



RECEIVED BRIEFING
30 MAR 2017
Office Hon. Simon Bridges

Government Policy Statement 2018: Funding Scenarios

Reason for this briefing	To outline the funding decisions needed to finalise GPS 2018, and discuss how we can assist you to make these decisions.
Action required	To advise officials on additional work on funding scenarios you would like us to complete as part of finalising GPS 2018.
Deadline	14 April 2017.
Reason for deadline	To enable the Ministry to provide you with a post engagement draft GPS 2018 in May 2017.

Contact for telephone discussion (if required)

Name	Position	Telephone		First contact
		Direct line	After hours	
David Eyre	Principal Advisor	[REDACTED]	Withheld under	✓
Gareth Chaplin	General Manager Sector Performance	[REDACTED]	Section 9(2)(a)	

MINISTER'S COMMENTS:

Date:	29 March 2017	Briefing number:	OC04847
Attention:	Hon Simon Bridges (Minister of Transport)	Security level:	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 Withdrawn | 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 of report

1. To advise how we can assist you to include the revenue and expenditure information required for a final GPS 2018.

GPS 2018 process

2. The draft GPS 2018 is out for engagement until 31 March 2017. We are working to provide you with a draft GPS 2018 in May 2017 for your consideration, and for consultation with the New Zealand Transport Agency (NZ Transport Agency) Board. Although, you have not taken decisions on when to release the final GPS, we are planning to provide you with a final GPS 2018 ready for issue in June/July 2017.
3. The final GPS 2018 is required to state the overall investment likely in the land transport sector over a period of 10 financial years, and the likely or proposed funding sources. This means the the May version of GPS 2018 would need to include:
 - 3.1. expenditure targets for the National Land Transport Programme (NLTP) for six financial years
 - 3.2. funding ranges for each activity class for 10 financial years
 - 3.3. expenditure linked to revenue raised from road users.
4. Decisions already taken by the Government to commit to a nine cents per litre equivalent increase for petrol (three separate increases of three cents each), and to factor in Consumer Price Index (CPI) adjustments into 10 year forecasted revenue, made providing funding information for GPS 2015 relatively simple.
5. For the draft GPS 2018, in the absence of Government funding decisions we included only three years of funding ranges. These factored in only expected growth in revenue (based on Vehicle Kilometres Travelled (VKT) forecasts). No tax changes were included.

Risks

6. In preparing a final GPS 2018 for June/July 2017, it will be necessary to signal any likely revenue increases (if any). Ideally, we would start to model revenue and expenditure scenarios shortly. However, we appreciate that Ministers may choose not to commit to revenue projections until:
 - 6.1. greater certainty is reached on funding Auckland Transport Alignment Project (ATAP)
 - 6.2. the preferences of the public and support parties are clearer after the election
 - 6.3. regional feedback is received on the proposed inter-regional corridors.
7. This paper discusses the importance of the 10 year funding ranges, shows the transport taxes changes since 2008, and sets out some of the potential scenarios that could be used to test revenue and expenditure options.

