Ministry of Transport
TE MANATŪ WAKA

COVID-19 Impacts for the National Land Transport Fund and Waka Kotahi NZ Transport Agency

Reason for this briefing	To provide you with advice on the financial impacts on the National Land Transport Fund and Waka Kotahi NZ Transport Agency's regulatory memorandum accounts as a result of the Government's immediate response to COVID-19.
Action required	To progress the attached budget bids to use the COVID-19 Response and Recovery Fund to manage the expected impacts of the Government's response to COVID-19 on the National Land Transport Fund to 30 June 2020 and Waka Kotahi's regulatory memorandum accounts to 30 June 2021.
Deadline	23 April 2020.
Reason for deadline	To enable the attached budget bids to be submitted to Treasury by 24 April 2020 for consideration as part of the supplementary budget process for managing COVID-19 related fiscal pressures which will be considered by Budget Ministers on 4 May 2020.

Contact for telephone discussion (if required)

Name	Position	Telephone	First Contact
Helen White	Manager, Investment	[redacted]	
Robert Anderson	Principal Adviser, Governance and Commercial		✓
Jonathan Luo	Senior Adviser, Investment		

withheld under section 9(2)(a)

MINISTER'S COMMENTS:

Date:	20 April 2020	**Briefing number:**	OC200294
Attention:	Hon Phil Twyford (Minister of Transport)	**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☐ Withdrawn ☐ Not seen by Minister ☐ Overtaken by events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

1. To provide you with advice on the financial impacts on the National Land Transport Fund (NLTF) and on Waka Kotahi NZ Transport Agency's (Waka Kotahi) regulatory function as a result of the Government's immediate response to COVID-19. Your agreement is sought to progress the attached budget bids to use the COVID-19 Response and Recovery Fund to manage the expected impacts on the NLTF to 30 June 2020 and Waka Kotahi's regulatory memorandum accounts to 30 June 2021.

Executive Summary

2. Officials have provided advice to Ministers on the expected impacts that the Government's immediate response to COVID-19 will have on the financial position of border agencies and agencies with revenue sources dependent on activity at the border. Officials are now working through the impacts that the Government's immediate response to COVID-19 will have for the NLTF and Waka Kotahi's regulatory memorandum accounts, both of which have revenue sources dependent on activity occurring in the land transport system.

Impacts on the National Land Transport Fund

3. Officials have re-forecasted NLTF revenue projections to take account of the response to moving to heightened alert level in response to COVID-19. Based on the analysis undertaken, it is possible that land transport revenue could decrease by around $1,640 million to $1,880 million (a 13 – 15 percent reduction) through to the 2022 financial year relative to the funding projected in the Treasury's Half-Year Economic and Fiscal Update (HYEFU) 2019. This would be a permanent decrease in revenue that would not be made up in the future (absent of any increases to fuel excise duty and road user charges).

4. There is a high degree of uncertainty around the revenue forecasts as the full effects of moving to heightened alert levels are still largely unknown. It is also possible that the country, or specific regions, may move between alert levels over the coming months depending on the effectiveness of efforts to contain the spread of COVID-19. These movements will have flow-on impacts for the revenue forecast and net cash position for the NLTF which will need to be carefully monitored.

5. Based on the current forecast, Waka Kotahi anticipates the NLTF will hold a negative net cash positon of around $495 million through to 30 June 2020 as a result of the Government's response to COVID-19. Waka Kotahi currently has access to a $250 million short-term borrowing facility (with the size of the appropriation at $500 million) consisting of $175 million to manage seasonal variations and $75 million to manage unexpected shocks in the NLTF.

6. Officials recommend that to address the immediate net cash flow pressures on the NLTF to 30 June 2020, a budget bid is progressed to increase the total size of the appropriation for the borrowing facility from $500 to $675 million, with this increase being used to expand the shock component of the facility from $75 to $500 million. The $175 million component used to manage seasonal variations would be retained so Waka Kotahi has capacity to manage seasonal cash flow pressures within the NLTF.

7. It is important to note that any increase in borrowing for Waka Kotahi has implications for the delivery of Government Policy Statements on land transport (GPS) and National Land Transport Programmes (NLTPs) since a greater proportion of available funds would be used to repay debt and interest. This could reduce the ability of Waka Kotahi to deliver against existing and future GPSs.

8. The net cash position against the NLTF is based on maintaining the current expenditure profile in the 2018 NLTP. There is relatively limited opportunity in the short-term to scale expenditure in order to reduce the end of financial year cash position for the NLTF. This is because the majority of the expenditure has already being incurred. The proposed changes to the NLTF short-term borrowing facility are expected to be sufficient to manage the net cash flow pressures through to 30 June 2020, but will likely not be sufficient beyond this point, based on current modelling.

