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Hon Grant
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Robertson SEEN

Treasury Report: Treasury Report: Budget 2019 Bilateral with Minister
Twyford - Transport Portfolio

Date:	5 March 2019	Report No:	T2019/494
		File Number:	SH-8-O-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of this briefing, including the provided talking points	Prior to your meeting with Minister Twyford at 3:45pm on Thursday 7 March 2019

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]	Analyst, National Infrastructure Unit	N/A (wk)	[23] (mob)
David Taylor	Manager, National Infrastructure Unit	[39] (wk)	N/A (mob)

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

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Treasury Report: Budget 2019 Bilateral with Minister Twyford Transport Portfolio

Executive Summary

You are meeting with the Minister of Transport and Housing and Urban Development, Hon Phil Twyford, at 3:45pm on Thursday 7 March to discuss his initiatives for Budget 2019. This briefing provides you with background material and advice in relation to the Transport portfolio. You will receive a separate briefing on the Housing and Urban Development portfolio.

Minister Twyford submitted 19 Transport initiatives for Budget 2019, seeking ^[33] average operating funding per annum and ^[33] of capital funding. Following submission, you agreed to triage out nine transport initiatives and you also allowed three late initiatives for ^[33] to be admitted. As a result, Minister Twyford is currently seeking ^[33] operating funding per annum and ^[33] capital for Transport initiatives as part of Budget 2019.

Of these Transport initiatives, the Treasury Vote team supported funding totalling ^[33] ^[33] of operating per annum and ^[33] capital. Following advice that the Budget team provided to you on 22 February 2019 (T2019/359 refers) and discussions at Budget Matters on 28 February, a draft package was presented to Cabinet Committees this week that contained funding for transport initiatives totalling ^[33] average operating per annum and ^[33] capital.

We are conscious of your focus on driving specific priorities and wellbeing outcomes in Budget 2019. We provide a high-level indication of how the proposed transport package could impact on these in paragraphs 9-12.

Key transport issues discussed in this briefing include:

- KiwiRail: Our initial vote team assessments of the KiwiRail initiatives attempted to balance the need to achieve the outcomes sought through the Future of Rail Review while also minimising the impact on Budget allowances. We have had further discussions with KiwiRail and the Ministry of Transport about how to

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scale and phase the initiatives, and KiwiRail have provided us with advice about how to progress the initiatives within a two-year funding window.

- Cost pressures: Small amounts of operating and capital funding are also being sought to cover various cost pressures being faced by transport sector related agencies. While there is evidence that they represent genuine non-discretionary cost pressures, we believe that the risks of not funding these transport cost pressures are likely lower compared to other sectors. Additional funding of ^[33] capital is also being sought to cover the projected Crown share of the cost reforecast for Auckland City Rail Link.
- Triaging: Minister Twyford may raise concerns around ^[34]
- Prioritisation: We do not support prioritising any of the Transport initiatives that Minister Twyford submitted for prioritisation as part of Budget 2019. There is a lack of certainty about whether prioritisation is feasible at this stage.

Talking points for your discussion with Minister Twyford are provided in paragraph 43.

Recommended Action

We recommend that you note the contents of this briefing, including the provided talking points, prior to your bilateral meeting with Minister Twyford at 3:45pm on Thursday 7 March 2019.



David Taylor
Manager, National Infrastructure Unit

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2019 Bilateral with Minister Twyford Transport Portfolio

Purpose of Report

1. This report provides you with advice for your bilateral discussion with Minister Twyford regarding Budget 2019 at 3:45pm on Thursday 7 March 2019. This report covers the Transport portfolio. You will receive a separate briefing on the Housing and Urban Development portfolio.
2. This report covers:
 - funding sought for Transport in Budget 2019 • expected wellbeing impacts
 - specific initiative issues (including Kiwirail, other rail initiatives, cost pressures and triaging) • baseline prioritisation initiatives • talking points for your bilateral discussion
3. Attached to this report is an annex that covers the individual initiatives sought and our assessment of these initiatives (Annex A).

Funding sought for transport in Budget 2019

Requested funding

4. On 14 December 2018, Minister Twyford submitted 19 initiatives under the Transport portfolio for consideration as part of Budget 2019, seeking ^[33] average operating funding per annum and ^[33] of capital funding.
5. Following submission, you agreed to triage out nine Transport initiatives. In February 2019, Minister Twyford also submitted three late initiatives for ^[33] which you have accepted into the Budget 2019 process.
6. After triaging and the addition of the three late initiatives, Minister Twyford is currently seeking ^[33] average operating funding per annum and ^[33] capital for Transport initiatives as part of Budget 2019.

Recommended funding

7. The Treasury Vote team supported funding for Transport initiatives totalling ^[33] of average operating per annum and ^[33] capital.
8. Following advice that the Budget team provided to you on 22 February 2019 (T2019/359 refers) and discussions at Budget Matters on 28 February, a draft package was presented to Cabinet Committees this week that contained funding for Transport initiatives totalling ^[33] average operating per annum and ^[33] capital.

Impact on achieving priorities and enhancing wellbeing

9. We are conscious of your focus on driving specific priorities and wellbeing outcomes in Budget 2019. We provide below a high-level indication of how the proposed transport package could impact on these. We have only considered the impact of initiatives that you agreed should be put to Cabinet Committees this week as part of draft packages.

How does the proposed Transport package help to achieve the Budget 2019 priorities?

10. All of Minister Twyford's priority-aligning initiatives impact on Priority A. ^[34]
[34]

11. The KiwiRail initiatives in particular make up a significant portion of the overall funding allocated for Priority A in the draft packages presented to Cabinet Committees this week. These initiatives may provide may help to ensure that businesses (particularly those in the regions) continue to have the option for transporting freight by rail.
[25] [34]

How does the proposed Transport package impact on wellbeing?

12. The majority of the wellbeing impacts associated with the proposed transport package would affect the domains of the environment, safety, and jobs and earnings. However, we are again uncertain how significant these impacts would be.

Specific initiative issues

KiwiRail

13. The majority of funding sought by Minister Twyford is for four initiatives providing funding to KiwiRail following the Future of Rail review. These initiatives seek total capital funding of ^[33] spread over 7 years for new rolling stock, new InterIslander ferries, resilience works on the Main North Line, and "business as usual" capital for KiwiRail. You previously agreed to triage out the ferries initiative on the basis that KiwiRail should explore financing options.
14. We are conscious that the Government faces tight fiscal constraints and committing to these projects in full now could impact upon its ability to deliver on priorities across a number of sectors. We are also not convinced that the Crown needs to commit to fully fund these initiatives now given that key information around is lacking ^[33]
[33]
15. Our initial vote team assessments attempted to balance the need to achieve the outcomes sought through the Future of Rail Review while also minimising the impact on Budget allowances. We committed to provide you with further advice on options around these initiatives.
16. We have had further discussions with KiwiRail and the Ministry of Transport about how to scale and phase the initiatives. Both have expressed concerns about the potential issues associated with short term funding commitments, particularly for the rolling stock procurement and working capital. However, KiwiRail have provided us with advice about how to progress the initiatives within a two-year funding window.

17. On the InterIslander ferries:

- [25]

- [38]

18. On the rolling stock;

- [25]

-

19. On the Main North Line:

- KiwiRail's advice: KiwiRail has indicated that this initiative is not high-priority as the works are not vital to the safe operation of the Main North Line and could be funded through future business as usual funding.
- Our revised recommendation: We recommend not funding this initiative in Budget 2019. We also note that this initiative is not included in the draft packages that went to Cabinet Committees this week.

20. On Business as Usual:

- KiwiRail's advice: KiwiRail notes that funding for a single year does not provide sufficient certainty to plan for long-term investment, [33]
- Our revised recommendation: We recommend providing total capital funding of \$331 million for KiwiRail's business as usual requirements, including \$266 million in 20/21. [33]

[33] Two-year funding tranches have been used in the past in order to provide certainty for KiwiRail without prematurely committing the Crown to long-term funding. [33]
[33]

21. The table below summarises the revised funding profile in comparison to the original amounts of funding sought and the vote team's initial recommendation:

	Original request (\$m)	Vote team recommendation (\$m)	Revised recommendation incorporating Kiwirail's advice (\$m)
InterIslander ferries and landside assets	[33]		35 (19/20 only)
Rolling stock and mechanical facilities			375 (135 for 19/20 and 204 for 20/21)
Capital requirements			331 (65 for 19/20 and 266 for 20/21)
Main North Line Reinstatement			
Total			741

22. Our revised recommendations do represent an increase in funding for KiwiRail above what was indicated in our initial vote team assessment, and we recognise that this may be difficult to achieve within the Government's fiscal constraints. However, we consider that this is a more workable package than what KiwiRail originally proposed that would nonetheless constitute a significant uplift in KiwiRail's capability.

