



BRIEFING FOR THE MINISTER OF POLICE

Subject	VALUE FOR MONEY AND BUDGET 09 LINE BY LINE REVIEW		
Date	3 February 2009	Ref	BR/09/11
Priority	<input checked="" type="checkbox"/> Urgent <input type="checkbox"/> Non-urgent This review is to be provided to the Minister of Finance and the Secretary of Treasury by 5 February 09.		

Recommendations

The recommendations are that the Minister of Police:

- (1) **Note** the requirement to submit a "line by line" review to the Minister of Finance by 5 February 2009.
- (2) **Note** the expenditure review Police has undertaken.
- (3) **Note** Police has identified \$5.5 million of ongoing savings and a further \$8.7 million of one-time savings for 2009/10 that can be offered up for Budget 09.
- (4) **Note** the longer term process reviewing programme alignment and efficiency has yet to be determined.
- (5) **Approve** this draft line by line report for submission to the Minister of Finance.

Minister's comments:

.....
 Hon Judith Collins
 Minister of Police

/ /
 Date

VALUE FOR MONEY AND BUDGET 09: LINE BY LINE REVIEW

Purpose

1. This submission is Police's response to the Cabinet requirement to conduct a line-by-line review of expenditure.

Background

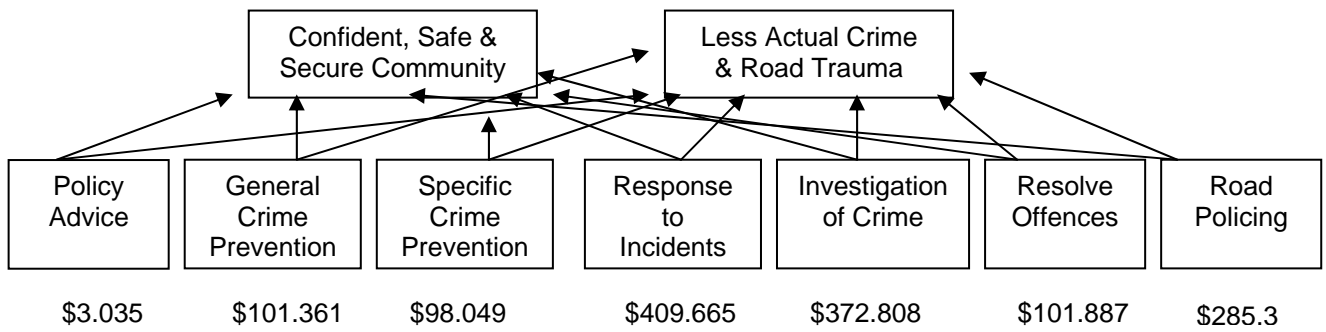
2. The National Government's value-for-money framework includes a requirement that all Chief Executives conduct a "line-by-line" review of their agencies expenditure, to be submitted to the Minister of Finance by 5 February 2009 [CBC (08)563 and letter from Minister of Finance to Minister of Police dated 17 December 2008 refer].
3. The review is expected to identify:
 - (a) savings that can be freed up for Budget 09;
 - (b) programmes that are inconsistent with government priorities and should be discontinued;
 - (c) programmes that may be inconsistent with government priorities and should be looked into;
 - (d) programmes and expenditure that are not efficient or effective; and
 - (e) areas where performance information is insufficient to make a judgement about efficiency and effectiveness, and actions agencies should take to make improvements by the next review period.

Police Outputs and Contribution to Outcomes

4. Police contributes to the Government's outcomes primarily through the Justice Sector and specifically the Justice Sector outcomes framework
5. The Police Vision is "Safer Communities Together" which is a strong fit with the outcomes in the Justice Sector framework. In moving towards this vision the Police strategy identifies two key strategic goals/outcomes, being "confident, safe and secure communities" and "less actual crime and road trauma".
6. Police then provide a mix of outputs that contribute to the achievement of these goals. The outputs are:

Output 1:	Policy Advice and Ministerial Servicing
Output 2:	General Crime Prevention Services
Output 3:	Specific Crime Prevention Services and Maintenance of Public Order
Output 4:	Police Primary Response Management
Output 5:	Investigations
Output 6:	Case Resolution and Support to Judicial Process
Output 7:	Road Safety Programme

7. Diagrammatically this can be represented as follows:



8. As shown, each output contributes to each goal. Work continues to identify means of objectively linking the spend in each output with the outcomes achieved. It must be appreciated that fundamentally policing is a social service and the identification of a "silver bullet" metric that reflects excellent police performance and value for money is extremely difficult. The diagram shows the current "mix" of investment that delivers outcomes expected.

9. Within this "mix" of output expenses there are a lower level set of outputs. In the context of the current review of spending this next level of outputs can be considered as being made up of a number of "programmes" all of which are theoretically assessable in terms of their impact on outcomes expected of Police.

10. Police includes a set of performance data within the Estimates of Appropriation. Currently these are a mixture of outcome level measures (such as crime rates) and intermediate level measures such as response times, prosecution rates, and a myriad of input based measures counting the number of particular Police activities (eg, bail curfew checks, demonstrations attended and so on).

11. At the time of writing, the Police Organisational Performance Group are reviewing the performance measures that reflect Police performance and from there improve the evaluation of expenditure by more strength linking expenditure to the agreed set of measures.

