

Decision paper- scenarios for GPS 2021

Reason for this briefing	To support you to make trade-offs for GPS 2021 development so that a draft GPS 2021 can be prepared in time for public engagement.
Action required	Confirm funding commitments to ATAP, Road to Zero, Let's Get Wellington Moving and the Future of Rail. If you are seeking to fund a wider set of initiatives through GPS 2021, prioritise these initiatives and indicate whether you would like to fund them by revisiting existing commitments and/or increasing revenue.
Deadline	11 November 2019
Reason for deadline	To prepare you for meetings on 11 November where you will choose from the options set out in this paper. This paper will also inform how you will discuss Future of Rail budget initiatives with the Minister of Finance on 13 November.

Contact for telephone discussion (if required)

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MINISTER'S COMMENTS:

Date:	7 November 2019	Briefing number:	OC191098
Attention:	Hon Phil Twyford (Minister of Transport)	Security level:	Budget - In confidence

Minister of Transport's office actions

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 Withdrawn | 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

Purpose

1. This paper is to help you decide which areas you wish to include in GPS 2021. You will have time to discuss queries arising from this paper with officials on 11 November 2019.
2. The steers you give will be turned into an overall investment strategy for you to review with Associate Ministers.

Background and timeframes

3. This paper is the result of the budget-like approach that you requested for GPS 2021 and the steers you have given to date regarding your priorities and areas of interest. It should be read alongside the aide-memoires you will receive at the same time.
 - 3.1. OC191055 Further information on base expenditure in GPS 2021 – This sets out the budget-like process we have undertaken, our recommended base for GPS 2021, and the value it provides. This paper asks for your agreement to the base so that you can determine what further commitments it is feasible to make in GPS 2021.
 - 3.2. OC191056 Indicative Regional distribution of the recommend base for GPS 2021 – This shows how the base may be spread across the regions. It is theoretical only as regional distribution depends on project-specific decisions taken by NZTA and on which projects are submitted in RLTPs. It gives you a sense of how regions may be impacted by around 72 percent of NLTF investment.
 - 3.3. OC191094 Lessons from the domestic sea freight development activity class – This sets out how you could invest in coastal shipping if funding is available in the NLTF and if it is a higher priority than other areas for investment described in this paper.
 - 3.4. OC191105 Data work programme – This sets out the extent of data and information the Ministry has available to support evidence-based recommendations. The paper sets out the strides being made to improve this as well as limitations (nationally and internationally) on providing information that directly allows lines to be drawn from input (investment) to outputs to outcomes.
4. On 11 November 2019 you will discuss with officials what kinds of activities you wish to support through GPS 2021 and which would not be signalled in the GPS for investment. Officials will take the choices you make and turn them into an overall investment strategy with activity classes for you to review on 25 November 2019. The decisions you make on 25 November 2019 will be turned into a full draft GPS 2021 for your feedback in the week the first week of December 2019.
5. The decisions you make from this point onwards will be critical. As detailed in previous advice, it is important that the ambition of the strategic direction section of the GPS is supported by the appropriate level of investment in order to be achievable (feedback from the sector on this point is noted in April 2019 in OC190275).
6. Your decisions will also affect your Budget negotiations with the Minister of Finance. You will have an initial meeting with the Minister of Finance to outline your priorities for Budget 2020 on 13 November 2019, and submit initiatives on 29 November 2019.

13. A summary table of the options is shown below. We ask that you indicate which option you would be interested in pursuing. If you choose option B or C, we ask that you prioritise which initiatives you would like to fund in addition to already announced Government programmes.

	Base spend to maintain benefits of current levels of service	Priority programmes (ATAP, LGWM, Road to Zero, Future of Rail)	Other initiatives	Revenue implication
A	✓	✓	x	No
B	✓	✓	Some	Yes
C	✓	Slower	Some	No

14. The steers we are seeking from you are set out overleaf on the A3. This paper explains why those choices are needed and information to support you to make them.
15. Your steers are needed in order to move forward with drafting the GPS and forming activity classes. They will also inform the upcoming Budget conversations you will have with the Minister of Finance on 13 November (particularly around previous and future Rail investment) and for discussions with the Minister of Finance and Budget 2020 Coordinating Ministers (over December 2019 and January 2020) on future transport investment. Your GPS decisions are essential to determine which Budget 2020 bids you will put forward to the Minister of Finance on 29 November 2019.

GPS 2021: Key decisions to make by 11 November 2019

~\$48 billion of NLTF funding available

for 2021/22-2030/31

Under current revenue settings, including FED and RUC increase planned for June 2020

- ~\$35 billion

to maintain existing levels of service ("the base")

= \$13 billion remaining

1

Do you agree to this level of investment to maintain existing service levels?

YES **NO** – We can explore savings but existing levels of service would decrease, e.g. there will be overcrowding on buses. It will take several weeks to develop and agree impact of a reduced base, resulting in a delay to engagement on the draft GPS.

- \$12.43 billion

This includes ATAP (\$5.2 billion), Road to Zero (\$4.8 billion - \$0.3 billion will also contribute to ATAP), LGWM (\$1.2 billion), Future of Rail (\$1.23 billion)

2

Are you satisfied with proceeding with a GPS that focuses "discretionary" funding on these priorities?

YES - Leaves ~\$0.57 billion. This leaves the NLTF very little room to deal with revised project costs as business cases mature, project overspends, additional pressures (e.g. NLTF impacts of Green Card). **NO**

How to fund extra initiatives?