23. We recommend that you discuss with Minister Twyford a revised funding package for KiwiRail, with reference to the need to balance achieving the outcomes sought through the Future of Rail review against the fiscal constraints the Government faces. You may also wish to raise this with the Deputy Prime Minister, Rt Hon Winston Peters, in your bilateral with him on Thursday 14 March given his responsibility for KiwiRail as Minister for State-Owned Enterprises.

Other rail initiatives

24. As previously noted, Minister Twyford has submitted a number of late initiatives for [33]

25. These are joint initiatives submitted on behalf of Minister Twyford, the Deputy Prime Minister, Rt Hon Winston Peters, and the Minister for Regional Development, Hon Shane Jones.

26. We have not supported any of these initiatives for Budget 2019. KiwiRail have indicated that the four existing initiatives that were submitted in December 2018 are its current focus. We would also have concerns around capacity constraints^[33]
[33]

27. [33]

28. We would recommend waiting until the proposed ten year New Zealand Rail Strategy is developed before deciding which (if any) of these projects to further investigate, as the Strategy aims to prioritise overall rail investment.

Cost pressures

General sector pressures

29. Small amounts of operating and capital funding are also being sought to cover various cost pressures being faced by the following transport sector related agencies:

- Maritime New Zealand

[33]

30. We have supported funding these initiatives. There is evidence that they represent genuine non-discretionary cost pressures as services might be compromised without funding. In the case of TAC, not providing any funding could risk its ability to carry out its legislative functions.

31. However, we recognise that there are number of non-discretionary cost pressures that the Government is being asked to fund through Budget 2019. We believe that the risks of not funding these transport cost pressures are likely lower compared to other sectors.

City Rail Link

32. Additional funding of ^[33] capital is also being sought to cover the projected Crown share of the cost reforecast for the Auckland City Rail Link. We have supported this initiative given the project risks associated with not meeting the Crown's 50% share of costs.

33. Officials provided you and Minister Twyford with advice on the current funding issues relating to City Rail Link on 1 March 2019 (T2019/508 refers). You may wish to discuss with the Minister some of the issues raised in that briefing, including options for funding the project should the total cost be estimated in excess of ^[33].

Triaging

34. We expect that Minister Twyford may raise concerns around your decision to triage out nine transport initiatives, with particular emphasis on the risks to current work

programmes if additional funding is not provided. We consider that the risks are minor or manageable in most cases, and no critical services are at risk of failure.

35. [25] [33]

36.

37.

Prioritisation

38. As part of the prioritisation exercise, Minister Twyford submitted initiatives in the [33]

39. The Minister's submission emphasised that further investigation of these initiatives is required to determine whether it is feasible to seek alternate funding sources or scale back services. [33]
[33]

40. We do not support prioritising any of the submitted initiatives as part of Budget 2019. There is a lack of certainty about whether prioritisation is feasible at this stage.

41. We also do not recommend that these initiatives be further investigated for prioritisation at future Budgets. [33]
[33]

42. You may wish to raise with Minister Twyford whether further investigating these initiatives is likely to produce any significant benefits in terms of overall fiscal savings [33]

Talking points

43. You may wish to raise the following points in your meeting with Minister Twyford in relation to transport:

- How are we proposing to monitor the results of the Government's enhanced investment in KiwiRail? How are we going to ensure value for money?
- What work will you undertake to better articulate the benefits and wellbeing impacts associated with rail? How this will help inform future investment decisions?
- Are there options to seek some portion of the funding Kiwirail is seeking for working capital in 20/21 from other sources such as the Provincial Growth Fund?
- Outside of City Rail Link, how critical are the cost pressures in the transport sector? Are there options to defer some of these initiatives given the substantial cost pressures the Government is being asked to fund in Budget 2019?
- [25] [33]