9. Beyond the financial year end, officials will complete more detailed work to understand where land transport expenditure could be delayed, scaled or deferred to manage the projected reduction in land transport revenue. This assessment will be balanced against the trade-offs that could result in supporting economic recovery and stimulus objectives alongside delivering on the priorities in the GPS.

10. Officials will provide further advice on the medium term impacts of COVID-19 for the land transport revenue base. This advice will include options for providing additional relief in response to the medium term impacts on the net cash positon of the NLTF.

11. A review of the borrowing facility would also be undertaken prior to 2023, to assess whether the parameters and size of the facility are appropriate at that point in time.

Impacts on Waka Kotahi's regulatory memorandum accounts

12. Waka Kotahi anticipates that its net regulatory revenue[1] will decline by around $10 - $15 million (6 - 9 percent of the annual revenue) by 30 June 2020. These pressures are expected due to a reduction in fee income from regulatory activity, such as driver licensing and testing, vehicle registrations and certifications. By 30 June 2021, the decline could be between $35 - $45 million (20 - 26 percent) or higher still in extreme scenarios.

13. Officials recommend progressing a budget bid to provide Waka Kotahi with a non-repayable capital injection of $60 million to manage the immediate impacts of COVID-19 on the agency's regulatory memorandum accounts through to 31 June 2021.

14. Excluding the impacts of COVID-19, Waka Kotahi was already experiencing funding pressures within its regulatory memorandum accounts. Waka Kotahi is dependent on progressing a funding review to ensure its regulatory revenue is set at the right level. Further advice will be provided in June 2020 on managing the ongoing cost pressures.

15. [redacted]. There are relatively limited opportunities to significantly scale expenditure before 30 June 2020. It is expected that, post 30 June 2020, before any further drawdowns are made, Waka Kotahi must demonstrate how it has taken steps to identify efficiencies and savings within the funding baseline for its regulatory function before accessing the capital injection.

withheld under section 9(2)(f)(iv)

Next steps

16. A budget process has been established to consider urgent cost pressures related to COVID-19. Budget bids must be submitted to Treasury for assessment by 24 April 2020 and will be considered by the Response Fund Ministerial Group on 4 May 2020 before being considered by Cabinet on 11 May 2020. Your approval is sought to submit these bids to be considered as part of the budget process.

[1] Regulatory fees net of third-party commissions and transaction costs.

Initial work has been undertaken in response to the impacts of COVID-19 for the transport system

17. Officials have provided advice to Ministers on the expected impacts that the Government's immediate response to COVID-19 will have on the financial position of border agencies and agencies with revenue sources dependent on activity at the border (CAB-20-MIN-0148 refers). This specifically includes the Ministry of Business, Innovation and Employment (Immigration NZ), Ministry of Primary Industries (Biosecurity NZ), the New Zealand Customs Service, Maritime New Zealand, and the Civil Aviation Authority (including the Aviation Security Service).

18. Cabinet has also approved $600 million of assistance for the aviation sector through the Aviation Relief Package (CVD-20-MIN-0010 refers). In addition to this funding, Cabinet has provided access to $300 million of financial assistance to air freight providers to ensure that critical freight capability is maintained. Cabinet has also authorised funding to be released to respond to urgent and immediate risks and opportunities within the aviation system.

19. A process is now underway to, as part of a supplementary budget process, for agencies to put forward budget bids to address urgent and immediate financial impacts as a result of, or in response to, COVID-19. These bids are considered as part of a separate process to utilise the funding appropriated for through the COVID-19 Response and Recovery Fund.

Officials have developed tailored advice to respond to the specific impacts on the National Land Transport Fund and Waka Kotahi's regulatory memorandum accounts

20. The Government's response to COVID-19, particularly in moving to heightened alert levels, is expected to have a significant financial impact on the NLTF and Waka Kotahi's regulatory memorandum accounts. This paper provides you with advice to assist you in responding to the short-term financial impacts.

21. Our advice, set out below, is considered in two parts:

    21.1. Part One – Impacts on the net cash flow for the NLTF, including options to manage the immediate cash flow impacts on the NLTF through to 30 June 2020

    21.2. Part Two – Impacts on Waka Kotahi's regulatory memorandum accounts, including options to manage the immediate cash flow impacts through to 30 June 2021

A framework has been developed to assist you in responding to the financial impacts from COVID-19 for the land transport system

22. The objectives of the response to managing the short-term financial impacts for the NLTF and Waka Kotahi's regulatory memorandum accounts should be to:

    22.1. to provide certainty so that Waka Kotahi has adequate cash flow to meet its core expenditure and other related commitments

    22.2. minimise disruption and delays to the operation of the land transport system, particularly where those operations directly impact COVID-19 response efforts

    22.3. position the land transport sector to support recovery and provide economic stimulus

    22.4. ensure that Waka Kotahi is able to deliver and maintain its core legislative functions.

