

The Treasury

Budget 2022 Information Release

August 2022

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- [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
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- [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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Treasury Report: Budget 2022 Multilateral: Hon Nanaia Mahuta (Foreign Affairs) and Hon Peeni Henare (Defence)

Date:	24 February 2022	Report No:	T2022/352
		File Number:	SH-14-1

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss the suggested talking points with the Ministers of Foreign Affairs and Defence.	Before your meeting with the Ministers at 9am, 3 March 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ben Quilter	Analyst, Justice, Security and Government Services	[39]	N/A (mob) ✓
Colin Hall	Manager, Justice, Security and Government Services	[35]	

Minister's Office actions (if required)

Return the signed report to Treasury.
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Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Budget 2022 Multilateral: Hon Nanaia Mahuta (Foreign Affairs) and Hon Peeni Henare (Defence)

Executive Summary

This report provides you with advice ahead of your meeting at 9am on Thursday 3 March with the Ministers of Foreign Affairs and Defence to discuss their Budget 2022 initiatives.

Foreign Affairs

Hon Nanaia Mahuta has submitted one initiative for the Foreign Affairs portfolio, seeking a total of [33] operating funding in 2022/23 and 2023/24 to continue to provide emergency budget support to Pacific countries facing fiscal crises due to the continuing impact of COVID-19. Reflecting the uncertainty around the continuing need for this support, a scaled amount of \$75 million for 2022/23 only, to be held in a tagged contingency, is recommended.

We also understand the Minister is likely to submit two Budget technical initiatives, including one that seeks agreement to carry forward anticipated underspends from this financial year to address general organisational cost pressures. This meeting provides an opportunity to set expectations that you expect MFAT to explore options to make sustainable reprioritisation decisions to manage its cost pressures.

Defence

Hon Peeni Henare has submitted nine initiatives across the Defence portfolio totalling [33] million operating funding across the forecast period (no capital is sought):

- two initiatives were submitted for the Ministry of Defence totalling [33] million, and
- seven initiatives were submitted for the New Zealand Defence Force totalling [33] million.

[34]

Recommended Action

We recommend that you **discuss** the suggested talking points with Hon Nanaia Mahuta (Minister of Foreign Affairs) and Hon Peeni Henare (Minster of Defence) at your meeting at 9:00 a.m. on 3 March 2022.

Colin Hall

Manager, Justice, Security and Government Services

Hon Grant Robertson

Minister of Finance

Treasury Report: Budget 2022 Multilateral: Hon Nanaia Mahuta (Foreign Affairs) and Hon Peeni Henare (Defence)

Purpose

1. You are meeting with Hon Nanaia Mahuta (Minister of Foreign Affairs) and Hon Peeni Henare (Minister of Defence), at 09:00 a.m. on 3 March 2022 regarding the initiatives they have submitted for consideration through Budget 2022. This report provides you with information on the relevant Budget initiatives and suggested talking points to support your discussion.
2. Three annexes are attached to this report:
 - a Annex A provides a baseline summary for Vote Foreign Affairs, Vote Defence and Vote Defence Force
 - b Annex B provides talking points for your multilateral discussion with the Minister of Foreign Affairs and Minister of Defence, and
 - c Annex C provides a full list of initiatives submitted in each of the portfolios, the funding sought and the Treasury Vote team assessment for each initiative.

Context

Foreign Affairs

3. The Minister of Foreign Affairs is the responsible Minister for expenditure in Vote Foreign Affairs. The Ministry of Foreign Affairs and Trade (MFAT) who administer the Vote also support the work of the Minister of Trade and Export Growth, the Minister of Disarmament and Arms Control, and the Minister of Climate Change in their respective portfolios.
4. Following the 2021 October Baseline Update, Vote Foreign Affairs' total baseline for 2021/22 is \$1.589 billion, made up of \$1.501 billion operating and \$88 million capital funding:
 - a the operating figure includes \$955 million for non-departmental expenditure (\$840 million of which is for New Zealand's official development assistance), and \$546 million for MFAT's departmental operating expenditure including policy advice, overseas representation and consular services, and
 - b the capital figure is comprised of \$63 million for MFAT's departmental capital expenditure (primarily on the property portfolio) and \$23 million for Antarctica New Zealand for the Scott Base Redevelopment Project.

5. Annex A provides an overview of trends in Vote Foreign Affairs baselines over the previous 10 years and across the forecast period. Trends of particular note include:
- MFAT's departmental expenditure has generally been held relatively flat, with the most significant increases being provided through Budgets 2017, 2018 and 2019 (for department expansion or cost pressures, APEC 21, and costs relating to the expansion of the property portfolio).
 - The baseline for New Zealand's official development assistance programme remained relatively flat until Budget 2018, after which significant amounts of new funding have been provided.

