IDENTIFIED RISKS IN THE BUDGET ECONOMIC AND FISCAL UPDATE 2023

Treasury identifies Risks to the Economic and Fiscal Forecasts in the Budget Economic and Fiscal Update 2023. Some new risks include:

- Natural Disaster Fund (Cost Pressure or Variance – Expenses) The recent natural disaster events place significant pressure on the Natural Disaster Fund (NDF). The financial cost from the recent Nelson/Marlborough and North Island weather events remains uncertain and could result in a depletion of the NDF.
- National Land Transport Fund (Cost Pressure or Variance – Expenses, Capital and Revenue) There is insufficient funding within the National Land Transport Fund (NLTF) to carry out expected activities in line with the National Land Transport Programme. There is a risk additional Crown funding may be required to top up the NLTF to address these pressures until the gap between revenue and expenditure can be resolved in a sustainable way.
- Transport Local Government Share (Cost Pressure or Variance – Expenses) Local government has been signalling that it is unable to afford its share of continuing programmes and investments. Without this share of funding, there is a risk that planned activities may not be able to be carried out to expected levels of service.
- North Island Weather Events – Response and Recovery (Cost Pressure or Variance – Expenses and Capital) Extreme weather events in early 2023 caused significant damage and disruption across the North Island, placing additional pressure on government services (such as transitional housing) in affected regions. While current estimates of the cost and phasing of the Government's response and recovery have been incorporated in the fiscal forecasts (see pages 6 to 7) there is considerable uncertainty around those estimates, and there is a risk that actual cost and phasing differ from those forecast.
- Resilience Measures for Locations Affected by the North Island Weather Events (Policy Change – Expenses and Capital) The Government has publicly signalled that it is undertaking risk assessments for severely affected locations and may consider a range of responses, including building further flood protection, increasing resilience of buildings or supporting relocation. If Crown contributions towards property resilience or relocation were to be progressed, this would constitute a new policy response to flooding and/or landslide events and may require additional funding to deliver.

And the following updated risks:

- Affordable Water Reform Programme (Policy Change – Expenses and Capital) In April 2023, the Government announced changes to planned water services reform, including an increase in the number of water entities planned to be established (from four to 10) and a change in the expected date the water service entities will be operational. The fiscal forecasts include some costs of these reforms, however required legislative amendments and further decisions on funding mechanisms are yet to be taken. As such, there is a risk that actual costs will exceed those forecast. At present the new water service entities are not considered to be controlled by the Government for consolidated financial reporting purposes. Therefore, the forecast financial statements do not include any corresponding assets, liabilities, revenue and expenses of the new water service entities. This treatment will need to be continually assessed as future decisions are taken.
- The new water services entities will require investment in new ICT to ensure they are functional on day one of operation. The fiscal forecasts reflect the approved funding for the costs of ICT investment, which are intended to be recovered from the new water services entities once established. As the Government is still to take final decisions on how these costs, and any other establishment costs, should be recovered over time from the new water services entities, no recovery of costs have been included in the forecasts. There is also a risk that additional funding may be required for the ICT system and the actual split between operating and capital expenditure may differ to what has been assumed in the fiscal forecasts. This risk was previously titled Three Waters Reform Programme.
- Fuel Excise Duty and Road User Charges Demand Exceeding Forecasts (Policy Change – Revenue) The Government has implemented a temporary reduction to Fuel Excise Duty (FED) and Road User Charges (RUC) from 21 April 2022 to 30 June 2023. The marginal resulting loss in revenue into the National Land Transport Fund from these reductions has been topped up directly by funding from the Crown. If demand for petrol and RUC is more than forecast, the impact on the loss in revenue would be higher than the current funding provided, therefore additional Crown funding may be required. Note that this risk was previously titled Fuel Excise Duty and Road User Charges Discount Ending.
- New Zealand Upgrade Programme (Cost Pressure or Variance – Expenses and Capital) After a reset of the $6.8 billion New Zealand Upgrade Programme in May 2021, a further $1.9 billion of funding was allocated and set aside in a tagged contingency to support completion of the Programme. A further $252 million was provided in December 2022 to manage cost pressures. With the current inflationary conditions, and with many projects at an early stage in their lifecycle, there is an ongoing risk further funding may be required to deliver the Programme.
- Wellington Transport Investment Programme (Policy Change – Expenses and Capital) The Government Policy Statement on land transport (GPS) 2021 was developed with the expectation that Let's Get Wellington Moving (LGWM), along with the Government's other priorities, could be funded from the National Land Transport Fund (NLTF), based on information available at the time. As the NLTF is currently under significant pressure, it is likely that the Government will be asked to contribute funding to LGWM. The ability to deliver LGWM in full also relies on local government providing its own share.