

Chair  
Cabinet

## **CONFIRMATION OF THE COMMITMENT TO TRANSPORT INFRASTRUCTURE**

### **Proposal**

1. This paper requests that Cabinet:
  - 1.1. agrees, in principle, to the Crown owning passenger transport rolling stock subject to further discussion between the Minister of Transport and the Minister of Finance on funding the Auckland rail electrification project and a report back in July;
  - 1.2. confirms the pre-election commitment to the Auckland rail electrification project; and
  - 1.3. agrees to appropriate \$258 million to fund Wellington metro passenger rail rolling stock and infrastructure over the next two years.
2. This is the third of four associated papers relating to land transport investment.

### **Executive summary**

3. Before the election we pledged a number of investments in roading infrastructure, to be made in addition to funding available from the National Land Transport Fund.
4. The specific commitments were \$750 million to allow the completion of the Waikato Expressway and \$100 million to complete the Tauranga Central Corridor. These commitments were made from a \$1.45 billion envelope of additional Crown contributions to transport infrastructure that would be made available over the next six year as part of the \$8.55 billion Crown capital commitment.
5. In the associated papers, *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges* and *Amending the Government Policy Statement on Land Transport Funding 2009/10–2018/19*, I propose repealing regional fuel tax, increasing fuel excise duty with an equivalent increase in road user charges and reallocating funding within the National Land Transport Fund. From the additional funding and from reallocation, I have been able to make substantial increases to forecast investment in State highway construction.
6. I also propose that Cabinet agrees, in principle, to the Crown owning rail passenger rolling stock through the New Zealand Railways Corporation. Expenditure on rail projects could take place much more rigorously if this were to be the case, befitting the Corporation's status as a commercial Crown-owned company. However, officials need to investigate the implications further and, in Auckland's case, we need to take

into account the Royal Commission on Auckland Governance before making final decisions. I propose a report back to Cabinet by 1 July 2009.

7. Revocation of regional fuel tax raises the issue of the Government's commitment to the Auckland rail electrification project. I propose that we confirm our commitment but there will need to be further consideration and investigation of the necessary funding arrangements.
8. In *Amending the Government Policy Statement of Land Transport Funding 2009/10-2018/19*, I have proposed that rail transport infrastructure not be funded through the National Land Transport Fund. Instead, I propose to reallocate the additional funding for roading and rail between the National Land Transport Fund and Crown contributions under Vote Transport.
9. Therefore, this paper proposes that we use \$258 million of the \$1.45 billion to fund rail infrastructure. In the future, the remaining funding would be available to fund transport projects. I note that Cabinet has already agreed to use \$142 million of the \$1.45 billion to advance State highway projects [Cab Min (09) 3/3 of 2 February 2009 refers].
10. To implement this funding decision, I seek Cabinet's agreement to an appropriation within Vote Transport totalling \$258 million over 2009/10 to 2010/11 for Wellington rail projects, replacing funding from the National Land Transport Fund. The report back to Cabinet by 1 July 2009 will also identify any implementation issues.

## **Background**

### *Associated Cabinet papers*

11. Before the election, we announced that we had committed \$8.55 billion of funding for infrastructure over the next six years, and we earmarked some \$1.45 billion for roading. Cabinet has already appropriated \$142 million of this funding to advance some State highway projects [Cab Min (09) 3/3 of 2 February 2009 refers].
12. Assurances of Government support for the Auckland passenger rail electrification and rolling stock proposals were also provided.
13. In the associated papers, *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges* and *Amending the Government Policy Statement on Land Transport Funding 2009/10–2018/19*, I propose repealing regional fuel tax, increasing fuel excise duty with an equivalent increase in road user charges (3.0 cents per litre from 1 October 2009, 3.0 cents per litre from 1 October 2010 and 1.5 cents per litre from 1 July 2011) and reallocating funding within the National Land Transport Fund. From the additional funding and from reallocation, I have been able to make substantial increases to forecast investment in State highways of almost \$1 billion over three years.

