

The Treasury

Budget 2017 Information Release

Release Document July 2017

www.treasury.govt.nz/publications/informationreleases/budget/2017

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[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)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

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: T2017/463 BM-2-1-2017

Date: 2 March 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: For discussion on Friday, 3 March.

Aide Memoire: Social sector budget package

This note provides a short summary of key trade offs in the minimum social sector package and discusses how the package might change with another \$100-150 million. We also provide an update on the Track 1 process (Track 1 bids are not included in the minimum package).

The minimum social sector package

The minimum social sector package would cost an average of ^[33] million per annum. This is the gross cost. The net cost would be ^[33] million after allowing for:

- the unused Budget 16 contingency for MVCOT (\$41.7 million per annum on average). ^[33]
- possible savings from tightening benefit rules for new migrants (^[33] per annum on average over four years; about double that amount in outyears). Again, we assume these savings will be used to increase overall headroom.

Key issues and trade offs

The minimum package is quite lean, with the following key issues and trade offs (more detail in appendix 1):

- no cost pressure funding for early childhood education or the schools' operating grant, and some suboptimal ICT investment to minimise costs. ^[38], ^[35]
- a tight package overall for health, with DHBs, primary care, disability services, and pharmaceuticals all feeling the squeeze
- a social development package which excludes some good value investments in order to minimise costs

- top-down scaling of justice sector cost pressures, increasing risk and probably adding to future muster pressures, and
- deferral of some anticipated MVCOT pressures, which will increase calls on Budget 18.

What would we do with an extra \$100 million (or so)?

If an extra \$100 million is allowed for in the Social Sector package we would suggest adding (or unscaling) items to the package, largely to mitigate the issues outlined above. Appendix 2 provides detail on this. The key points are:

- Funding early childhood education pressures, the schools operating grant, and some ICT and property spending in Vote Education,
- Funding disability and primary care pressures in Vote Health, along with some good value spend on pharmaceuticals and ambulance services. With a bit more headroom – say \$150 million rather than \$100 million – we would also suggest funding the full DHB cost pressure bid (an extra [33]),
- Adding or expanding a number of fairly small, good value initiatives in Vote Social Development: [33] , E Tu Whanua (fund an extra year and evaluation), and Gang Action Plan pilots (expand rather than simply maintain). We also recommend a small amount of one-off funding for an IT change to implement changes to benefit settings for new migrants (this will deliver fiscal savings).
- Fully funding some critical cost pressures in the justice sector, to minimise risk and avoid adding to existing muster and pipeline pressures.

An update on the Track 1 process

The Social Investment Panel has reviewed Track 1 (and selected Track 2) initiatives, providing general advice, insights and expertise on each of the initiatives. The Treasury is holding a moderation session tomorrow with key experts (including SIU and Superu) which will draw in feedback from the panel and rate initiatives against the investment threshold.

A key factor in the moderation will include the extent to which proposals truly reflect social investment principles compared to just good evidence based policy analysis and the extent to which agencies have genuinely shown joined up proposals. You will receive further advice on the Treasury recommended package for Track 1 ahead of Fiscal Issues on 14 March.

The discussion with the panel was very robust with some very strong messages coming through – particularly for the NEETS and Mental Health population groups.

- **NEETs:** the panel thought the set of initiatives presented were focussed around doing more of the same thing (for example, case management) without looking at how it can be tied to existing initiatives such as Whanau Ora. There was no strong evidence presented on why case management is effective and the skill set required in the workforce to ensure expected outcomes can be achieved.

The Panel were concerned that there wasn't much focus on the demand side of the labour market and whether jobs will be available. The initiatives in this space were disjointed across agencies and there was no clear landscape or intervention logic.

- **Mental Health:** the overriding concern from the panel was the lack of coherence across agencies in demonstrating an understanding of the population and the problem that exists. Although there was some attempt from agencies to show how the mental health initiatives were connected, there was agreement from panel members that this needs to be preceded with an over-arching blue-print or strategy.

