

The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

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Treasury Report: Budget 2017: Outstanding Decisions and Questions

Date:	5 April 2017	Report No:	T2017/892
		File Number:	BM-2-1-2017

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	Note the contents of this report.	-

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[23]	Fiscal and State Sector Management	[39]	N/A (mob) ✓
Kamlesh Patel	Team Leader, Budget Coordination, Fiscal and State Sector Management	[39]	N/A (mob)

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

Return the signed report to Treasury.
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Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget 2017: Outstanding Decisions and Questions

Executive Summary

This report responds to a number of questions that arose at Matters Arising and Budget Ministers' on Monday 3 April, and lists outstanding Budget 2017 decisions.

Recommended Action

We recommend that you:

Additions to the Budget 2017 Packages

- a **agree** to add the funding for the Internal Affairs initiatives *Preserving the Nation's Memory* and *RealMe* outlined in Table 3 and 4 to the Budget packages;

Agree / disagree

Social Sector Package

- b **indicate** whether you would like to consider a scaled option of \$10 million per annum for Early Childhood Education: Targeted Funding for Disadvantage (9531) which would provide an estimated 4% increase in funding per child per year for approximately 31,000 at-risk children;

c [33]

d [33]

- e **agree** to increase the mental health contingency to [33] million per annum;

Agree / disagree

- f **note** that there is no funding remaining for 2016/17 in the Criminal Proceeds Fund and we are unlikely to get an indication of funding available for 2017/18 until the annual audited accounts are available in August/September as the fund operates on a year-by-year basis;

- g **agree** to increase funding for the *Social Investment Unit* by an additional [33] million per annum;

Agree / disagree

- h **agree** to increase funding for the Vulnerable Children Package by an additional \$4.2 million per annum to reflect an increase in the caregiver support package [33]

Agree / disagree

- i **agree** to fund the Iwi/Community Panels initiative in Track 2 for an additional two years (\$5.480 million in total) to allow a more conclusive evaluation of the effectiveness of panels;

Agree / disagree

“Other” Package

- j **note** that a funding decision is still to be made on the *New Zealand Screen Production Grant: Domestic* seeking [33] in the “Other” package;

Capital Package

- k **note** that approval is required from the Minister of Finance and the Minister Responsible for Housing New Zealand in order for HNZC to raise private debt (T2017/804 seeks this approval);
- l **note** that one potential capital return from Defence has been offset against the Capital package;

Other Matters

- m **agree** to the tagged contingency funding being returned to the centre be used as a saving against the Budget 2017 allowances;

Agree / disagree

Or

agree to the tagged contingency funding being returned to the centre and flowing through as a positive impact against OBEGAL and net debt;

Agree / disagree

- n **note** that the between-Budget contingency is exhausted and that any proposals going to Cabinet with financial implications before Budget 2017 will be a charge against OBEGAL;
- o **note** that the 2016/17 impact of the MBU and OBU forecast change for Vote Education has been removed as these have already been reflected in the forecasts, this reduces the overall Budget package by \$21.230 million per annum;
- p [33]

Kamlesh Patel
Team Leader, Budget Coordination

Steven Joyce
Minister of Finance

Treasury Report: Budget 2017: Outstanding Decisions and Questions

Purpose of Report

1. This report responds to a number of questions that arose at Matters Arising and Budget Ministers' on Monday 3 April, and lists outstanding Budget 2017 decisions.

Emerging Budget 2017 Packages

2. The tables below outline the emerging Budget 2017 Packages.

[33]

Table 2: Emerging Capital Budget 2017 Package

[33]

Additions to the Budget 2017 Packages

3. At Matters Arising and Budget Ministers' on Monday 3 April the following initiatives were proposed to be added the Budget 2017 packages. You asked to see a table of these initiatives before they were formally added to the Budget 2017 packages.

Table 3: Additions to the Budget 2017 Operating package

[33]

BGA

Questions

The Tourism Infrastructure Fund

4. At Budget Ministers' on Monday 3 April, Ministers requested the gross amount of funding for the Tourism Infrastructure Fund. Table 5 explains the gross amount.

