

The Treasury

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MINISTRY OF TRANSPORT INITIAL BASELINE EXERCISE ASSESSMENT SUMMARY

Section 1: Overview

Basic Initiative Information – aim to keep to one page					
Vote Analyst(s)	Jesse Doherty Olivia Maxwell (but only till 1 st of March)				
Vote Manager(s)	Mark Hodge (Vote Manager) David Taylor (Team Manager)				
Agency	Ministry of Transport		Vote	Transport	
Baseline savings target achieved?	Yes* *see commentary in Section 2	Invited Cost Pressures?	No	Invited New Spending?	Yes
Invited into the Capital Pipeline Review?	Yes	Proposed new capital initiative spending?	Yes	Proposed new funding for capital cost pressure?	Yes
Overall Comment <i>(required)</i>	Sufficient savings options have been provided to meet Transport's target in total over the forecast period, but these are uneven across years - savings in 2027/28 (thus outyears) are \$8.5m below target. However, in addition to the submitted savings package, GPS24 provides significant revenue uplift, the return of \$716m opex, and a \$25m p.a. efficiency dividend on NZTA overheads. All savings proposals were credible but there are some risks for which we have recommended seeking assurances from the Minister of Transport. We support scaled versions of all three new spending bids (GPS grant, NIWE road recovery, liquidity funding for Civil Aviation); all are critical/urgent. Some reprioritisation choices have been identified for the Capital Pipeline but further work is needed, especially on NZUP.				
\$m - increase (decrease)	Total operating submitted	Total operating recommended	Total capital submitted	Total capital recommended	
Total savings/revenue	[33]				
Total cost pressures					
Total new spending					
Total impact					

¹ Note that this unusually high amount is because the Ministry's submission for the GPS included both the loan, and their proposed \$1b ongoing capex grant, in its totals.

Section 2: Savings Package Assessment

<p>Has the agency put forward savings options which meet the Minister of Finance's stated quantum and percentage targets?</p>	<p>Yes</p>
<p>Has the agency confirmed engagement with staff in developing their savings proposals?</p>	<p>Yes</p>
<p>Overall savings comment (please provide a maximum of 1 page)</p>	
<p>The Ministry of Transport's savings target was 7.5% (\$38.5m per year, or a total of \$154m over the forecast period). The Ministry have submitted sufficient savings options to meet this target in total (\$154.541m), although the savings identified are unevenly spread across years: \$38.099m in 2024/25, \$50.705 in 2025/26, \$35.730 in 2026/27, and \$30.007 in 2027/28. That is, as a result of the uneven phasing, the amount of proposed savings which would roll forward into outyears is \$8.5m below the target.</p> <p>However, we consider that this apparent shortfall should be understood in the context of broader actions currently being taken as part of GPS24 which, although they have not been captured in the Ministry's formal baseline savings submission, nevertheless contribute directly to the intended objectives of the savings exercise. In particular, GPS24 is set to introduce around \$2.3 billion of additional revenue, return \$716m total of previously committed operating funding (of which \$100m per annum was forecast to have been ongoing into outyears), and require NZTA to drive value for money across the NLTF - most notably through a \$25m per annum efficiency dividend on its back office functions. Overall, we are comfortable that the Ministry of Transport's savings package and the NZTA efficiency dividend combined deliver on expectations for the Baseline Savings Exercise, despite the uneven phasing of the Ministry's submitted savings package. It is also worth noting that, while proposed savings in 2027/28 and outyears are below the per annum target of \$38.5m, due to the Ministry's already diminishing baselines, the \$30m proposed to be saved in 2027/28 in fact represents an 11.5% reduction relative to baseline funding in that year.</p>	
<p><u>Credibility of savings and notable risks</u></p>	
<p>In terms of the individual savings proposals presented, we consider these to be broadly credible and achievable, and that no substantive credible further savings options have been missed. We are comfortable that, across the savings package, an appropriate effort has been made to deliver on the spirit of the savings exercise with regard to slimming down 'back office' functions where possible/credible. There are a few specific risks we have identified with the proposals, which are summarised below, alongside proposed mitigations where applicable:</p>	
<ul style="list-style-type: none"> <p>Funding to recruit and retain bus drivers (15720 - [33])</p> <p>[REDACTED]</p> <p>This funding was originally provided with a view to addressing severe bus driver shortages that were resulting in significant service cancellations and delays. Although these shortages have largely now been brought in hand, we consider there is a real risk they could return if these measures - which have been agreed with the industry - are reversed. From a pure policy/outcomes lens, our first-best preference would be not to progress this saving. However, acknowledging the need for hard choices, we propose to support the saving on the condition that the Minister of Transport provide assurances that the saving will not contribute to further driver shortages. [33]</p> <p>[REDACTED]</p> 	

- [33]

- **Clean Car Standard Operation** (15722 - \$47.368m total) - this initiative proposes to cost recover administration costs for the Clean Car Standard beginning in 2025/26. The cost recovery element is fine. One risk here relates to the savings being taken from a year before the 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) - this is plausible, but we recommend seeking assurance from the Minister of Transport that this will not adversely affect delivery of other regulatory functions in 2024/25. The other risk relates to the Minister's proposal that admin costs (even once cost recovered) should be halved - this runs a risk of regulatory failure and we recommend the Minister be asked to reconsider his proposed level of scaling when developing the cost recovery approach.
- **'Efficiency Dividend' initiatives relating to back office savings** for the Ministry of Transport, NZTA, Maritime NZ and the Civil Aviation Authority - for these initiatives we have sufficient information to be confident that credible savings are available up to the amount proposed, but there is still some operational detail to be worked through around exactly what outputs will be reduced - this is not a barrier to supporting these savings now, but we recommend the Minister of Transport seeks a report back on what detailed implementation decisions are taken and what the final expected impacts are. On the CAA specifically, we note there are cost recovery opportunities that could be explored in order to generate further savings - we recommend the Minister of Transport be directed to explore this as part of the fees and funding review currently underway for the CAA.

Potential further savings

We are aware that there may be a small number of further potential one-off savings but we are conscious that these are needed to enable the Ministry to undertake necessary internal reprioritisation to manage uninvited critical cost pressures within baselines (see Section 4). As such, we would not consider it credible to add these to the savings package being returned to the centre.

In addition to the above, residual funding from [33] and the Clean Car Discount (indicatively up to \$6 million) is expected to be returned towards the end of this financial year once wind-down of these programmes is complete. Given that this funding to be returned relates to targeted policy choices Cabinet has already taken, we understand these savings would not be eligible to count towards the Ministry's package. In a similar vein, around \$14 million of liquidity funding is expected to be able to be returned from Maritime New Zealand once its new fee settings take effect on 1 July 2024 - however, the conditions on that funding already required underspends to be returned to the Crown, so again, our understanding is that this funding could not be counted towards the Ministry's savings package.

[33]

Through Mini Budget and the cancelling of Auckland Light Rail, Transport has already returned \$1.34b opex and \$453m capex since the election.

Section 3: Spending Package Assessment (if applicable)

The Ministry of Transport was invited to submit three new spending initiatives. We consider all three initiatives to be critical and urgent this Budget, and have recommend a scaled version of each:

- **North Island Weather Events road response and recovery** (15771 - \$330m opex and \$609.25m capex recommended) - we support funding State Highway recovery in full as 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 [33] Any costs beyond this date could be assessed for funding through the standard NLTF prioritisation process. Note that a reasonable degree of forwards certainty is required to enable efficient contracting and thereby ensure deliverability. Given lower confidence on local road costings in particular, we support NZTA's proposal to continue monthly reporting. If no new funding is available, we recommend recovery components be prioritised within the NLTF ahead of RONS. Based on direction from MOF, we have not assessed rebuild components submitted by NZTA at this stage. **Note: NZTA have indicated that they require a steer on funding for this initiative no later than March 31 2024 to enable them to undertake contracts in time for the summer construction season – we have flagged this to the Budget team, and will raise through the bilateral.**
- **Grant and debt funding for GPS24** (15789 - \$1.955b capex recommended and \$716m opex proposed to be returned) - a revised draft GPS must be issued by 30 June 2024, therefore there is an urgent need to resolve the gap between planned expenditure and forecast revenue - this initiative addresses that, and therefore is urgent for Budget 24. The majority of the GPS package represents funding to allow core functions to continue - we consider that this represents strong value for money and NZTA has a good track record of delivery on these functions. Appropriate downwards pressure has already been applied to activity class funding limits. The remainder of the funding (just over \$2 billion) is indicatively for new investment, however this is insufficient to deliver on all investment ambitions meaning hard trade-offs will continue to be required - we expect that this will drive value for money. The scaling from this initiative arises because the Ministry's submission did not account for funding already pre-committed and available for use or return.
- **Liquidity funding for the CAA** (15769 - \$46.757m opex recommended) - 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. We have proposed to scale this initiative by carrying forward existing underspends, and recommending that the CAA be [33]
[redacted] 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.

Note: some cost pressure / new spending initiatives were also submitted through the Capital Pipeline Review - our summary comments on those are captured in Section 5 of this template.

Section 4: Managing Within Baselines

Basic Initiative Information

Outside of the three specific invited new spending initiatives (see section 3), and the cost pressures raised as part of the capital pipeline (see section 5 for our proposed approach to manage these), we are comfortable that the Ministry of Transport can credibly manage within smaller baselines. There are a small number of uninvited cost pressures which we understand the Ministry is specifically proposing to manage within baselines:

- **Maintaining Critical Frontline Prevention and Safety Services at Existing Levels** (surf-life saving cost pressure) - \$63.644m opex over the forecast period. The Ministry is proposing to manage this by making use of further reprioritisation (above and beyond what was required to be submitted for the Baseline Savings Exercise) - the Fiscally Neutral Adjustments required to implement this will be submitted through the Budget Technical package. We agree that this is a critical frontline pressure, and are supportive of the proposed reprioritisation approach.
- **New Health and Safety at Work Act (HSWA) delegations for the Civil Aviation Authority (CAA)** - [33] This is proposed to be cost recovered, through funding from the HSWA Levy. Options to progress this will be submitted through the Budget Technical package. We are supportive of this approach.
- [33]
- **Fuel Excise Duty Reduction washup (following the end of the 2022-23 25cpl discount)** - one-off \$32m opex shortfall for the National Land Transport Fund (NLTF) arising from the wash-up of the FED/RUC discount scheme. The Ministry is proposing, in light of the efficiencies now expected from NZTA on the expenditure side, that this modest revenue shortfall simply be absorbed in baselines with no replacement funding provided. We consider this is credible, and support the approach.
- **Cost pressure for the purchase of Ground Based Navigational Aids** - \$7.7m capex. The Ministry is proposing to manage this cost pressure by reprioritising the required capex from funding for KiwiRail's coal hopper wagons (with remaining hopper wagon funding being returned to the centre through Capital Pipeline reprioritisation initiative 15763). We support this approach.
- **Severe Weather Emergency Response, Readiness, Resilience, and Recovery (Search and Rescue Initiative)** - \$26.606m opex over the forecast period. Whether or not this pressure eventuates will depend on the outcome of the Government Inquiry into the NIWE Response - decisions by Cabinet at that point will determine whether or not this initiative is required, or whether work will be progressed through other means. Therefore, the Ministry is not proposing to take action to fund this initiative at this stage - we are comfortable with that approach.

Section 5: Capital (if applicable)

Basic Initiative Information

Comment on the agency's proposed changes to the capital portfolio

Capital Pipeline Review submissions for transport comprise two 'packages' of initiatives: 7 projects for NZTA, all of which form part of the New Zealand Upgrade Programme (NZUP) and were submitted as two joint initiatives (one to assess potential stopping or scaling options, one to outline cost pressures), and 8 projects for KiwiRail (many of which, similarly, were submitted as a savings template and a cost pressure template).

NZTA submissions (NZUP)

Whilst we support the premise of managing NZUP within its existing \$6.54b envelope, we do not consider that genuine options were provided in NZTA's submission to deliver on that. Funding cost escalations on remaining projects by artificially removing or deferring projects from NZUP (for example, shifting RONS-adjacent NZUP projects to be considered through the NLTF instead) risks creating future cost pressures on both NZUP and the NLTF; assumes (without meaningfully considering descope 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, including descope, and better information is needed to support that. Some of the highest cost escalations and lowest BCRs are on projects that NZTA considers 'well advanced' - as such, we consider it premature to have ruled these out as reprioritisation options, and recommend NZTA be asked to reconsider lower cost/descope options for these projects. Noting systemwide constraints on funding and delivery capacity, it is important that decisions on NZUP are not taken in isolation, and that interactions with, and relative priority of, similar major investments (e.g. RONS, NIWE rebuild) are fully understood.

KiwiRail submissions (RNIP, Metro Rail, Hopper Wagons)

We consider that KiwiRail has made a credible effort at identifying reprioritisation options; and that the cost pressures identified are genuine and, after recommended scaling has been applied, urgent. Cost pressures relating to risks of asset failure and service disruption (i.e. cancellations due to lack of safe conditions to operate, or speed restrictions resulting in a substantively reduced timetable at peak hours) on the metropolitan rail network (Auckland and Wellington passenger rail) are the most critical. KiwiRail has self-assessed several projects for review as having no credible scaling or stopping options - either due to being nearly complete, or due to these being the same projects already facing critical cost pressures - we are comfortable with KiwiRail's judgements in relation to this.

Our headline recommendations across the Capital Pipeline package for KiwiRail are as follows (with a detailed breakdown provided below)

- \$180.07m opex available to be reprioritised ^[33]

-

Recommended descope choices to 'free up' funding, enabling that funding to be reprioritised towards urgent cost pressures

1. \$180.7m opex by deprioritising some resilience works on secondary (i.e. lower throughput) lines (Initiative 15758)

2. \$22m capex due to descope decisions on Whangarei to Otiria NZUP project (Initiative 15762)
 3. \$30.3m capex by returning funding set aside of hopper coal wagons (Initiative 15763)
- Total: \$180.7m opex and \$52.3m capex**

[33]

Recommended cost pressures/new spending to be funded, in order of priority for opex funding (highest first)

1. \$159.2m opex to fully fund cost pressures for Auckland's Rail Network Rebuild, to enable the network to safely accept the higher frequency services that will be unlocked by the City Rail Link when it opens in late 2025 (15765 part 1)
2. [33]
3. [33]
4. [33]
5. \$22m capex to be reprioritised from Whangarei to Otiria towards pressures on NZUP Wellington Infrastructure projects (Initiative 15762)
[33] and \$22m capex

[34]

Please describe risks associated with the agency's proposed package:

(See comment above)