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13 MAR 2009

# Cabinet

## Minute of Decision

In Confidence

CAB Min (09) 8/11-14

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## Transport Funding Package

Portfolio: Transport

On 9 March 2009, following reference from the Cabinet Economic Growth and Infrastructure Committee (EGI), Cabinet:

### Overview of Transport Funding Package [CAB (09) 83]

- 1 noted that the paper under CAB (09) 83 provides an overview of the suite of papers on the transport funding package [CAB (09) 84-86];
- 2 noted that the package of transport funding proposals will, through re-allocation of existing transport taxes and confirmation of previously announced Crown appropriations:
  - 2.1 give effect to a number of the government's election promises;
  - 2.2 increase funding for State highways by almost \$1 billion over the next three years;
  - 2.3 replace the regional fuel tax introduced by the previous government, with its high compliance costs;

### Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges [CAB (09) 84]

#### *Background*

- 3 noted that:
  - 3.1 on 6 October 2008, the former government authorised the submission to the Executive Council of the Land Transport Management (Regional Fuel Tax Scheme – Auckland Region) Order 2008 (the Order) [CAB Min (08) 39/2];
  - 3.2 the Order approved an Auckland regional fuel tax of 2 cents per litre from 1 July 2009, 5 cents per litre from 1 July 2010, and 9.5 cents per litre from 1 July 2011 until 30 June 2039, to meet the majority of the costs of Auckland regional fuel tax scheme projects;

- 4 **noted** that:
- 4.1 other regions are considering regional fuel taxes of up to 5 cents per litre, mainly to fund additional State highway works;
  - 4.2 compared with the national fuel excise duty and road user charges system, regional fuel tax is a comparatively expensive way to generate revenue, with a range of boundary issues, compliance costs for non-transport businesses that use petrol, and particularly diesel and administration costs;

*Revoking Regional Fuel Tax*

- 5 **noted** the intention of the Minister of Finance and the Minister of Transport to recommend that the Land Transport Management (Regional Fuel Tax Scheme – Auckland Region) Order 2008 be revoked as soon as possible;
- 6 **agreed** that the regional fuel tax empowering legislation be repealed at the earliest opportunity;

*Increase in Fuel Excise Duty and Road User Charges*

- 7 **agreed** to the changes to fuel excise duty and road user charges in the following table (expressed in cents per litre), to:
- 7.1 support the Government Policy Statement on Land Transport Funding expenditure targets, set out in the paper *Amending the Government Policy Statement on Land Transport Funding 2009/10-2018/19* [CAB (09) 86]; [see paragraphs 22-29 below]; and
  - 7.2 replace Crown funding on roading infrastructure being used to fund rail investment, as detailed in the paper *Confirmation of the Commitment to Transport Infrastructure* [CAB (09) 85] [see paragraphs 10-21 below];

Change	1 October 2009	1 October 2010	1 July 2011
Total	3	3	1.5

- 8 **noted** that the final changes to fuel excise duty and road user charges will be given effect on 1 October 2009, and will take into account the results of the Road User Charges Review;
- 9 **invited** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to legislation to give effect to the above proposals including any consequential savings or transitional provisions as necessary;

**Confirmation of the Commitment to Transport Infrastructure [CAB (09) 85]**

- 10 **agreed in principle, subject** to the report referred to in paragraph 15 below, to the Crown owning passenger transport rail rolling stock via the New Zealand Railways Corporation;
- 11 **confirmed** the government's pre-election commitment to the Auckland rail electrification project;

