

3 February 2009

Minister for Arts, Culture and Heritage

MINISTRY FOR CULTURE AND HERITAGE: LINE-BY-LINE REVIEW FOR BUDGET 2009

Purpose of Report

This report provides a line-by-line review of the Ministry's expenditure for your submission to the Minister of Finance in response to his letter to you of 17 December 2008.

Executive Summary

The Ministry's programmes and services are almost wholly consistent with the government's priorities. The broadcasting regulatory review is currently being assessed, and components of a new Programme of Action for broadcasting have been identified. Until both of these projects have been clarified there are no savings from within the broadcasting portfolio available for reprioritisation.

One project under the previous government's policy programme has been abolished by the new government, the Artists' Resale Rights Scheme, for which a tagged contingency of \$350,000 was being held for the scheme's implementation.

In regard to the general efficiency and effectiveness of departmental programmes and expenditure, the Ministry is regarded by central agencies and Audit New Zealand as a well-run and generally high performing organisation. A Review of Baseline conducted in September 2008 by independent reviewer, Richard Morris, found that:

- costs are well controlled and budgeting systems are good.
- there is very little fat within budgets that could be trimmed; support staff numbers are lean in comparison with similar agencies, *[deleted – confidentiality of advice]*.

There is no unallocated pool of funding within the Ministry's current budget. Continuing cost pressures (such as annual remuneration movements, increasing premises rental costs) on a shrinking future baseline funding might well compromise the Ministry's ability to deliver services to the same level and standard two years hence.

In this paper potential savings have been identified that involve curtailing or reducing expenditure on specific departmental programmes or providing one-off savings in the current financial year. These are:

- annual funding for the CDIP could be reduced provided that there was an acceptance that there would need to be a consequential decrease in programme activities; alternatively, the Programme could be transferred to another department such as the Ministry of Foreign Affairs and Trade, who are better resourced and more closely aligned to the nature of the function
- savings in the current financial year of \$232,000 for departmental costs associated with the construction of the New Zealand Memorial Park could be offered up should the project not be considered a priority
- savings of \$15,000 per annum from 2009/10 could be offered up from discontinuing the Grants to Publishers Scheme
- savings of \$100,000 per annum from 2009/10 could be offered up from the NZLive.com project's baseline funding
- savings in the current financial year of \$200,000 for the development of a Kerikeri Basin Implementation Plan could be offered up should the project not be considered a priority
- a \$50,000 one-off saving could be offered in the current year only as a result of the Ministry's bearing the lower salary cost of an Acting Chief Executive for much of the current financial year.

If the above savings were agreed, the Ministry's 2008/09 baseline would reduce by \$482,000, and its ongoing baseline from 2009/10 onwards would reduce by \$115,000 per annum. Savings resulting from a reduction to the CDIP would be in addition.

Potential savings have also been identified that involve curtailing or reducing expenditure on Crown funded programmes, comprising one-off savings in the current financial year. These are:

- the balance of the current year's Regional Museums budget (\$1.156 million) could be considered for offering up as a saving as long as this did not

conflict with the government's commitment to maintain the current level of taxpayer funding to the arts, culture and heritage

- consideration could be given to offering as savings the \$352,000 Crown appropriation in the current financial year for Gallipoli commemorative projects
- consideration could be given to offering as savings in the current financial year the \$2.888 million appropriation for construction of the New Zealand Memorial Park should its construction not be considered a priority.

If the above savings were agreed, the Vote Arts, Culture and Heritage 2008/09 Crown appropriations would reduce by \$4.396 million.

In respect of the Crown entities and other agencies funded directly via Crown appropriations through the Vote the Ministry recommends that if the government has concerns about the consistency of the agencies' programmes with the government's priorities, then these be examined in a subsequent in-depth value for money review.

Background to this Review

The government is undertaking a two phased approach to commence its programme of improving the performance of the state sector. The first phase involves every government department carrying out a line-by-line review of expenditure by 5 February 2009. In undertaking its review, each department is expected to consider its efficiency, effectiveness and alignment with the government's priorities in regard to its spending. Specifically, departments are expected to identify:

- savings that can be freed up for Budget 2009
- programmes that are inconsistent with this government's priorities and should be discontinued
- programmes that may be inconsistent with this government's priorities and should be looked into
- programmes and expenditure that are not efficient or effective
- areas where performance information is insufficient to make a judgement about efficiency and effectiveness, and actions departments should take to make improvements by the next review period.

Background to the Ministry's Current Size and Scope of Responsibilities

The Ministry grew in size from 12 full-time equivalent staff in 1998 to about 100 full-time equivalent staff in 2008 as a result of being assigned additional responsibilities over this period.

The Ministry of Cultural Affairs (the present Ministry for Culture and Heritage's predecessor) commenced operations as a small stand-alone policy and monitoring agency in 1991, employing a total of 12 staff. From the outset the Ministry's tiny size and restricted scope compromised its effectiveness. Ten other portfolios contained cultural outputs, including the National Library, the Departments of Internal Affairs and Conservation, and the Ministries of Education and Commerce (now Economic Development).

A State Services Commission-led review of the culture and heritage sector began in 1998 with a view to addressing these issues of critical mass and sectoral fragmentation. The first phase of the review culminated in an enhanced Ministry for Culture and Heritage being established from September 1999 with responsibility for a broader range of cultural policy outputs, including those formerly provided by the Department of Internal Affairs and Conservation and the Ministry of Commerce.

