

Report 03.116
Date 5 March 2003
File TP/1/4/1

Committee Regional Land Transport
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Affordability

1. Process

The prioritisation of strategic projects, ie the identification of strategic projects, their practical sequencing, and their timing in relation to Transit's 10-year forecast, is the focus of the 27 March meeting of the RLTC. This paper provides a platform for discussion of wider affordability issues at the 12 March meeting, and proposes undertaking steps necessary prior to an RLTS review. The paper addresses issues the RLTC is obliged to confront, and should not be inconsistent with related discussions initiated by local and regional leaders. By indicating the size of the problem the paper may add impetus to such discussions.

Part 1 – Affordability and the RLTS

2. Background To Regional Context

2.1 Three recent events prompt preparation of this paper:

- a) Ongoing expressions of concern from RLTC members about affordability of the current RLTS reinforced at the December monitoring forum.
- b) The appearance of the Land Transport Management Bill confirming specific wording to apply for future reviews of the RLTS (ref p 92, amending s 175(2)):

“Every (RLTS) prepared under (this Bill) must...

(a) (ii) (take) into account the land transport funding likely to be available within the region during the period covered by the strategy...” (Emphasis added)

(Elsewhere, the Bill defines “the period” as 10 years.)

- c) The appearance of Transit's first draft 10-year forecast of funding available from Transfund for state highway capital works, indicating a lesser amount than previously assumed for that activity, and incorporating substantial delays to significant projects throughout the region.

Note: Addressing that forecast and its detail is the task of the RLTC's 27 March meeting. The implication of lesser funding than assumed, continuing over the long term, is relevant to part 1 of this paper. Discussion of factors that might change it is contained in part 2.

2.2 The current (1999) RLTS was prepared under previous legislation in which “cost-effectiveness” had to be taken into account but not affordability specifically. Nevertheless in preparing that RLTS affordability *was taken into account*, thus:

- a) the prior (1996) RLTS had listed a very large number of projects (ie all known projects that could possibly meet the policy criteria). Estimated costs were prepared – the total came to \$2 billion (1998). The then RLTC acknowledged that achieving this was impossible, and requested “a more realistic” list to be based on known assumptions.
- b) *Two* lists were prepared for the consultation phase, an “Option A” list totalling about \$300 million over 15 years based on assuming an average of up to \$20 million pa for capital works, and a more radical “Option B” list totalling about \$700 million on the same timeframe. Option B included Transmission Gully and associated projects, and assumed higher investment especially from “supplementary revenue” - tolling and other pricing to support debt-funding. In Option B the corresponding RLTS policy on tolling/pricing was hardened from “should investigate” to “intend to do”. Option A excluded both the Transmission Gully package and any supplementary revenue.
- c) *Consultation feedback favoured Option B*, and Option B was duly incorporated into the 1999 RLTS. Support for Option B was not unanimous, but was a majority of the local authorities, community organisations and individuals submitting on the subject.

Consequently the current RLTS contains the following assumptions around affordability:

An average annual investment in public transport and roading combined of \$20-25 million, for a period going out 15 years, supplemented by capital injection for tolled roads of at least \$100 million, and revenue from network or congestion pricing in later years that will be allocated to servicing loans anticipated in the strategy. *No increase in rates is contemplated.*

2.3 It is apparent that the current context will require a reassessment of affordability constraints on the RLTS:

- a) The current assumed average annual investment rate in regional roading appears optimistic; Transit’s initial forecast is reportedly \$13 million pa; compare this to the recent average of \$18 million pa and the RLTS-assumed rate of c\$20 million pa.

- b) The period specified is now a precise 10 years instead of ambiguous definitions applied previously; in particular the received “planning period” for the RLTS goes out 15 years.
- c) Greater clarity about the “funding likely to be available” is possible now that Transit and later this year Transfund will produce 10-year forecasts.
- d) Greater clarity about the likelihood of the assumed supplementary revenue/tolling appearing within the period is possible – in our case, necessary. (This half of the question is the subject of a separate paper to this RLTC, so discussion here is limited).

3. Discussion of Regional Context

- 3.1 Any 10-year projection of funding for transport capital works is suspect. The period spans at least three different governments, several economic cycles and generations of technological change, predictable but unknown demographic changes, unforeseeable catastrophes including wars, and unknowable delays in the consent or construction processes. Over a 10-year period optimistic scenarios (eg government increases funding; loan and supplementary revenue arrives; alternative modes boom) are as possible as pessimistic (eg Transit’s first forecasts), but probably neither is accurate. Good practice involves using the best available estimates, understanding they are only estimates to set planning parameters, preparing contingencies to take account of both pessimistic and optimistic scenarios, and frequent monitoring and review.
- 3.2 There is good reason to doubt that the most pessimistic scenario, ie Transit’s first forecast alone, will apply:
 - a) It is subject to variation by this RLTC, other consultation, the Transit Board itself, and Transfund deliberation, and there is room for variation in both amounts and timing.
 - b) It does not include other Transfund contributions, eg alternatives to roading/public transport, regional development, cycling and walking.
 - c) It does not include other relevant Transit programmes, eg Committed and Block.
 - d) (Reportedly) it projects an average annual allocation for state highway capital works nationally of \$160 million, but this is unexplained and arguable.
 - e) It does not include any private sector finance or capital available if/when Transit itself is able to borrow (presumably, outside government debt) – these mechanisms assume tolling.
 - f) It cannot include any government readjustments to Transfund funds over the next 10 years.