23. Officials have developed criteria to assist you in working through the most effective suite of options to deliver on the objectives set out above. These include:

23.1. Impact – extent to which the option will have a direct and immediate impact in delivering on the objectives set out in paragraph 22

23.2. Affordability – extent to which the costs to the Crown are fair and reasonable, and can be met within the context of broader financial support being provided to other agencies

23.3. Sustainability – extent to which the costs of implementing and maintaining the option can be adequately sustained by the Crown

23.4. Consistency with support provided to other agencies – extent to which the option provides support that is consistent with the principles of how support has been provided to other agencies with revenue sources impacted by COVID-19.

Part One: Impacts on the National Land Transport Fund

Modelling has been undertaken to assess the impacts of COVID 19 …

24. The Ministry has been working with Waka Kotahi to model the impact of various COVID-19 alert levels on the NLTF. This analysis considers the current four week period in Alert Level Four, and potential scenarios that may eventuate over the next 15 months.

25. This work aligns with the NLTF revenue forecast provided for the Treasury's Budget Economic and Fiscal Update (BEFU) process. The Treasury's assumptions include:

25.1. the current four-week period in Alert Level Four, followed by 12 months of Alert Level Two

25.2. a sharp drop in economic activity (20 percent relative reduction in GDP for 2019 quarter four)

25.3. a reasonably quick recovery (11 percent relative growth in 2020 quarter one, and 2 - 3 percent growth per quarter thereafter)

25.4. a return to previously forecasted levels of economic activity by 2024 quarter four.

26. The Ministry and Waka Kotahi consider these assumptions may be optimistic, because:

26.1. they do not consider the potential risk for further periods of heightened alert levels beyond Alert Level Two

26.2. the projected rate of economic recovery is rapid, bouncing back strongly in the first quarter after negative growth

26.3. they do not consider potential changes in transport behaviour post Alert Level Four – such as reduced freight movement; increased uptake of remote working; behavioural change in use of public transport; loss of international travel and tourism; and a general reduction in discretionary travel.

27. An overly optimistic forecast presents a number of risks, especially with regards to NLTF cash flow management for Waka Kotahi. To address these uncertainties, the Ministry has modelled NLTF revenue against four different scenarios. The most significant drivers that

affect revenue for the NLTF are the duration spent at each alert level, the estimated rate of economic recovery, and changes to travel behaviour. Table one**Error! Reference source not found.** summarises the assumptions used for the four potential scenarios.

Table one: Summary of the Ministry's modelling scenario assumptions

	Number of months in each Alert Level over the next 15 months				**Economic Recovery Rate**
Scenario	Alert Level 1	Alert Level 2	Alert Level 3	Alert Level 4	
A (BEFU)	3	11	0	1	Fast
B	5	6	2	2	Moderate
C	6	3	3	3	Moderate
D	5	2	3	5	Slow

28. The underlying assumptions for Scenario A are closely aligned with Treasury's outlook, and this was used as the basis for the BEFU forecast. The remaining scenarios model more conservative but plausible assumptions about what may eventuate over the short to medium term. The effects of these scenarios on land transport revenue and the net cash position of the NLTF is set out below.

… which indicates the immediate response to COVID-19 is expected to have a significant impact on land transport revenue

29. For all scenarios modelled, there is a material decrease in revenue from the previous forecasting exercise for Treasury's Half-year Economic and Fiscal Update (HYEFU) 2019. There is a high level of uncertainty in the forecasts for each scenario. Table two summarises mid-point values for each forecast alongside the change from HYEFU 2019.

Table two: Forecasts of net revenue impacts to the National Land Transport Fund

	FY20 ($m)	**FY21 ($m)**	**FY22 ($m)**	**Total**
HYEFU 2019[2]	4,100	4,350	4,440	12,890
BEFU20 (Scenario A)	3,770 (-8%)	3,910 (-10%)	4,290 (-3%)	11,970 (-7%)
Scenario B	3,600 (-12%)	3,420 (-22%)	4,240 (-4%)	11,250 (-13%)
Scenario C	3,600 (-12%)	3,190 (-27%)	4,220 (-5%)	11,010 (-15%)
Scenario D	3,600 (-12%)	2,660 (-39%)	4,040 (-9%)	10,300 (-20%)

30. The Ministry and Waka Kotahi consider it more likely that impacts will sit between Scenarios B and C, which provides for a more moderate recovery relative to the Treasury's assumptions.

