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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Vote Veterans' Affairs – Defence Force

Four-year Budget Plan

24 January 2012

Forwarded by:

Hon Nathan Guy

Minister of Veterans' Affairs

Section 1: Overview

Direction of Change

Veterans' Affairs New Zealand (VANZ), whilst integrated with the New Zealand Defence Force (NZDF), is a small agency receiving a separate appropriation and currently being governed by a Minister (Minister of Veterans' Affairs) separate from the Minister of Defence.

VANZ role is to:

- Provide advice to the Minister of Veterans' Affairs and other Ministers, as well as departments and agencies on aspects of policy relating to veterans.
- Managing the Government's relationship with veterans and their representative organisations.
- Ensuring that the assessment of veterans' entitlements is undertaken fairly and accurately.
- Facilitating and co-ordinating the services provided to veterans and their families by other government departments and agencies.
- Facilitating veterans' access to services within the broader community.

The major drivers of change within VANZ^[6]

together with demographic changes to an ageing veteran population.

[6]

Sector Outcomes

VANZ, whilst integrated with NZDF, operates in a small specialist sector within New Zealand, and is not directly part of a broader sector, facing broader sector issues.

Services in the Armed Forces differs from all other occupations. Personnel are required to submit themselves to the risk of death or injury. They are obligated by law to obey orders and have a duty to fight and to kill if necessary. As such the State has an obligation to treat them fairly and to provide for them when they fall.

VANZ Outcomes

VANZ has three outcomes; Honouring Service, Listening to Veterans and Recognising Service. Objectives and activities related to each outcome are detailed in the New Zealand Defence Force Statement of Intent 2011 – 14.

Cost Pressure Overview Commentary

Vote Veterans' Affairs - Defence Force has three components being Departmental, Non-Departmental and Benefits and Unrequited Expenses (BOUE). Cost Pressures against all three vote components are set out in detail in Section 3. In brief, VANZ will be required to re-prioritise between \$0.087m to \$0.113m per annum over the period of the 4YBP within the Departmental component of the vote.

To achieve this VANZ will utilise savings from targeted reductions across a number of vote departmental cost elements as set out in detail in Section 4. VANZ does not believe this will result in any adverse impact on output performance.

Cost Pressures against Non-Departmental erodes over time the level of support VANZ can make via various assistance measures to veterans within each of the four stand-alone Non-Departmental Output Expenses as described in Section 3.

Cost Pressures against the BOUE relate to the annual CPI adjustment to War Disablement Pensions that comprise 86% of the BOUE. BOUE Outyears are already modelled on CPI assumption increases and these are shown using PREFU 2011 assumptions at Section 3.

Summary of Changes (applies to all agencies and votes)

1. Operating changes sought	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Current Baseline	167.604	163.056	159.705	154.830	150.352
Cost pressures resulting from existing policies/settings [section 3]	0	0.113	0.087	0.099	0.107
[6]					
Efficiency savings [section 4]	0	0	0	0	0
Amount reprioritised [section 4]	-0.200	-0.113	-0.087	-0.099	-0.107
[6]					
[6]					

2. Capital investments being considered for new funding in Budget 2012 [section 4]	Impact \$m increase/(decrease)					
	2011/12	2012/13	2013/14	2014/15	2015/16	Out-years
<i>Please list</i>	0	0	0	0	0	0

3. Capital investments likely to require new funding in future Budgets [section 4]	Total impact across years \$m increase/(decrease)		
	Budget 2013	Budget 2014	Budget 2015
<i>Please list</i>	0	0	0

4. Baseline capital expenditure	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Departmental					
Baseline funding available for departmental capital expenditure [section 5, table 5, row e]	0	0	0	0	0
Investments funded from departmental capital expenditure [section 5, table 5, row f]	0	0	0	0	0
Non-departmental					
Total [section 5, table 6]	0	0	0	0	0

Section 2: Priorities

Main Outcomes

VANZ expects that the three current outcomes will remain extant over the period of the 4YBP. Despite an apparent steady state, there is a need to adapt to the changing demographic within the veteran population. This involves modernising the War Pensions Act 1954 so that it recognises the service of the ageing World War II veteran population, and that veterans of modern day deployments have a scheme that provides for their rehabilitation and does not create long term dependency.

