

3 February 2009

## **IMPROVING VALUE FOR MONEY IN THE STATE SECTOR: REPORT FROM NEW ZEALAND CUSTOMS SERVICE**

### **Introduction**

- 1 This report responds to a Cabinet directive [CBC Min (08) 32/6] for chief executives to review expenditure in their Votes and report to their Ministers by 5 February 2009. The reviews are to identify:
  - (a) Savings that can be freed up for Budget 2009
  - (b) Programmes that are inconsistent with the Government's priorities, and that should be discontinued
  - (c) Programmes that may be inconsistent with the Government's priorities, and that should be looked into
  - (d) Programmes and expenditure that are not efficient or effective
  - (e) Areas where performance information is insufficient to make a judgement about efficiency or effectiveness
  - (f) The actions that agencies should take to make improvements before the new review period
  - (g) Initiatives of the previous government that are not funded.
- 2 This report comprises an overview of the key points from the review and then discusses each of the above points in turn. Detailed supporting information is available if required.

### **Key points**

#### **(a) *Savings that can be freed up for Budget 2009***

- 3 Customs has identified \$2.850 million lower priority expenditure that can be freed up for Budget 2009. Offsetting the \$2.850 million savings, Customs has identified \$1.225 million of cost pressures that are unfunded for 2009/10.
- 4 Customs is also facing a loss of income from third party revenue currently estimated to be in the region of \$1.5 million to \$2.5 million from falling trade volumes.

- 5 In addition Customs is preparing a Stage 2 business case for implementation of the first phase of the Joint Border Management System (JBMS) and the associated Trade Single Window (TSW).
  - 6 This reflects the close alignment to government priorities of the JBMS and the TSW. JBMS is needed to replace aging Customs and Biosecurity information management systems. The TSW will provide a single point of contact for importers and exporters with border agencies, reducing industry transaction costs.
  - 7 Other Customs programmes are also focused on innovation and the use of technology. Continued innovation in border management practices is necessary for New Zealand to maintain its international competitiveness.
- (b) Programmes that are inconsistent with the Government's priorities and that should be discontinued**
- (c) Programmes that may be inconsistent with the Government's priorities, and that should be looked into**
- (d) Programmes and expenditure that are not efficient or effective**
- 8 Customs does not have any programmes that, on first analysis, fall into categories (b), (c) or (d).
  - 9 Customs has, however, identified a range of areas where further value for money work will be undertaken over the next three years to ensure optimal efficiency and effectiveness, and alignment with government priorities. Customs is committed to a value for money culture.
  - 10 *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*
  - 11 *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*
- (e) Areas where performance information is insufficient to make a judgement about efficiency or effectiveness**
- 12 *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*
- (f) The actions that agencies should take to make a judgement about efficiency or effectiveness**
- 13 Customs has identified a senior position, within current staff establishment, to ensure the value for money reviews are adequately resourced and meet internal and external reporting milestones.

**(g) Initiatives of the previous government that are not funded**

- 14 Customs received \$485,000 in 2008/09 for one year only to continue its contribution to multi-agency work on negotiating and implementing trade agreements.
- 15 Customs estimates that \$468,000 in 2009/10 and \$415,000 in 2010/11 and 2011/12 will be required for this work to continue. (Rounded figures are shown in Table 1).

**Summary information**

- 16 The identified savings, cost pressures, and areas of further value for money work are summarised in Table 1.

**Table 1: Summary of Customs' identified savings, cost pressures, and areas of further work**

<b>Programme</b>	<b>Savings 2009/10 (\$000)</b>	<b>Cost pressures 2009/10 (\$000)</b>	<b>Areas of further value for money work</b>
<b>(a) Savings</b>			
• Operations vacancies	500		
• Passenger clearance at regional airports	400		
• NMCC capability development programme	100		
• Policy advice staffing	200		
• Human resources	100		
• Cohort training	500		
• Corporate support	50		
• Wellington accommodation	500		
• Depreciation	500		
<b>(b) Cost pressures</b>			
• Trade agreements		450	
• General operating costs		400	
• Identity verification service		375	
<b>Totals</b>	<b>\$2.850m</b>	<b>\$1.225m</b>	

