

Treasury Report: Budget 2008: Bilateral for Vote Local Government and Capital Initiatives in Vote Customs

Date:	29 February 2008	Report No:	T2008/290
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	Read prior to the bilateral meeting with Hon Nanaia Mahuta	Before 4.00pm Tuesday 4 th March 2008
Associate Minister of Finance (Hon Trevor Mallard)	Read prior to the bilateral meeting with Hon Nanaia Mahuta	Before 4.00pm Tuesday 4 th March 2008

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>			✓
<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>			✓
Rowena Phair	Manager, Justice and Asset Management	<i>[deleted – privacy]</i>	

Minister of Finance's Office Actions (if required)

None.

Enclosure: Yes

Treasury Report: Bilateral Briefing for Vote Local Government and Capital Initiatives in Vote Customs

Attached is a briefing for the bilateral between the Minister of Finance and Hon Nanaia Mahuta at 4 p.m. on 4 March 2008 to discuss the budget initiatives for Local Government and the capital components of budget initiatives for Vote Customs.

The bilateral briefing is structured as follows:

Recommendations	p. 3
Analysis by Vote	p. 6
One-page initiative summaries	p. 16

We expect the key issues for discussion will be:

- Proposed enhancements to the Rates Rebate Scheme
- Customs' Border Management Systems Replacement Programme

Treasury's view is that the proposed enhancements to the Rates Rebate Scheme could realistically be scaled back while still achieving significant additional support for low-income ratepayers.

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

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with Hon Nanaia Mahuta at 4:00 p.m. on 4 March 2008.

Rowena Phair
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Recommendations

VOTE LOCAL GOVERNMENT

a Chatham Islands Council – Financial Assistance Programme analysis p. 6

- The department is seeking continuation from 2008/09 of the time-limited financial assistance funding that was previously agreed by Cabinet for the period 2004/05 to 2007/08, pending a review of the Chatham Islands Council's future funding requirements.
- Treasury supports this initiative. Given the Chatham Islands' small population and therefore small rating base, continued government assistance will be necessary if the Council is to remain financially viable.

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
Department and Treasury	-	1.828	1.613	1.878	1.914

b Optimising Central Government Investment in Local Government analysis p. 6

- The department proposes a number of strategic and operational interventions – primarily significant enhancements to the Rates Rebate Scheme – to strengthen the effectiveness of local government.
- Treasury's view is that this initiative should be supported at a reduced level – primarily by scaling back the proposed enhancements to the Rates Rebate Scheme. This would still represent a significant package of support in the local government area.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
Treasury					

<i>Capital (GST excl)</i>					
Department and Treasury	-	0.100	0.100	-	-

VOTE CUSTOMS

c Customs' Border Management Systems Replacement Programme analysis p. 11

- Customs is seeking funding for a new border management system. Customs' existing system (CusMod) is nearing the end of its life, and is increasingly unable to meet growing volume demands and new international standards.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

However, recognising the system plays an important role in Economic Transformation, \$0.720 million operating funding is supported in the Economic Transformation theme for Customs to further develop the business case.

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

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>
<i>Capital (GST excl)</i>					
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					

d International Air Passenger Facilitation Initiatives

analysis p. 12

- Customs proposes to investigate automation of identifying arriving air travellers, to enhance passenger processing at the border. Customs sought \$0.400 million capital funding in 2008/09 to integrate the trial system into Customs' server.
- Treasury and Customs have agreed that Customs will now endeavour to manage the project within baseline and with industry assistance in 2008/09 and out years.

