

## Impact of COVID-19 on the NLTF — further advice

<b>Reason for this briefing</b>	Following consideration of a previous Ministry of Transport briefing, you requested further advice to help understand the implementation of potential options to address the shortfall in the National Land Transport Fund (NLTF) in 2020/21 and beyond resulting from COVID-19.
<b>Action required</b>	Direct the Ministry of Transport and the Treasury to draft a Cabinet paper giving effect to the proposed approach set out in this paper.
<b>Deadline</b>	8 June 2020.
<b>Reason for deadline</b>	To enable sufficient time for officials to prepare a Cabinet paper outlining your preferred approach for consideration by Cabinet before 30 June 2020.

### Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Helen White	Manager, Investment	[REDACTED]	✓
Matt Skinner	Senior Adviser, Investment		
David Taylor	Manager, National Infrastructure Unit, The Treasury		
Gerald Lee	Analyst, National Infrastructure Unit, The Treasury		✓

### MINISTER'S COMMENTS:

Section 9(2)(a) of the OIA

<b>Date:</b>	5 June 2020	<b>Briefing number:</b>	OC200455 T2020/1794
<b>Attention:</b>	Hon Phil Twyford (Minister of Transport)  Hon Grant Robertson (Minister of Finance)	<b>Security level:</b>	In Confidence

### Minister of Transport's office actions

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> <i>Noted</i>        | <input type="checkbox"/> <i>Seen</i>                 | <input type="checkbox"/> <i>Approved</i>            |
| <input type="checkbox"/> <i>Needs change</i> | <input type="checkbox"/> <i>Referred to</i>          |   |
| <input type="checkbox"/> <i>Withdrawn</i>    | <input type="checkbox"/> <i>Not seen by Minister</i> | <input type="checkbox"/> <i>Overtaken by events</i> |

## **Purpose of report**

1. This report provides you with further advice on expected revenue and expenditure through the National Land Transport Fund (NLTF) resulting from COVID-19, including:
  - 1.1. updated revenue forecasts to reflect more realistic alert level scenarios
  - 1.2. updated estimates on increased expenditure resulting from COVID-19
  - 1.3. options to address the shortfall between revenue and expenditure over the next four financial years
  - 1.4. action required to repay any new borrowing over the Government Policy Statement on land transport 2021/22–2030/31 (GPS 2021) period.

## **The previous briefing set out the expected shortfall and options to address it**

2. On 27 May 2020, the Ministry of Transport (the Ministry) provided advice that set out the expected NLTF shortfall resulting from estimated COVID-19 costs and a reduced revenue forecast (OC200361 refers).
3. You requested further advice with updated revenue assumptions to reflect new expectations since the Budget Economic and Fiscal Update (BEFU) 2020 was undertaken. We have now also received more detailed estimates of the COVID-19 related costs that Waka Kotahi NZ Transport Agency (Waka Kotahi) expects to fund through the NLTF.
4. Our updated advice also reflects the steers you provided on potential options to address the shortfall, including:
  - 4.1. potential for a Crown grant to cover direct COVID-19 related costs
  - 4.2. debt funding to mitigate the remaining expected shortfall over the next four financial years (2020/21–2023/24)
  - 4.3. reducing expenditure expectations through the GPS 2021 period to enable capacity to repay borrowing
  - 4.4. no increases to petrol excise duty (PED) or road user charges (RUC).

Information withheld under section 9(2)(f)(iv).

## **The updated revenue forecast to reflect new COVID-19 alert level expectations provides \$280 million additional revenue than our previous forecast**

5. The Ministry's previous advice used the assumption that revenue would sit somewhere between the scenario developed for BEFU 2020 (1 month at Alert Level 4, followed by 11 months at Alert Level 2 and 3 months at Alert Level 1) and a slightly more pessimistic scenario that assumed 2 months in each of Alert Levels 4 and 3, and a year in Alert Levels 2 and 1.
6. The Ministry has now developed a forecast that assumes New Zealand will enter Alert Level 1 in June 2020, with no return to higher alert levels. This is set out in Table 1, compared to pre-COVID forecasts.

Table 1: NLTF forecast revenue for next four years (\$ million)

	2020/21	2021/22	2022/23	2023/24
Pre-COVID forecast (from the Half-Year Economic and Fiscal Update 2019)	4,353	4,483	4,574	4,654
BEFU 2020 forecast (COVID-19 forecast)	3,912	4,286	4,464	4,612
Alert Level 1 forecast (revised June 2020)	4,093	4,356	4,502	4,606

7. The latest forecast update is not an official forecast (i.e. it has not gone through the usual moderation process involving Waka Kotahi and the Treasury), but it has been adjusted to reflect actual revenue data to the end of April 2020. Actual data for May 2020 will be available in the week of 8 June 2020 and can be reflected in a further forecast update for any Cabinet paper.
8. The Alert Level 1 forecast is approximately \$280 million higher than our BEFU 2020 estimate over the first 4 years, but still \$500 million less than the pre-COVID forecast. Revenue returns to and remains near pre-COVID levels from 2024/25 and beyond.

### Waka Kotahi has provided more detailed cost estimates, with higher NLTF expenditure

9. Waka Kotahi currently has access to three borrowing facilities:
  - 9.1. \$175 million to manage seasonal cash flow variations (to be repaid annually)
  - 9.2. \$75 million to manage unexpected variation (shocks) in revenue and expenditure (to be repaid within 3 years of the shock occurring)
  - 9.3. \$425 million to manage decreased revenue resulting from COVID-19 (to be repaid within 7 years).
10. Waka Kotahi's cash flow forecast assumes that as at 30 June 2020 it will have drawn down the majority of the three facilities (a total of \$675 million), and will enter the next financial year with cash on hand of close to \$0.
11. The following table sets out the expenditure requirements for 2020/21 onwards, . These are the most up to date expenditure figures but there is still significant potential variance and we have not fully interrogated the figures in the time available.

Table 2: NLTF expenditure for 2020/21–2023/24 (\$ million)

	2020/21	2021/22	2022/23	2023/24
NLTF expenditure	4,693	4,483	4,574	4,654
Borrowing repayments excluding interest (cash flow, shock and COVID-19 facilities)	175	75	75	150
Public transport COVID-19 costs	220	0	0	0

Information withheld under section 9(2)(b)(ii) of the OIA

12. Notes to the table:
  - 12.1. The “NLTF expenditure” row is the expenditure required to complete the commitments in the 2018–21 National Land Transport Programme (NLTP) for

2020/21, and delivering the GPS 2021 priorities from 2021/22 (excluding any COVID-19 impacts). The 2020/21 NLTF expenditure is higher than the pre-COVID revenue forecast, because Waka Kotahi was expecting to enter 2020/21 with a high cash balance.

- 12.2. We have assumed that the borrowing will be repaid as per existing terms of each facility (though the Treasury is considering a proposal to refinance the shorter term facilities over the same 7-year period of the COVID-19 facility).
- 12.3. Public transport funding — councils have advised Waka Kotahi that with reduced fare revenue and increased costs (for example, cleaning costs), public transport will require increased NLTF funding in 2020/21.
- 12.4.
- 12.5.

**We propose using a combination of a Crown grant and borrowing to address the shortfall**

13. The total expected shortfall over the next four years is set out in Table 3.

*Table 3: Shortfall in NLTF over next four years (\$ million)*

	2020/21	2021/22	2022/23	2023/24	Total
Forecast revenue (revised)	4,093	4,356	4,502	4,606	17,557
Planned expenditure (total post COVID, including repayment of existing borrowing)	5,768	4,558	4,649	4,804	19,779
<b>Total shortfall</b>	<b>-1,675</b>	<b>-202</b>	<b>-147</b>	<b>-198</b>	<b>-2,222</b>

- 14. Taking into account the feedback provided by Ministers on the previous briefing, we propose the following approach to address the shortfall in NLTF revenue relative to expected expenditure over 2020/21–2023/24.
  - 14.1. A Crown grant of up to \$900 million for 2020/21 to cover the direct costs resulting from COVID-19. This could be a tagged contingency that can only be drawn down as the potential COVID-related costs eventuate.
  - 14.2. Funding for a new COVID-19 borrowing facility of up to \$1.3 billion to cover the expected impact of reduced revenue over the next four years. This would also be available to refinance Waka Kotahi’s short-term borrowing that responds to the immediate impacts.
- 15. A different funding split between Crown grant and borrowing would be possible if Ministers prefer an alternative approach. The recommended split above is based on the principle that the Crown would cover any direct COVID-19 costs (as these are extraordinary and are

nearly a year's discretionary spending), while the NLTF will ultimately remain responsible for any revenue shortfall caused by reduced travel.

16. We note that the figures above are still indicative to some degree, particularly given uncertainty around expenditure. If you agree for us to draft a Cabinet paper seeking agreement to the above approach, we will attempt to refine these figures wherever possible.
17. As set out in the previous paper, any borrowing requires future repayments that reduces discretionary expenditure available for other priorities. This is set out in the following section and highlights a challenge if further borrowing to the NLTF is required (e.g. for Let's Get Wellington Moving (LGWM) and the Auckland Light Rail project), which would further limit future discretion to implement new priorities.
18. We note that under section 65L of the Public Finance Act 1989, the decision to lend on behalf of the Crown is ultimately the Minister of Finance's. In particular, the Minister may lend to any person or organisation where he considers it necessary or expedient in the public interest to do so. Additionally, Crown entities cannot borrow unless the Minister of Finance and the responsible Minister give their approval under section 160 of the Crown Entities Act 2004.
19. In response to advice from the Treasury that you received on Thursday 4 June 2020, you were asked to provide these approvals for the initial \$425 million loan provided through the CRRF Foundation Package. However, further approvals will likely be required for any additional borrowing. We will provide you with advice on these when we provide you with the draft Cabinet paper for cross-party consultation.

