

Chair
Cabinet

TRANSPORT FUNDING PACKAGE OVERVIEW

Proposal

1. I am seeking Cabinet's agreement to three papers that recommend changes to improve land transport funding arrangements:
 - 1.1. *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges;*
 - 1.2. *Confirmation of the Government's Commitment to Transport Infrastructure;*
 - 1.3. *Amending the Government Policy Statement on Land Transport Funding 2009/10 – 2018/19 (GPS)*

The package

2. The package of measures proposed in these three papers would together:
 - 2.1. fulfil election transport funding commitments;
 - 2.2. increase funding for State highways by almost \$1 billion over the next three years;
 - 2.3. replace regional fuel tax;
 - 2.4. make a start on simplifying the management of rail infrastructure; and
 - 2.5. confirm our pre-election support for Auckland rail electrification.

The proposals

3. The package achieves these changes by replacing regional fuel tax with increased fuel excise duty and road user charges, reprioritising existing transport taxes, and making further commitments from the previously announced Crown appropriations for transport infrastructure.
4. The revenue collected from the revised transport tax rates would be largely comparable with that anticipated under regional fuel tax in Auckland and considerably less than that involved if regional fuel tax was more widely adopted.
5. The key elements of the package include:
 - 5.1. reprioritising land transport expenditure under the GPS to make an additional \$678 million available for State highway construction over the next three

- financial years: made up of a reallocation of approximately \$420 million from non-State highway activity classes, and freeing up \$258 million for road - related activity by moving capital investment in rail infrastructure outside of the National Land Transport Fund;
- 5.2. appropriating \$258 million of the \$8.55 billion six year Crown capital commitment made before the election to fund the Wellington passenger rail expenditure that would have been funded from the National Land Transport Fund;
 - 5.3. replacing regional fuel tax, which would be costly to collect, with a phased three cent per litre increase in fuel excise duty and road user charges. Doing this would generate similar revenues to the Auckland regional fuel tax, being a further \$283 million for State highways over the next three financial years;
 - 5.4. confirming the government's commitment to Auckland passenger rail electrification and rolling stock, which was to be funded from regional fuel tax, with the funding arrangements to be further considered by the Minister of Transport and the Minister of Finance, and a report back on rail funding and management to Cabinet by 1 July 2009;
 - 5.5. incorporating the previously committed annual price movements adjustment within the fuel excise duty and road user charges adjustments.
6. These proposals are in addition to the \$142 million transport component in the stimulus package announced in mid-February 2009.
 7. Some Auckland regional fuel tax projects would not be guaranteed funding under the package, including railway station improvements, ferry wharf upgrades, integrated ticketing and ferry and bus real time information upgrades and the Penlink project. These should be evaluated and prioritised for funding in the normal way under the National Land Transport Fund
 8. The papers seek Cabinet's in principal agreement that rolling stock ownership should be consolidated under KiwiRail. Final decisions need to await the recommendations of the Royal Commission on Auckland Governance. The Wellington rail funding proposals start the process of separating Crown funding for rail infrastructure from road funding from fuel excise duty and road user charges. A comprehensive report on rail funding and ownership will be available to Cabinet by 1 July 2009.
 9. Figure 1 summarises how the State highways funding would be made available.
 10. Figure 2 summarises the proposed adjustments to the Crown allocation to transport infrastructure.

Figure 1

How we are increasing Investment in State Highway Infrastructure (all figures over three years)

