

The Treasury

Budget 2023 Information Release

July 2023

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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
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Treasury Report: Quarterly Investment Reporting September 2022

Date:	3 November 2022	Report No:	T2022/2199
		File Number:	ST-4-8-2-1-7-2-M89560

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Direct the Treasury to draft letters to portfolio Ministers outlining the September quarterly investment reporting results and foreshadow the December collection.</p> <p>Refer the report to the Associate Ministers of Finance.</p>	14 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Hamish Journeaux	Senior Analyst, Investment Management System [39]	[35]	
Erana Sitterlé	Head of Investment Management Policy, Investment Management System		✓
Craig Murphy	Manager, Investment Management System		

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: Quarterly Investment Reporting September 2022

Executive Summary

The September quarterly investment reporting indicates that the capital investment pipeline remains front-loaded to Budget 2023 and 2024 (approximately \$20 billion – of which approximately \$6.4 billion has been invited to Budget 2023). There is a need to smooth the pipeline to better match market and agency capacity and capability as well as an opportunity to signal a growing pipeline to sustainably increase agency and market capacity, including new market participants. Your decisions through the Budget 2023 process will provide signals to agencies on the need to smooth the pipeline.

Cost escalations across delivery remain a key theme, with the total value of reported cost escalations increasing from \$1.8 billion to \$2.8 billion – approximately 5.6% of the value of the investments in delivery. We consider this still underestimates the actual total value of cost escalations across the portfolio. We will provide more advice to your office on cost escalation by 10 November 2022.

We have a Finance Priorities Meeting with you on 7 December 2022. We would like to discuss further steps to improve investment planning, to support you to prioritise, sequence and develop the capital investment pipeline to better deliver the outcomes you are seeking from Government investment – including sustainably increasing agency and market capacity.

Recommended Actions

We recommend that you:

- a **direct** the Treasury to draft letters for your signature to portfolio Ministers outlining the key themes from the September quarterly capital investment reporting returns

Agreed/disagree.

- b **discuss** with the Minister of Defence whether his 10 upcoming Cabinet requests for approval for capital investment, most of which have not been invited to Budget 2023, should be deferred, or paused

- c **note** that the Treasury will provide advice on further steps to support you to prioritise, sequence and develop the capital investment pipeline to discuss with you at the Finance Priorities Meeting on 7 December 2022

- d **refer** this report to the Associate Ministers of Finance (Hon Dr Megan Woods, Hon David Parker, and Hon Kiritapu Allan)

Refer/not referred.

Craig Murphy
Manager, Investment Management System

Hon Grant Robertson
Minister of Finance

_____/_____/_____

Treasury Report: Quarterly Investment Reporting September 2022

Purpose of Report

1. This report provides you with system-level insights from September 2022 quarterly investment reporting and asks you to direct the Treasury to write letters for your signature to portfolio Ministers to share these insights.
2. It also notes that we would like to discuss, at the Finance Priorities Meeting (FPM) on 7 December 2022, how we can improve investment planning to support you to prioritise, sequence and develop the capital investment pipeline. We will provide you with further advice ahead of that meeting.

Background

3. In June's quarterly investment report, we advised you that [T2022/1548 refers]:
 - a capacity constraints within the economy are contributing to inflationary pressure and cost escalations within the Government's capital investment portfolio
 - b total planned capital investment and the proposed timeline of this pipeline is beyond current agency and market capacity and capability, and
 - c Cabinet stage-gates are a good way to prioritise and sequence decisions to develop a pipeline of investment proposals that are deliverable and better align with your priorities.
4. Based on June's quarterly investment report, you have made decisions about invitations into the:
 - a significant capital investments track of Budget 2023 [T2022/1594 refers]. We expect to provide you with the Investment Panel report in early December
 - b centralised cost escalation claims process [T2022/1595 refers]. We expect to provide you with further advice on 10 November outlining funding and non-funding recommendations for the investments in the process, and
 - c new spending priorities track of Budget 2023 for capital initiatives [T2022/2246 refers].
5. Using the quarterly investment reporting data to support these processes has provided good incentives for agencies to provide more complete and accurate data returns.

Macroeconomic and fiscal context

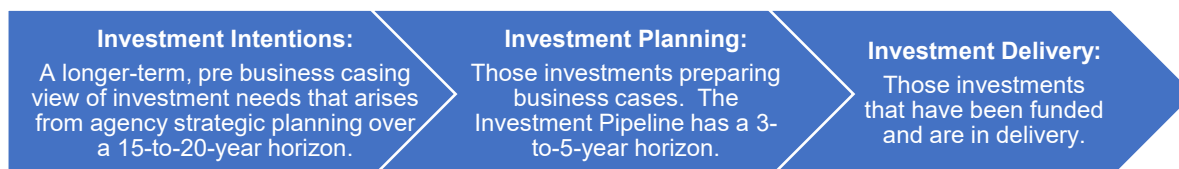
Robust demand and ongoing supply constraints continue to drive inflation and require prudent fiscal management by the Government to meet its fiscal goals.

