Office of the Auditor-General
Briefing to the Foreign Affairs, Defence and Trade Committee

2011/12 Year
16 June 2011

Votes:
Veterans’ Affairs
- Defence Force
& Veterans’
Affairs – Social
Development
Assistance to the Committee

The Foreign Affairs, Defence and Trade Committee is conducting an Estimates examination of Votes Veterans’ Affairs - Defence Force and Veterans’ Affairs – Social Development for the 2011/12 financial year in accordance with Standing Order 328.

The Controller and Auditor-General provides Parliament with assurance on the performance and accountability of public entities. The Office of the Auditor-General’s assistance to select committees with their Estimates examinations is guided by the Code of Practice for the Provision of Assistance by the Auditor-General to Select Committees and Members of Parliament.

Our suggested lines of enquiry are informed by the Auditor-General’s mandate under the Public Audit Act 2001. This mandate covers matters of performance, accountability, waste, probity and authority within public entities.

In preparing our Estimates briefing we have reviewed the following documents:

- the 2011/12 Estimates of Appropriations (Estimates);
- the 2011/14 Statement of Intents (SOI) for the administering departments (New Zealand Defence Force (NZDF) and the Ministry of Social Development (MSD));
- the NZDF and MSD 2009/10 Annual Reports; and
- the Minister’s responses to the Standard Estimates Questionnaires (SEQ).

We have also drawn from other sources, including information we have received in the course of our duties as the administering department’s statutory auditor.

In developing the advice within this briefing, the Office of the Auditor-General consulted with such parties as was necessary to ensure that the advice was correct. This process involved providing factual information of audit interest to the parties concerned (in either oral or written form), and obtaining confirmation of those facts, before giving advice to the Committee. The process did not involve providing to the parties any contemplated or actual advice.

If the Committee would like further explanation or elaboration of any aspect of this report, please contact Dave Cox, Sector Manager, on (04) 917-3083 or email on dave.cox@oag.govt.nz at the Office of the Auditor-General.
Summary of Key Issues

Introduction

The Minister of Veterans’ Affairs, Hon Judith Collins, is responsible for both Veterans’ Affairs Votes. The New Zealand Defence Force (NZDF) administers Vote Veterans’ Affairs - Defence Force while the Ministry of Social Development (MSD) administers Vote Veterans’ Affairs – Social Development.

Vote Veterans’ Affairs – Defence Force

Introduction

The SOI lists the outcomes for Veterans’ Affairs New Zealand (VANZ) and the Minister has stated three immediate priorities (reviewing the War Pensions Act 1954, improving service delivery by strengthening case management in the community, and preparing for significant commemorations).

Trends in the Vote

The appropriations sought for Vote Veterans’ Affairs - Defence Force for 2011/12 total $171.843 million (2010/11 estimated actual: $168.607 million).¹ The Vote continues to be dominated by two appropriations War Disablement Pensions (80% of the Vote) and Medical Treatment (13%).

Servicing the veteran population

VANZ will assess the effectiveness of Case Management in the Community activities and identify areas for further improvement. We suggest questions on this assessment, including its scope, timeframe, methodology, the criteria, and how the input of veterans will be obtained.

Legislation

The Law Commission tabled its report “A New Support Scheme for Veterans” in June 2010. This report recommended new legislation and significant changes to the scheme for support of veterans. The Minister (in October 2010) said that she was pleased with progress to date, and she said that costings and analysis of the recommendations was ongoing.

The Committee may wish to ask what progress has been made since October 2010 with the costing and analysis work and with formulating the Government’s response to the Commission’s recommendations. It may also wish to ask about the likely timeframe for implementing agreed changes to the veterans’ scheme, including the passage of new legislation.

¹ Vote Veterans’ Affairs The Estimates of Appropriations 2011/12 B.5 page 332.
Commemorations

Three significant commemorations are approaching: the centenary of Gallipoli in 2015, the 2014-2018 centenary of World War One, and the 60th anniversary of the Korean War Armistice in 2013.

The Committee might wish to ask about progress with the review of the 95th anniversary of Gallipoli commemoration in 2010 (seen as a dress rehearsal for the centenary), plans for the events to commemorate the centenary of World War One, and opportunities for Korean War veterans to fully participate in events to mark the 60th anniversary of the Korean War Armistice in 2013.

