

In Confidence

Office of the Minister of Finance
Office of the Minister of Transport

Cabinet Economic Development Committee

Funding Re-allocation from the Northern Pathway to the Eastern Busway

Proposal

- 1 This paper seeks agreement from Cabinet to a series of financial recommendations required to appropriate funding of \$200 million for the Eastern Busway project from the *New Zealand Upgrade Projects – Tagged Capital Contingency*. The funding is required to be transferred from capital to operational funding.

Relation to Government Priorities

- 2 The Eastern Busway in Tāmaki Makaurau contributes to the Government's objectives of building a productive, sustainable and inclusive economy by enabling greater transport choice in Auckland and moving greater numbers of people faster through rapid transit.
- 3 Transition to a clean, green and carbon-neutral New Zealand is strongly supported by this investment by encouraging people to move away from private car travel to public transport.

Executive Summary

- 4 The Eastern Busway is a key part of the Rapid Transit Network in Tāmaki Makaurau and a key contributor to emissions reduction targets set in the Emissions Reduction Plan (ERP). The project is underway with the first stage open, but completion of further stages is hindered by cost escalation across the project.
- 5 In March 2021 Cabinet endorsed the Auckland Transport Alignment Project 2021-31 Investment Programme which included \$448 million for the Eastern Busway. Since then, in response to cost escalations Auckland Transport have proposed a phased programme for the Eastern Busway which requires additional funding.
- 6 You have previously agreed to support the Eastern Busway through the reallocation of funds from the cancelled Northern Pathway project [CAB-21-MIN-0374.01 refers].
- 7 As joint Ministers tasked with taking final decisions on investment from this reallocation, we support a fixed amount of funding of \$200 million for the Eastern Busway project to be drawn down from the New Zealand Upgrade Programme (NZUP) tagged capital contingency funding.
- 8 This funding is in addition to funding for the Eastern Busway project through the National Land Transport Fund.
- 9 The appropriation requires a series of Cabinet decisions which we are seeking through this paper.

Background

- 10 In September 2021, Cabinet agreed to cancel the Northern Pathway project and reallocate the project funding towards an alternative mix of investments [CAB-21-MIN-0374.01 refers].
- 11 To give effect to this decision, \$500 million was returned to the existing *New Zealand Upgrade Transport Projects – Tagged Capital Contingency* appropriation, leaving \$150 million appropriated to cover sunk costs and further work on the Northern Pathway.
- 12 Cabinet expressed support for the Eastern Busway project [CAB-21-MIN-0374.01 refers]. This reflects the Government's commitment to support the Auckland Transport Alignment Project (ATAP) 2021-31 Investment Programme in light of cost pressures alongside the National Land Transport Fund (NLTF).
- 13 Cabinet authorised the Ministers of Finance and Transport to take final decisions on the alternative investment mix, and to make consequential changes to appropriations to give effect to those decisions.
- 14 We support fixed funding of \$200 million for the Eastern Busway project to be drawn down from the tagged capital contingency funding described above.
- 15 As the Eastern Busway project is an Auckland Transport (AT) project, not a New Zealand Upgrade Programme (NZUP) project, fixed funding of \$200 million will need to be swapped from capital to operating expenditure as it flows from Waka Kotahi to Auckland Transport. As this funding will not lead to Crown owning any assets related to this project and due to the magnitude of this swap, we require Cabinet approval to confirm this funding arrangement.

The Eastern Busway

- 16 Auckland's eastern suburbs (the Eastern Busway area) have one of the highest levels of journey to work trips by car and lowest use of public transport in Auckland. This is due to a combination of low-density land uses and relatively unattractive bus services, lack of cycle facilities and low urban amenity on main roads.
- 17 Without intervention, demand for public transport, walking and cycling will remain low and the heavy reliance on car travel will continue. This will further impede the efficient movement of people and goods within the area, lead to detrimental environmental outcomes and exacerbate the area's limited access to opportunities compared to the rest of the region. It will also limit the area's potential to sustainably accommodate further residential and employment growth.
- 18 The Eastern Busway programme presents an opportunity to address these problems by extending the rapid transit, high frequency busway through to a new station in Botany Town Centre.
- 19 The project will include new walking and cycling connections and urban renewal initiatives and the end result will see Aucklanders being able to travel between Botany and Britomart by bus and train in less than 40 minutes, which is 20 minutes quicker than the current journey times.
- 20 The project involves the construction of 5km of busway from Pakuranga Town Centre to Botany Town Centre including three intermediate bus stations and two premium bus stations. The project also includes 12 km of cycling and walking facilities.

