Office of the Minister of Transport

Chair
Cabinet

NATIONAL LAND TRANSPORT FUND: FUTURE FUNDING

Proposal

1. This paper advises on future transport expenditure and revenue pressures, discusses options for addressing current pressures, and recommends a series of increases to petrol excise duty and road user charges to ensure adequate funding for the current National Land Transport Programme.

Executive summary

2. In August 2012 Cabinet directed officials to develop advice, taking a 30-year perspective, on a range of matters, in order to complete the Roads of National Significance programme, ensure the sustainability of the National Land Transport Fund, and maintain the ‘pay as you go’ (PAYGO) principle upon which the National Land Transport Fund is based [EGI Min (12) 17/4 refers]. The long-term view required a number of assumptions to be made, including that likely changes in fuel use and vehicle technology will not impact on transport demand or revenue flows.

3. Forecasts of the National Land Transport Fund revenue for the next thirty years, whilst subject to significant uncertainty, indicate a shortfall between revenue and expenditure under current settings, particularly in the short term. This shortfall is largely due to the timing of the programme of Roads of National Significance, and is exacerbated by flatter than expected revenue growth in the National Land Transport Fund in 2011/12 and decreases in forecast revenues for 2012 – 2015.

4. In the short-term (over the next five years), increases in petrol excise duty and road user charges or borrowing is necessary to ensure that the National Land Transport Programme is able to fulfil the government’s expectation and complete the Government Policy Statement on Land Transport Funding 2012/13 – 2021/22 (GPS 2012).

5. In the medium-term (the next five to fifteen years), the bulge in expenditure required for the Roads of National Significance is likely to be followed by a further bulge for investment required in the upper North Island as traffic demand and congestion increase.

6. Over the long-term (the next thirty years), if the rate of cost escalation in road maintenance, operations and renewals of the last ten years continues, some opportunities for new investment will be crowded out.

7. I do not think that the National Land Transport Fund’s future expenditure profile allows near-term expenditure to be funded from borrowing. I seek Cabinet agreement to increase petrol excise duty and road user charges through a series of three annual increases equivalent to petrol excise duty increases of 3 cents per litre per annum, and CPI annually thereafter, to achieve the Government’s short, medium- and long-term objectives.

8. Individual Public Private Partnerships proposals should be considered on their own merits to determine whether they meet the value-for-money requirements and their strategic impact on the sector's funding and the Crown balance sheet.

Background

9. New Zealand's historic investment in land transport infrastructure has enabled a level of personal road travel among the highest in the world. However, during the 1980s and 1990s, the level of investment in the transport network was significantly lower than in previous decades, while traffic levels continued to grow at unprecedented rates. This has resulted in an infrastructure deficit that we are currently addressing. GPS 2012 outlined the government's priorities for the safe and efficient movement of goods and people, including increased investment in land transport targeted at State highways, the Roads of National Significance, safety, and public transport.

10. The resulting expenditure programme is ambitious. In addition, increased demand on the National Land Transport Fund, particularly for the Christchurch earthquake recovery, and population growth in the Auckland region, mean a long-term solution is required to ensure the sustainability of the National Land Transport Fund and delivery of the National Land Transport Programme 2012 – 2015.

11. On 20 August 2012 Cabinet agreed to:

    11.1. the Roads of National Significance programme being progressed on time

    11.2. a further short-term loan for the NZ Transport Agency of $100 million to buffer the National Land Transport Fund against the impact of lower than expected revenue growth in 2011/12

    11.3. cap the National Land Transport Fund's contribution to Christchurch transport infrastructure recovery costs to $50 million per annum by accepting that residual costs in any year would be met from outside the National Land Transport Fund, either by way of borrowing or by way of grants from the Crown Account, to be clarified at a later date.

12. Cabinet noted that there remains a gap between expected revenue in 2012/13 and outyears, and the expenditure required to deliver the Roads of National Significance programme and meet the other expenditure targets in the GPS 2012. This is both under current settings and if annual adjustments are made in line with inflation (the CPI). Cabinet also noted that this put pressure on the sustainability of the PAYGO land transport funding system and, potentially, the Crown balance sheet.