This will lead to changes in the way services are delivered by VANZ. The focus of these changes is the provision of services to the veteran community that both meets their needs and recognises their service. As a result there are a number of activities taking place that require VANZ to prioritise effort in order to ensure that these changes are well managed. In order of priority these are detailed below (and are consistent with the Minister of Veterans' Affairs Key Priorities as set out in the NZDF Statement of Intent 2011-2014 and the Vote Veterans' Affairs – Defence Force Output Plan 2011/12):

1. [6]
2. Effectively respond to the changing demographics in the veteran community whilst maintaining and improving service delivery and communication with that community; and
3. In association with NZDF, plan and manage the attendance of veterans at various significant WWI and WWII commemorative events over the period of the 4YBP.

Implementing changes to the War Pensions Act 1954

The impact of the changes to the War Pensions Act 1954 will depend on Cabinet's agreement to the range of initiatives recommended by the Law Commission [6]

[6]

Respond to Changing Demographics

The demographic changes occurring within the veteran community over time will have a significant impact on the total cost to Government of Non Benefit and Unrequited Expenses (BOUE). Current forecast trends are included in the current baseline forecasts as follows:

	Forecast BOUE Changes				
	2011/12	2012/13	2013/14	2014/15	2015/16
	\$M	\$M	\$M	\$M	\$M
Overall BOUE (\$M - Decrease)	155.064	151.004	146.615	143.340	138.862

Changes in the demographics of the veteran population will cause both average rates of payment and number of recipients to meander, sometimes significantly, around longer term trends. This will require forecasts to be subject to on-going revisions. The longer-term BOUE trend will possibly have some impact on the way that VANZ operates over time. However at this stage it is considered more appropriate to respond to the trends as they occur rather than anticipate the situation in four years.

Commemorative Events

Additionally, managing the Government’s participation in the provision of commemorative events will create an increased effort for VANZ staff over the budget period, due to the significance of a number of WW1 and WW2 commemorations that fall during this period. There is community expectation that appropriate recognition is given to veterans, particularly the aging WWII veterans as this is likely to be the last time that the majority will be able to commemorate them.

These however are not expected to result in significant new cost pressure.

The possible exception is the 100th anniversary of the Gallipoli landings in 2015. VANZ is appropriated annually approximately \$1m for Gallipoli anniversary commemorations, most of

which relates to a contract for infrastructure and events management. VANZ staff are in the process of engaging with other key stakeholders in regard to the likely size of the VANZ commitment to Gallipoli 2015 and costings will only become clear after this consultation process is completed. VANZ therefore expects to include a bid for any Gallipoli 100th Anniversary funding in the next 4YBP.

Section 3: Cost Pressures

The current VANZ appropriation totalling \$167.604m is made up as follows:

	\$M
BOUE	155.064
Departmental Personnel	4.813
Departmental Operating	4.054
Non-Departmental (Incl. services & payments to veterans, maintenance and development of cemeteries etc)	3.673
Total	167.604

BOUE Cost Pressures comprise the annual CPI adjustment to War Disablement Pensions (WDP comprise around 86% of FY 11/12 BOUE). Outyears are already modelled on CPI assumption increases that are subsequently adjusted according to the annual CPI rate. Over the period of the 4YBP CPI increases are modelled as indicated below (using PREFU 2011 assumptions). Overall, the BOUE spending trend is dominated by a falling trend in the number of veterans giving a reducing War Disablement Pension spend albeit with a higher CPI influenced average payment rate.

The other component of total BOUE spending is Medical Treatment (14% of FY 11/12 BOUE). Medical expenses are based on spending trends over recent years and do not explicitly factor in mortality. Any cost pressures are implicit in the trend and cannot be isolated. The medical expenses component of the BOUE is flat over the period of the 4YBP with up and down pressures largely in balance. Cost pressures include medical care and equipment prices, uptake of entitlements by veterans and the combined effects of morbidity and mortality. The latter effect has had an increasing influence on total spending in recent years.

War Disablement Pension Component of BOUE	2011/12 \$M	2012/13 \$M	2013/14 \$M	2014/15 \$M	2015/16 \$M
Baseline	132.620	129.647	125.169	121.706	117.200
CPI Increase Factored-in	3.0%	1.8%	2.6%	2.5%	2.7%
Compounded Cost Impact Factored-in	0.947	4.232	6.394	9.033	11.300

[10]

[10]

Departmental Operating: The major components of the Departmental operating budget are:

Commemorations \$1.790m. This largely comprises annual contracted Gallipoli infrastructure site management costs (under contract until 2016 and not subject to cost pressure) and one-off funding for World War II Bomber Command Commemorations in London in June 2012. In regards to the Gallipoli 100th Anniversary Commemorations, although some cost pressures will emerge as the specifications and scope for this commemoration is finalised, an estimate has not been provided at this stage as it would only constitute a guess. VANZ therefore expects to include a bid for any Gallipoli 100th Anniversary funding in the next 4YBP.

Cemeteries and Memorials \$0.478m. This comprises refunds to families of veterans for the cost of plaque installations and the cost of plaque manufacturing for veterans where the veteran's death has been deemed attributable to service. The material cost pressure here relates to a prime contract with a Foundry that manufactures the vast majority of veteran plaques. The contract in question was re-negotiated in late October 2011 with a 10% price increase (\$0.038m).

Overseas and Domestic Travel \$0.318m. Cost pressure here relates primarily to Air New Zealand fare increases that are subject to fluctuations in the price of aviation jet fuel. Effective from March 2011 Air New Zealand increased domestic airfares by an average of 7%. This translates to approx \$0.010m spend increase for VANZ per annum. The likely future movement in the barrel price of jet fuel is subject to many variables and therefore has not been included as a cost pressure.

Property Rental \$0.300m. VANZ has recently had the Wellington office rental agreement renewed (July 2010) that saw an annual reduction in rental of 11% or -\$0.019m. The Hamilton office sub-lease agreement is to be renewed at the end of February 2012 and VANZ has been advised to expect an annual rental increase of up to 10% (\$0.013m per annum). Therefore an overall decrease in office rental of -\$0.006m has been achieved.

Contractor Fees \$0.318m. VANZ will achieve savings from a replacement software maintenance and support agreement -\$0.100m from FY 12/13 onwards in association with the VOS IT Project set out below..

Minister's Discretionary Fund \$0.100m. This fund has been established in recognition of the value attending commemorative events have for the servicemen and servicewomen who have served New Zealand. The fund is designed to assist individual veterans of the New Zealand Armed Forces who wish to attend overseas commemorations and/or revisit battlefield sites. The fund also supports veterans' groups who have projects of enduring

quality, commemorating the contribution veterans have made. Cost pressure here relates to demand on the Minister’s Fund exceeding the limit of \$0.100m and the fund is often over-subscribed. It is not possible to predict future ‘cost pressure’ here.

Other budgeted costs cover a multitude of cost elements such as phone rental/tolls, postage, courier, publications, stationery etc. Whilst these may experience a level of cost pressure the scale is minor and not itemised.

Operating Implications of \$200k Operating to Capital Transfer:

VANZ has recently raised with Treasury a \$200k Capital funding shortfall surrounding the Veteran Online Services (VOS) IT Project. This proposed operating to capital transfer in FY11/12 can be done as a FNA.

- VOS will integrate the payment of War Disablement Pensions and Case Management and will allow VANZ to continue improvements to service delivery and strengthen communication between the veteran community and VANZ. A window of compensatory savings is to be achieved through a negotiated maintenance and support contract fee reduction from the prime vendor of the legacy IT system over the period September 2011 to June 2012. Soon after this time it is expected VOS will be delivered and a new maintenance and support agreement will be entered into.
- Continual improvements to service delivery and strengthening communication between the veteran community and VANZ is one of the Vote priorities over the next four years. These priorities link to the Government’s key priority of improving the quality of public services. The services provided to veterans support the Government’s stated intent underpinning policy related to veterans of ‘Respecting Veterans, Honouring Service’.
- VANZ will manage the estimated associated out-year increases in both resulting changes to depreciation of VOS (estimated additional \$0.020m) and capital charge costs (estimated additional \$0.016m) from within existing baselines.

	2011/12	2012/13	2013/14	2014/15	2015/16
	\$M	\$M	\$M	\$M	\$M
Current baseline Departmental Operating	4.054	3.916	4.954	3.354	3.354
Cost increase / decrease		-0.022	-0.022	-0.022	-0.022

Non-Departmental: This comprises:

Development and Maintenance of Service Cemeteries: This comprises annual maintenance grants made to Councils who maintain Services cemeteries according to a rate per square metre (fixed \$0.326m) and a prioritised VANZ 5-year Capital Works Programme (FY 11/12 \$0.420m). Cost pressure here to VANZ relates to the erosion over time in real terms of what work can be funded by VANZ and subsequently completed by Councils/contractors up to the Vote maximum for this output.

Support for Veterans and their Families: This comprises payments made to home-care providers and other service providers to veterans (lawn mowing, window cleaning etc) up to a cap of \$1.027m. A further \$0.250m annual grant paid to The Royal New Zealand Returned Services Association ended in FY 11/12. Cost pressure here to VANZ relates to the erosion over time in real terms of what homecare/support services work can be funded by VANZ up to the Vote maximum for this output.

MOU Vietnam Veterans: This comprises comprehensive annual medical assessment costs and ex-gratia payments made to Vietnam Veterans and accepted medical conditions of their family members in accordance with the MOU between the Government and Vietnam Veterans (\$1.4m). Cost pressure here to VANZ relates to the erosion over time in real terms of what can be funded by VANZ up to the Vote maximum for this output.

Debt Write-down for BOUE: This comprises the writedown of Crown debtors (\$0.250m) and is not associated with cost pressures.

[6]

[6]

Section 4: Proposed Changes for 2012/13 to 2015/16

Efficiency Savings

VANZ has had a fixed baseline for four years since 2008/09. During this period a number of cost increases have been absorbed.

The responsibility for War Disablement Pensions was transferred to VANZ with effect from 1 July 2008. One of the aims of the integration was to improve service delivery and overall efficiency. Martin Jenkins was requested to report on the success of the integration and review areas that could be further improved. They reported on 10 August 2010 that the overall performance had improved significantly since integration. They thought further benefits could be achieved by looking at the policy function, legal services and back office support. These recommendations were accepted and have or are being implemented but are unlikely to lead to further savings. Further reviewing of the systems, processes and delivery is unlikely to lead to any further significant saving. The services being delivered by VANZ are set by Statute and unable to be varied without statutory/regulatory intervention.

Additionally there are a number of reprioritisation/efficiency activities inherent in the planned legislative changes.

Reprioritisation

VANZ will be required to reprioritise funding of between \$0.087m and \$0.113m per annum during the period of the 4YBP. Collectively to achieve this VANZ will:

1. Target reductions across a number of departmental operating expenses cost elements. VANZ has set targets to reduce expenditure in internal travel (15% \$0.038m), Publications and Stationery (15% \$0.022m), Computers, Office Equipment, Furniture and Fittings (\$0.055m collectively). VANZ does not believe this will result in any adverse impact on output performance.

Introduction of New Legislation

[6]

Developing a modern piece of veterans' legislation in response to the Law Commission report into the War Pensions Act 1954 is one of the Vote priorities over the next four years.

These priorities link to the Government's key priority of improving the quality of public services. The services provided to veterans support the Government's stated intent underpinning policy related to veterans of 'Respecting Veterans, Honouring Service'.

The Law Commission provided 170 recommendations in their Report on the Review of the War Pensions Act 1954.

[6]

Section 5: Baseline capital expenditure

Vote Veterans' Affairs – Defence Force is unable to influence the Government intention for capital expenditure. The only current VANZ capital expenditure is the VOS IT Project as set out in Section 3 (\$0.740m with a further \$0.200m to be sought by way of an operating to capital transfer). This project sits on the NZDF's balance sheet as VANZ is not appropriated for capital expenditure.

VANZ has no other future capital intentions during the period of this 4YBP that may have an impact on operating costs.

5. Departmental capital expenditure	\$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
a. Opening baseline funding available ¹	0	0	0	0	0
b. Depreciation funding (1:51:1, 199)	0	0	0	0	0
c. Sale of assets (1:52:0, 1999)	0	0	0	0	0
d. Other (please specify)	0	0	0	0	0
e. Total baseline funding available (a+b+c+d)	0	0	0	0	0
f. Capital investments funded from baselines	0	0	0	0	0
g. Closing baseline funding available (e-f)	0	0	0	0	0

6. Non-departmental capital expenditure	\$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Capital investment in organisations other than departments (0:6:X & 0:7:X, 599)	0	0	0	0	0
Baseline funding available for the purchase or development of Crown capital assets (0:6:X & 0:7:X, 699)	0	0	0	0	0
Total	0	0	0	0	0

Section 6: Further options

VANZ has evaluated the payment system used to pay veterans and vendors. Currently, all adhoc payments that are not paid through the VANZ payment system (WAR) are outsourced to NZDF who pay them on behalf of VANZ. It was determined that no further outsourcing of payments can occur due to the unique nature of the WAR payment system, and therefore costs in this Vote cannot be further reduced.

No further options have been considered at this stage. Whilst some investigations are underway to determine any significant worthwhile benefits that would be derived from the further integration of VANZ with NZDF, these are not expected to offer much by way of a return.