The second phase involved the transfer of the History and Heritage Group from the Department of Internal Affairs to the Ministry, which occurred from 1 July 2000. At the same time, the new government introduced a 'cultural recovery package' as part of the 2000 Budget that significantly increased government funding for the sector.

Since 2000, new responsibilities and programmes have been assigned to the Ministry. The most significant of these have been:

- the development of the 9-year *Encyclopedia of New Zealand - Te Ara* – project, which is currently approximately half completed and employs some 24 staff;
- the establishment and management of the Cultural Diplomacy International Programme, carried out in close association with the Ministry of Foreign Affairs and Trade, Tourism New Zealand and New Zealand Trade & Enterprise, and focussed particularly on North Asia;
- the planning and execution of a programme of work to support and strengthen public broadcasting in New Zealand and to effect the transition from analogue to digital transmission; and

- a lead role in the development and publication of web-based New Zealand cultural content, including the implementation of a cultural portal – NZLive.com – currently focussed mainly on cultural events.

An expanded programme of work in regard to New Zealand's historic heritage management has also occurred. This has included: the planning and construction of a number of memorials representing New Zealand's involvement in international wars, both in New Zealand (e.g. the Tomb of the Unknown Warrior in Wellington) and overseas (e.g. Korea, London); and reviews of major heritage-related legislation such as the Antiquities Act 1975.

In 2002, monitoring responsibility for the Sport and Recreation portfolio transferred to the Ministry from the Ministry of Economic Development.

Recent Reviews of the Ministry's Baseline Funding

In 2006, the Ministry, with input from the Treasury, was subjected to a departmental baseline funding review in order to determine that the best possible value for money was being obtained from the programmes and services provided, and to identify whether any baseline funding was available for reprioritisation within the Arts, Culture and Heritage portfolio. No changes to the Ministry's baseline funding resulted from this review; instead it was acknowledged that the Ministry's baseline was very tight, particularly in regard to the internal support infrastructure.

Later in 2006, the Ministry, jointly with the Treasury, commissioned from Munro Duignan Limited a review of the need for additional capability funding. This review concluded that the Ministry's expenditure was tightly managed, with outputs delivered extremely cost effectively. It recommended the provision of critical additional resources of \$2.1 million per annum as essential to meet stakeholder expectations for the delivery of outputs. Treasury accepted the review's recommendations, and a baseline capability bid of \$2.1 million was submitted as a Budget Initiative in the 2007 Budget, and fully funded. \$1.6 million was required to boost the internal support infrastructure, meet projected remuneration movement in the 2007/08 year and double the size of the professional development budget, and \$0.5 million was directed at policy development and strategic policy/sector engagement capacity.

A forward expenditure projection undertaken in June 2008 indicated that the Ministry faced a likely budget shortfall of at least \$1 million in the 2009/10 financial year because of reduced baseline funding from July 2009 onwards. This reduction in funding is partly because some current projects will soon be completed, but also because the current year's baseline has been inflated by 'carry-forwards' of various projects' funding from last financial year arising from timing differences.

In order to smooth the Ministry's expenditure over this financial year and the next, a review of internal budgets was undertaken to identify costs that could be reduced this year and the savings transferred into next year's baseline. Richard Morris was engaged to conduct the review. He had previously held Chief Financial Officer roles at the Treasury, the Department of Corrections and the Ministry of Defence. A copy of the review is attached as Appendix 3.

Morris's review was based on the Ministry's continuing to maintain its current programme, but to be cognisant of the need to focus particularly on the delivery of services to citizens. His key findings were:

- Costs are well controlled and budgeting systems are good.
- There is very little fat within budgets that could be trimmed. Support staff numbers are lean in comparison with similar agencies, *[deleted – confidentiality of advice]*.
- In the current financial year the Ministry's costs can be reduced by \$1.2 million through targeted and 'one-off' savings and the funding transferred into next financial year's baseline.
- Provided that various permanent expenditure reductions are implemented, the Ministry can maintain its operations across the 2008/09 and 2009/10 financial years within these revised baselines. Reductions that the Ministry implements should not target cultural and heritage services to New Zealanders.
- The Ministry has a good reputation with stakeholders. Funding issues are merely in relation to the size of the budget and are not related to either organisational capability or the quality of outputs. Priority should be given to maintaining capability.

Treasury's timetable for the 2008 October Baseline Update required an estimate of the level of achievable savings from the Ministry's 2008/09 baseline to be determined prior to Richard Morris completing his review. Accordingly, a slightly conservative figure of \$800,000 was submitted by the Minister for Arts, Culture and Heritage for transfer into the Ministry's 2009/10 baseline, and this was agreed by Cabinet. The remainder (\$400,000) of the \$1.2 million identified by Morris's review would be submitted for transfer into 2009/10 by you in your 2009 March Baseline Update to the Minister of Finance, should you concur with this recommendation at that time.

The detailed changes to the Ministry's 2008/09 internal budgets recommended by Morris have been implemented, including the carrying of non-critical vacancies

as they have arisen, and the impact of this is already being felt quite keenly in parts of the Ministry. This financial pressure on operations will be heightened throughout 2009/10 as the impact of the annual remuneration round at 1 July 2009 is absorbed, along with an increase to premises leasing costs part way through the year because of scheduled rent reviews.

References are made to some of the specific recommendations from Morris's review in the later section of this report - Current Expenditure Analysis by Function/Programme.

