

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[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)
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[40]	Not in scope	

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## Treasury Report: Updated Emerging Budget Packages

<b>Date:</b>	29 March 2017	<b>Report No:</b>	T2017/804
		<b>File Number:</b>	BM-2

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	<b>Note</b> the contents of the report to discuss with officials at Fiscal Issues on Thursday 30 March.	Thursday 30 March
Associate Minister of Finance (Hon Simon Bridges)	<b>Note</b> the contents of the report to discuss with officials at Fiscal Issues on Thursday 30 March.	Thursday 30 March
Associate Minister of Finance (Hon Amy Adams)	<b>Note</b> the contents of the report to discuss with officials at Fiscal Issues on Thursday 30 March.	Thursday 30 March

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Lachlan Whelan	Senior Analyst, Fiscal & State Sector Management	[39] (wk)	N/A (mob) ✓
Kamlesh Patel	Team Leader, Budget Coordination, Fiscal & State Sector Management	[39] (wk)	N/A (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:** Yes

## Treasury Report: Updated Emerging Budget Packages

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### Executive Summary

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This report explains the current position of the Budget packages and outlines the outstanding decisions and key risks associated with each, to be discussed at Fiscal Issues on Thursday 30 March.

[33]

The updated proposed packages will be included in the Budget Ministers' material for discussion on Monday 3 April.

Following decisions on Monday 3 April, the Treasury recommends that the Minister of Finance sends letters to his colleagues to notify them of the outcomes. The Treasury will update CFISnet following the meeting and this will update agencies on Budget decisions.

### Recommended Action

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We recommend that you:

- a **note** this report updates you on where the Budget packages are at, including key risks and outstanding decisions, ahead of Budget Ministers on Monday 3 April;
- b **discuss** the Budget packages and any outstanding decisions with officials at Fiscal Issues on Thursday 30 March;
- c **note** initiative no. 9779 *Housing New Zealand – Auckland Housing Programme* is excluded from the Budget 2017 capital package;

d **agree** to pursue initiative no. 9779 *Housing New Zealand – Auckland Housing Programme* via private debt financing;

<i>Agree/Disagree</i> <i>Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>
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e [37]

<i>Agree/Disagree</i> <i>Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>
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f **agree** to share the near-final Budget packages with agencies and Ministers following Fiscal Issues on Thursday 30 March;

<i>Agree/Disagree</i> <i>Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>
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g **agree** to send letters outlining the outcomes of Budget Ministers' decisions immediately following the meeting on Monday 3 April;

<i>Agree/Disagree</i> <i>Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>	<i>Agree/Disagree</i> <i>Associate Minister of Finance</i>
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h **note** the Treasury will reflect Budget Ministers' decisions in CFISnet immediately following the meeting on Monday 3 April.

Kamlesh Patel  
**Team Leader, Budget Coordination**

Steven Joyce  
**Minister of Finance**

Hon Amy Adams  
**Associate Minister of Finance**

Hon Simon Bridges  
**Associate Minister of Finance**

## **Treasury Report: Updated Emerging Budget Packages**

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### **Purpose of Report**

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1. The purpose of this report is to update Finance Ministers on the updated emerging Budget packages for discussion at Fiscal Issues at 11.00am on Thursday 30 March.
2. This report covers:
  - a a summary of where the Budget packages are at and the key themes;
  - b outstanding decisions for each of the operating and capital packages;
  - c data analytics initiatives;
  - d late initiatives; and
  - e next steps in the process.
3. In addition the following is covered in the annex:
  - a Annex 1: Vulnerable children package;
  - b Annex 2: Questions on the BGA package;
  - c Annex 3: Key risks associated with the packages;
  - d Annex 4: Options for further scaling and associated trade-offs, and
  - e Annex 5: Schools Growth packages comparison.

