

The Treasury

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[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: T2017/724

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Date: 24 March 2017

To: Minister of Finance
(Hon Steven Joyce)

Aide Memoire: Budget 2017: Updated Social Sector Package

This briefing provides you with the updated draft Social Sector package following your bilaterals with Vote Ministers over the past week and our discussion with you on Thursday, 23 March.

There are still a number of initiatives which require decisions on whether they are included in the package or scaled up. These are outlined in this note.

Summary of package

The draft Social Sector package now stands at an average of [33] per annum. This is [33] higher than the draft package circulated to Social Sector ministers before the bilaterals. Including precommitments the total package comes to [33] per annum.

(\$m, per annum)	Draft Package	Bilateral Changes	Emerging Package
[33]			

Outstanding decisions

The following decisions are still outstanding and are likely to impact the final package total. These items reflect areas of high priority as outlined by ministers in your bilateral discussions. If all of the initiatives below are added to the package this will increase the package by up to a maximum of [33] to [33] (including precommitments).

[33]

Education

You asked us to provide comments on two outstanding issues: the operating implications of funding additional capital for the schools growth package and further clarity on the investment in information and communication technology.

- **Schools Growth Package (9548).** The Minister of Education has put forward a significant bid for the school property growth package capital initiative of [33] with an associated operating funding implication of annual average of [33] per annum. This is made up of capital charge (average [33]), depreciation (average [33]), staff costs for delivery (average of [33]), and Holidays Act work programme (average [33]).

The draft social sector package you have been presented included the capital-related operating cost for a scaled [33] capital (average of [33] operating per annum). The operating amount was not updated to reflect the updated draft capital package amount of [33]

At Fiscal Issues you asked for [33] for the schools growth package, both of which will have different operating implications. The table below shows the corresponding capital-related operating impact of these two options. [33]

[33]

The Treasury has reflected the [33] option in the updated capital package and the (corrected) associated capital-related operating in the emerging Social Sector operating package of [33] per annum. Overall, this **decreases** the impact on the emerging Social Sector operating package by [33] over the four year period.

[33]

. The emerging social sector package already includes two years of funding for the Education Infrastructure Service (9547, \$8.0 million a year for two years) which is to continue the current level of investment in the Ministry's capability in delivering the capital programme. [33]

We have not included the Holidays Act work programme as this is included in a separate initiative (9671).

- **Investing in information and communication technology and property (9550).** At the meeting with Hon Parata you raised the risks associated with only funding the server component of this initiative (per the emerging social sector package). She indicated that consideration should be given to the following:

[33]

We support the inclusion of [33] components of the initiative if there was additional headroom with the following funding implications.

[33]

Health

You asked us to provide comments on two outstanding issues: DHBs cost pressures and Electives.

- **Funding for DHB cost pressures (9780).** Modelled pressures total [33] per annum. The Minister of Health pitched for [33] but you signalled to us that the maximum you would consider was \$439 million, the amount of the original bid (with implied efficiencies of 0.75%).
- **Electives (9733).** The bid is for [33] per annum. The minimum package currently provides \$6 million. In previous years (except last year), the annual increase has been \$12 million. You signalled to us that you saw the choice as being between \$6 million or \$12 million.

Funding both of these initiatives will add an additional [33] per annum onto the health allocation of the package. The following initiatives may require further consideration.

- **Funding for Pharmac (9782).** The bid is for [33] over four years [33] per annum on average). [33]
The amount is inherently scalable. The Minister of Health agreed to come back with some scenarios to inform decisions about scaling, which he has now done. You have signalled a potential conflict of interest and delegated decisions on this bid to Hon Adams. We will brief her separately on scaling options.
- [33] **water fluoridation (9755).** The minimum package currently funds fluoridation only (\$3 million per annum), although both you and Hon Coleman expressed doubts about this. Would you like us to take it out of the minimum package? [33]

Social Development

You asked for further information on two initiatives related to the social investment unit.

- **Implementing the social investment approach (9647):** this initiative seeks ongoing funding to maintain the Social Investment Unit (SIU) function beyond 30 June 2017. The SIU currently has around 32 FTEs (covering both short-term and long-term contracts; excluding approximately 9 data exchange FTEs). To retain the current level of staff at a reasonable cost we recommend [33] per annum. This would still be a scaled amount to the \$6.4 million sought, as this also includes funding for office rental, associated overheads and consultants. The recommended [33] would still allow for a small budget for consultants and other expenses.

We expect a further [33] to come from MSD's strategy function for the new social investment agency. This would give a total new social investment

agency of around [33] (excluding data exchange), which we think provides a decent capability base.

- **Implementing the social investment data exchange infrastructure (9875):** this initiative is currently being considered as part of the data and analytics package which we understand is being discussed by Minister Adams and Minister Mitchell. There is still uncertainty around the costings and a revised business case is expected in October/November. We recommend funding is set aside in a contingency or is deferred until submission of the revised business case. Deferring means that the funding is likely to be sought through the between-Budget contingency.

Justice Sector

You asked us to update the Justice package in the spreadsheet. This now includes the following changes:

- **Maintaining capacity in the justice system (9499).** This is now fully funded. to reflect volume pressures, [33]

This increases the cost of the package by \$10.8 million per annum on average.

- [33]

-

You also asked for information about scaling options for Courts' health and safety bid (9500). The full bid seeks [33] (\$9.5 million per annum on average) [33]

Two scaling options were mentioned in the bilateral meeting (other options would be possible).

- [33]

- **Option 2.** \$11.9 million over two years. This would fund 103 court security officers for two years only. The Ministry has advised that time limited funding would affect recruitment and lead to a further bid in two years' time.

Vulnerable Children

[33]

[33]

Track 1

We understand that Minister Bennett has asked you to reconsider the **Vote Police Iwi/Community Panels initiative** that the Treasury did not support through Track 1.

This included the possibility of reducing the scope of the extended panel's pilot to young Māori. The Treasury has not had the opportunity to discuss with Police the implications of reducing the scope of this initiative, however, we consider this change is unlikely to bring the initiative above the Track 1 threshold. We have not provided other agencies an opportunity to revise their Track 1 initiatives.

Funding for the current pilot ends in June 2017. If Ministers wanted to fund further panels, we would recommend that Police be directed to propose a pilot extension based on the existing evaluation and in a way that will allow for more conclusive evaluation of the effectiveness. We estimate this approach would cost around [33]

We can confirm the exact costings with Police if this option is pursued. To preserve the integrity of the Track 1 process, we would recommend that any funding for this initiative is provided through Track 2 (although this may also create precedence issues).

[33]

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