<b>Programme</b>	<b>Areas of further value for money work</b>
<b>(c) Areas of further value for money work</b>	
<ul style="list-style-type: none"> <li>• Operations generally</li> </ul>	<ul style="list-style-type: none"> <li>• Further review of staffing levels in light of volumes</li> <li>• Realign intelligence/targeting activity</li> </ul>
<ul style="list-style-type: none"> <li>• Passenger clearance</li> </ul>	<ul style="list-style-type: none"> <li>• Options for automated passenger clearance</li> <li>• Options for cost recovery</li> </ul>
<ul style="list-style-type: none"> <li>• Goods clearance</li> </ul>	<ul style="list-style-type: none"> <li>• Develop Trade Single Window</li> <li>• Investigate next generation screening technology</li> <li>• Increase industry participation in Secure Export Scheme and Frontline programme</li> <li>• Review of operations of Customs Controlled Areas</li> <li>• Options for further cost recovery</li> </ul>
<ul style="list-style-type: none"> <li>• Investigations</li> </ul>	<ul style="list-style-type: none"> <li>• Explore digital tracking platform</li> </ul>
<ul style="list-style-type: none"> <li>• Maritime</li> </ul>	<ul style="list-style-type: none"> <li>• Build NZ Inc maritime picture</li> </ul>
<ul style="list-style-type: none"> <li>• Revenue collection</li> </ul>	<ul style="list-style-type: none"> <li>• Shift resources into revenue compliance</li> </ul>
<ul style="list-style-type: none"> <li>• Information systems</li> </ul>	<ul style="list-style-type: none"> <li>• Further development with MAF</li> </ul>
<ul style="list-style-type: none"> <li>• Corporate</li> </ul>	<ul style="list-style-type: none"> <li>• Review/enhance performance measures</li> <li>• Review location of overseas posts</li> </ul>
<ul style="list-style-type: none"> <li>• Border sector collaboration</li> </ul>	<ul style="list-style-type: none"> <li>• Explore stronger collaboration of border agencies on frontline service delivery and back office services, eg, co-location in Auckland, vessel clearance</li> </ul>

## Discussion of Customs' review

17 This section discusses each of the seven matters that Cabinet directed chief executives to consider in their value for money reviews. To provide context for this discussion, this section includes information on Customs' roles, alignment with government priorities and consequences of the changing economic environment.

### (a) *Savings that can be freed up for Budget 2009*

18 Customs has identified \$2.850 million potential net savings from lower priority expenditure that can be freed up for Budget 2009.

19 As Table 2 shows, some savings can be continued through to 2010/11.

**Table 2: Customs' potential net savings for 2009/10 and 2010/11**

Potential net savings	2009/10 (\$000)	2010/11 (\$000)
Operations vacancies *	500	0
Passenger clearance at Hamilton & Dunedin airports *	400	400
Defer NMCC capability development programme	100	0
Policy advice staffing	200	200
Human resources	100	100
Cohort training*	500	0
Further consolidation of corporate support *	50	100
Wellington accommodation *	500	0
Depreciation *	500	0
<b>Totals</b>	<b>\$2.850m</b>	<b>\$0.800m</b>

\* Can be achieved without impact on service delivery

20 The following points should be noted about these savings.

- **Operations vacancies:** In the current environment of reduced trade and travel, Customs is able to manage volumes and maintain service delivery in the short term with 10 full-time equivalent vacancies unfilled.
- **Passenger clearance:** A reduction in the number of Air New Zealand flights to and from Hamilton and Dunedin airports will allow for operational savings. Customs is monitoring resources at these airports.
- **National Maritime Coordination Centre (NMCC):** Customs could defer its planned capability development programme for the NMCC.