### **Summary of the Budget 2017 Packages**

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4. [33]

5. The overall package includes investment in infrastructure, meets critical volume and wage pressures with some funding for new (and high value) investments, and supports vulnerable populations through the social investment approach.
6. Investment through the emerging packages can be grouped into the following key themes:
  - a **Meeting Demand for Public Services:** the emerging package funds volume and wage pressures associated with key public services such as education, health and the justice sector. This includes funding for schools, DHBs, prison muster pressures and costs associated with setting up the new Ministry for Vulnerable Children, Oranga Tamariki.
  - b **Investing in Infrastructure for a Growing Economy:** this includes funding to support increasing the supply of housing and improving transport links in Auckland, building Defence capability and additional funding for KiwiRail. It also includes significant investment for the Reinstatement of the Southern Corridor following the Kaikōura earthquakes.
  - c **Improving Outcomes for Vulnerable New Zealanders (Track 1):** includes interventions for at-risk groups that have a strong evidence base and will deliver long-run benefits. This includes supporting innovative solutions to mental health, early intervention, addressing barriers to employment, and reducing reoffending.
  - d **Reducing the Debt Track:** the preliminary fiscal forecasts show that the Government is on track to meet its target of reducing net debt to around 20% by 2020, including maintaining sufficient fiscal buffers in the face of adverse events.
  - e **Tax and Transfer Package:** reducing the tax burden and, in particular, the impact of marginal tax rates on lower and middle income earners. The Treasury Tax Strategy team are providing separate advice on the Tax and Transfers package. The details of this package will determine how it is reflected as a theme for Budget 2017.

## Operating Package – Social Sector

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### *Overview and outstanding decisions*

7. The emerging Social Sector package now stands at an average of [33] per annum net of the Budget 2016 MVCOT contingency (\$41.7 million per annum). Including precommitments the total package comes to [33] per annum. The emerging package includes:
  - a Funding of [33] for cost pressures, responding mainly to volume and wage growth in key areas such as education, health and the justice sector, as well as the establishment of the new Ministry for Vulnerable Children.
  - b Around [33] for new investments, expansion of current services and pilots, and capital related operating expenditure.

8. The following changes have been made to the package since our discussion on Monday 27 March:
- a **Social Development (9875):** The balance of the SIU data exchange initiative (\$0.55 million per annum) has been added to the package with the remainder to be funded from the existing data and analytics contingency.
  - b [33]
  - c **Justice (9801):** The operating component of the Serious Fraud initiative has been added in as it is supported through the capital package (\$0.36 million per annum).
  - d **Education (9548):** information on the schools growth package operating component was calculated incorrectly by the Ministry of Education and has now increased to [33] per annum ([33] per annum higher than what was previously in the package).
9. The following decisions are still outstanding and likely to impact the size of the final package for the Social Sector. These items reflect areas of high priority as outlined by ministers in your bilateral discussions. If all the initiatives below are added to the package this will increase the package by up to a maximum of [33] per annum to [33].
- [33]
10. **Investing in information and communication technology and property (9550):**  
[33]
11. **Schools Payroll Sustainability Investment (9546):** you asked for further advice on alternative options for funding the future investment in schools payroll, including the option for Education Payroll Limited (EPL) to borrow the money. We have provided separate advice on the possible options (T20106/1513 refers). This advice recommends part funding this initiative, with funding for the work after 2017 to be held in contingency pending a report back in November 2017. Our recommended option would result in an operating impact of [33,37] over the forecast period with [

million being announced on Budget day with [33] to be held in contingency. The borrowing option would result in an operating impact of \$3.650 million per annum.

12. **DHB additional support (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 [33])
13. **Elective surgery health target (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 [33]
14. **Funding for Pharmac (9782):** we have provided advice to Minister Adams on options for scaling. The package includes [33] in new funding for Pharmac [33] per annum on average). Pharmac has signalled that full funding will allow for [33] new investments for [33] people. [33]  
  
A scaled bid [33] over four years) would fund [33]. The scaled option will imply an increase of [33] in funding per annum.
15. **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.
16. [33]
17. [33]
18. **Vulnerable Children Package:** We have tested our recommended Budget 2017 package for Vote Vulnerable Children, Oranga Tamariki with the Minister for Children via her officials. [33]



19. We consider that the additional components of the package are not yet investment ready and could lock the Government into the provision of new entitlements and more costly social worker ratios that are difficult to reverse once funded. The Treasury recommended package aims to balance Minister Tolley's priorities and is [33] more expensive over the forecast period [33] (per annum) than what is in the original base package.
20. Annex 1 provides a breakdown of the caregiver support package and the components supported by the Treasury. It also provides options if you wanted to support a slightly higher package.

