MINISTERIAL BRIEFING NOTE

Subject	Delivering and funding the high investment scenario for *Let's Get Wellington Moving* - Potential Special Purpose Vehicle Delivery Model and Revenue Mechanisms
Date	10 April 2018
Briefing number	BRI-1292

Contact(s) for telephone discussion (if required)				
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Action taken by Office of the Minister

- ☐ **Noted**
- ☐ **Seen by Minister**
- ☐ **Agreed**
- ☐ **Feedback provided**
- ☐ **Forwarded to**
- ☐ **Needs change [please specify]**
- ☐ **Withdrawn**
- ☐ **Overtaken by events**

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10 April 2018

Minister of Transport

Delivering and funding the high investment scenario for *Let's Get Wellington Moving* - Potential Special Purpose Vehicle Delivery Model and Revenue Mechanisms

Purpose

1. This briefing informs you ahead of your meeting with the Mayor of Wellington City and the Chair of the Greater Wellington Regional Council on 12 April 2018.

2. The Let's Get Wellington Moving (LGWM) project is on track to present a recommended programme of investment by mid-2018 which will enable a more densely developed city centre and improved access to economic and social opportunities. Because of the likely scale of investment, funding from conventional sources (NLTF and rates) will be challenging. This means that alternative funding sources need to be considered.

3. This briefing was initiated by you at your weekly meeting with the Chief Executives of the Ministry of Transport and New Zealand Transport Agency (NZTA) on 26 March 2018 and is additional to previous briefings on LGWM you have received. You wanted to test the feasibility of delivering and funding the LGWM high investment scenario through a Special Purpose Vehicle (SPV) with revenue from a range of additional funding mechanisms.

The LGWM High Investment Package would significantly resolve Wellington's Transport issues and advance the Government's priorities and objectives for the land transport system

4. LGWM is a collaborative initiative involving the NZTA, Wellington City Council and Greater Wellington Regional Council to determine the transport needs in the area of Wellington from Ngauranga to the Airport. LGWM aims to present a recommended programme of investment (RPI) by mid-2018.

5. The RPI will include an integrated multi-modal programme which is likely to include significant investments in public transport (including rapid transit), active modes, and roading. This will enable a more densely developed city centre and improved access to economic and social opportunities. Because of the likely scale of investment, funding from conventional sources (NLTF and rates) will be challenging. This means that alternative funding sources need to be considered.

6. To assist with this work, it is necessary to understand the revenue potential that might be available from alternative funding mechanisms, and to determine how this would compare to the amounts necessary to fund the overall programme.

7. This briefing summarises the development of an initial, high level view of the potential revenue mechanisms, and the revenue that could be generated under different charging assumptions. It also addresses the option for a special purpose vehicle (SPV) that could be established to deliver the high investment scenario and administer the funding mechanisms.

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8. Both the Ministry of Transport and Treasury have provided input to this paper.

9. Given the limited time available, it is not a robustly developed investment proposal. If there is an appetite to progress this approach, this briefing would be an important contribution to developing a fully tested investment proposal.

Capital expenditure profile

10. The level of capital expenditure required for LGWM will be determined by the scale of the RPI, and the timing and sequencing of that expenditure. This will not be finalised until the RPI is completed, but an initial estimate has been prepared, based on a "high expenditure" scenario which assumes that the RPI includes all of the interventions in "Scenario D" in the 2017 public engagement document, plus light rail between the railway station and the airport. The total capital cost of this programme is estimated at approximately $2.83 billion – shown below:

Intervention	Capex $m
Rapid transit	1,000
Te Aro cut/cover (SH1)	750
Other State highway improvements	880
Other public transport	120
Walking, cycling, PT, local roads	80
Total	**2,830**

11. The following table shows an indicative profile of this capital expenditure, assuming that the total programme would be constructed within a 10-12 year timeframe. This is based on existing estimates of project costs, and an indicative estimate of possible construction times and sequencing.

Year to June	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Capex ($m)	17	56	76	222	316	344	530	478	353	376	60

Current funding sources

12. Current funding sources include the National Land Transport Fund (NLTF) and the Greater Wellington Regional Council (GWRC) and Wellington City Council (WCC). The potential contribution from the NLTF to each of the major projects will need to be determined in light of the draft Government Policy Statement. Contributions from the GWRC and WCC's Long-term Plans will be identified through their respective Long-term plans, which will be finalised at the end of June of this year.

13. In the meantime, it is not possible to accurately identify the amount of funding that is likely to be available from current sources. Depending on the level of financial contribution from the NLTF and the GWRC and WCC Long Term Plans, the funding gap that may need to be covered by the additional funding sources could vary from around $540 million to $1.6 billion.

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Regional fuel tax

16. **Revenue potential**: A regional fuel tax at the same level proposed for Auckland (10 cents per litre) would generate annual revenue of **$36 to $40 million** if applied across the whole region. If applied only to sales in Wellington City, a 10 cents/litre tax would yield **$14.4 to $16 million** per annum.

17. **Legislative Mandate:** A regional fuel tax would require the legislation enabling the tax in Auckland legislation to be extended to include Wellington.

18. **Impact on the transport system:** A regional fuel tax could be expected to have a modest impact on transport demand, with some shift to alternative modes, although the level of shift is likely to be relatively minor. The impact will be spread across the whole area subject to the tax, and not concentrated into the LGWM area of focus.

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Summary

29. Based on the estimates outlined above, the following table indicates the charges that would be needed under each funding option to generate $10 million of revenue per annum. The table also summarises the legislative mandate and impacts on the transport system.

Funding mechanism	Charge to generate $10m p.a.		Legislative Mandate?	Transport impacts
Regional fuel tax (full region)	2.63	cents per litre	No	Modest
Regional fuel tax (Wellington City)	6.58	cents per litre	No	Modest

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[redacted]

Financial Modelling

30. The amount of local borrowing required to meet the capital expenditure requirements of the “high expenditure” scenario will depend on the split of funding responsibility between central and local government.

31. As discussed above, the funding gap will depend on the extent to which the NLTF (under the new Government Policy Statement) and the GWRC and WCC’s Long Term Plans cover the projected expenditure. These will not be known until June of this year.

32. The funding gap is highly sensitive to the level of financial contribution from the NLTF. Depending on the assumptions used for the NLTF and contributions from the GWRC and WCC Long-term Plans, the funding gap could vary from around $540 million to $1.6 billion.

33. For illustrative purposes, the cash flow requirements to support borrowing to fill a funding gap of this range over 30 years, assuming a 6 percent financing cost, would range from around $40 million to $120 million per annum. Some capital, or government support, would likely be needed to support the borrowing.

SPV Option

34. Treasury is investigating ways to reform the delivery of housing related infrastructure, including increasing the use of private finance by investigating options for infrastructure funding, financing and delivery. This includes the use of alternative

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institutional models of delivery including the use of Crown Infrastructure Partners and the "SPV" model.

35. The primary purpose of an SPV model is to enable local government to deliver viable infrastructure that is supported by dedicated and sufficient revenue streams without breaching their debt to revenue limits. For councils close to, or approaching, their debt limits an SPV may provide the ability spread debt repayments over a longer period of time and reduce the annual revenue requirement to support the borrowing.

36. A key requirement is that the SPV is able to charge and collect revenues directly. Project related risks would also need to be shifted from the local authority to the SPV or other party, such as the Crown, in order to minimise any residual contingent liabilities that may affect rating treatment. Further detailed work is needed on the model and key features. Change to legislation would be required.

37. The role an SPV might play for Wellington is unclear at this point. It will depend on suitability of the specific projects, the council's share of the capital costs, ability to raise further revenues, the level of borrowing that can be accommodated under current arrangements (including with further revenue increases). Under WCC's draft Long Term Plan, which meets some of the LGWM costs, debt to revenue rise to 166 percent, so some further borrowing could be accommodated. The capacity for an SPV to borrow will also depend on which revenues can be levied directly by the SPV and provide certain revenue stream for the borrowing period. It may not be appropriate for the SPV to levy all potential revenue sources and some may not be sufficiently certain to support long term project based lending (for example parking fees).

38. Treasury will provide further advice to the Minsters of Finance, Housing and Urban Development, Infrastructure and Local Government in mid-May on the conditions required to enable the use of an SPV model and possible alternatives. Officials will be in a better position to consider the potential application of an SPV model and alternatives once that work has been completed.

39. WCC has previously expressed interest in engaging with central government on longer term opportunities through a 'City Deal'. The Treasury previously recommended that this be extended to a regional approach. Any potential support should be assessed against the region's broad economic development and infrastructure priorities, including resilience and recovery from the November 2016 earthquake.

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It is recommended that you:

1. **Note** the preliminary findings of this paper **Yes / No**

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Fergus Gammie

Chief Executive

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Hon Phil Twyford, Minister of Transport

Date: 2018

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Attachment 1: Assumptions used to estimate annual revenue potential

Regional fuel tax

Assumptions:

- Annual Wellington region fuel sales 2017: 457 million litres (274m petrol, 183m diesel) source: Greater Wellington Regional Council
- Wellington City accounts for approx. 40% of regional fuel sales (183m litres total)
- A proportion of fuel sales is not transport related (estimate 0-10% for petrol, and 30-40% for diesel).

Using these assumptions, an estimate of **$36 to $40 million** annual revenue is possible from a regional fuel tax of 10 cents per litre across the whole region (see table below). If applied only to sales in Wellington City, a 10 cents/litre tax would yield **$14.4 to $16 million** per annum.

	Petrol		Diesel		Total	
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Fuel subject to tax (m litres per annum)	247	274	110	128	357	401
Revenue 10c/l ($m per annum)	25	27	11	13	36	40

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