Ministry of Transport
TE MANATŪ WAKA

BRIEFING

Advice on funding Let's Get Wellington Moving

Reason for this briefing	This briefing provides you with advice on the remaining work that needs to be done, to get you to a position where you can be confident that Let's Get Wellington Moving is a fully funded package of investments.
Action required	Discuss this briefing with officials.
Deadline	17 September 2018.
Reason for deadline	So that you can discuss the contents of this briefing with officials at your meeting on 17 September.

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**First contact**
Bryn Gandy	Deputy Chief Executive, Strategy and Investment	[redacted]	
Marian Willberg	Manager, Demand Management and Revenue	[redacted]	✓
[redacted]	Adviser, Demand Management and Revenue	[redacted]	

MINISTER'S COMMENTS: Withheld to protect the privacy of individuals

Date:	14 September 2018	**Briefing number:**	OC180695
Attention:	Hon Phil Twyford (Minister of Transport)	**Security level:**	In-confidence

Minister of Transport's office actions

☐ *Noted* ☐ *Seen* ☐ *Approved*

☐ *Needs change* ☐ *Referred to*

☐ *Withdrawn* ☐ *Not seen by Minister* ☐ *Overtaken by events*

Purpose of report

1. We understand that you have received a briefing from the New Zealand Transport Agency (NZTA) updating you on the funding and financing options being considered for Let's Get Wellington Moving (LGWM).

2. It was agreed that the Ministry of Transport (the Ministry) would also provide advice on funding and financing the LGWM proposal to assist you to present a fully funded package to your Cabinet colleagues.

3. Our starting point is that the LGWM proposal should have a level of agreement on an indicative programme of investments and funding certainty similar to the Auckland Transport Alignment Package (ATAP), for you to take to Cabinet and make an announcement on. This briefing sets out key questions that need to be worked through to provide confidence that LGWM has this level of certainty.

Executive summary

4. In the last few weeks, the Ministry and Treasury have met with officials from the agencies involved in LGWM to discuss funding options for the proposal.

5. High level financial modelling has been undertaken for the programme and an economic case is currently being peer reviewed. We have only recently received information on some of the analysis that has been done. As a result, the advice in this briefing has been prepared quickly in order to facilitate a discussion with you.

6. There is broad agreement between the Ministry, Treasury, and the agencies involved in LGWM that the funding proposal is at an early stage and the financial modelling is based on a number of assumptions that need to be further tested, including:

   - the timing of constructing and funding the programme
   - revenue certainty around local government funding streams
   - the funding split between local government and central government
   - impacts on businesses and households.

7. The Ministry supports developing a solution to address the pressures Wellington's transport system currently faces, such as congestion, safety issues around walking and cycling, and poor and declining levels of service. The Ministry is keen to continue working with the LGWM parties, and would like to have ongoing involvement in the project going forward in order to support you to be able to confirm a solidly-founded solution.

8. We recommend that you wait until there is more certainty over the programme composition, sequencing and timing, revenue tools, and potential risks before agreeing to the programme and making an announcement. This will also put you in a better position to negotiate aspects of the proposal with local government if required.

Background

9. LGWM is a joint initiative between the NZTA, Wellington City Council (WCC), and Wellington Regional Council (WRC). LGWM's focus is the area from Ngauranga Gorge to the airport, encompassing the Wellington Urban Motorway and connections to the central city, hospital, and the eastern and southern suburbs.

10. In November and December 2017 LGWM released four potential scenarios for Wellington's transport future for public engagement. Each scenario consisted of a package of projects

centred on the focus of the scenario. The cost of the different scenarios ranged from $150 million to $2.3 billion, and construction time between 1.5 and 10 years.

11. Since completing this engagement, the project team has developed the draft recommended programme of investments (RPI). The draft RPI is a combination of all four scenarios with some additional projects. The focus is on moving more people with fewer vehicles, and there are twelve specific areas of investment. The draft RPI is more expensive than any of the four potential scenarios that were released for engagement, and includes two particularly large scale projects:

- mass transit from the railway station to Newtown, and then extended to the airport
- undergrounding of SH1 at Karo drive to create a green space above.

12. Officials from the Ministry and the Treasury have recently engaged with LGWM project partners. The main focus of this engagement has been to understand the proposed funding and financing arrangements to deliver the LGWM investment programme.

13. The following sections provide commentary on our current understanding of the proposals we have been taken through over the past couple of weeks. This advice has been prepared quickly in order to facilitate a discussion with you. We intend to continue to engage with the agencies involved in LGWM so we can provide you with more considered advice as the project moves along, once we have a better understanding of the project's components.

