

The Treasury

Budget 2024 Information Release

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Budget 2024 Bilateral: Hon Simeon Brown (Transport)

Background

1. This report provides you with advice ahead of your bilateral with Hon Simeon Brown (Transport) at 2.30pm on Monday 11 March 2024 to discuss his Budget 2024 initiatives. An agenda, talking points, and further detailed information on key areas and areas of concern in the draft Transport package are provided below.
2. The Ministry of Transport (the Ministry) was required to identify 7.5% in the Baseline Savings Exercise (\$38.5 million p.a., or a total of \$154 million over the forecast period). Sufficient savings have been identified across the forecast period, and additional savings of \$25 million p.a. are expected from an efficiency dividend from NZTA that was not submitted.
3. The Ministry was invited to submit three new spending initiatives. We considered all three spending initiatives to be critical, urgent this Budget, and aligned with Government priorities. We recommend scaled versions given constraints on allowances.
4. There were two 'packages' of Transport initiatives submitted as part of the Capital Pipeline Review: 7 projects for NZTA that are part of NZUP, and 8 projects for KiwiRail.
5. We are comfortable with the reprioritisation options identified by KiwiRail to manage their urgent cost pressures. Noting that Ministers have had recent discussions on NZUP, we have focused our questions on how residual risks will be managed or mitigated.

Proposed Agenda

- Overview of budget package
- The Transport savings package and how the Minister intends to mitigate any key risks we have identified, specifically ensuring NZTA back-office savings are secured.
- The proposed approach to new spending and cost pressure initiatives.

Talking Points

General Budget 2024

- Following agency submissions for Budget 2024, both operating and capital demands are significantly higher than the funding available.
- It is clear that ambition for new spending will not be achievable from both a fiscal and delivery perspective. The Government will need to balance its policy objectives with its fiscal objectives.
- In doing so, we need to acknowledge that we have three Budgets across this term - and therefore think carefully about what we do now versus what we do in future Budgets.

- We also need all Ministers continue to push hard where they consider their agencies have not provided sufficient savings options or there are further savings available, particularly with regards to stopping funds and programmes not aligned with our priorities, or addressing back office and contractor and consultant growth.
- As we exit the 100-day period, I am also taking a stricter approach to out-of-cycle requests for funding ahead of Budget 2024. This will help ensure that we can assess the relative benefits of proposals across the full Budget package.

Transport Specific – Savings

- Thank you for your work on submitting savings that meet the target of \$38.5m p.a. I am comfortable that the package you have provided is largely credible, noting that you are seeking an additional back-office efficiency dividend from NZTA through your GPS process.
- Officials have identified some risks with your savings proposals that I'd like to discuss:
- *Retaining and Recruiting Bus Drivers:* it appears there will be impacts on front line services.
 - *How do you propose to mitigate the risk that cutting this funding could contribute to further driver shortages?*
- *Clean Car Standard Administration:* I am concerned that your proposed 50% scaling to ongoing administrative costs presents a risk to the agency managing workloads which could lead to regulatory failure.
 - *How confident are you that this level of cuts would not lead to regulatory failure?*
 - *Are you confident that you can credibly manage costs without jeopardising delivery of other regulatory functions?*
- I note that a number of your proposals would see an increase in the expectations on Local Government funding and this may not be sustainable in the long-term.
 - *How do you propose to manage the risks of transferring further costs onto Local Government with the removal of Crown funding from these programmes?*
- I acknowledge your additional back-office savings from NZTA via the GPS to support our fiscal goals; however, given the risks with some of your proposed savings we should consider where alternative enduring savings could be found:
 - *What opportunities are there for alternative enduring savings, either within NZTA or across Vote Transport, given the risks identified above?*
 - *Your Ministry of Transport departmental savings are 5%, are there opportunities for further reductions in its departmental baseline?*

Invited Spending & Capital Pipeline

- *North Island Weather Events Recovery:* I am proposing to fund remaining State Highway recovery in full (\$609.25 million) given the confidence in costings and timing, but to only provide funding for Local Road recovery until 2024/25 (\$330 million), with any costs beyond that to be considered through the NLTF alongside all other competing demands for local road maintenance funding.
 - *Are there any risks with this approach which you would like to discuss with me?*

- *Civil Aviation Authority (CAA) Liquidity Facility Funding:* My expectation is that the CAA Fees and Funding Review (FR) is accelerated to mitigate the risk of further calls on Crown funding.
 - *What steps are you taking to ensure the FR is progressing as quickly as possible? Are there any barriers to progress that I should be aware of?*
- *Rail Cost pressures:* I am proposing to provide funding towards both metro rail cost pressures as I am satisfied that these are critical and urgent, and I am comfortable with the level of reprioritisation options that have been identified.

[33]

- *Further reprioritisation options:* Your proposed reprioritisation options do not provide sufficient operating funding to manage the fiscal impact of the cost pressures you've submitted.
 - *Do you have further reprioritisation opportunities you could use to cover cost pressures?*
 - *If new operating funding is required to fund cost pressures, what are the most critical components to prioritise?*
- I acknowledge that you propose a 5% reduction in the Ministry of Transport's departmental spend. I also acknowledge the baseline is reducing by 16% over the forecast period. However, there is a need for all Ministers to look further into departmental savings.
 - *Do you have any opportunities to find further efficiencies within the departmental baseline?*
 - *What options are you exploring for reprioritising resources within your departmental spend to deliver on your priorities?*
- *Government Policy Statement (GPS):* You have proposed a \$25 million p.a. back-office efficiency dividend from NZTA.
 - *What will you do to ensure that this is given effect to?*
 - *There is a very high level of ambition for what can be delivered through the GPS, what assurances are you seeking from the NZTA Board to mitigate the risk of delivery falling short or further funding being requested?*
- *New Zealand Upgrade Programme (NZUP):* We've agreed that NZTA will be accountable for delivering the descoped programme within the approved funding but risk ultimately still sits with us as Ministers.
 - *Treasury officials recommend monthly reporting from the NZTA Board and a review of the overall programme by Te Waihanga (Infrastructure Commission) given the history of repeated cost increases – do you support these options to manage our exposure to risk?*
 - *What other mechanisms have you considered to ensure NZTA is accountable and actively manages risks?*

Overall Savings Package

6. The Ministry submitted sufficient savings options to meet their target over the forecast period (\$154.541 million), although the savings identified are unevenly spread across years.
7. Outyears savings are \$8.5 million below the target; however, the GPS will require NZTA to deliver a \$25 million p.a. efficiency dividend on its back-office functions into outyears. We also note that GPS proposes to contribute around \$2.3 billion of additional revenue, and return \$716 million total of previously committed operating funding (of which \$100 million per annum was forecast to have been ongoing into outyears).
8. We consider that the Ministry's savings package and the NZTA efficiency dividend combined deliver on expectations for the Baseline Savings Exercise (i.e., totalling c. \$55 million p.a. in outyears). However, it will be critical that a process is implemented to ensure that the NZTA back-office savings are realised.
9. There are some options in the savings package that may create risks to the Crown.

Initiative 15720 – Retaining and Recruiting Bus Drivers Funding ^[33]

10. This initiative proposes to return ^[33] funding for bus driver recruitment and retention interventions (base wage uplift, improved conditions for late night or split shifts, ^[33] This funding was intended to address shortages that were resulting in significant service cancellations and delays.
11. Although shortages are largely now in hand, there is a risk they could return if these industry-agreed measures are reversed. Acknowledging the need for hard choices, we support the saving *conditional on* the Minister providing assurance that the saving will not contribute to further driver shortages.
12. ^[33]

Initiative 15722 Clean Car Standard Operation (Back office) (\$47.368 million Opex): Support after seeking assurances

13. This initiative proposes to cost recover administration costs for the Clean Car Standard beginning in 2025/26. We support the transition to cost recovery, but the savings are being taken from a year *before* cost recovery will begin (with costs in that year to be met out of 'section 9' funding already top-sliced from the NLTF for regulatory functions).
14. We recommend seeking assurance from the Minister that this will not adversely affect other regulatory functions before a user-pays system has been set up.
15. The Minister's proposal that administration costs (even once cost recovered) should be halved risks regulatory failure. Reducing administration funding could reduce low/zero

emission vehicle purchase rates, or lead to poor emissions data which is key to tracking Emissions Reduction Plan targets.

16. We recommend discussing the possibility of expediting the user-pays system, and ensuring it is set at a sufficient level, to manage these risks.

New Spending / Cost Pressures (where invited and relevant)

17. We consider all three initiatives to be critical and urgent this Budget and aligned with Government priorities and recommend scaled versions given constraints on Budget allowances.

Initiative 15769 - Civil Aviation Authority Liquidity Funding (time limited funding) (Total Opex \$122.971 million): Support Scaled (Total Opex \$46.757 million)

18. Continued Crown assistance ensures CAA can carry out its core operational functions while its FR to return to cost recovery is completed (expected on or before 30 June 2025).^[33]

, and assumes underspends in the liquidity facility for 2023/24 are returned to the centre (\$45.013 million). To reduce the ask on the Crown, we recommend CAA retain the underspends,^[33]

19. We recommend directing the Minister of Transport to expedite the process to ensure the review is completed as soon as possible (ideally before 30 June 2025) to minimise calls on Crown funding, and unused liquidity funding returned to the centre.

*Initiative 15771 North Island Weather Events (NIWE) Road Response, Recovery^[33]
Support Scaled (Total Opex \$330 million, Total Capex \$609.25 million)*

20. This initiative aligns with the Government's commitment to recovery works for regions impacted by NIWE and resilience to severe weather events. We recommend the full amount for State Highway (SH) Recovery (\$609.25 million capex) as the works are critical to restoring the network to its pre-cyclone state and we have higher confidence in costings and delivery.

21. Local Road Response and Recovery works are also critical; however, cost estimates are low quality, and the significant amount of funding requested is not feasible in the current environment.

22. We recommend a scaled option to fund works until 2024/25 only, to provide some forwards certainty to enable NZTA to continue contracting in the short term, with the expectation that remaining costs are transitioned back into the 'business as usual' NLTF system in the medium term (i.e., met within GPS funding where the board considers they are a higher priority than other works). We recommend you ask the Minister what he considers the risks and trade-offs are if remaining local road recovery work is shifted into the NLTF beyond 2024/25.

23. ^[33]

24. To ensure continuity and enable contracts to be put in place in time for the summer construction window, NZTA require an indication of the level of funding which will be provided **by 31 March 2024** at the latest. We will need to notify NZTA if there are issues with this deadline.

Capital Pipeline Review

Initiative 15765 Auckland's Rail Network Rebuild ^[25] and ^[33]

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Initiative 15766 Metropolitan Rail Backlogs and Network Management Plan ^[33]

25. ^[33]
relate to critical works on the metropolitan rail network (passenger rail in Auckland and Wellington) which, if unfunded, could result in asset failure or significant disruption (i.e., cancellations) to core public transport services.
26. 15765 largely relates to completion of 'one-off' critical works, so we have recommended funding in full.
27. 15766 relates to ongoing maintenance. A formal review (Metro Rail Operating Model (MROM) review) is currently underway to reset funding arrangements going forward; however, we recommend a single year of funding to continue maintenance works in the interim while that review is carried out. You may wish to seek an update from the Minister of Transport on how the MROM review is progressing.

Initiative 15774 Rail Network Investment Programme ^[33]

28. The RNIP is unfunded from 2026/27. In addition, the revised draft GPS reduces NLTF funding for RNIP by around \$140 million p.a. This funding situation represents a critical risk to maintaining current levels of service for New Zealand's rail network. However, there are genuine options here around ongoing levels of service for rail.
29. ^[33]
30. Outside of rail the most significant capital initiatives are for the GPS and NZUP. There is a high level of ambition for what can be delivered through the GPS and NZUP given constrained funding, and you should ask the Minister what assurances he is seeking from the NZTA Board to mitigate the risk of delivery failure, or further cost pressures.

Treasury Contact: Mark Hodge ^[35]

David Taylor ^[39]

ID	Budget Track	Vote	Initiative Title	Initiative Description	Department Submissions								Treasury Package - Budget Ministers 2							Overall Recommendation	Treasury Comment	A	V	D	Net FTE's (Employees and/or Contractors) - Indicative, noting further analysis is required)					Core Public Service or wider Public sector	
					Operating Allowances							Multi-Year Allowance	Operating Allowances												Multi-Year Allowance	2023/24 (Net change)	2024/25 (Net change)	2025/26 (Net change)	2026/27 (Net change)		2027/28 (Net change)
					2023/24 (\$m)	2024/25 (\$m)	2025/26 (\$m)	2026/27 (\$m)	2027/28 (\$m)	Total Operating (\$m)	Per annum (\$m)	Total Capital (\$m)	2023/24 (\$m)	2024/25 (\$m)	2025/26 (\$m)	2026/27 (\$m)	2027/28 (\$m)	Total Operating (\$m)	Per annum (\$m)						Total Capital (\$m)	2023/24 (Net change)	2024/25 (Net change)	2025/26 (Net change)	2026/27 (Net change)		2027/28 (Net change)
15764	Cost Pressures Capital Cost Escalations	Transport	New Zealand Upgrade Programme (NZUP) being delivered by NZTA - cost pressure risk	There is insufficient funding to deliver the NZUP roading projects with an estimated shortfall of \$0.5-\$1.5 billion. No savings from NZUP are available. NZUP is well advanced reducing the choices available. Several projects are contractually committed, in construction or well advanced through procurement. NZTA recommends managing NZUP within the \$6.54 billion envelope and addressing the shortfall by: •Prioritising and completing projects in construction and significant projects in procurement •For projects in pre-implementation completing this phase and making delivery decisions in mid-late 2024 once affordability is clearer. •Remove two projects from NZUP and transfer these to the National Land Transport Programme. Then, reprioritise the allocated funding within the NZUP.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Not Supported	[See also: related Capital Pipeline Reprioritisation initiative 15755] Not Supported. Funding cost escalations on remaining projects by artificially removing or deferring projects from NZUP risks creating future cost pressures on both NZUP and the NLTF; assumes (without meaningfully considering descoping options) that the remaining cost increases must be funded; and provides no assurance on how the high risk of further escalations will be managed. Hard choices are required, and better information is needed to support that. Noting systemwide constraints on funding and delivery capacity, it is important that decisions on NZUP are not taken in isolation and that the relative priority of, and options to align NZUP with, similar programmes (e.g. RONS, NLTP, NIWE rebuild) is fully understood.	3	2	1	-	-	-	-	-	Wider Public Sector
15765	Cost Pressures Capital Cost Escalations	Transport	Auckland's Rail Network Rebuild ^[33] and ^[38]	This initiative enables KiwiRail to continue delivery of the following: •Auckland Rail Network Rebuild (RNR) (\$159.2m OPEX sought). This supports the final tranche of the programme. If this remaining work is not funded the full benefits of CRU which are based on greater frequency and capacity of services will not be fully realised. [33] and [38]	[33] and [38]															Support	[See also: related Capital Pipeline Reprioritisation initiatives 15757 and 15760] Support, given the risk of metro rail services becoming unable to operate as normal due to unsafe operating conditions, and the flow-on economic implications this would have. Without the Auckland component in particular, the network would not be able to safely accept the higher frequency trains which City Rail Link is specifically supposed to enable when it opens in late 2025, meaning CRL's key benefits would not be realised. ^[33] and ^[38] KiwiRail has made a credible effort to find reprioritisation options that could be used to offset some of this amount (see summary template).	4	4	3	-	-	-	-	-	Wider Public Sector	
15766	Cost Pressures Capital Cost Escalations	Transport	Metropolitan Rail Backlogs and Network Management Plans (cost pressure) ^[33]	^[33] to address backlog renewals to avoid critical network failure risk in Auckland and Wellington metro areas. Basic maintenance and renewals have not been funded to the right levels, resulting in a backlog of assets which need to be replaced together. Fixing them now means the network can progress to a steady state of maintenance, with the risk of asset failure reducing and network service reliability increasing. ^[33] to address shortfalls in funding annual maintenance and renewals in Auckland and Wellington (local government portion), enabling work to be delivered to lift service reliability while the Minister of Transport's Metro Rail Operating Model (MROM) review addresses respective Council/Crown funding responsibilities and definitions.	-	107.700	[33]	-	-	-	-	-	-	-	107.700	26.925	-	-	-	Support Scaled	[See also: related Capital Pipeline Reprioritisation initiative 15761] We support a scaled version of this initiative, to manage critical risks of service failure in the short term while the Minister of Transport's Metro Rail Operating Model (MROM) review is underway to address and reset respective Council/Crown funding responsibilities moving forward. We recommend providing a single year of funding, and then re-assessing at Budget 25 based on findings arising from the MROM review. Not funding this pressure risks further network degradation, service disruptions and operating restrictions on the Wellington and Auckland metro rail networks. KiwiRail has made a credible effort to find reprioritisation options that could be used to offset some of the amount recommended (see summary template).	4	4	3	-	-	-	-	-	Wider Public Sector	
15774	New Spending Capital Investment	Transport	Rail Network Investment Programme ^[33]	^[33] fund the operation, maintenance and renewals of the national rail network, through fully funding financial year 2026/27 ^[33] . This investment is critical to enable KiwiRail to continue efficient and effective network services for all rail users and to support future growth on rail. This includes an inflation adjustment ^[33] KiwiRail recognises the fiscal constraints of the new Government and has prepared reprioritisation options to lessen this request by ^[33] and a scaling option to reduce funding commitments to the next National Land Transport Programme period only (FY25-FY27). This initiative assumes an ongoing funding commitment from the National Land Transport fund of \$120 million per annum being confirmed through the next GPS.	-	[33]	-	-	-	-	-	-	-	-	-	-	-	-	Defer	[See also: related Capital Pipeline Reprioritisation initiative 15756] Defer. RNIP is unfunded from 2026/27. In addition, the revised draft GPS reduces NLTF funding for RNIP by around \$140m p.a. This funding situation represents a critical risk to maintaining current levels of service for rail. We recommend further work be done to confirm the Government's priorities for rail, and desired levels of service. While that work is completed, Ministers have a choice: defer funding decisions until further work is undertaken (i.e. to Budget 25), but accept that this leaves an unresolved risk of acute service failure in the near term (in light of pressures on allowances, this is the approach we have assumed); or, provide up to \$338m to enable a credible minimum RNIP to be issued for 2024-27.	3	2	2	-	-	-	-	-	Wider Public Sector		
15769	New Spending Government Policy Commitment	Transport	Civil Aviation Authority Liquidity Funding (time limited funding)	This initiative will enable the Civil Aviation Authority (Authority) to undertake its statutory functions by bridging the gap between the revenue recovered from the aviation sector and its costs of delivery. ^[33] The gap in operating revenue is a legacy of COVID-19 disruption. While traveller volumes are recovering, in the interim the Authority's costs have risen and a moratorium was in place for funding reviews during that period which meant funding settings for sector recoveries could not be adjusted. A funding review is now underway to address this, but Crown support is required for the Authority to remain solvent until that can be implemented.	-	[33]	-	-	-	-	-	-	-	(45.013)	91.770	-	-	46.757	11.689	-	Support Scaled	Support scaled. Providing liquidity funding for CAA until its fees and funding review is complete is critical and urgent for Budget 24, to enable CAA to continue carrying out its core functions, without which the aviation sector cannot operate. However, we propose that underspends in 2023/24 be permitted to be carried forward for use in 2024/25, and that no funding be provided towards [33] We recommend all steps be taken to finish the fees and funding review as soon as possible to minimise the call on liquidity funds, with any remaining unused funds required to be returned at 30 June 2025.	4	4	3	-	-	-	-	-	Wider Public Sector
15771	New Spending Government Policy Commitment	Transport	North Island Weather Events (NIWE) Road Response, Recovery ^[33] (Time-Limited Funding)	This initiative provides time limited funding for the ongoing recovery, response ^[33] of New Zealand's state highway and local road network following the North Island Weather Events (Cyclone Gabrielle and Auckland Anniversary Floods) in early 2023.	50.000	280.000	[33]	-	-	-	-	-	-	50.000	280.000	-	-	330.000	82.500	609.250	Support Scaled	Support scaled. We support funding State Highway recovery in full this is critical work to restore the network to its pre-cyclone state. While local road recovery is also critical, we support a scaled option to 2024/25 only. Any costs beyond this date should be assessed for funding through the standard NLTF prioritisation process. Given cost estimation uncertainty, we support ongoing monthly reporting. If no new funding is available we recommend recovery works be prioritised within the NLTF ahead of RONS, to ensure works critical to the network are completed. ^[33] Investment System. Note: indicative decisions needed by 31 March to enable contracting for the summer season.	4	3	2	-	-	-	-	-	Wider Public Sector