## Operating Package – BGA

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21. The emerging BGA package currently totals [33] per annum. The BGA Budget package consists of two sets of initiatives that support achieving the BGA vision
  - a Low-discretionary initiatives averaging at [33] operating per annum across the forecast period. These initiatives have either a low level of funding discretion, are demand driven, or are Government pre-commitments. They include the Housing Infrastructure Fund, the New Zealand Screen Production grant, and the Research & Development Grants.
  - b Ministerial priority initiatives averaging [33] operating per across the forecast period. These initiatives further support BGA investment by:
    - i Investing in diversification through international connectedness – this includes the Trade Agenda 2030, participating in the Expo 2020, and strategic science investment in Antarctica.
    - ii Investing for sustainable growth and building a more resilient economy – this includes regional and social infrastructure, Tourism infrastructure, and investment in rail and irrigation schemes.
    - iii Inclusive Growth for all New Zealand's people and regions – this includes the Regional Growth Programme.

### ***Outstanding decisions on BGA initiatives***

[33]

## Operating Package – “Other”

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### Overview

25. The emerging “Other” package currently totals [33] per annum. This is predominantly made up of Defence (\$112 million per annum), and Parliamentary Services (\$11 million per annum).

### Outstanding decisions

26. *Māori Development*: Decisions are still to be taken on the Māori Development initiatives. The emerging package only contains a total of [33] per annum for Māori Development initiatives. In the two most recent Budgets, approximately \$25 million per annum has been invested in a package of Vote Māori Development initiatives.

Table of outstanding decisions

Vote	Initiative(s)	Outstanding Decision	Amount in emerging “Other” package
Internal Affairs	9977 – Ministerial Services – Supporting the Executive	This is a late initiative. A decision is yet to be made on this initiative, but it has been added to the package since it is a cost pressure.	\$0.883 million per annum
	9711 – RealMe Digital Identity: Transition to a Digital Identity Market Place and Maintaining RealMe Services	A decision is yet to be made on this initiative (associated capital) Additional operating totals [33] (paragraph 54)	[33]
	9776 – Preserving the Nation’s Memory	A decision is yet to be made on this initiative (associated capital) Additional operating totals [33] (paragraph 57)	[33]
Parliamentary Service	Vote Parliamentary Service initiatives	Confirmation of the initiatives in the emerging package after advice has been provide (T2017/805 refers)	\$11.413 million per annum
Arts, Culture and Heritage	Vote Arts, Culture and Heritage initiatives	Confirmation of the initiatives in the emerging package. <i>NZ on Air</i> has been taken out and <i>First Encounters 250</i> .	\$5.290 million per annum

## Operating Package – Track 1

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27. Overall, 13 initiatives have met the investment threshold based on the Treasury’s assessment with recommended funding of \$221 million over the forecast period (\$55.2 million per annum). The Treasury recommends that all funded initiatives have conditions attached around evaluation and reporting to ensure it is sufficient and robust and benefits are realised. There was a high bar applied in the assessment of initiatives against the criteria and we saw an increase in the quality of initiatives submitted across the board compared to previous Budgets.

### *Outstanding decisions*

28. 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.
29. 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 \$8 million over 3 years to 2019/2020. 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. There is a risk this option creates precedence issues given the intention was that initiatives were not able to switch between Track 1 and Track 2 once submitted.

