

Budget: Sensitive

Office of the Minister of Agriculture

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Office of the Minister of Research, Science and Technology

Office of the Minister for Tertiary Education

Office of the Minister for the Environment

CABINET POLICY COMMITTEE

New Zealand Fast Forward Establishment Group –“Report on Proposed Governance Structure”

Proposal

1. This paper tables the report of the New Zealand Fast Forward (NZFF) Establishment Group on the proposed governance and operational arrangements for the partnership. It outlines the key elements of the proposed approach and comments on how the recommended approach will meet the objectives of the initiative and manage any public policy risks. The paper seeks Cabinet’s agreement to:
 - a) Adopt the Establishment Group’s proposed governance approach as recommended in their report; and
 - b) Implement the next steps and transitional arrangements to progress the establishment of NZFF.

Executive summary

2. At the core of this new investment initiative is the desire to establish a new way of working to achieve transformation and sustainability in pastoral and food industries.
3. The Establishment Group recommends setting up a new Crown-owned company, NZFF Ltd, to give effect to an Investment Collaboration Heads of Agreement between government and industry partners. The purpose of this company is to develop and drive innovation investment programmes (likely to be 4-6) to achieve transformation and sustainability priorities.

4. This 'fit-for-purpose', sector-focused company would be governed by a small (maximum of 7 people) skills-based Board, with a similarly small, high-calibre secretariat whose key function will be to facilitate bringing the investment programmes together. For each programme a steering group of government agencies and industry investors would provide oversight of programme development and management. The Establishment Group identifies ways NZFF can work with existing providers and government operational agencies such as the Foundation for Research, Science and Technology (FRST), the Tertiary Education Commission (TEC) and New Zealand Trade and Enterprise (NZTE).
5. Comments on the proposed governance approach discuss critical success factors, benefits and costs. They also outline how the Crown's interests will be looked after in the partnership and discuss mitigation of potential or perceived risks.
6. A key benefit of the proposed approach is the opportunity it offers public and private investors to work on innovation together in an integrated way, crossing the boundaries of research, skill development and business support and providing New Zealand firms with a route to market.
7. This model is seen as having considerable potential to lift sector performance. Its development will be evolutionary as experience refines how the relationship can work most effectively. The proposed Crown company form and constitution will provide sufficient flexibility for evolution to take place. At the same time the layered governance approach and procedural provisions will provide sufficient robustness to ensure that the Crown's interests are protected and risks are managed.

Background

8. Following Cabinet agreement in principle [CBC Min (08) 5/5 refers], on 11 March 2008 the Prime Minister announced the government's intention to:
 - establish a partnership with pastoral and food industries to support targeted innovation investment focused on sustainable transformation of the sector; and
 - establish a fund of \$700 million, the revenue and capital from which will be available over 10-15 year to fund the government's commitment to the initiative.
9. This partnership between industry and Government will lift the long-term science base, capability, environmental performance and global competitiveness of this important sector, by:
 - developing a shared vision of transformational change in the pastoral and food sector, to achieve a sustainable future;
 - identifying critical work programmes in which partners will collaboratively invest; and

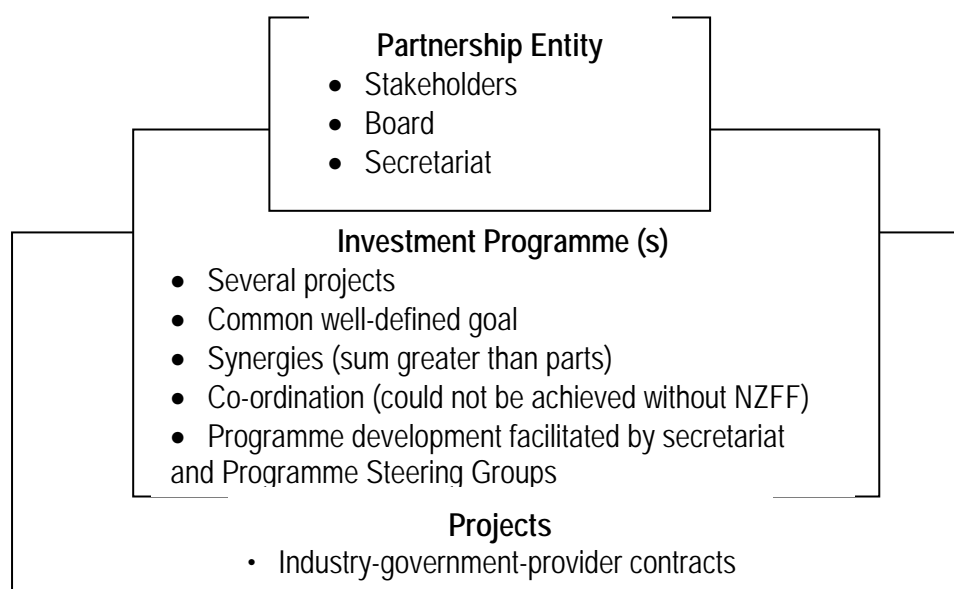
- improving links between our producers and manufacturers; education, science and research providers; and the demands of the global market from “farm to fork” and “water to waiter”.
10. Cabinet agreed that confirmation of the partnership and fund would be contingent on:
 - buy-in and commitment from the pastoral and food industries in partnering with the government including aiming for overall matched funding over the 10-15 year duration of the initiative; and
 - advice to Cabinet Policy Committee (POL) on the partnership vehicle’s governance and operational arrangements.
 11. In the interim, Cabinet has agreed to incorporate a Crown Entity company, New Zealand Fast Forward Fund Ltd, to specifically provide stewardship of the government’s \$700 million fund dedicated to this initiative [Cab Min (08) 14/2 refers].
 12. Already, in the early stages of the development of the initiative, there has been strong interest and buy-in from pastoral and food industries, with indicative commitments at this stage of around \$70 million per annum.
 13. An Establishment Group, comprising industry and government members, was charged with developing the governance and operational arrangements for the partnership. The Cabinet Business Committee invited Ministers to report to POL by 31 May 2008 with implementation recommendations from the Establishment Group on the organisational form of the partnership, including:
 - how the joint decision-making processes for the allocation of government and private sector contributions will operate; and
 - methodologies and criteria for the partnership to use in performing its investment functions [CBC Min (08) 5/5 refers].
 14. The report of the Establishment Group, with their recommended organisational form, governance and operational arrangements for the partnership is attached, together with a draft Heads of Agreement and draft constitution for the partnership vehicle.
 15. For ease of analysis, this covering report consolidates and then comments on the Establishment Group’s recommended approach.

Establishment Group Report – Key Elements

16. The key elements of the attached Establishment Group’s report cover:
 - Partnership to achieve transformation – what will make NZFF different?
 - Governance structure – partnership in practice
 - NZFF investment principles and criteria – what will it invest in?
 - Operation of NZFF – how will it work in practice?

- Efficient and effective use of existing mechanisms
- Monitoring and evaluation – how will we know NZFF is working?
- Next steps and transition arrangements

17. The diagram below summarises the envisaged relationships:



Partnership to achieve transformation – what will make NZFF different?