- Policy advice: Customs could leave three policy analyst positions vacant. This would result in a more limited policy work programme that focuses on the priorities identified in this report. Input to other agencies' border related initiatives could also reduce.
- Human resources: Customs could keep one advisor position vacant and reduce activity in its recruitment office.
- Cohort training: Customs could cancel one training cohort in 2009/10. This would produce temporary savings as staffing levels are consolidated and turnover reduces. Out-year savings are not possible if long term staffing levels are to be maintained.
- Further consolidation of corporate support: This is likely to require restructuring costs as regional staff are shifted to Wellington.
- Wellington accommodation: This reflects savings from a changed timetable for the transfer of the Wellington Customhouse to new premises on the Wellington wharf.
- Depreciation: Customs could delay or reschedule replacing assets. Out-year savings would not be possible without negative impacts on service delivery.

### *Cost pressures*

21 Offsetting the \$2.850 million of potential net savings, Customs has identified \$1.225 million of cost pressures. These items are not currently in Customs' baseline but need to be addressed.

**Table 3: Cost pressures in 2009/10 and 2010/11**

<b>Item</b>	<b>2009/10 (\$000)</b>	<b>2010/11 (\$000)</b>
Negotiation and implementation of trade agreements	450	400
Additional leave entitlements	300	300
ACC levies	50	50
Increases in basic operating costs e.g. fuel, accommodation	50	50
Identity verification service <sup>(1)</sup>	375	
<b>Totals</b>	<b>1,225</b>	<b>800</b>

Notes:

<sup>(1)</sup> Customs is one of a number of agencies required to contribute to this SSC-led initiative.

22 In addition, Customs has committed (through to 30 June 2010) to meet the costs of the Collective Employment Agreement signed in 2008. Over and above additional funding received in Budget 2008, Customs has committed to meet the unfunded portion of around \$1 million for 2009/10.

### *Emergency funding pressures*

23 Table 4 shows the impact of the identified savings and the cost pressures on Customs' total baseline.

**Table 4: Impact of savings and cost pressures on Customs' baseline 2009/10 (rounded)**

Component	Baseline (2009/10) (\$000)	Savings (\$000)	Savings as % of baseline	Savings, cost and revenue shortfalls (\$000)	Savings, cost and revenue shortfalls as % baseline
Crown funding	84,000	2,850	3.4%	4,075	4.8%
Third party funding	41,000	-	-	1,500-2,500	3.4%-5.69%
<b>Totals</b>	<b>\$125m</b>	<b>\$2.850m</b>	<b>2.3%</b>	<b>\$5.525m-\$6.525m</b>	<b>4.4%-5.29%</b>

24 In considering how to manage these impacts, Customs has considered trends in cost pressures, how recent pressures have been managed within its baseline, and the current and emerging budget pressures that need to be addressed.

### *Recent trends impacting on Customs' budget*

25 Recent pressures on Customs' budget have come from:

- Increasing volumes of trade and travellers: In addition to increasing volumes, Customs has also had to manage increasing expectations of fast, efficient and low-cost processing of goods and passengers. These expectations are set against the need to maintain acceptable standards of risk management.
- Greater diversity of trade and travel: The increased risks arising from the greater diversity of trade and travel are coupled with new and emerging threats such as terrorism, identity fraud, and the importation of counterfeit goods and drug precursors from Asia.
- Additional government requirements: These include providing more accurate information about passenger travel movements to Inland Revenue, Ministry of Social Development, and Ministry of Justice. This information is provided to support domicile-based policies and entitlements, for example, student loans, liable parent contribution, some social security benefits, and recovery of unpaid fines. These also contribute substantially to Crown revenue.



- International requirements: These include emerging requirements from the World Customs Organisation and other international organisations. For example, the need to meet increased requirements from the United States for security assurance on New Zealand's exports there.
- Increased operating costs: The need to absorb increases in costs resulting from office accommodation, rent reviews, ACC levies and public sector leave entitlements.
- Costs of employment agreements: Customs continues to meet costs to 30 June 2010 arising from the Collection Employment Agreement settled in 2008.