ODA Funding (\$m total across forecast period)	Non-Departmental	Departmental	Total
Budget 2018	645	70	714
Budget 2019	116	13	129
Budget 2020	50	5	56
International Climate Finance Commitment 2022-2025 [CAB-21-MIN-0410]	800	40	840

- A significant increase in capital expenditure in the Vote is primarily driven by the approval of the Scott Base Redevelopment Project in 2021, which has a total capital cost of \$309 million and operating costs of \$244 million across the period 2021/22-2039/40 (an average of \$12.8 million per annum) [CAB-21-MIN-0256].
 - COVID-19 continues to have an impact on MFAT's operations and expenditure. In 2020/21, there was an underspend of \$113 million in the Vote (8 per cent), \$45 million of which related to departmental expenditure.
6. The table below compare the funding sought and funded in Budget 2021 with the funding sought in Budget 2022:

	Budget 2021		Budget 2022	
	Sought	Funded	Sought	Recommended (Package)
<i>Operating (\$m)</i>	244	244	[33]	75
<i>Capital (\$m)</i>	309	309	-	-
<i>Key initiatives</i>	Our Place in Antarctica – Redevelop Scott Base to maintain a safe presence in Antarctica to conduct high quality science		Pacific Emergency Budget Support: Preventing fiscal crises and strengthening resilience in response to COVID-19	

Defence

7. The Minister of Defence is responsible for expenditure in Vote Defence and Vote Defence Force. The Ministry of Defence (MoD) is the appropriation administrator for Vote Defence, and the New Zealand Defence Force (NZDF) is the appropriation administrator of Vote Defence Force. The Minister for Veterans (Hon Meka Whaitiri) is also responsible for some expenditure within Vote Defence Force¹.

Ministry of Defence

8. Following the 2021 October Baseline Update, Vote Defence's total baseline in 2021/22 is \$1.114 billion², made up of \$33.684 million operating and \$1.080 billion capital funding. Apart from \$0.350 million of departmental capital expenditure, all Vote Defence capital expenditure is for the procurement of military equipment undertaken by MoD on behalf of NZDF and is fully offset by capital receipts from Vote Defence Force.

\$m	Operating	Capital	Total
2017/18	21	240	261
2018/19	21	446	467
2019/20	22	667	689
2020/21	21	696	717
2021/22	34	1,080	1,114

9. The Vote Defence operating baseline in 2021/22 is made up of \$27.184 million departmental (81%) and \$6.500 million non-departmental (19%). The key expenses funded from departmental operating appropriations are personnel (66%), and other operating expenses such as rental of premises, travel and professional fees (29%).

NZDF

10. Following the 2021 October Baseline Update, Vote Defence Force's total 2021/22 baseline is \$4.470 billion, made up of \$3.175 billion operating and \$1.295 billion capital funding.

\$m	Operating	Capital	Total
2017/18	2,712	460	3,172
2018/19	2,877	764	3,641
2019/20	6,597	855	7,452
2020/21	3,167	856	4,023
2021/22	3,175	1,295	4,470

11. NZDF's operating baseline in 2021/22 is made up of \$3.113 billion departmental (98%) and \$62.774 million non-departmental (2%) funding. The operating baseline has grown by 4% per year since 2017/18 and continues to grow by 1.5% per year over the forecast period to 2025/26 (before funding provided through this Budget):

¹ No Budget 2022 initiatives have been submitted by the Minister for Veterans.

² 2017/18 – 2020/21 baselines as at Supplementary Estimates, and 2021 October Baseline Update for 2021/22.

\$m	Appropriation Limit	Year-On-Year Growth		Year-End Actuals	Underspend
2017/18	2,712	79	3.0%	2,672	39
2018/19	2,877	165	6.1%	2,844	33
2019/20	6,597 ³	3,720	129.3%	6,128	469
2020/21	3,167	(3,430)	(52.0%)	3,018	149
2021/22	3,175	9	0.3%		
2022/23	3,182	7	0.2%		
2023/24	3,293	111	3.5%		
2024/25	3,361	68	2.1%		
2025/26	3,366	6	0.2%		

12. The key expenses funded from NZDF departmental operating appropriations are personnel (36%), depreciation and capital charge (31%) and other operating expenses, including materials, premises costs, repairs and maintenance, and training and travel costs (33%).

13. Total departmental capital funding in 2021/22 is \$1.295 billion and there is no non-departmental capital funding. Recent and upcoming capital expenditure in Vote Defence Force has been largely driven by the following acquisitions and programmes agreed by Cabinet:

a	<i>Boeing P-8A Poseidon Aircraft</i>	<i>(\$2,346m)</i>
b	<i>C-130J-30 Hercules tactical military aircraft</i>	<i>(\$1,521m)</i>
c	<i>Network Enabled Army Programme</i>	<i>(\$106m)</i>
d	<i>Dive and Hydrographic Vessel</i>	<i>(\$103m)</i>
e	<i>Light and Medium Protected Vehicles</i>	<i>(\$101m)</i>

14. The 2019 Defence Baseline Review identified issues with NZDF's financial management practices and there have continued to be examples of NZDF retrospectively seeking funding or Cabinet approval for investments. [34]

15. In your Budget 2022 invitation letter you expressed:

- [34] and that 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, and
- [34]

³ The large figure in 2019/20 is driven by a \$3.500 billion technical adjustment to recognise the initial liability for Veterans' entitlements, to give effect to a change in accounting standards.

Foreign Affairs

16. In October 2021, Cabinet agreed to a new set of principles for New Zealand's engagement in the Pacific set out in the paper *New Zealand's Pacific Engagement: From Reset to Resilience* [ERS-21-MIN-0031].
17. Alongside that paper, Cabinet also considered an accompanying paper titled *New Zealand's Pacific Engagement: Moving from COVID-19 Response to Recovery and Longer-Term Resilience*. This paper identified economic and fiscal resilience as one of five 'pillars' shaping New Zealand's engagement in the Pacific, and sought agreement for this to be the immediate short term focus for international development assistance spending until borders reopen and the risks of immediate economic and fiscal crises ease [ERS-21-MIN-0033].
18. Emergency budget support to Pacific Island countries of \$320 million has been approved for disbursement in the three financial years since 2019/20 (\$40 million in 2019/20, \$143 million in 2020/21, and \$137 million in 2021/22 to-date). So far, this support has been sourced from within existing baselines through use of contingency funds and some limited reprioritisation of existing development projects and activities.
19. In October 2021, Cabinet agreed to a new international climate finance commitment for New Zealand for the four-year period 2022-2025 of \$1.3 billion, requiring \$800 million in new funding for official development assistance baselines (plus \$40 million for associated departmental costs for MFAT administering the funding) [CAB-21-MIN-0410]. While MFAT are still developing plans for how this funding is to be spent, it has been agreed that 50% of the total commitment will go to projects and initiatives in Pacific Island countries.

Defence

20. In October 2021, Cabinet agreed to three priorities for the defence portfolio in the short to medium term: People, Infrastructure and Pacific [CAB-21-MIN-0439 refers].
21. Defence is in the early stages of developing a new strategic focus for the longer term, following the completion of the Defence Assessment 2021. One of the key findings of the Defence Assessment was that New Zealand's defence policy should shift from a reactive, risk-management centred approach to one based on a more deliberate and proactive strategy, with explicitly prioritised policy objectives [CAB-21-MIN-0439 refers]. [33]

22. The initiatives submitted through Budget 2022 are largely focused on maintaining and sustaining existing defence force capabilities. The key issues for defence at Budget 2022 are broadly:
- a addressing historic depreciation funding issues
 - b funding remuneration cost pressures while incentivising NZDF to manage within its funding and making trade-offs to prioritise spending, and
 - c addressing non-discretionary cost pressures arising directly from asset revaluation and COVID-19 impacts.
23. [34]

Initiatives submitted for Budget 2022

Foreign Affairs

Emergency Budget Support for Pacific Island Countries

Sought: [33] *Package:* \$75 million

24. The Minister of Foreign Affairs was invited to submit one initiative, seeking [33] to continue to provide emergency budget support to Pacific countries facing fiscal crises due to the continuing impact of COVID-19. While we consider there is a strong case for continuing to provide this support, uncertainty surrounding COVID-19's ongoing impact and the extent of the need for support prevent accurate assessment of requirements.
25. We recommend scaling the initiative and providing \$75 million for expected 2022/23 costs only, with the full amount being held in a tagged contingency given the uncertainty. We have not recommended providing funding for 2023/24 given the uncertainty surrounding the long-term impact of COVID-19, [33]
26. [33] to \$75 million by focussing on providing funding for countries for which New Zealand's support is the most needed and has the most impact – [1]
27. Funding is recommended on the assumption that Ministers wish to preserve existing plans, projects and initiatives in New Zealand's international aid programme. [33]

28. Additional baseline funding may become available as COVID-19's impact on availability of materials and labour on the achievability of existing plans is better understood. There may also be opportunities for the new funding provided recently for New Zealand's increased international climate finance commitment to fund climate-related projects that have a stimulatory economic impact.

Technical Initiatives

29. We also understand MFAT also intends to submit two Technical Budget initiatives seeking to retain anticipated underspends from the current financial year into next. COVID-19's continuing impact in 2021/22 has meant a continuation of the trends that led to significant underspends in 2020/21, and MFAT is seeking to retain funding through a technical initiative to offset forecast organisational cost pressures in 2022/23 and beyond.
30. A second technical initiative seeks funding to retain some of the underspends of funding that was originally provided for APEC 2021 in order to fund additional permanent positions within MFAT to support New Zealand's engagement in future APEC events.

Defence

31. The Minister of Defence submitted nine initiatives, totalling [33] million operating funding:
- a seven in Vote Defence Force totalling [33]⁴ million
 - b two in Vote Defence totalling [33] million
32. The Minister of Defence submitted two relatively small new spending initiatives, and the remainder are cost pressures. Aside from the depreciation initiative outlined further below, we have supported funding for some initiatives on the basis that they reflect genuine cost pressures largely outside the agencies' control or they implement policy previously agreed in principle by Cabinet. The total recommended funding for Defence totals [33] million, comprising \$5.638 million in Vote Defence and [33] million in Vote Defence Force. Further detail on each initiative and our assessments are provided in Annex C.

Addressing NZDF's depreciation shortfall

Sought: [33] million; Package: \$501 million

33. We consider a key priority in NZDF's Budget 2022 submission is initiatives 13580 - *Depreciation Funding Shortfall and 13581 - Defence Capability Plan - Sustainment Investment*, [34]
34. Following the completion of the 2019 Baseline Review of Defence, \$666 million of funding was provided through Budget 2020 to give effect to the recommendations of the review. [34]

⁴ NZDF was also provided \$75.7 million in additional funding in November as a pre-commitment against the Budget 2022 operating allowance to fund its depreciation expense for critical maintenance of its significant military assets.

35. NZDF considers it is now unable to meet the depreciation expenses associated with its ongoing maintenance and replacement of existing assets without significant impacts on its outputs. Such reprioritisation would risk NZDF's ability to respond to government requests, though the full extent of any impacts are unclear.
36. Out of cycle funding was provided to NZDF in November 2021 to address the most urgent pressures [CAB-21-MIN-0508 refers] and the Minister of Defence is now seeking funding for the remaining depreciation cost pressure for 2021/22 and 2022/23 through this Budget.
37. We recommend dealing with the cost pressure in totality now, rather than for only two years, in order to put NZDF's depreciation funding on even footing, provide it with better incentives to manage within available funding and to avoid funding being sought at future Budgets. This approach results in additional funding being provided to address the initiatives.
38. To achieve this, we recommend providing NZDF with the depreciation funding required to cover asset replacement at the level that is likely to have been provided through the Baseline Review, had replacement capital not been omitted from the process. This is a different methodology to that adopted by NZDF in the development of the two initiatives, and results in recommended funding that is higher than was sought across the two initiatives. We have not consulted NZDF to confirm the recommended amount as part of the assessment process but will do so once you have confirmed your comfort with this approach.
39. Based on figures provided by NZDF and factoring in the \$75.7 million funding agreed by Cabinet in November 2021, approximately \$501.0 million across the forecast period is required to restore the depreciation funding for NZDF's existing assets as set out below:

2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
49.5	114	112.5	112.5	112.5

40. This amount of funding would 'rebalance' NZDF's depreciation baseline in line with its asset base at the time of the Baseline review. [34]

Remuneration

Sought: [33] ; Package: [33] million

41. [33]

⁵ [33]

42. [34]

43. Notwithstanding this, we recommend some funding be provided to meet remuneration pressures, consistent with the approach in similar agencies, related to lower paid staff. Our recommended scaled option of [33] is based on the ten-year average growth rate of Government Administration and Defence labour costs from Statistics NZ being applied to staff earning less than \$100,000 only. We will continue to engage with NZDF to encourage it to put personnel costs on a sustainable pathway.

Other cost pressures - Construction Inflation; supply chain inflation; and depreciation expenses resulting from revaluation

Sought: [33] ; Package: \$154m

44. Three other initiatives seek funding for cost pressures where we consider some additional funding is justified to avoid NZDF outputs being negatively impacted.
45. The construction inflation and supply chain inflation initiatives both seek funding to address market pressures resulting from high inflation caused by COVID-19. We support some funding for inflationary pressures but have recommended an approach where NZDF shares the cost of known pressures only and no funding is provided for forecasted pressures.
46. We recommend funding in full the depreciation expense for asset revaluations initiative, given NZDF has no control over incurring the depreciation expense under current accounting standards and that NZDF receives no benefit from the revaluations.

Constraints and trade-offs

Foreign Affairs

Emergency Budget Support for Pacific Island Countries

47. [34]

Technical Initiatives

48. We are currently working to understand the cost pressures MFAT are seeking to fund through technical initiative, however we are concerned not to encourage a practice by MFAT of using underspends to offset cost pressures instead of taking active management decisions to address those pressures permanently and sustainably. [33]

Defence

Depreciation

49. The suggested Defence package is largely intended to permanently deal with the depreciation cost pressure in NZDF's baseline, and to limit the extent to which new funding will be sought in the future for depreciation expense of existing assets.

50. [33]

51. [34]

52. In addition, a key trade-off to consider through this Budget is the level of service impacts that NZDF will face should funding not be provided, or a lesser amount is agreed. Some service delivery implications are likely, but unclear, in the absence of new funding and it is possible that some key assets would be taken offline and the Government's deployment options could be impacted.

Workforce

53. The Minister of Defence has submitted minimal new workforce initiatives. In total, he has requested funding for an additional 14 FTE per year for Vote Defence at a cost of \$8.488 million across the forecast period⁶. No new FTE have been sought for NZDF or Veterans Affairs.

54. While minimal new FTE have been sought, the Minister is seeking [33] million to lift NZDF salaries and wages. [34]

⁶ Nine FTE in initiative 13730 - Establishment and Operation of the Independent Inspector-General of Defence (support in full), [33]

Draft package (refer Annex C)

Foreign Affairs

55. The draft Foreign Affairs package totals \$75.000 million operating funding in 2022/23. Should you agree to provide this funding, given the uncertainty around the continuing need for emergency Budget support we recommend this is held in a tagged contingency.

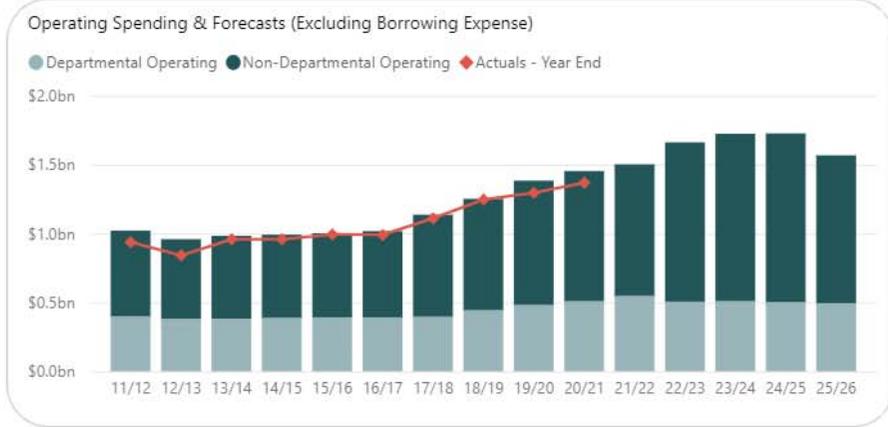
Defence

56. The draft Defence package totals \$724.473 million operating funding across the forecast period. No capital funding was sought.
57. The main intention of this package is to permanently resolve the depreciation funding gap that was created in-part through the Baseline Review, [34] and to provide NZDF support for salary increases for lower paid staff.
58. Should you agree with this package, we recommend that it be accompanied by expectations that:
- funding for depreciation expense of existing/replacement assets will in future only be considered in exceptional circumstances and
 - any further salary increases must be in line with Public Service Commission guidance and largely funded through efficiency gains or structural change.
59. We can develop recommendations to give effect to these expectations via the Budget financial recommendations process.

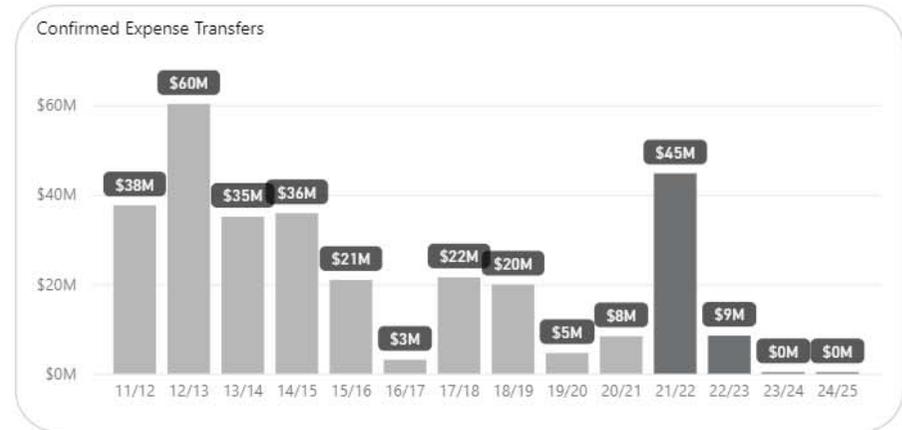
Vote	ID	Title	Funding Sought		Funding recommended	
			Opex avg	Total	Opex avg	Total
NZDF	13580	Depreciation Funding Shortfall	75.821	379.107	100.200	501.000
NZDF	13585	Depreciation Expense Arising from Asset Revaluation	27.447	137.235	27.447	137.235
NZDF	13584	Remuneration	[33]			
NZDF	13586	Construction Inflation	[33]		2.200	11.000
NZDF	13587	Supply Chain Inflation	[33]		1.120	5.600
MoD	13730	Establishment and Operation of the Independent Inspector-General of Defence	1.128	5.638	1.128	5.638
MoD	13733	[33]	[33]		-	-
NZDF	13591	Healthy Homes Programme	2.754	13.770	-	-
Total			[33]			

Annex A (1/3): Baseline Summary for Foreign Affairs

2011/2012 - 2020/2021

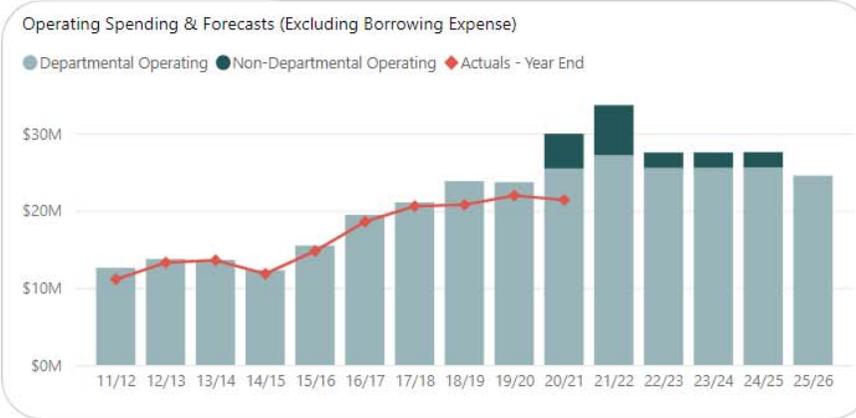


* Compound annual growth rate over the period 2011/2012 - 2020/2021



Annex A (2/3): Baseline Summary for Ministry of Defence

2011/2012 - 2020/2021



* Compound annual growth rate over the period 2011/2012 - 2020/2021

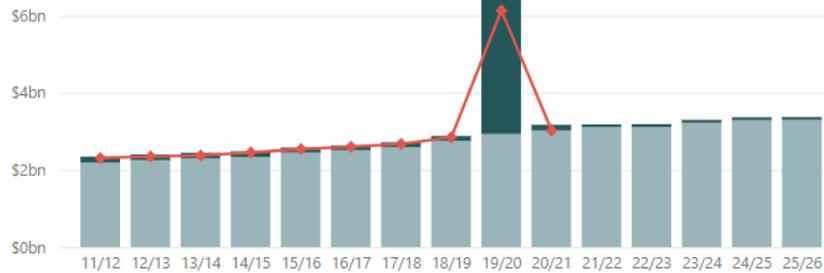


Annex A (3/3): Baseline Summary for the Defence Force

2011/2012 - 2020/2021

Operating Spending & Forecasts (Excluding Borrowing Expense)

● Departmental Operating ● Non-Departmental Operating ◆ Actuals - Year End



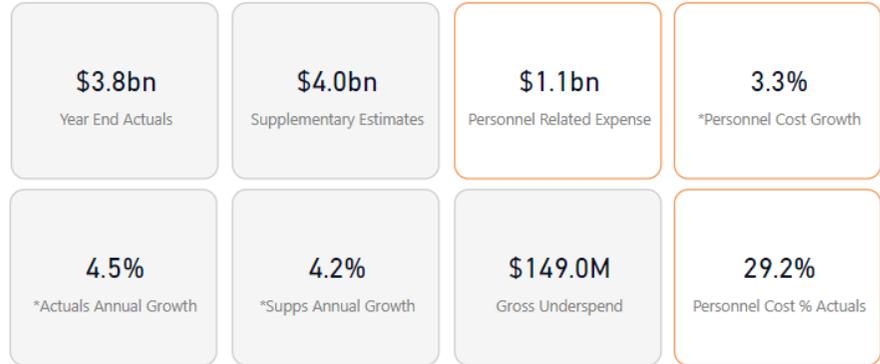
Capital Spending & Forecasts

● Departmental Capital ● Non-Departmental Capital ◆ Actuals - Year End

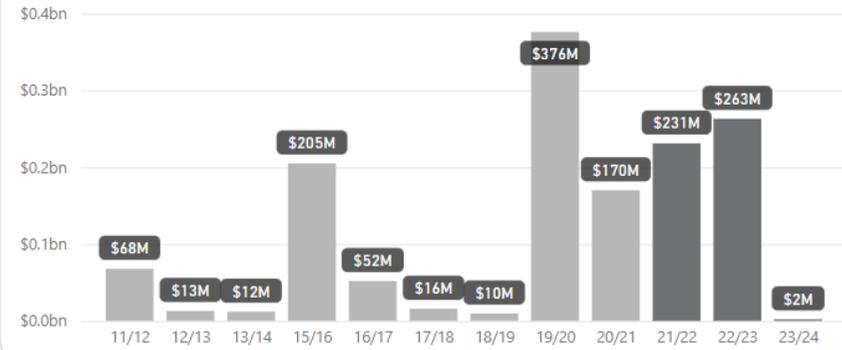


* Compound annual growth rate over the period 2011/2012 - 2020/2021

2020/2021 Key Figures



Confirmed Expense Transfers



Annex B: Suggested Talking Points

General Budget 2022 talking points

- Pressure remains on the operating and capital allowances, meaning there will be a high bar for new spending, and it is important that spending is prioritised effectively and is focused on achieving value for money.
- There are also significant public sector capacity and capability constraints – around 40 percent of initiatives are seeking additional FTEs or contractors.
- Without further prioritisation and scaling, it will be challenging to see the public sector deliver such large additional investment on top of the ongoing response to COVID-19, delivering past investments and keeping momentum on the key reform programmes underway.
- New spending is not the only lever for achieving the Government's objectives. You should consider all the levers available to you before requesting new funding, including examining baseline expenditure, ensuring that your agencies are delivering on the significant investments we have already made, and progressing non-spending initiatives such as regulatory reforms.

Foreign Affairs

- [33]

-

-

Defence

- You may wish to reiterate the following key points from your Budget 2022 invitation letter.
 - [34]
 -
 -

- [34]

- [33]

-

- [34]

-

- [34]

-

Annex C: Submitted Initiatives

Ministry of Foreign Affairs

ID	Title	Description	Funding Sought			Funding recommended			Treasury comments
			Opex avg	Opex total	Capex Total	Opex avg	Opex total	Capex Total	
13806	Pacific Emergency Budget Support: Preventing fiscal crises and strengthening resilience in response to COVID-19	This initiative seeks funding to provide emergency budget support in FY 2022/23 and FY 2023/24 to Pacific countries facing fiscal crises due to the continuing impact of COVID-19. [1]	[33]		-	18.750	75.000	-	COVID-19's ongoing impact and the need for support is uncertain, preventing accurate costings. Reflecting this uncertainty, we recommend providing a scaled amount in a tagged contingency based on the expected amount of support required in Year 1 only for countries most in need. [33]
Total			[33]		0	18.750	75.000	0	

Ministry of Defence

ID	Title	Description	Funding Sought			Funding recommended			Treasury comments
			Opex avg	Opex total	Capex Total	Opex avg	Opex total	Capex Total	
13730	Establishment and Operation of the Independent Inspector-General of Defence	The Govt. has agreed in principle to establish the Inspector-General of Defence (IGD) as an independent statutory body to provide independent oversight of NZDF's activities. The initial structure of the IGD (which the bid is based on) is 5 FTEs (including the Inspector General and Deputy Inspector General), with the ability to appoint an advisory panel and have specialist expertise. The IGD is expected to be established in 2023, subject to legislation being passed. Cabinet approval for the legislative change will be sought in Q1 2022.	1.128	5.638	-	1.128	5.638	-	The establishment of an Inspector General of Defence to assist in providing independent oversight of the New Zealand Defence Force and contribute to public and Parliamentary assurance regarding the operation of the Defence Force has been agreed in principle by Cabinet. The costings for the establishment and ongoing operation of the new office of the Inspector-General appear sound and based on minimum viability requirements of the office, so scaling options are limited.
13733	[33]				-	-	-	-	Cabinet has directed that [33] Any funding for [33] capability should be considered through Budget 2023 following the outcome of that review.
Total			[33]		-	1.128	5.638	-	

New Zealand Defence Force

ID	Title	Description	Funding Sought			Funding recommended			Treasury comments
			Opex avg	Opex total	Capex Total	Opex avg	Opex total	Capex Total	
13580	Depreciation Funding Shortfall	This initiative will provide funding to cover known depreciation impacts arising from routine capital commitments made during FY20/21 and FY21/22. Those investments enable the sustainment of major capital assets, the ongoing replacement of small equipment, and the sustainment of infrastructure and Information Technology.	43.480	217.400	-	100.200	501.000	-	<p>[34]</p> <p>This initiative covers depreciation costs for 20/21 and 21/22 and initiative 13581 seeks funding for 22/23. We recommend providing funding through this initiative to address the funding gap flowing from the baseline review so that NZDF no longer needs to seek new funding for depreciation costs associated with replacement capital expenditure. [2,11]</p> <p>Consistent with other capital expenditure, we propose that any future need for depreciation funding is subject to Cabinet agreement following consideration of a business case.</p>
13581	Defence Capability Plan - Sustainment Investment	This initiative is made up of a number of individual projects that together cover the basic requirements to continue to deliver NZDF outputs (maintenance and repair), ensure appropriate investment in ICT and Estate to prevent failure, and ensure the safety of NZDF personnel (in training). It also provides funding to ensure the NZDF is better prepared to deliver outputs in the Pacific, particularly focused on maritime and special forces.	[33]		-	-	-	-	This initiative has been combined with initiative 13580.

ID	Title	Description	Funding Sought			Funding recommended			Treasury comments
			Opex avg	Opex total	Capex Total	Opex avg	Opex total	Capex Total	
13584	Remuneration	The remuneration bid seeks to enable NZDF to meet Government requirements such as increasing minimum wage rates and pay restraint due to COVID-19 response, as well as a buoyant employment market. However, this is limited by the NZDF's inability to abide by its own policy of keeping salary rates within -5% of the relevant market median. NZDF has some limited relief to these impacts through personnel savings created from high attrition rates; however, this is not feasible or sustainable in FY2022/23 and FY2021/24.	[33]		-	[33]		-	[34] we recommend some funding be provided to meet remuneration pressures, consistent with the approach in similar agencies, related to lower paid staff. Our recommended scaled option of [33] is based on the ten-year average growth rate of Government Administration and Defence labour costs from Stats NZ for staff earning less than \$100k only.
13585	Depreciation Expense Arising from Asset Revaluation	This initiative will fund the increase in the annual depreciation expense resulting from the upward revaluation of the New Zealand Defence Force's Estate Buildings and Infrastructure. The revaluation increase of \$760 million at 30 June 2021 is primarily driven by inflationary pressures on construction costs for Building and Infrastructure at NZDF's camps and bases and market increases on residential properties.	27.447	137.235	-	27.447	137.235	-	In June 2021, NZDF's Buildings and Infrastructure assets were revalued upwards by \$759 million, increasing its annual depreciation expense by \$27.4 million. Given NZDF has no discretion in incurring the expense and receives no benefit from the revaluation adjustment, we recommend funding the initiative in full to avoid negatively impacting NZDF's operations.

ID	Title	Description	Funding Sought			Funding recommended			Treasury comments
			Opex avg	Opex total	Capex Total	Opex avg	Opex total	Capex Total	
13586	Construction Inflation	This initiative seeks increased funding to offset inflationary price increases in the Construction sector and construction materials, estimated at an average 5.08% over 4 years. Evidence shows the inflation rates are outstripping general CPI through constraints in labour movement and supply distribution extending beyond FY21/22. The Defence Estate is run down and needing regeneration to maintain NZDF outputs. Operating funding must keep pace with inflation to address the risks arising from continued deterioration, and erosion of future maintenance programmes. Funding sought assumes construction inflation will remain high for the next two years and begin returning to pre-COVID levels from 2024.	1331		-	2.200	11.000	-	The case for funding this initiative in full is weak and the related cost estimates appear overstated. While domestic construction costs have increased significantly, they remain highly variable. Providing funding in full now risks committing funding based on third-party forecasts and in advance of knowing the true costs and may contribute to market pressures. We suggest funding 1221 2022/23 and 2023/24 only, on the basis that NZDF meet the remaining pressure through prioritisation/delay of projects and/or from other existing baseline funding.
13587	Supply Chain Inflation	This initiative will fund known supply chain inflationary pressure on sustainment of existing capabilities (ships, aircraft, equipment etc).	1331		-	1.120	5.600	-	This initiative seeks year-on-year inflation adjustments to 2025/26 to cover forecasted freight costs. There is a case to provide relief for some of the known inflationary cost pressures that are outside of NZDF's control but we do not consider it appropriate to provide funding for inflationary pressures up to four years ahead based on third-party forecasts. We recommend 1221 amounting to \$5.600 million across the forecast period and that NZDF meet any remaining pressure from existing baselines.

ID	Title	Description	Funding Sought			Funding recommended			Treasury comments
			Opex avg	Opex total	Capex Total	Opex avg	Opex total	Capex Total	
13591	Healthy Homes Programme	<p>This initiative ensures that all NZDF residential homes meet the Government's Healthy Homes standard. This is a formal NZDF programme with an approved charter and programme plan, and the full cost has recently been re-baselined using actual costs and surveys completed in the last 6 months.</p> <p>NZDF housing is critical to support operational readiness of Regular Force members and their families through the unique and often challenging environment. Funding is currently being diverted from general maintenance to enable delivery of this programme by 2023.</p> <p>The programme cost is estimated at \$33.8M for approximately 1,900 properties of which \$20.0M will be funded from NZDF's FY21-23 housing maintenance budget. This initiative will provide \$13.8M to fund the budget shortfall.</p>	2.754	13.770	-	-	-	-	<p>This cost pressure is largely driven by NZDF bringing forward its internal deadline to meet the Governments' 2024 Healthy Homes standards by 1 year to June 2023. NZDF has previously received funding to improve its estate and infrastructure, including \$91m at Budget 2020 and \$6m at OBU 2021. While we support NZDF bringing its accommodation stock up to government standards as soon as practical, we do not consider that the additional funding has been justified and that bringing forward the upgrade programme is discretionary. Aspects of the initiative related to cost increases should be funded within baselines.</p>
Total			[33]		-	[33]		-	