

The Treasury

Budget 2024 Information Release

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Treasury Report: Fiscal Considerations of Two Shovel Ready Projects Funded through Vote Housing and Urban Development

Date:	26 March 2024	Report No:	T2024/796
		File Number:	SH-13-5-3-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	<p>Agree to discuss the contents of this briefing with the Minister of Housing;</p> <p>Invite the Minister of Housing to submit a significant Budget 2024 initiative by 28 March 2024 seeking \$83.1 million non-cash operating funding for divestment of two Shovel-Ready projects [Treasury recommended];</p> <p>Note that if you do not invite the initiative into the Budget 2024 significant process, the initiative will be submitted as a Budget Technical initiative, with the corresponding fiscal impact managed outside of allowances.</p>	27 March 2024
Minister of Housing (Hon Chris Bishop)	Note the contents of the briefing.	27 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact	
Jack Wellwood	Graduate Analyst, Housing and Urban Growth	[39]	[35]	✓
Talosaga Talosaga	Acting Manager, Housing and Urban Growth			

Minister's Office actions (if required)

Return the signed report to Treasury.
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Note any feedback on the quality of the report

Treasury Report: Fiscal Considerations of Two Shovel Ready Projects Funded through Vote Housing and Urban Development

Purpose of Report

1. This paper provides advice on the fiscal considerations of two projects awarded funding as part of the previous Government’s 2020 Shovel-Ready Programme (SRP). It:
 - a) Summarises two projects that received shovel ready funding appropriated as part of the Delivering the 'Shovel Ready' Infrastructure Projects 2020 Cabinet paper.
 - b) Provides information on fiscal considerations related to two projects that do not currently have appropriated authority to divest assets for nil-consideration to Councils and other stakeholders.
 - c) Seeks your agreement to invite the Ministry of Housing and Urban Development (MHUD) to submit an additional significant budget initiative to appropriate \$83.1 million of non-cash expenditure and for the fiscal impacts of this to be managed against Budget 2024 allowances.

High-Level Summary of the Issue

2. MHUD has previously indicated that it will need to incur expenses of \$83.1 million of non-cash expenditure to transfer inventory infrastructure assets for no consideration, as part of a non-monetary grant related to the Government’s 2020 Shovel-Ready Programme (SRP). There is currently no appropriation authority in place for this expense.
3. ^[33]
4. Following advice from Treasury, MHUD intended to seek this funding through the Budget Technical process. From MHUD’s perspective, the Shovel-Ready funding was always intended to be grant funding. MHUD’s view was that this reflects an accounting treatment necessary to rightly vest the assets to the Rōpū, who was always intended to be the ultimate beneficiary of the Shovel-Ready grant funding, rather than the Crown. MHUD considers that grant funding can take multiple forms, including non-monetary, and includes that of an asset being transferred at nil-value (i.e. including vesting of public use assets to Council).
5. The Budget Technical process is generally for fiscally neutral decisions only, and therefore, any additional funding or decisions that have fiscal implications need to be met through reprioritisation or sought through the Budget process. As part of Treasury’s preparation for Budget Technical we have identified that since assets will be disposed of there will be fiscal implications. We therefore recommend that these costs should be managed against the Budget 2024 operating allowance and therefore considered through the significant budget package rather than Budget Technical. From our understanding, there appears little discretion as to whether an expense is incurred.
6. Your agreement is required to invite a late significant initiative into the Budget 2024 process for the appropriation of additional non-cash operating expenditure to cover this expense and manage it against allowances.

7. We recommend that MHUD submits an initiative by Thursday, 28 March 2024, so that the initiative can be reflected in the draft Budget Ministers 4 material being provided to you on Tuesday, 2 April 2024.