5. The initial Tourism Infrastructure Fund Budget bid sought ^[33] this was later revised down to \$25.500 million per annum due to reduced operating costs.
6. The full \$25.500 million per annum amount is being met from a combination of new funding through Budget 2017 and reprioritised baseline funding from the Regional Mid-Sized Facilities Fund and Tourism Growth Partnership.

Table 5: Gross amount for the Tourism Infrastructure Fund

Initiative (\$m)	2016/17	2017/18	2018/19	2019/20	2020/21	Ave. per annum	4YT
Budget 2017 Funding	-	14.449	16.935	14.598	14.500	15.121	60.482
Funding from the <i>Tourism Growth Partnership</i>	-	8.051	5.565	7.902	8.000	7.380	29.518
Funding from the <i>Regional Tourism Mid-sized Facilities Fund</i>	-	3.000	3.000	3.000	3.000	3.000	12.000
Total	-	25.500	25.500	25.500	25.500	25.500	102.000

Outstanding Decisions

7. The only outstanding decision related to the BGA package is on the *Tourism Growth* initiative, which is covered in paragraph 44 in the Capital section of this report.

Social Sector

8. The following matters are still outstanding in the Social Sector package.

ECE Targeted Increase (9531)

9. Budget Ministers asked what evidence we have around rising costs for parents, whether a strong case exists for funding and what a scaled (and more targeted) increase would cost.
10. **There is good evidence that the early childhood education sector has been experiencing cost increases, and that centres have passed some of this cost on to parents.** While spending on ECE subsidies has increased significantly since '20 hours free' was introduced in 2007, these increases have largely accounted for volume growth. ^[33]

This has contributed to a decline in the margins of most ECE service types. A 2016 survey of 264 Early Childhood Centres found that 70 percent of providers had increased fees since 2011, by an average of 29%. Since 2008, the change in the level of fees paid by families relative to the change in their income suggests that ECE affordability has declined by 6.6%.

11. **We believe that the proposed funding would help address price pressures in centres where parents are less able to pay, and would take an important step toward improving the targeting of ECE funding without impacting participation.** Providers with disadvantaged children are less able to pass costs on to parents without lowering participation. Decreasing margins in these centres may lead to reduced services, or quality of services. This would reduce the benefits gained from ECE, particularly for disadvantaged children, whom evidence suggests have the greatest potential to benefit from ECE ^[34]

The risk index approach to targeting this funding would also help inform the Review of Education Funding Systems, ^[33]

12. **A scaled version of this initiative could fulfil the goals of the targeted adjustment, at an annual average of \$10 million (approximately 0.5% of total ECE subsidies).** The Ministry have modelled a scaled targeted price increase, outlined in the table below. It would provide an estimated 4% increase in funding per child, per year, for approximately 31,000 at-risk children. The average increase per at-risk child provided in Budget 16 as part of the Targeted At Risk Grant (TARG) funding for the schooling sector was 5%.

Funding (annual average)	Concentration	Additional funding per eligible at-risk child per year	Number of at-risk children that generate funding	% increase in funding per year for at-risk children
\$10m	Services with 20% or more at-risk children (44% of services)	[33]	31,000 (78% of at-risk children)	4%

[33]

District Health Boards – Additional Support (9780)

16. Budget Ministers raised a question around whether the Canterbury District Health Board (CDH) was included in the DHB Budget initiative. We can confirm that CDH is included in the initiative and will receive their standard share of funding based on their population.

Mental Health Contingency

17. Budget Ministers indicated a preference to increase the amount in contingency for mental health [33] recognising it is a key priority area which warrants investment. While there *should be* a case for significant investment in mental health, particularly in recognition of the struggle social sector agencies are facing developing a response to achieving outcomes for people with mental health related conditions, that *case hasn't been made* this budget. With few exceptions, the mental health initiatives submitted were an assemblage of underdeveloped bids separately prepared by individual agencies, not under a lucid strategy, and without an understanding of the mental health population, workforce, and interventions across the social sector.
18. We think that agencies, particularly the Ministry of Health, need to be incentivised to build this understanding and focus on developing a genuine cross sector mental health strategy, rather than working out what to spend money on. Developing criteria for a mental health contingency risks short circuiting this process, inhibiting the ability to develop a coherent strategy that leads to the shift that Ministers are seeking in this area.
19. [33] but in the absence of a cross agency strategy, this would take a lot of time to develop. Therefore we think that the contingency should be strongly linked to milestones along the development of the strategy, limited to government agencies and only fund cross-agency proposals which seek to pilot and test interventions to help build the evidence base on mental health. [33]
20. We understand that a joint paper is being developed by the Minister of Health and Minister of Social Investment to agree on the process and governance of the contingency. [33]
- While we have yet to be consulted on the paper, our view is that the balance of agency effort needs to be on the development of a compelling strategy.

Criminal Proceeds Fund – Justice Sector

21. The Criminal Proceeds Fund comes from assets used for unlawful activity that have been seized by Police. The fund operates alongside the Methamphetamine Action Plan and is to be used for initiatives from the Ministry of Health, Justice, Corrections, Police, and Customs that fight organised criminal groups dealing in drugs or expand alcohol and other drug treatments. The Prime Minister determines which initiatives receive funding each year, on the advice of the Inter-Agency Committee on drugs [SOC Min (13) 10/1 refers]. Police can also use the fund to recover the costs of civil recovery actions.
22. The proceeds that go into the fund are not included in forecasts as the fund operates on a year-by-year basis and does not have an outyear profile. The size of the fund in any given year depends on how many assets are seized by Police and therefore it is difficult to reflect any revenue amount in the forecasts.
23. There was \$14.0 million available in the fund for the 2016/17 financial year. Our understanding is that this has all been allocated to agencies through the October

Baseline Update (OBU) process. We won't get an indication of the size of the proceeds for 2017/18 until the final audited accounts are available in August/September.

24. If Ministers wanted to change the criteria and draw down conditions of the fund, Cabinet approval would be required, including rescinding the previous Cabinet decisions on the operations of the fund.

Social Investment Unit Funding (9647)

25. Budget Ministers discussed whether a scaled funding option for the Social Investment Unit (SIU) would represent a baseline cut and what the implications of this might be. The SIU does not have an established baseline and has not provided clear information on current FTEs. The SIU's funding of \$9.0 million for the current financial year includes one-off top-ups from the BPS Seed Fund for prototyping the commissioning platform and to address potential risk of unappropriated expenditure. It also includes funding for the data exchange which is included as a separate initiative for Budget 2017.
26. On either the full funded or scaled option the combined FTEs and Budget (including transfers from MSD) for the new Social Investment Agency exceeds the current SIU levels.

[33]

Vulnerable Children Package

Family Start (9710)

28. Budget Ministers sought additional information about the Family Start cost pressure, in particular what additional value this funding will buy, and whether a recommendation for the Budget Cabinet paper is required.
29. The additional \$800 per family would:
 - a increase the quality of the programme by increasing the number of qualified staff (currently only 50% of staff are qualified), and
 - b increase the intensity of visits to the most vulnerable, enabling a greater focus on prevention (a 2016 Cabinet direction that would be at risk without additional funding).
30. The CBAX accompanying the bid sets out the outcomes the programme expects to achieve (based on evidence) and how these will be evaluated. A possible recommendation for the Budget Cabinet paper could be to direct the Ministry for Vulnerable Children, Oranga Tamariki, to report to Cabinet on the results of initial Family Start impact evaluation results due in 2019/20 to highlight the on-going effectiveness of the Government's investment.

