

The Treasury and Office of the Minister of Finance

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Notes/Errata Specific to This Document

Page 12 of document (top line, far right cell): "...we query whether this is a priority aligning initiative". This passage refers to Budget priorities, rather than general government priorities.

Treasury Report: Bilateral Discussion: Minister of Finance and Minister of Corrections, Māori Crown Relations: Te Arawhiti and Tourism, Associate Minister of Education

Date:	29 October 2018	Report No:	T2018/3009
		File Number:	SH-7-1-8

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Note the suggested talking points for the bilateral meeting.</p> <p>Refer to Hon Dr David Clark, Associate Minister of Finance.</p>	8 p.m. Wednesday 31 October

Contact for Telephone Discussion (if required)

Name	Position	Telephone			1st Contact
Jared Walton-Bhim	Analyst, Justice, Security and Government Services	[39]	(wk)	N/A (mob)	✓
Colin Hall	Manager, Justice, Security and Government Services	[39]	(wk)	[23]	

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: Bilateral Discussion: Minister of Finance and Minister of Corrections, Māori Crown Relations: Te Arawhiti and Tourism, Associate Minister of Education

Executive Summary

This report provides you with information for your budget bilateral discussion with Hon Kelvin Davis, Minister of Corrections, Māori Crown Relations: Te Arawhiti, and Tourism, and Associate Minister of Education.

Minister Davis is expected to submit 19 budget bids totalling ^[33] ^[38] in operating funding and ^[33] ^[38] in capital funding, with ^[33] ^[38] of the operating funding and all of the capital funding relating to the Corrections portfolio.

The prioritisation requirement for these portfolios will be approximately \$67.934 million. The majority of these costs relate to the Corrections portfolio.

The report highlights talking points for your discussion, focused on areas that Minister Davis may want to focus when submitting budget initiatives.

Recommended Action

We recommend that you:

- a **note** the portfolio-specific talking points at the end of this report, and the general Budget messages attached in Annex One, and
- b **refer** to the Hon Dr David Clark, Associate Minister of Finance.

Refer/not referred.
Minister of Finance

Colin Hall
Manager, Justice, Security and Government Services

Hon Grant Robertson
Minister of Finance

Treasury Report: Bilateral Discussion: Minister of Finance and Minister of Corrections, Māori Crown Relations: Te Arawhiti and Tourism, Associate Minister of Education

Purpose of Report

1. The purpose of this report is to provide background information and advice for your bilateral discussion with Hon Kelvin Davis at 8.00 p.m. on Wednesday 31 October.
2. This report reflects information from the October check-in process and covers:
 - an indication of the baseline prioritisation for these portfolios
 - new initiatives for which funding is likely to be sought in Budget 2019
 - cross-agency collaboration efforts
 - further contextual information for the portfolios, and
 - talking points for your discussion with Minister Kelvin Davis, including generic Budget 2019 talking points in Annex One.

Baseline Prioritisation

3. In accordance with the prioritisation guidelines agreed by Cabinet, there is an estimated total of \$6.793 billion in scope for prioritisation in Minister Davis' portfolios over the period 2019/20 to 2022/23. This means that the 1% prioritisation target is \$67.934 million. Annex Two provides a breakdown of possible prioritisation initiatives by portfolio. Note that these figures are based on the years 2018/19 to 2021/22, so are likely to change when 2022/23 is rolled out as part of the October Baseline Update exercise.
4. Prioritisation for two of Minister Davis' portfolios, Māori Crown Relations: Te Arawhiti and Associate Education, is included in the prioritisation requirements for other Ministers as the funding for these responsibilities cannot be easily separated from other spending.

Table 1: Baselines in scope for prioritisation by portfolio

Portfolio	Total in scope for prioritisation	1% Target
Corrections	\$6,182.089 million	\$61.820 million
Māori Crown Relations: Te Arawhiti	Funded for 2018/19 through Vote Justice	N/A – included in the target for the Justice portfolio
Tourism	\$611.401 million	\$6.114 million
Associate Education	Part of Education portfolio	N/A – included in the target Education portfolio
Total	\$6,793.490 million	\$67.934 million

5. The Department of Corrections is currently funded to the full capacity of the prison system to ensure the system has resilience against any sudden increase in prison population, natural disaster or major prison disturbance. While the difference between the funding required for the current muster and full capacity could be an option for prioritisation, the Department considers this could significantly inhibit its ability to provide a safe prison network in the short term.
6. The Department of Corrections has advised that it will likely be able to prioritise one percent of its baseline by retiring prison units or beds that are no longer fit for purpose in the later years of the forecast period. This will be dependent on continued investment in effective rehabilitation programmes and more modern facilities which promote better rehabilitation outcomes. In the short term, the Department intends to continue to invest in more modern facilities, and deferred maintenance of existing facilities and beds.
7. The Ministry of Business, Innovation and Employment are still working through the Tourism prioritisation initiatives and these have yet to be submitted to Treasury. In Budget 2018 \$26.400 million was reprioritised from the Tourism portfolio.

