

# 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
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [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
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [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
- [40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

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## Treasury Report: Update on the preparation of capital initiatives for Budget 2024

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<b>Date:</b>	2 February 2024	<b>Report No:</b>	T2024/207
		<b>File Number:</b>	ST-4-8-4-11-5-2024

### Action sought

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	Action sought	Deadline
Hon Nicola Willis <b>Minister of Finance</b>	<p><b>Agree</b> to remove the two initiatives from the Capital Pipeline Review that now meet the exclusion criteria</p> <p><b>Indicate</b> which new capital initiatives that do not meet the invitation requirements that you wish to invite</p>	5 February 2024

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
Chris May	Senior Advisor, Investment Management System (IMS)	[39]	[35] ✓
Erana Sitterle	Head of Investment Management Policy, IMS		

### Minister's Office actions (if required)

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<p><b>Return</b> the signed report to Treasury.</p> <p><b>Refer</b> the report to the Associate Minister of Finance and Minister for Infrastructure, Hon Chris Bishop</p>
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Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: Update on the preparation of capital initiatives for Budget 2024

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## Purpose of Report

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1. On 25 January 2024 you sent letters to portfolio Ministers inviting them to submit Budget 2024 initiatives for three types of capital initiatives [T2024/47 refers]:
  - a reprioritisation initiatives to identify reprioritisation options (Capital Pipeline Review)
  - b cost pressure initiatives for investments in delivery
  - c new capital initiatives<sup>1</sup>.
2. All agency Budget 2024 submissions, including submissions for capital initiatives, are due Friday 16 February. Given this short timeframe, you requested that the Treasury provide you regular progress updates on the submission process, to enable you to manage any concerns from your colleagues and make any required decisions to manage the number of submissions that might be received.
3. This report provides you with an update on:
  - a initial indication from agencies on the number of new capital initiative submissions to Budget 2024 including those that do not meet the invitation requirements
  - b initial indication from agencies on the number of capital cost pressure submissions to Budget 2024
  - c how we are supporting agencies on the submission process to manage concerns about the tight timeframes for completion.
4. This report also seeks your decisions on:
  - a removing two initiatives that have been invited to the Capital Pipeline Review that now meet the exclusion criteria set out by Cabinet
  - b confirming that new capital initiatives that do not meet the criteria for invitation should not be submitted for Budget 2024 funding.

## Context

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5. The purpose of the Capital Pipeline Review is to ensure the capital investment pipeline is aligned with Government priorities, has a strong focus on value for money and matches fiscal, agency and market capacity. Building a more structured long-term pipeline of investments will improve deliverability and better manage cost pressures.

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<sup>1</sup> New capital initiatives must meet the following requirements:

1. Must be critical to delivery of core public services or to meeting commitments made in Coalition Agreements.
2. Must have been indicated as seeking Budget 2024 funding through the Treasury's December 2023 Quarterly Investment Report.
3. Must have a Cabinet approved business case.

6. The capital process in Budget 2024 is the first step of the Capital Pipeline Review. As you noted to portfolio Ministers in your Budget 2024 invitation letter sent in December 2023, the Capital Pipeline Review will also cover investments in planning where funding has not yet been allocated. This will be undertaken as part of the Treasury's quarterly investment reporting process to Cabinet.
7. This phased approach means that agencies will need to maintain a focus on improving the value for money from capital investment, deliverability and the management of cost pressures.
8. The Budget 2024 capital process also includes the ability for agencies to submit capital cost pressures and new capital initiatives. We have been working closely with agencies to understand what submissions for new funding they are proposing (both capital cost pressures and new capital initiatives), however we will not know the full list of initiatives until submissions are received on 16 February. We have also been working to support agency submissions and to help manage workloads.

### Additional investments to exclude from the Capital Pipeline Review

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9. Through our engagement with agencies, we have also been confirming whether initiatives in the Capital Pipeline Review are still within its scope.
10. Cabinet agreed that all funded medium and high-risk investments in planning and delivery will be within scope of the Capital Pipeline Review with the following exclusions [CAB-23-MIN-0490 refers]:
  - a Investments that are included within the Government's coalition agreements.
  - b Investments that have entered into main contracts.
  - c Investments with an approved Implementation Business Case that relate to maintaining existing levels of service.
11. The Ministry of Education has advised us that two of its investments invited into the Capital Pipeline Review no longer meet these criteria. As these were specifically invited through your letters to Portfolio Ministers, we are seeking your agreement to exclude the investments in table one from the Ministry of Education's Budget 2024 submission.

*Table one: Initiatives recommended to be excluded from Capital Pipeline Review*

Initiative	Reason for exclusion
School Transport – Pokapū Waka Kura	This initiative currently has a Cabinet approved Implementation Business Case.
Tāhūrangi   Online Curriculum Hub	This initiative has effectively been delivered with only some content still to be loaded. Therefore, this initiative could be considered as having entered into a main contract noting it has been internally resourced.