Overview of Ministry's Current Outputs, Functions & Funding

Outputs Provided by the Ministry

The Ministry currently receives the following appropriations to provide departmental outputs:

| Departmental Output | 2008/09 Appropriation (OBU) \$000 |
|--|--|
| <i>Vote Arts, Culture and Heritage</i> | |
| <ul style="list-style-type: none"> • Heritage services • International cultural diplomacy • Policy advice and grants administration | 6,589 2,179 7,902 |
| <i>Vote Sport and Recreation</i> | |
| <ul style="list-style-type: none"> • Purchase advice and monitoring of sport and recreation Crown entities | 98 |
| Total Output Appropriations | 16,768 |

In 2008/09 the Ministry has a total budget of \$16.768 million, of which \$2.179 million will fund external initiatives under the Cultural Diplomacy International Programme. It is anticipated that the 2008/09 total departmental appropriation will reduce by \$400,000 to \$16.368 million in the upcoming March Baseline Update and the 2009/10 baseline appropriation increase by the same amount (from \$15.820 million to \$16.220 million).

Administration of Crown Funding

The Ministry also administers significant funding on behalf of the Crown of approximately \$366 million (\$291 million in Vote Arts, Culture and Heritage – including Broadcasting, and \$75 million in Vote Sport and Recreation). This represents government's ongoing funding for a range of arts, culture, heritage, broadcasting and sport & recreation programmes, services and projects delivered by sectoral Crown entities and non-government organisations. A schedule of the current 2008/09 (OBU) Crown appropriations is attached as Appendix 2.

Ministry Functions and Structure

The Ministry is currently responsible for the following functions (the group or unit responsible for the function is stated in parenthesis):

- the provision of policy advice to government on arts, culture and heritage issues (Policy Group);
- the disbursement of payments to and provision of performance advice on the Crown's interests in some 13 arts, cultural, heritage, and sports sector organisations, and providing assistance and developing capability (Agency Group);
- the provision of a governance support programme for members of sectoral boards and support to Ministers in regard to board appointments (Agency Group);
- undertaking a work programme to support the Broadcasting portfolio, including: the provision of policy advice; the disbursement of payments to, and monitoring of the Crown's interests in, various broadcasting sector organisations; a major project overseeing the transition from analogue to digital transmission through to 2012; and a review of broadcasting regulation (Broadcasting Group);
- the provision of other services to Ministers, including the preparation of speech notes and replies to ministerial correspondence (Stakeholder Communications Group);
- the management of the Cultural Diplomacy International Programme (Policy Group);
- the management of national monuments, war graves, historic graves and new memorial projects (Heritage Operations Group);

- the administration of various statutes, including the Protected Objects Act 1975, and legislation relating to commemorative days and to the symbols and emblems of New Zealand sovereignty (Heritage Operations Group);
- the administration of the Government Indemnification of Touring Exhibitions scheme and the Commemorating Waitangi Day Fund (Heritage Operations Group);
- the administration and development of NZLive.com, a cultural website for New Zealanders, international tourists and the cultural sector (NZLive);
- the development of policy for and administration of frequencies for non-commercial radio and television broadcasting, and ensuring that licence conditions are met by non-commercial licensees (Broadcasting Group);
- the research, writing, and publication of New Zealand history of national significance, both in book and web form, and the administration of grants for and provision of advice in New Zealand history (History Group); and
- the research, writing and publication of *Te Ara*: the on-line Encyclopedia of New Zealand (Reference Group).

Current Staffing

With the exception of three staff who are sited at the National War Memorial in Wellington, the Ministry remains a single location, head office-based operation.

The number of full-time equivalent staff by function as at 31 December 2008 (including vacancies) is: Policy (15), Agency (8), Broadcasting (9), Heritage Property (6.9), History (14), Reference (20.2), NZLive (5), Corporate Services (16.6), Office of the Chief Executive (3.75) and Stakeholder Communications (6.1). In addition, two full-time staff are currently seconded to ministerial offices, giving a total full-time equivalent staff number of 106.5.

The number of vacant positions as at 31 December 2008 is 9, including the vacant Chief Executive position, resulting in a total full-time equivalent current staff 'headcount' of 97.5.

Linkages Between the Ministry's Current Outputs and the New Government's Objectives and Priorities

Government's cultural goals

The government's goals (or long term outcomes) for the arts culture and heritage sector (ACH) are grouped in three areas:

- a diverse, growing and sustainable ACH sector contributing economically, environmentally and socially;
- New Zealanders' participation in culture and cultural activities increases innovation, their understanding of New Zealand, stronger communities, personal insight and provides entertainment; and
- New Zealand's distinctive culture and cultural diversity is recognised and valued locally and internationally.

These goals reflect a number of public benefits that result from the government's involvement in the cultural sector, including:

- maximising the cultural sector's contribution to GDP through employment and revenue generation;
- better educated New Zealanders and stronger, more tolerant communities;
- continued preservation of New Zealand's history, traditions and heritage for future generations; and
- harnessing digital technologies for the better delivery of broadcasting - reach, diversity of programmes, and reinforce locally and internationally brand awareness and competitive advantage.

Alignment to government goals

The Ministry has reviewed its strategy and work programmes for 2009 and beyond to meet these goals and is confident that there is clear strategic and operational line-of-sight between the government's cultural goals and policies and the Ministry's programmes and services for 2009 and beyond.

The Ministry's outcomes have been redefined as:

- increasingly well-governed, efficient and sustainable arts agencies are growing their contribution to artistic, social, economic and community development; and

- New Zealanders value the growing visibility of and accessibility to cultures in New Zealand, and their participation in cultural activities.