- Increase PED and RUC by
 - 5 percent in 2022 and 5 percent in 2023 (+\$4 billion) OR
 - Annual increase to PED and RUC by CPI (+\$5 billion)
- Change ATAP commitment (not recommended)
- Change Road to Zero commitment (not recommended)
- [REDACTED]
- Scale or remove Future of Rail funding from NLTF (up to +\$1.23 billion)
- Crown funding from Budget for more initiatives than Future of Rail

3

Which initiatives to create extra headroom do you wish to pursue?

Additional areas you might want to signal for NZTA to fund from the NLTF in GPS 2021 over ten years

- Mode shift outside Auckland and Wellington (\$0.7 billion to \$1.1 billion)
- Resilient and reliable metropolitan rail additions [REDACTED]
- Capacity for growth in Wellington and Auckland on the rail network [REDACTED]
- Living wage for bus drivers [REDACTED]
- Targeted reduction to public transport fares (\$0.325 billion)
- Funding noise remediation (\$0.15 billion)
- Additional investment in state highway maintenance (\$0.5 billion)
- Regional development initiatives (\$0.4 billion to \$3.2 billion)
- Optimised SH maintenance and re-evaluated state highways (\$0.5 billion- \$5.3 billion)
- Coastal shipping (\$0.03 billion to \$0.04 billion over three years)
- Improving the Transport Evidence Base (\$0.1 billion)

4

Within the funding restraints, which of these are your top priorities?

Pressure will remain from project overspends and small flow-on impact to the NLTF if the Crown funds the Green Card.

Next steps

- 11 November: Discuss choices with officials
- 25 November: Discuss draft activity classes overview of investment strategy developed from your choices with Associate Ministers
- 3 December: Full draft GPS provided
- 5 December: Departmental engagement on draft

Note: Figures displayed are approximations only. Costs estimates as NZTA decide NLTF expenditure in the NLTP based on project ideas received, however this approach should help balance expectations set in the strategic direction of the GPS, with funding available.

Base level of investment

We recommend that base levels of service should be maintained for GPS 2021

16. You have received an aide memoire (OC191055) on the approach that has been taken by the Ministry, with the Transport Agency, to scrutinise GPS investment. This involved a bottom-up approach to confirm the minimum amount of funding required to avoid a decline in levels of service currently experienced by users of the transport network. OC191055 outlined the benefits these services bring and their importance to the regions of New Zealand.
17. It recommends around \$35 billion between 2021/22 and 2030/31 is required to maintain these levels of service. Lower levels of investment in these areas would result in service levels deteriorating. This would:
 - 17.1. undermine progress towards GPS 2018 and GPS 2021 strategic priorities (e.g. cutting public transport services or road policing levels)
 - 17.2. create future spending backlogs (e.g. reducing maintenance & renewals spend)
18. We are seeking your agreement to:
 - 18.1. Confirm the Ministry's recommended investment in base levels of service of around \$35 billion, or
 - 18.2. Signal the areas of the base in which you wish to explore a reduction. As noted in OC191055, we do not recommend further reductions to the base as existing levels of service would decrease, e.g. there will be overcrowding on buses. It will take several weeks to develop and agree impact of a reduced base, resulting in a delay to engagement on the draft GPS.
19. If you agree to the recommended level of investment to maintain existing levels of service, this leaves around \$13 billion of funding to support your investment strategy in GPS 2021.

Options for the investment strategy for GPS 2021

Option A- Fund the public commitments Government has already made, with no revenue increase

20. Government has already publicly committed to the programmes below to advance your strategic priorities.
 - 20.1. **Auckland Transport Alignment Project.** A 10 year commitment was given for \$16.3 billion of investment in ATAP from the NLTF to 2028 (this covers all investment in Auckland from the NLTF in this period). The \$16.3 billion has been agreed by Cabinet and Auckland Council. Any changes to this commitment (including delivery to a later date) would have to be re-agreed by both parties. In addition, Regional Fuel Tax projects in Auckland are part funded by the \$16.3 billion commitment, to change this would require an order of Council and change to legislation. Delivering the full ATAP commitment to 2028 requires \$5.2 billion beyond our recommended NLTF base investment.¹ This assumes Auckland would largely still receive its population share after 2028, but in practice investments would compete nationally against proposals

¹ This includes the \$1.8 billion required for light rail. \$0.3 billion additional spend required to deliver some safety aspects of ATAP is part of the Road to Zero figure.

put forward in other RLTPs from 2028-2031, unless further ring-fencing is signalled for ATAP in GPS 2021. Work is underway to determine the ATAP programme from 2028 onwards. Expectations and commitments of further funding will need to be considered with regard to the NLTF as a whole.

20.2. **Road to Zero.** Road to Zero supports a 40 percent reduction target of deaths and serious injuries (DSI) that you have already publicly consulted on (CAB-19-MIN-0317). It is a 10 year programme to 2030 that has been committed to by Government under the assumption it would be funded by the NLTF. Delivering the 40 percent reduction in DSI requires \$4.8 billion in addition to our recommended base investment.

20.3. **Let's Get Wellington Moving.** Government publically stated that it proposed to fund 60 percent of the Let's Get Wellington Moving indicative package from the NLTF. This would be \$3.8 billion over 30 years. This indicative quantum was dependent on PED and RUC increasing in line with inflation every year for 30 years (around 2 percent annually). 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). Many of the details for LGWM are yet to be scoped and will be subject to business case process. A summary of what has been agreed and what is yet to be scoped is provided in appendix 1. Modelling suggests approximately \$1.2 billion investment in the next ten years is needed to meet this commitment (there is no overlap with our recommended base).

20.4. **Future of Rail.** Cabinet agreed in principle to fund a resilient and reliable rail network. KiwiRail's latest estimate is that this is likely to cost [REDACTED] [REDACTED] for ongoing maintenance and renewal for the freight and tourism rail portions of the network. It has not yet been agreed how that funding should be split between the Crown and existing NLTF revenue. [REDACTED]

Decisions are needed around how you would like to approach funding discussions with the Minister of Finance, which commence on 13 November 2019.

