

The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2017/161

SH-11-5-6



Date: 7 February 2017

To: Minister of Finance
(Hon Steven Joyce)
Minister supporting Greater Christchurch Regeneration
(Hon Gerry Brownlee)
Minister for Economic Development, Transport and Communications
(Hon Simon Bridges)
Minister for Social Housing
(Hon Amy Adams)
Minister of Local Government
(Hon Anne Tolley)
Minister for Primary Industries
(Hon Nathan Guy)
Minister for Building and Construction & Environment
(Hon Dr Nick Smith)
Minister of Energy and Resources
(Hon Judith Collins)
Minister for Land Information
(Hon Mark Mitchell)

Deadline: None

Aide Memoire: Business Growth Agenda Budget 2017 infrastructure

Purpose

This Aide Memoire supports the discussion amongst BGA Infrastructure Ministers on the relative priority of Budget 2017 initiatives that relate to the Infrastructure workstream.

The Treasury assessments focus on the merits of the initiatives, and their alignment with the BGA 2017 Refresh priorities. Our assessments are informed by the supporting information that has been provided by agencies, including cost benefit templates. Our advice also reflects the assessment of selected BGA budget initiatives by the BGA Peer Review Process.¹

Once each of the Business Growth Agenda (BGA) Ministerial groups has discussed the initiatives relevant to their sectors, Ministers Joyce and Bridges will consider options for prioritised packages across the BGA to fit into the available allowance, with advice from the BGA Leadership Group.

Context

Budget 2017 is building on a number of positive changes that were introduced in Budget 2016 to ensure greater scrutiny is applied consistently across all investment decisions. There has been a shift in focus towards better use of evidence to support decision making, enforcing greater transparency around cost drivers, and agencies developing a deeper understanding of their business and customers.

¹ The selected initiatives which were assessed by the Peer Review Process are marked in Annex I

These positive changes include the enforcement of cost benefit analysis and broader application of CBAX, greater use of expert panels, and more transparency around future costs and benefits. Embedding these changes will help drive value for money investment across the system.

The operating allowance for Budget 2017 is set at \$1.5 billion per annum. BGA-related initiatives are valued at approximately [33]

Thirty Year Infrastructure Plan

Infrastructure has been identified as an area of focus for the Government. The Thirty Year New Zealand Infrastructure Plan ('the Plan') sets out a framework for addressing our future infrastructure needs.

The Plan states that New Zealand has broadly good infrastructure. However, we face challenges which will mean over the next 30 years, we must deliver the right levels of service, better manage assets, leverage the use of data and get the incentives and policy settings right so that infrastructure providers have a wide range of tools at their disposal. The infrastructure stream initiatives touch on many of these themes.

There are also initiatives which are giving effect to previous decisions, such as the City Rail Link and the urban development priorities.

BGA refresh priorities – infrastructure

The infrastructure stream initiatives touch on many of these themes outlined in the Plan. The significant focus on strengthening the management and development of urban infrastructure aims to relieve pressure on our infrastructure pinchpoints and to get the incentives and settings right for decision-makers. The remaining initiatives, which largely relate to social and regional infrastructure, are about delivering the appropriate levels of service as the needs in our regions change.

The particular focus in the Budget package on 'strengthening the management and development of urban infrastructure' and 'building resilience into our system' is also a reflection of recent BGA and wider government priorities.

Other BGA infrastructure themes have seen significant investment in recent years. These include 'Delivering the Roads of National Significance and strengthening our regional state highway linkages', 'Contributing to the rebuild of greater Christchurch' and 'Fast and dependable communications'. We have also in recent times committed to a 'Global infrastructure market place' through our investment in the Global Infrastructure Hub and Australia New Zealand Infrastructure Pipelines.

The Budget 2017 infrastructure initiatives have been placed into the following BGA refresh priority areas:

Strengthen the management and development of urban infrastructure

[33]

Treasury supports the initiatives associated with the previously announced Housing Infrastructure Fund (HIF). These initiatives are for the concessionary charge associated with the \$1 billion interest free loan, the funding of an Independent Assessment Panel which will provide recommendations to Ministers on final proposals, and for the funding of a HIF unit within MBIE to monitor the Fund.

