

BOARD PAPER	
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Meeting date:	28 September 2012
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Board function:	Significant planning, investment and operational matters
Subject:	Public private partnership: Funding and business case for Transmission Gully funding approval

Introduction

- 1 The consideration of an alternative procurement method, public private partnership, for the Transmission Gully component of the Wellington Northern Corridor Road of National Significance is the subject of two papers; this paper addresses funding and procurement matters to meet the Board's statutory independent functions under the Land Transport Management Act 2003 (LTMA), and the second paper the detailed business case to support the public private partnership delivery model (Board paper 12/09/0681).

Purpose

- 2 To seek the Board's endorsement of the use of a public-private partnership (PPP) procurement procedure to deliver the project and its approval for funding the construction and ensuing 25 years maintenance, operation and renewal costs of Transmission Gully, a component of the Wellington Northern Corridor Road of National Significance.

Recommendation

- 3 That the New Zealand Transport Agency Board:
 - a. **endorses** the use of a public-private partnership (PPP) procurement procedure for delivery of Transmission Gully, **subject to**:
 - i. it being satisfied that the business case in Board paper 12/09/0681 for NZTA use of the PPP procurement procedure demonstrates value for money; and
 - ii. its formal approval of the state highway PPP procurement procedure at its October 2012 meeting;

- b. **approves** funding for construction and ongoing 25 years of maintenance, operation and renewal costs for Transmission Gully at a total estimated cost of [REDACTED] from C and N funds, based on PPP delivery.

9(2)(b)(ii)

Background

- 4 Transmission Gully is an element of the Wellington Northern Corridor RoNS and covers the section from Linden to MacKay’s Crossing. It has been proposed as an inland alternative route to the existing coastal State Highway 1 for about 70 years. Since 2009, work has been undertaken to complete an Assessment of Environmental Effects and a Board of Inquiry process which has confirmed the suitability of the project and resulted in future design improvements and associated cost reductions. This concluded with the Board of Inquiry approval of the Project in June 2012.

Investment assessment (s.20 LTMA)

- 5 We have assessed Transmission Gully within the context of the Wellington Northern Corridor RoNS, using the NZTA Investment and Revenue Strategy, which gives effect to s.20 of the LTMA.

Strategic fit	High <ul style="list-style-type: none">• Transmission Gully is an element of the Wellington Northern Corridor RoNS, identified as a RoNS in GPS May 2009 and reconfirmed in the 2012 GPS.• the RoNS is recognised as a freight route under NZTA assessment framework, which results in a High strategic fit given it has potential for improvements that will make a major contribution to the national economy• the RoNS will deliver the priorities sought in the GPS of economic growth
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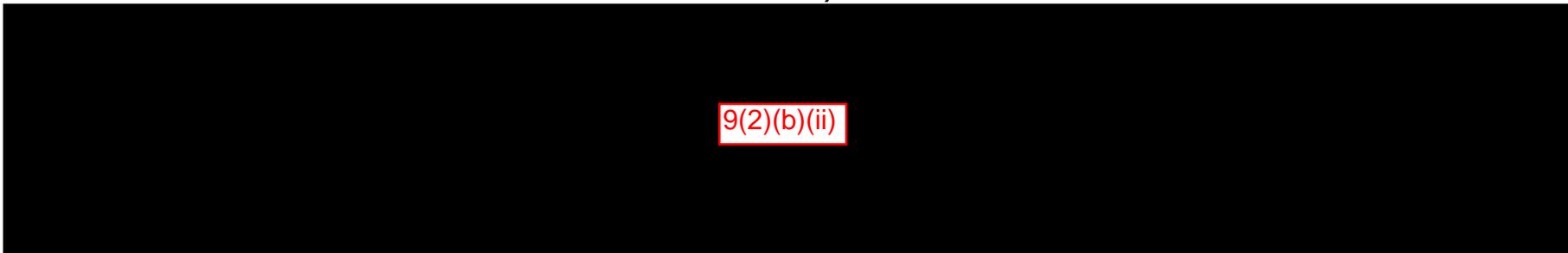
	<p>and productivity and improved road safety</p> <ul style="list-style-type: none"> • in particular, travel time savings over the overall route are predicted for 2026 at around 33 minutes southbound in the am peak, and about 30 minutes northbound in the pm peak • network resilience is improved along the Wellington Northern Corridor, with more options available to users to continue travelling when crashes or other events block roads
Effectiveness	<p>High</p> <ul style="list-style-type: none"> • comprises 9 packages of activities that, in combination with transport investments that have been, are being and will be made, e.g. rail infrastructure and local roading projects, provides an integrated solution to the entire Northern Corridor from Wellington Airport to north of Levin • network integration will be achieved through the development and implementation in conjunction with local authority roading activities • modal integration will be through the investment underway in public transport infrastructure, the coordinated development and construction of the RoNS and local infrastructure and the implementation and funding of public transport services • land use integration is of fundamental concern in the development of the Wellington Northern Corridor, with particular focus required on the different needs for each package along its length. It will support Wellington City Council's plans for urban intensification and green-fields development as well as other authorities' development plans.