13. Cabinet invited the Minister of Transport to report back by 1 November 2012 with the details of a potential package to deliver the State highway infrastructure plan in a timely and value for money manner [EGI Min (12) 17/4 refers], addressing:

    13.1. the optimal level of investment in transport, taking a 30-year horizon

    13.2. options for sustainable funding, including fuel excise duty and road user charges increases

13.3. an analysis of borrowing, including an assessment of Public Private Partnerships as an alternative delivery model and of the proposed medium-term loan to cover residual Christchurch road recovery costs.

Modelling of short, medium and long-term revenue and expenditure needs

What is optimal depends on what you value

14. GPS 2012/13 – 2021/22 and the Roads of National Significance programme have signalled the government's view that the optimal level of investment in transport infrastructure, on the expenditure side, is one that allows the economically efficient movement of people and goods. On the revenue side, the government has signalled that an optimal level is one that allows for the sustainability of the National Land Transport Fund over the short and long-terms, without imposing excessive costs on businesses or households. This might, however, include increases above the rate of the CPI. These assumptions informed the expenditure and revenue forecasts produced.

15. The expenditure and revenue forecasting is subject to significant uncertainty, especially over a 30 year outlook, due to the variables that comprise the model, such as inflation, economic growth, and consumer demand for petrol.

Future expenditure has been modelled on moving freight along strategic highways

16. The first ten years of the expenditure model was dictated by the GPS 2012, particularly delivering the Roads of National Significance programme on time.

17. The subsequent 20 years are based on growth and demand expectations arising from the NZ Transport Agency's analysis of where economic development is expected to occur and the infrastructure necessary to support it. The model includes the need to manage Auckland congestion, support economic growth in the upper North Island, and pursue safety outcomes. It includes the 'level of service' assumption underpinning GPS 2012, that freight should be able to move at 90 kilometres per hour along strategic highways (except where terrain or urban centres preclude this or make it uneconomic). Further analysis considered:

    17.1. the potential impact of Auckland Council's proposed transport investment

    17.2. the impact of lower and slower economic growth on the timing of demand for State highway improvements

    17.3. the impact of specific Public Private Partnership opportunities and other borrowing on the spread of expenditure.

Revenue options have been modelled on minimising volatility in rate changes to petrol excise duty and road user charges and the use of borrowing for financing purposes

18. The revenue forecast used as the basis for this work is the final forecast for the October Baseline Update (OBU).

19. The revenue model was developed in response to the expenditure scenarios. The aim was to identify different approaches to meeting the short-term revenue requirements of the National Land Transport Programme 2012-15 and assess how

these positioned the National Land Transport Fund over the medium and long-terms. Two other considerations were to identify:

19.1. levels of petrol excise duty and road user charges increases that would remove or reduce the need for borrowing to finance State highway improvements, and

19.2. schedules of potential petrol excise duty and road user charges increases that would avoid large, sharp and irregular increases in their rates.

Key findings – what the problems seem to be

20. Figure 1 illustrates the core expenditure and revenue projections that inform the subsequent discussion. The different expenditure activities comprise:

20.1. State highway improvements, including:

20.1.1. the current Roads of National Significance

20.1.2. national strategic improvements that continue on from the Roads of National Significance