The draft RPI is at an early stage of project design

14. The draft RPI is currently at an early stage of project design, and the project team is working off relatively indefinite cost estimates for the proposed projects, particularly the large, innovative projects such as mass transit and undergrounding Te Aro. The estimated programme costs we have been provided range between $4.0 billion and $4.8 billion (uninflated). We have been advised that actual costs are likely to be closer to the high end of the range, and may increase as more accurate cost estimates become available when the project team begins more detailed design.

15. Some level of uncertainty over programme costs is expected at this stage of design. However, we are conscious that as the programme approaches the higher end of the estimate, it starts to become unaffordable under the current funding proposal.

The financial modelling is based on a number of assumptions that need to be further tested

16. The LGWM project team has been working through funding and financing options to determine whether the programme of investments is fundable. The current financial modelling is based on a number of assumptions which are described below. The financial modelling is heavily reliant on these assumptions, and changes to any of the assumptions have a meaningful impact on the affordability of the programme. We therefore have the view that the financial modelling is still at a relatively early stage, and that there are a number of considerations to work through to get to an ATAP level of confidence.

17. The financial modelling is based on the assumption that the programme will be delivered over 18 years and funded over 30 years from the completion of the package. We have been advised that it is likely that it will take at least 18 years to deliver the programme due to project design, buildability constraints, procurement, public consultation and funding implications.

18. To fund the programme, LGWM has assumed a 67/33 percent split between the National Land Transport Fund (NLTF) and local funding. This is based on the assumption that, on average, Wellington will get its population share of the NLTF (11 percent) over the next 50 years.

19. The majority of the local government share is assumed to come from new revenue streams:

- 10 cent per litre regional fuel tax
- cordon charge or parking levy
- targeted rate of up to 10 percent
- 1 percent general rates increase per annum for 10 years.

20. These new revenue streams would begin generating revenue in 2021/2022. The targeted rate would not provide maximum revenue straight away, as it would increase over time as benefits are realised. It would also take 10 years for the general rates increase to provide maximum revenue.

We need to consider the implications and feasibility of committing funding over a long period

21. The current proposal is that the programme will be delivered over 18 years and funded over 30 years from the date the package is completed. This means that the programme will be fully paid off by 2066/67. There are two key risks with funding a large investment over a very long period of time:

    21.1. A significant amount of NLTF and local government revenue is committed over the next 49 years, which reduces the ability of both central and local government to fund other projects. There is a level of uncertainty over what kind of infrastructure will be required and/or will be available in the future. It is important to have some degree of flexibility to be able to adapt to a changing environment over the longer term.

    21.2. The sustainability of revenue streams is uncertain. It is not clear whether funding streams that are feasible now will still be feasible in years to come. For example, changes in technology and the urban environment mean that people may not be as reliant on private vehicles in the future, which reduces the amount of revenue provided through mechanisms such as road taxes and congestion charges.

22. Notwithstanding the risks outlined above, the NZTA Board may not have the ability to commit NLTF funding over the entire proposed time period. Legislation stipulates that the NZTA board cannot commit funding to any project that is not specified in the NLTP, which usually covers a ten year time period. The Ministry needs to do further work to understand what ability there is to make NLTF commitments longer than ten years, and what Ministerial approval may be required to do this.

23. The shorter the funding period, the less affordable the programme is for both central and local government. There are three main reasons for this:

    23.1. the new local government revenue streams do not provide the maximum amount of revenue straight away, as described above

    23.2. a greater amount of revenue is required over a shorter period of time

    23.3. in the first two decades, revenue is already heavily committed to existing projects across the Wellington region, which limits the amount of revenue available for LGWM.

24. Additionally, there is an assumption that NLTF revenue will be inflated over the funding period. NLTF revenue primarily comes from road user charges (RUC) and fuel excise duty (FED), which do not automatically increase with inflation. A Cabinet decision and legislative

change is required to increase the FED and RUC rates. Increases in these rates have an impact on transport affordability. Additionally, increasing FED and RUC to fund LGWM reduces the ability for you to use FED and RUC increases to fund other transport investments.

We need to understand the impacts of the new funding streams on households and businesses

25. As mentioned above, four new revenue streams have been proposed to fund the local government share of the programme costs. Each of these new streams has the potential to increase living costs for households. It is important to understand the social and distributional impacts that these cost increases will have.

26. A regional fuel tax would increase transport costs for Wellingtonians who travel in a private vehicle by increasing the cost of fuel. A CBD cordon charge would increase the cost of transport for individuals who drive into the CBD, and a parking levy would increase the cost of transport for individuals who park in the CBD.

27. One potential concern is the impact of these cost increases on low income households. A driver who has paid regional fuel tax, and a $5 (this is the current proposal) cordon charge or parking levy would see a significant increase in their transport expenditure.

