

Ministry of Transport: Aide Memoire

To: Hon Phil Twyford (Minister of Transport)

From: Bryn Gandy, Deputy Chief Executive System Strategy & Investment
Helen White, Manager Investment

Date: 22 May 2020

Subject: Fiscal impact of COVID-19 on the transport sector

OC Number: OC200413

Purpose of this aide memoire

1. This aide memoire explains the two attachments you have received.
 - a. Appendix 1 outlines the funded and unfunded pressures on the transport system that have resulted from, or are expected to result from, COVID-19. The funded areas, show decisions already taken to ensure that the sector stays afloat in the immediate term (this financial year), while the funded pressure signal potential areas for additional Government support.
 - b. Appendix 2 gives an overview of upcoming investment decisions and trade-offs you will need to make related to the fiscal costs outlined in Appendix 1, with a focus on land transport.
2. No further action is required from you – the documents give an overview of the fiscal impacts of COVID-19 on the sector, and upcoming decisions. You will receive briefings on individual issues or decisions as required.

Appendix 1 summarises the known and likely costs of COVID-19 to the sector

3. The Ministry has carried out a stocktake on the fiscal impact the COVID-19 pandemic has had on the transport sector. This is set out in the attached A3, which provides an overview of the extent of funding that may be needed to sustain transport systems, and return modes of transport to full productive capacity.
4. We have brought together information from across the Ministry and our work with agencies, to give a view across the transport sector. You will continue to receive separate briefings on individual issues as usual but this provides an initial sense of the possible sector-wide impact.
5. The first page of the A3 shows where the Crown has already provided funding to cover known, quantified costs. This includes extension of loan facilities to help agencies deal with liquidity issues whilst revenue collection is low due to the lack of travel or operators struggling financially.

6. The second page signals areas where we anticipate further investment may be required. As you know, our recovery work programme is underway to explore these issues further and provide you with more concrete advice. We will continue to work with agencies, in particular with KiwiRail and Waka Kotahi, on the extent to which delivery of their capital projects has been impacted by a fall in revenue.
7. This report is the first draft. The A3 highlights where we are still seeking information from agencies. We will keep the A3 up to date both as the COVID-19 situation unfolds and as the Ministry is informed of new developments in the transport sector. For most items it is still too soon to accurately report the amount of intervention that may be required as we move through different lockdown levels. The Ministry's recovery work-stream on potential future scenarios in the transport system will help inform this.

section 9(2)(f)(iv) of the OIA

8.

An overview of upcoming investment decisions is provided in Appendix 2

9. The second attachment contains a summary of the investment decisions and trade-offs that you may need to make in the coming months, mainly in the land transport sector. This will include decisions on items included in Appendix 1. The funding limitations

means that the decisions you make will link and impact each other. This roadmap is intended to give you foresight of the issues, as some may require fast decisions.

Links to other work

10. In addition to the direct funding matters/decisions outlined in Appendix 1, additional context of the broader economic impacts of COVID-19 are included in “Resetting and Revitalising the Economy – The Transport Sector” (OC200339), which is being utilised to assist the Macroeconomic Response Ministerial Group.
11. Direct economic stimulus through transport investment can in the short to medium term lift employment and business activity, whilst also providing productive long term assets. Pre-COVID-19, the transport sector was 5% of Gross Domestic Product and 4% of employment.
12. The broader impacts of transport recovery go beyond transport sector employment and contribution to Gross Domestic Product. Transport is a significant enabler connecting people to jobs; and connecting businesses to local, regional and international markets. Border reopening and recovery of the tourism sector affects imports and exports and has feedback effects on international and domestic travel demand.
13. We are currently working on understanding these wider impacts and effects as part of the Recovery Programme and would expect to be able to provide an outline of this in the next few weeks. Funding decisions taken (i.e. decisions on areas included in Appendix 1) will influence the economic impacts and we will keep you informed of these implications.

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Section 9(2)(a) of the OIA

The shock of COVID-19 has left parts of the Transport sector facing revenue shortfalls and unexpected costs. The Crown has already provided ~\$26,388,783m additional support through the COVID Recovery and Response Fund for 2019/20 and 2020/21.