Shovel Ready Overview

8. On the July 20, 2020, Cabinet agreed to provide funding for the delivery of a range of Shovel-Ready projects from the COVID-19 Infrastructure Investment - Tagged Capital Contingency [CAB-20-MIN-0341 refers]. Some of this funding was drawn down into Vote Housing and Urban Development, including for two projects to support the development of infrastructure (such as for water and roading) as below:
 - a) ^[33]
 - b)
9. As part of the Cabinet Paper, a new Multi-Year Appropriation was established to facilitate this spending: *Infrastructure Investment to Progress Urban Development MYA*. This appropriation is a Non-Departmental Other Expense Appropriation. An Other Expense Appropriation, rather than a Capital appropriation, indicates that the Crown was not intending to purchase any capital goods.
10. The land for the two developments, ^[33] were both acquired by Central Government and are presently managed and owned by MHUD through the Land for Housing programme. On both sites, infrastructure upgrades, such as for roading and water, have been undertaken and capitalised onto MHUD's balance sheet as inventory (the reasoning for which is outlined in depth below in the fiscal considerations section). There was never an intention for the Central Government to create or retain ownership of these assets in perpetuity.
11. Divestment of these assets (such as water and roading infrastructure) to local councils and other stakeholders will reduce the Crown's liability, and more appropriately align ownership with typical Local Council responsibilities. Generally speaking, Local Councils and other stakeholders are better placed to manage local infrastructure assets given existing contracts, e.g. for the maintenance of water and sewer services.

Further Background on ^[33]

12. From conversations with MHUD, we understand that a development agreement for the sale of the land at ^[33] is already in place with iwi. As per the development agreement, the price of the land did not include infrastructure upgrades made to the site. The value of infrastructure upgrades recognised on the balance sheet through the shovel-ready funding is approximately \$8.1 million.
13. Given the existence of a development agreement, we understand there is very limited discretion regarding expenditure incurrence associated with disposal. However, we note that a decision should have previously been sought to establish and appropriate non-cash funding associated with these transactions.
14. MHUD have advised that during the year end audit, Audit New Zealand did not agree that this funding should be recognised initially as an operating expenditure (grant with no conditions). Audit New Zealand agreed that the infrastructure was an inventory asset until MHUD transfers these assets to the developer. This would be ultimately when the infrastructure assets eventually were transferred to the developer (and subsequently vested in Councils). MHUD has noted that, given the uncertainty around timing (i.e when the assets would transfer) the creation a new appropriation was not sought at the time, with the intention to do so once the arrangement crystallised and become probable.

Further Background on ^[33]

15. There is no development agreement in place for the ^[33] However, on the August 4, 2020 an announcement was made by the previous Government that \$75m in Shovel-Ready funding would be provided to ^[33] to build the Infrastructure networks at the ^[33] site necessary to support the future urban development. Key points as provided by MHUD are as below:
- a) The land at the ^[33] Development is subject to Treaty obligations a development opportunity under the ^[33]
 - b) Development agreements for the land's development are currently in negotiation.
 - c) Work is being undertaken to develop infrastructure on the land. This is, and will be, funded with both Shovel-Ready funding, as well as funding from ^[33].
 - d) The application made by the Rōpū (initially to Crown Investment Partners) was for grant funding, and the funding agreements signed also used the grant funding template – no terms were included on repayment. Members of the Rōpū also received grant funding for other projects that were provided on the same terms.
 - e) The development manager at the site has noted that, in all communications with Rōpū, including by previous Ministers, the understanding has been that this is a grant and is not being repaid.
 - f) An in-principle agreement is in place with the Rōpū that the land will be sold at the cost to the Crown.

