

Chair  
Cabinet Business Committee

## **DIRECTION OF THE NEXT GOVERNMENT POLICY STATEMENT ON LAND TRANSPORT FUNDING**

### **Proposal**

1. This paper informs Cabinet of the direction I intend to take with the next Government Policy Statement on Land Transport Funding (GPS).

### **Executive summary**

2. The Canterbury earthquake aftershock changes the government's immediate priorities for land transport expenditure. However, looking beyond this event we need to ensure continuity and certainty for New Zealand on the direction of land transport investment. This investment is critical to the economy as decisions made on its level and direction will in part determine how quickly the economy can rebound from the earthquake and the global economic recession.
3. The GPS is the main lever to ensure that the land transport funding system focuses on the government's priorities. It drives decisions on how much National Land Transport Fund expenditure will be invested at the national level in areas such as State highways and public transport. It also influences the New Zealand Transport Agency (NZTA), as allocator of the Fund and State highway manager and provider, and local government as co-funder of local roads and activities.
4. To ensure the government's priorities are fully reflected in land transport decisions, it is desirable that a new GPS for the period 2012/13–2021/22 (GPS 2012) be released in July 2011. This would give local authorities sufficient time to take our priorities into account in their regional transport planning, and subsequently for the NZTA to incorporate them into the development of the 2012–2015 National Land Transport Programme<sup>1</sup> which must be released by 1 July 2012.
5. It is important to note that the level of investment I am proposing for the maintenance and operation of local roads may not be appropriate given the Canterbury earthquakes. However, it is too early to know what the full cost and timescale for repairing the Christchurch local road network will be, and therefore its implications for GPS 2012. As a consequence the proposed funding range may need to be amended at some point in the future.
6. However, the Canterbury earthquake aftershock underscores the importance of GPS 2012 building on and advancing the long term programme of change put in place by the current GPS (GPS 2009). This directed land transport investment into projects and services that support economic growth and productivity.

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<sup>1</sup> The National Land Transport Programme (NLTP) sets out the land transport projects and services that are funded from the National Land Transport Fund. The NLTP is prepared by the NZ Transport Agency (NZTA) and is published on a 3-yearly basis. The NLTP must give effect to the GPS, while regional land transport programmes, on which the NLTP is based, must be consistent with the GPS.

7. To date good progress has been made in realigning land transport expenditure to better support economic growth. In particular work on seven initial Roads of National Significance (RoNS) has been prioritised. Despite the progress, some change is desirable in GPS 2012 to increase the benefits New Zealand gets from its investment in land transport infrastructure and services. The proposed changes are to:
  - 7.1. provide context by including a statement of strategic direction in GPS 2012. This will make the government's expectations and priorities for land transport expenditure over the 10 year period of GPS 2012 clearer
  - 7.2. continue the strong focus on economic growth and productivity. Providing any ongoing support necessary to repair the land transport system in Christchurch over the next 3 years will be a top priority. Alongside this for the nation's future economic growth, GPS 2012 will state that the RoNS programme is ongoing. Although no new RoNS will be announced in GPS 2012, I will ask for new routes to be considered over time so they can be added to the programme as the existing RoNS are completed if required
  - 7.3. emphasise value-for-money. This is to entrench within the land transport sector the expectation that it must deliver better and smarter services and improve asset management. Improving asset management is important to boosting the performance of roading infrastructure
  - 7.4. make road safety a key priority to ensure that the direction and actions outlined in *Safer Journeys*, the government's road safety strategy, form a key part of the 2012–2015 National Land Transport Programme
  - 7.5. remove the ability for transport expenditure to be used solely for the purpose of providing an economic stimulus.
8. The main challenge for GPS 2012 will be to maintain momentum in key infrastructure projects, and provide any ongoing support to Canterbury in the face of revenue pressures. To manage this, I intend to drive efficiencies and savings to allow the transfer of funds to key projects in the areas of State highways, public transport and the Canterbury recovery.
9. I also intend to propose through a separate Cabinet paper that the planned increase in fuel excise duty and road user charges scheduled for 1 July 2011 of 1.5 cents per litre be rescinded. Such an increase at this time would hinder the economy's ability to rebound from the global recession and the Canterbury earthquake aftershock. However, future increases in fuel excise duty and road user charges will be required to manage the forecast deficit between revenue and expenditure.
10. I will be seeking the views of key stakeholders, including local government, on the proposed direction for GPS 2012. The engagement document that will be used is attached as Appendix 2 to this paper for the information of Ministers. I will report back to Cabinet on the outcome of stakeholder engagement before releasing the GPS publicly.