### **The GPS 2021 needs to factor in the required debt repayments**

20. Engagement on the draft GPS 2021 closed on 11 May 2020, and the Ministry is now preparing advice on the feedback received and the potential changes you may consider before it is finalised.
21. If approved by Cabinet, GPS 2021 would come into effect on 1 July 2021. It is currently drafted to ensure the strategic priorities can be delivered with available revenue (i.e. achieving the Government priorities would utilise all pre-COVID revenue).
22. The proposed approach outlined in this paper addresses the immediate and urgent need to enable the delivery of existing commitments in 2020/21, and to smooth the impact on the first three years of GPS 2021. Meeting the borrowing repayments in GPS 2021 will reduce expenditure by around \$1.5 billion over the 10 year period. The Ministry will provide further advice on the implications and decisions required to balance delivery of priorities and repayment of debt over the GPS 2021 period.
23. We recommend decisions on changes to the draft GPS 2021 are best taken when considering the feedback from submissions following engagement<sup>1</sup>. We can finalise the GPS for Cabinet consideration that reflects both public submissions, and the costs of servicing repayments on the COVID-19 borrowing.

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<sup>1</sup> The scale of changes required to accommodate borrowing could potentially be considered as significant, thereby requiring further engagement with stakeholders (as per section 90(2) of the Land Transport Management Act 2003). The Ministry is currently testing this with Crown Law.

24. Assuming you are comfortable with the approach outlined in paragraph 14, we would seek to scale back the strategic priorities to reduce discretionary spend. Potential expenditure currently outlined in the draft GPS 2021 that could be reduced includes:
- 24.1.
- 24.2. other ATAP and LGWM commitments — there is up to \$6 billion of uncommitted spending within these programmes to be funded over 2021/22–2030/31. Any reduction would require renegotiation with the councils (Waka Kotahi is working to understand the impact of COVID-19 on local government’s forward commitments)
- 24.3. Road to Zero — the GPS 2021 provides \$10 billion over 10 years towards a 40 percent deaths and serious injuries reduction; decreasing the target to 30 percent would reduce the spend required by around \$1.5 billion
- 24.4. reducing other GPS 2021 priorities — the draft GPS 2021 includes provision for around \$2.5 billion of funding for potential public transport, walking and cycling and other improvements targeted towards encouraging mode shift.
25. We recommend retaining expenditure in areas that aim to maintain the existing transport levels of service, and activities that are already contracted. Spend on activities such as road maintenance tend to provide a greater contribution to job creation and economic development than new infrastructure investment.

### Timing and next steps

26. Ministerial agreement to an approach to mitigate the NLTF shortfall is required before the 2020/21 financial year. Without it Waka Kotahi is likely to have insufficient cash flow to meet obligations in July 2020. This would mean having to stop projects that are already underway or are immediately ‘shovel-ready’, which could exacerbate the economic impact of COVID-19.
27. If Ministers agree, the Ministry and the Treasury will provide a draft Cabinet paper in the week of 8 June 2020 seeking approval to your preferred approach. An indicative timeframe for Cabinet consideration is provided below. This approach allows 7 days for cross-party engagement but assumes the paper goes direct to Cabinet (to ensue consideration by 29 June 2020).

	Date
Ministerial agreement to approach	8 June 2020
Draft Cabinet paper provided to Ministers	11 or 12 June 2020
Cross party consultation; inter-departmental engagement	15-23 June 2020
Officials finalise Cabinet paper	24 June 2020
Lodge with Cabinet office	25 June 2020
Cabinet	29 June 2020

28. The Ministry can work with the Minister of Transport's office to discuss the preferred approach to finalise a paper for Cabinet. This could include expedited cross-party consultation to enable time for DEV consideration, and/or late lodgement.
29. As noted in paragraphs 20–25, decisions to resolve the COVID-19 impact on the NLTF will influence what can be delivered through the GPS 2021. The Ministry will provide further advice to the Minister of Transport on GPS 2021 implications, including expenditure options (given borrowing repayments), and feedback from engagement on the draft GPS. This advice will also outline the expected timeframes for finalising the GPS (which have been put under pressure given COVID-19).

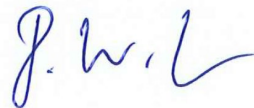
### Recommendations

30. The recommendations are that you:

- |     |  |        |
|-----|--|--------|
| (a) | <b>direct</b> the Ministry of Transport and Treasury to develop a Cabinet paper seeking approval for the following arrangements to address the NLTF shortfall:   | Yes/No |
|     | <ul style="list-style-type: none"> <li>• Crown grant to fund COVID-19 related expenditure (approximately \$900 million)</li> <li>• Debt funding to manage lower than expected revenue (approximately \$1.3 billion)</li> </ul> |        |
| (b) | <b>note</b> that the Ministry of Transport will provide further advice to the Minister of Transport on how debt can be repaid through the GPS 2021 period  |        |



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 Ministry of Transport**



David Taylor  
**Manager, National Infrastructure Unit  
 The Treasury**

### MINISTERS' SIGNATURES:

Hon Grant Robertson  
**Minister of Finance**

Hon Phil Twyford  
**Minister of Transport  
 Minister for Economic Development**

DATE: \_\_\_\_ / \_\_\_\_ / \_\_\_\_

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