6. We recently provided you with advice about the preliminary HYEFU economic and tax forecasts [T2022/2191 refers], which highlighted a deterioration in the global outlook combined with resilient demand and ongoing supply constraints driving inflationary pressure.

- Year end results for 2021/22 illustrate that agencies have been unable to deliver on a significant amount of appropriated capital funding, which may reflect growing capacity constraints in the economy. As we have advised, this would suggest a need to carefully sequence Budget allocations to ensure Government priorities are delivered.

Key insights from this quarter's data

- Below we set out key insights from September quarterly investment reporting in terms of the following three phases of the investment lifecycle:



- To maintain Ministerial engagement in the process, we recommend that you direct us to draft letters for your signature to portfolio Ministers sharing these key insights and commission the December quarterly investment reporting. You may wish to just focus on the investment-intensive agencies.
- We have also provided an overview, set out in Annex One, of the investment-intensive agencies with the largest portfolios (New Zealand Defence Force/Ministry of Defence; Waka Kotahi; Ministry of Education; Kāinga Ora; Te Whatu Ora).

*We are developing a picture of longer-term capital **investment intentions***

- The quality and completeness of the information we are receiving from agencies is improving, which means we can provide you with increasingly meaningful insights and advice. This quarter we started collecting information from agencies on capital investment intentions – pre-business casing investments. This will provide you with a longer-term view of capital investment intentions that arise from agency strategic planning over a 15-to-20-year horizon. So far, 10 agencies have submitted the information, summarised in Table One below. We will continue to build a better understanding of the long-term capital investment needs over the next two quarters, including the forecast value.
- Of the 65 capital investments intentions reported, 17 are significant transport infrastructure investments. We will continue to work with Waka Kotahi and Kāinga Ora to develop a more complete picture of the transport and urban development investment intentions and pipeline.

Table One: Investment intentions (number)

Investment type	Total	2023-24	2025-29	2030-34	2035+
Infrastructure	42	11	18	8	5
Data and Digital	6	5	1	-	-
Specialist equipment	14	1	6	7	-
Organisational change	3	1	1	1	-
Total	65	18	26	16	5

*The **investment planning** pipeline remains front-loaded*

- The majority (80 percent) of capital investment proposals seeking Crown funding seek it from Budget 2023 and Budget 2024.
- As we outlined in the June quarterly investment reporting advice, there remains a need to smooth the investment pipeline to better match, and grow, agency and market capacity and capability [T2022/1548 refers]. Since the June results, we have seen

some planning timelines extend out to reflect the reality of the market conditions, but this only appears to be at the margins. There continues to be a need to sequence investments to better reflect current levels of market and agency capacity and capability, and to build a growing pipeline.

