

Chair
Cabinet Economic Growth and Infrastructure Committee

AMENDING THE GOVERNMENT POLICY STATEMENT ON LAND TRANSPORT FUNDING 2009/10-2018/19

Proposal

1. This paper advises of my intention to release an amended Government Policy Statement on Land Transport Funding (GPS) to inform the development of the National Land Transport Programme for the three years 2009/10 to 2011/12.
2. This is the fourth of four associated Cabinet papers relating to land transport investment.

Executive summary

3. On 8 December 2008, I advised the Cabinet Business Committee of my intention to amend the current GPS [CBC Min (08) 30/5 refers]. The purpose of amending the GPS is to give effect to the Government's land transport priorities. The GPS is a key government document for influencing the planning and funding of land transport. The first GPS was released in August 2008 and covers the ten years from July 2009 to June 2019. It currently reflects the priorities of the previous government.
4. I intend making five key changes to the GPS:
 - 4.1. make economic growth and productivity the primary objective for investment in land transport infrastructure and services;
 - 4.2. ensure the allocation of funds within activity classes represents a more economically efficient allocation of those funds;
 - 4.3. ensure that transport infrastructure investment better reflects the modal options realistically available to New Zealanders, and that investment in alternative modes be undertaken at a rate which does not lead to a mis-match between investment and usage;
 - 4.4. signal that capital investment in rail infrastructure will be funded from the Crown account either by way of shareholder investment or loans to KiwiRail, and not from the National Land Transport Fund, freeing up more revenues generated from road users for road related activity;
 - 4.5. identify a number of corridors or roads of national significance in the vicinity of our five largest urban centres, the further development of which will have national benefits to the roading network and to national economic development. I will indicate my expectation that the New Zealand Transport Agency should have regard for the need to advance those projects when allocating funds in the "New and improved infrastructure for State highways" activity class.

5. The major consequence of these changes are that the revised GPS will increase the level of funding for the New and Improved Infrastructure for State highways activity class by almost \$1 billion over the next three years by:
 - 5.1. reallocating approximately \$420 million over three years from non-State highway activity classes;
 - 5.2. freeing up \$258 million for road related activity by moving capital investment in rail infrastructure outside of the National Land Transport Fund; and
 - 5.3. providing \$283 million over three years by increasing fuel excise duty and road user charges (approximately \$660 million over six years) as an alternative to proceeding with the Regional Fuel Tax Scheme (see separate paper).
6. The impact on non-State highway activities of the reallocation of funds is generally not large. Investment levels across the major activity classes will be higher than their forecast allocation levels for the 2008/09 financial year. Achieving better value for money from existing expenditure across all activity classes will ensure progress will continue to be made on non-State highway activity.
7. Under the amended GPS, a total expenditure of approximately \$2.75 billion will be made in 2009/10 rising to \$3.75 billion in 2018/19. The financial implications of amending the GPS are discussed in the associated paper *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges*.
8. Before releasing the amended GPS I will be engaging with key stakeholders, especially local government, on the proposed amendments to the GPS. By statute I am required to have regard to the views of Local Government New Zealand and representative groups of land transport users and providers and consult the New Zealand Transport Agency in preparing the GPS. Should there be substantive changes arising from the engagement and consultation, I will report back to Cabinet before I release it publicly. I anticipate releasing the amended GPS in early April 2009.

Background

9. The land transport sector is an area of the economy that the government can have a direct impact on through the large investment it makes every year from the National Land Transport Fund. This is a hypothecated fund for land transport and is mainly funded from fuel excise duty and road user charges. The fund is allocated by the New Zealand Transport Agency to land transport activities, such as State highway and local road construction and maintenance, and public transport. As the deliverer of State highway activities, the New Zealand Transport Agency is a substantial recipient of the National Land Transport Fund.
10. To better reflect the government's economic growth and productivity goals, I believe that we need to make a significant change to the pattern of Crown investment being made through the National Land Transport Fund.

11. My main lever for influencing the flow of investment from the National Land Transport Fund is the Government Policy Statement on Land Transport Funding (GPS). The GPS applies to funding channelled through the National Land Transport Fund for activities in the National Land Transport Programme. This programme is prepared by the New Zealand Transport Agency and published on a three-yearly basis starting from mid-2009. The National Land Transport Programme must give effect to the GPS. Regional land transport programmes, on which the National Land Transport Programme is based, must be consistent with the GPS.
12. The GPS is a statutory document issued by the Minister of Transport every three years. It allows me to set funding priorities, determine the overall level of investment over a 10 year period, and set the amounts of funding that go to particular activity classes¹. The GPS can also be used to influence the way projects are evaluated for funding approval.
13. There is a current GPS that was issued by the previous Minister of Transport in August 2008. On 8 December 2008, I advised the Cabinet Business Committee of my intention to issue an early amendment to the GPS.
14. The GPS issued by the previous Minister of Transport allocated funds to activity classes in a manner that signalled a significant reduction in investment in State highway construction over the term of the GPS. This reduction equates to a nine percent decline in investment in State highway construction over the first three years of the GPS relative to the last three years.
15. The GPS must contain certain information, including the following:
 - 15.1. the impacts government wishes to achieve through the allocation of land transport funding from the national land transport fund;
 - 15.2. the total expenditure targets;
 - 15.3. the activity classes that can be funded (for example local road construction and maintenance, State highway construction and maintenance, road policing, and public transport services and infrastructure), and the funding ranges for each; and
 - 15.4. the sources of funding, and likely changes to the duties, fees, and charges paid into the National Land Transport Fund.

Amending the current GPS

16. The current GPS reflects the previous government's land transport priorities and does not give enough weight to economic growth and productivity in making land transport investment decisions. This is demonstrated by the inadequate levels of funding provided for State highway investment. I plan to amend the GPS so that it clearly indicates that the government expects that:

¹ Activity classes describe types of transport activity, such as maintenance of local roads and State highways, construction of local roads and State highways, passenger transport services and infrastructure, and road policing.

- 16.1. land transport funds are invested in activities that will lead to economic growth and productivity;
- 16.2. the allocation of funds, within activity classes, represents a more economically efficient allocation of those funds;
- 16.3. an increase in the allocation of funds to State highway construction activities through:
 - 16.3.1. the reallocation of approximately \$420 million over three years from non-State highway activity classes to both address the nine percent reduction in State highway funding contained in the current GPS for 2009/10 – 2011/12, and to provide additional investment in State highway infrastructure;
 - 16.3.2. freeing up \$258 million for road related activity by moving capital investment in rail infrastructure outside of the National Land Transport Fund; and
 - 16.3.3. providing \$283 million over three years from increasing fuel excise duty and road user charges (approximately \$660 million over six years).

17. I will also be signalling in the amended GPS:

- 17.1. that capital investment on rail infrastructure will be funded from the Crown account either by way of shareholder investment or loans to KiwiRail, and not from the National Land Transport Fund, freeing up more revenues generated from road users for road related activity; and
- 17.2. a number of corridors or roads of national significance in the vicinity of our five largest urban centres, the further development of which will have national benefits to the roading network and to national economic development. I will indicate my expectation that the New Zealand Transport Agency should have regard for the need to advance those projects when allocating funds in the “New and improved infrastructure for State highways” activity class. The initial list of corridors or roads of national significance is provided below. These will be further developed as part of a process of developing a government national infrastructure plan:
 - 17.2.1. State highway 1 - Puhoi to Wellsford;
 - 17.2.2. State highway 20 - Waterview Connection, Auckland;
 - 17.2.3. State highway 1 - Victoria Park, Auckland
 - 17.2.4. State highway 1 - Waikato Expressway (Ngaruawahia to Cambridge);
 - 17.2.5. State highway 2 -Tauranga Eastern Motorway;
 - 17.2.6. State highway 1 - Foxton to Wellington; and

17.2.7. Christchurch motorway projects.

Investing for economic growth and productivity

18. I plan to remove the outcome targets from the existing GPS and replace them with a list of impacts the Government expects to contribute to economic growth and productivity. The key impacts the Government would be looking to achieve include:

18.1. improvements in journey time reliability;

18.2. easing of severe congestion;

18.3. improving transport connections to areas that have economic growth potential;

18.4. increasing access to markets;

18.5. improving transport efficiency; and

18.6. improvements in road safety.

19. The Land Transport Management Act 2003, under which the GPS is issued, also requires that the GPS and national and regional land transport programmes contribute to social and environmental objectives. I have kept these other objectives in mind and will ensure that I am satisfied that the amended GPS adequately contributes to these objectives as well.

Getting value for money from investment in land transport

20. I intend to amend the GPS so that the New Zealand Transport Agency must place greater emphasis on economic efficiency when allocating funds within activity classes. Approximately \$2.75 billion will be expended on land transport activity in the 2009/10 financial year through the National Land Transport Fund compared to \$1.077 billion spent in 2000/01. This is a large investment and one that has increased 250 percent over the last ten years.

21. I consider that better value for money can be achieved from the National Land Transport Fund. Amending the GPS to place greater emphasis on economic efficiency is a first step to achieving better value for money. I will also be looking at other mechanisms, such as making changes to the Land Transport Management Act 2003, to ensure economic efficiency is given greater weight in ongoing allocation decisions.

Reallocating funding to State highway construction

22. In reviewing the current GPS, I have looked at ways to make more funding available for State highway construction. Increasing funding for State highway construction will bring benefits for national economic growth and productivity, particularly given that State highways carry most inter-regional freight and link major ports, airports and urban areas. In particular, it may help address strategic 'bottlenecks', and may allow new economic growth areas to be better connected into the national network.

23. The State highway network represents only 11.6 percent of the total road network yet accounts for almost half of all the kilometres driven each year by New Zealanders. The heavy use of the State highway network highlights its importance for moving people and freight, which is essential for economic growth. It is important that we rebalance the investment approach to transport to better reflect the modal options realistically available to New Zealanders, given that 84 percent of journeys to work in urban areas are by car and 70 percent of freight tonne-kilometres are by road.
24. The amount of funding available in the amended GPS for State highway construction will benefit from the changes I have proposed in the associated papers: *Replacement of Regional Fuel Tax with Increases in Fuel Excise Duty and Road User Charges* and *Confirmation of the Commitment to Transport Infrastructure*, which will provide \$283 million over three years (approximately \$660 million over six years).
25. In addition, I am making another \$100 – 175 million per annum available to State highway construction for the three years 2009/10 – 2011/12 through the reallocation of funding from non-State highway activity classes. My proposed amendments to the GPS reallocate approximately \$420 million over three years from non-State highway activity classes to the New and Improved Infrastructure for State highways activity class. This is required to reverse a nine percent reduction in funding for this activity contained in the current GPS over the next three years compared to the amount allocated for the 2008/09 financial year, and to increase investment in State highway infrastructure.
26. In reallocating funds, I sought to ensure critical activity like local road construction and road maintenance was not adversely affected². The level of reduction varies from activity class to activity class to ensure that the reallocations are consistent with the government's priorities, existing commitments, and impacts sought through the GPS. Over the next two to three years, the corresponding reduction in funding for other activity classes is unlikely to affect the Government's economic objectives.
27. I am also making \$258 million that had been allocated for Wellington rail rolling stock improvements over 2009/10 and 2010/11 available for State highways, by providing a Crown appropriation for the rail investment outside the National Land Transport Fund (see separate paper).
28. Table 1 compares the new three-year allocations across activity classes with the three-year allocations in the current GPS.

² This relates to funding provided from the National Land Transport Fund, and does not include the impact on the share of funding provided by local government for co-funded activities

Table 1 – Comparing three-year activity class allocations

Activity Class	3-year actual/ projected allocations 2006/07 – 2008/09 \$m	Current GPS 3-year allocations 2009/10 – 2011/12 \$m	New GPS 3-year allocations (including reallocation of activity class funding, removal of rail infrastructure funding & additional funding from increasing FED & RUC) 2009/10 – 2011/12 \$m
Transport planning	96	125	104
Sector training & research	15	23	18
Demand management & community programmes	121	177	143
Public transport services	484	666	633
Public transport infrastructure	310	392	134 ³
Walking & cycling facilities	36	66	51
New & improved infrastructure for State highways	2345	2024	2947
Renewal of State highways	573	698	645
Maintenance & operation of State highways	767	956	887
New & improved infrastructure for local roads	540	549	549
Renewal of local roads	576	719	686
Maintenance & operation of local roads	654	798	756
Rail & sea freight	2	6	1
Domestic sea freight development	6 ⁴	19	3
Road policing	774	949	900
Management of the funding allocation system ⁵	101	112	102
Total	7400	8279	8561
% funding for State highway construction	32%	24%	34%

29. Table 2 shows annual allocations across activity classes with actual expenditure for years 2006/07 – 2007/08, forecast expenditure for 2008/09, and indicative expenditure for years 2009/10 – 2011/12.

³ Passenger rail infrastructure is to be funded from outside the National Land Transport Fund

⁴ The Domestic Sea Freight Development activity class was only introduced in 2008/09

⁵ Management of the Funding Allocation System includes performance monitoring activities

Table 2 – Annual activity class allocations

Activity Class	Actual/ forecast allocations \$m			New GPS allocations \$m		
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Transport planning	26	32	39	37	35	33
Sector training & research	4	5	6	6	6	6
Demand management & community programmes	31	38	55	47	48	49
Public transport services	133	159	191	201	211	222
Public transport infrastructure	106	61	144	27	62	45
Walking & cycling facilities	5	12	18	16	17	18
New & improved infrastructure for State highways	688	792	864	931	1055	962
Renewal of State highways	191	179	202	209	215	221
Maintenance & operation of State highways	222	266	279	287	296	305
New & improved infrastructure for local roads	140	169	231	196	164	189
Renewal of local roads	168	192	216	222	229	236
Maintenance & operation of local roads	218	199	237	245	252	259
Rail & sea freight	0	0	2	1	0	0
Domestic sea freight development	-	-	6	1	1	1
Road policing	232	259	273	291	300	309
Management of the funding allocation system	29	34	38	36	34	32
Total	2193	2398	2801	2751	2923	2886
% funding for State highway construction	31%	33%	31%	34%	36%	33%

30. The main features of the proposed reallocations compared to the current GPS are as follows:

- 30.1. Forecast State highway expenditure is maintained at around 34 percent of total National Land Transport Programme expenditure.
- 30.2. Current forecast expenditure on local road construction is maintained to signal that capital investment in roading is a priority area for the Government.
- 30.3. Forecast expenditure levels for the maintenance and operation of State highways and local roads, Road Policing and Public Transport Services activities are decreased relative to the current GPS. The proposed reductions in road maintenance expenditure are relatively modest in recognition of the impacts that deferred maintenance can have on road conditions, particularly in the longer term. Compared to 2008/09 expenditure levels, allocations for these activities will still increase by between three and five percent per annum.
- 30.4. Forecast expenditure on Demand Management and Community Programmes, Walking and Cycling, Rail and Sea Freight, and Domestic Sea Freight Development activities is decreased. The former two activities will still receive funding allocations near their 2008/09 expenditure levels.
- 30.5. Forecast expenditure on Public Transport Infrastructure is considerably lower, primarily because I am moving rail infrastructure funding outside of the National

Land Transport Fund, as discussed in the associated paper *Confirmation of the Government's Commitment to Transport Infrastructure*.

- 30.6. Forecast expenditure on activity classes that support the delivery of land transport infrastructure and services, such as Performance Monitoring and Management of the Funding Allocation System, is decreased to recognise the need to generate better value for money from administrative expenditure. This is part of an efficiency dividend I am asking the New Zealand Transport Agency to make as a result of the merger.

