

Treasury Report: Vote Finance Budget Bilateral Update

Date:	9 March 2007	Treasury Priority:	Medium
Security Level:		Report No:	T2007/300

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	read the attached briefing and use it as the basis for making decisions in your bilateral on Vote Finance Budget initiatives	before the Vote Finance bilateral, which is yet to be scheduled
Associate Minister of Finance (Hon Trevor Mallard)	read the attached briefing and use it as the basis for making decisions in your bilateral on Vote Finance Budget initiatives	before the Vote Finance bilateral, which is yet to be scheduled

Contact for Telephone Discussion (if required)

[information deleted in order to protect the privacy of natural persons, including deceased people]

Enclosure: No

Treasury Report: Vote Finance Budget Bilateral Update

This paper provides a briefing for the Vote Finance bilateral to be held between yourself and Hon Trevor Mallard as Acting Minister of Finance. The time and date of the bilateral is yet to be scheduled.

Where the Minister of Finance is also the Vote Minister, Cabinet Office Guidelines (CO (02) 17) require the Associate Minister(s) of Finance to take on the role of Finance Minister.

There are three Vote Finance initiatives for discussion in the bilateral (other Vote Finance initiatives are being considered through the Economic Transformation theme):

- Ontrack Debt and Equity Funding;
- Greater Wellington Regional Council (GWRC) Loan; and
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

This report updates information provided in T2007/189 "Vote Finance Budget 2007 Initiatives". Specifically:

GWRC Loan

- The initiative now seeks to provide an \$18.0 million loan, an increase from \$15.2 million (T2007/197 refers);
- The impact of the loan has been split between the operating (\$8.850 million) and capital (\$9.150 million) allocations. Previously we had advised that the full amount of the loan would impact on the capital allocation; and
- The expected benefits of providing the loan have been revised, based on new information provided by GWRC.

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Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral on Vote Finance Budget initiatives.

Bill Moran

Manager, State Sector Management
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Hon Trevor Mallard
Associate Minister of Finance

Recommendations

A Ontrack Debt and Equity Funding

further analysis p. 6

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Capital</i>					
Funding sought	0	104.550	0	0	0
Treasury assessment	0	104.550	0	0	0
<i>Increase in Capital Contingency</i>					
Funding sought	0	20.000	0	0	0
Treasury assessment	0	20.000	0	0	0

Treasury **supports** this initiative, which seeks to make capital available to Ontrack for 2007/08 only. The funding largely covers contractual obligations the Crown has under the National Rail Access Agreement (NRAA), and should be at a level sufficient to prevent service delivery failure. Under the NRAA, Toll is supposed to fund this capital spending on the rail network over time via track access charges. If this occurs then the capital funding would be recovered from Toll over a 30-40 year period, and would therefore be fiscally neutral for the Government over that time frame.

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

B Greater Wellington Regional Council Loan

further analysis p. 7

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Capital</i>					
Funding sought	0	9.150	0	0	0
Treasury assessment	0	0	0	0	0
<i>Operating ('Other' allocation)</i>					
Funding sought	0	8.850	0	0	0
Treasury assessment	0	0	0	0	0

This initiative seeks an \$18.0 million extension to a previously approved loan facility for the GWRC to allow an upgrade the capacity of passenger rail services in the Wellington region.

Treasury **does not support** this proposal. We do not consider that this initiative is a priority for the current Budget, given fiscal constraints.

If you do wish to fund this initiative, we suggest providing a loan of \$4.0 million. Options for scaling are shown in the table below, and are discussed further on page 7:

Options for scaling	Funding Required	Additional peak-time seats	Cost per seat
'English Electric'	\$4.0 m	500	\$8,000
'SW Express and Locos'	\$14.0 m	400	\$35,000
Both (total initiative)	\$18.0 m	900	\$20,000

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

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Analysis of initiatives

Ontrack Debt and Equity Funding (recommendation A)

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Capital</i>					
Funding sought	0	104.550	0	0	0
Treasury assessment	0	104.550	0	0	0
<i>Increase in Capital Contingency</i>					
Funding sought	0	20.000	0	0	0
Treasury assessment	0	20.000	0	0	0

1. This initiative seeks to make capital available to Ontrack for 2007/08 only. The funding largely covers contractual obligations the Crown has under the NRAA, and should be at a level sufficient to prevent service delivery failure. Under the NRAA, Toll is supposed to fund this capital spending on the rail network over time via track access charges. If this occurs then the capital funding would be recovered from Toll over a 30-40 year period, and would therefore be fiscally neutral for the Government. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
2. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
3. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
4. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Greater Wellington Regional Council Loan (recommendation B)

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Capital</i>					
Funding sought	0	9.150	0	0	0
Treasury assessment	0	0	0	0	0
<i>Operating ('Other' allocation)</i>					
Funding sought	0	8.850	0	0	0
Treasury assessment	0	0	0	0	0

5. This initiative seeks an \$18.0 million increase to the previously approved loan facility for GWRC to enhance passenger capacity on the Wellington urban rail system. Treasury does not consider the initiative represents value for money given the current fiscal constraints.
6. GWRC are responsible for regional passenger transport and already receive significant funding support from the Crown for this. Therefore, we consider GWRC should progress the upgrade from their own funds, and/or apply for Crown funding support via Land Transport NZ.
7. If Ministers do wish to fund this initiative, we suggest providing a loan of \$4.0 million. This would cover the two 'English Electric' options proposed by GWRC. The 'English Electric' options provide an additional 500 peak-time seats at a cost of \$8,000 per seat, and according to GWRC can be implemented from late 2007.
8. The other \$14.0 million is for the 'SW Express and Locos' option. Based on GWRC's figures this adds 400 peak-time seats, at a cost of \$35,000 per seat, and cannot be implemented until late 2008 at the earliest. Therefore this option appears to be of considerably lower value than the two 'English Electric' options.
9. These options are summarised in the table below:

Options for scaling	Funding Required	Additional peak-time seats	Cost per seat
"English Electric" (2 options)	\$4.0 m	500	\$8,000
"SW Express and Locos"	\$14.0 m	400	\$35,000
Both (total initiative)	\$18.0 m	900	\$20,000

10. Treasury previously advised that this initiative would solely be funded through the capital allocation. However, due to the implications of the roll out of New Zealand equivalents to International Financial Reporting Standards (NZ-IFRS) in 2007/08, some of the \$18.0 million will be counted against operating – either through a theme or the 'Other' allocation. This occurs because the loan is interest free, and NZ-IFRS requires the amount of the loan to be written down to fair value.
11. A \$4.0 million loan would have a capital impact of \$2.033 million and an operating impact of \$1.967 million.
12. Treasury recommends that, should Ministers agree to fund this initiative, the associated operating component should come from the 'Other' allocation (despite Vote Finance sitting within the Economic Transformation theme). A decision on operating in the 'Other' allocation is able to be made in the bilateral, and it is very late in the theme

process to be submitting a new initiative. The 'Other' allocation is already expected to be overspent by between \$45.4 million (Treasury recommendations) and \$208.8 million (department recommendations) in 2007/08.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]