

BUDGET SENSITIVE

## **Budget 2012: Four-year Budget Plan**

**Ministry of Foreign Affairs and Trade**

Covering:

**Votes**

**Foreign Affairs and Trade**

**and**

**Official Development Assistance**

## **Four-year Budget Plan**

February 2012

## Section 1: Overview

### Direction of Change

The Ministry is currently in the midst of planning a major programme of change (Ministry 20/20), that will substantially affect the structure of the organisation in the future. The aim of the programme is to modernise the Ministry and make it more flexible and efficient, in order that it can improve its services and continue to operate within its out years baseline. The elements of the change programme will only be confirmed once staff have been fully consulted.

The change programme aims to:

- Develop an operating model that will allow the Ministry to adopt alternative approaches to representation in the future (non-resident ambassadors, mini posts), and to outsource non-core services
- Change how the Ministry trains, promotes, and pays its staff
- Alter the off-shore policies and allowances to reflect both anticipated financial realities, move to a less "status" based diplomatic effort and re-balance off- and on-shore pay
- Reduce the number of people the Ministry employs, and
- Reinforce a culture of prioritisation and performance.

It is anticipated that these changes will make the Ministry more flexible and effective while substantially reducing costs to meet Government targets.

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Summary of Changes: Votes Foreign Affairs and Trade and Official Development Assistance

**A. Vote Foreign Affairs and Trade**

<i>1. Operating changes sought - Departmental</i>	<b>Impact \$m increase/(decrease)</b>				
	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>Current Baseline</b>	<b>352.736</b>	<b>331.884</b>	<b>341.884</b>	<b>341.884</b>	<b>341.884</b>
Cost pressures resulting from existing policies/settings [section 3]	0.000	17.800	27.400	35.700	48.000
Cost of new/increased activities [section 4]	0.000	13.750	0.000	0.000	0.000
Efficiency savings [section 4]	-	3.000	(6.050)	(16.825)	(16.825)
Amount reprioritised [section 4]	(13.750)	(17.800)	(27.400)	(35.700)	(48.000)
<b>Net impact</b>	<b>(13.750)</b>	<b>16.750</b>	<b>(6.050)</b>	<b>(16.825)</b>	<b>(16.825)</b>
<b>New baseline</b>	<b>338.986</b>	<b>348.634</b>	<b>335.834</b>	<b>325.059</b>	<b>325.059</b>

<i>2. Operating changes sought – Non-Departmental</i>	<b>Impact \$m increase/(decrease)</b>				
	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>Current Baseline</b>	<b>75.462</b>	<b>75.469</b>	<b>75.301</b>	<b>74.966</b>	<b>74.924</b>
Cost pressures resulting from existing policies/settings [section 3]	0.000	0.000	0.000	0.000	0.000
Cost of new/increased activities [section 4]	0.000	0.000	0.000	0.000	0.000
Efficiency savings [section 4]	0.000	0.000	0.000	0.000	0.000
Amount reprioritised [section 4]	0.000	0.000	0.000	0.000	0.000
<b>Net impact</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>New baseline</b>	<b>75.462</b>	<b>75.469</b>	<b>75.301</b>	<b>74.966</b>	<b>74.924</b>

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3. Total Operating Changes Sought Total Vote FAT	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Current Baseline</b>	<b>428.198</b>	<b>407.353</b>	<b>417.185</b>	<b>416.850</b>	<b>416.808</b>
Cost pressures resulting from existing policies/settings [section 3]	0.000	17.800	27.400	35.700	48.000
Cost of new/increased activities [section 4]	0.000	13.750	0.000	0.000	0.000
Efficiency savings [section 4]	0.000	3.000	(6.050)	(16.825)	(16.825)
Amount reprioritised [section 4]	(13.750)	(17.800)	(27.400)	(35.700)	(48.000)
<b>Net impact</b>	<b>(13.750)</b>	<b>16.750</b>	<b>(6.050)</b>	<b>(16.825)</b>	<b>(16.825)</b>
<b>New baseline</b>	<b>414.448</b>	<b>424.103</b>	<b>411.135</b>	<b>400.025</b>	<b>399.983</b>

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**B. Vote Foreign Affairs and Trade – Capital Investments**

	Impact \$m increase/(decrease)					
	2011/12	2012/13	2013/14	2014/15	2015/16	Out-years
1. <i>Capital investments being considered for new funding in Budget 2012</i>						
N/A	0.000	0.000	0.000	0.000	0.000	0.000

