

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

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

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.

Treasury Report: Vote Transport Budget Ministers 5 Decisions

Date:	9 April 2024	Report No:	T2024/949
		File Number:	SH-8-9-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	Agree to the recommendations outlined below for confirmation at Budget Ministers 5.	10 April 2024
Minister of Transport (Hon Simeon Brown)	Note the contents of this report	10 April 2024
Minister for Infrastructure (Hon Chris Bishop)	Note the contents of this report	10 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Mark Hodge	Team Leader, National Infrastructure Unit (NIU) ^[39]	^[35]	✓
David Taylor	Manager, National Infrastructure Unit (NIU)		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Executive Summary

This report provides you with additional advice on matters for consideration in the Budget 2024 package following your meetings with the Minister of Transport on 11 March and 5 April. Decisions are required by 10 April so that the package can be agreed at Budget Ministers 5.

The Ministry of Transport submitted its technical initiatives on 20 March which highlighted further savings opportunities including \$264 million of underspends from 2023/24 which we recommend you return to the centre through the Budget significant process. Following your conversation with the Minister of Transport, we recommend you:

- agree to a \$2.8 million increase in 2024/25 to the funding the Civil Aviation Authority from the Working Safer Levy to undertake activities delegated to it under the Health and Safety at Work Act (16016) (noting there is no corresponding impact on allowances as the funding comes from the Working Safer Levy);
- agree to a \$63.644 million Crown grant to Surf Life Saving New Zealand and Coastguard New Zealand to support the provision of critical water safety services (16007); and
- agree to a \$600,000 business case for improving New Zealand's Emergency Ocean Response Capacity (15901) from Maritime NZ underspends, ^[37]

We recommend deferring decisions on replacing NGO assets that were destroyed or damaged in NIWE response activities (Initiative 16008) to Budget 2025 so that funding decisions can consider the outcome of the Government Inquiry into the NIWE response. We have not received the findings or draft recommendations from the inquiry, although these are expected to be publicly released in April 2024 and have a report back to Cabinet in August 2024. We are unable to advise at the moment on whether it is prudent to keep funding aside now or wait until Budget 2025. However, you indicated an interest in managing the risk of funding being required in 2024/25 with funding held in a tagged contingency. We have provided you the option to include this in your Budget package.

[33]

The Ministry of Transport provided advice on accelerating several projects in the Government Policy Statement on Land Transport and the Treasury has only had 1 hour to review the limited information provided. On this basis we do not recommend including additional capital funding for the GPS in the Budget package as this has not been through the same assessment process as other capital initiatives and we cannot validate the statements made by Ministry of Transport or NZTA. If you wish to include funding to support the acceleration of the GPS projects, we recommend this is held in a tagged contingency subject to NZTA providing additional detail on how the proposed funding would change milestones, and additional detail on what is proposed to be purchased.

[34]

[33]

If you consider that it is critical to provide additional funding now, we recommend that you provide up to \$200m operating funding through Budget 2024, to compensate the shortfall in revenue from the NLTF over the next two years as a result of the draft GPS. This is expected to enable a credible minimum (as determined by KiwiRail) RNIP to be issued for 2024-27, noting that significant policy changes will be required to scale the RNIP to this amount,^[33] Committing funding of this magnitude will however enable KiwiRail to stay operational, and mitigate the risk of immediate line closures, while further work is undertaken to build a better evidence base for additional Crown funding.^[33]

Recommended Action

We recommend that you:

- a. **agree** to return \$264.268 million in 2023/24, \$1.5 million in 2024/25 and 2025/26, and \$1.226 million in 2026/27 to the centre as savings and underspends identified in the Ministry of Transport Technical Budget submissions;

Agree/disagree.

- b. **agree** to provide \$2.8 million for one year of funding from the Working Safer Levy for initiative 16016 relating to the Civil Aviation Authority's Health and Safety at Work Act delegated activities, and to reduce initiative 15769 relating to the Civil Aviation Authority's Liquidity Funding bid by \$2.8 million in 2024/25 through Budget 2025;

Agree/disagree.

c. agree to either:

- (i). proceed with a better business case for Emergency Ocean Response Capability (Cook Strait) to enable Ministers to understand the value for money of the options identified (Treasury Recommended);

Agree/disagree.

