

2 July 2009



## Erratum

The table of figures in paragraph 19 on page 11 of the document *T2009/567: Bilateral Briefing for Votes Tourism, Ministerial Services and Prime Minister and Cabinet* is incorrect.

The incorrect figures were in a table outlining average monthly spending rates and related to costs incurred by the previous Government over the period from December 2007 to February 2008. For example, the figures in that column understated average monthly Ministers' Internal and External Travel by \$447,000.

**The table reproduced below has corrected figures:**

Average monthly spending rate			
\$ million	CORRECTED	Labour Govt. Jul-Oct 08	National Govt. Dec-Feb 08/09
	Labour Govt. Dec-Feb 07/08		
<i>Departmental output expenses:</i>			
Support Services to Members of the Executive	2.061	2.293	2.955
VIP Transport (approximately 85-90% of this is funded from the Ministers' Internal and External Travel below)	0.618	0.705	0.573
Visits and Official Events Coordination	0.638	0.368	0.238
<i>Non-departmental other expenses:</i>			
Ministers' Internal and External Travel	0.783	1.009	0.739

Note 1: These figures are an indication only; Jul-Oct 08 and Dec-Feb 08/09 figures may be distorted somewhat by costs relating to the election.

Note 2: The table included a "Total" line which has been removed. The line was incorrect as the columns in this table cannot be accurately added because this would double count certain expenses. Because of the way these funds are appropriated, approximately 85-90% of VIP Transport is funded from Ministers' Internal and External Travel, which is included as a separate line. Therefore, adding these figures would result in double counting.

## Treasury Report: Budget 2009: Vote Votes Tourism, Ministerial Services and Prime Minister and Cabinet

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<b>Date:</b>	13 March 2009	<b>Report No:</b>	T2009/567
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### Action Sought

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	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<b>Read</b> this report before the Bilateral with Hon John Key	7pm on 16 March 2009
Associate Minister of Finance (Hon Simon Power)	<b>Read</b> this report before the Bilateral with Hon John Key	7pm on 16 March 2009

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone		1st Contact
James Beard	Principal Advisor- Economic Performance Group	[deleted – privacy]	[deleted – privacy]	✓
[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	
[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	
[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	

### Minister of Finance's Office Actions (if required)

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None.
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**Enclosure: No**

## **Treasury Report: Bilateral Briefing for Votes Tourism, Ministerial Services and Prime Minister and Cabinet**

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Attached is a briefing for the bilateral between the Minister of Finance and Hon John Key at 7pm on 16 March 2009 to discuss the Budget initiatives for Votes Tourism, Ministerial Services and Prime Minister and Cabinet.

The bilateral briefing is structured as follows:

- Overview of the Vote
- Savings component & recommendations
- Emergency pressures & recommendations
- Value for Money & Strategic Direction
- Policy priority initiatives & recommendations

We expect the key issues for discussion will be as follows:

### *Tourism*

Key issues for discussion in Vote Tourism will be further savings, [deleted – confidentiality of advice], and issues arising out of the job summit. We believe there is significant potential for further savings up to \$5.763 million in outyears. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Finally, all ideas arising from the Job Summit should undergo careful analysis, including full cost-benefit analysis to establish the case for government support.

### *Ministerial Services*

We expect the key issue for discussion will be the need for a new approach to managing cost pressures within the Vote, to ensure Ministers remain within existing baselines in 2009/10 and outyears. Treasury recommends that a review be conducted to examine costs and potential measures to manage them in time for the next Budget.

### *Prime Minister and Cabinet*

DPMC have offered savings of \$4.7 million in relation to the Government House conservation project. Treasury agree that these savings are credible but note that further savings may be possible if the scope were to be narrowed further.

## **Recommended Action**

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We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with Hon John Key at 7pm on 16 March 2009.

**James Beard**  
for Secretary to the Treasury

Hon Bill English  
**Minister of Finance**

## Overview of the Vote

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### VOTE TOURISM

1. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Tourism submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	(0.375)	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
<b>Total funding requested</b>	-	(0.375)	-	-	-
<i>Capital (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
<b>Total funding requested</b>	-	-	-	-	-

2. Treasury's view on the savings submitted by the Vote is not favourable. No ongoing savings have been offered up in Vote Tourism. \$0.375 million has been offered for 2009/10 as they have reduced activity around the New Zealand Tourism Strategy 2015. Treasury believe that if this is not a priority in 2009/10, it is unlikely to be an ongoing priority and savings should be similarly ongoing. The non-departmental funding for the Tourism Strategy (\$1.600 million) has been offered as savings in 08/09 but reprioritised to other activities (\$1.100 million for a one-off marketing campaign in Australia and \$0.500 million for a feasibility study of a convention centre in Auckland). A cabinet paper on the marketing campaign in Australia is going through Cabinet Business Committee on Monday

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

3. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
4. Finally, we believe that there is potential for further departmental savings within Vote Tourism. The Ministry of Tourism is a Semi Autonomous Body within the Ministry of Economic Development (MED). We believe that many of the functions performed by the Ministry of Tourism could, and should, be performed by MED. We have ongoing concerns particularly relating to the quality of the Ministry of Tourism's monitoring of Tourism New Zealand and its evaluation of programmes run through Vote Tourism. MED has significant expertise in monitoring and evaluation and we believe that those functions should be carried out by MED.
5. In order to give effect to the transfer of functions and the incentive on Tourism New Zealand to seek co-funding, we recommend that the Ministry's departmental baseline is cut by 10% and Tourism New Zealand's baseline is cut by 5%. We believe the 10% cut should be on top of the savings from discontinuing the funding for the New Zealand Tourism Strategy 2015. Recommended savings are as follows:

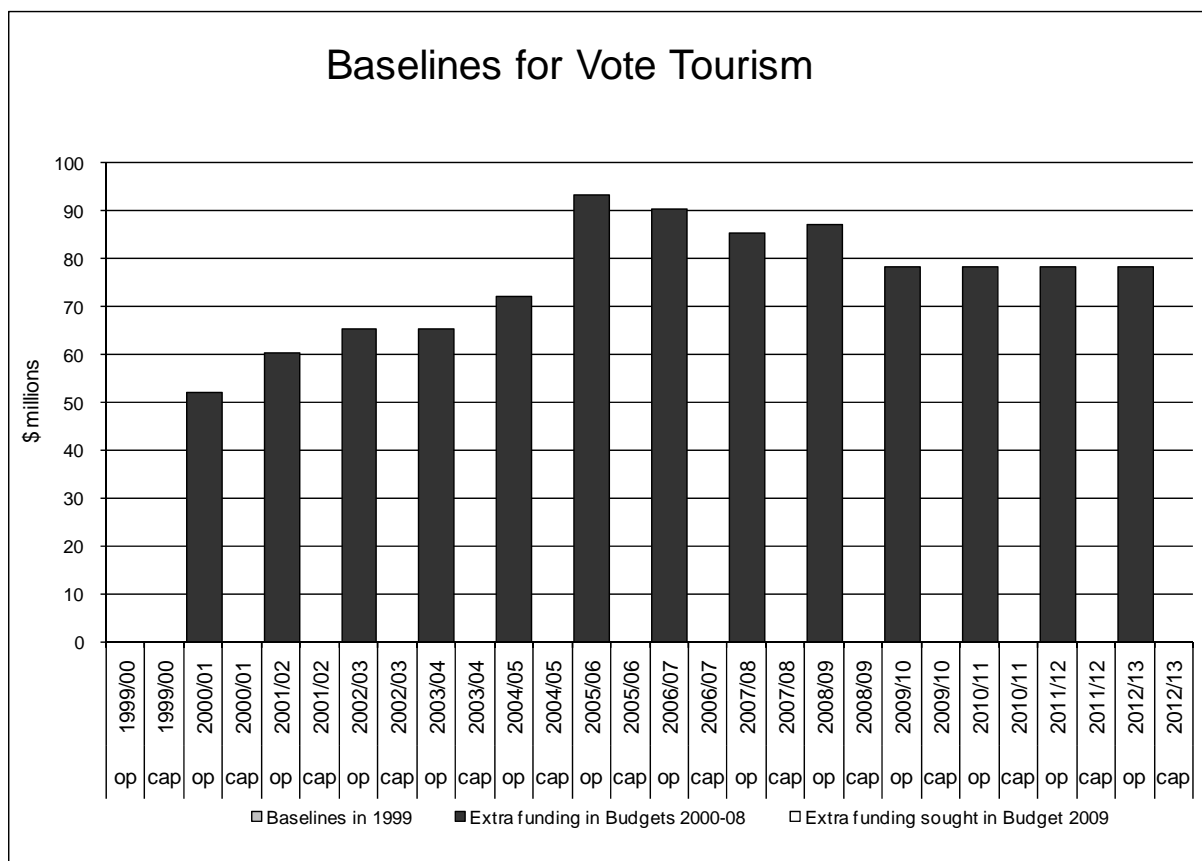
Appropriation Type	Appropriation Title	Proposed Savings				
		2008/09	2009/10	2010/11	2011/12	2012/13
Departmental Output Expense	Policy Advice – Tourism*	-	(1.088)	(1.090)	(1.091)	(1.091)
[deleted – confidentiality of advice]						
Non-departmental output expense	Marketing of New Zealand as a Visitor Destination	-	(3.450)	(3.450)	(3.450)	(3.450)
Total		-	(6.148)	(5.892)	(5.763)	(5.763)

\* [deleted – confidentiality of advice]

and a further 10 percent cut to the remaining appropriation (recommendation (ii) below).

### Analysis of Vote

6. Vote Tourism baselines are shown in the graph below. The Vote received an increase in 2005/06, which was the result of a baseline review of Tourism New Zealand that resulted in an increase to non-departmental output expenses. Otherwise there has been one-off funding for marketing campaigns in target markets.



## Recommendations

Treasury recommends that you:

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

**Agree/Disagree**

- (ii) Support reducing the department output expense for Policy advice by ten percent to encourage the Ministry of Tourism to transfer monitoring and evaluation functions to the Ministry of Economic Development;

**Agree/Disagree**

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

**Agree/Disagree**

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

**Agree/Disagree**

## Emergency Pressure

7. The Minister has not submitted any emergency pressure bids. However we note that a Cabinet paper is going to the Cabinet Business Committee this week seeking \$1.100

million funding (sourced from the \$1.600 million of reprioritised funding identified in 2008/09) for a tourism marketing campaign in Australia and some proposals out of the Job Summit are likely to be funded through Vote Tourism.

### **Value for Money/Strategic Direction**

8. The Ministry of Tourism have not indicated any further next steps for the Value for Money process for Vote Tourism. They have asserted that current economic conditions present opportunities for the tourism sector and the government should be investing in future growth now.
9. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
10. We are yet to see full proposals of the ideas arising from the job summit and will provide advice on a case by case basis as the proposals are developed. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
11. Given the Ministry's view that the time is currently ripe for further 'investment' in tourism, we expect to see bids for further funding between budgets and in future Budget rounds. Making good judgements about the need for further funding, and the benefits that might arise from such expenditure, will depend on having robust information and evaluations. As noted earlier, the Ministry's performance on assessing whether Tourism New Zealand is producing tourism numbers additional to those that would have occurred anyway and the associated public benefits has been poor to date. We recommend that you invite the Minister of Tourism to instruct his officials to develop clear and robust measures to determine value for money in Vote Tourism.

### **Recommendations**

Treasury recommends that you:

- (i) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- (ii) Invite the Minister of Tourism to instruct his officials to develop clear and robust measures to determine value for money in Vote Tourism.

***Agree/Disagree***

## Overview of the Vote

### VOTE MINISTERIAL SERVICES

12. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Ministerial Services submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	(0.136)	(0.136)	(0.136)	(0.136)
Emergency pressures	5.100	3.455	3.325	6.625	3.325
Policy priorities	-	-	-	-	-
<b>Total funding requested</b>	5.100	3.319	3.189	6.489	3.189
<i>Capital (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
<b>Total funding requested</b>	-	-	-	-	-

13. Total savings offered in the Vote are small, equating to 0.002% of total spending. In Treasury's view this is disappointing considering that the line by line review acknowledged the potential for further savings in areas such as [deleted – confidentiality of advice]. The continuous increases in baselines over recent years also suggest that the Department has not done enough to improve efficiency. However, while there may be scope for some efficiency gains, most spending is driven by demand from Ministers (e.g. decisions on travel and support staff numbers). Therefore any significant savings will only be the result of Ministers' efforts to reduce costs.

### Analysis of Vote

14. Vote Ministerial Services baselines are shown in the graph below. Spending in all areas has grown over the last decade; the most significant areas of change are shown in the accompanying table. The baseline for 2006/07 was inflated by one-off technical adjustments, and the baseline for 2007/08 was higher than outyears due to one-off funding for guests of government and Sir Edmund Hillary's funeral and memorial service.
15. As shown in the table, which shows changes since 2000/01 when the Vote was created, spending in real terms has grown rapidly in some areas and in line with

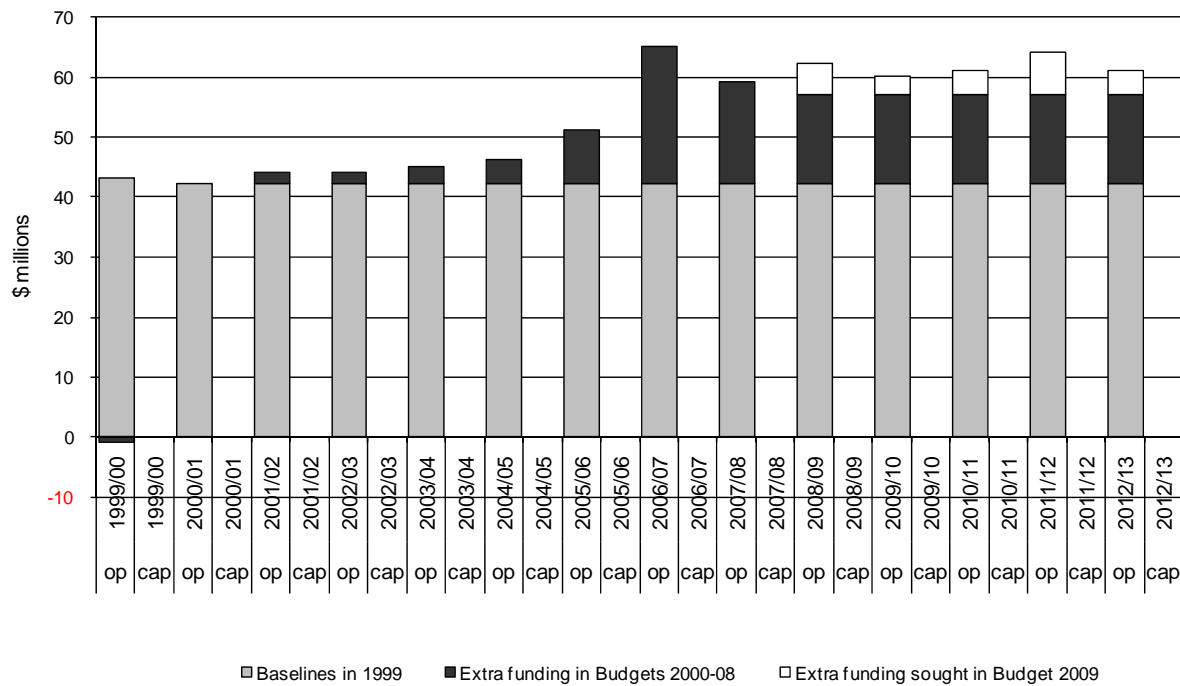


inflation in others. The large increase in Ministerial salaries and allowances is under permanent legislative authority. The largest items of expenditure have grown slightly faster than the rate of inflation, despite effectively delivering the same level of service.

16. It is worth noting that both spending in the Vote and the number of support staff employed by Ministerial Services have increased in recent years despite the increasing use of secondments from other Departments. The number of support staff has risen from 112 in 2003/04 (the earliest year for which accurate information is available) to 150 as at 31 January 2009, while the number of secondees has grown from 48 in 1999/00 to 114 in 2008/09. Considering the increasing availability of support from these secondees it is reasonable to question the need for increased numbers of office support staff supplied by Ministerial Services.

<b>Appropriation</b>	<b>08/09 baseline</b>	<b>Net increase since 2000/01 baseline</b>	<b>% change, inflation- adjusted</b>
Executive Council and Ministers' salaries and allowances (PLA)	\$7.2m	\$3.3m	+51%
Support services to Members of the Executive	\$27.3m	\$2.8m	+3%
VIP Transport	\$7.2m	\$1.3m	0%
Ministers' internal and external travel	\$10.4m	\$2.1m	+2.6%
Visits and Official Events Coordination	\$3.5m	\$1.4m	+36%
<b>Total Appropriations</b>	<b>\$56.7m</b>	<b>\$11.5m</b>	<b>+2.5%</b>

## Baselines for Vote Ministerial Services



## **Recommendations**

Treasury recommends that you:

- (i) Support the savings submitted for Vote Ministerial Services

***Agree/Disagree***

### **Emergency Pressure**

<i>Changes to baselines, \$ millions</i>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13 &amp; outyears</b>
Severance/Notice Costs	1.936	-	-	-	-
New Executive – Increased Support Staff and Salary Cost	0.194	1.100	1.100	1.100	1.100
ICT and Other Transitions – Change of Executive	0.725	-	-	-	-
Rental of Additional 5 Properties and New Furniture (08/09 only)	0.235	0.225	0.225	0.225	0.225
Urgent Work Required on Crown and Department Owned Properties	0.110	0.190	-	-	-
Cyclic Increase Based on Three Year Election Cycle	-	-	-	3.300	-
<b>Subtotal Ministers' Support</b>	<b>3.100</b>	<b>1.455</b>	<b>1.325</b>	<b>4.625</b>	<b>1.125</b>
Visits and Ceremonies Office	1.000	1.000	1.000	1.000	1.000
Ministers' Travel	1.000	1.000	1.000	1.000	1.000
<b>Total Emergency Pressure</b>	<b>5.100</b>	<b>3.455</b>	<b>3.325</b>	<b>6.625</b>	<b>3.325</b>

17. The Minister has submitted a 'composite' emergency pressure bid for the total shown above. This emergency pressure bid reflects cost pressures that are largely uncontrollable by the Department of Internal Affairs, as requirements are determined by the government of the day. The main cost driver, Ministerial servicing, is exacerbated by the fact that outgoing staff after an election are still required to be paid for three months.
18. Treasury appreciates that there are real cost pressures at the intended level of service delivery, but does not support increases in funding beyond the current year; instead we believe Ministers and the Department should work together to ensure the same level of service can be delivered at the same or lower cost. We recommend scaled back funding of \$3.8 million in 2008/09, which spending levels to the end of February indicate should be sufficient to meet pressures, but believe that if ongoing expenditure on servicing, travel and visits is to be increased, funding should be found from within existing baselines, which have risen in recent years. This would require Ministers to manage budgets more effectively and employ cost-cutting measures, which would not

only reduce unnecessary spending in this area but also send a strong signal to the entire public sector that Ministers are fully committed to fiscal responsibility.

## **Recommendations**

Treasury recommends that you:

- (ii) Support the emergency pressure submitted for Vote Ministerial Services at a level of \$3.8 million in 2008/09 only, in order to cover forecast cost pressures based upon spending in the year to date.

**Agree/Disagree**

## **Value for Money and Strategic Direction**

19. The table below gives an indication that the change of Executive has only accentuated the cost pressures in the Vote. Treasury believes the next step in the Value for Money process for Vote Ministerial Services should therefore be a strategic review around how best to meet and manage Ministers' requirements, particularly regarding servicing and advice. This could include increased use of feedback loops, to allow Ministers to 'scorecard' spending-to-date against budget when taking decisions and re-prioritise where necessary to remain within budget. The review would also be informed by ongoing work within Treasury looking at the support provided to Ministers from across government.

	<b>Monthly spending rate</b>		
<i>\$ million</i>	Labour Govt. Dec-Feb 07/08	Labour Govt. Jul-Oct 08	National Govt. Dec-Feb 08/09
Support Services	1.844	2.293	2.955
VIP Travel	0.583	0.705	0.573
Ministers' Internal and External Travel	0.336	1.009	0.739
Visits and Ceremonies	0.729	0.368	0.238
<b>Total (4 items)</b>	<b>3.492</b>	<b>4.375</b>	<b>4.505</b>

NB: These figures are an indication only; Jul-Oct 08 and Dec-Feb 08/09 figures may be distorted somewhat by costs relating to the election

20. Pending the findings of a formal review and any official changes to process resulting from it, Ministers should be encouraged individually to consider measures to reduce unnecessary spending; support staff requirements could be reassessed and standard practice regarding travel and expenses reviewed.
21. If Ministers are placed under increased pressure to manage budgets effectively, the risk of service failure should be avoidable. Qualified and effective staff are a necessity and should not generally be sacrificed to cut costs; however, current labour market conditions should enhance the ability of Ministerial Services to attract and retain suitable candidates without significant cost increases.
22. Steps should also be taken to review treatment of election-cycle costs. While there may be a case for these costs being accrued over the preceding years, the unpredictability of when they will be paid out (i.e. when there is a change of government) makes this difficult. Instead, Joint Ministers could be delegated authority by Cabinet to approve changes during the relevant baseline update as a forecast change, where appropriate.

23. The management of these cost pressures is likely to be the main issue that will affect Vote Ministerial Services in Budgets 2010/11 and 2011/12. There is the need for a review of the servicing and travel requirements of Ministers, along with how these services are delivered.

### **Recommendations**

Treasury recommends that you:

- (iii) Invite the Minister Responsible for Ministerial Services to submit a review of cost pressures within the Vote, particularly those associated with support services and cyclical election costs, along with options for managing them, to ECC by 30 November 2009, in time to implement solutions that will keep costs within baselines in 2009/10 and outyears.

**Agree/Disagree**

## Overview of the Vote

### VOTE PRIME MINISTER AND CABINET

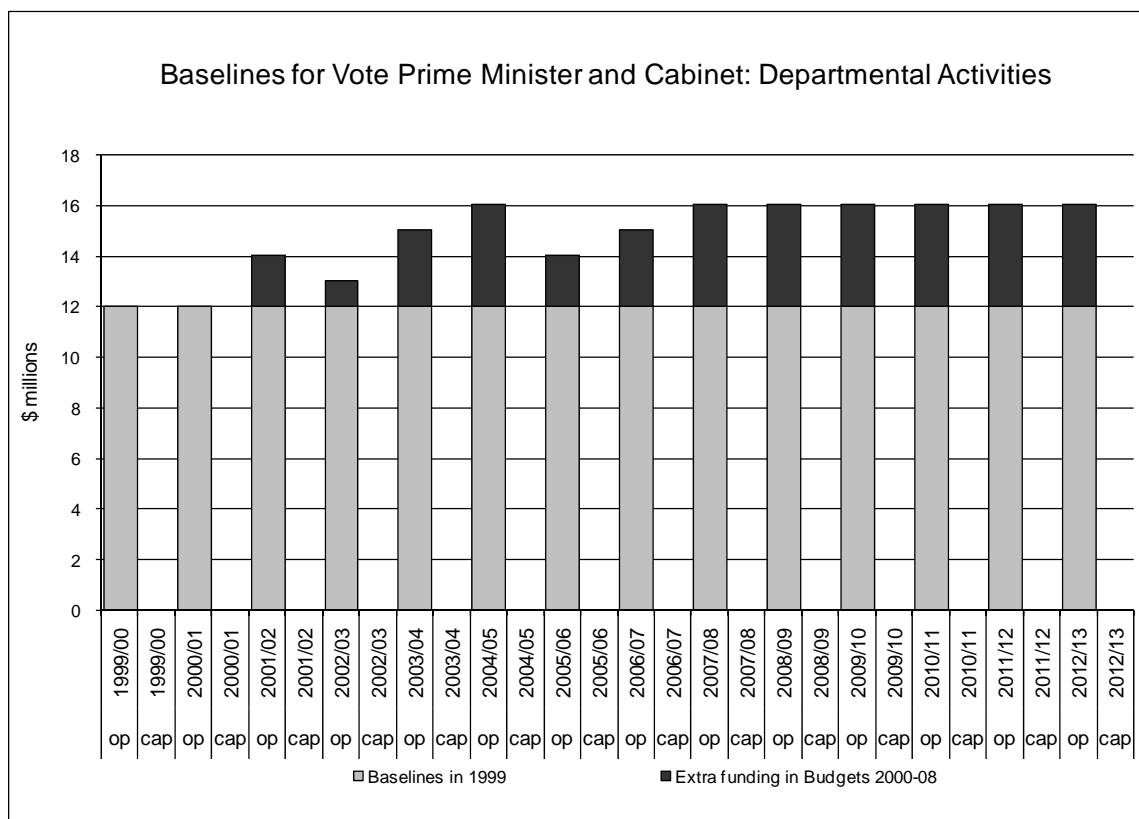
24. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Prime Minister submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Capital (GST excl)</i>					
Savings	-	-	(2.000)	(2.700)	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
<b>Total funding requested</b>	-	-	(2.000)	(2.700)	-

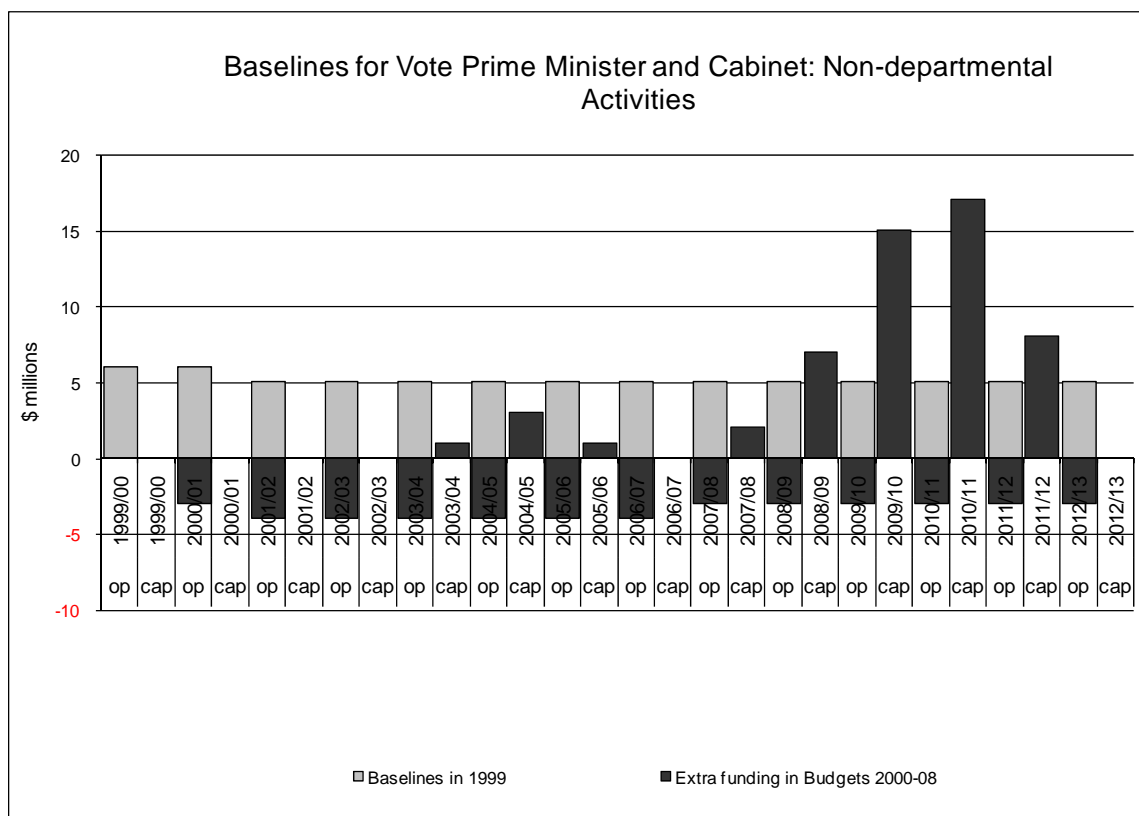
25. Treasury's view on the savings submitted by the Vote is that these savings are credible, given the size of DPMC's baseline. DPMC have offered no savings on the departmental side of their appropriation, but given the size of the baseline (\$15.5 million approx); the limited increases over the past 10 years, and the pressures the baseline is under, Treasury agrees that savings cannot be made here.
26. On the non-departmental side, DPMC has offered \$4.7 million of savings by changing the scope of the Government House conservation project. In Treasury's view this is a credible level of savings; although we note that further reductions in scope could reduce costs further. Any savings resulting from a narrower scope would likely be realised in 2011/12 or 2012/13. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

### Analysis of Vote

27. Vote Prime Minister and Cabinet baselines are shown in the graph below. The Vote has received a 24% increase in departmental funding since 1999/2000 due to a series of small capability increases for the Cabinet Office, External Assessments Bureau and the Policy Advisory Group and funding for a technology upgrade in Budget 2008. The Vote also includes a series of one-off increases in baselines for specific projects (e.g. Foreshore and Seabed, and Emission Trading Scheme development):



28. The departments' non-departmental appropriations include permanent legislative authorities for the Governor-General's salary and expenses, and for the Commissioner of Security Warrants.
29. In 2007/08, \$2 million was approved to conduct ground work for the conservation of Government House project; and in Budget 2008, capital funding of \$46.637 across four years was approved for this project.



## **Recommendations**

Treasury recommends that you:

- (i) Support the savings submitted for Vote Prime Minister and Cabinet in relation to the Government House conservation project

***Agree/Disagree***

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

## **Emergency Pressure**

- 30. The Prime Minister has not submitted an emergency pressure bid for Vote Prime Minister and Cabinet.

## **Vote Prime Minister and Cabinet – Analysis of Policy Priorities**

- 31. The Prime Minister has not submitted any policy priority initiatives for Vote Prime Minister and Cabinet.

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