

Finalising direction to prepare a draft GPS 2021

Reason for this briefing	To provide you with an overview of the potential investment strategy for the Government Policy Statement on land transport (GPS) 2021, based on your steers, and seek final decisions on how strategic direction maps to the investment signals.
Action required	Discuss outstanding areas at your meeting with officials on 25 November 2019.
Deadline	25 November 2019.
Reason for deadline	We are scheduled to deliver a draft GPS 2021 by 3 December 2019, with cross-party consultation beginning on 5 December 2019. This paper seeks further decisions to support development of the draft.

Contact for telephone discussion (if required)

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MINISTER'S COMMENTS:

Date:	22 November 2019	Briefing number:	OC191199
Attention:	Hon Phil Twyford	Security level:	Budget sensitive

Minister of Transport's office actions

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- Withdrawn*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

Purpose

1. This briefing provides you with an investment strategy for GPS 2021 based on the direction you have provided, that can be turned into a draft GPS 2021 for engagement. The key decision we are seeking from you is the level of ambition you wish to signal, noting the revenue constraints on the National Land Transport Fund (NLTF).

Executive summary

2. [REDACTED]
3. We recommend you utilise the available revenue to set modest ambitions for further modeshift and state highway improvements (areas you have expressed interest in supporting in GPS 2021) and leave a small amount of headroom to deal with known pressures. Alternatively, you could use the headroom to increase the target expenditure for walking and cycling to be more in line with ambitions set in GPS 2018.
4. Revenue levels are insufficient to increase the target expenditure for the public transport activity class and rapid transit activity class (shown by the red figures in Annex 1). Increasing the activity class upper limit for public transport activity classes would set a higher expectation than can be delivered under current revenue forecasts. This would deviate from current assumptions used to calculate funding ranges¹ but would leave the Transport Agency space to invest more if revenue increased or if delivery is slower than expected in other areas.
5. We would like a steer on the assumptions you would like applied for the public transport and walking and cycling funding ranges. Following this we can provide the activity class funding ranges and draft GPS 2021 for you to review, which will then be sent for cross party engagement.
6. Irrespective of your decision above, we recommend that the engagement draft combine the rapid transit and public transport activity classes to create “public transport services”, and “public transport infrastructure” activity classes. This separates predictable expenditure (e.g. service delivery) from uneven expenditure related to improvements. It gives the NZ Transport Agency (the Transport Agency) flexibility to invest in the most appropriate public transport improvements, removing any constraints or confusion caused by classifying activities as either rapid transit or public transport. It increases transparency (and Ministerial direction) on expectations for expenditure.
7. In addition to activity class funding ranges, the investment section of GPS 2021 will provide greater assurance that your priorities are being delivered by creating priority programmes. We are still drafting the detail for these programmes: the Auckland Transport Alignment Project (ATAP), Let’s Get Wellington Moving (LGWM), Future of Rail (FoR) and Road to

¹ In our modelling we have calculated our ranges by applying the same assumptions as GPS 2018 to the estimated investment required (which becomes the midpoint of the range). For example, state highway maintenance has a narrow range as spend is predictable. The small range encourages the Transport Agency to control costs. Rapid transit was a new activity class with unpredictable spend and had wide funding ranges to reflect this.

Zero. We do not recommend creating an additional programme highlighting regional investment as this is spread throughout the GPS and delivery is across priority programmes.

Your steers on LGWM and FoR create \$830 million flexibility in revenue over 10 years

8. Following discussions with you on 18 November 2019, we have:

8.1. assumed that FoR contributions from the NLTF will be \$0.8 billion over ten years. ■

[REDACTED]

8.2. worked with the Transport Agency to spread the Government's contribution (of a notional \$1.2 billion over ten years) to LGWM. ■

[REDACTED]

9. [REDACTED]

Our previous advice also offered scaling options for modeshift in Tauranga Hamilton, Queenstown and Christchurch. We have assumed modest delivery given available revenue.

10. OC191184 set out a range for investment in Tauranga, Hamilton, Queenstown and Christchurch to progress mode shift, spatial plans and urban development. Given the additional priorities you have signalled, we are assuming investment will need to be at the lower end of the scale. "Modest" delivery would provide for \$550 million additional investment in the following activities over 10 years:

- 10.1. walking and cycling (\$230 million)
- 10.2. public transport (\$230 million)
- 10.3. local road improvements (\$90 million).