### *Reprioritisation of funding in recent years*

- 26 Customs is already managing a number of earlier cost pressures by reprioritising within its current baseline.
- 27 Table 5 provides details of unfunded cost pressures and internal initiatives that Customs has managed within its baseline over the last five years. These figures are exclusive of volume growth in passenger and goods clearance transactions.

**Table 5: Cost pressures and initiatives managed within Customs' baseline, 2004-2009**

Item	2004/05 (\$000)	2005/06 (\$000)	2006/07 (\$000)	2007/08 (\$000)	2008/09 (\$000)
<b>Government policy</b>					
2005 Collective Employment Agreement		1,000	1,000	1,000	1,000
Holiday Act changes	350	350	375	400	400
Fourth week of annual leave			70	70	70
2006 remuneration review			700	700	700
2008 Common Employment Provisions				500	500
<b>Unfunded cost increases</b>					
Fuel, electricity & accommodation		100	200	300	350
<b>Customs' initiatives</b>					
Project Guardian change programme		500	800	800	800
Investment in training and development		400	500	500	1000
<b>Totals</b>	<b>\$0.350m</b>	<b>\$2.350m</b>	<b>\$3.645m</b>	<b>\$4.270m</b>	<b>\$4.820m</b>

- 28 Customs is meeting the additional funding requirements outlined in Table 5 through a variety of measures. These include:
- Managing vacancies and scheduling recruitment

- Refocusing resources (for example, training) and reprioritising tasks and effort (for example, response group activity)
- Rationalising accommodation and other operating costs
- Enhancing back office and procurement processes, including reducing costs for items such as motor vehicles, travel, credit cards and cell phones
- Reallocating resources from areas of reduced activity, for example, savings from the closure of Palmerston North airport in 2008 were reallocated to assist manage the new employment agreement.

### *Resourcing issues considered in Customs' review*

29 In considering opportunities for immediate savings and further value for money reviews, Customs took into account the following resourcing issues.

#### Core roles and service delivery

- Customs' role in trade facilitation. This is strongly linked to government priorities and includes Customs' responsibilities in respect of export risk assurance and New Zealand's reputation and commitment to secure trade.
- Customs' role in law enforcement, particularly in response to the combined impacts of organised crime and increasing volumes of drugs and other illicit goods crossing the border.
- The importance of maintaining the integrity and efficiency of Customs' revenue collection functions.
- Customs' desire to maintain passenger and craft clearance and intervention standards, and maritime border attendance requirements. These support the Government's economic and community security agendas.

#### Corporate and relationship issues

- The importance of staff training and development of leadership capability.
- The need to continue to provide reliable systems and timely and focused information.
- The importance to New Zealand of effective national and international customs relationships. This includes the need to implement the China Free Trade Agreement and contribute to other agreements under negotiation and development.

#### Flexibility for the future

- Customs' ability to effectively respond when economic conditions improve.

- Preparation for major upcoming events, in particular the Rugby World Cup 2011.
- 30 Finally, the impact of the global economic downturn on these resourcing pressures is difficult to predict. Even if volumes of passengers and goods reduce, risks are expected to increase. Customs expects more people will try to circumvent controls to avoid costs, evade tax, or to deal more profitably in illicit trade. To the extent that border clearance is cost recovered from third parties, reducing volumes will lower revenue but will not necessarily lower risk.
- 31 Despite Treasury's assessments over recent budget rounds that there was little or no further opportunity for reprioritisation or savings in Vote Customs, the current value for money review has confirmed savings of \$2.850 million are possible in 2009/10. These savings are possible because of a reduction in work volumes and the achievement of operational efficiencies.
- 32 However, Customs continues to face increases in its operating costs and a decline in its third party revenue as shown in table 3. For 2009/10 these exceed the identified savings.

