



## Expenditure implications from reflecting your priorities in the Government Policy Statement on land transport 2018

<b>Reason for this briefing</b>	We are meeting with you on Tuesday 16 January 2018 to discuss how your signals in the Government Policy Statement on land transport 2018 may effect expenditure within the National Land Transport Programme. Decisions resulting from this briefing will enable activity class funding ranges to be developed.
<b>Action required</b>	Read in preparation for the meeting.
<b>Deadline</b>	Tuesday 16 January 2018.
<b>Reason for deadline</b>	We will be discussing this briefing with you at the meeting.

### Contact for telephone discussion (if required)

Name	Position	Telephone	First Contact
Helen White	Manager, Investment	[REDACTED]	✓
Bryn Gandy	Deputy Chief Executive Strategy and Investment	[REDACTED]	

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### MINISTER'S COMMENTS:

<b>Date:</b>	15 January 2018	<b>Briefing number:</b>	OC05582
<b>Attention:</b>	Hon Phil Twyford CC: Hon Julie Anne Genter (Associate Minister of Transport)	<b>Security level:</b>	In-Confidence

### Minister of Transport's office actions

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> <i>Noted</i>        | <input type="checkbox"/> <i>Seen</i>                 | <input type="checkbox"/> <i>Approved</i>            |
| <input type="checkbox"/> <i>Needs change</i> | <input type="checkbox"/> <i>Referred to</i>          |   |
| <input type="checkbox"/> <i>Withdrawn</i>    | <input type="checkbox"/> <i>Not seen by Minister</i> | <input type="checkbox"/> <i>Overtaken by events</i> |

## Purpose

1. We have arranged to meet with you on Tuesday 16 January 2018 to discuss how signals in the Government Policy Statement on land transport (GPS) 2018 may influence the National Land Transport Programme (NLTP).
2. This conversation is important because it will enable us to progress funding elements of the GPS 2018. This briefing also advises you of the next steps for producing a GPS to be issued for engagement by 7 March 2018.

## Your priorities for transport are given effect through the National Land Transport Programme

3. The GPS is your key lever to influence how land transport funding is invested over the next decade (currently approximately \$40 billion). It sets out the Government's priorities and investment expectations for the land transport sector.
4. This paper examines possible changes that might occur to the NLTP following your signals regarding transport priorities. This recognises that while the GPS drives the types of projects selected in the NLTP, the New Zealand Transport Agency (NZTA) has statutory independence to determine the particular activities or projects included in the NLTP.
5. You have the opportunity on 13 February 2018, when you meet with the NZTA Board Chair and Chief Executive, to clarify your transport priorities and to discuss how NZTA would give effect to these priorities in the development of the NLTP.
6. There are a number of levers available to you to signal your priorities for transport through the GPS, such as strategic priorities, result areas and expectations you set for the NZTA. This briefing focusses on the levers relating to revenue and expenditure. These levers include changing the amount of revenue coming into the National Land Transport Fund (NLTF), setting minimum and maximum expenditure levels for the NLTP and setting funding ranges for the activity classes in the GPS.

## Constraints on the National Land Transport Programme

7. The levels of expenditure in the NLTP are determined by the GPS. In addition to new investment there is a range of activities that maintain the existing transport system and meet current commitments. Not all NLTP funding is available for new transport developments. In the current NLTP (2015-18) approximately 55 percent (\$5.5 billion) of the forecast expenditure is associated with core programmes delivering transport services. These core programmes include:
  - delivery of public transport services
  - maintenance, operation and like-for-like renewal of both the local road and state highway networks
  - road policing enforcement activities delivered by NZ Police
  - road safety promotion activities
  - management of the investment system by the NZTA.
8. The discretion to vary expenditure in these areas in future NLTPs is limited and, subject to the government's priorities, a similar portion of expenditure will be required for these services in the next NLTP. Reductions to expenditure in these areas would lead to reduced levels of service.

9. The remaining 45 percent of NLTP expenditure is associated with programmes for public transport infrastructure, walking and cycling programmes, state highway improvements and local road improvements. In principle, all of this funding can be reprioritised but below a certain level, the trade-offs can have significant impacts on transport services.
10. For the next NLTP, expenditure in the improvements categories mentioned above will include fulfilling existing commitments for work that has already been contracted. This reflects the multi-year expenditure patterns for large projects. Approximately \$2.5 billion is committed to contracted improvement activities across state highway and local road networks, walking and cycling improvements and passenger transport infrastructure in the next NLTP.
11. Although expenditure can be decreased there would be significant implications. We can test this further if you wish, but for illustrative purposes this paper assumes that approximately 70 percent of expenditure in the next NLTP will be applied in delivering core programmes and contracted improvement activities.

### **Reflecting your priorities in the National Land Transport Programme**

12. In order to understand how your priorities could be reflected in the NLTP, we have asked the NZTA to carry out preliminary modelling of possible NLTP expenditure scenarios. These are based on your manifesto commitments and applying the strategic priorities that you have indicated. The modelling shows possible expenditure over the following decade. It also shows the required revenue level to cover this expenditure (shown as potential Fuel Excise Duty (FED) and Road User Charge (RUC) increases).
13. Projected expenditure from the NLTP over the next decade under previous government settings has also been modelled, to provide a basis for comparison (the base case).
14. The scenarios reflect initial discussions with you. We will work with the NZTA to refine these further, including to provide peer review of the scenario modelling. In all the modelling, the accuracy of expenditure and associated benefits is much lower for years 4 to 10.
15. The modelling shows possible revenue changes to deliver indicative expenditure programmes. These have been included to give you a sense of the scale of possible changes required. You have a number of other ways to manage expenditure including limiting new investment, changing expectations for maintaining the existing system, alternative funding sources (e.g. Provincial Growth Fund), financing (e.g. Crown Loan, Infrastructure Bonds) and changing funding assistance rates (FARs) (note that FARs are decided by the NZTA Board). We can provide further advice regarding these options.
16. The current rate of FED and equivalent RUC is 59.5 cents per litre. The possible revenue changes are based on a one cent increase in FED and the equivalent increase in RUC in 2018/19 that generates an additional \$50 million for the NLTF in year one.

#### *The base case – 10 year projected NLTP based on the previous government's settings*

17. The base case outlines the current NLTP which was developed under the previous government. The current NLTP includes the commitments of the previous government such as the Auckland Transport Alignment Project and the completion of the Roads of National Significance.
18. The 10 year expenditure profile is \$4.5 billion above current revenue. The projected expenditure for the NLTP under GPS 2015 settings outstrips the expected revenue at current

rates. This could be covered by an annual FED/RUC increase of 1.5 cents per litre. A one-off increase of 8.2 cents per litre would also provide this level of funding.

19. The red dotted line in the graphs attached indicate the level of expenditure that is estimated to be committed and contracted over the next decade.

#### *Delivering your priorities – scenario 1*

20. Scenario 1 outlines an expenditure profile that reflects your priorities for transport. These priorities are:
  - 20.1. mass transit at 100 percent NLTF funding
  - 20.2. increasing the regional improvements activity class
  - 20.3. increasing walking and cycling increase
  - 20.4. providing funding support for KiwiRail (noting that this will be confirmed after the rail review and likely to be more than specified)
21. Scenario 1 also includes revising the state highway programme. The state highway programme has been reduced based on a revised investment assessment framework based on the priorities you have signalled.
22. Expenditure has been included to increase the regional improvements activity class. We would like to discuss with you whether this expenditure (which is a commitment from the Labour Party transport policy) is still a commitment following the subsequent agreement to establish the Provincial Growth Fund, which will make investments in regional roads and rail.
23. The 10 year expenditure profile is \$16.3 billion above current revenue and could be provided for with an annual FED and RUC increase of 5.3 cents per litre. A one-off increase of 29.8 cents per litre would also provide this level of funding.

#### *Delivering your priorities – scenario 2*

24. The expenditure profile in scenario 2 is the same as for scenario 1 but with the removal of the north-west extension at 100 percent NLTF funding to the mass transit funding line.
25. The 10 year expenditure profile is \$12.5 billion above current revenue and could be provided for with an annual FED and RUC increase of 4.1 cents per litre. A one-off increase of 22.9 cents per litre would also provide this level of funding.

