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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.

Vote Agriculture and Forestry

Vote Biosecurity

Vote Food Safety

Four-Year Budget Plan

Version [1]

26 November 2010

Submitted by:

Ministry of Agriculture and Forestry

Section 1: New Baseline and Summary of Changes

Direction of Change

The Ministry of Agriculture and Forestry (MAF) and New Zealand Food Safety Authority (NZFSA) amalgamated on 1 July 2010. A major structural change to deliver full integration is scheduled for 1 February 2011.

The amalgamated organisation will develop a new organisational strategy in 2011. This will ensure the organisation has a clear high level goal, drive alignment with Government priorities, and guide ongoing cross-organisational reprioritisation. Decisions from the strategic planning process will flow through into the organisation's future Budget Plans, from 2011/12.

Further internal reorganisation is expected after 1 February 2011 to realise further gains in efficiencies and effectiveness.

Ministers have a large number of priorities for MAF (see next section). Some of these involve major change to ways of operating, and significant reprioritisation of resources. In particular:

- The Border Change Programme sets the direction for a new way of operating and managing biosecurity risks at the border. The work involves intensive border-agency collaboration and development of systems and processes that facilitate trade and tourism while managing biosecurity risks. This is a multi-year programme with a large number of initiatives. Reprioritisations are proposed in this Four-year Budget Plan to fund the Intelligence and Risk Management Organisational Design and Implementation initiative.

- There are a number of initiatives that are also transformational in the biosecurity Post-border area. The work being progressed in the Government Industry Agreements project will change the fundamental nature of the way government works collaboratively with industry on biosecurity readiness and response. Other initiatives including the Future of Pest Management (significant collaboration with regional councils, industry, other government agencies, and the public), Response Foundations (setting the framework for the end to end response system) and Future of Surveillance are aligned and constitute a different way of working in the future. These initiatives are currently being funded through baseline. Specific reprioritisation is proposed in this Four-year Budget Plan to implement the Government-Industry Agreements.

- The ongoing operation and industry partnership required under the Primary Growth Partnership has seen continuous staff resource reprioritisation from within the Policy group in MAF. As the amalgamated organisation moves into the reporting and monitoring phase, this is expected to continue.

Proposed reprioritisation

As discussed earlier, reprioritisations are proposed to fund two areas of priority:

- **Border Change Programme**
  Reprioritisation to fund the Intelligence and Risk Management Organisational Design and Implementation initiative. This will require $0.850 million per annum from 2011/12 to 2014/15. Details of reprioritisation are provided in Section 3.

- **Implementation of Government-Industry Agreements.**
  This will require $1.5 million in 2011/12 and $2 million per annum in 2012/13 and outyears. Details of reprioritisation are provided in Section 3.

Table 1: Proposed reprioritisation

Operating	**Impact ($000s)**				
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Current Baseline (all three Votes)	*567,731*	*558,199*	*548,518*	*537,940*	*521,645*
Cost of new/increased activities[1, 2]	*n/a*	*2,350*	*2,850*	*2,850*	*2,850*
Amount reprioritised	*n/a*	*(2,350)*	*(2,850)*	*(2,850)*	*(2,850)*
New baseline	*567,731*	*558,199*	*548,518*	*537,940*	*521,645*

Reprioritisation is proposed to take place within respective Votes, unlike the Budget 2010 Baseline Alignment Proposal where funding was transferred between MAF's Votes. None of the proposed changes in the table above involve movement of funding between Votes. Such movements are likely in future Budget Plans. Further reprioritisation details are available in Section 3 and Section 4 of this document.

Further Cost Pressures

There are significant cost pressures to MAF's baseline over the next four years. These pressures are discussed in detail in Section 2 of this document. A key cost pressure for MAF is an approximate 2% increase in salary costs. Increases of 2% per annum would amount to cumulative cost pressures of $3.2 million in 2011/12, $6.5 million in 2012/13, $9.8 million in 2013/14 and $13.2 million in 2014/15 across three Votes. Funding these pressures will be challenging, requiring difficult reprioritisation decisions and a strong focus on driving efficiencies.

Table 2: Further Cost Pressures

Operating	**Impact ($000s)**				
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Remuneration pressure	*NA*	*3,200*	*6,464*	*9,793*	*13,189*

[1] Border Change Programme and Government-Industry Agreements (details in Section 3)

[2] MAF has committed to make savings of $2 million per annum from amalgamation in 2010/11 and outyears, offset by costs of $3 million in 2010/11. These are not reflected in the table above. Detailed final figures on costs and savings are not expected to be known until February 2011 at the earliest. Changes to appropriations reflecting costs and savings for 2010/11 required for the 2010/11 year will be reflected in MBU 2011. However, the impact of savings in the 2011/12 year and outyears are most is likely to be included in OBU 2011.

Capital proposals

MAF will be working with Customs to develop the business case for Tranche 2 of JBMS for Budget 2012. MAF expects to be seeking capital funding of $1,429m in the 2012/13 year, $3,275m in the 2013/14 year and $2,323m in the 2014/15 year.

Table 3: Capital proposals

Capital	**Impact ($000s)**				
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Capital proposals seeking decisions in Budget 2011	*NOT APPLICABLE*				
Capital proposals seeking new funding in Budget 2011.					

Overall Impact

MAF's total baseline operating expenditure for 2010/11 is made up of:

- Departmental Output Expenses – 57.3%
- Non-Departmental Output Expenses – 24.2%
- Non-Departmental Other Expenses – 18.3%
- Benefits and other unrequited expenses – 0.2%

See below for a further breakdown.