18. The report highlights that the proposed partnership is a bold, new approach that will enable:

- New Zealand to leverage and enhance its comparative strengths in the pastoral and food sector;
- Better alignment of public and private investment around a shared vision and coherent strategy for sustainable transformation in the sector;
- Coordination and collaboration to harness different and complementary capabilities, information and expertise for the benefit of industry participants and the wider public good; and
- A long-term focus and scale of investment that will significantly contribute to building future capability.

19. The act of partnership engagement itself will enhance linkages between producers, manufacturers, training, education, science and research, consumers and the demands of the global market. Working together the government can invest in capability and the innovation system underpinning the food and pastoral sector. Industry can invest in industry productivity, and together the government and industry can invest in sustainability.

Proposed governance and management structure for the partnership

20. The proposed governance structure has been designed to have effective partnership operating at several different levels.

NZFF Board

21. It is proposed that NZFF be governed by a small (maximum of seven people) skills-based (i.e. not representative) Board responsible for developing, implementing and reviewing the strategy and investment priorities to drive sustainable transformation of the sector. The Board will also be responsible for appointing the Chief Executive and approving the operational budgets of the secretariat, as well as approving members of the steering groups for investment programmes.
22. Following the process of programme development, the Board will confirm that an individual programme is consistent with its strategy and that industry and government are willing to invest, meeting the investment principles and criteria. If it is satisfied on all counts the Board will approve the programme for investment. In accordance with assurance procedures (to be agreed with the NZFF Fund) the Board decision will trigger release of funding to meet the government's investment commitments within the programme.

Secretariat

23. The primary role of the secretariat is to advise and assist the Board in carrying out its functions. In particular the secretariat will have an active facilitation role in the formation and implementation of investment programmes and their constituent sub-programmes and projects. The combined public and private investment will total around \$2 billion over the lifetime of the initiative. The report emphasises that the role of the secretariat, working on behalf of the Board, is a new role of driving sector transformation and sustainability, bringing parties together to work along the whole value chain.
24. To ensure an efficient structure for NZFF the report stresses staffing should be kept to the minimum needed to perform its functions; however, the staff must be highly-respected and capable individuals. In addition to the Chief Executive, the Establishment Group envisages there would be one full-time secretariat advisor with appropriate administrative support for each investment programme. An additional advisor skilled in monitoring and evaluation would also be required.

Stakeholders

25. The Establishment Group proposes an NZFF Investment Collaboration Heads of Agreement be signed by the Crown and cornerstone investors to provide the legal basis under which the government and industry stakeholders will operate and the mechanism whereby the NZFF Board will interact with those parties.
26. Cornerstone investors are industry participants who have made significant investments in NZFF programmes. In order to encourage both serious intent and wide participation the proposed criterion for cornerstone investor status is investors who have committed to invest a minimum of \$5 million in Year 5,

within a total of not less than \$10 million over the first five years of the initiative. It is envisaged that smaller industry players will pool together their investment resources to jointly become a cornerstone investor if they wish to participate at this level of governance.

27. Key joint responsibilities for the Crown and cornerstone investors at this level include:
 - Appointing members of a nomination committee that will subsequently recommend appointments to the NZFF Board, for Cabinet endorsement and appointment by shareholding Ministers;
 - Formal consultation with the Board on development of its investment strategy; and
 - Monitoring the Board's performance.
28. The Establishment Group recommends the skills-based Board be appointed using a nomination committee process, which mirrors that used to appoint members of the Guardians of NZ Superannuation. The nomination committee will confirm a list of candidates acceptable to both the Crown and cornerstone investors, from which it will select a "slate" which meets the required collective skill set. This final recommendation will be made to the Shareholding Ministers to put to the Cabinet Appointments and Honours Committee, which will formally endorse or reject the appointment. The slate of recommendations made by the nomination committee can only be accepted or rejected in its entirety, given that it would be made with a view to the specific skills needed to maintain the collective set of skills required by the Board.
29. These responsibilities will be reflected in the Heads of Agreement. A proposed Heads of Agreement is attached as an appendix to the Establishment Group Report. This will have no legally binding effect until it is jointly agreed and signed by the Crown and cornerstone investors.
30. While industry members will be encouraged to become cornerstone investors, industry firms and organisations can interact with NZFF at many different levels, including:
 - Consultation with the NZFF Board in the development of the strategy (both the initial strategy development, and ongoing reviews of the strategy);
 - Membership of programme steering groups, to the extent an industry member wishes to make a financial commitment and have strategic involvement in the development of a particular programme; and
 - Investment by an industry member in a project or projects within approved investment programmes.
31. This flexibility and range of the governance structure is designed to enable industry participants of different sizes and capabilities to be involved at whichever level best suits that entity and in a manner that maximises their contribution to NZFF objectives.

Legal organisational form

32. The Establishment Group considered a number of possible legal organisational forms that could give effect to the objectives of the partnership, provide appropriate accountability and be sufficiently flexible to adapt to changing requirements over time. Their preferred form is a Crown-owned company under Schedule 4 of the Public Finance Act 1989, with 100 percent Crown ownership, at least in the initial stages.
33. This form ensures accountability for the control of government funds while allowing the possibility of co-ownership by industry participants at a later date if that is seen as desirable by the partners (up to 49 percent for a Schedule 4 company). Legislation is not required to establish the company – once incorporated it can be added to Schedule 4 by Order in Council.

NZFF Investment Principles and Criteria

34. Cabinet provided directions already on principles to guide NZFF investments [CBC Min (08) 5/5 refers]. The Establishment Group has built on these principles to provide a framework for development of more detailed operational policies by the Board. These would then form the basis of specific screening investment tests. The further development of these criteria would be subject to further consultation with stakeholders as part of the strategy consultation process.
35. Two further principles have been added; 'benefit to New Zealand' and 'best practice'. A requirement to benefit New Zealand, especially through measurable spillover benefits, guards against stakeholder capture. The best practice principle includes active knowledge and intellectual property management as well as embedding criteria to drive excellent operational delivery.

Operation of NZFF – development and implementation of investment programmes

36. Following the development of the strategy that identifies transformation priorities, the operational focus of NZFF will be on the development and implementation of investment programmes to give effect to these priorities. The Establishment Group considers there are likely to be four to six programmes, so that NZFF is not spread too thinly. How NZFF will do this is elaborated by way of an illustrative but hypothetical example – an 'innovative foods' programme.
37. The report identifies a key role for programme steering groups, comprising relevant government agencies and industry investors. The steering group would guide the formation and ongoing management of the programme. Final members of the steering group would be subject to the approval of the NZFF Board.
38. As the primary role of the steering group will be governance, the Establishment Group considers that membership of steering groups should be based on investment. Organisations that are primarily providers of services are differentiated from organisations that operate primarily as investors. The

Establishment Group see providers as playing a key role in NZFF, contributing their skills and knowledge to strategy development and advising steering groups. They recommend, however, that providers not normally be part of a steering group.

