

The Treasury

Budget 2022 Information Release

August 2022

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Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Out of Scope
- [41] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment
- [42] 18(d) - information is already publicly available or will be publicly available soon

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Hon Grant Robertson

MP for Wellington Central

Deputy Prime Minister

Minister of Finance

Minister for Infrastructure

Minister for Sport and Recreation

Minister for Racing



22 October 2021

Hon Peeni Henare
Minister of Defence
Parliament Buildings
Wellington

Dear Peeni

Overview

Thank you for your recent engagement on Budget 2022. As you will be aware, we have set a very high bar for the initiatives that will be invited for submission.

Over 560 initiatives were submitted through the Budget 2022 invitation process. Indicative funding sought totals \$64 billion operating and \$9.2 billion capital across the forecast period. As will be obvious to you, that is far beyond the funding available and has required me to make early decisions to allow for an effective Budget process.

Even having done this, I still need your assistance to support the Budget process. In that light, I have had to carefully reduce the number of potential Budget 2022 initiatives through the invitation process, to reduce wasted effort and to ensure that the Budget decision-making stage is as strategic and targeted as possible, supported by robust value-for-money analysis and confidence of delivery.

I expect the number of initiatives submitted in December across all portfolios to be less than the number invited. Similarly, I expect total funding sought to be less than the indicative funding of invited initiatives. I ask that you play your part in this focusing of Budget priorities and only submit those invited initiatives in your portfolios that are the highest priority, represent strong value for money, and are implementation ready.

When initiatives are submitted in December, I expect these to be accompanied by a clear articulation of relative priorities. This may include a ranking of submitted initiatives within your portfolio, identifying those that are less discretionary and higher priority.

When prioritising, I expect you to focus on the implementation readiness of initiatives and delivery risk. I will only be supporting initiatives that are implementation ready, unless there is clearly articulated reasoning for why an exception to this rule should be considered.

NZDF's approach to capital investment and compliance with Cabinet requirements

[34]

I wanted to take this opportunity to set some clear expectations regarding NZDF's approach to capital investment and funding. NZDF must comply with the requirements of Cabinet Office circulars *CO (18) 2: Proposals with Financial Implications and Financial Authorities* and *CO (19) 6: Investment Management and Asset Performance in the State Services*. These circulars require any proposals that seek new funding to be agreed by Cabinet so that the investment and funding decisions are aligned. This is the case regardless of whether investments fit within the delegated authority thresholds for the approval of investments provided to Ministers and Chief Executives by Cabinet.

[34]

[34]

New funding should only be sought for initiatives closely related to Government priorities; and for unavoidable cost pressures driven by factors outside the control of NZDF and where it has demonstrated it is not able to meet these pressures within baselines.

[1], [34]

[1]

[34]

As a Government we need to ensure we focus our limited funding on the areas that best match our priorities and provide the highest wellbeing benefits. [34]

Budget 2022 Invitations

With the above in mind, I have considered the proposals that you outlined in your letter for your Defence portfolios, and the initiatives detailed in Annex 1 are invited for consideration through Budget 2022. I ask that you work with the Minister for Veterans Affairs to jointly rank all Defence and Veterans Affairs portfolio initiatives in order of priority and provide this information alongside the invited initiatives.

All Budget 2022 initiatives are expected to complete all value-for-money information and analysis requirements outlined in the initiative submission template due 10 December, except for cost pressure initiatives identified with an asterisk in Annex 1. As these initiatives are considered to be low-risk and involve a smaller quantum of funding, only the delivery aspects of the value-for-money information and analysis need to be completed.

Initiative submission templates and guidance were communicated to your department on 30 September and are available on CFISnet.

Please note that while I have invited these initiatives to be submitted for consideration, this does not guarantee that they will receive funding. Consistent with my comments above regarding the need for NZDF to put more focus on living within its existing funding, there are several initiatives that have been invited where the case for funding does not appear convincing. However, I am willing to provide NZDF an opportunity to present its case.

The Treasury will assess the value for money and relative priority of all initiatives, and this advice will help to inform the shape of the final Budget 2022 package considered by Cabinet. Therefore, I expect that all initiatives will be supported by a robust case for funding and a strong evidence base, as well as realistic scaling and reprioritisation options.

Next steps

The proposals that I have not invited you to submit as Budget 2022 initiatives may be addressed through future Budgets or other levers such as reprioritisation of baseline funding. As per the expectations that I have previously outlined, I will not support any out-of-cycle funding requests for these initiatives unless there is a compelling case for urgency.

Yours sincerely



Hon Grant Robertson
Minister of Finance

Annex 1: Budget 2022 Invitations

ID	Title	Comment and/or condition
13580	Depreciation Funding Shortfall	<p>I expect that the quantum sought in this initiative will be revised down with:</p> <ul style="list-style-type: none"> • funding only being sought for the most critical maintenance activity, where delays in maintenance activity will have a material impact on NZDF's ability to meet key Government needs • rigorous prioritisation being undertaken in determining the funding sought, both in terms of funding necessary for the critical maintenance activity and in freeing up funding across other aspects of NZDF's operations, and <p>I am also seeking assurance that NZDF's approach to capital investment will in future comply with all aspects of the relevant Cabinet Office circulars and that remedial action will be put in place to ensure this problem does not occur again.</p>
13581	Defence Capability Plan Update - Sustainment Investment	<p>[33]</p> <p>The initiative should also include significant scaling options and the specific service delivery implications for each option if not funded.</p>
13584	Remuneration	<p>It is my expectation that remuneration increases are largely funded through efficiency gains. I expect this initiative to be accompanied by a detailed forward-looking plan which sets NZDF personnel costs on a sustainable track in the near to medium term. I expect that this plan will consider different levels of staff mix and seniority, which may require changes to the current NZDF operating model.</p>
13585	Depreciation Expense Arising from Asset Revaluation	

13586*	Construction Inflation	I expect this initiative to include detailed information about pricing pressures from vendors, including any variations to existing contracts and inflation for contracts currently under negotiation.
13587*	Supply Chain Inflation	I expect this initiative to include appropriate evidence, significant and genuine scaling options and analysis regarding trade-offs for each scaled option, including implications for service delivery.
13591	Healthy Homes	
13730	Establishment and Operation of the Independent Inspector-General of Defence	
13733	[33]	