Table 4: MAF's Baseline operating expenditure breakdown for 2010/11

	Vote Agriculture and Forestry	**Vote Biosecurity**	**Vote Food Safety**	**Total**
Total Baseline	**256,185**	**211,421**	**100,125**	**567,731**
Departmental Output Expense	72,201	155,326	97,975	325,502
Non-Departmental Output Expense[3]	106,555	30,765	-	137,320
Non-Departmental other expense[4]	76,329	25,330	2,150	103,809
Benefits and other unrequited expense	1,100	-	-	1,100

[3] Includes additional Tb funding approved by Cabinet on 29 November 2010 in Vote Biosecurity.

[4] Includes $25m in 2010/11 for Pseudomonas syringae pv. Actinidiae (Psa) response in Vote Biosecurity.

Table 5: MAF's funding breakdown for 2010/11

	Vote Agriculture and Forestry	Vote Biosecurity	Vote Food Safety	Total
Total funding	**277,316**	**211,421**	**103,150**	**591,887**
Departmental Output Expense	**72,201**	**155,326**	**101,000**	**328,527**
Crown	70,111	119,651	34,288	224,050
Third Party	2,090	35,675	66,712	104,477
Non-Departmental Output Expense	**205,115**	**56,095**	**2,150**	**263,360**
Crown	87,784	56,095	2,150	146,029
Third party sale of forest produce	113,997	-	-	113,997
Third party - other	3,334	-	-	3,334

Section 2: Vote Priorities and Pressures

1. What we intend to achieve over the next four years.

<u>Priorities for Vote Biosecurity and Vote Agriculture and Forestry</u>

The Minister of Agriculture, Forestry and Biosecurity has proposed the following priorities to the Prime Minister (the wording below is quoted from the Minister's letter):

- ***Water Policy and Infrastructure***

  Developing water infrastructure is crucial for increasing the productivity of the agricultural sector and on delivering the Government's driving goal of growing the economy through investment in productive infrastructure.

  We are at a crucial point in regards to water storage and my priority for 2011 is to begin the implementation of a policy of more active Government involvement in water infrastructure. After considerable policy work and consultation by MAF I intend to take options for increased Government investment in water infrastructure to Cabinet shortly. Assuming this receives Cabinet support the implementation of it will be a key priority for MAF in 2011. I am also working closely with the Hon Dr Nick Smith on the environmental aspects of the water storage package.

- ***Primary Industry Performance***

  Ensuring that New Zealand's major primary industries are enabled to lift their economic performance is critical for delivering economic growth for New Zealand. These industries are the engine room of New Zealand's economy – improving and or lessening the regulation of primary sector industries and supporting innovation needs to be a priority for the Government.

  I have three priorities for 2011 –

  - *Continuing the Primary Growth Partnership, with two funding rounds to be held in 2011 (subject to funding) and ongoing contracting and progress monitoring of approved programmes. Due to the success of the scheme there may be a need to consider a funding increase for PGP*
  - *Working with Fonterra to implement capital structure changes by the end of 2011, conducting a review of the eligibility criteria for access to raw milk under DIRA, and extending the DIRA provisions by mid-2011.*
  - *Supporting the meat, wool and forestry sector's development and reform. In particular bedding in the work of the Wool Group, facilitating meat industry rationalisation and developing a clear forestry sector strategy.*

- ***Departmental reform***

  Throughout 2011 a significant focus of MAF will be the ongoing structural reform driven by the merging of NZFSA into MAF, and appointment of a new senior management leadership team. I expect this to deliver substantial savings and result in a leaner and more efficient Department.

- ***Animal Welfare***

  Besides the intrinsic value and high level of public concern associated with animal welfare, it is also becoming an increasingly important issue in international trade and for maintaining market access. It will be a priority for MAF to increase the attention paid to animal welfare by the primary sector, supported by more resources going into education, compliance and enforcement activities.

  My particular priorities for 2011 are carrying out the first full review of the Animal Welfare Act, implementing the animal welfare compliance and enforcement plan with industry, and ongoing development of Codes of Welfare. I hope to have the two issues of religious slaughter and the pig code of welfare addressed by the end of 2010.

  An ongoing challenge in this area is getting sector organisations such as Federated Farmers in more positive and constructive space when it comes to addressing and dealing with animal welfare issues.

- ***Climate Change***

  We have an important role to play in this area, particularly in developing policies for New Zealand's agriculture and forestry that balance environmental responsibilities with economic imperatives. Besides being a reputation issue for New Zealand, the way in which the climate change programme of work is implemented will have an impact on economic growth and productivity.

  My priorities for 2011 in climate change are:

  - *Global Research Alliance and in particular a successful hosting of the first Ministerial Summit in Auckland in June. Other key milestones include signing-off on the first major allocation of funding for research under the Alliance and the hosting of a number of senior officials meetings.*
  - *Emissions Trading Scheme implementation, with input into panel review of schemes during 2011. Allocate units with a value over $1 billion under forest allocation plan by the end of 2012.*
  - *Working with the newly appointed ETS Agricultural Advisory Committee.*

- ***Border Operations***

  A key focus for MAF in 2011 is working with the border sector to implement more streamlined processes to increase efficiencies at the border, and reduce intervention with compliant travellers and traders. A major part of this is increasing the use of automated and more intelligent IT systems to target resources to areas of highest risk. This contributes to the Government's policy drivers of supporting trade and lifting productivity and improving services in the public sector.