11. For reference, our high investment scenario included an extra \$545 million for rapid transit and \$50 million spread across the other activities. The Transport Agency advises that to best support mode shift, they would consider public transport investment before rapid transit, hence why the low scenario excludes rapid transit investment. Separated busways and light

rail would fall under rapid transit, whereas the Transport Agency would likely start with bus lanes (funded from PT) and progress as needed.

You confirmed your aims for state highway improvements for urban growth but scaling is required to fit within available revenue

12. You confirmed your ambition for state highway improvements (SHI) for urban growth as supporting small intersection improvements (e.g. roundabouts) that are needed to unlock growth and housing developments in Christchurch, Tauranga, Hamilton and Queenstown.
13. We have worked with the Transport Agency to refine the costs of these activities. The interpretation is slightly broader than what we included in our original modelling in Annex 2 OC191184. The cost estimate from the Transport Agency is \$1.5 billion over 10 years, which is \$400 million higher than our previous estimate. Bearing in mind available revenue, the scaling options are:
 - 13.1. \$50 million could achieve one or two small projects that contribute towards your aims in a small way – town centre improvements or one improvement related to housing growth.
 - 13.2. The higher end of the scale would be a provisional allocation of \$1.5 billion for the six year period 2021- 2027 (cash flow weighted towards years 1-4 of that period). It would support housing development in the short-term across these cities.
14. We want to discuss the level of investment you want to make provision for within the SHI activity class for this.

We will include wording in the GPS around enabling local councils to co-fund state highway improvements

15. To incentivise mode neutral decision making when considering investment options, you clarified that the GPS should provide flexibility for local government and the Transport Agency to negotiate cost shares for proposed state highway activities (or for a package that includes a state highway) to optimise overall outcomes. An example is a negotiation of a reduced Financial Assistance Rate (FAR) where a particular improvement might not be ranked highly enough to be funded (when compared to other investment opportunities across New Zealand) but with negotiation of a greater local share it could be included in a programme.
16. We have discussed this objective and options with the Transport Agency. There are two existing mechanisms available to the Transport Agency Board (the Board) that could provide the flexibility you seek:
 - 16.1. The Board has the ability to approve a 'bespoke' FAR for an activity as an exception to the standard FAR on a case by case basis.
 - 16.2. The Board has the ability to approve a multi-party funding agreement for a state highway activity on a case by case basis. This doesn't require a change to the FAR – it is by negotiation with a council (or with land owners / developers if relevant).
17. Both options rely on local government being willing and able to cost share.

18. In making any such decisions, the Board must demonstrate it is giving the same level of scrutiny to its own activities as it would give to those of an approved organisation. Any proposals considered under these options would require a high standard of supporting evidence and rationale to ensure an equitable and transparent process.
19. One of the risks of enabling co-funding of otherwise fully funded state highways is that local government might de-prioritise funding for other activities that may deliver greater net benefits for the location. For example local government may not optimise or improve local roads and other modes, in order to co-fund a state highway improvement. This would be mitigated by the high level of assessment required by the Board as described above.
20. To further mitigate this risk, we recommend that the GPS 2021 (Investment section) signals that this mechanism is available to local government and that there is the need for any such decisions to be strongly aligned with GPS objectives.

Further options

21. Ministry and Transport Agency officials also considered options beyond the existing mechanisms. The GPS could provide for an expanded use of 'packages' and programmes (beyond those already included, e.g. ATAP, LGWM, etc.). This would allow the Transport Agency and local government to negotiate appropriate cost share in relation to benefits delivered through the package as a whole.
22. However, signalling an expanded use of packages in the GPS could raise unaffordable expectations for GPS 2021. We do not recommend an expanded approach in GPS 2021 is taken for the purpose of providing flexibility to co-fund projects (i.e. we don't recommend the opportunity to co-fund drives this practice). Rather we recommend that as the practice of spatial planning and priority programmes under the GPS develops, the opportunity for co-funding can be considered using the existing mechanisms.

You have indicated that activity classes for walking and cycling, public transport and rapid transit should not decrease in GPS 2021. This would require around \$5 billion additional funding

23. GPS 2018 set high funding expectations for public transport, rapid transit, and walking and cycling. The modelling you have seen for GPS 2021 has assumed the inclusion of:
 - 23.1. known investment requirements to maintain current levels of service (the base expenditure)
 - 23.2. the strategic priority programmes you want to deliver (ATAP, LGWM, Road to Zero and Rail)
 - 23.3. progressing mode shift in Christchurch, Hamilton, Tauranga and Queenstown
 - 23.4. investment in state highway improvements in high growth metros that unlocks growth.
24. When including the initiatives above, there remains a gap between the expected funding in GPS 2021 relative to the funding signalled in GPS 2018 in the following activity classes:
 - 24.1. public transport (\$1.68 billion)
 - 24.2. rapid transit (\$2.98 billion)

- 24.3. walking and cycling (\$0.35 billion).
25. Given the expenditure noted in paragraph 23, there is insufficient revenue to provide funding to meet the mid-points of all activity classes set in GPS 2018. To do so would require increasing Petrol Excise Duty and Road User Charges or removing Road to Zero or ATAP completely.
26. We think it is reasonable that these activity classes do not match 2018 levels as:
- 26.1. we have a much greater understanding of the base investment required for the GPS, which has enabled us to work with you to create a strategic direction that matches available investment - this can be explained in GPS 2021
 - 26.2. you have chosen to focus GPS 2021 on priority programmes, which has determined the indicative activity class levels you have seen so far
 - 26.3. setting high funding ranges that do not align with current forecasts risks setting high expectations that cannot be met or councils preparing projects that cannot be funded
 - 26.4. you want to encourage the Transport Agency to seek greater outcomes through their road investments (for example, investments made through local road improvements may include cycling or PT infrastructure).
27. However, if you are keen to ensure GPS 2021 funding levels align with those signalled in GPS 2018 you could:
- 27.1. increase the upper range for the walking and cycling activity class. This is achievable within current revenue forecasts, but there is no headroom for known funding pressures previously discussed. See Annex 1.
 - 27.2. increase the upper range for public transport, walking and cycling and rapid transit (changing the red figures in Annex 1). The lower range would remain low so that the Transport Agency can spend within existing revenue, but it would provide greater flexibility to invest more if revenue increases or expected programme delivery changes. Note, this would diverge from the current assumptions that underpin range².
28. We would like to discuss which option you wish to pursue so that we can build it in as an assumption as we work with the Transport Agency to develop funding ranges for you to consider alongside the draft GPS 2021 for engagement. We have set out options below for you to choose from.

We recommend changing the rapid transit and public transport activity classes, so that investment in services and infrastructure are separated

29. In GPS 2009 and GPS 2012, public transport services were separate from public transport improvement investment. In GPS 2015, these activity classes were combined to provide the

² In our modelling we have calculated our ranges by applying the same assumptions as GPS 2018 to the estimated investment required (which becomes the midpoint of the range). For example, state highway maintenance has a narrow range as spend is predictable. The small range encourages the Transport Agency to control costs. Rapid transit was a new activity class with unpredictable spend and had wide funding ranges to reflect this.

Transport Agency with greater flexibility to achieve public transport outcomes. In GPS 2015, total public transport investment was around \$350 million per year.

30. GPS 2018 introduced a new activity class for rapid transit, which is a specific type of public transport infrastructure (e.g. separated busways). GPS 2018 increased investment across both activity classes, to ultimately reach over \$1 billion a year, including around \$550 million per year for the Public Transport activity class. However, with this increase, because there was no distinction between public transport services and infrastructure, it is unclear whether the Government is seeking to increase services, infrastructure, or both. This is therefore at the discretion of the Transport Agency.
31. We recommend:
 - 31.1. separating public transport services and infrastructure into two activity classes. Public transport services have a relatively stable annual cost, which increases over time as patronage and the public transport network grow. Because funding is relatively easy to forecast, a small funding range would be preferable to give Ministers greater control over the investment.
 - 31.2. combining rapid transit and public transport infrastructure. Rapid transit and public transport infrastructure are both lumpy investments in large projects to grow the capacity of the network. While there is a distinction between rapid transit and general public transport infrastructure, it is a blurred line. There is benefit in allowing the Transport Agency to trade-off between these activities to ensure the optimal solution is delivered (rather than progressing purely because there is money available). A wider range for this activity class is required to reflect the uncertainty of infrastructure.

