

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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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.

## Modernising the Delivery of Defence Force Logistics: Approval to Implement

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### Purpose

1. This paper seeks Cabinet approval to undertake investment to modernise the logistics system of the New Zealand Defence Force (NZDF). This system will allow NZDF to operate with fewer pieces of equipment that are better utilised through improved management and maintenance. It is forecast to save \$523 million in capital out to 2030, and \$1.099 billion beyond 2030.

### Comment

2. [1]
3. Defence states that savings from the project will be at least \$532 million in capital out to 2030, with an additional \$1.099 billion saved beyond 2030. These savings are primarily cost avoidance, with NZDF requiring fewer replacement vehicles and other pieces of equipment to meet required outputs. These savings have already been factored into the Defence White Paper (DWP) indicative funding allocation, and so successful delivery of this programme is vital for NZDF capital sustainability.
4. The capital cost of the preferred option is \$129.882 million, including a \$18.446 million contingency. The operating costs are \$2.421 million in 2017/18, the first full year of the project, and increase to around \$16.4 million per year between 2022/23 and 2029/30. The estimated whole of life cost (WOLC) to 2029/30 is \$298 million.
5. This capability requirement was included in the DWP. Both the capital and operating costs are greater than those envisaged in the DWP. NZDF is proposing to fund these short falls through reprioritisation from within the portfolio.
6. Due to a misalignment between the costs of various Defence capability agreed in the DWP and the funding appropriated in Budget 2016, the capital costs will need to be funded as a pre-commitment against Budget 2017. The operating costs will be funded from the tagged contingency established in Budget 2016. In order to accommodate the proposed operating spending within the existing tagged contingency Treasury has re-phased the funding between years. This is fiscally neutral over the forecast period with a corresponding impact on the operating balance in each year.

### Treasury Recommendation

7. We recommend that you **support** the recommendations in this paper.

*The following table goes into the Executive Summary of the paper*

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			16/17	17/18	18/19	19/20	Out years	
Modernising the Delivery of Defence Force Logistics: Approval to Implement		<b>Support</b>	<i>Operating</i>					The proposed project would modernise the NZDF's logistics systems so less equipment need to be purchased, and it is kept in better condition and used more often. Capital savings are projected at \$523 million out to 2030.
			-	-	-	-	-	
			<i>Capital</i>					
			5.298	23.779	47.656	47.220	5.929	