### *Mental Health*

30. Ministers have also agreed to a [33] contingency for mental health to pilot initiatives which can help contribute to the evidence base and support the development of the mental health strategy. Ministers also agreed that the strategy should be truly cross sector and Minister Adams would discuss with Minister Coleman taking a paper to Cabinet in early April to confirm these details.
31. Currently Minister Coleman is taking a paper to SOC on 3 May seeking approval to release a mental health strategy consultation document. While there has been some good engagement with other social sector agencies, the work has been undertaken by the Ministry of Health and presented to agencies for their feedback. In our view this timeframe is rushed and needs proper oversight of joint ministers to deliver a good outcome.
32. We recommend that the joint paper going to Cabinet in early April focus on the process for the mental health strategy, including confirming Minister Adams as joint lead, establishing ministerial oversight, agreeing content and a more realistic timeframe.

### **Capital Package**

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33. The updated emerging package including *Reinstatement of the Southern Corridors* [33]. Excluding this initiative, the Capital package totals [33] (within the \$3 billion allowance).

[33]

34. The main changes which were reflected relate to the *Reinstatement of the Southern Corridor* [33]  
*KiwiRail* (

35. The following decisions are still outstanding and are likely to impact the final package total. If all of the initiatives below are added to the package this will increase the package by up to [33]

Vote	Initiative (\$ b)	Current amount in package	Additional amount to consider
[37]			
Internal Affairs	Digital Identity: Transition to a Digital Identity Market Place and Maintaining RealMe Services*	-	[33]
	Preserving the Nation's Memory	-	[33]
<b>Total</b>			

[37]

### Education

36. Investment Ministers on 23 March requested an updated schools growth package from Associate Minister of Education within a \$350m envelop.

37. The Ministry of Education have been unable to confirm with Hon Kaye what would be included in this package; however, they have provided the Treasury with an indication of what this might look like based on the discussions they have had with the Minister to date.

38. Annex 5 provides a comparison between the Treasury's preferred package and the Ministry of Education's preferred package. The Ministry's package totals [33] of capital and [33] of operating funding. The Treasury's recommended capital (and capital-related operating of [33] funding implications are included in the updated Capital and Social Sector packages.

39. [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.

40. The Treasury's preferred package is prioritised by the status of land acquisition and the opening date required in the network. The Ministry of Education has prioritised Auckland growth to fit with the Minister's 2014 pre-election commitment to deliver at least \$350m investment in Auckland over the next four years.

41. The main risk associated with the Ministry's package is a significant reduction in roll growth classrooms across the rest of New Zealand ([33] [33] which will add pressure across the network particularly in high growth areas such as the [33]

42. Hon Kaye may approach you seeking some flexibility to amend this package ahead of the Budget Ministers meeting on 3 April. We recommend that, at the latest, this needs to be resolved by Friday 31 March, so that it can be included in Budget Ministers' material (and decisions) and reflected in the significant Budget Cabinet paper (and Estimates of Appropriations).

## Capital-related operating error

43. Investment Ministers were advised on Monday 27 March, that the capital related operating for the \$352 million schools growth was \$48.3 million over the forecast period.
44. Subsequent to this, the proposed Ministry package featured a higher amount of capital related operating. The Ministry has since confirmed that the numbers above were calculated on a pro rata amount rather than the specific components of the package and are therefore incorrect. The correct capital-related operating has now been reflected in the Social Sector package; **this totals \$68.629 million** and increases the total operating over the forecast period by \$20.336 million:

\$ million	2017/18	2018/19	2019/20	2020/21	Average	Total
Incorrect amount	1.804	7.102	15.530	23.857	12.073	48.293
Corrected amount	3.641	13.079	22.365	29.544	17.157	68.629
<b>Difference</b>	<b>1.837</b>	<b>5.977</b>	<b>6.835</b>	<b>5.687</b>	<b>5.084</b>	<b>20.336</b>

### Reinstatement of the Southern Corridor:

45. NZTA has provided the updated cost estimates for the roading reinstatement. At Investment Ministers on 27 March, [38]
46. Based on the updated cost estimates from NZTA, we recommend the following treatment and have reflected this in the draft Cabinet paper:
- a Fund the 2016/17 and 2017/18 roading reinstatement costs (\$394 million) [reflected in the updated capital package].
  - b [33]
  - c [33]
  - d [33]
47. The updated cost estimates and these recommendations [33]

\$ million	2016/17	2017/18	2018/19	Total
Roading Reinstatement Costs 2016/17 – 2017/18	69.0	325.0	-	<b>394.0</b>
[38]				
Roading Reinstatement Costs Deferred to Budget 2018	-	-	418.0	<b>418.0</b>

[33]

48. Costs will be further refined through the detailed design process which is due to report back to Ministers in late June 2017.

