

The Treasury

Budget 2024 Information Release

September 2024

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- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [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
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Budget 2024 Bilateral: Hon Judith Collins (Defence)

Proposed Agenda

We recommend focussing your discussion on:

- **Item 1: Savings initiatives**, covering:
 - the viability and risks of capability divestment
 - opportunities for further savings from back-office and low value programmes.
- **Item 2: Cost pressures**, focussed primarily on the invited remuneration initiative and NZDF's ability to manage unfunded cost pressures.
- **Item 3: New spending initiatives**, offering the Minister of Defence an opportunity to provide further views on prioritisation.

Budget 2024 Package – General Information

- Following agency submissions for Budget 2024, both operating and capital demands are significantly higher than the funding available.
- This ambition for new spending will not be achievable from both a fiscal and delivery perspective.
- We therefore recommend you emphasise to Ministers that it will be necessary for them to consider what the Government does at this Budget versus future Budgets.
- We also recommend that you continue to push Ministers on where further savings could be realised, particularly with regards to stopping funds and programmes not aligned with your priorities or addressing back office and contractor and consultant growth.
- Finally, we recommend that – where appropriate – you re-emphasise that you are taking a stricter approach to out-of-cycle requests for funding ahead of Budget 2024, to ensure that the Government can assess the relative benefits of proposals across the full Budget package.

Vote summary

- The BM2 package includes a net increase for NZDF of \$48.369 million in operating funding and \$216.423 million in capital funding over the forecast period.

Draft package (\$m over forecast period)	Operating	Capital
Savings	(89.650) ¹	-
Cost Pressures	120.000	-
New spending	105.697	216.423
Net	136.047	216.423

- NZDF's submission relies on capability reductions to meet the savings target, and divestment costs mean it won't be met until 2025/26. ^[33]
- Savings of \$89.650 million are achieved from back-office functions. A further ^[33] of savings was identified from low value programmes and reduced maintenance, but we understand these are no longer being considered. The proposed savings do not involve any FTE reductions. Further savings are likely possible, and we have suggested some potential areas to raise below.
- Some new funding is recommended to continue addressing workforce issues. We recommend a significantly scaled figure (\$120 million over forecast period) to better align the initiative with what was invited, and to encourage prioritisation of funding.
- NZDF reports ^[33] of other cost pressures, though risks and impacts on outputs are only outlined at a high level.
- There is significant demand for new investments though there is often a choice over scaling and deferral, and we consider that significant new funding decisions should be deferred until Cabinet has considered its defence capability requirements.
- We recommend scaled funding for 5 capital initiatives that we consider to be high priority and to be beneficial regardless of the outcomes of the DCP. In general, prioritisation has been challenging given breadth and scale of funding sought.

¹ ^[33] of savings were included in the BM2 package, but we understand your initial view is to no longer progress two of the savings options.

Sector view – Vote Foreign Affairs and Defence

- In recent Budgets we have made efforts to bring a sector-wide approach to decision making regarding the foreign policy and security sectors, reflecting that a number of agencies contribute to New Zealand’s security and foreign policy outcomes and there were benefits to looking across agencies at our collective capabilities to identify priorities for new funding.
- Defence is a critical tool of foreign policy and contributes to key objectives such as ensuring regional security, supporting the international rules-based system, and contributing to collective security through a network of partners. ^[1]
- The Ministry of Foreign Affairs and Trade (MFAT) is the Government’s lead adviser on foreign policy issues and seeks to achieve the same international security outcomes, amongst other objectives, through the use of diplomacy and aid programme expenditure.
- NZDF has significant demand for cost pressure funding and new investment; in comparison, MFAT has relatively small cost pressures ^[1]

If a sector view were to be taken at Budget 2024, we consider savings from Vote Foreign Affairs could (directly or indirectly) offset any net increase in Vote Defence Force spending included in the package. Savings from other security agencies, particularly GCSB and NZSIS, could also be used in the same way.