  Specific priorities for 2011 are the Border Change Programme and the Joint Border Management System. The Border Change Programme will completely transform the way MAF manages risk at the border by enabling MAF to make better decisions about where and how we target our resources, and improving the way we work with other border agencies and our stakeholders. The Joint Border Management System will provide MAF with the computer-power necessary to support these changes.

  These priorities are closely aligned with the border sector priorities of the Minister of Customs. It is also important to note that a major work programme looking at the respective roles of MAF and Customs at the border will commence in 2012.

- ***Incursion Response Management***

  New Zealand's economy depends on the effectiveness of our biosecurity incursion response system. We need to involve Government and industry jointly in determining the sharing of the cost of readiness and response activities, as this will enable us to focus on those response and preparedness activities that provide both public and industry benefits.

  A key priority for 2011 is furthering Government Industry Agreements (GIAs) and rolling them out across the sector. This will be challenging and may be contentious amongst industry. It will however see a step-change in the way that we respond to biosecurity incursions and in my view will deliver a more efficient and effective response system. The recent rapid Government/industry response to the Psa disease is effectively a Government Industry Agreement at work and will be a useful model to use in promoting GIAs to the sector.

  A second priority is the passing of the Biosecurity Amendment Bill. This Bill is the result of a complete review of the Act and the first since it was passed 17 years ago. It significantly updates, modernises and future proofs the major piece of biosecurity legislation. It is set down to have its first reading mid December 2010, and needs to be passed into law by mid 2011.

- ***Traceability - National Animal Identification and Traceability (NAIT)/Farms OnLine***

  The new rural property database and a new lifetime traceability system for livestock will improve our responsiveness during biosecurity events and provide greater *commercially driven assurances to foreign markets for our primary product exports. This is an important priority towards supporting primary sector businesses and trade.*

My priority for 2011 is the passage of NAIT legislation through Parliament, along with supporting regulations to mandate NAIT for cattle, and ensuring the successful implementation of Farms OnLine by March 2011 and NAIT by March 2012.

- ***Trade Access***

  Continuing the momentum of completed and in-progress Free Trade Agreements; ensuring that current markets remain accessible to exporters; and negotiating and developing international sanitary and phytosantitary standards all make a direct contribution to economic growth. This work contributes to the Government policy driver of supporting trade.

  My Ministry's particular priority for 2011 is furthering the negotiation and implementation of Free Trade Agreements. Negotiations will continue for the Transpacific Partnership, with the next round of negotiations in December 2010 in Auckland. There will be five rounds in 2011 leading up to APEC in November 2011 where it is hoped major announcements can be made. Other FTAs under active negotiation include Russia, India, and Korea (where timeframes are less clear). Implementation, especially for China, continues with a Sanitary and Phytosanitary Commission expected June 2011. It is important to note that the workload in this area although currently manageable has the potential to place considerable strain on the small MAF team.

- ***Māori Agribusiness***

  Improving the productivity of Māori land supports the Government's policy driver of supporting business innovation and trade. Although this has been a priority for some time progress, has been frustratingly slow. This is for a number of reasons which I am happy to discuss with you in detail if desired.

  Next year a major MAF report on Maori land productivity will be launched. MAF will then consult on the findings before moving to develop a clear strategy to support the development of Māori agribusiness.

<u>Priorities for Vote Food Safety</u>

The Minister for Food Safety has proposed the following priorities to the Prime Minister (the wording below is quoted from the Ministers letter):

- ***Maintaining and Enhancing Market Access***

  Maintaining current access for New Zealand's food products in a difficult financial environment remains a key focus and I intend that access to our top five export *markets (as at Dec 2010 – Australia, EU, US, Japan, and China) is maintained in 2011. I will also be ensuring implementation of the Sanitary and Phytosanitary (SPS) chapters of Free Trade Agreements (FTAs) particularly the China, Hong Kong, ASEAN, Malaysian and Thailand FTAs in 2011 and, in the medium term, (once concluded) the Korean and Indian FTAs and the Trans-Pacific Agreement.*

- ***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. It has been clear for some time that New Zealand's food legislation needs to be overhauled. Passage of the Food Bill I introduced earlier this year will be a priority in 2011, together with providing for commencement and progressing associated regulations.

  The Government's regulatory reform programme is a key focus for the portfolio and in 2011 I intend to deliver on a programme of work flowing from the scanning report submitted by NZFSA in June 2010.

2. What are the activities within your vote that contribute least to Government's priorities?

As discussed in Section 1, MAF will be developing a new organisational strategy for the amalgamated organisation in 2011. It is expected that the strategy process will identify the outputs that align most strongly with Government priorities and those that are least aligned.

At a more detailed level:

- the new organisational structure has grouped similar functions together, and analysis of systems and processes within the new teams is expected to identify opportunities for further effectiveness and efficiency gains;

- the Border Change Programme provides several opportunities to reorganise MAF's processes at the border and align them better with Government priorities of trade and economic growth. Additional details on the border change programme are covered in Section 3 of this document.

MAF has committed to make savings of $2 million per annum from amalgamation in 2010/11 and outyears, offset by costs of $3 million in 2010/11. Detailed final figures on costs and savings are not expected to be known until February 2011 at the earliest. In particular, the final costs of all redundancies will not be known until the staff transfer process necessary for amalgamation has been completed. Once the savings are identified, these will be attributed to the Crown and third parties using the cost allocation model that is under development for the amalgamated organisation for use in 2011/12. Changes to appropriations reflecting costs and savings for 2010/11 will be reflected in MBU 2011, but the impact of savings in the 2011/12 year and outyears is likely to be included in OBU 2011.

