

The Treasury

Budget 2024 Information Release

September 2024

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
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Date: 1 February 2024

To: Minister of Finance
(Hon Nicola Willis)

Deadline: None
(if any)

Multi-Year Capital Allowance (MYCA) overview

This aide memoire sets out an overview of the Multi-Year Capital Allowance (the MYCA).

Purpose of the MYCA

The MYCA reflects the funding the Government has set aside to meet the costs of future capital investments. The funding is expected to cover the cost of new investments and any cost escalations in existing projects. The multi-year approach to managing capital investments was introduced in 2019 by the previous Government, changing from a single year allowance to a multi-year envelope. The purpose of this change was to better align to the Government's fiscal strategy and support a more long-term view for new capital investments.

In addition to the MYCA, there are a number of other funding sources for new capital investments. This includes funding within the National Resilience Plan (NRP), and depreciation funding some departments and Crown entities hold on their balance sheets.

Current status of the MYCA and how it is reflected in HYEFU

HYEFU 2023 reflected the previous Government's decisions, including future capital expenditure and the level of funding set aside in the MYCA. At Budget 2023, the previous Government announced the MYCA would be topped up to a total amount of \$20.5 billion, of which they allocated \$17.4 billion at Budget 2023 and \$200 million in some later funding decisions. This left (as at HYEFU 2023) \$2.9 billion in the MYCA available for future capital investments for Budget 2024 through to 2026. HYEFU 2023 included an assumption that future capital investments would be spread evenly across these Budgets, with just over 85 percent of the funding available expected to be spent in the forecast period.

As at 30 January 2023, the MYCA has \$3.5 billion funding available for future capital investments. The increase in funding since the 2023 HYEPU reflects the impact of Mini Budget decisions and other Government decisions which returned funding to the MYCA (e.g. the cancellation of the Auckland light rail project).

How the MYCA can be topped up or changed

The MYCA is not automatically topped up annually or when a new forecast year is included in economic and fiscal updates. While the projection period assumes Governments will continue to fund a certain level of capital investment, the decision to increase the MYCA and by how much needs to be agreed by Cabinet.

The Government has standard processes where Budget allowance settings (both operating and capital) are considered, which are the Government's Budget Policy Statement (BPS) and Fiscal Strategy Report (FSR). In addition, the Minister of Finance and Cabinet have flexibility for when the MYCA can be topped up or changed, and can make these decisions as and when they wish to (e.g. the recent Mini Budget included decisions which affected the balance of the MYCA).

To support these decisions, Treasury provides advice on the total amount of future funding to allocate in the MYCA. Four key considerations this advice covers are capital pipeline information, market capacity given existing projects, Budget and Government priorities, and the Government's fiscal strategy. This advice also includes updated forecasts so decisions can take into account the latest state of key fiscal indicators. Upcoming advice and decisions on the MYCA and capital investment are noted at the end of this aide memoire.

How changes to the MYCA impact key fiscal indicators

Changes to the MYCA that are not funded through an already established allowance or reprioritisation of existing spending will impact the net debt indicator (with increases to the MYCA having an adverse impact). There will also be indirect impacts on OBEGAL, reflecting the resulting changes in borrowing costs. In addition, new capital investment will require associated operating expenditure (e.g. an increase in workforce, asset maintenance costs, depreciation expenses). This will need to be managed against the Budget operating allowance or else risk adversely impacting OBEGAL.

The below table illustrates what the impact on net debt would be from increasing the MYCA by a further \$7.0 billion or \$3.5 billion compared to the 2023 HYEPU. For forecasting purposes, we would assume that the overall amount in the MYCA will be allocated evenly over the next four Budgets. We also make an assumption around the phasing by fiscal year on the amount expected to be allocated in each future Budget. This phasing is based off historical trends of past capital investments funded from the capital allowance.

Table 1 – Illustration of the impact on net debt from a top-up to the MYCA (\$ millions)

| | | | | | Outside Forecast Period | | | |
|------------------------------------|------------|--------------|--------------|--------------|-------------------------|------------|------------|--------------|
| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | Total |
| MYCA – at 2023 HYEPU | 341 | 682 | 877 | 633 | 292 | 97 | - | 2,922 |
| MYCA – with a \$7b top-up | 868 | 1,736 | 2,232 | 2,481 | 1,612 | 744 | 248 | 9,922 |
| Impact on net debt (annual) | 527 | 1,055 | 1,356 | 1,847 | 1,320 | 647 | 248 | 7,000 |
| | | | | | Outside Forecast Period | | | |
| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | Total |
| MYCA – at 2023 HYEPU | 341 | 682 | 877 | 633 | 292 | 97 | - | 2,922 |
| MYCA – with a \$3.5b top-up | 562 | 1,124 | 1,445 | 1,606 | 1,044 | 482 | 161 | 6,422 |
| Impact on net debt (annual) | 221 | 442 | 568 | 972 | 751 | 384 | 161 | 3,500 |

BEFU 2024 will reflect your Government’s updated fiscal strategy and decisions. This will include updated allowances for the MYCA, proposed savings and new expenditure and their impact on the forecasts of Core Crown spending on capital investments, and your capital pipeline investment decisions (e.g., if a different phasing of planned capital investment is signalled than evenly across future Budgets).

Upcoming advice and decisions related to the MYCA and capital investment

- Advice on discontinuing the NRP and reprioritising most remaining funding to the MYCA as savings (early February 2024).
- Fiscal strategy advice, including advice on setting operating and capital allowances (mid February 2024).
- December 2023 quarterly investment report outlining the Government capital investment pipeline funding profile and significant cost escalations signalled (mid February 2024).

- Budget 2024 initial package advice, including advice on capital pipeline review, capital cost pressures and new capital initiatives seeking funding (early March 2024).

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