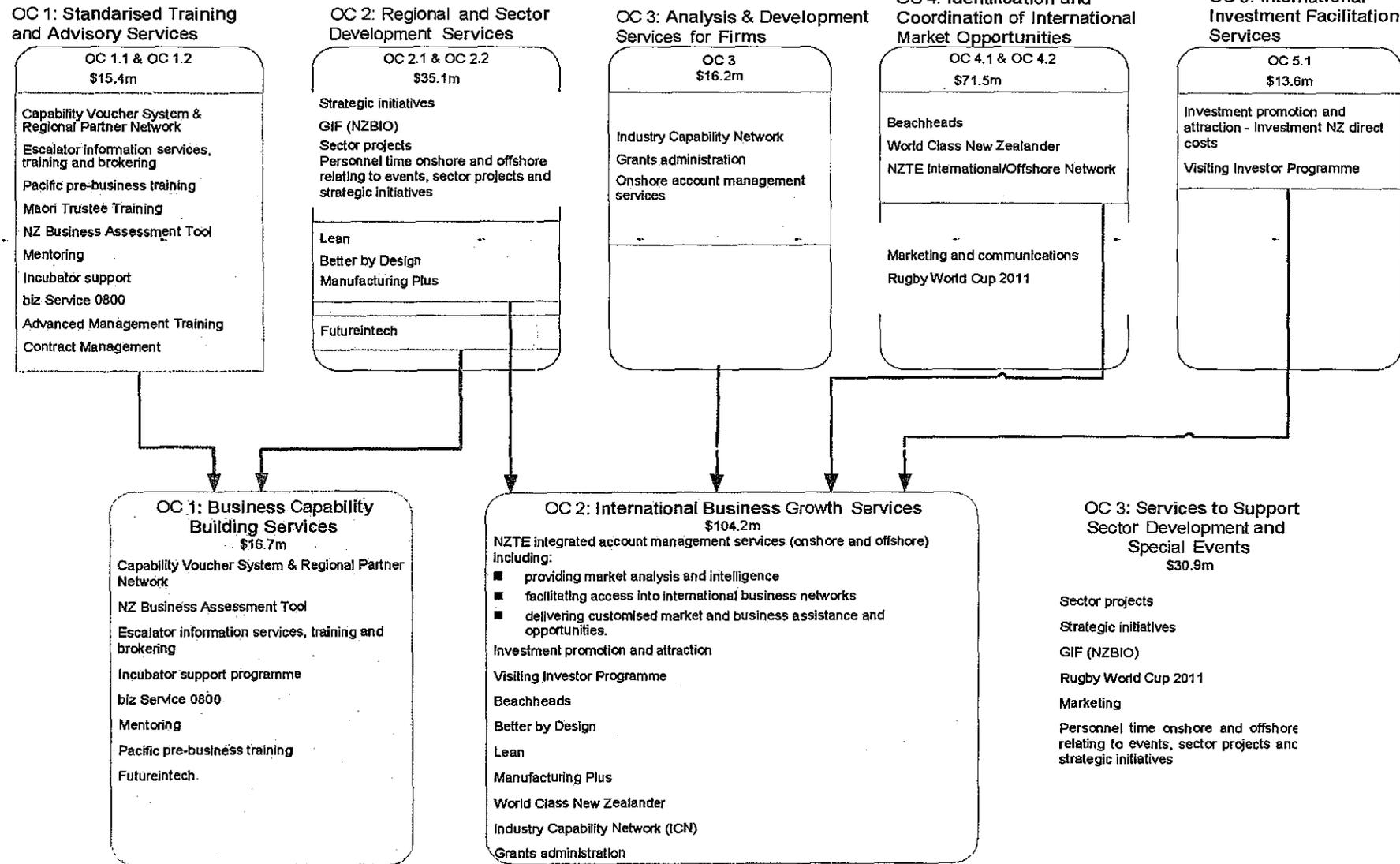


Hon Gerry Brownlee  
Minister for Economic Development

Date signed: 17/02/2011

### Appendix 1: Comparison of the proposed output class structure with the current structure

Diagram 1: Outputs and spend from the current NZTE output class structure mapped across to the proposed NZTE output class structure (effective from 1 July 2011)