31. The uncertainty for the 2021 financial year is significant. Depending on the duration spent at elevated alert levels, and the speed and extent of recovery both in economic activity and travel behaviour, officials estimate a potential decrease in revenue through in the 2020/21

[2] Note that the HYEFU 2019 revenue forecast is not materially different from the GPS 2018 revenue forecast.

financial year of $1,700 million (around 40 percent) in the most conservative scenario modelled.

32. In the most likely scenarios (scenarios B and C), this decrease is projected to be between $930 million to $1,160 million (22 - 27 percent) in the 2020/21 financial year. Over the 2019/20 – 2021/22 financial years this is expected to decline by $1,640 - $1,880 million (13 - 15 percent).

Consideration has been given to how the immediate financial impacts of COVID-19 could be managed in the short-term

33. Waka Kotahi has undertaken an assessment of COVID-19 impacts on planned land transport expenditure against the activity classes funded by the NLTF. The assessment considers the impacts of COVID-19 and the options for adjusting Waka Kotahi's expenditure over the remainder of the current NLTP (i.e. to 30 June 2021).

34. Expenditure in the eight largest activity classes, accounting for about 95 percent of total NLTF spend, is not expected to be significantly impacted by the direct effects of COVID-19 either due to their essential service nature or because construction shutdowns give rise to legitimate contractual claims which largely offset the 'savings' from deferring activity[3].

35. The remaining five percent of NLTF expenditure comprises funding support for transitional rail (indirectly to fund KiwiRail improvement activities), investment management (i.e. funding Waka Kotahi operations plus transport planning activity), road safety promotion and rapid transit.

36. Waka Kotahi has not modelled any material spend within the Rapid Transit activity class regarding Auckland Light Rail, given that project is subject to a separate process regarding the evaluation of an unsolicited bid from the New Zealand Superannuation Fund.

37. [redacted]. withheld under section 9(2)(f)(iv)

38. [redacted]

39. The Ministry will provide additional advice on potential options for managing expenditure beyond 30 June 2020 as part of a response to managing the ongoing effects from the response to COVID-19 on land transport revenue.

The projected decrease in land transport revenue is expected to result in a negative cash position against the National Land Transport Fund in the short to medium term

40. Waka Kotahi has undertaken analysis to assess the impact of moving to Alert Level Four and maintain heightened alert levels in response to COVID-19 on the net cash position of the NLTF. The analysis is informed by modelling that the Ministry has undertaken to assess the impact of the COVID-19 response on land transport revenue projections.

41. The net cash position differs from land transport revenue as it shows the overall balance of the NLTF after deducting planned expenditure and commitments. This figure is important as

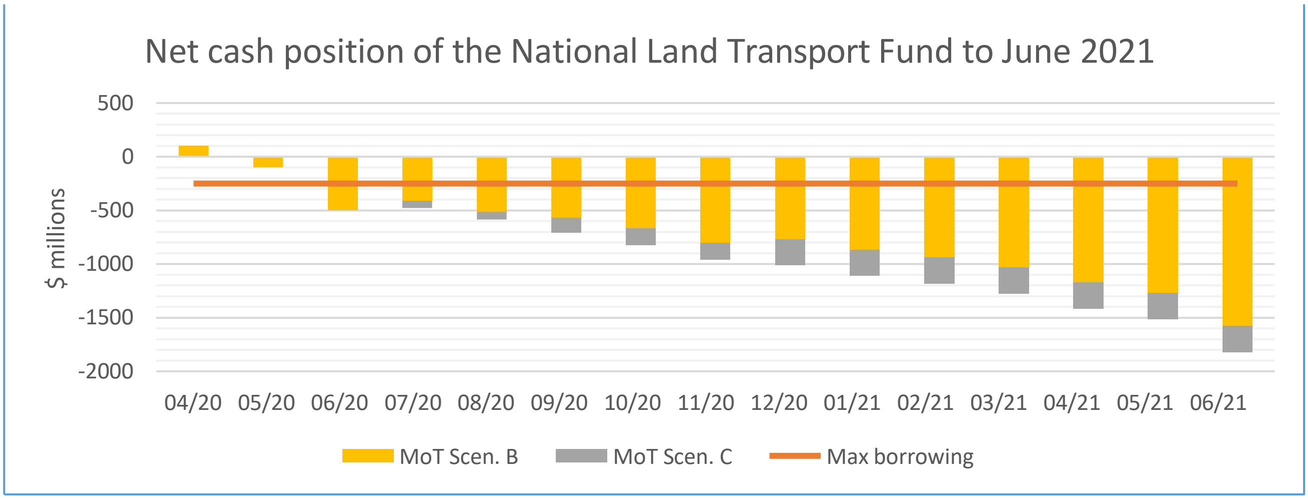
[3] Key activity classes in this category include State highway improvements, State highway maintenance, public transport, local road maintenance, road policing, regional improvements and walking and cycling.

it demonstrates the actual cash position Waka Kotahi has to manage the delivery of the NLTP 2018.

