



Ministry of Transport: Aide Memoire

To: Hon Phil Twyford

From: [REDACTED] Withheld to protect privacy of individuals

Date: 4 December 2018

Subject: Request for updated advice on Let's Get Wellington Moving

OC Number: OC181174

Purpose of this aide memoire

1. At your meeting with officials on 4 December 2018, you requested updates to the financial figures we provided to assist you in your discussions with the LGWM Governance Group in the afternoon. This advice reflects the following updates:
 - Wellington's 'population share' of National Land Transport Fund (NLTF) has been changed from 11 percent to 10 percent
 - Financing costs have been included in the figures.
2. An appendix that you can share with local politicians for discussion is also included.

Preferred package

2. You indicated to officials that Option 1 is your preferred option from the three options proposed by the LGWM working group in briefing paper: *Advice on Funding Let's Get Wellington Moving* [OC181015].
3. You also advised officials that you wanted to test local government's appetite for particular projects and their level of funding contribution, in particular Unblocking the Basin Reserve and a second Mount Victoria Tunnel and four laning at Ruihine Street. Under regular funding arrangements, central government would fund 100 percent of these projects based on the funding assistance rate (FAR) for the state highways activity class.
4. The projects included in the first phase of Option 1 and the proposed local and central government funding shares are set out in Table 1 below.
5. Under this proposal central government would contribute roughly 60 percent of the funding for the first phase, and local government would contribute 40 percent.
6. The projects that could be part of a second phase of Option 1 are listed in Table 2. Only the total cost of these projects is listed as there have not been discussions about how to split the cost of these projects if they were to progress.

Table 1 – Option 1 (first phase) with proposed central/local government funding split¹

Programme element	Capex \$m	Local share (\$m)	Central share (\$m)
<i>Projects to be funded under current FAR (51%)</i>			
A Walkable city	84	41	43
Connected cycleways	36	18	18
Public transport (City and North)	324	159	165
Smarter transport network	36	18	18
Smarter pricing	36	18	18
<i>Projects to be funded 100% by central government</i>			
Rapid transit Railway Station – Newtown	1,188	0	1,188
<i>Projects to be funded 100 percent by local government</i>			
Unblocking the Basin Reserve	156	156	0
Second Mount Victoria Tunnel and four laning at Ruihine Street	577	577	0
Total	2,436	987	1,450

Table 2 – Option 1 (second phase)

Programme element	Capex (\$m)
Rapid Transit Newtown to Airport	540
Undergrounding at Te Aro	1320
Second Terrace Tunnel, and a fourth southbound lane between Ngauranga and Aorea	480
Total	2,340

7. Table 3 below shows the local and central government shares including financing costs. All of the local share is assumed to be financed, and rapid transit is assumed to be financed for the central government share.

¹ The figures in these tables do not account for inflation or financing costs.

Table 3 – local and central government funding shares including financing costs²

	Decade 1	Decade 2	Decade 3	Total
NLTF share	908	1,477	795	3,180
Local share	367	1,184	1,070	2,621
Total payments	1,275	2,661	1,865	5,801

The Ministry and Treasury support LGWM, but believe that there are a number of key things to note

8. The Ministry of Transport and Treasury support an approach to develop an agreed package of transport projects with the Wellington Region in a similar vein to the Auckland Transport Alignment Project (ATAP). However, we consider that the following process and decision making issues need to be considered and worked through.
9. **The robustness of the numbers** – the numbers being used have been put together quickly and are based on figures extrapolated over a 30 year period. We recommend that appropriate caveats are placed on numbers until further detailed analysis can be done, particularly taking into account:
 - cost estimates for major projects – These are based on 95 percentile estimates
 - the numbers have been provided by NZTA and the Ministry and Treasury have yet to have an opportunity to work through them
 - financing costs
 - revenue and expenditure assumptions in the NLTF modelling are extrapolated over 30 years and are subject to changes in market conditions.
10. **Pre-committing all of the Wellington Region’s share of the NLTF over 30 years:** This would mean that the Wellington Region is essentially “tapped out” on its share of the NLTF. This presents some key issues:
 - The Wellington Region would need to agree that there is no further NLTF funding for additional projects over the next 30 years. This would require buy in from the whole region on transport priorities and confirmation that this is the right package to deliver the most benefits for the region.
 - As the fund is pre-committed to light rail, there would be limited ability to reprioritise in out years, there would also need to be agreement on how any cost overruns would be managed.
11. **Alignment with decision making processes:**
 - a. The decision rights for NLTF expenditure sit with the NZTA Board. These include:
 - Whether the projects, or package of projects, meet criteria to qualify for NLTF investment

² These costs relate to projects in the first phase only and includes operating costs.