- 12 **noted** that the Minister of Finance and the Minister of Transport will further consider funding for the Auckland electrification project;
- 13 **noted** that Auckland ferry wharf upgrades, integrated ticketing and ferry and bus real time information upgrades, and the proposed Penlink project, which were to be funded by the proposed Auckland Regional Fuel Tax, would not be guaranteed funding under the proposed package;
- 14 **agreed** to appropriate \$258 million for Wellington metro rail rolling stock and infrastructure over 2009/10 - 20010/11, to replace funding that has been allocated in the National Land Transport Fund, as part of the signalled \$8.55 billion expenditure on infrastructure;
- 15 **invited** the Minister of Transport to report back to the EGI by 1 July 2009 on:
- 15.1 implementing paragraph 14 above relating to the funding of Wellington metro rail, taking into account the in-principle decision referred to in paragraph 10;
- 15.2 the funding and ownership of Auckland metro rail, specifically taking into account the report from the Royal Commission on Auckland Governance;
- 16 **noted** that the introduction into service of Auckland's electric rolling stock may be delayed by at least six months;
- 17 **agreed** to establish a new Non-Departmental Capital Expense "Metro Rail Rolling Stock and Infrastructure (Wellington)" appropriation in Vote Transport;
- 18 **agreed** that the scope of the new Non-Departmental Capital Expense Rail Infrastructure (Wellington) be "this appropriation is limited to metro rail rolling stock and infrastructure projects in Wellington";
- 19 **approved** the following changes to appropriations to give effect to paragraph 14 above, with a corresponding impact on debt:

	\$m - increase / (decrease)		
	2009/10	2010/11	2011/12 & Outyears
<b>Vote Transport</b>			
<b>Minister of Transport</b>			
Non-Departmental Capital Expenditure:			
Metro rail rolling stock and infrastructure (Wellington)	146.000	112.000	-
<b>Total Capital</b>	<b>146.000</b>	<b>112.000</b>	<b>-</b>

- 20 **noted** that the Crown will need to manage the following fiscal risks:
- 20.1 losing around \$42 million per annum in revenue as a result of the repeal of Auckland's regional fuel tax that was scheduled to commence from 1 July 2009 (but this will be partially offset by an additional \$283 million from increased fuel excise duty and road user charges over the three years);

- 20.2 additional revenue shortfalls for the New Zealand Railways Corporation if track access charges currently paid by regional councils are cancelled;
  - 20.3 costs incurred in purchasing existing rolling stock from regions;
  - 20.4 possible costs of changing existing procurement contracts;
- 21 **invited** the Minister of Transport to report to the EGI with advice on the best legislative vehicle to amend clause 14 of Schedule 2 of the Land Transport Management Amendment Act 2008, which needs to be amended to recognise the transfer of rail infrastructure expenditure from the National Land Transport Fund to Crown appropriations;

### **Amending the Government Policy Statement on Land Transport Funding 2009/10 – 2018/19 [CAB (09) 86]**

#### *Background*

- 22 **noted** that:
- 22.1 the Government Policy Statement on Land Transport Funding (GPS) is a statutory document issued by the Minister of Transport every three years;
  - 22.2 the existing GPS was issued in August 2008;
- 23 **noted** that in December 2008, the Cabinet Business Committee noted that the Minister of Transport intends to amend the GPS to better reflect the government's priorities for the land transport sector [CBC Min (08) 30/5];

#### *Amendments to Government Policy Statement*

- 24 **noted** that the Minister of Transport intends to make the following the key amendments to the GPS:
- 24.1 make economic growth and productivity the primary objective for investment in land transport infrastructure and services;
  - 24.2 ensure that the allocation of funds within activity classes represents a more economically efficient allocation of those funds;
  - 24.3 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;
  - 24.4 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 revenue generated from road users for road related activity;
  - 24.5 identify a number of corridors or roads of national significance in the vicinity of New Zealand's five largest urban areas, which will be further developed as part of the process of developing a government national infrastructure plan;

- 25 **noted** that the major consequence of the proposed changes is that the revised GPS will increase the level of funding for “New and improved infrastructure for State highways” by around \$1 billion over the next three years;
- 26 **noted** that the amended GPS will make \$32 billion available to land transport over the ten years 2009/10 – 2018/19, funded by road users;
- 27 **noted** that the financial changes related to amending the GPS are discussed in the associated paper *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges*, under CAB (09) 84;
- 28 **noted** that the Minister of Transport will shortly be engaging with local government, key stakeholders, and the New Zealand Transport Agency on the proposed amendments to the GPS;
- 29 **invited** the Minister of Transport to report back to the EGI with the final proposed GPS, following the engagement and consultation processes referred to above, and before the Minister releases the GPS publicly (expected to be in early April 2009);

#### **Announcement**

- 30 **noted** that the proposals in the transport funding package will be announced in a joint communications strategy led by the Prime Minister and the Minister of Transport.

Secretary of the Cabinet

Reference: CAB Min (09) 8/11-14;  
CAB (09) 83 – 86;

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