42. The projections provided by Waka Kotahi, informed by the Ministry's modelling work (scenarios B and C), indicate that the NLTF is likely to have a negative cash position of around $495 million through to June 2020. Projections through to December 2020 indicate the NLTF could have a negative position of between $770 million - $1 billion.

43. The impact on the net cash position of the NLTF is based on the most up-to-date modelling and available data and assuming current expenditure commitments and plans continue. It is possible that, given the high degree of uncertainty that still remains, these numbers may change significantly as more information becomes available and as the Government takes additional steps to contain COVID-19. The modelling beyond June 2020 should be treated as indicative. Further advice on the likely impacts will be provided once more up-to-date revenue data is available in the next few months including an assessment of the options for reducing NLTF expenditure.

Graph one: Net cash flow impacts on the National Land Transport Fund under two scenarios[4]



The net cash position assumes that current land transport expenditure is maintained

44. The net cash position against the NLTF is based on maintaining the current expenditure profile in the NLTP. Officials consider that Waka Kotahi will face immediate cash flow pressures to 30 June 2020 from the response to COVID-19, which will coincide with the general end of year cash flow pressures the agency would normally receive relating to the payment of contractors and Approved Organisations. There is limited opportunity to scale expenditure in order to reduce the year end position. Effectively without funding or financing Waka Kotahi will not be able to pay its commitments as they fall due towards financial year end.

45. Beyond the end of the financial year, officials will complete more detailed work to understand where land transport investment could be delayed, scaled or deferred to manage the projected reduction in land transport revenue. This assessment will be balanced against the trade-offs that could result in supporting economic recovery and stimulus objectives alongside delivering on the priorities in the GPS. There will also be implications from this for future NLTPs, given any revenue reduction will not be recovered (absent of any increase in fuel excise and road user charges).

[4] The maximum borrowing line reflects the existing capacity of the short-term borrowing facility for the NLTF. The graph represents the rolling net position of the NLTF by each month (rather than a cumulative impact).

A high degree of uncertainty remains in projecting the impacts on land transport revenue

46. As noted, a high degree of uncertainty still remains in assessing the extent of the impacts on the land transport revenue. Treasury has advised that magnitude and duration of the downturn and the subsequent pace of the recovery depends on many unknown factors, including the course of the virus, how long activity restrictions are in place, how quickly the global economy will recover, how behaviours and production might change, and how successful government policies will be in supporting households and firms.

47. Treasury has also noted that the extreme uncertainty surrounding the outlook means that economic forecasting becomes less about predicting likely outcomes, and more about illustrating salient possibilities. The advice and impacts set out in this paper are provided on this basis.

48. The Ministry and Waka Kotahi will continue to monitor projections over the medium term and will provide further advice on the potential impacts and responses once more data is available. This includes considering where cost pressures could be managed through delaying, scaling or deferring investment, and what the resulting impacts could be in supporting economic recovery and transport system priorities.

Waka Kotahi has access to a short-term borrowing facility to manage cash flow in the National Land Transport Fund

49. Cabinet agreed in 2010 to Waka Kotahi having access to a $250 million short-term borrowing facility for cash-flow management of the NLTF. The borrowing facility is provided through Vote Transport with the size of the appropriation at $500 million.

50. The objective of the facility is to provide the Waka Kotahi Board with flexibility, recognising that its functions are statutorily independent and it deals with a large amount of fluctuation in its revenue and expenditure. The facility has not been used regularly by Waka Kotahi since its inception in 2010, mainly due to the perceived difficulty in accessing the facility.

51. Since its establishment, the conditions and parameters of the borrowing facility have been amended, however the size of the facility (i.e. $250 million) has remained unchanged. The borrowing facility is currently made up of two components:

    51.1. $175 million to manage seasonal cash-flow impacts on the NLTF. This component needs to be repaid at least once in each financial year.

    51.2. $75 million to manage unexpected variations or ‘shocks’. This component needs to be repaid at least once every three financial years.

52. Drawdown of the facility does not require ministerial approval and is a processed managed by the Ministry, Waka Kotahi, and the Debt Management Office.

