The Treasury

Budget 2020 Information Release

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[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

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Reference: T2019/3192 MC-1-5-2 (Fiscal strategy)

Date: 10 October 2019

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)

Summary table: capital spending package options

This report responds to your office's request for the capital spending options outlined in our advice of T2019/3114 to be presented in a form that can be shared with Budget Ministers.

The attached table summarises our previous advice with a brief description of each option, the estimated cost, and the Treasury's appraisal of each option.

The options in the table are limited to those your office have advised us you wish to consider further. This includes:

- Schools property funding
- DHB asset renewal
- Public estate decarbonisation
- Transport projects
- Expected agency capital bids over the next four years, excluding those which are poorly suited to the macroeconomic objectives of this package.

Following your office's advice, we have not included any housing options in the attached table. We understand that the Ministry for Housing and Urban Development will be providing a separate list of potential projects to your office.

We recommend you note, as described in our previous advice (T2019/3114), that outside this spending package, an increase to the multi-year capital allowance is likely to be required to fund capital pressures over the next four years.

Angus Hawkins, Senior Analyst, Macroeconomic and Fiscal Policy, s9(2)(k)
Ben Gaukrodger, Acting Manager, Macroeconomic and Fiscal Policy, s9(2)(k)

Summary table: capital expenditure options

Below is a summary table of shortlisted capital expenditure options. These have primarily been selected as they are:

- Likely to provide support to domestic economic activity and confidence in the medium to long term.
- Initiatives that align with the Government's objectives, and would likely be positive investments in any macroeconomic environment.
- In most cases, identified projects or funding mechanisms that could be announced at the Budget Policy Statement in December with minimal further policy work. This will not be the case for many of the longer term agency capital bids summarised in the final option that lists expected agency capital bids.

We have not given particular priority to initiatives that can spend or be delivered in short timeframes. In the current macroeconomic environment short-term support for demand is better provided through tax and welfare policy changes, as ongoing capacity constraints in the construction sector are likely to prevent rapid delivery of any major capital projects. We recommend a focus on medium to long term confidence by identifying a forward pipeline of high value projects.

Option	Description	Estimated capital cost ($m)	Implementation timeframe	Treasury Appraisal
School property funding	**One-off/time-limited increase to Five Year Agreement (5YA) capital 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. **Alternatively, the Ministry of Education could deliver a capital upgrades programme to school property through national/regional contract(s) with commercial service providers**. All schools would also receive funding through this option, however the Ministry would have more control to deliver targeted investment, focusing on upgrades that will deliver the greatest improvement to the assets. The amount of funding invested in schools would vary between schools as in the 5YA option; however, this option is likely to deliver some price efficiencies through contract negotiation. Additional departmental funding, in excess of what would be required for the 5YA option, would be needed for the Ministry of Education to establish, manage and monitor the contract(s) and delivery of works.	Between $100m and $400m plus departmental operating funding (both options are highly scalable)	**5YA option:** 2019/20 financial year onwards. **Ministry-delivered option:** 2020/21-22 financial years onwards.	Directly funding schools through an increase to 5YA funding will ensure expenditure happens quickly and nationwide. Delivery of this funding in the short term may be constrained by capacity in the construction sector, although this risk is reduced by the distributed and small scale nature of the option. The Ministry would be able to set criteria and help target and focus spending under this option, it could not dictate exactly what a school should prioritise. To prioritise value for money and investment control, we recommend a Ministry-delivered capital upgrades model, as this option would provide more targeted investment to improve the quality of the school property estate while also creating a more sustainable and efficient model that removes some of the compliance and administration cost off schools. However, establishing this programme could take between 12-18 months, and expenditure would not happen until the following 12-24 months.
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 if scaled proportionally. In the context of DHB baseline investment ($337 million PPE expenditure in FY17/18), $200 million would provide a material uplift in resourcing for asset renewal in the sector. This could be extended to a	Up to $200m per annum	2020/21 financial year onwards.	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. Under this approach a large DHB (ie Waitemata, or Canterbury DHB) would receive approximately $20 million, whereas a small DHB (ie West Coast or Tairawhiti DHB) would receive approximately $2 million. 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

Option	Description	Estimated capital cost ($m)	Implementation timeframe	Treasury Appraisal
	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.			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.
Public estate decarbonisation	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).	Approximately $45m at a minimum. Undetermined mixture of capital and operating.	2020/21 financial year onwards.	Further work needs to be done in developing this proposal, and is better considered at Budget 2020 alongside other opportunities for emissions reduction. These projects will involve significant implementation complexity and are likely to be slow to rollout. Agencies estimated that from conception to completion, projects would take approximately 2 years and possibly longer. 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. To support emissions reductions in this package we recommend the Ministries of Education and Health to encourage the efficiency and decarbonisation projects where practicable, as part of their wider capital investment programmes (see options above).
Major Transport Projects	This list of major transport projects was prepared by the New Zealand Transport Agency at the request of Minister Twyford in anticipation of advice on the fiscal strategy. It is primarily focussed on roading projects that are sufficiently advanced in planning and design that they could be progressed if funding were available. At Minister Twyford's request, it also includes a number of projects at the top of the list focussed on unlocking urban development in Auckland. We note that a number of the rail projects were intended to be funded out of the Transitional Rail activity class established by the Government Policy Statement on Land Transport 2018. However, due to cost escalation, we understand that not all of these projects will be able to be			We recommend you indicate which projects you would like officials to investigate further for delivery using Crown funding. In the first instance, we suggest limiting it to those projects which could be implemented within 12 months with the highest benefit cost ratios. Directing Crown funding to projects in the National Land Transport Programme also risks undermining the fiscal discipline imposed by the National Land Transport Fund. You have received advice on this, which we recommend you consider before funding any of the projects below.

Option	Description	Estimated capital cost ($m)	Implementation timeframe	Treasury Appraisal
	funded from the National Land Transport Fund. The implementation timeframes represent the NZTA's earliest estimate of when construction could begin while maintaining good procurement practice. There are likely to be issues specific to each project that would need to be resolved before the project could be implemented, and many would require detailed business cases before construction could begin.			
	Queenstown RTI Programme	25	immediate	
	Third Rail - Wiri to Quay Park Rail Corridor Improvements	278 - 352	12 months	Benefit cost ratio of 3.
	Papakura to Pukekohe electrification (including electrification of 3rd & 4th Rail)	328 - 414	12 months	Benefit cost ratio of 2.2 - 3.8.
	s9(2)(f)(iv)			
	Tauranga Northern Link	422 - 534	12 months	Benefit cost ratio of 2.
	s9(2)(f)(iv)			
	Canterbury package	101 - 128.6	18 + months	Benefit cost ratio of 1.7.
	SH58 Safety Improvements – Stage 2	52 - 66	18 months	Benefit cost ratio of 2.5.
	s9(2)(f)(iv)			
	Queenstown package	611 - 772	24 months	Benefit cost ratio of 1.5.
	Whangarei to Port Marsden	72 - 91.8	24 months	Benefit cost ratio of 1.1.
	Penlink	363 - 459	24-36 months	Benefit cost ratio of < 3.
	TNL to Omokoroa - off line including Omokoroa Intersection	402 - 508	3 years minimum	Benefit cost ratio of 1.2.
	s9(2)(f)(iv)			
	Rail improvements- Drury Rail station development (2 stations & including P&R and K&R)	1,111 – 1,404	36 months	
	Melling	488 - 616	36 months	Benefit cost ratio of 1.3.

Option	Description	Estimated capital cost ($m)	Implementation timeframe	Treasury Appraisal
	SH1 Cambridge to Piarere Long term (including SH1/SH29 intersection upgrade)	228 - 288	36 months	Benefit cost ratio of 0.9.
	s9(2)(f)(iv) [redacted]			
	Otaki to North of Levin	722 - 912	4 years plus	Benefit cost ratio of 1.4.
	Mill Road full proposal (stage 1, 2 &3 and Drury south Interchange)	1,197 – 1,512	5 years plus	Benefit cost ratio of 1.2.
Expected agency capital bids	The options below are either (1) capital bids unfunded at Budget 2019, or (2) agency capital investment intentions we are aware of over the next four Budgets. These capital intentions are as of October 2018, and for the largest sectors - Defence, Transport, Health and the Education – as of February 2019. Capital intentions may have changed since then, as requirements may no longer be relevant or may have been deferred, or			In most cases information on these initiatives is limited. We have not investigated whether these projects could be made announcement ready by December. We have also not provided (with the exception of unfunded Budget 2019 initiatives) any appraisal of the value of these initiatives.

s9(2)(f)(iv) [redacted]

s9(2)(f)(iv)

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