The annex includes a Road to Zero activity class

32. We have included a 'Road to Zero' activity class, to target investment in the most dangerous parts of the network nationally (OC191000 refers). Projects with safety as a co-benefit (e.g. to increase uptake of public transport or to improve the safety of walking and cycling) should still achieve a high priority in Transport Agency's Investment Decision Making Framework, but would be funded from other activity classes if they are not one of the prescribed interventions from Road to Zero.
33. We will work through the administrative issues of implementation with the Transport Agency. Note, the 'Road to Zero' activity class combines the previous Road Policing activity class, Promotion of Road Safety activity class, and utilises funding from local road improvements and state highway improvements which now appear lower when compared to GPS 2018.

The coastal shipping activity class will not include subsidies

34. The annex includes the new coastal shipping activity funding class. Based on the programme planned for 2009, this would fund new coastal shipping infrastructure, new coastal shipping operations, studies and investigations. This will be accompanied by an explanatory note that funding is only shown for the first three year as funding applications will help determine future funding needs. Applications will also help show where investment in coastal shipping can best support reducing the effect of road freight on the environment and road safety.

35. As noted in the annex to OC191184, this would not provide direct subsidies. We would like to discuss with you whether you expect further work to be carried out to explore the case for subsidies. If so:

35.1. You could agree with officials what activities can be traded out of our current output plan to allow further work on coastal shipping subsidies that could be introduced through a GPS amendment or in GPS 2024.

35.2. The draft GPS 2021 could request feedback on the potential for the coastal shipping activity class to provide small subsidies over the next three years. Note, this would only be done due to time constraints if you are wedded to using the NLTF to provide coastal shipping subsidies in GPS 2021. Otherwise, engagement outside the GPS 2021 draft engagement process would be more appropriate as it can target the intended audience.

The contribution of GPS 2021 to regional investment will be told through narrative rather than an activity class

36. A key focus areas for regional transport investment is implementing the Road to Zero strategy (where 70 percent of improvements take place outside of Wellington and Auckland), and improving the freight network for primary producers to markets. This is in addition to maintaining existing levels of service nationally through base expenditure, which contribute to safety and resilience – the key issues that regions raised during roadshows.

37. Together these focus areas reflect the enabling role of regional transport to regional development. GPS investment complements other regional investment programmes such as PGF, Billion Trees and Aquaculture Planning Fund (identified in the Economic Plan).

38. The Transport Agency will need to work closely with the regions as NLTP and RLTPs are developed to achieve an integrated approach to government and local investment in transport and regional development. The importance of this role is emphasised in the Roles and Responsibilities section that we have added to the front of the draft GPS 2021 (you were provided this in October as part of OC190953).

39. Benefit to the regions do not need to be described as a priority programme or have its own activity class as the benefit is spread throughout investment areas of the GPS, and across your priorities of Freight and Safety (which includes priority programmes for Future of Rail and Road to Zero with set expenditure and reporting). We will work with NZTA to consider whether additional guidance is needed in the GPS or Investment Decision Making Framework to manage any unintentional consequences of removing the regional activity class.

40. Engagement on the draft GPS 2021 provides an avenue to receive feedback on this approach. You can make changes following engagement period

GPS 2021 will be focused on the delivery of priority programmes. This will be a new feature to provide greater assurance that your priorities are being delivered

41. We have previously discussed how the GPS 2021 will include a new element in the investment section that sets expectations for how the priority programmes of Road to Zero, Freight, ATAP, and LGWM are funded across activity classes.