Caregiver Support Package (9809)

31. Attached is an updated Budget 2017 package totalling **\$314.37** million (up from 297.73 million) over four years for Vote Vulnerable Children, Oranga Tamariki (changes are in red), reflecting a \$26.36 million caregiver support package (up from \$19.72 million over

four years), [33]

32. The caregiver support package includes \$8.99 million to trial a 1:15 social worker/caregiver ratio in three sites for two years, and two years of funding to trial the recruitment and training components. [33]

The caregiver support package carries some risk as funding is provided to test components for two years, but this could lock the Government in to funding these on an on-going basis.

33. [33]

34. Following discussions with officials, the revised package also includes the two minor changes in how costs are phased over the four years:

- a Privacy and Official Information Services (9705) is phased over two years instead of four reflecting the intention to address the current backlog and redesign business processes to be more efficient in the future, and
- b Child Centred Feedback, Insights, and Complaints Mechanism (9715) is phased to reflect greater costs over the first year as the service is set up, and on-going costs of \$1.25 million per annum from 2018/19 onwards.

35. Neither of these phasing changes alter the total cost of the Vote Vulnerable Children, Oranga Tamariki, Budget 2017 package.

Iwi/community Panels (Vote Police)

36. We understand that you have requested the inclusion of the Iwi/Community Panels initiative in Vote Police in the Social Sector Track 2 package. This initiative was submitted in Track 1 and did not meet the investment threshold due to inconclusive evidence on the impact of the intervention for older population groups and non-Maori.
37. If Ministers intend to fund further iwi panels, we recommend this only be at the existing locations, with a focus on establishing the effectiveness of the panels, and on a time-limited basis to enable Ministers to reconsider this initiative based on a new evaluation of panel effectiveness. **Treasury's estimation of the cost of this approach is outlined below and has been included in the Social Sector package. These costings have not been tested with Police.**

\$m	2017/18	2018/19	2019/20	2020/21	2021/22	4YT	Ave. per annum
Extend the existing pilot for 2 years – no expansion but revised panel cost	2.730	2.750	-	-	-	5.480	1.370

38. The above initiative costing is based on Police's revised per panel costings, with the cost per panel at \$1500. This includes discretionary funding of \$500 per attendee, as proposed in the initiative, and an increase in the base funding per panel to reflect the actual costs for providers. Both these changes were supported by the Social Investment Panel and would provide the best opportunity to test the effectiveness of

the panels. This costing assumes 1,200 panel attendees per year, in the existing locations.

[33]

“Other”

Questions

40. There were no questions on the “Other” package from Matters Arising and Budget Ministers’ on Monday 3 April.

Outstanding Decisions

New Zealand Screen Production Grant: Domestic

41. A funding decision is still to be made on the *New Zealand Screen Production Grant: Domestic* which is seeking [] million in total. The Treasury’s recommendation was initially ‘Defer’, but new information has been provided which now means that the Treasury ‘Supports’ this initiative in full.
42. The Treasury provided further advice on this initiative Friday 31 March.

Capital

Questions

43. Ministers had the following questions on the Capital package from Matters Arising and Budget Ministers’ on Monday 3 April:

Conservation: Tourism Growth Initiative

44. Ministers asked for options for further investment in new products as part of this initiative. This is in addition to the [33] million per annum operating and [33] million capital funding to support increased demand for basic facilities and infrastructure.
45. Ministers could consider investing further in any of the five new products in the table below. These would have a commensurate increase in the BGA operating package and the Capital package:

Product	Description	2017/18	2018/19	2019/20	2020/21	4YT	Ave per annum	Capital
Great Short Walks	Improve services for 20 existing short walking tracks (less than 90 minutes) and market them as ‘Great Short Walks’. [37]	0.242	0.242	0.472	0.472	1.428	0.357	-

Great Day Walks	Improve services for 10 existing walking tracks and market them as 'Great Day Walks'. [37]	1.268	1.288	1.772	1.536	5.864	1.466	1.800
New Great Walks	Build two new Great Walks. [37]	0.202	0.596	1.192	2.230	4.220	1.055	8.490
[33]								

46. The strategic alignment of these projects is unclear, as the Department of Conservation's tourism strategy is still under development. In addition, insufficient information has been provided to assess value-for-money of these new products. As such, if Ministers are supportive of investment new products, we recommend that this is subject to the completion of a *Better Business Case*. We also recommend that Cabinet invites the Department of Conservation to report back on the development of its tourism strategy at an appropriate point in time.
47. If Ministers wish to choose one or more of the new products listed above at this point in time, we would recommend prioritising Great Short Walks and Great Day Walks (in that order). Great Short Walks have been prioritised on the basis of their potential contribution to regional economic development, and because they are relatively low cost, utilise existing (often under-used) assets, will leverage off the success of Great Walks, and cater for a different group of people compared with the existing multi-day Great Walks. Great Day Walks has similar characteristics, but require a greater level of investment.

Defence: Estate Regeneration

48. The Treasury has provide advice on the Defence Estate Regeneration and recommends that Budget Ministers can scale this initiative to \$100 million for investment in health and safety and compliance related projects. We propose to discuss this further at Fiscal Issues.

Education: Schools Growth Package

49. The [33] million Schools Growth Package initiative is reflected at Annex A.
50. If Ministers wish to invest more in Auckland, the following options are could be considered:
- a Scale [33] to prioritise more Auckland schools and kura, as described in the 'Ministry of Education preferred package' in Annex A.
 - b Increase the size of the capital injection up to [33] million by including some or all of the Auckland schools and kura from 'Option B: Additional investment in Auckland' in Annex A.

Outstanding Decisions

51. In order for HNZN to raise the private debt, approval is required from the Minister of Finance and the Minister Responsible for Housing New Zealand. T2017/804 seeks this confirmation that Ministers wish to proceed with the private debt option.
52. We discussed the potential capital return from Defence with the Minister of Finance last week. This return has now been included as a Budget initiative and will be offset against the Capital package.

Other Matters

Unused Tagged Contingency Funding

53. There are four tagged contingencies that have expired and contain funding that will be returned to the centre. The funding totals \$28.756 million in operating and \$17.686 million in capital. The table below sets out the amount being returned to the centre.
54. There is a choice around whether the funding being returned is used as a saving against the Budget 2017 allowances or flows through as a positive impact against OBEGAL. The Treasury recommends the funding is used as a saving against the Budget 2017 allowances.

[33]

The between-Budget contingency is exhausted

55. The 2016/17 between-Budget contingency is now exhausted. The Treasury is recommending that any proposals going to Cabinet with financial implications before Budget 2017 be a charge against OBEGAL (as opposed to being a pre-commitment against Budget 2018).
56. Only urgent proposals that cannot wait until after Budget should be going to Cabinet, therefore the Treasury is not expecting many proposals with financial implications before Budget 2017.

MBU and OBU Forecast Changes in Vote Education

57. The MBU and OBU forecast changes have the following impact on the forecasts and allowances:

Forecast Changes: \$m	15/16	16/17	17/18	18/19	19/20	20/21
March Baseline Update 2016	88.992	23.196	83.519	109.433	138.367	138.367
October Baseline Update 2016		61.758	70.338	66.095	59.006	102.061
Net impact of MBU and OBU 2016 on Budget 2017			767.186			

Reflected in HYEPU 2015/16 forecasts and had a direct impact on OBEGAL 2015/16.	Reflected in BEFU 2015/16 forecasts and have a direct impact on OBEGAL 2016/17.	Reflected in HYEPU 2016/17 forecasts and will have a direct impact on OBEGAL 2016/17.	The net impact of these changes is charged against Budget 2017 operating allowance.
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58. We have removed the 2016/17 amounts (grey and blue above) from the Social Sector package as these have already been reflected in the forecasts, so to avoid double counting these items have now been removed.
59. Removing the 2016/17 impact (\$84.954 million) from the Social Sector package has decrease the amount in the overall Budget operating package by \$21.239 million per annum.

[33]

Next Steps

62. We recommend that Finance Ministers confirm the outstanding decisions above and that these are discussed with the Prime Minister. These decisions will then be reflected in communications to the relevant Ministers and agencies to complete Budget production next steps.