- 21 As a result of the National Policy Statement on Urban Development (NPS-UD) it is likely that much of the Eastern Busway corridor will see higher densities enabled. This means greater opportunities for land-use transport integration and growth.

Funding the Eastern Busway

- 22 The Eastern Busway is a key component of Auckland's Rapid Transit network. In March 2021, you approved the ATAP Investment Programme which includes funding for the Eastern Busway of \$880 million. Of this, \$449 million is funding from the NLTF and \$431 million is from Auckland Council applied through the Auckland Transport budget.
- 23 Subsequently, the Waka Kotahi Board has approved additional funding from the NLTF of \$215 million.
- 24 The significant cost inflationary pressure experienced across the construction sector for, amongst other things input costs such as labour and materials, has seen costs increase for the Eastern Busway. The costs for the project have been steadily increasing because of this inflationary pressure, not because of changes to the scope of the project. Accordingly, an increase across the project of \$340 million since August 2021 taking the total estimated cost of the project from \$1.05 billion to \$1.3 billion.
- 25 The cost increases have resulted in a shortfall in funding required by Auckland Transport to complete the Eastern Busway. The \$200 million funding from the reallocation of the cancelled Northern Pathway project funding will assist with the funding shortfall.
- 26 Stage One of the Eastern Busway project is completed and operational. The total cost of the remaining stages (two, three and four) is \$1.6 billion. This cost has increased from \$1,100 million estimated in November 2021. Due to this increase in cost, Auckland Transport opted for a staged delivery option, which has a reduced cost of s 9(2)(j) s 9(2)(j), s 9(2)(f)(iv)

Outcomes expected

- 27 The Eastern Busway will deliver a range of benefits including:
- 27.1 14,000 trips per day on public transport by 2028 (currently 3,700) increasing PT mode share from 7 percent to 20 percent
 - 27.2 capacity to carry 7,000 passengers per hour in each direction
 - 27.3 12 kilometres of separated shared paths and cycleways
 - 27.4 reduction in greenhouse gas emissions by 9,200 kg per day in 2028 and 5,190 kg per day in 2048 (noting a reduction in outer years is a result of an increased number of electric vehicles in the private vehicle fleet)
 - 27.5 24,000 more Aucklanders living within one kilometre of a rapid transit station
 - 27.6 reduced reliance on private vehicle trips to the central city from 56 percent in 2018 to 35 percent in 2048 as a result of a switch in modes to public transport.

Financial Implications

- 28 In September 2021, Cabinet cancelled the Northern Pathway project and returned funding to the *New Zealand Upgrade Transport Projects – Tagged Capital Contingency* appropriation, to be reprioritised towards suitable projects [CAB-21-MIN-0374.01 refers]. We support providing \$200 million from this tagged capital contingency (Crown funding) to support delivery of the Eastern Busway project.
- 29 Crown funding for the Eastern Busway project will not result in Crown-owned assets related to this project as they will still be owned by Auckland Transport. This means the capital funding is required to be swapped to operating expenditure before it can be provided to Auckland Transport. The capital to operating swap is technically fiscally neutral, but will result in a \$200 million increase to the Operating Balance and Net Core Crown debt, and a corresponding \$200 million decrease in Net Core Crown Debt only. Given the magnitude of this swap, we seek approval to provide the \$200 million for this project.
- 30 To give effect to this funding transfer, the amount in the *New Zealand Upgrade Transport Projects – Tagged Capital Contingency* appropriation will decrease from s 9(2)(i)
- 31 We seek approval for Crown funding to be used to address a deficit in the local share required to fund this project. This funding would be front loaded over the next two to three years into delivery of stages two and three of the project. Funding would be provided to Auckland Transport through Waka Kotahi.
- 32 Cabinet also noted that funding from the NLTF will be provided alongside the reprioritised Northern Pathway funding to support up to 80% of this project [CAB-21-MIN-0374.01 refers]. Funding of \$663.23 million has been approved from the NLTF, which makes up approximately 51% of the total remaining cost of the staging option.
- 33 In total, the government will support \$863.23 million (66%) of the remaining cost of the Eastern Busway project. This leaves Auckland Council to fund \$437.24 million. A summary of the funding allocation is provided in the table below:

Funding source	Funding allocation (\$m)
Reprioritised Northern Pathway funding (Crown funding)	200.00 (15%)
National Land Transport Fund (NLTF)	663.23 (51%)
Auckland Regional Land Transport Plan (RLTP)	437.24 (34%)
Total remaining cost	1,300.47

- 34 The NLTF funding is consistent with the 2021-2024 RLTP Financial Assistance Rate (FAR) of 51%.
- 35 Crown funding of \$200 million does not commit the Crown to provide additional funding. Any further cost increases will need to be covered by the NLTF and Auckland Council as part of the Auckland Transport Programme (noting that the NLTF is under financial pressure and may struggle to meet any further cost increases on this project without concessions elsewhere).

Legislative Implications

36 There are no legislative implications arising from this paper.

Impact Analysis

37 Impact analysis requirements do not apply to the proposal in this paper.

Climate Implications of Policy Assessment

38 Cabinet noted that any new projects / programmes being funded from the reallocated Northern Pathway funding must have a full Climate Implications of Policy Assessment (CIPA) completed, before tagged capital contingency can be drawn down [CAB-21-MIN-0374.01 refers].

39 The CIPA team has been consulted and confirms that the CIPA requirements apply to this proposal as a key objective is to reduce emissions.

40 This project is estimated to result in around 50,000 tonnes CO₂-e in embodied emissions during the initial construction phase. Once complete, this project is estimated to result in around a 2,000 tonnes CO₂-e per year reduction in emissions through increased uptake of public transport over private vehicle use.

41 While a total net benefit in emissions is only expected to occur after 2050, a number of lower emissions construction opportunities are being explored to mitigate the initial construction impact. There is also a high degree of uncertainty in estimating the emissions from both enabled transport and construction at this stage of the project.

42 The CIPA team has reviewed the emissions estimates and modelling approach at a high-level and considers the estimates to be reasonable and follow good practice for this stage in the individual project's lifecycle.

43 After accounting for the findings of the Eastern Busway CIPA, the New Zealand Upgrade Programme continues to show a net reduction in emissions, as required by Cabinet [CAB-21-MIN-0374.01 refers].

Human Rights

44 The proposal in this paper is not inconsistent with the New Zealand Bill of Rights Act 1990 and Human Rights Act 1993.

Consultation

45 This paper was prepared by the Ministry of Transport. The Treasury, The Ministry for the Environment, Waka Kotahi, and the Ministry of Housing and Urban development were consulted on this Cabinet paper.

Communications

46 The Minister of Transport will be announcing a package of communications on the reallocation of funds from the Northern Pathway and this project will be referred to as part of the package.

47 Communications will need to be aligned with any communication on the Eastern Busway funding by Auckland Transport and Auckland Council.

