

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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[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[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.

Defence Estate Regeneration Tranche 1

The Defence Estate Regeneration Programme Plan approved by Cabinet in August 2016 contains an indicative \$1.7 billion in capital investment spread over three tranches:

- Tranche 1 2015/16-2019/20, 'Ramping up Investment' - \$380 million
- Tranche 2 2020/21-2024/25, 'Major Regeneration Investment' - \$860 million
- Tranche 3 2025/26-2029/30, 'Steady State Investment' - \$444 million

The New Zealand Defence Force (NZDF) has sought new funding of ^[33] in Budget 2017 to implement projects through to the end of Tranche 1. Joint Ministers (Defence and Finance) gave approval in December 2016 for NZDF to undertake initial planning work on these projects, on the understanding that they would be subject to available funding being confirmed through the Budget process.

In considering Budget initiatives, Investment Ministers requested further information on the individual projects in Tranche 1, including which of these addressed health and safety issues, NZDF's ranking/prioritisation of these investments, and Treasury's assessment of these. NZDF has provided the information in the attached Annex.

The initiative covers 53 individual projects. Eleven of these are directly relevant to health and safety and/or regulatory and compliance issues. The remaining projects are aimed at ensuring existing assets are fit for purpose, or support the implementation of other projects.

NZDF has noted that thirteen of the Tranche 1 Estate projects directly support the delivery of DWP capability projects, both planned (HF Radio Network Upgrade, Future Air Surveillance, Future Air Mobility, HMNZS Canterbury Replacement Landing Craft) and under implementation (Consolidated Logistics Project, Network-Enabled Army, Maritime Sustainment Capability). There is some overlap (2 projects) between these thirteen and projects relevant for health and safety/compliance.

Type of project	Number of projects
Relevant to health and safety only	5
Relevant to regulatory and compliance issues only	4
Relevant to both health and safety and regulatory/compliance	2
Projects directly relevant to DWP capability acquisition projects and not included above	11
Other projects	31
Total	53

Funding Options

Scaling funding to \$100 million as proposed by the Investment Panel would provide sufficient funding for NZDF's top 25 priority projects (\$97.9m). Such an envelope would fund all but one of the health and safety/compliance projects, and we expect NZDF could reprioritise one of the other projects to provide for this.

This compares to the following approaches to building a funding level:

Option	Total (\$M)	Treasury Comment
1. Funding only the 11 projects identified for health and safety/compliance.	[33]	Do minimum. Risks to delivery of some other dependent projects. Some unfunded projects may still be carried forward.
2. Funding health and safety/compliance projects plus projects directly relevant to DWP capability acquisition.	[33]	Do minimum, mitigating risk to delivery of other projects. Some unfunded projects may still be carried forward.
3. Funding health and safety/compliance projects, projects directly relevant to DWP capability acquisition, and all years of contingent funding for rolling plant replacement, professional services etc.	[33]	Mitigates risk to other projects and provides some funding flexibility to reprioritise as urgent health/safety issues or other priorities emerge. Some unfunded projects may still be carried forward.
4. Fund all projects	[33]	Do maximum. Consistent with Estate Regeneration Programme Plan. Mitigates risk of cost pressures carrying forward.

Implications if scaled

The NZDF considers that the Defence Estate has suffered from historic under-investment, resulting in deteriorating infrastructure that it claims risks reducing the delivery of NZDF outputs. If funding is reduced or not approved NZDF considers that the Estate will continue to deteriorate with an adverse effect on its ability to generate and maintain military skills and capabilities. Further to this general impact, not funding projects in Tranche 1 which directly support other capability projects may impact on the delivery of those projects.

[33]

Tranche 2 is identified under the Estate Regeneration Programme Plan as a period of major regeneration works requiring significant investment, with total expenditure of around \$860 million, of which around [33] million will be new funding sought.

Treasury recommendation

While Cabinet has taken in-principle decisions relevant to this initiative, you may wish to consider reducing the amount of funding provided in order to manage within the current capital allowance.

Rather than selecting between individual projects, we suggest the best approach would be to offer a fixed funding envelope and require NZDF to manage within that envelope. Taking this approach rather than having Ministers pick and choose projects will provide NZDF with incentives to prioritise spending and enforce accountability for its decisions.

The above analysis suggests that an allocation of \$100 million, as suggested by the Investment Panel, would be sufficient to address health and safety issues and projects with a direct impact on DWP capability acquisition, as well as providing some funding for additional priority projects.

In confirming Budget decisions, you will need to consider whether this envelope would be fixed for the duration of Tranche 1, or whether NZDF may bid to fund the remaining Tranche 1 projects in future Budgets.

Annex 1: Defence Estate Tranche 1 Project List

[38]

