The Treasury

Budget 2020 Information Release

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[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

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[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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[26] 9(2)(ba)(i) - 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 to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[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;

[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

[42] 18(d) - information is already publicly available or will be publicly available soon.

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Reference: T2019/3114 MC-1-5-2 (Fiscal strategy)

Date: 4 October 2019

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)

Fiscal strategy advice: capital spending

This aide memoire responds to your request for a list of the initiatives that could be announced at the Budget Policy Statement (BPS) in December, and funded through an increase in the multiyear capital allowance.

These options include:

- Short-term projects included in our previous advice (options 1 to 3).
- Long-term transport projects currently included in the National Land Transport Programme (option 4).
- Capital projects we expect agencies to bid for in the next four Budgets (option 5).

The options are summarised below. Further detail on each option is provided in the Annex.

Options 1 to 3 are discrete policies specifically developed to be quickly announced and implemented. School property funding (option 1) and District Health Board asset renewal (option 2) could be announced in December and implemented within a relatively short time frame. We recommend option 3 (public estate decarbonisation) is delivered through options 1 and 2, rather than in isolation.

Option 4 includes a long-list of potential transport projects currently included in the National Land Transport Programme to which Crown funding could be allocated. You will receive separate advice today from the National Infrastructure Unit, which discusses risks you should note if you wish to fund any transport projects listed under option 4.

Option 5 includes capital projects we expect agencies to bid for funding for in the next four Budgets, and capital bids unfunded at Budget 2019. We have excluded small projects where the amount of capital requested is less than $5 million. The majority of future capital bids will not be suitable for announcement in December, due to not being implementation ready, or not having yet prepared a business case to justify funding.

However, we are providing the full list of options for your information. Aside from those considered at Budget 2019, we have not undertaken any analysis of these options.

The remainder of this aide memoire describes the recommended approach to funding these projects from the multiyear capital allowance.

You will also receive further advice on the tax, welfare and operational spending options early next week.

Increasing the multiyear capital allowance

We previously advised that you consider an increase in the multiyear capital allowance of between $10 and $15 billion if you wish to signal a high level of capital spending to agencies. This would bring total capital investment to between $14.4 and $19.4 billion over the next four Budgets.

s9(2)(f)(iv)

A large increase supports one of the purposes of the multiyear capital allowance to signal the amount of new capital spending available over four years, to enable agencies to plan for the longer term. Any commitments made in the Budget Policy Statement or Budget 2020 to new capital projects should leave enough unallocated funding to meet future capital pressures. **Consequently, any increase in the allowance should not be allocated in full at the Budget Policy Statement.**

At minimum, we would suggest leaving an unallocated multiyear capital allowance of $10 to $12 billion after any commitments made at BPS s9(2)(f)(iv) This would be similar to the proportion of capital bids funded at Budget 2019. Leaving the MYCA at its current level of $4.4 billion would be insufficient to meet the future capital demands.

You should also note that the estimates of future demand are highly uncertain, particularly beyond Budget 2020. Not all agencies have good long term investment pipelines, and medium to long term capital demands will likely rise in future as a result. That may support setting the capital allowance at a higher level. Conversely, limitations in agency capability or economic capacity may constrain levels of capital spending, which may support setting a lower level of capital allowance.

We will provide further advice on the recommended size of the capital allowance in our fiscal strategy advice of 30 October. In the meantime, we recommend that the capital initiatives you fund still leave a large enough unallocated allowance to fund a significant proportion of the capital initiatives likely to be funded over the next four Budgets.

Angus Hawkins, Senior Analyst, Macroeconomic and Fiscal Policy, s9(2)(k)
Renee Philip, Manager, Macroeconomic and Fiscal Policy, s9(2)(k)

Annex: detailed advice on proposed capital initiatives

Option 1: *School property funding - one-off/time-limited increase to Five Year Agreement (5YA) funding*

This would provide all schools with a one-off increase in their 5 Year Agreement funding to use in line with their current 10 Year Property Plans. The purpose of 5YA funding is to fund minor school capital upgrades (e.g. roofing repairs or replacements, extensions or repairs of existing buildings, landscaping or replacing coal burners). The amount of funding provided to schools could range anywhere from $30,000 to $350,000 per school depending on their size and age, leading to between $100 to $400 million total spending over the next two years.

5YA funding is ring-fenced and monitored, which provides parameters around the types of activities that can be funded. This funding is likely to provide spending distributed across the country, concentrated in areas with larger populations, and provide specific benefits to small, local businesses and trades.

Option 2: *District Health Board asset renewal*

Providing DHBs with an additional pool of targeted capital funding for minor asset and infrastructure renewal could be an effective option that provides relatively "shovel-ready" investment with a broad distribution across major urban and provincial centres. Given the current state of assets and infrastructure, we estimate that an investment of $200 million in 2020/21 could be managed from a procurement and delivery perspective by individual District Health Boards (DHBs) using mostly local or regional market capacity. This could be extended to a multi-year approach dependent on the fiscal position.

Once the National Asset Management Plan (NAMP) is completed in December 2019, there will be a common data set across the sector to better inform targeting at a national or local level. Based on the early findings of the NAMP, investment in site wide infrastructure (e.g., pipes, electrical systems, fire separation) will be a priority, to which we recommend funds are tied. This would reinforce the value of the NAMP within the sector and support the resilience of the system.

We recommend a proportional allocation based on facility asset values or population served rather than requiring individual business cases for each investment. This would recognize the variable scale of DHB asset bases and local DHB and market capacity. A clear signal at DHB-level of available funding in December would help mitigate the risk of delays in planning and procurement.

Ring-fencing of existing minor capital works expenditure or a co-investment model could be considered to ensure that business as usual funding is not diverted, thus reducing the impact of Crown investment. An appropriate reporting and monitoring pathway would be needed and early engagement with the Ministry of Health is recommended.

A residual risk of targeted site wide infrastructure investment would be how cost overruns would be addressed where DHBs do not have sufficient funds to complete projects due to costs exceeding project contingencies. This could result in impacts on the health capital envelope or additional deficit support requests, but could be managed through a programme-level contingency held by the Ministry.

Option 3: *Public estate decarbonisation*

We have consulted MBIE and the Energy Efficiency and Conservation Authority on the possibility of a state sector specific decarbonisation/energy efficiency fund to rapidly rollout projects which would reduce state sector carbon emissions. However, it appears that there is significant implementation complexity, and many of the opportunities for decarbonisation overlap with other options 1 and 2 above

The opportunities we investigated focussed on process heat (e.g. boilers and space heating), and energy efficiency measures (e.g. LED lighting, insulation, system efficiencies). However, these opportunities are typically situation specific and involve complex projects best advanced as part of each hospital or school's wider capital programme. (e.g. replacing a boiler in a hospital generally means also replacing piping, and is best done at the end of the assets' life).

These projects are also likely to be slow to rollout. Agencies estimated that from conception to completion, projects would take approximately 2 years and possibly longer if there were limitations on when the installation could happen (e.g. some of this work requires full or partial shutdowns which require planning). The best information to hand also indicated that the number of 'ready to go' business cases for process heat replacements in the public sector is limited.

On balance we do not recommend advancing work on a separate fund as part of a spending package. If you wish to support decarbonisation you could indicate to Minister of Education and Minister of Health that they should encourage the sensible prioritisation of efficiency and decarbonisation projects as part of their wider capital investment programmes.

Option 4: *Major transport projects*

Project	NZTA Benefit Cost Ratio	Cost Range ($m)	Estimated time to construction start	Estimated cost in forecast period ($m)	Estimated future cost ($m)
Third Rail - Wiri to Quay Park Rail Corridor Improvements	3	278 - 352	12 months	281	12
Papakura to Pukekohe electrification (including electrification of 3rd & 4th Rail)	2.2 - 3.8	328 - 414	12 months	328	18
s9(2)(f)(iv)					

s9(2)(f)(iv)					
Mill Road full proposal (stage 1, 2 &3 and Drury south Interchange)	1.2	1,197 – 1,512	5 years plus	14	1,246
Papakura to Bombay stage 1 (Papakura to Drury including interchange) northern section	3.7	374 - 472	12 months	332	62
SH1/SH29 intersection up grade (stand alone project)	2.1	58 - 74	24 months	62	-
s9(2)(f)(iv)					
Tauranga Northern Link	2	422 - 534	12 months	262	183
TNL to Omokoroa - off line including Omokoroa Intersection	1.2	402 - 508	3 years minimum	305	119
Otaki to North of Levin	1.4	722 - 912	4 years plus	38	722
SH58 Safety Improvements – Stage 2	2.5	52 - 66	18 months	55	0
Melling	1.3	228 - 288	36 months	139	101
Penlink	< 3	363 - 459	24-36 months	90	293
s9(2)(f)(iv)					
Whangarei to Port Marsden	1.1	611 - 772	24 months	199	445
s9(2)(f)(iv)					
Queenstown package	1.5	72 - 91.8	24 months	57	19
s9(2)(f)(iv)					
Canterbury package	1.7	101 - 128.6	18 + months	48	59

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