## Background

11. The GPS is a statutory document issued every 3 years by the Minister of Transport under the Land Transport Management Act 2003. It is the main lever by which the government can ensure that the land transport funding system focuses on its priorities. It states the level of investment the government will make in land transport, how it will be raised, and broadly outlines how the investment is to be spent, including the outcomes and impacts that are to be achieved.
12. Therefore, it drives decisions on how the National Land Transport Fund will be allocated to particular investment areas (activity classes), such as State highways and public transport. It also influences the NZTA, as allocator of the Fund and State highway manager and provider, and local government as co-funder of local roads and activities.
13. The GPS applies to funding from the National Land Transport Fund for approved activities in the National Land Transport Programme. The revenue for the Fund comes from road users through fuel excise duty, road user charges and from motor vehicle registration and licensing fees<sup>2</sup>. The other significant source of funding for land transport activities is local government's share, which is generally raised from rates and averages around 50 percent for activities other than State highway expenditure.
14. The land transport revenue system is largely pay-as-you-go with expenditure usually equal to, or slightly less, than incoming revenue.
15. Since GPS 2009, major rail capital investments are largely no longer funded from the National Land Transport Fund but through direct Crown appropriations. However, other public transport infrastructure that supports public transport services (eg the development of integrated ticketing systems) is supported by the Fund.

### **GPS 2009 made significant changes to advance the government's transport priorities**

16. The GPS I issued in May 2009 made a number of significant changes to the priorities and direction of land transport funding. Specifically it:
  - 16.1. makes increasing economic growth and productivity the primary objective for land transport expenditure. This includes taking a lead-infrastructure approach to encourage future economic growth
  - 16.2. allows for a short to medium-term focus on roading investments to stimulate economic activity in response to the economic downturn
  - 16.3. focuses on directing investment into projects and services that offer greater value-for-money through an emphasis on economic efficiency
  - 16.4. places particular importance on investing in the State highway network and prioritises work on seven initial RoNS as key to reducing congestion, supporting economic growth and improving safety.
17. The RoNS are seven of New Zealand's most essential routes where development has the ability to increase New Zealand's economic performance. All the routes carry high

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<sup>2</sup> There are also modest contributions from sources such as the rental or sale of State highway land, and interest from cash invested.

volumes of traffic and are currently subject to congestion, unreliable journey times and poor levels of safety.

18. The RoNS are based around New Zealand's five main centres of population and growth. They reflect that New Zealand's population is increasingly concentrated in urban areas, and that transport bottlenecks often occur when moving people and freight to and from our major seaports and airports.
19. The RoNS programme represents one of New Zealand's biggest infrastructure investments and is a key part of the government's National Infrastructure Plan.

### **Achievements to date**

20. Much has been achieved in response to GPS 2009. The focus of land transport expenditure has been reoriented onto increasing economic growth and productivity, and projects have been prioritised from a national perspective. This has directed funding to the RoNS projects, and other projects critical to improving journey time reliability, particularly on key freight and tourist routes, and to addressing congestion in and around the main cities.

#### *Key achievements to date include*

21. Good progress has been made against our commitment to substantially progress the RoNS. All seven are on track but are at different stages of development.
  - The Victoria Park tunnel is in construction and is due to be completed in 2012.
  - Construction of the Tauranga Eastern Link has recently started.
  - Construction funding has been approved for the Waterview Connection (the last link in Auckland's Western Ring Route) and for sections of the Waikato Expressway and the Christchurch Motorway.
  - The Wellington Northern Corridor programme continues to gather momentum with six of the eight projects either in procurement or with suppliers for investigation and design.
  - Consultation on the indicative alignment of the Warkworth section of the Puhoi to Wellsford route is complete.
22. Outside of the RoNS projects, funding has been approved for other important roading projects including the Wairere Drive Package (Hamilton), refurbishment of the Terrace tunnel (Wellington), Auckland Transport's Mill Road Corridor project (Manukau), the Kamo Bypass Stage 2 and Spedding Road Link (Whangarei). Construction has commenced on the State Highway 88 realignment project (Dunedin).
23. In Auckland and Wellington, there have been major investments to upgrade, modernise and expand the metro rail systems, and support increases in rail patronage. Significant improvements in service frequency, quality and reliability are expected to attract more users and better utilise the network.
24. For the bus and ferry sector, a new public transport operating model is being tested. This model aims to incentivise operators to offer improved public transport services. This in turn will increase patronage and place less reliance on subsidies.

25. To achieve better outcomes in the area of walking and cycling, a proportion of the funding is concentrated on two model communities, New Plymouth and Hastings. These initiatives seek to reduce congestion by encouraging walking and cycling. Based on the experience of the Cycling Demonstration Towns programme in England, a sustained increase in walking and cycling in New Plymouth and Hastings is expected once the projects are completed. By concentrating the funding on these communities we are likely to get greater gains overall, rather than spreading the funding across a number of smaller projects.

## **Direction of GPS 2012**

26. Although we have made good progress in realigning land transport expenditure to better support future economic growth through GPS2009, some change is desirable to ensure New Zealand gets more benefit from its investment. This is particularly important as we seek to direct additional transport resources to Canterbury, while at the same time maintaining momentum in roading projects critical to the nation's future economic growth.

### *Including a statement of strategic direction*

27. It is my intention that GPS 2012 will continue with the direction set by GPS 2009. However, to provide greater clarity to the NZTA, local government and other key stakeholders, I will include a statement of strategic direction in GPS 2012. This statement will be guided by the Forward Plan for Transport that I am currently developing and the second National Infrastructure Plan (NIP2), which will outline the government's vision for New Zealand's infrastructure to 2030. The government committed to the development of a Forward Plan for Transport in GPS 2009. It is my intention that the Forward Plan will replace the non-statutory New Zealand Transport Strategy, issued by the previous government.
28. By including the strategic context, the government's expectations and priorities for land transport expenditure over the 10 year period of GPS 2012 will be clearer.
29. The NIP2 is expected to be considered by Cabinet in March 2011. Currently the vision for the transport sector in the draft NIP2 is:
- An effective, efficient, safe, secure, accessible and resilient transport system that supports growth in our country's economy in order to deliver greater prosperity, security and opportunities for all New Zealanders.*
30. Where appropriate, the strategic direction for GPS 2012 will also take into account work on the Auckland spatial plan which will set out the 20 to 30 year vision for Auckland.

### *Key priorities that will be emphasised*

31. In terms of the priorities for GPS 2012 I intend to emphasise the following.
- 31.1. A strong and continuing focus on economic growth and productivity. This would reiterate that the government's investment in land transport should support increased economic growth and productivity in New Zealand. Providing any ongoing support necessary to repair the land transport system in Canterbury over

the next 3 years will be a top priority, alongside continuing to improve the State highway network, particularly through progress on the RoNS programme.

- 31.2. Value-for-money. This is to stress within the land transport sector, as for other areas of public expenditure, the expectation that better and smarter services will be delivered and asset management will be improved to boost the performance of roading infrastructure. Although value-for-money is stressed in GPS 2009, its focus is on the initial selection of projects and activities. GPS 2012 will make it clear that getting more out of what is spent is an expectation throughout the National Land Transport Programme.
- 31.3. Road safety. This is to ensure that the priority the government has placed on road safety is better reflected in the GPS, and that the direction and actions outlined in *Safer Journeys*, the government's road safety strategy, will be supported through the next National Land Transport Programme.

*Stating that the RoNS programme will be ongoing*

32. As a key part of the economic growth and productivity priority, I propose to state that progress on the RoNS programme remains a priority. Although no new RoNS will be announced in GPS 2012, I will make it clear that consideration should be given over 2012–15 to future RoNS projects. This will allow new RoNS to be added to the programme as the existing projects are completed.
33. I expect that potential new routes would be identified through the State highway classification that is currently being consulted on. This initiative aims to build a national consensus on the role and function of different State highways, and thus the nature of improvements that can be expected over a 20 year timeframe.
34. Based on the draft State highway classification, I intend to identify the following routes for consideration in GPS 2012 as possible future RoNS:
  - 34.1. Hamilton to Tauranga
  - 34.2. Cambridge to Taupo
  - 34.3. Hawke's Bay Expressway
  - 34.4. State Highway 1 north and south of the current Christchurch motorway projects.
35. These routes are of national strategic importance, based on their high volumes of traffic, their importance for freight movements including port access, and the need to improve road safety on these routes.

*Changes to achieve value-for-money*

36. To sharpen the focus on value-for-money, I intend to make a number of changes to the funding ranges for the activity classes. These changes are outlined in paragraphs 45 to 53 below. The changes are designed to strengthen the disciplines on the allocation and application of transport revenue. They are also designed to encourage better monitoring and contract management to ensure we are getting the standard of delivery, or outcomes, that we are paying for.