#### *Emergency funding pressures*

- 33 In addition continued development and, if approved, implementation with the Ministry of Agriculture and Forestry, of the Joint Border Management System (JBMS) and Trade Single Window (TSW) is a Customs portfolio priority for 2009/10 and out years. Both these programmes are closely aligned to government priorities.
- 34 The JBMS is needed to replace the aging border management systems used by Customs and MAF Biosecurity. Critical elements of Customs' existing system will be unsupported after 2014 and work to replace them needs to continue. JBMS is also needed to carry the TSW, which is an initiative to lower transaction costs for New Zealand importers and exporters.
- 35 Customs is currently unable to implement innovative new processes and technologies aimed at improving the integration and efficiency of international supply chains and border clearance processes. Not investing in these processes and technologies will adversely affect New Zealand's international competitiveness including putting our traders at a disadvantage compared to their international counterparts.
- 36 Customs is primarily a service delivery organisation whose workload and resource requirements are driven by the volumes of people, goods and craft crossing our border, and by the nature of the risks posed by cross border movement. Customs' processes are also in the middle of dynamic trade and travel supply chains that are becoming more integrated internationally. New Zealand has to keep up with developments if it is to take advantage of the expected efficiencies.
- 37 Customs has therefore prepared a budget bid for 2009/10 to advance the JBMS and TSW as an emergency funding pressure.

**(b) Programmes that are inconsistent with the Government's priorities, and that should be discontinued**

- 38 Customs does not have any programmes that are inconsistent with the Government's priorities and that should be discontinued. Customs has, however, identified areas of further work to ensure continuing value for money and consistency with government priorities.
- 39 To provide context, the following section discusses Customs' primary roles and their consistency with government priorities. It also discusses the Minister's proposed priorities for the Customs' portfolio and the consequences of the changing economic environment on Customs' roles and workload. Finally this section identifies areas of further value for money work.

*Customs' role and consistency with government priorities*

40 Customs primary roles are as follows.

- Manage security and law enforcement risks arising from trans-national organised crime. This includes protecting New Zealand from the importation of illicit drugs and precursor materials, and from other organised illicit trade such as in counterfeit and unsafe goods, and endangered wildlife.

*This role supports the Government's priority to clamp down on criminal gangs and the 'P' trade.*

- Maintain New Zealand's reputation as a safe and welcoming country to travel to and trade with. A secure, efficient, reliable and friendly border service is necessary to maintain New Zealand's international competitiveness as a tourist destination and trading nation, particularly in challenging economic times. Customs' Secure Export Scheme and its reciprocal trade security arrangements with key trading partners such as the United States and Japan are world class. Customs is also leading the development of more integrated border processes, such as the Trade Single Window.

*This role supports the Government's priorities of growing the economy and reducing regulatory and compliance demands.*

- Support the Government's trade negotiation agenda by providing technical support to the Ministry of Foreign Affairs and Trade in the conduct of trade negotiations.

*This role supports the Government's pursuit of free trade agreements.*

- Protect Crown revenue. Customs collects approximately 15 percent of Crown revenue through GST, duty, excise and levies. For 2009/10 Customs is forecast to collect \$10.5 billion. This is an increase from \$10.2 billion collected in 2008/09.

*This role supports the Government's ability to deliver on its priorities.*

41 In carrying out these roles Customs undertakes:

- Clearance of all arriving and departing passengers and crew (forecast to be 9-10 million in 2008/09) within agreed timeframes
- Clearance of all goods shipments for imports and exports (forecast to be 70-80 million transactions in 2008/09 with an estimated value of \$76 billion)
- Clearance of all craft (forecast to exceed 60,000 in 2008/09)
- Collection of GST, duty, excise and levies (currently forecast to collect \$10.5 billion in 2008/09)
- Management of the security, law enforcement and revenue risks arising from the movement of people, goods and craft (5,000 interceptions of prohibited and restricted goods expected in 2008/09)
- Provision and management of key border infrastructure (such as integrated border transaction processing and information systems, the National Maritime Coordination Centre and the National Targeting Centre) that support other agencies.

42 Customs' use of integrated processes allows it to simultaneously:

- Facilitate the legitimate movement of people, goods and craft across the border
- Prevent the illegitimate movement of people, goods and craft
- Ensure traders and travellers meet their legal obligations.