21. Delivering the priorities set out in 19.1 to 19.4 would require \$12.43 billion of the \$13 billion remaining forecast revenue. These programmes would make *some* progress towards your strategic priorities of Safer Travel, Better Travel Options and Improving Freight Connections but perhaps not as far as the vision you may have for the future transport system of New Zealand. This is set out in the table overleaf.

Table 1: How Government priority programmes deliver on GPS 2021 strategic priorities

Strategic priority for GPS 2021	Includes	Does not include	Regional impact
Safer travel	<p>40 percent DSI reduction on roads as set out in Road to Zero (the new road safety strategy for 2020-2030). This target was informed by modelling, and includes a concrete set of interventions that are known and are expected to have the highest impact on reducing DSIs across the network. This includes:</p> <ul style="list-style-type: none"> • safety infrastructure treating high risk corridors and intersections • speed management changes • enforcement through safety cameras and NZ Police • road safety promotion, including to increase public understanding of and buy-in to a Vision Zero approach <p>These safety measures will also improve safety for pedestrians and cyclists, particularly through the Accessible Streets package.</p> <p>Safety was also one of the key priorities when ATAP was developed.</p>	<p><i>Road to Zero</i> is focussed on road safety, and excludes rail and maritime measures, and personal security improvements, and road/rail level crossings. Safety improvements that may be or have been requested by regions would not be included if they are not in the highest risk parts of the whole network.</p>	<p>The Road to Zero modelling suggests that 70 percent of the improvements, particularly outside of the state highway network, will be outside of Auckland and Wellington.</p>
Better Travel Options	<p>ATAP and LGWM support significant improvements to travel options in Auckland and Wellington.</p> <p>No decline in existing levels of service for PT, walking and cycling, roads as per base level of investment (OC191055 refers).</p>	<ul style="list-style-type: none"> • Little progress in achieving mode shift outside Auckland and Wellington. • No funding for investments identified in Hamilton, Tauranga, Christchurch and Queenstown spatial planning work. • Some mode shift in Auckland and Wellington, but not enough to result in substantial declines in emissions. • No funding to support PT fare reductions (Green Transport Card is seeking Cabinet funding) • Little support for regional development initiatives or tourist destination planning 	<p>Through the base, areas with existing public transport services will continue to receive them, but there will be no service improvements outside of Auckland and Wellington.</p>

Strategic priority for GPS 2021	Includes	Does not include	Regional impact
		<ul style="list-style-type: none"> • Insufficient support for further initiatives that may support mode shift. • Re-evaluated state highways would not be funded 	
Improving Freight Connections	<p>Implementation of the Future of Rail for a resilient and reliable network.</p> <p>Some freight improvements through LGWM and ATAP.</p> <p>No decline in existing levels of service on roads as per base level of investment (OC191055 refers).</p>	<ul style="list-style-type: none"> • Little improvement to inter-regional road freight (e.g. state highway upgrades, HPMV network expansion). • No support for major supply chain changes (e.g. growth of Northport) • No shift to coastal shipping • No major reduction in harm from freight (e.g. emissions, noise reduction etc.) • Little progress in urban freight efficiency outside Auckland and Wellington 	Other than maintaining existing road networks, there will be no new investment to improve freight connections outside of Auckland and Wellington.

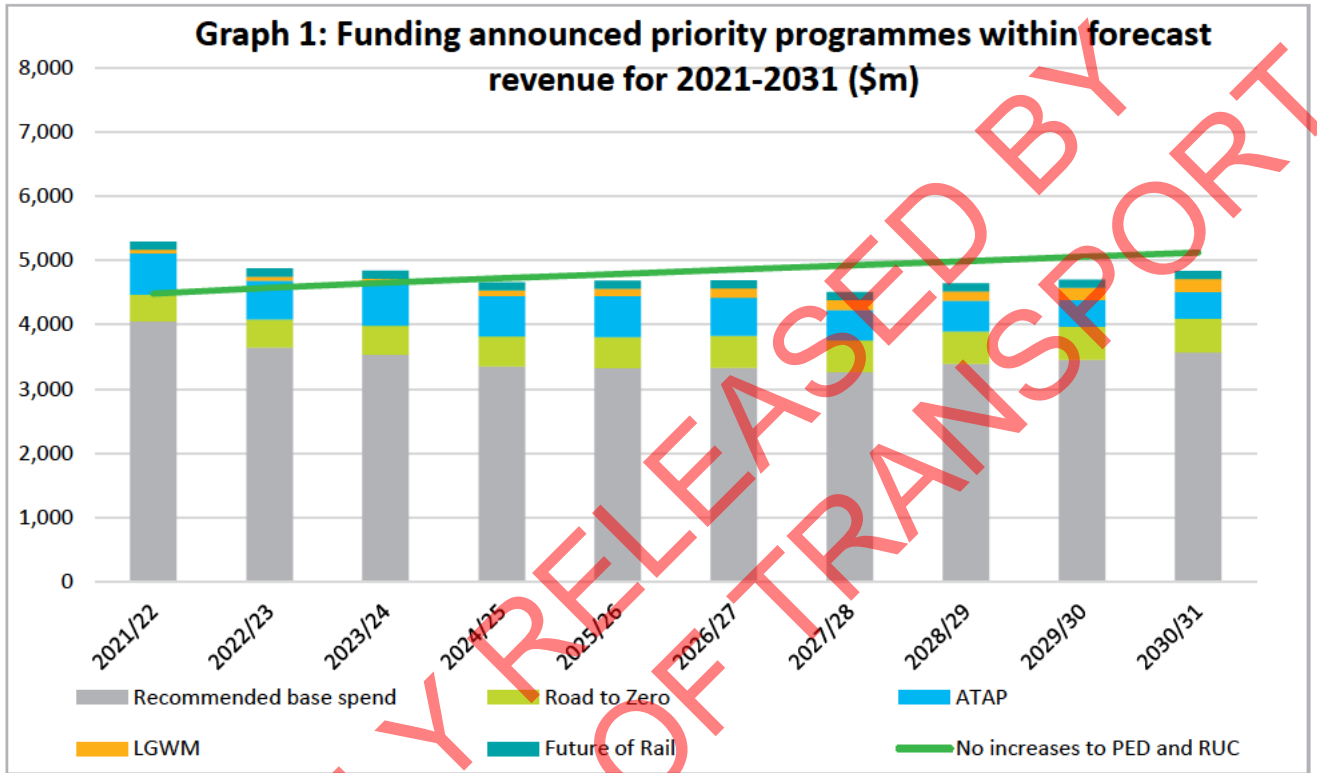
PROACTIVELY RELEASED BY THE MINISTRY OF TRANSPORT

