

The Treasury

Budget 2022 Information Release

August 2022

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- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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- [36] 9(2)(h) - to maintain legal professional privilege
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- [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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Treasury Report: Budget 2022 Investment Pipeline

Date:	23 September 2021	Report No:	T2021/2406
		File Number:	ST-4-8-4-11-5-2022

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Agree the next steps for the Investment Panel's provision of advice on investment initiatives through the Budget process.</p> <p>Refer to the Associate Ministers of Finance and other Ministers as required for their information.</p>	Thursday 30 September 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Aaron Matthews	Head of Stewardship and Governance [39]	[35]	✓
Craig Murphy	Manager, Investment Management and Asset Performance (IMAP)		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget 2022 Investment Pipeline

Executive Summary

This report provides an Investment Pipeline to support your consideration of invitations into Budget 22. We are scheduled to meet with you on 30 September to discuss this report and the Investment Management System.

As agreed [T2021/465 refers], this report leverages the Investment Panel (*formerly called the Capital Panel*) to provide you a “readiness for an investment decision” assessment of the investments seeking funding through the Budget process (the Investment Pipeline).

The Investment Panel provides useful insights from key Investment Management System leaders, including representatives from Te Waihanga (New Zealand Infrastructure Commission), Digital Public Service Branch (DPSB), Government Chief Data Steward (GCDS), and New Zealand Government Procurement (NZGP). The Investment Panel will be expanded to include the Ministry for the Environment (MfE) to assess initiatives as part of Budget 22.

The Investment Panel reviewed 46 Significant Investments seeking \$3,441 million in capital funding in Budget 22 (19 investments have not indicated a value). Significant Investments are investments that are over \$25 million and are medium or high risk. Those investments have been categorised by their readiness for an investment decision into 3 groups:

1. **Ready to proceed:** 10 investments totalling \$891 million in capital are ready for consideration in Budget 22,
2. **In planning:** 23 investments totalling \$1,950 million in capital (8 investments have not indicated a value) could be considered in Budget 22, however the Investment Panel has identified risks that would need to be addressed as part of the investment decision, and
3. **Insufficient information:** 13 investments totalling \$600 million in capital (11 investments have not indicated a value) have not engaged the Investment Management System. Therefore, the Investment Panel has insufficient information to form a view on their readiness for consideration in Budget 22.

The Treasury will provide you with advice in early October on initiative invitations to inform Budget Ministers’ decision-making meeting in mid-October. To support the Budget process, the Investment Panel will then:

1. update the Investment Pipeline report to account for any additional investments invited into the budget process by 25 October
2. report back to you with an overview of the Investment Panel’s assessment framework for Budget 22 by 25 November, and
3. report back to you with the Investment Panel’s assessment of the attractiveness and achievability of Significant Investments submitted to Budget 22 in late January/early February. In addition, as part of that advice, the Investment Panel will identify conditions and actions to strengthen delivery confidence.

The Investment Pipeline data establishes the foundation for reporting on investment delivery. We will now provide you with the Investment Pipeline quarterly. In addition, we will be working with Investment Management System Leaders to provide you with delivery reporting for investments approved through the Budget process.

Recommended Action

We recommend that you:

- a **note** that of the 46 Significant Investments seeking \$3,441 million in capital funding in Budget 22 that were reviewed by the Investment Panel:
 - i. 10 investments totalling \$891 million are ready for consideration in Budget 22
 - ii. 23 investments totalling \$1,950 million could be considered in Budget 22, however the Investment Panel has identified risks that would need to be addressed as part of the investment decision, and
 - iii. 13 investments have not engaged with the Investment Management System. Therefore, the Investment Panel has insufficient information to form a view on their readiness for consideration in Budget 22.

- b **agree** the Investment Panel update the Investment Pipeline report to account for any additional investments invited into the Budget process.

Agreed/Not agreed

Minister of Finance

- c **agree** the Investment Panel report back to you with an overview of its assessment framework for Budget 22.