- Which projects are prioritised for investment by the fund across the country
 - The debt management framework for the fund, and the sustainable level of revenue pre-committed to servicing debt. The debt repayment threshold for the fund currently sits in the range of 8-12%. [REDACTED]
[REDACTED]
[REDACTED] Withheld to enable future negotiations
- b. Business cases for the components of the package would be required to inform Board decisions.
 - c. Minister of Finance and Cabinet approval would be required for any financing arrangement for the package, or a Crown guarantee of the NLTF entering into a financing arrangement.
 - d. Agreement to a package would also be subject to local government decision making process and public consultation on any changes to the local government 10 year plans.

Funding availability

12. You asked us to compare planned expenditure in the Wellington region over the next 30 years with Wellington region's 'population share' of the NLTF for the next 30 years. We have modelled this based on a 10 percent share and an 11 percent share (shown in Table 4 below). Statistics New Zealand (Stats NZ) data shows that currently the Wellington region has 10.7% of New Zealand's population – using the Stats NZ medium projection, this is projected to drop to 10.1% by 2028 and 9.6% by 2043. However, it is important to note that currently Wellington Region is growing faster than the Stats projection Stats NZ did in 2017.
13. The intention is that the 'population share' provides a cap for the amount of revenue the Wellington region could potentially get from the NLTF over the next 30 years. Any expenditure above this is not realistic.
14. It is important to note that only leaving a small amount of headroom in the amount of NLTF funding assumed to be available for the Wellington region risks them being in a position where they will face significant difficulty, or not be able to deliver any other large scale transport projects within the next 30 years.

Table 4 – adjusted GPS revenue³

		Decade 1	Decade 2	Decade 3
GPS Revenue - adjusted		45,994	55,345	67,465
Wellington Region “share”	10%	4,599	5,534	6,746
Wellington Region “share”	11%	5,059	6,088	7,421
Expected expenditure Wellington Region (excl LGWM)		4,586	5,077	5,499
Surplus/deficit (10%)		14	458	1,248
Cumulative Surplus/deficit (10%)		14	472	1,719
Surplus/deficit (11%)		474	1,011	1,922
Cumulative surplus/deficit (11%)		474	1,485	3,407

NLTF capacity to fund Option 1 within the Wellington region’s ‘population share’

15. Tables 5 and 6 below show the surplus/deficit in the Wellington region’s ‘population share’ of NLTF revenue over the next 30 years at 10 percent and 11 percent after funding the central government share of the first phase of Option 1. This is based on the funding split outlined Table 1.

16. The tables show that the first phase of Option 1 is not affordable under the 10 percent population share assumption. Under the 11 percent assumption \$439 million is left over under the assumption that rapid transit will be debt-financed, and the other projects will be funded on a PayGo basis. It is important to note that these figures are based on assumed inflation of NLTF revenue and could fluctuate.

Table 5 – 10 percent ‘population share’

Funding approach	Decade 1	Decade 2	Decade 3	Total (\$m)
Fully PayGo	-670	-746	686	-730
Rapid transit debt-financed, others PayGo	-66	-990	-195	-1251
Fully debt funded	107	-1194	-350	-1437

Table 6 – 11 percent ‘population share’

Funding approach	Decade 1	Decade 2	Decade 3	Total (\$m)
Fully PayGo	-210	-193	1361	958
Rapid transit debt-financed, others PayGo	394	-435	480	439
Fully debt funded	567	-640	326	253

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Contact:

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³ The GPS revenue figures include the two planned petrol excise duty and road user charges rate increases. After year 2025, revenue is inflated by 2 percent per annum.

Appendix – Material you can provide to the LGWM Governance Group

Table 1 – Option 1 (first phase) with proposed central/local government funding split⁴

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