2. <i>Capital investments likely to require new funding in future Budgets</i>	Total impact across years \$m increase/(decrease)		
	Budget 2013	Budget 2014	Budget 2015
N/A	0.000	0.000	0.000

3. <i>Baseline capital expenditure</i>	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b><i>Departmental</i></b>					
Baseline funding available for departmental capital expenditure	133.113	132.720	80.643	60.099	48.252
Investments funded from departmental capital expenditure	53.893	78.177	65.444	37.297	15.312
<b><i>Non-departmental</i></b>					
Total	0.000	0.000	0.000	0.000	0.000

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C. Vote Official Development Assistance

1. <i>Operating changes sought – Departmental</i>	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Current Baseline</b>	<b>61.289</b>	<b>61.919</b>	<b>61.919</b>	<b>61.919</b>	<b>61.919</b>
Cost pressures resulting from existing policies/settings [section 3]	0.000	0.000	0.000	0.000	0.000
Cost of new/increased activities [section 4]	0.000	0.000	0.000	0.000	0.000
Efficiency savings [section 4]	-	(7.000)	(7.000)	(7.000)	(7.000)
Amount reprioritised [section 4]	0.000	0.000	0.000	0.000	0.000
<b>Net impact</b>	<b>0.000</b>	<b>(7.000)</b>	<b>(7.000)</b>	<b>(7.000)</b>	<b>(7.000)</b>
<b>New baseline</b>	<b>61.289</b>	<b>54.919</b>	<b>54.919</b>	<b>54.919</b>	<b>54.919</b>

2. <i>Operating changes sought – Non-Departmental</i>	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Current Baseline</b>	<b>544.312</b>	<b>512.768</b>	<b>533.600</b>	<b>558.600</b>	<b>558.600</b>
Cost pressures resulting from existing policies/settings [section 3]	0.000	0.000	0.000	0.000	0.000
Cost of new/increased activities [section 4]	0.000	0.000	0.000	0.000	0.000
Efficiency savings [section 4]	0.000	0.000	0.000	0.000	0.000
Amount reprioritised [section 4]	0.000	0.000	0.000	0.000	0.000
<b>Net impact</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>New baseline</b>	<b>544.312</b>	<b>512.768</b>	<b>533.600</b>	<b>558.600</b>	<b>558.600</b>

3. <i>Total Operating changes sought – Total Vote ODA</i>	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Current Baseline</b>	<b>605.601</b>	<b>574.687</b>	<b>595.519</b>	<b>620.519</b>	<b>620.519</b>
Efficiency savings [section 4]	0.000	(7.000)	(7.000)	(7.000)	(7.000)
<b>Net impact</b>	<b>0.000</b>	<b>(7.000)</b>	<b>(7.000)</b>	<b>(7.000)</b>	<b>(7.000)</b>
<b>New baseline</b>	<b>605.601</b>	<b>567.687</b>	<b>588.519</b>	<b>613.519</b>	<b>613.519</b>

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## D. Total Ministry of Foreign Affairs and Trade

1. <i>Operating changes sought - Departmental</i>	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Current Baseline</b>	<b>414.025</b>	<b>393.803</b>	<b>403.803</b>	<b>403.803</b>	<b>403.803</b>
Cost pressures resulting from existing policies/settings [section 3]	0.000	17.800	27.400	35.700	48.000
Cost of new/increased activities [section 4]	0.000	13.750	0.000	0.000	0.000
Efficiency savings [section 4]	-	(4.000)	(13.050)	(23.825)	(23.825)
Amount reprioritised [section 4]	(13.750)	(17.800)	(27.400)	(35.700)	(48.000)
<b>Net impact</b>	<b>(13.750)</b>	<b>9.750</b>	<b>(13.050)</b>	<b>(23.825)</b>	<b>(23.825)</b>
<b>New baseline</b>	<b>400.275</b>	<b>403.553</b>	<b>390.753</b>	<b>379.978</b>	<b>379.978</b>

2. <i>Operating changes sought - Non-Departmental</i>	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Current Baseline</b>	<b>619.774</b>	<b>588.237</b>	<b>608.901</b>	<b>633.566</b>	<b>633.524</b>
Cost pressures resulting from existing policies/settings [section 3]	0.000	0.000	0.000	0.000	0.000
Cost of new/increased activities [section 4]	0.000	0.000	0.000	0.000	0.000
Efficiency savings [section 4]	0.000	0.000	0.000	0.000	0.000
Amount reprioritised [section 4]	0.000	0.000	0.000	0.000	0.000
<b>Net impact</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>New baseline</b>	<b>619.774</b>	<b>588.237</b>	<b>608.901</b>	<b>633.566</b>	<b>633.524</b>

