

Half-year economic and fiscal update 2019 forecast of National Land Transport Fund revenue

Reason for this briefing	We have completed revenue forecasting for the National Land Transport Fund to feed into the Treasury's Half-year Economic and Fiscal Update (HYEFU) process. This update gives you an overview of our latest revenue forecast and how this compares to the last forecast update we provided you in May 2019.
Action required	Share this briefing with the Minister of Finance.
Deadline	No deadline
Reason for deadline	This paper provides context on the forecasts that have been submitted as part of the HYEFU process.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
██████████	Acting Manager, Investment	██████████	✓
██████████	Acting Manager, Demand Management and Revenue	██████████	
██████████	Senior Adviser, Demand Management and Revenue	██████████	

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MINISTER'S COMMENTS:

Date:	16 December 2019	Briefing number:	OC191266
Attention:	Hon Phil Twyford	Security level:	In-confidence

Minister of Transport's office actions

- Noted*
 Seen
 Approved
- Needs change*
 Referred to
- Withdrawn*
 Not seen by Minister
 Overtaken by events

Purpose of this briefing

1. This briefing:
 - 1.1. updates you on the National Land Transport Fund (NLTF) revenue forecast that informed the Treasury's Half-year Economic and Fiscal Update 2019 (HYEFU19)
 - 1.2. compares the latest forecast to the previous forecast you saw for the Budget, Economic and Fiscal Update 2019 (BEFU19) (May 2019)
 - 1.3. summarises the impact on the delivery of the Government Policy Statement on land transport (GPS) 2018.

Context

2. The Ministry is required to provide the Treasury with updated NLTF forecasts every 6 months to input into its Economic and Fiscal Updates.
3. The forecast is largely unchanged since the BEFU19 update we provided you in May 2019 (OC190447 refers).
4. Actual revenue collected since BEFU19 has been consistent with the latest forecast, and is within a manageable range to enable Waka Kotahi NZ Transport Agency (Waka Kotahi) to use existing tools, including prioritisation across the National Land Transport Programme (NLTP) or its short-term borrowing facility.

The role of revenue forecasting

5. We are required to forecast NLTF revenue at each Economic and Fiscal Update using the latest data from Waka Kotahi, the Treasury and NZ Customs. We have recently completed the forecast of the NLTF revenue as part of the Treasury's HYEFU19 process.
6. You agreed (OC181120 refers) that we will provide you and the Minister of Finance with a revenue report at each Economic and Fiscal Update.
7. Revenue forecasts are intended to provide you with an opportunity to:
 - identify and respond to immediate revenue pressures
 - understand the revenue available to meet expenditure priorities, and guide the development of GPS funding ranges
 - respond to long-term revenue implications.
8. We compare the latest revenue forecasts with corresponding forecasts prepared for the GPS 2018, as the GPS 2018 forecast was used to set the expected expenditure for the National Land Transport Programme 2018-21 (NLTP 2018-21). When there are significant differences this may require:
 - Waka Kotahi to reconsider how it gives effect to the GPS (eg reprioritisation of activities)
 - you to reconsider revenue settings (eg change of direction in the GPS or the level of transport taxes).

Assumptions in the modelling

9. The forecast for HYEFU19 includes:
- 9.1. the increase in petrol excise duty of 3.5 cents per litre that came into effect on 1 July 2019
 - 9.2. the planned increase in petrol excise duty of 3.5c/L in July 2020
 - 9.3. increases in road user charges approved by Cabinet (CAB-19-MIN-0173 refers) from 1 July 2019, which averaged 5.5 percent across all vehicle types and weights
 - 9.4. planned increases in road user charges not yet set in regulation, that will be equivalent to the excise duty increase described in paragraph 9.2, which are expected to come into effect from 1 July 2020.

The updated revenue forecast (HYEFU 2019) is consistent with the previous revenue forecast (BEFU 2019)

10. Tables 1 and 2 below provided you with the HYEFU19 revenue forecast, compared to the BEFU19 revenue forecast.

Table 1: NLTF Revenue for 2019/20 - 2020/21*

\$ million	BEFU 2019 Forecast	HYEFU 2019 Forecast	Net Difference	Percentage difference
Total NLTF revenue 2019/20	4,110	4,102	-8	-0.19%
Total NLTF revenue 2020/21	4,315	4,353	38	0.88%
TOTAL	8,425	8,455	30	0.69%

* Totals may not sum due to rounding

Table 2: NLTF Revenue for 2019/20 - 2028/29*

\$ million	BEFU 2019 Forecast	HYEFU 2019 Forecast	Net Difference	Percentage difference
Total NLTF revenue 2019/20 – 2028/29	44,194	45,124	930	2.00%

There is no cause for concern in the medium or long term

11. For the remainder of the NLTP 2018-2021 period, there does not appear to be any cause for concern around the level of revenue available in the NLTF. The HYEFU19 forecast is consistent with the BEFU19 forecast. For the 2019/20 year the forecast reduction in revenue is minor and within a manageable level for Waka Kotahi to deliver the remainder of the NLTP 2018-2021 without significant issues.

12. The latest forecast is consistent with the GPS 2018 forecast. For the 2019/20 year, the GPS 2018 forecast revenue of \$4,135 million and \$4,349 million for the 2020/21 year. This therefore means that the HYEFU19 forecast is inline with GPS 2018 expenditure projections.
13. For the period 2019/20-2028/29, the HYEFU19 forecast is consistent with the BEFU19 forecast.
14. The HYEFU19 projections are also consistent with the modelling currently being done for GPS 2021, which is assuming approximately \$48 billion over the 10 years 2021/22 – 2030/31.
15. Actual revenue is tracking close to forecast for the year-to-date. About \$2 billion actual net revenue was received as of 30 November 2019, which is around 0.13 percent above the forecasted amount.

Next steps

16. We will:
 - 16.1. continue to monitor the actual NLTF revenue received on a quarterly basis and will update you through the weekly report
 - 16.2. continue to update our forecasts as part of the GPS 2021 development, to give you a clear and accurate idea of the revenue that will be available for allocation in GPS 2021
 - 16.3. provide the next formal NLTF revenue report in mid-2020 as part of the BEFU 2020 process. This will advise if there is any significant deviation between actual revenue received and our previous NLTF revenue forecasts.

Recommendations

17. The recommendations are that you:

(a) **note** that the Half-year Economic and Fiscal Update 2019 forecast is similar to the Budget, Economic and Fiscal Update 2019 forecast and no further action is needed

(b) **agree** to share this briefing with the Minister of Finance

Yes/No

Marian Willberg
Acting Manager, Investment

MINISTER'S SIGNATURE:

DATE

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