3. The major pressures facing the Votes over the forecast period; drivers for costs within the Votes; and measures being put in place to manage these pressures

Across the three Votes, MAF is facing a range of specific and general pressures. Specific pressures include:

- Free Trade Agreement (FTA) implementation
- Incursion responses
- Animal welfare
- Containment laboratory facility
- Livestock losses – impact on cost recovery.

General pressures arise from cost increases across the organisation's inputs. For Departmental spending, 50% of 2010/11 costs are for personnel costs, and 29% are for contracts.

Comment on the specific pressures, plus remuneration and contracts/input supplies, is set out below.

FTA implementation

A key pressure facing all three Votes (Vote Agriculture and Forestry, Vote Biosecurity and Vote Food Safety) is maintaining effective engagement in an increasing number of free trade agreements. There are two main areas of involvement: negotiation and implementation. In 2008/09 both MAF and NZFSA each received $1 million for each of two years for implementation of FTAs, especially China. In addition, the organisation is heavily involved in the negotiating mandate of Government for FTAs with Korea, Russia, India, an expanded Trans-Pacific Agreement and a Pacific Island FTA.

Negotiation – travel costs for FTA negotiations are currently covered by the trade Negotiations Fund administered by MFAT. Nevertheless there are significant resource pressures on the organisation in terms of the time of staff – both for the negotiations and the necessary preparation.

Implementation – Implementation activities expand based on the success of the negotiations and FTAs concluded, although China is a stand-out in terms of resource requirements for implementation. Implementation cost pressures are cumulative and trading partner expectations of assistance and New Zealand market access must be carefully managed. Implementation costs involve both staff time (preparing and attending meetings and undertaking work on technical trade matters such as Import Health Standards) and financial resources (for travel to required meetings, providing training and the like and hosting delegations in New Zealand). Servicing the China FTA and the expected increasing number of FTAs, while not included as a formal reprioritisation, is currently estimated at approximately $2 million in 2011/12, $2 million in 2012/13, $2.5 million in 2013/14 and $2.5 million in 2014/15.

In addition to the transfer of $0.3 million Vote Agriculture and Forestry funding from 2010/11 to 2011/12 completed in OBU 2010, MAF expects to reprioritise any additional funding requirements to address pressures associated with FTA implementation and negotiation for 2011/12 and the following three outyears.

Incursion responses

This pressure is specific to Vote Biosecurity.

MAF has been reprioritising baseline during this year to fund several incursion responses such as Great White Cabbage Moth, Australian Pasture Tunnel Moth, Pyura, Termites and Nosema ceranae.

Funding for incursion responses continues to be managed on a case-by-case basis. The possibility of future incursion responses creates unquantifiable risks. A major response could not be funded from reprioritisation. Funding proposals for specific responses, where relevant, will be presented to Cabinet.

The Pseudomonas syringae pv. Actinidiae (Psa) response has received specific funding. In addition, MAF is committed to working with industry to support the development of any national pest management strategy and may also be prioritising funding for research into Psa.

The Government-Industry Agreements (GIA) model, which is a Government priority for MAF, outlines the process for creating joint decision-making and cost sharing for Biosecurity Readiness and Response between MAF and relevant industries. In the absence of clear funding streams for incursion responses, there is a risk that industry organisations may not commit funding for both preparedness and response activities. MAF is currently working with Treasury to identify options for addressing this risk.

Animal Welfare

This pressure is specific to Vote Agriculture and Forestry.

In Budget 2010, there was reprioritisation of $12.6 million from 2010/11 to 2015/16 and $2.2 million in outyears to fund the implementation of the Animal Welfare Compliance & Enforcement Plan and to provide additional technical, legislative and policy support.

Recent events, such as the various animal welfare abuses and concerns about intensive farming, have highlighted the ongoing need for a strong focus on animal welfare. In the course of reviewing the Animal Welfare Act during 2011 MAF will also be considering alternative options for Codes of Welfare development. Functional integration of the amalgamated organisation is expected to help meet these pressures through effectiveness and efficiency gains – for example the bringing together the MAF and NZFSA Enforcement Groups. Despite these efficiency gains, it is possible that further reprioritisations into the animal welfare area will be required over time.

Containment Laboratory Facility (PC3+) National Centre for Biosecurity & Infectious Disease – Wallaceville (NCBID)

This pressure is specific to Vote Biosecurity.

The enhanced physical containment level 3 (PC3+) laboratory was commissioned in 1999 and is New Zealand's only containment laboratory at this level.

The building was designed to meet the requirements of the version of AS/NZS 2243.3 safety in microbiological laboratories that was in place at the time. However, the current compliance requirements of the standard, international best practice (i.e. OIE and WHO) and changes in function and requirements mean that the facility no longer meets the needs of MAF and the NCBID partners.

The facility is ageing; mechanical equipment breakdowns and flaws in the building fabric are becoming more frequent and facility down time is increasing. This increases the risks to containment, health and safety of staff working with zoonotic diseases and impacts on the availability of the facility for use.

It is expected that the facility will require either a major refurbishment or replacement between 2014 and 2019. During 2011/12 MAF and the NCBID partners will commence the development of a stage 1 business case for consideration by Cabinet. The current indicative capital funding required is within the range of $20 million to $60 million. Subject to the approval of the stage 1 business case MAF expects to be putting forward a proposal for funding commencing in 2014/15.

Livestock losses – impact on cost recovery

This pressure is specific to Vote Food Safety.