Land transport \$580.3m

(excluding rail & coastal shipping)

Initiative	Description	Cost (\$m) (*budget sensitive)
Funding to maintain essential transport connectivity	Sector-specific support to maintain essential transport connectivity for the 2019/20 and 2020/21 FY (majority of funding is for the current FY), where failure of a transport service would have significant negative social and economic outcomes. The funds are held under Vote Transport and the Ministry works with the Treasury to assess funding applications.	\$20.3m*
Impacts on the National Land Transport Fund	This resolved the immediate, short term impact of COVID-19 on NLTF revenue by creating a new borrowing facility. This Crown loan aims to resolve cash-flow issues to 30 June 2020. Costs caused by COVID-19 include covering the cost of free public transport and increase in current PT service contract costs associated with implementing COVID-19 health and safety measures.	Up to \$500m*
Waka Kotahi NZ Transport Agency's regulatory memorandum accounts	Manages the cost pressures generated by the response to COVID-19 on Waka Kotahi's regulatory memorandum accounts. The funding sought will enable Waka Kotahi to maintain the expenditure required so the agency can deliver its core regulatory function across the land transport system.	\$60m*



Aviation \$796.4m

Initiative	Description	Cost (\$m)
\$600 million initial aviation support package.	Financial support to airlines to pay per-passenger charges for the next six months, including biosecurity and MPI fees	\$600m
	A waiver of Airways-related (the air traffic service provider) fees to airlines for the next six months	
	A capital injection into Airways to continue providing its essential services to the aviation industry	
	Funding for the movement of international freight and urgent domestic freight, particularly to remote areas such as the Chatham Islands. <ul style="list-style-type: none"> Agreement to be delegated to the Secretary for Transport for funding decisions for Urgent Air Freight Funding Support. International Air Freight Capacity (IAFC) scheme: On 23 March 2020, Cabinet established the scheme to support air freight (freight would usually fill hold space on passenger flights, which were paused). Six contracts currently in place to end June (Phase 1) with one more in final negotiations. Individual contracts are for variable amounts depending on routes/frequency. Phase 2 (another 4-6 months) TBC. 	
Protection of Transport Sector Agency Core Functions: CAA	A significant proportion of the CAA and Avsec revenue comes from levies based on passenger numbers, which ceased when international and domestic travel was suspended. It was forecast that both agencies will require an operating cash injection to maintain solvency from May 2020 for the remainder of the 2019/20 year. Certainty of funding will be required for both agencies for 2020/21 if they are to continue to receive accounting treatment as a going concern (approved under the 6 April CAB). *NOTE: Cabinet approved a \$236m drawdown facility for core functions across MNZ, CAA, and Avsec, given specific criteria is met.	\$7.4m (2019/20) \$36.6m (2020/21)
Protection of Transport Sector Agency Core Functions: Avsec		\$21.6m (2019/20) \$130.8m (2020/21)



Maritime \$2.9m





Initiative	Description	Cost (\$m)
Protection of Transport Sector Agency Core Functions: MNZ	Early MNZ worst-case scenarios indicated that funding for core functions (as third party revenue has slowed/ceased) would be: <ul style="list-style-type: none"> \$3.4m for 2019/20 and \$18.4m for 2020/21 (MNZ Scenario 1) \$6.2m for 2019/20 and \$34m for 2020/21 (MNZ Scenario 2) Most recent estimates indicate that reserves will cover costs in the first instance and only \$2.9m will likely be required (in 2020/21). *NOTE: Cabinet approved a \$236m drawdown facility for core functions across MNZ, CAA, and Avsec, given specific criteria is met.	Estimated \$2.9m funding drawdown from the liquidity appropriation in the 2020/21 year



Rail \$x

Initiative	Description	Cost (\$m)
KiwiRail wage subsidy	Funding for the KiwiRail wage subsidy	\$26,387,304.00m
KiwiRail Major Capital Projects	Funding for the direct and indirect impact of COVID-19	TBC

There are some areas that will cause further pressures and requests for funding assistance. We have currently identified up to ~\$2,327m over the next four years but need more information to determine further potential costs, or more time for COVID-19 impacts to emerge.

	Description	Cost (\$m)
 <p>Land transport (excl. rail & coastal shipping)</p>	<p>Information withheld under section 9(2)(b)(ii) of the OIA</p> <ul style="list-style-type: none"> Reduced NLTF revenue due to low vehicle use. Impacts for FY 2020/21, 2021/22 and beyond. You will receive advice in OC200361. <ul style="list-style-type: none"> Less revenue due to decreased vehicle kilometres travelled Higher expenditure due to Waka Kotahi providing Advanced Entitlement Payments (AEP) to contractors and supporting the public transport farebox revenue reduction Further pressures may be put on the NLTF through additional project costs anticipated to be caused by project delays; Potential increased on-site costs resulting from physical distancing requirements of PPE, and costs associated with potentially changing suppliers due to the current international travel ban. 	<p>\$2,200m. Forecast impact on the NLTF revenue over 2020/21 – 2023/24. Options for Crown support are under development.</p>
	<ul style="list-style-type: none"> Councils are enquiring about an increased Funding Assistance Rate (FAR). The Innovating Streets Fund is already providing 90% funding to accelerate temporary measures to encourage socially-distanced walking and cycling. The NZTA Board may choose to increase FAR more widely, which would impact what can be delivered from the remaining NLTF. The PWA reform proposal may allow projects to pay a 10% premium to secure land so projects can progress quicker (unconfirmed) Waka Kotahi will face ongoing cost pressures for operating public transport while patronage levels remain lower than pre-COVID19 forecasts. Under existing policy settings, these costs would be shared between central and local government. Fare revenue will be impacted by no more than 40% of normal capacity being allowed while we remain in AL2. Policy decisions may be required to adjust the cost sharing arrangement, and/or to influence wider policy objectives (e.g. to support different fare strategies), taking into account the financial position of regional authorities. While some of these decisions can be made operationally, it may be desirable or necessary for Cabinet to take policy decisions on some matters. There is a possibility of further capital cost pressures, if changes to the structure of public transport provision are contemplated. These costs have not been estimated but in most cases, their impact can be scaled and phased. 	<p>TBC</p>
 <p>Aviation</p>	<ul style="list-style-type: none"> CAA replacement of core regulatory technology platform: Enables the CAA to replace its existing regulatory system with a commercial off-the-shelf regulatory aviation-specific system. A Crown loan to support this was approved in Budget 2020 but, due to the impacts of COVID-19, CAA can no longer meet the loan pre-requisites (funding from reserves, completing a pricing review etc.). We will work with CAA to explore other sources of viable funding in the near future (such as re-negotiating the Crown loan, the next CRRF wave or an out-of-cycle budget bid). Essential Transport Operators are yet to return to business, so level of support TBD. 	<p>\$22.1m*</p>
	<ul style="list-style-type: none"> It is unknown how much of the International Air Freight Capacity (IAFC) scheme's funds will be spend because 1) many of the agreements have variable costs depending on loading and 2) flight commitments continue to change, with the general expectation that as demand increases so too will services and the IAFC spend. The current level of spending is estimated at \$6m per week for 8 weeks (i.e. \$48m) for Phase 1 but this is highly uncertain due to variable funding arrangements and changes to flight schedules reflecting demand. 	<p>Estimated maximum cost for Phase 1 is \$75.15m subject to change as flight schedules change.</p>
<ul style="list-style-type: none"> Essential transport connectivity: funding to support aviation policy initiatives which provide essential aviation connectivity such as: <ul style="list-style-type: none"> Airports or airlines that support New Zealand to achieve sufficient basic regional connectivity across New Zealand and are key to the recovery of domestic and/or international aviation Entities that provide essential aviation services 	<p>\$30m likely fundable from \$600m aviation support package</p>	
 <p>Maritime</p>	<ul style="list-style-type: none"> Domestic business may require small business relief (e.g. wage support or break from fees/charges) following the dip in the freight sector during the March/April period. Calls for financial support from freight ferries for remote communities which are loss-making due to the loss in passenger revenue. Currently unconfirmed whether ferry operators will receive financial support. 	<p>TBC</p>
 <p>Rail</p>	<ul style="list-style-type: none"> KiwiRail are working to determine whether their capital maintenance and renewal business as usual can still be funded, or whether a funding gap has been created from: <ul style="list-style-type: none"> Loss of revenue during lockdown from scenic rail, which stopped completely Loss of revenue from lack of international tourists. This will also impact FY 2020/21. If COVID-19 has caused an increase to the cost of ferries, then the replacement programme costs may increase. 	<p>\$X – KiwiRail working with Treasury to determine costs</p>

There are some areas where we currently assume no Central Government support will be needed.