43 Customs can therefore take an integrated approach to managing border and revenue risks, resulting in efficiencies for government and minimal compliance costs for traders and travellers.

44 Customs manages the movement of all people, goods and craft across the border. Other agencies have specialist roles such as biosecurity or immigration. In total, Customs works with or provides border services on behalf of 20 other agencies. Any reduction in Customs' resources could potentially affect other agencies.

45 Customs also works closely with industry. Further development of collaborative relationships and processes with industry are a central feature of Custom's development strategy.

46 Customs has gained an excellent reputation internationally for its role in border management and customs administration. This reputation adds value to New Zealand in terms of influencing global forums and in trade negotiations.

### *Minister's proposed priorities for Customs*

47 In response to a request from the Prime Minister on 22 December 2008, the Minister of Customs has proposed the following priorities for the Customs portfolio.

#### Priorities for 2009

##### ***Developing the Joint Border Management System and Trade Single Window***

48 This priority is to develop the Joint Border Management System (JBMS) and Trade Single Window (TSW) to provide an integrated system for managing Customs and Biosecurity needs at the border, and to mitigate increasing risk of major systems failure. An integrated system would:

- Allow border agencies to carry out their roles more efficiently and effectively
- Improve services provided to industry, including reducing compliance costs, by providing a single electronic interface between industry and border agencies
- Allow international trade standards (the basis for increased connectedness in international trade supply chains) to be implemented.

49 The border management systems currently used by Customs and MAF Biosecurity are old, at increasing risk of failure and not capable of meeting current and emerging policy demands and international standards.

50 JBMS is an example of shared use of information technology (Customs, MAF Biosecurity, and support for Immigration) that would provide significant cost savings for the Government.

##### ***Increasing the interception of illicit drugs and precursor materials entering New Zealand***

51 This priority aims to increase the number of Customs interceptions of illicit drugs and precursor material entering New Zealand and to successfully prosecute offenders.

52 Customs' law enforcement resources have been under significant pressures in recent years.

53 Smuggling of illicit drugs and precursor material is characterised by increasingly complex methods and frequency of offending. In the past seven years, Customs' interceptions of illicit drugs (mainly precursors) have increased by more than 1,000 percent.

54 In 2008, the street value of precursors and methamphetamine intercepted by Customs was \$205 million. In dollar terms, these interceptions equated to \$83 million avoided harm.

55 Alongside this increase in volume, Customs' law enforcement investigations are now more resource-intensive and time-consuming. Customs relies on outdated analogue surveillance technologies to support its investigations. As well as being inefficient, these technologies are able to be defeated by trans-national criminal groups.

***Giving greater attention to ensuring revenue due to the Crown is collected***

56 The aim of this priority is to increase the level of assurance to government that revenue due to the Crown is collected. This is particularly important in the current economic environment where businesses are under increasing financial pressure.

57 This year, Customs will collect more than \$10 billion from customs and excise duties. This amount represents approximately 15 percent of the Crown's total revenue. In addition, Customs' trade assurance activities identify and recover more than \$15 million in revenue every year that would otherwise not be collected.

58 As economic conditions worsen, Customs has identified an increase in revenue-related errors and omissions made by traders, particularly small to medium enterprises. Consequently, these traders face higher than expected costs.

59 Customs must adopt a more proactive and flexible approach to allow traders to meet their obligations without putting their businesses at risk.

60 The current economic environment may also increase the risk of deliberate actions aimed at defrauding the customs revenue. To combat this, Customs will increase its trade surveillance activities and take legal action against traders found to be deliberately evading their obligations.

**Priorities for 2009/11**

61 Priorities for 2009/11 are:

- Further development and, if approved, implementation of JBMS.
- Advancing integration of trans-Tasman border clearance processes including innovative ways to clear trans-Tasman passengers (eg, via kiosk technology).
- Increasing international collaboration to ensure market access and reduced border compliance costs for New Zealand traders.
- Continued Customs support for New Zealand's free trade negotiations.
- Improved service delivery and cost effectiveness at the border through smarter integration with other border agency processes.