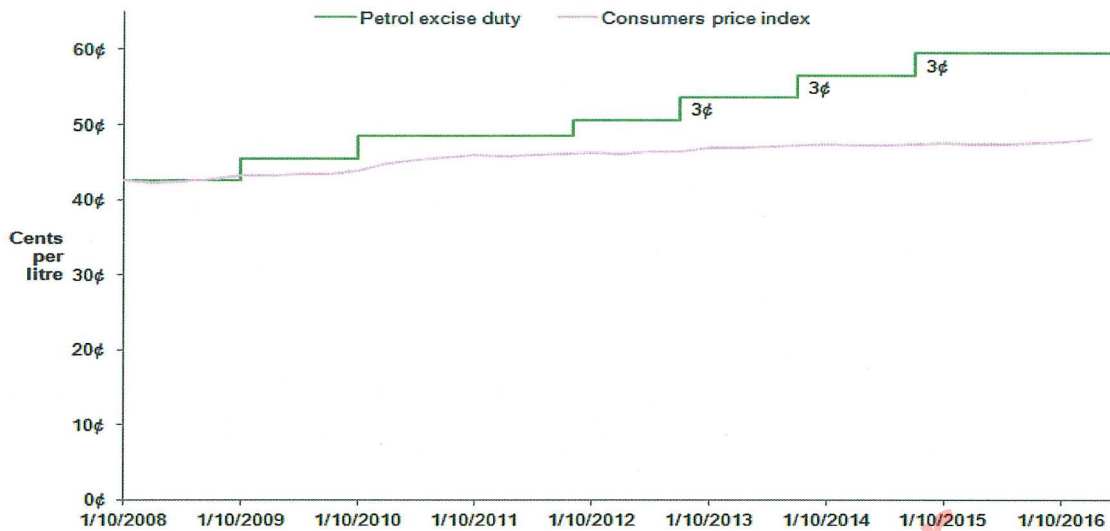
Importance of 10 year funding ranges

8. The 10 year funding ranges enable local government and the NZ Transport Agency to develop long term investment plans. Transport investment has a long lead time, high costs and leaves a long legacy so long term planning is essential. The Land Transport Management Act 2003 requires a 10 year horizon for funding ranges in the GPS.
9. Auckland Transport in particular has concerns about the 10 year funding ranges. Auckland Transport state that growth is sharply increasing pressure on the Auckland transport network, and that they need to know what funds will be available to respond to that growth. The current funding from Auckland Council and the Crown will only support a very basic investment programme (raising concerns about delivering ATAP). They are looking for a clear commitment to an increased level of funding from both Council and the Crown over the next three years to help them contain the impact of this growth.
10. The NZ Transport Agency will receive initial funding bids for programmed activities (e.g. road maintenance from local government) for the NLTP in July 2017 and final bids in December 2017. There will also be ongoing discussions about the funding and timing for major programmes such as the ATAP and inter-regional corridors over the next few months. This process will be difficult without an indication of the National Land Transport Fund (NLTF) revenue over the next 10 years.

Changes to transport tax since 2008

11. During development of GPS 2015, there was concern about the significant increase in transport taxes. Since 2008, petrol excise duty has increased by 40 percent while the consumer price index has increased by 12.7 percent (see Table 1 over page). GPS 2015 recognised that increased transport expenditure would support economic growth in times of weak economic conditions. There was concern about whether this level of growth in expenditure was sustainable, particularly given flat transport demand. In addition, there was concern that there would be diminishing returns to transport investments given this level of expenditure growth.
12. The context for GPS 2018 is different given transport demand has been increasing since 2013. However, the issue of returns on transport investment remains important, and should form part of any decisions on revenue and expenditure levels (particularly for the major projects).
13. To give you a sense of scale, a one cent equivalent increase in fuel excise duty and road user charges raises around \$50 million per annum approximately \$500 million over 10 years. This assumes vehicle kilometres travelled (VKT) as forecasted (changes in the economy or oil prices could positively or negatively affect the revenue relationship).

Table 1: Petrol excise duty, 1 October 2008 to 31 March 2017



Revenue and expenditure scenarios

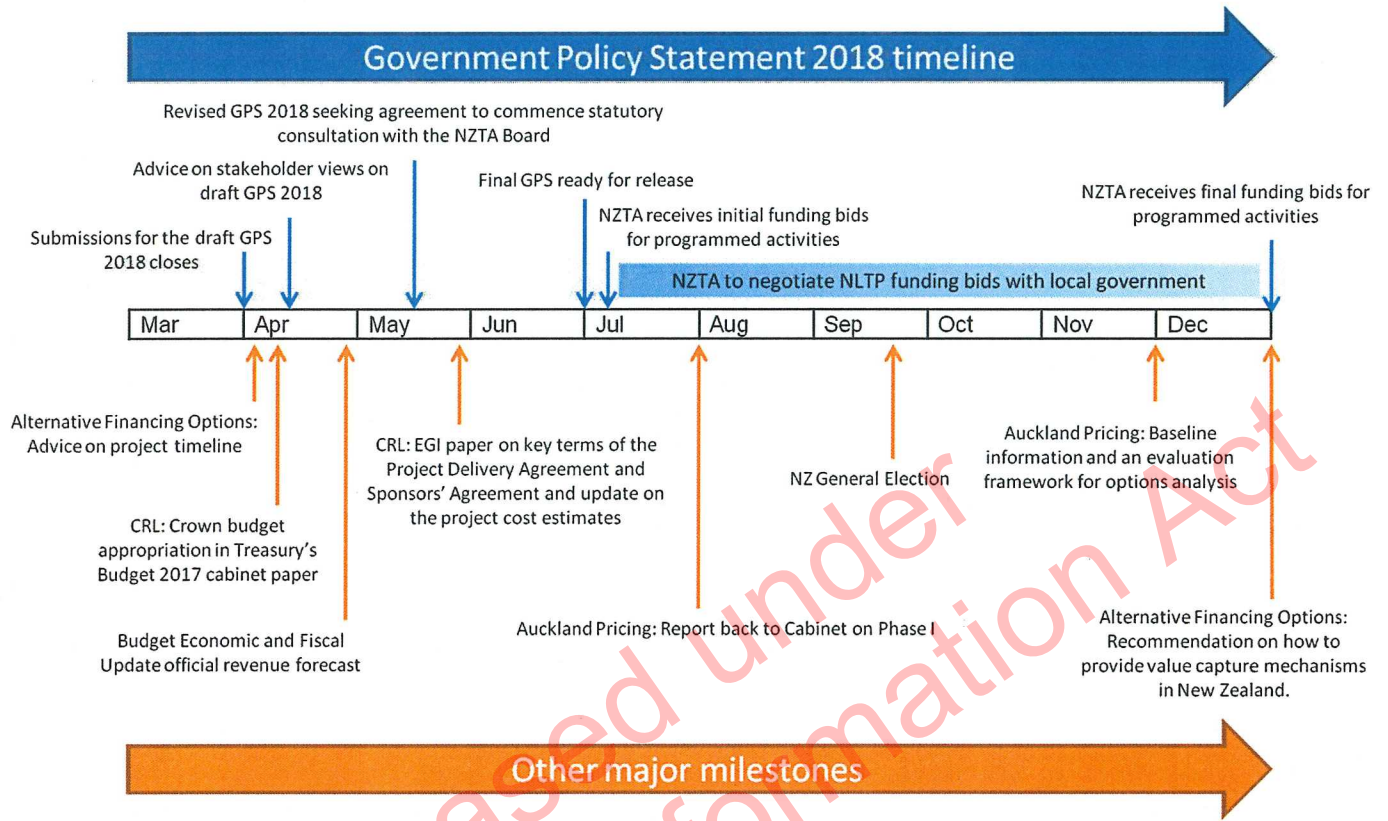
14. To support you in discussing GPS 2018 funding and expenditure options with your Cabinet colleagues, we can provide scenarios showing the implications of various assumptions about revenue, financing (e.g. Crown loans) and expenditure (including on major projects, such as inter-regional corridors).
15. Some possible scenario components are:
 - 15.1. *Revenue unchanged*: fuel excise duty and road user charges are unchanged (increase in revenue because of growth in VKT only)
 - 15.2. *Revenue increase*: raise fuel excise duty and road user charges by the forecast rate of increase in the Consumer Price Index (CPI). This scenario is consistent with the approach published in GPS 2015
 - 15.3. *Revenue increase*: fuel excise duty and road user charges are increased to provide headroom for more major projects
 - 15.4. *Revenue increase*: alternative funding is obtained from other measures such as value capture or road pricing (the Ministry of Transport (the Ministry) has recently provided you advice on alternative funding and financing mechanisms). This option would be very difficult to model
 - 15.5. *Revenue change*: if, following discussions with Auckland, overall revenue required changes because funding from Auckland is more or less than the current financial assistance rate of 51 percent
 - 15.6. *Expenditure to deliver core programmes*: fund core GPS 2018 activity such as maintenance, public transport walking and cycling, regional development (an extension of the draft GPS 2018)
 - 15.7. *Expenditure provided to deliver major projects*: to deliver the major projects (ATAP on schedule with Auckland providing at a financial assistance rate of 51% and inter-regional corridors as noted to Business Agenda Ministers in October 2016)