## New capital initiatives intended for Budget 2024 submission

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12. In the Budget 2024 capital process invite letters you outlined that new capital initiatives must meet the following requirements:
  - a Must be critical to delivery of core public services or to meeting commitments made in Coalition Agreements.
  - b Must have been indicated as seeking Budget 2024 funding through the Treasury's December 2023 Quarterly Investment Report.
  - c Must have a Cabinet approved business case (for example an Indicative Business Case or a Detailed Business Case).

### *14 new capital initiatives do not meet the invitation criteria*

13. We received an initial indication that nine agencies intend to submit 30 new capital initiatives. Of these, 14 initiatives that do not meet the criteria set out in paragraph 12 above.
14. Where initiatives meet the invitation criteria, these are automatically invited into the Budget 2024 process. The initiatives, their alignment with the invitation requirements and Treasury recommendations on whether they should be invited are attached at annex A.
15. You have a similar choice with new capital initiatives that do not meet the invitation requirements as you did with late initiatives to Budget 2024:
  - a confirm the invitation requirements and communicate to Ministers that initiatives that do not meet the requirements will not be considered for Budget 2024 funding, or
  - b agree to specifically invite new capital initiatives that do not meet the invitation requirements.
16. Inviting additional initiatives will increase the need for significant trade-offs that will be required during the decision-making phase of the Budget.
17. We have only recommended one new capital initiative that do not meet the invitation requirements is invited into Budget 2024 (Expansion of Waikeria Prison Redevelopment), on the basis that there is an urgent need for additional prison capacity and it strongly aligns with the Coalition Government's law and order commitments. There is also a business case in place for the original Waikeria Prison Redevelopment, which provides the rationale and a level of planning that could be applied to the expansion.
18. While other initiatives that do not meet the invitation requirements may have merit, the invitation requirements are designed to ensure only those capital investment initiatives that have completed sufficient planning (a detailed business case) for a funding decision are considered in Budget 2024. Taking this approach will increase the likelihood of successful delivery.

[33]

19. The Ministry for Defence and New Zealand Defence Force (Defence agencies) have indicated that they intend to seek Budget funding for up to 20 new capital initiatives. We understand this is a longlist and represents the maximum number of possible submissions, and Defence agencies are yet to consult with the Minister of Defence on which of these to submit.

20. The longlist comprises of investments totalling [33] in capital expenditure and [33] in operating expenditure over the forecast period. However, based on information available to the Treasury, only 11 of these initiatives (totalling a reported [33] capital expenditure and [33] over the forecast period) meet the invitation requirements (with Cabinet approved business cases).
21. Defence agencies have consistently sought significant levels of new capital and operating funding, however historically initiatives have not been clearly prioritised and supporting information - such as dependencies across investments, credible scaling options, and implications and trade-offs of different funding levels – has not been provided. We therefore recommend you communicate your expectation to the Minister of Defence that:
  - a new capital initiatives must meet the invitation requirements set out in our letter of 25 January 2024, and
  - b Defence agencies demonstrate clear prioritisation and articulate which investments are considered the most urgent and essential, that key dependencies across their investments are identified, and that credible reprioritisation and scaled options are presented with a comprehensive description of the implications and trade-offs of different funding levels.

## Potential capital cost pressures submitted to Budget 2024

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22. Agencies have been invited to submit cost pressures for investments in delivery in their portfolios.
23. Table two below provides you an update on what agencies have advised they will be submitting as capital cost pressure initiatives, as at Friday 2 February. We have included items that you are already aware of for completeness (cost pressures for New Dunedin Hospital), including decisions you have taken on these and next steps.

Table two: Capital cost pressure initiatives signalled for submission to Budget 2024

Vote	Initiative title and value of cost pressure where provided	Commentary
Education	Marlborough Schools	The Ministry of Education had signalled these initiatives experiencing cost pressures in the September 2023 QIR, and have indicated that they will likely submit these as cost pressure bids.
	School Managed Network (N4L)	
	Growth (National Education Growth Plan, Land purchases, etc)	
	Christchurch Schools Rebuild (B24)	
Health	New Dunedin Hospital [38]	<p>Joint Ministers (Minister of Finance, Minister of Health and Minister for Infrastructure) discussed the cost escalation for this investment with officials from the Treasury, Te Whatu Ora, the Ministry of Health, and the Infrastructure Commission on 1 February 2024.</p> <p>Joint Ministers have directed Te Whatu Ora to prepare a Cabinet Paper requesting additional funding, once information about reprioritisation options and trade-offs have been developed as part of the Budget 24 process. The Treasury will work the Te Whatu Ora to manage the interaction between the Cabinet process and the Budget process.</p> <p>Treasury will provide you with advice on this Cabinet paper, which will include other interventions available to manage risk on this project (including heightened monitoring such as independent monthly reporting, and improvements to governance arrangements).</p>

