The Treasury

Budget 2024 Information Release

September 2024

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[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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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget 2024 Capital Initiatives Overview

Date:	5 March 2024	**Report No:**	T2024/511
		File Number:	ST-4-8-2-11-5-2024

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance** Hon Chris Bishop **Associate Minister of Finance**	**Indicate** which capital investments you wish to include in the draft Budget package for Budget Ministers 2. **Agree** to the proposed actions to improve capital investment planning and delivery. **Indicate** if you wish to receive Treasury advice, post Budget 2024, on the approach to managing capital expenditure, including the Multi-Year Capital Allowance	6 March 2024

Contact for telephone discussion (if required)

Name	Position		Telephone	1st Contact
Erana Sitterle	Head of Investment Management Policy, Investment Management System (IMS)	[39]	[35]	✓
Craig Murphy	Manager, Investment Management System (IMS)			
Leilani Frew	Deputy Secretary, Financial and Commercial			

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer a copy of this report to Budget Ministers (the Prime Minister, and Associate Ministers of Finance Hon David Seymour and Hon Shane Jones)

Note any feedback on the quality of the report	

Enclosure: Yes

Executive Summary

In December 2023, **Cabinet agreed to a Budget 2024 (B24) strategy that demonstrates strict fiscal discipline**, delivers tax relief and ensures investments are directed towards achieving the Government's priorities [CAB-23-MIN-0490 refers].

Significant capital investments are already expected over the forecast period

The Treasury's preliminary fiscal forecasts for the 2024 Budget Update will provide an insight into the capital investments expected by the Government for the current year and next four years. Funding for these come from depreciation fund agencies hold on their balance sheet, allocations from previous Budgets and hypothecated revenue (e.g., National Land Transport Fund). The forecasts also include funding set aside in tagged contingencies, where projects are committed to, but yet to be appropriated to baselines. Table One below provides a summary of the forecast expenditure as set out in the 2023 Half Year Economic and Fiscal Update (HYEFU).

The MYCA reflects funding the Government has set aside to meet the costs of future capital investments, so overall it only contributes a small portion of the Government's capital investments over the forecast period. The table below illustrates how the funding available in the MYCA following the most recent decisions compares to the other capital investments at HYEFU.

$million	**24/25**	**25/26**	**26/27**	**27/28**	**Post 28**	**Total**
Baselines	18,852	16,653	11,327	10,282	-	62,944
Tagged contingencies	341	682	877	633	390	2,923
MYCA – Prelim BEFU	900	1,799	2,313	2,570	2,699	10,281[1]
Total	**20,093**	**19,134**	**14,417**	**13,385**	**3,089**	**76,148**

The MYCA is expected to fund new capital investments for the next four Budgets (B24 through to Budget 2027). It is important that the decisions at B24 leave enough funding to cover future decisions at Budget 2025 through to Budget 2027. **In the past the capital Budget packages have allocated a significant portion of the MYCA, meaning the top-ups needed have been much larger than anticipated.**

There are various factors that require consideration to finalise B24 decisions

Significant capital funding allocation in recent years impacts on agency and market capacity: Over the past 5 years the Government has spent between $9 and $13 billion on capital investment annually, which provides a guideline for Government capital expenditure. It's also critical that agencies have capability and capacity to take on capital investment – which is hugely variable across agencies. By Friday 8 March 2024, there will be a better picture of agency forecast capital expenditure over the four-year forecast period, to provide context for B24 decisions.

Across the five largest capital-intensive votes (Defence, Health, Transport, Housing and Education), **there are several reviews and investment strategies being developed which will have fiscal implications.** In most cases, Government decision-making in response to the review will be out of sequence for Budget 2024 decisions.

[1] The agreement in principle to commit up to $1.955 billion for the GPS for land transport from the MYCA has been subtracted from this total

Delivery momentum is required to maintain market capacity for the long-term: there is some market softening and some market uncertainty as a result of the reviews underway as well as cost escalations in programmes (such as the NZ Upgrade Programme). This requires clear communication about investment intentions.

While net debt is not a binding fiscal constraint, there is significant pressure on OBEGAL: A substantial fiscal consolidation is required to balance revenue and expenses and return to surplus, as well as support monetary policy efforts to reduce inflation. Therefore, **the primary fiscal constraint is likely to be associated operating expenditure required to deliver capital investments.**

Agencies are seeking $24.3 billion capital expenditure for capital initiatives at B24

Agencies submitted capital initiatives for B24 totalling **$24.3 billion capital** expenditure and **$6.3 billion operating** expenditure over the forecast period. This level far exceeds what agencies indicated (with CEO sign off) they would seek for new initiatives through B24 in the December 2023 quarterly investment reporting ($7.7 billion) [TR2024/243 refers].

We define capital initiatives as those that fall within the definition of investment set out in Cabinet Office circular (23) 9: Investment Management and Asset Performance in Departments and Other Entities (CO (23)9). This represents the vast majority of the total capital expenditure sought at B24 (other capital expenditure sought relates to associated capital with operating initiatives).

Budget Track	Number of initiatives received	Total operating ($m)	Total capital ($m)
New Spending	27	3,665	23,315
Cost Pressures and Capital Cost Escalations	16	3,386	1,791
Savings and/or Revenue	41	(797)	(781)
Total	**84**	**6,254**	**24,325**

Capital initiatives were assessed by system leaders[2] as well as the Treasury, to ensure we are making best use of the expertise we have across the public service to support your decisions.

We have recommended funding capital investments in the B24 package totalling $3.5 billion to balance competing objectives

The **recommended capital investments in the B24 package of $3.5 billion balances investment in key Government priorities and critical asset maintenance and renewals, the existing level of investment already underway, the need to incentivise good planning, the need for market signals about investment intent** and provides a path to getting to a more stable and steady level of ‘base’ investment (ongoing asset maintenance/renewal/build programmes in capital-intensive areas and investment to improve digital interoperability between government agencies).

Budget Track	Recommended operating ($m)	Recommended capital ($m)
New Spending	(60.3)	3,009
Cost Pressures and Capital Cost Escalations	2,055	1,257
Savings and/or Revenue	(774)	(772)
Total	**1,221**	**3,494**

Decisions now can reset expectations for investment and asset management planning

[2] System leaders for infrastructure, data, digital, cyber security, procurement, service transformation and environment

We have also recommended next steps to support the required planning and analysis to support more substantive decisions for these ongoing renewal/build programmes for Budget 2025, as well as recommended actions to incentivise improved long term strategic and asset management planning, to improve delivery and investment outcomes.

