

Chair
Cabinet Business Committee

Alternative structural arrangements for the Ministry for Primary Industries

Proposal

1. This paper sets out proposals for immediate changes to the current organisational structure of the Ministry for Primary Industries (MPI), to provide increased focus on portfolio areas and ensure clear accountability for regulatory systems across New Zealand's primary sector.
2. The proposed changes will have financial implications for MPI. The Ministers of Agriculture, Fisheries, and Forestry (portfolio Ministers) seek approval to re-prioritise funding within *Vote: Primary Industries and Food Safety* to enable MPI to implement these arrangements as soon as possible.

Executive summary

3. MPI manages the major regulatory systems that underpin and support the primary sector. Its key responsibilities are to ensure: New Zealand is protected from biological risk; the food we produce is safe and suitable; our natural resources are sustainable while enabling the primary sector to grow the value of its exports; and that New Zealanders can participate in the success of the primary industries.
4. Recognising the importance of each of these activities the Prime Minister has separated the Primary Industries portfolio into Fisheries, Forestry, Biosecurity, Agriculture, Food Safety, and Rural Communities portfolios.
5. Portfolio Ministers, in conjunction with the Director-General of MPI and the State Services Commission, have considered how the organisational arrangements of MPI could be improved to support greater alignment to these portfolios. Ministers wish to clearly understand the resources available for their portfolios, how they are being used, and to be able to engage directly on their priorities with the senior official responsible.
6. The preferred approach involves immediate changes to MPI's current organisational structure to establish portfolio-based, visibly branded business units within MPI for Fisheries, Biosecurity, Food Safety, and Forestry. There will be corresponding changes to the existing Votes and appropriations, and financial and operational delegations within MPI.
7. Changes will include the establishment of a Forestry Service. Ministers will be briefed in more detail in 2018 on the final institutional arrangements for forestry.
8. This approach balances our requirements for enhanced focus and accountability while retaining key expertise, minimising loss of productivity, utilising the benefits of economy of scale, and managing any impacts on trade and market access for primary sector exporters. It achieves this at a reasonable cost.
9. If decisions are made now, the new MPI structural arrangements could be fully operational by April 2018. A performance improvement framework review in 2019 will provide an opportunity for us to look at whether the new arrangements

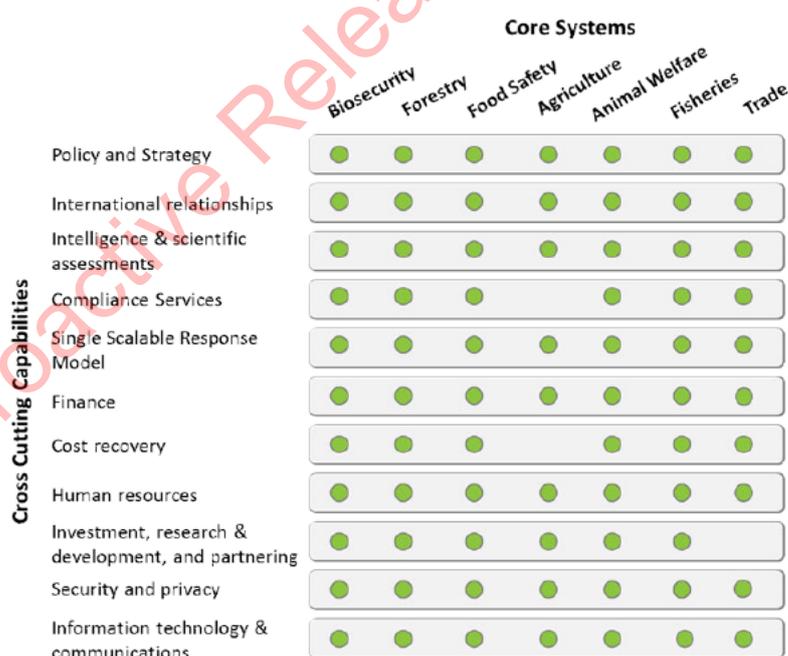
are achieving the desired lift in performance against the Government's expectations.

10. These changes will have financial impacts. MPI ^{s 9(2)(f)(iv)} and is not yet in a position to ^{s 9(2)(f)(iv)} or meet the costs of the changes outlined in this paper.
11. This paper proposes that Ministers approve funding for these changes by reprioritisation within *Vote: Primary Industries and Food Safety* (from the Primary Growth Partnership Fund). If this is not preferred MPI will need to seek funding via the 2018 Budget process. However, that process will impact on the timing of any change and further create uncertainty for staff, industry, and key stakeholders.