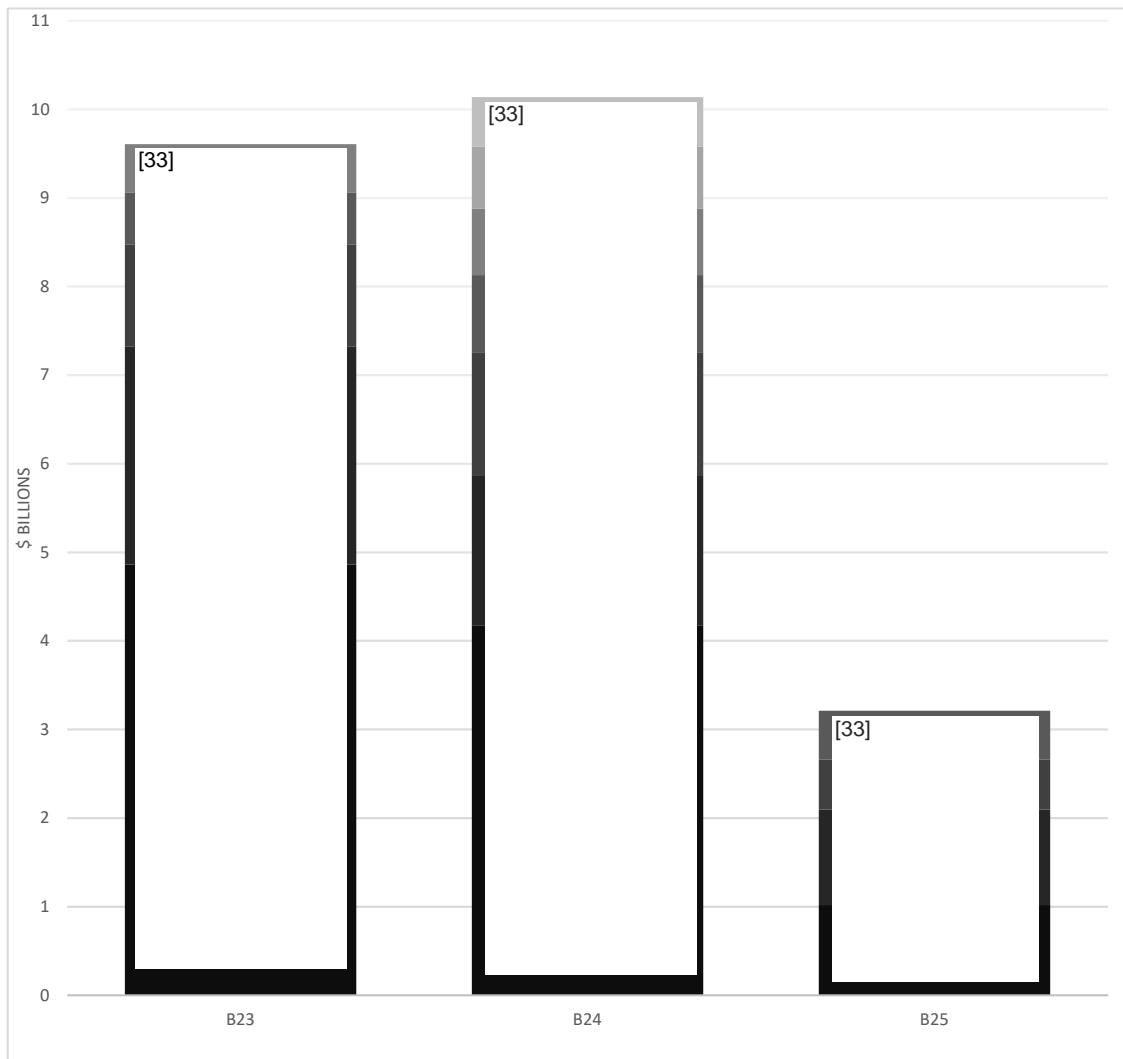
15. 21 agencies reported a total of 137 significant (high and medium risk) investments in planning as at 30 September 2022 (including both projects and some large programmes). This represents 22 fewer investments than 30 June 2022, of which 10 were reprioritised and 12 transitioned to delivery during the quarter.
16. We recommend you treat the reported value of investments in planning with a high level of caution as cost estimates early in planning are based on a very low level of design, and are subject to change right up until a contract for delivery is awarded.

Table Two: Investments in planning (funding sought by Budget year)

Investment type	Total in planning		B23				B24		B25		B26+	
			Requested		Invited		No	\$b	No.	\$b	No.	\$b
	No	\$b	No	\$b	No	\$b						
Infrastructure	77	13.7	19	6.2	[33]		23	4.9	3	1.0	2	0.4
Data and Digital	32	1.8	13	1.2			8	0.4	1	0.1	1	0.1
Specialist equipment	17	7.0	6	1.0			6	4.2	4	1.7	-	-
Organisational change	11	1.9	3	1.1			4	0.6	1	0.1	-	-
Total	137	24.4	41	9.6			41	10.1	9	3.2	3	0.4

17. The \$3.2 billion of capital investments that have not been confirmed for invitation largely comprise Defence investments [33] and the outyears funding sought for the Rail Network Investment Programme [33]
18. In addition to the significant investments invited into Budget 2023, as referenced in Table Two above, Budget Ministers have agreed to invite 12 low risk investment initiatives seeking funding of approximately \$1.5 billion.

Figure One: Investments in planning (Budget sought by Budget year)



19. Figure 1 sets out the total value of funding sought from the next three Budgets for medium and high-risk investments in planning. Low risk investments are excluded (these average approximately \$0.5 billion per Budget) as are investments funded outside the Budget process (e.g. Waka Kotahi, Kāinga Ora) and pre-Budget 23 Te Whatu Ora envelope funding. Auckland Light Rail (\$14.6b), Waitemata Crossing and Let's Get Wellington Moving (\$7.4b) are also excluded as the level of Crown funding sought is yet to be confirmed.

The reported value of cost escalations for investments in delivery has increased over 50%

20. The total value of capital investments experiencing cost escalations has increased from \$1.8b to \$2.8b from the June quarterly investment report (5.6 per cent of total value of investments in delivery). However, approximately 30 percent of investments, while reporting cost escalations, do not have a reported value. We therefore expect the actual total value of cost escalations to be much higher and become clearer in the coming quarters.
21. In addition to those investments reported with cost escalations from the June quarter, agencies are reporting a further eight investments experiencing cost escalations. The additional investments with cost escalations are all infrastructure investments. The total count and value of data and digital investments reporting cost escalations declined - the respective agencies have signalled they will reprioritise funding.