28. Rates increases also have affordability issues, particularly for those who are asset rich, but income poor, and tenants in rental properties who landlords will pass the costs on to.

29. The proposed revenue streams have the potential to cause business disruption in the Wellington CBD. The targeted rates will make it more expensive for businesses to locate within the affected areas and transport charges will impact businesses that either use cars frequently, or that expect their employees to drive into the CBD.

30. As a result of these increased costs, existing businesses may be incentivised to relocate outside of the CBD, or may not choose to expand their business in the CBD. New businesses may also be disincentivised to establish themselves within the CBD. There may also be an impact on the retail sector in the Wellington CBD resulting from a reduction in those who would usually drive into and park in the CBD during the week to shop. This could result in a potentially large detrimental impact to Wellington City from a reduction in projected GDP, employment and rating base.

31. It is important to understand the potential cumulative impact of all of these cost increases on households and businesses for local and central government decision-makers to be comfortable with these.

The LGWM proposal assumes a departure from usual land transport funding arrangements

32. Under current funding arrangements, approved organisations (e.g. local government) are required to provide local share for projects approved for NLTF funding, with the exception of state highway and certain rail projects. This is to ensure that approved organisations continue to have a level of cost ownership and strive for value for money.

33. The amount of local share required is based on the approved organisation's funding assistance rate (FAR). The FAR for GWRC and WCC is 51 percent (i.e. GWRC and WCC are required to contribute 49 percent to local projects).

34. We understand that if the LGWM proposal is funded through the usual funding arrangements, most of the costs will be borne by the NLTF as they relate to either state highway or mass transit projects.

35. However, the LGWM proposal is based on the assumption that WCC and GWRC will get their population share of the NLTF (i.e. approximately 11 percent of the total NLTF) to fund the planned land transport projects including the LGWM programme.

36. [redacted] Withheld as free and frank advice

A shift away from private car use is a risk for cordon charging and parking levy revenue

37. Using a cordon charge or a parking levy to raise revenue relies on the people who currently drive into the city paying the proposed charges. A reduction in this number will impact on revenue. Mechanisms such as a cordon charge and parking levy tend to have a demand management impact, thus reducing the number of people who end up paying the charge. Depending on the level of the charge (the higher the charge, the larger the demand management response), these mechanisms will have varying impacts on private car use in the Wellington region, which will have an impact on the expected revenue from the funding options.

38. NZTA has done some modelling on the expected demand response resulting from different rates of cordon charge and parking levy. We have seen the results of this modelling, however, we do not yet have a clear understanding of how robust it is. It is very important that this modelling is robust, as the ability of council to fund its local share is heavily reliant on this revenue stream.

39. The projects in the draft RPI are proposed to increase the provision of public transport, and improve walking and cycling facilities. This could result in increased uptake of these modes, which could also impact revenue.

A parking levy could create an incentive for council to retain carparks

40. Using a parking levy as a mechanism to fund a large investment over a long period of time creates an incentive for the council to retain parking spaces over the funding period. This may be in conflict with local and central government's urban development intentions.

Adjusting the programme is an option to make LGWM more affordable

41. There are two potential programme solutions to reduce the level of funding required to deliver the LGWM package. These options are also outlined in NZTA's briefing.

Scale back programme

42. One option available is to analyse the programme at a project level and determine whether there are any adjustments to scale that can be made that reduce costs, while still delivering meaningful benefits.

43. The Ministry has been provided with a draft executive summary of the economic assessment of the draft RPI that is being peer reviewed by EY. The summary provides benefit cost ratio (BCR) ranges for the programme as a whole from 0.7 to 1.6. The wide BCR range shows that there is still a level of uncertainty around the costs and benefits of the programme. The Ministry has not yet seen the full economic assessment, so has not been able to analyse the assumptions underpinning the analysis to fully understand and be confident of the robustness of the analysis.

44. It is important that the Ministry and Treasury continue to work with LGWM partners to fully understand the value of the programme and work through how it can most efficiently address Wellington's problems for the best value for money.

Sequencing of proposal

45. Another option is to consider the sequencing of projects and potentially push the construction of some of the more expensive projects out.

Next steps

46. There is broad agreement among the agencies involved in LGWM that there is still a substantial amount of work to do to work through the questions outlined above.

47. We would like to continue to work with LGWM partners to achieve a greater level of certainty over the projects, costs and funding of the programme, and provide you with more considered advice, ideally as a joint paper with other LGWM agencies.

Recommendations

48. The recommendations are that you:

    (a) **discuss** this briefing with officials — Yes/No

Marian Willberg
Manager, Demand Management and Revenue

MINISTER'S SIGNATURE:

DATE: