

Improving value-for-money in the State Sector: SFO return

Summary

- Vote Serious Fraud Office comprises 2 output classes: Output Class 1 – serious and complex fraud; and Output Class 2 - civil forfeiture.
- Output class 1 (serious and complex fraud) totals \$5.489m, of which \$5.201m is available for operational purposes after accounting for superannuation transfers, capital charge and depreciation.
- Output class 2 (civil forfeiture) totals \$1.89m, of which approximately \$100,000 is budgeted as expenditure in the current financial year.
- SFO considers that there is scope for a limited re-deployment of approximately \$200,000 from output class 1.
- The SFO has no need for any additional funding to its total appropriation (\$7.379M) between now and 30 June 2010.
- The SFO baseline period is Budget 2007-2009. The next period is from Budget 2010 to 2013. SFO will be working with Treasury and SSC during the next few months to ensure that all capacity issues are addressed during the baseline review process.

Current Situation for the SFO

Growth of the Office since 1999

1. Since 1999 the output class for Serious Fraud has grown from \$4.514m in 1999 to \$5.489m in 2008 over 9 years, that is an average increase of only 2.2% per annum. Of the total increase of \$975,000, \$600,000 was added only in the last two years, by way of a fiscally neutral adjustment (FNA) from Output 2.
2. During this same period, staff numbers have decreased from 38 in 1999 to 33 in June 2008, with a reduction in support staff numbers.
3. Budgeted personnel costs increased from \$3.03m to \$3.82m in the period, in order to align operations staff salaries to the market.

Current Baseline Period 2007 - 2009

4. The current baseline for Vote Serious Fraud was reviewed in 2005 for the period Budget 2007-2009. The baseline was increased to avoid service failure by maintaining the SFO's capacity to recruit and retain over the long term the highly skilled staff required for the Office to perform its assigned responsibilities in the area of serious and complex fraud.
5. This review did not look at the way the SFO delivered its services or achieved its outcomes, or the adequacy of its strategies for doing so. The last baseline review sought mainly to continue the consolidation of the operational excellence that had been the strategic priority of the Office for some time.
6. The increases in the SFO baseline were modest and involved a permanent FNA of \$300,000 in 2007 from Output Class 2 to Output Class 1. In 2008, another permanent FNA of \$300,000 occurred, making a total increase of \$600,000 pa over the three year period.

Vote Serious Fraud Office in 2008

7. In 2008/09 Vote Serious Fraud Office had an appropriation allocated between two output classes.

Output Class 1: Serious and Complex Fraud:

8. The Scope Statement for this appropriation is *the detection, investigation and prosecution of cases of suspected serious or complex fraud offending brought to the*

attention of, or detected by the Serious Fraud Office. The total appropriation is \$5.489 million.

9. Of this, \$0.288m is government funded transfers for superannuation, the depreciation expense on the assets managed, and capital charge.
10. This leaves a total of \$5.201 m which is allocated as follows:

Category	Budget 2008	%
Personnel	3,698,320	71.11
Training	80,000	1.54
Travel	276,230	5.31
Fees including Prosecution Panel	352,000	6.77
Operating expenses	159,000	3.06
Rental costs	448,000	8.61
Building costs	52,850	1.02
Communications	48,000	0.92
Computer costs	86,300	1.66
Total	\$5,200,700	100%

11. Pressure to maintain and increase services relating to serious and complex fraud continues to mount, but these can be addressed (with prior joint ministerial approval) through FNAs between output classes. Discussions with Treasury and SSC support the SFO's belief there will be no noticeable impact on the quantity, quality or mix of what is funded by the appropriation.

Output Class 2: Civil Forfeiture

12. Delays in the passage of the Criminal Proceeds (Recovery) Bill has meant that work on building SFO capacity in this area has been placed on hold. The former government decided to transfer the recovery agency function to the Commissioner of Police. It was expected that the SFO (when part of the Financial Crime Group of OFCANZ) would have played a significant role in civil forfeiture activity. A decision has yet to be taken as to whether this leadership will be returned to the SFO now it is being retained as a separate agency,.

13. This Output Class has a total of nearly \$1.89 million. The scope of the appropriation is *to implement and operate the non-conviction based forfeiture provisions of the Criminal Proceeds (Recovery) Bill when enacted.*
14. In the meantime, a consensus has been achieved among officials (Treasury, SSC and OAG) that, subject to ministers' concurrence, the funding available in Output Class 2 may be accessed for serious or complex fraud work through the FNA mechanisms available in the March 2009 and 2010 Budget Updates (MBU), and the October 2009 Budget Update (OBU).