The storms during August 2010 in Southland led to severe stock losses, particularly of lambs. This has had flow on effects for the meat industry and for the services provided by, and revenue received from, NZFSA's activities in the meat industry. The impact will extend beyond the lamb losses in 2010/11 as some farmers are sending breeding stock to slaughter. In 2011/12 and 2012/13 there could be over capacity pressures on the food safety Verification Agency as slaughter demands decrease coupled with reduced levy revenue for MAF. It is estimated that this could create cost pressures of up to $0.2 million in 2011/12. This is currently an upper estimate. MAF will watch carefully how this develops, as there is always a possibility of further adverse climatic events.

Remuneration

This pressure is relevant to all three Votes.

Personnel expenditure makes up 50% of MAF's departmental expenses in 2010/11 (31% for Vote Agriculture and Forestry, 55% for Vote Biosecurity and 62% for Vote Food Safety). With static or declining real baselines, funding remuneration increases is a key pressure facing all three Votes.

The 2010 MAF Collective Agreement with the PSA (covering Vote Agriculture and Forestry and Vote Biosecurity) includes a commitment to review the general salary band system, with some minimum requirements. These will be in the order of an approximate increase in MAF's salary costs of 2% (average) in 2011/12. This includes performance based increases, alignment with new remuneration systems and any incremental steps for frontline staff. A 2% increase in 2011/12 across the organisation would cost $3.2 million, so increases at that level per annum with no changes to staff numbers would amount to cumulative cost pressures of approximately $3.2 million in 2011/12, $6.5 million in 2012/13, $9.8 million in 2013/14 and $13.2 million in 2014/15.

The efficiencies generated from ongoing post amalgamation reorganisation should enable MAF to fund remuneration increases for 2011/12 and 2012/13. The longer term picture for remuneration will need to be considered as part of MAF's strategy development. MAF will actively review its vacancies.

Contracts and input supplies

This pressure is relevant to all three Votes.

CPI increases will lead to MAF's suppliers seeking higher rates. Contracts make up 29% of the amalgamated organisation's departmental expenses in 2010/11 (53% for Vote Agriculture and Forestry, 30% for Vote Biosecurity, and 17% for Vote Food Safety).

It is expected that these pressures can be met through efficiencies from procurement processes and particularly the establishment of a number of panel arrangements. An example is the panel of suppliers to provide biosecurity laboratory and field surveillance services discussed in Section 3 on Page 21 of this document. In addition MAF is actively working to ensure that it takes advantage of the savings that are available as a result of the government procurement reforms and the panel contracts that have been established in the 2010/11 year.

4. What risks do these pressures create?

The development of a new organisational strategy will help the organisation prioritise its activities and through this prioritisation address the risks and cost pressures discussed above. Amalgamation related efficiencies can address some of these cost pressures; however in aggregate over a four year period, the pressures cannot be met solely from efficiency gains. Without an organisational strategy and good management, there would be a risk of ad hoc reprioritisation decisions and a general running down of the organisation's capability, leading in turn to increased risk of biosecurity incursions, impacts on food safety, and missed opportunities for economic growth from the agriculture, forestry and food industries.

5. Tb Strategy

The Bovine Tuberculosis Strategy (Tb Strategy) enables measures to control the disease in cattle and deer herds and measures to eliminate or reduce the spread of the disease in wildlife populations such as possums. The Tb Strategy is managed by the Animal Health Board.

The Tb Strategy's annual expenditure is currently $82 million. Of this, the Crown currently contributes $30 million annually. The current funding for Tb strategy reduces each year from 2009/10 and expires in 2014/15.

In August 2009, Cabinet agreed [Cab Min (09) 31/7 refers] to in-principle funding of Tb Strategy from 2011/12 to 2014/15 subject to a review of the strategy due by late 2010. This funding would bring Crown's contribution back up to $30 million per annum. The review is now complete. On 29 November, Cabinet confirmed its earlier in-principle decision to continue Crown funding for the Tb Strategy at its current level of $30 million per year until 2014/15. These changes will be included in the 2010/11 Supplementary Estimates.

It is expected that significant ongoing Crown contribution will be required beyond 2014/15 to maintain progress on the Tb Strategy. The current Strategy expires in July 2016. There will be a review of the Strategy after that. The Crown's contribution will depend on the recommendations from this review.

Section 3: Proposed Changes for Budget 2011 (Reprioritisation)

Past reprioritisation (Budget 2010 BAP)

Last year MAF and NZFSA carried out significant strategic reprioritisations and baseline alignments for 2010/11 and outyears to fund cost pressures relating to government priorities.

To fund the implementation of Emissions Trading Scheme (ETS), there were reprioritisations of $13.8 million from 2010/11 to 2015/16 and $1.5 million in outyears from the Afforestation Grants Scheme (AGS) and Sustainable Land Management and Climate Change Plan of Action.

Additionally MAF's baseline was reprioritised to fund $12.6 million for Animal Welfare from 2010/11 to 2015/16 and $2.2 million in outyears and $0.5 million each for Government-Industry Agreements (GIA) and Trans-Tasman X-Ray Imaging for the year 2010/11.

$0.7 million was reprioritised in the Standards Output class within Vote Food Safety to fund the maintenance of risk based testing of imported foods ($0.35 m) and increase the scientific capability of NZFSA ($0.35 million). This funding was reprioritised from wine testing for exports to the European Union.

As part of the 2010 October Baseline Update (OBU), the commencement of some of the greenhouse gas footprinting work funded under Vote Agriculture and Forestry was delayed to provide funding of $200,000 to the Adverse Climatic Events response. This transfer was to 'top up' the contingency fund due to the high demands resulting from the Canterbury earthquake, drought and Southland Snow storm recovery programmes.