	<i>\$million - increase/(decrease)</i>

	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>
<i>Capital (GST excl)</i>					
Department & Treasury agreed	-	-	-	-	-

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

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	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>
<i>Capital (GST excl)</i>					
<i>[deleted – confidentiality of advice]</i>					

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

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	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>
<i>Capital (GST excl)</i>					
<i>[deleted – confidentiality of advice]</i>					

Vote Local Government – Analysis

Analysis of Initiatives

- Funding is being sought for Vote Local Government through this bilateral and is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Vote Local Government in Budget 2008</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
At this bilateral	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
TOTAL OPERATING					
TOTAL CAPITAL	-	0.100	0.100	-	-

Chatham Islands Council – Financial Assistance Programme (recommendation a)

- The department seeks continuation from 2008/09 of the time-limited financial assistance funding that was previously agreed by Cabinet for the period 2004/05 to 2007/08, pending a review of the Chatham Islands Council's future funding requirements.
- Treasury supports this initiative. Given the Chatham Islands' small population and therefore small rating base, continued government assistance will be necessary if the Council is to remain financially viable.

Optimising Central Government Investment in Local Government (recommendation b)

- The department seeks new funding for a number of proposed strategic and operational interventions to strengthen the effectiveness of local government, combined into a single initiative, as follows:

Operating impact, \$m		2008/09	2009/10	2010/11	2011/12
1	Professional development for elected members	1.000	0.200	0.400	0.200
2	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
3	Rates Rebate Scheme changes	<i>[deleted – confidentiality of advice]</i>			
4	Integration of Auckland local government	0.521	0.781	0.360	0.360
5	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
6	Provision of guidelines and educational material on public safety around dogs	0.250	0.250	0.300	0.250
Total		<i>[deleted – confidentiality of advice]</i>			
<i>[deleted – confidentiality of advice]</i>					

5. Treasury supports items 1, 2, 5 and 6 of the initiative, which appear to represent value-for-money assistance interventions in the local government area.
6. Treasury does not support item 4 – integration of Auckland local government through the development of the One Plan, including the development of the ‘whole of government’ response to the report of the Royal Commission on Auckland Governance – for the following reasons:
 - there is no compelling rationale for the department to build up a permanent Auckland capability on the scale proposed, given its chief current role is around co-ordination and process rather than policy;
 - the department is already financing an Auckland relationship/governance manager and support resource, in addition to policy staff time in Wellington, and should be able to continue to support these from within existing baselines if this is deemed a priority; and
 - it is not evident why existing resources could not also be used to fulfil any potential Royal Commission response obligations, rather than employing additional staff.
7. Item 3 – proposed enhancements to the Rates Rebate Scheme (RRS) – *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
8. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
9. In Treasury’s view there are realistic scaling options for enhancements to the RRS that would still accommodate the above considerations. We recommend the following scaled-back changes:

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

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

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

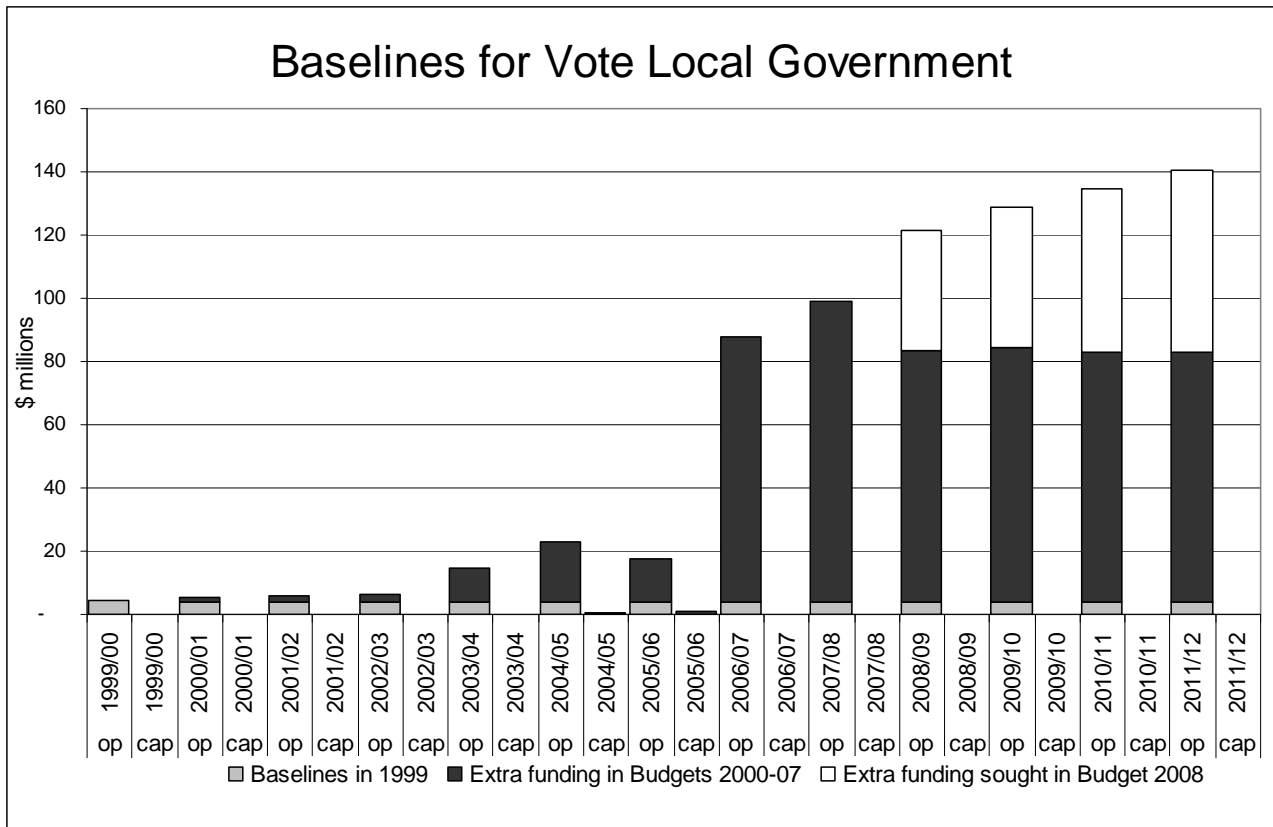
12. In summary, Treasury recommended funding for the initiative, broken down by component, is as follows:

Operating impact, \$m		2008/09	2009/10	2010/11	2011/12
1	Professional development for elected members	1.000	0.200	0.400	0.200
2	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
3	Rates Rebate Scheme changes	<i>[deleted – confidentiality of advice]</i>			
4	Integration of Auckland local government	-	-	-	-
5	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
6	Provision of guidelines and educational material on public safety around dogs	0.250	0.250	0.300	0.250
Total		<i>[deleted – confidentiality of advice]</i>			
<i>[deleted – confidentiality of advice]</i>					