- g) It does not include any supplementary revenue from mechanisms such as network tolling or congestion pricing.

3.3 However the current advice must be that any assessment of likely future funding for the region is liable to conclude available funds will be *less than* currently assumed:

- a) 1999 assumptions are already at the optimistic end of the scale, indeed they include a lump programme that goes beyond current funding.
- b) The 10-year horizon is more precise and different from previous horizons, leading to a drop of up to 33% in the total.
- c) Even the recent trend if restored (\$18 million pa) is 10% less than currently assumption; Transit's current forecast if confirmed is 35% less.
- d) Supplementary funding of any form is to say the least not assured.
- e) The national context for the next 10 years, especially the Auckland bow wave, is inescapable.

3.4 An implication is that *in the forthcoming review the RLTC will be required to prune the list of identified regional projects (and/or recognise construction delays):*

- a) Under *pessimistic scenarios* (Transit's first forecast correct, no adjustments and no supplementary revenue, no increase in government funding) so that the new list costs only *25-50% of the current*.
- b) Under *intermediate scenarios* (corrected costs, funding adjusted, some supplementary funding) so that the new list costs only *50-75% of the current*.
- c) Only under *optimistic scenarios* (Government increases funds, corrected costs, Wellington gets a 10% share over time, significant supplementary funding revenue) could the new list approximate the current.

3.5 An essential first step is for officers to research and report on "likely funding available within the region", and this is proposed. Because the same uncertainties will apply and our officers are not clairvoyant either, it is probable they will have to report around scenarios as in the previous paragraph, but with firmer estimates based on better information, eg from Transit and Transfund. It is worth noting that the requested information on "likely funding available" *includes public transport and other funding*, meaning that for the first time the RLTC will see the whole picture of actual amounts and forecast trends in this region's transport funding.

4. Implications For Current Processes

- 4.1 Currently there are several RLTC exercises under way, the most prominent of which is the Hutt Corridor Plan. This plan has been prepared, consulted and submitted upon under the modelling and assumptions of the 1999 RLTS, similarly to the Western Corridor Plan. I suggest it would be premature to adjust these assumptions in advance of better information on “likely funding available”, and in any case inequitable to apply different assumptions to different corridor processes in the same RLTS period. The recommendations are phrased to fit a 5-year horizon and so stress investigation rather than design or construction: as such they already take some account of affordability. It is my view that the HCP process (and others operating under the current RLTS) should continue on current assumptions and form an input into the RLTS review. When the RLTC comes to apply different assumptions it can apply them equally to all corridors.
- 4.2 A reduction in forecast funding available would promote a redirection of RLTC activity over the medium term. Most of the planning has been done for most of the region, and the issue of concern is pace of implementation. RLTC attention could be more directed to completing the process and monitoring delivery. This redirection has already been signalled. It needs to be modified to the extent that one RLTC role is to ensure a stream of robust regional projects maturing into the ready-to-go stage in a reasonably practical order. Given the complicated development required for any transport project to reach this stage, interruption of planning activity will create gaps in the stream 5-10 years later, either at regional or corridor level. On the other hand, and I suspect this applies to the Auckland bow wave, resumed planning activity results in “planning fits” that see many projects maturing simultaneously 5-7 years later, consequently competing with each other and the rest of the country for limited resources. The implication is that this RLTC and its agents need to continue to progress consistent projects through investigation, design and consent stages, so that strategic projects are “ready-to-go” as and when funding becomes available not missing the tide because necessary preliminary work has not been done.

Part 2 – Affordability and the National Context

5. Discussion Of National Context

- 5.1 Taken in isolation part 1 merely measures the situation as given by the national context and makes no attempt to change it. However that situation is unacceptable in several respects and the Committee should consider supporting or initiating actions to change it. Acknowledging that local and regional leaders in local government, commerce and transport are already active in this, and Committee members will wish to add their comments, the following paragraphs may contribute.
- 5.2 **The Auckland bow wave**
- It is impossible to discuss forecast transport funding without acknowledging the severity and priority of Auckland’s situation. Any visit to Auckland confirms that their experience of congestion and delay, and their adverse economic and environmental effects, is in a different league from anywhere

else in the country. While Auckland has been neglected in transport funding through the 1990s, their RLTC, actively supported by mayors and commerce running an energetic lobby in parallel, has matured a long list of projects – such that half the top 20 national roading projects, and 15 more in the top 90, are Auckland projects. Their costs are typically large (several are over \$100 million and one, ALPURT, is larger than Transmission Gully but with a BC above 4). BC's are often above 7. Of 6 projects identified as “possible PPPs”, 4 are in Auckland. This is the Auckland bow wave, many expensive projects maturing at once. A similar bow wave affects public transport. We have been warned of its coming for several years, and Transit has bitten the bullet this year.