Background

12. MPI is one organisation with one chief executive (the Director-General). It is currently funded through one Vote – *Vote: Primary Industries and Food Safety*.
13. MPI oversees several regulatory systems (most of which are now associated with Ministerial portfolios) and operates as New Zealand's Competent Authority¹ in all primary sector trading arrangements.
14. MPI's current structure is organised around core functions (operations, regulation and assurance, and policy and trade) with high performing cross-cutting capabilities, including specialised expertise that supports all systems.
15. Specialised capabilities include response management, compliance, trade expertise, intelligence, and science as well as corporate functions such as finance, legal, cost recovery, communications, and human resources. Economies of scale within the current structure also allow lower cost in cross-cutting functions. Figure 1 illustrates MPI's cross-cutting capabilities.

Figure 1: Cross-cutting capabilities across MPI's core systems



¹ A Competent Authority in MPI's context means the government agency responsible for the regulation of industries relating to products that may have human, animal, or plant health issues.

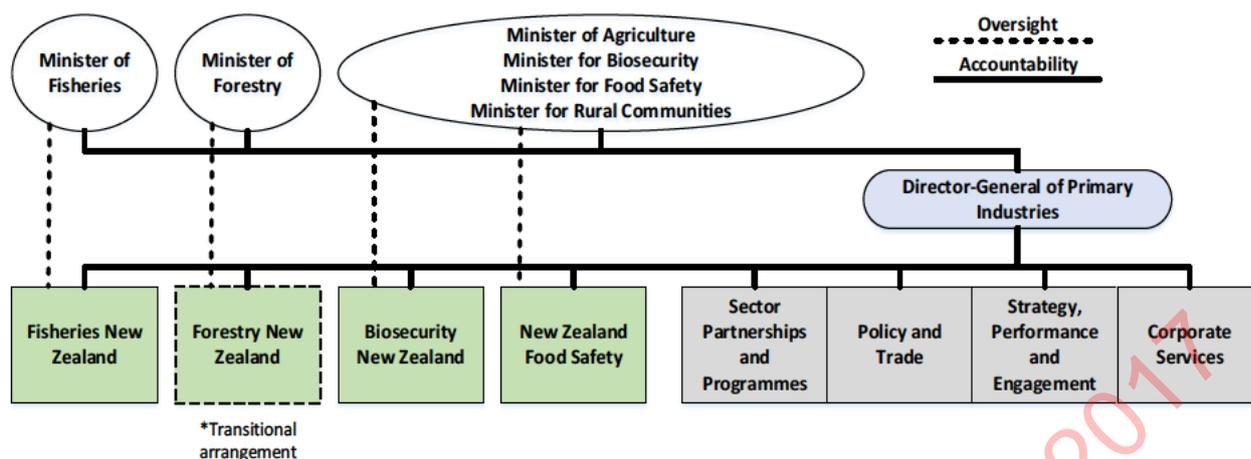
Objectives of change

16. In determining a way forward that will allow us to deliver on our ambitious agenda for the primary sector, portfolio Ministers, in conjunction with the Director-General of MPI and the State Services Commission, have considered a range of options.
17. We are seeking to achieve the following objectives:
 - a. increased focus on portfolios, particularly fisheries, forestry, biosecurity and food safety, and a corresponding lift in performance
 - b. greater clarity and unity of purpose for staff working in portfolio areas, aligned to Ministerial focus
 - c. enhanced transparency of Government policy and regulatory activities within portfolio areas
 - d. improved opportunities for iwi, stakeholders, and the wider public to engage with portfolio Ministers and with officials
 - e. prudent and efficient use of taxpayer and industry funds.
18. We have been cognisant of the need to balance these objectives with retaining core operational and organisational capabilities that support activity across portfolios.
19. We have carefully considered the impacts on trade and market access for primary sector exporters of any changes to MPI's status as New Zealand's Competent Authority, which provides assurance that New Zealand's products are fit for export and meet the requirements of our trading partners.
20. We also seek to achieve change with minimal cost and loss of productivity for MPI. It is equally important that these decisions are made as quickly as possible, to minimise uncertainty for MPI's staff and stakeholders.