- 15.8. *Expenditure increased further:* some of these major projects are progressed earlier than currently indicated
 - 15.9. *Expenditure decreased:* some major projects are delivered later than currently indicated
 - 15.10. *Expenditure decreased:* to provide incentives for further value for money efforts (note the draft GPS 2018 signals increases in most activity classes)
 - 15.11. *Alternative financing used:* expenditure from the NLTF is decreased (moved from the first decade to the second decade) by using other funding sources (e.g. PPPs, Crown funding).
16. We can then use these assumptions to develop various scenarios. For example: a scenario where revenue is unchanged and expenditure is provided to meet core programmes and all major projects results in a NLTP deficit of \$5 billion by 2027/28. If revenue was increased in line with CPI, then the NLTF deficit in this example would reduce to \$1.5 billion.
 17. Modelling these scenarios can show you the implications of the various options available. The Ministry will support this approach by providing advice on how the various scenarios would alter the focus and transport benefits that GPS 2018 is likely to deliver.

Next Steps

18. The following timeline in Table 2 shows key milestones for the GPS 2018, and other papers you are expected to receive on NLTF revenue and expenditure issues.
19. To provide you with a draft GPS in May 2017 that includes 10 year funding ranges, we would need to complete modelling in April 2017 and include one of the scenarios for the 10 year funding range in GPS 2018.
20. We are seeking your agreement to the Ministry to prepare scenarios now for your information. We can work with the NZ Transport Agency to model scenarios, and can tailor the scenarios to specific options you may wish us to consider.
21. Following your feedback, we will work with the NZ Transport Agency to complete any required modelling.

Table 2: Milestone timeline



Recommendations

22. The recommendations are that you:

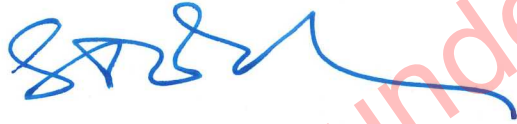
- (a) **agree** the Ministry should prepare scenarios for your information Yes/No
- (b) **advise** of any specific assumptions you would like us to include or exclude (this could be at a Ministry officials meeting) Yes/No
- (c) **note** that final funding decisions will be needed by May 2017 for the Ministry to be in a position to finalise GPS 2018 by July 2017



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MINISTER'S SIGNATURE: 

DATE: 17/4/17

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