Analysis of Vote

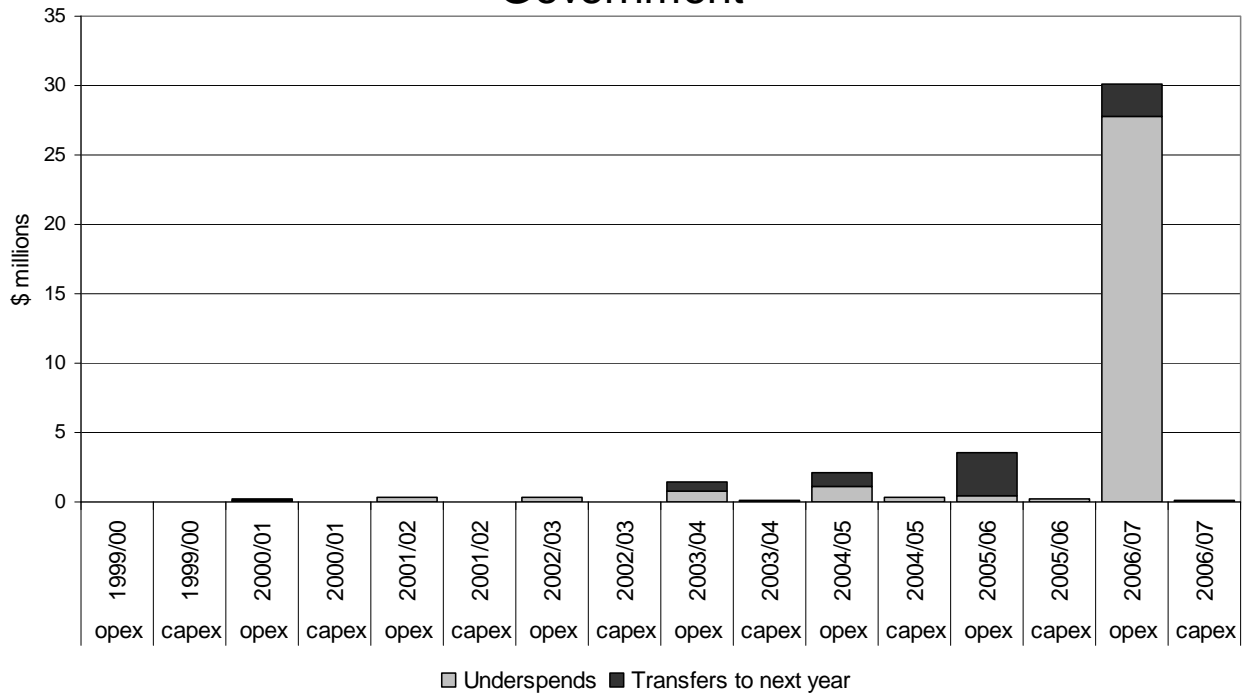
13. Vote Local Government baselines are depicted in the following graph. Significant increases over the timeframe include:

- emergency relief funding for Central North Island and Bay of Plenty (\$4 million in 2003/04 and \$9 million in 2004/05);
- new funding for enhanced departmental capability (\$1 million in 2003/04, \$2 million in 2004/05 and \$4 million p.a. from 2005/06);
- funding to enable the purchase of land for the purposes of the Reserves Act 1977 (\$3 million in 2005/06);
- funding for substantial enhancements to the Rates Rebate Scheme (originally forecast to increase by \$50 million p.a. from 2006/07, later increased to \$70 million);
- funding for payment to Tuwharetoa Maori Trust Board in relation to property rights in Lake Taupo (\$12 million in 2007/08 and \$1 million p.a. from 2008/09).



14. Vote Local Government underspends are depicted in the graph below and include:
- operating underspends in 2003/04 and 2004/05 in Policy Advice and Information, Support and Regulatory Services outputs;
 - a large operating underspend in 2006/07 reflecting actual outturn rates rebate payments in the first year of enhancements to the scheme being significantly less than forecast. [Note that the current fiscal management approach is not to adjust spending intentions simply as a result of favourable forecast variances in benefit items, but rather let these balance out with unfavourable forecast variances over time.]
15. Expense transfers are also depicted in the following graph and include:
- from 2003/04 to 2004/05 – a delay in the public education programme around how the STV election system operates;
 - from 2004/05 to 2005/06 – a delay in policy work around the Auckland Infrastructure Review, delays in the planned local government law reform programme, a delay in the planned central/local government interface project, and delays in capital infrastructure work at Lake Taupo (capital);
 - from 2005/06 to 2006/07 – a further delay in policy work around the Auckland Infrastructure Review, delayed recognition of expenses for the 2007 Conference of the Commonwealth Local Government Forum, a delay in working with Waitomo District Council around prudent financial planning, a further delay in the planned review of local government legislation, delays in development of and communication around the National Dog Database, and further delays in capital infrastructure work at Lake Taupo (capital);
 - from 2006/07 to 2007/08 – delayed grants to assist in land purchases for the purposes of the Reserves Act 1977, a further delay in the planned review of local government legislation, a further delay in policy work around the Auckland Infrastructure Review, and further delays in capital infrastructure work at Lake Taupo (capital).

