

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
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- [6] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
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- [8] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [9] 9(2)(h) - to maintain legal professional privilege
- [10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [13] Not in scope
- [14] 6(e)(iv) - 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.

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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.

## Treasury Report: Budget 2014 - Options for New Zealand Defence Force Bid

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<b>Date:</b>	27 February 2014	<b>Report No:</b>	T2014/299
		<b>File Number:</b>	DH-23-0-5

### Action Sought

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	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<p><b>Confirm</b> that Ministers still support the Defence Mid-Point Rebalancing Review funding track and that you are looking to sequence operating injections to manage Budget 2014</p> <p><b>Note</b> that you have broad options to defer around \$10-30 million into Budget 2015 while preserving the DMRR funding track agreed by Cabinet</p> <p><b>Discuss</b> the matter with the Minister of Defence</p> <p><b>Direct</b> Defence and Treasury officials to work together to confirm the exact options and implications, and</p> <p><b>Indicate</b> if you wish to meet with Treasury officials to discuss the matter further.</p>	4 March 2014

### Contact for Telephone Discussion (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
Stephen Goodman	Senior Analyst	04 890 7238 (wk)	0212385678 (mob)	✓
Oliver Valins	Manager, Justice & Security	04 917 6228 (wk)	021-939-655 (mob)	

### Actions for the Minister's Office Staff (if required)

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**Return** the signed report to Treasury.

If requested by the Minister, **set up** a meeting with the Minister of Defence and/or a meeting with Treasury.

**Enclosure:** No

## Treasury Report: Budget 2014 - Options for New Zealand Defence Force Bid

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### Executive Summary

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[7]

, Ministers could:

- defer capital-related costs into later years (recommended)
- defer Estate remediation (increases cost later), and
- reduce activities (requires discussion with the Minister of Defence).

[7]

If you wish to pursue some or all of the options in this report, we recommend that you and the Minister of Defence direct officials to validate these options and consequences.

### Recommended Action

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We recommend that you:

- a **note** that, at the Fiscal Issues meeting on 18 February, you asked for options around the NZDF Budget 2014 bid

[7]

[7]

g **note** that there are options to reduce the NZDF Budget 2014 bid, for example by:

- deferring capital injections into later years (recommended)
- deferring Estate remediation (increases cost later), and
- reducing activities (requires discussion with the Minister of Defence)

h **note** that the options to defer capital may achieve around a \$10-30 million reduction in Budget 2014, but we will need to confirm this with the NZDF

[7]

m **discuss** the matter with the Minister of Defence if you wish to see detailed options for the NZDF Budget 2014 bid

*Agree/disagree.*

- n **direct** Defence and Treasury officials to work together to confirm a range of options with associated consequences (including reductions of \$20 million, \$30 million and \$40 million from the full bid of \$139.542 million on average over four years), and

*Agree/disagree.*

- o **indicate** if you wish to meet with Treasury officials to discuss the NZDF Budget 2014 bid further.

*Agree/disagree.*

Oliver Valins  
**Manager, Justice & Security**

Hon Bill English  
**Minister of Finance**

## Treasury Report: Budget 2014 - Options for New Zealand Defence Force Bid

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### Purpose of Report

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1. You asked for options for the New Zealand Defence Force (NZDF) Budget 2014 bid, to inform your discussions with Social Sector, Business Growth Agenda, and Budget Ministers.

### Background

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2. In November 2013, Cabinet considered a shortlist of options to balance Defence policy, capability and funding as part of the Defence Mid-Point Rebalancing Review (DMRR) (CAB Min (12) 44/15). [7]

[7]

### The NZDF Budget 2014 bid

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6. The main components of the NZDF Budget 2014 bid are:
  - capital-related costs of equipment [7]
  - more activity driven by the equipment [7] ;
  - [7]
  - modest estate remediation – seismic strengthening [7] .
7. The NZDF Budget 2014 bid is required primarily to cover the cost of capabilities that Cabinet has already committed to and that are coming into service in 2014/15. The gap in operating funding for capital assets was the key driver behind Treasury proposing the DMRR. Almost \$75 million is required for the depreciation, capital

charge and operating costs of capital assets. Capabilities coming into service or requiring operating expenditure in 2014/15 include, but are not limited to:

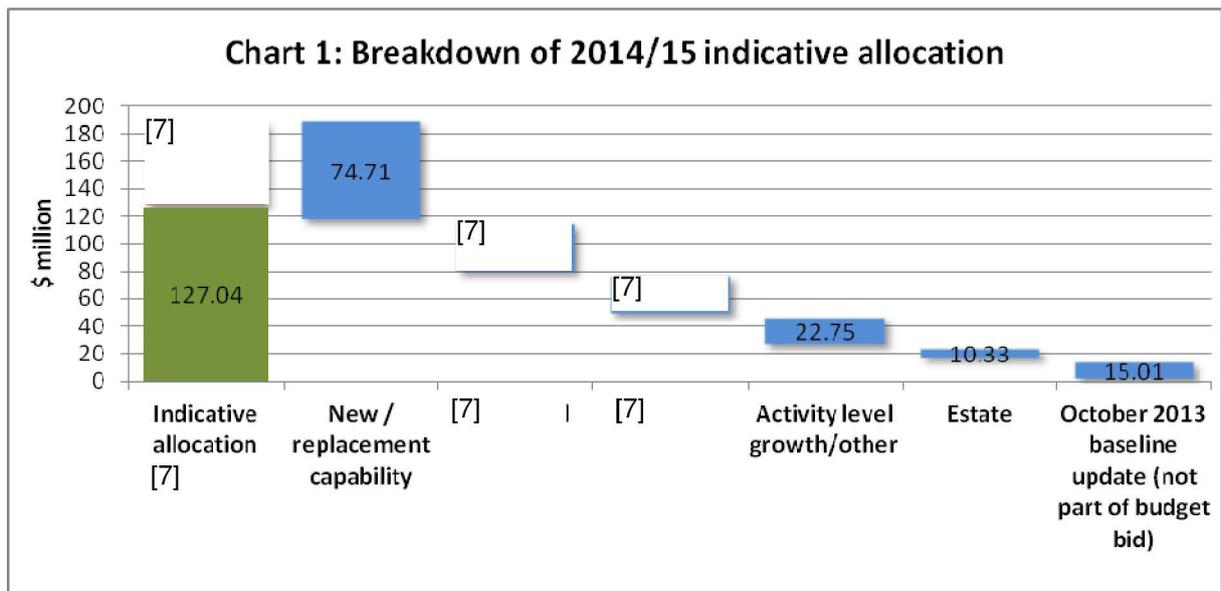
- remediated C-130H, P3 and training aircraft
- NH90, A109 and Seasprite Naval Helicopters, and
- Medium and Heavy Operational Vehicles (trucks).

8. The budget bid has little operating funding for new activities. [7]

There is modest new funding for the increased activity levels of the Army, Navy and Air Force (\$22.75 million), associated with the higher number of assets in service. [7]

[7]

10. This means that there is already fiscal tension within the NZDF appropriation that it will have to actively manage through savings<sup>1</sup>. Reducing the NZDF's Budget 2014 bid too far would increase the fiscal tension beyond manageable levels.



Source: NZDF Four Year Plan, 2014/15-17/18<sup>2</sup>

## Options for reducing the NZDF Budget 2014 bid

[7]

<sup>2</sup> The October baseline update comprises expense transfers from 2013/14 rolled forward into 2014/15. So, while it is not a part of the Budget bid, it is still a component of funding needed to cover total cost pressures. Because of the expense transfers, the NZDF is bidding for \$15 million less in Budget 14 than it had originally planned.

[7]

*Option 1 – fund the full allocation*

[7]

*Option 2 - Reduce the NZDF's allocation by around \$10-30 million in Budget 2014 through re-profiling capital-related costs*

15. The NZDF has revisited the assumptions it made as part of DMRR in mid 2013 about the timing for capital expenditure on military equipment. Capital expenditure incurs operating costs for depreciation and capital charge.[7]

[7]

[7]

[7]

24. The NZDF will need to validate our options. If you wish to explore these options further, we recommend that you discuss them with the Minister of Defence and direct Treasury and Defence officials to confirm the options and the implications.

#### Options – if you wish to revisit the DMRR funding track

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25. If the reduction in the NZDF Budget 2014 bid is too great, then the NZDF will not be able to remain on the DMRR funding track – [7]

[7,8]

27. If Ministers wanted to significantly reduce the NZDF budget bid, we would recommend that Ministers revisit the funding track and policy options contained in the DMRR.

[7]