To achieve these the Ministry will:

- take a strategic leadership role in the cultural sector;
- promote and undertake high quality and innovative policies and programmes aimed at growing the audience for New Zealand cultural content;
- expand the involvement and contribution of Maori and Maori culture to the Ministry's work;
- guide the agencies it funds to be more sustainable and to focus on service delivery;
- expand its partnerships with other agencies and sectors to advance cultural objectives; and
- continue the production of programmes, policies and services that enhance the visibility of the diversity of culture in New Zealand.

Current Expenditure and Resourcing Analysis by Function/Programme

Not all of the activities undertaken by the Ministry are of equal importance. In the following section of this report, all of the Ministry's current funding and expenditure is assessed in order to determine whether any savings can be freed up for Budget 2009 or any activities or programmes discontinued. As mentioned earlier, references are made throughout this next section to some of the specific recommendations from Richard Morris's September 2008 baseline review.

The following section analyses current expenditure and resourcing by function/programme. Appendix One, attached, provides a breakdown of the Ministry's 2008/09 departmental budget by each function/programme.

Policy

The Ministry's Policy Group carries out the following functions:

- the provision of policy advice to government on arts, culture and heritage issues (including ensuring that a cultural perspective is reflected in other areas of government activity)

- the management of the Cultural Diplomacy International Programme.

The Policy Group has 15 full-time equivalent staff providing policy advice on arts, culture and heritage issues (including either leading or contributing to cross-departmental initiatives) and managing the Cultural Diplomacy International Programme (CDIP). Of these staff, one is dedicated to CDIP.

The government has abolished the Artists' Resale Rights Scheme, for which a tagged contingency of \$350,000 was being held by the previous government for the scheme's implementation. No other aspects of the Ministry's current policy programme have been identified for discontinuation.

This is a relatively small team, given the breadth and complexity of the current work programme. It has been working at full stretch for some years, servicing the needs of three Ministers. It has been highly productive in terms of the number of ministerial briefings it has been required to produce each year, and this workload has not abated since. We are also at present examining how policy advice should be delivered to make it more efficient and responsive.

Munro Duignan's baseline capability review in 2006 recommended critical funding of \$240,000 per annum be provided to boost core capability (i.e. two additional full-time equivalent staff) and a further \$300,000 to enable strategic policy capability and appropriate sectoral engagement. This funding was provided to the Ministry in the 2007 Budget.

The CDIP commenced in 2004/05. It promotes cultural activities to enhance New Zealand's diplomatic, trade, economic and tourism objectives. Its focus is on North Asia – particularly Korea, China and Japan. It has an annual budget of \$2.089 million, but actual appropriations and expenditure vary from year to year because of timing differences in the incurrance of expenditure. The current year's budget for the programme is \$2.179 million.

An evaluation of the CDIP carried out by former Public Service chief executive Alistair Bisley in 2008 concluded that the Programme was very efficient and, with some minor modifications which have since been implemented, very effective also. It also aligns with the government's priorities in the Tourism area.

Potential for Savings

In his September 2008 Review of Baseline, Richard Morris acknowledged that the Group's workload was substantial, and that its continuation at the current level would be dependant upon demand and expectations from the new government. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

The CDIP consists of a series of individual projects and activities. The level of funding committed by government to this programme is not high, given the nature and scale of its objectives. It could, nonetheless, be reduced. An ongoing annual reduction in funding for the programme of this amount could be implemented, provided that there was an acceptance that there would need to be a consequential decrease in programme activities. Alternatively, the Programme could be transferred to another department such as the Ministry of Foreign Affairs and Trade, who are better resourced and more closely aligned to the nature of the function.

Recommendation

The Ministry recommends no savings from the policy core operation, without a reduction in services. The government has now abolished the Artists' Resale Rights Scheme, for which a tagged contingency of \$350,000 was being held by the previous government for the scheme's implementation.

The Ministry recommends that it be noted that annual funding for the CDIP could be reduced, provided that there was an acceptance that there would need to be a consequential decrease in programme activities, or the programme could be transferred to another department such as the Ministry of Foreign Affairs and Trade, who are better resourced and more closely aligned to the nature of the function.

Agency Funding and Monitoring

The Ministry's Agency Group carries out the following functions:

- the disbursement of payments to and provision of performance advice on the Crown's interests in some 13 arts, cultural, heritage, and sports sector organisations, and providing assistance and developing capability
- the provision of a governance support programme for members of sectoral boards and support to Ministers in regard to board appointments.

The Ministry's agency group currently has eight full-time equivalent staff undertaking these functions. Over the past decade the number of agencies monitored by the Ministry has grown and an increasing emphasis on supporting improved board governance has occurred. More recently, expectations of monitoring departments have grown with the passage of the Crown Entities Act 2004 and with the provision of guidance on best practice from the Treasury and the State Services Commission.

The Arts, Culture and Heritage portfolio is characterised by a comparatively large number of small organisations, which typically require closer supervision and support given their own limited capacity. During the past five years, specific funding has been directed at an 'agency assistance programme' intended to achieve capability improvements, particularly in the smaller funded agencies. \$80,000 per annum is currently budgeted for this purpose. The Munro Duignan report recommended as 'desirable' a further \$120,000 per annum baseline appropriation increase for an expended agency performance review programme. Funding was not provided for this in the 2007 Budget Initiatives round.