3. <i>Total Operating changes sought - Total Vote FAT and ODA</i>	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Current Baseline</b>	<b>1,033.799</b>	<b>982.040</b>	<b>1,012.704</b>	<b>1,037.369</b>	<b>1,037.327</b>
<b>Net impact</b>	<b>(13.750)</b>	<b>9.750</b>	<b>(13.050)</b>	<b>(23.825)</b>	<b>(23.825)</b>
<b>New baseline -Total Ministry</b>	<b>1,020.049</b>	<b>991.790</b>	<b>999.654</b>	<b>1,013.544</b>	<b>1,013.502</b>

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offshore, and establish measures for success including whether expected efficiencies and savings have been achieved. The Ministry will also maintain an ongoing programme to review all areas of operations with a view to identifying further efficiencies and savings.

### **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 3 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.

### **Section 4: Proposed Changes for 2012/13 to 2015/16**

#### **Proposed Changes: DEPARTMENTAL**

At this point, the only changes that are likely to require Cabinet agreement are possible closure of some overseas posts. This will be addressed in a separate Cabinet paper. In other parts of this plan we have outlined the challenges the Ministry is facing over the next four years and the changes we are making to address them so that the Ministry becomes most cost-effective and successful in pursuit of New Zealand's national interests.

Included in this plan is a rollover of 2011/12 baseline surplus of \$13.750 million to 2012/13; this includes \$8.750 to leverage activities related to NZ Inc initiatives, major events, and any other priorities related to the new Government's objectives for international marketing and promotion, and \$5 million for the organisational change implementation.

The Ministry will also work to identify further savings in departmental expenditure from both Vote Foreign Affairs and Vote ODA in the future.

#### **Proposed changes: NON-DEPARTMENTAL**

Non-Departmental expenditure in Vote ODA is currently structured under four appropriations. Two of these are in the final year of three-year multi-year appropriations. Recommendations to restructure these into two multi-year appropriations will be submitted to Cabinet as part of the Budget 2012 process.

The proposed restructure of Vote ODA Non-Departmental appropriations is intended to ensure efficient and effective delivery, by enabling enhanced flexibility and allowing for reprioritisation to achieve Government objectives within existing baselines. It will enable 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.



## Efficiency Savings

In addition to initiatives being progressed as part of a wider change programme (see below), the Ministry continues, as part of its business as usual work, to identify savings in a range of areas, including in the rent it pays in Wellington and offshore, its travel costs, and through an improvement in procurement practices including participation in whole of Government procurement initiatives.

## Proposed Changes

The Ministry 20/20 Change Programme aims to transform the organisation and deliver significant efficiency savings in support of the Ministry's strategic priorities. The programme aims to reduce costs to at least the extent required to cover cost pressures associated with existing services as well as the efficiency dividend. [

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The proposed change programme includes a restructuring of the Ministry's back office functions on- and off-shore in order to improve their efficiency and reduce costs, including through the potential outsourcing of a range of services that are currently delivered by Ministry staff.

The change programme aims to deliver an operating model that will facilitate the future use of different models for New Zealand representation overseas. Again, this aims to improve efficiency as well as potentially reducing costs and improving the Ministry's ability to respond more quickly to trends and events in the international arena.

The Ministry is also re-examining its remuneration policies in order to better align our practices with the market, reduce overall costs and re-balance salaries so the current difference between on- and – off-shore salaries is reduced.

Work is also underway to deploy a new ICT operating platform for the Ministry at the Restricted rather than Confidential level, which will result in a less complex system that imposes lower operating and infrastructure costs in the medium to long term. In addition the Ministry is consolidating its property in Wellington.

The cost savings likely to result from these proposals will not be clear for some months. Requests for Proposal exercises for the services the Ministry may outsource are still underway; and the entire proposed change programme will need to be the subject of staff consultation before decisions can be taken and the quantum of likely savings clearly identified.

The International Development Group Programme also has a number of initiatives running to ensure that the cost of delivering Official Development Assistance is reduced, including through the development of new internal operating models in Wellington and offshore, reducing core staffing (20% lower), improving procurement practices, and changing the delivery model for the management of scholarships (including potentially outsourcing this). Total departmental expenditure attributed to Vote Official Development Assistance (ODA) is therefore forecast to reduce to \$54.919 million by 30 June 2012, from an original baseline of \$64 million (a figure subsequently reduced to \$61.289 million as noted in table C above).