

Treasury/Ministry of Transport Report: Auckland Transport Funding

Date:	27 June 2003	Treasury Priority:	Medium
Security Level:	COMMERCIAL-IN-CONFIDENCE	Report No:	T2003/1073 MoT

Action Sought

	Action Sought	Deadline
Minister of Finance	Agree to recommendations	For Infrastructure Ministers meeting on 2 July
Minister of Transport	Agree to recommendations	For Infrastructure Ministers meeting on 2 July
Associate Minister of Finance (Hon Trevor Mallard)	None	None
Associate Minister of Finance (Hon David Cunliffe)	None	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Rosemary Cook	Principal Advisor, Treasury		
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Enclosure: Yes

27 June 2003

SH-8-8

Treasury/ Ministry of Transport Report: Auckland Transport Funding

Executive Summary

A joint officials group from central government and Auckland local government have been meeting to progress work on funding for the Auckland transport strategy.

This report provides you with draft papers from that group proposing a governance model and work programme for Auckland transport issues, for discussion at the Infrastructure Ministers meeting on 2 July.

This report also provides a summary land transport medium-term funding strategy, and describes how the work that officials are doing with Auckland local government officials fits with work on other transport, and other Auckland related work.

We note that the medium-term funding strategy, and timing of Auckland decisions should coincide with the strategic phase of the budget round in November this year, which will allow any funding decisions to be made in the appropriate budget context.

Recommended Action

We recommend that you:

- a **refer** the attached governance model and work-stream papers to Infrastructure Ministers for their meeting on 2 July 2003;

Referred: Yes/No

Referred: Yes/No

- b **note** that the papers will be discussed in general terms at the Auckland Mayoral Forum meeting on 11 July;

- c **agree** that officials release these papers, along with information about further progress on the work-streams, to Auckland officials for discussion at the Auckland Mayoral Forum meeting in August;

Agree/disagree

Agree/disagree

- d **note** that Infrastructure Ministers have asked for a summary land transport medium-term funding strategy and that this report contains that information;

- e **agree to refer** this report to Infrastructure Ministers for their information;

Agree/disagree

Agree/disagree

Referred: Yes/No

Referred: Yes/No

- f **agree** to the timeframes for land transport funding decisions set out in paragraph 18 below;

Agree/disagree

Agree/disagree

g **agree** to officials working on the various medium term funding options identified in this paper, including in the context of the joint working party with Auckland;

Agree/disagree

Agree/disagree

h **agree** to the governance model set out in the attached paper: Auckland Transport Strategy Funding Working Group: Proposed Governance Model; and

Agree/disagree

Agree/disagree

i **agree** to the work-streams and sequencing set out in the attached paper: Auckland Transport Strategy Funding Working Group: Proposed work-streams.

Agree/disagree

Agree/disagree

Rosemary Cook
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for Secretary to the Treasury

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Ministry of Transport

Hon Dr Michael Cullen
Minister of Finance

Hon Paul Swain
Minister of Transport

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Purpose of Report

1. The purpose of this report is to provide you with draft papers proposing a governance model and work programme for Auckland transport issues, for discussion at the Infrastructure Ministers meeting on 2 July. This report also provides a summary of the current land transport medium-term funding strategy, and describes how the work that officials are doing with Auckland local government officials fits with work on other transport, and other Auckland related work.

Joint Officials Group – Auckland Transport Strategy Funding

2. A joint officials group from central government and Auckland local government have been meeting to progress work on funding for the Auckland transport strategy.
3. The proposals contained in the attached governance and work stream papers are based on proposals prepared by Auckland officials. The Auckland officials have seen these draft papers, and have had some input into them. If you agree, these papers will be discussed in broad terms at the Auckland Mayoral Forum meeting on 11 July. We hope to present these papers along with more detailed information about progress on the work-streams in time for the Mayoral Forum meeting in August.
4. In brief, the governance model proposes a joint officials' group comprising advisors from the offices of the Ministers of Finance and Transport, and representatives from Treasury, the Ministry of Transport and DPMC. We understand a representative of Local Government New Zealand will also join that group. From Auckland, the officials are mandated by the Auckland Mayoral Forum. It is proposed by the Auckland officials that a representative of the Auckland Regional Council be invited to join the group also. It will be the responsibility of the joint officials group to consult with other interested parties (see below). At ministerial level, the model shows Infrastructure Ministers championing the project, alongside Auckland representatives.
5. The output of the joint officials group will be a report to the Ministers of Finance and Transport, and to the Auckland Mayoral Forum, outlining measures to progress transport infrastructure developments in the Auckland region. The work-stream paper proposes that work will be undertaken on a series of issues that will feed into that final recommendation, commencing with a central government analysis of the network completion proposal prepared by the Auckland Mayoral Forum. Timing of that work should coincide with the strategic phase of the budget round in November this year which will allow any funding decisions to be made in the appropriate budget context.

Other Relevant Work

6. There are links between the work of the joint officials group and work on related issues involving MfE, DIA, MED and MSD. While there have been suggestions that officials from other departments be included in the joint officials group, the intention is that rather than extend the group, it will consult with those departments as and when possible, to avoid overlaps and inconsistencies. This particularly relates to the work

being led by the Ministry for the Environment on sustainable cities and urban (including Auckland) issues, and to work that has been done on rail.