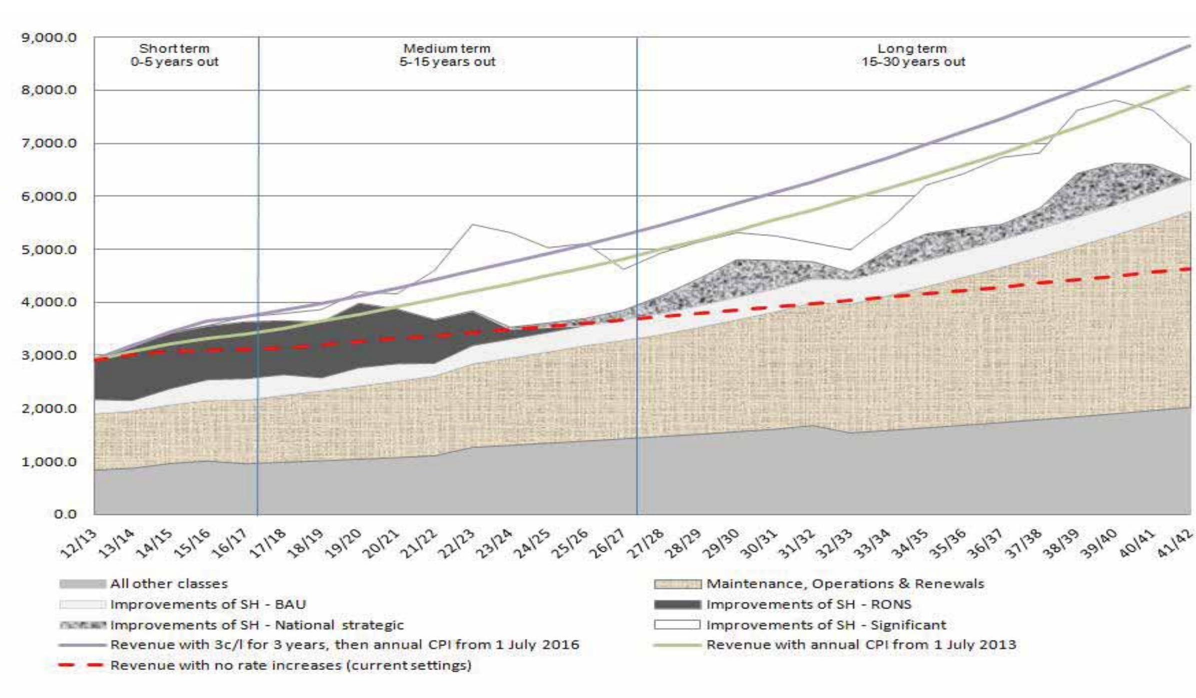
20.1.3. significant improvements, including Auckland's second harbour crossing

20.1.4. business as usual, small scale ongoing improvements to the State highway network.

20.2. Maintenance, operation and renewal of State highways and local roads

20.3. all other Activity Classes, including local road improvements, safety, and public transport.

Figure 1: Projected annual expenditure and revenues, nominal $ million, 2012/13 to 2041/42



21. A number of simplifying assumptions have been applied to the development of these projections as it is impossible to predict future technology and societal changes with any confidence. These include assumptions that: current cost escalation trends in maintenance and operations (and which exceed CPI by a significant margin) will continue; new unanticipated demand for additional new road construction will not emerge; long term trends in vehicle fuel efficiency and alternative fuels do not erode our ability to collect fuel excise; and that road pricing and demand management measures do not significantly alter revenue and demand patterns. If and when these factors eventuate, they will likely drive changes in both the supply of, and demand for, transport. The dynamic nature of transport planning and the long lead times should enable appropriate adjustments to be made as necessary.

Increasing petrol excise duty and road user charges at the rate of CPI is insufficient to cover expenditure that follows forecast growth patterns

22. The final forecast of the National Land Transport Fund revenue for the next thirty years, developed for the 2012 October Baseline Update, continues to signal the mismatch between revenue and expenditure under current settings that has been emerging from forecasts over the course of 2012.

23. On the expenditure side, growth forecasts indicate that the upper North Island will be the focus of increased demand for travel over the next 30 years. Supporting economic growth and increased freight movements through increased capacity in this region drives most of the need for additional State highway improvements, including many of the Roads of National Significance. Towards the last decade of the 30 year projection this demand eases and South Island projects emerge. Consequently, if revenue growth remains tied to the CPI it will fall progressively behind the growth in forecast expenditure.

The funding gap remains over the short term (the next 5 years)

24. The expenditure bulge as a consequence of delivering the Roads of National Significance and GPS 2012 expectations is above revenue both under current settings, which assume no increases, and if petrol excise duty and road user charges are increased annually at the rate of CPI increases.

Table 1: Revenue, expenditure and variance assuming annual CPI adjustments from 1 July 2013

$million	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**5-year total**
Revenue	2,913	3,060	3,194	3,282	3,371	15,820
Expenditure	2,947	3,233	3,441	3,516	3,595	16,731
Surplus/(deficit)	**(34)**	**(173)**	**(248)**	**(233)**	**(224)**	**(912)**

25. The use of Public Private Partnerships would have little impact on expenditure projections in the short-term, but could be useful to smooth out cash flow in the long-term.

In the next 5-15 years, the pressure from State highway improvements subsides, and demand from the upper North Island, including Auckland, grows to replace it

26. Future freight-driven State highway projects, beyond the Roads of National Significance, do not create an expenditure bulge like the current Roads of National Significance have. However, continued improvement to the upper North Island's transport network will remain necessary to accommodate further population growth and freight traffic and is likely to create another expenditure bulge, potentially larger than the current one.

27. The Auckland Council's Auckland Plan proposes some $60 billion of transport expenditure in Auckland over the next three decades, including around $16 billion of State highway improvements, $11 billion of local road improvements and $7 billion of new rail projects.

28. The Government has not yet agreed with the need, or proposed timing, for all the transport infrastructure reflected in the Auckland Plan. This is the subject of ongoing work, but the impact of continued population growth in Auckland makes further investment inevitable. However, these costs do not all fall on the National Land Transport Fund. The Council should fund roughly half of local road and public transport costs. Expenditure on rail capital projects, including the $2.9 billion City Rail Link falls outside the Fund.

29. Proposed local roads projects in the Auckland Plan have undergone preliminary assessment to identify those that may be eligible for funding in the future, while also allowing for a significant increase in local road expenditure after 2021. This resulted in a share of around two-thirds of Auckland's proposed local road improvement projects being included in expenditure assumptions, although these are spread over a longer period than desired by the Council.

Over the long term cost escalation in maintenance, operations and renewals poses the biggest risk to the investment flexibility available to governments in the transport area

30. Construction and maintenance input prices for transport construction inputs (e.g. steel, bitumen and other oil based products) have been growing above general price inflation for a number of years. If input cost escalation continues it will reduce the scope for investing in new infrastructure over the long term. The cost escalation is exacerbated by the increasing size and complexity of the network (e.g. the addition of tunnels, bridges and new technology). Therefore, while the risk will be spread over time, it will require regular monitoring and management.

31. The NZ Transport Agency and local authorities are putting management process in place to drive efficiencies in asset management. This should partially offset the effects of escalation in input prices, increasing demand, and growth in transport assets. The GPS also provides government with a strong lever for directing cost control. However, not all the input costs concerned are within the NZ Transport Agency's control. In addition, a portion of the growth is a consequence of the assumptions used in the model being held constant over a 30-year span of time.

Options to address the short-term funding gap within an optimal time frame

32. There are three options for addressing the short-term funding gap within an optimal time-frame:

    32.1. deferral of some State highway improvement projects

32.2. increases to petrol excise duty and road user charges

32.3. medium to long-term borrowing.

Deferral remains an option if increases in petrol excise duty and road user charges are unacceptable

33. As noted earlier, Cabinet has previously agreed to proceed with implementing the Roads of National Significance programme on schedule and otherwise deliver on GPS 2012. Nonetheless, deferral remains one option for addressing the short-term shortfall. This would have the effect of spreading the costs into the medium term.

Increase petrol excise duty and road user charges to create a revenue growth line that best fits desired expenditure

34. Increasing the rates of petrol excise duty and road user charges by three cents per litre on 1 July of 2013, 2014 and 2015, and annually increasing it by CPI in subsequent years, would deliver the necessary revenue to close the funding gap for the decade until 2022.