Agreed/Not agreed

Minister of Finance

- d **agree** the Investment Panel, in their January 2022 assessment of Budget 22 initiatives, provide advice on further assurance activities to enhance delivery confidence.

Agreed/Not agreed

Minister of Finance

- e **Refer** to the Associate Ministers of Finance and other Ministers as required for their information.

Refer/not referred.

Minister of Finance

Craig Murphy

Manager, Investment Management and Asset Performance (IMAP)

Hon Grant Robertson

Minister of Finance

Treasury Report: Budget 2022 Investment Pipeline

Purpose of Report

1. This report provides an Investment Pipeline to support your consideration of invitations into Budget 22. It responds to your request following the Budget 2021 Capital Panel advice [T2021/465 refers] to improve the investment pipeline and performance visibility.
2. This year the Investment Panel (*formally the Capital Panel*) is providing its advice in two stages:
 - readiness for an investment decision to be made in Budget 22 (this report), and
 - an attractiveness and achievability assessment to support an investment decision (late January/February 22).
3. This report is set out in four sections:
 - **Context:** The Capital Panel's finding from Budget 21, delivery challenges, and the timeline for the invitation process.
 - **Investment Pipeline Overview:** The development of the Investment Pipeline, and the Investment Panel's review of the Investment Pipeline.
 - **Investment Pipeline Analysis:** The Investment Panel's assessment of the Investment Pipeline.
 - **Next steps.**
4. We are scheduled to meet with you on 30 September to discuss this report and the Investment Management System.

Context

Budget process and delivery performance

5. The Budget process provides a check on the progression of investments from planning to delivery. The funding decision provides Ministers with the opportunity to consider the relative attractiveness, achievability, and affordability of investments.
6. During Budget 21, the Capital Panel [T2021/465 refers] observed:
 - the investment pipeline supplied by agencies was unreliable – \$7.8 billion in initiatives were expected for Budget 21, however \$13.2 billion was submitted
 - over half of the Initiatives submitted were not “investment-ready” – 17 of the 30 Initiatives reviewed by the Capital Panel had not completed a business case, and
 - investment performance was variable with agencies not delivering investments as and when they expect to.
7. The demand for capital funding is increasing. Even with the invitation process limiting the total number of initiatives considered and the NZUP / CRRF processes, the total demand for capital funding was \$13.2 billion in Budget 21 (\$13.1 billion in Budget 20).
8. To ensure that the Budget process enhances delivery performance, the visibility and quality of initiatives needs to increase. You directed us to work with other Investment Management System Leads to improve the investment pipeline and visibility of investment delivery. This report responds to that request.

Investment delivery challenge

9. The importance of ensuring investments are well prepared before funding them is being reinforced by delays and cost increases in delivery. A common cause is insufficient planning through the business case process, often compounded by a failure to leverage external assurance (even though this is required of high-risk investments). Investments without these critical foundations start behind, and struggle to recover lost time.
10. The situation has been exacerbated by the impact of COVID. The Investment Panel are seeing a trend of growing costs and delays across investments. Te Waihangā (New Zealand Infrastructure Commission) has observed between a 5 and 20 per cent cost increase in infrastructure projects. One survey indicated that 57 per cent of construction firms are expecting to pass on significant cost increases to clients. Cost escalations for in-flight projects may trigger requests for additional funding in this and later budget rounds. For planned investments, the greater degree of uncertainty will require more robust planning and a higher degree of assurance to provide cost confidence.
11. Workforce constraints are a significant factor for both infrastructure and digital investments. Market capacity constraints were also identified by Investment Management System Leads as a national issue, however the severity differed regionally. As noted above, the impact of COVID has heightened these challenges and consequently the uncertainty faced by some investments. Even well-planned investments may be crowded out by the demands of other investments and activity.

Budget process

12. As with Budget 21, an invitation process is being employed to enable early prioritisation of initiatives for consideration. The timeline for the invitation process is:
 - 23 September – Letters from Portfolio Ministers are due.
 - Early October – Treasury provides Budget Ministers with advice on Budget 22 invitations.
 - Mid October – Budget Ministers determine the initiatives that will be invited for consideration through Budget 22.
 - 10 December – agencies are to submit initiatives.
 - Late January / Early February – the Investment Panel's assessment of the attractiveness and achievability of initiatives submitted to Budget 22.