It is my personal view, and I note others in Wellington support this view, that the investment in Auckland is justifiable and overdue. Proposals here are *not intended to take resources away from Auckland, but to increase and bring forward other resources.*

5.3 Blind consultation

There are reasons to doubt that the reported analysis of Transit's initial forecast that Auckland was to receive 75% of all funding for state highway capital works over the next 10 years is correct, because that analysis omitted other Transit and Transfund funding, eg committed works and block programmes. Subsequent explanations from Transit seem to me to include maintenance spending as well and thus confuse the issue further. Currently we don't know what the relevant total estimate is, either nationally or regionally, and so are “consulting blind”. Until clarified perhaps by Transfund, RLTSs cannot in fact assess “the likely funding available to the region” for the class of works they are addressing, which includes committed and block funding but not maintenance. Nevertheless the Transit 10-year non-block programme is the core programme dealing with strategic roading works, the group of greatest interest to RLTC's and regions.

Other puzzles lie within the given forecast. The average annual expenditure proposed is reportedly \$160 million; but year 1 (03/04) has a total of \$50 million, year 2 (04/05) \$97 million, year 3 (05/06) \$152 million, and year 4 (06/07) \$266 million. Last year the total national capital works programme was in the order of \$150 million. Committed works and practical readiness may explain part of the slack that has been built into years 1 and 2, but on the face of it there seems to be room for “pulling” national priorities like the inner city bypass back from years 3 and 4. At the wider level we have no idea how the total “\$1.6 billion over 10 years” was arrived at, whether this includes all relevant programmes, its relation to trends in other programmes like maintenance or local roads, or how the petrol tax increase affects it. Why is it \$1.6 billion for the next 10 years, ie not much different from previous rates, when there is an additional 4 cpl going in? The inferences I draw are that there may be more money available both in total and earlier in the programme.

I suggest that the RLTC needs some further briefing from Transit or Transfund on these matters before it can understand the forecast. I note decision making

around initial allocations is not in Transit's hands, but it would be helpful for consultees to know what the decisions are.

5.4 National network = regional needs

The suddenness, scale, and proposed duration of the change from neglecting Auckland to neglecting the rest of the country is alarming for wider social and economic reasons. Central government cannot ignore the impact on the national economic need for export produce to access ports, or for the national network to serve accessibility needs. Both local and central government must take into account the effects such a programme will have on regional investment, confidence, employment and social conditions. The forecast itself - allocating a (reported) 25% of relevant funds to 66% of the population for 10 years - illustrates the case to be made for national network and regional equity considerations to be taken into account.

There has been little opportunity to discuss such issues. Informally I have previously suggested that Wellington's benchmark share of national funds – over the long term, not year-by-year – should approximate 10% of the total. This is based on our region having 10% of the national population and traffic and contributing 10% of the national funds, and the concept that there needs to be some predictability about the regional funding stream. The strength of such a benchmark is that it separates the regional allocation question from the national, the weakness that it is entirely unofficial and undervalues national priorities in less populous areas (eg maintaining the Desert Road or access to Gisborne and the West Coast.) The latter point is solvable by taking a slice out from every region for such purposes, and accepting a benchmark a degree lower. For comparison, the actual regional share in recent years has ranged from 5 to 13% and averages 7%. To be fair, Transit's forecast for Wellington conforms with this trend, and with one outstanding exception conforms to the region's own priorities, it just "pushes" out delivery times.

5.5 Skewed priorities

Page 2 of Transit's 28 January memo tabling the forecast programme details relevant priorities applied in producing the list. A quick scan establishes that notwithstanding that the subject is the national state highway network the primary purpose of which is national accessibility, there is no priority (weighting) at all being given to national network or accessibility matters. The oversight can be traced back to the "government priorities" which in turn drive Transit's prioritisation: they too are deficient on national network matters, so an outcome neglecting such issues is consistent with government priorities. The remedy lies with appropriate representations to government rather than Transit.