The Investment Panel identified themes form its assessment of initiatives. These focused around the lack of quality information, issues with funding and delivery models for ongoing maintenance and renewal programmes, the need for more integrated planning and improved commercial capability.
The Investment Panel also recommended several system-level actions and next steps focused on Ministers resetting expectations to improve agency investment planning, asset management and delivery. **You have a critical role to enforce these expectations, which will then drive agencies to better adhere to these requirements**. We recommend that you clarify with agency Chief Executives as part of the Budget 2024 process that they are required to following best practice investment planning and asset management processes, which are prescribed in Cabinet Office circular (23) 9: Investment Management and Asset Performance in Departments and Other Entities.

Key steps between now and Budget Day (29 May) to finalise decisions on capital investments in the B24 package include:

- Initial feedback and reflections on capital investments in the draft B24 package (Budget Ministers 2 - Tuesday 12th March)
- Discussion on key issues between Minister of Finance and relevant portfolio ministers (Bilateral Meetings with Portfolio Ministers Monday 11th -Tuesday 19th March)
- Discussion between Minister of Finance and Associate Minister of Finance to further discuss and finalise capital investments in the B24 package following feedback from other Budget Ministers (Week of 18th March)
- Substantive decision on the B24 package (Budget Ministers 3 -Monday 25th March)
- Resolve any outstanding B24 decisions (Budget Ministers 4 and 5-Monday 8th and Wednesday 10th April)
- Final Cabinet agreement on B24 package (Monday 29 April)

Recommended Action

We recommend that you:

a **indicate** which capital investments as part of the Budget package you would like to take to Budget Ministers 2:

EITHER:

Option 1: Capital investments in the draft Budget package developed by the Treasury outlined in this report and reflected in the draft Budget Ministers 2 slide pack

Agree /disagree *Agree/disagree*
Minister of Finance Associate Minister of Finance

OR:

Option 2: Based on your feedback on Wednesday 6 March, any adjustments ahead of providing the draft package to Budget Ministers ahead of Budget Ministers 2 on Tuesday 12 March

Agree /disagree *Agree/disagree*
Minister of Finance Associate Minister of Finance

b **agree** to the proposed content on the approach to capital investment to include in the draft Budget Ministers 2 slide pack

Agree /disagree *Agree/disagree*
Minister of Finance Associate Minister of Finance

c **agree** to the following actions to improve capital investment planning and delivery, and investment outcomes:

a. reset expectations with agencies on the need to comply with Cabinet's expectations for investment management
b. improve transparency by publishing information on investment and asset performance

Agree /disagree *Agree/disagree*
Minister of Finance Associate Minister of Finance

d **indicate** if you wish to receive Treasury advice, post Budget 2024, on the approach to managing capital expenditure, including the Multi-Year Capital Allowance

Yes/No

e **refer** a copy of this report to Budget Ministers (the Prime Minister, and Associate Ministers of Finance Hon David Seymour and Hon Shane Jones)

Refer/not referred.

Craig Murphy
Manager

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Hon Chris Bishop
Associate Minister of Finance

_____/_____/_______

Purpose of Report

1. This report provides Ministers with information and analysis on Treasury's recommended approach and process to finalising the decisions by Budget Ministers on capital initiatives for Budget 2024 (B24) in the context of the Multi-Year Capital Allowance (MYCA) and fiscal capacity.

Fiscal and market context

2. The Government has committed to investment and fiscal discipline as key policy direction in the context of challenging fiscal and economic conditions. The Government is also committed to investment in areas such as transport and housing at a time where the current investment pipeline is larger than agencies and the market can deliver.

Significant capital investments are already expected over the forecast period

3. The Treasury are currently in the process of preparing the preliminary fiscal forecasts for the 2024 Budget Update. This update will provide an insight to the capital investments expected by the Government for both the current year and the next four years.

4. At the 2023 *Half Year Economic and Fiscal Update* (HYEFU) capital investments from agencies baselines were roughly expected to be $63 billion[3] over the forecast period. The funding for the majority of these investment will be from depreciation funding departments hold on their balance sheet, allocations from previous Budgets and hypothecated revenue (e.g., National Land Transport Fund).

5. On top of the investments in agencies baselines the forecasts also include funding set aside in tagged contingencies, where projects are committed to, but yet to be appropriated to baselines. At HYEFU tagged contingencies totalled $3.8 billion, with $3.6 billion of this expected to be spent over the forecast period.

6. The MYCA reflects funding the Government has set aside to meet the costs of future capital investments, so overall it only contributes a small portion of the Government's capital investments over the forecast period. The Minister of Finance has agreed in principle to increase the MYCA by $7 billion, to be agreed by Cabinet and announced when the Budget Policy Statement is published on 27 March 2024 [T2024/327 refers].

7. Table one illustrates how the funding available in the MYCA following the most recent decisions compares to the other committed capital investments at HYEFU.

Table One: Indicative capital investments

$million	24/25	25/26	26/27	27/28	Post 28	Total
Baselines	18,852	16,653	11,327	10,282	-	62,944
Tagged contingencies	341	682	877	633	390	2,923
MYCA – Prelim BEFU	900	1,799	2,313	2,570	2,699	10,281[4]
Total	**20,093**	**19,134**	**14,417**	**13,385**	**3,089**	**76,148**

[3] Based on core Crown forecast information at the 2023 HYEFU

[4] The agreement in principle to commit up to $1.955 billion for the GPS for land transport from the MYCA has been subtracted from this total

8. The MYCA is expected to fund new capital investments for the next four Budgets (B24 through to B27). There will be an opportunity to top-up the MYCA again once Budget 2028 roll into the forecast period, which will be at the 2024 HYEFU. Although the MYCA can be topped up later in the year it is important that the decisions at B24 leave enough funding to cover future decisions at B25 through to B27. In the past the capital Budget packages have allocated a significant portion of the MYCA, meaning the top-ups needed have been much larger than anticipated. An overview of the MYCA is attached at annex A.

Key considerations to inform B24 capital decisions

9. In addition to considering the funding required for key Government priorities and the approach to allocating the MYCA, there are a number of factors that require consideration to finalise the capital decisions for B24.