VANZ Capability

VANZ is a branch of the NZDF and it is supported by NZDF systems and covered by NZDF policies. The NZDF is currently undergoing a period of major change, to implement the Defence White Paper and to redistribute savings of $350-400 million per annum by 2014/15.

The Committee may wish to ask what contribution VANZ is making to the major change process underway within NZDF, and what impact the changes in NZDF will have on the way VANZ operates.

Vote Veterans’ Affairs – Social Development

Trends in the Vote


Links to MSD outcomes

Vote Veteran’s Affairs – Social Development and its payment of veterans’ pensions is linked to two of MSD’s outcomes, being More people get into work and stay in work and Improved quality of life for older people³.

In the description of the activities supporting these outcomes there is no discussion about how the activities apply specifically to veterans. We suggest questions on what difference, or nuance, in application will occur for the activities within each outcome when these are applied to veterans.

² Vote Veterans’ Affairs The Estimates of Appropriations 2011/12 B.5 page 332.
Introduction

1.1 The Minister of Veterans’ Affairs, Hon Judith Collins, is responsible for both Veterans’ Affairs Votes.

1.2 The identification of veterans as a specific group within New Zealand society is an acknowledgement of their role as defenders of peace, freedom and our way of life.

1.3 The proposed appropriations total across both Votes in 2011/12 is $351.041 million. This is an increase of 1.1% on the estimated actual $347.248 million in 2010/11.

1.4 The New Zealand Defence Force (NZDF) administers Vote Veterans’ Affairs - Defence Force while the Ministry of Social Development (MSD) administers Vote Veterans’ Affairs – Social Development.

1.5 Veterans’ Affairs New Zealand (VANZ) is a branch of the NZDF, with a General Manager who reports directly to the Chief of Defence Force. VANZ’s role is to ensure that veterans are able to access the services they need to support them in their daily lives. It provides policy advice, manages the Government’s relationship with veterans and their representative organisations, ensures that entitlement assessments are fair and accurate, co-ordinates services to veterans from government agencies, and facilitates access to services within the community.

1.6 MSD has responsibility for the operational administration of Veterans’ pensions and therefore intends to maintain a close working relationship with VANZ.

1.7 The SOI states that there is no parallel social service framework for the provision of health and social assistance for veterans in New Zealand. Services and entitlements for veterans are, in the main, provided through the publicly funded health and disability systems and social assistance framework.

Vote Veterans’ Affairs – Defence Force

2 Introduction

2.1 The SOI has three outcomes for VANZ:

- **Honouring Service**: Veterans are acknowledged and recognised for their service and sacrifice and the community is aware of the role veterans have played and continue to play in developing New Zealand as a nation.

- **Listening to Veterans**: Working in partnership with the NZDF, the impacts of service on eligible veterans and their dependents is monitored and they have information about, and access to, services and support that promote wellbeing.

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4 Quote from Veterans’ Affairs Statement of Intent 2011-2014, page 57.

5 Veterans’ Affairs Statement of Intent 2011-2014, page 60.
Recognising Service: The veterans' perspective is considered as part of government decision-making on issues that impact on their lives.

2.2 The Minister has stated that her priorities are to:
- review the War Pensions Act 1954,
- improve service delivery by strengthening case management in the community, and
- prepare for significant commemorations.

3 Trends in the Vote

3.1 The appropriations sought for Vote Veterans' Affairs - Defence Force for 2011/12 total $171.843 million (2010/11 estimated actual: $168.607 million).\(^6\)

3.2 There has been no change in the structure of the Vote, which continues to be dominated by two appropriations War Disablement Pensions (80% of the Vote) and Medical Treatment (13%). The remaining 8 appropriations utilise 7% of the Vote.

3.3 The increase in the Vote from 2010/11 to 2011/12 mainly arises from the cost of living indexation of pensions and rising medical requirements of the aging population of veterans, partly offset by reductions arising from the natural decline in the number of veterans. Over time the relative contribution of these factors varies, so that the overall Vote is expected to decrease over the period 2012/13 to 2014/15.

3.4 The trend in Vote Veterans’ Affairs – Defence Force over recent years is shown in Figure 1 below. (Note: the step up in the appropriations from 2007/08 to 2008/09 arose from the transfer of responsibility for the payment and administration of veterans’ allowances to the NZDF from July 2008.)

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\(^6\) Vote Veterans' Affairs The Estimates of Appropriations 2011/12 B.5 page 332.
4 Servicing the Veteran population

4.1 The majority of the veteran population is still made up of veterans from World War Two, and their ages range from the early 80s to 100 plus. Other veterans can be any age from 19 years and over, arising from the various conflicts and operational environments that our forces have been involved in since World War Two.

4.2 The SOI points out that post-World War Two veterans are people who have made a conscious decision of the military as a career, in contrast to the World Wars which each involved an entire generation. It suggests that the onus with respect to the care of veterans will shift from a societal debt generated in a time of war to the government (as employer) taking responsibility for the impact of its decisions on its employees.

4.3 One of the activities of VANZ is the collection of accurate data on the veteran demographic, and accurate information about the risks faced by veterans of various deployments.

4.4 VANZ states that it will now undertake an assessment of the effectiveness of Case Management in the Community activities and identify areas for further improvement. (The Case Management in the Community initiative was introduced in 2009 to support service delivery.)

This assessment will focus on ensuring that Case Management in the Community is reaching its intended audience and is effectively disseminating information.

4.5 The Committee may wish to ask:

- Please provide the Committee with a summary of the veteran demographic and the risks faced by veterans of various deployments.
- How is this demographic likely to change within the next five and ten years?

The Committee notes the statement in the SOI (with respect to the care of veterans) that the onus will shift from that of a societal debt generated in a time of war to government, as an employer, taking responsibility for the impact of its decisions on its employees.

- What impact will this shift in onus have on the services provided by VANZ?

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7 Veterans’ Affairs Statement of Intent 2011-2014, pages 60 and 66.
The Committee notes that VANZ will be undertaking an assessment of the effectiveness of Case Management in the Community activities and identifying areas for further improvement.

- Please brief the Committee on the scope, timeframe, and methodology for this assessment.
- How will the input of veterans and their representative organisations be obtained to inform the assessment?
- What criteria will be used to assess the effectiveness of Case Management in the Community activities?
- When will a report on the assessment and areas for further improvement be available for the Committee?

5 Legislation

5.1 The Law Commission tabled its report “A New Support Scheme for Veterans” in June 2010. This report recommended new legislation and significant changes to the scheme for support of Veterans.

5.2 The Commission said there were a number of aspects of its proposed scheme that would take some time to implement, and it noted a number of things that would need to happen before new legislation could come into force. These included: the establishment of various panels, the development of decision-making systems and structures, and training and technical support.

5.3 The Commission reported that it was difficult to obtain detailed costings of its proposals. It found that the lack of base data on the number of veterans in the population had proved to be a significant limitation in determining likely cost. The Commission said that its recommendations were likely to result in some increases in the costs of the veterans’ system. The Commission said that the Government should obtain rigorous costings before making decisions on the implementation of its recommendations.

5.4 In an October 2010 media release the Minister said that the Government was undertaking detailed costings and analysis of the Law Commission’s report. The Minister said that she was pleased with progress to date, and she said that costings and analysis of the recommendations was ongoing.

5.5 As noted previously, the “Review of the War Pensions Act 1954” is listed as one of the three key priorities of the Minister.

5.6 The Committee may wish to ask about progress following the Law Commission review.

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The Committee notes the Law Commission Review (tabled in June 2010) and the Minister’s media statement (October 2010) stating that she was pleased with the progress of costing and analysis work on the Commission’s recommendations.

- What progress has been made since October 2010 with the costing and analysis work on the Commission’s recommendations?
- Has this work been completed, and if not, when will it be completed?
- What information can the Minister provide the Committee on the estimated cost increases in the veterans’ system that would result from accepting the Commission’s recommendations?
- What progress has been made in considering the Government’s response to the 170 recommendations in the Law Commission review?
- Is the Minister able to provide further information to the Committee on which recommendations are likely to be adopted and which, if any, are likely to not be adopted?
- What impact could the Government’s response to the Law Commission review have on the appropriations in the Vote in 2011/12 and out years?
- What are the main steps remaining in (and the timetable for) work to decide the future of the veterans’ support scheme?
- When does the Minister expect to implement agreed changes to the veterans’ scheme, including the introduction of new legislation?

6 Commemorations

6.1 Three significant commemorations are referred to in the SOI – the centenary of Gallipoli in 2015, the 2014-2018 centenary of World War One, and the 60th anniversary of the Korean War Armistice in 2013.

6.2 A priority for VANZ is to review the 2010 commemorations of the 95th anniversary of Gallipoli as a dress rehearsal for the centenary.

6.3 VANZ is part of a steering group established by the Ministry of Culture and Heritage to coordinate New Zealand based events to commemorate the centenary of World War One.
6.4 The Committee may wish to ask:

- What progress has been made with the review of the 95th anniversary of Gallipoli commemorations, as a dress rehearsal for the centenary in 2015?
- What lessons were learnt from the dress rehearsal and what changes will be made for the centenary?
- What report is, or will be, available to the Committee on this review?
- How will VANZ ensure that there is an appropriate Australian involvement in its planning for the Gallipoli centenary?
- Please brief the Committee on VANZ’s role in, and the main activities of, the steering group established by the Ministry of Culture and Heritage to coordinate New Zealand based events to commemorate the centenary of World War One.
- What are the likely financial implications for out years on the Vote from the Gallipoli and World War One centenary commemorations?
- Please brief the Committee on the planned New Zealand based events to commemorate the 60th anniversary of the Korean War Armistice in 2013.
- What steps are being taken to provide Korean War veterans with support to enable them to fully participate in these events?

7 VANZ Capability

7.1 VANZ is a branch of the NZDF and is therefore supported by NZDF systems (such as corporate information technology) and covered by NZDF policies (such as EEO). We note that a number of risks identified by VANZ are outside of its immediate control (for example the loss of service records and files).

7.2 VANZ has identified a number of capabilities that it intends developing and strengthening. These include analytical capability, legislative & regulatory knowledge, and relationships with stakeholder groups.11

7.3 The NZDF is currently undergoing a period of major change, to implement the Defence White Paper and to redistribute savings of $350-400 million per annum by 2014/15.

7.4 The Committee may wish to ask:

- What steps is VANZ taking to ensure that NZDF systems and policies are such that they make an effective contribution to achieving its outcomes?
- How is VANZ working with the rest of NZDF to ensure that service documents, personnel and medical records and war pension files are maintained and are accessible as required?
- Please describe how VANZ is developing and strengthening its organisational capabilities in general, and specifically what strengthening will be achieved in 2011/12?
- What contribution is VANZ making to the major change process underway within NZDF as it implements the Defence White Paper and redistributes savings of $350-400 million per annum by 2014/15?
- What impact will the changes in NZDF have on the way VANZ operates and on how it interacts with the rest of the NZDF?

Vote Veterans’ Affairs – Social Development

8 Trends in the Vote


8.2 There has been no change in the structure of the Vote, which consists of two appropriations. The appropriation Veterans’ Pensions accounts for 99.7% of the Vote, while the remaining appropriation Processing and Payment of Veterans’ Pensions covers the cost of processing these pensions.

8.3 All of the increase in the Vote (0.3%, being $0.557 million) occurs in the Veterans’ Pensions appropriation. Over future years (2012/13 to 2014/15) annual expenditure is expected to decrease as the declining number of veterans more than offsets the annual cost of living adjustments made to pension rates.

8.4 The trend in Vote Veterans’ Affairs – Social Development over the last five years is shown in the following graph. (Note: the step down in the appropriations from 2007/08 to 2008/09 arose from the transfer of responsibility for the payment and administration of veterans ‘allowances to the NZDF from July 2008.)

12 Vote Veterans’ Affairs The Estimates of Appropriations 2011/12 B.5 page 332.
9 Links to MSD outcomes

9.1 MSD has six long-term outcomes for its overall work. This Vote and its payment of veterans’ pensions is linked to two of these outcomes. These are *More people get into work and stay in work* and *Improved quality of life for older people*\(^{13}\).

9.2 For the outcome *More people get into work and stay in work* MSD outlines a number of programmes such as Future Focus and Training for Work. It also mentions the Government’s consideration of the recommendations of the Welfare Working Group.

