

Priority Routine

THE DEPARTMENT OF INTERNAL AFFAIRS

Te Tari Taiwhenua

## Internal Affairs Briefing

**Hon Dr Richard Worth**  
**Minister of Internal Affairs**

**Title:** Budget 2009 Line-by-Line Review – Vote Internal Affairs

**Date:** 4 February 2009

### Key issues

As input for Budget 2009, by 1pm on Thursday 5 February 2009 you are required to provide a submission to the Minister of Finance with the outcome of a Line-by-Line Review of Vote Internal Affairs and present any Budget initiatives.

Action sought	Timeframe
<b>Note</b> the contents of this briefing.	
<b>Sign and forward</b> the attached submission for Vote Internal Affairs to the Minister of Finance	1pm, 5 February 2009

### Contact for telephone discussion (if required)

Name	Position	Telephone		Suggested first contact
		direct line	after hours	
Brendan Boyle	Chief Executive	<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>		
Shirley Smith	Chief Financial Officer			

Return to: [deleted – privacy]  
DMS file reference: Corporate 600846DB  
Ministerial database reference: BSB200900009

## Purpose of briefing

1. In your role as Minister of Internal Affairs you are required to provide a submission to the Minister of Finance with the outcome of a Line-by-Line Review of Vote Internal Affairs and present any Budget initiatives for consideration as part of Budget 2009.

## Background

2. The Minister of Finance in a letter dated 17 December 2008 briefed you on the priorities and process for the 2009 Budget and the beginning of a value for money review process. In preparation for Budget 2009, Departmental Chief Executives were asked to complete line-by-line reviews of expenditure by 5 February 2009.
3. The Department has already completed a review of budget issues for 2009-12 and is actively working to control costs, make savings and demonstrate value for money in the services we provide. Our aim is to respond in a professional way to the recession, which impacts on all New Zealanders, and meet the expectations of the Prime Minister as outlined at his 3 December 2008 meeting with Departmental Chief Executives. Our focus is to control costs and make savings so that services to Ministers and the public are not compromised and the Department delivers improved value for money within existing baselines.
4. This briefing provides you with information about the financial information for the Vote.
5. As requested the breakdown of the costs for the implementation of the potential recommendation of the Royal Commission on Auckland Governance are attached at Appendix 5.
6. Vote Internal Affairs is one of six votes administered by the Department of Internal Affairs, with a total Vote of \$140.296 million representing 38.2% of total Vote expenditure managed through the Department and 0.227% of all government expenditure.

	<b>Budget 2008/09 \$ million</b>	<b>% of Total DIA Votes</b>
<i>Crown funded</i>	32.943	23.9%
<i>Third party funded</i>	104.852	76.1%
<b>Total Departmental output expenses</b>	<b>137.795</b>	<b>61.3%</b>
Non-departmental expenses	2.501	1.7%
<b>Total Vote</b>	<b>140.296</b>	<b>38.2%</b>

The scope and trends for the Vote are outlined in Appendix 1.

## Election Commitments

7. The Minister of Finance has asked if there are any election commitments specific to this Vote, with the expectation that there will be no bids for initiatives which were not election campaign commitments. We are not aware of any election commitments for Vote Internal Affairs.

## Previous Governments Unfunded Commitments

8. The Minister of Finance has asked you to consider the steps necessary to reverse any specific commitments of the previous government which were announced but were to be paid out of future Budgets. There are no tagged contingencies in Budget 2008 for this Vote.
9. The Pre-election Economic and Fiscal Update (PREFU) included a list of fiscal risks arising from policy choices which Ministers in the previous government were considering. In October 2008 the previous Government directed the Department to continue working on options for a long-term property strategy. This risk was included in the PREFU, but was not quantified for reasons of commercial sensitivity. This risk remains for the Department.

## Summary of Vote Expenditure

10. There are six departmental output expenses within Vote Internal Affairs, namely
  - i. Contestable Services
  - ii. Identity Services
  - iii. Information and Advisory Services
  - iv. Policy Advice – Internal Affairs
  - v. Regulatory Services
  - vi. Services for Ethnic Affairs.
11. There are two Non-departmental Output Expenses, namely:
  - i. Classification of Films, Videos and Publications
  - ii. Significant Community Based Projects Fund.
12. There are two Non-departmental Other Expenses, namely:
  - i. Miscellaneous Grants - Internal Affairs
  - ii. Public Inquiries.
13. Each expense category is described in Appendix 2. A breakdown of Departmental expenditure by inputs is included in Appendix 3.

## 2008/09 Forecast Outturn

14. There is a forecast under expenditure of \$4.810 million for departmental expenditure in 2008/09 that could be offered as savings for re-prioritisation.

### Departmental

	Budget \$ million	Forecast Outturn \$ million	Variance \$ million	MBU <sup>1</sup> Changes \$ million	Balance \$ million	Comments
Contestable Services	0.899	0.899	-	-	-	
Identity Services	89.224	89.224	-	-	-	
Information and Advisory Services	11.776	6.476	5.300	(0.500)	4.800	Listening and Assistance Service, Expert Panel on

<sup>1</sup> March Baseline Update

	Budget \$ million	Forecast Outturn \$ million	Variance \$ million	MBU <sup>1</sup> Changes \$ million	Balance \$ million	Comments
						Electoral System and State Funding, Royal Commission on Auckland Governance and Expert Panel on War Disablement Pensions
Policy Advice - Internal Affairs	5.058	5.548	(0.490)	0.490	-	Cabinet decision (GTS accommodation)
Regulatory Services	25.695	25.695	-	-	-	
Services for Ethnic Affairs	5.143	5.143	-	-	-	
<b>Total Departmental Expenditure</b>	<b>137.795</b>	<b>132.985</b>	<b>4.810</b>	<b>(0.010)</b>	<b>4.800</b>	

15. There is no forecast under expenditure for the non-departmental expenditure in 2008/09 that could be offered as savings for re-prioritisation.