Significant capital funding allocations in recent years impacts on agency and market capacity

10. Based on the Treasury's December 2023 Quarterly Investment Reporting (QIR) returns, the value of fully funded capital investments in the final stages of planning and delivery totals $57.4 billion capital and $17.4 billion operating across 176 projects [T2024/243 refers]. The reported cost to complete for these investments is $48.2 billion (both capital and operating costs), meaning there are many investments still early in delivery and that there is a significant level of forecast expenditure in the near term.

11. Over the past 5 years the Government has spent between $9 and $13 billion on capital investment annually, which provides a guideline for Government capital expenditure. It's also critical that agencies have capability and capacity to take on capital investment

12. Your decisions on the size and phasing of the capital package for B24 should also take into account agencies' forecast capital expenditure and the ability to absorb additional expenditure for agencies and the market.

13. By Friday 8 March 2024, there will be a better picture of agency forecast capital expenditure over the four-year forecast period. This will provide further context on the level and phasing of new capital funding to provide through Budget 2024 to balance agency and market capacity.

A number of reviews are underway that will require decisions at Budget 2025.

14. Across the five largest capital-intensive votes (Defence, Health, Transport, Housing and Education), there are several reviews and investment strategies being developed which will have fiscal implications. Annex B provides the scope and timing of the review, plan or strategies in development.

15. In most cases, Government decision-making in response to the review will be out of sequence for B24 decisions. However, we consider it is important for these to be completed to enable Ministers and Cabinet to make better informed decisions on the broader investment needs of these portfolios at B25.

Delivery momentum is required to maintain market capacity for the long term.

16. Market soundings are indicating that individual markets are showing some capacity. After a long period of tight labour constraints, the Infrastructure Commission is advising that the construction market is softening in large segments of the vertical and horizontal sectors, with firms reporting high levels of uncertainty in their forward works pipeline. This has arisen from softening demand in the residential and commercial sectors, as well as efforts to find savings across the government portfolio. There is a risk that this uncertainty could reduce incentives for firms to invest in raising their long-term capacity, reducing our ability to deliver long-term infrastructure needs.

17. There are likely to remain some market constraints in more specialised areas (e.g. specialist engineers). Since Covid, agencies have also indicated a significant increase in intentions to modernise digital assets using cloud-based technologies. Specialist skills in cloud and cyber security remain at a premium creating a shortage of local talent to execute against this potential demand.

18. Given the risks around market disruption and the uncertainty the reviews underway are potentially creating, it is critical to confirm agencies will continue with pre-construction activity, to communicate the strategy to stakeholders and the public, and ensure this work moves quickly to inform B25 decisions.

19. We are able to provide advice to make the most of the recommendations from the reviews and strategies underway or in development. This could include how we can coordinate this information and timing to support your decision-making, including how these reviews can support the development of the 30-year infrastructure plan and the capital investment pipeline.

While net debt is not a binding fiscal constraint, there is significant pressure on OBEGAL

20. Both operating and capital allowances are relevant when considering capital investment levels for B24; based on recent Budgets:

    a. approximately every $3 of capital expenditure on infrastructure requires $1 of operating expenditure to support the capital expenditure, and

    b. for data, digital and service transformation investments, the ratio is in fact the opposite – approximately every $1 of capital expenditure requires $3 of operating expenditure to support the capital expenditure.

Macroeconomic and fiscal strategy considerations, especially inflationary impacts

21. A substantial fiscal consolidation is required to balance revenue and expenses, as well as support monetary policy efforts to reduce inflation. Therefore, the primary fiscal constraint is likely to be 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.

New funding is required to ensure that necessary maintenance, renewals and upgrades to our existing assets is maintained.

22. Based on analysis completed by the Infrastructure Commission[5] approximately 60% of total capital spend should be spent on maintaining existing assets. Although data is limited, we consider that most agencies are not achieving this level of investment.

Overview of submissions for Budget 2024

Agencies are seeking $24.3 billion net total capital over forecast period. This level far exceeds what agencies indicated (with CEO sign off) they would seek for new initiatives through B24 in the December 2023 quarterly investment reporting ($7.7 billion) [TR2024/243 refers].

We define capital initiatives as those that fall within the definition of investment set out in Cabinet Office circular (23) 9: Investment Management and Asset Performance in Departments and Other Entities (CO (23)9). This represents the vast majority of the total capital expenditure sought at B24. Other capital expenditure sought relates to associated capital with operating initiatives.

[5] https://tewaihanga.govt.nz/our-work/research-insights/build-or-maintain

23. As set out in table two below, submitted capital initiatives for B24 fall into the following categories:

Table Two: summary of Budget 2024 capital submissions

Budget Track	**Number of initiatives received**	**Total operating ($m)**	**Total capital ($m)**
New Spending	27	3,665	23,315
Cost Pressures and Capital Cost Escalations	16	3,386	1,791
Savings and/or Revenue	41	(797)	(781)
Total	**84**	**6,254**	**24,325**

24. The largest new capital investments and cost escalations submissions over the forecast period by vote are:

a. Transport [33] for capital grants, loans as part of the GPS for land transport as well as funding for recovery and rebuild following the North Island Weather Events in early 2023

b. Housing [33] for social housing supply

c. Business, Science and Innovation ($1.2 billion) for the Regional Investment Fund establishment

d. Education ($0.9 billion) for school property cost pressures and Marlborough new build schools

e. Defence Force [33] for new defence assets

f. Corrections [37] for prison capacity pressures

g. Health ($0.6 billion) for cost escalations and [33] .

The Investment Panel identified themes from its assessment of initiatives

25. The themes focused around lack of quality information, issues with funding and delivery models for ongoing maintenance and renewal programmes, the need for more integrated planning and improved commercial capability (detailed System Leader commentary is attached at annex C).

a. **Rigorous assessment of agencies proposals was hampered by insufficient or low quality information**. In general, the information provided from agencies was not of a high quality, or there was insufficient information to enable a detailed assessment: only 36% of initiatives seeking new funding had a sufficiently developed business case, while 43% did not have any business case at all. This raises concerns about whether the initiatives are value for money and deliverable. This includes both infrastructure initiatives as well as renewals of data and digital investments for core public services

b. A number of submissions related to **ongoing maintenance or renewal programmes which had time-limited funding.** Examples include funding for school property portfolio growth, regeneration of the Defence estate, funding for ongoing maintenance and renewals of the rail network and funding for programmes to upgrade case management IT systems. It is likely that the tendency to seek Budget funding for large renewal programmes like these reflects the fact that agencies have not historically funded sufficient renewals through baselines. Ongoing, sustainable funding for maintenance and renewals, across infrastructure as well as data and digital assets, is critical to improving the efficiency of the Government's assets and value for money of investments

c. Many initiatives **lacked evidence of long-term investment and asset management planning, or how the investment proposal fits into the agency's wider portfolio and strategic objectives**. Without this information, it is difficult to understand the relative priority of initiatives for agencies, and the opportunity cost of funding a certain initiative over another. For data, digital and cyber security initiatives, many initiatives were focused on the specific technology solution, rather than the service delivery problems that need addressing. This approach, as well as a siloed agency approach, could hamper the Government's priorities in relation to social investment, which relies on digital interoperability between agencies and a more strategic approach to investment in data.