9.3 The outcome *Improved quality of life for older people* describes a range of activities designed to allow older people to access their entitlements more easily, to increase awareness of elder abuse and neglect, and to enable more older people to remain in the workforce and be active in the community.

9.4 For both of these outcomes there is no discussion about how the activities apply specifically to veterans. In each case the only mention of veterans is the Vote being listed as one of the output expenses that contribute to that outcome.

9.5 The Committee may wish to ask:

The Committee notes that Vote Veterans’ Affairs - Social Development contributes to two of MSD’s outcomes, being *More people get into work and stay in work* and *Improved quality of life for older people*

- Based on the demographics of the veterans population, how many veterans are there for whom *getting into and staying in work* is a realistic aspiration and how many veterans are there of such an age that the *improving quality of life for older people* outcome is more applicable?
- What difference, or nuance, in application will occur for the activities described (in MSD’s SOI) for each outcome when these are applied to veterans?
- What relationships does MSD have with organisations representing veterans, and how does it utilise these relationships to inform its work?
- How does MSD work with the NZDF (including VANZ) to ensure that the service provided to veterans is well coordinated and seamless?

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\(^{13}\) MSD Statement of Intent 2011-2014 pages 14-17 and 28-30.
## Glossary

The following information is sourced from the Estimates of Appropriations, a Guide to the Public Finance Act (PFA) and a Guide to Appropriations.\(^{14}\)

| Appropriation | A parliamentary authorisation for the Crown or an Office of Parliament to incur expenses and capital expenditure, for a specified purpose. Appropriations are limited by their **scope** (limits on what the appropriation can be used for), **amount** (the maximum amount of expenditure allowed), and **period** (the timeframe over which the appropriation applies – usually annual or multi-year). |
| Benefits and Other Unrequited Expense appropriations | Authorises expenses incurred by the Crown (generally made to individuals for their benefit) for which no direct exchange of value is expected in return. Examples are the unemployment benefit and student allowances. These appropriations are non-departmental. |
| Capital expenditure appropriations | **Departmental:** Authorises capital expenditure to be incurred by a department to acquire or develop assets for use by the department. Departmental capital expenditure funded from a department’s balance sheet (proceeds of the sale or disposal of any of its assets together with any working capital held) is authorised by a permanent legislative authority (PLA), under the PFA. The department can seek additional funding for capital expenditure (shown as capital injections in the net asset schedule in the Estimates). **Non-departmental:** Authorises capital expenditure to be incurred by the Crown (excluding departments) to acquire or develop Crown assets, including the purchase of equity or a loan to a person or organisation that is not a department. Examples include equity injections for Crown entities, and Residential Care Loans to older people. |
| Explanation of Movements in Departmental Net Asset Schedules | A schedule showing the opening balance, projected movements, and closing balance of a department’s net assets. Specifically, it includes the details of any retained surplus, capital injections, or withdrawals. |
| Output Expense appropriations | **Departmental:** Authorise expenses to be incurred by a department in providing a class or type of outputs (goods and services). **Non-departmental:** Authorises expenses to be incurred by the Crown (excluding departments) in purchasing a class or type of outputs (goods and services) from Crown entities or other third parties. **Multi-class Output Expense appropriation (MCOA)** A single appropriation that covers more than one class of output expenses. |
| Other Expense appropriations | Authorises expenses to be incurred by a department not related to producing outputs. An example is the cost of the disposal of decommissioned Defence assets. |

\(^{14}\) Published by the Treasury in August 2005 and November 2008 respectively.
Non-departmental:
Authorises expenses to be incurred by the Crown (excluding departments) that are not output expenses, benefits, or borrowing expenses. An example is the cost of providing primary education.

Outcomes
States or conditions of society, the economy, or the environment, including changes in those states or conditions.

Minister responsible for appropriations
The Minister responsible for specific appropriations within a Vote. As several Ministers may now hold appropriations within a single Vote, each appropriation has a tag (M1.2 etc) identifying the Minister responsible for that line item.

Responsible Minister
The Minister responsible for the financial performance of a department or Crown entity. In relation to an Office of Parliament, the Office of the Clerk and Parliamentary Service, the Speaker is the Responsible Minister.

Vote
A grouping of one or more appropriations that are the responsibility of one or more Ministers and are administered by one department.