New initiatives that may be submitted for Budget 2019

8. [33] [38]
[33] [38] Annex Two provides a breakdown of possible initiatives by portfolio and initiative type.
9. For the Tourism initiatives, we have included the long list of options provided by the Ministry of Business, Innovation and Employment for the Minister of Tourism's consideration. The Minister may choose to progress all or only some of the bids, and so the list should be treated as indicative only.

Table 2: Overview of funding sought by Minister Davis for Budget 2019

Portfolio	Operating (Total over forecast period)	Capital (10 year total)
Corrections	[33] [38]	[33]
Māori Crown Relations: Te Arawhiti	[33]	Nil
Tourism	[33] [38]	Nil
Associate Education	[33]	Nil
Total	[33] [38]	[33]

Corrections

10. We are aware of seven likely bids from the Department of Corrections. Two of these, Mental Health, Wellbeing [33], and Māori and Pacific Pathways, are part of the cross sector Hāpaitia te Oranga Tangata Safe and Effective Justice (Hāpaitia) package. We consider that these bids, for [33] and [33] [33] respectively over the forecast period, are strongly aligned to the budget priorities of supporting mental wellbeing, and lifting Māori and Pacific incomes, skills and opportunities.

11. [33]
[33]
[33]
The Department reports that these initiatives are the expansion of successful programmes, but the link to Budget priorities is less direct. While neither initiative will be specifically targeted at Māori nor Pacific peoples, specifically address mental wellbeing, or have direct impacts on children's wellbeing, the Department expects that the majority of participants will be Māori or Pacific, and the initiatives will have flow on impacts for mental wellbeing and child wellbeing.
12. The Department plans to submit three cost pressure bids: [38] over the forecast period for increasing prisoner volumes, \$97.300 million over the forecast period for increasing community service volumes, and [33] for Holidays Act compliance. We understand that the prisoner volumes cost pressure contains decisions on expanding the number of beds in certain programmes. While this appears consistent with the Department's strategy and the Government's priority for the prison system, it is arguable whether this aspect of the bid is non-discretionary.

Māori-Crown Relations: Te Arawhiti

13. Subject to consideration of a business case, Cabinet has agreed to the establishment of an Office for Māori-Crown Relations: Te Arawhiti. Minister Davis is likely to seek funding of around [33] over the forecast period to cover the establishment of the Office and the resourcing of his portfolio. We consider there is significant scope to scale this initiative.

Cross-agency collaboration efforts

Corrections

14. The Ministry of Justice, Department of Corrections, and New Zealand Police have been working together to develop the overarching strategic direction of the Hāpaitia package. Collaboration is ongoing and agencies will need to continue discussions to ensure proposals are ready for implementation in an integrated way. For example, the delivery of any additional services should be joined-up across the system and that the impacts should be well understood.
15. We understand that the Department of Corrections has also developed the initiatives in consultation with social sector agencies, in particular the Ministry of Health, Ministry of Social Development and Te Puni Kōkiri. The Department reports that one initiative has been developed in consultation with iwi.

Māori Crown Relations: Te Arawhiti

16. The Māori-Crown Relations: Te Arawhiti portfolio is intended to strengthen the relationship between Māori and the Crown, and the initiative in this portfolio will likely have flow-on implications for all agencies, so extensive consultation will be required.

Tourism

17. Tourism initiatives require a high degree of collaboration as many of the Government's levers for affecting change in the sector lie in other portfolios (for example, transport infrastructure).
18. A number of bids submitted by Minister Davis such as, the New Zealand Land Wars Trail seem to be more closely related to other portfolios. If the Minister of Tourism continues to lead these bids, there will need to be evidence of collaboration between the relevant agencies.