35. Table 2 presents the forecast results for this scenario.

Table 2: Revenue, expenditure and variance under the line of best fit scenario

$million	2012/13	2013/14	2014/15	2015/16	2016/17	5-year total
Revenue	2,920	3,201	3,452	3,646	3,740	16,959
Expenditure	2,947	3,233	3,441	3,516	3,595	16,731
Surplus/(deficit)	**(27)**	**(32)**	**11**	**131**	**145**	**228**

36. These figures are based on the latest Treasury economic forecast assumption behind revenue growth of between five and eight percent per annum in 2012/13 and 2013/14. Under this scenario, no additional borrowing would be required. Should revenue growth be lower than projected, further increases in later years could be necessary.

Medium to long-term borrowing, including Public Private Partnerships

37. Borrowing needs to be considered if Ministers are unwilling to increase petrol excise duty and road user charges as recommended. The NZ Transport Agency considers that there is no ability to manage any shortfall other than to defer improvement activities. The level of medium to long-term borrowing that might be needed is dependent on the size of any gap after petrol excise duty and road user charges increases. If petrol excise duty and road user charges are not increased beyond CPI adjustments, then this suggests debt of about $930 million would need to be accumulated over the next five years.

38. The down-stream implications of taking on this level of debt would depend on the term of the loan and the interest, as well as on actual future petrol excise duty and road user charges rates and actual future expenditure demands. Figure 1 shows that if petrol excise duty and road user charges are not increased above CPI then there would be no ability to repay borrowing if Auckland projects are allowed for and unit construction and maintenance costs continue to increase as forecast. One could take

the view that some Auckland projects will not eventuate; or, that operating and maintenance costs will not continue growing at the current rate; in which case, current forecasts suggests it would be possible to repay the loan. However, this would be a risky strategy.

39. There are no medium or long-term debts currently being serviced through the National Land Transport Fund. Cabinet has approved the procurement of Transmission Gully Road of National Significance through a Public Private Partnership, though the debt is yet to be taken on. It provides a means of managing the risk that petrol excise duty and road user charges revenue streams are insufficient to support the implementation of the project and to ensure that it occurs in to the timetable previously advised or better. There is no call on the National Land Transport Fund during construction, with annual service payments of between \$125 million and \$130 million from about 2020, growing with inflation thereafter. The proposed Christchurch loan facility is another option for a medium-term facility, which has already been provisioned for through the \$50 million per annum contribution to Christchurch transport infrastructure recovery costs.

40. Currently the Land Transport Management Act 2003 does not allow the National Land Transport Fund to be used for debt repayments other than for cash flow management purposes. The Land Transport Management Amendment Bill removes this constraint. This Bill is currently before the Transport and Industrial Relations Committee and is expected to be passed in 2013.

41. A Public Private Partnership provides the potential to drive greater value for money (both quantitatively and qualitatively) than directly borrowing to fund conventional procurement.

42. Recent experience with Public Private Partnerships has shown that the private sector is able to come under the estimated costs of conventional public sector procurement and provide better outcomes. The Wiri Prison deal, for example, was 17 percent below the Public Sector Comparator set by the Department of Corrections. The NZ Transport Agency will be seeking both quantitative and qualitative value for money from any Public Private Partnerships procurement it pursues. Public Private Partnerships undertaken by a Crown Entity are recognised in total Crown debt on the Crown's accounts.

Conclusions

Responding to short-term pressures

43. Annual increases in petrol excise duty and road user charges of (or equivalent to) three cents per litre from 1 July 2013 until 1 July 2015, followed by increases at the rate of inflation, from 1 July 2016 onwards, seem most likely to provide the revenue to meet the range of government expectations for the National Land Transport Fund. These increases would close the short-term funding gap and provide surpluses in outyears that can either repay debt or be provisioned against land transport costs arising out of Auckland or other unanticipated sources.

44. There are other potential or proposed increases in excise and levies on petrol. The Petroleum and Engine Fuel Levy may be increased to fund oil security, and the long-

term funding of the ACC's motor vehicle account is being reviewed. The potential scale of these adjustments, if they were to occur, is not yet known.

Responding to downside forecasting risks

45. With road use forecast to increase, particularly freight movements, revenue is forecast to increase significantly over the next three years. The forecast revenue growth is feasible given economic projections and historic trends, but is dependant on improving economic conditions. In recent months growth has been subdued. Adding to the growth uncertainty, due to volatility in payment behaviour following the recent changes to the road user charges regime, it has been difficult to identify a consistent pattern from revenue inflows for the first quarter of 2012/13.

46. If growth is less than projected, this will have an immediate impact on National Land Transport Fund revenue. A downside scenario has been developed, which projects lower revenues by around $40 million a year (1.4 percent) in 2012/13, increasing to $75 million a year less (2.3 percent) in 2015/16.

47. Revenue will be monitored by the Ministry of Transport, NZ Transport Agency and the Treasury. A further forecast using revised economic growth and actual revenue data will be undertaken for the March Baseline Update 2013, including the effect of any emerging trends, such as the effects of greater use of blended ethanol/petrol mixes recently raised by one of the oil companies. The Minister of Transport and Minister of Finance will report back to Cabinet if further increases to petrol excise duty and road user charges are required (or decreases are possible in the event of revenue surpluses).

Options for medium or long-term borrowing

48. Current indications are that there is no ability to repay borrowings out of petrol excise duty and road user charges increases that are limited to CPI, unless some of the Auckland pressures do not eventuate or future maintenance costs do not grow at the projected rate.

49. While this report does not include any borrowing proposals, the future work to address Canterbury earthquake recovery funding and Auckland's infrastructure needs proposed below will include borrowing amongst the range of tools considered.

Principles for medium or long-term borrowing

50. The current PAYGO system is fundamentally sound. Long-term it has the ability to continue to work, particularly if, as is proposed in this paper, the revenue path is stepped up to the right level and then maintained in step with the CPI. In some cases the current system does not work, for example with very large projects and/or tight timeframes. In these cases, where the proposal satisfies value for money considerations, medium or long-term borrowing may be appropriate where it can be done on a profile that provides for a scheduled return to the normal operation of the National Land Transport Fund as a PAYGO system.

Assessment of Public Private Partnerships

51. Individual Public Private Partnerships proposals should be considered on their own merits to determine whether they meet the value-for-money requirements and their strategic impact on the sector's funding and the Crown balance sheet.

Christchurch earthquake recovery funding

52. The NZ Transport Agency's contribution, to service either costs or repayments, is capped at $50 million per annum. The NZ Transport Agency proposed a medium-term loan facility to cover the Christchurch residual costs over this $50 million per annum, and Cabinet asked that this be assessed [EGI Min (12) 17/4]. These residual costs still need to be finalised, as the magnitude and timing of final costs will be a contributing factor in determining the best means to fund them. At this time it is likely that resolving the quantum of these costs, and an assessment of a loan option, will overlap with the Budget process for 2013, and I propose to put advice forward in that context.

Implementation

53. Ideally, the new rates of petrol excise duty and road user charges will come into effect on 1 July 2013, and on 1 July of each subsequent year.

54. Because of the uncertainty around the latest revenue forecast, officials recommend that, while the drafting of legislative amendments could commence on the basis of this paper, bringing them into law should wait until after the March Baseline Update revenue forecast.

55. Changes to fuel excise duties for 1 July 2013, and each year thereafter, must be made via a Bill amending the Customs and Excise Act 1996 as the provision under section 79A(1) of that Act, to use Orders in Council for this purpose, does not work as intended. Officials will provide me with advice on the best way to progress any agreed change to the rate of petrol excise duty in time for the increases to come into effect on 1 July 2013. I may seek a priority 2 Bill on the 2013 legislation programme for this purpose.

56. I may also seek Cabinet's agreement to amend the provisions for adjusting rates via Order in Council in section 79A(1) at that same time. In addition, I am expecting advice on the excise treatment of alternative fuels, and may bring further proposals for amendments to this Committee in respect of this matter, for possible inclusion in a Customs and Excise Amendment Bill.

57. Changes to the Road User Charges (Rates) Regulations 2012 can be given effect via an Order in Council each year, and must be confirmed through the regular Subordinate Legislation Confirmation Bill. These rates changes must be published in the *Gazette* 42 days before coming into effect. Confirming the actual rate change by the end of March 2013 would provide sufficient time to achieve this.