## Support for agencies on submission process

25. Given the short timeframes for agency capital submissions, we have been working closely to understand any concerns agencies have.
26. The Ministry of Education, Ministry of Transport and Te Whatu Ora have raised concerns about the tight timeframes; however, they have not asked for an extension – the timeline appears manageable. We are working with these agencies in particular to reduce workload where possible such as bundling of submissions and providing as much flexibility as possible on the level of information agencies need to provide. For example:
  - a The Ministry of Transport will be submitting one submission template for all the New Zealand Upgrade Programme, which both lessens the workload and duplication as well as better supporting Ministers to consider changes to the programme as a whole.
  - b We have given flexibility to agencies on the level of detail they need to provide across all initiatives, as we can draw on the information and analysis we already hold, as well as analysis from system leaders such as the Infrastructure Commission.
27. Taking a flexible approach means that agencies can focus their effort on the most substantive issues. This will result in better quality information being submitted to support our analysis for Budget Ministers.
28. We will continue to support agencies in this way and will update your office if any agency concerns require escalated intervention.



## Next Steps

29. Following your decisions in this report, we will work with your Office on communicating your decisions to agencies and Ministers. Initiative submissions are due from agencies on 16 February 2024.

## Recommended Action

We recommend that you:

- a **agree** to remove the following initiatives that no longer meet the inclusion criteria for the Capital Pipeline review:

Vote	Initiative title	MoF Decision
Education	School Transport - Pokapū Waka Kura	<i>Agree to remove/do not agree to remove</i>
Education	Tāhūrangi   Online Curriculum Hub	<i>Agree to remove/do not agree to remove</i>

- b **note** that new capital initiatives that meet the invitation requirements are automatically invited into the Budget 2024 process
- c **indicate** which new capital initiatives that do not meet the invitation requirements you wish to invite into the Budget 2024 process (more information is in Annex A)

Vote	Initiative title	Treasury Recommendation	MoF Decision
Business, Science and Innovation (Energy)	Reserve Diesel Stock Arrangement	Do not invite	
[33] and [37]		Do not invite	<i>Invite/do not invite</i>
Corrections	Expansion of Waikeria Prison	Invite	<i>Invite/do not invite</i>
Defence	High Side Capability Update	Do not invite	<i>Invite/do not invite</i>
Defence	Future Enterprise Resource Planning	Do not invite	<i>Invite/do not invite</i>
Defence	NH-90 Helicopter: Navigation & Secure Radios	Do not invite	<i>Invite/do not invite</i>
Defence	Upgrade Army Communications	Do not invite	<i>Invite/do not invite</i>
Defence	First Tranche of Cyber Security Programme	Do not invite	<i>Invite/do not invite</i>
Defence	Anti-Armor Missiles Refresh (Javelin)	Do not invite	<i>Invite/do not invite</i>
Defence	Uplifting Defence Intelligence	Do not invite	<i>Invite/do not invite</i>
Defence	Remaining Emergency Response Vehicles and Domestic Support Vehicles	Do not invite	<i>Invite/do not invite</i>
Defence	Rotables Component Resilience Uplift	Do not invite	<i>Invite/do not invite</i>
[33]			

[33]

- d **refer** this report to the Associate Minister of Finance and Minister for Infrastructure, Hon Chris Bishop

*Refer/not referred.*

Erana Sitterle  
**Head of Investment Management Policy**

Hon Nicola Willis  
**Minister of Finance**

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**Annex A: New Capital Initiatives signalled for Budget 2024 submission**

