The Treasury

Budget 2024 Information Release

September 2024

This document has been proactively released and is available on:

- The Budget website from September 2024 to May 2025 only at: **https://budget.govt.nz/information-release/2024,** and on
- The Treasury website from later in 2024 at: **https://www.treasury.govt.nz/publications/information-release/budget-2024-information-release**

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[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

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

Copyright and Licensing

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Options to increase the Multi-Year Capital Allowance (MYCA)

Date:	Monday 19 February 2024	**Report No:**	T2024/327
		File Number:	MC-1-5-2-2024-M102007

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Agree** to increase the Multi-Year Capital Allowance (MYCA) by up to $7 billion at the Budget Policy Statement 2024.	Wednesday 6 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Gabrielle Barratt	Senior Analyst, Macroeconomic and Fiscal Policy	[39]	[35]	✓
Ben Gaukrodger	Manager, Macroeconomic and Fiscal Policy			

Minister's Office actions (if required)

Return the signed report to Treasury and advise if a discussion at Budget Matters is required

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Options to increase the Multi-Year Capital Allowance (MYCA)

Executive Summary

This advice seeks your agreement to top up the multi-year capital allowance (the MYCA) at the Budget Policy Statement 2024 (the BPS). There are significant competing trade-offs between the Government's capital spending priorities, your macroeconomic and fiscal objectives, and supporting delivery and market capacity.

- Budget 2024 agency submissions show both the operating and capital allowances are significantly oversubscribed. Compared to current unallocated allowances, total net submissions exceed remaining funding by $4.438 billion operating per annum, and $21.385 billion capital over the forecast period [T2024/385 refers]. Both operating and capital allowances are relevant when considering options to increase the MYCA, as approximately every $3 of capital expenditure requires $1 of operating expenditure to support it.

- There is significant pressure on OBEGAL. A substantial fiscal consolidation is required to balance revenue and expenses, as well as support monetary policy efforts to reduce inflation [Briefing to the Incoming Finance Minister – Economic and Fiscal Context slides].

- Signalling the quantum and longer-term intentions of the Government's new capital spending can support delivery and market capacity.

- Decisions on reprioritising the existing capital pipeline and savings, as well as the scope of policy commitments that could have significant capital implications, are still underway. Some large capital policy commitment costings have not yet been checked by agencies or been included in capital intentions pipeline data.

The Treasury recommends topping up the MYCA by **up to $7 billion**, largely to fund capital decisions in Budget 2024. Further headroom would be created through reprioritisation decisions returning capital funding to the MYCA on top of this increase. We recommend confirming this increase with Budget Ministers at the Budget Ministers 2 meeting on Monday 11 March 2024, where Budget Ministers will have the benefit of the first draft Budget package advice from the Treasury.

Following this, the Treasury will draft a paper seeking Cabinet's agreement to the increase to the MYCA, as well as setting Budget operating allowances and the short-term intentions (STIs) and long-term objectives (LTOs) of your fiscal strategy. With Cabinet's agreement, the updated operating and capital allowances and the STIs and LTOs will be published in the Budget Policy Statement 2024 on Wednesday 27 March 2024.

Recommended Action

We recommend that you:

a **Note** that topping up the MYCA presents trade-offs between the Government's capital spending priorities, your macroeconomic and fiscal objectives, and supporting delivery and market capacity,

b **Agree** to increase the MYCA:

  a. by up to $7 billion, reflecting the increase signalled in the National party fiscal plan, bringing the total MYCA to $10.475 billion capital **(Treasury recommendation)**; OR

  Agree/disagree.

  b. by up to $10 billion, bringing the total MYCA to $13.475 billion capital; OR

  Agree/disagree.

  c. by up to $3.5 billion, bringing the total MYCA to $6.975 billion capital,

  Agree/disagree.

c **Agree** the increase to the MYCA is announced in the Budget Policy Statement 2024,

  Agree/disagree.

d **Agree** to confirm the MYCA increase with Budget Ministers at the Budget Ministers 2 meeting on Monday 11 March 2024, and seek Cabinet approval for the increase following that,

  Agree/disagree.

e **Indicate** if you would like to discuss this advice with Treasury officials at Budget Matters on 21 or 28 February 2024.

  Yes, 21 February/Yes, 28 February/No.