### Non-Departmental

	Budget \$ million	Forecast Outturn \$ million	Variance \$ million
Classification of Films, Videos and Publications	1.960	1.960	-
Miscellaneous Grants – Internal Affairs	0.049	0.049	-
Public Inquiries	0.492	0.492	-
<b>Total Non-Departmental Expenditure</b>	<b>2.501</b>	<b>2.501</b>	<b>-</b>

### Reviewing priorities

16. The Department has reported to you separately to review the key initiatives in the 2008/09 Output Plan for Vote Internal Affairs for the balance of the year and agreed any changes to better align the priorities with those of the Government. This briefing also sought your views on draft three year work priorities looking out to 2012 that will be used by the Department to shape the Estimates of Appropriation and Statement of Intent for 2009-12. This document was also designed to enable you to select your top priorities to be able to inform the Prime Minister by 5 February 2009 of your choices.

**Budget 2009 and Savings Identified**

Title	Description	\$ million					
		2008/09	2009/10	2010/11	2011/12	2012/13	Outyears
Listening and Assistance Service	Forecast underspend.	0.730	-	-	-	-	-
Expert Panel on War Disablement Pensions	No approval has been received for setting up this panel. It has been indicated that the function may be transferred to the Ministry of Defence.	0.500	-	-	-	-	-
Royal Commission on Auckland Governance	Forecast underspend.	0.600	-	-	-	-	-
Expert Panel and Citizens Forum on Electoral System and State Funding	No longer proceeding.	4.400	-	-	-	-	-
Administration of Significant Community Based Project Fund	Forecast underspend for administration of Significant Community Based Project Fund	0.100	-	-	-	-	-
Identity Products	Reduction in the Crown funding of Identity Services work with respect to internal controls, intelligence analysis, risk advice, integrity assurance and some investigative functions.	-	0.494	0.494	0.494	0.494	0.494
		<b>6.330</b>	<b>0.494</b>	<b>0.494</b>	<b>0.494</b>	<b>0.494</b>	<b>0.494</b>

17. Identity Services savings in Crown funding relate to the Investigative and Regulatory activity. Part of this activity is undertaken more efficiently within the processing of applications rather than as a separate activity, thereby reducing overall cost.
18. All savings must be offered back to the centre for reprioritisation decisions by Cabinet.

**Emergency Pressures**

19. There is one Budget initiative for this Vote.
20. There are ongoing pressures in respect of Censorship, as a result of significant increases in demand driven volumes of investigations, prosecutions and defended hearings involving the distribution and/or possession of child sexual images. Forecasts indicate that 2008/09 will be significantly overspent with legal costs being the main the driver, and this trend is expected to increase in outyears.

Title	Description	\$ million					
		2008/09	2009/10	2010/11	2011/12	2012/13	Outyears
Censorship	Increasing investigation, prosecution and court costs: Censorship Enforcement Activity.	-	0.611	0.611	0.611	0.611	0.611
		-	<b>0.611</b>	<b>0.611</b>	<b>0.611</b>	<b>0.611</b>	<b>0.611</b>

21. The Department also has pressures in Vote Ministerial Services for Support Services to Ministers, events coordination and Ministerial travel, and in Vote Local Government for implementation of recommendations as a result of the report back from the Royal Commission on Auckland Governance. Initiatives will be submitted for inclusion in Budget 2009.

## Future Focus Opportunities

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

## Consequential Impacts and Long-term Risks

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

## Responsible Minister Overview

22. Overall the Department is asking for additional funding to cover activities which are not directly controlled by the Department. The following table gives a summary of the savings and initiatives (pressures) of all votes within the Department.

Savings Summary by Vote						
Vote	Operating (\$ million)					Total
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears	
Community and Voluntary Sector	-	0.140	0.140	0.140	0.140	0.560
Emergency Management	0.200	0.200	0.200	0.200	0.200	1.000
Internal Affairs	6.330	0.494	0.494	0.494	0.494	8.306
Local Government	-	0.588	0.588	0.588	0.588	2.352
Ministerial Services	-	0.136	0.136	0.136	0.136	0.544
Racing	0.100	-	-	-	-	0.100
<b>Total Savings by Votes</b>	<b>6.630</b>	<b>1.558</b>	<b>1.558</b>	<b>1.558</b>	<b>1.558</b>	<b>12.862</b>

Emergency Initiatives Summary by Vote						
Vote	Operating (\$ million)					Total
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears	
Community and Voluntary Sector	-	-	-	-	-	-
Emergency Management	-	-	-	-	-	-
Internal Affairs	-	0.611	0.611	0.611	0.611	2.444
Local Government	-	6.275	5.880	2.909	-	15.064
Ministerial Services	5.441	3.455	3.325	6.625	3.325	22.171
Racing	-	-	-	-	-	-
<b>Total Initiatives by Votes</b>	<b>5.441</b>	<b>10.341</b>	<b>9.816</b>	<b>10.145</b>	<b>3.936</b>	<b>39.679</b>

<b>Net Savings/(Impact)</b>	<b>1.189</b>	<b>( 8.758)</b>	<b>( 8.233)</b>	<b>( 8.569)</b>	<b>( 2.368)</b>	<b>(26.739)</b>
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### **Recommendations**

23. The recommendations are that you:

- a) **Note** the contents of this briefing.
- b) **Sign and forward** the attached submission for Vote Internal **Yes/No** Affairs to the Minister of Finance by 1pm, 5 February 2009.