Fiscal Considerations

16. As the land is owned by MHUD, the value of the infrastructure upgrades was recognised on MHUD's balance sheet as inventory. It is therefore presently treated as an asset on MHUD's books.
17. MHUD classifies all sites (except for the land at Ihumato) under the Land for Housing Programme as inventory, given the intention to on-sell the land. These infrastructure upgrades were recognised for through MHUD's Balance Sheet and have not been put through the Profit and Loss statement, meaning it has not yet hit the operating balance. As mentioned previously, Audit NZ did not agree that this funding should be recognised initially as an operating expenditure (grant with no conditions). They agreed that the infrastructure was an inventory asset until MHUD does not control of these assets and the developer takes on all of the risk and rewards associated with asset ownership. This would be when the infrastructure assets were transferred to the developer (and subsequently vested in Councils and other stakeholders).
18. In general, the disposal of inventory does not have an impact on the operating balance before gains and losses (OBEGAL) as the expense recognised is offset by revenue received.
19. MHUD does not currently have the appropriation authority to recognise this non-cash transaction. To dispose of assets either at below market value or for nil value (i.e. to vest them in Councils and other stakeholders for which ownership is more appropriate), MHUD requires a Non-Departmental Other Expense Appropriation to recognise the write-down in value. As there is no corresponding revenue being received, there will be an adverse impact to OBEGAL. We recommend that the impact on OBEGAL is managed against the Budget 2024 operating allowance.

20. The anticipated timing and quantum of this expenditure ^[33] is as below
_[33]

FY 23/24	FY24/25	FY 25/26
\$8.1m	\$65m	\$10m

There will be no impact on the debt indicators, as this expense is a non-cash transaction.

Next Steps and Advice on Inviting into Budget 2024 Significant Track

- 21. MHUD first alerted Treasury to this issue late-last year. In January 2024, we noted as part of the *Fiscal Consideration of Amortisation in Vote Housing and Urban Development Aide Memoire* [T2024/157 refers] that there were several other potential non-cash issues in Vote Housing and Urban Development. A more in-depth explanation of the issue was provided to Treasury by MHUD in January 2024.
- 22. At the time, Treasury’s understanding was that this expenditure was entirely non-discretionary, with all changes technical in nature to give effect to previously made decisions. At this point, we noted that the most appropriate mechanism to seek authority to incur this expenditure would be through the Budget 2024 Technical Package. As such, MHUD submitted a Budget Technical initiative to establish this appropriation and seek the funding necessary for the asset write off.
- 23. We then reviewed the material, including the initial Cabinet decision, and revised of advice. Our view is that Cabinet initially agreed to provide grant funding, not to dispose of assets for nil-value. From an accounting perspective, these transactions have taken a different pathway than agreed by Cabinet, given the treatment of land as inventory as part of the Land for Housing Programme.
- 24. Upon review we consider additional funding, or reprioritisation options, should be considered and sought through the Budget 2024 Significant package, rather than the Budget 2024 Technical Package, to ensure any additional fiscal impacts can be managed against allowances. To operationalise this, you will need to write to Minister Bishop inviting him to submit a budget bid to request funding for the ‘*Transfer of Shovel-Ready Assets to Councils and other Stakeholders.*’
- 25. If you disagree to inviting the initiative into the Budget 2024 significant package, the initiative will be submitted as a Budget Technical initiative, with the corresponding fiscal impact managed outside of allowances.
- 26. We recommend that you discuss the contents of this paper with the Minister of Housing before agreeing how to manage the fiscal impact of this issue.
- 27. ^[33]

Recommended Action

We recommend that you:

- a **note** the contents of this paper.
- b **agree** to discuss the contents of this briefing with the Minister of Housing.

Agree/disagree.
Minister of Finance

- c **agree** to invite the Minister of Housing to submit a significant Budget 2024 initiative (by 28 March 2024) seeking \$83.1 million non-cash operating for Vote Housing and Urban Development, or presenting other reprioritisation options, to provide the Ministry of Housing and Urban Development (MHUD) with the authority to dispose of Shovel-Ready assets.

Agree/disagree.
Minister of Finance

- d **Note** that if you disagree to inviting the initiative into the Budget 2024 significant process, the initiative will be submitted as a Budget Technical initiative, with the corresponding fiscal impact managed outside of allowances.

Minister of Finance

Talosaga Talosaga
Acting Manager, Housing and Urban Growth

Hon Nicola Willis
Minister of Finance

____/____/____

Hon Chris Bishop
Minister of Housing

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