Proposed changes

21. Following discussions with the Director-General of MPI we propose progressing the following key changes:
 - a. establish four portfolio-based business units within MPI
 - b. create clear branding for the four portfolio-based business units, while maintaining the internationally recognised over-arching MPI brand
 - c. separate appropriations by portfolio
 - d. realign formal delegations within MPI, to provide more delineation of operational responsibilities to senior managers of the portfolio-based business units
 - e. establish portfolio-focused stakeholder and Ministerial advisory groups.
22. The changes are a mix of non-structural and structural actions, as not all the objectives can be addressed by structural change alone. The changes will require some reorganisation of branches within MPI to align with portfolios. Figure 2 below describes the proposed change to structure (with names of the units still to be finalised).

Figure 2: Proposed organisational structure for MPI



23. The change includes establishment of a Forestry Service (see below).
24. We have also considered whether a separate agency is required for fisheries management. Fisheries is particularly dependent on cross-cutting capabilities such as compliance and intelligence, which are hard to replicate in a small agency. We have therefore decided the proposed approach is the best way forward, and will ensure the fisheries change programme currently being progressed continues with minimal disruption.

Portfolio based business units

25. It is proposed that MPI remains one Government department but that business units align with four portfolio areas within MPI: Fisheries NZ, Forestry NZ, Biosecurity NZ and NZ Food Safety. MPI will retain its brand as the international Competent Authority, but each portfolio-based business unit will have its own brand identity associated with the MPI brand.
26. Having each portfolio area led by its own senior manager and supported by a distinct brand will provide clearer accountability for operational and regulatory services. It will also provide greater clarity and unity of purpose for staff working in these areas.

Appropriations by portfolio

27. Separate appropriation classes for each portfolio area will allow direct Ministerial oversight of funding and spending priorities and provide greater transparency and accountability for each portfolio. If agreed, MPI will work with Treasury to review appropriations and portfolios to implement the new structure.
28. In addition, MPI will develop separate output agreements, with revised statements of service performance for Ministers to consider. At this stage we do not anticipate further changes to accountability and reporting requirements, but MPI will review this as part of the detailed implementation planning.

Formal delegations based on portfolios

29. We have discussed with the Director-General the re-alignment of formal delegations, particularly for operational matters, to responsible senior managers within portfolio-based business units.
30. Under the State Sector Act ultimate accountability rests with the chief executive, but the Director-General can delegate how these responsibilities are exercised.

31. Delegations under MPI's current operating model are mostly dispersed across the various portfolios. The Director-General can delegate certain powers and functions so that the senior manager responsible for a particular portfolio area has broader freedom to act.
32. For example, in fisheries responsibilities delegated to the head of Fisheries NZ could include advising the Minister directly on the annual total allowable catch and the total allowable commercial catch, or issuing circulars under Fisheries regulations (e.g. setting electronic monitoring requirements).

Stakeholder and Ministerial advisory groups

33. In addition to these proposed changes, we have directed MPI to develop options for a more focused approach to stakeholder and Ministerial advisory groups. At present MPI has a large number of advisory groups that provide input into strategy, policy, and decision-making.
34. The move to a portfolio-based focus within the organisation will provide improved opportunities for iwi, stakeholders, and the wider public to engage with Ministers and officials by portfolio. For example, direct Ministerial oversight can be increased through the use of Ministerial appointments, or by requiring advisory groups to report directly to Ministers. ^{s 9(2)(f)(iv)}

Towards a Forestry Service for New Zealand

35. The proposal outlined above includes an initial portfolio-based business unit for Forestry NZ. It will include establishment of a presence in Rotorua, and planning for this has already commenced.
36. MPI has also started work to develop options for policy changes to ensure the afforestation programme is delivered. Decisions on this will inform the services required and configuration of Forestry NZ over the longer term. ^{s 9(2)(f)(iv)}

Options considered

37. The preferred approach provides us the opportunity to achieve our goals in an efficient way while effectively managing any risks of change. It enables a specific portfolio focus but keeps intact the cross-cutting capabilities and ability to redeploy resources to areas of highest need across portfolios. It takes advantage of existing economies of scale, and allows MPI to ensure consistent approaches for the many businesses (e.g. food businesses) that operate across more than one of the regulatory systems. It will effectively manage any impacts on international trade and market access for New Zealand's primary sector exporters.
38. One of MPI's key functions is to provide overseas markets with assurance that primary products have been produced in compliance with New Zealand standards and any applicable market access requirements. This process (export certification) is carried out by MPI as New Zealand's internationally recognised Competent Authority.
39. New Zealand learnt lessons from previous changes to the name of the Competent Authority and has good experience in managing the complexities around such transitions. However, some risks of disruption remain. This is the

central reason why we propose that the MPI brand is retained alongside portfolio-based business unit brands.

40. Other options we considered included: retaining the current organisational structure but with some rebranding; having separate Departmental Agencies with their own chief executives within a host department; and moving to completely separate government agencies.
41. These options were not preferred. To varying degrees they were: unlikely to deliver the objectives we are seeking; would be too disruptive to the sector; likely to result in significant productivity and expertise losses, and reduction in cross-cutting capabilities; likely to disturb market access arrangements; or cost too much.
42. The State Services Commission has advised the following:
 - a. restructuring the existing branches would maintain common capabilities but does not address Ministers' need for greater transparency
 - b. effective implementation of Departmental Agencies would require separating out of some of the core capabilities within MPI to enable the chief executives to properly exercise their accountability
 - c. separate departments run major risks of loss of critical mass when breaking up the common capabilities, and do not appear to be justified by the problem definition.

In the Commission's view the performance and transparency issues raised by Ministers can be better addressed internally within MPI than by separating out parts of the department.

43. Compared with other options Ministers and officials considered, the proposed changes are the most cost effective to implement. For example, having four Departmental Agencies is estimated to incur one-off costs of \$12.6 million and ongoing costs per annum of \$16.5 million. Total separation into four standalone government departments is anticipated to incur \$18 million one-off costs and \$39.2 million ongoing costs per annum. In comparison, the preferred approach is estimated to incur one-off costs of \$6.0 million and ongoing costs of \$2.3 million per annum.

Implementation

44. If decisions are made now, most of these proposed changes can be put in place relatively quickly. We will convey our expectations very clearly to MPI's leadership. The 2019 performance improvement framework review offers us the opportunity to assess how well the changes are working and whether they are having the desired effect.
45. To minimise uncertainty and disruption for MPI staff we propose that an announcement about the scope of intended changes is made before the end of 2017, and that the structural changes to the organisation are implemented as soon as possible in the New Year. MPI considers that structural changes can be in place by April 2018 (subject to funding being made available).
46. If a decision is taken before Christmas, MPI considers progress on the new branding can be made at key sites by the end of March 2018.
47. As part of implementation, MPI will engage international counterparts to inform them of the proposed changes and manage any risks to trade and market access. Substantial implementation of the branding is expected to be in place

by the end of June 2018, with full implementation by the end of 2018. This work has been factored into estimated costs for the change process. Table 1 below sets out the high level milestones to implement the changes.

Table 1: High level milestones for implementation of changes

Milestone	Date
Communicate scope of intended changes (but not the final structure)	December 2017
Finalise separation of appropriations	February 2018
Implement new organisational structure	April 2018
Branding for portfolio-based business units launched - to take effect first in key sites - substantially in place -full implementation	-end March 2018 -end June 2018 -end of 2018
s 9(2)(f)(iv)	

48. Subject to a decision on funding, MPI will immediately commence detailed implementation planning.

Financial implications

49. The estimated costs to implement these changes consist of \$6.0 million to establish the four portfolio-based business units. Additional ongoing operating costs for the four units are estimated at \$2.3 million per annum.
50. MPI does not currently have sufficient funding to immediately implement the organisational changes proposed in this paper to deliver on the Government's objectives.
51. Therefore, this paper seeks agreement to re-prioritise the costs of change from the Primary Growth Partnership funding within *Vote: Primary Industries and Food Safety*. This approach would enable MPI to communicate the direction of changes to staff and move quickly to stand up a new organisational structure and commence rebranding as soon as possible.
52. Alternatively, Ministers could make decisions on funding through Budget 2018 to meet the costs of the proposed organisational change. However, that approach will impact the timeframes to implement the proposed organisational changes by at least six months.
53. The table below summarises the estimated costs of implementing the proposed changes.

Branded Portfolio Business Units (\$million)	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Estimated annual ongoing costs	0.80*	2.30	2.30	2.30	2.30	10.00
Fisheries	0.30	0.80	0.80	0.80	0.80	
Forestry	0.30	0.90	0.90	0.90	0.90	
Additional policy resourcing	0.10	0.40	0.40	0.40	0.40	
Corporate monitoring & reporting	0.10	0.20	0.20	0.20	0.20	
One off costs	6.00	-	-	-	-	6.00
Branding	2.80	-	-	-	-	
Recruitment	0.30	-	-	-	-	

Branded Portfolio Business Units (\$million)	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Change management	1.00	-	-	-	-	
Forestry Establishment Unit	0.20	-	-	-	-	
Core system changes	1.20	-	-	-	-	
Other (certification and travel)	0.50	-	-	-	-	
Total costs per annum	6.80	2.30	2.30	2.30	2.30	16.00

* for 2017/18 Estimates, for 4 months from 1 March 2018

s 9(2)(f)(iv)

54. s 9(2)(f)(iv)

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Cost recovery

56. s 9(2)(f)(iv)

Consultation

57. I have consulted the Minister of Fisheries and Minister of Forestry on the proposals in this paper. I have also consulted the Minister of State Services.
58. The Treasury, State Services Commission, and the Department of the Prime Minister and Cabinet were consulted on this paper.

Human rights

59. There are no proposals in this paper that are inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative implications

60. There are no substantive legislative implications from the proposals in this paper.

Regulatory impact analysis

61. The regulatory impact analysis requirements do not apply to the proposals in this paper.

Publicity

62. Subject to funding decisions, Ministers are aiming to publicly announce the changes before Christmas. All communications will be co-ordinated between Ministers' Offices and MPI.

Recommendations

63. The Minister for Agriculture recommends the Committee:

Proposed changes to organisational arrangements

1. **Note** that the Ministers of Agriculture, Fisheries, and Forestry (portfolio Ministers) have been working together to consider how organisational arrangements for MPI could support greater alignment to the Fisheries, Forestry, Biosecurity, and Food Safety portfolios and provide enhanced focus and accountability;
2. **Note** that the preferred approach retains one organisation under the State Sector Act 1988 but progresses the following key changes within MPI:
 - a. establish portfolio-based business units within MPI for fisheries, biosecurity, food safety, and forestry
 - b. ensure clear external branding for the four portfolio-based business units, while maintaining the internationally-recognised MPI identity
 - c. separate appropriations by portfolio
 - d. establish portfolio-focused stakeholder and Ministerial advisory groups;
3. **Note** that in determining the preferred way forward particular attention was paid to the need to implement change as quickly as possible to minimise productivity loss and uncertainty for MPI staff, industry, and other stakeholders, and to manage any impacts on trade and market access for primary sector exporters, as well as considering cost implications;
4. **Note** that, subject to final decisions, MPI will immediately progress detailed implementation planning for the proposed changes, including the move to establish the Forestry Service;

Financial recommendations

5. **Agree** to reprioritise \$16 million from the Primary Growth Partnership Fund within *Vote: Primary Industries and Food Safety* to fund the costs of the proposed changes to MPI's organisational structure until 2021/22;
6. **Approve** the following changes to appropriations to give effect to the policy decision in recommendation 5 above, with a corresponding impact on the operating balance and net debt:

	\$m – increase/(decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22
Vote Primary Industries and Food Safety					
Minister for Biosecurity					
Multi-Category Expenses and Capital Expenditure					
Border and Domestic Biosecurity Risk Management					
Departmental Output Expense:					
Biosecurity Incursion Response and Long Term Pest Management (funded by revenue Crown)	6.800	2.300	2.300	2.300	2.300
Minister for Agriculture					
Non-Departmental Other Expenses					
Primary Growth Partnership			(16.000)		

7. **Note** that the indicative spending profile for the change to the multi-year appropriation described in recommendation 6 above is as follows:

Vote Primary Industries and Food Safety	\$m – increase/(decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22
Minister for Agriculture					
Non-Departmental Other Expenses	(6.800)	(2.300)	(2.300)	(2.300)	(2.300)
Primary Growth Partnership					

8. **Agree** that the proposed changes to appropriations for 2017/18 be included in the 2017/18 Supplementary Estimates and that in the interim the increases be met from Imprest Supply.

Authorised for lodgement

Hon Damien O'Connor
Minister of Agriculture

Proactive Release - 13 December 2017