TE MANATŪ WAKA
MINISTRY OF TRANSPORT

OC210639

17 September 2021

[redacted] Withheld to protect personal privacy

Tēnā koe [redacted] Withheld to protect personal privacy

I refer to your request that was partially transferred to the Ministry of Transport on 4 August 2021, pursuant to the Official Information Act 1982 (the Act), seeking copies of the following [please note we have only included the papers transferred to the Ministry in the quoted list below]:

> *"Under the Official Information Act could you please supply the documents referenced by the Minister of Transport in his reply to Parliamentary Written Question: 28111 (2021) as cited below:*
>
> ***28111 (2021). Simon Court** to the **Minister of Transport** (05 Jul 2021):*
> *What reports, briefings, memos, aides-memoire, notes or other written advice, if any, did the Minister receive on developing the Kaiwharawhara ferry terminal location during the period 1 October 2020 and 1 July 2021 (both dates inclusive), by title and date?*
>
> - *KiwiRail's Interisland Ferry Replacement and the Wellington Ferry Terminal, 10 November 2020*
> - *Budget 2021 – Transport Sector Initiatives – Pre-Submission Briefing, 21 January 2021*
> - *Advice requested on KiwiRail's iReX project (interisland ferry replacement), 10 February 2021*
> - *Budget 2021 – Implications of Initial Treasury Assessments, 11 March 2021*
> - *Budget 2021 – Additional Information on KiwiRail Budget bids, 17 March 2021"*

On 1 September 2021 we notified you of an extension to the time period for responding to your request, as consultations necessary to make a decision on the request were such that a proper response to the request could not reasonably be made within the original time limit. We have now completed the necessary consultations and our response is detailed below.

Table 1 below outlines how the five documents that fall within the scope of your transferred request have been treated under the Act. You will see that certain information has been withheld or refused under the following sections:

- Section 6(a), relating to prejudice to the international relations of the New Zealand Government
- Section 9(2)(a), to protect the privacy of natural persons

- Section 9(2)(f)(iv), maintaining the constitutional convention for the time being which protects the confidentiality of advice tendered by Ministers of the Crown and officials.
- Section 9(2)(g)(i), to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty
- Section 18(d) as the information requested is or will soon be publicly available.

With regard to the information that has been withheld under section 9 of the Act, I am satisfied that the reasons for withholding the information at this time are not outweighed by public interest considerations that would make it desirable to make the information available.

You have the right under section 28(3) of the Act to make a complaint about the withholding and refusal of information to the Ombudsman, who can be contacted at: **info@ombudsman@parliament.nz**

The Ministry publishes our Official Information Act responses and the information contained in our reply to you may be published on the Ministry website. Before publishing we will remove any personal or identifiable information.

Nāku noa, nā

[redacted] Withheld to protect personal privacy

Hilary Penman
Manager, Ministerial Services

Table 1

	Document	Description of information withheld
1	OC200862 KiwiRail's Interisland Ferry Replacement and the Wellington Ferry Terminal, 10 November 2020	Withheld in full under Section 18(d) as the information will soon be publicly available. This is expected to be published online by the end of September.
2	OC210014 Budget 2021 – Transport Sector Initiatives – Pre-Submission Briefing, 21 January 2021	Some information withheld under Sections 6(a), 9(2)(a), 9(2)(f)(iv) and 9(2)(g)(i).
3	OC210034 Advice requested on KiwiRail's iReX project (interisland ferry replacement), 10 February 2021	Withheld in full under Section 18(d) as the information will soon be publicly available. This is expected to be published online by the end of September.
4	OC210192 Budget 2021 – Implications of Initial Treasury Assessments, 11 March 2021	Some information withheld under Sections 9(2)(a), 9(2)(f)(iv) and 9(2)(g)(i).
5	OC210217 Budget 2021 – Additional Information on KiwiRail Budget Bids, 17 March 2021	Some information withheld under Sections 9(2)(a), 9(2)(f)(iv) and 9(2)(g)(i).

Ministry of Transport
TE MANATŪ WAKA

BRIEFING

21 January 2021 OC210014

Hon Michael Wood
Minister of Transport

Action required by:
Tuesday, 26 January 2021

BUDGET 2021 - TRANSPORT SECTOR INITIATIVES - PRE-SUBMISSION BRIEFING

Purpose

Outline Budget 2021 Transport Sector initiatives before they are submitted to the Treasury on 29 January; advise you of the Ministry's position on these initiatives; and seek any feedback on the proposed initiatives and amounts sought before submission.

Key points

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- Transport sector agencies and the Ministry have prepared [redacted] initiatives following the Minister of Finance's invitation in December 2020. These initiatives seek a combined annual average of [redacted] in operating expenditure over the forecast period (2021/22–2023/2024) and a total of [redacted] in capital expenditure (before any options around scaling have been considered). This compares to a Budget 2021 operating allowance of $2.65 billion per annum before pre-commitments and a Multi-Year Capital Allowance (MYCA) of $7.8 billion (which covers Budgets 2021–2024). Substantial scaling and deferral is likely, based on the competing pressures on the budget allowances and the Minister of Finance's signals regarding fiscal control.

Civil Aviation Authority, Aviation Security Service and Maritime New Zealand

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- A total of [redacted] in operating expenditure was initially sought to increase the Crown-funded liquidity facility that provides funding certainty to the Civil Aviation Authority (CAA), Aviation Security Service (Avsec) and Maritime New Zealand (MNZ). CAA/Avsec have also sought funding to replace Crown loans to proceed with planned, Cabinet-approved investments in an IT platform and essential security screening equipment. CAA/Avsec and MNZ initially sought additional and ongoing funding beyond the scope set in the invitation letter. We recommend scaled funding for each entity for one year only, in line with the Minister of Finance's invitation. These amounts would preserve operations at current levels without reductions in workforce for one year. CAA is now revising its bid after feedback.

- The Ministry's approach to scaling has been to preserve existing capability for one year only and not to support increases for additional capability or ongoing funding that will increase out-year costs. The exception to this is the capital bids which we (and likely Treasury) support for a three year period given CAA/Avsec will need to commit to contracts for screening equipment and the new IT system. We do not agree to increases to CAA and Avsec's activities which would result in increased costs for the sector in out-years. Rather than a budget bid we think this should be considered as part of a funding review and consulted on with the sector, particularly given the current financial impacts on the aviation sector. For CAA/Avsec, there is a Cabinet report back on options for a funding review planned for July 2021 that will provide greater clarity around the right level of ongoing resource and a return to sustainable funding levels. We believe a funding review would be the appropriate vehicle to consider whether CAA/Avsec need increased funding.

Rail

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- Five Rail initiatives will be submitted, seeking a combined annual average of [redacted] in operating over the forecast period and [redacted] in total capital. Funding secured through Budget 2021 will be the third tranche of funding supporting the 'resilient and reliable' scenario from the final NZ Rail Plan as approved by Cabinet. The Ministry considers that the highest priority for this Budget is to secure ongoing baseline Crown funding that complements the National Land Transport Fund (NLTF) to deliver the Rail Network Investment Programme (RNIP).

- Further commercial advice on the remaining three Future of Rail investments is required from the Treasury Commercial Performance Unit, with the Ministry's role more limited to advising on KiwiRail's investments to the extent they impact on the Transport network at a system-level. We believe the bids are consistent with the 'resilient and reliable' scenario.

- The Ministry and the Treasury Commercial Performance Unit have concerns regarding the escalating costs and scale for the planned Inter-island ferry replacements (IReX). KiwiRail expects, subject to approval from Shareholding Ministers, to commit to the terminal and ship-build before the end of June 2021. This could expose the Crown to financial risk given the business case has not been finalised. To date there has been an escalation of $565 million due to a downward revision of KiwiRail's ability to finance the capital cost, as well as material escalations to estimates for terminals infrastructure. The Ministry is concerned that there could continue to be further escalations of costs in relation to the land-side infrastructure. The Ministry and the Treasury Commericial Performance Unit consider that the business case should be finalised before the Government commits to further funding for this programme.

[redacted]

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Transport Climate Package

- The Ministry has led the development of a Transport Climate Package, seeking an annual average of [redacted] in operating expenditure over the forecast period and [redacted] total capital (highest-cost option). Initiatives have been prioritised

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according to criteria set by the Minister of Finance. Three scaling options have been provided within this package.

Re-prioritisation options

- The Ministry has examined options for re-prioritisation across Vote Transport. There are forecast underspent funds for initiatives relating to the COVID-19 response, however, this funding will largely be offset by new funding requests based on COVID-19 related pressures. The Ministry recommends that you signal these forecast underspends in your letter to the Minister of Finance on 29 January, and that you also seek to reprioritise these funds to cover some of the Budget bids being submitted for similar purposes.

Wider pressures

Please note the underlined section below is a drafting error by the Ministry of Transport. The references to City Rail Link and Auckland Light Rail are in relation to inclusion as specific fiscal risks, not cost overruns.

- Alongside the formal Budget 2021 process, significant cost overruns are emerging across the wider Transport infrastructure investment portfolio. This includes the New Zealand Upgrade Programme, the Crown-funded portion of the City Rail Link, and the Auckland Light Rail commitment. These have been included previously as specific fiscal risks and ongoing discussions with the Minister of Finance will be required to monitor and address these risks over the next several budgets, depending on the Government's fiscal strategy. There is currently no scope to fund these pressures from the National Land Transport Fund (NLTF, which is committed and under pressure), and consequently should not be regarded as an alternative to the Budget 2021 allowances for funding cost pressures and new investment.

Recommendations

We recommend you:

1 **Discuss** the Transport Sector budget bids with Ministry Officials on Tuesday 26 January 2021

2 **Provide** feedback on the Budget Initiatives summarised in Appendix 1

3 **Direct** Ministry officials to draft a letter for your signature to the Minister of Finance that reflects your expectations and feedback on the initiatives outlined in this paper — Yes / No

Tim Herbert
Manager, Investment

..... / ...... / ......

Hon Michael Wood
Minister of Transport

..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Tim Holland, Senior Advisor, Investment	[redacted]	✓
Tim Herbert, Manager, Investment	[redacted]	
Bryn Gandy, Deputy Chief Executive, System Strategy and Investment	[redacted]	

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Budget 2021 - Transport Sector Initiatives - Pre-submission Advice

Background

1 Initiatives for Budget 2021 are being considered by invitation only. The Minister of Finance wrote to you in late December inviting you to submit the following initiatives.

- Civil Aviation Authority Liquidity Funding
- Capital for regulatory and aviation security infrastructure (CAA)
- Maritime New Zealand Liquidity Funding
- Rail investment:
  - Developing Domestic Rail Workshops (Hillside)
  - Future of Rail – Capital for rolling stock and mechanical depots
  - Future of Rail – Investment in improved resilience and reliability of core assets
  - Future of Rail – New Interisland Ferries
- [redacted]

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2 Climate Ministers were invited to submit a Transport Climate Package, including:

- Clean car standard
- Clean car discount scheme
- Modified clean car discount
- [redacted]
- Decarbonisation of the public transport bus fleet
- Biofuels mandate
- [redacted]

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3 The Ministry will continue to develop initiatives, incorporating your feedback, before they are submitted to the Treasury for assessment on Friday 29 January. Following submission, the Treasury will assess these initiatives and recommend packages to the Minister of Finance and Budget Ministers. They may apply scaling or defer initiatives.