Brendan Boyle  
Chief Executive

**Hon  
Minister**

## Appendix 1

### Scope and Trends for the Vote

#### Departmental

Movements in expenditure between 1999/2000 and 2001/02 were mainly due to the transfer of a number of outputs to new Votes. The significant changes were:

- In 1999/2000 outputs relating to history and heritage were transferred to a new vote, Vote Culture and Heritage. This vote came into effect from 1 September 1999.
- In 2000/01 the increase related principally to the Royal Commission of Inquiry on Genetic Modification
- In 2001/02, with effect from 1 July 2001 services for the community and voluntary sector were transferred to a new vote, Vote Community and Voluntary Sector.

Expenditure increased between 2001/02 and 2002/03 due to the establishment of the Weathertight Homes Resolution Service.

Expenditure increased in 2003/04 principally due to: an increase in demand for Identity Services products and passport security activity; costs of implementing the provisions of the Gambling Act 2003; and a full year of operation for the Weathertight Homes Resolution Service.

Expenditure increased further in 2004/05 due to: an increase in demand for Identity Services products; the costs of implementing the provisions of the Gambling Act 2003; and increased costs for the operation of the Weathertight Homes Resolution Service.

In 2005/06, expenditure increased due to: administration costs for the Significant Community Based Project Fund, the Commission of Inquiry into Police Conduct, the Confidential Forum for Former In-Patients of Psychiatric Hospitals; the upgrade of the Department's Information and Technology Infrastructure; and an increase in demand for Identity Services products and the cost of increased security measures for Identity Services systems and products. The Weathertight Homes Resolution Service transferred to the Department of Building and Housing with effect from 1 July 2005.

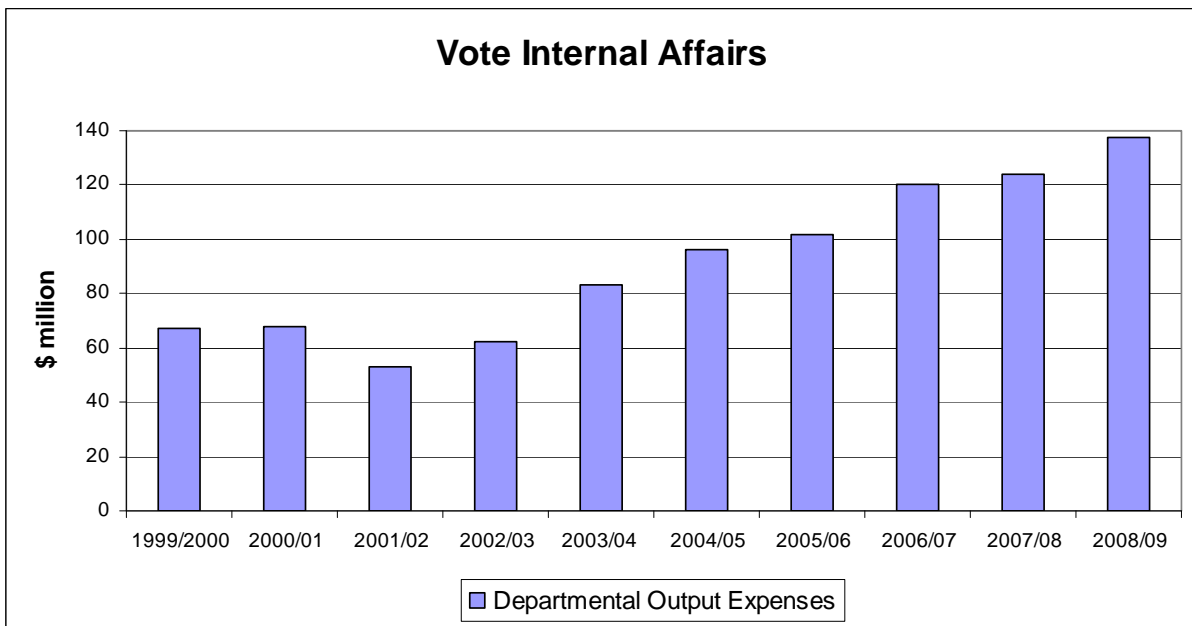
Expenditure increased in 2006/07 due to: development costs for an Identity Verification Service; increased demand for Identity Services products; additional resources applied to reduce the volume of Citizenship work in progress; ongoing costs of the Commission of Inquiry into Police Conduct, the Confidential Forum for Former In-Patients of Psychiatric Hospitals; and the establishment of an enforcement unit to monitor and enforce compliance with the Unsolicited Electronic Messages Act 2007.

In 2007/08 expenditure increased due to: the establishment of the Royal Commission on Auckland Governance, and the Expert Panel on Electoral Administration and Political Party Funding, and a service to provide assistance to people who have alleged abuse or neglect or concerns regarding their time in State care prior to 1992;



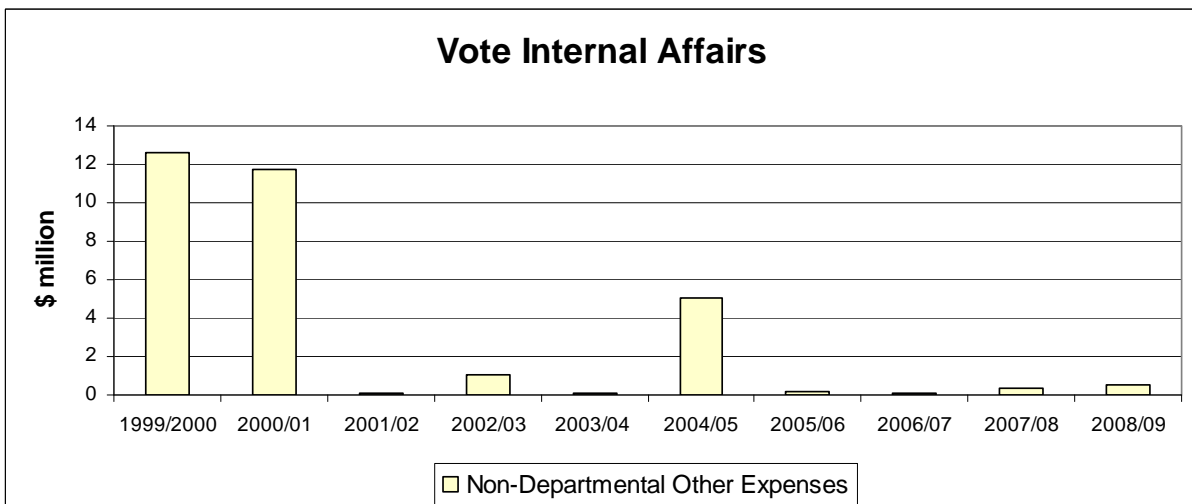
gambling licensing and compliance activities; an initiative to increase the capacity of the Office of Ethnic Affairs to respond to increased demand from ethnic communities and government.

In 2008/09, the baseline has increased due to: funding for the Royal Commission on Auckland Governance, an increase in funding for the Expert Panel on Electoral Administration and Political Party Funding and the Listening and Assistance Service; and increased demand for Identity Services products.



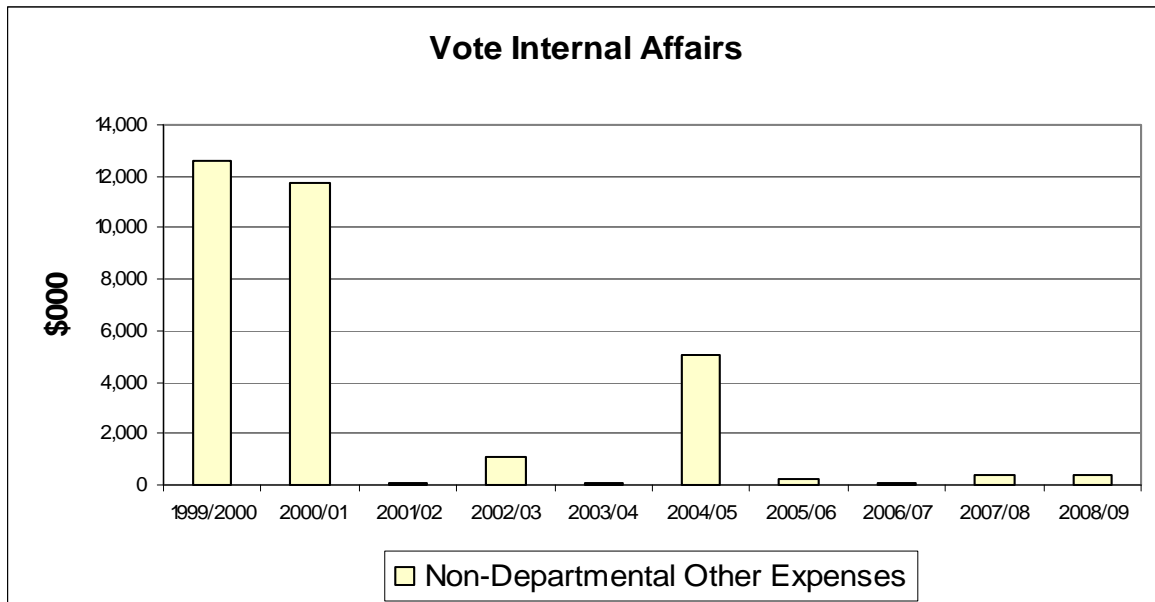
### Non-Departmental Output Expenses

Funding was relatively stable until 2005/06. In 2005/06, a multi-year \$32 million appropriation called the Significant Community Based Projects Fund (SCBPF) was established. The first allocation of the SCBPF was in 2005/06, with the SCBPF fully allocated in 2007/08.



