

## Early direction for Government Policy Statement on Land Transport 2021

<b>Reason for this briefing</b>	<p>We have commenced development of the Government Policy Statement on land transport (GPS) 2021. This is the first in a suite of briefings to help shape the scope and direction of the GPS.</p> <p>This briefing seeks your direction on strategic priorities for GPS 2021. Early feedback from you will allow us to undertake scenario modelling and prepare a draft GPS for engagement by the end of the year.</p>
<b>Action required</b>	Confirm your expectations for the strategic direction in GPS 2021 (we recommend continuing with the priorities outlined in GPS 2018). We seek confirmation of your priority initiatives so we can model funding implications.
<b>Deadline</b>	31 July 2019.
<b>Reason for deadline</b>	You will discuss this with advice officials on 31 July 2019.

### Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Danielle Bassan	Senior Adviser, Investment	██████████	
Helen White	Manager, Investment	██████████	✓
Bryn Gandy	Deputy Chief Executive, Strategy and Investment	██████████	

### MINISTER'S COMMENTS:

<b>Date:</b>	26 July 2019	<b>Briefing number:</b>	OC190429
<b>Attention:</b>	<p>Hon Phil Twyford (Minister of Transport)</p> <p>CC: Hon Julie Anne Genter (Associate Minister of Transport)</p>	<b>Security level:</b>	<p>In Confidence</p> <p>[Some content is marked as RESTRICTED]</p>

### Minister of Transport's office actions

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|--|--|---|
| <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Withdrawn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. This briefing outlines our initial advice on the Government Policy Statement on land transport (GPS) 2021. It provides an overview of what you could do in GPS 2021, but explains that room to accommodate further new investment initiatives is limited by essential commitments (e.g. maintenance, ATAP, rapid transit) and new commitments Government has signalled since GPS 2018 (Let's Get Wellington Moving, the Future of Rail and the new Road Safety Strategy). The briefing covers information on the:
  - 1.1. principles behind the use of the National Land Transport Fund (NLTF)
  - 1.2. areas we recommend retaining/continuing from GPS 2018
  - 1.3. competing investment priorities you need to choose between, given constrained funding
  - 1.4. areas where you can clarify policy to gain greater value from the GPS or use non-financial levers to create system value.

## Executive Summary

2. The Ministry has commenced its review of GPS 2018 to inform the development of GPS 2021. Based on feedback from stakeholders and our analysis, this briefing presents you with possibilities for what GPS 2021 could include. It shows that you have limited choices given the cost of the Government's ambitious agenda.
3. GPS 2018 began a shift towards a new transport paradigm. This will take time to achieve as it requires the transport sector changing their focus and the ways they have previously worked, given nine years of consistent direction under previous governments. Good progress is underway to implement direction, including changes to NZTA's assessment approach and progress in implementing the Safe Networks Programme.
4. GPS 2018 signalled further issues to be addressed in a second stage GPS. As GPS 2018 was a large change for the sector compared to GPS 2015, you indicated that 'second stage' issues will be tackled in GPS 2021. This will build on GPS 2018 direction and avoid losing momentum in moving towards the new paradigm.
5. We are working on the premise that the strategic direction for GPS 2021 remains consistent with GPS 2018, with amendments to focus delivery on the changes you expect to see in the sector. GPS 2021 will see progress on 'second stage' issues including rail, the second major city deal (Let's Get Wellington Moving - LGWM), GPS reporting and road safety. It will also reflect wider policy work on the Urban Growth Agenda and reducing emissions. Due to funding constraints, we do not recommend further NLTF commitments on the following 'second stage' issues: public transport subsidies, freight or coastal shipping.

6. GPS 2021 will cover a period where the NLTF is heavily committed. Assuming no Petrol Excise Duty (PED) and Road User chargers (RUC) increases beyond 2020, \$29 billion (63 percent) of the total \$46 billion available over the next 10 year forecast is committed to 'essential' spend to maintain the network and existing services (including projects already approved under GPS 2018). This leaves \$17 billion to fund the Government's priorities of:
- 6.1. Auckland Transport Alignment Project (ATAP)<sup>1</sup>
  - 6.2. Future of Rail
  - 6.3. New Road Safety Strategy – Road to Zero
  - 6.4. LGWM
  - 6.5. Meeting the expenditure targets in GPS 2018 to deliver on the GPS results.
7. Forecast revenue is insufficient to progress all of the priorities listed above – an additional \$5.5 billion would be required over 10 years. This gap is primarily driven by assuming the Government will meet funding committed to LGWM but does not assume future decisions on rate increases for PED and RUC (upon which the quantum was conditional). Commitments to these rate increases would reduce the revenue gap to \$1 billion.<sup>2</sup>
8. Confirming for us that you will seek rate rises also enables us to concentrate modelling on how other priorities and pressures could be traded-off or funded. The graphs in the appendix give an initial indication of how current forecast revenue does not match ambition.
9. To successfully develop GPS 2021, we need early confirmation of your priorities. The process will require detailed programme of work on the underlying policy and funding decisions that come together to form the GPS.
- 9.1. We have identified areas where clearer policy positions can be communicated to maximise the value delivered by NLTF investment, and clarify what you expect to deliver through GPS 2021. These areas are urban and rural policies; data and technology; security; changes to support NZTA to deliver system reforms, and funding tools.
  - 9.2. We have developed a series of briefings to support your decision making and provide you with transparency on the policy positions that are in scope of the GPS 2021. You will receive around 24 issues before you receive a draft GPS in October 2019.
10. We are working to a timetable that would enable you to release a final GPS 2021 in June 2020. This timeframe would support successful implementation as it provides the sector with a year of preparation (for local government to prepare Regional Land Transport Plans (RLTP) and the New Zealand Transport Agency to prepare the National Land Transport Programme (NLTP)) before the GPS comes into force. This timing coincides with the pre-

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<sup>1</sup> This includes \$1.8 billion funding for the Auckland light rail project allocated for initiation. If financing is agreed to meet the total project cost, repayments are expected to utilise 25 percent of discretionary funds from the NLTF over the next 25 years.

<sup>2</sup> The Government agreed to a 60:40 share with local government to support LGWM over 30 years. An indicative quantum was given but was dependent on PED and RUC increasing in line with inflation every year for 30 years (around two percent annually). You are yet to confirm this, or decide whether this would be through a large, one-off rate rise or smaller multi-year increases. Your paper to Cabinet noted that if these increases do not occur, the components of the indicative package will need to be reviewed (and therefore the quantum of central government funding may change).

election period when previous governments have chosen to limit their decision making. This can be managed if the final GPS broadly aligns with the draft released for engagement at the end of 2019.

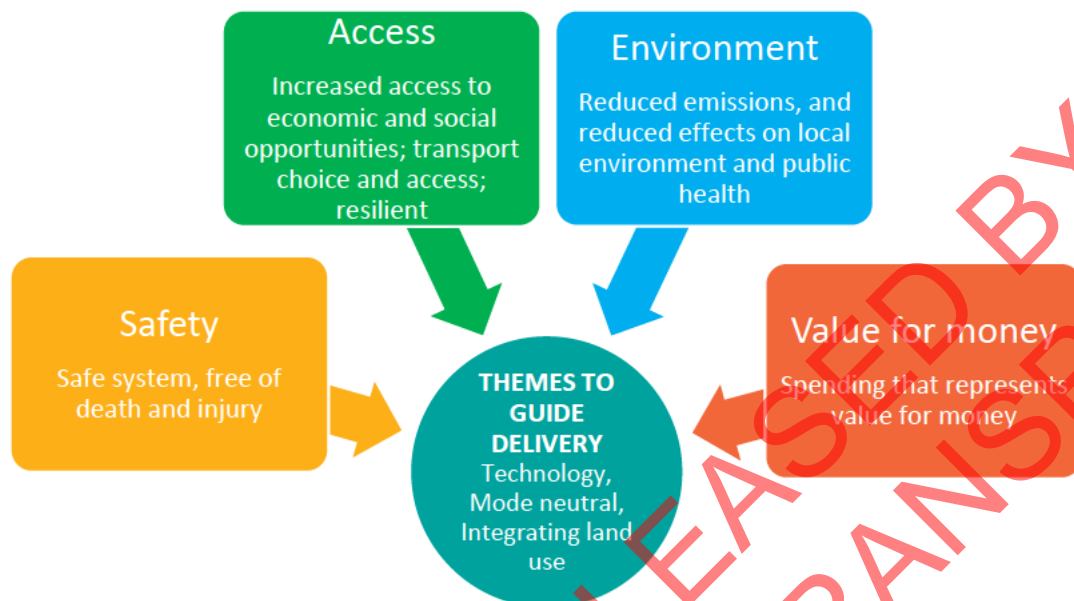
### **It is time to review the GPS**

11. The GPS must set the Government's investment strategy for the land transport sector and can set out relevant policies. You must review the GPS every three years, but changes can be light touch. We began the review process with:
  - 11.1. Regional workshops in March and April 2019, visiting councils across 14 regions. We sought feedback on GPS 2018, what they want to see in GPS 2021, and how the GPS document could be improved to fulfil its role (OC190359 refers).
  - 11.2. Sessions with NZTA, the Local Government NZ Transport Special Interest Group and government departments. We asked the same questions and advised on the expected GPS development process.
  - 11.3. Reviewing policy work across the Ministry to identify what could/should be included in GPS 2021.
  - 11.4. A range of papers on funding pressures and system issues. This included early advice on the forward pressures on the NLTF (OC190238), the outcomes of NZTA's State Highway revaluation process (OC190250), the relationship between NZTA and local government (OC190275), essential spend across the network (OC190360), capacity in the public transport activity class (OC190421) and ATAP funding and delivery pressures (OC190575). NZTA also continues to provide you with deep dives on the current use of each activity class.

### **Role of the GPS and current direction**

12. The GPS must set out the results the Government wishes to achieve in the land transport sector over 10 years, expectations of how NZTA should give effect to the GPS, activity classes that define the eligible activities for investment, funding ranges for the activity classes for at least the first 6 years, total expected revenue and expected expenditure.

13. The GPS also includes an indication of priorities to assist the sector in focusing their programmes. Safety and Access are the key strategic priorities in GPS 2018. Value for Money and the Environment are supporting priorities. Three overarching themes supported the delivery of the strategic priorities.



14. GPS 2018 set out an ambitious vision that was a big change for the transport sector. It began a shift in thinking and action towards the new future system that you envision but will take time to embed. The increasing focus on mode shift since GPS 2018 was published demonstrates that that shift is taking root.
15. Funding in all activity classes was increased in GPS 2018, apart from the state highway improvements class, which was reduced by approximately 34 percent relative to the GPS 2015. New activity classes were introduced for rapid transit and transitional rail.

**We recommend using a set of principles to determine when NLTF use is appropriate**

16. The NLTF is a hypothecated transport fund, collecting revenue from RUC, PED and motor vehicle registration. It is underpinned by the concept of a user-pays approach. Around \$46 billion each decade is spent through a modified PAYGO with limited debt financing. The NLTF is fit for its core purpose of funding changes to address current issues on the land transport system. The general practice is not to use the NLTF for “lead” investments (made ahead of need or to induce activity), for example in tourism subsidies or social outcomes.
17. However, GPS 2018 is guiding investments in transport that have broader outcomes than creating an efficient, safe and effective land transport system, such as:
- 17.1. Economic development
  - 17.2. Urban development and regional development (Placemaking)
  - 17.3. Resilience and security
  - 17.4. Environment and emissions
  - 17.5. Individual and community wellbeing.



18. This includes intergenerational projects (investments made now to benefit future generations).
19. NLTF investment has contributed to broader outcomes, including the Roads of National Significance and investments in mass transit as cities grow. These have significant net economic and place-making benefits but have been solely NLTF funded. Infrastructure costs relating to climate change (emissions reduction, adaptation etc.) are emerging as another such pressure.
20. When the NLTF is asked to wholly fund investments that make significant contributions to these broader outcomes, the core purpose of the fund is put under pressure and flexibility reduced. There are alternative ways to meet such demands in the short term, recognising the beneficiaries of these outcomes are much broader than the road users who pay into the NLTF.
21. One role of the GPS is to set national and local incentives and expectations regarding investment sources. Contributions from other parties can supplement NLTF investment to progress lead investments that deliver on broader outcomes e.g. regional economic development, tourism, social objectives. The LTMA provides for the government to add Crown funding to the NLTF where it wishes to make lead investments, through NZTA, in these broader outcomes, or to deliver subsidies or social outcomes through the transport system. Crown funding can also be paid directly to delivery agencies, as is the case with Provincial Growth Fund transport investments and City Rail Link.
22. You have applied these principles in the Future of Rail, and as the basis for respective central and local government funding levels in LGWM, where the NLTF will fund a lesser share of the programme than may have been expected if usual Funding Assistance Rate criteria were applied (60 percent as opposed to 90 percent or more).
23. Funding Assistance Rates that are set by NZTA under Ministerial criteria also influence the level of contribution the NLTF will make.
24. In GPS 2021, you could set the expectation that additional funding tools will be used where this is possible e.g. land value capture. Further advice is provided on this in paragraph 85-88.

*Capacity to raise debt is limited*

25. The NLTF has been used by NZTA to support some debt, but its capacity to do so is limited by the amount of discretionary funding available (currently \$1.7 billion per year). Whilst increasing debt would increase the immediate discretionary pot, the repayments would be taken from the same pot in the future. Using debt financing reduces future funding discretion and the extent it is appropriate is subject to the level of future revenue into the fund, which the NZTA Board cannot control. As a result, the Board has an approved set of financing measures to help determine a “prudent” level for financing commitments. \$5.5 billion of debt is serviced by the current GPS, requiring repayments of around \$2.7 billion to be made over the next 10 years.

*For the long-term we are exploring a more systematic way to support your choices*

26. We have a project underway to look at the whole transport portfolio so that we can take more strategic and long-term choices across investment and revenue (OC181187 refers).
27. This would provide more straightforward, long term options for building and maintaining the transport system. It is also a necessary tool for ensuring mode neutrality – as it will let governments compare investments based on outcomes-over-life. The outputs may provide

options for change to practices within the LTMA or system reform. We will brief you on this work later in the year.

### **We recommend continuity in the strategic priorities**

28. GPS 2018 set an ambitious direction that was largely welcomed by the sector at the Ministry roadshows (OC190359 refers). Stakeholders have indicated a strong preference for continuity in GPS 2021 (to have time to fully implement it).
29. If more significant change is required from GPS 2021, this would result in a period of lesser certainty around what will be delivered.
30. To further the momentum of GPS 2018 we recommend continuing with the strategic priorities for GPS 2021, with an amendment to the treatment of value for money. Displaying value for money as a strategic priority could imply a 'choice' of when to invest public money in a way that delivers the right infrastructure and services to the right level at the best cost. NZTA and approved organisations should automatically only fund the right services at the best cost to make appropriate use of public money. This should be embedded within the GPS and its implementation. We recommend ensuring that GPS 2021 reflects this by changing the presentation of value for money. We will develop options that avoid the perception that value for money has been "dropped as a priority". This will be covered in our next GPS advice in early September 2019.
31. Within the strategic priorities, NZTA has requested greater specificity to help focus delivery. The GPS 2018 has a very broad scope and expects NZTA to interpret and manage the themes, priorities, objectives, ministerial expectations and funding ranges. [REDACTED]
32. We recommend aligning the strategic direction section of GPS 2021 with the Transport Outcomes Framework. We were unable to match wording in GPS 2018 as the Transport Outcomes Framework was under development. Alignment will also act as a reminder to the sector that we will be measuring progress through outcomes indicators that will be monitored.
33. With NZTA, we will develop options of how to incorporate the Transport Outcomes Framework and set out more clearly, the priorities and specific changes you want to see from the sector in response to the GPS. We will present you with options as we develop the draft GPS.

### **Funding levels will affect the choices you make for GPS 2021**

34. Our revenue forecast shows \$46 billion funding will be available over the 10 years of GPS 2021 (2021/22-2031/32). This includes the scheduled PED and RUC rate increase in 2020 but no further rate increases.
35. 'Essential' expenditure will utilise 63 percent (\$29 billion) of the NLTF revenue, comprising of:
  - 35.1. Legal obligations (debt and PPP repayments).
  - 35.2. Contractual obligations for projects that are already approved and/or contracted.

- 35.3. Base spend (the minimum expenditure required to maintain the current network level of service, such as ongoing maintenance, public transport services, and road policing).
36. We recommend you retain this level of essential expenditure that includes projects approved by NZTA. This is because approvals have been communicated to stakeholders and revisiting this would generate costs (e.g. from breaking contracts) and/or could cause reputational damage. Stopping committed projects or moving funding to other areas may also create a perception of government as an unreliable customer, which could discourage investment in the construction and engineering sector to grow skills and capacity.
37. The remaining \$17 billion will need to cover all other priority transport projects that are suitable for NLTF funding. Any new debt arrangements would add to that pot, minus the repayments. At least some of the repayment would fall in 2021-31 and likely stretch beyond, reducing your ability to fund priorities in future. Should you wish to explore debt as a financing option, we would need to provide you with advice on the implications.

**New investment priorities create tension for delivering on GPS 2018**

38. The appendix shows that there is a shortfall of \$5.5 billion over the 10 year period of GPS 2021 if you wish to fulfil the direction set in GPS 2018 (including ATAP and reaching the midranges of some of the investment ranges set), as well as the additional priorities Government has since announced:

*Let's Get Wellington Moving (LGWM)*

39. Public announcement of the indicative LGWM programme committed the Government to delivering it, subject to local government endorsement and commitment to funding. The Government acknowledged that LGWM would require additional PED and RUC increases over thirty years.<sup>3</sup>

*Future of Rail*

40. Cabinet has agreed in principle to a reliable and resilient 10 year investment scenario for rail. This includes the assumption that the ongoing cost for the rail network will be channelled through the NLTF, with funding coming from track user charges, Crown and an NLTF contribution. This recognises that road users get some benefit from rail infrastructure but the most direct beneficiaries are track users and there are broader benefits to the public and wider New Zealand that the Crown should fund. It demonstrates the need to invest from outside the NLTF for very large investments. Funding arrangements and final costs are still being discussed. [REDACTED] The nature of the split is still being explored but it may be:

- [REDACTED]
- [REDACTED]
- [REDACTED]

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<sup>3</sup> The Government agreed to a 60:40 share with local government to support LGWM over 30 years. An indicative quantum was given but was dependent on PED and RUC increasing in line with inflation every year for 30 years (around two percent annually). You are yet to confirm this, or decide whether this would be through a large, one-off rate rise or smaller multi-year increases. Your paper to Cabinet noted that if these increases do not occur, the components of the indicative package will need to be reviewed (and therefore the quantum of central government funding may change).



41. [REDACTED] The trade-offs to fund this would need to be carefully considered, before any commitment is made, to avoid putting any other part of the transport network into decline.

#### *The new Road Safety Strategy*

42. To deliver a 40 percent reduction to deaths and serious injuries over 10 years through the Road Safety Strategy would require an additional \$1 billion for enforcement, and a further \$4.5 billion for speed management and infrastructure above base funding over ten years.

#### **There are direct pressures where you will need to decide the level of support**

43. As well as the priorities the Government has signalled since GPS 2018 was published, there are additional pressures that you will need to consider supporting. They are not yet costed. We will present you with scaling options so that you can determine the level of priority you wish them to have.

#### *The NZTA are revisiting cost estimates*

44. NZTA has said they are revisiting assumptions made on delivering GPS 2018 and essential expenditure. This is a result of higher than estimated construction cost inflation, and a higher rate of weather-related emergency events. We will test these assumptions and advise you further.
45. As you know, we have also been investigating and testing assumptions behind the level of expenditure deemed essential, and where there may be scope to create more flexibility. We are still working with NZTA to further refine this, but we do not expect that the numbers noted in this briefing to change substantially. In August 2019 we will brief you in more detail on how this is broken down and our confidence in the analysis.

#### *State highway improvements*

46. In GPS 2018 funding for state highway improvements was reduced by around 34 percent relative to GPS 2015. The NZTA and the local government have reported that this has had an adverse effect on areas where the key access is provided by state highways. Our modelling shows that state highway funding levels as provided in GPS 2018 for 2024–2028 will only be sufficient to repay existing debt and PPP commitments, along with imperative projects such as bridge replacements and some minor safety works. This is a particular challenge for regions that rely on state highways for their key connections.
47. As you are already aware, 12 re-evaluated state highway projects have been singled out as aligning with GPS 2018 priorities, e.g. Tauranga Northern Link and Melling Interchange. There is currently insufficient funding to support these. We will provide advice on the fit of these projects with the GPS priorities once confirmed, and in the context of the outcomes framework. We will also work with NZTA to understand whether there is evidence that further funding for state highway improvements in general is required, and scaling options for you to consider alongside other priorities.

#### *Maintenance*

48. GPS 2018 increased the funding available for both local road and state highway maintenance. This has been well received by the sector, but NZTA recommends that investment needs to be increased to reverse deteriorating trends in service levels and achieve the minimum sustainable level. The increased cost of construction, frequency of

adverse weather events, and maintenance of any new capital projects will need to be factored in when making decisions on this activity class.

49. We will undertake detailed modelling to determine whether there is a case for further funding maintenance for you to consider alongside other priorities. We will look at how this differs for local roads and state highways.

#### *Urban Development*

50. GPS 2018 supported investment to create more liveable cities. Further work is being done on this agenda across government, which GPS 2021 will need to reflect. We are working with MHUD to shape the Government's Urban Growth Agenda (UGA) to ensure that it delivers positive outcomes for transport across all of its five pillars. This is flowing through to key pieces of work, including the Spatial Planning Frameworks and the National Policy Statement on Urban Development (expected to be in force at the end of 2019). You will take an update to Cabinet in August on UGA progress.
51. The GPS 2018 includes a direction for transport investment to support mode shift from private vehicles to public transport, walking and cycling. Mode shift is a key feature of your plan for urban areas for accessibility, safety, healthy and safe people, and economic prosperity.
52. NZTA has developed a National Mode Shift Plan, which has not yet been costed. On 15 June 2019, you asked the NZTA to consider doing more on mode shift within existing budgets. We will work with the NZTA to advise you further on what is feasible within existing budgets. However, it is likely that significant progress in mode shift may require more funding. There are already some walking and cycling projects that align with GPS 2018 objectives and have political support but cannot be funded in the near term due to existing funding commitments (e.g. Ngauranga to Petone cycleway).
53. If urban populations grow quicker than current forecasts then cities may seek to bring forward projects currently planned for after 2030/31. This would also represent an additional pressure on the NLTF.

#### **There are indirect pressures that may affect the NLTF**

##### *Reducing emissions*

54. Under current investment and regulatory settings New Zealand will not meet the deadline to reduce emissions under the Paris Agreement by 2030, which falls within the investment window of GPS 2021. However the proposed vehicle fuel efficiency standard would reduce emissions by 5.1 million tonnes over 2020–2041. Further gains will be made through a vehicle purchase feebate scheme and more EVs (note EV charging infrastructure is not paid for by the NLTF). The Cabinet paper you lodged on fuel efficiency standards and feebates sets the expectation that Budget bids would be made to fund these schemes.
55. The GPS will contribute through mode shift (including through rail) but the emission reduction potential is relatively small (a one percent reduction in private vehicle emissions would require a 30 percent increase in public transport and cycling trips, and a doubling of walking trips over the next 20 years).
56. The main role for the GPS will be to reflect Government policy in this area and how the Government will respond to the Independent Climate Change Commission's interim report and set out transport's role in reducing greenhouse gas emissions, not through NLTF investment. Any further interventions should be covered by carbon emissions budgets, which

will be set up under the Climate Change Response (Zero Carbon) Amendment Bill (OC190547 refers). We recommend that you set the expectation with Cabinet colleagues that the NLTF is not the appropriate source to fund the main initiatives to meet the carbon targets for transport.

57. The emissions targets may influence the projects NZTA decides to invest in. You could reframe the environment priority in the GPS so that it is used as more of a deciding factor when NZTA is choosing between interventions. We will provide further advice on GPS and the environment in September 2019.

*Ensuring the NZTA is properly funded to be a competent regulator*

58. In order to build the functions required of an effective regulator that were highlighted in the Review of NZTA, NZTA will need to be [REDACTED]. Given most land transport users are already effectively levied through RUC, PED and motor vehicle registration, it makes sense to provide a general levy through LTMA section 9 for the regulator, before funding is applied to the NLTF. This is being discussed in the Cabinet paper on the Review of NZTA and a legislative amendment being sought. The amount of the money being sought for the regulator under LTMA section 9 will be the subject of a NZTA funding review due for completion by June 2020. The impact on the amount available for the NLTF and GPS will then need to be adjusted.

**Your choices may mean changing activity classes**

59. Activity classes are one way to signal to industry your expectations for investment. They support local government planning and construction sector planning by providing insight into the pipeline of upcoming investment. They are a strong lever for you to guide investment into certain activities and they are a major part of reporting how investment is spent to achieve your aims.
60. There is a need for the GPS to strengthen transparency around how funding is allocated across outcomes, places and activities but activity classes are just one mechanism for doing this.
61. You have asked about options for outcomes-based activity classes. Feedback from the Ministry roadshows was that such a change would not necessarily be helpful. The drivers behind lack of transparency lie more in management, interpretation and application of the activity classes by NZTA and the sector. Switching to outcomes-based activity classes would not necessarily fix that. Furthermore outcomes-based activity classes would not help the sector to see where to build capability and invest. They may also mean more reliance on NZTA's interpretation of how projects contribute to outcomes and how money has been spent. We recommend any changes to activity classes are gradual.
62. For GPS 2021 activity classes we recommend:
- 62.1. Ring-fenced funding for safety deliverables to test the concept of an outcomes-based activity classes.
  - 62.2. Replacing the transitional rail activity class. Initial suggestions are that Transitional Rail would be replaced by two activity classes - one for maintenance as a continuous programme to provide certainty and take the network out of managed decline, and one for capital works subject to a more detailed business case approval. This matches with the direction outlined in GPS 2018, which suggested some modes would have higher investment in the short-term, to make up for historic

underinvestment. In the long run, we could explore removing these mode based activity classes so that rail is fully integrated and competes with other modes for maintenance and capital investment. You will receive further advice on planning and funding the Future of Rail in August 2019.

- 62.3. Considering the functionality of the regional improvements activity class. It was designed to be spent on any infrastructure interventions that improve the level of transport service outside of metropolitan areas to support regional economic development. This has translated into spend on a mix of state highways and local roads. You will receive advice in September 2019 on whether it is the best approach to achieving greater regional equity and transparency.
- 62.4. Consideration of the interaction of local roads and state highway activity classes, including the 100 percent Funding Assistance Rate applied to state highways.

**In light of the multiple choices you face, we have identified some areas where we do not recommend new funding in GPS 2021**

63. GPS 2018 set out a broad direction of change, including many areas to be addressed in a second stage GPS (which will be analysed in developing GPS 2021). We recommend containing the scope by including the government response to reducing emissions, urban development, rail, road safety and not progressing work on new initiatives in the following areas:

*Public Transport for social objectives*

64. You have discussed other means of improving social outcomes by reducing the price of public transport. This includes further support for the SuperGold card or increasing the general subsidy (currently at least 51 percent, varying by council). We recommend that subsidies primarily supporting social outcomes should be paid for from social spending, not the NLTF, as with SuperGold.
65. With respect to the confidence and supply commitment to consider a Green Transport Card, our current GPS 2021 modelling does not include cost implications for the NLTF, either through direct subsidy of transport or indirectly (i.e. consequential revenue lost or additional services required if a card increases patronage). Cabinet is likely to take decisions on the Green Transport Card in August 2019.

*Freight system*

66. The Government continues to support a mode-neutral freight system. The Future of Rail will be a significant commitment to this and will be incorporated into GPS 2021. The Provincial Growth Fund has also allocated \$268 million to regional rail freight initiatives, with a further \$300 million announced at Budget 2019. Freight on roads is already supported through the GPS. Given the significant commitments already planned, we do not recommend seeking further specific freight initiatives for NLTF support in GPS 2021.

*Coastal shipping*

67. GPS 2018 noted that the second stage GPS should consider providing a higher level of access to markets via rail or coastal shipping, and that “over time” the scope of the GPS may expand to include aspects of coastal shipping.

68. Our initial recommendation is to be consistent with GPS 2018, and not to fund specific coastal shipping initiatives in GPS 2021. GPS 2018 states that “coastal shipping services, ports and airports are considered when planning for land transport services that link to these facilities, but operate on a commercial basis without funding from the NLTF. The GPS does not authorise the use of NLTF revenue for these activities”. We suggest any reference to coastal shipping in GPS 2021 only reinforces the importance of strong freight connections to ports, by road or rail. This would support both domestic and international shippers.
69. You will receive advice on how to support coastal shipping and its value to the system next week (OC190637 refers). You can then consider how you may want to use GPS and other levers.

**We have identified some areas where clarification can help you maximise value from your continued strategic direction**

70. There are areas where you can clarify policy to gain greater value from existing direction of the GPS or use non-financial levers to create system value.

*Rural vs Urban areas*

71. New Zealand has a high ratio of transport infrastructure to population. It ranks seventh globally for the ratio of highways per capita. This is due to the geography of New Zealand and urban-rural population spread. Population density is relatively low, at 15 people per square kilometre – less than half the OECD average and higher than only Australia, Iceland, Canada and Norway. Flexibility is needed in the NLTF to maintain minimum standard of infrastructure across this expanse over time. That includes supporting areas with low population.
72. The NLTF results in some regions contributing more to the fund than is spent in their area (and vice versa), with funding decisions taking place at a national level. This approach helps the whole country achieve outcomes, and progress high-cost, nationally significant programmes and projects.
73. New Zealand’s geography and its spread of economic activity creates problems for use of population share as a proxy for determining transport investment levels and committing to decades of investment. Commitments to set quantum of funding, as with LWGM and ATAP<sup>4</sup> has guaranteed 50 percent<sup>5</sup> of the NLTF will be spent in two cities over the next ten years, constraining funding available for the rest of New Zealand or for national priorities.

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<sup>4</sup> You have already committed to \$16.3 billion funding for ATAP for 2018-2028. This has been signalled by you as a priority investment and is an agreement between Cabinet and Auckland Council as the indicative transport investment package for Auckland over the next 10 years. The recent monitoring report on ATAP identified some funding uncertainty for the programme and you have requested that work be completed on options to ensure greater certainty of the \$16.3 billion. This work, overseen by the ATAP governance group, will feed into the development of the 2021 GPS.

<sup>5</sup> This rises if City Rail Link and any investment made in the cities through the Future of Rail is included.



74. Other areas are developing city deals e.g. Queenstown, Christchurch, Bay of Plenty. You have been clear with them that their plans allow alignment to GPS outcomes but are not a guarantee of funding. If any future deals are similar in nature to ATAP or LGWM, you could deal with them by:
- 74.1. Guaranteeing a set quantum, as with LGWM and ATAP but we recommend this would require revisiting the current premise underlying NLTF collection and distribution.
  - 74.2. Guaranteeing funding to cities through Crown contributions.
  - 74.3. Maintain the status quo of guaranteeing an overall level and quality of investment in the *national* network, leaving city deals to manage content of their plans through RLTPs and NZTA approvals process.
  - 74.4. Putting the NLTP on longer-term footing so that NZTA can make commitments for the duration of city-deals. For this to work, it would need to reduce discretionary funds available over outyears, otherwise it would offer no guarantee to cities that their deals would not be overturned with each new GPS deciding new priorities.
75. Regional equity is not an explicit objective of the GPS or NLTF. GPS 2021 will need to carefully frame why 50 percent of the NLTF will be spent on LGWM and ATAP over the next ten years. We will provide a paper on our recommended approach to regions in GPS 2021 in September 2019. Part of the narrative may include:
- 75.1. Considering support of the twelve re-evaluated state highways proposals. Local areas affected have been vocal about their support for these proposals, which have been included in their RLTPs, but given current direction and constraints, would not be funded until 2028. You will likely face continued pressure to find funding for these proposals, some of which are important for freight connections or relieving urban congestion.
  - 75.2. Setting the expectation that NZTA will work more closely with regions to align priorities in planning and investment decisions, and that RLTPs reflect the GPS.
  - 75.3. Asking NZTA to consider how the NLTP can reflect a spatial planning approach that reflects the GPS.
  - 75.4. Seeking an NLTP that better reflects the 6-10 year strategy set out in the GPS.

*Stronger message on technology and data*

- 76. As technology has progressed so has the amount of data collected and the ways in which it can be used, but the GPS has not fully kept pace with this change.
- 77. Data about the transport system has value, as it can be used to influence travel patterns and choices, as well as new private sector investments. This value can be considerable, and there are policy choices (e.g. whether the data should be freely available) that are important to maximise its use. There are also no expectations set on how/when such data should be used.
- 78. We think GPS 2021 should set some core principles for use of this data asset, in the context of how we will support innovation in the system. This should also encourage NZTA to maximise use of the transport data it holds and shares, to make the most of an already

constrained NLTF. We will provide further advice on our recommended approach in September 2019.

79. More generally, the previous GPS established technology as a strategic theme, but it provided relatively little direction on when, where or how NZTA should invest in technology. Recent issues with the NZTA's connected journeys unit highlight the fact that there are different approaches to investing in new technologies, and stronger direction on technology and innovation investment priorities may be helpful.

#### *Security*

80. [REDACTED]
81. You will receive further advice on security statements for GPS 2021 in September 2019. This may include changes to activity class definitions so they can be used to help improve physical security in the transport system.

#### *NZTA's role*

82. A number of changes since publication of GPS 2018 mean NZTA (and other agencies) must operate differently. You will need to provide guidance on this in the GPS.
- 82.1. The Future of Rail creates new or changed responsibilities for NZTA, KiwiRail, the Ministry, and potentially the Treasury. The GPS will need to articulate the NZTA's role and your expectations of how it carries this out. The relationship between NZTA and KiwiRail has varied through the life of the current GPS, and the NZTA Board may benefit from clear expectations about how rail should be managed. Our advice is the NZTA should treat KiwiRail as an investment partner (like Police), and consider carefully how processes are replicated across the agencies. The GPS will also need to (in effect) incorporate parts of the rail plan into the GPS framework. You will receive further advice on implementing the Future of Rail in September 2019.
- 82.2. We are preparing joint advice with the Ministry of Housing and Urban Development on how the respective roles of NZTA and the Housing and Urban Development Authority (HUDA) can be reflected in their respective GPSs, so there is a clear basis for the Crown entities to work together, integrate transport and land use considerations, and pursue shared goals such as reduced single occupant vehicle trips and improved access to social and economic opportunities.
- 82.3. There is scope for NZTA to work in a way that naturally aligns with the HUDA. It can indicate expenditure up to 10 years out. You can signal the importance of a spatial planning approach in regions based on your priorities and the revenue that is provided in the GPS.
83. There has been consistent feedback from the regions about their relationship with NZTA, and the way it is contributing to local planning. The NZTA has an important role to support local government in the RLTP and NLTP process, and councils have articulated how this works when it works well. There is value in articulating this role clearly so there are clear

expectations for all parties implementing the GPS. The relationship has worked best when NZTA:

- 83.1. Works closely with local government, and provides good access to transport planning capability and access to decision-makers.
  - 83.2. Works closely with councils on their RLTPs.
  - 83.3. Carries out its 'honest broker' role effectively, and manages expectations carefully in respect of what can be delivered within the GPS' priorities and revenue.
  - 83.4. Provides expertise in planning public transport, which is a core role for NZTA that requires expertise that is hard to replicate except in the largest metros.
84. How NZTA organises itself and carries out its operational activities is a decision for its Board, but you can give weight to expectations of how the GPS is put into effect.

#### *Alternative funding*

85. The GPS provides guidance on what is in scope for NLTF funding. We recommend updating the guidelines. Our work on this will consider who should pay.
- 85.1. For example beneficiaries of major infrastructure should pay via value capture or targeted rates.
  - 85.2. For some issues, the Crown may be the most appropriate funding source (for example, for adaptation to climate change, tourism activities).
  - 85.3. For some issues the NLTF is suited to be a co-funder, with councils having to look elsewhere to raise remaining funds (e.g. LGWM).
86. Having clear positions on areas that the NLTF should and should not fund will help us send signals during Budget 2020 preparations in August 2019 for areas that will be better suited to Crown funding.
87. The Ministry is aiming to develop a toolkit that will set out the advantages and disadvantages of different funding mechanisms, and when their use is recommended. We think there is merit in the GPS highlighting some specific funding tools and encouraging their use should the toolkit be sufficiently developed. Introducing this in GPS 2021 would allow us to judge their usage and efficacy and consider going further in future GPSs. This will take account of the recommendations from the Productivity Commission's *Local Government Funding and Financing* draft report. We will provide you with further advice in September 2019.
88. Funding Assistance Rates are another potential lever that decides how much of a contribution the NLTF makes to projects. You are able to set the criteria that guides how NZTA sets Funding Assistance Rates. We will provide you with further advice in September 2019.

#### **Timing of GPS 2021**

89. We recommend releasing GPS 2021 a year before it comes into effect. This will allow the sector time to reflect the GPS in RLTPs and for timely and effective delivery of the NLTP. GPS 2018 was released a month before it had to come into effect. This has been

consistently raised by local government as a key barrier to smooth implementation. Repeating this late timing will likely be seen as uncooperative.

90. The earlier we understand your preferred strategic direction and themes, the sooner we can prepare a draft GPS. If you agree to continue with the GPS 2018 strategic direction and scope, we intend to provide you with a draft GPS for public engagement in December 2019 and a final GPS in June 2020. Council officials have indicated that these timeframes are optimal for successful implementation.
91. A June 2020 publication date may coincide with the pre-election period when previous governments have chosen to limit their decision-making. If the engagement period results in major changes to the final GPS, it may not be appropriate to release the final GPS in June 2020. We would like to discuss this timing further with you so GPS 2021 can be well managed and successfully implemented.

### Next steps

92. This briefing highlights a number of 'live' issues requiring considering and/or decisions. You will continue to receive weekly report updates on progress on GPS 2021 development and specific briefings as outlined in the table (we will seek to amalgamate advice where possible). We intend to meet with Minister Jones to discuss GPS 2021 priorities, focusing on regional development signals and practical implementation.
93. The more detailed briefings below will build up the policy positions that will shape GPS 2021, and will be brought together in summary briefings (21) and (22). We will iterate drafts of the GPS with you during this time before asking you to approve a final draft in October/November 2019.

Advice	Topic	Suggested timing
1	NZTA's Mode Shift Plan <i>(Expectation that NZTA plan within existing budgets)</i>	NZTA presenting to DEV on 1 August 2019
2	Light Rail <i>(Advice on Response Requirements document to NZTA and NZ Infra)</i>	End July 2019
3	Coastal shipping	Early August 2019
4	Let's Get Wellington Moving <i>(Advice on draft letter of expectations to NZTA)</i>	August 2019
5	Reporting on GPS 2018	August 2019
6	Second Cabinet Paper on the Future of Rail	August 2019
7	Advice on Business Case for Rapid Rail	Late August 2019
9	Green Transport Card <i>(Including advice on GPS funding)</i>	DEV paper on 28 August 2019
10	Activity classes for GPS 2021 <i>(Advice on what activity classes are required)</i>	August 2019
11	Role of GPS in supporting environmental outcomes	September 2019

<b>Advice</b>	<b>Topic</b>	<b>Suggested timing</b>
12	How GPS 2021 can work for regions <i>(Includes PGF)</i>	September 2019
13	NZTA Review Cabinet Paper <i>(Advice on charging mechanisms to fund NZTA's regulatory role)</i>	September 2019
14	Funding and financing toolkit <i>(Includes reference to Productivity Commission report)</i>	September 2019
15	Third Cabinet Paper on the Future of Rail <i>(Includes track user charges and KiwiRail structure)</i>	September 2019
16	Release Initial NZ Rail Plan	September 2019
17	Advice on the urban development for GPS 2021 <i>(Including alignment of Housing and Urban Development GPS)</i>	September 2019
18	Technology, Data and Innovation in the GPS	September 2019
19	Funding assistance rates	September 2019
20	Security and resilience statements for GPS 2021	September 2019
21	More specific strategic direction for GPS 2021 <i>(Clarity to give effect to direction)</i>	September 2019
22	GPS 2021 costs and content <i>(Activity classes implications following decisions)</i>	September 2019
23	Upper North Island Supply Chain Strategy (UNISCS) Working Group Report	October 2019
24	Implementation of GPS 2021 and measuring outcomes and delivery	October 2019
25	Draft Cabinet paper and GPS 2021 to approve for Cabinet write-round	October 2019



## Recommendation

94. We recommend that you:

### *Strategic Direction*

- (a) **agree** to continuity in the direction from GPS 2018 and continue with the strategic priorities of safety, access and environment in GPS 2021, with a change to the presentation of value for money Yes/No

### *Funding Pressures and Scope*

- (b) **note** the existing funding pressures on the NLTF
- (c) **confirm** that you will seek rate increases to support Let's Get Wellington Moving Yes/No
- (d) **agree** to contain the funding scope of the GPS 2021 by:
- i. funding social objectives for public transport from social spending, not the NLTF Yes/No
  - ii. not extending funding subsidies of Public Transport in GPS 2021 Yes/No
  - iii. not exploring further, new freight initiatives for GPS 2021 Yes/No
  - iv. agreeing that the NLTF should not be the main funding source for meeting carbon targets for transport Yes/No
- (e) **note** you will be receiving further advice on coastal shipping but our initial recommendation is not to fund new initiatives in this space

### *Next Steps*

- (f) **agree** that we should continue to work towards releasing a draft GPS 2021 for engagement in December 2019 Yes/No
- (g) **signal** if you would like additional, topic specific briefing to be added to the schedule of briefings on further advice to develop GPS 2021

Helen White  
Manager Investment

**MINISTER'S SIGNATURE:**

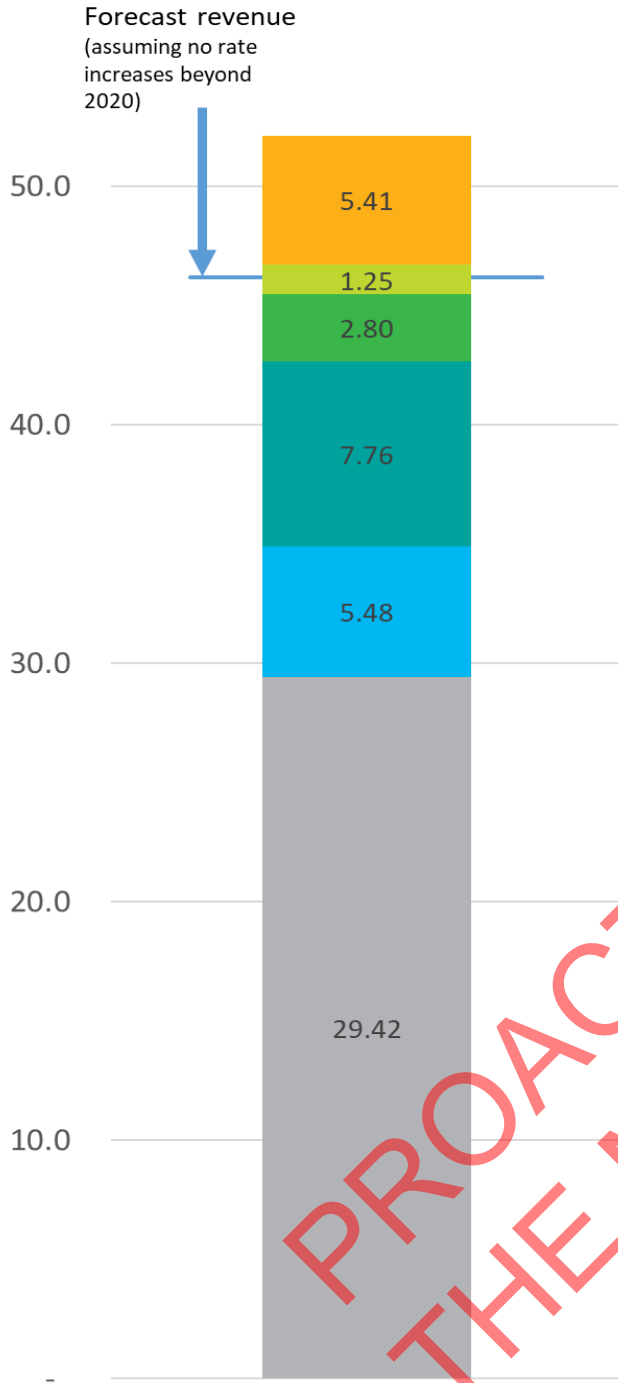
**DATE:**

## Appendix: Funding level graphs

1. The following graphs are based on projections of previous spend through the National Land Transport Programme. The Ministry and the NZTA are working together to improve the quality of these projections to assist with decision-making as you consider trade-offs between different activities and initiatives.
2. It is important to note that:
  - the results are draft, and subject to change based on our deeper analysis of the data sitting behind it
  - the way the GPS works will not necessarily result in delivery of the activities specifically in the order we have presented here
    - however, our better understanding of your preferred priority order will help us to set the strategic direction in a way that best delivers on your priorities
3. We plan to further adapt the model behind this data to allow you to easily consider and trade-off between priorities. This will help you to understand at a high level the primary outcomes of different choices, and the regional distribution resulting from different decisions. We will provide this advice in September once we have improved our confidence in the data, and have a clear understanding of the costs and benefits of different choices.

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Total spend 2021/22-2030/31 (\$b)

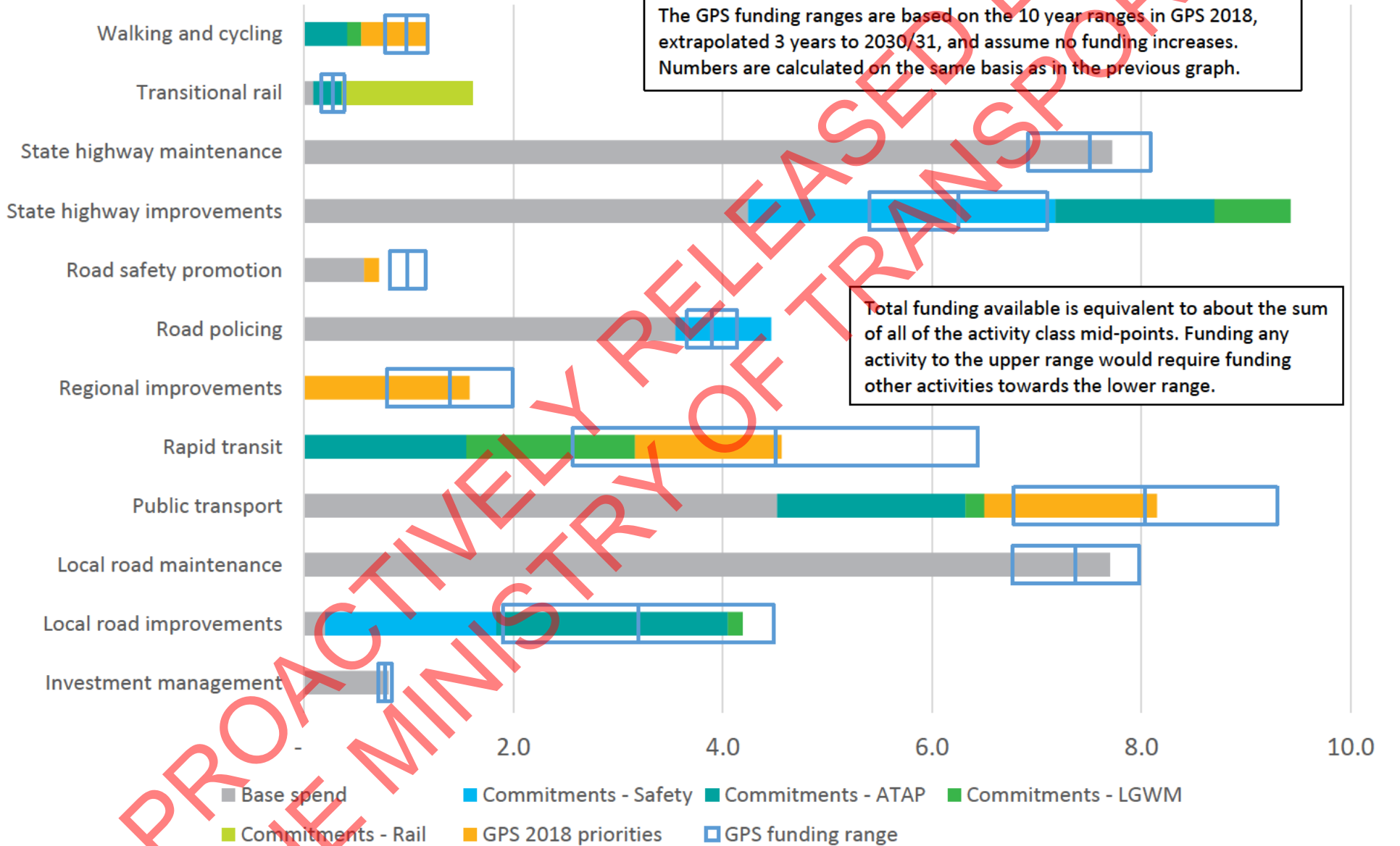


Item	Description	Key assumptions and 10 year cost	Trade-offs
Other new transport spend	Anything not included below would need to be considered separately and prioritised against the other activities.	Other known potential priorities include: <ul style="list-style-type: none"> <li>• Re-evaluated state highway projects - \$6b</li> <li>• Local road improvement programmes - \$2.7b</li> <li>• Other potential priorities, such as the Green Card, Coastal Shipping, environmental investment.</li> </ul>	N/A
GPS 2018 priorities	Spend that was signalled as part of GPS 2018 not being delivered below.	<ul style="list-style-type: none"> <li>• Rapid Transit (outside of ATAP and LGWM) - \$1.4b</li> <li>• Regional Improvements - \$1.6b</li> <li>• Public Transport - \$900m</li> <li>• Walking and Cycling - \$200m</li> </ul>	Reducing funding below the midpoints of the ranges set in GPS 2018.
Commitments - Rail	Cost of rail to the NLTF.	Current estimate for NLTF contribution to rail - \$1.25b	Limiting NLTF's role.
Commitments - LGWM	The costs of LGWM not in base spend.	<ul style="list-style-type: none"> <li>• Spend on LGWM not in base spend - \$2.8b</li> </ul>	Revisiting LGWM commitments.
Commitments - ATAP	The costs of ATAP not in base spend.	<ul style="list-style-type: none"> <li>• Spend on ATAP not in base spend - \$7.8b</li> <li>• (combined with base spend and safety would deliver \$16.3b over the first decade of ATAP)</li> </ul>	Revisiting ATAP commitments.
Commitments - Safety	The safety commitment being made as part of the Road Safety Strategy that is not captured in 'base spend'.	<ul style="list-style-type: none"> <li>• LCLR safety programmes - \$2.5b</li> <li>• New specific safety interventions - \$2.3b</li> <li>• Increased enforcement funding - \$700m</li> </ul>	Reducing costs on the Road Safety Strategy.
Total base spend	The total level of expenditure required to operate and maintain the network at current levels of service, and to continue existing core policies. This is the spend that we assess as necessary through the NLTF regardless of the Government's priorities, unless specific decisions are made to discontinue it.	The key major components include: <ul style="list-style-type: none"> <li>• Repayments of debt - \$2.7b</li> <li>• Approvals from NLTP 2018-21 - \$550m</li> <li>• Continuing forecast levels of spend in:                             <ul style="list-style-type: none"> <li>- road maintenance - \$14b</li> <li>- road policing - \$3.8b</li> <li>- public transport - \$4.5b</li> <li>- emergency works - \$2b</li> <li>- structural replacements (eg bridges) - \$250m</li> </ul> </li> </ul> Excludes non-essential expenditure that has not yet been committed under ATAP and LGWM (ie it includes expected road maintenance costs and approved projects that are part of ATAP, but excludes future ATAP improvements).	Changing core assumptions such as FAR, farebox recovery and cost escalation rates.  Reducing network maintenance or allowances for emergency works.  Reducing funding for road policing.

# Total spend 2021/22-2030/31 (\$b)

The GPS funding ranges are based on the 10 year ranges in GPS 2018, extrapolated 3 years to 2030/31, and assume no funding increases. Numbers are calculated on the same basis as in the previous graph.

Total funding available is equivalent to about the sum of all of the activity class mid-points. Funding any activity to the upper range would require funding other activities towards the lower range.



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