Under option A, further progress against strategic priorities would be through low or no-cost measures

22. In the absence of additional investment beyond the above, any additional progress against the strategic priorities will only be the result of:
- the Transport Agency using their knowledge and expertise to help regions to develop good RLTPs and taking a stronger role in supporting spatial and urban planning to more actively encourage growth into areas that already have better travel options; and to ensure that planning for growth targets reduced reliance on cars and more shared travel options within a more compact urban form
 - design guidelines for public transport and active modes, to support incremental improvements to infrastructure as assets are replaced and developed over time
 - regulatory changes to improve safety and support mode shift, such as parking policies, speed limit reductions, vehicle emissions and safety standards, providing greater priority to types of vehicles and making it easier to trial changes to road markings
 - design guidance for place-making measures, to help local governments progressively make streets more inviting public spaces for people to walk and cycle in
 - a greater focus on optimising existing networks, through re-allocating road space to cycle lanes or dedicated lanes for public transport and/or heavy vehicles,
 - engagement, awareness and educational campaigns, and a greater use of financial incentives and disincentives, to shape more efficient travel patterns – e.g. congestion charging, to promote mode shift and manage demand
 - use of alternative revenue streams to fund desired activities – e.g. regional state highway improvements to target inter-regional safety and resilience.
23. Government is currently focused on non-investment levers outside the GPS, such as regulatory change, to target emissions reductions or reduce other environmental harm from the land transport system. There are some smart investment options being explored that would make a big contribution to reducing emissions, such as Green freight, but work is still underway.
24. Providing funding to ATAP, Road to Zero, LGWM and the Future of Rail, to the levels and timelines set out above, under the current revenue forecast, would leave around 1 percent of the NLTF unallocated (\$0.57 billion (\$270 million) out of \$48 billion see Graph 1). This leaves no funding for any other major initiatives. It would likely be used up (and potentially exceeded) by:
- managing overspends indicated in early years
 - project delays and cost adjustments, which are common with large infrastructure projects
 - the margin of error given figures used here are broad and we are not writing an NLTP with specific projects and final costs
 - providing NLTF share should any regional councils choose to introduce the living wage for bus drivers (MBIE to consult on wider policy with a Cabinet decision due in February 2020)

- meeting increased demand for public transport services if Green Transport Card is introduced and funded by the Crown. We estimate that this would increase pressure on the NLTF by \$2 million - \$4 million per year, plus some additional administrative costs.

25. Graph 1 shows some overspend in the short term. We believe this can be smoothed over subsequent years.



26. Under this scenario, the strategic direction of GPS 2021 would need to be clearly and carefully written to avoid setting high ambitions outside of your priority programmes that are not matched by available investment.

Options to broaden investment in your strategic priorities, and how this could be funded

27. As set out above, option A concentrates delivery on your priority programmes. Your strategic priorities of Better Travel Options and Improving Freight Connections may need to be renamed to be clear that investment is limited to existing levels of service outside of the priority programmes.

28. If you want to fund investments that support your strategic priorities more broadly, then options B and C outline how you could do that. This would most likely include some of the initiatives below that NZTA have identified as ways to deliver on your strategic direction. As you know, ambitions in the strategic direction section of the GPS should match the investment available, in order to be achievable. You cannot direct NZTA to undertake specific projects and can only signal desired results or relative priorities. However the approach set out below should help prevent adding wording to the GPS 2021 that does not match available funding.

29. Also listed below are areas you have indicated interest in through discussions with officials. If all of these areas were signalled in the GPS and suitable projects appeared in RLTPs to be funded through the NLTP, it would require at least \$7 billion over 10 years. This exceeds the headroom you could create through options B and C. These are broad estimates only and

costs could be higher. With this in mind we ask you to consider which would be your priorities to fund from revenue made available through option B or C.