MAF has reprioritised $3 million in 2010/11 to fund amalgamation costs. This includes savings as a result of vacancies during the process of the amalgamation and positions disestablished from 1 February of $0.1.6 million, $1 million expense transfer from 2009/10 and $0.4 million from operational cost savings such as savings in Audit fees and production of a single Annual Report for 2010/11 and a single Statement of Intent for 2011/12.

Proposed change # 1 : Border Change Programme – Vote Biosecurity

What will be new or increased?

1. **What is new or different compared to what is currently being delivered?**

   Investment in the Border Change Programme will deliver significantly enhanced biosecurity intelligence and risk management capability. This new capability will enable MAF to more effectively target and manage the highest biosecurity risk areas while facilitating trade and travel through lesser interventions in areas of lower risk. Further, it will enable MAF to manage more of New Zealand's biosecurity risk through off-shore systems while ensuring resources are targeted at areas of highest risk and verification programmes.

The investment in the Border Change Programme will help grow the New Zealand economy and enhance its international reputation as being a highly desirable trading partner and an attractive tourist destination.

The Border Change Programme is a 4-year programme of work which includes a set of initiatives that will deliver the future intelligence and risk management capability. Over that time it will design, build and implement the processes, people and systems, tools and technologies. The Border Change Programme has six key workstreams:

- Establishment of the New Zealand Customs Service led Integrated Targeting and Operations Centre (ITOC) and designing and implementing the future roles and competencies required to support the future intelligence and risk management capability. The ITOC will be operational by mid-December 2010. The ITOC is a shared facility of border agencies.

- The design of the future business processes, information flows and organisational design for the future and strategically important intelligence and risk management capability (the Intelligence and Risk Management Organisational Design and Implementation initiative). This initiative is expected to be completed by the end of the first quarter of 2011.

- The Joint Border Management (JBMS) Initiative. Customs and MAF will develop and implement Tranche 1 of JBMS which includes an immediate tactical initiative of providing improved passenger processing (intelligence gathering and risk targeting) – MAFPax. The Border Change Programme will leverage the investment in JBMS to deliver the future biosecurity intelligence and risk management systems and tools.

- Customs and MAF will complete the design and prepare the JBMS Tranche 2 Business Case. Tranche 2 will deliver the future Trade Single Window (TSW) capability which will simplify the border clearance process for industry and replace the legacy Quantum (MAF) and CusMod (Customs) systems.

- The Trans-Tasman X-ray Imaging is expected to provide an improved passenger experience across the passenger pathway for passengers arriving from Australian airports.

- The more immediate tactical initiative that will provide greater biosecurity intelligence gathering and risk targeting capability for vessels arriving at New Zealand ports (MAFCraft).

2. The contribution of the activity to the priorities in section 1.

The Border Change Programme is a Government priority for MAF. It contributes to the Government priority of ‘Economic Growth and Productivity’.

3. **Fiscal impact**

Funding of $0.850m per annum is required over the next four year period (2011/12 to 2014/15) for the Intelligence and Risk Management Organisational Design and Implementation initiative.

What will change?

1. **Areas of reprioritisation**

The funding of $0.850m per annum from 2011/12 to 2014/15 identified above will be reprioritised primarily through managing and holding vacancies (where appropriate) and reducing discretionary expenditure within the Cargo, Passenger and Risk Screening areas in MAF's Verification Branch (Vote Biosecurity).

In addition to the above reprioritisation, MAF has been continuously reprioritising internal funding within Vote Biosecurity and in other areas to fund various initiatives within the Border Change Programme. For example, in 2010/11 funding of $0.575 m in operating costs has been reprioritised to fund the Vessels project while $0.075 million in capital has been prioritised to establish the ITOC. This has been met by savings in the operating costs of both passenger and cargo clearance.

The funding for the Passenger initiative - MAFPax (excluding X-Ray Imaging) has come from the JBMS Tranche 1 programme funding allocation as set out in the JBMS business case. A Cabinet report back and final business case for the X-Ray Imaging initiative will be completed in March 2011. Government has agreed capital funding of $2.0 m subject to the completion of the business case. Subject to the approval of the business case, MAF is proposing to fund the operating costs through further reprioritisation.

2. **Risks with reprioritisation and mitigation strategies**

Funding the Border Change Programme will be achieved primarily through the management and holding of vacancies (where appropriate) and reducing discretionary expenditure such as travel within the Verification Branch.

The new processes, investment in technology and move to information/intelligence directed risk management will mitigate the risk of the reduction of biosecurity protection and further enables MAF to manage predicted increases in travellers and trade to New Zealand.

3. **Risks with implementation of Joint Border Management System (JBMS)**

A Request for Proposal (RFP) for the detailed design, development and implementation of Tranche 1 of the JBMS system has gone out to the market. The original timeframe in the approved business case for completion and implementation of Tranche 1 was by 1 July 2012, but it is likely to take longer than originally estimated to issue and evaluate the RFP and to conclude contract negotiations.

There are some risks around achieving implementation of Tranche 1 by the 1 July 2012 deadline.

If the deadline is not met, MAF may not be able to implement the revised Biosecurity Cost Regulations and Levies regime creating potential issues around the realisation of the biosecurity benefits and a potential revenue gap for MAF in 2012. However there may also be one off operating cost savings through the timing of depreciation, capital charge and maintenance costs which may help to offset the revenue shortfall. The details and timings around this are being worked through and there will be greater clarity around these potential risks and mitigation options by May 2011.