7. As well as the Auckland strategy funding work and the sustainable cities work, several interconnected work streams relating to land transport funding have also been identified - a possible infrastructure financing entity, an infrastructure audit, and Budget issues around infrastructure funding. Work is also progressing on the Land Transport Management Bill, preparation of a business case on the value of electronic Road User Charges, completion of the study into surface transport costs and charges, and rail policy.
8. New Zealand Transport Strategy (NZTS) provides the over arching framework for all of this work. The NZTS, published in December 2002, sets out the government's position on the considerations underpinning how the land transport system might be funded long-term. The main transport strategies relevant to long term funding are that:
 - in relation to public investment in transport, it must be sustainable, strategic and add value to the decisions of individuals and businesses;
 - the social, economic and environmental costs and benefits of transport will be incorporated into transport decision-making. The costs of different transport modes will be fair and transparent to users; and
 - the government will promote optimal use of different modes of transport in different settings through a range of measures including its pricing and funding priorities.
9. Underpinning the NZTS is the need to consider funding issues and a charging framework. These work streams all have the potential to impact on the current land transport funding-framework. The nature of this framework and key problems and issues associated with it are summarised below.

Medium-term Funding Strategy

The existing funding system

10. Land transport is currently funded predominantly from the National Land Transport Fund, which receives income from the following sources:
 - a portion of the tax on petrol (with other portions going to the Crown Account, local authorities, MED, through a petroleum monitoring levy, and ACC);
 - Road User Charges, which is a weight/distance charging regime for heavy motor vehicles and diesel powered vehicles; and
 - A portion of the amount collected from annual motor vehicle licensing fees (with approximately three-quarters of this fee going to the ACC).
11. Historically, the levels of these charges has been influenced by a Cost Allocation Model that spreads the cost of road maintenance and construction, and public transport, across the different vehicle classes. This is based on the direct maintenance costs associated with the different vehicle types, and the benefits to different vehicle types from capital and public transport expenditure.

12. The 'first calls' on this money are the costs of collection, and the road safety enforcement activities of the Police, and road safety education, funding and promotion of the Land Transport Safety Authority. The rest of the money is made available to Transfund.

13. Transfund funds:

- 100% of State Highway maintenance and construction;
- on average, 50% of local authority roading, walking and cycling, passenger transport, and alternatives to roading costs (the other 50% are met by local authorities through rates); and
- 100% of local authority transport related regional development costs in Tairāwhiti and Northland.

Issues and Problems

14. This system has some short, medium and long-term problems:

- the general state of the network is reasonable, but there are some problems in congested areas and where industry has changed road usage. RUC and the excise tax are proxies for usage but not all externalities are reflected – average pricing means that neither congestion nor heavy vehicle usage is properly priced;
- capital is invested on a PAYGO basis. There is no tolling or borrowing and, rates apart, all revenue is collected and applied nationally;
- While vehicle kilometres travelled is increasing (suggesting increased road investment demand) revenue from fuel tax has remained broadly constant due to fuel efficiency. In the long term, fuel efficiency trends and new engine technologies will raise questions about the continued efficacy of fuel tax as a proxy for road use charging;
- the previous reliance on the benefit/cost ratio as the sole determinant of roading investment led to a lack of a strategic approach to land transport investment; and
- improving road pricing is possible through new technology, but a taxation based system will always be constrained as to flexibility.

15. Because of these factors, inter-modal competition is not at its optimal level.

Options

16. Recognising the close linkages between land transport funding and how land transport infrastructure and services are charged for and regulated, the government could consider the relative merits of other options for land transport funding in the medium term, including:

- increase flexibility for road controlling authorities to develop alternative financing sources (with appropriate controls and checks and balances) e.g. public private partnerships as provided for in the Land Transport Management Bill, although the overall impact will be determined by the rules surrounding the use of public private partnerships;

- other government sponsored financing sources (e.g. borrowing, a new infrastructure financing entity);
- new sources of revenue (tolls as provided for in the Land Transport Management Bill), although the overall revenue impact will be determined by the rules surrounding the use of tolls;
- regional sources of revenue from motorists (such as regional petrol taxes and parking levies);
- the role of priced (e.g. congestion pricing) and non-priced demand management techniques;
- regional distribution of existing funding sources through Transfund, possibly linked to increases in petrol tax and RUC; and
- other government sponsored sources of capital or revenue, e.g. a capital injection or money from the Crown Account.

17. In making these decisions, there are a number of related issues to bear in mind:

- it is possible to make some transport funding decisions outside the budget process – an example of this is increasing the rates of petrol tax (through statute) and RUC (through regulation). While this does provide an immediate increase in revenue to the NLTF (for roading and other land transport projects), it may not be able to be immediately spent if priority projects are not ready to go;
- the level of funding for alternatives to roads (e.g. rail);
- other funding measures should desirably be considered in the context of the budget round so that expenditure on land transport can be assessed against other government priorities;
- legislation is required for some new measures that might be contemplated – eg a regional petrol tax; and
- the Auckland Mayoral Forum will be expecting quick decisions on the proposed Auckland package.

Strategy

18. The above suggests that the government could adopt the following approach:

Step 1: Complete the passage of the Land Transport Management Bill (September/October 2003).

Step 2: Complete the assessment of the Auckland proposal, which will indicate:

- a the extent of the Auckland problem, desired projects, timing and cost of a substantial part of the major capital land transport projects in New Zealand at least in the next 10 years;
- b the extent to which regional mechanisms such as regional petrol taxes will work;
- c the possible costs and benefits, and timing and implementation issues associated with congestion pricing.

This work should be largely completed by December 2003.

Step 3: Integrate the outcome of the Auckland work and other land transport funding pressures into the current land transport funding and expenditure projections model so that the overall national impact of all projects (including Auckland's) can be assessed (this would also include an assessment of whether there is a funding 'hump'). This work should be completed by January 2004.

Step 4: [s9(2)(f)(iv)

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Step 5: [s9(2)(f)(iv)

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