*Making explicit the full extent of infrastructure investment in road safety*

37. In the area of road safety I intend to make explicit the amount of roading expenditure that is safety related. This will make clear the full extent of the investment in road safety, with the other significant areas being the road policing and road user safety activity classes. Currently the safety related roading expenditure appears as roading improvements or maintenance with the safety gains tending to be understated. However, roading improvements have contributed significantly to the gains that New Zealand has made over time in reducing deaths and serious injuries from road crashes, and further improvements are a key plank of the *Safer Journeys* strategy.
38. To give effect to this I will give an indication in GPS 2012 of how much of the State highway and local road expenditure I expect to be safety-related. This expenditure will focus on:
- 38.1. safety improvements such as installing safety barriers, improving line markings, providing better passing opportunities, intersection improvements, rural road realignments, and demonstration projects<sup>3</sup>
  - 38.2. safety improvements that target high-risk rural roads and high-risk urban intersections
  - 38.3. maintenance and renewal activity for safety eg providing the appropriate level of skid resistance.
39. On this basis I expect the following amounts to be invested over the first 3-years of GPS 2012 to improve the safety of our roading network:

<b>Safety related roading expenditure</b>	<b>2012/13 \$ million</b>	<b>2013/14 \$ million</b>	<b>2014/15 \$ million</b>
State highways	150–240	150–240	150–240
Local roads	80–120	80–120	80–120

40. Included in this amount is a proportion of the cost of the RoNS projects. All the projects will contribute to improving the safety of our State highway network.
41. The NZTA would be expected to report on how it has applied this expenditure and the road safety outcomes that have been achieved<sup>4</sup>. For example, the extent to which the proportion of vehicle kilometres travelled on 3-star or 4-star roads has increased<sup>5</sup>.

*Removing the short to medium-term focus on economic stimulus*

42. I intend to remove the short term emphasis on using transport expenditure for the purpose of providing an additional economic stimulus. This emphasis was added to

<sup>3</sup> Demonstration projects trial and show-case the safe system approach to improving road safety that is outlined in *Safer Journeys*. The projects incorporate roading improvements, speed management and road user and vehicle initiatives as appropriate. The intention is to focus the projects on high-risk rural roads and one project is currently underway in Maramarua (Waikato).

<sup>4</sup> Outputs and outcomes will be reported in accordance with OAG/SSC guidelines.

<sup>5</sup> The star ratings measure and rate the safety that is built into roads. The ratings range from 1-star which represents a road with poor infrastructure design for the prevailing speed environment, to 5-star which represents the safest road infrastructure design. Our greatest safety gains from roading, in terms of reducing road deaths and serious injuries, will come from moving traffic off 1-star and 2-star roads and onto 3-star and 4-star roads.

GPS 2009 in response to the global and domestic economic crisis and allowed transport expenditure to be used to help soften the impact of the recession.

43. Although the domestic economy is still recovering from the recession and faces a set-back following the Christchurch earthquake, the medium-term outlook is favourable. This removes the need for transport expenditure to be used as a stimulus measure. Instead GPS 2012 will focus expenditure on projects and activities that achieve transport outcomes and help lay the foundations for sustainable economic growth and productivity gains.
44. Moreover, delivery of the RoNS will provide a notable economic stimulus, creating and preserving a significant number of jobs in the construction sector. This will have beneficial flow-on effects through the economy. In 2010 the NZTA estimated that the State highway programme accounts for around 9,000 jobs each year. The RoNS make up a significant share of this. For each of the 10 to 15 years that the RoNS are being delivered, on average there will be around 3,000 employed on their construction.

### **Activity class funding ranges**

45. The GPS must include funding ranges that are then used by the NZTA to approve activity class allocations within the National Land Transport Programme. The NZTA manage this as a 3 year programme where adjustments are made between years and activity classes to ensure the land transport revenue is allocated efficiently. Table 1 shows the proposed 3 year activity class funding ranges for GPS 2012, alongside the actual and projected levels of expenditure for 2009/10–2011/12<sup>6</sup>. The proposed funding ranges for each activity class over the 10 years of GPS 2012 are given in Appendix 1.
46. The annual levels of expenditure implied by the proposed funding ranges, of around \$3 billion per year are unchanged from GPS 2009.
47. As is shown in Table 1, the funding ranges for six activity classes would allow expenditure to be broadly maintained at the same nominal level as for 2011/12. In proposing this, I am aware that maintaining the level of expenditure in nominal terms for the maintenance and operation of local roads may not be appropriate given the damage the Canterbury earthquake aftershock has caused the local road network.
48. Costs to reinstate the State highway and local road network following the Canterbury earthquakes are currently estimated at around \$360–\$470 million. Most of this cost, \$300–\$400 million, is for Christchurch City Council (CCC) roads. This cost is likely to be spread over 4 to 5 years and will therefore impact on the 2012–2015 National Land Transport Programme.
49. The NZTA will contribute to the CCC's costs on the basis of its special funding assistance rate for emergency works. Current assumptions suggest that this rate might be around 75 percent (the CCC's usual rate for maintenance spending is around 43 percent).
50. If the rebuild for CCC roads from the 22 February quake remains within the currently estimated \$300–\$400 million, the NZTA share should be able to be met from within the

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<sup>6</sup> These figures are from the NLTP snap-shot as at 1 March 2011 that can be found on [www.nzta.govt.nz/planning/what-funding/nltp.html](http://www.nzta.govt.nz/planning/what-funding/nltp.html). These numbers are subject to change, particularly in response to the Christchurch earthquake.

