

## Treasury Report: Budget 2006 Bilateral Briefing - Vote Customs

<b>Date:</b>	24 February 2006	<b>Treasury Priority:</b>	Medium
<b>Security Level:</b>	BUDGET-SENSITIVE UNTIL BUDGET DAY	<b>Report No:</b>	T2006/257

### Action Sought

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Dr Michael Cullen)	<b>Read</b> the attached briefing and use it as the basis for making decisions in your bilateral with Hon Nanaia Mahuta at 9:30am on Thursday 2 March 2006	9:30am Thursday 2 March 2006
Associate Minister of Finance (Hon Trevor Mallard)	<b>Read</b> the attached briefing and use it as the basis for making decisions in your bilateral with Hon Nanaia Mahuta at 9:30am on Thursday 2 March 2006	9:30am Thursday 2 March 2006

### Contact for Telephone Discussion (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>			
Pauline Nesdale	Manager, Trade and Security		<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>

**Enclosure: No**

## **Treasury Report: Bilateral Briefing for Vote Customs**

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Attached is a briefing for the bilateral between the Minister of Finance and Hon Nanaia Mahuta at 9:30am - 10:00am Thursday 2 March 2006 to discuss the budget initiatives for Vote Customs.

The Bilateral Briefing is structured as follows:

Recommendations	page 3
Analysis and Vote History	page 7
Table of Individual Initiatives	page 11

We expect the key issues for discussion will be:

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Customs' ability to absorb small capital requests
- Performance Information

Our view is:

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

### **Customs' ability to absorb small capital requests**

Treasury's view is that Customs has some scope to absorb capital requests from the \$5m cash reserves on their balance sheet.

### **Performance Information**

Customs is in the process of developing performance measures for the activities they undertake and the expectations placed on them. The proposed change in premises should have a positive impact on productivity and there are obviously capability concerns within the organisation. This bilateral could be used to ensure performance measurement includes a focus on cost effectiveness.

## **Recommended Action**

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We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with Hon Nanaia Mahuta at 9:30am - 10:00am Thursday 2 March 2006.

**Pauline Nesdale**  
for Secretary to the Treasury

**Hon Dr Michael Cullen**  
Minister of Finance

## Recommendations

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### VOTE CUSTOMS

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

#### a Customs Wellington Head Office Relocation and Modernisation analysis p9

**Vote Minister rank = 5****Treasury rank = 5**

- NZ Customs Service seeks new premises for the Wellington Head Office in 2008 to replace the existing premises. The capital funding will provide for the required fit-out of the new building.
- Treasury supports this capital bid subject to operating funding being agreed as part of the National Identity theme.

	\$million - increase/(decrease)				
	2005/06	2006/07	2007/08	2008/09	2009/10 & Outyears
<i>Capital (GST excl)</i>					
NZ Customs Service	-	-	3.600	-	-
Treasury	-	-	3.600	-	-

**agree** the above funding is contingent on associated operating funding being agreed in the National Identity theme.

#### b Performance information

**direct** the NZ Customs Service and the Treasury to report back by April 2006 with a plan for improving the availability and quality of performance information on the Vote in light of the number of capability requests in this Budget.

## Vote Customs – Analysis

### Analysis of Initiatives

- Funding is being sought for Vote Customs through this bilateral and also through themes: National Identity and Economic Transformation. This is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Vote Customs in Budget 2006</i>	<i>2005/06</i>	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
At this bilateral	-	-	-	-	-
Through Theme National Identity	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
Through Theme Economic Transformation	-	5.103	5.103	5.103	5.103
<b>TOTAL OPERATING</b>	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
<i>Capital (GST excl)</i>					
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					
At the Tertiary Education capital bilateral	0.536	-	-	-	-
<b>TOTAL CAPITAL</b>	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				

- [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Hon Peter Dunne has submitted an initiative relating to implementation of a data match for student loans which has operating and capital implications for Vote Customs. The operating is being progressed in the Economic Transformation theme and the capital in the Tertiary Education capital bilateral.
- [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

**Customs ability to absorb capital requests (recommendations c, d and e)**

5. NZ Customs Service is seeking small amounts of capital funding to support new staff requested under a variety of their bids as follows:

	2005/06	2006/07	2007/08	2008/09	2009/10
	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
<b>Total</b>	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				