## Non-Departmental Other Expenses

In 1999/2000, all payments to the Executive Council and Ministers under the Civil List Act 1979 were transferred to a new Vote, Vote Ministerial Services. Also payments relating to the maintenance of War Graves and Service Cemeteries were transferred to a new vote, Vote Culture and Heritage (Internal Affairs). Funding was relatively stable until 2001/02 when all payments relating to community grants were transferred to a new vote, Vote Community and Voluntary Sector. In 2002/03 interim funding was provided to Water Safety New Zealand, Royal New Zealand Coastguard Federation and the New Zealand Mountain Safety Council to address short term problems faced due to lower Lottery Grants Board grants. In 2004/05 one-off funding was provided for the Chinese Poll Tax Reconciliation Trust to preserve and support the Chinese New Zealand history, language and culture; and for fees related to the Commission of Inquiry into Police Conduct.



## Appendix 2

### Expense Categories

#### Departmental Output Expenditure

1. Contestable Services has one output, namely Translation Services. This output involves providing translations of seventy different languages to and from English for government agencies, business and individuals.

2. Identity Services has the following outputs:

The four output descriptors are provided below. Overall Identity Services provides effective management of New Zealand's records of identity including: issuing passports; processing citizenship applications; and registering births, deaths, marriages and civil unions; developing authorised information-matching programmes with specified government agencies; providing data or data verification to international government agencies to enhance border security and facilitate travel; working across government, with the border sector agencies and other agencies to develop better authentication of identity and to facilitate good practise based on the Evidence of Identity Standard.

- Citizenship

This output involves administration of New Zealand Citizenship as set out in the New Zealand Citizenship Act 1977 and the Citizenship (Western Samoa) Act 1982. This includes assessing applications for grant of citizenship, registering and confirming citizenship and maintaining records of citizenship.

- Passports

The primary role of this output is the issue of New Zealand passports, other travel documents, and maintain records of all passports issued.

The other role is protection against fraud, to keep ahead of increasingly sophisticated fraudsters and maintain international confidence in the security of New Zealand passports.

- Births, Deaths, Marriages and Civil Unions

This output involves the registry and maintenance of New Zealand birth, death, marriage and civil union information and the issue of certificates.

- Authentication

This output involves working across government to develop better authentication of identity and facilitate good practise based on Evidence of Identity Standard.

3. Information and Advisory Services

This output involves:

- Publishing the New Zealand Gazette
- Authenticating official documents
- Coordinating the Congratulatory Messages Service
- Supporting Commissions of Inquiry, Ministerial Inquiries and other ad hoc bodies

4. Policy Advice – Internal Affairs has the following outputs:

- Internal Affairs Policy Advice

This output involves policy advice and information on matters relating to:

- gaming, censorship, fire, identity, public inquiries and daylight saving
- the performance of and appointments to Crown entities
- appointments to statutory bodies
- the Significant Community-Based Project Fund.

Policy advice also involves preparing ministerial briefings and speech notes, and providing support for the Minister of Internal Affairs, as required, in Cabinet committees, select committees and Parliament.

- draft replies to ministerial correspondence, Official Information Act 1982 requests, Ombudsman's inquiries and parliamentary questions addressed to the Minister of Internal Affairs or referred from other Ministers.

- Ministerial Correspondence and Questions

This output covers draft replies to ministerial correspondence, Official Information Act 1982 requests, Ombudsman's inquiries and parliamentary questions.

5. Regulatory Services has the following outputs:

- Regulatory Services - Gambling

This output involves:

- issuing licences to, and analysing data from, operators involved in the higher risk forms of gambling
- auditing and monitoring casinos and gaming sector organisations operating gaming machines, to assess compliance, with an emphasis on high risk organisations, operators and activities
- investigations, inspections, information gathering and intelligence dissemination regarding possible breaches of the gaming legislation and taking enforcement action against those who breach the legislation
- responding to public inquiries and providing targeted education, advice and information regarding gambling laws, to minimise harm to the community and encourage voluntary compliance
- providing operational policy advice on the gaming licensing regulatory regime and associated fees
- establishing and providing enforcement services and participating in international regulatory arrangements to address the problem of spam.

- Gambling Commission

This output involves:

- making decisions on proposed amendments to casino licensing conditions
- granting approvals under licence conditions

- hearing appeals by non-casino gaming machine operators against licensing and enforcement decisions taken by the Secretary for Internal Affairs.

- Regulatory Services - Censorship

This output involves:

- investigations, inspections, information gathering and intelligence dissemination regarding possible breaches of the censorship legislation and taking enforcement action against those who breach the legislation
- responding to public inquiries and providing targeted education, advice and information regarding censorship laws, to minimise harm to the community

- Regulatory Services – Unsolicited Electronic Messages

This output involves providing enforcement services and participating in international regulatory arrangements to address the problem of spam.

6. Services for Ethnic Affairs covers policy advice and information on matters relating to Ethnic affairs, including:

- preparing ministerial briefings and speech notes, and providing support for the Minister for Ethnic Affairs, as required, in Cabinet committees, select committees and Parliament
- providing draft replies to ministerial correspondence, Official Information Act 1982 requests, Ombudsman's inquiries and parliamentary questions addressed to the Minister for Ethnic Affairs or referred from other Ministers
- providing advisory and information services to Ethnic communities, and information to the public to raise the level of knowledge about Ethnic communities and their contribution to New Zealand
- providing advice on Ethnic and intercultural perspectives to other agencies through participating in cross government initiatives and providing secondary policy advice
- managing the contract for the telephone interpreting service Language Line, and providing information and training to Ethnic communities and government agencies using Language Line

## **Non-Departmental Expenditure**

### Non-Departmental Output Expenses

- Classification of Films, Videos and Publications

The examination and classification of films, videos and publications by the Office of Film and Literature Classification under the Films, Videos and Publications Classification Act 1993. Provision of information and research on classification procedures and systems.