- 29.1. **Mode shift outside Auckland and Wellington (\$700 million to \$1.1 billion depending on speed and ambition)** – You have indicated to NZTA, your support for their mode shift plans. Additional investment could be used to improve urban mobility in Hamilton, Tauranga, Christchurch and Queenstown - New Zealand's largest and fastest growing urban areas after Auckland and Wellington. Spatial plans and mode shift plans are being developed for each of these cities. They would need investment to make them a reality and implement PT service improvements, or bus and cycle lane improvements, for example.
- 29.2. **Resilient and reliable metropolitan rail** [REDACTED] additions – The Future of Rail funding excludes additional funding where there are ongoing discussions as to whether they are required for the metropolitan rail networks to ensure resilient and reliable networks in Auckland and Wellington.
- 29.3. **Capacity for growth in Wellington and Auckland on the rail network** [REDACTED] – The Future of Rail funding excludes projects that we have been advised by Wellington and Auckland are required within the next ten years to create capacity for growth. The Crown may still be expected to make a significant contribution to these projects, even though they outside the resilient and reliable scenario.
- 29.4. **Living wage for bus drivers** [REDACTED] – to meet the costs to the NLTF of proposed new legislation.
- 29.5. **Targeted reduction to PT fares (\$325 million)** – as a mechanism to incentivise mode shift, improve social connectivity and address cost barriers (in accessing education, jobs, health and other services) for low income households.
- 29.6. **Funding noise remediation (\$150 million)** – to target reductions in the harmful impacts of transport noise on people's mental health.
- 29.7. **Additional investment in state highway maintenance (\$500 million)** – to target improved safety of construction workers (through safer pavement technologies) and road users (through improved skid resistance).
- 29.8. **Regional development initiatives (\$400 million - \$3.2 billion)** – investment outside of Auckland, Wellington, Hamilton, Tauranga, Christchurch and Queenstown could include activities that support jobs/economy, i.e. more HPMV routes capability, resilience protection for key primary produce routes, street amenity upgrades in smaller towns and cities (such as footpath and road improvements in towns to make them more attractive for pedestrians and support local economic development), life lines to communities, rail sidings where appropriate.
- 29.9. **A combination of optimised SH maintenance and re-evaluated state highways could deliver interregional resilience, mostly focused on freight benefits (\$500 million to \$5.3 billion)** – This investment would enable the re-evaluated state highway projects (e.g. Whangarei to Te Hana, Otaki to North of Levin etc.) to be progressively delivered over time, as well as support a more optimised maintenance programme for the state highway network. This package would require around \$5.3

billion over 10 years to deliver, so different levels of investment have been proposed. This would also bring safety benefits and better travel connections for people.

29.10. **Coastal shipping (\$30 million - \$40 million over three years as a trial)** – You have indicated an interest in supporting coastal shipping in the GPS with NLTF investment. OC191094 provides further detail on how investment for coastal shipping could work, and suggests it would require at minimum \$0.03 billion - \$0.04 billion over 3 years. This could fund a range of projects, such as studies and business case development, infrastructure, new coastal shipping start-ups and provide subsidy assistance. This could be achieved by a dedicated activity class, or setting clear expectations and expanding existing activity class definitions.

29.11. Given competing priorities you have indicated for GPS 2021, the Ministry does not recommend that dedicated investment in coastal shipping is a high enough priority for investment from the NLTF. The Ministry recommends a modified status quo, whereby GPS 2021 emphasises the importance of ensuring good connections to ports. This would not require a set amount of funding against it and would be funded from across the necessary activity classes. You should note that there has not been extensive exploration of whether the NLTF is the most suitable funding source. As noted in OC191094, if coastal shipping is funded through the NLTF, it may have difficulty passing NZTA's value for money assessment.

29.1. **Improving the Transport Evidence Base (\$100 million)** – to improve capability and capacity in the provision of data, analytics and advanced modelling to support transport sector decision making. This is a new proposal recommended by the Ministry for consideration. We can provide advice around how the suggested level can be scaled back. OC191105, provided to you alongside this paper, gives some detail on the current evidence base and work to improve it.

30. Please have your choices ready to discuss with officials on 11 November. This will allow officials to put your choices together into an overall investment strategy for you to review on 25 November. The following paragraphs provide options for you to choose from for how you might fund some of the initiatives set out above.

31. You have also indicated to officials that you are interested in some Budget initiatives that relate to land transport, such as a heavy vehicle decarbonisation strategy and pilots, an 'Active Neighbourhoods' contestable fund. These are not shown below. If you choose to pursue these any flow on effects to the land transport system would need to be considered. This may decrease the discretionary funding available to fund the choices set out in this paper from the NLTF (for example if a Budget funded initiative increased demand for PT services, the costs meeting this demand would need to be met from Budget or discretionary NLTF).

Option B: Increase available revenue by changing PED and RUC or state highway funding