Underspends and Transfers in Vote Local Government



Vote Customs – Analysis

Analysis of Initiatives

16. Funding is being sought for Vote Customs through this bilateral and also through the Economic Transformation theme. There is also a small amount of funding for Vote Customs relating to the China free trade agreement considered in your bilateral with Hon Phil Goff. This is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Vote Customs in Budget 2008</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
At this bilateral	-	-	-	-	-
Through Economic Transformation Theme	<i>[deleted – confidentiality of advice]</i>				
TOTAL OPERATING	<i>[deleted – confidentiality of advice]</i>				
<i>Capital (GST excl)</i>					
At this bilateral	<i>[deleted – confidentiality of advice]</i>				
At Hon Phil Goff's bilateral		0.500	-	-	-
TOTAL CAPITAL	<i>[deleted – confidentiality of advice]</i>				

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

Customs' Border Management Systems Replacement Programme (recommendation c)

18. Customs is seeking funding for a new and enhanced border management system to replace a critical Government system known as CusMod. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
19. CusMod will collect \$9 billion of Crown revenue in 2008/09, facilitate and risk assess 9 million passengers, and enable goods declarations with an annual value of over \$80 billion to be cleared. It is nearing the end of its life, and is increasingly unable to meet growing demands and new international standards.
20. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

However, recognising the increasing risks to service delivery associated with the existing system, \$0.720 million operating funding is supported in the Economic Transformation theme to continue developing the business case

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

21. We have provided advice to you on links between border sector information systems initiatives submitted in Budget 2008 and related initiatives (refer Annex of Pre-Bilateral Briefing for Bilaterals 25-29 February). *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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

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

24. The requirement to replace and upgrade this system was identified in 2006. In Budget 2007, significant capital investment requirements for 2008/09 and out years were identified. Operating funding was provided to Vote Customs to enable scoping and design work for the new system to be undertaken and a Stage 1 business case to be completed in 2007/08 [CAB Min (07) 12/1 (15) refers].
25. A new system is expected to take a number of years to build and roll out. It is proposed that it is built and funding is drawn down in stages to manage delivery, scope and financial risks, and to ensure that maximum synergies with other border systems are maintained.
26. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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

International Air Passenger Facilitation Initiatives (recommendation d)

28. Customs proposes to investigate automation of identifying arriving air travellers, to enhance passenger processing at the border. Capital funding of \$0.400 million is required to integrate the trial system into Customs' server.

29. Treasury acknowledges the growing trend in passenger arrivals into New Zealand and considers that the case has merit. However, Treasury is of the view that Customs should be prioritising the investigation of more efficient processes in order to manage increasing external demand. Customs have agreed that they will endeavour to manage the project within baseline and with industry assistance in 2008/09 and outyears.

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(recommendation e)