MBIE has submitted a number of initiatives relating to housing. These include initiatives to increase the supply of land available for housing, and to implement the Government's urban development priorities.

The pipeline of projects indicates that MBIE will be able to spend the amount of funding sought for the Auckland Crown Land Programme. The pipeline also confirms that funding needs to be made available so that negotiations can begin.

We intend to seek more information regarding an evaluation of the programme to date – given the significance of funding and the intended contribution to the Government’s objective to increase housing supply in Auckland.

MBIE and MfE have also applied for funding to implement the Government’s urban development priorities, [33] to support councils in implementing the requirements of the National Policy Statement Urban Development Capacity, [33]

Treasury supports [33]

the National Policy Statement on Urban

Development Capacity. [33]

[33]

[33] [40]

Build resilience into the system

Following the Kaikōura earthquake and its impact on Wellington, DPMC was asked to lead a project to assess the key risks to Wellington’s resilience in the face of a major earthquake.

[33]

At this stage, we are recommending to commit to up to \$2000.1 million in capex under this theme.

The largest initiative is the funding sought for the reinstatement of State Highway 1 and the railway line. [33]

Also in the infrastructure stream are initiatives that relate for lifting Wellington’s resilience with respect to [33] water, [33]

Other related initiatives include:

- Funding for three waters, enhanced council statutory tasks and responsibilities, Kaikōura Harbour enhancement, [33]
- Other initiatives including the Recovery Programme (well-being) support for affected schools and [33]

Other infrastructure, including social and regional infrastructure

[33]

Transport sector includes initiatives relating to the City Rail Link and maintenance of the Wellington Metro Rail. There needs to be a shift towards thinking more strategically about transport investment. The current transport package represents a number of previously agreed projects so there is limited amount of discretion for Ministers within this.

Discussion points for Workstream Ministers

Overall, Budget initiatives in the infrastructure workstream are focussed on delivering initiatives that meet the immediate challenges that New Zealand's infrastructure faces within the longer-term framework set by the Thirty Year Infrastructure Plan.

[33] of the Budget allowance and given the pressures from other sectors, it is clear that choices will have to be made.

We suggest you consider:

- how things align with budget and infrastructure priorities
- whether there is evidence that current funding levels are inadequate
- the evidence of effectiveness, especially where you have competing options, and
- whether Ministers agree with the themes for which funding is being sought, or should other themes also be prioritised.

Rob Addison, Senior Analyst, National Infrastructure Unit, [39]

Sebastian Doelle, Analyst, Economic Performance & Strategy (Policy), [39]

David Taylor, Manager, National Infrastructure Unit, [39]

ANNEX 1 – BGA INFRASTRUCTURE BUDGET INITIATIVES

Outcome	Initiative	Initiative Description	Pre-commitments	Treasury Advice	Financial Analysis				
					OPEX 17/18	OPEX 18/19	OPEX 19/20	OPEX 20/21	CAPEX
Strengthen the management and development of urban infrastructure	Housing Infrastructure Fund	This funding will meet the cost of the concessionary charge as a result of providing interest free loan funding to councils, and enable MBIE to administer the HIF, through an Independent Assessment Panel and dedicated HIF unit within MBIE		<p>Concessionary charge: Support in full as a contingency</p> <p>Departmental operating: Support in full</p> <p>This initiative will enable decisions that have been made by Cabinet on the funding mechanism and governance arrangements of the HIF to be implemented. We recommend the concessionary charge be sought as a contingency. As timing is highly uncertain, we have still not received final bids from Councils, and recommendations by the Panel and decisions by Ministers will not be made until after Budget. This could impact how many bids receive funding from the HIF, and when, and therefore what the concessionary charge would be. We recommend that the operating funding for the Panel and HIF unit be fully funded, however if decisions are made to phase or scale the fund differently, these costs could increase in out years.</p>	[33]	\$1	\$0.5	\$0.5	-
						\$1	\$0.5	\$0.5	-
	Auckland Vacant or Underutilised Crown Land Programme	This initiative seeks a further \$100 million of capital to help increase the supply of land available for housing in Auckland through the Auckland Vacant or Underutilised Crown Land Programme. It also seeks a further \$2m of administrative costs over four		<p>Support in Full</p> <p>This initiative will enable the Auckland Vacant or Underutilised Crown Land Programme to continue with the purchase of Crown Land in Auckland for development. The operating costs sought are reasonable given the size of the programme now, compared to when it was first</p>	<p>Sought: \$0.5</p> <p>TSY Rec: \$0.5</p>	\$0.5	\$0.5	\$0.5	\$100

Outcome	Initiative	Initiative Description	Pre-commitments	Treasury Advice	Financial Analysis				
					OPEX 17/18	OPEX 18/19	OPEX 19/20	OPEX 20/21	CAPEX
		years		established. The \$100 million capital sought also seems reasonable given the pipeline for 2017/18 outlined below, and [40]					
	Implementing the Government's urban development priorities	[33] (ii) Implementation of the National Policy Statement on Urban Development Capacity; [33]		Partial Support The Treasury supports [33] projects within the initiative [33] - and the National Policy Statement on Urban Development Capacity). [33]	[33]				
Fast and dependable communications	[33] [40]							-	

Outcome	Initiative	Initiative Description	Pre-commitments	Treasury Advice	Financial Analysis				
					OPEX 17/18	OPEX 18/19	OPEX 19/20	OPEX 20/21	CAPEX
	[33]							-	-
Building resilience into our system	Reinstatement of SH1 and the main rail line post Kaikoura earthquake	This funding is for the reinstatement of SH1 and the main rail line following the Kaikoura earthquake	In December 2016, Cabinet agreed to fund the roading costs of the SH1 reinstatement and, in principle, agreed to fund the rail costs to reinstate the main truck line	Support – Minister of Finance and Minister of Transport to report back to Cabinet with updated cost estimates in March 2017	-	-	-	-	Sought: \$1400 – 2000.1
					-	-	-	-	TSY rec: \$1400 – 2000.1
	[33]		-	[33]	[33]				
					TSY Rec: TBC				
					[33]	-	-	-	-
					TSY Rec:				

Outcome	Initiative	Initiative Description	Pre-commitments	Treasury Advice	Financial Analysis				
					OPEX 17/18	OPEX 18/19	OPEX 19/20	OPEX 20/21	CAPEX
					TBC				
Other infrastructure, including social and regional infrastructure	KiwiRail: Support for the freight business	This funding will provide ongoing support to KiwiRail with the aim of sustaining the freight business in New Zealand.	-	Yet to be assessed	Sought:	-	-	-	[33]
					-				TSY Rec: TBC
	[33]		-	[33]	Sought:	[33]			-
					\$0.184	[33]			-
Auckland City Rail Link	This funding is for the Crown's capital contribution to the Auckland City Rail Link project	Cabinet has agreed to fund 50% of the capital costs for the City Rail Link project		Support – project team to report back to Cabinet with updated cost estimates for the project in March-April 2017	Sought:	-	-	-	\$1700
					-	-	-	-	TSY Rec: \$1700

Outcome	Initiative	Initiative Description	Pre-commitments	Treasury Advice	Financial Analysis					
					OPEX 17/18	OPEX 18/19	OPEX 19/20	OPEX 20/21	CAPEX	
	Ministry of Transport: Capacity and Capability	This funding is to increase the Ministry of Transport's capacity and capability by 30 FTE's by 2020/21	-	Yet to be assessed	Sought: [33]	[33]				-
					TSY Rec: TBC					
	[33]									
	Wellington Metro Rail	The funding is for the replacement of 1,274 Crown owned timber poles and overhead wires that provide power for the electric passenger trains on the Wellington metro rail network.	Cabinet previously agreed to the Wellington Metro-Rail package to bring the Wellington metro-rail network to a steady state, this funding is to complete this work.	Support	-	-	-	-	Sought: \$98.4	
					-	-	-	-	TSY Rec: \$98.4	

Outcome	Initiative	Initiative Description	Pre-commitments	Treasury Advice	Financial Analysis				
					OPEX 17/18	OPEX 18/19	OPEX 19/20	OPEX 20/21	CAPEX

[33]

ANNEX 2 – ASSESSMENT OF VALUE FOR MONEY AND STRATEGIC ALIGNMENT