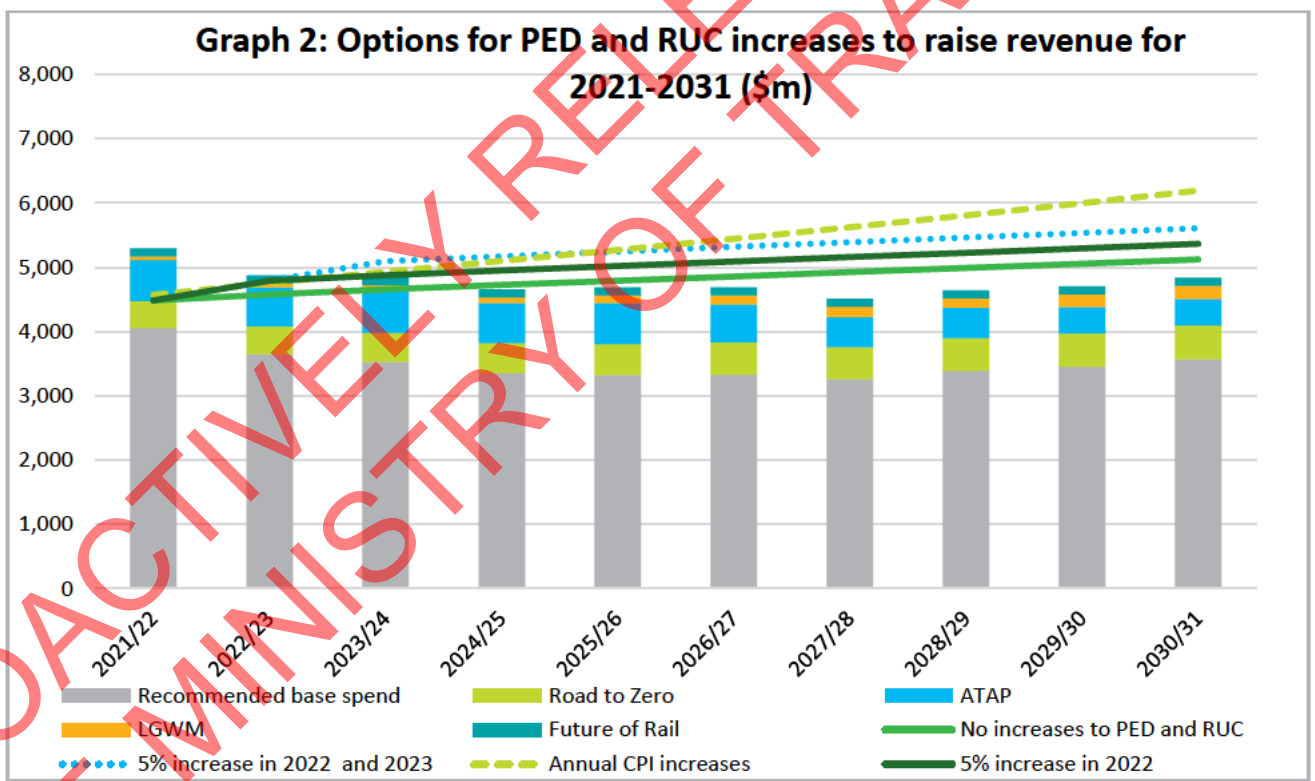
32. If you want to deliver the commitments Government has already announced (as set out in option A), and provide investment to support your strategic priorities more broadly, then you could look to make more revenue available by:

32.1. raising PED and RUC to increase discretionary funding

32.2. changing rules around Funding Assistance Rates so that central government contribution to state highways is lowered, freeing up NLTF investment for other projects.

You could consider raising PED and RUC to increase discretionary funding in the NLTF to support your strategic direction

- 33. You could consider future increases to PED and RUC. Any increases should be signalled in the GPS and will require approval by Cabinet and changes to legislation.
- 34. The Cabinet paper for LGWM stated that if PED and RUC are not increased broadly in line with inflation (around 2 percent per year) over the next 30 years (as assumed in the NLTF projections), either the Wellington region will need to receive more than 10.5 percent of NLTF revenue for the LGWM indicative package to be fundable, or the components of the indicative package will need to be reviewed.
- 35. We recommend that you increase PED and RUC. If you choose to do this, there should be clear direction on the maximum commitments for LGWM and ATAP so that cost escalations of projects are not presumed to be absorbed by further Government contribution.
- 36. Graph 2 shows three options for changing PED and RUC to increase revenue.



37. We have modelled a:

37.1. 5 percent increase in 2022 would raise an additional \$2.1 billion revenue (if made equally across PED and RUC rates², this increase is approximately 3.5 cents per litre

² The actual distribution of an increase might vary to reflect the cost allocation model — for example, to achieve a 5 percent increase the cost allocation model might recommend a 3 percent increase in RUC and a 7 percent increase in PED. We recommend that any discussion and agreement on increases is in average percentage terms rather than cents per litre to allow for future flexibility when rates are calculated.

per for PED, which is the same as the increases implemented in 2018, 2019, and planned for 2020)

- 37.2. 5 percent increase in 2022 and 2023 would raise \$4 billion revenue (if made equally across PED and RUC rates³, this increase is approximately 3.5 cents per litre per year for PED, which is the same as the increases implemented in 2018, 2019, and planned for 2020)
- 37.3. annual increases at the rate of CPI would raise \$5 billion additional revenue — GPS 2009, 2012 and 2015 ranges were set assuming that future CPI increases would be made to retain the buying power of the NLTF.

You could consider changing how state highways are funded to increase the spread of projects the NLTF could potentially support

38. This month you will receive an aide memoire (OC190951) on the implications of the status quo of fully funding state highways and possible options to further support transport investment delivery. Making changes to the status quo needs consideration of the underlying principles of when it is appropriate for local governments/NLTF/Crown to contribute or pay in full, who should own nationally-significant assets (and the implications for safety, security and resilience) and the incentives of certain funding models. Wide engagement would be required on any changes. If you do want to make changes, we advise that you engage with the NZTA Board (who set and implement Funding Assistance Rates that dictate how councils contribute to NLTF projects) on your objectives/criteria for funding infrastructure and seek its views on how it might give effect to these (including through changes to Funding Assistance Rates). Any changes could have implications for future and current rail projects. Reaching a final position is likely to take longer than the time available for engagement on the draft GPS, and would represent a major change to the funding system. Therefore we do not recommend that this is pursued to free up revenue for GPS 2021.

You could consider requesting further Crown funding

39. Option C discusses how you could seek more Crown funding for the Future of Rail, in order to create more headroom in the NLTF for other priorities. You could think more widely, across your priorities as to whether you would like to ask for Crown funding to support any of them. This could be:
 - 39.1. done through Budget 2020, if initiatives were imperative. However the process is already well underway and you are due to send your list of Budget initiatives to the Minister of Finance on 29 November 2019.
 - 39.2. deferred to later Budgets, if the initiatives are not urgent or cornerstones to your strategic direction for GPS 2021.
 - 39.3. do not primarily have a land transport focus and are suitable for partial or full funding by the Crown.

³ The actual distribution of an increase might vary to reflect the cost allocation model — for example, to achieve a 5 percent increase the cost allocation model might recommend a 3 percent increase in RUC and a 7 percent increase in PED. We recommend that any discussion and agreement on increases is in average percentage terms rather than cents per litre to allow for future flexibility when rates are calculated.