A programme of cyclical agency reviews has also been operating to ensure that adequate capacity is maintained in funded agencies and that bids from agencies for Budget Initiative funding are prioritised effectively. The Munro Duignan report recommended the provision of funding of \$30,000 per annum for this purpose as critical, and it was approved by Cabinet in the 2007 Budget Initiative round.

The remainder of the agency unit budget covers core operations, including governance-related activities around board appointment processes and board training and support.

Potential for Savings

The agency assistance programme (funded at \$80,000 per annum, and also targeted at Vote Sport and Recreation agencies) could be discontinued, but the current 'value-add' that is achieved by this additional activity would be lost. Most of this is targeted at smaller agencies where the risk of poor performance is greatest. The funding could be reduced or discontinued if expectations of the quality and frequency performance reporting lessened or if agencies improved the current quality of their reporting to Ministers.

It should also be noted that the Ministry is acknowledged to be a 'best practice' example within the government agency monitoring community. The resources it has developed to support improved agency governance, for example, have been shared widely and are used by other departments.

Recommendation

The Ministry recommends no savings, without a reduction in services.

Heritage Operations

The Ministry's Heritage Operations Group carries out the following functions:

- the management of national monuments, war graves, historic graves and new memorial projects
- the administration of various statutes, including the Protected Objects Act 1975, and legislation relating to commemorative days and to the symbols and emblems of New Zealand sovereignty
- the administration of the Government Indemnification of Touring Exhibitions scheme and the Commemorating Waitangi Day Fund.

The Heritage Operations function joined the Ministry from 1 July 2000. Since then, the volume of project activity, which mostly comprises memorial projects, has increased considerably. Since 2004/05, the Tomb of the Unknown Warrior and two overseas memorial projects in Korea and in London have been successfully completed. The project to establish a National Memorial Park in Wellington is currently at the point where as soon as a preferred design for the Park has been agreed, contracts could be let. Construction of the Park is scheduled to take place in 2008/09 and 2009/10. The Heritage Operations budget in 2008/09 includes one-off funding of \$262,000 for this project (of which \$30,000 has been incurred on land-holding costs), while the bulk of its cost of \$2.888 million is funded via a Crown appropriation.

Since 2005/06 additional funding of \$115,000 per annum has been provided to implement the requirements of the Protected Objects Act 1975 (which replaced the Antiquities Act 1975)

Funding for the core operations of the unit has been fairly constant over the past eight years. It covers the costs of the management of national monuments, war graves and historic graves; the administration of the Protected Objects Act 1975, and of legislation relating to commemorative days and to the symbols and emblems of New Zealand sovereignty; and the administration of the government exhibition indemnification scheme. In his Review of Baseline report, Richard Morris concurs that the Group is funded appropriately.

Potential for Savings

The core services provided by the Heritage Operations Group are derived from legislative requirements and international obligations. No potential sources of ongoing savings have been identified.

Should a decision be taken not to proceed with the development of a National Memorial in Wellington, departmental funding of \$232,000 in 2008/09 and Crown funding of \$2.888 million would be saved.

Recommendation

The Ministry recommends no savings from core activities, without reducing services.

The Ministry recommends that consideration could be given to offering as savings in the current financial year \$232,000 for departmental costs associated with the construction of the New Zealand Memorial Park should the project not be considered a priority.

Reference Group

The Ministry's Reference Group carries out the following functions:

- the research, writing and publication of *Te Ara*: the on-line Encyclopedia of New Zealand

Development of the on-line Encyclopedia of New Zealand – *Te Ara* commenced from July 2002. It is currently running behind schedule. Originally planned to be completed at the end of 2010/11, it is now expected to be finished in 2012/13. Four of the encyclopedia's nine themes have been launched to date, as have half of the 22 regional entries that have been planned. The project has attracted considerable attention internationally, and has received numerous local awards for its creativity, innovation and design excellence.

The design and technology costs of this cutting edge project were underestimated when total funding of \$1.1 million per annum was originally sought in 2001. A further \$150,000 was reallocated internally to the project when ex-Dictionary of NZ Biography staff joined the project. Some additional funding has since been provided to the project's baseline for these purposes, namely \$200,000 per annum through the 2006 Budget initiatives round. The additional \$289,000 per annum that is included in the Reference Group's current total annual operating budget of \$1.739 million has come from an internal reallocation of resources within the Ministry's departmental baseline. This has placed other operating budgets within the Ministry under pressure.

Richard Morris's report acknowledged that the current level of activity is above that funded, and noted that the ongoing archiving and maintenance of the website following the project's completion would need to be funded from that time.

Potential for Savings

The pace at which *Te Ara* is being developed could be slowed down, but if this occurred then the length of time that the project would take to completion would

be lengthened. So while a reduction to the project's annual baseline funding could be effected without causing staff redundancies, the total overall cost of the project over its lifetime would not reduce; in fact, it would be greater because the project's fixed annual operating costs (e.g. premises) would be incurred for a longer period.

Fewer entries are being commissioned for the remaining themes to help get the timetable back on track and to keep costs within budget.

Recommendation

The Ministry recommends no savings from this project, without reducing services.

History Group

The Ministry's History Group carries out the following functions:

- the research, writing, and publication of New Zealand history of national significance, both in book and web form, and the administration of grants for and provision of advice in New Zealand history.

The History Group joined the Ministry from 1 July 2000. The group's work comprises a mix of Crown funded and third-party funded 'contract' work. The balance between these two sources has changed significantly in the past decade, with third party work now accounting for less than a quarter of the group's activity.

The growth in Crown funded work has been a result of the rising interest in New Zealand history, and in particular the emphasis of securing the stories of New Zealand veterans of 20th Century international conflicts while it is still possible to do so. This programme of work is continuing, and indeed is stepping up with the approach of the centenary of World War One. Specific funding over the coming few years has been provided by Cabinet for the World War One Centenary and the Vietnam War Oral History projects. The Group's funding has also recently been temporarily augmented by a bequest of \$818,000 from a deceased benefactor, and this is being deployed over the coming two years on the war history work.

There are currently 11 permanent staff in the Group (including those building resources on the Group's award-winning website – NZHistory.net.nz), and 3 short-term and contract appointments undertaking the fixed-term projects. The current 'contract' histories being compiled are of Audit NZ, MAF Quarantine and the RNZAF.

The Group runs three annual grants schemes: Awards in History (via the New Zealand History Research Trust) totalling around \$100,000 per annum; Awards in Oral History (via the Australian Sesquicentennial Gift Trust for Award in Oral History) totalling around \$50,000 per annum; and Grants to Publishers (funded directly from baseline operating budget) of around \$15,000 per annum. The Ministry bears the administration costs of running these schemes, although these costs in regard to Grants to Publishers are minimal.

Potential for Savings

Savings could be made by a decision to curtail specific projects in the medium-term plan or to undertake no further research, oral history interviews or writing in a particular area of interest. The result would be that fewer projects would be documented, both in book and digital form; the latter format has been an increasing area of emphasis for increasing New Zealanders' access to and understanding of their culture and heritage.

The Grants to Publishers Scheme could be discontinued, yielding ongoing savings of \$15,000 per annum.

Recommendation

The Ministry recommends that savings of \$15,000 per annum from 2009/10 be offered up from discontinuing the Grants to Publishers Scheme.

NZLive

The NZLive team carries out the following functions:

- the administration and development of NZLive.com, a cultural website for New Zealanders, international tourists and the cultural sector.

NZLive.com is an initiative funded from the former government's Growth and Innovation (GIF) package. It was envisaged as a single point of entry to cultural information and events in New Zealand. The site is currently configured primarily as an event finder – a necessary intermediate step in order to get the site up and established. Stage 2 of its development, scheduled to be completed before the end of the current financial year, will refocus it towards a broader role.

Potential for Savings

[deleted – confidentiality of advice] .In his Review of Baseline report Richard Morris recommended that the team should *[deleted – confidentiality of advice]* and also seek to reduce its current advertising budget over time.

Recommendation

The Ministry recommends that savings of \$100,000 per annum from 2009/10 be offered up from this project's baseline funding.

Broadcasting

The Ministry's Broadcasting Group carries out the following functions:

- undertaking a work programme to support the Broadcasting portfolio, including: the provision of policy advice; the disbursement of payments to, and monitoring of the Crown's interests in, various broadcasting sector organisations; a major project overseeing the transition from analogue to digital transmission through to 2012; and a review of broadcasting regulation.
- the development of policy for and administration of frequencies for non-commercial radio and television broadcasting, and ensuring that licence conditions are met by non-commercial licensees.

The Broadcasting group has nine full-time equivalent staff carrying out these activities. In addition to the core portfolio support functions of policy advice, agency performance monitoring and non-commercial radio and television licence allocation and administration, a challenging programme of work is being undertaken that will culminate in the transition from analogue to digital broadcasting transmission by 2015. The Minister of Broadcasting has confirmed that digital switch-over is a high priority for the government.

A work programme to complete a digital broadcasting review of regulation was agreed in September 2008. The Minister, together with the Minister of Communications and IT, is currently assessing the work done to date on this review against the government's priorities for broadcasting and broadband investment. It is apparent, however, that the transition to digital and the trend towards convergence between broadcasting, telecommunications and the internet are having a significant impact on broadcasting business models and the future of public service broadcasting. Accordingly, the Minister has signalled his wish to develop a Programme of Action for broadcasting that ensures effective outcomes for his broadcasting priorities, within a strategic context that takes account of these technological and market developments.

The Minister has required a Ministry official to take the role of private secretary in his office, and this salary cost is now absorbed within the Broadcasting group's overall budget.

Potential for Savings

The broadcasting regulatory review is currently being assessed. Components of a new Programme of Action for broadcasting have been identified. Until government clarifies these projects there are no savings available for reprioritisation.

Recommendation

The Ministry recommends no savings currently.

Stakeholder Communications

The Ministry's stakeholder communications group was enlarged during 2007/08 with additional capability funding provided in the 2007 Budget. As at June 2008 it was headed by a Group Manager managing a team of 3 full-time communications, media and publications staff, 2.5 full-time equivalent staff dedicated to drafting speech notes and ministerial correspondence for four Ministers and co-ordinating draft responses to Parliamentary questions and OIAs, and was supported by a part-time group administrator.

The team is currently operating with three vacancies. The Group Manager role is currently vacant and will remain so until a new Chief Executive is appointed and decides whether or not the role is to be retained. Two of the communications/media positions are also being held open until the new government's priorities are fully understood. These current salary savings have helped enable the Ministry to remain on target to transfer the additional \$400,000 from this year's baseline to next year's.

The ministerial servicing workload is strongly demand-driven, and at times over the past five years additional contractors were needed to supplement the permanent team of 2.5 full-time equivalent staff working under constant pressure. The government's requirements are expected to be able to serviced appropriately by the current team.