OR

- (ii). proceed immediately to a Request for Proposals (RFP) of a scaled-up option, with the final option to be approved by Cabinet following the response to the RFP;

Agree/disagree.

d. [37]

- e. agree** to include \$63.644 million across the forecast period in the Budget 2024 package for initiative 16007 Maintaining Critical Frontline Water Safety Services;

Agree/disagree.

f. agree to either:

- (i). defer decisions to Budget 2025 on initiative 16008 Severe Weather / Emergency Response, relating to replacing assets damaged by the North Island Weather Events (Treasury recommended);

Agree/disagree.

OR

- (ii). include \$23.142 million in operating funding in the Budget 2024 package, to be held in a tagged operating contingency, to support replacement of assets damaged by the North Island Weather Events, subject to the findings of the Government Inquiry

Agree/disagree.

g. [33]

h.

- i. **agree** that the funding in recommendation h. above be held in a tagged capital contingency, with drawdown to occur straight into the NLTF subject to NZTA:
- (i). confirming the project timeline and key milestones;
 - (ii). providing an independent Quantitative Risk Assessment to provide confidence in the costings;
 - (iii). providing an updated benefit cost ratio based on revised costings and benefits to prove that this project represents value for money;
 - (iv). providing independent assessment of delivery capacity in the region to ensure that this project is deliverable with respect to all other demands on the sector;
 - (v). providing regular reporting to the Infrastructure Oversight Ministers Group.

Agree/disagree.

j. ^[33]

k.

- l. **note** that the Treasury has only had one hour to review information relating to using additional capital funding to accelerate Government Policy Statement on Land Transport projects, and given that these have not been through the same process as other Budget capital projects, does not recommend that this funding is included in the Budget package;
- m. **agree**, if you wish to include funding for accelerating the GPS projects in the Budget 2024 package, to include \$1 billion of capital funding held in a tagged capital contingency with drawdown subject to additional information from NZTA on how it proposes to actually accelerate these projects relative to the status quo;

Agree/disagree.

n. ^[33]

OR

- (ii). \$200 million to provide two years of forward certainty by replacing funding that is no longer expected from the NLTF under the draft GPS, bringing total expected funding to around \$1.04 billion. ^[33]

Agree/disagree.

[33]

David Taylor
Manager, National Infrastructure Unit

Hon Nicola Willis
Minister of Finance

_____/_____/_____

Purpose

1. This report provides you with additional advice on the following matters and seeks your agreement to their inclusion, or not, in the Budget 2024 package:
 - a. return \$264.268 million in 2023/24, \$1.5 million in 2024/25 and 2025/26, and \$1.226 million in 2026/27 to the centre as savings and underspends identified in the MOT Technical Budget submissions;
 - b. new operating spending initiatives:
 - i Civil Aviation Authority Health and Safety at Work Act;
 - ii Emergency Ocean Response Capability (Cook Strait);
 - iii Maintaining Critical Frontline Water Safety Services;
 - iv Severe weather/emergency response;
 - c. [33]
 - d. potential additional funding for the Rail Network Improvement Plan (RNIP) to mitigate critical short-term risks with associated fiscal treatments; and
 - e. potential projects for acceleration under the Government Policy Statement (GPS) on Land Transport.
2. Decisions on these matters are required by 10 April 2024 as the Budget package is due to be signed off by Budget Ministers 5 on 10 April 2024.

Background

3. On Monday 11 March 2024, you had your bilateral with the Minister of Transport and confirmed your expectations in a letter on 12 March 2024. In this letter you:
 - a. invited the Minister of Transport to submit two new initiatives: Emergency Ocean Response Capabilities (Cook Strait); [33]
 - b.
 - c. discussed and agreed to the Minister of Transport's proposal to manage other costs through reprioritisation within baselines, specifically Maintaining Essential Frontline Services for Surf Life Saving, and Ground Based Navigation Aids.
4. In the Minister of Transport's bilateral response letter to you on 20 March 2024, he signalled he would also seek through the Budget Technical process to reprioritise funding towards the initiative *Severe Weather Response, Resilience and Recovery* (relating to replacing assets destroyed or damaged by NIWE). He recommended that this be held in a tagged contingency subject to consideration of the Government Inquiry into the Response to the North Island Weather Events.
5. On 20 March 2024, MOT submitted its technical initiatives which highlighted significant further savings opportunities, including \$264 million of underspends from 2023/24. These savings come from:

- a. Transport Choices programme: \$149.860 million;
 - b. Community Connect – ending free public transport for five to twelve-year olds and half-price fares for under 25-year-olds: \$34.708 million;
 - c. Auckland Light Rail: \$33 million;
 - d. Recruiting and Retaining Bus Drivers: \$22.7 million;
 - e. Clean Vehicle Discount: \$10 million;
 - f. [33]
6. MOT proposed to use these underspends to fund other activities and cost pressures not invited into the Budget 2024 process. Due to the significant nature of the savings and reprioritised activities, you agreed, at a meeting with the Minister of Transport on 5 April 2024, to decline the technical submission and instead invite these activities into the significant Budget process for proper consideration of the trade-offs.
7. You also sought further advice on:
- a. [33]
 - b. potential additional funding for the RNIP to mitigate critical short-term risks with associated fiscal treatments.
 - c. Options to accelerate projects under the GPS.
8. If you choose to fund any of these capital bids, this will represent significant calls on the MYCA. At preliminary BEFU the remaining MYCA was \$10.281 billion after taking into account the additional \$1.955 billion capital already going into the NLTF.
9. Agencies sought \$24.3 billion net total capital over the forecast period and the Treasury recommended \$3.5 billion of capital spending (T2024/511 refers). Based on current decisions in the BM4 package, there is ~\$6.8 billion in the MYCA for Budgets 2025, 2026, and 2027. If using 2024 as a proxy, this would mean your MYCA is exhausted in the next two years without further top-ups.
10. We note that much of the funding being provisionally allocated from the MYCA at Budget 2024 is to support business cases and pre-implementation work, and funding the full delivery of the projects will require significant additional contributions from the MYCA (likely necessitating a further top-up).

Consideration of Technical submissions

11. Our assessment of the four operating spending initiatives, that were proposed to be funded from the underspends, are outlined below. We require decisions from you by 10 April 2024, in order to finalise agreement at Budget Ministers 5 on 10 April 2024.

Civil Aviation Authority Health and Safety at Work Act (16016)

12. This initiative seeks an ongoing increase in the funding the CAA receives from the Working Safer Levy to undertake activities delegated to it under the Health and Safety at Work Act (HSWA). One year of funding (\$2.8 million) for these activities has already been included in CAA's liquidity bid that is currently supported in the Budget 2024 package.

13. The proposed funding increase is ^[33]
- HSWA
- activities are a core role delegated to CAA, but funding requests from this levy have been considered as new spending in previous Budgets because any increase in funding requires an increase in the levy itself, which is collected by ACC.
14. In Budget 2023, CAA received one year of the Working Safer Levy funding for HSWA activities. This funding was approved under the assumption that CAA's Funding Review would consider the ongoing funding needs for HSWA activities and be completed and implemented by 1 July 2024. However, this Funding Review has been delayed and is not expected to be implemented until 1 July 2025.
15. You have choices regarding how the CAA's HSWA delegated activities could be funded going forward:
- a. Providing ongoing funding for CAA's HSWA activities from the HSWA levy, and reducing the CAA's Budget 2024 liquidity facility bid by \$2.8 million (as the liquidity bid is for one year of funding until the Funding Review is completed by 1 July 2024);
 - b. Providing one year of funding for CAA's HSWA activities from the HSWA levy, reducing the CAA's Budget 2024 liquidity facility bid by \$2.8 million, and seeking ongoing funding for HSWA activities via either a Budget 2025 levy bid, or via CAA's Funding Review (Treasury recommended); or
 - c. Declining the Budget 2024 HSWA levy bid and funding CAA's HSWA activities via the liquidity facility bid in 2024/25, and seeking ongoing funding for these activities via CAA's Funding Review.
16. You have already agreed to progress the CAA's Funding Review as a matter of urgency. Minister Brown has indicated the earliest this can now be in place is 1 July 2025. We strongly recommend that no ongoing funding is provided to the CAA ahead of this review being finalised.
17. A report from MOT did not identify HSWA activities being proposed to be funded from the CAA Funding Review (OC240333 refers). So, while the Funding Review is still to be completed, the direction of travel indicates that these HSWA activities would need to be funded by Crown or the Working Safer Levy.
18. The Treasury therefore recommends that you provide ongoing funding of \$2.8 million p.a. to be funded from the Working Safer Levy which means the operating impact would not be counted against allowances (consistent with Budget 2023). If approved the Treasury would back out \$2.8 million from the CAA liquidity facility Budget 2024 bid (initiative 15769).

Emergency Ocean Response Capability (Cook Strait) (15901)

19. This initiative seeks new funding to improve New Zealand's maritime emergency ocean response capability (EORC). New Zealand's current ability to respond to a large vessel incident, particularly in the Cook Strait, is limited. Maritime New Zealand (MNZ) has ongoing concerns about the potential risks of an Interislander ferry getting into distress and requiring assistance. There are options to improve our EORC. These include:
- a. **EORC Better Business Case (\$600,000)** (Treasury and Ministry of Transport recommended): This option does not provide an immediate increase in EORC capability. It would provide Ministers with options on what level of EORC capability the Government may wish to invest in, and ensure value for money from the investment is understood. ^[37]

Please note that Treasury recognises that the paragraph 19 reference to "an Interislander ferry" would be more accurately expressed as "a Cook Strait ferry".

[37]

. This is MOT's preferred option.

b. [37]

c.

d.

20. The Ministry of Transport's preferred option is also to complete an EORC business case, with an estimated cost of \$600,000. We support this recommendation because we are not confident that proceeding with any of the scaled-up options represents value for money. [37]
21. There are non-funding alternatives that are being taken in the short- to medium-term to mitigate the risk to services in the Cook Strait. These include navigational changes by the Harbourmaster and improved inspections of the Cook Strait ferries to reduce the likelihood of incidents t. We recommend that the Minister of Transport work with MNZ to investigate these further.
22. We note these funding solutions, and mitigations, do not address the underlying problem, which is the risk of breakdowns with ageing ferries. The Ministry of Transport and the Treasury are undertaking further work on the future of the interisland services, and the appropriate level of Crown involvement.

Maintaining Critical Frontline Water Safety Services (16007)

23. This initiative provides funding to Surf Life Saving New Zealand (SLNZ) and Coastguard New Zealand (CNZ) to support the provision of critical water safety services (\$63.644 million across the forecast period). The Ministry of Transport advises that if this funding is not provided, critical frontline water rescue and prevention services will be impacted, and this may have flow-on impacts on New Zealand's drowning toll.
24. You agreed to support reprioritisation within baselines to manage this spending at your bilateral on 11 March, and subsequently confirmed this in your letter to the Minister of Transport on 12 March 2024.
25. Funding was initially provided at Budget 2020 to support these entities. Now the NGOs are incurring losses as they attempt to continue to provide this level of service. They have been unable to reprioritise or obtain funding from other sources such as grant revenue and fundraising. The ongoing sustainability and viability of both CNZ and SLNZ are at risk without Crown funding.

26. If no funding is provided, reductions by SLNZ would include proactive beach lifeguarding and essential emergency rescue services, public education beach safety programmes, education, training, and development. Reductions for CNZ would include a combination of assistance provided to recreational boat users requesting assistance, on-water safety services, boating education programmes, community initiatives, critical marine communications and safety and information services.
27. We support the Ministry of Transport's approach to identifying savings options within its baseline to fund this initiative and we recommend supporting it in full. The frontline services that are provided have a demonstrated a public good impact through reducing injuries and fatalities, and the ability to fund these services from alternative sources is limited given both NGO's reliance on fundraising and grant revenue.
28. We note that approving this funding effectively creates a dependency on Crown funding to deliver these services in the future. As this is a Crown grant, you therefore have options to scale the funding:
 - a. Fund only critical operating costs to ensure continued frontline service delivery, at a scaled down amount of \$32.147 million across the forecast period. This would result in less-critical components such as asset renewal not occurring;
 - b. Fund the services on a time-limited basis (e.g., one year for 2024/25) until further work is undertaken to better understand service level expectations and therefore an appropriate level of Crown investment. However, we do not recommend this option due to the risk of creating a fiscal cliff once the funding expires.