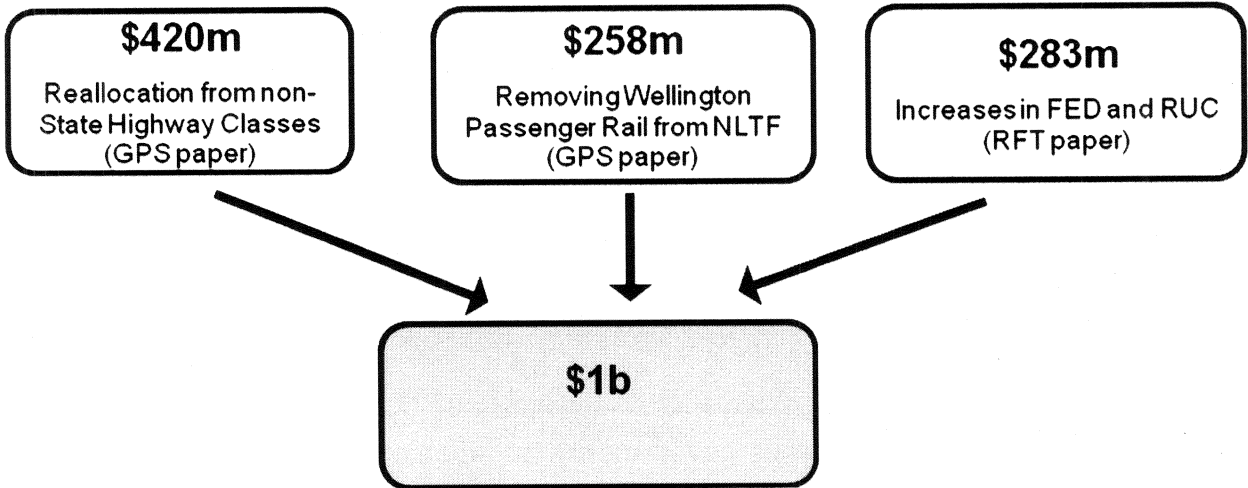
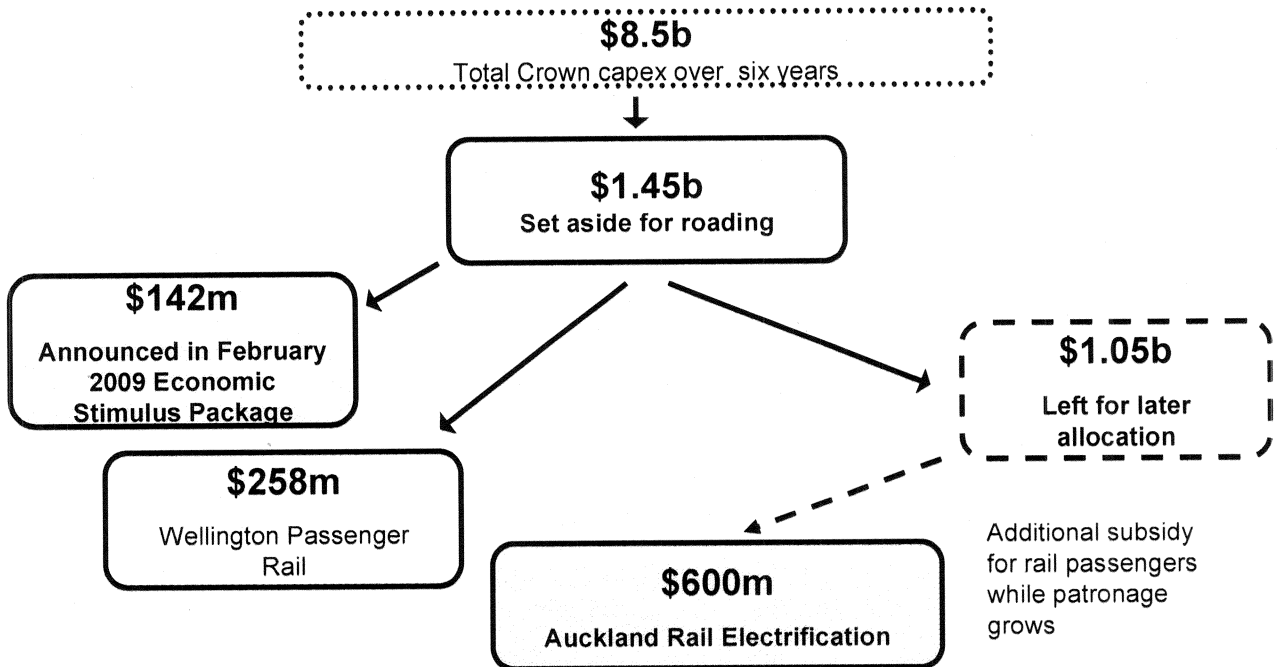


Figure 2: How we allocate the Crown contribution to transport infrastructure
(all figures over six years)



Further initiatives

11. Withheld under Section 9(2)(f)(iv)

Timing

12. Early decisions and announcements are needed to:
 - 12.1. ensure that the GPS, which will guide National Land Transport Fund expenditure over the next three years, reflects the government's transport priorities;
 - 12.2. avoid compliance costs for fuel companies and non-transport businesses arising from the previous government's adoption of regional fuel taxes; and
 - 12.3. provide guidance to the public agencies currently progressing the Auckland and Wellington rail electrification projects.
13. This proposed timing will still allow the report of the Royal Commission on Auckland governance to be considered before final decisions are taken on rail funding and management.

Communication

14. These proposals would be best announced as an integrated package of revenue and expenditure proposals. I propose a joint announcement by the Prime Minister and Minister of Transport.

Consultation

15. The following departments have been consulted on the *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges* and *Confirmation of the Government's Commitment to Transport Infrastructure* Cabinet papers: The Treasury and the Department of Internal Affairs. The Department of the Prime Minister and Cabinet has been informed.
16. The following departments and agencies have been consulted on the *Amending the Government Policy Statement on Land Transport Funding 2009/10018/19* Cabinet paper: The 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 of 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 has been informed.

Financial, legislative or regulatory implications

17. The paper has no financial or legislative implications.

Human rights, gender and disability implications

18. There are no human rights, gender or disability implications associated with the policy proposals outlined in this paper.

Recommendation

19. I recommend that the Committee:
 1. **note** that the package of transport funding proposals set out in the three associated transport funding papers will, through re-allocation of existing transport taxes and confirmation of previously announced Crown appropriations, give effect to a number of election promises, increase funding for State highways by almost \$1 billion over the next three years and replace the regional fuel tax of the previous government with its high compliance costs.

Steven Joyce
Minister of Transport

Dated: _____