- Significant Community Based Projects Fund

This appropriation is to support major community-based projects, with significant participation of the community, that have a range of benefits contributing to

regional and/or national outcomes with particular reference to arts, culture and heritage; sport and recreation; tourism; conservation and the environment; and economic development. This appropriation commenced on 1 July 2005 and expires on 30 June 2009.

#### Non-Departmental Other Expenses

- Miscellaneous Grants - Internal Affairs

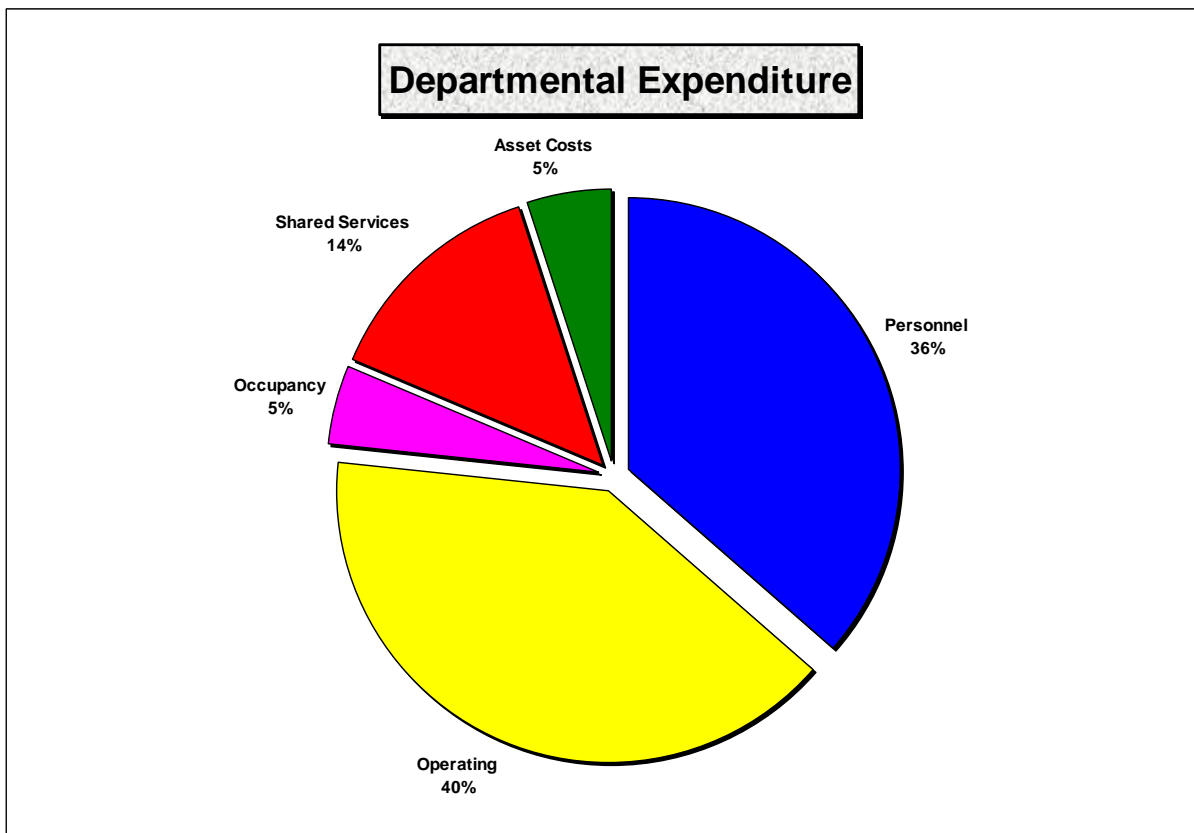
Miscellaneous Grant payments to individuals or organisations to assist in building a strong and safe nation through serving and connecting citizens, communities and Government.

- Public Inquiries
- Fees for inquiries and investigations.

## Appendix 3

### Breakdown of Departmental Expenditure for the Vote by Area of Input

1. Departmental expenditure in each of the output areas of Vote Internal Affairs falls across a range of inputs. The type of expenditure reductions undertaken will be guided in part by the ability to vary expenditure across the different inputs. The chart below provides a breakdown of the input costs for the Vote.
2. Personnel costs account for \$50.277 million of expenditure and represent an area where reductions are difficult to implement in the short-term without a restructuring of the organisation.
3. Operating costs represent \$55.464 million of expenditure and include human resources development, travel, office expenses and computer costs. There is a direct link in most instances to personnel levels as above.
4. Occupancy costs are \$6.350 million of total expenditure across several centres within New Zealand.
5. Asset costs are \$6.818 million of total expenditure in respect of depreciation and capital charges.
6. Shared Services charges are \$18.886 million of total expenditure and are incurred for support such as Human Resources, Information Technology, Finance, Planning and Performance, Property and Procurement Services.



7. Shared Services charges across all Votes within the Department of Internal Affairs represent 14% of total departmental expenditure. Please refer Appendix 4 for analysis and trends of shared services.