Ben Gaukrodger
Manager, Macroeconomic and Fiscal Policy

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Treasury Report: Options to increase the Multi-Year Capital Allowance (MYCA)

Purpose of Report

1. This report sets out options to increase the Multi-Year Capital Allowance (the MYCA) ahead of Budget 2024.

2. This advice outlines:

   a Analysis of different factors the Treasury recommend you consider as part of your decision to increase funding available in the MYCA,

   b How these different factors align to your options for the size of the top up to the MYCA.

3. We will reflect your preferred approach to increasing the MYCA in the preliminary fiscal forecasts, drafting of the Budget 2024 package, and in the material for the Budget Ministers 2 meeting.

Context

4. You recently received an aide memoire outlining an overview of the MYCA [T2024/205 refers]. The MYCA is a multi-year envelope for funding capital investments over multiple Budgets, including new spending initiatives and cost pressures (such as cost escalations for projects already funded or in delivery, maintenance of existing assets, and replacement of existing assets). These initiatives often have a spending profile that extends beyond the forecast period.

5. The MYCA is not automatically topped up when a new forecast year is included in the forecast period. This enables the Government to consider the level of funding in the envelope in light of their fiscal and Budget strategy. Changes to the MYCA are usually set and announced via inclusion in the Government's Budget Policy Statement (BPS), which is typically released along with the Half Year Economic and Fiscal Update (HYEFU) in December. Changes to the overall level of funding in the MYCA can be made and communicated at other times, including at the same time as Budget decisions.

6. In December 2023 the Treasury advised to keep the Budget 2024 operating allowance and MYCA at their current levels at HYEFU 2023, and make a decision on the size of these allowances as part of the Budget Policy Statement 2024 or through the Budget 2024 decision-making process [T2023/1953 refers]. This reflected concerns about market constraints, demonstrating the Government's commitment to fiscal discipline, pressure on operating allowances, and interactions with the review of the capital investment pipeline.

7. The current funding available in the MYCA totals $3.450 billion capital, which is available to allocate from Budget 2024 through to 2027. This figure reflects the previous Government's fiscal strategy and decisions. You intend to publish your first BPS on Wednesday 27 March 2024, which provides an opportunity for you to reset the fiscal strategy.

8. This advice outlines options to increase the MYCA in the BPS 2024. It has been informed by updated quarterly investment pipeline information as at December 2023

and total agency submitted funding into the Budget 2024 process for new spending and cost pressure initiatives.

Relevant factors to consider when deciding how much to top up the MYCA

9. When deciding how much the MYCA should be topped up, the Treasury recommend considering the following factors:

   a Budget 2024 and Government priorities;

   b The Government's fiscal strategy; and

   c Capital investment pipeline and market capacity information.

Budget 2024 and Government priorities

10. Cabinet has agreed Budget 2024 will be a strict top-down process focused on [CAB-23-MIN-0490 refers]:

    a time-critical Government policy commitments,

    b extending programmes and services with time limited funding expiring at the end of 2023/24,

    c funding urgent cost pressures that cannot be funded through reprioritisation without significant trade-offs to public services,

    d reviewing existing capital investments and considering additional funding for capital cost escalations and new spending that met specific criteria, and

    e identifying savings.

11. Particular priorities and commitments that could impact on government capital expenditure include:

    a rebuilding the economy, for example through more investment in infrastructure, including progressing 13 new Roads of National Significance and four major public transport upgrades, and establishing a $1.2 billion Regional Infrastructure Fund of capital expenditure, and

    b returning to surplus, reducing debt and restoring discipline to government spending.

12. The scope and associated cost of some policies that would have significant capital expenditure implications are not yet clear. This limits the Treasury's ability to advise on an estimated bottom-up costing of total new capital spending priorities. In particular:

    a The Government Policy Statement on land transport (GPS) is being considered by Cabinet at the end of February 2024. The current draft seeks $1.995 billion in new capital funding (which would likely be funded from the MYCA) as part of a total investment of $20.7 billion over three years for land transport. The draft GPS is largely focused on maintenance with limited funding for new projects.

    b The Independent Review into Kāinga Ora is due to report back to Ministers at the end of March 2024. As the Terms of Reference for the review are quite broad, some recommendations could, if adopted, have significant positive or negative impacts on key fiscal indicators like net debt, as well as lead to notably different demands for future capital expenditure.

c Some large priority projects are not yet included in the planning pipeline or were not invited into the Budget 2024 process, for example the Roads of National Significance. Their costings are therefore not included in aggregate capital pipeline or Budget data, and they have not yet been checked by agencies.

13. Total net capital funding sought through Budget 2024 is $21.385 billion, based on submissions (including savings and reprioritisation) received by Friday 16 February 2024. $2.018 billion of this is sought for cost pressures for investments in delivery; the majority of the total funding sought is for new spending initiatives [T2024/385 refers]. We are providing you with a breakdown of capital-related initiatives with the draft Budget Ministers 1 material on Tuesday 20 February 2024, and will seek your direction on the strategy for capital investment for Budget 2024 given the level of funding requested [T2024/269 refers].

Government's fiscal strategy

14. The MYCA is a core lever to achieve your fiscal strategy. Decisions about the MYCA will have a fiscal impact. Consequently, your decision can be used to signal commitment to fiscal discipline. In addition, the approach to the MYCA should also be consistent with the macroeconomic objective to reduce inflationary pressures.

Impact on fiscal indicators

15. The primary fiscal constraint on new capital expenditure is likely to be the associated operating expenditure required to deliver capital investments (e.g. an increase in workforce, asset maintenance costs, depreciation expenses), rather than the impact of an increase in net debt. This associated operating expenditure should be managed against the Budget operating allowance. If the operating expenditure were instead in addition to the Budget operating allowance, there would be a further adverse impact on OBEGAL, making it harder to return to surplus.

16. Budget 2024 agency submissions show both the operating and capital allowances are significantly oversubscribed. Compared to current unallocated allowances, total net submissions exceed remaining funding by $4.438 billion operating per annum, and $21.385 billion capital over the forecast period [T2024/385 refers]. Based on the data for capital investment in delivery, approximately every $3 of capital funding is supported by $1 of operating funding. The Treasury therefore recommends you consider how much of the operating allowance will be required to fund associated operating expenditure when considering how much to top up the MYCA.

17. While we do not see the net debt position to be a binding fiscal constraint [T2023/1992 refers], net debt has increased significantly in recent years, and the National party fiscal plan notes an objective to reduce net debt. Any increase to the MYCA that is not funded through an already established allowance or reprioritisation of existing spending will adversely impact the net debt indicator.

18. A $7 billion top-up to the MYCA will be spread across the forecast years and also into the projection period. While the top-up will result in an increase in net debt when compared to HYEFU, this should be broadly neutral to net debt when comparing to the medium-term fiscal projections presented in the Pre-election Economic and Fiscal Update 2023 (PREFU). The exact phasing of the MYCA top-up in the net debt track will be influenced by when funding is allocated – for example, if Budget 2024 includes many capital initiatives that have funding from 2024/25, and few initiatives with a funding profile that starts from 2027/28, this would be more frontloaded, and the impact would flow through to net debt sooner.

19. Any increase to the MYCA will also indirectly impact OBEGAL, due to the resulting changes in finance costs that come with increased borrowing.

Signalling a strong commitment to fiscal discipline

20. How you increase the MYCA provides an opportunity to demonstrate your commitment to fiscal discipline as part of your overall fiscal strategy. The MYCA is intended to be a multi-year envelope, enabling more strategic planning of capital investment over several years instead of annually. Topping up the MYCA now with an amount that needs to be supported by reprioritised capital funding over several years to ensure delivery of all of the Government's priorities would support this purpose, as well as your overall fiscal strategy.

21. While reprioritised funding could instead be returned to the centre and reduce net debt, the Treasury recommends savings are added to the MYCA to be available for cost pressures and new spending initiatives, as this incentivises Ministers and agencies to propose reprioritised funding. This approach could still positively affect net debt if significant reprioritised funding can be found. This is because reprioritised funding could support smaller increases to the MYCA than would otherwise be the case, which then supports a smaller adverse impact on net debt in future.

Macroeconomic considerations

22. The Treasury has advised that macroeconomic and fiscal restraint is needed, and a substantial fiscal consolidation is required to balance revenue and expenses, as well as support monetary policy efforts to reduce inflation [Briefing to the Incoming Finance Minister – Economic and Fiscal Context slides]. To support fiscal sustainability and bringing inflation back down to the target range, increases to the MYCA funded by an increase in net debt should be moderate, ideally with most additional headroom to progress the Government's policy priorities coming from reprioritising parts of the existing capital pipeline.

23. Significant additional expenditure in the short-term would cut across monetary policy efforts to reduce inflation, and could further exacerbate the deficit in the current account. Moderate additional expenditure that is phased over the later years of the forecast period when economic growth is forecast to be weaker and inflation has fallen to within the Reserve Bank's target band would better support the New Zealand economy and your economic objectives. Reprioritising existing allocated capital funding to fund your Government's policy commitments and priorities, with funding more back-loaded than front-loaded within the forecast period, is a key lever to achieving your fiscal and economic objectives, as well as delivering your policy goals.

24. There is a case for delivering value for money and productivity enhancing investment through the MYCA, to address New Zealand's infrastructure deficit and support economic growth. Market capacity for additional capital investment is limited with inflation affecting construction inputs – however the Government can mitigate adding to inflationary pressures by back-loading new expenditure, as well as reprioritising and rephasing the existing capital pipeline. The Treasury will advise on recommended phasing and deliverability of specific capital initiatives as part of draft Budget 2024 package advice in early March 2024.

25. While the MYCA is captured in the Treasury's fiscal forecasts, the economic forecasts the Treasury produces do not directly incorporate precise increases to the MYCA. The economic forecasts include estimates of capital investment, covering investment by businesses as well as central and local government. These are influenced by the economic cycle and capacity in the economy. Significant and large changes in government investment can crowd out private investment, though this can vary depending on the nature of the investment (e.g. if much of it is imported) and whether the expenditure results in a new physical capital asset being produced (as opposed to changes in ownership of existing assets).

Capital investment and market context

26. There are significant benefits in the Government providing a stable flow of capital investment to market and establishing a credible forward-looking pipeline of Crown projects that are aligned with Government priorities. Increased certainty of investment will allow contractors to invest in staff and capital, improving their ability to meet future demand.

27. The forward pipeline is ideally at a steady rate, with no large peaks and troughs. This is the key objective of the Capital Pipeline Review which is being undertaken as part of Budget 2024 – to smooth the pipeline, and improve deliverability and certainty.

28. We are already seeing changes to the investment pipeline to better align to the Government's priorities and to reduce peaks and troughs. The Treasury has now received the December 2023 quarter-end investment reporting returns from agencies [T2024/243 refers]. These show:

    a The reported value of fully funded capital investments in delivery totals $57.4 billion capital and $17.4 billion operating across 177 projects. The reported cost to complete these investments is $48.2 billion (comprising both capital and operating costs), meaning that there are many investments still early in delivery and that there is a significant level of forecast expenditure in the near term.

    b The value of reported cost pressures for investments in delivery has increased from $4.7 billion in the September 2023 quarter to $6.0 billion in the December 2023 quarter.[1] As a percentage of the total value of investments in delivery this is an increase from 6.5% of the delivery portfolio to 7.9%. Many agencies are also signalling cost pressures which are not yet quantified, so we expect the actual value of cost pressures to be much higher.

    c Agencies are beginning to review their investment portfolios and withdraw projects from the pipeline. The value of investments in planning (that are yet to have any funded allocated) has reduced significantly from $123.5 billion to $87.1 billion of capital expenditure. This is largely due to the removal of Auckland Light Rail, New Zealand Battery and Let's Get Wellington Moving, but it also includes 10 investments totalling $0.738 billion capital and $0.5 billion operating that agencies have withdrawn. Additionally, the Additional Waitemata Harbour Connections project [33]

    d In December 2023, agencies signalled they would request funding totalling $10.9 billion capital and $9.2 billion operating over the forecast period through Budget 2024. Agency submissions on Friday 16 February 2024 significantly exceeded this, with a total of $24.860 billion capital submitted. As discussed above, you will receive further advice on capital initiatives shortly [T2024/269 refers].

29. Recent research and market soundings undertaken by the Infrastructure Commission indicate that the construction labour market is softening. Government signals of a steady forward pipeline of investment, matched to market capacity, will be important to maintain market confidence. Given the front-loaded nature of investments currently in delivery (with many still early in delivery), the Treasury considers there is merit in signalling that there is intent to maintain, and then increase capital investment over the medium-term through decisions on increasing the MYCA.

[1] Note this is larger than the total capital funding submitted for cost pressures in Budget 2024, which totals $2.018 billion capital expenditure. This reflects options to meet cost pressures by prioritising existing funding, and that some cost pressures are not time sensitive and do not require a decision ahead of Budget 2025.

30. In this context, the Treasury notes that none of the options discussed below may provide enough of a longer-term signal of investment intent, particularly if most of any MYCA increase is allocated at Budget 2024, and there is no clear signal of capital investment intentions beyond Budget 2024.

31. Even so, the Treasury recommend you top up the MYCA ahead of Budget 2024 with a focus on covering capital funding allocations made this Budget. This is because there are several outstanding decisions on policy commitments which could have significant capital implications, as well as policy commitments with large capital expenditure that have not yet had costings checked by agencies or included in capital intentions pipeline data. Under these circumstances estimating a multiyear MYCA increase that would sufficiently balance competing trade-offs would be less informed than it could be in a few months (for example, when decisions about recommendations from the Kāinga Ora independent review have been made).

32. In the interim, we recommend you mitigate the risks to market confidence by:

    a highlighting the ongoing review of capital expenditure, and the need to stage and sequence funded projects in a way that maintains the markets expectations, but ensures that projects can be delivered within fiscal and market constraints – which is being considered through Budget 2024

    b increasing the MYCA but signalling the intent that future investment will be more backloaded (given the size of the existing portfolio of funded investments in delivery), to create a smooth, longer-term pipeline.

Options to increase the MYCA

33. The Treasury recommends you increase the MYCA by **up to $7.000 billion** at Budget 2024, with the potential to agree a smaller increase in light of the draft Budget 2024 package with Budget Ministers at Budget Ministers 2. Combined with the existing $3.475 billion in the MYCA, this would signal a total of $10.475 billion to cover capital investment over Budgets 2024 to 2027. Additional headroom on top of this can come from reprioritisation of the existing capital pipeline and balance sheet, and from future top-ups to the MYCA in subsequent Budgets and Budget Policy Statements.

34. This approach aligns with your intentions in the National party fiscal plan, is sufficient to meet cost pressures signalled as at December 2023 in quarter-end investment reporting and submitted by agencies in Budget 2024, and would incentivise significant reprioritisation of the capital investment pipeline. It would not cover the total submitted capital funding in Budget 2024 by agencies; however attempting to do so would be at odds with your macroeconomic and fiscal objectives, and is unlikely to be deliverable within the forecast period given market constraints.

35. Subject to up to $7 billion of additional capital expenditure being sequenced carefully, with a focus on delivery later in the forecast period, this recommended increase is unlikely to put undue pressure on inflationary pressures and interest rates.

36. Net debt would remain at a prudent level, with $7b equating to an increase of 1.4 percent as a percentage of GDP.[2] The impact on net debt compared to PREFU 2023 will be broadly neutral when compared to the medium-term fiscal projections, though it will be an increase in net debt when compared to HYEFU when the forecast period rolled over to include the 2027/28 financial year.

37. A key consideration for Budget Ministers will be whether the anticipated associated operating expenditure of $400 million per annum can be managed within the Budget

[2] Based on forecast GDP for the year to 30 June 2028 in HYEFU 2023.

2024 operating allowance.[3] This trade-off can be considered in more detail when the draft Budget 2024 package is available at Budget Ministers 2. If not, we would recommend leaving a larger portion of the MYCA unallocated in Budget 2024 decisions.

38. The table below sets out the key trade-offs of an increase to the MYCA that reflects your intention in the National party fiscal plan, as well as options that are higher and lower than this option and how this changes the trade-off balance. The options include the following design choices and assumptions:

   a The MYCA top-up will entirely flow through to the net debt fiscal indicator. Savings and reprioritisation will not off-set the impact on the net debt indicator, but instead will create further headroom in the MYCA in addition to the top-up.[4]

   b $1 of associated operating funding will be required to support every $3 of additional capital expenditure, which will be funded through the Budget operating allowance.

   c The allocation of the MYCA in Budget 2024 decisions is back-loaded, with more investment starting in years later in the forecast period (2026/27 and 2027/28) than near the start (from 2024/25 and 2025/26).

	Market capacity given existing projects	**Budget and Government expenditure priorities**	**Government's fiscal strategy and impact on fiscal indicators**
Option 1: An increase reflecting that signalled in the National party fiscal plan. Total increase of $7.0 billion to largely cover investment in Budget 2024, bringing the total MYCA to $10.475 billion. **(Treasury recommendation)**	Capacity constraints could be mitigated through back-loading investment and avoiding additional expenditure in particular sectors that are already under strain.	While this number should reflect the Government's appetite for trade-offs across public spending, note some key capital expenditure priority costings have not yet been reviewed (e.g. Roads of National Significance), and there is a risk that key priorities may be more expensive to deliver than anticipated. Submitted cost pressures in Budget 2024 total $2.018 billion capital expenditure, and new spending initiatives total $24.238 billion capital expenditure. This increase would therefore cover submitted cost pressures, and leave approximately $8.457 billion for new spending initiatives. Significant reprioritisation of the current capital pipeline would be required to create headroom for new spending initiatives.	A $7.0 billion increase on net debt, and an associated negative impact on OBEGAL from increased financing costs, would be reflected in BEFU 2024. If fully allocated at Budget 2024, associated operating expenditure to be managed within the Budget 2024 operating allowance would be approximately $400 million per annum. Given current pressures on the operating allowance, this would require hard prioritisation choices.

[3] Note this estimate includes an assumption that capital funding decisions in Budget 2024 are back-loaded. If more decisions were front-loaded, the total average operating cost per annum would increase.
[4] For example, Cabinet confirming your in-principle decisions on discontinuing the National Resilience Plan (NRP) would return $1.760 billion capital to the MYCA in addition to the top-up options considered in this section (as well as return $1.494 billion operating to the Budget operating allowance).

		A further top-up will be required if you intend to fund further new capital investments for Budget 2025 through to Budget 2027.	
Option 2: A larger increase than that signalled in the National party fiscal plan. Total increase of $10.0b to largely cover investment in Budget 2024 bringing the total MYCA to $13.475 billion.	While possible to deliver, this would require further careful management and sequencing to avoid creating deliverability risks or increasing inflationary pressures.	Reduces risk of insufficient funding available to deliver priorities. Compared to option 1, the total MYCA would cover submitted capital cost pressures in Budget 2024, and leave $11.475 billion for new spending initiatives. Reprioritisation of the current capital pipeline can create additional headroom and decrease cost pressures. A further top-up will be required if you intend to fund further new capital investments for Budget 2025 through to Budget 2027.	A larger adverse impact on net debt and OBEGAL than the recommended approach. If fully allocated at Budget 2024, associated operating expenditure to be managed within the Budget 2024 operating allowance would increase to approximately $600 million per annum. This would be more challenging to accommodate given current operating pressures.
Option 3: A smaller increase than that signalled in the National party fiscal plan. Total increase of $3.5 billion to largely cover investment in Budget 2024, bringing the total MYCA to $6.975 billion.	Reduced overall pressure on market capacity than previously signalled due to reduced expenditure relative to your Fiscal Plan.	While sufficient to cover submitted capital cost pressures into Budget 2024, this would leave $4.457 billion in the MYCA for new spending initiatives. Even with significant reprioritisation decisions, it is unlikely this increase would enable a viable set of trade-offs for Cabinet in making capital pipeline refresh and new funding decisions at Budget 2024. However, this would more strongly incentivise reprioritisation of the capital pipeline than options 1 and 2.	A smaller adverse impact on net debt and OBEGAL than the recommended approach. Associated operating expenditure of approximately $200 million per annum would be easier to manage within the Budget 2024 operating allowance.

Next Steps

39. Treasury officials will take your direction on the MYCA into account when developing the first draft Budget 2024 package.

40. We recommend using the Budget Ministers 2 meeting on Monday 11 March 2024 to confirm your proposed MYCA increase with Budget Ministers, aided by the first draft of the Budget 2024 package. This will give Budget Ministers a detailed understanding of the kinds of trade-offs a Budget package within a particular capital and operating allowance would look like.

41. After the Budget Ministers 2 meeting, the Treasury will draft a Cabinet paper on the Budget Policy Statement (BPS) 2024 for consideration at Cabinet. In addition to the MYCA, this would cover decisions on the proposed operating allowances and your broader fiscal strategy. To enable decisions to be reflected in the BPS published Wednesday 27 March 2024, Cabinet decisions will be required by mid-March 2024.

42. Leading up to the Budget Ministers 2, you will receive a series of advice from the Treasury on fiscal strategy and Budget decisions:

a First cut of Budget 2024 agency submissions data, on Monday 19 February 2024.

b Draft Budget Ministers 1 material, on Tuesday 20 February 2024 (with final material sent on Friday 23 February 2024).

c Short-term intentions (STIs) and long-term objectives (LTOs) as part of your fiscal strategy, on Monday 26 February 2024.

d Further advice on calibrating your fiscal strategy, including setting operating allowances, on Monday 4 March 2024

e Draft Budget Ministers 2 material, on Monday 4 March 2024 (with final material sent on Friday 8 March 2024).