## *Rail funding*

14. Current rail funding arrangements are complicated and, as a result, so are the ownership arrangements for metro passenger rolling stock. The arrangements for metro rail differ between Auckland (where the Auckland Regional Transport Authority contracts out services to a private operator and pays the Corporation a track access fee) and Wellington (where KiwiRail has the track access rights and provides the service to the Greater Wellington Regional Council for a fee).
15. The current arrangements for improving Auckland passenger rail infrastructure include:
  - 15.1. \$600 million Crown funding committed in 2006 for project DART, to increase rail capacity and reliability, to be undertaken by the New Zealand Railways Corporation;
  - 15.2. \$500 million committed in 2007 for below track rail electrification improvements by the New Zealand Railways Corporation, funded from Crown contributions with regional fuel tax compensating the Crown for the interest on its contribution (up to \$150 million is expected to be committed by March 2009);
  - 15.3. \$650 million committed by the Auckland Regional Council for procurement of electric and diesel rolling stock comprising \$600 million debt funded by a regional fuel tax and \$50 million directly from the Auckland Regional Council; and
  - 15.4. \$100 million in station improvements, with \$78 million of this to come from Auckland Regional Council borrowings funded from regional fuel tax and the remaining \$22 million from the Auckland Regional Council (metro stations are the responsibility of the Auckland Regional Council).
16. The previous Government also made provision for improvements to the Wellington passenger rail network as follows:
  - 16.1. \$245 million by Greater Wellington Regional Council for rolling stock upgrades scheduled to be completed by 2010, including a \$220 million Crown contribution by way of a capital grant delivered through the National Land Transport Fund; and a \$25 million Greater Wellington Regional Council contribution (\$258 million available from the National Land Transport Fund);
  - 16.2. \$10.5 million Crown loan in 2007 for the refurbishment of Wairarapa carriages by the New Zealand Railways Corporation. The loan is interest free and due to be repaid in 2017 but with no minimum repayments until then;
  - 16.3. \$18 million interest free loan to the Greater Wellington Regional Council for interim rolling stock refurbishment, of which \$13.2 million has already been drawn with the facility expected to be fully drawn down by 30 June 2009. This is on the same terms as above;

16.4. \$300 million in Wellington network upgrades scheduled to be completed in 2012 including:

16.4.1. \$125 million from a Crown appropriation; and

16.4.2. \$141 million from the Greater Wellington Regional Council (the majority is from the National Land Transport Fund).

## **Simplifying rail funding and ownership**

### Ownership of metro rail rolling stock

17. Because the Crown now owns the rail tracks and much of the rolling stock, there is an opportunity to consider simplifying the funding of rail infrastructure and the ownership of rail assets. There is also an opportunity to establish a clear separation between National Land Transport Fund expenditure and Crown capital expenditure on rail projects via the New Zealand Railways Corporation. Expenditure on rail projects could take place under much more rigorous lines, befitting the Corporation's status as a commercial Crown-owned company. Therefore, I propose that Cabinet agree in principle to metro rolling stock being owned by the New Zealand Railways Corporation. Final decisions on this should not be taken yet for reasons discussed below.

### Confirmation of commitment to Auckland Rail Electrification

18. In the associated paper, *Replacement of Regional Fuel Tax with Increases to Fuel Excise Duty and Road User Charges*, I have recommended that regional fuel tax be revoked. This raises the issue of the government's commitment to the Auckland rail electrification project, and the funding of that project. I recommend that Cabinet confirm our pre-election commitment to this project.

19. However, given that the Royal Commission on Auckland Governance is likely to recommend changes to Auckland's transport structures when it delivers its report to the government on 31 March 2009, I recommend that we do not make decisions on funding the project, or on ownership of the assets involved, now. Instead, I recommend that the Minister of Transport and the Minister of Finance consider funding issues further and that officials investigate the funding of the electrification project and the implications for the ownership of Auckland rolling stock.