(\$m over forecast period)	Submitted		BM2	
	Operating	Capital	Operating	Capital
Defence – net funding	1,822.538	942.561	128.047	216.423
MoD savings	(8.000)	-	(8.000)	
NZDF savings	(353.828)	-	(89.650) ²	-
NZDF invited cost pressures	[33]		120.000	-
NZDF uninvited cost pressures		-	-	-
NZDF new spending		[33]	105.697	216.423
Foreign Affairs – net funding	45.070	133.910	(98.900)³	-
Savings	-	-	(98.000)	-
Cost pressures	[33]		-	-
New spending			-	-

Further information on Savings / Reprioritisation

² [33] of savings were included in the BM2 package, but we understand your initial view is to no longer progress two of the savings options.

³ Treasury’s Vote Foreign Affairs team recommendation.

The Ministry of Defence has met its savings requirement of \$8.0 million over the forecast period through scaling its activities.

NZDF has not met its savings requirement. It has submitted gross savings initiatives that exceed the saving requirement; however, the majority of these savings are from reductions in military capabilities that come with significant write-off or disposal costs.

Submitted Savings Initiatives (\$m over forecast period)	As submitted	Draft package
Back office and low value programmes	89.650	89.650
Low value programmes	[33]	-
Reduced maintenance		-
Military capability reductions		-
Gross Savings		89.650
Write-off/disposal costs		-
Net Savings	353.828	89.650

Initiative 15547 – Capability Divestment and Reduction

Draft package - Operating (\$m over forecast period)		Treasury recommendation and comment	
Capability Divestment and Reduction	0.000	Defer	[33]

The reductions in military capability include [33]

Options have been generated by identifying and prioritising capabilities that are nearing end of life, or do not fit the shape of the anticipated NZDF as identified by the Defence Policy Review.

You may wish to question the Minister of Defence on the viability and risks of these options; [33]

- [33]

-

Initiatives 15544 and 15545 – Back-office savings and lower value programmes

Draft package - Operating (\$m over forecast period)		Treasury recommendation and comment	
Non-Operational (Back-office) functions including contractor and consultant savings	89.650	Support	The savings proposed involve reductions in expenditure across a range of 'back-office' functions, primarily reduced consultant expenditure and domestic and overseas travel. This aligns well with Budget priorities. Some risks are identified however NZDF consider these to be mostly low, and no significant deliverability concerns are raised.
Reduction in lower value programmes and activities	-	This was supported by Treasury, though we understand that post-BM2 this initiative has been declined	[33]

The back-office and low value programmes submitted equate to only ^[33] of the eligible baseline, and civilian FTE reductions are not planned; further savings from these areas may therefore be achievable. NZDF had only a limited amount of time to develop savings options and we are aware of some items and potential inefficiencies – such as spans of control, wider Estate footprint, and recruiting processes – that have been discounted or deferred. We are also surprised that no FTE reductions are proposed given the civilian workforce exceeds 3,000 staff.

You may wish to raise the following areas with the Minister:

- Whether there are opportunities for further reductions in civilian FTE
- How NZDF has reviewed the current scale international postings, and whether further reductions can be made
- Whether there is a case for revisiting the outcomes of the First Principles Review of the Defence Estate (completed in 2022) in light of the constrained fiscal environment, and whether other land can be divested in the short-term
- Whether other options were considered and ruled out, or deferred for future consideration
- How Ministers can be confident in NZDF’s efficiency (noting it has had operating funding increases greater than the rate of inflation over the last ten years), and how NZDF intends to continue to identify further savings ahead of future Budgets

Initiative 15546 - Reduction of Infrastructure and Platform Maintenance

Draft package - Operating (\$m over forecast period)		Treasury recommendation and comment	
Reduction of Infrastructure and Platform Maintenance	-	Through package development post-BM2 we understand this initiative has been declined	[33]

NZDF are proposing cuts to maintenance in four areas, and the extent and type of impacts likely differ across these:

- [33]

- [33]

-

-

The proposed savings from maintenance make up approximately [33] of current forecast maintenance costs (savings of just under [33] p.a. relative to forecast expenditure of \$316 million per annum). Whilst the above cuts have been put forward, there may be other lower-priority and lower-risk areas of maintenance that have not been identified; Treasury lacks visibility of this, making it challenging to judge the extent of the risk. A scaled savings option could mitigate risks in part by necessitating NZDF to prioritise maintenance activities with the greatest benefit to outputs.