[33,37]

[33,37]

Internal Affairs:

54. Ministers could invest a scaled amount of funding for the initiative *RealMe Digital Identity: Transition to a Digital Identity Market Place and Maintaining RealMe Services*, this would have the following capital and operating implications:

[33]

55. [33]

56. If this initiative is not funded, it is likely that RealMe would continue to be the only provider of secure digital identity authorisation and login services in the domestic market. Without additional funding to provide this service, and without the ability to fully recover the costs from agency users, DIA would not be able to meet increasing agency demand for RealMe. It is expected that ongoing and higher levels of Crown funding would be required to maintain RealMe's current service levels; agencies may seek additional funding for individual enhancements.

57. Ministers could invest a scaled amount of funding for the initiative *Preserving the Nation's Memory*, this would have the following capital and operating implications:

\$ million	2017/18	2018/19	2019/20	2020/21	Average	Total	Capital
Scaled PNTM	4.223	3.799	-	-	2.006	8.022	2.127

58. [33]

d [33]

59. In response to the question from Investment Ministers, the National Library building underwent a major but restricted refurbishment in 2010-2012 in which essential building service assets were upgraded. Following this refurbishment the National Library's capacity has been extended through to 2030.
60. [33]

Housing New Zealand Corporation

61. The emerging Capital package excludes funding for Housing New Zealand Corporation (HNZC) to support the Auckland Housing Programme initiative; Ministers have indicated that this should be funded via private debt.
62. In order for HNZC to raise the private debt, approval is required from the Minister of Finance and the Minister Responsible for Housing New Zealand. This report seeks confirmation that Ministers wish to proceed with the private debt option (recommendation d).
63. Following this, the Treasury will prepare a report advising Ministers specifically on amended borrowing permissions for HNZC, including any associated conditions, and will append the draft letter to be sent to HNZC which will formally advise it of the outcome.

[38]



## Data and Analytics Initiatives

67. You requested Minister Adams and Minister Mitchell to discuss the list of data and analytics initiatives for Budget 2017 and how these will be treated. The table below outlines the outcome of this discussion.
68. Two initiatives are supported at a total cost of [33] operating and \$4.758m million capital, with \$12.1 million of the operating partially offset from the existing data and analytics contingency. This will require a capital to operating swap of some of the contingency which can be agreed through the significant Budget Cabinet paper.
69. The balance of operating and capital funding ( [33] **operating and \$4.758 million capital**) will require new funding through Budget 2017 and has been reflected in the Budget packages.

Initiative	Funding sought (\$m)	Recommended funding (\$m)	Contingency or new funding
[33]			
Social Development: Data Exchange	[33]	12.00 – operating 4.758 – capital	Mix of contingency and new funding
Statistics: census transformation	[33]		
[33]			

## Late Initiatives

70. [33]
71. In addition to the above initiative, we have previously advised you on the following late initiatives which, with the exception of the *Ministerial Services Cost Pressures* initiative, are not included in the emerging package. The Treasury recommends one of these initiatives (Vote Revenue, feasibility expenditure) is considered by Budget Ministers for inclusion in the Budget process [T2017/754 refers].