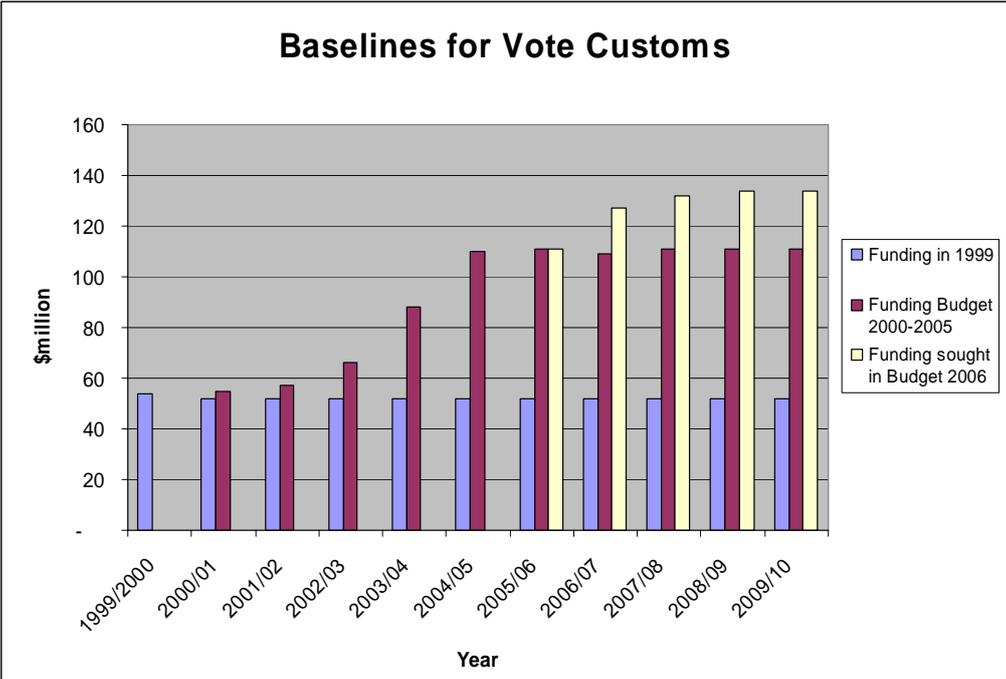
- 6. Customs' net working capital reserves are projected to be about \$5 million at the beginning of the 2006/2007 financial year. These reserves, and ongoing funding for depreciation, will be allocated over time to the replacement of vehicles and equipment, vessels, computer systems and x-ray vehicles and screening equipment. Customs notes that the requirement to absorb over \$2 million of capital to support new capability will undoubtedly have an impact on the organisation's ability to replace and upgrade existing assets when they fall due for replacement.
- 7. Treasury believes that the NZ Customs Service would be able to fund this from their balance sheet without a significant impact on their planned capital acquisition programme. Furthermore all the operating funding requested by Customs is unlikely to be supported within the National Identity theme so that the amount that will effectively need to be absorbed by Customs will be significantly less than \$2 million.

**Customs Wellington Head Office Relocation and Modernisation (recommendation f)**

- 8. Customs seeks new premises for the Wellington Head Office in 2008 to replace its existing building. The capital funding will provide for the required fit-out of the new building.
- 9. Treasury supports this initiative subject to operating funding being available in the National Identity theme.

**Analysis of Vote Customs**

- 10. Vote Customs baseline is \$106.980 million in 2005/06 rising to \$110.652 million in 2009/10.
- 11. The Vote has received significant increases in the past 6 years due to the container security initiative, more advanced profiling of incoming passengers, increasing the proportion of passengers who undergo more extensive examination at international airports, and dealing with a greater volume of passengers through Auckland and Christchurch international airports.



12. Roughly 35% of Vote Customs \$107 million annual appropriations are funded by revenue other (i.e. cost recovered). Approximately \$70 million of the total relates to personnel and \$10 million to depreciation and capital charge costs.
13. Note that as a result of a recent review on cost recovery for Passenger Clearance Services the Government decided that Customs and the Ministry of Agriculture and Forestry would be Crown-funded while related and increased costs for Aviation security would be cost recovered.
14. The NZ Customs Service does not have a history of large underspends.
15. Customs is endeavouring to develop performance measures in relation to the outcomes it is contributing to. Customs is also working collaboratively with other agencies in New Zealand and overseas in areas of mutual interest such as transnational crime, drugs and security more generally. Some of the expectations and requirements of Customs are set out below:
  - the requirement on Customs to respond to increased volumes of passengers and cargo and achieve agreed processing and clearance times;
  - the expectation to increase presence and intervention activity in the maritime environment and ensure 100% boarding of targeted marine vessels;
  - the requirement to undertake higher levels of interdiction at the airports, which has risen from around 1.5% to 3%;
  - the requirement to fulfil increased responsibilities around trade security e.g. export risk assurance and the trade security initiative with the United States;
  - the expectation that increased community risk resulting from border crossings is managed and overcome e.g. supply and demand of drugs, risks related to Intellectual Property Rights;
  - the expectation to increase the NZ Customs Service's presence internationally (e.g. new posts in Washington and Beijing to assist with law enforcement and trade facilitation); and
  - the expectation to collect Crown revenue from goods and people crossing the border (approximately \$8 billion in 2005/06).

## Table of Initiatives

The following tables list Hon Nanaia Mahuta's initiatives and Treasury's assessment of them.

### VOTE CUSTOMS

#### Capital

Rank		Initiative	Minister Seeks					Treasury					ref
Vote Minister	Treasury		2005/06	2006/07	2007/08	2008/09	2009/10 & outyears	2005/06	2006/07	2007/08	2008/09	2009/10 & outyears	
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>													
5	5	Customs Wellington Head Office Relocation and Modernisation	-	-	3.600	-	-	-	-	3.600	-	-	
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>													
<b>TOTAL RECOMMENDED</b>			<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					-	-	3.600	-	-	