NLTP over the projected 4 to 5 year period that the work is expected to proceed. Some of this funding will come from the existing emergency works provisions within the National Land Transport Fund, and some will come from reprioritisation of other projects across the country.

51. There is also likely to be a need to reprioritise currently planned projects in Canterbury. For example, some already programmed maintenance and renewals work will no longer proceed because the relevant roads will be rebuilt as part of the recovery effort. It is also likely that the location and form of the proposed new central city bus interchange will need to be re-considered. The timing of parts of the Christchurch RoNS programme may need to be reconsidered and either put back, or brought forward, depending on decisions taken around new housing areas and any new commercial areas.
52. Further information on funding support for Canterbury is provided in the Cabinet paper considered by the Ad Hoc Committee on the Canterbury Earthquake Recovery entitled: *The New Zealand Transport Agency's Funding Response to the Reinstatement of the Canterbury Land Transport System*.
53. There is an opportunity to align the New Zealand Cycle Trail Network Expansion Project with GPS2012. General local road maintenance and improvement programmes can, where appropriate, include provision for low cost treatments. I propose to reflect this in the GPS description of the local road maintenance activity class.
54. For four activity classes the ranges would reduce expenditure from 2011/12 levels. For the public transport infrastructure activity class the funding range has been narrowed to focus expenditure on a limited number of high-priority projects. It also reflects the previous decision to fund improvements to metro-rail infrastructure directly through Crown funds rather than through the National Land Transport Fund.
55. Two activity classes ranges would increase: new and improved State highways and public transport services. Increases in the former reflect our commitment to substantially progress the RoNS, to complete the Waikato expressway within 10 years, and to significantly progress the construction of the Waterview Connection.
56. The increases in the public transport services activity class primarily reflect additional operating costs following the upgrading, modernising and expanding of the metro rail systems in Auckland and Wellington.
57. No change would be made to the funding range for the walking and cycling activity class. The GPS 2009 funding range allows for a \$3 million increase in the upper band of the range from 2012/13 onward<sup>7</sup>. This is important to support the growth that is occurring in the active modes and to increase safety.

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<sup>7</sup> That is, under GPS 2009 the funding range for walking and cycling in 2010/11 is \$12 million–\$27 million. This increases to \$12 million to \$30 million in 2011/12.

**Table 1: Proposed 3 year funding ranges by activity class**

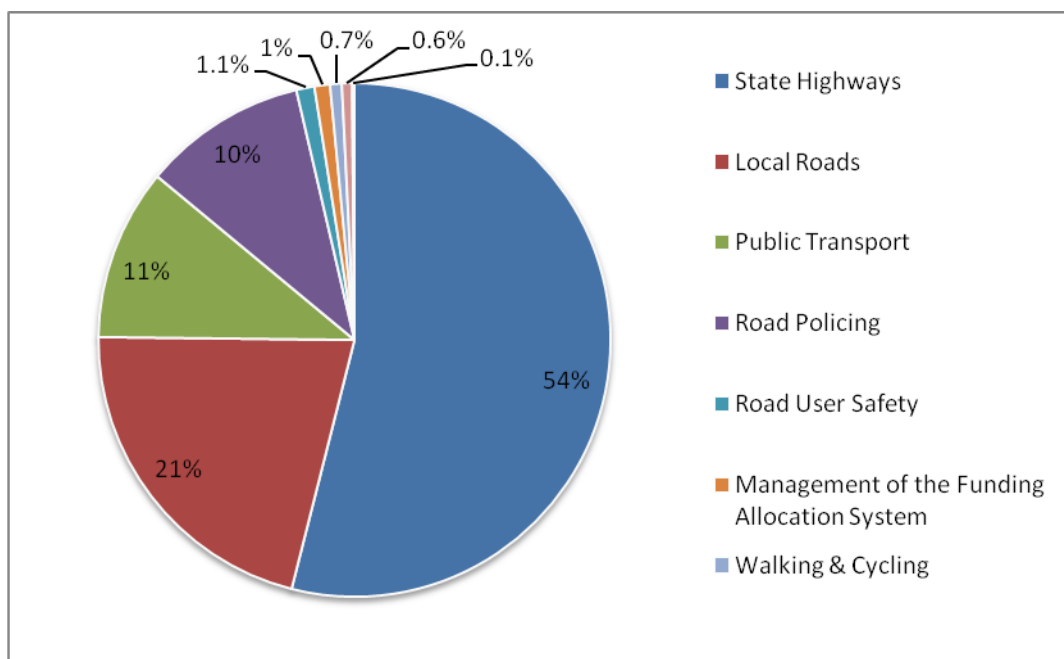
NLTP spend by Activity class	09/10 \$M	10/11 \$M	11/12 \$M
New & improved infrastructure for State highways	1102	1035	1036
Renewal of State highways	232	202	202
Maintenance & operation of State highways	307	299	300
New & improved infrastructure for local roads	165	156	132
Renewal of local roads	205	232	236
Maintenance & operation of local roads	224	248	251
Road policing	288	298	308
Public transport services	187	210	220
Public transport infrastructure	101	50	57
Road user safety	36	40	38
Walking & cycling facilities	18	13	15
Sector training & research	5	6	6
Transport planning	20	32	32
Management of the funding allocation system	36	34	32
<b>Expenditure actual/projected</b>	<b>2927</b>	<b>2856</b>	<b>2866</b>

12/13 \$M	13/14 \$M	14/15 \$M	Direction	
875 1150	900 1200	950 1300	↑	Upper expenditure limit raised to allow progress on all projects including RoNs to be maintained
180 220	180 220	180 220	→	Allows current levels of activity to be maintained, but funding ranges have been lowered to encourage efficiency
225 325	225 325	225 325	→	
130 180	130 185	130 190	→	
190 240	190 240	190 240	→	
205 260	205 260	205 260	→	
280 310	280 310	280 310	→	
220 290	230 300	240 330	↑	Upper expenditure limit raised to provide for metro rail
20 60	20 60	20 60	↘	Upper expenditure limit lowered to focus on highest priorities
29 36	29 36	29 36	↓	Funding range lowered and narrowed to drive efficiencies
12 30	12 30	12 30	✓	No change
3 5	3 5	3 5	↓	Funding range lowered and narrowed to drive efficiencies
14 23	14 23	14 23	↓	Funding range lowered and narrowed to remove unnecessary planning & reduce duplication
26 30	26 30	26 30	↓	Funding range lowered to drive efficiencies
<b>3000</b>	<b>3100</b>	<b>3250</b>		

Actual spend	
Projected allocation	
Revised - Proposed funding ranges	

58. The midpoints of my proposed funding ranges gives the activity class split shown in Figure 1. This split acknowledges that although the State highway network is only 12 percent of the total roading network, it accounts for around half of the vehicle kilometres driven each year. As well, each year around two-thirds of the vehicle kilometres driven by heavy vehicles occur on State highways. The actual amounts of planned expenditure for each activity class will be determined through the National Land Transport Programme for 2012–15 yet to be developed.

**Figure 1 Split of expenditure based on proposed funding ranges**



## Key risks

### *Cost escalation in large projects and programmes*

59. A key risk that may impact on the amount of activity that we will be able to fund, through the National Land Transport Fund, is the risk of cost escalation in large projects. The RoNS projects are larger and longer in duration than what has been funded and managed in the past. Many of these projects are at an early stage where there is more uncertainty as to their final out-turn cost. If costs prove to be higher than estimated, this will create additional funding pressure and trade-offs will be forced.

60.

Text withheld under section 9(2)9(i) which relates to enabling commercial activities to be carried out without prejudice or disadvantage.

61.

At some point, as the New Zealand and world economies strengthen, construction prices will rise. Many of the key input costs such as bitumen, fuel, steel and to a lesser extent skilled labour, are largely uncontrollable domestically as their prices are set in world markets.

### *Revenue uncertainty and expenditure pressures*

62. On 9 March 2009, Cabinet agreed to an increase in fuel excise duty (FED) and road user charges (RUC), expressed in terms of 1.5 cents a litre (and equivalent in RUC), to take effect from 1 July 2011 [CAB Min (09) 8/11-14 refers]. This was the third of three increases agreed to by Cabinet, and would generate about \$45 million in additional revenue each year. The first two increases, of 3 cents per litre each, were implemented on 1 October 2009 and 1 October 2010.
63. I am mindful that in addition to previous increases in FED and RUC, other government policy changes such as the increase in GST on 1 October 2010 and the introduction of the Emissions Trading Scheme on 1 July 2010, have contributed to increased costs being faced by motorists at the pump. I therefore propose that the scheduled 1 July 2011 increase in FED and RUC does not proceed. I will seek Cabinet's agreement to this action in a separate Cabinet paper.
64. There is currently a deficit of about \$1.1 billion between forecast revenue and target expenditure over the 10 years to 2020. The deficit will increase to about \$1.5 billion as a result of not proceeding with the FED and RUC increase in July. The size of the forecast deficit could make it difficult to give effect to the programme of expenditure envisaged by GPS 2009 and continued in GPS 2012.
65. The expenditure pressures are unlikely to ease during GPS 2012 due to:
- 65.1. our top priority of providing any ongoing funding necessary to repair the land transport system in Christchurch
  - 65.2. our commitment to progress the RoNS, and meet the costs resultant from increased growth in freight, traffic on urban networks, and public transport patronage
  - 65.3. increased traffic on urban networks resulting in pressures for greater maintenance expenditure
  - 65.4. the full costing of metro rail expenditure resulting in increases to subsidy levels (for example to meet track access charges).
66. GPS 2012 will need to address the existing funding gap in out-years. As a consequence I will be looking to seek Cabinet's agreement to raise fuel excise duty and road user charges in the order of 2 cents a litre in 2012, and 1.5 cents a litre in 2013 at some point in the future.