d. Many initiatives **lacked evidence of sufficient market sounding, or a coordinated, smarter approach to procurement to reduce delivery costs.** As the market is softening, there is an opportunity to create greater commercial tension by testing the market thoroughly before locking in long-term, fixed-price agreements with certain vendors. Government infrastructure delivery continues to focus on traditional fixed price lump sum procurement that is rigid and transactional, and has not achieved enough change to impact the costs of project delivery. A different approach is needed – both to reflect a significantly different market post-Covid and achieve a different result. This means making better use of alternative delivery models – empowering agencies to invest in longer term programmes of work, standardised design, with greater focus on collaborative contract models. A shift in the procurement landscape may need to be supported by an associated shift in how the budget process and fiscal management approach manages projects with a greater level of open book pricing risk.

e. Given the constraints on agency operating expenditure, **agencies are incentivised to undertake capital investment in data/digital assets (as there is less constraint on capital), which is not in line with best practice** to invest in modern, cloud-based technology, and aligned to the Government's objectives as part of the digitising government portfolio.

The Investment Panel also identified key considerations, risks and opportunities across the capital initiatives assessed

26. We have provided a summary for the largest votes at annex D outlining:

a. the biggest areas of difference between agency submissions and the Treasury's recommended capital investments in the draft B24 package, and

b. key risks and opportunities for capital intensive votes, or specific significant initiatives.

Recommended capital investments for the B24 package

27. We recommend funding capital investments in the B24 package that balance the following objectives:

a. approach to allocating the MYCA at B24 that either leaves enough funding to cover future decisions at Budget 25 through to Budget 27 or accepts the need to top up the MYCA annually

b. considers both operating and capital allowance implications

c. funding for key Government priorities, and critical assets, services and cost escalations

d. incentives for improved planning to improve investment outcomes

e. consistency with the Government’s macroeconomic and fiscal policy objectives, particularly the near-term objective to reduce inflation

f. market signals about ongoing investment intentions to stabilise any market uncertainties, and

g. getting to a more stable and steady level of ‘base’ investment (ongoing renewal/build programmes in capital-intensive areas and continued investment to modernise the public service’s data, digital and cyber security assets and improve agency digital interoperability).

Approach to savings and reprioritisation recommendations

28. We have supported the savings and reprioritisation proposals and consider the risks of these proposals are low.

29. We have focused savings and reprioritisation options for initiatives:

a that have experienced planning delays and are not ready for Budget 2024 funding

b where funds are uncommitted and there is an opportunity to reassess options to rescope

c that have experienced delivery delays and there is an opportunity to re-phase to match market capacity, and

d that could be delayed because they are not critical to core public service delivery.

Approach to new capital initiatives

30. The most significant investment is for the Government Policy Commitment to provide additional Crown funding for the National Land Transport Fund through the Government Policy Statement for land transport 2024-2027 (GPS24), totalling $1.955 billion – as set out in table three below. This was considered by Cabinet on Monday 4 March, where Cabinet agreed in principles to allocate $1.955 billion, subject to B24 decisions, allocated as follows:

Table Three: MYCA allocation for GPS24

$million	24/25	25/26	26/27	Total
MYCA allocation for GPS24	863	751	341	1,955

31. We recommend the remainder of capital investment at B24 funds initiatives focused on making better use of existing assets, and continuing ongoing asset maintenance, renewals and build programmes.

32. We have recommended funding where the case is clear and focused on:

a. necessary maintenance, renewals and upgrades, and

b. investment planning and pre-construction or delivery activity including design, consenting and land acquisition, to maintain delivery momentum and support agencies to be better placed to seek funding in Budget 2025.

Recommended capital and operating funding for capital initiatives

33. Table Four below provides the recommended capital and operating funding for capital initiatives over the forecast for B24. Details of the specific initiatives recommended package is attached at annex E.

Table Four: recommended expenditure for capital initiatives

Budget Track	Recommended operating ($m)	Recommended capital ($m)
New Spending	(60.3)	3,009
Cost Pressures and Capital Cost Escalations	2,055	1,257
Savings and/or Revenue	(774)	(772)
Total	**1,221**	**3,494**

Other interventions are recommended with B24 decisions to also needed to manage ongoing cost escalation risk and to improve performance and outcomes

34. We have recommended funding or partial funding for initiatives that are facing significant cost pressures and will either be delayed or risk asset failure if not funded. As set out in table five below, we have recommended additional interventions for the following initiatives where we consider there is significant ongoing risk that will need close management. Some of these recommendations have been agreed by Cabinet where decisions have recently been taken on these projects.

Table Five: proposed interventions for high-risk initiatives

Initiative	Proposed intervention
New Zealand Upgrade Programme	We recommend you: • Direct NZTA to provide the Minister of Finance, Minister of Transport and Minister for Infrastructure with monthly reporting from an independent quantity surveyor outlining cost, time, scope and whether the contingency is sufficient to complete the programme • Direct the Infrastructure Commission to undertake a review of the NZUP programme to identify lessons that can be applied to future transport and large investment programmes.
New Dunedin Hospital	Cabinet is considering a paper on this initiative on Tuesday 5 March that seeks agreement to cover [37] cost escalation from re-allocated funding. We recommend: • Minister of Finance, Minister of Transport and Minister for Infrastructure to receive monthly reporting from an independent quantity surveyor outlining cost, time, scope and whether the contingency is sufficient to complete the programme • Health NZ undertake a targeted investment review (Gateway review) as soon as possible to ensure the delivery phase of the programme is set up successfully.

To support B24 capital decisions, we recommend additional actions to improve planning and delivery

35. We have identified the following actions to support improvement to investment planning and delivery and the Government's objectives in relation to infrastructure and capital investment alongside capital decisions at B24.