Process for finalising amendments to the GPS

31. Before releasing the amended GPS, I will be engaging with key stakeholders, especially local government, on the proposed amendments to the GPS, and consulting the New Zealand Transport Agency. By statute, I am required to have regard to the views of Local Government New Zealand and representative groups of land transport users and providers and consult the New Zealand Transport Agency in preparing the GPS. Should there be substantive changes arising from the engagement and consultation, I will report back to Cabinet before I release it publicly.
32. I will also ensure that the GPS meets other statutory requirements relating to content, contribution to social and environmental objectives, and consistency with other government strategies.
33. I anticipate releasing the amended GPS in early April 2009.

Consultation

34. The following departments and agencies have been consulted on this paper: Treasury, Ministry for the Environment, Ministry of Economic Development, NZ Police, Ministry of Health, Ministry of Education, Te Puni Kōkiri, Ministry of Social Development, Office for Disability Issues, Energy Efficiency and Conservation Authority, Department of Labour, Ministry of Agriculture and Forestry, Department of Internal Affairs, and New Zealand Transport Agency. The Department of the Prime Minister and Cabinet was informed.

Financial implications

35. The financial implications of the amended GPS are set out in the associated paper, *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges*.

Human rights implications

36. There are no specific human rights issues arising from this paper.

Legislative implications

37. There are no legislative implications arising from this paper.

Regulatory impact and business compliance cost statement

38. A regulatory impact and business compliance cost statement is not required with this paper as it does not result in changes to legislation or regulations.

Gender implications

39. There are no gender implications arising from this paper.

Disability perspective

40. There are no specific proposals relating to people with disabilities. Activities funded under the GPS, such as public transport, will assist with improving accessibility for disabled people. Disability perspectives will be considered as part of the normal decision-making processes carried out by local bodies when determining regional land transport plans.

Publicity

41. I intend to engage with local government and representatives of land transport users and providers and consult the New Zealand Transport Agency on the proposed amendments to the GPS following Cabinet's consideration of this paper. I anticipate releasing the amended GPS in April 2009.

Recommendations

42. It is recommended that the Committee:

1. **note** that the Government Policy Statement on Land Transport Funding is a statutory document issued by the Minister of Transport every three years;
2. **note** my intention to amend the Government Policy Statement to better reflect the Government's priorities for the land transport sector;
3. **note** the key amendments I propose making to Government Policy Statement are:
 - 3.1. make economic growth and productivity the primary objective for investment in land transport infrastructure and services;
 - 3.2. ensure that the allocation of funds within activity classes represent a more economically efficient allocation of those funds;
 - 3.3. ensure that transport infrastructure investment better reflects the modal options realistically available to New Zealanders, and that investment in alternative modes be undertaken at a rate which does not lead to a mismatch between investment and usage;
 - 3.4. signal that public transport rail infrastructure (capital expenditure) will be funded from the Crown Account and not from the National Land Transport

Fund, freeing up more revenues generated from road users for road related activity;

- 3.5. identify a number of corridors or roads of national significance in the vicinity of our five largest urban areas, which will be further developed as part of the process of developing a Government national infrastructure plan;
4. **note** that the major consequence of these changes are that the revised Government Policy Statement will increase the level of funding for “New and improved infrastructure for State highways” by around \$1 billion over the next three years;
5. **note** that the amended Government Policy Statement will make \$32 billion available to land transport over the 10 years 2009/10 – 2018/19, funded by road users;
6. **note** that the financial changes related to amending the Government Policy Statement are discussed in the associated paper *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges*;
7. **note** that I will shortly be engaging with local government, key stakeholders, and the New Zealand Transport Agency on my proposed amendments to the Government Policy Statement;
8. **note** that I will report back to Cabinet on the final Government Policy Statement, should there be substantive changes arising from engagement and consultation processes, before I release it publicly in early April 2009; and
9. **note** that these proposals will be announced in a joint communication strategy led by the Prime Minister and the Minister of Transport.

Steven Joyce
Minister of Transport

Dated: _____

