Budget Economic and Fiscal Update: risks

In the Budget Economic and Fiscal Update (BEFU) Treasury identifies risks to its forecasts such as changes to economic assumptions, forecasting risks relating to revenue or variations in the returns from, and valuation of, the Government's investments.

Below are the new and changed risks most relevant to local government.

Funding and financing

Going for Housing Growth – Financially Incentivising Local Government to Increase Housing Supply (Revenue and Expenses) – new risk

The Government has agreed to progress work on the Going for Housing Growth package. This includes creating incentives for councils to facilitate more housing (potentially a share of GST). The quantum of financial incentives has not been determined, as advice on this is yet to be developed.

Transport

Cook Strait Resilience (Expenses and Capital) – new risk

In December 2023, the Government decided it would not provide further Crown funding for the Inter-Island Resilient Connection (iReX) project involving the purchase of new interisland ferries and the development of new terminals. KiwiRail subsequently decided to cancel the project. The Government, through a Ministerial Advisory Group, is considering alternative solutions for the Interislander ferry fleet and portside infrastructure. At this stage, any future fiscal implications for the Government from proposed alternative solutions are unknown.

Metropolitan Rail Networks (Expenses and Capital) – new risk

There are cost pressures associated with the maintenance, renewal and upgrade of the Auckland and Wellington metropolitan rail networks. The Ministry of Transport is undertaking a review of the Metropolitan Rail Operating Model, which, among other things, will advise on the appropriate distribution of costs between Auckland Transport, Greater Wellington Regional Council, the National Land Transport Fund (administered by the New Zealand Transport Agency), KiwiRail and the Crown.

Transport Project Funding (Revenue, Expenses and Capital) – changed risk

The Government has signalled transport investments additional to what has already been supported through the Draft Government Policy Statement (GPS) on land transport 2024. These investments are largely unfunded, and some of these may fall outside the scope of the National Land Transport Fund (NLTF) or are only expected to be partially funded by the NLTF. If the Government chooses to progress these investments, Crown funding, increases to land transport revenue or new revenue sources may be required. Additional investment priorities include the following:

- Auckland Transport Alignment Project (ATAP): The GPS 2021 was developed with the expectation that the ATAP, along with the previous Government's other priorities, could be funded from the NLTF to the value of $16.3 billion over 10 years. The ATAP is being developed to present the short-term and long-term strategic priorities for Auckland across an integrated network. Key decisions are expected to be finalised prior to 1 July 2024 when the GPS 2024 takes effect.
- Auckland – Waitematā Harbour Crossing: An indicative business case for the Waitematā Harbour Crossing is currently under way and could be followed by a detailed business case and potentially by early works. There is no confirmed funding source for this project.
- Roads of National Significance and Better Public Transport: The draft GPS 2024 sets out a series of strategically important projects for New Zealand's transport system. Funding has only been committed in principle for the first three years that the GPS covers (2024/25-2026/27). Additional investment will likely be required to complete these projects.
- North Island weather events: A significant amount of transport infrastructure was damaged following the North Island weather events in 2023. Business cases for rebuild projects are still being worked through, but do not have a confirmed funding source at this time. This may increase the risk for additional Crown funding beyond that already provided or what can be reasonably delivered within the NLTF.

Rail Network Investment Programme (Revenue, Expenses and Capital) – existing risk

The approved Rail Network Investment Programme (RNIP) 2021 is a 10-year programme of planned network maintenance, management, renewal and improvement works on the national rail network. The RNIP is funded to 2025/26 and partially funded beyond this point. Completing all works will require further funding (from the Crown and the National Land Transport Fund). Inflationary pressures are also likely to exceed the level assumed when the programme was developed. This time-limited funding ceases after 2025/26.

New Zealand Upgrade Programme (Expenses and Capital)

With the current inflationary conditions and a significant level of planning still required for many projects within the programme, there is a risk that the New Zealand Transport Agency and KiwiRail may signal further funding is required to deliver the New Zealand Upgrade Programme. On 13 May 2024, after the finalisation of the fiscal forecasts (and the date for disclosure of specific fiscal risks), the Government announced that the New Zealand Upgrade Programme would end, with roading projects folded into the Roads of Regional and National Significance programmes.

Climate change

Adaptation Policy Changes (Expenses and Capital) – changed risk

In August 2022, the previous Government published New Zealand's first national adaptation plan (NAP) to respond to climate change-related risks as required by the Climate Change Response (Zero Carbon) Amendment Act 2019. Since the NAP was published, the current Government has publicly signalled its intent to develop a climate adaptation framework. As this work proceeds, the resulting policy decisions could result in new actions, additional or separate to the NAP, that impact on the fiscal forecasts.

Achieving New Zealand's International and Domestic Climate Change Targets (Expenses and Capital) – existing risk

The Climate Change Response (Zero Carbon) Amendment Act 2019 requires the Government to set and achieve domestic greenhouse gas emissions targets and budgets (with the first three emissions budgets covering 2022 to 2035). The Government is set to release its second emissions reduction plan in December 2024, which will outline policies and strategies to achieve these emissions budgets. Some of these policies will be funded through existing baselines. If policies require funding from the Government, decisions will be needed about whether this can be funded through existing baselines or if additional funding will be required.

New Zealand also has international obligations to reduce emissions under the Paris Agreement: our first Nationally Determined Contribution (NDC1), which covers 2021 to 2030. NDCs are countries' self-determined plans detailing what they will do to reduce their emissions in support of the international goal of limiting global warming to 1.5°C. Sizeable offshore abatement will be needed to meet NDC1 on top of domestic commitments. Scenarios showing the possible fiscal impact of this offshore abatement have been set out in the Climate Economic and Fiscal Assessment 2023. While the Government has choices about how it achieves NDC1, it is likely that fulfilling these commitments will involve significant costs to the Government, starting within the current fiscal forecast period.

Carbon Neutral Government Programme (Expenses and Capital) – existing risk

As part of its contribution to achieving New Zealand's climate change targets, the previous Government established the Carbon Neutral Government Programme (CNGP), supported by the existing State Sector Decarbonisation Fund. Work is under way on the development of pricing and investment options whereby CNGP organisations would pay for their emissions. Two key fiscal risks exist: the funding need for emissions reductions may exceed the extent and criteria for the State Sector Decarbonisation Fund and agency budgets and the cost of offsetting remaining emissions may exceed what CNGP participating agencies can afford.