

The Treasury

Budget 2016 Information Release

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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: T2016/414

DH-0-3

Date: 14 March 2016

To: Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Paula Bennett)

Deadline: 12:30 p.m., Wednesday 16 March 2016

Aide Memoire: Briefing for budget meeting with Hon Judith Collins

You are scheduled to meet with Hon Judith Collins at 12:30 p.m. on Wednesday 16 March to discuss Budget 2016 initiatives for the Department of Corrections (“Corrections”) and New Zealand Police (“Police”). This aide memoire provides you with material for this meeting. The meeting follows one held on Thursday 10 March that was a general discussion on how the agencies run their core business, for which we provided separate advice (T2016/335 refers).

Corrections and Police are seeking a significant amount of funding, predominantly to address price and volume pressures. Most notable are bids to address the rising prison muster and Police wage costs. Both departments have recently undertaken expenditure reviews that suggest they have little capacity to absorb further pressures given current policy, operational and legislative settings.

The remainder of this aide memoire discusses the initiatives submitted by Corrections and Police. The Annex provides a table listing all of the initiatives submitted by Corrections and Police, and the Treasury vote team’s recommendations.

Corrections initiatives

Corrections has one new policy initiative, Temporary Release and Pre-Release Planning (Guided Release) (\$1 million in outyears). This addresses a targeted cohort of prisoners requiring support to reintegrate into the community with high quality data in support. This initiative has strong strategic alignment and value for money (in accordance with CBAX analysis and Social Sector Investment Panel advice) and we support it.

Corrections has four cost pressure initiatives, seeking:

- operating funding of [33, 34] in outyears to address cost pressures arising from the increased prison population (including returning offenders) and

- capital funding of [33, 34] to restore a portion of the prison network capacity buffer.

We support the Financial Stability and Returning Offenders cost pressure initiatives:

- The Returning Offenders initiative is an existing policy commitment. We consider that Corrections cannot absorb these costs given the other pressures it is facing (see below).
- The Financial Stability initiative relates to those other pressures. This bid reflects rising cost pressures due to the prison population exceeding justice sector forecasts. Corrections highlighted these pressures to Cabinet in late 2015. Those pressures were closely examined by the Treasury at the time and Cabinet approved funding for 2015/16 (SEC 15 Min 0037 refers). The pressures continue to apply, and require funding, in 2016/17 and subsequent years. [33, 34]

[33, 34]

The Prison Capacity Build Programme initiative seeks operating funding of [33, 34] in outyears and capital funding of [33, 34]

Although we are still considering this late initiative, we understand the funding would be spread across two phases as follows:

Phase One

\$ millions	2016/17	2017/18	2018/19	2019/20
Operating	19.500	23.600	18.100	18.100
Capital	-	-	-	-

Corrections proposes meeting the capital costs of phase one [33, 34] through reprioritisation of its current capital plan.

Phase Two

\$ millions	2016/17	2017/18	2018/19	2019/20	2020/21
Operating	[33, 34]				
Capital					

We consider that there is a good case for allocating funding in Budget 2016 for phase one of the Build Programme (216 beds), as this work needs to get underway as soon as possible in order for additional capacity to be available later this year. [33, 34]

[33, 34]

Police initiatives

Police's main initiative seeks funding for the costs of its collective employment agreements, which will cost an additional \$86.4 million in outyears. The costs would be partly met from a Budget 2015 tagged contingency (\$12.3 million per annum), and partly by Police absorbing the net costs of the "Competency Service Increment", or CSI, within baselines (\$10.5 million in outyears). Police seeks the residual (\$63.6 million in outyears) through Budget 2016.¹ Police also seeks funding for four other cost pressures totalling [33, 34] in outyears (discussed below).

¹ This was the subject of a paper considered by the Cabinet Social Policy Committee (SOC) on 17 February. At that meeting, SOC agreed to provide funding for **2015/16 only**, and invited the Minister of Police to bid for outyears funding through Budget 2016 (SOC 16 Min 0001 refers).

In our view, Police would have difficulty absorbing the wage and other cost pressures within baselines as well as absorbing the net CSI costs. This view is informed by:

- a consideration of Police’s baselines and forecasts (including Police incurring unappropriated expenditure in 2014/15);
- a recognition of constraints faced by Police (including a government commitment to maintaining sworn officer numbers and public resistance to rationalising its property footprint); and
- Police’s expenditure review (“Policing Excellence: the Future”) giving us confidence that Police understands its core business and is reprioritising to get better value from its resources, including a focus on back office efficiencies.

Given this view, our advice on Police’s initiatives rests on whether the activity is necessary/worthwhile, and whether the costings are credible:

- Wage Cost Pressure: Police’s main collective agreements were ratified in December for three year terms, consistent with parameters agreed by Ministers. The costings are accurate. Given Police’s cost structure, the only realistic way of absorbing the cost would be to reduce staff levels and service delivery.
- Child Protection Offenders Register Cost Pressure: Cabinet approved this initiative in June 2014. The Child Protection (Child Sex Offender Register) Bill is currently at Select Committee. The funding sought now is credible and it is consistent with the funding indicated when Cabinet approved the initiative.
- [33, 34]

- goAML Legislative Change Pressure: Legislative changes around money laundering require Police to collect, process and analyse a much larger volume of financial transactions. While these costs should have been identified when Cabinet agreed the policy in June 2013, in our view the costs are reasonable.
- [33, 34]

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Annex: Budget 2016 Initiatives for Votes Corrections and Police

CORRECTIONS		Agency bids					Treasury vote team recommended					Treasury vote team comment
		2015/16	2016/17	2017/18	2018/19	2019/20	2015/16	2016/17	2017/18	2018/19	2019/20	
COST PRESSURES: OPERATING												
9297	Management of Offenders Returning to New Zealand	-	3.900	3.200	2.700	2.200		3.900	3.200	2.700	2.200	Existing policy commitment.
9301	Prison Capacity Build Programme	-				34, 3	-	19.500	23.600	18.100	18.100	Fund phase one only at this stage.
9296	Corrections Financial Stability Post 2015/16	-	52.825	52.825	52.825	52.825	-	52.825	52.825	52.825	52.825	Muster pressures cannot be absorbed. If not funded, shortfall would need to be met from the rehabilitation budget.
9337	Mt Eden Corrections Facility (MECF) Management Options	-	5.000	5.000	5.000	5.000	-	5.000	5.000	5.000	5.000	Funding required will depend on Cabinet decisions on future management options.
Total cost pressures operating		-				34, 3	-	81.225	84.625	78.625	78.125	
NEW INITIATIVES: OPERATING												
9299	Temporary Release and Pre-release Planning (Guided Release)	-	1.200	1.000	1.000	1.000	-	1.200	1.000	1.000	1.000	Well integrated with other initiatives and clear evidence of need. Supported by Social Investment Panel.
Total new initiatives operating		-	1.200	1.000	1.000	1.000	-	1.200	1.000	1.000	1.000	
TOTAL OPERATING		-	96.925	118.425	124.225	122.925	-	82.425	85.625	79.625	79.125	
COST PRESSURES: CAPITAL												
9301	Prison Capacity Build Programme	-				34, 3	-	-	-	-	-	Fund phase one only at this stage. Corrections would meet phase one capital costs from its balance sheet.
Total cost pressures capital		-				34, 3	-	-	-	-	-	
TOTAL CAPITAL		-				34, 3	-	-	-	-	-	

POLICE		Agency bids					Treasury vote team recommended					Treasury vote team comment
		2015/16	2016/17	2017/18	2018/19	2019/20	2015/16	2016/17	2017/18	2018/19	2019/20	
COST PRESSURES: OPERATING												
8998	Wage Cost Pressure	18.300	39.900	63.600	63.600	63.600	18.300	39.900	63.600	63.600	63.600	Collective agreement costs cannot be funded from baselines without material implications for staffing levels and service delivery.
8999	Child Protection Offenders Register Cost Pressure	-	2.700	1.700	1.800	2.000	-	2.700	1.700	1.800	2.000	Soon to be a legislative requirement. Costs consistent with those signalled when policy approved.
												34, 3
9005	goAML Legislative Change Pressure	-	1.000	1.800	1.800	1.800	-	1.000	1.800	1.800	1.800	Costs stem from anti-money laundering legislative changes.
												34, 3
Total cost pressures operating		[33, 34]										
TOTAL OPERATING												