Reset expectations for agencies

36. We recommend that you outline the following expectations to agencies when communicating decisions taken through B24. These expectations are designed to improve the operation of the investment management system, ensure agencies are actively managing their investment pipeline and improve the quality of future Budget bid proposals:

a. **Investment and fiscal discipline:** This should be reflected in how Agencies and Entities manage their own investment portfolios. Agencies should follow Cabinet's expectations set out in CO(23)9 and the Treasury should report on compliance on an annual basis through the Quarterly Investment Reporting. Agencies should pay specific attention to:

   i. Submit timely and accurate information for QIR to the Treasury, signed off by the Chief Executive

   ii. Ensuring that Cabinet is provide with sequential decision rights throughout the planning (business casing) phase of an investment where there are three Cabinet investment decisions ahead of a Budget funding decision, and

   iii. Ensuring that critical asset registers are completed and asset management plans are in place, include forecasting of the OPEX uplifts required to maintain the existing asset base to support investment decisions and are provided to the Treasury to build out the longer-term Capital Pipeline.

b. **Sequencing**: Breaking investment proposals up into modular and stageable components to provide increased flexibility in both funding decisions for Cabinet and delivery options for the market

c. **Active reprioritisation**: Agencies to actively manage their portfolios to ensure that stalled funded investments are considered for reprioritisation to progress unfunded higher priority investments that are able to be progressed

37. The Treasury will report on whether agencies are adhering to the circular requirements through the QIR.

Improve transparency

38. We recommend that the following material is made publicly available to provide increased transparency of how public capital investment is performing:

   a. The Treasury's QIR. On an annual basis, this will include the detail of Chief Executive attestations outlining agency compliance with CO(23)9

   b. Agency asset registers

   c. Agency asset performance indicators

39. Recent research undertaken by the Infrastructure Commission found that accessing information about large infrastructure projects was time-consuming and the information that was available was difficult to access. The research found that when project activities and decisions are transparent, the public is better able to hold government and delivery agencies to account.[6]

[6] Transparency within large publicly funded New Zealand infrastructure projects | Te Waihanga

Next steps

40. Outlined below are the key next steps between now and Budget Day (29 May) to finalise the capital package:

    a. **Meeting with Treasury officials Wednesday 6 March:** This is an opportunity to provide guidance on the recommended capital investments to include in the draft B24 package, the strategy guiding this recommended package and what content you would like to present on capital investment at Budget Ministers 2 (slide attached at annex F). The decisions required from you at this meeting include:

        i. Discuss the draft Capital package and agree what you would like to present at Budget Ministers 2

        ii. Discuss reflections on MYCA and what advice you would like to see going forward

    a. **Budget Ministers 2, Tuesday 12 March:** Discuss initial reflections on the draft Capital package and how this aligns with the overall strategy for Budget 2024. Key considerations include:

        i. Does the draft package meet the balance of realigning the pipeline, while still providing sufficient investment and certainty for the market ahead of the delivery of substantive sector reviews and subsequent investment in future Budgets?

        ii. If there is a need for more investment funding this Budget, will need to balance against existing pipeline priorities and the possible fiscal and market capacity implications (ie, should some funded investment still in planning be reprioritised for this year)

    b. **Bilateral meetings between Minister of Finance and relevant portfolio Ministers, Monday 11 to Tuesday 19 March:** in relation to capital investment, these discussions could include:

        i. Whether you consider that the value for money for proposed initiatives for B24 require further testing

        ii. Where you consider that agencies should be prioritising more of their existing investment plans to fund priorities in B24

        iii. Expectations regarding substantive agency reviews underway (i.e., ensuring affordability is a key criteria for future plans)

    c. **Meeting with Treasury officials, week commencing 18 March:** Opportunity for a deep dive into the capital package to agree a package that the Minister of Finance and Associate Minister of Finance Hon Bishop are comfortable taking to Budget Ministers 3. This is also the week that a Cabinet paper on early Budget decisions and the Budget Policy Statement will occur, which will set the scene for the overall framing of the Budget package

    d. **Budget Ministers 3, Monday 25 March:** Agree the substantive decisions on the B24 package. Discussion from Budget Ministers 2 and bilaterals will help lay the foundation for decisions at this meeting

    e. **Budget Ministers 4 and 5, Monday 8 and Wednesday 10 April:** These meetings are placeholders to finalise any decisions still required to finalise the Budget package

    f. **Cabinet agreement to final B24 package, Monday 29 April**

Annex A: Multi-Year Capital Allowance (MYCA) overview

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 HYEFU 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 HYEFU. 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 HYEFU	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 HYEFU	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).

Annex B: Scope of review for capital intensive votes

Vote	Review/plan/ strategy	Timing	Scope/other considerations
Housing	Independent review of Kainga Ora	March 2024	Review under the Crown Entities Act to provide assurance over the approach and delivery over significant investment programmes by Kainga Ora. This includes the efficacy of the funding arrangements with the Crown and costs of renewals of the portfolio over the long-term
Education	Independent School Property Review	April 2024	The review will cover efficiency and effectiveness of the operational practice for managing school property, including the efficacy of funding arrangements and any changes that might be needed, and institutional arrangements for management of the portfolio.
Transport	Government Policy Statement for land transport	May 2024	Public consultation on the draft GPS for land transport is expected in March 2024, with the final agreed by Cabinet in May 2024. Total proposed funding for the GPS 2024 over the 2024-2027 period is $20.4 billion. Funding sources for the GPS are proposed to include: • A Crown capital grant of $3.14 billion • Crown loan of $3.08 billion The Minister of Transport is expected to report back to Cabinet in June 2024 on proposals to improve the transport revenue system.
Defence	Defence Capability Plan	June 2024	Defence agencies are currently reviewing the Capability Plan, last approved by Cabinet in 2019. [33]
Health	Infrastructure Investment Plan and National Asset Management Plan	June/July 2024	Infrastructure Investment Plan (IIP) –a long-term view of the relative priorities and sequencing (a pipeline) of investments in health facilities nationwide. National Asset Management Strategy (NAMS) – focuses on improving the asset management to inform investment decisions and to maximise asset values. [34] The Minister of Health intends to report back to Cabinet in mid-2024 on how best to proceed with the health capital pipeline outlined in the IIP and options for funding the pipeline in the medium to long term.

Annex C: System Leader Commentaries

Te Waihanga – The NZ Infrastructure Commission

A combination of high assessment volumes, short timeframes, and generally poor-quality information submitted by agencies significantly limited our ability to make definitive assessments. This is despite commendable improvements to Treasury's QIR process and significant advance preparation work by Treasury.