40. As with the Future of Rail approach, this strategy would not guarantee funding until Budget decisions are taken next year. You will also need to bear in mind the leverage you have available, given the other Budget initiatives you intend to put forward.

Option C: Change how the NLTF contributes to already announced Government commitments

41. If you want to support a wider range of initiatives that support your strategic priorities of safer travel, better travel options and improving freight connections but do not want to increase PED and RUC, or change state highway funding, then you could look to make more revenue available by:

41.1. Providing the central Government contribution to LGWM over a longer time period

41.2. Reducing the NLTF contribution to implementing the Future of Rail

41.3. Revisiting commitments to Road to Zero

41.4. Revisiting commitments to ATAP

[Redacted]

42. You could provide more direction for how the Government commitment to LGWM will be fulfilled. The Government agreed to a 60:40 share with local government to support LGWM over 30 years, with the Wellington region receiving an average 10.5 percent share of the NLTF. Only indicative figures are available until further business case work takes place.⁴

43. [Redacted]

44. [Redacted]

You could reduce the assumed NLTF contribution to implement the Future of Rail

45. You may decide that, given other priorities and pressures, NLTF contributions, at least in early years, cannot be afforded.

46. [Redacted]

⁴ This 10.5 percent includes a \$4.4 billion regional investment allowance in later decades of the programme that you also announced. This regional investment allowance does not impact the timeframe of this GPS, but will need to be considered in future GPS development.

⁵ [Redacted]

[REDACTED]

46.1. [REDACTED]

46.2. [REDACTED]

46.3. [REDACTED]

47. [REDACTED]

48. You may want to raise with the Minister of Finance on 13 November 2019, the progress you are making in determining the contribution the NLTF may or may not be able to make to funding the Future of Rail. You may also want to explain how this will impact the Budget initiatives you send to the Minister of Finance. We ask that you provide officials with your steer on whether you want to reduce the notional split of funding for the Future of Rail so that they can prepare you for the meeting. Your steer is also needed to inform advice you are due to receive on Future of Rail budget initiatives at the end of this month.

We do not recommend revisiting commitments to Road to Zero

49. We do not recommend change to the delivery deadlines or quantum of NLTF investment in Road to Zero. This month, you are due to seek Cabinet agreement to publish the final package, and an action plan. If GPS 2021 does not provide increased funding for *Road to Zero*, the key risk is that Government will not meet its public commitments to prioritising road safety in the land transport system, or achieve its proposed 40 percent DSI reduction target by 2030.

50. This is because the proposed funding level (and its direct relationship to the DSI target) was discussed and agreed across Ministers before the public consultation period in July 2019. This was to ensure certainty of funding to implement the strategy. An extensive programme of modelling has directly informed the 40 percent target, and in particular the associated actions and funding that will deliver on it. In addition, feedback from consultation indicated

that over 70 percent of submitters supported the 40 percent target or a higher target. Many organisational submitters (including councils and key stakeholder groups) also emphasised the need for greater Government leadership, as well as additional investment and funding in key areas, to achieve this goal.

51. If you wish to revisit the timeline or quantum associated with supporting *Road to Zero*, you would need to go back to Cabinet to advise them of the proposed change in approach, or seek Crown funding to cover any reduction in NLTF investment. It is unlikely a bid for Crown funding would be successful given other pressures and agreement with Cabinet that NLTF would pay for *Road to Zero*.

We do not recommend revisiting commitments to ATAP

52. ATAP is a commitment to co-fund a transformative transport programme across the Auckland region for 30 years. It is funded by \$16.3 billion from the NLTF and \$10 billion from Auckland Council. Of the \$16.3 billion funding is split between 100 percent state highway funding and co-funding towards the Auckland Transport programme. This investment delivers on transport projects across Auckland and enables the transport programme to be implemented by both the NZTA and Auckland Transport.
53. As part of the ATAP programme, the majority of the Auckland Transport capital programme is projects that are part-funded by the Auckland Regional Fuel Tax. These RFT projects are set out in legislation and are committed publically as part of the ATAP programme.
54. Any change to the NLTF commitment to the ATAP programme (currently \$16.3 billion from the NLTF) would trigger a legislative change to the Regional Fuel Tax and also would require consultation with the Auckland public through the LTP.
55. In addition to the legal requirements which would be triggered by any reduction in the \$16.3 billion commitment, you and the Mayor have committed to the public of Auckland a fully-funded ATAP programme and ATAP with its joint funding commitment is the platform for which the transport partnership co-governs transport in Auckland. Any reduction in the \$16.3 billion would impact on delivery of the transport programme for Auckland.

The choices you make on revenue and commitments to Government priority programmes determine what further investment it is feasible to signal in the strategic direction of GPS 2021

56. The table below shows how much additional potential headroom could be created from the options we recommend you consider.

Table 2: Recommended ways to increase headroom

Recommended choices	Possible headroom over 10 years
Increase revenue <ul style="list-style-type: none"> • 5 percent increases in 2022 and 2023 OR • Annual increases at the rate of CPI 	\$4 billion OR \$5 billion
[REDACTED]	[REDACTED]
Reduce NLTF contribution to Future of Rail	Up to \$1.23 billion
Maximum total	\$5.93 billion OR \$6.93 billion

Next steps

57. We will meet with you on 11 November 2019 to hear your preferences between the options presented in this paper. You will meet the Minister of Finance for initial Budget discussions on 13 November 2019, where you will be able to discuss how pressure on, and priorities for, the NLTF may impact Budget negotiations on the Future of Rail.
58. Having clear steers from you on 11 November 2019, with options narrowed down, will enable us to turn your preferences into an overall investment strategy with activity classes for you and Associate Ministers to review. We will meet on 25 November 2019 to discuss your feedback so that we can then write a full draft GPS.
59. You will send Budget submissions to the Minister of Finance on 29 November 2019. You will want to determine your likely funding positions for GPS 2021 before this date so that you can decide which of your priorities you may wish to seek Crown funding for.
60. The draft GPS and Cabinet Paper will be delivered to you on 3 December with approval to proceed to Departmental Consultation provided to us on 5 December.
61. Following a meeting with you and Associate Ministers on 9 December, we will deliver the final draft GPS, Cabinet Paper and engagement plan on 13 December
62. Cross-Party Consultation commences 16 December.