This includes developing an understanding of: the definition of mental health, unmet need and access to services, workforce capability, alternative methods of delivery such as E-therapy and preventative measures early in the life cycle.

The panel strongly felt that there is a real opportunity to make progress in this space but this requires "the right people getting into the room" and involvement of experts and users at the coal face. This work will take time and can't be driven by Budget deadlines and processes. The risk of this is that agencies will only end up making "tweaks on the edges" rather than achieving any substantial change.

The Treasury will take this feedback on board in developing final recommendations for Track 1 initiatives. This will include advice on potentially setting up a tagged contingency for these population groups and a clear process to ensure agencies are incentivised to work together.

John Marney, Principal Advisor, Health, ^[39]
Ben McBride, Manager, Health, Health,

Appendix 1. Minimum package: summary comments by Vote

Education [33] **million per annum**). No new funding is included for early childhood education (9531) or the schools operating grant (9532), with some risk that services are negatively affected. [34] Funding these items (with some scaling) would add costs of around [33] per annum. We have also scaled back funding for departmental capacity investment (9550) and payroll sustainability (9546), where additional funding of around [33] would deliver better value. [34]

Health ([33] **per annum**). Proposed new funding for health is lower than the \$550 million per annum provided in Budget 16, although the gross figure including Terranova would be considerably larger. The package includes [33] for DHBs, which is the same as last year and [33] less than bid for: this is tight but probably manageable. The most significant unfunded pressures in our minimum package are in [33] and [33] which we would recommend funding if possible. We have also scaled back the [33] : this is discretionary but good value.

Social development [33] **million per annum, gross**). The main drawback here is the relative dearth of new initiatives. There are a few items of reasonable value that we would recommend funding with a bit more headroom (see appendix 2). Hon Tolley will have additional priorities, notably temporary accommodation assistance in Christchurch (9646) at \$0.2m per annum, and [33]

Justice sector [33] **million per annum**). Increased prisoner volumes and category 3 prosecutions are causing pressures throughout the system. The minimum package applies some top-down haircuts to the sectors' cost pressure bids. However, the likely effect of this scaling will be to increase risk and compound muster pressures over the medium term. [33]

MVCOT / Oranga Tamariki [33] **million per annum, gross**). Net of the unused Budget 16 contingency, proposed new funding for MVCOT is around [33] per annum. Some known pressures (including legislative commitments) have been deferred; these will add to pressure on future Budget allowances. [33]

Appendix 2. Adding \$100m to the minimum package

With additional headroom, we would also suggest fully funding DHB cost pressures (another [33] million per annum).

Vote	Bid	Amount in minimum package <i>Ave. p/a</i>	Proposed amount <i>Ave. p/a</i>	Difference <i>Ave. p/a</i>	Comment
Education	9531	Early Childhood Education: Targeted Funding for Disadvantage	[33]		Full amount: maintain service quality
	9532	Operational Grant Funding Increase for Schools		15.129	VA scaled (to CPI increase): maintains service quality.
	9550	Departmental Capacity – Investing in Information and Communications Technology (ICT) and Property	[3]		
	9546	Schools’ Payroll Sustainability Investment			Full amount (more flexible, lower on-going support costs)
Health	9738	Primary Health Care – additional support		9.585	Full amount (reduces risk)
	9781	Disability Support Services – additional support		44.562	Full amount (reduces risk, incl. BAU terranova costs)
	9786	Emergency Ambulance Services – additional support		13.071	Full amount (eliminates single crewing)
	9782	Pharmaceuticals – More Publicly Funded Medicines			Full amount (more pharms)
Soc Dev	[33]				
	9662	Gang Action Plan Community-based Pilots			
	9667	E Tu Whanau Programme of Action			
	no bid	Benefit settings for new migrants		0.100	Delvers BOUE savings
Justice	9499	Ministry of Justice – Maintaining Capacity in the Justice System			
	9673	Managing increasing prisoner volumes			
	9675	Prison pipeline impact on probation			
	9898	Auckland Prison East			