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

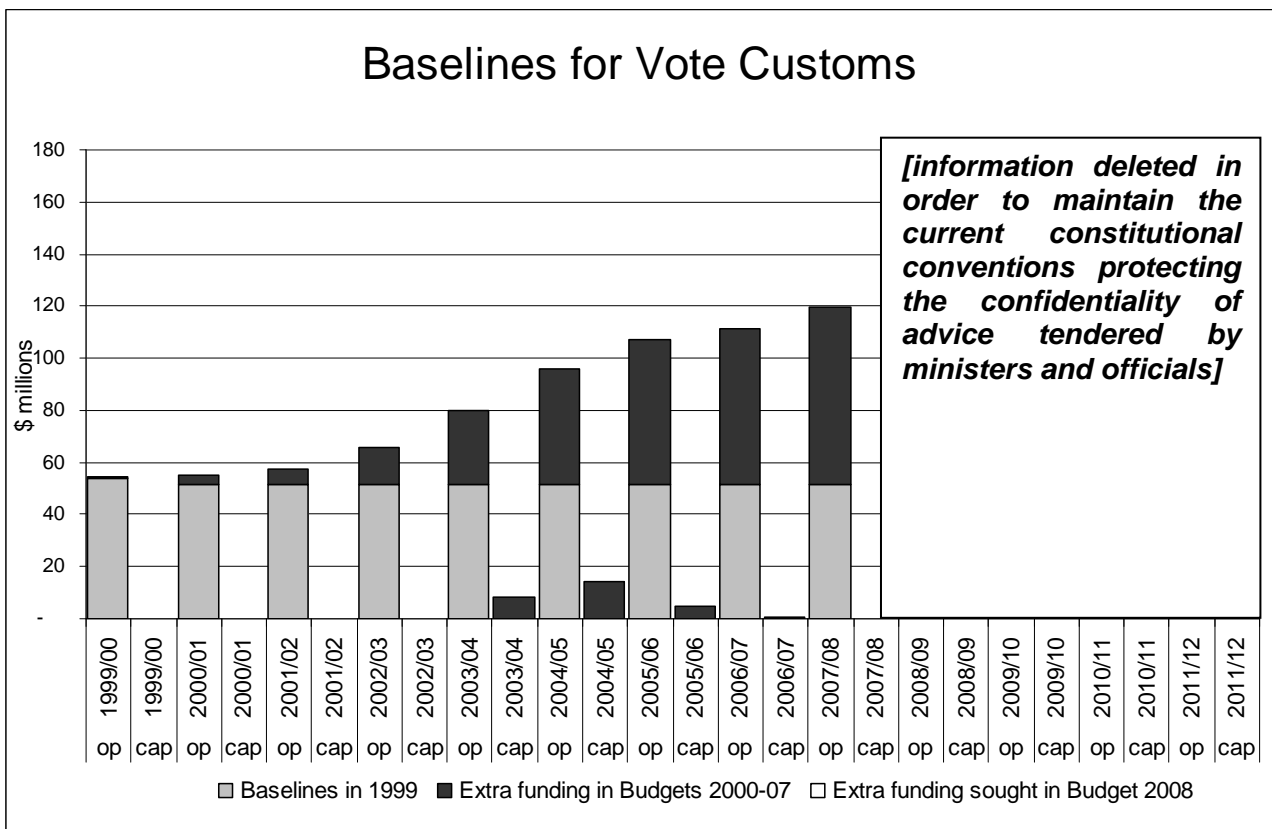
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(recommendation f)