Severe weather/emergency response (16008)

29. This initiative seeks \$23.142 million in funding for four non-government organisations (SLNZ, CNZ, New Zealand Land Search and Rescue, and Amateur Radio Emergency Communications) to replace assets that were destroyed or damaged in NIWE response activities. Funding would also provide for targeted training and personal protective equipment to improve the ability of these NGOs to respond to future severe weather events. The Ministry of Transport advises that without this funding these NGO's will not be in a strong position to respond to future weather events.
30. The Minister of Transport noted in his bilateral response letter that he recommended the funding be held in a tagged contingency, subject to Cabinet's consideration of the Government Inquiry into the Response to the NIWE and that this was a medium-term priority. The report is expected to be made public on 23 April 2024, and a report back on expected to Cabinet in August 2024.
31. The Treasury is not privy to the draft recommendations from the Inquiry and cannot confirm whether providing funding certainty in a tagged contingency at this time, for these activities, is prudent. We therefore recommend deferring decisions on funding this initiative to Budget 2025. However, you indicated an interest in managing the risk of funding being required in 2024/25 with funding held in a tagged contingency. We have provided you the option to include this in your Budget package.

[33]

Accelerating GPS projects with additional capital funding

Ministry of Transport advice

46. MoT has provided Treasury with the following advice on the implications of providing an additional \$1 billion of capital expenditure into the National Land Transport Fund.
47. The NZTA Board is responsible for investing the NLTF in the National Land Transport Programme that gives effect to the Government Policy Statement on Land Transport. This requires the NZTA Board to decide on a range of trade-offs including prioritising specific programmes of work and deciding on the level of funding allocated across activity classes.
48. Based on advice from NZTA, under the current settings in the draft GPS 2024, the NZTA Board will have to make trade-offs between funding the Roads of National Significance (RONS), Better Public Transport Projects, Roads of Regional Significance, and funding the ongoing road maintenance and public transport services. As the GPS 2024 has not been finalised, the 2024-27 National Land Transport Programme is still in development and the NZTA Board has not taken decisions on where funding will be prioritised.
49. The NZTA has prioritised the RONS programme into three waves, based on when they are forecast to begin construction.
 - a. Projects in the first wave are forecast to begin construction over 2024-27 and include SH1 Warkworth to Wellsford, SH29 Tauriko, SH2 Hawkes Bay Expressway, SH1 Cambridge to Piarere, and SH1 Pegasus to Belfast Motorway and Woodend Bypass.
 - b. Projects in the second wave are forecast to begin construction over 2027-30 and include Takitimu North Link Stage 2, Mill Road, SH1 2nd Mt Vic tunnel and Basin Reserve Upgrades, Alternate to the Brynderwyns, and Hamilton Southern Links.

- c. Projects in the third wave are forecast to begin construction over 2030-33 and include East West Link, NW Alternative State Highway (SH16), Petone to Grenada and Cross Valley Link, SH6 Hope Bypass, and SH1 Whangārei to Port Marsden.
50. Under current funding levels, if road maintenance and public transport services are funded at the level required to maintain existing levels of services, there would only be funding available to progress the first wave of RONS projects (five projects) through to construction over 2024-27.
51. Additional funding would enable the NZTA Board to accelerate delivery of the RONS programme. Providing an additional \$1 billion to the NLTF over 2024-27. The additional funding will enable NZTA to:
 - a. accelerate work on an additional five RONS (Wave 2) enabling construction to commence during the 2027-30 period. These projects will undertake planning, design and begin property acquisition during 2024-27. (\$600m)
 - b. progress scope confirmation and project development for the North-West Rapid Transit Programme. Including route protection, initiating consenting and detailed design and property acquisition. (\$580m)
 - c. Commence planning, design/route protection for the third wave of RONS projects. This would provide long-term planning certainty for the overall RONS pipeline.
 - d. deliver against other priorities in the draft GPS 2024.
52. The costs and scope of the above projects are indicative. Ministers will expect the NZTA Board to utilise the relevant tools and processes to maintain control of costs and scope. In line with the existing decision-making framework, the Minister of Transport has signalled a preference to provide \$1 billion additional investment for the NZTA Board to allocate in a manner aligned with GPS expectations. This approach enables the NZTA Board to take consistent decisions based on their investment appraisal framework and aligns with the Auditor General's report "Making infrastructure investment decisions quickly" that recommended decisions are delegated to the NZTA Board. There remains an expectation that the NZTA prepare business cases to support the Board in taking funding prioritisation decisions.
53. NZTA have considered programme-level factors such as market capacity to progress planning phases, property purchases and construction, alongside existing committed projects.
54. NZTA considers there will be sufficient market capacity to progress the GPS 2024 and the RONS projects. NZTA notes that the focus of work in 24-27 is on project development, consenting and detailed design and consider there is capacity in the consultancy market to support this work. Within the 2024-27 period the construction activity on the RONS projects will commence from 2025/26 and ramp up in 2026-27. NZTA expects that contractor capacity will be available to meet this need as other in-flight projects will complete in this time period. There is a risk about capacity within the property sector to support the accelerated property acquisition, however, NZTA expects that changes proposed through the fast-track consenting changes will allow for efficient and effective property acquisition to mitigate this risk.