### *Consequences of the changing economic environment on Customs' roles and workload*

- 62 In carrying out its value for money review, Customs has also considered how the global economic downturn is expected to result in changes to its roles and workload. Customs expects these changes to include:
- An overall reduction in the volumes of trade and travellers, at least in the short-term
  - An increase in border law enforcement and revenue risks
  - Changes in commercial behaviour.
- 63 A reduction in the volumes of trade and travel will result in decreased workloads for those parts of Customs that are volume-driven (mainly passenger primary processing and export clearance). This decrease is likely to be offset by increases in workload for those parts of the organisation that are focused on managing risk.
- 64 Changes in commercial behaviour include a shift towards lower-volume, just-in-time importing as companies seek to reduce the funds they have tied up in stock. As a result, Customs expects increases in the volume of goods imported through the fast freight import channel and in containers, and the consolidation of a number of smaller shipments within a single container. These trends increase the likelihood that Customs' inspection will be required to provide adequate risk assurance.
- 65 The changes discussed shift the balance of Customs' workload from areas staffed by relatively low-skilled and inexperienced staff (for example, passenger primary processing) to those staffed by more highly-skilled officers (for example, secondary passenger processing; inspections, investigations and trade assurance). As a result, the focus of Customs' training programmes is likely to change from training new recruits to the more expensive training of experienced staff for more complex roles.
- 66 While the current economic downturn may be more severe than those in the past 50 years, experience shows there is a relatively quick return to previous volumes once the economy improves. This means that Customs must maintain its capability at a level that enables a timely response to the economic upturn.
- 67 Finally, the economic downturn provides an incentive to further review costs and efficiency gains arising from greater collaboration between border agencies.

### *How the current economic environment affects Customs' baseline*

- 68 Border risk management, law enforcement and revenue collection become more challenging and increasingly important at times of economic downturn. It is fundamental to New Zealand's economic success to have border management assurance and law enforcement processes that are highly effective, certain and reliable.



- 69 Customs is operating in a challenging environment where transaction work volumes are levelling off or reducing after sustained growth over the last ten years; third party revenue activity is falling behind forecast; and risks at the border, particularly those relating to drugs and organised crime, are expected to increase. It is particularly important that Crown retains the capability to continue well-targeted risk interventions and to undertake audits and interventions early.

#### *Areas for further value for money work*

- 70 Customs has identified a number of areas where further work is needed to explore potential increases in efficiency and effectiveness, or potential further savings. The main areas are:

##### Technology and innovation

- Continued exploration of automated passenger processing systems.
- Research into next-generation passport scanning technology.
- Research into next-generation x-ray and other screening technology.
- Evaluation and trial of digital tracking (surveillance) technology.

##### Operations

- Further review of primary processing resources required at airports.
- Trialling of Smartgate automated kiosks for trans-Tasman travellers.
- Risk-based surveillance planning.
- Review of Customs Controlled Areas to improve operations and fee structure.

##### Corporate

- Integration of strategic business and financial planning.
- Further development of the performance measurement and reporting systems.
- Review of baseline operational resource requirements.

- 71 Customs is also leading work with other border agencies on smarter ways of delivering border services. Chief executives are meeting in February 2009 to consider how the current work programme can be targeted more directly at short-term value for money. Possible opportunities include co-location of border agency offices in Auckland (particularly for targeting and other operational work) and more integration of vessel clearance. Chief executives will also review how the border sector work programme is organised, funded and administered.

72 Table 6 below presents a fuller description of opportunities for better value for money, some of which will need further work before they can be confirmed.