Further contextual information for these portfolios

Corrections

19. In recent years, much of the focus of the Corrections portfolio has been on addressing capacity pressures associated with an increasing prison population. In recent months, there has been a reduction in the prison population which has eased some of the capacity pressures, but it is unclear whether this reduction will be sustained.
20. Over the past decade the Department of Corrections' baseline has increased by approximately 60%, to \$1,572 million. Over the last three budgets, prison population growth has resulted in Vote Corrections receiving \$383 million, \$554 million and \$517 million in new operating funding in Budgets 2016-18 respectively.
21. The Government has committed to reducing the prison population by thirty percent over 15 years. The Hāpaitia work programme, and a greater focus on criminal justice interventions which are effective at reducing reoffending and improving wellbeing will be key to meeting this objective. The Department of Corrections is aligned with other justice sector agencies in this focus. As the prison population reduces the Corrections baseline should be able to be reduced but timing of any reduction in costs is uncertain.
22. The Department of Corrections is developing a Prison Network Development Strategy, which will recommend a future direction for prison network. The Department's budget initiatives are the first phase of investment for the strategy.

Māori Crown Relations: Te Arawhiti

23. Resourcing of the Māori-Crown Relations: Te Arawhiti portfolio has been funded to date through Vote Justice (the Justice Policy Advice and Related Services Multi Category Appropriation). In March 2018, a fiscally neutral transfer of \$1.260 million was made from Vote Treaty Negotiations to Vote Justice to support the work of the Māori Crown Relations Unit. A further \$3.050 million was appropriated through Budget 2018 to resource the portfolio in 2018/19.
24. Subject to approval of a business case, Cabinet has agreed to the establishment of a new Office for Māori Crown Relations: Te Arawhiti. Minister Davis will seek funding through Budget 2019 for establishing the new Office and resourcing the portfolio. We will use the Cabinet paper and Budget process to analyse the initiative and consider options for scaling.

Tourism

25. The Government is currently developing a strategy to guide its interventions in Tourism, to be finalised early in 2019. In addition, an International Visitor Levy has been agreed and is expected to raise around \$80 million per year beginning in the 2019/20 financial year, ring-fenced for investments in Tourism and Conservation.
26. A significant focus for recent investments in Tourism has been alleviating pressures on infrastructure exacerbated by visitor growth, for example through the Budget 2017 Tourism Infrastructure Fund (around \$100 million over four years). The Government has agreed to take a more active, coordinated approach to Tourism, so it is important that any tourism investments are based on sound evidence with clear line of sight to the strategy.
27. We recommend an urgent need should be demonstrated before funding is considered for Tourism this Budget, to ensure investments are well-aligned with the final strategy and that other sources of funding are exhausted first.
28. Tourism New Zealand reprioritised \$23.6 million over five years in Budget 2018, ^[33]_{[33] [38]}

Talking points for your discussion with Minister Davis

29. In addition to the talking points related to the Budget process outlined in Annex One, below are some potential discussion points for the bilateral meeting specific to Minister Davis' portfolios.

Corrections

- The Department of Corrections should prepare options that scale the initiatives in that portfolio, as it is unlikely the full quantum of its bids can be accommodated.
- It is important that Corrections' focus is on the initiatives which best align with the Budget priorities, will likely reduce imprisonment, and improve wellbeing.
- Some initiatives have more of an indirect impact on the priorities, so it will be important for the initiatives to be explicit regarding the links to the priorities.

Māori Crown Relations: Te Arawhiti

- The business case underlying the Māori Crown Relations: Te Arawhiti initiative should fully justify the proposed costs and identify potential scaling options.

Tourism

- It is important that Tourism budget initiatives be developed alongside other relevant agencies.
- How do you intend to demonstrate that bids need funding ahead of the International Visitor Levy being implemented? Which initiatives are particularly suitable to be funded from the Levy?
- Notwithstanding Tourism's positive response to the reprioritisation exercise in Budget 2018, the current 1% prioritisation exercise is a pre-requisite to be eligible for funding in Budget 2019. Please ensure that Tourism is working towards meeting this requirement.
- [33] [38]

Annex One: Generic Talking Points for Budget 2019 Bilateral Meetings

Purpose

The purpose of each bilateral meeting is to:

- go over some of the key requirements for Budget 2019
- understand your priorities, what initiatives you are planning on submitting for Budget 2019, how these relate to Budget priorities, and how you are working across portfolios and agencies on the initiatives, and
- understand how you are approaching the prioritisation exercise for Budget 2019.