Investment Pipeline Overview

The Development of the Investment Pipeline

13. To improve visibility of requests for funding in the Budget process, we have undertaken a data collection and verification exercise with agencies to develop an Investment Pipeline from information held by the Treasury. This has captured investments that are medium or high risk, greater than \$25 million (Significant Investments) and expected to seek funding in Budget 22 or the subsequent two Budget processes (the Investment Pipeline).
14. Thirty-two agencies were contacted to update their pipeline and have it verified as correct by the agency's Chief Executive. We received updated information from 21 agencies.

15. The focus for the pipeline data set is a small core set of information generated from the formal requirements of the Investment Management System:
 - **Submission of a Risk Profile Assessment (RPA):** This process determines the level of complexity of the investment and the extent of assurance required from Investment Management System Leaders.
 - **Approved Indicative Business Case (IBC):** This milestone, consideration of the long list and selection of a preferred option, is evidence that the investment planning is progressing and has been confirmed with Ministers.
 - **Approved Detailed Business Case (DBC):** A signed off DBC illustrates that the investment is approved by Ministers to go to market and is therefore ready to seek funding through the Budget process.
16. Not all investments seeking funding through the Budget process will have been captured in this first iteration of the Investment Pipeline. Some agencies have signalled ongoing work to define what will be submitted to the budget process. For example, Defence has undertaken a review of their investment plan and is planning to present options to Ministers – so the data that it has provided may change.
17. The Investment Pipeline, therefore, should be accepted as indicative. We expect this will improve over time as agencies develop a routine of regular Investment Management System engagement and reporting on plans and progress.

The Investment Panel Review

18. To provide further insight into the readiness of the identified investments, Treasury presented the data to, and sought comment from, the Investment Management System Leaders represented on the Investment Panel.
19. The Investment Panel is led by the Treasury and includes representatives from Investment Management System roles critical to government investment, including: Te Waihanga, the Digital Public Service (DPS), Government Chief Data Steward (GCDS), and New Zealand Government Procurement (NZGP).
20. The Investment Panel's members were asked to advise for each of the identified investments if:
 - they had been advised of the investment
 - an appropriate level of engagement and assurance had been provided, and
 - any risk factors were identified.
21. In addition, the Investment Panel was asked to identify any capacity constraints that could affect consideration of the investments.

Investment Pipeline Analysis

Budget 22: Investment Readiness for Invitation

22. The Investment Panel assessed 46 Significant Investments seeking capital funding of \$3,441 million in Budget 22. The assessment determined that there were three categories of investments in terms of readiness for an invitation into the budget process:

- **Ready to Proceed:** The investment has, or will have before Budget 22 decisions are made, a signed-off DBC and the required engagement with Investment Management System Leaders has been conducted.

As outlined in Table One, 10 investments totalling \$891 million in capital were defined as 'ready to proceed' (see Annex A).

Table One: Ready to Proceed

Vote	Investment	Capital Value (\$m)
[37]		
Total		891.175

- **In Planning:** The investment requires the completion and approval of the DBC, additional assurance, and/or faces agency or market capacity constraints. The investment could be invited to Budget 22, however, we recommend that the investment decision addresses the identified risks to position it for success.

A total of 23 investments were classified as 'in planning': 15 were seeking capital funding of \$1,950 million; 8 have not provided the amount of funding they would be requesting (see Annex B).

- **Insufficient Information:** The Investment has not engaged the Investment Management System. Therefore, the Investment Panel has insufficient information to form a view on their readiness for consideration in Budget 22. The investment should undertake the engagement and planning activity required before being considered through the budget process.

A total of 13 investments were classified as "insufficient information": 2 were seeking capital funding of [33] 11 have not provided the amount of funding they would be requesting (see Annex C).