Proposed change # 2 : Government-Industry Agreements (GIA) for biosecurity readiness and response – Vote Biosecurity

What will be new or increased?

1. **What is new or different compared to what is currently being delivered?**

   The Government-Industry Agreement (GIA) initiative is about joint planning, decision-making and funding between Crown and industry for biosecurity readiness and incursion responses. Including industry in decision-making will tap into their expertise and innovation and will ensure that their calls for action are matched by their willingness to fund. The Agreement will set out the parameters for joint decision-making and cost sharing. Under the agreement each industry signatory would identify risk organisms that are their highest priority for readiness and response. Cabinet [Cab Min (09) 31/11 refers] has directed MAF to negotiate with willing industries a final agreement, and to offer the following transition arrangements:

   - Joint-decision making and cost sharing applies first to readiness, and then is extended to response after three years;
   - Industries' cost-shares for readiness and response begin at a reduced level, and gradually increase over six years until they reach the level that reflects the proportion of benefits the industry receives from the activity; and
   - MAF funds implementation of the agreement and administrative costs for the first six years while the agreement is operating.

2. **The contribution of the activity to the priorities in section 1.**

   Incursion Response Management and Government-Industry Agreement is one of the priorities being proposed to the Prime Minister. The Cabinet agreed [Cab Min (09) 31/11 refers] to the negotiation of a Government-Industry Agreement for joint decision-making and cost sharing for Biosecurity Readiness and Response.

   Bringing industry to work in partnership with government on biosecurity response preparedness and biosecurity response events will yield substantial benefits.

   Under the Agreement, industry will jointly invest with government in preparedness work of value to industry, with funding splits determined by relative industry and public benefit. This will allow public funds to be focused on delivering public benefits and encourages industry to invest where they otherwise might not. As a result, total investment in biosecurity preparedness work is forecast to increase.

   Under the Agreement, industry and government will make joint biosecurity response decisions and jointly fund those decisions. This will result in more rational decision-making for pests of interest to industry. It is anticipated that responses will be started for fewer incursions as industry decides what is truly worth funding. Those responses that are started will be lower in total cost as a result of improved preparedness, and have reduced government funding as costs are shared with industry.

3. **Fiscal impacts**

The funding requirements for GIA are estimated to be approximately $1.5 million in 2011/12 and approximately $2 million per annum in 2012/13 and outyears.

The fiscal impact will be dependant on the yet to be agreed administrative structure and the level of industry uptake resulting in new biosecurity response preparedness activities. Relevant existing industry activities are also expected to transition into the agreements once signed. This will result in additional Crown costs as MAF will be paying for both the Crown share and the industry portion that is discounted for the first 6 years. The final Deed of Agreement, principles and processes will be taken to Cabinet in mid 2011 for endorsement and, providing this occurs, negotiations will commence with industries.

What will change / what will be reprioritised?

1. **Areas of reprioritisation**

To fund the cost pressures associated with GIA, it is proposed to reprioritise funding from within the Domestic Biosecurity Risk Management Multi-Class Output Appropriation within Vote Biosecurity.

A number of currently funded activities for example surveillance programmes are expected to transition to GIA over time and these are dependent on which industry group signs up. It is expected that working with industry will enable these to be delivered more efficiently. The level of industry uptake that may result in new programmes is uncertain at this stage. Therefore decisions regarding the specific areas that will be reprioritised will be taken when the implications are clearer. New activities are not expected to occur at the earliest until the 2012/13 year.

Expenditure on contracts with external suppliers is 65% of the expenditure in the post border area. MAF is reviewing the way that it engages with the market to ensure that it has the most cost effective strategy in place. Over 2010/11 MAF has engaged a panel of suppliers to deliver surveillance activity (laboratory and field-surveillance). A cornerstone of the panel arrangement is that it will lead to innovation by suppliers and over time result in cost reductions. The savings through this process can be used to fund, in part, GIA requirements.

2. **Risks with reprioritisation and mitigation strategies**

Under GIA the government is committed to jointly resourcing agreed activities with industry. Depending on uptake by industry MAF will need to ensure that while fulfilling these commitments the priority “public good” activities continue to occur.

Proposed change # 3 : Water Policy and Infrastructure

What will be new or increased?

1. **What is new or different compared to what is currently being delivered?**

   The currently irrigated area is 620,000 ha, approximately, involving individual irrigators and community-based irrigation schemes, predominantly drawing water directly from run-of-river and groundwater sources. Advancing current infrastructure development proposals could provide an additional 350,000 ha of irrigation. Most of the proposed new area requires civil engineering structures, including for storage and distribution networks that are both larger in scale and more complex than existing community scale developments. Capital requirements are consequently larger than requirement for previous development experience.

   The Water Policy and Infrastructure programme has two key streams of work:

   1. Developing a fairer and more efficient water management system including policy instruments to address water governance, allocation and quality; and

   2. Supporting increased investment in rural water storage and distribution infrastructure for irrigation.

   MAF is currently working through funding options for Water Policy and Infrastructure. A paper on recommended options is likely to be provided to the Cabinet Economic Growth and Infrastructure (EGI) committee early in 2011 following a discussion with the Prime Minister in the New Year. The paper is also likely to include recommendations on the role of MAF and other agencies in implementation of the programme.

2. **The contribution of the activity to the priorities in section 1.**

   Water is a strategic asset for New Zealand, and managing it better is a necessary part of achieving the Government's growth goals. Water infrastructure is crucial for creating and supporting economic growth in the primary sector and in consistent with the Government's Economic Growth Agenda.