### **Process for finalising GPS 2012**

67. Following Cabinet's consideration of this paper, I intend to seek the views of key stakeholders on the proposed direction for GPS 2012. Under the Land Transport Management Act 2003, I am required to have regard to the views of Local Government New Zealand and representative groups of land transport users and providers. The document that I intend to use for this purpose is attached. In addition, in finalising the GPS I must consult the NZTA.

68. I will also ensure that GPS 2012 meets other statutory requirements relating to content, contribution to social and environmental objectives, and consistency with other government strategies (e.g. the energy efficiency and conservation strategy).
69. I anticipate releasing GPS 2012 around the middle of 2011, but will report back to Cabinet before the final GPS is publicly released.

### **Likely views of stakeholders**

70. The National Land Transport Fund is an hypothecated fund. This means that the revenue raised from FED, RUC, motor vehicle registration and licensing fees<sup>8</sup> is ring-fenced solely for investment in land transport. Hypothecation brings with it the principle that road users' funds should be used for activities that benefit road users. In my view the split of expenditure that I am proposing, that is illustrated in Figure 1, achieves a good balance between delivering on the transport needs of road users while still providing support to public transport and the active modes. Importantly the investment in the latter modes has been, and will continue to be, lead by the priority of increasing economic growth and productivity. This ensures, for example, that investment in metro rail services and walking and cycling is made where it can be shown to reduce road congestion and/or improve road safety.
71. I am confident that maintaining the current direction of land transport expenditure will be supported by motor vehicle road users who provide the revenue for the Fund. Based on the 2006 Census 84 percent of people travel to work by car, truck or motorbike.
72. However, there may be some opposition from a vocal minority of stakeholders who favour a greater focus on public transport and the active modes.
73. My concern in that respect is that during the last 10 years the costs of providing bus and ferry services have increased disproportionately compared to the level of patronage increase. As previously advised, I am seeking to address this through the Public Transport Operating model, to ensure greater value-for-money from this activity class.
74. Investing around half of the expenditure into the State highway network reflects the reality of where the pressure on the land transport system falls. Although the State highway network is only 12 percent of the total roading network<sup>9</sup>, it accounts for around half of the vehicle kilometres driven each year, and around two-thirds of the vehicle kilometres driven by heavy vehicles. These factors mean that generally the network requires higher levels of investment, maintenance and renewal work than local roads.
75. Some local authorities have previously voiced the concern that investment in State highways is not balanced with the rest of the network, and that this could result in congestion shifting to local roads. However, the evidence is largely to the contrary with capacity increases on major highways reducing the traffic on the local road network (e.g. the State highway 20 to State highway 1 link in Auckland and the Mount Roskill motorway Auckland). It is important to ensure that key local arterials are adequately maintained and renewed But that does not imply a level of investment in local roads the same as for the State highway network.

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<sup>8</sup> A small proportion of the National Land Transport Fund is derived from NZTA' property management activity and receipt of interest.

<sup>9</sup> The State highway network comprises almost 11,000 kilometres of road while there are almost 83,000 kilometres of local roads.

76. Moreover, the level of investment in local roads is a partnership (broadly 50/50) between central and local government as local road projects require a local share. The level of central government's investment in local roads is shaped by the level of investment that local authorities are prepared to make. To date the allocation of funding to the local road network has been limited by local authorities' willingness to contribute their local share.

### **Consultation**

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

### **Financial implications**

79. Currently a deficit is forecast of about \$1.1 billion between revenue and target expenditure over the 10 years to 2020. This deficit will increase to about \$1.5 billion if Cabinet agrees to revoke the 1 July 2011 increase in FED and RUC.
80. To mitigate the deficit I will be looking to seek Cabinet's agreement to raise fuel excise duty and equivalent road user charges in the order of 2 cents a litre in 2012/13, and 1.5 cents a litre in 2013/14 at some point in the future.