Future work programme

58. Ongoing work is required to assess:

    58.1. The optimal level of investment required to meet demand growth in Auckland. More than half of national population growth over the next decades is projected to occur in Auckland.

    58.2. Further improvements to the long-term expenditure and transport demand model that has been created to inform this report.

    58.3. The potential impact of changing technology on the nature of supply (e.g. road design, construction, maintenance and operation) and demand and, therefore, the sustainability of the existing revenue sources, as these may begin to impact within the period covered by this report but are not sufficiently well understood to have been reflected in the model

    58.4. The comparative impact and value of investment in rail infrastructure and services, as the logical next step in answering Cabinet's question of what constitutes an optimal level of investment in transport.

59. This further analysis will be undertaken to inform the next Government Policy Statement on Land Transport Funding, and national land transport planning in general. The next Government Policy Statement on Land Transport Funding is scheduled to be released in 2014.

Consultation

60. The NZ Transport Agency and the Treasury have been consulted in writing this paper. The Department of the Prime Minister and Cabinet, and New Zealand Customs Service have been informed.

Financial Implications

61. Table 3 shows the forecast changes to National Land Transport Fund revenue from the proposed petrol excise duty and road user charges rates increases. The increase in 2012/13 is due to pre-purchasing in anticipation of an announced increases.

Table 3: Revenue variance of recommended option from status quo

$million	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**5-year total**
Status Quo (no increases)	2,851	2,930	3,000	3,049	3,084	14,914
3/3/3/annual CPI Option	2,861	3,118	3,369	3,594	3,707	16,649
Increase*	**10**	**187**	**370**	**545**	**623**	**1,735**

* Numbers may not tally due to rounding.

Legislative implications

62. Changes to the rates of fuel excise duties will require a Bill to amend the Excise and Excise-equivalent Duties Table under the Customs and Excise Act 1996. Officials are developing advice on the best legislative mechanism for achieving this, which may be a priority 2 Bill on the 2013 legislation programme. Changes to road user charges will require an amendment to the Road User Charges (Rates) Regulations 2012.

Regulatory Impact Analysis

63. The changes to fuel excise duties will, because of the way the enabling provisions are drafted in the Customs and Excise Act 1996, require an amendment to that Act. A Regulatory Impact Statement will developed to support consideration of the draft Bill.

Human rights, gender and disability implications

64. Nil.

Publicity

65. The matters specifically discussed in this paper have been the subject of Parliamentary Questions and Official Information Act requests. Therefore, I will be announcing the decisions arrived at in this paper, prior to Christmas.

Recommendations

66. The Minister of Transport recommends that the Committee:

    1. **note** that, under current settings, petrol excise duty and road user charges will not provide sufficient revenue to deliver the Roads of National Significance programme to the timeline set out in the Government Policy Statement on Land Transport Funding 2012/13 – 2021/22

    2. **note** that Cabinet has agreed that the Roads of National Significance programme will proceed to the timeline outlined in the Government Policy Statement on Land Transport Funding 2012/13 – 2021/22 [EGI Min (12) 17/4], and invited the Minister of Transport to report back with the details of a package to achieve this including:

        2.1. an analysis of the value for money and desirable level of transport investment and what this might mean for how this investment is best funded

        2.2. an analysis of options for programme borrowing

        2.3. an evaluation of Public Private Partnerships as an alternative delivery model

        2.4. an evaluation of the loan proposal to meet Christchurch road recovery costs above the $50 million per annum committed from the National Land Transport Fund

2.5. proposals to address the revenue shortfall through fuel excise duty and road user charges increases

Value for money and optimal level of investment in land transport

3. **note** that:

   3.1. the pressure from the current Roads of National Significance programme will address the major needs of the strategic State highway network and, therefore, ease after ten years

   3.2. the upper North Island and Auckland's road network will create a similar scale pressure over the following decade

   3.3. maintenance, renewal and operating costs will need active management

4. **note**, therefore, that the revenue settings required to deliver the Roads of National Significance programme could also be considered the desirable level to provision against medium and long-term land transport need

Assessment of programme borrowing

5. **note** that current projections show borrowing is not affordable if petrol excise duty and road user charges are adjusted only at the CPI rate

6. **note** that where an expenditure proposal cannot be accommodated by re-spreading annual land transport expenditure, and satisfies value for money considerations, medium or long-term borrowing may be appropriate where it can be done on a profile that provides for a scheduled return to the normal operation of the National Land Transport Fund as a pay as you go system

Assessment of Public Private Partnerships

7. **note** that Public Private Partnerships are recommended where they provide qualitative and quantitative benefits over other procurement methods and are, therefore, to be considered on a case-by-case basis and based on the value that can be derived from the procurement process

8. **note** that, on 19 November 2012, Cabinet agreed to *the procurement of Transmission Gully using a Public Private Partnership*, to allow registrations of interest to be sought from the market, with the final decision on borrowing subject to a suitable bid being received

9. **agree** that Public Private Partnerships continue to be considered on a project-by-project basis and subject to Cabinet scrutiny

Assessment of Christchurch loan proposal

10. **note** that the Christchurch road recovery cost information is not yet ready and, therefore, the suitability of the NZ Transport Agency's loan proposal to meet the costs above $50 million per annum cannot yet be assessed

11. **invite** the Minister of Transport to bring any proposals in respect of the matter in recommendation 12 forward via the Budget 2013 process

Addressing the revenue shortfall through petrol excise duty and road user charges increases

12. **agree** to increases in petrol excise duty, and equivalent increases in road user charges, of three cents per litre on 1 July 2013, 1 July 2014 and 1 July 2015, and at the level of inflation as measured by the consumer price index annually on 1 July, from 2016 onwards

13. **note** that the proposed changes to the rate of petrol excise duty will require amendments to section 79A(1) and the Excise and Excise-equivalent Duties Table under the Customs and Excise Act 1996

14. **note** that section 79A(1) was not designed to enable the schedule of regular rate increases proposed above, and it may be appropriate to amend the section

15. **note** that the Ministry of Transport, NZ Customs Service and the Treasury are developing advice on amendments to the Customs and Excise Act 1996, which may involve a priority 2 amendment Bill on the 2013 legislation programme and Cabinet decisions in early 2013

16. **note** that changes to road user charges will require an amendment to the Road User Charges (Rates) Regulations 2012

17. **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to the first year's changes to road user charges, and annually thereafter for each subsequent year's change, as agreed in recommendation 12

18. **note** that under-recovery against the projected revenue in the National Land Transport Fund, or further delay in the forecast economic recovery in later years, may require further increases to petrol excise duty and road user charges if the policy intent noted in recommendation 2 is to be met

19. **agree** that the annual changes in recommendation 12 not be implemented until after the March Baseline Update revenue forecast to ensure that the changes are aligned with that forecast

20. **invite** the Minister of Transport, should a March Baseline Update revenue forecast suggest the agreed rate changes are no longer adequate or appropriate, to provide the Cabinet Economic Growth and Infrastructure Committee with revised proposals to balance land transport revenue and expenditure

Future work

21. **note** that developing the advice contained in this paper has identified a number of areas and opportunities for further work to support the development of the next Government Policy Statement on Land Transport Funding, and national land transport planning in general, and that the Ministry of Transport, the Treasury and the NZ Transport Agency are developing a work programme to:

    21.1. better understand funding needs and cost pressures for Auckland infrastructure in the medium term

21.2. maintain and improve long-term expenditure modelling

21.3. better understand the potential impact of changing technology on the nature of transport supply and demand, and the sustainability of the existing revenue sources

21.4. better understand the comparative impact and value of investment in rail infrastructure and services

22. **note** that I will bring any matters of significance identified through the work under recommendations 21.1 to 21.4 before Cabinet, in the context of the development of the next Government Policy Statement on Land Transport Funding.

Hon Gerry Brownlee
Minister of Transport

Dated: ________________________