Officials recommend adapting Waka Kotahi’s short-term borrowing facility to provide more short-term cash flow capacity

53. Prior to the outbreak of COVID-19, the Ministry and Waka Kotahi were considering options to improve the operation and use of the short-term borrowing facility in a way that supports efficient management of cash flow within the NLTF. Officials considered there was a case to review the size and parameters of the facility to manage the cash flow for the NLTF, and that this has now been made more compelling by the potential cash flow impacts for the NLTF resulting from COVID-19.

Officials recommend modifying the shock component of the facility to manage the immediate cash flow impacts of COVID-19 for National Land Transport Fund

54. The impacts from COVID-19 present a new set of challenges in maintaining adequate cash flow within the NLTF over the short to medium term. Officials have worked with Waka Kotahi to identify changes to the short-term borrowing facility to manage the immediate COVID-19 cash flow impacts for the NLTF.

55. On balance, officials consider there is merit in increasing the size of the shock component of the facility to provide additional capacity for Waka Kotahi to manage cash flow pressures resulting from COVID-19. Officials seek your agreement to submit the attached budget bid in order to increase the capacity for the short-term borrowing facility to manage these impacts.

56. It is recommended that the shock component of the facility is increased from $75 million to $500 million. Progressing this change would provide Waka Kotahi with increased capacity to manage the expected short fall against the net cash position of the NLTF through to 30 June 2020 of $495 million.

57. Officials recommend that the seasonal variation component of $175 million is retained. This is recommended as it will ensure the borrowing facility has sufficient capacity to manage future cost pressures relating to seasonal variations within the NLTP. If this component of the facility was combined with the shock component, there is a risk that no capacity would be retained to manage seasonal cost pressures, which could impact Waka Kotahi's ability to manage its commitments and support the efficient cash flow management of the NLTF.

58. Based on the recommended changes, the appropriation for the borrowing facility would increase from $500 to $675 million to progress the proposed increase to the shock component of the facility to $500 million while retaining the seasonal variation component of $175 million.

59. The existing short-term borrowing facility is governed by terms and conditions as described in the Revolving Loan Facility Agreement and include a number of monitoring and reporting requirements to ensure the borrowing facility functions as intended. For example Waka Kotahi is required to report quarterly to both the Ministers of Finance and Transport on a number of key metrics such as loan balance, amount and reason for each of the drawings, and forecast borrowing and repayments over the coming quarters. These requirements will be maintained for the revised borrowing facility.

A review should be undertaken to consider whether the recommended changes should be retained

60. Given the exceptional circumstances with COVID-19, officials recommend that this increase to the borrowing facility be time-limited and that, at the conclusion of the repayment period (2023), a review of full facility is undertaken. At that time, work should be undertaken to confirm the design and sizing of the total facility, including the component parts.

61. The funding context which Waka Kotahi is now operating in is significantly different to that of a decade ago when the facility was established. The size of the NLTF has increased from around $2 billion to more than $4 billion annually. It is reasonable to expect that as the size of the NLTF (and the NLTP correspondingly) increases, the cash flow fluctuations will also increase. It is important that, as part of the proposed review, consideration is given to right sizing the facility to support the efficient cash flow management of the NLTF.

The proposed changes present some risks that require consideration

62. Officials have identified some key risks you should consider in progressing the recommended options set out in this advice. These risks are set out in paragraph 63 – 69.

The proposed increase to the borrowing facility represents a significant increase in debt that will need to be serviced

63. Waka Kotahi will likely need to drawdown most of the recommended increase to the shock component of the borrowing facility (i.e. $500 million) in order to manage the negative net cash position against the NLTF through to 30 June 2020.

64. Waka Kotahi is required to repay the borrowing facility in full within a three-year period by 30 June 2023. Increasing the shock component of the borrowing facility to $500 million represents a significant undertaking of debt. The full extent of any impact would only be known once there is more certainty around alert levels in the medium to long-term, including their corresponding impact on revenue and expenditure.

65. Waka Kotahi will need to undertake further modelling on the impact of repayments on the next NLTP in conjunction with the assessment of the options for managing the impacts of COVID-19 beyond 30 June 2020.

Increasing borrowing will impact funding availability for future priorities

66. In considering the recommended options, the flow on impact of COVID-19 on the next NLTP (from 1 July 2021 to 30 June 2024) needs to be considered. Revenue foregone in the current NLTP creates a funding deficit heading into the next programme.

67. Moreover, delayed construction activities means a greater funding requirement carried forward to complete projects presently in progress. Officials will undertake further work on the options for additional financing or funding over the next few months once the impacts on the NLTF cash flow and future NLTP planning becomes clearer. Depending on the scale of the impacts, this could have flow-on consequences for the development of GPS 2021 (e.g. amendment to GPS 2021 may be required).