22. Reported cost escalations are largely driven by supply chain-related increased costs and delays and labour shortages. Our view is that some cost escalations are due to variable cost estimation practices during the investment planning process. We will provide further advice to your office on 10 November 2022 on the outcome of the cost escalation process and recommended funding and non-funding options.
23. As set out in Table Three, 21 agencies reported a total of 85 investments with approved budgets over \$50 million in delivery (i.e., post award of contract). Four investments have concluded delivery during the quarter and transitioned to benefit realisation – the fourth phase of the investment lifecycle. We will introduce reporting on these investment in 2023.

Table Three: Investments in delivery (>\$50m) summary

Investment type	Total		FY23		FY24		FY25		FY26	
	No	\$b	No	\$b	No	\$b	No	\$b	No	\$b
Infrastructure	54	38.7	5	0.8	10	1.8	13	10.0	5	1.1
Data and Digital	17	4.0	2	0.2	1	0.1	2	0.2	2	0.4
Specialist equipment	9	7.3	3	1.3			1	0.1	4	4.2
Organisational change	5	0.7	1	0.1	1	0.2	2	0.3		
Total	85	50.7	11	2.4	12	2.1	18	10.6	11	5.7

Supporting you to prioritise, sequence and develop the investment pipeline

Upcoming Cabinet decision points are an opportunity to prioritise and sequence investments to ensure investments align with your priorities and are deliverable.

24. Agencies have identified 27 investments with upcoming Cabinet approvals in the next quarter (to December 2022). To support prioritisation and sequencing decisions by Cabinet, we have categorised these by indicative level of flexibility, using the following approach implemented over previous quarterly investment reports:
- investments seeking Cabinet approval for the shortlist or preferred option (i.e., Indicative Business Case (IBC)) in the December 2022 quarter, and
 - investments seeking Cabinet approval of the detailed design for the preferred option (i.e., Detailed Business Case (DBC)) in the December 2022 quarter.
25. The results are in Table Four, with the detail of each investment set out in Annex Five. These are sorted by the year in which Budget funding will be sought, and whether the investment has been invited to Budget 2023 or not. We have also provided high level alignment assessment of whether the investment aligns with system strategies, the Government's wellbeing objectives or the Economic Plan.
26. 10 of the 27 investments are Defence investments, the majority of which, at the time of writing, you are still considering for invitation to Budget 2023. We recommend you discuss with the Minister of Defence whether these upcoming Cabinet approvals should be deferred or paused.

Table Four: Categorised investment proposals by flexibility to prioritise and/or sequence

Level of Flexibility	Upcoming Cabinet approvals (to Dec 22)
Least flexibility - the most difficult either to prioritise or sequence. (e.g., legal obligations; legislated timelines; already in delivery)	IBC (Shortlist/preferred option): None DBC (Detailed design/preferred option): 2
Limited flexibility - difficult to prioritise, however it may be possible to sequence. (e.g., delivery timeline announced)	IBC (Shortlist/preferred option): 2 DBC (Detailed design/preferred option): 15
Greatest flexibility greatest scope to consider both prioritisation and sequencing options. (e.g., in early planning)	IBC (Shortlist/preferred option): 8 DBC (Detailed design/preferred option): None

We would like to discuss further steps with you at FPM on 7 December 2022

27. We have a scheduled FPM on 7 December 2022, where we would like to discuss further steps to improve investment planning, to support you to prioritise, sequence and develop the Government's investment pipeline. We are currently considering the following areas on which we will provide further advice for you ahead of the FPM discussion:
- a Options for Cabinet to have earlier visibility, engagement and **prioritisation** of capital investment proposals before a significant amount of time and resource has been spent on planning and detailed design to ensure investments align with your priorities and are deliverable.
 - b Options to smooth and more actively **sequence** the capital investment planning pipeline. This could include funding the detailed planning phase for investment proposals that are highly aligned to Government priorities to signal early commitment. This will support better matching market and agency capacity and capability which provides the opportunity to signal a growing pipeline to sustainably increase agency and market capacity.
 - c Options to provide signals to agencies and the market of your priority areas and types on initiatives where you wish to see increased investment to further **develop** the capital investment pipeline. We are considering how you can leverage the strategies and plans developed by system leaders (including the Infrastructure strategy and associated Action Plan in response; Digital Strategy and roadmap; Data strategy and Data Investment Plan) to provide a starting point to identify key areas of investment.
28. Decisions you take through the Budget 2023 process will also provide an opportunity to signal to Ministers your intention to smooth the capital investment pipeline, to smooth the funding profile.

Next steps

29. Subject to your agreement, we will draft letters for your signature to portfolio Ministers sharing key insights from September quarterly capital investment reporting and foreshadow the December collection.
30. We will provide advice to your office on 10 November 2022 on the outcome of the cost escalation process and recommendations on funding and non-funding options.
31. We recommend you discuss with the Minister of Defence whether Defence's upcoming Cabinet requests for approval for capital investment, the majority of which, at the time of writing, you are still considering for invitation to Budget 2023, should be deferred, or paused. We are able to provide more information to support this discussion if you wish.
32. We will provide you with further advice ahead of FPM on 7 December 2022 on how we can improve investment planning to support you to prioritise, sequence and develop the Government's capital investment pipeline.

ANNEX ONE INVESTMENT INTENSIVE AGENCY OVERVIEW

Defence (New Zealand Defence Force and Ministry of Defence)

Number of investments in planning	Indicative value of investments in planning	Number of Cabinet decisions next 6 months (IBC & DBC)	Number of reported investments in delivery	Value of investments in delivery	Value of reported cost pressures
44	9,879.70	21	23	6,154.26	216.10

1. Rigorous prioritisation and better sequencing of the investment portfolio is critical for Defence. While the situation is affected by the agencies' more mature capital planning processes compared with other agencies resulting in visibility of plans, its planned investments comprise a large percentage of the funding sought through Budget 23 and Budget 24, and it is planning to bring a significant number of business cases to Cabinet for approval in the next six months.
2. The defence portfolio includes a number of investments that have requested but not received Budget funding over the previous few years. Apart from two investments invited into the Investment Panel process (Housing and ^[33]), no other investments have been confirmed for invitation to Budget 2023. This is likely to reduce the number of Cabinet decisions sought over the next six months. Part of defence's portfolio prioritisation should include discussion with the Minister of Defence about whether some of these previously unsuccessful investment proposals are stopped altogether rather than deferred, to free up internal resource for higher priority investments.

Waka Kotahi

Number of investments in planning	Indicative value of investments in planning	Number of Cabinet decisions next 6 months (IBC & DBC)	Number of reported investments in delivery	Value of investments in delivery	Value of reported cost pressures
5	\$10.5b	2	14	\$13.2b	\$1.5b

3. Waka Kotahi identified 18 investment investments as longer-term intentions, which includes various public transport and rapid transit investments in Auckland, Wellington and Christchurch. Given your agreement in principle that Mass Rapid Transit will not be funded through the National Land Transport Fund, we will continue to build a better picture of these investment intentions given there will likely be a need for Crown funding.
4. Waka Kotahi's investment portfolio is continuing to experience cost escalations, both across the New Zealand Upgrade Programme as well as the National Land Transport Programme.

Ministry of Education

Number of investments in planning	Indicative value of investments in planning	Number of Cabinet decisions next 6 months (IBC & DBC)	Number of reported investments in delivery	Value of investments in delivery	Value of reported cost pressures
16	\$8.2b	3	9	\$4.6b	< \$0.1b

5. The Treasury is continuing to have discussions with MoE about prioritisation and deliverability of their work programme including risk management and approach to cost escalations, given deliverability challenges across all of government more generally.

6. MoE shows evidence medium-term planning of its infrastructure needs in the form of large programmes of work such as the National Education Growth Programme. There is more deliverability risk for its data and digital investments, which is being evidenced through the cost escalation process.

Kāinga Ora

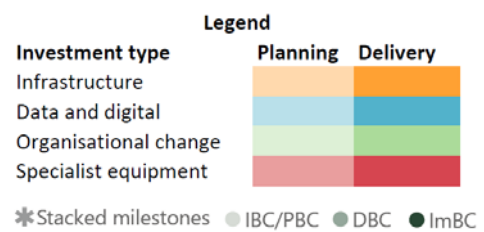
Number of investments in planning	Indicative value of investments in planning	Number of Cabinet decisions next 6 months (IBC & DBC)	Number of reported investments in delivery	Value of investments in delivery	Value of reported cost pressures
1	\$0.2b	0	4	\$5.5b	0

7. While no estimated value has been provided for cost pressures, all investments have commentary identifying increasing materials and labour costs as having an impact.
8. We are continuing to work with Kainga Ora to build a more complete picture of its investment portfolio.

Te Whatu Ora – Health New Zealand

Number of investments in planning	Indicative value of investments in planning	Number of Cabinet decisions next 6 months (IBC & DBC)	Number of reported investments in delivery	Value of investments in delivery	Value of reported cost pressures
31	\$1.2b	0	8	\$3.9b	\$0.2b

9. Te Whatu Ora is slowly developing a fuller picture of its investment portfolio as information is being consolidated centrally.
10. While Te Whatu Ora has reported \$200 million as the value of its cost escalations, this is the level of 'unfunded' escalations. The actual cost escalations are currently valued at \$641 million, \$460 million of which Te Whatu Ora is considering use of its ring-fenced contingency funding within the Health Capital Envelope.
11. Te Whatu Ora is providing a report back on cost escalations across its portfolio in early December, which will provide you with funding and non-funding options to address these pressures.



ANNEX TWO: OVERVIEW OF INVESTMENTS IN PLANNING AND DELIVERY BY INVESTMENT TYPE (Top 80% of investments by value, by investment type)

Infrastructure

Investment Name	Agency Name	Budget funding (\$m)	Delivery budget (\$m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Christchurch Schools Rebuild Programme (B22)	Ministry of Education		\$1,610.0				●								
City Rail Link	City Rail Link Limited		\$4,419.0												
Te Pae Christchurch Convention Centre	Ōtākaro Limited		\$421.9												
Investment to increase housing supply in Auckland	Kāinga Ora		\$4,811.0				*								
National Schools Rebuild Programme	Ministry of Education		\$1,052.0												
IREX	KiwiRail		\$1,450.0												
Drury Stations (DRS)	KiwiRail		\$495.0												
RNIP - Rail Network Investment Programme (first...	KiwiRail		\$1,632.7												
NZUP - Takitimu North Link stage 1	Waka Kotahi		\$655.0												
NZUP - Papakura to Drury	Waka Kotahi		\$655.0												
NZUP	Waka Kotahi		\$6,524.0												
New Dunedin Hospital	Te Whatu Ora		\$1,470.0			●									
NZUP - O Mahurangi (Penlink)	Waka Kotahi		\$830.0												
National Education Growth Plan (NEGP) School P...	Ministry of Education	[33]	\$1,584.3		●●										
Te Ara Tahī Tāhuhu - Regional Shared Repository ...	Department of Internal Affairs										●●				
Puhoi-Wellsford - 4 lane motorway (RONS) Puhoi...	Waka Kotahi		\$877.5												
NLTP 21-24	Waka Kotahi		\$3,482.0												
Nelson Hospital Redevelopment	Te Whatu Ora				●		●								
PPP schools expansions programme	Ministry of Education				●			●							
National Education Growth Plan (NEGP) School P...	Ministry of Education			*	●										
Plant Health and Environment Capability previou...	Ministry for Primary Industries					●	●								
National Education Growth Plan (NEGP) School P...	Ministry of Education			*	●										
Accommodation Messing and Dining Modernisat...	Defence Force							●●		●					
RNIP - Rail Network Investment Programme (last ...	KiwiRail														

Investment Name	Agency Name	Budget funding (\$m)	Delivery budget (\$m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
National Education Growth Plan (NEGP) School P...	Ministry of Education	[33]		*											
PNDS - Phase 2 - Christchurch Men's Prison (CM...	Department of Corrections														
NZ Battery Project	MBIE														
National Schools Redevelopment Programme (N...	Ministry of Education				*										
National Education Growth Plan (NEGP) School P...	Ministry of Education			*											

Data and digital

Investment Name	Agency Name	Budget funding (\$m)	Delivery budget (\$m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Education Resourcing System (ERS)	Ministry of Education		\$119.3												
Survey and Title Enhancement Programme (STEP)	LINZ		\$128.2												
2023 Census	Stats NZ		\$268.8												
Corporate Platform	Ministry of Social Development		\$126.3												
Te Ara Manaaki Phase II	Department of Internal Affairs		\$152.8												
Public Safety Network - Next Generation Critical ...	NZ Police		\$1,776.6												
Southern Positioning Augmentation Network (So...	LINZ		\$791.9												
Te What Ora - Hira/nHIP (National Health Inform...	Te Whatu Ora		\$146.0												
Southern Health System Digital Transformation	Te Whatu Ora	[33]													
Schools Payroll	Ministry of Education														
Health NZ Digital Programme(Cyber Security and...	Te Whatu Ora		\$230.0												
Emergency Communications Centre Transformati...	NZ Police														
[33]	Defence Force														
Cybersecurity and managed digital services for sc...	Ministry of Education														

Organisational change

Investment Name	Agency Name	Budget funding (\$m)	Delivery budget (\$m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
Arms Safety & Control	NZ Police	[33]	\$208.4												
Milford Opportunities Project (MOP)	Department of Conservation														
Establishment of a new social unemployment ins...	MBIE														
Te Pae Tawhiti Case (FY24 - FY26)	Ministry of Social Development														
Reconfiguration of the National Air Ambulance S...	Te Whatu Ora														

Specialist equipment

Investment Name	Agency Name	Budget funding (\$m)	Delivery budget (\$m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
Frigate Systems upgrade (FSU)	Defence Force		\$638.9												
Air Surveillance Maritime Patrol	Defence Force		\$2,471.2												
Rolling Stock	KiwiRail		\$1,699.6												
Future Air Mobility Capability	Defence Force	[33]	\$1,503.7												
Network Enabled Army Tranche 4 (Multi Role Batt...	Defence Force														
Future Air Mobility-Strategic	Defence Force														
Landing Platform Dock (additional sealift capabili...	Defence Force														
Southern Ocean Patrol Vessel	Defence Force														
Maritime Helicopter Replacement (FNH)	Defence Force														

ANNEX THREE SYSTEM LEADER COMMENTARY (WHERE PROVIDED)

Government Chief Digital Officer (GCDO)

1. The capacity of the workforce (both within government and suppliers) to deliver the volume of digital initiatives remains a challenge. Whereas the market could previously absorb multiple significant digital initiatives at once (for example an initiative such as the IR Business Transformation), it is no longer clear that it can or what the wider impact (and delivery risk) of doing so would be.
2. Pre-COVID New Zealand was already forecast to be entering a challenging period related to the capability of the digital workforce. The availability of specialist digital skills has subsequently become more problematic due to closed borders and agencies have consequently been competing for the same limited skills. New Zealand is also competing within a global shortage of talent and changing expectations from this workforce.
3. Cost escalations on digitally enabled investments have been consequently primarily driven by the digital workforce. This has led some agencies to offer higher salaries for permanent staff and become increasingly reliant upon a contingent digital workforce. In some cases, contractor rates have increased over the past 2-3 years by between 20-50% and suppliers have increased their prices by similar margins. There is anecdotal evidence of these higher rates incentivising skilled individuals to pursue contractor roles rather than lower paid permanent vacancies.
4. While effort to address workforce shortages will inevitably include attracting skilled migrants, attention is still required around building internal capacity and capability. This means actively building the talent pipeline through all means possible and for agencies, ongoing prioritisation of initiatives, and sharing scarce capability.

Government Chief Data Steward (GCDS)

5. The capacity of data-professional labour market remains tight. The supply of professional labour in New Zealand is significantly dependent on migration. At the 2018 Census, 46 per cent of all university graduates residing in New Zealand were born overseas.
6. Currently the supply of professional data labour remains constrained due to the closure of our international border during the COVID pandemic. The constrained supply is reflected in wage inflation, with the Labour Cost Index showing wage pressure of around 5 per cent for the year ended June 2022, which we expect to be consistent with the 'Professionals' occupation group. This group contains, among others, statisticians and data analysts.
7. Although the New Zealand border is open again, the situation is not likely to improve in the near future. Skilled New Zealanders are likely to be attracted to overseas positions through pent-up demand for overseas experience and higher wages. A return flow of foreign skilled labour to New Zealand will be constrained by relatively weak immigration-decision pull factors. Some supply relief for data and digital specialist labour may be found through some private sector agencies employing (where permitted) professional data labour working from remote (international) locations.
8. Projects that entail engagement with iwi-Māori are likely to be constrained by the very tight supply of iwi-Māori data expert experts. This is affecting both the aspirations of iwi-Māori to exercise more influence on Crown projects, and on the agencies to get the assistance they need to partner with Iwi-Māori.

Government Chief Information Officer (GCISO)

9. The information security workforce remains a tight in New Zealand, in line with broader shortages in the technology sector.
10. The cost escalation issues noted above by the GCDO and GCDS also affect cyber security. As a more niche area of digital the impacts are acute, particularly with respect to salaries and competition for capability across government. The pressures for the public sector workforce are shaped by broader pressures in this workforce. There are gaps at all levels, with particular challenges in recruiting people at the entry level – there is an urgent need to build a sustainable domestic talent pipeline to serve both the public sector workforce and cyber security roles in the broader economy.
11. Adding to the challenges in retaining staff is the fact that security roles are often in high-stress environments – with teams under-staffed and often under pressure. The sector is experiencing several shifts in terms of how people are coming into the workforce and the types of qualifications and experiences sought. There is an increasing focus on on-the-job learning, and increasing demand for short, sharp qualifications, such as micro-credentials to ensure an educational offering which is responsive to a dynamic and changing threat environment.