Potential for Savings

It is anticipated that the communications, media and publications functions can be carried out by two full-time equivalent staff i.e. a permanent reduction of one from the team's complement at the commencement of the current financial year. Morris's review concurs with this. This salary saving will help enable the Ministry to remain on target to transfer the additional \$400,000 from this year's baseline to boost next year's baseline budget. In turn, the ongoing salary saving will enable the Ministry to operate within its 2009/10 baseline budget.

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

Recommendation

The Ministry recommends no savings currently.

Corporate Services

The Ministry's corporate services group comprises 16.6 full-time equivalent staff, servicing an organisation of 120 people in total. The group has specialists in HR (2.5), finance and planning (3.1), legal (2), IT, library and information management (5), facilities (1), and administration & reception (2).

The Ministry outsources specific activities where it is sensible and cost effective to do so. Such arrangements covering ICT infrastructural support and the use of another department's accounting system are working effectively and considered to be delivering efficiencies.

The capability review carried out by Munro Duignan in October 2006 resulted in funding for additional corporate support staff being provided to the Ministry in the 2007 Budget. Prior to this, the level of corporate support and infrastructure resourcing had been critically low. Richard Morris's report concluded that the number of support staff in the Ministry is still low compared with other government departments of similar size.

The Ministry currently occupies 1805 square metres of space, an average of 15 square metres per person, at an average rate of \$245 per square metre per annum. The current lease expires in 2012. The premises are on the fringe of the Wellington CBD, so are less expensive than the more central buildings occupied by many departments. Nevertheless, a rent review is scheduled for September 2009 from which an increase of around 15% (\$66,000 per annum) is expected to result. This will have to be absorbed within the Ministry's baseline budget.

ICT and web development costs are managed centrally by corporate services. Two web development projects (the migration of the Te Ara website to the same open-source platform as the Ministry's NZHistory.net.nz website; and the redevelopment of the NZLive.com website) totalling \$325,000 are being carried out in the current financial year. Most other ICT-related spending is expected to be roughly constant over the coming 2-3 years.

Most of the Ministry's general operating costs are managed centrally by corporate services. Morris's review concluded that these costs were relatively modest and tightly managed.

Potential for Savings

The current year's budget for web development projects (\$325,000) is unusually high, and it is expected that no more than \$100,000 will be required to be budgeted annually for these from 2009/10. Increased leasing costs and the absorption of annual salary movements more than offset this cost reduction. The Ministry is contractually committed to a 2% minimum market movement for staff salaries from 1 July 2009, which amounts to approximately \$150,000. Realistically, total salary movement, including limited advancement through the salary range, is expected to be at least 2.75% (or \$200,000) this year. This is not unreasonable, given Richard Morris's finding that Ministry salaries are at the mid to low end of the Public Service.

Recommendation

The Ministry recommends no savings.

Chief Executive's Office

This budget contains the salary costs of the chief executive, Maori engagement adviser, executive adviser and executive secretary, along with an annual travel budget and a minor operating allocation.

Potential for Savings

The Ministry's chief executive departed at the end of August 2008, although his salary costs were being met by the Ministry up until his commencement in his new role as Secretary for Transport at the end of September 2008. It is anticipated that a new permanent chief executive may not be in place before the end of the current financial year. The lower salary cost of an Acting Chief Executive has resulted in some direct savings in the current financial year..

Recommendation

The Ministry recommends a \$50,000 one-off saving be offered in the current year - 2008/09.

Crown Appropriations, Including Funding to and through Crown Entities

This line by line review is required to 'address government funding being paid to or through Crown entities'. Appendix 2 provides some brief information about the Crown appropriations administered by the Ministry to the agencies in receipt of Crown funding through the Vote for both the Arts, Culture and Heritage and Broadcasting portfolios.

The government's arts, culture and heritage manifesto, amongst other things, states that it will maintain the current level of taxpayer funding for arts, culture and heritage. It also states that its policies focus on: stimulating demand for the arts; supporting artists and arts organisations; and helping arts organisations operate on a sustainable long-term basis. This is precisely what funding paid to agencies through the Vote is intended to achieve. In addition, recent reviews of agencies overseen by the Ministry have not revealed either significant inefficiencies or ineffectiveness in their delivery of services.

If the government has concerns about the consistency of the agencies' programmes with the government's priorities, then these should be examined in a subsequent in-depth value for money review.

The remaining Crown appropriations within the Vote are administered by the Ministry itself.

The annual appropriation covering New Zealand's contribution to the Commonwealth War Graves Commission fulfils New Zealand's obligation to the international organisation responsible for caring for the graves of the war dead.

The annual appropriation for development and maintenance of war graves, historic graves and monuments (\$516,000) is also derived from an international obligation. It includes allowance for a Crown asset depreciation provision of around \$175,000 per annum. A temporary reduction to this budget might result in some deferred maintenance, but if sustained would require a subsequent injection of additional funds to ensure New Zealand's responsibilities are properly discharged in respect of our Commonwealth War Graves obligations. In 2008/09 a one-off capital appropriation of \$160,000 has also been provided for urgent lift maintenance and stormwater reticulation at the National War Memorial.

The Commemorating Waitangi Day Fund (\$288,000 per annum) is vastly over subscribed each year. Applicants receive a fraction of what they apply for and in many cases events are reduced to remain within the budget provided by the fund. This is the only source of funding specifically for Waitangi Day commemorations. Although many events also receive support from local authorities, many would not proceed without the assistance from the fund. The Governor-General's annual Waitangi Day celebration at Government House is also met from within this Fund.