Vote	Initiative title	Comment and Treasury recommendation
<b>Initiatives that do not meet the invitation requirements</b>		
Business, Science and Innovation (Energy)	Reserve Diesel Stock Arrangement	<p>The Ministry of Business, Innovation and Employment (MBIE) has provided a briefing to the Minister and Associate Minister of Energy asking to discuss the reserve diesel stock arrangement (the arrangement). The arrangement could involve the Crown procuring 70 million litres of diesel and storage, to bolster security of supply.</p> <p>If Ministers choose to proceed with the arrangement now, MBIE has advised that it will require capital funding at Budget 2024 so that it can begin discussing contractual arrangements for storage following the Request For Proposal (RFP) process, which closed in December 2023.</p> <p>We recommend that the development of this policy should take a first principles approach and be reconsidered within the context of the Government's priorities for fuel security.</p> <p>We <b>recommend</b> that you <b>do not invite</b> this initiative into Budget 2024.</p>
Corrections	Expansion of Waikeria Prison Redevelopment	<p>The Department of Corrections have informed us that it will be submitting a new capital initiative for the expansion of Waikeria Prison Redevelopment. The purpose of this initiative is to provide additional prison capacity which is likely to be needed as a result of existing demand pressure and the likely implementation of the Coalition Government's law and order commitments.</p> <p>While the Department of Corrections has not updated its Waikeria Prison Redevelopment business case (meaning it does not meet the invitation requirements), <b>we recommend</b> that you invite this initiative on the basis that there is an urgent need for this additional capacity. During the Budget package development, we can provide options to mitigate cost and delivery risk given the scope change for the Prison Redevelopment.</p> <p><b>We recommend</b> you <b>invite</b> this initiative into Budget 2024.</p>
[33] and [37]		
[33]		
Defence	High Side Capability Update	<p><sup>[33]</sup> Business cases are in draft form and have been shared with Treasury.</p> <p>While there is a draft business case that has been shared with the Treasury, we recommend you maintain a hard line on the invitation requirements to manage pressure on allowances and the level of trade-offs that Budget Ministers will be required to make. If you do wish to invite this initiative, we recommend that you request the Minister of Defence to outline that it is amongst the most urgent and highest priority investments within the defence portfolio.</p> <p><b>We recommend</b> you <b>do not invite</b> this initiative into Budget 2024.</p>
Defence	Future Enterprise Resource Planning	<p><sup>[33]</sup> Business cases are in draft form and have been shared with Treasury.</p> <p>While there is a draft business case that has been shared with the Treasury, we recommend you maintain a hard line on the invitation requirements to manage pressure on allowances and the level of trade-offs that Budget Ministers will be required to make. If you do wish to invite this initiative, we recommend that you request the Minister of Defence to outline that it is amongst the most urgent and highest priority investments within the defence portfolio.</p> <p><b>We recommend</b> you <b>do not invite</b> this initiative into Budget 2024.</p>

<b>Vote</b>	<b>Initiative title</b>	<b>Comment and Treasury recommendation</b>
Defence	NH-90 Helicopter: Navigation & Secure Radios	Business cases have been approved for earlier projects or tranches, but no overall programme business case has been approved for the programme and no detailed business case has been prepared for this tranche. <b>We recommend you do not invite</b> this initiative into Budget 2024.
Defence	Upgrade Army Communications	Business cases have been approved for earlier projects or tranches, but no overall programme business case has been approved for the programme and no detailed business case has been prepared for this tranche. <b>We recommend you do not invite</b> this initiative into Budget 2024.
Defence	First Tranche of Cyber Security Programme	A new programme business case will be ready for Treasury review later in 2024. <b>We recommend you do not invite</b> this initiative into Budget 2024.
Defence	Anti-Armor Missiles Refresh (Javelin)	There is no business case for this initiative. <b>We recommend you do not invite</b> this initiative into Budget 2024.
Defence	Uplifting Defence Intelligence	Defence officials consulted on a business case for this initiative in 2022 but this was never considered by Cabinet. <b>We recommend you do not invite</b> this initiative into Budget 2024.
Defence	Remaining Emergency Response Vehicles and Domestic Support Vehicles	Business cases have been approved for earlier projects or tranches, but no overall programme business case has been approved for the programme and no detailed business case has been prepared for this tranche. <b>We recommend you do not invite</b> this initiative into Budget 2024.
Defence	Rotables Component Resilience Uplift	There is no business case for this initiative. <b>We recommend you do not invite</b> this initiative into Budget 2024.

**Initiatives that meet the invitation requirements (and therefore automatically invited) or that you have agreed to invite**

[33]

[25]

Oranga Tamariki	Frontline Technology Service Upgrade	Invitation requirements met.
Department of Corrections	Modern Prisons	Invitation requirements met.
Department of Corrections	Environmental Sustainability	Invitation requirements met.
Ministry of Defence	Data Fusion System	Invitation requirements met.
Ministry of Defence	Utility Vehicles to replace Unimog and Light Vehicle	Invitation requirements met.
Ministry of Defence	Upgrading Regional Supply Facilities – Linton	Invitation requirements met.
Ministry of Defence	Upgrade Information Management System across NZDF	Invitation requirements met.
Ministry of Defence	Enterprise Productivity	Invitation requirements met.
Ministry of Defence	Home for Families	Invitation requirements met.
Ministry of Defence	Completing Base Ohakea Infrastructure Projects	Invitation requirements met.
Ministry of Defence	Modern living spaces at Linton Military Base (Messing, Dining and Accommodation)	Invitation requirements met.

<b>Vote</b>	<b>Initiative title</b>	<b>Comment and Treasury recommendation</b>
Ministry of Defence	Investment to progress Estate regeneration	Invitation requirements met.
Ministry of Defence	Shelter for Bushmaster vehicles	Invitation requirements met.
Ministry of Defence	Maritime Helicopter – Infrastructure Design	Invitation requirements met.