42. This section will provide guidance for how the Transport Agency will implement the strategic priority programmes, meeting set funding targets from across activity classes. It gives the ability to ring-fence funding across one or more activity classes to a programme.
43. This will be supported by an expectation of programme reporting, demonstrating expenditure against programme objectives.
44. As all of the programmes are slightly different, we are continuing to shape what they will look like, including the quantum and timeframes for the funding commitments. For example, the ATAP commitment is \$16.3 billion over 2018/19–2027/28, while the Road to Zero commitment is for \$10 billion over 2021/22–2030/31.
45. The table that we will include in the next draft GPS 2021 will broadly look like this:

Strategic priority programme	Scope	Funding (\$m)			Ten year forecast
		2021/22–2023/24	2024/25–2026/27	2027/28–2030/31	2021/22 - 2030/31
Road to Zero					
Freight					
ATAP					
LGWM					

Next steps

46. Following the steers you provide on 25 November 2019, we will create a draft GPS 2021 for you to review and provide comment on before 5 December 2019. On 5 December, the Cabinet paper and draft GPS 2021 will be sent for cross-party engagement in parallel to departmental engagement.
47. In early 2020 we will seek Cabinet approval to publish the draft GPS 2021 and commence public engagement. We are keeping stakeholders updated on progress and will update them that regional engagement will take place in early 2020.

Recommendations

48. The recommendations are that you:

- (a) [REDACTED]
- (b) **agree** that the strategic direction and expenditure target will set expectations at the modest end of investment for modeshift in Tauranga Hamilton, Queenstown and Christchurch (\$550 million over ten years) Yes/No
- (c) **agree** that the strategic direction and expenditure target will set expectations at the modest end of investment for state highway improvements in Tauranga Hamilton, Queenstown and Christchurch. Note, GPS 2021 will explain that this can be supplemented by councils if they choose to contribute to State Highway funding. Yes/No
- (d) **agree** that some activity class funding ranges will be lower than those displayed in GPS 2018 (annex 1) Yes/No
OR
- (e) **agree** to increase the upper range of public transport activity classes, leaving space for further investment in revenue exceeds current forecasts (i.e. increase red figures in annex 1) Yes/No
- (f) **agree** to combine the Public Transport and Rapid Transit activity classes and make two new activity classes: Public Transport service and Public Transport infrastructure Yes/No
- (g) **discuss** your expectations on coastal shipping subsidies with officials.

Helen White
Manager, Investment

MINISTER'S SIGNATURE:

DATE:

Annex 1: Matching GPS 2018 funding ranges for walking and cycling, not public transport

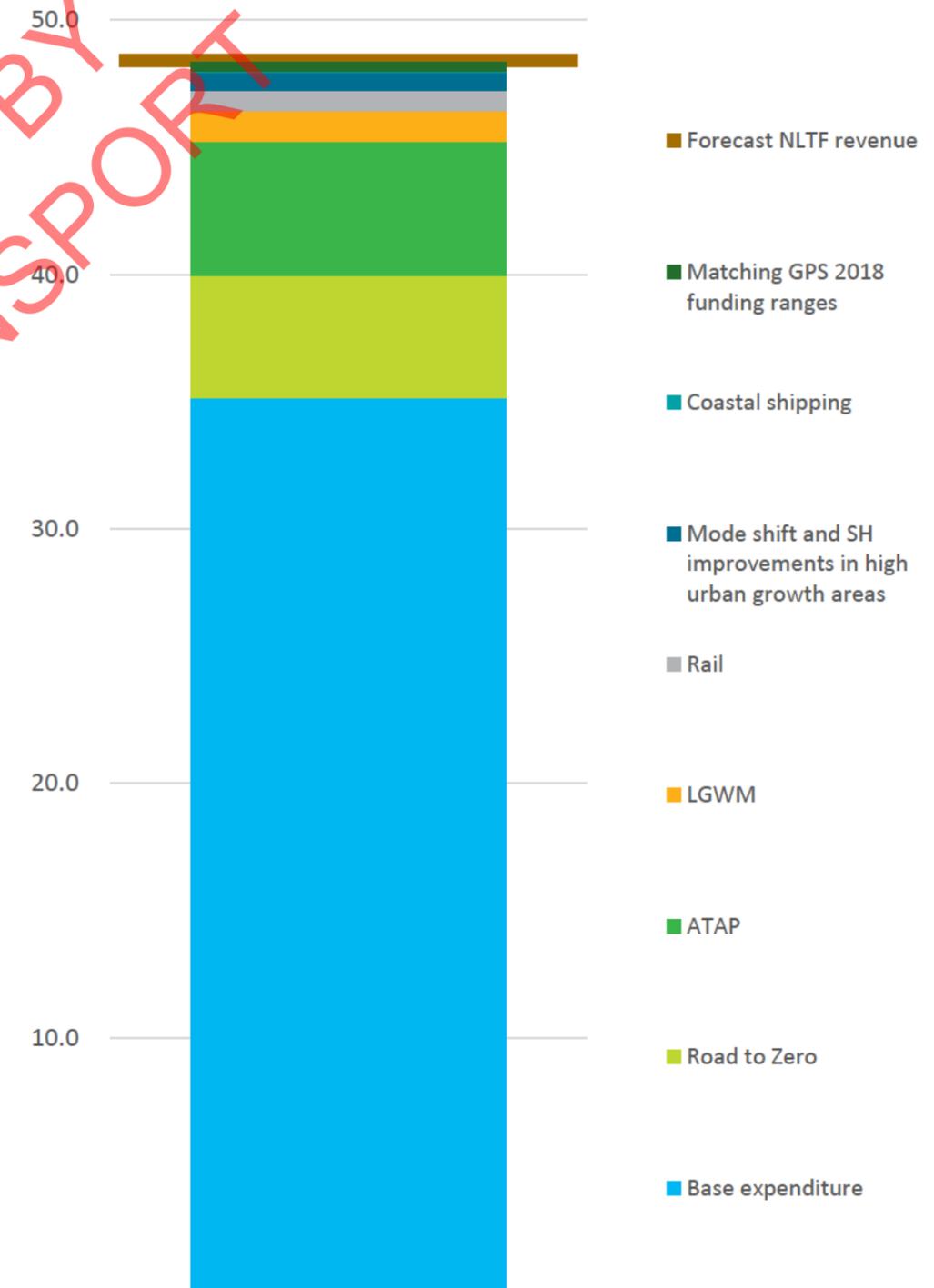
This scenario includes:

- modest investment in state highway improvements in high growth urban areas
- modest investment in mode shift for Tauranga, Hamilton, Queenstown and Christchurch
- increased funding to meet the GPS 2018 funding ranges for walking and cycling
- separation of the public transport activity classes, using the same assumptions to calculate ranges for public transport infrastructure as used in GPS 2018.

The modelling does not include an allowance for the continuation of ATAP beyond the end of the \$16.3 billion commitment. This results in lower funding ranges for public transport infrastructure and local road improvements in the last 3 years. Increasing the numbers in red below will prevent this, though it may not necessarily result in additional funding for the activities, as outlined in paragraph 26.2.

Activity class	Change from GPS 2018	Funding ranges						Forecast funding ranges			
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Public transport services	New	540 390	560 410	580 420	590 430	610 440	620 450	640 470	660 480	680 490	700 510
Public transport infrastructure	New	530 340	510 330	530 340	480 310	490 320	510 330	540 350	90 50	110 70	130 80
Walking and cycling	=	215 140	205 135	210 135	110 75	115 75	115 75	120 80	120 80	120 80	120 80
Local road improvements	Down	300 120	250 100	260 100	260 110	270 110	270 110	280 110	50 20	60 20	110 40
State highway improvements	Down	1350 1100	1150 900	1150 900	1050 800	900 700	800 600	650 500	500 350	450 350	450 300
Road to Zero	New	910 820	940 840	980 870	1000 900	1040 930	1070 960	1080 970	1110 1000	1140 1020	1170 1050
State highway maintenance	Up	860 740	880 750	900 770	940 800	970 830	1020 870	1060 910	1110 950	1150 980	1190 1020
Local road maintenance	Up	760 650	780 670	800 680	820 700	840 720	860 730	880 750	900 770	930 790	950 810
Investment management	Up	80 70	85 75	90 75	90 75	90 80	95 80	95 80	95 85	100 85	100 85
Rail	New	540 255	365 170	145 65	90 40	85 40	85 40	85 40	85 40	85 40	85 40
Coastal shipping	New	15 10	15 10	15 10	0 0	0 0	0 0	0 0	0 0	0 0	0 0

Total 10-year spend (\$b)



PROACTIVE RELEASED BY THE MINISTER OF TRANSPORT