The next question needs to be directed to Transit. What is the weighting being applied in this programme to the given priorities? The following table illuminates:

Proportions of dollars allocated to priorities, Transit 2003, 10-year Non-Block Programme

Year	Total \$	Statutory (%)	Congestion (%)	Safety (%)	Protection (%)	Q&E (%)
1	50	3.4	90	0	0	6.6
2	97	0	91.1	7.1	0	1.8
3	152	0	97.5	2	0	0.5
4	266	0	86.9	1.5	0	11.6

The table is largely explained by the Auckland bow wave – lumpy congestion-relief projects placed early. The allocation is “not inconsistent with” the priorities as set out but it would be helpful if Transit clarified how this weighting is arrived at, in particular how 90% of all money available can be allocated to a single priority year after year.

The table cannot include other relevant programmes eg committed and block, because they are simply not available. It is noted that the block programme in particular includes many safety works – but the total amount involved in that programme is less than 40 million.

5.6 National under-funding and slow responsiveness

In support of the view that the real problem is under-funding of national transport investment:

- a) While the “fundable BC” line is now redundant, for most of the 1990s when it applied it was around 4.0; occasionally 3.5 and often 4.5. In most OECD countries I understand it is 2.0–2.5; and in other network activities like electricity between 1.0 and 2.0. A “fundable BC” of 4.0 means that to be fundable a project that has an effective lifetime of 50+ years has to show particular returns 400% of particular costs over its first 25 years.
- b) One outcome the pricing studies did arrive at was to produce a valuation of the national highway network. It is therefore possible to calculate investment rates and compare practice in other network utilities. Our initial calculation based on an annual investment of \$160 million is the transport investment rate is between 1 and 2%; we understand practice everywhere else is a minimum of 5%. These figures need to be checked professionally but suggest there is an economic case for national transport investment to be *doubled*. The suggested revival of the AA/RTF/LGNZ lobby group would provide an appropriate vehicle to prepare and present such a case, among other actions.
- c) The average period between identification of a particular transport need and delivery of a response is unconscionably long, hardly what is meant by the term “responsiveness”. In this region for example:
 - the Kaitoke Hill Road has taken to date 14 years;
 - the inner city bypass has taken to date 10 years (in this version: if previous versions are counted, more like 40 years);
 - the Paremata bridge has taken to date 7 years (again, in this version: if previous versions are counted, more like 40 years);

- the Dowse interchange has taken to date 7 years and is now postponed a further 5 years;
- Transmission Gully has taken to date 14 years (in this version, if previous versions are counted, more like 50 years) and is still not reliably costed;
- even a relatively obvious project like Muldoon's Corner(s) on Rimutaka Hill Road, which has several key factors going for it, has its design stages pushed back 6 years, and its construction postponed well beyond the time it is needed.

6. Responses To National Context

6.1 Local government leaders in the region have expressed their deep and united concern about these issues and are actively pursuing them with regional MPs and others. They have several proposals addressing the core issue of under-funding, including options this Committee has previously discussed. Other groups represented on the RLTC are also active. The Committee may wish to consider supporting these representations.

6.2 It is my understanding that at national levels both the AA and the RTF are also concerned about under-funding, slow responsiveness, and idiosyncratic readings of priorities. Some 14 years ago these organisations joined with local government in preparing "The Blue Book", a case for better national funding of transport presented by all the ultimate funders of transport. The Blue Book addressed national network and regional allocation questions, it included investment in public transport and tabled several proposals that are now coming to pass (eg loan-funding, longer-term programming.) It is timely for that case to be reviewed and re-presented at national level – in an MMP environment, to all political parties. Timeliness comes from the detrimental effects of Transit's current 10-year forecast, the concurrent move to a regime based around forecasting and qualitative evaluation, and what we have learned in the meantime from pricing studies and the operation of regional strategies. If the RLTC agrees, then representatives of relevant organisations could pursue the suggestion and report back. This proposal addresses the longer-term underlying problems, recognises the issue is national rather than regional, and is an adjunct to not a replacement of the more immediate actions addressing the more immediate issues being spearheaded by local leaders.

7. Conclusion

This paper presents an overview of affordability issues in relation to the current RLTS, suggesting that pruning or deferring of identified projects may be necessary. The degree of correction if any is required cannot be ascertained until better information is available on "likely funding". The paper discusses and supports advocacy action at local and national levels to change the forecast situation. But agreeing to advocacy action does not absolve the RLTC from its duty to reassess the affordability of the current RLTS.

8. Recommendations

It is recommended that the Committee:

- 1. Receive the report and note its contents.*
- 2. Note that the next review of the RLTS must address strategy affordability and asks officers to prepare advice on the likely funding available.*
- 3. Asks:*
 - (i) the Minister of Transport to review the role of accessibility and the national network in present government priorities applying to transport funding;*
 - (ii) the Transit Board to clarify their weighting of the present priorities;*
 - (iii) Transfund to advise their 10-year forecasts of all relevant programmes.*
- 4. Asks members to report back on discussions with their national associations on preparing a renewed joint case for addressing under-funding in transport.*

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