Utilising the full shock component of the facility could limit the ability to manage another shock in the short-term

68. Another key risk is that Waka Kotahi could effectively ‘max out’ the shock component of the borrowing facility therefore reducing the ability to manage the occurrence of additional shocks. This is particularly relevant during the three year period that Waka Kotahi is expected to draw down the loan for.

69. This issue will need to be addressed in assessing what further options will be required to manage the medium and longer-term impacts of COVID-19. For example, longer-term support could allow for some of the borrowing facility to be paid down to restore some ‘headroom’ in the facility for more immediate cash-flow management resulting from additional shocks. The proposal to retain the seasonal variation facility of $175 million will provide capacity for Waka Kotahi to continue to manage any seasonal variations.

Further Crown support may need to be considered once the impacts on the National Land Transport Fund are clearer

70. The recommended changes to the NLTF short-term borrowing facility are expected to be sufficient to manage the immediate cash flow impacts of the Government’s immediate response to COVID-19 for the NLTF until 30 June 2020.

71. Depending on the eventual scale of impact on the NLTF (including any opportunities to reprioritise within the NLTP), further Crown support may be required in the short to medium term.

72. Officials have given some initial consideration to options for providing additional measures to support the NLTF noting that the range of possible outcomes is large and still very uncertain. A clearer picture may emerge over the next two months depending on the duration, effectiveness and resulting behavioural impacts of the current alert level restrictions.

73. [redacted] withheld under section 9(2)(f)(iv)

Part Two: Impacts on Waka Kotahi's regulatory memorandum accounts

Waka Kotahi's regulatory revenue is expected to reduce as a result of COVID-19

74. The move to a heightened alert level in response to COVID-19 is expected to see a reduction in the volume of regulatory activity for Waka Kotahi, particularly in the areas of driver licensing and testing and vehicle registrations. A reduction in this activity will have a corresponding impact on the level of regulatory fee revenue coming into the agency.

75. Waka Kotahi anticipates that its net regulatory revenue[5] will decline by around $10 - $15 million (6 - 9 percent of the annual revenue) by 30 June 2020. These pressures are expected due to a reduction in fee income from regulatory activity, such as driver licensing and testing, vehicle registrations and certifications. By 30 June 2021, the decline could be between $35 - $45 million (20 - 26 percent) or higher still in extreme scenarios.

76. The impacts for the regulatory memorandum accounts are informed by the assumptions used in Scenario B and Scenario C, set out in Table One, used to assess the impact of the COVID-19 response on land transport revenue.

77. The Ministry has recently provided advice to Joint Ministers to drawdown a component of the regulatory capital injection that was established to provide Waka Kotahi with additional funding following the regulatory failure identified in October 2018.

78. The expected shortfall against the regulatory memorandum accounts as a result of moving to Alert Level Four is after taking account of the capital injection expenditure that Joint Ministers have approved.

Officials recommend a non-repayable capital injection to address the immediate impacts on Waka Kotahi's regulatory revenue

79. It is critical that Waka Kotahi has sufficient funding to sustain the operation of its core regulatory functions. The projected reduction in regulatory revenue has the potential to affect Waka Kotahi's ability to maintain the resources required to meet its core regulatory roles and functions. Officials therefore seek agreement to progress a budget bid for $60 million to fund the expected shortfall in Waka Kotahi's regulatory revenue as a result of COVID-19 through to 30 June 2021.

80. Securing this additional funding would ensure that Waka Kotahi could maintain the base level of capability required to discharge its regulatory functions. It would also reduce the risk of Waka Kotahi having to scale critical resource that has been established in response to the agency's regulatory failure in 2018.

[5] Regulatory fees net of third-party commissions and transaction costs.

81. [redacted]. It is expected that Waka Kotahi will work with officials to identify options for constraining regulatory expenditure and identifying savings before any further drawdown is approved.

82. If you agree to progress the proposed capital injection, it is recommended that drawdown is subject to the Ministry being satisfied that Waka Kotahi can demonstrate an actual reduction in the cash position of the regulatory memorandum accounts related to COVID-19.

83. [redacted]

withheld under section 9(2)(f)(iv)

84. [redacted]

Your agreement is sought to submit the budget bids

85. The table below provides the timeframe that budget bids need to be progressed against to be considered in the additional budget process for Budget 2020. These relate directly to funding requests from the COVID-19 Response and Recovery Fund.