Treasury advice

55. The Treasury has only had one hour to review the limited information provided by the Ministry of Transport. On this basis we do not recommend including additional capital funding for the GPS in the Budget package as this has not been through the same assessment process as other capital initiatives and we cannot validate the statements made by Ministry of Transport or NZTA.
56. There are risks of cost escalation and delivery delays when large transport projects are accelerated. The most recent example is the New Zealand Upgrade Programme (NZUP), where a key purpose of funding these projects was to bring forward significant projects and give the construction industry certainty and confidence about future work. A December 2023 report by the Office of the Auditor General, Making infrastructure Investment Decisions Quickly found that:
 - a. Ministers made decisions to progress some NZUP projects even through those projects were not fully scope or planned;
 - b. Full business cases were not always available or up to date even when the project's planning was more advanced; and
 - c. Ministers did not have enough information to be sure that decisions supported value for money.
57. There are risks that funding the acceleration of RONS projects could result in the same outcome. This is especially so in this instance as these have not gone through the same Budget process as other Capital projects and there is very limited information provided in the Ministry of Transport advice to have confidence that additional funding will support the outcomes indicated by NZTA.
58. If you choose to increase capital funding to the NLTF, we recommend this funding be placed in a tagged contingency with drawdown subject to NZTA providing additional information and assurances with relation to achieving the milestones outlined in the Ministry of Transport's advice above. We also note this mitigates the risk that while NZTA considers there are no capacity constraints with its proposed acceleration at this point in time, this is not guaranteed to be the case in the future.
59. Whether or not additional funding is provided for accelerating projects, NZTA is required to submit risk profile assessments (RPAs) and strategic assessments (SAs) for the RONS projects that are in planning (business casing). This is a requirement of Cabinet Office circular (23) 9, which will enable you to have early visibility of the current scope, cost estimates and timing. We note that NZTA has poor compliance in relation to submission of these documents, which reduces visibility for Ministers.

KiwiRail funding

Budget 2024 Submission

60. The Minister of Transport submitted a Capital Pipeline New Spending ^[33] fund the operation, maintenance and renewals of the national rail network, ^[33]
61. The initiative noted that this funding is critical to enable KiwiRail to continue efficient and effective network services for rail users and to support the future growth of rail. KiwiRail recognised the fiscal constraints facing the Government and prepared reprioritisation options to scale some, but not all, of the funding required.

Rail Network Improvement Plan (15774)

62. The Rail Network Improvement Plan (RNIP) is a 10-year forecast investment programme for rail that is funded in three-year cycles.¹ The RNIP is developed by KiwiRail and sets out KiwiRail’s proposed investments to give effect to the Government’s objectives as set out in the GPS Land Transport.
63. The RNIP is approved by the Minister of Transport (rather than the Board of NZTA) and is funded by a combination of NLTF and Crown funding. Crown funding for RNIP has been provided as an operating grant to KiwiRail to limit the operating deficit reported in the KiwiRail’s accounts due to the way KiwiRail accounts for non-profitable assets.
64. A high-level summary of organisational roles and responsibilities is described below:

Treasury	NZTA	KiwiRail	Councils
<ul style="list-style-type: none"> Assess rail budget bids and consider the RNIP Advise on Crown funding injections Monitor KiwiRail as a State-Owned Enterprise 	<ul style="list-style-type: none"> Integrate rail into the land transport planning system Advise on and monitor the RNIP Monitor rail activities funded through the NLTF Regulate rail safety 	<ul style="list-style-type: none"> Own, operate and maintain the rail network Provide freight, tourism and inter-regional passenger services Develop and report on the RNIP 	<ul style="list-style-type: none"> Plan and operate metro passenger services Own passenger rolling stock Co-fund routine maintenance and renewal activities in metro areas