Infrastructure decisions in this year's Budget take place in a relatively unfamiliar context, that being a construction sector downturn and high levels of pipeline uncertainty. This context has resulted from softening demand in the residential and commercial sectors, as well as efforts to find savings across the government portfolio. We are concerned by the impact that this uncertainty could have on the much-needed development of capacity in the sector, as firms will be less likely to invest in new staff, skills and technologies without it. Construction business closures are also a risk, which may have long-lasting negative effects on capacity.

While we consider that sufficient investment through this Budget is needed to preserve capability (both in the market and in agencies) this problem cannot be solved solely through further project announcements or funding signals. We note that many of the recent project cuts are in response to cost blowouts that stem from poor planning, inaccurate cost estimation, and premature announcements. Therefore, stabilising the forward pipeline will require planning-phase improvements that prevent public commitments prior to fully understanding value-for-money and deliverability risks.

The need for better planning was highlighted throughout our assessments of individual investments. In particular, weaknesses in strategic planning were evident, evidenced by the agencies' inability to clearly demonstrate the problems and opportunities they sought to address, or show how their investments linked to their organisation's overall strategy/network. We note that a range of strategic planning documents pertaining to key infrastructure delivery agencies are due for submission in the near future. We consider there to be a significant opportunity in reviewing these documents in order to consider options to develop a credible forward works pipeline.

Our assessments also highlighted the need to explore improvements to institutional settings that will improve incentives or requirements to adequately maintain and renew public infrastructure assets. Examples were highlighted in the return of Kiwirail to the Budget to seek funding for network renewals, as well as a range of other projects seeking funds to remediate flood-damaged assets that could have been insured. This need was also highlighted by the high prevalence of bids submitted to Budget that were ultimately maintenance or renewal projects and should have been funded from depreciation.

System transformation (Inland Revenue)

From a Service Transformation perspective, the focus was on initiatives that directly impacted customers and generally ones relating to investments in data and digital.

Data and digital bids were mostly targeted toward the replacement of ageing ICT infrastructure and/or providing improved capabilities for staff. The bids focussed on the procurement and delivery of ICT products and services to improve efficiency, mitigate risks, and enable agencies to deliver services in more effective ways. In some cases, consideration has also been given to better information sharing between agencies and customers as part of the initiative.

From a transformation perspective it is noted that agencies often view the delivery of better services and outcomes to customers as following on from technology change rather than something that is designed and tested from the outset. Likewise other changes such as operational models and policy settings are often not considered from the outset or in some cases are part of separate change initiatives.

The narrower focus on delivering ICT capability is seen as less risky and easier to manage, but it does not address the opportunity of genuinely transforming agency operations nor for leveraging (or contributing to) wider system benefits across government. It is also likely to limit the benefits that could be delivered by some initiatives, particularly large-scale ones.

With large scale change programmes there is high reliance on third parties. A focus needs to be on the development of in-house capability throughout the programme and the change in skillsets required post implementation. For example, when moving from on-premises to ‘as a service’ delivery models. In terms of ability to deliver the market is relatively mature and the pool of vendors, while limited, is capable of delivering. However, more attention needs to be paid to vendors growing and leaving capability behind so agencies can fully leverage their investments. The biggest challenge for agencies is managing the change programme and ensuring that organisational, operational, and policy changes are aligned with technology changes so that the best outcomes are delivered for customers, agencies, and the overall system.

Government Chief Data Steward (Stats NZ)

I am pleased to see in this year's budget round a number of agencies putting forward initial business cases that recognise the need to invest in data capabilities – such as data comparability and sharing – that are essential to supporting the Government’s priorities – particularly:

- Effective, sustainable and joined up public services and Digitising Government – both of which rely on agencies and their partners being able to safely and seamlessly manage and share data
- A Social investment approach that uses data and evidence both to understand what New Zealanders need from public services, and to assess how effectively their needs are met through government investment.

However, in light of fiscal constraints and the urgent need to upgrade legacy IT systems, a range of proposals in Budget 2024 have reverted to ‘do minimum’ as the preferred option. By focusing only on replacing current systems, these ‘do minimum’ options risk greater whole-of-life costs, limit the ability to create joined up public services, and limit the ability to re-use data – For example:

- [33]
-
- Education – cybersecurity appears to be descoped from some proposals despite being crucial to protecting the data held by schools.

The 'do minimum' options do not support a social investment approach as they do not focus on opportunities to re-use data to better understand the needs of those who rely on public services and to determine the value and impact of those services.

It worth noting too that by not building system-level data interoperability into their investment up front, agencies face unplanned operational costs and a reduced level of service downstream, as work-arounds become necessary to facilitate data sharing.

Recommendations

While we support progressing these proposals, we recommend ensuring that the option chosen adequately supports sector-wide data sharing and access. We would like to see how the solutions identified in the detailed business cases:

- Maintain continuity of service delivery by enabling data migration from legacy to new systems
- Enable data sharing by design to support joined-up services across the sector that are customer centred
- Address data needs to support evidence-based decision-making for the agency and the sector
- Enable data sharing and re-use to realise greater system benefits – such as:
    - evaluating the return on investment for social investments
    - supporting research in the public interest
    - minimising duplication of data collection and data processing across government – to reduce both compliance costs on New Zealanders and operating costs for government.

Feedback on the investment management process

As the investment management process evolves, the Government Chief Data Steward (GCDS) is getting better visibility of initiatives in the investment pipeline and opportunities to engage agencies earlier in the investment cycle. This positions the GCDS to better support the outcomes government wants to see in the data system.

Government Chief Information Security Officer (GCISO)

Agencies have responded to this year's focus on fiscal discipline by reprioritising and scaling to focus on the essentials. This may be necessary, but it will perpetuate existing system-wide digital issues, including insufficient mitigations for cyber security risks. We continue to see inefficient and uncoordinated digital and data investment proposals. Greater coordination from the Digital Executive Board in delivering the proposed digitising government roadmap could help address system-wide issues in future Budgets, including market capacity issues. The upshot of scaling is that it may ease delivery pressures on agencies from a shortage of cyber security professionals.

Further investment is needed to transition the public sector to modern information technology, which is more secure than legacy systems when properly configured. Dated technology is less likely to be adequately supported and secured from the latest cyber security threats, for example, with regular software updates and vulnerability patching. Part of this modernisation involves transitioning from on-premise to cloud systems (agencies have only shifted 33% of their systems to the cloud, as of 2022), which requires operating funding rather than capital. We continue to encourage the Treasury to set fiscal rules that enable this shift to more operating funding to occur.

In this Budget, agencies reported a need for greater investment to mitigate critical cyber security risks. Gaps will remain as key initiatives to address these risks were either not invited (Defence) or have been significantly scaled back (Education). In addition, with the new direction for three waters, critical weaknesses will remain in the water sector following the cancellation of investment in digital infrastructure for new water entities. We are working to help the water sector mitigate these risks.

Cyber security is an essential pre-condition for government to deliver digital public services that are trustworthy, resilient, and reliable. It is particularly important as we assess that the capability of malicious cyber actors is rising and the adoption of new technologies by agencies is creating new weaknesses to exploit.

Government Chief Data Officer

General observations:

- Digital budget bids often overlook interoperability beyond the agency, resulting in missed opportunities for system integration, benefits, and cost savings.
- Budget 24 bids have typically focused on individual initiatives without adequately considering their internal interdependencies with other digital initiatives or systems within their organisation.
- Initiatives typically do not reference agency asset management plans or prioritise individual initiatives.

Digital interoperability across government enables the ability for different government systems, applications, and processes to exchange data and information with one another. It involves establishing standardised protocols, formats, and interfaces that enable various digital systems to communicate, share data, and work together efficiently. Service delivery initiatives present an opportunity for government to leverage the investment to improve interoperability and services to New Zealanders. When government considers investing in frontline or service delivery initiatives, it should inherently include plans for how these initiatives can benefit other agencies in the same sector or the wider government.

The following GCDO recommendations apply to all digital, data and cyber-security budget initiatives:

- That agencies adopt the AoG Common Process Model and participate in the HR & Payroll Working Group
- That agencies explore and embed interoperability within the agency and between the agency and wider government.
- That agencies adopt suitable joined up governance to provide unified oversight and ensure alignment between multi-agency and internal agency business and digital portfolio groups to ensure successful delivery.
- That iterative reviews of governance are conducted throughout the investment cycle to enable efficient and effective delivery of investment outcomes and benefits.
- That agencies ensure they understand their obligations to the Treaty of Waitangi principles including Māori data sovereignty and that these are incorporated into their digital initiatives.

- That high-risk initiatives must align to, and all other digital initiatives should follow the GCDO Programme and Project assurance framework and guidance.
- That digital initiatives clearly identify the interdependencies with other digital systems within the agency, sector, and wider government.
- That data ownership and agreements are in place to enable effective information management practices between organisations.
- That digital initiatives maintain clear reporting processes to track benefits through to full delivery.
- That agencies maintain a backlog of low rated benefits for delivery through the agency's business as usual work programme.
- That off-the-shelf products and services are not overly configured to avoid increasing complexity, risk, and cost.

Ministry for the Environment

MfE has observed a more sophisticated approach to responses around climate change, particularly in relation to emissions. This is not universal but is encouraging. There is little data provided to support responses, and the CIPA tool isn't a perfect fit for Budget Initiative purposes. Impacts arising from climate-related natural hazard events are less well considered. The use of the term 'resilience' is ambiguous – in some cases it is difficult to ascertain whether the author is talking about climate change resilience or financial resilience. These observations highlight the need for:

- greater clarity of environmental measures or indicators of national significance and the need for improvements to foundational data
- suitable guidance for agencies to draw on when completing templates for the IMS system, including Budget templates.

With the formal system leader role, MfE will progress work to assist agencies consider matters of importance for the natural and built environment. There was little commentary from any agencies about these matters. Spatial planning for infrastructure providers identifies value from a more strategic and systems thinking approach to the life cycle of planning-consenting-delivery of infrastructure projects. This approach can lead to process efficiencies and better overall outcomes for communities and the environment.

NZ Government Procurement

NZGP reviewed all submitted proposals for procurement and commercial integrity and robustness. It was encouraging to see some proposals accompanied by supporting business cases. A more robust assessment could have been provided if all proposals were accompanied by a business and/or commercial case.

Of concern is the evident lack of planning and coordination across systems. Longer-term planning is not incentivised, as evidenced by the strategic review of capital-intensive agencies, resulting in a tentative-at-best picture of the pipeline. These reviews will impact procurement activities that are underway or signalled to markets. There is a need to balance baseline pressures with long term capability and capacity as well as the government's reputation as a client. Particularly in this softening/declining market, government could be well served to make counter-cyclical investment, in 'at risk' markets, both as stimulus, but also to leverage under-utilisation cost benefits.

There is a need to increase commercial capability and capacity within agencies to support delivery of these investments. Commercial delivery had not been well considered in most of the cases presented. Agencies need to spend the time developing an understanding of the commercial factors in their investment to determine the optimal approach. In particular, agencies need to ensure early and effective market engagement, especially where there are constraints such as in construction/infrastructure. New Zealand is experiencing challenging times in a number of its markets. Government must work closely both with other purchasing agencies and suppliers to manage any potential impacts, and to develop innovative approaches.

Annex D: Large Vote Summary

Transport

Table one compares agency submissions against the Treasury recommended funding levels.
[33]

The following initiatives are where there is the greatest different between what agencies requested and what the Treasury recommend:

Funding for Government Policy Statement for land transport (GPS24)

Agency submissions reflects the total grant/loan amounts in the revised draft GPS24 package, as distinct from the level of new funding required. $1.189b capital expenditure and $0.716b operation expenditure towards GPS24 is already accounted for in forecasts due to pre-commitments by the previous government. Our recommendation for Budget 24 is therefore to provide $1.955b of new capex from the MYCA (with the $1.189b already in forecasts this totals the $3.144b capex sought), and to return the $0.716b opex to the operating allowance, as no opex grant is now required for GPS24. We support the loan component but, as the loan doesn't require new funding from allowances as it will be paid back through third party revenue, it is not included in our recommended amounts.

NIWE Road Response, Recovery [33] *(Time-Limited Funding)*

Recommended funding is for State Highway recovery to complete 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. [33]

Risks and opportunities:

The revised GPS2024 is an opportunity to refocus transport expenditure on maintenance and renewals to maintain service levels

The costs of increasing the resilience of the transport network are not included within the proposed funding envelope for the GPS2024, with NZTA assuming these costs will be met by the Crown [33]

Further cost escalations for NZUP are highly likely, especially as some of the projects within the programme are still in the design phase. We have recommended actions to get improved and more regular Ministerial visibility of the programme’s status.