20. Given the above, I expect that the Auckland Regional Council and the Auckland Regional Transport Authority will suspend the current procurement process for the electric rolling stock. This will delay the introduction of the service of the fleet by up to six months, if not more. I intend to inform the chairs of the Auckland Regional Council and the Auckland Regional Transport Authority of our decision before any public announcement.

### Funding of Wellington metro rail

21. To start removing metro rail rolling stock and infrastructure funding from the National Land Transport Fund, I wish to establish an appropriation totalling \$258 million to replace \$258 million that has been allocated in the National Land Transport Fund for

Wellington rail rolling stock and track improvements to the New Zealand Railways Corporation as a Crown appropriation. As a result, \$258 million would become available for State highways in the National Land Transport Fund.

22. I propose that the appropriation be phased as follows:

Appropriation under Vote Transport	09/10 \$m	10/11 \$m
Wellington passenger rail infrastructure	146.00	112.00
<b>Total = \$258 million</b>	<b>146.00</b>	<b>112.00</b>

23. Officials will investigate the implementation of this funding arrangement for Wellington metro rail bearing in mind the desire that the New Zealand Railways Corporation owns the metro rolling stock and report back to Cabinet by 1 July 2009.
24. From the pledged \$1.45 billion capital commitment, this appropriation would leave a balance of \$1.050 billion for advancing transport projects. Therefore, I intend seeking this funding in the future.

#### Report back on metro rail funding and ownership issues

25. I propose a report back to Cabinet by 1 July 2009, following receipt of officials advice from the Ministry of Transport, the Treasury, the Crown Companies Monitoring Advisory Unit, and consultation with the New Zealand Railways Corporation and the New Zealand Transport Agency. I will report on:
- 25.1. implementing the new funding arrangements for Wellington metro rail; and
  - 25.2. the funding and ownership of Auckland metro rail, taking in to account the report of the Royal Commission on Auckland Governance.

#### **Unfunded Auckland regional fuel tax projects**

26. As well as rail electrification, there are a number of other Auckland projects, which were going to be funded by the Auckland regional fuel tax. These include Auckland ferry wharf upgrades, integrated ticketing and ferry and bus real time information upgrades, and the proposed Penlink roading project.
27. I consider that the Auckland ferry wharf upgrades, integrated ticketing and ferry and bus real time information upgrades should be evaluated and prioritised for funding in the normal way under the National Land Transport Fund.
28. In addition, the Penlink roading project should be considered for funding from the National Land Transport Fund. Without regional fuel tax funding the project would have a significant funding gap. Tolling would fund about 20 percent of project costs while Rodney District Council is only prepared to offer a further 20 percent from local

sources. The project has a modest cost-benefit ratio (BCR) of 1.5 in tolled form and a BCR of 2.0 in un-tolled form<sup>1</sup>.

29. I anticipate that the Auckland Regional Council and Rodney District Council will be concerned about any proposals to fund less than the full regional fuel tax package.

## Consultation

### Departments consulted

30. The Treasury and the, Department of Internal Affairs have been consulted. The Department of the Prime Minister and Cabinet has been informed.

### Treasury comment

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

32. We note that, if \$258 million is appropriated for this transaction, this will reduce the capital allowance for 2009 to approximately \$350 million, which will make it impossible to fund a number of other Government priorities.

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

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<sup>1</sup> Under the RFT proposal, the road was to be made a State highway so the Crown could control risks around the project, which was to be funded from the Crown's portion of the RFT revenue. This is not necessary if funded by the National Land Transport Fund.

## Financial implications

34. The appropriation request in this paper totals \$258 million over 2009/10 to 2010/11. This will be used for rail infrastructure in Wellington.
35. As a result of these arrangements, the Crown will also forgo around \$42 million per annum that was going to flow to the Crown from Auckland's regional fuel tax. However, through New Zealand Railways Corporation, it will acquire rail assets.