4 You may be able to influence the outcome of this process through bilateral meetings or other Ministerial engagement. At the same time, the Ministry will continue to engage with the Treasury and transport agencies to answer any questions or provide additional input to help decision makers determine value-for-money and funding urgency. Iteration will continue until packages are agreed by Budget Ministers.

CAA, Avsec and MNZ– Liquidity and capital funding to address funding shortfalls

Background

5 CAA and Avsec are reliant (89 per cent and 99 per cent respectively) on levies and fees paid by the sector to fund their operations. COVID-19 and the collapse in international passenger volumes has reduced their revenue significantly. In response, a Crown liquidity facility was established and funded through the COVID-19 Response and Recovery Fund (CRRF) to replace lost revenue and to ensure ongoing operation and solvency of these entities.

6 MNZ's revenue was also impacted due to a reduction in cruise ship and other shipping passenger numbers, although to a lesser extent. MNZ is funded through a wider variety of sources and was effectively less reliant on international passenger numbers than CAA/Avsec.

7 The liquidity facility was established as a multi-year appropriation (MYA), which provides flexibility for shifting funding between years. The parameters of the multi-year appropriation are that the agencies can draw down from it to offset revenue reductions. Where fees and levies increase, less liquidity funding is drawn down, meaning that scaling is built in, should revenue recover. The MYA will expire on June 30, 2022, unless it is extended. Cabinet agreed that funding in the liquidity facility MYA would only be available for 2020/21, with the implication that Cabinet permission will be sought to carry forward any remaining amount in the MYA.

8 CAA, Avsec and MNZ are seeking an extension of this funding into the next financial year, which the Ministry supports at a scaled level. CAA/Avsec are seeking a further amount to top this up, which the Ministry supports at a scaled level.

9 The Minister of Finance's invitation letter specified that only one year of liquidity funding should be sought for CAA/Avsec and MNZ, requesting that initiatives will present options and pathways for striking a balance between:

- returning to market-led cost recovery models as soon as practicable,
- right-sizing of operations for the service levels, including workforce considerations, required by the 'new normal', and
- Crown funding, including scaling options based on levels of service delivery and regulatory functions.

CAA/Avsec/MNZ – Resourcing Minimum Regulatory Capability

10 CAA/Avsec initially sought [redacted] in operating expenditure across 2021/22 and 2022/23, in addition to carrying forward the remainder allocated to them in the liquidity facility MYA (bring the total amount sought to [redacted]). This amount included requests for additional funding that the Ministry did not consider to fit within the scope signalled by the Minister of Finance.

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[redacted]

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

[redacted]

Ministry Position

11 The Ministry has worked with CAA/Avsec to revise their position and amounts sought, to align with the Minister of Finance's direction to seek one year of funding only, which they are currently doing. [redacted]

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12 The Ministry supports scaled ongoing liquidity funding of $113.5 million to ensure ongoing operations of CAA/Avsec in 2021/22. This amount includes carrying forward $74.3 million of funding in the MYA, with an additional $39.2 million to be sought through Budget 2021 or through reprioritisation (discussed further below). A further breakdown of this is shown in the table on page 10 below. The Ministry considers this amount will preserve current operations to the extent required without any reductions in headcount, and allow capacity for recovery.

13 [redacted]. Subject to a Cabinet report back, a funding review planned beginning in July 2021 will provide greater clarity around resourcing ongoing operations and funding levels. This will provide an opportunity to consider whether CAA needs additional resourcing, alongside recovery of the sector, and funding structures. This will also address concerns raised about CAA/Avsec's ability to effectively and efficiently meet the Government's expectations and international requirements. CAA and Avsec have different cost structures and operational requirements and COVID-19 has impacted their operations differently. A significant amount of CAA's operations are domestically focused on the aviation sector, and they contend that COVID-19 disruption and displacement in the sector has materially increased regulatory complexity and their workload, on top of forthcoming legislation changes.

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14 Similarly, Avsec's business involves high fixed costs to maintain security levels to the standards expected by international partners, irrespective of international passenger

volume. Degrading the ability to maintain these standards will add costs and delays to aviation sector's recovery. Managing COVID-19 impacts (including the likely potential for future separated passenger facilitation from safe travel zones) adds significant operational and workforce complexity. We are encouraging CAA/Avsec to provide more evidence of these considerations in their budget bids.

15 As part of the border paper process, it was agreed that the Ministry will prepare a Cabinet report back for July 2021 providing options for CAA to return to a sustainable funding path including through formal commencement of a funding review. The previous CAA pricing review that was consulted on but not competed prior to COVID-19, work on capacity, capability and cost structure (CAPCO) 1 (completed) and CAPCO2 (underway), the PWC Value for Money review, and the MartinJenkins Regulatory Monitoring Assessment, mean that much of the groundwork for a funding review is well advanced and completion and implementation could be feasible by 1 July 2022[1]. However, work will need to be undertaken on how to consider passenger volumes and impacts on the sector, phasing of any potential increases for any new activity and funding, and funding sources as part of the review.

CAA/Avsec – Capital to fund intended, necessary and priority investment in aviation security infrastructure and regulatory systems"

16 This bid seeks a [redacted] capital injection over three years to fund an upgrade of New Zealand's aviation security infrastructure, a replacement and upgrade of CAA's regulatory technology platform, and other critical infrastructure required to undertake its regulatory and aviation security role.

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17 The Ministry supports scaled funding of $105.2 million as a capital injection over three years. [redacted].

18 [redacted]

Withheld under sections 6(a) and 9(2)(f)(iv) of the Official Information Act 1982

MNZ – Liquidity Funding July 2021-June 2022

19 This bid seeks [redacted] as a carry forward from the current liquidity facility ($40.2 million) in 2021/22 to meet MNZ's immediate cost pressures to fund MNZ's core functions related to the forecasted revenue shortfall. This bid also includes additional funding for seafarer welfare services.

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20 The seafarer welfare services costs are currently funded through the Ministry's COVID-19 Essential Transport Connectivity (ETC) scheme until 30 June 2021. A change of legislation to the Maritime Transport Act 1994 is being progressed so that the seafarer welfare services can be funded through the liquidity facility (MNZ levies)

[1] Assuming no major negative new COVID-19 developments that disrupt the sector further.

as this is based on MNZ's core services. In the interim before levy changes can be consulted on and made, the liquidity fund will support the transition.

21 MNZ have provided scaling options and indicate that the bid seeks to maintain MNZ's core capability and enables MNZ to preserve existing resource and capability to substantially deliver core regulatory, compliance, response and security work at minimum levels.

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22 [redacted]

23 [redacted]

Ministry position

24 The Ministry supports a scaled amount of $17.010 million to be carried forward in the MYA. This amount provides funding for the forecast revenue shortfall for the 2021/2022 year. [redacted]

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25 [redacted]

Table 1: Border sector liquidity funding sought in 2021/22 only and Ministry recommendation

$m	21/22 Shortfall (Forecast requirement)	21/22 MYA Carry forward available	Funding sought in addition to carry-forward	Total 21/22 funding request	Ministry Recommendation
CAA	22.7	23.5	5.45	28.15	• Support $22.7 million carry forward. • No additional funding from allowances. • Support existing CAA operations, does not include FTE increases or out year liquidity support.
Avsec	106.1	51.6	39.35	90.95	• Support $51.6 million carry-forward • Support $39.35 in additional operating funding through Budget 2021. This could also be funded through re-prioritisation of the unspent MYA. • Support existing Avsec operations, does not include FTE increases or out year liquidity support.
MNZ	17.01	33.27	0	17.01	• Support $17.01 million carry-forward. • No additional funding from allowances. • Supports existing MNZ operations, does not include FTE increases or out year liquidity support.

Rail

26 The Ministry considers the five invited rail initiatives should be prioritised as follows:

26.1 Future of Rail – Crown contribution to the NLTF to fund the rail network investment programme ($771.8 million in total operating expenditure)

26.2 Future of Rail – Investment in improved resilience and reliability of core assets ($197.9 million in total capital, with a scaled option of $87.3 million in total capital)

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26.3 Future of Rail – Capital for Rolling Stock and Mechanical Depots [redacted] in total capital)

26.4 Future of Rail – New Interislander Ferries ($565 million in total capital)

26.5 Developing Domestic Rail Workshops ($85 million in total operating expenditure).

Future of Rail bids

27 The first four bids are core to achieving the resilient and reliable scenario for the rail system that Cabinet agreed to in principle through the Future of Rail review [DEV-19-MIN-0123 refers]. Funding through Budget 2021 will be the third tranche of funding to achieve the scenario. This funding is critical to support the Government achieving its objectives for rail outlined in the final NZ Rail Plan approved by Cabinet last year. Renewal of rolling-stock and inter-island ferries will also result in a significant reduction of emissions from the rail network each year.

Future of Rail – Crown contribution to the NLTF to fund the rail network investment programme ($771.9 million in total operating expenditure)

28 The Ministry considers it is critical to secure ongoing baseline Crown funding for the National Land Transport Fund (NLTF) to fund the rail network investment programme (RNIP). Without this funding, the NLTF will be unable to fund the RNIP at a level that provides reliability and resilience in the national rail network.

29 KiwiRail did not include scaling options, as it notes that funding at less than the level proposed will be back at managed decline levels which is not in line with the Government's previous commitments. Under-funding the RNIP will lead to complexities with signing of the RNIP for the full three year period, likely meaning that amendments will be needed next year. Budget 2021 decisions will be made before receiving Waka Kotahi's advice on the final RNIP. Ministers may wish to make funding contingent on that final advice and sign off on the RNIP.

Future of Rail commercial investments, including new Inter-Islander Ferries

30 The remaining three Future of Rail bids (rolling stock, interisland ferries, and resiliency of core assets) relate to commercial investment decisions. These bids are part of the renewal of KiwiRail's above rail assets to achieve improved commercial performance by KiwiRail and the overall benefits the Government is seeking from the rail system. Commercial advice on the bids needs to be provided by the Treasury's Commercial Performance Unit. The Ministry does not have a role in providing commercial advice on KiwiRail investments. The Commercial Performance Unit has

noted that at present it does not have KiwiRail's revenue model, so is unable to provide commercial advice at this time. This will need to be considered later in the budget process.

31 In relation to the new Inter-Island Ferries bid, the Ministry and Treasury have concerns about providing further funding for this programme at this time. The letter from the Minister of Finance, dated 21 December 2020, inviting the bid on the iReX project noted that the Minister expected this initiative to provide an updated business case, including an explanation of the drivers for the cost escalations, scaling options, and alternative forms of funding and financing. KiwiRail is still working on finalising the updated Business Case.