- Transport Accident Investigation Commission: No approved or future anticipated costs
- Ports: We are not expecting to provide additional Crown support given their council ownership. Ports may be affected by a lull in cruises but freight has continued to provide business.



Roadmap of decisions

(Appendix 2)

As a result of COVID-19 you will have a number of investment decisions and trade-offs to make in the coming months, particularly in the land transport sector. This will include decisions on items included in Appendix 1. The decisions link and impact each other, as well as your longer-term aims for the transport sector. This roadmap is intended to give you foresight of the issues, as some may require fast decisions.

Finalising GPS 2021 for July 2020

- Are the strategic direction and funding ranges:
 - still your desired aims, in light of COVID-19
 - still your desired aims in light of public engagement feedback
 - affordable given new cost of base and available revenue (including usually assumed council share, which will likely be lower)
 - deliverable by the workforce alongside NZUP and additional economic stimulus projects

Note: LGWM have indicated they are not looking to refresh their plan in light of COVID-19

Should be reflected in GPS strategic direction & funding ranges

ATAP

- Refresh underway to reflect changes since 2018 (e.g. NZUP, COVID-19). Aiming for completion in July/August 2020.
- **Are you comfortable for GPS 2021 to commit to a level of funding for ATAP, with the ATAP programme and projects still to be agreed?**

Rail Plan

- The draft GPS enables up to \$120M per year
- Further expectation of Crown funding for 10 years to be approved in future Budgets
- Legislation is in the House to implement
- Cabinet to consider track user charges to supplement NLTF and Crown contributions
- Resilient and reliable rail scenario remains the best plan post COVID-19
- Rail Plan projects may receive some funding through the CIP process or the PGF
- **Are you comfortable with the GPS 2021 committing to 10 years of funding for rail with decisions on future Budget funding and track user charges still to be confirmed?**

MoT is developing the Transport emissions action plan for September 2020

The transport emissions action plan will be our core document to feed into:

- the transport chapter of the Emissions Reduction Plan (due September 2020)
- the Climate Change Commission Emissions budgets which are due in early 2021 and be for the periods 2022-2025, 2026-2030 and 2031-2035.

How will this be funded?

- **Does it change any of your choices through CIP?**
- **Are you still comfortable that we assume, beyond mode shift, that the NLTF will not fund a large contribution to emissions reductions?**

MAY

JUNE

JULY

NLTF 2019/20 pressures

- short-term borrowing facility established for \$425M
- secured to help with cash flow issues to end of 2019/20
- requires repayments in future years, impacting GPS 2021 discretionary funding

NLTF issues over 2020/21 & GPS 2021

- COVID-19 has reduced revenue, increased costs (e.g. fares free PT), and required borrowed funds to be repaid
- The shortfall could be up to \$2.2 billion [\$870–\$1,370 million in 2020/21, and \$200–\$400 million per year over 2021/22–2023/24]
- You will receive advice in the week commencing 25 May 2020 that provides options to navigate this funding challenge. Most options are likely to impact planned expenditure in GPS 2021, and may require Cabinet decisions to implement before finalising the GPS 2021

Crown Infrastructure Partners

- ~\$3 billion has been set aside to fund shovel-ready infrastructure projects identified by CIP
- The list includes some projects that missed out on NLTF funding during NLTP 2018, or could be candidates for NLTP 2021
- You will need to decide if you want to secure funding in this process to support delivery of GPS aims, which could help to reduce pressure on GPS 2021

COVID Response & Recovery Fund

Initial funding approved in May 2020. Timing of subsequent round TBC. Available to deal with specific, immediate funding needs directly caused by COVID-19.

Funding choices will influence the finalisation of GPS 2021, ATAP, and the Rail Plan