Other investments signalled

23. The Investment Pipeline analysis has focussed on Significant Investments. However, the data collection also captured 25 investments (\$394 million) that agencies have assessed as below the Significant Investments threshold and will be seeking capital funding in Budget 22 (see Annex D). This includes \$318 million of investments from Defence.

Three-year Investment Pipeline

24. In total, agencies have indicated 116 investments will be seeking \$9.047 billion of new capital funding over the next three budget years. As outlined in Table Two, most investments are seeking funding through Budget 22. In part, this reflects the limited planning horizon or capacity of some agencies. Additional investments will emerge for Budgets 23 and 24.

Table Two: Investment pipeline for next three budgets

	Budget 22	Budget 23	Budget 24	Total
Number of investments	71	39	37	116*
Capital Value (\$m)	3,836	2,044	3,168	9,047

*Note that the total count of investments is more than the sum of the three years, as some agencies have signalled funding for an initiative in more than one budget year. In addition, 27 have not provided a value for the investment.

Next steps

25. Following the decisions by Budget Ministers on the initiatives to be invited for Budget consideration, we propose the following next steps for the Investment Panel:
- by 25 October, update the Investment Pipeline report to account for any additional investments invited into the Budget process,
 - by 25 November, report back to you with an overview of the Investment Panel's assessment framework for Significant Investments, and
 - in late January/early February, report back to you with the Investment Panel's assessment of the attractiveness and achievability of initiatives submitted to Budget 22. As part of that advice, the Investment Panel will identify conditions and any actions necessary to strengthen delivery confidence.
26. The Investment Pipeline provided as part of this report establishes the foundation for the development of reporting on investment delivery performance. We will now provide you with the Investment Pipeline quarterly to keep you updated on the progress of investments through the planning phase. In addition, we will be working with Investment Management System Leaders to provide you with delivery reporting that tracks the performance of the investments approved through the Budget process (from June 22).

Annex A: Ready to Proceed

Vote	Investment Title	Business Case	Capability/capacity Constraint		System Leader Engagement	Capital Value (\$)	Investment Type	Region
			Market	Agency				
[37]								
Total						891,175,396		

¹ If a capital budget bid is submitted, Defence will only be seeking opex funding for phase 2.

Annex B: In Planning

Vote	Investment Name	Business Case	Capacity Constraint		System Leader Engagement	Capital Value (\$)	Investment Type	Region
			Market	Agency				
Building & Construction	MIQ Capital	Not scheduled before budget decision	Project is dynamic and evolving fast		InfraCom	[33]	Infrastructure	National
Corrections	Network Modernisation/Modern Prisons	Not scheduled before budget decision	Resourcing is an issue across digital market	No known constraints	GCDO		Digital	National
	Critical Infrastructure - 3 Waters	Scheduled	Current market capacity is constrained	No known constraints	InfraCom		Infrastructure	National
Courts	Tauranga Moana Courthouse	Not scheduled before budget decision	Current market capacity is constrained	No known constraints	InfraCom		Infrastructure	Tauranga
Defence	NZDF Housing (Scenario 2) (B22)	Not scheduled before budget decision	Current market capacity is constrained	No known constraints	Treasury		Infrastructure	National
	Ohakea infrastructure Programme	Not scheduled before budget decision	Current market capacity is constrained	No known constraints	Treasury		Infrastructure	Manawatu
Education	Digital Identity for Online Learning	Scheduled	Resourcing is an issue across digital market	No known constraints	GCDO		Digital	National
Finance	Stockton Mine - Acid Mine Drainage Rehabilitation	Not scheduled before budget decision	Possible workforce constraints	No known constraints	InfraCom		Infrastructure	West Coast
Health	Southern DHB digital programme	Scheduled	Resourcing is an issue across digital market	No known constraints	GCDO		Digital	Southland
	BreastScreen Aotearoa (BSA) IT infrastructure upgrade	Scheduled	Resourcing is an issue across digital market	Resourcing constraints	GCDO		Digital	National
	Hira (Health Information Platform)	Scheduled	Resourcing is an issue across digital market	Resourcing constraints	GCDO	Digital	National	
	National Immunisation Register replacement	Not scheduled before budget decision	Resourcing is an issue across digital market	Resourcing constraints	GCDO	Digital	National	