## Legislative implications

36. Clause 14 of Schedule 2 of the Land Transport Management Amendment Act 2008 will need to be amended to recognise the transfer of rail infrastructure expenditure from the National Land Transport Fund to appropriation.

## Human rights, Gender and Disability implications

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

## Regulatory Impact Analysis

38. Due to the tight timeframes for providing advice, the paper has not attempted to meet the Regulatory Impact Analysis (RIA) requirements. The Regulatory Impact Analysis Team (RIAT) considers that this proposal is significant and therefore we are obliged to assess the adequacy of the RIA and Regulatory Impact Statement (RIS). However, a proper RIA has not been undertaken and no RIS has been prepared. As a result, the proposal does not meet the government's RIA requirements and in RIAT's view the current Cabinet paper does not provide sufficient information for Cabinet to take a fully informed decision on the proposed regulatory change and its flow-on implications.

## Publicity

39. Publicity issues associated with this paper are addressed in the recommendations in the paper on replacing regional fuel tax with fuel excise duty and road user charges.

## Recommendations

40. I recommended that Cabinet:
  1. **agree**, in principle, to the Crown owning passenger transport rail rolling stock via the New Zealand Railways Corporation subject to the report back in paragraph 6 below;
  2. **confirm** the pre-election commitment to the Auckland rail electrification project;
  3. **note** that the Minister of Transport and the Minister of Finance will further consider funding for the Auckland electrification project;

4. **note** that Auckland ferry wharf upgrades, integrated ticketing and ferry and bus real time information upgrades, and the proposed Penlink project, which were to be funded by the proposed Auckland Regional Fuel Tax, would not be guaranteed funding under this package;
5. **agree** to appropriate \$258 million for Wellington metro rail rolling stock and infrastructure over 2009/10 - 2010/11 as part of the signalled \$8.55 billion expenditure on infrastructure;
6. **direct** the Minister of Transport to report back to Cabinet by 1 July 2009 on:
  - 6.1 implementing the decision on funding Wellington metro rail in paragraph 5 above, taking into account the in-principle decision in paragraph 1 above;
  - 6.2 the funding and ownership of Auckland metro rail, specifically taking into account the report from the Royal Commission on Auckland Governance;
7. **note** the introduction into service of Auckland's electric rolling stock may be delayed by at least six months;
8. **agree** to establish a new Non-Departmental Capital Expenses "Metro Rail Rolling Stock and Infrastructure (Wellington)" appropriation in Vote Transport;
9. **agree** the scope of the new Non-Departmental Capital Expense Rail Infrastructure (Wellington) be "this appropriation is limited to metro rail rolling stock and infrastructure projects in Wellington";



10. **approve** the following changes to appropriations to put into effect the decisions in paragraph 5, with a corresponding impact on debt:

	\$m - increase / (decrease)		
	2009/10	2010/11	2012/13 & Outyears
<b>Vote Transport</b>			
<b>Minister of Transport</b>			
Non-Departmental Capital Expenditure: Metro rail rolling stock and infrastructure (Wellington)	146.000	112.000	-
<b>Total Capital</b>	<b>146.000</b>	<b>112.000</b>	-

11. **note** that the Crown will need to manage the following fiscal risks:

- 11.1 losing around \$42 million per annum in revenue as a result of the repeal of Auckland's regional fuel tax that was scheduled to commence from 1 July 2009 but that this will be partially offset by an additional \$283 million from increased fuel excise duty and road user charges over the three years;
- 11.2 additional revenue shortfalls for the New Zealand Railways Corporation if track access charges currently paid by regional councils are cancelled;
- 11.3 costs incurred in purchasing existing rolling stock from regions;
- 11.4 possible costs of changing existing procurement contracts;

12. **invite** the Minister of Transport to report back to Cabinet with advice on the best legislative vehicle to amend Clause 14 of Schedule 2 of the Land Transport Management Amendment Act 2008; and

13. **note** that these proposals will be announced in a joint communications strategy lead by the Prime Minister and the Minister of Transport.

Steven Joyce  
**Minister of Transport**

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

