

The Treasury

Budget 2017 Information Release

Release Document July 2017

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Treasury Report: Further information on Track 1 Budget initiatives 2017

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|--------------|---------------|---------------------|----------------|
| Date: | 17 March 2017 | Report No: | T2017/626 |
| | | File Number: | BM-2-4-2017-12 |

Action Sought

| | Action Sought | Deadline |
|--|---|------------------|
| Minister of Finance (Hon Steven Joyce) | Note further advice on Track 1. Discuss the contents of this report with officials at Fiscal Issues on Tuesday 21 March. | Tuesday 21 March |
| Associate Minister of Finance (Hon Simon Bridges) | Note further advice on Track 1. Discuss the contents of this report with officials at Fiscal Issues on Tuesday 21 March. | Tuesday 21 March |
| Associate Minister of Finance (Hon Amy Adams) | Note further advice on Track 1. Discuss the contents of this report with officials at Fiscal Issues on Tuesday 21 March. | Tuesday 21 March |

Contact for Telephone Discussion (if required)

| Name | Position | Telephone | 1st Contact |
|-------------|-----------------|------------------|--------------------|
| [34] | | (wk) | (mob) ✓ |
| Ben McBride | Manager, Health | [39] (wk) | [23] (mob) |

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any
feedback on
the quality of
the report

Enclosure:

[Track 1 updated spreadsheet \(for fiscal issues 21/03\) \(Treasury:3682851v1\)](#)

[Track 1 Narrative \(for fiscal issues 21/03\) \(Treasury:3682647v1\)](#)

Treasury Report: Further information on Track 1 Budget initiatives 2017

Executive Summary

This report responds to the discussion on Track 1 at fiscal issues on Monday 13 March. Ministers asked the Treasury to provide further advice and information on:

- a. **Each of the Track 1 initiatives which have been assessed as meeting the investment threshold.** The attached A3 (Annex 1) provides further detail on each initiative, including the target population and what the requested funding will be buying.
- b. **Our recommendation on the ranking or prioritisation of initiatives which meet the required investment threshold.** A total of 13 initiatives met the threshold with recommended funding of \$221 million over the forecast period (\$55.2 million per annum).

The ranking is based on how well the initiatives met the criteria. We recommend that all initiatives over the threshold are funded. If these initiatives are not funded there is a risk that this undermines the credibility of the Track 1 process and dis-incentivises agencies from investing in preparing high quality initiatives for future Budgets. Any arbitrary scaling is likely to undermine the “uncapped” nature of the process.

- c. **The social investment narrative for Track 1 and how initiatives could be grouped together.** The attached A3 (Annex 2) provides a draft narrative for Ministers to consider covering the following key themes: reducing reoffending and improving transitional pathways, supporting vulnerable children, removing barriers for at-risk groups, access to services and contributing to the evidence base on mental health.

If the total package is scaled or initiatives are removed from the recommended package based on the rankings, this will have an impact on the narrative and how key themes are presented. The draft narrative assumes all initiatives over the threshold are funded.

This report also provides options on funding for the NEETs and mental health priority population groups for Budget 2017. There have been a number of discussions between Ministers (including Social Sector Ministers) over the past week on funding in these areas, including potential contingency options.

Recommended Action

We recommend that you:

- a **note** this briefing provides additional information on Track 1 initiatives over the threshold, including ranking initiatives based on how well they met the assessment criteria and a draft Track 1 narrative;
- b **note** that if initiatives that have met the required threshold are not funded there is a risk this undermines the integrity of the “uncapped” and “high rewards” process of Track 1;
- c **indicate** your preference for funding Track 1 initiatives and provide feedback on the draft narrative to officials at fiscal issues on Tuesday 21 March;

Mental Health and NEETs

- d **note** that for both the NEETs and mental health population groups, further work is required to develop a joined-up cross-agency narrative that reflects a clearer understanding of the population, unmet need, workforce and nature of interventions available;
- e **note** that both the NEETs and mental health areas reflect priority population groups and Ministers have indicated a preference to make progress and build momentum through Budget 2017;
- f **note** that some funding is already being supported through Budget 2017 for each of these areas ^[33]
- g **agree** to package up existing baseline expenditure in these areas alongside supported new initiatives to announce in Budget 2017;

| | | |
|----------------------------|--------------------------------------|--------------------------------------|
| <i>Agree/disagree</i> | <i>Agree/disagree</i> | <i>Agree/disagree</i> |
| <i>Minister of Finance</i> | <i>Associate Minister of Finance</i> | <i>Associate Minister of Finance</i> |

- h **agree** to include a direction in the Budget Cabinet Paper that agencies work together to develop an investment plan for NEETs and Mental Health (this could be the revised mental health strategy) which includes outlining the current service landscapes and unmet need;

| | | |
|----------------------------|--------------------------------------|--------------------------------------|
| <i>Agree/disagree</i> | <i>Agree/disagree</i> | <i>Agree/disagree</i> |
| <i>Minister of Finance</i> | <i>Associate Minister of Finance</i> | <i>Associate Minister of Finance</i> |

- i **confirm** the governance arrangements and timelines for revising the current mental health strategy which will be truly consultative and collaborative, both across agencies and with the target population;

| | | |
|----------------------------|--------------------------------------|--------------------------------------|
| <i>Agree/disagree</i> | <i>Agree/disagree</i> | <i>Agree/disagree</i> |
| <i>Minister of Finance</i> | <i>Associate Minister of Finance</i> | <i>Associate Minister of Finance</i> |

- j **advise** officials at fiscal issues on which of these options (not mutually exclusive) you would like to consider further in addition to the recommendations above.
- a. a small tagged contingency ^[33] to support the development of the mental health strategy and allow for a more robust consultation process;
 - b. a tagged contingency ^[33] within the between Budget contingency. This could be explicitly tagged for mental health and NEETs (either together or separately) or tagged for social investment. The Treasury recommends that this is used for small scale pilot initiatives which can help build the evidence base while the wider strategy is being developed.

Ben McBride
Manager, Health

Steven Joyce
Minister of Finance

Hon Simon Bridges
Associate Minister of Finance

Hon Amy Adams
Associate Minister of Finance

Treasury Report: Further information on Track 1 Budget initiatives 2017

Purpose of Report

1. This report provides:
 - a The Treasury's recommendation on how initiatives over the threshold should be ranked or prioritised. Further information on each initiative (including the target population) is provided in Annex 1.
 - b A description of how these initiatives could be framed as a social investment package (Annex 2).
 - c Further advice and options for funding for the mental health and NEETs priority population groups.

Prioritisation of initiatives above the threshold

2. The Track 1 process in Budget 2017 was established to incentivise the development of high quality evidence based initiatives that closely follow social investment principles. Cabinet agreed that this track will reward high quality social investment proposals and will be uncapped with respect to the new spending allowances. There was an expectation that the high reward will be accompanied with more rigorous requirements around the use of cost benefit analysis, strong evidence and evaluation [CAB-16-MIN-0496 refers].
3. The Budget strategy paper agreed that the Track 1 process will be "uncapped" with respect to the spending allowances.¹ This was intended to incentivise agencies and encourage them to submit high quality investment proposals.
4. There are risks to the Budget process should final Budget decisions not reflect the assessment of whether an initiative met the criteria or not:
 - a If initiatives that were below the line are funded this will be seen as unfair and risk creating a disincentive in the future as agencies would think they can still get funding even if they didn't meet the requirements; and
 - b If initiatives that are above the line are not funded then this will risk creating a disincentive in future years to agencies putting effort into using evidence as a core component of designing initiatives.
5. **Therefore, the Treasury recommends that all the initiatives above the threshold are funded in order to remain consistent with the intentions of Track 1 and ensure the expected disciplines remain credible for future Budgets.** The initiatives over the threshold total \$221 million in operating over the forecast period (\$55.2 million per annum).

¹ Subject to the Government's net debt target of reducing net debt to around 20% of GDP by 2020.
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| Ranking of how well initiatives met the criteria | Initiatives that met the criteria for Track 1 | Per year |
|--|--|---------------|
| Highest scoring initiatives | Increasing contraceptive access for low income women (MOH) | \$17.5m |
| | Investment Approach to Justice – Reducing Youth Offending (MOJ) | \$13.9m |
| Scored well | Investment Approach to Justice: Burglary Prevention Case (MOJ) | \$32.9m |
| | Early Identification and Removal of Communication Barriers to the Curriculum (EDU) | \$6.0m |
| | National Coverage for Family Start (MVCOT) | \$28.1m |
| Met the criteria | Intensive Client Support (MSD) | \$19.5 |
| | Transforming intervention and support for at-risk prisoners (Corrections) | \$11.6m |
| | Individual Placement Support (IPS) for Clients with Mental Health Conditions (MSD) | \$4.1m |
| | Enhancing Industry, Treatment, and Learning interventions (Corrections) | \$18.6m |
| | Creating Positive Pathways for People with a Corrections History (Housing) | \$13.1m |
| | Incredible Years – expanding programmes to meet specific needs (Education) | \$4.2m |
| Funding through contingency as implementation plans were not well developed | Housing First (Housing) | \$16.5m |
| | Behavioural Services (EDU) | \$34.7m |
| Total | | \$221m |

The Narrative for Track 1

6. There has been a significant step-up in the quality of information and evidence presented by agencies as part of the Track 1 process compared to previous Budgets (even for those initiatives that did not meet the threshold). Agencies generally have a better understanding of their target populations and which cohorts are most at-risk and have made a genuine effort to use evidence/data to support the case for change. We consider this process has helped move the social sector towards taking more of a social investment approach. Agencies should seek to build on this success for future Budgets to become more and more client centred.
7. The initiatives which have met the threshold can be packaged into the following key social investment areas or themes (funding is over four years):
 - a *Reducing reoffending and improving transitional pathways (\$79 million)*: supporting those at-risk (both outside and inside the prison environment) and helping them onto alternative pathways.
 - b *Helping kids to have a better start in life (\$69 million)*: supporting children who are most at-risk of poor lifetime outcomes by providing them services at an earlier stage.
 - c *Improving access to mental health services (\$20 million)*: testing different approaches to how we engage with those people who have mild-moderate and severe mental health needs to help build a better picture of client needs and service gaps.
 - d *Supporting vulnerable populations to achieve greater independence (\$36 million)*: addressing key barriers to employment and housing and providing wrap around support.
 - e *Improving access to services (\$18 million)*: improving service access for those most disadvantaged and for whom cost is a key barrier.
8. Annex 2 provides further detail on how these themes match to the specific recommended Track 1 initiatives.
9. In order to build a strong narrative around Track 1 which is focussed on impact and outcomes, we recommend that for future Budgets a particular population group is signalled to agencies as a key priority early in the process. This will allow for better targeting and encourage agencies to better collaborate across a common population group.

Advice and Options on Mental Health and NEETs

10. For both Mental Health and NEETs, the Treasury considers that more work is required to develop a joined-up cross-agency narrative that reflects a clearer understanding of the population, unmet need, workforce and nature of the interventions available.

The Investment Plan for Mental Health and NEETs

11. The Treasury recommends that agencies are directed to work together to develop an Investment Plan for the population groups (the Mental Health Strategy could be one of the first examples of one). A Cabinet paper is being drafted to establish a Social Investment Board which will be responsible for developing "Investment Plans" for priority populations with high and complex needs.

12. We recommend that the Budget Cabinet paper provide direction to agencies on what is expected from the process and in an Investment Plan, in order to establish a process that is truly cross-agency and inter-disciplinary (involving experts in policy, analytics and insights, evidence and evaluation, and implementation), and delivers a social investment approach. Otherwise there is a risk that we continue to get more re-packaging of the same ideas by the same people. There will need to be clear governance arrangements over these processes. Our initial thinking of what a process and content could involve is set out below.
13. Our initial thinking is that an Investment Plan (subject to discussion with the Social Investment Unit) should set out:
 - a The target population, what their needs are, what services they currently receive and current predicted long-term outcomes for this group;
 - b The current service landscape for this population and the known effectiveness and return on investment for each service;
 - c What current evidence there is on what interventions could have an impact on this population;
 - d What the current provider and workforce landscape is including an assessment of the capacity and capability of providers and workforce;
 - e A proposed way forward which includes what existing services should stop, change or be expanded, whether there are any new services that should be trialled and whether there is a need for an innovation process to identify and try new ideas.
14. We can provide further advice on the governance structures and involvement of the Social Investment Board in the development of these investment plans.

Initiatives currently supported through Budget 2017

15. *NEETs*: The Treasury recommends further scaling of the regional economic development initiative ^[33] with a trial across one or two regions. As a relatively untried funding and governance approach, we think the case to invest more at this stage is weak. We recommend there are is a condition on any funding in this area that there are sufficient and robust evaluation processes as this can help inform future decisions to scale-up the programme. This initiative has been reflected in the ministerial priorities BGA package but not in the minimum draft package.
16. *Mental Health*: We have recommended that some Mental Health bids be funded in this Budget. These include three Track 1 initiatives, ^[33]

Mental Health and NEETs Packages for Budget 2017

17. Given Ministers wish to announce something in the Budget 2017 for these population groups, the Treasury would recommend the following:
 - a **Announce initiatives currently supported through Budget 2017 as outlined above:** ^[33]

- b **Packaging up existing expenditure in these areas** (e.g. currently the Government is spending around \$300 million per annum on the NEETs population in the following areas...; and is spending around \$1.3 billion per annum on Mental Health, albeit this is predominately targeted at acute mental health needs). This would provide an opportunity to tell more of a population story around existing expenditure than we do currently.
- c **Announce a process for revising the Mental Health Strategy** which will be truly consultative and collaborative; both across agencies and with the target population, providers, iwi and key stakeholders.
 This would involve confirming the governance arrangements between Minister Adams and Minister Coleman and slowing-down/refocusing the current process the Ministry of Health has in place around the Mental Health Strategy; otherwise there is a risk that the process is not set up to have the right discussions and there is a lack of engagement and ownership from agencies.

Contingency Funding Options

- 18. Ministers could establish a small tagged contingency ^[33] for a consultation process feeding into the development of the Mental Health Strategy and ask the proposed Social Investment Board to come back with a proposal for getting out of Wellington early on (rather than going out and asking for views on a draft Strategy). We would suggest that SIU (and then the new Departmental Agency) be responsible for this funding once it is agreed.
- 19. Should Ministers wish to go further, then you could consider establishing a tagged contingency (or contingencies) within the Between Budget Contingency (as such it would count against the Track 2 Budget allowance). ^[33]
- 20. The contingency could be:
 - a *Explicitly tagged for Mental Health and NEETs (either together or separately):*
 The contingency or contingencies would involve a clear process (for NEETs this could be regionally driven) and criteria that proposals would need to meet in order to be funded (for example, provision of advice on options to reprioritise low value spending).
 The risks with having a tagged contingency in the Mental Health area is that it is unlikely to fully drive the behaviours we want to see (working collaboratively); the timeframes are unlikely to lead to the development of high-quality, social investment proposals; and it might shift the focus from developing a truly consultative, collaborative and social investment style Mental Health Strategy.
 To help mitigate this we can ensure that there are more rigorous conditions and hoops agencies need to go through to access this funding (discussed further in the next section below).

OR

- b Tagged for Social Investment:* This would involve a group of Ministers establishing priority populations for investment and then establishing governance arrangements and a process for developing cross-agency social investment proposals for accessing the contingency. Proposals would need to meet similar criteria to that applied to Track 1 initiatives.

The key risks associated with this option is that it could take a few months to identify the priority populations if this is done based on analysis of data, and there is a risk that the priorities end up being Mental Health and NEETs anyway. Then agencies would need to work together to develop up proposals for accessing the contingency which would take time if done in a true “social investment” way and involve the Social Investment Panel. All of which pushes timeframes out to towards the latter half of this year before any funding is agreed.

A key learning from the Track 1 process is that a clear (and early) signal to agencies on priorities for funding and target populations can help facilitate better collaboration.

21. Should Ministers wish to pursue a contingency/contingencies we will come back with further advice on the governance, process and conditions depending on the type of contingency that is to be established. These will be similar to that set out for any investment plan as outlined in paragraphs 14-17. The Treasury recommends that the contingency is spent on small innovative pilots that can help build the evidence base for the priority population group while the wider investment plan is being developed.