#### **Understanding the components of delivering your priorities**

26. Any time a tax is increased, the benefits of the increased revenue need to be traded-off against the effect on the tax payer. You will need to be able to explain this rationale to your colleagues.
27. To assist you in this process the attached table breaks down the major costs of your transport priorities for the 10 year period. This enables you to understand the magnitude of each tax increase required against the benefits that you expect. This might assist you to prioritise the investment over the 10 years.

## Next steps for developing a GPS 2018

### *Changes to FED and RUC*

28. Changes in FED and RUC can be made at any point in time by amending the relevant legislation. However, the sooner that FED and RUC are increased, the sooner NLTF revenue streams will increase.
29. If you decide that FED and RUC needs to be increased in 2018/19, we recommend that the changes are made through Budget legislation and passed under urgency. Passing legislation under urgency means that the select committee stage can be bypassed. This enables the legislation to process much faster, and would mean that the increased FED and RUC rates would be in force earlier.
30. Another option for changing FED and RUC rates in 2018/19 is through an Order-in-Council. Proceeding by Order-in-Council would be administratively simpler as the legislation changes are made outside of the parliamentary process. Consequently, the changes could be made quickly without the need to make them through Budget legislation. However all Order-in-councils are subject to confirmation at the end of the year. In the rare case that this confirmation were not to be given, then FED refunds would be required which would be extremely difficult and costly to implement.
31. If you decide to increase FED and RUC through Budget legislation, we would need a decision from you regarding the level of increase late January 2018 because of the time associated with changing the relevant act and regulations. We can provide further advice about the options and process for increasing FED and RUC.

### *Developing a GPS 2018 for consultation in early March 2018*

32. Following our meeting with you on Monday 18 December 2017, we have made good progress updating the GPS 2018 to reflect your new direction for transport. We are preparing to provide you with a partial draft GPS in the week of 22 January 2018 to discuss with you at the GPS meeting on Thursday, 25 January 2018. In this draft we expect to be able to provide you with a new strategic direction section (including priorities, objectives and themes), along with indications of direction for other sections.
33. In order to develop more refined expenditure profiles and corresponding activity classes for a draft GPS, we need to have a strong indication from you regarding the level of revenue for the NLTF so we can develop activity classes funding ranges.
34. We are currently aiming to provide you with a final draft of the GPS 2018 on 12 February 2018, which could be ready to be considered by Cabinet on 5 March 2018. This will allow for engagement on the draft GPS 2018 to occur mid-March to early April 2018.
35. Because local government were previously expecting engagement to begin on the GPS in February or early March, we are in discussions with representatives about the implications that this will have on their planning processes. We are testing with local government what information is necessary, and when, for their regional land transport plans to reflect the GPS 2018. There may be options to provide early signals before the formal engagement begins. We will provide you with further advice about providing these signals if we think it is necessary.
36. A timeline for the GPS 2018 for a release by 1 July 2018 is outlined below.

### Current timeline for releasing a GPS by 1 July 2018

<b>Meeting with Minister to discuss implications for the National Land Transport Programme</b>	16 January
<b>Delivery of partial draft GPS to Ministers</b>	Week of 22 January
<b>Meeting with Ministers to discuss partial draft GPS</b>	25 January
<b>Decision required of FED and RUC changes (if changes are to be made through Budget 2018 legislation)</b>	26 January
<b>Delivery of final draft GPS and Cabinet paper to Ministers</b>	12 February
<b>Lodging final draft GPS with Cabinet office</b>	22 February
<b>Cabinet committee <sup>1</sup></b>	28 February
<b>Cabinet</b>	5 March
<b>Public engagement</b>	7 March – 6 April (presumes Cabinet agreement on 5 March)
<b>Reflecting feedback from the public</b>	9-23 April
<b>Ministerial agreement to commence consultation with the NZTA board on the draft GPS</b>	24-27 April
<b>NZTA prepares feedback on draft GPS</b>	May board meeting
<b>Lodging of Final GPS with Cabinet office</b>	Early June 2018
<b>EGL agreement to GPS</b>	Mid June 2018
<b>Cabinet agreement to GPS</b>	Mid June 2018
<b>GPS launch</b>	Late June 2018

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<sup>1</sup> Cabinet Committee Power to Act for Cabinet could be sought

**Recommendations**

37. The recommendations are that you:

- (a) **discuss** the modelling provided and possible implications for the Government Policy Statement on land transport 2018
- (b) **advise** of any further modelling you wish to have completed Yes/No
- (c) **note** we will provide a partial draft Government Policy Statement on land transport 2018 in the week of 22 January 2018.



Helen White  
Manager Investment

**MINISTER'S SIGNATURE:**



**DATE:**

16/1/18

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**Funding scenarios for GPS 2018**

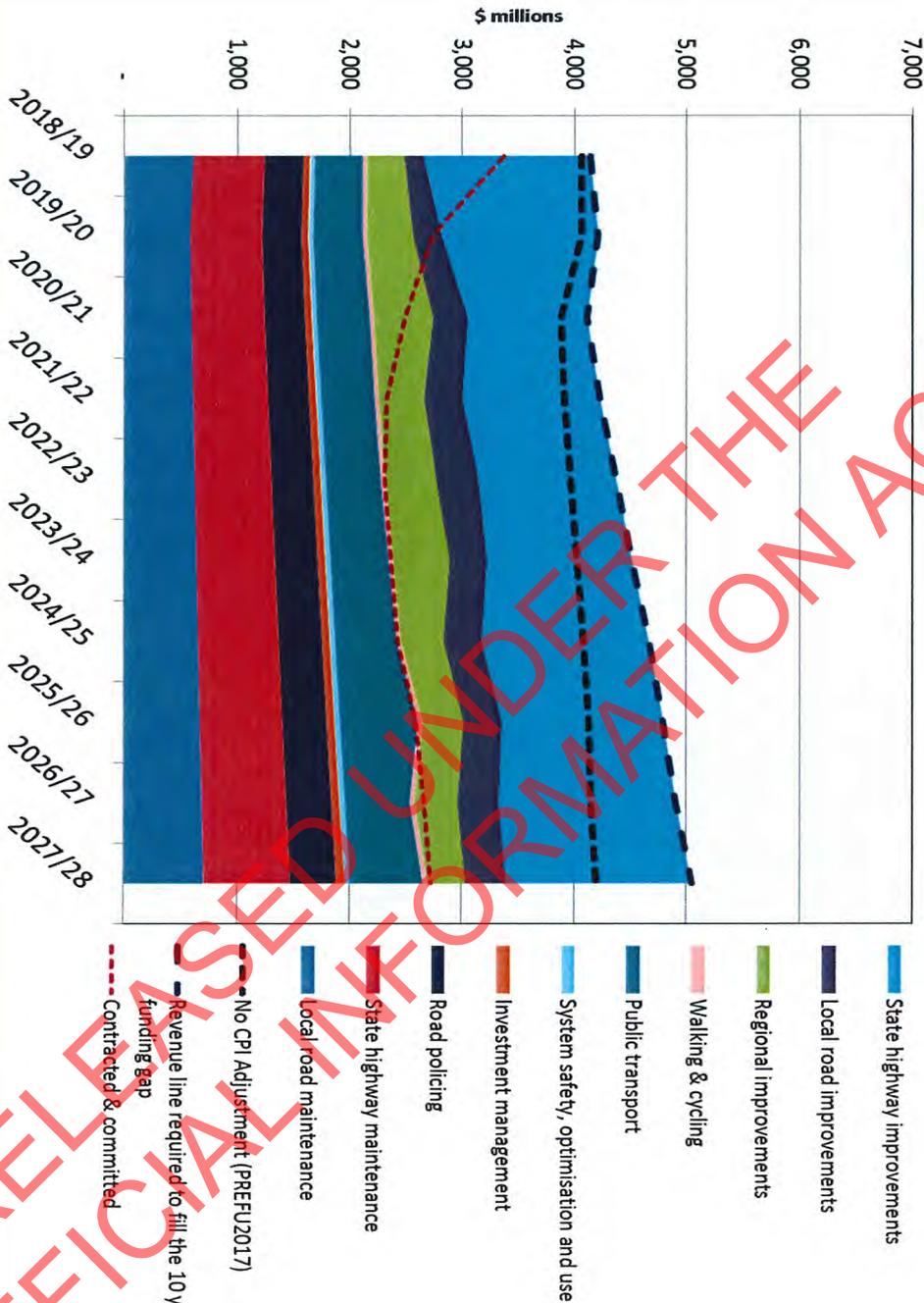
# Summary of estimated changes

Summary - Change from Base Case to Shadow IAF/ Mass Transit scenarios over 10 years				
Activity grouping	Estimated change in spend \$ millions	One-off FED/ RUC increase to fund change in 2018/19 cents/litre	Annual FED/ RUC increase to fund change from 2018/19 cents/litre	Assumptions and comments
Heavy rail freight	2,926	5.8	1.0	\$300m starting in 2019/20 escalated at assumed inflation rate of 2%/pa
Mass transit - City to Airport and Bus rapid transit	4,097	8.5	1.4	Programme proposed for Auckland other than North West Line (City to Airport, Northern and Airport to Puhinui bus rapid transit). Funded 100%NLTF on a PAYGO basis.
Mass transit - North West Line	3,806	7.0	1.2	North West Line only. Funded 100%NLTF on a PAYGO basis.
Public transport heavy rail	447	0.9	0.1	Public transport related investment in heavy rail in Auckland (ATAP). Currently not funded from the NLTF.
Public transport services	799	1.6	0.3	Anticipated increase in investment in response to new Government's signals.
Walking & cycling	336	0.7	0.1	Incorporates impact of the Urban Cycleway Programme continuing for the next 10 years plus delivery of Skypath.
System safety, operation and use/Investment Management	434	0.9	0.1	Anticipates travel demand and management and travel behaviour change initiatives plus a small increase in transport planning.
Local road maintenance	438	0.9	0.1	Assumes footpath maintenance becomes eligible for funding from the NLTF.
Improvements on local roads, including regional improvements	515	1.0	0.2	Assumes NZTA safety initiative on local roads. Other regional improvements on state highways modelled separately.
<b>Totals</b>	<b>13,799</b>	<b>27.1</b>	<b>4.5</b>	Note that the totals reflect the change between scenarios for the activity groupings

# Base case

## Base case

Previous NLTIP plan settings, full cost of East-West Link, SH improvements programmed to align with assumed annual FED & RUC increases.



### Notes

The 10 year additional funding requirement is \$4.5 billion and could be filled with an annual FED/RUC increase of 1.5 cents per litre. A one-off increase of 8.2 c/l in 2018/19 would also provide this level of funding.

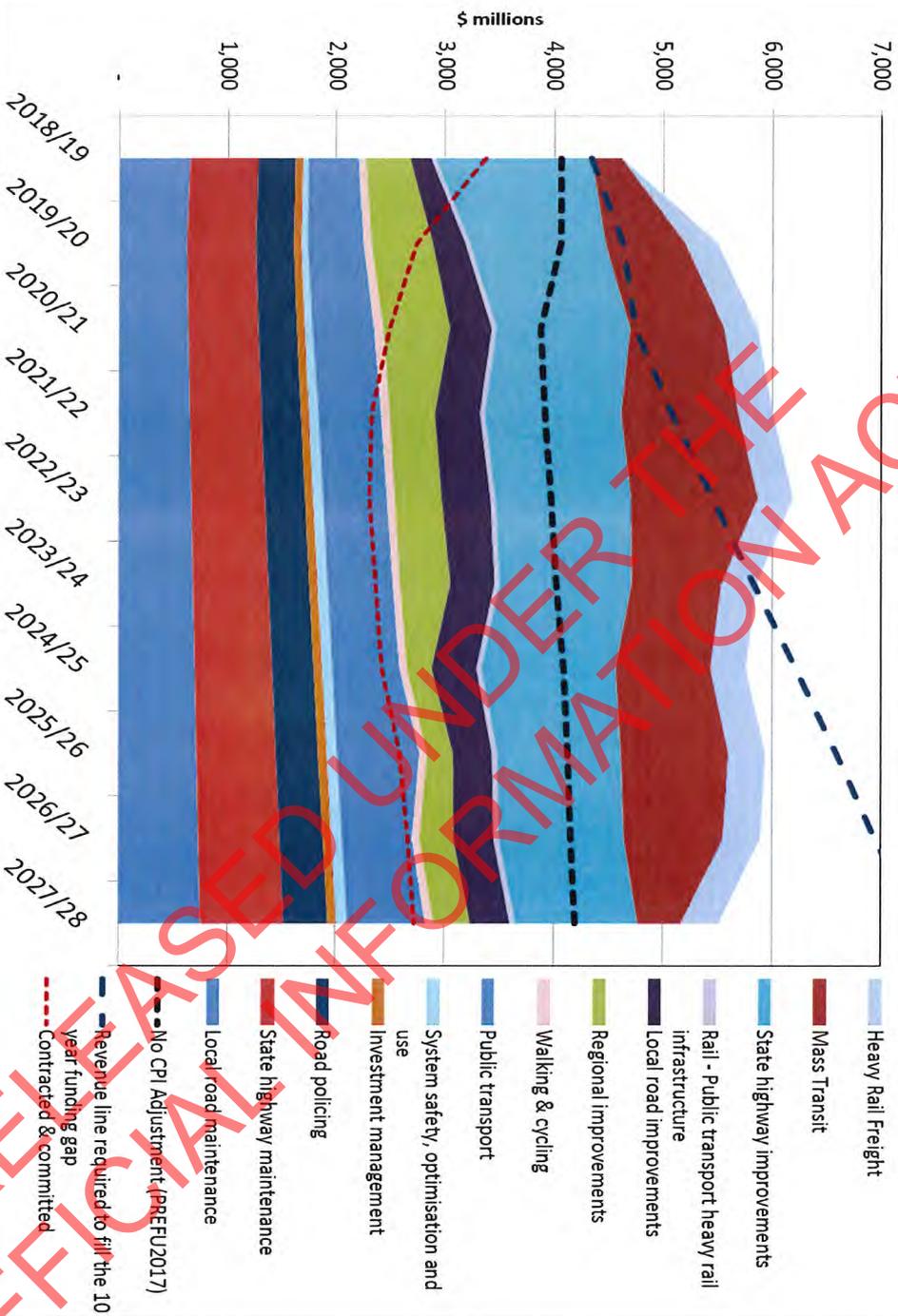
### Summary

- State highway improvements spending is at levels planned to 2028 under previous settings including ATAP 1.1.
- East-West Link at original full scope.
- Future Regional Improvements activity class based on consistent application of ONRC and location.
- Expenditure in other activity classes is based on current NLTIP levels, with increases in line with assumed inflation and growth.
- This scenario has no separate provision for heavy rail or mass transit funding.
- Contracted comprises state highway improvements under contract and local authority activities under funding approval.
- Committed assumes base operations (maintenance, public transport, road policing, etc.) funded to maintain service levels.

# Shadow IAF/Full Mass Transit with N-W Line delay

## Scenario Shadow IAF/Mass Transit with delayed North-West Line

North-West Line delayed 3 years, improvements on state highways reflect shadow IAF, includes public transport heavy rail, freight rail, other activity classes at increased spending levels



### Summary

- State highway improvements expenditure in State Highway Improvements and Regional Improvements activity classes reflects application of the shadow IAF.
- East-West Link at reduced scope.
- Mass transit programme funded 100% NLTF on a PAYGO basis with start of North-West Line delayed three years.
- Expenditure in a number of other activity classes, including footpath maintenance, is increased in response to the Government's GPS signals.
- This scenario includes provision for public transport heavy rail, and rail freight funding.

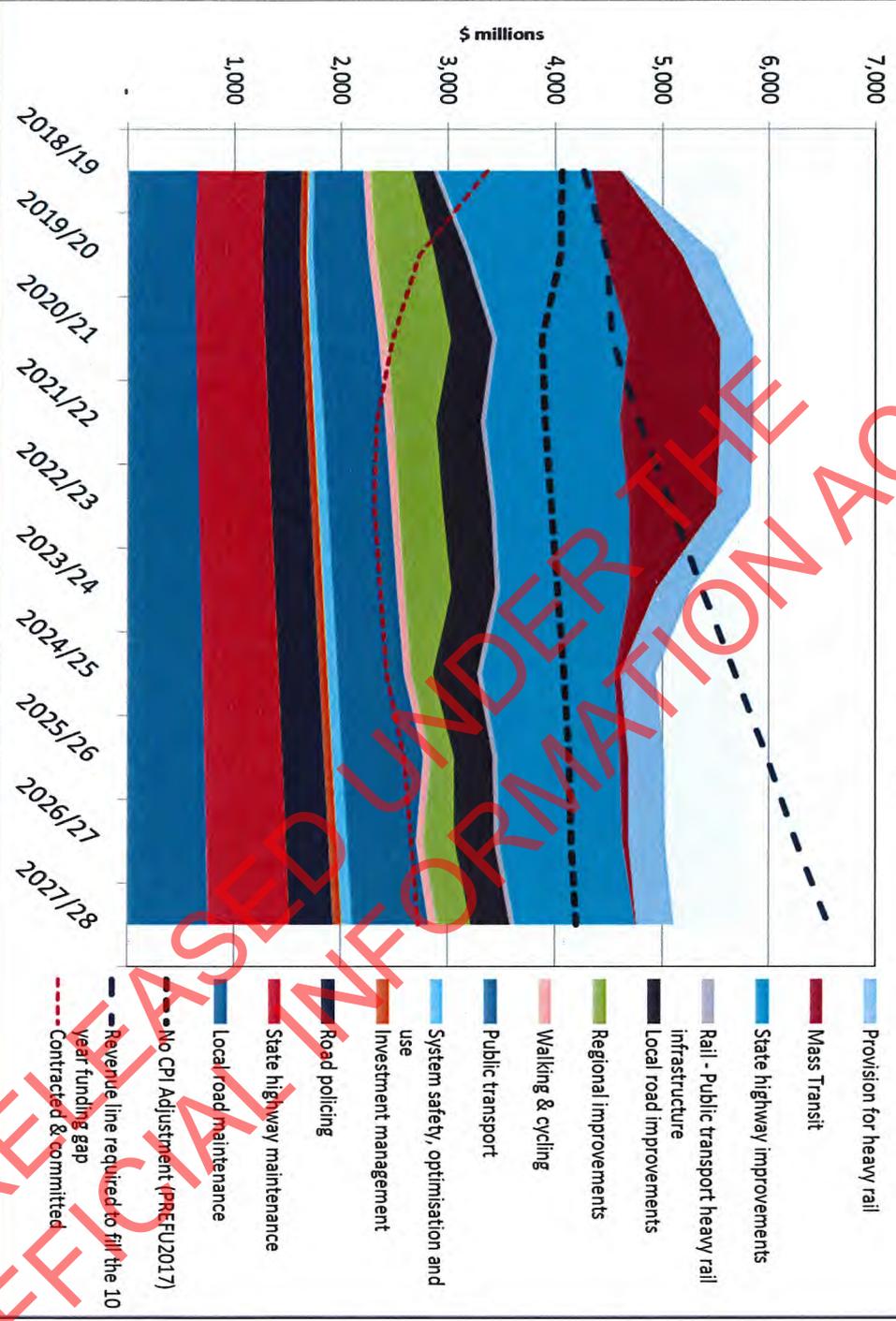
### Notes

The 10 year additional funding requirement is \$16.7 billion and could be provided with an annual FED/RUC increase of 5.4 cents per litre. A one-off increase of 30.5c/l in 2018/19 would also provide this level of funding. Financing options have yet to be fully explored.

# Shadow IAF/Mass Transit excludes N-W Line

## Scenario Shadow IAF/Mass Transit excluding North-West Line

Mass transit excludes North-West improvements on state highways reflect shadow IAF. Includes public transport heavy rail, freight rail, other activity classes at increased spending levels



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### Summary

- State highway improvements expenditure in State Highway Improvements and Regional Improvements activity classes reflects application of the shadow IAF.
- East-West Link at reduced scope.
- Mass transit programme in Auckland excludes North-West Line.
- Expenditure in a number of other activity classes, including footpath maintenance, is increased in response to the Government's GPS signals.
- This scenario includes provision for public transport heavy rail, and rail freight funding.