## Appendix 4

### Shared Services Costs and Trends

The Department of Internal Affairs operates on a centralised Shared Services model. This centralised model was progressively implemented between 2005 and 2008. Previously each business group operated more or less in isolation and maintained their own corporate services functions.

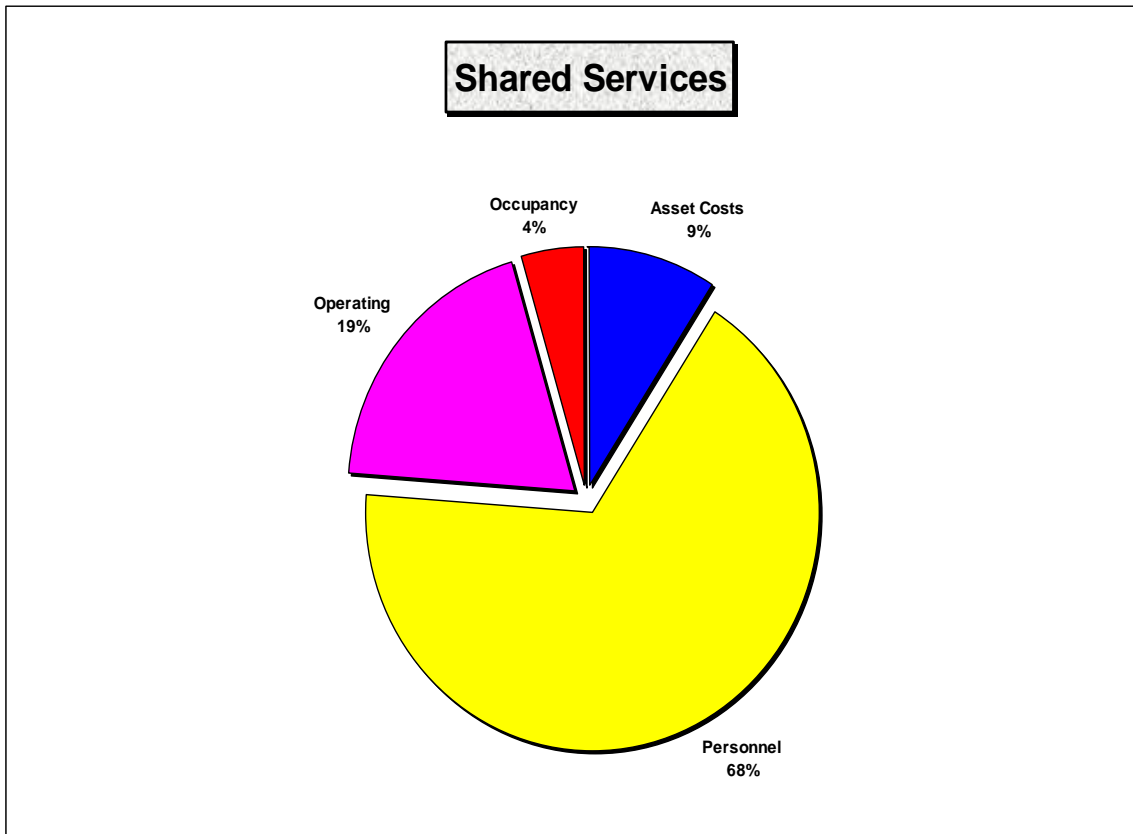
The cost of shared services across the department is currently 15% (\$34.354 million) of total Internal Affairs expenditure. 45% of the Shared Services Budget is funded from Revenue Crown (\$15.459 million).

The shared service activities across the Department include Human Resources, Finance, Research, Procurement, Property Management, Information and Communications Technology, Strategic Development and Planning, Audit, Legal, Project Management and Ministerial Advice and Support.

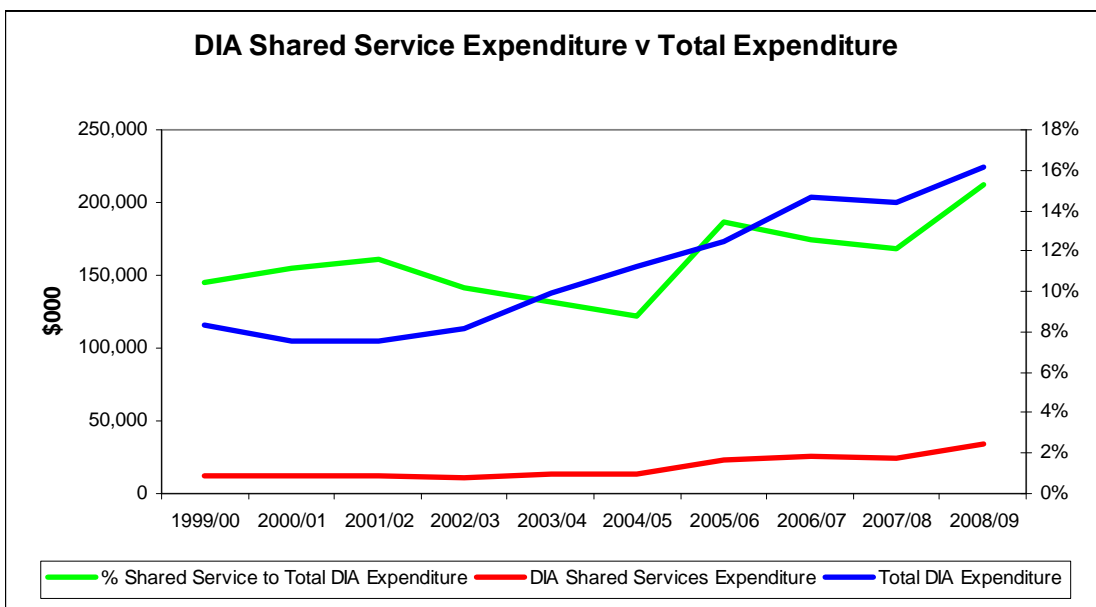
### Breakdown of expenditure by area of input.

1. Personnel costs account for \$23.287 million of total expenditure and represent an area where reductions are difficult to implement in the short-term without a restructuring of the organisation.
2. Operating costs represent \$6.482 million of total expenditure. A reduction in this area is possible in the short term but with consequential implications for outputs delivered.
3. Occupancy costs are \$1.495 million of total expenditure and represent a cost that is usually variable only in the long-term.
4. Asset costs are \$3.090 million of total expenditure and represent a cost that is usually variable only in the long-term.





The graph shows the trend in shared services cost over a ten year period.



The Department administers six Votes and the shared services expenditure is allocated to each of these Votes.

The allocation of Shared Services is achieved through a March 2001 Cabinet Minute [EXE Min (01) 3/7 refers] approving the use of using causal and global drivers.

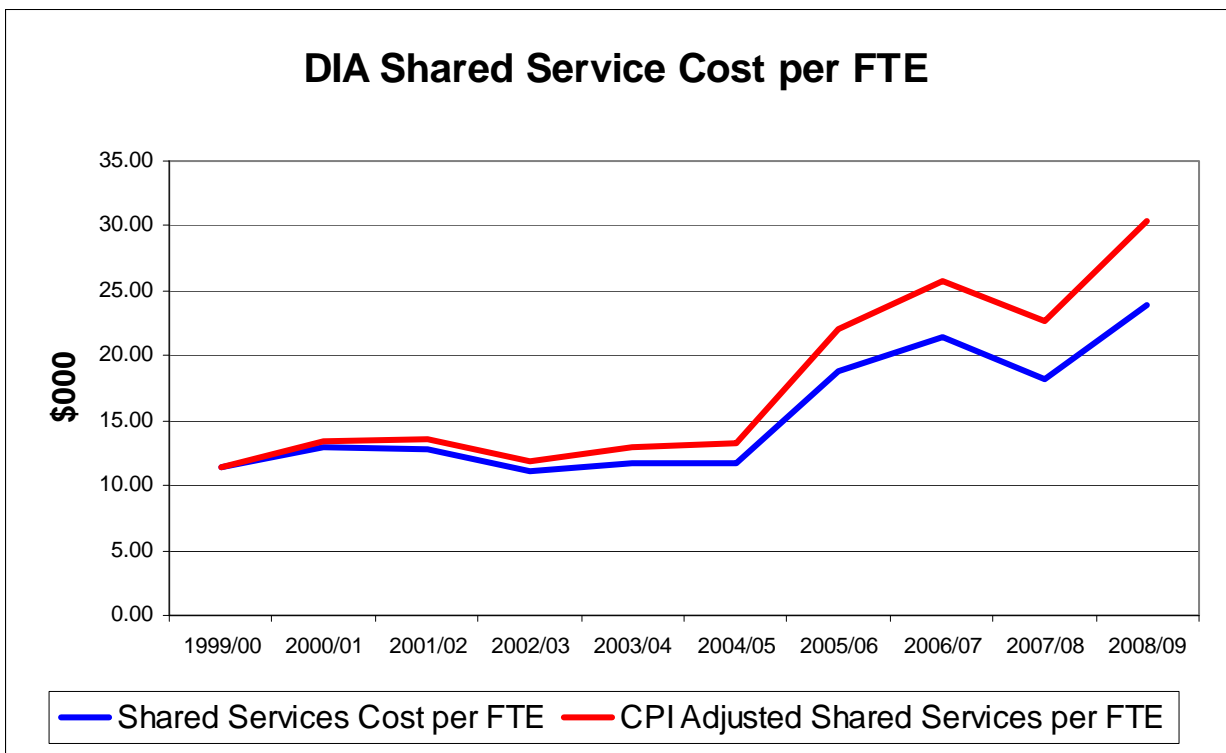
The approved methodology requires that shared costs of business groups need to be allocated using causal costs which have a number of drivers but are all directed to specific

operational groups, and global costs which are allocated mainly on a FTE basis across groups.

Shared costs are a component of fees for services in third party areas where fee calculations are scrutinised by Treasury, Audit NZ and Select Committees.

The purpose of the allocation methodology is to ensure, to a reasonable degree of certainty, that there is no cross-subsidisation between the votes and funding sources administered by the Department.

The Department actively manages shared service costs. The cost for 2008/09 is \$0.024 million per Full Time Equivalent (FTE) employee. In 1999/00 its was \$0.012 per FTE. Adjusting the 1990/00 figure for movements in the Consumer Price Index (CPI) the cost per FTE would have been \$0.030 million per FTE, therefore the current cost is 17% less than the inflation-adjusted shared services amount.



## **Appendix 5**

### **Costings for Royal Commission on Auckland Governance**

*[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*