You may wish to ask the Minister of Defence how NZDF prioritises its maintenance activities.

Cost Pressures

Significant funding is sought for remuneration cost pressures and, contrary to your direction, NZDF have also submitted cost pressures for uninvited initiatives. The NZDF remuneration initiative also included significant uninvited components.

NZDF submitted cost pressures (\$m operating funding over forecast period)	As submitted	Draft package
NZDF Remuneration	[33]	120.000
Uninvited operating initiatives		-
Total		120.000

Initiative 15548 – Defence Force Remuneration Cost Pressure

Draft package - Operating (\$m over forecast period)		Treasury recommendation and comment	
Defence Force Remuneration Cost Pressure	120.000	Support scaled	<p>Despite recent falls in turnover, NZDF continues to face challenges resulting from high attrition rates, particularly where staff are in 'critical' trades. Previous remuneration uplifts appear to have had a positive impact, and some level of increased funding is likely required to further support efforts to 'regenerate' the workforce.</p> <p>We recommend a scaled figure to better align the initiative with what was invited, and to encourage prioritisation of funding. Whilst this approach carries risks, we consider it necessary to target efforts at critical personnel and reduce fiscal implications.</p>

NZDF has experienced high attrition over recent years which has impacted on delivery of outputs. Attrition has had an outsized impact where experience personnel in critical trades have left, given these cannot be replaced in the short term.

The attrition rate has now started to fall, and it is likely that previous remuneration uplifts have contributed to this (NZDF received \$419.6 million at Budget 2023, \$90 million at Budget 2022, and \$10.64 million in December 2022). However, attrition continues to differ by rank/grade and NZDF note that experienced personnel in critical trades continue to have lucrative employment opportunities in the private market. Challenges also remain given the time taken to train personnel (up to 10 years depending on the trade). Attrition in these trades will continue hamper efforts to 'regenerate' the workforce and deliver outputs.

The Minister was invited to submit an initiative for 'wages only for staff delivering frontline services', and aspects of the submission are not considered within scope of your invitation. Notably, the submission seeks significant funding for changes to allowances, and NZDF have also sought broad-based uplifts to bring all staff to market median (with no distinction for front-line roles) and to 'decompress' pay bands to preserve rank, sector and tier relativities. Under this approach, senior staff would have the greatest pay uplift given they are not currently in line with the market median.

We have recommended significant scaling to better align the initiative with what was invited, and to encourage prioritisation of funding towards lower-paid staff and those in critical trades. This is imperfect given information limitations and, given the level of scaling that has been applied, it comes with risks of impacting on attrition and/or other unintended consequences.

NZDF believe that targeting different or specific parts of the workforce with remuneration uplifts creates inequities and causes distortion to historic relativities. However, given the constrained fiscal environment and that attrition challenges are greatest in specific trades, we consider there is a greater need for targeting. We also consider there is a need to reduce dependence on continued broad-based remuneration uplifts and ensure non-remuneration factors are also addressed.

You may wish to ask how NZDF would implement a targeted approach to have the greatest impact on reducing attrition risks, and how this could be combined with non-remuneration initiatives and potential changes to NZDF's operating model.

Uninvited cost pressures

NZDF submitted uninvited cost pressures totalling ^[33] over the forecast, broken down by the following:

- \$160 million for depreciation following asset revaluation
- ^[33] for estate maintenance
- ^[33] for platform maintenance
- ^[33] for fuel, and
- ^[33] for ammunition.

Beyond this, the Minister of Defence noted in her letter that other unfunded cost pressures totalling ^[33] also exist, but funding has not been requested for these.

NZDF have varying degrees of control over these cost pressures. For example, NZDF have no discretion in incurring increased depreciation expenses. Fuel and ammunition are core inputs, and the costs are outside of NZDF’s control, though NZDF have some discretion on the volume acquired and used. Maintenance costs continue to increase over time due to price (inflation) and volume (as the current asset bases ages) changes.

In the Minister’s covering letter, she noted that NZDF would “manage the unfunded cost pressures in the short term with impacts on outputs and the Government’s priorities”. Personnel underspends can likely partially offset these cost pressures in the interim, with NZDF making choices over which maintenance activities to undertake and reducing training activity and/or operations. These are only described at a high level, however, making it challenging to point to specific impacts. These risks will likely grow over time if cost pressures are not addressed or unless broader decisions are taken to reduce demand for funding (e.g., reductions in the defence asset base or operating requirements).

You may wish to ask for more information on NZDF’s approach to managing cost pressures, for example whether there are specific activities that will need to be stopped and how underspends will be used in the near-term. If minded, you may wish to note that if further savings from back-office and lower value programmes are identified, there may be opportunities to retain these to offset cost pressures.

We are also aware that the Minister of Defence may raise the subject of funding for deployments. ^[33]

New Spending

The Minister of Defence’s submission sought ^[33] capital funding and ^[33] operating funding over the forecast period for 17 initiatives. These consist of investments in ICT, Estate, and military capabilities. Of the 17 initiatives submitted, only 9 were invited.

NZDF Submitted Budget Initiatives (\$m over forecast period)	As submitted		Draft package	
	Operating Funding	Capital Funding	Operating Funding	Capital Funding
Invited capital initiatives	^[33]		105.697	216.423
Uninvited capital initiatives			-	-
Total			105.697	216.423

We consider that significant new funding decisions should be deferred until Cabinet has considered its defence policy and capability requirements. We also consider that the number of initiatives submitted, and scale of funding sought, is not achievable at Budget 24 and there is a need for prioritisation.

While there is a good case for the majority of the invited investments, there is often a choice over scaling and/or deferral. Of the 9 invited, Treasury recommend funding for 5 investments (each scaled to varying degrees). Supported investments are primarily for IT and Estate projects. Estate and IT infrastructure is a key 'enabler' for NZDF but investment in these areas has historically been lower priority for NZDF. We also consider these initiatives to be beneficial regardless of the outcomes of the Defence Capability Plan. Whilst we consider investments in military capabilities can largely be deferred until after Cabinet consideration of the Defence Capability Plan, we have supported one investment in military vehicles to avoid a potential capability gap in a core Army asset.

We have not assessed uninvited bids. The Minister of Defence submitted these initiatives because they were considered to better align to 'defence policy and portfolio considerations', however individual business cases have not been completed. You may wish to discuss with the Minister of Defence the need to reset expectations with agencies on providing high quality business cases before funding is agreed

(\$m over forecast period)	Submitted		Draft package		Treasury recommendation and comment	
	Operating	Capital	Operating	Capital		
Upgrading [1] Digital Services	[33] and [38]				Support scaled	<p>On balance, we support funding a scaled version of this initiative by phasing this investment and recommend a tagged contingency be established with drawdown subject to approval of an implementation business case. Funding will enable NZDF to purchase [1]</p> <p>We consider that operating spending could be scaled further pending scrutiny of the business case. Future phases can be considered at subsequent Budgets. Due to protective security requirements, there is limited information that can be provided here, and a more detailed assessment is available in a classified environment.</p>
Modernising Devices and Productivity Tools					Support scaled	<p>We support this initiative which replaces outdated desktops with modern devices. It represents value for money; retaining the status quo is costly both in terms of maintaining outdated hardware and the impacts on NZDF operations from using inefficient technology. The funding sought represents the difference between the baseline funding NZDF has for technology and the desired state.</p> <p>Treasury's recommended funding represents scaling of around 25%. This will require NZDF to make trade-offs in line with its priorities. We consider there are reasonable choices to be made which could include for example prioritising who devices are rolled out to and considering lower costs device options (e.g., the current initiative proposes 34-inch curved monitors).</p>
Upgrading the Regional Supply Facility and Logistics Model at Linton Military Camp					Support scaled	<p>Clear rationale for intervention and intended outcomes are provided. This initiative is part of an established programme to address deficiencies in logistics infrastructure and is expected to deliver efficiency benefits and improvements to staff safety and wellbeing. There are some deliverability concerns due to pressures in the construction market, however NZDF have a track record of delivery in previous tranches.</p> <p>We recommend scaling to remove funding of design work for future phases, which we consider can be self-funded. Funding should be set aside in a tagged contingency, with drawdown contingent on Cabinet agreement to an implementation business case and completion of procurement. Whilst this could be deferred, this will result in deferral of benefits and further cost escalation.</p>

(\$m over forecast period)	Submitted		Draft package		Treasury recommendation and comment	
	Operating	Capital	Operating	Capital		
Homes for Families (Part Two)	[33] and [38]				Support scaled	<p>This initiative seeks to build on funding provided at B23 to deliver a larger number of modern houses through a mix of leases and modernisation works. We recognise there is a general need for investment to address issues in the Defence Housing estate, which is expected to improve staff wellbeing and support delivery of outputs, however we consider Ministers have a high degree of choice over the scale of funding, if any, to provide at B24.</p> <p>We recommend providing some funding to address anticipated shortages in Devonport, which is considered the most pressing component of this initiative. We consider it possible to defer funding for modernisation works until progress is made in the delivery of B23 pilot modernisations, however this will delay the benefits NZDF expect to staff wellbeing and funding requests will likely accumulate at future Budgets.</p>
Military Operational Vehicles					Support scaled	<p>We support funding a scaled version of this initiative that enables the acquisition of the minimum number of vehicles required for deployments, and recommend that a tagged contingency be established with drawdown to be signed off by Joint Ministers, subject to the final implementation business case being approved by Cabinet.</p> <p>Funding will enable the NZDF to purchase new utility vehicles and associated modern electronic communications systems. This will ensure that the NZDF has the necessary vehicles to deploy on operations safely. The current state of the existing stock of military utility vehicles means that it is likely that by 2027 NZDF will be in its ability to undertake operations due to a lack of deployable assets and that further delays in procuring a replacement risk a capability gap due to the delivery timeline. While we have supported funding a scaled version, it is important to note that Defence will likely seek further funding at future Budgets to acquire more vehicles to ensure that it has a sufficient pool beyond the minimum required for deployments on operations (e.g. for training and resilience purposes); it is likely that the costs of these bids will be higher given cost escalation.</p>
Upgrading Information Management across NZDF					Defer	<p>[33]</p> <p>A number of issues were identified through the Inquiry into Operation Burnham, and NZDF have self-funded work to address the most critical and urgent issues.</p> <p>[33]</p>

(\$m over forecast period)	Submitted		Draft package		Treasury recommendation and comment				
	Operating	Capital	Operating	Capital					
Modern Living Spaces at Linton Military Camp	[33] and [38]				Defer	[33]			
Improving Protection Against Maritime Threats					Do not support	This initiative purchases a data fusion system for processing of data across 10 agencies involved in the National Maritime Coordination Centre (NMCC). A new system would improve the ability to analyse and share maritime data among agencies, and the costings are robust given they are based on a tender process. [33]			
Defence Estate Regeneration – Accelerated Renewal					Do not support	[33]			

Annex – uninvited new spending initiatives

(\$m over forecast period)	Submitted		Initiative description	Business case
	Operating	Capital		
Uplifting NZDF's Cyber Security Capability	[33]		This initiative provides funding to establish, train and equip deployable military teams to provide active defensive measures, to repel cyber threats against NZDF networks, system and operational platforms. Tranche One will develop deployable technology to counter our cyber adversaries and defend and preserve the ability to use NZDF cyberspace capabilities, by actively repelling threats, and aiding in the restoration of compromised network or missions system to a state of operation readiness. Leveraging our international partnerships we will establish learning and development environments, simulators and training, ensuring our workforce has the skills to operate.	PBC will reportedly be ready Q3 2024. Previous draft consulted on in 2022.
NH90 Helicopter Upgrade: Navigation and Secure Radios			This initiative provides funding to procure and install new navigation and communication equipment on the eight Royal New Zealand Air Force NH90 Helicopters. The new navigation equipment will allow the helicopter to continue operating in civil airspace, and the new radios will allow the helicopters to continue carrying out military operations. The navigation systems are required due to regulatory change, the new radios are required due to obsolescence of current systems. This initiative is a phase of a wider project, The Operational Regulatory Compliance Systems (ORACS) Project that will equip most of the NZDF aircraft fleets with a number of different upgrades.	No PBC or DBC for this tranche. Previous tranches have been approved.
Anti-Armour Missile Launcher System			This initiative provides funding to purchase the Javelin fire and forget, soft launch, shoulder fired anti-armour missile system. The system consists of the Command Launch Unit (CLU) and a fire and forget (lock on before launch) guided missile. The Javelin system is used by all of New Zealand's partners including Australia. In New Zealand it is used by both the special forces (SAS) and the regular Army. This phase of the Javelin Refresh Project will replace the 27 in-service CLUs (which are approaching obsolescence) with the latest version of the CLU. When delivered, the new CLU will be compatible with the in-service and future versions of the (Javelin) missiles.	No business case
Repairable Item Resilience			This initiative provides funding to expand the pool of available equipment and spare parts needed to support NZDF operations and training. These spares can rapidly replace equipment that requires servicing allowing NZDF capabilities to continue to operate and deliver Government directed operations. The expanded pool will help mitigate supply chain disruptions, and increasing maintenance, repair and overhaul times being experienced by the NZDF due to an increasingly challenging global environment.	No business case

(\$m over forecast period)	Submitted		Initiative description	Business case
	Operating	Capital		
Uplifting Defence Intelligence	[33]		This initiative provides Defence Intelligence an uplift in people, processes and technology, to modernise and meet the challenges of the digital era and a worsening global security environment. This includes funding for 24 FTE personnel, intelligence collection systems, software and data initiatives, and tactical communications equipment. It also funds an increase to regional capacity building activities in South West Pacific. The project will enhance the NZDF's ability to leverage intelligence resources, and to collect, process, and analyse large amounts of information. This information enables the delivery of intelligence to decision makers from strategic to the tactical commanders, supports the planning and conduct of military operations, and the functioning of military platforms.	Draft consulted on in 2022 but not progressed.
Upgrading Defence's Enterprise Resource Planning System			This initiative will provide funding to replace NZDF's current end-of-life resource planning solutions (systems, processes and tools). This initiative will equip the NZDF with a robust, modern, integrated and digital enterprise readiness capability that better positions NZDF to respond in a more deliberate and purposeful way to shaping the security environment in our region. A key enabler will be the strengthening of our interoperability with our closest ally, Australia, and wider security partners. The investment will be delivered through a Future Enterprise Resource Planning programme. This initiative will deliver the initial phase - detailed planning, high level solution design and remediation of systems to allow transition to a new system in the next programme phases.	PBC under development, consultation ongoing. NZDF reportedly aim to go to Cabinet shortly.
Upgraded Army Communications (NEA T3)			The initiative provides funding for a range of advanced digital and communications equipment for the New Zealand Army including uncrewed aircraft systems uncrewed group sensors, and long distance communication links. This investment will enable the NZDF to deploy a network enabled Light Task Group for 12 months in support of New Zealand's defence and security interests. The equipment provided will keep personnel safe, increase the effectiveness of the Army, and maintain interoperability with our ally Australia and other partners. This is a phased option for the full Tranche Three of the programme, the full tranche will provide the NZDF with the ability to deploy a network enabled Light Task Group continuously or a networked enabled Battalion Group for 12 months.	No PBC or DBC for this tranche. Previous tranches have been approved
Domestic Support and Emergency Support Vehicles			This initiative provides funding to procure 75 domestic support vehicles. This includes replacement of the Unimog trucks operated by the New Zealand Army Reserve which are now over 40 years old. Domestic Support and Emergency Vehicles support the ability of the NZDF to come to the aid of New Zealand communities during national emergencies, as well as carry out training to prepare the Army for overseas operations. This is a first tranche of vehicles, with the full project to replace around 488 number of NZDF vehicles used primarily within New Zealand. This initiative continues an existing project, the Garrison, Administration and Training Support (GATS) Project, that has to date invested \$32.8 million of capital funding to replace 37 vehicles in the NZDF's Domestic Emergency fleet.	No business case