Expectations and Requirements for Budget 2019

Budget 2019 is our first Wellbeing Budget. For it to be successful, there are a number of changes for us as Ministers and for our agencies.

- Budget 2019 will be anchored around five priorities, which were established based on analysis from the Living Standards Framework, sector understanding and engagement across the public sector. These will drive the development of initiatives and decision making, and ensure a wellbeing focus is embedded at the heart of the Budget.
- While priority-aligned initiatives will be the main focus, non-aligned cost pressures where the Government has little discretion will also be within scope. A high bar will be set for any initiatives outside of these two areas. This high bar means that initiatives will need to achieve a strong assessment from the Treasury in the following areas:
 - Government direction and priority-alignment
 - wellbeing analysis and intervention logic
 - cost understanding, and
 - collaboration.
- We cannot achieve any of the priorities without working across portfolios and agencies. As a result, collaboration between Ministers and across agencies is expected and will be a component of how Finance Ministers and the Treasury will look at and assess initiatives and Budget packages.
- All initiatives will also be required to present a wellbeing analysis – something your agencies will be working on. This involves identifying the impacts of initiatives on the 12 wellbeing domains, the four capitals and whether the initiative adapts to or absorbs risk and builds resilience. This wellbeing analysis will also play a role in how we consider packages and make decisions through the Budget process.

Budget 2019 allowances are tight.

- It is important that we continue to stick to the Budget Responsibility Rules. But doing so, while also achieving our objectives for the Wellbeing Budget, will require considerable effort.
- After pre-commitments, we have under \$2 billion operating funding per annum available for Budget 2019 (as at 15 October). On the capital side, our shift to a multi-year capital allowance will provide greater flexibility, but it will not increase the total amount of funding available. There have already been significant calls on the capital allowance as well.
- The tight allowances are another reason why the prioritisation exercise of identifying low-value and non-priority aligning expenditure is important. We want to ensure that our focus is not just on marginal expenditure but also on ensuring existing expenditure supports this Government's direction and priorities.
- I also want to re-enforce that pre-commitments against these allowances only further reduce the amount that we have to spend for the Wellbeing Budget. These should only be considered where there is an urgent need for funding in 2018/19 and the BBC has been exhausted.

Understanding each Minister's approach to their initiatives for Budget 2019

- The rest of this meeting is about you and your portfolios.
- I am keen to understand your priorities, what is most important to you, and what initiatives you are developing with your agencies and other Ministers for Budget 2019.
- I am also interested in how you are approaching the prioritisation exercise, and any high level areas you are considering with this.
- Finally, I would like to understand how you have found the Budget process so far, and confirm that you have the information and support you need.

Annex Two: Funding Sought and Prioritisation Review by Minister Davis by Portfolio

Corrections portfolio

Initiative type	Initiative	\$ millions		Initial comment on initiative.
		Operating funding (total over forecast period)	Capital funding (10 year total)	
Priority-aligning (Supporting mental wellbeing for all New Zealanders; Improving child wellbeing)	Hāpaitia te Oranga Tangata: Mental Health, Wellbeing [33]	[33]	[33]	This initiative is part of the Hāpaitia package. It provides mental health, including alcohol and drug addiction, services to prisoners, and wrap around whānau support upon reintegration into the community. It is the continuation and expansion of a programme previously funded through the Justice Sector Fund which the Department reports has achieved good outcomes.
Priority-aligning (Lifting Māori and Pacific incomes, skills and opportunities; and Supporting mental wellbeing for all New Zealanders; Improving child wellbeing)	Hāpaitia te Oranga Tangata: Māori and Pacific Pathways	[33]		This initiative is part of the Hāpaitia package, and is being developed with iwi. Includes development of three new Special Treatment Units, and expansion of services targeted at Māori and Pacific inmates.
[33]				
Total for priority-aligning initiatives		[33]	[33]	