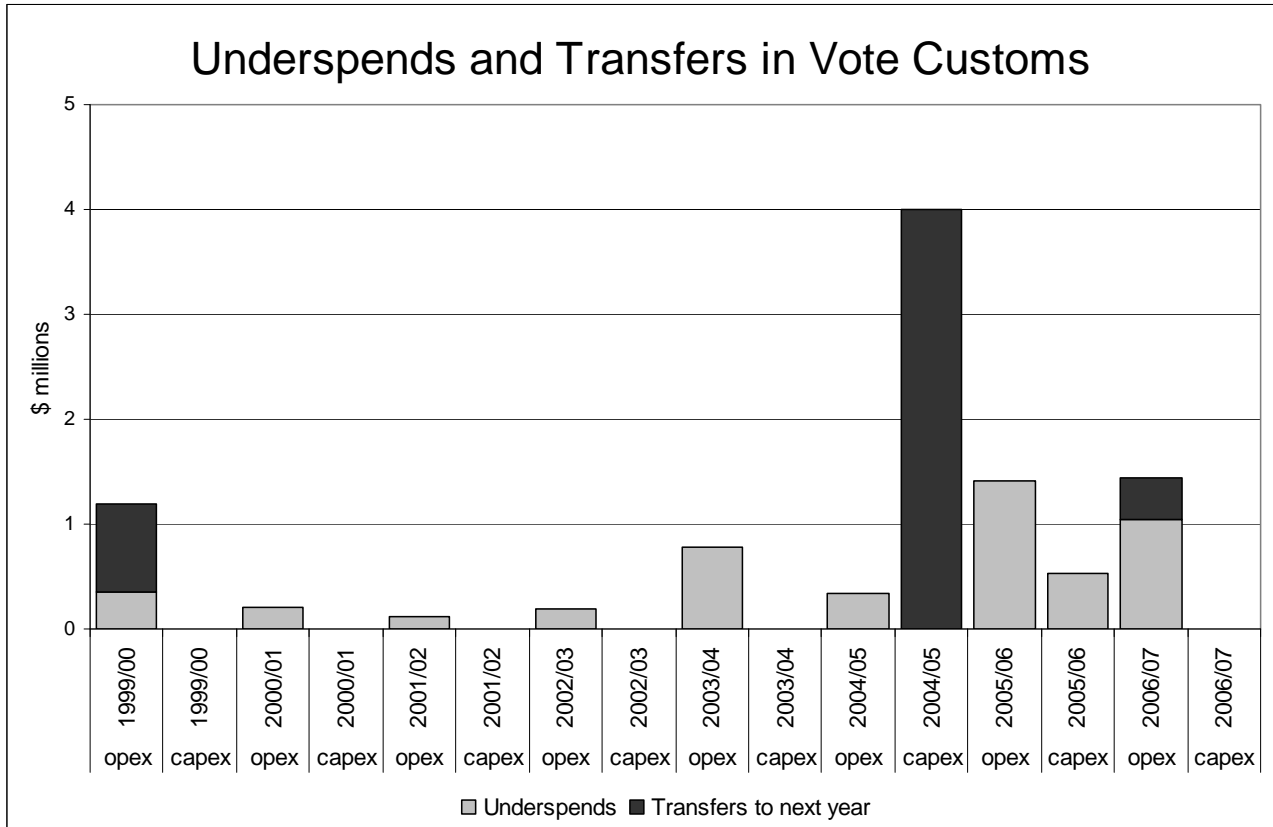
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Analysis of Vote

39. Customs' forecast cash available for capital at 2007/08 year end is \$5.783 million. This balance when added to forecast future depreciation flows and the requirement to manage working capital and existing infrastructure replacement does not enable Customs to fund the border management system replacement programme from within current cash reserves and out year cash flows. Commitments to other new initiatives from existing cash reserves effectively increase the capital injection requirements when the border system replacement decisions are made.
40. Vote Customs baselines are shown in the graph below. The vote has received increases in funding in the past seven years due to enhanced container security requirements, advanced profiling of passengers crossing New Zealand's borders; increasing the proportion of passengers who undergo more extensive examination at air and sea ports and to enable significant volume of growth at Auckland and other international airports to be managed. Customs has also received funding for enhanced law enforcement activity, increased representation overseas posts to assist with trade negotiation and security requirements and increased remuneration costs.



41. Customs recovers a significant proportion of goods clearance costs. Cost recovery reviews have been completed in respect of goods and passenger clearance. The outcome of the passenger clearance review was a Government decision that Customs and the Ministry of Agriculture and Fisheries would be Crown funded for this activity while Aviation Security costs would be cost recovered. Customs is expecting to collect \$9 billion on behalf of the Crown this year with debt and write off levels kept within agreed levels. In 2002/03 Customs collected under \$7 billion.



42. The New Zealand Customs Service does not have a history of large or significant under expenditure. The capital transfer of \$4 million in 2004/05 was due to a change in payment profile for cargo screening equipment. In 2006/07 Customs expenditure was \$0.5 million less than the \$110 million departmental appropriation. A net operating deficit of \$1.1 million was recorded and there was minor over expenditure in two of the Votes' ten output classes.

One-page Initiative Summaries

One-page summaries of the initiatives for discussion at this bilateral are attached on subsequent pages.