OC6 - Shanghai Expo (\$5m) for 2010/11 has been excluded from this mapping diagram as the activity is not continued in 2011/12



## Appendix 2: Initial output class performance measures and their use

### ***Business Capability Building Services***

Objective – To develop business and management capability to improve individual firm and wider business performance and generate economic benefits for New Zealand

<b>Performance measures</b>	<b>Timetable for further work</b>	<b>Intended impacts and use of performance measures</b>
<p><i>Efficiency – average of service cost at a given service quality</i></p> <p><b>Quantity</b></p> <p>A. Number of firms receiving business development services<sup>2</sup></p> <p><b>Average service cost</b></p> <p>B. [Average NZTE cost of services per business receiving support]</p> <p><b>Service quality</b></p> <p>C. [Percentage of NZTE client firms reporting services provided as being excellent, very good or good]</p>	<p>Estimates 2011/12 – March</p> <p>Under development for 2011–14 SOI by June 2011</p> <p>Under development for 2011–14 SOI by June 2011</p>	<p><u>Impacts</u></p> <p>The intended impacts include and are not limited to assisting firms to have:</p> <ul style="list-style-type: none"> <li>• more sustained business development and growth</li> <li>• improved business management and other business capabilities</li> <li>• improved business networks</li> <li>• improved access to training and other business support services</li> <li>• reduced costs for business when complying with or using government processes and services.</li> </ul> <p><u>Use of performance measures</u></p> <p>The intended use of these measures is for NZTE to better understand the cost, quality and value of their services to firms. NZTE can then make internal process efficiencies and improve service quality. MED will use the same measures to monitor performance.</p>
<p><i>Effectiveness – service impacts on firms and economy</i></p> <p>D. [Percentage of firms that indicate they have or intend to implement (business improvement) change, as a result of the business development service received.]</p>	<p>Under development for 2011–14 SOI by June 2011</p>	

<sup>2</sup> Business development services include: training, mentoring, business assessments and action plan development. NZTE services currently contributing to this measure are Regional Business Partner Network, Management Capability Voucher Scheme, Escalator, Pacific Pre-business Training, Advanced Management Training (Global Mindset Leadership), Path to Market, Mentoring, and Incubators.

### International Business Growth Services

Objective – To assist firms to develop and grow their international business and exports in order to generate economic benefits for New Zealand.