**Table 6: Customs' value for money initiatives**

<b>Long-term initiatives</b>		
<b>Programme</b>	<b>Reasons</b>	<b>Comments</b>
Joint Border Management System (JBMS)	<ul style="list-style-type: none"> <li>• CUSMOD replacement</li> <li>• Increased capability</li> <li>• Automated processes</li> <li>• One core system (CUSMOD, QUANTUM and IBT)</li> </ul>	Border agency initiative (principally Customs and MAF)
Trade Single Window (TSW)	Single entry point for industry to fulfil all import, export and transit-related regulatory requirements	<ul style="list-style-type: none"> <li>• Border agency initiative (Customs, MAF, NZFSA and Maritime NZ)</li> <li>• Included in JBMS</li> </ul>
NZ Inc maritime picture	More efficient management of maritime risks	Supports outcomes for Customs, Defence, Ministry of Fisheries, Police, Maritime NZ
<b>Medium to long-term initiatives</b>		
Trans-Tasman collaboration	Increased effectiveness of facilitation and protection roles at the shared border	Might include trans-Tasman travel as quasi domestic
Border agency collaboration programme	Increased effectiveness across border agencies	Might include (but not limited to): <ul style="list-style-type: none"> <li>• Single border sector contact centre</li> <li>• Border sector information sharing protocols</li> <li>• Shared vessel clearances with MAF</li> <li>• Joint response/secondments</li> <li>• Joint negotiations for premises</li> <li>• Integrating cost recovery processes</li> <li>• Border sector collective frontline employment conditions</li> </ul>
<b>Short to medium-term initiatives</b>		
Secure Export Scheme/Frontline – increase participation rates across exporters	Reduces export inspection requirements	<ul style="list-style-type: none"> <li>• Can redeploy resource into other activities</li> <li>• Provides tangible benefits for exporters to countries with a similar trade assurance programme</li> </ul>
Internal resource deployments	More flexible use of staff within locations across business areas	<ul style="list-style-type: none"> <li>• More responsive to risk and volume changes</li> <li>• Put the resource where it is required, when it is needed</li> <li>• Increased job variety and potentially higher retention</li> </ul>
Improved approach to Intelligence, Planning and Coordination functions	<ul style="list-style-type: none"> <li>• Realign intelligence and targeting processes and organisation structure</li> <li>• Realign supporting operational planning and coordination functions</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen whole-of-government approach and border agency risk assessment and response effectiveness</li> <li>• Focus on high priority interventions and risk</li> <li>• Includes National Targeting Centre</li> </ul>
Revenue assurance – shift resources into revenue compliance activities	Reduced revenue leakage and avoidance	Potential for increase in revenue

*Options for possible cost recovery*

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

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**Table 7:** *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

**(c) Programmes that may be inconsistent with the Government's priorities, and that should be looked into; and**

**(d) Programmes and expenditure that are not efficient or effective**

78 Customs has not identified any programmes that, on first review, are inconsistent with government priorities or that are not efficient or effective.

79 However the areas for further review identified above include some items where further work is needed to optimise efficiency and effectiveness, and consistency with government priorities.

**(e) Areas where performance information is insufficient to make a judgement about efficiency or effectiveness**

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

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**(f) The actions that agencies should take to make improvements before the new review period**

82 Customs has identified a senior position within current staff establishment to ensure the value for money reviews are adequately resourced and meet internal and external reporting milestones.

**(g) Initiatives of the previous government that are not funded**

83 Customs received additional funding of \$485,000 in 2008/09 only to assist with the implementation and operation of free trade agreements, particularly the China Free Trade Agreement. Funding for out-years was also sought but not approved.

84 The costs to Customs of this work, which remains closely linked to government priorities, is estimated to be \$468,000 in 2009/10 and \$415,000 in each of 2010/11 and 2011/12. This cost cannot be met from within Customs' baseline other than by reprioritisation from savings elsewhere in the Vote.

85 In considering the importance of the work it is noted that, by the end of 2008, 35 percent of the value of New Zealand's exports and 40 percent of the value of imports were covered by an existing trade agreement.

86 If the Government's planned negotiations are concluded in the next few years it is estimated these figures will increase to 75 percent. Of these it is estimated that 20 to 25 percent of exports will require a certificate of origin administered through Customs procedures.