3. **Fiscal Impacts**

   As discussed earlier, MAF is currently working through options of funding Water Policy and Infrastructure. Following further discussions with the Prime Minister early in 2011 a paper on recommended options is likely to be provided to the Cabinet Economic Growth and Infrastructure (EGI) committee for consideration.

Section 4: Summary of Financial Movements

This section details the changes to appropriations (including new appropriations) which are required to implement all of the proposed changes in section 3.

Departments should generate this report from CFISnet.

Four-Year Budget Plan - Financial Summary Repor erating - Including Operating Associated with Capital Initiatives 2011)

Vote: **Agriculture and Forestry**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	($000)	**($000)**	**($000)**	**($000)**	**($000)**
Share Allocation	0	0	0	0	0
Operating					
Baseline (2010/11 OBU)	**256,185**	**277,914**		**256,728**	**239,514**
Changes:					
Centralised Saving					
Total Centralised Saving	0	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vo		0	0	0	0
Total Changes	**0**	**0**	**0**	**0**	**0**
Total Proposed Operating Basel	**56,185**	**277,914**	**268,051**	**256,728**	**239,514**

Four-Year Budget Plan - Financial Summary Repor pital 2011)

Vote: Agriculture and Forestry	2010/11	2 0	2012/13	2013/14	2014/15
	($000)	($000)	($000)	($000)	($000)
Capital					
Baseline (2010/11 OBU)	**33,531**	**14,875**	**14,875**	**14,875**	**14,875**
r o posals for ne Capital unding					
R e f u ris hReplace					
Total Refuris hReplace	0	0	0	0	0
mprove unctionalit					
Totalmprove unctionalit	0	0	0	0	0
M e e t emand					
Total Meet emand	0	0	0	0	0
Capital Associated ith Opera atives					
Total Capital Associated i a t i n g nitiatives	0	0	0	0	0
Total Capital Proposal		**0**	**0**	**0**	**0**
Total Proposed Capi eline	**33,531**	**14,875**	**14,875**	**14,875**	**14,875**

Four-Year Budget Plan - Financial Summary Report   rating - Including Operating Associated with Capital Initiatives 2011)

Vote: Biosecurity	2010/11 ($000)	2011/12 ($000)	3 ($000)	2013/14 ($000)	2014/15 ($000)
Share Allocation	0	0	0	0	0
Operating					
Baseline (2010/11 OBU)	**186,421**	**179**	**7,970**	**162,194**	**163,113**
Changes:					
Centralised Saving					
Total Centralised Saving	0	0	0	0	0
Reprioritisation					
omestic iosecurit Opera perational fficienc Savings	0	1 0 0	2 000	2 000	2 000
overnment ndustr Agr s	0	1 0 0	2000	2 000	2 000
order Change rogramme		80	8 0	80	8 0
order Operations Operati icienc Savings	0	8 0	8 0	8 0	8 0
Total Reprioritisa	0	0	0	0	0
Transfers Ou te					
Total Transfers Outside Vote	0	0	0	0	0
Total s	**0**	**0**	**0**	**0**	**0**
Total Proposed Operating Baseline	**186,421**	**179,037**	**177,970**	**162,194**	**163,113**

Four-Year Budget Plan - Financial Summary Repor pital 2011)

Vote: Biosecurity	2010/11	2011/12	2012	3/14	2014/15
	($000)	($000)	($000)	($000)	($000)
Capital					
Baseline (2010/11 OBU)	**0**	**0**	**0**	**0**	**0**
r o posals for ne Capital unding					
R e f u ris hReplace					
Total Refuris hReplace	0	0	0	0	0
mprove unctionalit					
Totalmprove unctionalit	0	0	0	0	0
M e e t emand					
Total Meet emand	0	0	0	0	0
Capital Associated ith Opera atives					
Total Capital Associated i a t i n g nitiatives	0	0	0	0	0
Total Capital Proposal		**0**	**0**	**0**	**0**
Total Proposed Cap seline	**0**	**0**	**0**	**0**	**0**

Four-Year Budget Plan - Financial Summary Report   rating - Including Operating Associated with Capital Initiatives 2011)

Vote: Food Saety	2010/11 ($000)	2011/12 ($000)	3 ($000)	2013/14 ($000)	2014/15 ($000)
Share Allocation	0	0	0	0	0
Operating					
Baseline (2010/11 OBU)	**100,125**	**96,534**	**9 6**	**6,574**	**96,574**
Changes:					
Centralised Saving					
Total Centralised Saving	0	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vote		0	0	0	0
Total Changes	**0**	**0**	**0**	**0**	**0**
Total Proposed Operating Baseline	**100,125**	**96,534**	**96,574**	**96,574**	**96,574**

[1]

Four-Year Budget Plan - Financial Summary Repor pital 2011)

Vote: Food Saety	2010/11 ($000)	2011/12 ($000)	2012 ($000)	3/14 ($000)	2014/15 ($000)
Capital					
Baseline (2010/11 OBU)	**0**	**0**	**0**	**0**	**0**
r o posals for ne Capital unding					
Refuris hReplace					
Total Refuris hReplace	0	0	0	0	0
mprove unctionalit					
Totalmprove unctionalit	0	0	0	0	0
Meet emand					
Total Meet emand	0	0	0	0	0
Capital Associated ith Opera atives					
Total Capital Associated i atingnitiatives	0	0	0	0	0
Total Capital Proposal		**0**	**0**	**0**	**0**
Total Proposed Capi eline	**0**	**0**	**0**	**0**	**0**