Proactive Release

48 We intend to release this Cabinet paper proactively in full within the 30-day timeframe.

Recommendations

The Ministers of Finance and Transport recommend that the Committee:

- 1 **note** that in September 2021, Cabinet expressed support for the Eastern Busway project using funding available from the cancelled Northern Pathway project [CAB-21-MIN-0374.01 refers]

Climate Implications of Policy Assessment

- 2 **note** that Cabinet agreed that new projects / programmes that are funded from the reallocated Northern Pathway must have a full CIPA completed before tagged contingency can be drawn down
- 3 **note** that a CIPA for the Eastern Busway project has been completed

Policy recommendations

- 4 **note** that Cabinet established a tagged capital contingency of up to the amount below in Vote Transport to provide additional funding for the New Zealand Upgrade Programme following baselining and re-prioritisation [CAB-21-MIN-0192 and CAB-21-MIN-0374.01 refer]:

	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
New Zealand Upgrade Transport Projects – Tagged Capital Contingency	-	§ 9(2)(j)	-	-	-

- 5 **note** that the Ministers of Finance and Transport subsequently approved \$1.500 million and \$2.500 million of the tagged capital contingency to be drawn for the Community Connect Pilot [OC210780 refers] and the Ashburton Fairfield Freight Hub project [OC220102 refers], respectively, meaning that the remaining tagged capital contingency is § 9(2)(j)
- 6 **note** that Cabinet agreed to reprioritise funds allocated to the Northern Pathway within the tagged contingency referred to in recommendation 4 to suitable projects, such as the Eastern Busway [CAB-21-MIN-0374.01 refers]
- 7 **note** that the funding provided will not result in assets owned by the Crown, requiring a capital to operating swap, and given the magnitude of the swap and the size of the funding allocation, Cabinet approval is sought for the decision to provide funding for the Eastern Busway project
- 8 **agree** to provide funding of \$200 million from the *New Zealand Upgrade Projects – Tagged Capital Contingency* to address a deficit in the local share required to fund this project
- 9 **note** that providing this funding does not commit Crown to providing additional funding in the future

Financial recommendations

IN C O N F I D E N C E

- 10 **approve** the following changes to appropriations to provide for the decisions in recommendation 8 above, with corresponding impact on net core Crown debt:

	\$m – increase/(decrease)				
Vote Transport Minister of Transport	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Non-departmental Capital Expenditure: Capital Investment Package – Funding for Crown Assets MYA	200.000	-	-	-	-
Total Capital	200.000	-	-	-	-

- 11 **agree** that the capital expenditure incurred under recommendation 10 above be charged against the *New Zealand Upgrade Projects – Tagged Capital Contingency* described in recommendation 4 above
- 12 **note** that, following the adjustment detailed in recommendation 10 above as well as previous adjustments described in recommendation 5, the remaining balances and indicative phasing of the tagged capital contingency described in recommendation 4 above will be:

	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27
New Zealand Upgrade Transport Projects – Tagged Capital Contingency	s 9(2)(f)				

- 13 **note** that the tagged capital contingency described in recommendation 4 above will expire on 1 February 2030
- 14 **agree** to establish the following new appropriation within Vote Transport:

Vote	Appropriation Minister	Title	Type	Scope
Transport	Minister of Transport	Eastern Busway Project	Non-Departmental Other Expense	This appropriation is limited to providing funding to Auckland Transport for the Eastern Busway Project, which will connect Botany, Pakuranga, and neighbouring suburbs to the rail network in Panmure.

- 15 **agree** to a fiscally neutral capital to operating swap to provide for the Eastern Busway project, with the following impacts on the operating balance and net core Crown debt:

IN C O N F I D E N C E

	\$m – increase/(decrease)				
Vote Transport	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Operating Balance and Net Core Crown Debt Impact	200.000	-	-	-	-
Operating Balance Only Impact	-	-	-	-	-
Net Core Crown Debt Only Impact	(200.000)	-	-	-	-
No Impact	-	-	-	-	-
Total Operating	200.000	-	-	-	-
Total Capital	(200.000)	-	-	-	-

- 16 **approve** the following changes to appropriations to give effect to the swap in recommendation 15 above:

	\$m – increase/(decrease)				
Vote Transport Minister of Transport	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Non-Departmental Other Expense: Eastern Busway Project	200.000	-	-	-	-
Non-departmental Capital Expenditure: Capital Investment Package – Funding for Crown Assets MYA	(200.000)	-	-	-	-
Total Operating	200.000	-	-	-	-
Total Capital	(200.000)	-	-	-	-

- 17 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Michael Wood
Minister of Transport