The primary Gallipoli commemorative project within the Gallipoli memorial projects appropriation (\$352,000 in 2008/09 only) is an artists' residency. This is intended to allow an artist to spend time at Gallipoli and return to produce work which will add to New Zealand's understanding of this important episode in our history. There is no formal agreement or contracts surrounding this scheme so there is potential for savings if it is not considered a priority.

The appropriation of \$2.888 million to enable the construction of the National Memorial Park in Wellington would be saved should a decision be taken not to proceed with its development.

An annual appropriation of \$9.156 million is administered by the Ministry for capital construction projects at regional museums. \$8 million is currently committed against this appropriation in the current financial year for agreed projects at the Auckland, Rotorua and Otago Settlers Museums. A lesser amount is currently committed against next year's budget, although additional projects might be ready to proceed during the year. The balance of the current year's budget (\$1.156 million) could, therefore, be offered up as a saving right now for the Ministry believes that no museums are ready to make a bid. To do so, however, might be contrary to the government's commitment to maintain the current level of taxpayer funding to the arts, culture and heritage.

Crown capital appropriations to Te Papa (ongoing) and the NZ Historic Places Trust (one-off) are explained in Appendix 2 attached.

Recommendation

The Ministry recommends that if the government has concerns about the consistency of the agencies' programmes with the government's priorities, then these should be examined in a subsequent in-depth value for money review.

The Ministry recommends that the balance of the current year's Regional Museums budget (\$1.156 million) could be considered for offering up as a saving as long as this did not conflict with the government's commitment to maintain the current level of taxpayer funding to the arts, culture and heritage.

The Ministry recommends that consideration could be given to offering as savings the \$352,000 Crown appropriation in the current financial year for Gallipoli commemorative projects.

The Ministry recommends that consideration could be given to offering as savings in the current financial year the \$2.888 million appropriation for construction of the New Zealand Memorial Park should its construction not be considered a priority.

Conclusions

The Ministry's programmes and services are almost wholly consistent with the government's priorities. The broadcasting regulatory review is currently being assessed, and components of a new Programme of Action for broadcasting have been identified. Until both of these projects have been clarified there are no savings from within the broadcasting portfolio available for reprioritisation.

One project under the previous government's policy programme has been abolished, the Artists' Resale Rights Scheme, for which a tagged contingency of \$350,000 was being held for the scheme's implementation.

The Ministry is regarded by central agencies and Audit New Zealand as a well-run and generally high performing organisation. In September 2008 an independent reviewer found that:

- costs are well controlled and budgeting systems are good
- there is very little fat within budgets that could be trimmed; support staff numbers are lean in comparison with similar agencies, and salaries throughout the organisation are at the mid-to-low end of the Public Service.

There is no unallocated pool of funding within the Ministry's current budget. , Continuing cost pressures (such as annual remuneration movements, increasing premises rental costs) on a shrinking future baseline funding might well compromise the Ministry's ability to deliver services to the same level and standard two years hence.

In this paper potential savings have been identified that involve curtailing or reducing expenditure on specific departmental programmes or providing one-off savings in the current financial year. These are:

- annual funding for the CDIP could be reduced provided that there was an acceptance that there would need to be a consequential decrease in programme activities; alternatively, the Programme could be transferred to

another department such as the Ministry of Foreign Affairs and Trade, who are better resourced and more closely aligned to the nature of the function

- savings in the current financial year of \$232,000 for departmental costs associated with the construction of the New Zealand Memorial Park could be offered up should the project not be considered a priority
- savings of \$15,000 per annum from 2009/10 could be offered up from discontinuing the Grants to Publishers Scheme
- savings of \$100,000 per annum from 2009/10 could be offered up from the NZLive.com project's baseline funding
- savings in the current financial year of \$200,000 for the development of a Kerikeri Basin Implementation Plan could be offered up should the project not be considered a priority
- a \$50,000 one-off saving could be offered in the current year only as a result of the Ministry's bearing the lower salary cost of an Acting Chief Executive for much of the current financial year.

If the above savings were agreed, the Ministry's 2008/09 baseline would reduce by \$482,000, and its ongoing baseline from 2009/10 onwards would reduce by \$115,000 per annum. Savings resulting from a reduction to the CDIP would be in addition.

Potential savings have also been identified that involve curtailing or reducing expenditure on Crown funded programmes, comprising one-off savings in the current financial year. These are:

- the balance of the current year's Regional Museums budget (\$1.156 million) could be considered for offering up as a saving as long as this did not conflict with the government's commitment to maintain the current level of taxpayer funding to the arts, culture and heritage
- consideration could be given to offering as savings the \$352,000 Crown appropriation in the current financial year for Gallipoli commemorative projects
- consideration could be given to offering as savings in the current financial year the \$2.888 million appropriation for construction of the New Zealand Memorial Park should its construction not be considered a priority.

If the above savings were agreed, the Vote Arts, Culture and Heritage 2008/09 Crown appropriations would reduce by \$4.396 million.

In respect of the Crown entities and other agencies funded directly via Crown appropriations through the Vote the Ministry recommends that if the government has concerns about the consistency of the agencies' programmes with the government's priorities, then these be examined in a subsequent in-depth value for money review.

Recommendations

It is recommended that you:

- a) **note** the contents of this briefing report;
- b) **forward** the report to your colleague the Minister of Finance should you concur with its conclusions.

Bronwyn Dalley
Acting Chief Executive

Hon Chris Finlayson
Minister for Arts, Culture and Heritage
/ /2009