32 KiwiRail has sought $565 million over six years for the inter-islander ferry replacement (iReX) bid. This follows funding through Budget 2020 of $400 million with an expectation of debt funding of $650 million for the remainder of the programme. KiwiRail has advised that following a review of its capital structure by Ernst and Young, that there should be a debt funding level cap of $320 million. Reduced debt financing for the vessels as well as cost escalation for terminal and landside infrastructure results in a total funding gap of $565 million.

33 KiwiRail advises that it requires certainty of funding for the full programme to enable the ship and terminal build contracts to be signed by the end of financial year 2021 (June 2021). This is dependent on Shareholder approval. The Ministry is concerned that once a ship build contract is signed, the Crown will be committed to funding both the ship build and the land-side costs. We remain concerned that there is still significant uncertainty on the landside infrastructure costs (both port terminal and road/rail connections). Further time is needed to develop the business case and firm up these estimates. The Government also needs to carefully consider its investment in the programme to ensure no competition issues are being created.

34 We note that delaying funding may impact on KiwiRail's proposed supplier agreement with the preferred ship-build company.

[redacted]

35 [redacted]

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Developing Domestic Rail Workshops ($85 million in total operating expenditure).

36 The final bid for Developing Domestic Rail Workshops is a Labour Party Manifesto Commitment. This bid is not currently supported by the Ministry. We consider that given the significant constraints on the Budget allowances and the higher priority of other Future of Rail bids that it is not a priority to progress at this time. [redacted]

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37 KiwiRail has provided cost estimates showing that local wagon assembly costs are around 30 percent higher than existing wagon procurement practice.

[redacted]

38 [redacted]

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

- [redacted]
- [redacted]
- [redacted]
- [redacted]

39 [redacted]

Withheld under section 9(2)(g)(i) of the Official Information Act 1982

40 [redacted]

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

[redacted]

41 [redacted]

42 [redacted]

43 [redacted]

44 [redacted]

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45 [redacted]

46 [redacted]

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

47 [redacted]

[redacted]

48 [redacted]

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

49 [redacted]

50 [redacted]

51 [redacted]

Transport Climate Package

New Zealand has committed to being carbon zero by 2050

52 New Zealand has international and domestic climate change targets that we are not on track to meet. Transport is responsible for 47 percent of total domestic carbon dioxide (CO_2) emissions. This substantial share means that without largely decarbonising transport, New Zealand cannot achieve its statutory target of net zero by 2050. Transport emissions have increased by 90 percent since 1990 and are still increasing.

53 Transport presents some of the best opportunities for early, substantial emissions reductions, with the right investment and regulation. Equally, if New Zealand does not give priority to lowering transport emissions, there is a risk that investments in vehicles and infrastructure will lock-in higher emissions for the long term. Stronger measures are required now to enable rapid and significant cuts in transport emissions if New Zealand is to reach its targets.

This is an immediate opportunity to make reduce New Zealand's transport emissions

54 The Transport Climate Package contains eight separate initiatives that are summarised in Table 2 below. These initiatives will reduce emissions from the light vehicle fleet, encourage the uptake of active transport, and begin to decarbonise New Zealand's public transport bus fleet. The package will also increase access and decrease costs of low emission forms of transport to all New Zealanders, including those on lower incomes.

Table 2: Transport Climate Package components

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

#	Initiative	Summary of Initiative	Cost
1	**Clean Car Standard**	• Vehicles entering New Zealand emit high CO_2 levels and have high fuel consumption by global standards. New Zealand is a dumping ground for high-emission vehicles. • This initiative would require new vehicle distributors and used vehicle importers to progressively supply cleaner vehicles, from an average 175g of CO2/km in 2020, to 105g of CO2/km by 2025 or 2026, and progressive targets subsequently. • Japan achieved the 105g level in 2014 and Europe achieved it in 2020. • [redacted]	[redacted] $16.2 million (capex)
2	**Clean Car Discount**	• Low and zero emission vehicles cost more to manufacture than high-emission equivalents. This is due to the cost of batteries and other emission reduction technology. • This policy would apply a discount to all new and used low emission light vehicles under the value of $80,000, entering the New Zealand fleet for the first time.	$36.6 million (capex)
3	**Enhanced Clean Car Discount**	• This initiative would complement the above Clean Car Standard and Discount by further accelerating the purchase rates of electric vehicles. • It would allow, for example, a further discount of $5000 on 40,000 battery electric vehicles plus $2600 discount on 25,000 plugin hybrids.	$265 million (opex)
4	**Biofuels mandate**	• New Zealand lacks policies that reduce emissions in the vehicles already on our roads. • This initiative would oblige suppliers of petrol or diesel in New Zealand to also supply a minimum proportion of biofuels. • A percentage blend target and economic and environmental sustainability criteria would be set in advance of implementation.	$6 million (opex)
5	[redacted]	[redacted]	[redacted]
6	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
8	**Decarbonisation of the public transport bus fleet**	• Local government faces a range of barriers to decarbonising the public transport bus fleet. The Government has committed $50 million over four years to support regional councils to decarbonise. • This funding will support the manifesto commitments to require only zero emission public transport buses to be purchased by 2025 and decarbonisation of the public transport bus fleet by 2035.	$50 million (opex)

We have used a priority matrix to show which initiatives will be most effective

55 As requested in the letter from the Minister of Finance we have included a prioritisation matrix of our eight initiatives, including specific criteria to assess each initiative against.

56 Table 2 is ranked in order based on the outcome of the prioritisation, and the matrix is attached (Appendix 2).

Re-prioritisation options

57 Briefing OC200962 previously outlined the opportunities to investigate reprioritisation of funding within Vote Transport. We have undertaken further analysis of the funding within Vote Transport to provide you with options.

58 The Ministry could investigate several Crown funded initiatives within Vote Transport investigated and determine if they could be funded from the NLTF or from land transport revenue under section 9 of the Land Transport Management Act. The Ministry recommends that the appropriate funding source is reviewed through an alternate review cycle of the initiatives, rather than through this Budget 2021 process given the tight timeframes. The initiatives this includes are included in Table 3.

Table 3: Potential Vote Transport initiatives that could be funded through the NLTF

Initiative	Agency	20/21 $m	21/22 $m	22/23 $m	23/24 $m	24/25 $m
SuperGold Card	Waka Kotahi	31.143	31.143	31.143	31.143	31.143
Search and Rescue Activities	MNZ	3.231	3.231	3.231	3.231	3.231
Licensing Activities	Waka Kotahi	2.550	2.550	2.550	2.550	2.550
Crash Analysis	Waka Kotahi	0.775	0.775	0.775	0.775	0.775

59 The Ministry is currently scoping a review of the Super Gold Card scheme for 2021 and the appropriate funding source (e.g. Crown, NLTF), which could be included in this review. Given the primary purpose of the SuperGold Card scheme is to support and enhance older New Zealanders' community participation, the NLTF alone may not be the most appropriate funding source.

60 When determining whether to fund these initiatives through alternate sources, it is important to consider the current pressures on the NLTF. GPS 2021 may need to be revisited if new initiatives are to be funded through it. Even if the GPS allows the initiative, the Waka Kotahi Board needs to approve an initiative to be funded from the NLTF.

61 We have also reviewed the Vote Transport funding provided as part of the COVID-19 response to understand if any surplus funding is forecast.

62 One package relates to funding and loans for the NLTF to manage cost pressures and revenue shocks resulting from COVID-19. This also includes funding approved to cover settlement costs relating to COVID-19 for the Transmission Gully and Puhoi to Warkworth public-private partnerships.

63 When the funding for the NLTF was approved, there was uncertainty about the impact of COVID-19 and alert levels on land transport revenue for 2020/21. Actual land

transport revenue has been higher than forecast, and therefore surplus funding is available from this package of funding. Table 4 presents the forecast surplus.

Table 4: Approved COVID-19 funding initiatives and forecast surpluses

Initiative	**19/20 $m (actual)**	**20/21 $m (forecast)**	**Total forecast $m**	**Total approved $m**	**Forecast surplus $m**
Operating					
COVID-19 – NLTF Operating Cost Pressure and Revenue Shortfall Funding	-	488.700	488.700	740.700	252.000
Capital					
COVID-19 – NLTF Borrowing Facility	125.000	200.000	325.000	425.000	100.000
COVID-19 – NLTF Capital Cost Pressure Funding	-	-	-	19.000	19.000
Equity Injection to Waka Kotahi	-	126.000	135.000	135.000	9.000
Total	**125.000**	**814.700**	**948.700**	**1,319.700**	**380.000**

64 The forecast is based on the assumption that New Zealand remains at alert level 1 for the remainder of 2020/21.

65 The Ministry recommends that you signal around $250 million forecast underspend in your letter to the Minister of Finance on 29 January. This excludes the $100 million loans surplus as these do not impact Budget allowances, and also allows for a $30 million contingency to mitigate the risk that New Zealand does not remain at alert level 1 for the remainder of 2020/21.

66 We also recommend that you seek for this surplus to be reprioritised to cover a portion of funding sought through Budget 2021, offsetting similar cost pressures in the first instance.

67 The second package of funding we reviewed as part of the COVID-19 response relates to funding approved to purchase core services from the CAA, Avsec, MNZ, and Waka Kotahi, that are no longer able to be cost recovered from third parties as a result of COVID-19. This funding was approved to 30 June 2021 and the status of this funding is presented in Table 5.

Table 5: Approved COVID-19 revenue replacement facilities and forecast surpluses

Agency	**19/20 $m (actual)**	**20/21 $m (forecast)**	**Total forecast $m**	**Total approved $m**	**Forecast surplus $m**
Civil Aviation Authority	-	20.500	20.500	44.000	23.500
Maritime New Zealand	-	6.927	6.927	40.200	33.273
Aviation Security Service	13.000	87.800	100.800	152.400	51.600
Waka Kotahi	8.229	-	8.229	60.000	51.771
Total	**21.229**	**115.227**	**136.456**	**1,319.700**	**160.144**

68 As discussed from paragraph 5 above, CAA, Avsec, and MNZ are submitting Budget bids for further funding in 2021/22. We recommend that you signal the $160.144 million forecast underspend in your letter to the Minister of Finance on 29 January,

but seek to carry forward and re-prioritise this funding to cover these bids, as recommended above.

69 There are a number of other initiatives in Vote Transport that are being reviewed separately such as the New Zealand Upgrade Programme, and the Provincial Growth Fund that you will be provided separate advice on once those reviews are complete. There are significant cost escalations within the transport component of the New Zealand Upgrade Programme (NZUP). The Ministry is currently preparing advice recommending that projects are prioritised to fit within the Programme's fixed $6.8 billion capital envelope.

70 We will also continue to review other initiatives such as the Housing Infrastructure Fund, Accelerated Regional State Highways, and Maintaining an Electric Locomotive Fleet to ensure these initiatives are delivering on the outcomes agreed to by Cabinet. We will report to you separately on this if the Ministry has any concerns.

Parallel Cabinet papers seeking funding alongside Budget 2021

71 The Ministry is progressing Cabinet papers alongside the Budget 2021 process seeking significant Crown funding. The Waka Kotahi Regulatory Funding Update seeks an additional $50.000 million. The Ministry is seeking this funding outside of the standard budget process as the confirmation date of final approval for budget bids in May 2021 creates significant uncertainty over the funding of Waka Kotahi's regulatory function given the existing capital injections expire on 1 June 2021.

