

The Treasury

Budget 2017 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
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[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[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)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2016/1980 DH-23-1-1
Date: 17 October 2016
To: Minister of Finance (Hon Bill English)
Deadline: 18 October 2016

Budget 2017: Meeting with Minister of Defence

You are meeting with the Minister of Defence on Tuesday 18 October at 5:00pm to discuss Defence four year plans, cost pressures, and likely Budget initiatives. As we understand the Ministry of Defence will not be seeking additional funding at Budget 2017, we expect this meeting to focus on the New Zealand Defence Force (NZDF).

Issues you may wish to discuss with the Minister of Defence

- The expected quantum and structure of NZDF's Budget bids.
- Set an expectation that NZDF's bid will be structured so as to allow options for scaling or phasing of investment, should this be required to help manage the Budget.
- Seek the Minister's views on how the NZDF might seek to manage the impact of ^[33] through scaling or deferring other investments.
- In agreeing the Defence White Paper (DWP), Cabinet directed Defence to undertake work aimed at providing assurance that operating costs can be managed within the indicative funding track. You may wish to ask about the progress that has been made to bring operating costs/personnel costs under control.
- Reiterate the importance of adhering to the Budget requirements so that Ministers can make informed judgements across all areas of proposed new spending.

Four year plans

The NZDF is still at an early stage of drafting its four year plan. The key challenges highlighted in the current draft are:

- increased demand on Defence resources from international partners
- implementing major organisational change programmes
- the introduction into service of new equipment, and
- ongoing cost pressures.

Central Agencies have set an expectation that NZDF's four year plan give particular focus to:

- demonstrating how the NZDF is delivering on the Government's defence policy following substantial investment over the past three Budgets
- providing a robust self-assessment of performance in such areas as people management and organisational change, and
- clear plans to address the personnel cost pressures that were identified during the 2016 DWP process.

NZDF has been responsive to Central Agency feedback to date and current indications are that the Plan will deliver to some extent on these elements.

Budget initiatives

The indicative funding track agreed in the context of the DWP will have an ongoing significant impact on Budget allowances (notably the capital allowance), becoming particularly acute in the 2020s as a number of aircraft and ships are due for replacement.

We expect NZDF's primary Budget 2017 bid to be a Track 2 initiative covering the forecast costs of implementing the DWP for 2017-18. This could comprise up to [33] in capital injections and operating cost increases of up to \$100 million per year. This will be confirmed by the NZDF once work on its four year plan is complete.

In early November the Minister of Defence will present a paper to Cabinet which will provide greater fidelity on the timing and cost of capability investments foreseen in the DWP. While the plan will not identify opportunities for phasing or scaling for individual investment decisions, it does provide Ministers with the opportunity to revisit the Defence capability/cost trade-off ahead of Budget decisions.

A major influence on the scale of the NZDF's Budget bid will be whether Ministers decide to [33]

This could add capital costs of an estimated [33] to the above intentions.

Further details of the [33] proposal will be presented to Cabinet in December. Defence will need to present robust costing data to ensure that the proposed change in timing represents a real saving, as well as options for trade-offs within the Defence portfolio to manage the fiscal impact of bringing forward this decision.

Other possible Budget initiatives are:

- [33]

- [33]

Other cost pressures

[33]

[33]

Cost Benefit Analysis (CBA)

The Budget guidance requires CBA to support all initiatives, allowing for greater comparability of bids across Government. NZDF has expressed concern at the compliance cost involved in producing further analysis to support its Budget bids. It considers that the DWP assesses the costs and benefits of planned defence capability at a high level and it performs cost-benefit analysis in individual business cases.

We have some sympathy for this view given the Budget bid is to establish a tagged contingency that is drawn down once individual business cases are approved by Cabinet. However, requiring NZDF to prepare suitable CBA for its bids provides for better comparability/prioritisation across proposed new government spending and NZDF should be well placed to complete the required analysis. We expect NZDF will seek an exemption from the CBAX requirement and Treasury will work with them to provide appropriate supporting information for the bids.

You may wish to reiterate the importance of adhering to the Budget requirements so that Ministers can make informed judgements across all bids, and underscore that the work completed on the DWP should see NZDF well-placed to produce the required CBA analysis.

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