65. ^[33] however, funding of only \$369.200 million operating was approved, with \$338.300 million of that for one additional year of RNIP in 2025/26 (bringing the forward certainty to three years from 2023/24). Prior to that, \$312.300 million was appropriated in Budget 2022 for the 2024/25 financial year. This means the total amount of approved RNIP funding for the next three-year period, 2024/25 – 2026/27, is ~\$750.6 million with the Crown’s contribution unfunded from 2026/27 (although we note that KiwiRail is working to an appropriated amount of ~\$740 million which means some of this funding may have been provided for purposes other than RNIP).
66. At present, the only funding source for RNIP from 2026/27 will be the \$20 million per annum from the NLTF. This is because the draft GPS proposes to reduce funding for the Rail activity class from ~\$120 million to ~\$20 million, so that road users are not cross-subsidising investment in rail.
67. We recommended that further work is undertaken to confirm the Government’s objectives for rail and desired levels of service, relative to other land transport priorities, before committing additional funding to the RNIP. As KiwiRail already has funding until 2026/27 (i.e., two years of forward certainty), we do not believe that urgent additional funding is required and recommend funding decisions are deferred until after further policy work is undertaken (i.e.. until Budget 2025).
68. KiwiRail has advised that two years of funding does not provide them sufficient certainty for their operations, meaning they cannot develop a “minimum credible” RNIP based on current funding commitments.

¹ The Treasury has not previously supported KiwiRail’s request to add funding for RNIP to its baseline for the full 10-year period, and has recommended funding to support three years forward certainty. This is because there are choices for Ministers about the level of service they want from rail and we do not want committed funding to predetermine any such choices. Further, baselining funding would present a significant call on operating allowances.

69. KiwiRail has prepared a draft RNIP 2024 – 2027 that requires ^[33] the next three years to support a ‘safe, resilient and reliable’ national network. It has also prepared several scenarios,
- a. ^[33]
 - b.
 - c.
70. If no additional funding is provided, either through the Crown or increased funding in the rail activity class in the NLTF, Scenario 3 above is the most likely given approved funding ^[33] over the next three years.
71. KiwiRail has advised that without additional funding, it may be possible to defer decisions ^[33] so that additional funding can be considered at Budget 2025; however, at this stage, it cannot confirm that it would not have to immediately start ^[33] in light of the reduced funding from the NLTF.
72. If you consider that it is critical to provide additional funding now, we recommend you provide up to \$200m operating funding through Budget 2024. \$200 million over two years would compensate for the NLTF shortfall in revenue over that timeframe and should enable a credible minimum RNIP to be issued for 2024-27 (bringing total funding to around \$1 billion, or closer to Scenario 2).
73. If Ministers decide to provide additional funding from the Budget operating allowance, there would be a positive impact on the operating balance before gains and losses, compared to the Treasury’s preliminary fiscal forecasts but a negative impact on the operating allowance. This is because the forecasts assume that the funding gap (between what KiwiRail can meet off their own balance sheet and the amount committed by the Crown) is funded from Crown revenue. This approach is taken because the Crown sets the funding expectations in the RNIP, which is a 10-year programme, but can choose to not fund them or fund at a lower level.
74. If you choose to commit funding now, we do not have certainty of what investments KiwiRail would prioritise with that funding, i.e. it is not clear what the Crown is purchasing. ^[33]
75. We note this does not provide funding to the level requested by KiwiRail, who state this increases the risk of acute service level failure, but the Treasury position is that this risk is manageable.

Fiscal treatment for new funding and alternative options to the operating allowance

76. Any new funding committed at Budget 2024 should be managed against the operating allowance, consistent with the treatment in the past. Funding from the capital allowance via a capital injection or a loan would not change the current operating expenses forecast from the RNIP. Alternative options include funding from the NLTF or an equity injection. The funding source would still be operating, and fiscal impacts will depend on the total operating expenditure from NZTA that has been funded from revenue (FED and RUC), vs Crown grants and loans.
77. The Treasury does not recommend providing funding as a loan to KiwiRail at this time. We have substantive concerns with the financial viability of KiwiRail and this has been exacerbated by its recent decision-making with respect to project iReX. ^[34]

These risks outweigh any benefits to using a loan and we would instead recommend using operating allowance funding or the NLTF, if you wished to provide additional funding.

[37]

Next steps

80. You will communicate your decisions to Budget Ministers at your meeting on 10 April. Following this meeting, Treasury will reflect Budget Ministers decisions in the 2024 Budget package.