

The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

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Treasury Report: Briefing for State Sector Reform and Expenditure Control Committee Wednesday, 12 October 2016

Date:	7 October 2016	Report No:	T2016/1931
		File Number:	MS-5-2-SEC-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Read prior to SEC meeting	8.30am, Wednesday, 12 October 2016
Associate Minister of Finance (Hon Steven Joyce)	Read prior to SEC meeting	8.30am, Wednesday, 12 October 2016
Associate Minister of Finance (Hon Paula Bennett)	Read prior to SEC meeting	8.30am, Wednesday, 12 October 2016

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[23]	Analyst, Fiscal & State Sector Management	[23] (wk)	N/A ✓
Kamlesh Patel	Team Leader, Fiscal & State Sector Management	[23] (wk)	N/A

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, 12 October 2016

Executive Summary

We are aware of two items on the State Sector Reform and Expenditure Control Committee agenda for Wednesday 12 October 2016. The table below identifies any relevant fiscal impacts and provides Treasury’s comments/recommendations on two of these.

[40]

Prison Capacity Programme – Programme Business Case	5	Support	<i>Operating</i>					This paper seeks approval of an approach to responding to rising demand for prison capacity, and funding for projects at MECF and NRCF. It also seeks agreement to funding from a tagged contingency established at Budget 2016.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

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, 12 October 2016.

Kamlesh Patel
Team Leader, Fiscal and State Sector Management

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Paula Bennett
Associate Minister of Finance

Prison Capacity Programme – Programme Business Case

Responsible Person: Colin Hall, Justice and Security - [23]

First Contact Person: Nicky Lynch, Justice and Security - [23]

Purpose

1. This paper seeks Cabinet's approval of the Department of Corrections' Prison Capacity Programme Business Case and a Project Business Case for additional capacity at Mt Eden Corrections Facility and Northland Region Corrections Facility.

Comment

2. We have previously briefed you on the Programme Business Case ahead of your recent meetings with the Minister of Corrections (T2016/1476 and T2016/1700 refer). The key decisions being sought remain the same:
 - approval and funding for the proposed projects at MECF (245 beds) and NRCF (80 beds), to be funded from the tagged contingency established at Budget 16, and
 - agreement in principle to add additional capacity of up to 1520 places at Waikeria prison, through a Design, Build, Finance and Maintain (DBFM) Public Private Partnership (PPP).
3. We support the proposed approach to adding capacity. The options to add capacity at MECF and NRCF are sensible options that will deliver some beds relatively quickly. Catering for the remainder of the demand through a staged redevelopment and expansion of the Waikeria site should provide a good balance between the objectives of adding the required capacity quickly, retaining flexibility to alter the capacity response in line with demand, and delivering assets with a low whole of life cost.
4. [33]
5. While the project business case will be submitted in November, Corrections is seeking Cabinet's in principle agreement now to go with the Waikeria site, and for the project be delivered through a DBFM PPP.
6. Waikeria has been selected as the preferred site because it is well located in relation to expected demand growth in the Northern region and has a large amount of available land. However, catering to the bulk of demand via one site would mean that the economic stimulus provided by the project would be concentrated in one region and there may also be flow on downstream costs for local ancillary services and infrastructure (for example additional health facilities, schools, housing). The paper indicates this analysis will be carried out in the November business case.
7. Corrections is seeking in principle agreement to use a DBFM model now so that this can be signalled to the market, and potential bidders can begin forming consortia. The selection of this model reflects the desire to retain flexibility over the size of the second stage of the development, and the mix of prisoner types accommodated at the site. Corrections is not recommending a PPP that includes custodial services because this is unlikely to deliver good value for money in a situation where size, operating model

and prisoner mix are uncertain. Treasury was involved in consideration of the procurement options and agrees that if flexibility is desired, then a DBFMO would be unlikely to deliver value.

8. The paper also signals that Corrections will seek additional funding through Budget 2017 for increased investment in rehabilitation and reintegration programmes. This proposal was added to the Programme Business Case after the Minister of Finance's meeting with the Minister of Corrections, where the possibility of investing more in the most successful programmes was discussed.
9. In our view, increased investment in these programmes is discretionary and should be subject to a very high bar given the proportion of Budget 2017 (and future Budgets) already likely to be required for the justice sector.
10. These programmes are also part of the approximately \$500 million in crime prevention spending covered by the Investment Approach to Justice, which means the Ministry of Justice should be well placed to provide advice on whether this proposal is a high priority relative to other possible investments to reduce crime. We would therefore expect cross-sector advice on where the greatest gains can be made to support any request for additional crime prevention spending, as part of the business case for this proposal.

Fiscal Implications

11. The current best estimate of the total costs of the programme over 10 years is below.

[38]

12. The paper seeks approval to appropriate funding now for the MECF and NRCF projects, to be funded from the tagged contingency set aside for this purpose at Budget 2016. It also seeks approval for funding for programme, procurement and RMA costs for the programme, also funded from the contingency.

13. [33] [38]

Treasury Recommendation

14. We recommend that you **support** the recommendations in this paper.