Police Input Expenses

12. An analysis of Vote Police by input cost is as follows:

	2007/08 actual \$ million	% of total
Personnel expenses	900	72%
Operating expenses	253	20%
Depreciation	59	5%
Capital charge	34	3%
Total operating expenses	1,247	100%

13. Personnel expenses include salary, superannuation, allowances and leave costs associated with around 11,500 staff. Operating expenses include property, vehicles, computing, communications, travel, forensic science, and all other general operating costs.

14. Depreciation and capital charge relate to an asset base which includes around 600 properties, 3400 vehicles, and a substantial ICT portfolio including a national radio and communications network.
15. Assuming staff numbers are to be maintained, Polices ability to deliver savings is limited. This is because Vote Police is dominated by personnel costs – 11,413 staff at June 08 and around 72% of total Vote - and remaining expenses are largely fixed or operationally driven.

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

Line by Line Review

20. Against this background, Police has reviewed existing expenditure for potential savings (the "line by line" review). Police has split this review into a two step process. The first step is aimed at identifying potential savings for Budget 2009. The second step is to be a longer term look at the overall shape of the Police and savings options based on the efficiency and effectiveness of various programmes.

Step One: Savings that can be freed up for Budget 09

21. Police has identified the following savings that can be freed up to fund Budget 09 initiatives:

Savings that can be freed up for Budget 2009

\$k	2009/10	2010/11	2011/12	2012/13 and outyears
Ongoing	5,500	5,500	5,500	5,500
One-time 2009/10	8,700	-	-	-
	14,200	5,500	5,500	5,500

Ongoing savings

22. Police conducted a process to review discretionary expenditure, identifying areas of potential savings, and considering the business implications where expenditure can be reduced. Broadly this has involved:
 - (a) The Police Executive Management group (PEM) "brainstorming" a list of potential savings areas.
 - (b) The Police Finance Committee (a committee of PEM consisting of the Commissioner, two Deputy Commissioners, GM: Finance & Planning and A/C Strategy, Policy & Performance) then considered the "brainstormed" list by:
 - (i) developing a set of principles against which options could be considered;
 - (ii) considering the "brainstormed" list against those principles; and
 - (iii) identifying potential saving areas that warranted further investigation.
 - (c) Information was then requested from the executive line manager responsible for each of the identified options, regarding the risks and "do-ability" of each idea. The line managers responses were received and a qualitative evaluation (referring to the principles) conducted. A summary of items explored and potential savings identified through this part of the process, is attached as an appendix to this paper.
 - (e) In parallel, a review at the general ledger account level was also conducted to:
 - (i) identify line items that could be targeted, with the focus being on areas such as travel, temps and casuals, and training.
 - (ii) these were assessed looking at how directly operational the expenditure was and the opportunity to apply a percentage cut.
 - (f) The list of items and final assessed saving opportunities is attached as Appendix One to this paper.
23. While further analysis is required, around \$8 million of potential savings have been identified for consideration. The main items within that total, and key business implications of reducing expenditure, are:

	Potential savings (\$m)	Risk or implication
Domestic travel	1.070	Will create pressure on the effective running of a national organisation.
Temps and Casual staff	0.567	Stricter restrictions placed on covering vacancies
Deployment allowances	0.534	Ability to alter deployment practices limited without impacting service delivery
Staff training	0.537	Objective being better targeted training without impacting the quality of service delivery
Vehicle running costs	0.330	Saving realisable through a reduction in vehicle running. Targeting to support activities
Targeted PNHQ reductions	1.945	Includes temporary reduction of one Jakarta Liaison role, cost reductions from speed camera digitisation.
Other	0.517	Includes possible reductions to a range of other specific expense lines
	<u>5.500</u>	

24. It must be emphasised that no "easy" savings were identified. The operating environment has been progressively tightening over the last several years, which has seen discretionary operating expenditure pared back. Achieving the level of costs savings proposal will require significant management action.

One-time savings for 2009/10

25. Police has recently been appropriated for 1250 additional staff, and the first phase of the replacement of the existing radio network. Police has reforecast the cost of these initiatives, and considers that there will be around \$8.7 million of appropriation for 2009/10 that will not be required, due primarily to capital expenditure and therefore asset related operating costs (primarily depreciation and maintenance costs) occurring later than originally assumed.
26. This funding can be made available to meet other Budget 09 costs. It must be emphasised that these are timing savings only (i.e. the capital expenditure will occur, at which point depreciation funding will be required), and therefore are available for the 2009/10 year only.

Step Two: The Longer Term Process

27. The longer term Cabinet requirement is that Chief Executives identify:
- (a) programmes that are inconsistent with Government priorities and should be discontinued
 - (b) programmes that may be inconsistent with Government priorities and should be looked into.
 - (c) programmes and expenditure that are not efficient or effective.
 - (d) areas where performance information is insufficient to make a judgement about efficiency and effectiveness, and actions agencies should take to make improvements by the next review period.

28. This exercise will require significant effort and has the potential to be extremely disruptive if not carefully managed.
29. At the time of submitting this paper, Police are still considering the best approach to take. The Executive has identified some potential areas for further analysis, and is developing a plan outlining an approach. This work will be ongoing, and Police will ensure it aligns with instructions from the Minister of Finance.
30. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Recommendation

I recommend that you:

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- (5) **Approve** this draft line by line report for submission to the Minister of Finance.

Bruce Simpson
General Manager: Finance & Planning

Supplementary Information

Contact for telephone discussion (if required)

Name	Position	Telephone		Suggested First Contact
		Direct Line	After Hours	
Bruce Simpson	GM: Finance & Planning	474 9403		<input type="checkbox"/>

POTENTIAL FINANCIAL SAVINGS INITIATIVES
(Note Two Phased Approach)

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