

The Treasury

Budget 2016 Information Release

Release Document July 2016

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[s18(c)(i)]	that the making available of the information requested would be contrary to the provisions of a specified enactment	
[40]	Not in scope	

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2016/335

DH-0-3

Date: 4 March 2016

To: Minister of Finance (Hon Bill English)

Deadline: 8:00 a.m., Tuesday 8 March 2016

Aide Memoire: Briefing for budget meeting with Hon Amy Adams and Hon Judith Collins

You are scheduled to meet with Hon Amy Adams and Hon Judith Collins at 8:00 a.m. on Tuesday 8 March to discuss the main agencies in the justice sector (the Ministry of Justice, the Department of Corrections and New Zealand Police). This first meeting is intended to be a general discussion on how the agencies run their core business. It will be followed by a second meeting to discuss Budget 2016 initiatives submitted for these agencies. This aide memoire provides you with material for this first meeting.

Overview of the Justice Sector¹

The justice sector is made up of New Zealand Police, the Ministry of Justice, the Department of Corrections, the Crown Law Office and the Serious Fraud Office.

The sector has more than 23,000 employees, spent \$3.7 billion in 2014/15, and manages \$5.5 billion worth of assets. The majority of the sector's resource and collective effort is focused on criminal justice services. This includes the core justice apparatus of law enforcement and efforts to reduce crime and reoffending. The justice sector also delivers civil justice processes, administers specialist courts and tribunals (e.g. Environment and Employment Courts, and Tenancy and Disputes Tribunals). The justice sector has strong links with the social, transport, commercial and security sectors.

Justice sector agencies work together to reduce crime and volumes in the criminal justice pipeline:



In order to continue successful collaboration across the justice sector, senior leaders maintain a mature governance structure. Justice sector Ministers lead the governance process, and are supported by the Justice Sector Leadership Board. This comprises

¹ This section draws on the Justice Sector Four Year Plan, submitted in December 2015.

the Chief Executives of justice sector agencies, whose goal is to drive performance across the pipeline and deliver sector targets.

The justice sector has five strategic priorities to underpin the sector's central mission of creating a safe and just society: reducing harm; reducing volumes; improving services; managing investment; and maintaining institutions.

Fiscal Challenges for the Justice Sector

Though crime rates are falling, the justice sector faces a number of fiscal pressures:

- The prison population has recently begun to increase after plateauing for a few years, and it is forecast to continue to grow. Managing this is placing pressure on the Department of Corrections.
- Justice sector agencies are facing price pressures for a number of their inputs, particularly wages. Police, for instance, has recently settled its major collective agreements for three year terms, and it has limited flexibility to manage these costs within baselines.
- The justice sector also faces a range of other volume pressures, such as increased demand for legal aid and increased calls for service for Police.

Expenditure Reviews

Each of the three main justice sector agencies has recently undertaken expenditure reviews to identify ways to meet cost pressures and to ensure efficient and effective delivery of services.

Police

Following Police's 2009-14 transformation programme "Policing Excellence", Police recognised a need to do more to further reduce crime, crashes and victimisation, to improve services, address growing demand, make efficiencies and prioritise activities.

To this end Police undertook a bottom-up activity review ("Policing Excellence: the Future", or PEtF) to build a thorough understanding of its business: what activities it does, what those activities cost, how they link together and their relative value. This included building a "Know Your Business Model". Police also developed a range of ideas for doing things differently, changing operating approaches and making efficiencies. This helped Police identify lower-value activities it could reduce, and areas where further investment would be most beneficial.

[33, 34]

PEtF helps to give us confidence that Police understands its core business and that it is reprioritising internally in order to get better value from their resources. We recognise that Police's ability to manage its demand and cost pressures is limited by a commitment to sworn officer numbers, public resistance to rationalising its property footprint, and a constraining industrial relations framework.

Corrections

As part of its commitment to operate within its 2011 forecast baseline funding level until 2020, Corrections developed a multi-phase financial strategy to transform its business model and operations to ensure it can contribute to a modern, more effective and more sustainable justice sector. The resulting initiatives included:

Stage One

- undertaking an Expenditure Review in 2011 that identified savings of \$670-\$770 million to 2020;
- decommissioning 683 end-of-life beds in 2012 and 2013 that were expensive to operate and not fit-for-purpose; and
- unifying its different service arms and giving greater responsibility to the regions while reducing staffing in National Office.