### **Human rights implications**

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

### **Legislative implications**

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

### **Regulatory Impact Analysis**

83. 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**

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

### **Disability perspective**

85. 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

86. Following Cabinet's consideration of this paper, I intend to consult with the NZTA and engage with local government and representatives of land transport users and providers on the proposed direction for GPS 2012. I anticipate releasing GPS 2012 in July 2011.

## Recommendations

87. I recommend 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 3 years
- 2) **note** my intention to retain the direction set out in the Government Policy Statement 2009 but to emphasise the priorities of economic growth and productivity, value-for-money and road safety
- 3) **note** that the changes to the funding ranges I intend to make imply a level of expenditure funded by road users of around \$3 billion per year for 2012–2015
- 4) **note** that I will shortly be engaging with local government, key stakeholders, and the New Zealand Transport Agency on the proposed direction for Government Policy Statement 2012 and that the engagement document to be used is attached
- 5) **note** that I will report back to Cabinet on the final Government Policy Statement before I release it publicly in July 2011
- 6) **note** that on 9 March 2009 Cabinet agreed to an increase in fuel excise duty and road user charges, expressed in terms of 1.5 cents a litre, to take effect from 1 July 2011 [CAB Min (09) 8/11-14 refers]
- 7) **note** that I intend to seek Cabinet's agreement to rescind the decision to increase fuel excise duty and road user charges from 1 July 2011, given the recent increases in costs being faced by motorists, in a separate Cabinet paper
- 8) **note** that currently a deficit is forecast of about \$1.1 billion between revenue and target expenditure over the 10 years to 2020, and this deficit is forecast to increase to about \$1.5 billion as a result of rescinding the July 2011 increase in fuel excise duty and road user charges

- 9) **note** to mitigate the forecast deficit I will seek Cabinet's agreement to raise fuel excise duty and equivalent road user charges in the order of 2 cents a litre in 2012/13, and 1.5 cents a litre in 2013/14 at some point in the future.

Steven Joyce  
**Minister of Transport**

Dated: \_\_\_\_\_

## Appendix 1

### Proposed funding ranges for 2012/13–2021/22 by activity class

GPS 2012 change	Activity class	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
		\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
↑	New & improved infrastructure for State highways	850	875	900	950	1000	1050	1100	1150	1200	1250	1300
		1150	1150	1200	1300	1400	1450	1500	1550	1600	1700	1750
→	Renewal of State highways	200	180	180	180	190	190	190	200	200	200	200
		240	220	220	220	230	230	230	240	240	240	240
→	Maintenance & operation of State highways	280	255	255	255	255	255	255	255	255	255	255
		345	325	325	325	350	350	360	360	360	380	380
→	New & improved infrastructure for local roads	150	130	130	130	140	140	140	150	150	150	160
		250	180	185	190	210	210	210	230	230	230	250
→	Renewal of local roads	220	190	190	190	200	200	200	210	210	210	210
		260	240	240	240	250	250	270	270	290	290	310
→	Maintenance & operation of local roads	225	205	205	205	205	205	205	205	205	205	205
		290	260	260	260	280	280	280	300	300	300	320
→	Road policing	305	280	280	280	280	280	280	280	280	280	280
		314	310	310	310	315	315	315	320	320	320	320
↑	Public transport services	205	220	230	240	255	270	280	295	295	295	295
		235	290	300	330	340	360	370	390	410	420	440
↘	Public transport infrastructure	20	20	20	20	20	20	20	20	20	20	20
		100	60	60	50	50	40	40	30	30	30	30
↓	Road user safety	30	29	29	29	29	29	29	31	31	31	33
		55	36	36	36	36	36	36	38	38	38	38
✓	Walking & cycling facilities	12	12	12	12	14	14	14	15	15	15	16
		27	30	30	30	32	32	32	34	34	34	36
↓	Sector training & research	5	3	3	3	3	3	3	3	3	3	3
		7	5	5	5	5	5	5	5	5	5	5
↓	Transport planning	20	14	14	14	15	15	15	15	15	15	15
		32	23	23	23	23	23	23	23	23	23	23
↓	Management of the funding allocation system	29	26	26	26	26	26	26	26	26	26	26
		35	30	30	30	30	30	30	30	30	30	30
	<b>Expenditure target</b>	<b>2900</b>	<b>3000</b>	<b>3100</b>	<b>3250</b>	<b>3400</b>	<b>3500</b>	<b>3650</b>	<b>3800</b>	<b>3900</b>	<b>4100</b>	<b>4200</b>

#### Key to symbols

↑	Increase from previous GPS funding ranges
✓	Maintain previous GPS funding ranges
→	Allows current NLTP levels of expenditure to be maintained
↘	Range narrowed from previous GPS funding ranges
↓	Decrease from previous GPS funding ranges