

Baseline Alignment Proposal

Vote: Customs

Submitted by: Hon Maurice Williamson

Section 1: Alignment to Government Priorities

Achievements and links with Government's key priorities

I expect that over the next three financial years the New Zealand Customs Service (Customs) will achieve the following:

- improve competitiveness, security and productivity at the border by providing an advanced border management infrastructure through the implementation of the Joint Border Management System/Trade Single Window (JBMS/TSW)
- increase disruption of supply chains for illicit drugs entering New Zealand, particularly methamphetamine and its precursors, by continued targeted and intensive operational activity, and the implementation of technology to provide the capability to dismantle criminal networks
- enhance border agency coordination to reduce duplication and improve the experience for traders and travellers by actively identifying and implementing improvements to the flow and cohesiveness of border clearance processes.

These achievements will align with the Government's priorities to:

- grow the economy
- reduce regulatory and compliance demands
- step up infrastructure investment
- clamp down on criminal gangs and the 'P' trade and thereby reduce violent crime and make communities safer.

Critical Dependencies

To continue to make the improvements necessary to reach the first two of these achievements I have submitted two Capital Funding Initiatives for Budget 2010:

- the new joint border management system (JBMS/TSW) to replace current aging legacy systems that *[information deleted in order to protect trade secrets or a person or entity's commercial position]*.
- disrupting "P" supply and dismantling criminal networks. *[information deleted as it may prejudice the maintenance of law, including the prevention, investigation and detection of offences, and the right to a fair trial]*

JBMS/TSW

As we have discussed in Cabinet, JBMS/TSW is needed to modernise the systems supporting New Zealand's border management services. The current systems used by Customs and the Ministry of Agriculture and Forestry have limited capability and pose an escalating risk of failure due to age. JBMS is assessed as having a positive and significant impact on the economy and I have no doubt that it will assist in improving New Zealand's economic performance and our reputation as a modern and safe trading nation.

Demonstrable benefits include:

- increased efficiency in trade and travel supply chains
- increased certainty for traders in cargo management
- improved support for bilateral and multilateral trade data flows due to border systems interoperability
- improved risk management
- reduced risk of system failure.

Disrupting “P” supply

Illicit drug interceptions by Customs (mainly methamphetamine precursors), have increased significantly in the last eight years, and 2009 was significantly ahead of 2008. *[deleted to maintain the effective conduct of public affairs through the free and frank expression of opinions and deleted as may prejudice the maintenance of law, including the prevention, investigation and detection of offences, and the right to a fair trial]*

This investment is assessed as having a positive net present value (NPV) with a further positive contribution the Drug Harm Index. The NPV calculation does not include significant qualitative benefits that will be achieved when we make some inroads into this problem.

Benefits from this investment and the refocusing of resources that it will allow include:

- significant increases in the quality and number of interceptions
- increased apprehensions for drug-related offenders and offenders charged
- *[deleted prejudice the maintenance of law]*
- a reduction in the economic, social and environmental harm to the New Zealand community as a result of reduced supply of illicit drugs

- a reallocation of skilled Customs personnel [~~deleted prejudice the maintenance of law~~].

Enhanced border agency co-ordination

Continued innovation in border management practices is necessary for New Zealand to maintain its international competitiveness.

Customs, along with other border agencies here and in Australia is committed to enhancing collaboration and business processes to the benefit of business, tourists and travelling public without sacrificing key government outcomes from Customs in relation to community protection and revenue collection. The progressive implementation of the SmartGate automated passenger processing initiative is an example of collaboration and innovation that demonstrates the smart application of technology and streamlined processes to achieve the Government's broader objectives.

Customs' contribution to enhancing border agency coordination and streamlining trans-Tasman border processes is being managed within current baselines.

Latest Treasury forecasts have Customs collecting over \$10 billion pa in Crown revenue over the forecast period. This will increase if, as signalled, the rate of GST is increased. Securing this revenue and maintaining high levels of debt recovery, although very much "business as usual", is important to the Government and its economic programme and goals.

Section 2: Reprioritisation

Customs does not operate any programmes inconsistent with Government priorities that should be re-evaluated or discontinued.

Customs manages the movement of all people, goods and craft across the border and works with, or provides border services on behalf of, up to 20 agencies. In carrying out these roles Customs undertakes:

- clearance of all arriving and departing international passengers and crew within agreed timeframes (if recent trends continue, passenger volumes could exceed 10 million persons pa in the next three years)
- clearance of all imports and exports (estimated value of \$80 billion pa)
- clearance of all commercial craft and intervention with others on a risk assessment basis
- collection of GST, duty, excise and levies (likely to exceed \$10 billion in each of the next three years)
- management of the security, law enforcement and revenue risks arising from the movement of people, goods and craft
- 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.