Recommendations

63. The recommendations are that you prepare to discuss your views on the below with officials on 11 November, and with Associate Ministers on 12 November 2019:
 - a) Agree to the Ministry and Transport Agency's recommended base funding to maintain levels of service in the land transport system Yes/No
 - b) Indicate whether you support option A- investing in ATAP, Road to Zero, LGWM and Future of Rail to the levels already announced, with no changes to increase revenue, OR Yes/No
 - c) Agree to maintain commitments to ATAP (no change to phasing or investment level) Yes/No
 - d) Agree to maintain commitments to Road to Zero (no change to phasing or investment level) Yes/No
 - e) Indicate which of the recommendations you wish to pursue to increase available funding:

Recommended choices	Possible headroom over 10 years	
Increase revenue (5 percent increases to PED and RUC in 2022 and 2023)	\$4 billion	Yes/No
██ ██	████████████████████	Yes/No
Reduce NLTF contribution to Future of Rail	Up to \$1.23 billion	Yes/No

(d) Note that further information will follow but the Ministry does not think changes to state highway funding are feasible for GPS 2021 to free up NLTF investment

(e) Within this headroom, indicate your additional priorities to fund from the NLTF over 10 years (figures are only broad estimates):

Mode shift outside Auckland and Wellington (\$0.7 billion to \$1.1 billion)	Yes/No
SH maintenance and re-evaluated state highways for interregional resilience (\$0.5 billion to \$5.3 billion)	Yes/No
Additional investment in state highway maintenance for safety (\$0.5 billion)	Yes/No
Providing a living wage for bus drivers [REDACTED]	Yes/No
Targeted reduction to PT fares (\$0.325 billion)	Yes/No
Funding noise remediation (\$0.15 billion)	Yes/No
Improving the Transport Evidence Base (\$0.1 billion)	Yes/No
Regional development initiatives (\$0.4 billion to \$3.2 billion)	Yes/No
Coastal shipping (\$0.03 billion to \$0.04 billion over three years)	Yes/No
Resilient and reliable metropolitan rail [REDACTED]	Yes/No
Capacity for rail network growth in Wellington and Auckland [REDACTED]	Yes/No
Improving the Transport Evidence Base (\$0.1 billion)	Yes/No

Helen White
Manager, Investment Team

MINISTER'S SIGNATURE:

DATE:

Appendix One: Let's Get Wellington Moving Cabinet endorsement

64. Cabinet's endorsement of Let's Get Wellington Moving (LGWM) was for the high level plan known as the "indicative package". The indicative package included some detail on the following:
- high level total costs
 - individual package components and indicative costs
 - assumed affordability within the National Land Transport Fund (NLTF) for national share
 - the cost sharing agreement
 - general timing and sequencing of components.
65. Cabinet noted the indicative cost to central Government for LGWM as \$3.8 billion. This includes the estimated capital expenditure, operating expenditure, principal repayments on borrowing and interest on borrowing.
66. Cabinet noted the agreed funding split between central and local government. This means that the total capital cost (3.7 billion over 30 years) will be shared and central government will contribute \$2.2 billion (60 percent) and local government will contribute \$1.5 billion (40 percent) over 30 years. The estimated operating costs are also split 60/40. The Cabinet paper states that individual package components might have varying funding splits but on average, equal to 60/40. Any additional costs of borrowing and interest repayments are not split 60/40 and are the responsibility of whoever incurs these borrowing costs.
67. Cabinet noted your intention to fund LGWM out of the NLTF over 30 years, aside from rapid transit, to be financed and repaid over 50 years. A key assumption, noted by Cabinet, was that in our financial modelling NLTF revenue would increase by 2 percent annually, broadly in line with inflation over this time period⁶. As you will be aware, this means Petrol Excise Duty and Road User Charges rates need to be increased by the Government, and each individual rate increase needs to be approved by Cabinet in order to deliver NLTF share.
68. Cabinet noted that: *"If these increases do not occur, the components of the indicative package will need to be reviewed"*. Our financial modelling was also based on Wellington region getting no more than 10.5 percent of revenue, reflecting population share. We think if NLTF revenue increases more than our assumption of 2% annually, Wellington should not get more than the agreed quantum
69. Overall, Cabinet endorsed your proposal to fund 60% of the LGWM indicative package cost, on the assumption that:
- (a) NLTF revenue increases by 2 percent annually, OR
 - (b) in any other case, the indicative package is reviewed and/or scaled back.
70. The endorsement of LGWM was high level and the following concerns and potential scenarios are still to be determined:
- 70.1. cost escalation – who pays for it?
 - 70.2. what happens to the government share if revenue decreases?

⁶ This also aligns with the inflation adjustment we have included in the indicative costs.

- 70.3. what is our response if local government struggles to make up its share?
 - 70.4. what happens if central government share is scaled down, delayed or spread over a longer timeframe?
 - 70.5. whether the bottom line endorsement is of a dollar figure or 10.5 percent of NLTF share.
71. We think you would need to discuss these and agree with the three LGWM partners on any resolution.

PROACTIVELY RELEASED BY
THE MINISTRY OF TRANSPORT