Performance measures	Timetable for further work	Intended use and impacts
<p><i>Efficiency – average of service cost at a given quality</i></p> <p><b>Quantity</b></p> <p>A. Number of firms assisted to internationalise<sup>3</sup></p> <p>B. Number and value of potential investment deals with NZTE involvement</p> <p><b>Average service cost</b></p> <p>C. [Average cost of each service per firm supported]</p> <p><b>Quality</b></p> <p>D. Percentage of firms describing NZTE services or programmes as excellent, very good or good.</p>	<p>Estimates 2011/12 – March</p> <p>Estimates 2011/12 – March</p> <p>Under development for 2012/13</p> <p>Estimates 2011/12 – March</p>	<p><b>Impacts</b></p> <p>The intended impacts include and are not limited to assisting firms to:</p> <ul style="list-style-type: none"> <li>• improve business strategies for market export growth</li> <li>• grow export sales in existing markets</li> <li>• expand exports into new markets</li> <li>• attract capital and partners for growth</li> <li>• improve business efficiency</li> <li>• develop overseas distribution channels, including taking advantage of overseas investment opportunities.</li> </ul> <p><b>Use of performance measures</b></p> <p>These performance measures can be used by NZTE to determine:</p> <ul style="list-style-type: none"> <li>• the absolute and relative costs of providing the different services</li> <li>• where efforts are needed to improve service quality or service quality issues are arising.</li> </ul>
<p><i>Effectiveness – service impacts on firms and economy</i></p> <p>E. [Percentage of firms that agree or strongly agree that NZTE has added value to their business.]</p> <p>F. [Annual percentage growth and dollar value of exports for key accounts and pipeline clients who said NZTE services were very important or critical.] and/or</p> <p>G. [Number (and value) of export sales with NZTE involvement]</p> <p>H. Number and aggregate value of potential investment deals that progressed to commitment stage</p> <p>I. [Direct Economic Impact tracked and reported for</p>	<p>Under development for 2011–14 SOI by June 2011</p> <p>Under development for 2011–14 SOI by June 2011</p> <p>Under development for 2011–14 SOI by June 2011</p> <p>Estimates 2011/12 – March</p> <p>Under development for 2011–14</p>	<p>NZTE can then be in a better position to decide where to invest time in improving internal process efficiencies or making changes to improve service quality.</p> <p><b>Use of performance measures</b></p> <p>Measures F- I are critical to understanding whether NZTE's services are making a difference to firms and achieving the objective of the output class.</p> <p>As they will be reported by client segmentation (Key Account and Pipeline clients) the measures will also assist NZTE to understand which clients value different services. In turn this will assist in NZTE restructure services and direct its efforts into areas where it will have the greatest impact on achieving the output class objectives.</p> <p>These measures will also provide MED and Ministers with better information on not only the impact of firms, but also on the wider economy.</p>

approximately 10 firms]	SOI by June 2011	
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### **Services to Support Sector Development and Special Events<sup>4</sup>**

Objective – To support key sector initiatives and special events that can provide significant economic benefits for New Zealand.

<b>Performance measures</b>	<b>Timetable for further work</b>	<b>Intended use and impacts</b>
<p><i>Efficiency – average of service cost at a given quality</i></p> <p><b>Quantity</b></p> <p>A. Number of businesses and partners participating in strategic initiatives and sector projects</p> <p><b>Average service cost</b></p> <p>B. [Cost/value for money measure]</p> <p><b>Service quality</b></p> <p>C. Percentage of strategic initiatives and sector project milestones achieved</p> <p>D. [Marketing measure]</p>	<p>Estimates 2011/12 – March</p> <p>Under development for 2012/13</p> <p>Estimates 2011/12 – March</p> <p>Under development for 2011–14 SOI by June 2011</p>	<p><b>Impacts</b></p> <p>The intended impacts include and are not limited to:</p> <ul style="list-style-type: none"> <li>enhanced (compared to business-as-usual) levels and quality of inter-firm collaboration on strategic initiatives, sector projects and major events to generate economic development benefits for New Zealand</li> <li>enhanced performance (increased productivity and exports) of participant firms</li> <li>spillover benefits (e.g. specific new knowledge, skills) for other New Zealand firms from the experience of participants in strategic initiatives, sector projects and major events.</li> </ul> <p><b>Use of performance measures</b></p> <p>These performance measures can be used by NZTE for:</p> <ul style="list-style-type: none"> <li>confirming, as an input into priority setting, the absolute and relative costs of providing different services</li> <li>setting strategic priorities on the basis of comparable assessments of the value to New Zealand of the different projects.</li> </ul> <p>Measure E will provide MED and Ministers with better information on not only the impact on firms, but also on the wider economy.</p>
<p><i>Effectiveness – service impacts on firms and economy</i></p> <p>E. [Estimated net economic value to NZ tracked and reported for selected strategic initiatives and sector projects above a nominated value]</p>	<p>Under development for 2011–14 SOI by June 2011</p>	

<sup>3</sup> Data can be reported by programme, customer segmentation and market.

<sup>4</sup> Note: specific performance measures will be developed for each special event on a case-by-case basis.