In considering the future of Customs' baseline, it is important to recognise the need to:

- maintain staff training and to continue with the development of leadership capability
- continue to provide reliable systems with advanced capabilities and timely and focused information
- help implement and support the increasing number of Free Trade Agreements and the importance to New Zealand of effective international customs relationships.
- ensure Customs is able to effectively respond as economic conditions improve and trade and travel volumes reach and exceed pre-recession levels
- effectively facilitate and risk assess the significant increase in travel expected for the Rugby World Cup 2011.

Pressures on Customs' baseline come from: demand driven activity; Customs' role internationally; changes in Government policy; and increased operating costs. Major drivers include:

Volumes, diversity and risk of trade and travellers. Following a recessionary period Customs is once again processing increasing volumes and value of trade and travel. Customs is having some success in meeting requirements of fast, efficient and low-cost processing of goods and passengers, but risks are increasing with aging computer systems and increasing expectations internationally and domestically for integrated supply chain management to increase trade security and efficiency. The increased trans-national organised crime risks to New Zealand, arising from the greater diversity of trade and travel, also need to be managed.

International requirements. These include increased requirements from the United States for security assurance on New Zealand's exports there. The cost to Customs of additional Free Trade Agreements is estimated to be in the order of \$0.5 million pa. This unfunded requirement is being met from within Customs' baseline through reprioritisation and integration with other trade assurance and risk management activity.

Additional government requirements over and above stated priorities. 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 services are provided cost effectively leveraging off existing systems and infrastructure and contribute to securing Crown revenue owed.

Increased operating costs. The need to absorb a range of cost increases including rent reviews, ACC levies and public sector leave entitlements.

Costs of employment agreements. Customs' baselines contributed to the additional costs of the Collective Employment Agreement settled in 2008. The current employment agreement expires on 30 June 2010. Customs will seek to enhance flexibility and minimise the financial impacts of any new employment agreement. Any financial impacts would be managed within current baselines.

Customs intends to meet demand driven service requirements through careful management of operating expenditure, including:

- effectively facilitate and risk assess the significant increase in travel expected
- managing vacancies and scheduling recruitment. Customs will continue to leave three policy analyst positions vacant. This will result in a more limited policy work programme that focuses on the priorities identified in this report.
- reducing recruitment costs due to lower staff turnover and easier access to skilled and qualified applicants
- refocusing resources (for example, training) and reprioritising tasks and effort
- rationalising accommodation and other operating costs. An Auckland accommodation plan has been developed and is being progressively implemented. Operational efficiencies, benefits to industry and cost savings are all expected by 2011/12. The move to new premises on the Wellington wharf will take place in the first quarter of 2010. A tenant for all or part of the existing building has yet to be found.
- 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 ending of international flights at Palmerston North airport in 2008 were reallocated to help meet employment agreement costs.

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

Customs baseline for 2010/11 is \$130.3 million of which \$89 million is Crown funded and the balance is cost recovered. Over 70% of the baseline is people related costs. The balance is primarily fixed costs of accommodation, equipment and depreciation. The baseline is not expected to change materially over the forecast period.

Customs has also identified some activities where, cost recovery from third parties would not only lower funding demands on the Crown but also drive further efficiencies in services and overall value for money for both the public and private sectors. A review of goods clearance fees has been undertaken and new fees are expected to be place on 1 July. There are no baseline implications for these fee changes that are designed to broaden the fee base and make up some of the short fall in revenue that has occurred in the last eighteen months.

Further short term expenditure reductions can only be delivered through reductions in staff. Further reductions in staff are likely to result in increased illegal imports, revenue loss and reduced service levels for importers, creating delays in clearance and imposing additional supply chain costs on business.

Accordingly given the critical and integrated nature of Customs functions I am not proposing that any of Customs' functions be re-evaluated or discontinued – this would have a counter productive impact – I will continue to seek a focus on government priorities within the current baseline, and a further step up in results through the investment support and collaboration discussed earlier.

Section 3: Summary of Financial Movements

Vote Customs will be operating under a new output class structure from 1 July 2010. This sees the number of output classes reduce from ten to six and a focus on new and improved performance measures. Other than the existing approved baseline being translated into the new output class structure, I propose no changes to the 2010/11 and outyear baselines for Vote Customs.