Vote	Investment Name	Business Case	Capacity Constraint		System Leader Engagement	Capital Value (\$)	Investment Type	Region
			Market	Agency				
Health	Health Sector Agreements and Payments Transformation	Not scheduled before budget decision	Resourcing is an issue across digital market	Resourcing constraints	GCDO	[33]	Digital	National
	Whangarei Hospital redevelopment	Not scheduled before budget decision	Workforce constraints	No known constraints	InfraCom		Infrastructure	Northland
	Air Ambulance Co-design (w ACC)	Not scheduled before budget decision	No known constraints	No known constraints	Treasury		Change	National
	Nelson Hospital Redevelopment	Not scheduled before budget decision	Probable workforce constraints	No known constraints	InfraCom		Infrastructure	Nelson
Justice	Caseflow Management	Not scheduled before budget decision	Resourcing is an issue across digital market	No known constraints	GCDO		Digital	National
Oranga Tamariki	Data Warehouse (Te Haoroa)	Scheduled	Resourcing is an issue across digital market	Resourcing	GCDO		Digital	National
	Technology Transformation to Enable Better Professional Practice	Scheduled	Resourcing is an issue across digital market	Resourcing	GCDO		Digital	National
Police	Hamilton Police Hub & Custodial Unit	Not scheduled before budget decision	Current market capacity is constrained	No known constraints	InfraCom		Infrastructure	Waikato
	Arms Safety & Control	Not scheduled before budget decision	No known constraints	No known constraints	Treasury	Change	National	
Social Dev.	Corporate Platform Horizon 1	Not scheduled before budget decision	Resourcing is an issue across digital market	Resourcing constraints	GCDO	Digital	National	
Transport	Auckland Light Rail (CC2M)	Not scheduled before budget decision	Yes – capability	Yes – capability	InfraCom	Infrastructure	Auckland	
Total						1,950,257,000		

Annex C: Insufficient Information

Vote	Investment Name	Capital Value (\$)	Investment Type	Region
Conservation	3 Waters Infrastructure	TBA	Infrastructure	National
	Whakapapa Infrastructure	TBA	Infrastructure	Manawatu-Whanganui
Education	Christchurch Schools Rebuild Programme (close programme)	TBA	Infrastructure	Canterbury
	Digital Strategy Implementation	TBA	Digital	National
	Education Administration Systems to support the transformation of ESA	TBA	Digital	National
	TBA National Education Growth Plan (NEGP) School Property requirements	[33]	Infrastructure	National
	National Schools Redevelopment Programme (NSRP) School Property requirements		Infrastructure	National
	Property Information Systems Transformation	TBA	Digital	National
	School Transport System Transformation	TBA	Digital	National
	Upgrade or replacement of schools payroll system	TBA	Digital	National
Police	CAD (Computer-Aided-Dispatch) Replacement	TBA	Digital	National
	Custody Enhancement Programme	TBA	Infrastructure	National
	Replacement of Tasers (New energy system)	TBA	Other	National
Total		[33]		

Annex D: Investments not assessed by Investment Panel

Vote	Investment Name	Capital Value (\$)
Defence Force	[1]	[33]
Education	Equity Index Implementation	
Health	PICU/ICU Child Health Expansion (Starship)	
	Adult Mental Health Facility - Tranche 1	
	SCBU and Upgrade of Maternity Facilities	
	Surgical Procedural Interventional Recovery Expansion (SPIRE) Programme	
	Critical Works - Package 2 (Capacity & Compliance)	
	Kaitaia Hospital	
	Refurbishment of Child & Maternity Facilities	
	Rural Primary Birthing Unit in Central Otago	
	Mason Clinic Tanekaha Replacement	
	Waitakere Hospital - ICU Investment	
	Buller	
MHIP Grey Base Mental Health Unit		
Internal Affairs	BDMRRA	
	Foundations for Digital Wellbeing (Phase 1)	
Total		394,380,000