86. The attached budget bids have been prepared to progress the recommendations set out in this advice. Your agreement is sought to submit the budget bids to Treasury on 24 April 2020, subject to any feedback you may have.

Table three: Timeframe for progressing COVID-19 budget bids

Milestone	Due date
Budget bids submitted to Treasury for review	24 April 2020
Departments to complete submission of final funding requests	28 April 2020
Treasury provides advice to Budget Ministers	1 May 2020
Budget Ministers consideration	5 May 2020
Cabinet consideration of funding decisions	11 May 2020

The Ministry is progressing broader work to position the transport system to support recovery and economic stimulus

87. The Ministry has established a work programme to position the transport system in supporting recovery and providing economic stimulus in response to COVID-19. As part of the transport revenue and financing workstream, we are undertaking work that will look to the medium term and consider the settings for funding and financing projects.

88. The Ministry will work with key agencies including Waka Kotahi, the Treasury and the Ministry of Housing and Urban Development, and will brief you shortly on the proposed work programme. The Ministry's work on the medium term impacts and the transport system's

contribution to recovery will developed as part of the All-of-Government COVID-19 work programme.

Next steps

89. Subject to your approval, the attached budget bids will be submitted to the Treasury for assessment on 24 April 2020 before being considered by Budget Ministers on 4 May 2020 and Cabinet on 11 May 2020.

Recommendations

90. It is recommended that you:

Impacts for the National Land Transport Fund

a. **note** that officials anticipate that the response to COVID-19 is expected to result in a reduction of land transport revenue by around $1,640 million to $1,880 million through to the 2022 financial year

b. **note** that officials anticipate that, as a result of the expected impact on land transport revenue, the National Land Transport Fund is expected to incur a negative cash position of around $495 million to 30 June 2020, with this position potentially growing to $770 million to $1 billion by December 2020

c. **note** that Waka Kotahi anticipates it will require up to $500 million to manage the net cash position of the National Land Transport Fund through to June 2020

d. **agree** to progress a bid as part of Budget 2020 to increase the shock component of the short-term borrowing facility for the National Land Transport Fund is increased from $75 - $500 million in response to the impacts set out in recommendation b — Yes/No

e. **note** that the season variation component of the borrowing facility of $175 million will be retained to ensure Waka Kotahi has capacity to manage cash flow pressures from seasonal variations across the National Land Transport Programme

f. **note** that Waka Kotahi will provide you with a quarterly report detailing how the agency is using and managing the repayment of the borrowing facility, in line with any relevant conditions set

g. **agree** that a review of the facility is undertaken prior to 2023 to assess whether the parameters and size of the borrowing facility is appropriate and right sized, which could scaling the shock component of the facility — Yes/No

h. **note** that officials will undertake further work over the next few months on the options to manage the net cash flow pressures on the National Land Transport Fund beyond 30 June 2020 once there is more clarity on the impacts resulting from COVID-19

Impacts on Waka Kotahi's regulatory memorandum accounts

i. **note** that the impact of the Government's immediate response to COVID-19 is estimated to result in a reduction of net regulatory revenue to Waka

Kotahi's regulatory memorandum accounts of around $10 to $15 million through to 30 June 2020, and $35 to $45 million through to 30 June 2021

j. **agree** to progress a bid as part of Budget 2020 to provide Waka Kotahi with a non-repayable capital injection of $60 million to manage the immediate impacts of the response to COVID-19 on Waka Kotahi's regulatory memorandum accounts through to 30 June 2021 Yes/No

k. **agree** that the drawdown of the non-repayable capital injection is subject to the Ministry being satisfied that Waka Kotahi can demonstrate an actual reduction in the cash position of the regulatory memorandum accounts related to COVID-19 Yes/No

l. **agree** that, post 30 June 2020, before any further drawdowns are made, Waka Kotahi must demonstrate to the Ministry how it has taken steps to identify efficiencies and savings within the funding baseline for its regulatory function before accessing the capital injection Yes/No

m. **note** that officials will provide you with further advice to you in June 2020 on options to manage the ongoing cost pressures to maintain Waka Kotahi's core regulatory expenditure through to 31 December 2021 including steps to identify efficiencies and savings within the funding baseline for its regulatory function

Next steps

n. **note** that a budget process has been established to consider urgent cost pressures related to COVID-19, with bids being considered by Budget Ministers on 5 May 2020 before being considered by Cabinet on 11 May 2020

o. **agree** to submit the attached budget bids to progress the recommended options for addressing the short-term financial impacts from the response to COVID-19 on the National Land Transport Fund and Waka Kotahi's regulatory memorandum accounts. Yes/No

Helen White
Manager, Investment

MINISTERS' SIGNATURES:

DATE: