

The Treasury

Budget 2016 Information Release

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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)
[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)
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[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)
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[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)
[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.

Treasury Report: Briefing for State Sector Reform and Expenditure Control Committee Wednesday, 9 December 2015

Date:	4 December 2015	Report No:	T2015/2891
		File Number:	MS-5-2-SEC

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Read prior to SEC meeting	8.30am, Wednesday, 9 December 2015
Associate Minister of Finance (Hon Steven Joyce)	Read prior to SEC meeting	8.30am, Wednesday, 9 December 2015
Associate Minister of Finance (Hon Paula Bennett)	Read prior to SEC meeting	8.30am, Wednesday, 9 December 2015

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[23]	Analyst, Fiscal & State Sector Management	[23] (wk)	N/A ✓
Simon McLoughlin	Team Leader, Fiscal & State Sector Management	04 917 6011 (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: No

Treasury Report: Briefing for State Sector Reform and Expenditure Control Committee Wednesday, 9 December 2015

Executive Summary

We are currently aware of three items on the State Sector Reform and Expenditure Control Committee agenda for Wednesday 9 December 2015. The table below identifies any relevant fiscal impacts and provides Treasury’s comments on one of these. The remaining two papers which we are aware of, for which Treasury has no briefing or comment, are listed below the table for completeness.

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			15/16	16/17	17/18	18/19	Out years	
Department of Corrections: Maintaining Fiscal Stability in 2015/16	4	Support	<i>Operating</i>					This paper seeks funding for unforeseen cost pressures from the record high prison muster. ^[34] the Smith/Traynor Inquiry and electronic monitoring incidents. Treasury has been closely involved and supports Corrections’ funding bid. This would be a pre-commitment against Budget 2016.
			27.8	3.2	3.2	3.2	3.2	
			<i>Capital</i>					
			-	-	-	-	-	
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

[40]

Recommended Action

We recommend that you **read** this report prior to the State Sector Reform and Expenditure Control Committee meeting at 8.30am on Wednesday, 9 December 2015.

Simon McLoughlin
Team Leader, Fiscal & State Sector Management

Hon Bill English
Minister of Finance

Department of Corrections: Maintaining Fiscal Stability in 2015/16

Responsible Person: Gwen Rashbrooke, Justice and Security, 917 6239

First Contact Person: Alex Harrington, Justice and Security, 890 7239

Purpose

1. This paper seeks funding of up to \$27.8 million in 2015/16 and \$3.2 million in 2016/17 and outyears due to unforeseen cost pressures as a result of the record high prison muster and other events, notably the Mount Eden Corrections Facility (MECF) Step-In, the Smith/Traynor Inquiry and electronic monitoring incidents.
2. The paper was discussed briefly at SEC on 2 December. Ministers asked for the paper to be brought back to SEC the following week for more discussion on the detail.

Comment

Managing Cost Pressures

3. In 2011, the Department of Corrections (Corrections) committed to operate within its forecast baseline until 2020. At that time Corrections faced cost pressures and dividend commitments [34]. This commitment was based on an assumption that offender numbers would not significantly exceed those in the 2011 Justice Sector Forecast.
4. Corrections undertook an expenditure review [34].
In March 2015 Cabinet agreed to 'Expenditure Review 2' [34] of \$280-305 million to 2020. As part of this, Corrections planned to decommission three prison units, [34].
Cabinet noted that delivering on Expenditure Review 2 would be difficult if the prison muster continued to increase.
5. The prison muster has continued to rise above forecast and Corrections' operating environment has changed due to a range of issues: MECF, the Smith/Traynor Inquiry and electronic monitoring incidents. [34]
(which contribute to the Better Public Services goal of reducing reoffending by 25 percent by 2017).

Funding Requests

6. Muster growth: Corrections seeks \$15 million in 2015/16 to meet cost pressures relating to the record high prison muster. This is comprised of:
 - Corrections having to defer two savings initiatives from Expenditure Review 2 [34], resulting in the loss of planned savings of \$7.5 million in 2015/16; and
 - Forecast overtime costs of \$7.5 million as a consequence of the high prison muster and the relocation of around 45 staff to the MECF Step-In.
7. MECF Step-In costs: In July 2015, Corrections invoked the 'Step-In' clause in the MECF contract with Serco due to serious allegations about organised fighting and access to cell phones and contraband. Corrections is incurring costs of around [37] per month while running the prison.

8. [34]

9.

10. Electronic monitoring of offenders serving sentences in the community: In light of the Smith/Traynor incident and recent events involving the removal of electronic monitoring bracelets, Corrections has responded with two new operational functions:

- 24 hour GPS Immediate Response Team: responsible for managing alerts created by the highest risk offenders and related interactions with Corrections staff and 3M (\$2.6 million in 2015/16, \$2.2 million in 2016/17 and outyears); and
- Electronic Monitoring (EM) Assurance Team: responsible for assurance and continuous improvement of EM Response framework and better managing prison releases (\$1.2 million in 2015/16, \$1 million in 2016/17 and outyears).

11. These functions are long term improvements in service levels, and are therefore suitable to be funded on an ongoing basis. If this is not funded by Cabinet, Corrections would seek funding from the Justice Sector Fund (JSF). These initiatives fit within the criteria of the JSF, but the JSF can only fund initiatives on a short term basis.

Treasury Views

12. Corrections has worked closely with us in the development of this paper and in the consideration of options, to come to recommendations that we support.

13. [34]

As a result of its expenditure reviews, Corrections has achieved considerable operating savings since 2011. Corrections faces significant cost pressures in outyears, and will be bidding for funding for these in Budget 2016.

14. Looking at each component of the funding requests:

- In our view there is little choice but to fund the muster growth costs.

[34]

- With the electronic monitoring, we consider the new functions to be appropriate in light of recent issues. Ministers may prefer this to be funded through the JSF on a short-term basis, but if the functions are to be provided permanently, ongoing funding would need to be provided at some stage.

Treasury Recommendation

15. We recommend that you **support** the recommendations in this paper. As the Between-Budget Contingency has been exhausted, this funding would be a pre-commitment against Budget 2016, which would reduce the funding available for other priorities.