Vote	Initiative Title	Fiscal Implications
Vote Revenue	Feasibility Expenditure	[33]
Vote Internal Affairs	Ministerial Services Cost Pressures	\$0.890 million per annum \$3.553 million total over the forecast period
[33]		

## Next Steps

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72. Following the outcomes of the Fiscal Issues meeting on Thursday, the Treasury will update the Budget Ministers' material to the proposed package, for consideration at 9.30 am, Monday 3 April.
73. The Treasury recommends that the near-final Budget packages are shared with agencies and Ministers following Fiscal Issues on Thursday 30 March.
74. To support the outcomes of Budget Ministers' decisions on Monday 3 April, the Treasury has prepared draft letters for the Minister of Finance to communicate the outcomes to Ministers. We recommend that these are sent out on Monday 3 April to coincide with agencies receiving information (outlined below).
75. The Treasury will update CFISnet following the Budget Ministers' meeting to reflect the decisions. This will communicate the outcomes to agencies and allow them to complete the necessary steps for updating the Estimates of Appropriations 2017/18 and draft financial recommendations for the significant Budget Cabinet paper.
76. The finalised significant Budget Cabinet paper will be lodged on Thursday 13 April, ahead of Easter, for consideration by Cabinet on Tuesday 18 April. We will provide draft(s) of this paper for your consideration in the week beginning Monday 3 April. Traditionally the Office of the Prime Minister has been consulted in the drafting of this paper by the Minister of Finance's office.

## Annex 1 – Vulnerable Children Package

- You have sought extra information about the differences between Minister Tolley's updated package [33] and Treasury's recommended package ([33]) as outlined in the recent aide memoire, Budget 2017: Updated Social Sector Package [T2017/724 refers]. Treasury's recommended package is [33] than the current base package.
- The two differences are outlined below.

### *The caregiver support package*

We have recommended scaling this package back from [33]  
The differences are outlined in the table below:

<b>Component</b>	<b>Treasury's recommendation</b>	<b>Rationale</b>	<b>Minister Tolley's package (4 years)</b>	<b>Treasury's package (4 years)</b>
Individualised support (98 extra social workers)	[33]	Service design work not yet done, limited evidence for 1:15 caregiver/social worker ratio and risks locking Government in  Exploratory work could be funded from contingency	[33]	-
Enhanced establishment support (financial payments to caregivers)	[33]	Further work required identifying the pros and cons and potential unintended consequences  Difficult to reverse once in place	[33]	-
Discretionary payment card (simplifying access to financial assistance)	[33]	Costs of current paper based system have not been netted off  Would expect a declining cost profile over time	[33]	-
Recruitment and retention	[33]	Test effectiveness before scaling up	[33]	
24/7 Response and support (helpline for caregivers)	[33]	Test effectiveness before scaling up  Three years minimum period to attract providers to bid for contracts	[33]	

<i>Components we agree on:</i>				
Specialised training		Test effectiveness before scaling up	[33]	
Encouraging development		Test effectiveness before scaling up	[33]	
Evidence based programmes		Target most vulnerable, phased implementation	[33]	
Support for higher needs		Test effectiveness before scaling up	[33]	
<b>Total</b>			[33]	

*Direct purchasing of services for children in addition to a \$30 million contingency*

3. We recommended funding the direct purchasing trial (currently estimated to cost \$10 million) from the \$30 million contingency, whereas Minister Tolley is seeking additional funding for this initiative. Our view is that the trial is not investment ready, and funding from a contingency would give more oversight of how the trial is designed and evaluated.
4. The total difference between the two packages is **\$45.7 million** over four years.
5. If needed, further investment in the caregiver support package could be made in the following areas:
  - a Individualised support: funding to trial different types of support and social worker/caregiver ratios, to test effectiveness before scaling up, at a cost of \$6 million over two years. This type of exploratory work could also be funded from the contingency.
  - b Funding recruitment and retention, and the 24/7 response and support service for the full four years instead of testing effectiveness first, at an additional cost of \$5.6 million.
6. This additional investment would result in a total package for Vote Vulnerable Children, Oranga Tamariki of \$309.3 million over four years (up from Treasury's recently recommended \$297.7 million) including a total caregiver package of \$31.3 million
7. We **do not** recommend further investment in:

[33]

8. This option would still mean some significant cost pressures remain unfunded.

[33]

*Maintaining Employment Relations & Standards Service Delivery – how much additional funding and FTEs have been provided over the last two Budgets, and what are the benefits of further funding?*

4. No funding was provided in Budget 2016. In Budget 2015, \$8 million per annum was provided to MBIE to improve the functioning of the employment relations and employment standards regulatory system.
5. Resolution Services received an organisational review resulting in cost savings and improved service delivery, contact centres were consolidated, and online access to mediation services provided. There were no additional FTEs as the additional funding went to boost the information and education functions.
6. The Labour Inspectorate opened a new Counties Manukau office (new 12 FTEs, bringing the total number of labour inspectors to 90 FTEs), continued to respond to challenges from the Canterbury rebuild, and began to focus on more systemic issues.
7. Funding for the Labour Inspectorate will enable it to operate at the same capacity as established through Budget 2015, maintaining the effectiveness of Employment standards to act as a deterrent while also preserving momentum on investigating and addressing systemic non-compliance with the Holidays Act.

*Maritime New Zealand – Health and Safety at Work initiative – what is the rationale for the strong increase in Maritime NZ activities?*

8. We previously provided advice on Maritime New Zealand's (MNZ) Budget 2017 initiative for health and safety activities (T2017/530). Subsequently to this advice, we have sought further information from MNZ and the Ministry of Transport on the funding increase sought and the impact of further scaling this funding. The proposal is additional funding for MNZ would increase funding for MNZ from \$2.975 million in 2016/17 to \$5.361 in 2017/18 and onwards.
9. The funding increase will create a health and safety unit within MNZ that will undertake a role similar to WorkSafe's role in the wider workplace sector. This aligns with the intended role of MNZ as a designated regulator under the HSWA and will not result in a duplication of health and safety activities across sectors.

10. The Ministry of Business, Innovation and Employment (MBIE) has engaged with MNZ in the development of its approach and considers it is well-conceived and consistent with the aims of the new HSWA regime. The Ministry of Transport shares this view, and also noted that the funding sought reflects the high risk levels encountered in maritime operations, the wide geographic dispersion of operators in the sector and the attendant demands on MNZ resources.
11. Treasury recommends three years of funding at the level sought with a review in time to inform future funding decisions.

## Annex 3 – Key Risks Associated with the Packages

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### Social Sector

1. The current social sector package is predominantly made up of business-as-usual pressures with very little headroom available for new investments which are high value-for-money. Key risks include:
  - a **Health:** scaled funding for primary care and disability support areas resulting in future funding requests. Lack of visibility on DHB funding and arbitrary scaling resulting in an increase in DHB deficits. Not fully supporting high value for money expenditure (e.g. pharmaceuticals) limiting health benefits to New Zealanders.
  - b **Education:** rising pressures across the ECE sector are predominately impacting on those centres which are most disadvantaged which may have flow on impacts for other sectors and across the life cycle of the child due to the impact on quality. Lack of funding for new and high value investments which can help build a better evidence base around early intervention e.g. [33]
  - c **Social Development:** main risk is around department pressures supported at a scaled level, which means that the balance will need to be absorbed. This may have an impact on operations, staffing and service levels. Pilots showing signs of effectiveness only being part funded. Scaled funding for the Social Investment Unit may have an impact on the level of ambition/resource for embedding social investment practices and tools into agencies decision-making.
  - d **Justice Sector:** key risk is around partially funded or unfunded cost pressures in corrections and the impact of this on the Justice Sector Pipeline. [33]

Funding the Integrated  
Safety Response pilot through the Justice Sector Fund has trade-offs and limits other pilots and projects from being supported/tested through the fund.
  - e **Vulnerable Children:** the key risk is around unfunded cost pressures which are required under the new legislation and will need to be funded at some point in the future (e.g. including 17 year olds in the youth justice system). Limiting the amount of discretionary initiatives which are supported and the level of contingency provided has implications for how fast the new operating model for vulnerable children can be designed and implemented. If the caregiver support package is funded in full, there is a risk that the Government is committed to an operating model and entitlements which are hard to reverse once funded and don't have a sound investment base.



## Business Growth Agenda

Initiative not currently funded (or partially funded)	Risk if it is not fully funded
Wellington's Emergency Water resilience	The key risk is that local government won't prioritise this work and if another major earthquake hits in the next 3 years there could be a public health crisis. [33]
Auckland City Rail Link	The Ministry of Transport may require departmental funding for this project. [33]
[33]	
Maintaining Employment Relations & Standards Service Delivery	[33]

	[33]
Census Transformation to 2020 – Testing an Administrative Data Approach	Should this initiative not be funded in 2017, there is a risk that Cabinet will not receive recommendations on the future of New Zealand’s Census in 2020, as agreed [EGI-15-MIN 0111 refers]. [33]

**“Other” Package**

Vote	Initiative in emerging package not currently funded (or fully)	Risk if it is not fully funded
Internal Affairs	9711 – Digital identity	If RealMe cost pressures are not funded, there is service failure risk from 2017/18 onwards, as baseline funding will not be able to cover the fixed costs. (T2017/618 refers).
	9776 – preserving the nation’s memory	[33]
	[33]	
[33]		
Parliamentary Service	9558 – 7th and 8 <sup>th</sup> Triennial Appropriation Review Committee and Additional Support for the Speaker’s Office – Sustainable Funding	The Parliamentary Service Act 2000 requires that the Speaker establish a review committee during every term of Parliament to review appropriations. The risk is that funding these reviews from baselines will degrade other services provided by the Parliamentary Service. If this was the only baseline pressure it could be managed but the Service needs funding for the other Budget initiatives.
Arts, Culture and Heritage	9628 – Regional Culture and Heritage Fund – Response to demand for seismic-strengthening funding	There is a risk that increased demand for the contestable Fund as a result of recent seismic events will exceed available resources.
	9706 – Local content better reflecting New Zealand’s identity and culture; encouraging social cohesion and connection	There is some risk that NZ On Air will struggle to meet its statutory objectives in terms of providing accessible, quality content to a broad range of audiences.

[33]

## Annex 4 – Options for Further Scaling and Associated Trade-offs

### Social Sector

1. There is very little headroom available to further reduce the Social Sector package without making some tough trade-offs across key sectors. If the package was to be squeezed further, ministers could look into the following:
  - a Further scaling or deferring operational grant funding for schools.
  - b Reducing high value expenditure on pharmaceuticals.
  - c Further scaling MSD departmental pressures and requiring them to absorb the balance.
  - d Further scaling pressures in the Justice Sector, including prison musters and court officers.
  - e Reducing the amount of discretionary expenditure for the new Ministry for Vulnerable Children, including a flexible contingency.
  
12. There are a number of risks associated with the above and further reductions in the Social Sector is likely to create funding gaps and generate pressures which will come back for funding in future Budgets.

### Business Growth Agenda

Initiative that could be scaled up/down	Current level of funding	Amount that could be scaled, and what the trade-off would be
Regional Growth Programme	[33]	– but you would be giving up the ability for Senior Regional Officials to fund feasibility studies for regional project ideas or to provide funding convening stakeholders
Tourism Growth Initiative	[33]	A further <b>\$2.478m per annum</b> could be scaled down by excluding investment-ready opportunities of 1) developing facilities at Rakau Rangatira tourism site in Northland, 2) demand analysis to scope potential new tourism sites, and 3) an improved website/booking system.
New Zealand Screen Production Grant – International	[33]	See separate Treasury advice (T2017/669). Option to reduce impact on budget allowance from [33]  This approach (not recommended) will result in the ceasing of the current MYA which will require at least \$15m be appropriated in the 16/17 year to cover commitments expected to be accrued by the end of 16/17. Options to mitigate the impact on the Budget 2017 allowance would be to: a) appropriate \$15m to 16/17 and reduce the new MYA by \$15m over the four year period; or b) begin the new MYA in 16/17 which will result in two near identical appropriations in 16/17. Note,

		these options are not supported by the Treasury and MBIE.
<b>Potential total savings:</b> [33]		

**“Other” Package**

Vote	Initiative	Current level of funding	Amount that could be scaled, and what the trade-off would be
[33]			
Potential total savings: \$8.725 million per annum			

[33]