72 Cabinet will be also asked to make separate decisions on the future of two COVID-19 response programmes in the aviation sector – the International Airfreight Capacity Scheme and the Essential Transport Connectivity Scheme (which supports a number of domestic operators). These are being considered separately from Budget processes because if these schemes are to be continued in some form, additional funding will be required in the 2020/21 year.

Next Steps

73 We will seek your feedback on these proposed initiatives (summarised in Appendix 1) at the next Transport Officials Meeting on Tuesday 26 January. We can then incorporate your feedback before the Ministry submits initiatives to the Treasury on 29 January. We will also prepare a letter for you to submit to the Minister of Finance outlining the transport initiatives.

Table 1: Cost Pressure Budget Initiatives

Budget Initiative	Type of cost pressure	Funding sought ($m)	Ministry of Transport Comment
Maritime NZ (MNZ) Liquidity Funding • Carries forward MNZ's liquidity funding from 1 July 2021 to 30 June 2022 to meet the immediate cost/revenue pressures. • Maintains MNZ's core regulatory, compliance and response capability and performance, and funds seafarer welfare services (as would be required by the Regulatory Systems Transport Amendment Bill).	**COVID-19** • Resulting from decreases in levies revenue (e.g. from cruise ships). • The current funding expires in June 2021.	[redacted] No capital funding Withheld under section 9(2)(f)(iv) of the Official Information Act 1982	• The Ministry supports funding to maintain a flat baseline for one year, and additional funding for seafarer welfare costs. • This equates to scaled funding [redacted] to be carried forward in the multi-year appropriation (MYA). • [redacted]
Civil Aviation Authority (CAA) and AvSec Liquidity Funding • Maintains CAA's funding to fulfil the critical safety and security oversight functions required by domestic and international law. • Any less funding would result in the CAA being unable to properly fulfil its statutory obligations under both the Civil Aviation Act and the Crown Entities Act (s51 (1)(b)) and will not meet NZ's international civil aviation obligations.	**COVID-19** • Revenue is materially less than pre-COVID due to border restrictions. • The current Vote Transport multi-year appropriation expires in June 2021.	[redacted] No capital funding Withheld under section 9(2)(f)(iv) of the Official Information Act 1982	• The Ministry supports funding to maintain a flat baseline for one year to preserve current operations to the extent required without any reductions in headcount, and allow capacity for recovery. We do not support any additional FTE. • This equates to scaled funding of $22.7 million to be carried forward for CAA in the MYA, and no additional funding. $51.6 million to be carried forward for AvSec in the MYA, with an additional $39.35 million additional operating funding to offset forecast revenue shortfall. • We support a funding review in June 2021 to provide greater clarity around resourcing and funding levels, including new FTE and the long-term structure of CAA and AvSec.
Capital for regulatory and aviation security infrastructure (CAA) • Capital injection to upgrade aviation security infrastructure, the regulatory technology platform, and other critical infrastructure required for CAA to undertake its regulatory and aviation security role.	**COVID-19** • CAA has depleted its cash reserves and has insufficient future revenue to fund this investment.	No operating funding [redacted]	• The Ministry supports scaled funding of $105.3 million. • This amount provides capital injections for proceeding with upgrading aviation security infrastructure and the replacement and upgrade of CAA's regulatory technology platform. • [redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
Future of Rail - Investment in improved resilience and reliability of core assets • Maintains core commercial above rail assets (freight and tourism rolling stock, buildings and facilities and existing ferries and landside facilities) between 2021 and the arrival of new rolling stock and ferry assets. • Contributes to business continuity and future growth, reduces emissions and road deaths, and adds resilience to the land transport system. •	**Critical cost pressure** • Required to enable KiwiRail to continue to operate its commercial business.	No operating funding **$197.900m** capital funding: ➢ $90.000m in 2021/22 ➢ $63.800m in 2022/23 ➢ $44.100m in 2023/24	• This bid is consistent with the findings of the Future of Rail work. • As a commercial investment in KiwiRail, Treasury is responsible and will advise Shareholding Ministers separately.
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

Table 2: Manifesto Commitment bids

Budget Initiative	Manifesto Commitment	Funding sought ($m)	Ministry of Transport Comment
Future of Rail - Crown contribution to the NLTF to fund the rail network investment programme • Crown funding to the NLTF to enable it to fund the rail network investment programme at a resilient and reliable level. • Supports integration of below rail network investment into the GPS and NLTF.	The Manifesto commits to continue to invest in KiwiRail and rail.	**$771.800m** operating funding: ➢ $128.000m in 2022/23 ➢ $321.900m in 2023/24 ➢ $321.900m in 2024/25 and outyears No capital funding	• This bid is the core aspect of funding coming from the Future of Rail work. It is critical to enabling the rail network investment programme. • Without this funding, the NLTF will be unable to fund rail at a level that provides reliability and resilience. • This is our highest priority of the rail bids. • Securing ongoing operating funding for outyears would also provide significant long term certainty for KiwiRail and is a key aspect of this bid.
Future of Rail - Rolling Stock and Mechanical Depots • Long-term investment in KiwiRail to replace ageing locomotives and wagons and upgrade mechanical maintenance facilities to keep rail freight services operating. • Funds the installation of in-train safety systems for locomotives that enter the Wellington metro system and an investigation of electrification of the more heavily utilised routes.	The Manifesto commits to continue to invest in KiwiRail and rail.	No operating funding [redacted]	[redacted] • As a commercial investment in KiwiRail, Treasury is responsible for considering the commercial case for this investment and will advise Shareholding Ministers separately. Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
Future of Rail - New Interislander ferries • To replace the existing Interislander ships and landside facilities. • Builds on the funding provided in Budget 2019 and 2020 and largely reflects potential funding required for terminals and landside assets previously expected to be funded through port fees/third-party debt, and changes in cost estimates.	The Manifesto commits to continue to invest in KiwiRail and rail.	No operating funding **$565.000m** capital funding ➢ $3.900m in 2020/21 ➢ $7.600m in 2021/22 ➢ $40.700m in 2022/23 ➢ $152.600m in 2023/24 ➢ $265.000m in 2024/25 ➢ $95.200m in 2025/26	• This bid is consistent with the findings of the Future of Rail work. • As a commercial investment in KiwiRail, Treasury is responsible and will advise Shareholding Ministers separately. • Once a ship build contract is signed; the Crown will be committed to funding both the ship build and the land-side costs. • There is still significant uncertainty on the landside infrastructure costs, and we are still awaiting Business Cases and more accurate cost estimates. • KiwiRail is updating is finalised business cases, which need to be considered further before final recommendations are made.
Developing Domestic Rail Workshops • Funding to establish a local wagon assembly plant at Hillside. • It will increase employment, provide youth training opportunities, boost Otago's economy, and increase self-reliance of New Zealand for wagon assembly.	The Manifesto commits to "continue to invest in KiwiRail and to develop domestic rail workshops at places like Hillside and Woburn".	**$85.000m** operating funding ➢ $4.000m in 2020/21 ➢ $27.000m in 2021/22 ➢ $19.700m in 2022/23 ➢ $10.200m in 2023/24 ➢ $24.100m in 2024/25 and outyears No capital funding	• This bid is not part of the Future of Rail commitment to make rail resilient and reliable. • We do not support this bid because of constraints on Budget allowances, and consider that the other rail bids should be funded ahead of this one.

Table 3: Transport Climate Package bids

Budget Initiative	Funding sought ($m)	Ministry of Transport Comment
Clean Car Standard • New Zealand is one of only three OECD countries lacking vehicle fuel efficiency regulation. • Requirements will be developed for new vehicle distributors and used vehicle importers to supply cleaner vehicles by 2025 or 2026, and progressive targets subsequently. • Funding is required to implement the regulatory requirements.	[redacted] $16.200m capital funding: ➢ $4.050m in 2021/22 and outyears	• This is the core aspect of all of the environmental bids, and the highest priority in the package. • [redacted] • This policy is due to be considered by Cabinet 26 January 2021 — the funding is necessary to implement any decisions Cabinet makes. • [redacted]
Clean Car Discount • Low emission vehicles entering NZ will receive a discount and high emission vehicles will incur a fee. • Discounts for low emission vehicles along with implementation costs will be funded from fee revenue. • The bid is for non-departmental funding for Waka Kotahi to implement and administer the scheme.	No operating funding $36.600m capital funding: ➢ $36.600m in 2021/22	• This compounds the effectiveness of implementing a Clean Car Standard. • This is not an 'opt in' initiative as it is regulatory and therefore it will be more effective than the other initiatives. Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
Enhanced Clean Car Discount • To implement the Clean Car Discount at an accelerated pace (i.e. providing greater subsidies). This still requires the funding for the Clean Car Discount bid above. • This would make buying zero and low-emission vehicles closer to the price of a fossil fuel equivalent, leading to increased demand. • The accelerated discounts would end when the funding is exhausted.	$265.000m operating funding: ➢ $66.250m in 2021/22 and outyears	• This compounds the effectiveness of the above Clean Car Discount and Standard. • It is scalable depending on the extent to which the Government wishes to incentivise the import of zero and low-emission vehicles.
Biofuels mandate • To fund the administration costs relating to an obligation for suppliers of petrol or diesel in New Zealand to also supply a minimum proportion of biofuels. • A percentage blend target and economic and environmental sustainability criteria will be set in advance.	$6.000m operating funding: ➢ $1.500m in 2022/23 ➢ $1.500m in 2023/24 ➢ $3.000m in 2024/25 and outyears	• Unlike the other parts of this package, this initiative seeks to make a proportion of the existing vehicle fleet lower-emitting over time. • As a regulatory initiative the costs are relatively small to administer it. • This policy has in-principle Cabinet agreement.
[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982	[redacted]	[redacted]
Decarbonisation of the public transport bus fleet • Cabinet has agreed to $50 million over four years to decarbonise the public transport bus fleet. • This supports the commitment to require the purchase of only zero emission public transport buses by 2025 and decarbonisation of the public transport bus fleet by 2035.	$50.000m operating funding: ➢ $12.500m in 2021/22 and outyears	• This initiative removes cost barriers for councils to transition to a zero-emission bus fleet. • The public transport bus fleet is around one percent of the total vehicle emissions so the impact of this initiative on transport emissions is limited. • This policy has in principle Cabinet agreement.
[redacted]	[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982	[redacted]
[redacted]	[redacted]	[redacted]

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Appendix 2: Transport Climate Package prioritisation matrix

Prioritised Initiatives within the Transport Climate Change package					
Initiative	Criteria				Overall ranking with explanation ** These polices have Cabinet agreement (or in principle agreement) to proceed*
	Greatest short-term emissions reductions at least fiscal and economic cost	Starting action that can unlock future emission reductions in hard-to-abate sectors	Delivering on wider Government economic and social objectives	Take account of the ETS & other emissions pricing, non-spending regulatory options, & distributional impacts	
Legend: xxx contribute the strongest outcomes, xx contribute some outcomes, x contributes minimal outcomes					
Clean car standard	**xxx**	**xxx**	**xx**	**x**	**1** This initiative has been prioritised in this matrix because it starts New Zealand on a path of reducing emissions in our vehicles. Currently New Zealand is a dumping ground for high emitting vehicles and this initiative lays the foundation for reducing transport emissions from our vehicle fleet. Eventually this initiative could lead to the phasing of internal combustion engine imports. Also, light vehicles accounts for a significant proportion of transport emissions which means a Clean Car Standard has a significant potential impact in reducing transport emissions. ** This policy has Cabinet agreement (TBC 26 January 2021)*
Clean car discount	**xxx**	**xxx**	**xx**	**x**	**2** This initiative compounds the effectiveness of implementing a clean car standard. It addresses the large capital outlay that consumers face when purchasing an EV or other low emission vehicle. As above, light vehicles account for a big proportion of New Zealand's transport emissions and Clean Car Discount has a significant potential impact in reducing transport emissions. Also, this is not an 'opt in' initiative as it is regulatory and therefore it will be more effective than the other initiatives.
Enhanced clean car discount	**xx**	**xxx**	**xx**	**x**	**3** This initiative compounds the effectiveness of the above Clean Car Discount and Standard as it increases the initial rebate that purchasers of low emission vehicles would receive and will allow more vehicles to be purchased. This would increase the emissions reductions that implementing the Clean Car Standard would produce.
Biofuels mandate	**xx**	**xx**	**xx**	**xx**	**4** This initiative targets the existing vehicle fleet and enables that proportion of the fleet to gradually become lower-emitting over time. This is a regulatory initiative and is not expected to be costly. Once implemented a biofuel mandate would ramp up over time, increasing the scale of emissions reductions of the initiative. ** This policy has in principle Cabinet agreement.*
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

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Decarbonisation of the public transport bus fleet	**xx**	**xx**	**x**	**x**	**6** This initiative will contribute to removing barriers and making it easier for councils to transition to a zero-emission public transport bus fleet. The public transport bus fleet is around one percent of the total vehicle emissions so the impact of this initiative on transport emissions is limited. ** This policy has in principle Cabinet agreement.*
[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

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Document 4

Ministry of Transport
TE MANATŪ WAKA

BRIEFING

11 March 2021

OC210192

Hon Michael Wood
Minister of Transport

Action required by:
Monday, 15 March 2021

BUDGET 2021 - IMPLICATIONS OF INITIAL TREASURY ASSESSMENTS

Purpose

Inform you of the Treasury's initial assessment of Budget 2021 Vote Transport initiatives and the Ministry's position on the implications of these initial assessments.

Key points

- The Treasury has provided the Ministry with initial assessments of Vote Transport Budget 2021 initiatives to inform upcoming engagements with Climate Ministers and the Minister of Finance. These assessments are subject to Ministerial decision making and may be revised. Budget Ministers will have their third meeting in late March 2021, where they will aim to broadly confirm the Budget 2021 package.

- We understand that the Climate Ministers meeting on 16 March 2021 will provide you with an opportunity to discuss wider Vote Transport initiatives, alongside the Climate Package. You may wish to seek further opportunities to influence the final Vote Transport Budget Package or discuss it with the Minister of Finance.

- [redacted]. The assessment only supports funding to implement the Clean Car Standard, and indicates more work needs to be done before the other interventions are considered implementation-ready. [redacted] and funding is required to progress work to ensure that the suite of interventions are developed and implementation ready.

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- Out of the eight initiatives within the Transport Climate Package, four are either agreed or signalled by the Government: Clean Car Standard, Clean Car Discount, Biofuels Mandate, and Decarbonisation of the public transport bus fleet. The Enhanced Clean Car Discount is an initiative which would add to the effectiveness of the Clean Car Discount.

- The remaining three initiatives require further work before they are ready for implementation and therefore partial or contingent funding may be appropriate. However, it is key that the initial funding is recommended as delaying action will make it more difficult to meet our 2050 net zero target.

- The Transport Climate Package works across the transport system to reduce emissions. It was designed as a mutually reinforcing package, for instance dealing with all stages of the light vehicle fleet lifecycle, as well as addressing a just transition for New Zealand [redacted]

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- The Treasury has supported adequate liquidity funding for the Civil Aviation Authority, Aviation Security Service, and Maritime New Zealand for one year only. [redacted] The Treasury has also supported capital funding for essential investments in aviation security infrastructure and regulatory software replacement. It is important that these initiatives are not scaled further during the remainder of the Budget process.

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- [redacted]

Withheld under sections 9(2)(f)(iv) and 9(2)(g)(i) of the Official Information Act 1982

- [redacted]

[redacted]

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Tim Herbert
Manager, Investment,
Ministry of Transport

11 / 3 / 2021

Hon Michael Wood
Minister of Transport

..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Tim Herbert, Manager, Investment	[redacted]	
Tim Holland, Senior Advisor, Investment	[redacted]	✓

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BUDGET 2021 - IMPLICATIONS OF INITIAL TREASURY ASSESSMENTS

The Treasury has provided its initial assessments of Vote Transport Budget 2021 bids.

1 The Treasury has provided its initial assessments of Vote Transport Budget initiatives to the Ministry of Transport (the Ministry) to inform upcoming opportunities to discuss these with the Minister and Associate Ministers of Finance.

2 These initial assessments are the first stage of package formation. The Vote Team's assessments feed into internal moderation and package formation processes within the Treasury, which then presents draft packages to the Minister of Finance and Budget Ministers for their consideration.

3 We understand Budget Ministers will consider near-final packages in late March 2021. Following consideration by Budget Ministers, packages will continue to change slightly until the final Budget package is agreed by Cabinet. As such, the draft Budget package may change several times over the rest of the Budget process and you may be able to influence this.

4 You are attending a Climate Ministers' Meeting on Tuesday, 16 March 2021, where you may be able to discuss these initial assessments. We understand this meeting will provide an opportunity to the wider Vote Transport package, not just the Climate Package. You may be able to request further opportunities to discuss Vote Transport Budget initiatives with Finance and Budget Ministers.

5 Appendix One contains more detailed information regarding Vote Transport Budget initiatives, Treasury's initial assessment, the Ministry's position on the implications of the recommended funding amounts, and talking points for you to consider raising with the Minister of Finance.

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[redacted]

The Vote Team's assessment only supports funding to implement the Clean Car Standard, and indicates more work needs to be done before the other interventions are considered implementation-ready.

6 The Treasury's assessment states that the key decision on the package is how quickly Ministers want to move to address transport emissions. The assessment also indicates concern at the implementation readiness of initiatives in the package, noting some initiatives are well developed and underpinned by strong evidence, while some are less developed. The Treasury recommends that the remaining components are deferred across the Government's term to enable further policy and implementation work to be completed.

[redacted]

7 [redacted]

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8 The Ministry acknowledges that the implementation readiness of these initiatives is mixed. However, funding is required to progress these interventions to a more advanced state if they are to be implemented in time to meet ambitious emissions targets. [redacted]

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9 As a result, the Ministry would only be funded to implement the Clean Car Standard (the Standard). The Ministry and Waka Kotahi do not have discretionary resources to continue implementation of a clean car incentive/discount, which the Prime Minister and you have already announced your intention to introduce and make further announcements on mid-year. The Clean Car discount base option involves a Crown loan, which will have no call on allowances if it is repaid within 10 years. The commitment to decarbonise the public transport bus fleet would also be impacted by lack of funding.

10 There would be limited scope to develop further new work beyond the Standard, biofuels mandate and work to develop the transport response to the CCC and the Emissions Reduction Plan. [redacted]

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11 We note that the Government has publicly announced it will implement the Standard. In addition to this, the Government has signalled its intention to introduce some form of Clean Car Discount, agreed in-principle to a biofuels mandate, and noted its support for funding the public transport bus decarbonisation bid.

12 Depending on your priorities, the Ministry recommends you seek more funding to implement most of the package to assist with meeting emissions reductions targets, noting our ranking of initiatives based on their assessed effectiveness. We have included comments about potential scaling opportunities in Appendix One you, which you may wish to raise with Climate Ministers and the Minister of Finance.

The initial assessment of Transport Border Sector cost pressures is broadly consistent with the Ministry's position.

13 The Vote Team has supported sufficient available liquidity funding for the Civil Aviation Authority (CAA), Aviation Security Service (Avsec) and Maritime New Zealand to continue operations for 2021/22 only, without a reduction in capability. [redacted].

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14 It is critical that liquidity funding is not scaled further. The additional funding requested on top of carry-forwards within the multi-year appropriation. It represents a relatively small call on Budget 2021 allowances ($20.7 million). Further scaling is likely to result in reductions in headcount, which would ultimately degrade capability and lead to significant regulatory, security, and safety risks across the sector. Reductions in headcount would result in upfront redundancy costs (which CAA has provided evidence of), negating any short-term savings.

15 CAA/Avsec in particular have indicated that reductions in headcount are not consistent with supporting recovery from COVID-19, of which aviation recovery will be a critical and complex component.

16 The appropriate time to consider ongoing Crown support from 2022/23 onwards is through a funding review, to be considered by Cabinet following a report-back in July 2021.

17 The Treasury has supported full capital funding for CAA/Avsec to proceed with Cabinet-agreed investments into an aviation security infrastructure upgrade and a new regulatory IT platform. There is effectively no scope to scale these amounts, given the need for CAA/Avsec to enter into contracts. Deferring the security infrastructure upgrade will create significant additional costs, as it is essentially an international requirement and will need to be funded at some stage.

[redacted]

18 [redacted]

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19 [redacted]

[redacted]

[redacted]

20 [redacted]

21 [redacted]

[redacted]

22 [redacted]

23 The Treasury has recommended only two further years of funding, to allow for the RNIP to be fully funded over its three year period. It has not provided operating funding that extends into out-years as requested (and is therefore confirmed in the baseline on an ongoing basis).

24 [redacted] The Future of Rail did not intend for the NLTF to become the sole funding source for the rail network. [redacted] This is likely to require increases in RUC and FED or future reduction in other land transport projects.

25 KiwiRail has put forward a proposal to scale the bid down to zero for the Budget 2021 allowance, by charging the funding against future Budget allowances instead. This is not common practice and, depending on the nature of the pre-commitment, may commit future Governments and constrain trade-offs. Conversely, it may also actually provide less real funding certainty than appropriating funding into baselines and out-years on an ongoing basis through Budget 2021.

26 However, the Ministry can see merit in considering this further given the long-term commitment that the RNIP represents. It would remove the three-year impact on Budget 2021 by spreading the impact across future Budgets. This recognises the ongoing commitment to deliver transport investments by providing infrastructure pipeline certainty for the below rail network (as the above rail operation will become self-sustaining in the medium term). You may wish to discuss this with the Minister of Finance.

27 An alternative approach could be to provide a lower level of out-years funding this year to reduce the impact on budget allowances, and then seek to increase it next year. This would support a long-term funding approach for the rail network, but reduce the impact on Budget allowances.

28 We recommend that you raise these options with the Minister of Finance.

KiwiRail has also put forward scaling options for both the i-Rex bid and the rolling stock and mechanical depots bids

29 KiwiRail has proposed a scaled option for the i-Rex bid, taking the bid down from $565 million to $257 million (and the total programme down from $1.758 billion to $1.450 billion). We are aware that Ministers have met to discuss concerns over the robustness of the current estimates and the incomplete business case. A letter has been prepared by the Treasury to seek further assurance around expected funding

and that all costs (including those to other parties and for road and rail assets) are being considered. We await the outcome of that process.

30 The Ministry is still concerned about the robustness of cost estimates and whether the full transport costs for landside assets have been included. There is a risk that costs could be shifted into later years and continue to escalate. We also remain concerned about the potential competition aspects of the investment. We consider Ministers should seek advice on what the broader implications are of the Crown subsidising KiwiRail's commercial position in the market from the Ministry of Business, Innovation, and Employment.

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31 KiwiRail has also put forward a scaling option for the rolling stock and mechanical depots bid. It brings the bid down from [redacted]. The scaling option is based on moving [redacted] for the DF locomotives procurement into future budgets and removing a [redacted] foreign exchange contingency.

Table 1: Cost Pressure Budget Initiatives

Budget Initiative (Cost Pressure Type)	Funding sought ($m)	Initial Treasury Assessment/comment	Ministry position – implications/talking points
Maritime NZ (MNZ) Liquidity Funding (COVID-19 cost pressure) • Carries forward MNZ's liquidity funding from 1 July 2021 to 30 June 2022 to meet the immediate cost/revenue pressures. • Maintains MNZ's core regulatory, compliance and response capability and performance, and funds seafarer welfare services (as would be required by the Regulatory Systems Transport Amendment Bill).	**$16.3m** operating funding: ➢ $16.3m in 2021/22 No capital funding	• Recommends a carry-forward of **$14.8 million** within the *Protection of Transport Sector Agency Core Functions* multi-year appropriation to be made available as liquidity funding. • Scales out contingency funding for out-years and additional funding for seafarer welfare (as Cabinet has already approved funding in 2021/22 through the liquidity facility [CBC-21-MIN-0021 refers]) • Re-allocates the remaining portion of MNZ tagged funding within the MYA to CAA/AVSEC's cost pressure bid.	• The Ministry supported funding to maintain a flat baseline for one year, and additional funding for seafarer welfare costs. • The Treasury's funding assessment achieves the objective of maintaining MNZ's operations for one year only without material reductions and capability or redundancies. • This assessment should not be scaled further. If Border Agency liquidity funding is scaled further during the Budget Process, it will lead to reductions in workforce and capability. This will create considerable risk of regulatory failure and result in very marginal savings, if any, after redundancy costs.
Civil Aviation Authority (CAA) and AvSec Liquidity Funding • Maintains CAA's funding to fulfil the critical safety and security oversight functions required by domestic and international law. • Any less funding would result in the CAA being unable to properly fulfil its statutory obligations under both the Civil Aviation Act and the Crown Entities Act (s51 (1)(b)) and will not meet NZ's international civil aviation obligations.	**$114.3m** operating funding: ➢ $114.3m in 2021/22 No capital funding	• Recognises this as a critical cost pressure that requires funding within this financial year. • Recommends a **carry-forward of $93.6 million** in the *Protection of Transport Sector Agency Core Functions* multi-year appropriation. • Recommends **reprioritisation of $18.5 million** from MNZ's tagged funding within the MYA. • Recommends an **additional $20.7 million** from the operating allowance, **providing a total of $114.3 million of available liquidity funding until the end of 2021/22.**	• The Ministry supported funding to maintain a flat baseline for one year to preserve current operations to the extent required without any reductions in headcount, and allow capacity for recovery. • This initial assessment preserves CAA/Avsec's capability for another year. A lower level of funding would lead to significant redundancies across all of CAA/Avsec's business (at significant cost, negating any real savings). This amount preserves CAA/Avsec's ability to effectively perform its regulatory functions, provide essential safety and security services, effectively administer travel bubbles and continue its response to COVID-19, and retains essential capacity to support the COVID-19 recovery. • If Border Agency liquidity funding is scaled further during the Budget Process, it will lead to reductions in workforce and capability. This will create considerable risk of regulatory failure and result in very marginal savings, if any, after redundancy costs. • Any reductions in CAA/Avsec's capability will adversely impact their ability to support the recovery from COVID-19, of which aviation recovery will be a critical and complex component. • The appropriate time to consider ongoing Crown support from 2022/23 onwards is through a funding review, to be considered by Cabinet following a report-back in July 2021.
Capital for regulatory and aviation security infrastructure (CAA) • Capital injection to upgrade aviation security infrastructure, the regulatory technology platform (EMPIC), and other critical infrastructure required for CAA to undertake its regulatory and aviation security role.	No operating funding [redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982	• Recommends **full capital funding of $88.8 million** for Avsec security infrastructure upgrades. • Recommends **full capital funding of $16.4 million** for EMPIC regulatory platform. • Recommends **scaled capital funding of $8.0 million** for critical ICT and HR system replacements, providing a total of $113.219 million in capital	• This funding assessment provides adequate capital funding, in place of Crown loans, for CAA/Avsec to proceed with Cabinet-agreed investments. • There is limited scope to scale the security infrastructure upgrade and EMPIC investment, given the need for CAA/Avsec to enter into contracts. • Deferring the security infrastructure upgrade will create significant additional costs, as it is essentially an international requirement and will need to be funded at some stage. • Deferring the EMPIC investment will prolong significant information security and regulatory risks for CAA.
[redacted]	[redacted]	[redacted]	[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
[redacted]	[redacted]	[redacted]	

Table 2: KiwiRail Budget Initiatives				
Budget Initiative	**Funding sought ($m)**	**Initial Treasury Assessment and Comment as at 4 March 2021**	**KiwiRail Scaling Options as at 10 March 2021**	**Ministry position – implications and talking points**
Future of Rail - Crown contribution to the NLTF to fund the rail network investment programme • Crown funding to the NLTF to enable it to fund the rail network investment programme at a resilient and reliable level. • Supports integration of below rail network investment into the GPS and NLTF.	**$771.800m** operating funding: ➢ $128.000m in 2022/23 ➢ $321.900m in 2023/24 ➢ $321.900m in 2024/25 and outyears No capital funding	$449.9 million operating • $128 million in 2022/34 • $321.9 million in 2023/24	KiwiRail has recommended that the initiative is charged against future Budget allowances to recognise the long-term commitment that the RNIP represents, which it considers reduces the initiative to zero for this Budget allowance, but commits future budget allowances. Withheld under section 9(2)(g)(i) of the Official Information Act 1982	• [redacted]. The Treasury has recommended only two further years of funding, to allow for the RNIP to be fully funded over its three year period. It has not provided out-years baseline funding as requested. • [redacted] • The Future of Rail did not intend for the NLTF to become the sole funding source for the rail network. [redacted] This is likely to require increases in RUC and FED or reduction in other land transport projects in future. • [redacted] • KiwiRail's proposal to scale the bid is to charge it against future Budget allowances is not common practice. It is something the Treasury will need to consider. • An alternative approach could be to provide a lower level of out-years funding this year to reduce the impact on budget allowances, and seek to increase it next year. This would support a long-term funding approach for the rail network.
Future of Rail - Rolling Stock and Mechanical Depots • Long-term investment in KiwiRail to replace ageing locomotives and wagons and upgrade mechanical maintenance facilities to keep rail freight services operating. • Funds the installation of in-train safety systems for locomotives that enter the Wellington metro system and an investigation of electrification of the more heavily utilised routes.	No operating funding [redacted]	$722.7 million capital: ➢ $1.2 million in 2021/22 ➢ $133.95 million in 2022/23 ➢ $364.85 million in 2023/24 ➢ $128.25 million in 2024/25 ➢ $93.65 million in 2025/26 ➢ $0.8 million in 2026/27	[redacted]	[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
Future of Rail - New Interislander ferries • To replace the existing Interislander ships and landside facilities. • Builds on the funding provided in Budget 2019 and 2020 and largely reflects potential funding required for terminals and landside assets previously expected to be funded through port fees/third-party debt, and changes in cost estimates.	No operating funding **$565.000m** capital funding ➢ $3.900m in 2020/21 ➢ $7.600m in 2021/22 ➢ $40.700m in 2022/23 ➢ $152.600m in 2023/24 ➢ $265.000m in 2024/25 ➢ $95.200m in 2025/26	No funding.	$257 million capital funding	• We agree that the funding for this project should be deferred in line with the Treasury's assessment. However, we note that Shareholding Ministers do not wish to defer the project to next year. KiwiRail has proposed a scaled option for the i-Rex bid, taking the bid down to $257 million (and the total programme down from $1.758 billion to $1.450 billion). • The Ministry is still concerned about the robustness of cost estimates and whether the full transport costs for landside assets have been included. There is a risk that costs could be shifted into later years and continue to escalate. • We remain concerned about the potential competition aspects of the investment. We consider Ministers should seek advice on what the broader implications are of the Crown subsidising KiwiRail's commercial position in the market from the Ministry of Business, Innovation and Employment.
Developing Domestic Rail Workshops • Funding to establish a local wagon assembly plant at Hillside. • It will increase employment, provide youth training opportunities, boost Otago's economy, and increase self-reliance of New Zealand for wagon assembly.	**$85.000m** operating funding ➢ $4.000m in 2020/21 ➢ $27.000m in 2021/22 ➢ $19.700m in 2022/23 ➢ $10.200m in 2023/24 ➢ $24.100m in 2024/25 and outyears No capital funding	No funding.		• No comment from the Ministry. Aligns with our advice. However, we note that Ministers wish to pursue this as it is a manifesto commitment.
Future of Rail - Investment in improved resilience and reliability of core assets • Maintains core commercial above rail assets (freight and tourism rolling stock, buildings and facilities and existing ferries and landside facilities) between 2021 and the arrival of new rolling stock and ferry assets. • Contributes to business continuity and future growth, reduces emissions and road deaths, and adds resilience to the land transport system.	No operating funding **$197.900m** capital funding: ➢ $90.000m in 2021/22 ➢ $63.800m in 2022/23 ➢ $44.100m in 2023/24	Recommends **scaled funding of $87.3 million** ➢ $57.2 million in 2021/22 ➢ $23.3 million in 2022/23 ➢ $6.8 million in 2023/24 Notes that this was scaling option provided by KiwiRail. This scaled amount focuses on essential maintenance of core assets to maintain current levels of service. Does not include the development of assets through new property purchases.	$117.9 million capital funding	• The Treasury has noted that this is inline with KiwiRail's scaled option; however, this does not align with the latest scaled option provided to the Treasury and the Ministry. • The Ministry supports scaling which excludes items beyond the resilient and reliable scenario agreed to through the Future of Rail review, which KiwiRail has revised the bid down to $117.9 million.

Table 3: Transport Climate Package bids

Budget Initiative	Funding sought ($m)	Initial Treasury Assessment and Comments	Ministry of Transport Comment
Clean Car Standard • New Zealand is one of only three OECD countries lacking vehicle fuel efficiency regulation. • Requirements will be developed for new vehicle distributors and used vehicle importers to supply cleaner vehicles by 2025 or 2026, and progressive targets subsequently. • Funding is required to implement the regulatory requirements.	[redacted] **$16.220m** capital funding: ➢ $10.590m in 2021/22 ➢ $5.630m in 2022/23	Provides scaled funding of [redacted] $16.200 million capital funding [redacted]	**The Clean Car Standard funding has been agreed by Cabinet and publicly announced;** [redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
Clean Car Discount • Low emission vehicles entering NZ will receive a discount and high emission vehicles will incur a fee. • Discounts for low emission vehicles along with implementation costs will be funded from fee revenue. • The bid is for non-departmental funding for Waka Kotahi to implement and administer the scheme.	No operating funding **$36.600m** capital funding: ➢ $36.600m in 2021/22		**The Clean Car Discount has been publicly signalled by the PM; policy decisions are imminent and this bid is not scalable** • Government has not yet agreed to progress the Clean Car Discount, however you have publicly signalled your intention to make announcements about incentivising uptake of low emission vehicles in coming months. A rebate for clean vehicles is internationally recognised as a revenue neutral and cost-effective way of reducing transport emissions and is a recommended action in the draft advice from the Climate Change Commission. • Policy development is well advanced and ongoing. You will soon receive a briefing asking you to decide on some options to progress a Clean Car Discount [refer OC210131]. • Depending on how you choose to progress the Clean Car Discount, providing rebates to clean cars may not require legislative change and could begin soon after Budget funding is approved, from July 2021. However, this bid is not scalable.
Enhanced Clean Car Discount • To implement the Clean Car Discount at an accelerated pace (i.e. providing greater subsidies). This still requires the funding for the Clean Car Discount bid above. • This would make buying zero and low-emission vehicles closer to the price of a fossil fuel equivalent, leading to increased demand. • The accelerated discounts would end when the funding is exhausted.	**$265.000m** operating funding: ➢ $66.250m in 2021/22 and outyears *(could be set up as a loan repayable to the Crown)*	• **No funding supported by Treasury for these initiatives.** • Treasury is concerned with the implementation readiness of the initiatives. • There is more work to be done on some initiatives, however the need for them and their urgency is not in doubt, and there are resource implications for designing and piloting them. • The Ministry considers The Clean Car Discount and Biofuels mandate initiatives to be relatively well advanced, negating the Treasury's concern.	**The Enhanced Clean Car Discount would enhance the effectiveness of the Clean Car Discount; the increased funding could be designed as a repayable loan to the Crown, while achieving a similar effect.** • If the Government agrees to implement the above Clean Car Discount, then the Enhanced Clean Car Discount would provide discretionary additional benefit. It would help to kick-start the uptake of low emission vehicles if used to enhance the rebate to people buying low emission vehicles. • If the Enhanced Clean Car Discount funding is designed so that it exempts high emission vehicles from fees for the first year it would have a negative effect on the emissions reduction potential of the Discount • The Enhanced Clean Car Discount could be designed as a repayable loan to Crown.
Biofuels mandate • To fund the administration costs relating to an obligation for suppliers of petrol or diesel in New Zealand to also supply a minimum proportion of biofuels. • A percentage blend target and economic and environmental sustainability criteria will be set in advance.	**$6.000m** operating funding: ➢ $1.500m in 2022/23 ➢ $1.500m in 2023/24 ➢ $3.000m in 2024/25 and outyears		**We are asking for the Biofuels mandate funding to begin in 2022/2023** • The Government has agreed in-principle to a biofuels mandate. The Ministry is working on a Cabinet paper and discussion document, due to Cabinet within the next month laying out how a biofuel mandated would be implemented. • There may be scope to defer this funding until the next Budget round, depending on how quickly the Government wants to implement the mandate. Funding supports the systems required to implement and monitor a new mandate.
[redacted]	[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982		[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
Decarbonisation of the public transport bus fleet • Cabinet has noted the government's commitment to provide (and the Government has announced) $50 million over four years to decarbonise the public transport bus fleet. • This supports the commitment to require the purchase of only zero emission public transport buses by 2025 and decarbonisation of the public transport bus fleet by 2035.	**$50.000m** operating funding: ➢ $12.500m in 2021/22 and outyears		**Cabinet has noted it would support a $50 million fund over four years to decarbonise the public transport bus fleet; this bid is not scalable** • In [CBC-20-MIN-0118] Cabinet has noted the government's commitment to support regional councils to decarbonise public transport bus fleets through a $50 million fund over four years. • Without the funding it is unlikely that councils can achieve the 2025 mandate and the 2035 target. • This initiative seeks to reduce cost barriers for councils to transition to a zero-emission bus fleet. • The public transport bus fleet is around 1% of the total vehicle emissions so the impact on transport emissions is limited. The projected annual emission reduction from a zero emission bus fleet by 2035 is estimated to be between 150,000 and 189,000 tonnes of carbon dioxide equivalent (CO2-e). The cumulative impact of decarbonising the fleet by 2035 is estimated to be a 3.0 to 4.5 million tonnes CO2-e reduction in emissions by 2050. • Moving towards a zero-emission fleet will improve the liveability of our urban environments and deliver real health benefits by significantly reducing the levels of urban air pollution.

Table 3: Transport Climate Package bids			
Budget Initiative	**Funding sought ($m)**	**Initial Treasury Assessment and Comments**	**Ministry of Transport Comment**
[redacted]	[redacted]		[redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982
[redacted]	[redacted]		[redacted]

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

Ministry of Transport
TE MANATŪ WAKA

BRIEFING

17 March 2021

OC210217

Hon Michael Wood
Minister of Transport

Action required by:
Wednesday, 17 March 2021

BUDGET 2021 - ADDITIONAL INFORMATION ON KIWIRAIL BUDGET BIDS

Purpose

We understand that the Minister of Finance would like to discuss with you the Budget 2021 KiwiRail bids. Your office asked for some further information to clarify the potential scaling options for the bids.

Key points

- We have worked with the Treasury and KiwiRail to clarify and confirm inconsistencies in the scaling options of different pieces of advice being put to Ministers on the Budget 2021 rail bids. Attached is an updated table noting the differences and the Ministry's recommended scaling option for each of the bids.

- We note that the inconsistencies in the scaling options relate to the rolling stock, mechanical depots, and the investment in resilient and reliable core assets. The changes were a result of KiwiRail putting forward further advice on scaling options at its meeting with you on 8 March 2021. These options differed from the original scaling options in the bids as submitted to the Treasury.

- KiwiRail has undertaken further work to provide Ministers with scaling options of the bids. The revised scaling options provided by KiwiRail are based on a better understanding of its costs and the implications of scaling.

- Based on the further discussions we recommend the following scaling options are considered:

  - **Future of Rail - Crown contribution to the National Land Transport Fund to fund the rail network investment programme ($771.8m operating funding as originally sought) – *No scaling*.** Any scaling below the funding sought will not meet the Government's commitment to a resilient and reliable rail network.

  - **Future of Rail - Rolling Stock and Mechanical *Depots (*[redacted] *capital funding originally sought) – support scaling of*** [redacted]

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- **Future of Rail - New Interislander ferries ($565.0m capital funding originally sought) –** ***no view at this stage.*** We are awaiting further information from KiwiRail, as requested by Shareholding Ministers.

- **Developing Domestic Rail Workshops ($85.0m operating funding originally sought) –** ***no further view on scaling.*** We note that Ministers wish to pursue this bid.

- **Future of Rail - Investment in improved resilience and reliability of core assets ($197.9m capital funding originally sought) –** ***supports scaling of $95.6m down to $102.3m.*** The Ministry supports scaling of this bid to align it with the resilient and reliable scenario agreed in principle by Cabinet [DEV-19-MIN-0123 refers]. The original bid contained additional investment in property acquisition which was beyond the resilient and reliable scenario.

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- [redacted] Treasury's proposal to not provide Crown funding into out-years for the National Land Transport Fund (NLTF). The Treasury's advice is to only provide funding for the remaining years of the first Rail Network Investment Programme (RNIP), which is a total at $449.9m operating funding (for 2022/23 and 2023/24 only).

- [redacted]

- The Ministry does not support any scaling of this bid, as scaling means potentially putting the rail network back into managed decline in outyears or seeking more funding from the NLTF. Further details are outlined in the briefing.

Recommendations

We recommend you:

1 **discuss** the Ministry's advice on proposed scaling options of the rail bids with the Minister of Finance. Yes / No

Erin Wynne
Director, Rail Transformation

..... / ...... / ......

Hon Michael Wood
Minister of Transport

..... / ...... / ......

Minister's office to complete:

☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

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Contacts

Name	Telephone	First contact
Joanna Heard, Principal Advisor	[redacted]	✓
Erin Wynne, Director, Rail Transformation	[redacted]	

BUDGET 2021 - ADDITIONAL INFORMATION ON RAIL BUDGET BIDS

Clarifying scaling options

1 The Ministry has engaged with Treasury and KiwiRail to clarify the different scaling options that have been put forward to Ministers through the Budget 2021 process.

2 We are aware that the different scaling options are a result of KiwiRail providing further advice to you at your meeting on 8 March 2021, which differed from the scaling options put forward in the original bids. The revised scaling options put forward by KiwiRail were the result of further work it has undertaken to understand its costs and the implications of scaling options.

3 The differences in scaling options relate to the rolling stock and mechanical depot and the investment in resilient and reliable core assets. The Ministry has worked with the Treasury and KiwiRail to understand the differences. Our views are noted in Annex One and discussed further below.

Scaling of rolling stock and mechanical depots ([redacted] capital funding originally sought)

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4 The Ministry supports reducing the original bid by [redacted] This is in line with KiwiRail's recommended scaling option put forward on 8 March 2021.

5 [redacted]

6 The importance on continuing to fund the rolling stock programme was demonstrated earlier this year with the significant congestion in New Zealand's supply chains. KiwiRail was called upon to increase its capacity in the short term, but was limited due to constraints on rolling stock. KiwiRail was forced to try and buy or lease older, less efficient, stock from the tourism and heritage sector. Old rolling stock has increased maintenance hours and therefore its capacity is lower.

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7 [redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

8 [redacted]

[redacted]

9 We thought this should be drawn to Ministers attention.

Scaling of investment in improved resilience and reliability of core assets ($197.9 m capital funding originally sought)

10 The Ministry supports scaling this option to $102.3m. The Ministry considers that this aligns with the resilient and reliable scenario. KiwiRail's originally scaling option was to reduce the bid to $87.3m. In March 2021, KiwiRail proposed that the initiative be scaled down to $117m. The Ministry's option differs from both KiwiRail's proposed options.

11 KiwiRail's original scaling proposal removed the total funding required for property activities, including necessary land acquisitions which will occur in the normal course of business (e.g. where land is acquired from Land Information New Zealand or Waka Kotahi) worth $10m per year. In addition, it did not net off the impact of not realising the new revenue enabled by the property developments (worth $15m over the forecast period and noted in the initiative).

12 Given this, KiwiRail propose a smaller scaling option which removes the property development activities, nets off the unrealised revenues, and retains $5m per year to enable land acquisitions to support maintenance activities and safety outcomes. It supports KiwiRail to be self-sustainability from 2024/25 and to retain some funds to progress necessary land acquisitions for the rail network.

13 The Ministry supports the scaled down land acquisitions for maintenance and safety outcomes, but the does not support KiwiRail netting off the unrealised property revenues of $14.7m. While we appreciate that it will support KiwiRail to be self-sustaining over a three year period, we do not consider that funding lost earnings is part of the resilient and reliable scenario. This is likely to mean that KiwiRail will seek further funding from future Budgets or will impact on other capital investment expected by the Government.

[redacted]

14 The Ministry does not support scaling of the bid for the Crown contribution to the NLTF to fund the rail network investment programme. Any scaling below the original funding sought of $771.8m (operating) [redacted] will require further funding from the NLTF in outyears.

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15 [redacted] It is also central to the Rail Plan which you are about to release. The Treasury has recommended only two further years of funding, to allow for the RNIP to be fully funded over its three year period. It has not provided

operating funding that extends into out-years as requested. This means that ongoing baseline funding for the rail network will not be committed.

16 [redacted] The Future of Rail did not intend for the NLTF to become the sole funding source for the rail network. [redacted] This is likely to require increases in Road User Charge and Fuel Excise Duty or significant reprioritisation for other land transport activities.

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17 The proposed funding is based on developing a detailed long-term asset management programme for KiwiRail to address a backlog of renewal work and achieve a resilient and reliable rail network. Further information will be provided on the programme as part of the Minister of Transport's approval of the RNIP, in consultation with Shareholding Ministers. We would recommend that any funding is contingent on the Minister approving the RNIP.

18 The Ministry is aware that KiwiRail is scaling up its capability and capacity to deliver the increased rail network investment. It has invested in new asset management capability and capacity to develop and deliver an improved network programme overtime, and improve its transparency. The Ministry will also work with KiwiRail to put in place a new monitoring approach across the resilient and reliable rail programmes, modelled on the New Zealand Upgrade Programme approach. This will help test and track any issues with delivery of the resilient and reliable scenario overtime.

19 In March, KiwiRail put forward a proposal to scale the bid down to zero for the Budget 2021 allowance by charging the funding against future Budget allowances instead. This is not common practice and, depending on the nature of the pre-commitment, may commit future Governments and constrain trade-offs. Conversely, it may also actually provide less real funding certainty than appropriating funding into baselines and out-years on an ongoing basis through Budget 2021.

20 However, the Ministry can see merit in considering this further given the long-term commitment that the RNIP represents. It would remove the three-year impact on Budget 2021 by spreading the impact across future Budgets. This recognises the ongoing commitment to deliver transport investments by providing infrastructure pipeline certainty for the below rail network (as the above rail operation will become self-sustaining in the medium term). You may wish to discuss this with the Minister of Finance.

21 If Ministers are concerned with the impact on Budget allowances, an alternative approach could be to provide a lower level of overall funding through Budget 2021, including out-years. KiwiRail would then need to seek additional operating funding in future Budgets. This would support a long-term funding approach for the rail network, but spread the impact on Budget allowances.

22 This approach is likely to create significant uncertainty for KiwiRail in the short-term. It will impact on KiwiRail's ability to commit to scaling-up its delivery of its maintenance and renewal programme, and achieving the Government's outcomes for the network. KiwiRail will be unable to scale up its workforce if only short-term funding at a lower

level is committed. It will also creates difficulties with signing off a 3 year RNIP by 1 July 2021. KiwiRail does not support this option.

23 If Ministers wish to pursue this option, we recommend you direct the Ministry and Treasury to work with KiwiRail to develop revised funding options that continue into out-years and report back to you.

Annex 1

Table 2: KiwiRail Budget Initiatives

Budget Initiative	Funding sought ($m)	Initial Treasury Assessment and Comment as at 4 March 2021	KiwiRail Scaling Options as at March 2021	Ministry position – implications and talking points
Future of Rail - Crown contribution to the NLTF to fund the rail network investment programme • Crown funding to the NLTF to enable it to fund the rail network investment programme at a resilient and reliable level. • Supports integration of below rail network investment into the GPS and NLTF.	**$771.8m** operating funding: ➢ $128.0m in 2022/23 ➢ $321.9m in 2023/24 ➢ $321.9m in 2024/25 and outyears No capital funding	$449.9 million operating • $128 million in 2022/23 • $321.9 million in 2023/24	KiwiRail has recommended that the initiative is charged against future Budget allowances to recognise the long-term commitment that the RNIP represents, which it considers reduces the initiative to zero for this Budget allowance, but commits future budget allowances.	• The Ministry does not recommend scaling. [redacted] • The Ministry is aware that KiwiRail is scaling up its capability and capacity to deliver the increased rail network investment. It has invested in new asset management capability and capacity to develop and deliver an improved network programme overtime, and improve its transparency. The Ministry will also with work with KiwiRail to develop an NZUP like monitoring approach of the resilient and reliable scenario. • [redacted] The Treasury has recommended only two further years of funding, to allow for the RNIP to be fully funded over its three year period. It has not provided out-years baseline funding as requested. • [redacted] • The Future of Rail did not intend for the NLTF to become the sole funding source for the rail network. [redacted]. This is likely to require increases in RUC and FED or reprioritisation of other land transport activities. • We also note that this approach does not align with the fundamental outcomes of the Future of Rail review to provide long-term sustainable funding for the rail network. It also potentially risks putting the rail network back into managed decline in later years. • KiwiRail's proposal to scale the bid is to charge it against future Budget allowances is not common practice. It is something the Treasury will need to consider. • An alternative approach could be to provide a lower level of out-years funding this year to reduce the impact on budget allowances, and seek to increase it next year. This would support a long-term funding approach for the rail network. • If Minister's wish to pursue this option, we recommend you direct the Ministry and Treasury to develop revised funding options that continue into out-years and report back to you. • We note that KiwiRail does not support this option. It will create significant uncertainty for KiwiRail and will not allow it to scale up its maintenance and renewal programme to support the Government's outcomes. It will also creates issues with signing off the 3-year RNIP by 1 July.
Future of Rail - Rolling Stock and Mechanical Depots • Long-term investment in KiwiRail to replace ageing locomotives and wagons and upgrade mechanical maintenance facilities to keep rail freight services operating. • Funds the installation of in-train safety systems for locomotives that enter the Wellington metro system and an investigation of electrification of the more heavily utilised routes.	No operating funding [redacted] Withheld under section 9(2)(f)(iv) of the Official Information Act 1982	$722.7m capital: ➢ $1.2m in 2021/22 ➢ $133.95m in 2022/23 ➢ $364.85m in 2023/24 ➢ $128.25m in 2024/25 ➢ $93.65m in 2025/26 ➢ $0.8m in 2026/27	[redacted]	[redacted]
Future of Rail - New Interislander ferries	No operating funding	No funding.	$257m capital funding	• The Ministry does not have a further view on scaling options at this stage. We are awaiting further information being sought from KiwiRail by Shareholding Ministers.

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Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

Table 2: KiwiRail Budget Initiatives

Budget Initiative	Funding sought ($m)	Initial Treasury Assessment and Comment as at 4 March 2021	KiwiRail Scaling Options as at March 2021	Ministry position – implications and talking points
• To replace the existing Interislander ships and landside facilities. • Builds on the funding provided in Budget 2019 and 2020 and largely reflects potential funding required for terminals and landside assets previously expected to be funded through port fees/third-party debt, and changes in cost estimates.	**$565.0m** capital funding ➢ $3.9m in 2020/21 ➢ $7.6m in 2021/22 ➢ $40.7m in 2022/23 ➢ $152.6m in 2023/24 ➢ $265.0m in 2024/25 ➢ $95.2m in 2025/26			• We agree that the funding for this project should be deferred in line with the Treasury's assessment. However, we note that Shareholding Ministers do not wish to defer the project to next year. KiwiRail has proposed a scaled option for the i-Rex bid, taking the bid down to $257m(and the total programme down from $1.758b to $1.450b). • The Ministry is still concerned about the robustness of cost estimates and whether the full transport costs for landside assets have been included. There is a risk that costs could be shifted into later years and continue to escalate. • We remain concerned about the potential competition aspects of the investment. We consider Ministers should seek advice on what the broader implications are of the Crown subsidising KiwiRail's commercial position in the market from the Ministry of Business, Innovation and Employment.
Developing Domestic Rail Workshops • Funding to establish a local wagon assembly plant at Hillside. • It will increase employment, provide youth training opportunities, boost Otago's economy, and increase self-reliance of New Zealand for wagon assembly.	**$85.0m** operating funding ➢ $4.0m in 2020/21 ➢ $27.0m in 2021/22 ➢ $19.7m in 2022/23 ➢ $10.2m in 2023/24 ➢ $24.1m in 2024/25 and outyears No capital funding	No funding.		• No comment from the Ministry. Aligns with our advice. However, we note that Ministers wish to pursue this as it is a manifesto commitment.
Future of Rail - Investment in improved resilience and reliability of core assets • Maintains core commercial above rail assets (freight and tourism rolling stock, buildings and facilities and existing ferries and landside facilities) between 2021 and the arrival of new rolling stock and ferry assets. • Contributes to business continuity and future growth, reduces emissions and road deaths, and adds resilience to the land transport system.	No operating funding **$197.9m** capital funding: ➢ $90.0m in 2021/22 ➢ $63.8m in 2022/23 ➢ $44.1m in 2023/24	Recommends **scaled funding of $87.3 million** ➢ $57.2m in 2021/22 ➢ $23.3m in 2022/23 ➢ $6.8m in 2023/24 This was the scaling option provided by KiwiRail in their original bid. This scaled amount focuses on essential maintenance of core assets to maintain current levels of service. It spreads KiwiRail's property programme over six years, rather than three years.	$117.9m capital funding KiwiRail has proposed that the initiative be scaled from $197.9m to $117.9m by $80.9m. KiwiRail's original scaling proposal removed the total funding required for property development activities. KiwiRail propose a smaller scaling option which removes the property development activities, nets off the unrealised property revenues, and retains $5m per year to enable land acquisitions to support maintenance activities and safety outcomes. It supports KiwiRail to be self-sustainability from 2024/25 and to retain some funds to progress necessary land acquisitions for the rail network.	• The Ministry supports scaling this option to $102.3m. The Ministry considers that this aligns with the resilient and reliable scenario. The Ministry's option differs from both KiwiRail's proposed options. • The Ministry supports the scaled down land acquisitions for maintenance and safety outcomes, but the does not support KiwiRail netting off the unrealised property revenues. While we appreciate that it will support KiwiRail to be self-sustaining over a three year period, we do not consider that funding lost earnings is part of the resilient and reliable scenario. • This is likely to mean that KiwiRail will seek further funding from future Budgets.