39. It will be important that the government role in negotiating programmes and projects is clear and coordinated. The Establishment Group, therefore, suggests there be a lead agency, likely to be MAF or MED, that ensures a whole-of government perspective is reflected and that will have authority to speak on behalf of the government. Operational agencies such as FRST, TEC and NZTE will also be involved in programme development as appropriate, often directly negotiating projects. These agencies will play a key role in ensuring that there is understanding of existing initiatives and investments, and how the NZFF programme would work alongside or enhance these (at the very least to avoid duplication and ensure additionality).
40. Once investors have completed negotiation of 'in-principle' projects, and the programme steering group is comfortable that the set of projects meet the investment criteria and the programmes goals, then the programme steering group will seek approval of the NZFF Board for this investment programme to be implemented.
41. As part of finalising the discussions and negotiations both government and industry players will need to have assurance of the comfort of their 'principals' to the proposals. Industry people will go back to their own Boards of Directors to get this assurance. Mirroring this on the government side, it is proposed that the Director-General of MAF, in consultation with the Deputy Secretaries of the relevant departments and agencies, will provide the assurance to the programme steering group and NZFF Board that crown agencies support the 'in-principle' government investment aspects of the proposed programme.
42. It is important to note that the NZFF Board retains the decision-making rights on whether the "in-principle" programme as proposed should go ahead. The Board may in some cases request the programme steering group to reconsider or adjust parts of the proposed programme. Board approval will also be contingent on monitoring and evaluation plans being incorporated in the programmes and projects.
43. The Establishment Group recommend that the NZFF Fund Ltd not have a right to review NZFF Board's investment decisions, apart from ensuring that NZFF Ltd has followed due process for approving a programme and therefore the release of funds for that programme.
44. Each programme will require management. The selection of this manager will be determined by the Board, in keeping with the principle of following best practice and using existing agencies where appropriate.

Use of existing mechanisms

45. The report stresses that the NZFF Board and secretariat will aim to generally not duplicate existing organisations and structures already involved in the pastoral and food sector but to establish a new way of working with them to

achieve transformation. The report identifies ways NZFF can work together with both providers and existing government operational agencies (e.g. FRST, NZTE, TEC).

46. The role of providers in NZFF, as discussed earlier, will be both to contribute their expertise in the development of the strategy, and to provide services under contract for projects within agreed programmes and sub-programmes. A significant proportion of NZFF investment is likely to be through either existing or emerging providers of these services, to the extent that their services support the Board's investment strategy.
47. In regard to existing government investment agencies there are a number of ways they could participate, including as:
 - representatives of the government during the development of programmes and projects, including negotiating specific projects;
 - service providers, using their existing capability to manage programmes, or projects, or to monitor and evaluate services; and
 - investment vehicles, including through existing programmes within the agencies.
48. These agencies have knowledge and experience of working in partnership to manage joint investments with the private sector, and significant scale and breadth of operations. They also have a deep knowledge of the range of current investments in the pastoral and food sector that will be very useful for Steering Groups as programmes are developed. While it is likely that these agencies will participate in steering groups, it does not follow that in every case an existing agency will be best placed to manage a particular programme, even if that programme is in an area where it is actively investing. The Group proposes that as far as possible the NZFF Board should follow best practice principles in procurement of services, including project management and monitoring and evaluation.
49. Government investment agencies have considered the scope they have to act as agents for NZFF (e.g. investing on behalf of the NZFF Board), given that they all operate under their own specific statutes. Some adaptations to their governance, such as Ministerial instructions, will be needed for them to invest on behalf of the NZFF Board. Preliminary views on the adaptations required are outlined in the Establishment Group report [para 7.11-7.19]. As part of the implementation process Cabinet decisions are needed to enable these adaptations.

Monitoring and Evaluation

50. The Establishment Group report emphasises the importance of embedding monitoring and evaluation into the development of the Board's strategy and the investment programmes that flow from the strategy. This needs to occur from the outset to ensure that data collection and reporting requirements are streamlined and efficient.

51. Part of the overarching evaluation will need to include an assessment of the effectiveness of the structures and processes which have been established to implement NZFF.

Comments on proposed governance form

Critical success factors, benefits and costs

52. At the core of this new investment initiative is the desire to establish a new way of working to achieve transformation. The features that make NZFF different and bold (sector-focused, across the whole value chain, collaborative, aligned public/private investing, targeted on agreed priorities, long-term capability building, scale) will help future-proof New Zealand's comparative strengths in pastoral and food industries.
53. Its success will depend on the development and maintenance of a long-term, robust partnership relationship between government and pastoral and food industry participants. In considering governance options to underpin this partnership the Establishment Group has opted for layered partnership arrangements they consider best support a new way of working and will provide efficient, effective delivery of the transformation objectives of the initiative. Attracting a high-performing Board and secretariat will also be critical.
54. The Establishment Group also notes the importance of ensuring transparent policies and plans regarding ownership and management of intellectual property. Intellectual Property plans will be in place for all activities.
55. A key benefit of the proposed approach is the opportunity it offers to encourage public and private investors, working together to view and act on innovation in the sector as an integrated system. This will need to occur at many levels and cross traditional boundaries of research, skill development and business support and providing New Zealand firms with a route to market. This will work to enhance the functioning of the innovation system across the whole sector and minimise fragmentation and duplication of activity and investment.
56. In recommending the setting up of a new Crown company to give effect to the Investment Collaboration Heads of Agreement, the Establishment Group was mindful of developing a fit-for-purpose organisational form. Embedding the partnership, or even responsibility for the Crown's part of the partnership, in any of the existing crown entities such as FRST, TEC or NZTE (which are statutorily focused on partial elements of the innovation system) would make the desired system integration and sector focus more difficult to achieve. That said, the Establishment Group has been emphatic that strong NZFF connections with and across these agencies are critical to success.
57. The Establishment Group also briefly considered whether it might be appropriate to integrate stewardship of the government NZFF Fund with the governance and operation of the partnership vehicle itself. While in the longer term this could be considered, the skills and focus required for prudent

stewardship of the NZFF Fund are quite different from the skills and focus required to develop strategy and drive investment priorities to transform the pastoral and food sector. In addition, the accountabilities are different. The partnership vehicle represents the interests of both the Crown and industry stakeholders, whereas the NZFF Fund is steward for the Crown's investment in the partnership only.

58. A 'fit for purpose' organisational structure provides a focused mechanism for developing the sector industry-government relationship and driving the desired vertical integration in the sector. A dedicated organisation does not imply duplication or inefficient use of resource. Delivering this new investment initiative would require additional administrative support, procedures, systems, liaison between parties and contractual documents wherever it was located. The expectation is that the small secretariat will have a flat management structure with the Chief Executive supported by 4-6 advisors and appropriate administrative support staff. The advisors will need to have strong analytical capability, plus extensive project, financial and stakeholder management skills.
59. The Establishment Group noted that NZFF will be responsible for investing approximately \$2 billion over its 10-15 year life cycle, and that the partnership's success will ultimately depend on the calibre of its Board, secretariat and operating systems. The Establishment Group estimates cost for the first year of establishment, which will include strategy development and consultation, in the region of \$5 million. Operating costs may fall in out-years as programmes are finalised and the Board will be meeting less frequently.
60. Based on the assumption that NZFF will manage an average annual investment stream of around \$130 million, its first year operating costs represents 3.8% of its annual allocation. This ratio is a useful measure of organisational efficiency. This estimated ratio for NZFF compares favourably with comparable domestic and international organisations¹. The fact that these operating expenses will be charged against the fund also provides strong incentives for the public and private investors to continually monitor NZFF costs and ensure it operates in an efficient and effective manner.

Risks to be managed

61. This section discusses a range of potential or perceived risks. These are discussed in terms of their mitigation and management rather than as reasons for not proceeding with the proposed governance arrangements.

Ensuring the Crown's interests are looked after

62. The government is involved throughout all stages of the initiative, from nominating and approving (and if the need ever arises, sanctioning) the Board members; the development of the strategy and subsequent programmes; and

1 Health Research Council (4.8%), FRST (3.5%), NZ Venture Investment Fund (5.0%) and Royal Society of New Zealand (4.5%) provide useful New Zealand benchmarks. These figures are also comparable with UK and Canadian examples. In general, the more complex the process (such as levels of facilitation and negotiation) the higher the administrative cost.

evaluation of the programmes. Each year the company will produce a Statement of Corporate Intent and an Annual Report. Listing the company under Schedule 4 of the Public Finance Act also enables the government to request any other information it needs in relation to operations and performance of the company.

63. As a Schedule 4 organisation, NZFF will be subject to audit by the Auditor-General, and certain provisions of the Crown Entities Act will automatically apply. Additional accountability provisions are: that Sections 150 and 161-164 of the Crown Entities Act will apply (requiring an Annual Report, and restricting certain financial undertakings); that NZFF will each year prepare a statement of corporate intent; and that NZFF will be subject to the Official Information Act 1982 and the Ombudsmen Act 1975.
64. The Minister of Finance and Minister of Agriculture are shareholding Ministers, with the Minister of Agriculture being the responsible Minister, with accountability for performance and delivery of outcomes for NZFF.
65. To reflect accountability of the shareholding Ministers, MAF will lead the Crown engagement with the initiative, and the Deputy Secretaries group² will continue as the vehicle to achieve a joined-up government approach, with MAF as chair.
66. The lead government agency in each programme's steering group will be agreed by Deputy Secretaries. Assurances of government support and preparedness to invest is signed off by the Director-General of MAF, in consultation with the Deputy Secretaries.
67. In terms of monitoring and evaluation:
 - MAF carries out monitoring & evaluation function for the Crown in consultation with:
 - MFE, MED, MORST and TEC (and other agencies as appropriate) on sustainability and transformational goals;
 - CCMAU on governance, financial and other Board performance issues.
 - Treasury carries out monitoring function of Fund in consultation with CCMAU on governance issues and other agencies as appropriate.
 - MAF, Treasury and CCMAU jointly report on relationship between the NZFF and the NZFF Fund.
68. The above arrangements are outlined in more detail in Annex One to this paper.
69. Sustainability has been considered in the design and operation of the partnership. Sustainability is one of the overarching investment principles that

2 Members should include at least MED, Environment, MORST, Fisheries, Treasury, DPMC, MFAT and operational agencies (TEC/FRST/NZTE).

the NZFF must use in developing its strategy and deciding investment programmes. Understanding of sustainability principles and the sustainability challenges facing the sector has been included as an attribute for Board membership.

The role and influence of cornerstone investors versus other industry stakeholders

70. NZFF is a partnership between the government and the pastoral and food industries. Industries and firms can interact with NZFF at several different levels including development of the strategy, membership of programme steering groups and recommending potential Board members.
71. Cornerstone investors are one way for investors to become involved. Between them cornerstone investors nominate one member of the nomination committee that will recommend Board members to Ministers and cornerstone investors. They also get to formally comment on the strategy. Acknowledging cornerstone investors is seen by the Establishment Group as one way for industry to coalesce to efficiently engage in these functions. It does recognise that those who are prepared to make substantial investments have a suitable level of influence in the governance of NZFF. It encourages other investors to coalesce to become cornerstone investors. However, as stressed throughout the report both the Board and the strategy will need wide buy-in to be successful and it is expected that all parties – all investors, cornerstone investors, the government, the Board and the secretariat – will be active in ensuring a wide range of views is canvassed.

Risks of disconnect from the rest of the innovation system

72. No party wishes to see unnecessary duplication of effort. NZFF is about additional investment and recognises that while both industry and the government already invest significantly, increased investment is necessary if New Zealand is to meet the challenges and take full advantage of the opportunities that we face as a country.
73. The lead agency in programme and project negotiations will play a crucial role in ensuring that all relevant government agencies are consulted and involved as appropriate, including operational agencies. The secretariat will also need to be aware of key activities across the innovation system, including existing government spend, and bring this knowledge to the facilitation process. Moreover, key agencies will be involved in all stages of the process from the formulation of the strategy, development of the programmes and management of the projects. These roles will be important to ensure that existing mechanisms and facilities are used to maximum effect in a way that is consistent with NZFF's investment principles

Behaviour risks – ensuring collaboration not gaming

74. A number of steps have been taken to minimise this risk. Requiring NZFF Ltd to be a Crown company ensures a high level of accountability, reporting and transparency. A skills-based board, chosen by a nominating committee (including a member nominated by government) and endorsed by Cabinet

ensures independence. The open process around the development of the strategy and programmes, with multiple government agencies being involved will ensure a very high degree of critique. The investment principles are also designed to ensure that NZFF activities are developed in partnership, are transformational, sustainable and benefit New Zealand. Finally, because the pastoral and food sectors encompass a wide range of players there will be a natural “policing” and critiquing of proposals.

75. The medium to long-term approach of the NZFF initiative, the requirement for overall matched funding and the explicit acknowledgement of the need to build capacity, all help to ensure that quality investments are made that will maximise the benefit to New Zealand. While the urgency of the task that confronts New Zealand is well recognised, it is important that the initiative provides the right incentives to take the necessary time to “get it right”.
76. Ministers can substantially mitigate this risk by consistently making clear that the funding will be made available only for initiatives that meet the investment principles and that are truly transformational. A key demonstration of this commitment is the articulation of the investment principles and the delegation to offices of the accountability and responsibility for approving investments in accordance with these principles.

Ensuring the independence of the secretariat

77. The small secretariat cannot function on its own. It is accountable to the Board. Moreover, one of its key roles is facilitation and therefore its activities will be very transparent. As a Crown company both the Board and the secretariat will be monitored by government (MAF and CCMAU).

Ensuring that NZFF does not create unnecessary bureaucracy

78. As discussed earlier, NZFF is designed to be a more effective way for the government and industry to work together (including industry with industry, and across government agencies) to transform one of our key sectors and make it more sustainable. NZFF is designed to coordinate and align innovation investment, to encompass the whole value chain and achieve outcomes in a way that have not been possible before. It represents a level of government and industry investment that is unparalleled. This is not business-as-usual and will not be easy. It will require strong experienced leadership by the Board and the secretariat. A lean but high powered secretariat is proposed – one whose key function will be to facilitate key players to bring these investment programmes together. The secretariat will not manage all the programmes and projects, but will look to existing institutions and mechanisms where appropriate.
79. Programme steering groups will have a key role in developing and administering programmes. It is not proposed that the NZFF provide funding to operate the programme steering groups (agencies and investors will cover these) however, in line with standard investment funding practice, the costs of projects will reflect the need for their management and evaluation.

80. To ensure high-quality investments and the achievement of outcomes, it will be very important for the Board and secretariat to be high calibre and appropriately funded.

Risks of poor decisions – ensuring robust criteria and decision-making processes

81. Work done to date is aimed to ensure the highest level of governance possible. It is proposed that this work, such as the investment principles, be embedded in the Heads of Agreement and the constitution of the company. Empowering the independent skills-based board is designed to ensure a high level of judgement and oversight. The programme approach is designed to achieve the appropriate balance between being innovative and transformative, while taking risks within a portfolio. This ability to discontinue or redirect non-performing investments is aimed at minimising non-performing investments³. The partnership approach where both industry and government agree on an investment programme, invest accordingly and jointly monitor the outcomes combines to a degree of oversight that will minimise the risks of poor decision-making.

Early investment opportunities

82. While the Establishment Group has primarily focused on the governance of the NZFF initiative, it is understood that all parties have an interest in early investment opportunities that embody NZFF principles. The Ministry of Economic Development has continued to lead the work around the recommendations from the Food and Beverage Taskforce, particularly with the development of a business plan around the Food Innovation Network of New Zealand. Development of initiatives such as the MoRST's New Zealand Research Agenda, MED's Areas of Focus, and sector initiatives such as Pastoral 21, and the horticulture and aquaculture industry strategies have also progressed and been energised by the announcement of the NZFF initiative.
83. MAF, with the approval of the Minister of Agriculture and under the guidance of the Establishment Group has engaged a recruitment company to help identify appropriate Board members, so that, if approved, NZFF can begin its work as quickly as possible.

**Paragraph withheld under
section 6(a) of the Official Information Act 1982**

³ When investing in R&D and other investment there are many right choices, and often not a single right choice, so investors make the best choice they can with the information they have at the time. Since innovation is risky some things might not work out – it is best to monitor and stop the ones that don't, rather than not be prepared to take some risks in decision-making.

Overview Comment on Governance

84. We support the governance and operational directions proposed by the Establishment Group, and specifically the establishment of a 100 percent Crown-owned company, NZFF Ltd, to give effect to an Investment Collaboration Heads of Agreement between the Crown and cornerstone investors.
85. The detail in the Investment Collaboration Heads of Agreement needs to be finalised and agreed before signing (the aim is to do this by July) and it will then be reflected in the company constitution.
86. This model for government-industry investment collaboration is new and has considerable potential to lift sector performance. Its development will be evolutionary as experience refines the dynamics of how the relationship can work most effectively. The proposed Crown company form and constitution, which will reflect the Heads of Agreement between shareholding Ministers and cornerstone investors, will provide sufficient flexibility for evolution to take place. At the same time the layered governance approach and procedural provisions will provide sufficient robustness to ensure that the Crown's interests are protected and risks are managed.
87. What will be crucially important to the ongoing success of this venture is the calibre and quality of the Board and the secretariat. The constitution can only take participants so far in providing a foundation— even more important to ongoing success will be appointment of the right people, committed and trusted to operate in accordance with the objectives and investment principles of the initiative.
88. A number of practical next steps and transitional arrangements need to be put in place to implement these directions.

Next Steps

89. Adoption of the proposed governance arrangements for the New Zealand Fast Forward (NZFF) investment collaboration requires the following steps for implementation:
 - Appointment of inaugural Board;
 - Signing of Investment Collaboration Heads of Agreement, setting out key principles for NZFF and the roles and responsibilities of government and industry investors;
 - Incorporation of NZFF Ltd and approval of an Order in Council to add the company to Schedule 4 of the Public Finance Act 1989 and to Schedule 1 of the Ombudsmen Act 1975;
 - Ensure establishment funding of NZFF Ltd from NZFF Fund Ltd occurs;

- Establishment of the secretariat, including recruitment of Chief Executive;
- Development of a business plan and budget for set-up and first year of operation; and
- Commencement of strategy development and work on initial investments.

90. The following sections detail these steps and the decisions needed.

Inaugural Board Appointments

91. The Establishment Group believes it is highly desirable to establish the Board and Chief Executive quickly, in order to start the process of wider engagement with industry and providers on strategy and to complete the process of recruiting the secretariat. Given this, and having informed key Ministers, the Establishment Group has initiated a process for searching and selecting suitable candidates (Chair and members) for the inaugural Board.
92. The Establishment Group will oversee the process and will appoint a three person Nomination Committee⁴, including the government Chair of the Establishment Group. MAF, acting in its support role to the Group and after discussion with CCMAU, has engaged a search agency with international experience to assist with the search for suitably skilled and experienced candidates, including assessing potential overseas-based candidates who may be suitable.
93. Nominations are being invited from a wide range of industry stakeholders. At an appropriate stage in the process the proposed list of candidates will be discussed with initial cornerstone investors and key Ministers, prior to selection of the final Board by the Nomination Committee. Final selection by the Nomination Committee will be presented to shareholding Ministers to take to Cabinet Appointment and Honours Committee for endorsement.
94. The proposed set of attributes and skills for the Board members, used in this selection process, are outlined in Appendix 5 to the Establishment Group report. The key elements and timings for the process are:
- Search agency establishes list of potential candidates (by 27 June);
 - Establishment Group confers with key Ministers and initial cornerstone investors regarding list of candidates;
 - Establishment Group Nomination Committee working with agency selects short list of candidates (by 8 July);
 - Nomination Committee interviews (9-14 July);
 - Nomination Committee presents Board selection to shareholding Ministers(around 16 July); and
 - APH endorses Board and fees (23 July).

⁴ This process is essentially the same as that proposed for ongoing Board appointments, with Establishment Group members (having signed a letter of intent signalling their commitment to invest significantly through NZFF, subject to development of suitable programmes), as the initial cornerstone investors.

95. The timings in this process are very tight. Given the significant leadership and communication required of the inaugural Board in these early stages, the Establishment Group has recommended that particular effort should be given to early appointment of an inaugural Chair who can undertake this role. If the proposed timeframe for a full slate of high quality Board members becomes too difficult to achieve by July, the Group recommends that a suitable Chair be appointed and the Establishment Group continue as an advisory board until the 'ongoing' board is finalised.

Signing of the Investment Collaboration Heads of Agreement

96. As outlined earlier, the Heads of Agreement will be the foundation document of the partnership between government and industry. The draft Heads of Agreement is attached as Appendix 3 to the Establishment Group report. This document will be finalised and signed by the government, represented by shareholding Ministers, and the initial cornerstone investors (i.e. those firms and organisations who have signed letters of intent to invest significantly through NZFF). This step can occur as soon as Ministers have approved the proposed governance arrangements.

Incorporation of New Zealand Fast Forward Ltd

97. Following the signing of the Heads of Agreement and the appointment of the inaugural Chair, the company's constitution will be finalised and the company incorporated. An Order in Council will be prepared to add the company to Schedule 4 of the Public Finance Act 1987 and Schedule 1 of the Ombudsmen Act 1975 following incorporation.
98. Given the timing of the company's establishment, the Establishment Group should prepare a draft business plan including a more detailed budget for the ongoing secretariat.

Secretariat establishment

99. Once the NZFF Board or at least the inaugural Chair has been appointed, the immediate next step will be to appoint a Chief Executive and for that person to establish the secretariat.
100. A key initial task for the Chief Executive will be to prepare a business plan for NZFF Ltd for consideration by the NZFF Board. This will involve decisions on the roles, functions, location and size of the secretariat. The proposed structure for the secretariat is indicative only and needs further refinement; this indicative structure is not intended to limit the powers and options of the NZFF Board and its Chief Executive.
101. The initial business plan will be discussed with shareholding Ministers and cornerstone investors. Once approved by the Board, this plan will form the basis for release of government funding from the Fund custodian company for the operational costs of the NZFF Board and secretariat.

Transition Arrangements

102. Until the NZFF Board, Chief Executive and secretariat members are formally in place, the Establishment Group and its working group should continue to have an active role in developing operational policy and processes, and beginning the data collection and environmental scanning phase of the development of the investment strategy. Once a Chair is appointed, the Establishment Group will work as an advisory Board with that person until the remainder of the Board is appointed. Similarly, once the Chief Executive is appointed, the working group will support that individual until the secretariat is established.
103. An advantage of this type of transition is the opportunity it offers for a well informed handover regarding the Establishment Group's thinking in formulating its recommendations. Such an approach will enable the key foundations to be put in place on which the Board and Chief Executive can build. This will be critical if the NZFF is to have well-developed strategies and programmes in place sooner rather than later.

Funding arrangements for transition

104. To date, secretariat costs for supporting the Establishment Group have been carried by MAF and MED. Industry participants have covered the time and travel costs of their members of the joint working group and Establishment Group.
105. Although beyond 30 June 2008 there is no appropriation in MAF or MED to cover secretariat costs, given that it is estimated the maximum period for which transition funding would be needed is 4-6 weeks, it is proposed that MAF and MED continue to support the Establishment Group from baseline funding during this period. Once the Chair of NZFF is appointed and the Fund itself is established, then funding for NZFF will be able to flow, enabling it to establish the secretariat and progress the strategy development.
106. During that period it would be expected that industry would also continue funding its participation.

Consultation

107. This paper was prepared by the Ministry of Agriculture and Forestry. The following government agencies were consulted in the preparation of the paper and agree with its recommendations: Ministry of Economic Development, Treasury, Ministry of Research, Science and Technology, Foundation for Research, Science and Technology, Tertiary Education Commission, New Zealand Trade and Enterprise, Ministry of Foreign Affairs and Trade, Ministry for the Environment, Ministry of Fisheries, State Services Commission and CCMAU. The Department of the Prime Minister and Cabinet was informed.

Financial implications

108. Not applicable

Human rights

109. All human rights will be complied with in the implementation of this initiative.

Legislative implications

110. Not applicable. New Zealand Fast Forward Ltd will be added to Schedule 4 of the Public Finance Act 1989 and to Schedule 1 of the Ombudsmen Act 1975.

Regulatory impact analysis

111. Not applicable.

Gender implications

112. The Ministry of Women's Affairs will be consulted about potential candidates for the Board who meet the skills and experience profile.

Disability perspective

113. Not applicable

Communications

114. NZFF communications will need to be aligned with the key initiative milestones:

- Phase I: Establishment Group presents the report to Cabinet;
- Phase II: NZFF Investment Collaboration Heads of Agreement signed and a Chair announced;
- Phase III: Secretariat created and Chief Executive appointed; and
- Phase IV: Ongoing communications.

115. All government communications will be led from the office of the Minister of Agriculture – in particular for Phases I and II.

116. Communications for Phase III will be led from the Chair with support from the Communications Group at the Ministry of Agriculture and Forestry.

117. Phase IV – ongoing communications – will be the responsibility of the new NZFF CE and secretariat.

Recommendations

118. We recommend that the Committee:

1. Note that the Cabinet Business Committee "invited Ministers to report to POL by 31 May 2008 with implementation recommendations on the organisational form of NZFF Ltd, including:
 - 1.1 How the joint decision-making processes for the allocation of government and private sector contributions will operate; and
 - 1.2 Methodologies and criteria for NZFF Ltd to use in performing its investment functions."(CBC Min (08) 5/5 refers).

2. Note and endorse the report of the New Zealand Fast Forward Establishment Group – *Report on Proposed Governance Structure*.
3. Agree to adopt the governance approach recommended in the Establishment Group’s report; in particular
 - 3.1 Agree to incorporate New Zealand Fast Forward under the Companies Act 1993, add it to Schedule 4 of the Public Finance Act 1989 and apply the following sections of the Crown Entities Act 2004 as if it were a Crown entity:
 - Section 150 – the requirement to produce an Annual Report;
 - Section 161 – restrictions on the acquisitions of securities;
 - Section 162 – restrictions on borrowings;
 - Section 163 – restrictions on giving of guarantees and indemnities; and
 - Section 164 – restrictions on the use of derivatives;
 - 3.2 Agree that NZFF Ltd be subject to the Official Information Act 1982 and added to Schedule 1 of the Ombudsmen Act 1975 by Order in Council;
 - 3.3 Agree that the Minister of Finance and the Minister of Agriculture be the shareholding Ministers of the company, with the Ministers of Economic Development; Research, Science and Technology; Environment; and Fisheries consulted as appropriate;
 - 3.4 Agree that the proposed nomination committee approach be adopted to make recommendations for members of the Board of the company, and that such recommendations should be endorsed or rejected in their entirety by Cabinet Honours and Appointments Committee, given the recommendations will be made to ensure the required collective skill set of the Board; and
 - 3.5 Agree that an Investment Collaboration Heads of Agreement be signed by shareholding Ministers and members of the pastoral and food industries who have committed to invest a minimum of \$5 million in Year 5, within a total of not less than \$10 million over the first five years of the initiative (cornerstone investors), as set out the principles, governance and operating framework for the NZFF initiative.
4. Direct MAF, working with the Establishment Group and key government agencies to:
 - 4.1 Finalise the Heads of Agreement for signature by shareholding Ministers and cornerstone investors; and
 - 4.2 Finalise the constitution for NZFF Ltd and incorporate the company.

5. Invite the Minister of Agriculture to issue instructions to Parliamentary Council to draft the Order in Council to add NZFF Ltd to Schedule 4 of the Public Finance Act 1989 and to Schedule 1 of the Ombudsmen Act 1975.
6. Note that:
 - 6.1 Programmes of investment (focused on priorities identified in the transformation strategy) will be negotiated by industry and government investors collaborating together. A programme will comprise a number of projects, all contributing to the programme outcomes. (Over the lifetime of the NZFF initiative there are likely to be around 4-6 programmes.);
 - 6.2 Oversight of programme development will be provided by a programme steering group. Membership of this steering group will be agreed by the NZFF Board;
 - 6.3 A key function of the NZFF Board is to approve programmes for investment. Once investors have completed negotiation of projects 'in-principle', the programme steering group will then seek the approval of the NZFF Board for this investment programme to be implemented;
 - 6.4 As part of finalising the negotiations, and prior to Board decisions, both government and industry players will need to provide assurance of the comfort of their 'principals' to the proposals; and
 - 6.5 For industry this will be in the form of assurances from their own Boards of Directors.
7. Agree that on the government side, assurance that departments and agencies support the 'in-principle' government investment aspects of the proposed programme, will be provided to the programme steering group and NZFF Board by

EITHER

- 7.1 the Director-General of MAF, in consultation with the Deputy Secretaries of the relevant departments and agencies;

OR

- 7.2 the Director-General of MAF, in conjunction with the Secretary of the Treasury, and the Chief Executive of the Ministry for Economic Development, in consultation with the Deputy Secretaries of the relevant departments and agencies.

8. Agree that once the NZFF Board approves an investment programme, then:
 - 8.1 On the basis of assurance that due process has been followed, NZFF Ltd can request NZFF Fund Ltd (the \$700m Crown capital fund) to release funds to meet the government's commitment within the programme; and
 - 8.2 Subject to confirmation of due process, NZFF Fund Ltd will release the funds as requested.

9. Note the relationship between NZFF Fund Ltd and NZFF Ltd will be set out in an agreement between the two parties.

10. In order that existing government investment agencies can potentially be used to invest and/or manage funding from NZFF Ltd:

10.1 Agree that

10.1.1 TEC may undertake investment decisions and/or activity on behalf of the NZFF Board and receive NZFF funding to do this; and

10.1.2 MAF and TEC will jointly report to the Minister of Agriculture and the Minister for Tertiary Education, in consultation with the NZFF Board, on specific options for how the TEC can undertake activity on behalf of NZFF, including whether it is necessary to add to TEC functions under section 159J(3A) Education Act 1989;

10.2 Invite the Minister for Economic Development and Minister of Trade to jointly direct NZTE to carry out additional functions in relation to trade, industry and regional development for NZFF under section 9(1)(e) of the New Zealand Trade and Enterprise Act 2003; and

10.3 Note that the Foundation for Research, Science and Technology Act 1990 does not restrict FRST from receiving and investing revenue from sources other than the Crown for public good research activities, as long as the Minister of Research, Science and Technology agrees to this.

Implementation and Transition Arrangements

11. Note that the Minister of Agriculture and Minister of Finance, as shareholding Ministers of NZFF Ltd, will take a paper to the Cabinet Appointments and Honours Committee for endorsement of the Chair and Board of NZFF Ltd by 31 July 2008.

12. Agree that:

12.1 Pending appointment of the NZFF Chair and Board, the Establishment Group will continue to have an active role in developing operational policy and processes, including a draft 2008-09 business plan, and beginning the strategy development process;

12.2 Once the Chair is appointed the Establishment Group will work with the Chair as an Advisory Board until the remainder of the Board is appointed, and will begin the strategy development process; and

12.3 A joint working group of officials and industry members will support the Board until the Chief Executive is appointed and the secretariat established.

Website Release of Establishment Group Report and Covering Cabinet Paper

13. Agree that, following announcement of Cabinet decisions on the governance arrangements for NZFF, the Establishment Group report and covering Cabinet paper will be placed on agencies' websites, with any information considered sensitive or commercial-in-confidence removed.

Jim Anderton
Minister of Agriculture

/ /2008

Dr Hon Michael Cullen
Minister of Finance

/ /2008

Hon Pete Hodgson
Minister of Economic Development
Minister of Research, Science and Technology
Minister of Tertiary Education

/ /2008

Hon Trevor Mallard
Minister for the Environment

/ /2008

How government will organise itself around the initiative.

Accountability

- Minister of Finance and Minister of Agriculture are shareholding Ministers, with Minister of Agriculture the Responsible Minister.
- This means the Minister of Agriculture has accountability for performance and delivery of outcomes for NZFF.

Required roles

One agency needs to lead whole of government approach to:

- Involvement in consultation on strategy
- Formal comment on strategy
- Negotiations within programmes (oversight of delegation to departments or operational agencies)
- Sign off on government commitments to funding (that meets Fund accountability requirements)
- Monitoring and reporting on Board performance (operational) as well as achievement of outcomes
- Routine paperwork around appointments, tabling annual reports etc

Proposed structure

To reflect shareholding Ministers and accountability propose:

- MAF leads the Crown engagement with the initiative, and
- The Deputy Secretaries group (Dep Secs) continues as the vehicle to achieve a joined-up approach, with MAF as chair. Members should include at least MED, Environment, MORST, Fisheries, Treasury, DPMC, MFAT and operational agencies (TEC/FRST/NZTE).

Strategy

- Board consults widely, including with all appropriate government departments and agencies, as it develops a draft strategy.
- Formal comment on draft by Shareholding Ministers in consultation with appropriate Ministers – MAF will prepare this, under guidance of Dep Secs
- Strategy finalised by NZFF Board.

Programmes

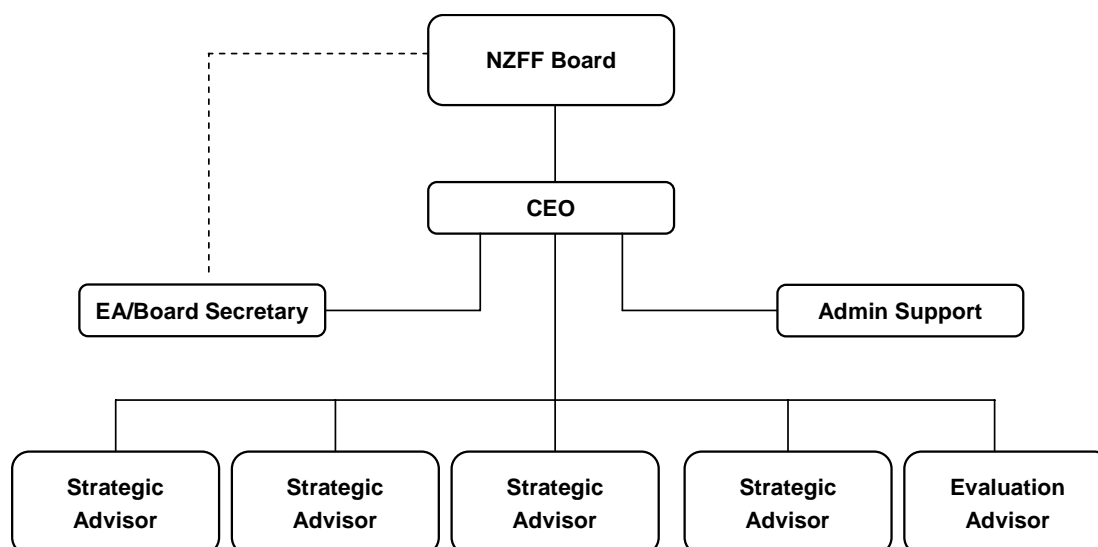
- Lead agency in each programme steering group (PSG) agreed by Deputy Secretaries.

- Role of lead agency is to:
 - co-ordinate whole of government approach to negotiations (including ensuring appropriate government agencies are included)
 - report to Dep Secs on progress/issues
 - in particular, ensure MFAT in loop so any trade issues flagged early
 - seek formal approval of DG MAF to funding commitments being negotiated
- Confirmation of Government support at PSG level (and preparedness to invest) is signed off by DG MAF in consultation with Dep Secs – MFAT sign-off compulsory part of this - lead agency takes this back to PSG. (Final approval to spend Crown money is by the NZFF Board when it approves the programme.)
- Briefing paper will be sent to Shareholding Ministers and to Ministers of MED, Environment, MORST, Fisheries, MFAT and operational agencies (TEC/FRST/NZTE) as appropriate, advising details of agreed programmes.
- Issue of accountability of a non-MAF lead agency to its own Minister - they are in the PSG as a negotiator for their department/agency with reporting/accountabilities in respect of their own projects as appropriate; but role as lead agency is accountable to MAF & Dep Secs, and lead agency's Minister will not make decisions on overall issues for programmes - those are for shareholding Ministers, in consultation with other Ministers.

Monitoring and evaluation

- MAF carries out monitoring & evaluation function for the Crown in consultation with:
 - Environment & MED/MORST/TEC on sustainability and transformational goals (and other agencies as appropriate); and
 - CCMAU on governance, financial and other Board performance issues.
- Treasury carries out monitoring function of Fund in consultation with CCMAU on governance issues and other agencies as appropriate.
- MAF & Treasury/CCMAU jointly report on relationship between the two agencies.
- Overarching evaluation of whether initiative has achieved transformation, effectiveness of partnership approach and interrelationships with existing spending etc required, and should be embedded into programme and Board reporting from the start to ensure efficiency and completeness in data collection.
- Important that timing of evaluation is appropriate. It is important to monitor the achievement of project and programme milestones on ongoing basis and act on this information. It is also important to recognise the long-term nature of initiative and the step change being sought, and the timeframe for this to become evident.

Proposed Organisational Structure for NZFF Ltd



Cost assumptions

The following assumptions have been used in developing the estimates contained in this appendix:

- The secretariat will be 'lean'
 - Secretariat will be co-located with another organisation/agency where practicable to enable cost sharing and access to key services — but needs to maintain its autonomy
 - Services & functions will be outsourced where possible
- Structure is a 100% crown-owned company
- Costs include the full Board running costs
- Secretariat will facilitate each programme Steering Group (Strategic Advisors)

Board costs

The Board will comprise one Chair and up to 6 additional members.

Board Fees

- Fees paid need to reflect the important role NZFF will play in transforming New Zealand's pastoral and food sectors.
- This estimate takes into account SSC fees framework and industry current practice.
 - Chair: \$70, 000 per annum
 - Members: \$35,000 each per annum

Board operating costs

- Per meeting costs (includes travel, accommodation, meeting room, etc) of \$10,000 to cover meeting costs.
- The estimate assumes 8 meetings for the first year of NZFF, to allow establishment and strategy development phase. For subsequent years this would be expected to reduce.

Secretariat costs

Personnel costs

The secretariat is assumed to comprise a CEO, up to 5 Senior Advisers, and administrative support.

The secretariat will have 4 key functions:

- Service the Board
- Facilitate strategy development
- Catalyse and facilitate Programme development
- Active investment management

Chief Executive Officer

- Core responsibilities:
 - Relationship with Board
 - Manage the secretariat
 - Represent the secretariat/Board on each Steering Group
 - External relationship management with industry partners and government
- Likely salary range: \$220k – \$300k

Strategic Advisers

- 5 positions, 1 per programme area + 1 evaluation adviser
- Core responsibilities:
 - Facilitate and assist in strategy development
 - Facilitate and catalyse early programme development
 - Establish and support the Steering Group
 - Act as champion of programme to Board
 - Ensure NZFF outcomes reflected in programme contract
 - Take an active role in managing the programme to ensure NZFF outcomes
 - Represent Board view in all phases
 - Direct all evaluation activities
- Strategic Advisors may be gradually replaced by Programme development experts and/or Investment management experts as the secretariat role evolves and as the

strategy phase moves into the programme development phase and onto management of the investment programmes.

- Likely salary range: \$150k – \$220k

Admin/support

- 2 positions
- Core responsibilities:
 - CEO admin support
 - Board support
 - Provide admin and analysis support for Strategic Advisors
- *Likely salary range:*
 - Admin 1 \$60k – \$75k
 - Admin 2 \$45k – \$55k

Other Operating Costs

- Working assumption uses 65% of the upper range of direct salary costs as a guide to operating costs. This is lower than the usual rule of thumb for calculating operating costs (of 100% of salary costs), as the secretariat comprises only a few highly skilled but appropriate remunerated staff and would have a shared service agreement with MAF for corporate services (e.g. finance, legal, HR and IT).
- This amounts to approximately \$1m per annum.

Set up Costs

- In establishing NZFF Ltd, NZFF Ltd will incur some set up/capital costs, such as for office fit out, furniture and IT cabling.
- This amounts to approximately \$300k in 2008/09.

The above assumptions combine to provide the following estimate of NZFF costs for the first year of operation:

Estimated total costs for the first year

Board		(\$000)
	Fees	280
	Operational Costs	80
Secretariat		
	Salaries	1,540
	Operational Costs	1,000
	Total Board & Secretariat	2,900
Other		
	Consultancy Estimate	1,800
	Total operating costs	5,000
Set up	<u>(only in year first year)</u>	<u>300</u>

Costs are likely to fall in the out-years as programmes are finalised, as the Board will be meeting less frequently and the consultancy budget is expected to fall significantly (although outside expertise is likely to be required on an ongoing basis for legal/contracting/accounting services).

These costs are a best estimate. A more detailed business plan, including the number of programmes will need to be developed by the NZFF Ltd.

Cost comparisons with other organisations

NZFF is expected to invest around \$2,000m over the life of the initiative. Half of this is expected from the private sector. On the assumption of an annual average investment stream of around \$130 million, the first year measure for NZFF is 3.8%. However, annual investment in the first few years will be less than this as the Board develops its strategy and programmes are developed and capability built. Whereas annual investment will ramp up to around \$200m p.a. once programmes are approved and are being implemented, during which the measure for NZFF would be 2.5%.

The functions of the secretariat are new and challenging. The secretariat is expected to facilitate bringing a wide range of players and investment together in a comprehensive programme that spans the value chain and achieves a step change in performance.

A useful rule of thumb when considering efficiency of investment processes is an estimate of administration costs as a percentage of overall allocation. By this calculation FRST (3.5%), HRC (4.8%), NZVIF (5.0%) and RSNZ (4.5%) provide useful New Zealand benchmarks. Clearly economies of scale are important in driving down this efficiency indicator. These figures are also comparable overseas, e.g. in the UK the benchmark is 5% of the annual investment stream; figures available from Canada indicate a range from 3% up to 6-11%.