**ANNEX FIVE
INVESTMENT PRIORITISATION AND SEQUENCING FLEXIBILITY (IBC & DBC APPROVALS SOUGHT IN THE DECEMBER 2022 QUARTER)**

Level of flexibility	Agency Name	Investment Name	Investment Type	RPA Risk Rating	Funding from	Year in which Budget	IBC/DBC	Vote team or System leader alignment rating (where available)
Greatest	Department of Corrections	Modern Prisons (Digital) - Tranche 1	Data and Digital	High	[33]		IBC	Aligned with the intent of the Strategy for a Digital Public Service.
	Department of Corrections	PNDS - Phase 2 - Christchurch Men's Prison (CMP) - IBC	Infrastructure	High			IBC	Somewhat aligned to wellbeing objectives
	Defence Force	Enterprise Productivity	Data and Digital	High			IBC	Not aligned to wellbeing objectives or Economic Plan, but some potential alignment with Strategy for a Digital Public Service.
	Defence Force	Information Management Programme (Org enhancement) (B21)	Data and Digital	High			IBC	Not aligned to wellbeing objectives or Economic Plan, but some potential alignment with Strategy for a Digital Public Service.
	Defence Force	Accommodation Messing and Dining Modernisation - Linton Pilot	Infrastructure	High			IBC	
	Department of Corrections	PNDS - Phase 2 - Christchurch Men's Prison (CMP) - DBC	Infrastructure	High			IBC	
	Defence Force	DERP - Horizontal infrastructure (B23)	Infrastructure	High			IBC	
	MBIE	NZ Battery Project	Infrastructure	High			IBC	Government has identified a goal to reach 100% renewable electricity. MfE support the investigation of options to mitigate the dry year risk.
Limited	Ministry of Education	Schools Payroll	Data and Digital	High			DBC	Somewhat aligned with Strategy for a Digital Public Service.
	Department of Corrections	Waters Infrastructure Programme - Phase 2	Infrastructure	Medium			DBC	
	Defence Force	NZDF Housing Programme Tranche 1	Infrastructure	High			DBC	
	NZ Police	Emergency Communications Centre Transformation [Computer Aided Dispatch]	Data and Digital	High			DBC	Somewhat aligned with Strategy for a Digital Public Service, but further information needed.
	NZ Police	Hamilton Police Hub & Custodial Unit	Infrastructure	Medium			DBC	Further work needed on options analysis to determine the option that provides the best value for money.
	MBIE	Alternative Risk Funding (ARF)	Organisational Change	Medium			IBC & DBC	
	Ministry for Primary Industries	Plant Health and Environment Capability previously known as Plant Health and Environment Laboratory	Infrastructure	High			DBC	Somewhat aligned with Economic Plan
	Defence Force	All of Government Maritime Domain Awareness	Data and Digital	Medium			DBC	Not aligned to wellbeing objectives or Economic Plan, but some potential alignment with Strategy for a Digital Public Service.
	Defence Force	Cyber Security and Support Capability (B22)	Transform	High			DBC	Not aligned to wellbeing objectives or Economic Plan, but some potential alignment with Strategy for a Digital Public Service.
	Defence Force	Frigate Extension Capital Sustainment Costs Phase 1	Specialist Equipment	Medium			DBC	Not aligned to wellbeing objectives or Economic Plan, but some potential alignment with Strategy for a Digital Public Service.
	Defence Force	DERP - Horizontal infrastructure (B24)	Infrastructure	High			IBC & DBC	Not aligned to wellbeing objectives or Economic Plan, but some potential alignment with Strategy for a Digital Public Service.
	Defence Force	Joint Intelligence Project	Data and Digital	Medium			DBC	Not aligned to wellbeing objectives or Economic Plan, but some potential alignment with Strategy for a Digital Public Service.
	Department of Conservation	Contaminated Sites	Infrastructure	Medium			IBC	The remediation of contaminated land is an important action to deliver sustainable land use, and to support the wellbeing of people through their connection to the environment
	Oranga Tamariki	Residential Services Transitions Project	Infrastructure	Medium			IBC & DBC	
	Waka Kotahi	Let's Get Wellington Moving (LGWM)	Infrastructure	High			IBC	Integration of land use and transport modes in planning for growth is aligned with Emissions Reduction Plan
KiwiRail	Northern Package - Marsden Point Rail Link	Infrastructure	RPA Required	IBC & DBC				
Ministry for Primary Industries	National Centre for Native Afforestation	Infrastructure	High	145.0	2022 (funded)	DBC	In principle for strong alignment with Government's climate objectives.	
Least	MBIE	Establishment of a new social unemployment insurance scheme (in collaboration with ACC)	Organisational Change	High	[33]		IBC & DBC	Potential to develop into a future essential data asset and enhance data on employment.
	Ministry for Primary Industries	On-Farm Pricing Scheme (He Waka Eke Noa Implementation)	Data and Digital	High			DBC	Aligns directly with Data Investment Plan investment opportunities on climate change response