Capital Expenditure

15. A total of \$290,000 for capital expenditure, funded through a capital injection, was made available to implement the civil forfeiture regime. In the 2008 OBU, approval was obtained to apply this money across both output classes in Vote Serious Fraud by way of beginning a badly needed upgrade of SFO premises. There had been no significant renovations since 1990. Stage 1 of this exercise will be completed in April 2009.
16. This will result in a related small increase in depreciation costs that will be funded by FNAs from Output Class 2.

Line by Line Reviews

Background

17. The Serious Fraud Office is a small public service department that was established in 1990 with a staff of 20. There are now 33 members of SFO staff.
18. The SFO is a small agency but needs to meet the standard range of corporate support functions but without the volume of business that justifies fulltime permanent staff in each support function or enables economies of scale or scope.
19. SFO internal headcount in the administration area is low by virtue of the fact that the financial accounting and work associated with the production of related accountability documents has been contracted out to the State Services Commission. The SSC has indicated recently that it would like SFO to exercise one of three options – pay a fully costed sum for the SSC service, SFO to take over this work or to find someone else.

Current VFM Line-by-Line Review

20. The present “Value for Money” review follows three internal reviews in 2008 that demonstrated that procurement prices were sound, budget allocations were tightly focused and that operational processes were sound. For this review, the SFO looked at:
- Activities that may be inconsistent with government priorities and should be discontinued.
 - Activities that may be inconsistent with government priorities and should be looked into.
 - Activities and expenditure that may not as efficient or effective as desirable.
 - Areas where performance information is insufficient to make a judgement.
21. We found that the SFO’s activities are consistent with the scope statements of SFO appropriations, but that some services require development to adapt to the changing economic circumstances, justice sector wide policies and goals, and to ensure efficiency, effectiveness and compliance with Government value for money and other state sector development priorities.
22. In addition work needs to be done to develop relevant, integrated and programmed continual improvement methods and protocols for improving performance and capability, including revised performance assessment measures, to meet the expectation that all public service departments are to make the changes needed to embed a culture of continual improvement.
23. Work will be done this year to refine performance assessment measures.
24. The Office will continue to assess vacancies as they arise to ensure that the positions are required, and if so, that they are tailored to meet current and future organisational needs.

Areas for Improved Quality of Spend

25. The SFO spend is almost exclusively on operational activities. Within the SFO the ratio of all personnel-related costs to other operating expenses is approximately 85:15. There are no policy staff, no dedicated communications resources and limited HR resources. Most financial and accounting services are outsourced to SSC.

26. SFO's operations are staff-intensive, and experience and expertise are highly valued. An economic downturn is likely to mean an increase in demand for services so that it is not possible to reduce the quantum of appropriation without risking an unacceptable failure of service to New Zealanders.
27. Our focus is on assessing the quality of the current expenditure to ensure:
- that inefficient or poorly focused discretionary expenditure is curbed and the savings are refocused strategically; and
 - that the limited amount of backroom functions are reviewed for continued relevance and need, with savings to be refocused into or in active support of the front line;
 - that any increases in baseline funding that may need to be sought during the 2009 Baseline Review are justified and justifiable in terms of the general and specific goals that the SFO is bound to achieve, both currently and as these are updated or expanded under this Government.

Fixed Costs

28. The largest non-staff expense is the rental for the SFO's Auckland-based operation. The landlord has claimed a 13% increase while increases in utility and rates costs look set to increase rental-related costs by \$35,000 in Budget 2008. The current cost of rent (as budgeted across both output classes) is \$465,000 (28.4% of non-staff budget).

Areas of Uncertain Efficiency

Travel

29. Savings achievable through the expedient of increasing the amount of time between booking date and travel date will be looked for, although the amount of travel is determined by the caseloads. (SFO is located in Auckland and provides a national service.)

Review of "Backroom" Functions:

30. The allocation of work to administration staff has been reviewed. Most of SFO administration staff play an active role in whole or in part to frontline staff. Generally accepted "backroom" functions comprise the work of about 1.5 FTEs, (plus at least 1 FTE if the bureau services provided by SSC are brought in-house)

and this work is the unavoidable work associated with the head office functions of a public service department

31. In addition to the option of bringing all financial management activities back in house, the areas targeted for immediate refocus (ie from now and during Budget 2009) are two temporary employment contracts that were entered into because of and during the disestablishment phase. There is also the funding attached to one vacancy that is also under review. The amount associated with these contracts is about \$200,000, but nearly all of it is likely to be re-committed.

Management of Capital

32. The Office's annual capital replacement programme has been largely on hold for several years, with assets being deployed for long past their depreciable life span. The ad hoc nature of the changes that did occur has meant that the Office is long overdue for a strategic upgrade of facilities and assets.
33. Net assets as at June 2008 total \$387,000. With the additional \$290,000, a total of \$677,000 is available. Of this, \$600,000 is targeted at the refurbishing of the accommodation, with the balance improving the effectiveness of the contribution of other assets so they support the reduction of expenditure on consumables, and support the improvement of productivity (both throughput and output).
34. The current reserves are still short by \$250,000. Agreement has been obtained from Treasury and the Office of the Auditor General to resource this shortfall by a one-off conversion of the necessary amount of the 2008 appropriation allocated to Output Class Two into capital expenditure.

Other Operational Expenditure Efficiencies

35. Over the last 10 years, the Serious Fraud Office has continued to invest in operational improvement work to deliver outputs more efficiently. The SFO was a pioneer in developing an "electronic courtroom" and electronic document management for cases.
36. Further efficiencies are possible by way of developing partnership arrangements which may include the allocation of resources to support SFO.
37. Additional funding for new SFO work in the financial aspects of organised crime may be able to be sourced by project funding transferred from OFCANZ.

Deployment of savings

38. As noted in paragraph 31, most of the funds freed up by a reshaping of support services are likely to be recommitted in that area, albeit with a shift in focus.
39. Now that the Government has stated that the SFO should retain a separate existence, it is timely and desirable to conduct a review of structure and associated aspects of performance and operations, including relationship management with external partners. Such a review that determines, subject to ministers' approval, any revised scope for SFO operations, and in particular the desirability for the Crown of leveraging off the SFO's ability and expertise in developing the people resources to combat financial crime, will help to position the SFO appropriately in the current environment. While decisions have yet to be taken, it is likely that external consultancy resources will be needed to assist the SFO undertake such a review.

Preparing for Baseline Review

Increasing Volume and Complexity of Work due to the Changed Economic Climate

40. 2008 has seen an increase in SFO work due to the collapse of several finance companies. Experience from the 1987 crash suggests that the true scale of the extra work the SFO will take on as a result of the finance company collapses and, more recently, the credit crunch in particular will not materialise immediately.
41. These pressures can be funded in 2009 from current appropriations and no bids are planned for Budget 2009.
42. Consultations with SSC, Treasury and the Office of the Auditor General have resulted in a shared understanding that the work of the Office is counter-cyclical (as are welfare and debt servicing), ie that an economic downturn does not mean a reduction in demand. A consensus has been achieved that, subject to ministers' approval, funding pressures will be met by FNAs to be sought during the Budget Updates in March and October 2009 and, if essential, in March 2010.
43. Any changes to Vote Serious Fraud, required on an on-going basis for whatever reason, will be identified and worked through as part of the Baseline Review that will take place through calendar year 2009, for implementation in the new baseline period of 2010 to 2013. Preparatory work for this is planned inside the Office from now until 30 June 2009, with discussion with central agencies, Justice Sector coordinators and Ministers occurring from then until the end of the year.

44. There are several strategy documents in existence that affect the SFO including a one-page strategic plan developed in response to the disestablishment programme. When preparing for the Baseline Review, the SFO will review SFO performance against all of these as part of developing a strategic plan for the period 2010 to 2013.
45. In particular the centrally mandated priorities for the next three year period will be amplified on, so that the SFO promotes and facilitates sector-wide priorities, goals and milestones.

Consultation

46. This paper was prepared in consultation with Treasury, SSC and the Office of the Auditor General.

Tagged Contingencies

47. There are no tagged contingencies for Vote Serious Fraud Office.

Specific Fiscal Risk

48. There are no risks published in the Pre Election Economic and Fiscal Update for Vote Serious Fraud Office

Grant Liddell

Director and Chief Executive

Per: Gib Beattie

Assistant Director