		\$ millions		
Initiative type	Initiative	Operating funding (total over forecast period)	Capital funding (10 year total)	Initial comment on initiative.
Non-discretionary cost pressure	Maintaining Safety, Effectiveness and Security	[38]		Responds to increasing prisoner volumes. It includes restoring time-limited funding; seeking funding for new capacity which has already been approved; ensuring the network is safe, secure and effective; and updating pricing for salaries and inventory. Included in this cost pressure is the decision to increase the number of beds in the Whare Oranga Ake programme, in accordance with the Department's focus on delivering the higher quality beds to improve prisoner outcomes.
Non-discretionary cost pressure	Community Sentences and Orders: Safe and Effective Alternatives to Prison	[33]		This cost pressure responds to increasing volumes on community sentences. It increases expanding the use of electronic monitoring; supporting high-risk offenders; and updating pricing for salaries.
Non-discretionary cost pressure	Holidays Act Compliance	\$62.000 million		This cost pressure is an estimate of the possible remediation required for staff resulting from issues with the calculation of entitlements under the Holidays Act 2003.
Total for non-discretionary cost pressures		[38]		
Total for Corrections portfolio		[33] [38]	[33]	

Prioritisation for Corrections portfolio

Initiative	Operating funding (\$m -total over forecast period)	Initial comment on initiative
Retirement and consolidation of the prison network over time, prioritising spend	\$48.000 million	<p>This is contingent on gains being made over the early years of the forecast period, so may be difficult to return to centre in this budget.</p> <p>This is currently lower than the 1% target, but Corrections has expressed an intention to find the remainder before December.</p>
Total Prioritisation	\$48.000 million	

Māori Crown Relations: Te Arawhiti portfolio

Initiative type	Initiative	\$ millions		Initial comment on initiative.
		Operating funding (total over forecast period)	Capital funding (10 year total)	
Priority-aligning (Lifting Māori and Pacific incomes, skills and opportunities)	Establishment of the Office for Māori Crown Relations: Te Arawhiti and its operating model	[33]		While Cabinet has agreed in principle to establish the Office, we query whether this is a priority aligning initiative. It will be important for all costs to be clearly justified, and we think the initiative should be scaled until resourcing requirements have been properly scoped – likely after the Office has been in operation for 12 – 24 months.
Total for Crown Māori Relations portfolio		[33]		

Tourism portfolio

Initiative type	Initiative	\$ millions		Initial comment on initiative.
		Operating funding (total over forecast period)	Capital funding (10 year total)	
Priority-aligning (Lifting Māori and Pacific incomes, skills and opportunities)	Landmarks and New Zealand Wars Trail	[38]		Should this be funded through the Tourism Infrastructure Fund or Provincial Growth Fund? How is MBIE collaborating with MCH on this project?
Priority-aligning (Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy)	[33]	[33]		[34]
Priority-aligning (Supporting a thriving nation in the digital age through innovation, social and economic opportunities)	[33]	[33]		
Priority-aligning (Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy)	[33]	[33]		

		\$ millions		Initial comment on initiative.
Initiative type	Initiative	Operating funding (total over forecast period)	Capital funding (10 year total)	
Priority-aligning (Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy)	[33]	[33]		[34]
Priority-aligning (Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy)	[33]	[33]		
Priority-aligning (Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy)	China Year of Tourism	\$0.800 million		
Priority Aligning (Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy)	[33]	[33]		
Total for priority-aligning initiatives		[33]		
Total for Tourism portfolio		[33]		

New Crown Revenue

Initiative type	Initiative	\$ millions		Initial comment on initiative.
		Operating funding (total over forecast period)	Capital funding (10 year total)	
Priority-aligning (Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy)	International Visitor Conservation and Tourism Levy	\$320.000 million revenue (funded by International Visitor Levy)		This is not a Budget initiative, but reflects policy decisions taken by Cabinet earlier in 2018. The IVL will generate \$320 million of expenditure over the forecast period. Implementation is anticipated for July 1 2019.

Prioritisation for Tourism portfolio

Initiative	Operating funding (\$m - total over forecast period)	Initial comment on initiative
		MBIE are still working through its prioritisation initiatives.
Total Prioritisation	\$6.114 million	

Associate Education portfolio

Initiative type	Initiative	\$ millions		Initial comment on initiative
		Operating funding (total over forecast period)	Capital funding (10 year total)	
Priority-aligning (Lifting Māori and Pacific incomes, skills and opportunities)	Strengthening Te Reo Māori Provision & Māori Educational Achievement	[33]		To be covered off in the Education bilateral
Total for priority-aligning initiatives				
Non-discretionary cost pressure	WAI 2336 Kōhanga Reo Claim - contingency			To be covered off in the Education bilateral
Non-discretionary cost pressure	[33]		TBC	To be covered off in the Education bilateral
Total for non-discretionary cost pressures			TBC	
Total for Associate Education Portfolio			TBC	