	<ul style="list-style-type: none"> • the RoNS aligns well with both the Greater Wellington and Horizon Regional Councils Regional Land Transport Strategies. • the impact of road transport is reduced through some of the townships, e.g. Mana, due to lower traffic volumes relative to the do-minimum. However, it would be unrealistic to expect that traffic will be reduced so that community severance is no longer an issue, e.g. Mana Annual Average Daily Traffic still remains high at 24,000 in 2026 albeit lower than the current 33,000 vehicles per day. • a negative impact of lower travel times could be encouragement of longer distance commuting as people choose to live further from Wellington work. Any negative impact would be mitigated to a large extent by: <ul style="list-style-type: none"> ○ provision of improved public transport services in the corridor (new electric multiple units (EMUs) and increased frequencies). ○ continuation of Wellington City Council’s TDM measures, particularly its parking strategy, which discourages private vehicle use. ○ development of Kapiti Coast townships planned to promote greater self-containment, i.e. with greater scale, more intensive land use and more employment opportunities reduces need to travel long distances for work.
Efficiency	<p>Low</p> <ul style="list-style-type: none"> • the benefit-cost ratio for the Wellington Northern Corridor Road of National Significance has been determined at 1.2 • this includes agglomeration benefits as allowed under the NZTA’s Economic Evaluation Manual, which increase the benefit-cost ratio from 1.1 to 1.2, but

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| | <p>not any other wider economic benefits</p> <ul style="list-style-type: none"> • the economics have been peer reviewed and material issues addressed. • sensitivity testing has been undertaken based on discount rates lower than the prescribed 8% (see discussion in following section): <ul style="list-style-type: none"> ○ 6% discount rate - BCR = 1.4 ○ 4% discount rate - BCR = 1.8 • other sensitivity testing includes : <ul style="list-style-type: none"> ○ capping of benefits from 2026 for RONS elements within Wellington City - BCR = 1.0 ○ wider economic benefits additional to agglomeration - BCR = 1.4 |
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6 The construction cost estimate (pay-go basis) has progressively reduced over the past four years as displayed in 2011 (unescalated) dollars in the table below. These cost reductions have been the result of significant design improvements, particularly relating to earthworks optimisation and a reduction in the total length of bridges.

Transmission Gully Cost Estimates



9(2)(b)(ii)

9(2)(b)(ii)

- 7 The changes to Transmission Gully as a result of the Assessment of Environmental Effects and the Board of Inquiry process have not changed the transportation outcomes that the project delivers. As a result, the assessment of the investment business case remains consistent with the assessment based on the 2008 Scheme Assessment Report, and provided in Board paper 09/11/0292, which was the basis for approving funding for investigation, design and property purchase as part of the Wellington Northern Corridor RoNS. While the cost estimates of some elements of the RoNS have increased since 2008, those of other elements, including Transmission Gully, have decreased.

Funding availability and programming implications

- 8 Transmission Gully currently shows an indicative construction start in 2015/16 in the NZTA Transport Investment Online system, which was based on potential revenue being made available to reinstate the state highway programme to the levels it had prior to the 2011/12 revenue reductions. As discussed when the 2012-15 NLTP was adopted, there is risk around the revenue forecasts for the next ten years and the NLTP was based on a lower level of revenue being available, but still sufficient to achieve the GPS expenditure target. [REDACTED]

9(2)(g)(i)

- 9 Procurement of Transmission Gully through a PPP arrangement would allow construction to start in 2014/15, in line with the state highway programme discussed with the Government before the 2011/12 revenue reductions. This would enable earlier delivery of the Government priorities of economic growth and productivity and road safety sought from the GPS.
- 10 Investment would continue on property purchase and completion of the design phase (tender documentation, drawing up of contracts, etc), as already approved. Construction as a PPP is expected to take 5 years with the road opening in 2020/21. Annual availability payments would then commence and continue for the life of the contract (25 years).

11 The anticipated annual payments under a PPP arrangement or Transmission Gully are shown in the table below.

Year	PPP – construction 2014/15, payments commence 2020/21 (\$ million including escalation)
2020/21	9(2)(b)(ii)
2021/22	
2022/23	
2023/24	
2024	
2045	
Total	

12 As expected, the amount of funding required from the NLTF is higher in nominal terms than under a pay-go basis, given that the PPP payments include interest and maintenance, operations and renewals costs. On a present value (discounted) basis, and taking inflation into account, little difference is expected between the PPP and pay-go costs.

- the intention of the PPP is deliver best value for money and is consistent with s.25, which requires that the procurement procedure be shown to be designed to achieve best value for money
- the PPP procedure involves an open competitive process, which is consistent with NZTA policy
- the term of 25 years for maintenance, operation and renewal of Transmission Gully is beyond the 10 year maximum under the NZTA endorsed procurement strategy for state highway activities.

18 The Board's endorsement of the PPP procurement procedure for Transmission Gully is sought, subject to the Board being satisfied that the PPP business case demonstrates value for money and its approval of a formal state highway PPP procurement procedure at its October 2012 meeting that will also cover the 25 year maintenance and operation term.

Conclusion

19 Approval for construction of the Transmission Gully element of the Wellington Northern Corridor RoNS is warranted, based on the funding profile of HHL and the project's contribution to the NZTA Investment and Revenue Strategy. We recommend that the Board approves funding for the Transmission Gully project and its delivery through a PPP procurement procedure.

Communication and engagement

- 20 A stakeholder management and communications plan has been prepared for the project, which includes liaison with the Minister's office on matters likely to generate media and public interest.
- 21 The Board's decision on the path forward for Transmission Gully will be communicated externally through the following:

- a media statement and follow up interviews with local and national media;
- direct briefings of key stakeholder and community groups;
- posting of the decision to the NZTA website as standard practice.

Attachments

22 There are no attachments.