There is a need to review the funding approach (level and mechanism of funding) for the rail network to align with the Government’s objectives for rail.

Housing

[33]

The following initiatives are where there is the greatest different between what agencies requested and what the Treasury recommend:

[33]

Risks and opportunities:

There is opportunity to return or reprioritise funding from the Large Scale Projects investments where Ministers are yet to make decisions. We recommend Kainga Ora undertake a review to reassess the value for money of the overall LSP programme to identify areas of low value and possible efficiencies.

The independent review of Kainga Ora provides an opportunity to refocus Kainga Ora on areas of highest priority to the Government. There is a risk that the review creates market uncertainty in the residential construction sector given the scale of Kainga Ora's investment programme; we recommend Ministers provide clear signals of the future investment intentions in social housing.

Health

Table three compares agency submissions against the Treasury recommended funding levels.

Table three: Health agency submissions and Treasury recommended funding

	Total operating	Total capital
Agency submissions	[33]	
TSY recommended		

[34] . We also note that Health NZ submitted initiatives that did not meet the invitation requirements. [33] and [34]

Risks and opportunities:

While Health New Zealand has identified reprioritisation options to address cost escalations, there may be more opportunity for further reprioritisation to fund higher priority, more delivery-ready initiatives.

Health NZ has provided the Minister of Health with a draft Infrastructure Investment Plan, which the Minister is currently reviewing. The plan needs to set out the current state of

Health NZ's significant asset base, how it plans to maintain these assets and deliver health services to meet the needs of New Zealanders. This plan provides an opportunity to set clear expectations for Health NZ on providing full and complete reporting to the Treasury and Ministers on its capital portfolio, and the need to following best practice investment planning and decision-making processes.

We expect the health capital portfolio will continue to experience cost escalations, which reinforces the need for transparent reporting. [33]

Defence

Table four compares agency submissions against the Treasury recommended funding levels.

Table four: Defence agency submissions and Treasury recommended funding

	Total operating	Total capital
Agency submissions	[33]	
TSY recommended	51.3	216.4

We recommend funding for five initiatives (each scaled to varying degrees) that we consider to be high priority, focused on investment in core assets (primarily IT and estate) and which we consider will be beneficial regardless of the outcomes of the Defence Capability Plan. In general, we recommend initiatives to invest in military capabilities are deferred until after Cabinet consideration of the Defence Capability Plan.

Risks and opportunities:

Prioritisation has been challenging given breadth and scale of funding sought, and there are risks associated with scaling / deferring of some initiatives. Not funding initiatives at B24 will likely result in deferred and accumulated funding requests at future Budgets unless Ministerial directions are given to stop programmes.

The Minister of Defence submitted a number of uninvited bids because they were considered to better align to 'defence policy and portfolio considerations', but these have not been assessed.

Defence agencies have consistently sought significant levels of funding through the Budget process. Typically, investments in military capabilities have been prioritised at the expense of key 'enablers' such as IT and Estate projects.

The Defence Capability Plan currently in development provides the best opportunity to understand how defence policy ambitions will impact on fiscal objectives over the next 15 years, consider options to manage affordability, and seek clear information on prioritisation and sequencing of planned investments.

Ongoing maintenance and renewals across the Defence estate provide an opportunity to build a strong forward pipeline of ongoing critical investment, which will help build market capacity and capability. [33]

Education

Table five compares agency submissions against the Treasury recommended funding levels.

Table five: Education agency submissions and Treasury recommended funding

	Total operating	Total capital
Agency submissions	[33]	
TSY recommended		

Risk and opportunities:

In light of current or forecasted demand pressure on school rolls and market capacity opportunities in the vertical construction sector, there are benefits to signalling a medium-term plan for investment in school infrastructure. We have recommended funding accordingly.

In the longer term, demographic projections suggest that there is a need to reduce the focus on growth investment and focus more on asset management planning.

Finally, we highlight a need to focus on continuous improvement to planning and delivery, aimed at bringing down unit costs to a level that is comparable with peer countries. We expect this will be a focus of the independent review of Ministry of Education's School Property Function.

We strongly support funding for land acquisition. Providing funding upfront for land acquisition, rather than through a reimbursement model, will enable the Ministry of Education to take a more strategic approach to the acquisition of property which will have associated cost saving over the medium to long term.

Corrections

Table six compares agency submissions against the Treasury recommended funding levels.

Table six: Corrections agency submissions and Treasury recommended funding

	Total operating	Total capital
Agency submissions	[25] and [33]	
TSY recommended		

Risks and opportunities:

Corrections is facing a need to invest both to renew or replace existing prisons and to expand capacity in response to changes in prisoner volumes, at a time of change to Justice policy settings. We have recommended funding [33]

Given the uncertainty in being able to forecasting prison populations, there is an opportunity to select prison designs, procurement and delivery models that can scale up or down to respond to changing volumes, rather than building to a single forecast.

Regional Infrastructure Fund:

Table seven compares the agency submissions against the Treasury recommended funding levels.

[34]

[33]

[33]

[33]

[33]

[33]

[33]

[33]

Priority Area – Capital Investment

The Treasury **recommend capital initiatives** in the draft Budget package that includes **$3,494 million capital** and **$1,221 million** associated operating over the forecast period, scaled down from **$24,325 million capital** and **$6,317 million operating submitted by agencies**. This is made up of:

- **$3,009 million capital and returning $60 million operating in new capital investment** focused on key Government Policy Commitments and critical asset maintenance, renewals and upgrades (the returned operating funding relates to decisions on the Government Policy Statement for land transport)
- **$1,257 million capital and $2,055 million operating in critical cost escalations** for initiatives that are facing significant cost pressures and will be either delayed or risk asset failure if not funded

To offset the capital package, **agencies have identified $772 million capital and $774 million operating in savings** through the Treasury-led Capital Pipeline Review.

The draft package balances the need for investment in priority areas, fiscal constraints particularly related to operating expenditure, the high level of existing investment already underway and our macroeconomic and fiscal policy objectives, particularly the near-term objective to reduce inflation.

Budget 2024 is an opportunity to:

- start to build a more credible investment pipeline, with a core focus on ongoing asset maintenance and renewals.
- reset expectations with agencies on the need to develop asset management plans and timely, high quality business cases to support our decision-making
- send clear market signals of our investment intentions and a focus on sound investment and asset management planning to support our funding decisions

[33]

[33]

[33]