Stage Two

- decommissioning a further 623 end-of-life prison beds, and changing staffing structures in the Prison Service to unify the delivery of services. Of the 623 end-of-life beds, Corrections has decommissioned 497 to date. However due to the increasing prisoner population, and corresponding demands on capacity, Corrections has deferred decommissioning the remaining 126 beds (at Waikeria Prison), and deferred streamlining layers of frontline supervision and management; and
- other initiatives to extract \$195 million of savings by selling land and forests at Tongariro Prison; reviewing administration resources in the prison environment; and extracting value out of commercial contracts.

We consider that Corrections has made good efforts to remain within its 2011 forecast baseline, and has been responsive in addressing increases in the prison population and the management of Mt Eden. This gives us confidence that Corrections understands its core business and has reprioritised internally to improve value for money. We recognise that Corrections' cost pressures are largely driven by the size of the prison population, over which they have limited control.

Justice

In 2014/15 the Ministry of Justice undertook a review called Investing in Justice (IJ). This included a thorough review of the efficiency and effectiveness of 55% (\$318 million) of the Ministry's operational spend by KPMG. It identified areas of

savings, opportunities to improve effectiveness, and the need to improve key performance indicators and benchmarking to drive performance. Through IJ the Ministry has identified net savings of \$121 million over the next four years.

IJ and other Ministry of Justice initiatives to improve the efficiency of the court system give us confidence that the Ministry is taking steps to live within baselines, but pressures remain. [33, 34]

Agency-by-Agency Information

The Annex to this aide memoire provides information on the baselines and balance sheets of each of the three main justice sector agencies.

Talking Points

This meeting is an opportunity to talk to Ministers and their departments about how they run their businesses and how they are managing their budgets. You may wish to raise the following points:

- You could ask Ministers and departments how well they consider the justice sector is working collectively – how are they collectively managing pressures and priorities across the sector and through the pipeline, including muster pressures?
- You could ask individual departments how well they understand the cost drivers in their business and the steps that they are taking to manage them, including reprioritising away from lower value activities.

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Annex: Information on Baselines and Balance Sheets in the Justice Sector (as at 2016 March Baseline Update)

<p style="text-align: center;">Vote Corrections operating expenses</p>	<p style="text-align: center;">Votes Courts and Justice operating expenses</p>	<p style="text-align: center;">Vote Police operating expenses</p>
<ul style="list-style-type: none"> • Departmental funding of \$1.31 billion in 2015/16 includes appropriations for: <ul style="list-style-type: none"> ○ prison-based custodial services (\$859 million); ○ community sentences (\$208 million); ○ rehabilitation and reintegration (\$180 million); and ○ information/administrative services to the judiciary and the parole board (\$59 million). • Spending is largely on people and assets. Expenses in 2015/16 include 43% for personnel, 11% for depreciation, 15% for capital charge and 27% for operational costs such as contract management and facilities maintenance. Corrections employs almost 8,000 staff and approximately 90% are deployed in frontline roles. • Corrections has assets of \$3.1 billion, which includes 18 prisons, 167 community sites that are leased or owned, and other sites across four regions and 15 districts. Capital investment of around \$1.4 billion is planned over the next 10 years to ensure facilities are fit for purpose, secure, well-maintained and foster rehabilitation and offender employment opportunities. Corrections is considering the impact of forecast muster pressures on its long term capital investment plan, and options to increase capacity across the network. 	<ul style="list-style-type: none"> • Funding in Votes Justice and Courts for 2015/16 totals \$872 million. This includes funding for: <ul style="list-style-type: none"> ○ the court system (\$394 million); ○ the provision and administration of legal aid (\$177 million); ○ judges' and coroners' salaries and allowances (\$137 million); ○ electoral services (\$31 million); and ○ policy advice (\$26 million). • The majority of spending for the Ministry of Justice is in personnel, property-related costs, and a range of other operating costs e.g. legal aid and judges' salaries. • The Ministry of Justice manages \$1.2 billion of assets. The majority of this is the buildings and land of the court system, which are valued at \$559 million. The number and location of court houses is largely a historic artefact. 	<ul style="list-style-type: none"> • Departmental funding of \$1.57 billion in 2015/16 includes appropriations for: <ul style="list-style-type: none"> ○ crime prevention (\$327 million); ○ primary response management (\$390 million); ○ investigations (\$397 million); ○ case resolution (\$135 million); and ○ road safety (\$315 million). • Spending is largely on personnel (71% of expenses in 2015/16) and assets (including 5% for depreciation and 4% for capital charge). Police has 12,000 FTEs. • Police manages \$1.2 billion of assets. These are predominantly buildings (police stations and houses), land and vehicles. Capital expenditure of around \$95 million per annum is largely building maintenance and renewal, and rolling replacement of vehicles and IT.