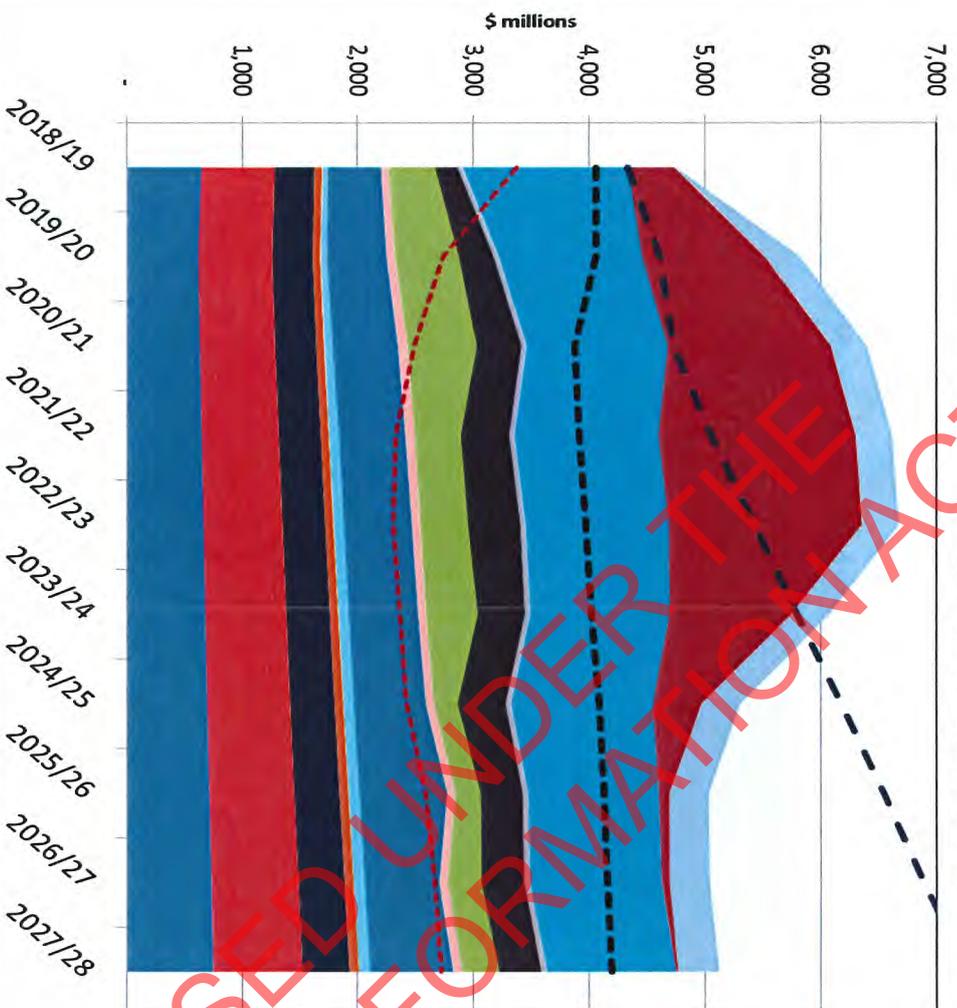
### Notes

The 10 year additional funding requirement is \$12.5 billion and could be provided with an annual FED/RUC increase of 4.1 cents per litre. A one-off increase of 22.9 c/l in 2018/19 would also provide this level of funding. Financing options have yet to be fully explored.

# Shadow IAF/Full Mass Transit

## Scenario Shadow IAF/Full Mass Transit

Mass transit 100% NLTF & PAYGO funded, improvements on state highways reflect application of shadow IAF, includes public transport heavy rail, freight rail, other activity classes at increased spending levels



- Provision for heavy rail
- Mass Transit
- State highway improvements
- Rail - Public transport heavy rail infrastructure
- Local road improvements
- Regional improvements
- Walking & cycling
- Public transport
- System safety, optimisation and use
- Investment management
- Road policing
- State highway maintenance
- Local road maintenance
- No CPI Adjustment (PREU2017)
- Revenue line required to fill the 10 year funding gap
- Contracted & committed

### Summary

- State highway improvements expenditure in State Highway Improvements and Regional Improvements activity classes reflects application of the shadow IAF.
- East-West Link at reduced scope.
- Mass transit programme funded 100% NLTF on a PAYGO basis
- Expenditure in a number of other activity classes, including footpath maintenance, is increased in response to the Government's GPS signals.
- This scenario includes provision for public transport heavy rail, and rail freight funding.

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### Notes

The 10 year additional funding requirement is \$16.3 billion and could be provided with an annual FED/RUC increase of 5.3 cents per litre. A one-off increase of 29.8 c/l in 2018/19 would also provide this level of funding. Financing options have yet to be fully explored.