Chief Executive's Report – December 2018

NZ TRANSPORT AGENCY
WAKA KOTAHI

INTERNAL USE ONLY

Report Overview

- This Chief Executive's Report covers key issues arising since the November 2018 Board meeting, not otherwise covered in substantive papers
- The report covers:
  - Developing the NZ Transport Agency's Sustainability Strategy
  - Let's Get Wellington Moving
  - Penlink Project – unsolicited proposal
  - Auckland Bus Fares
  - Wellington Bus Review
  - Waikato Bus Services
  - Ensuring effective delivery – NZ Transport Agency and Auckland Transport
  - Business Case process and delivery improvements

Sustainability Strategy

The Sustainability Strategy will:

- Define 'sustainability'
- Describe drivers of change
- Identify key principles
- Define areas of focus, objectives and targets
- Include an implementation plan

- The *Environment Position Statement* and the *Statement of Performance Expectations* 2018/19 require the Transport Agency to develop a Sustainability Strategy and Implementation Plan
- It will position the Transport Agency to respond to increasing environmental and social obligations from:
  - Relevant statutes, including from the Zero Emissions Bill when finalised
  - The Ministry of Transport's *Transport Outcomes and Mode Neutrality Framework*
  - The *Government Policy Statement on Land Transport 2018/19*
  - Relevant cross-government programmes, such as The Low Emission Vehicles Programme and the new Road Safety Strategy

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Sustainability Strategy

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- The Transport Agency expects the strategy will focus on:

Theme	Focus
Climate Change Mitigation	• Reduce greenhouse gas (GHG) emissions from the land transport system • Reduce the Transport Agency's GHG emissions
Improving Public Health	• Reduce harmful land transport-related air and noise pollution • Enable more people to safely use active modes
Reducing Environmental Harm	• Reduce adverse effects of land transport on water quality and biodiversity; biosecurity and off-setting opportunities • Greater use of sustainable materials, energy efficiency and waste-management

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Sustainability Strategy

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- The big challenges:
  - Reducing GHG emissions from transport is the biggest challenge for the strategy to address, particulary as the Government has signalled it plans to focus on transport emissions ahead of other sectors
  - The Zero Emissions Bill is expected to enable the setting of challenging transport emissions budgets from 2021 to reach net zero emissions by 2050
  - Current efforts are reliant on the cross-government Low Emission Vehicles (LEV) Programme to drive reductions – but the scale is immense and other interventions will be needed:

    Uptake of 131,250 LEVs per annum for 32 years is needed to meet the 2050 target: 2017 LEV uptake was 3691. Uptake and technology will improve, but best projections show New Zealand is not on track
  - Reducing reliance on private vehicles (for example, modal shift, travel demand management and smart urban development), offers other opportunities to reduce GHG emissions - as do network management activities, such as speed management and flow optimisation
  - These activities are already underway, driven by safety and access outcomes. The strategy will explore opportunities to integrate emissions reductions, public health and environmental outcomes into these kinds of activities

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Sustainability Strategy

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- **Next steps:**
  - A draft strategy is being prepared to discuss with the Board in March 2019. The Minister of Climate Change and Associate Minister of Transport have indicated they wish to see a draft, so the Transport Agency is aiming to share a draft with them in April 2019
  - A wide range of levers are being explored to inform the strategy and implementation plan:

Cross-government LEV Programme

- *Charging infrastructure:* refresh operating policy (for example, funding, coverage, standards, light and heavy vehicles)
- *Uptake*: address barriers, incentives, innovation, education
- *Regulation:* vehicle standards to optimise environmental and safety benefits
- *Partnerships*: inter-agency and inter-industry

Other levers

- *Planning and Policy:* mobility and network management activities
- *Investment settings:* investing for sustainable outcomes plus lifting the focus on emissions-reductions in decision making
- *Research, data and knowledge sharing*: measuring progress effectively
- *Leadership:* capacity and capability building and leading by example

Let's Get Wellington Moving

- At its October meeting, the Board discussed the recommended programme of investment (RPI) for Let's Get Wellington Moving (LGWM). The RPI is an integrated multi-modal programme, including significant investment in public transport (including mass transit), active modes and roading. Total capital investment exceeds $4 billion
- The Board endorsed the RPI as a programme business case, but noted that 'endorsement' indicates a commitment to develop the RPI to a stage where it can be implemented, but does not commit the Transport Agency to fund that implementation, in whole or in part
- The Board also noted the need for significant further work on the feasibility of funding and financing arrangements for LGWM, in conjunction with similar and coincident requirements for the Auckland Light Rail Project. It agreed on the need to understand the entire commitment required for LGWM, before embarking on the next stage - which includes detailed business case preparation and implementation of early improvements

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Let's Get Wellington Moving

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- Since that meeting, further work has been undertaken on financing and funding. This was incorporated into advice from government officials to Ministers in relation to funding, affordability and phasing issues

Indicative funding available from the National Land Transport Programme (NLTP):

- The briefing highlighted the funding constraints that exist, and the difficulty of funding the RPI under current funding settings, especially when other national priorities are considered
- Ministers Twyford and Genter met with LGWM Governance Group members (Mayor, Wellington City Council and Chair, Greater Wellington Regional Council) on 4 December 2018, to share his response to the funding issues. Minister Twyford's proposal, subject to Cabinet approval, is to commit to an indicative National Land Transport Fund (NLTF) envelope for the Wellington region over the next 30 years, based on a 10% population share. Taking account of other expected transport spending in the region, this would leave approximately $1.7 billion to fund LGWM initiatives

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Let's Get Wellington Moving

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- This is expected to provide sufficient revenue to fund the following RPI elements from the NLTF:
  - Walking, cycling, public transport (city and north), smarter operations and smarter pricing at the current 51% funding assistance rate (FAR)
  - Mass transit (station to Newtown) at 100% FAR
- This approach would not provide NLTF funding for the other RPI elements, including State highway investments (Basin Reserve, Mt Victoria Tunnel, Terrace Tunnel, Te Aro undergrounding), and mass transit from Newtown to the airport. The Minister has indicated to local representatives that retaining these projects in the RPI will require a 100% locally funding commitment

Further work is needed to determine a fundable programme:

- Minister Twyford has invited the Governance Group to consider the proposal and to respond. He has indicated a desire to publicly announce the LGWM programme in February 2019. The Governance Group is due to meet on 5 December 2018 to review the proposal, and to determine the next steps

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Let's Get Wellington Moving

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- This will require local government to determine whether it is able to fund its share of the programme, and to determine an affordable local funding envelope
- If this envelope is insufficient to fund the full programme, a revised RPI will need to be determined by the Governance Group. This could be materially different from the RPI that was endorsed by the Board in October 2018
- The following slides illustrate the impact on the NLTF of funding LGWM Phase 1, alongside other investment priorities
  - BEFU revenue forecast - 3 years of 3.5c/litre FED and RUC increases then volume growth only
  - Auckland rapid transit CC2M only - financed with 30 year interest bearing debt (100% NLTF share)
  - LGWM as per the proposal made to the Governance Group with a mix of PAYGO and financing
  - Heavy rail – no additional funding other than current Transitional Rail activity class
  - Other activity classes maintained at current GPS/NLTP levels to 2050
  - State highway improvements set at $500m pa in addition to $190m pa for PPP repayments post 2027/28

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Let's Get Wellington Moving

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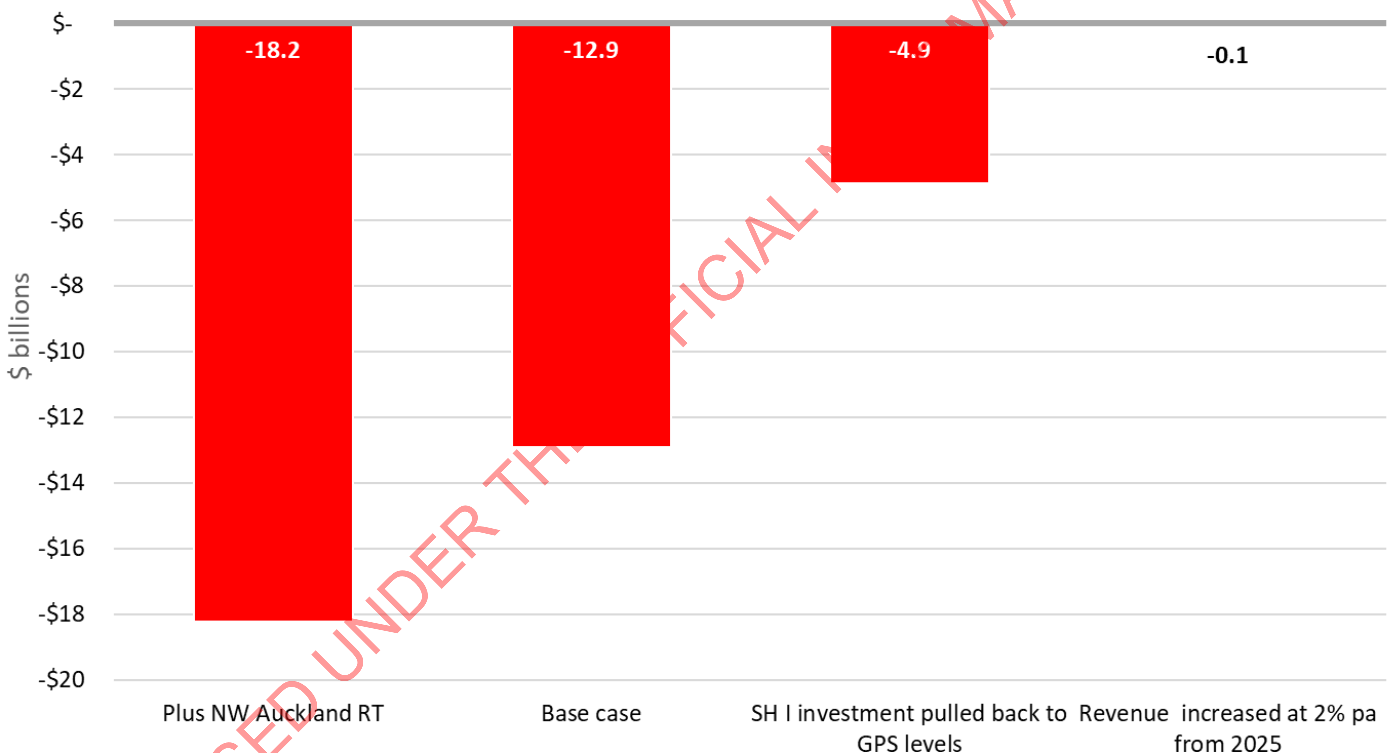
NLTF funding gap to 2050 (that is, forecast expenditure less revenue) noting scenarios are not additive (only one assumption varied per scenario):



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Let's Get Wellington Moving

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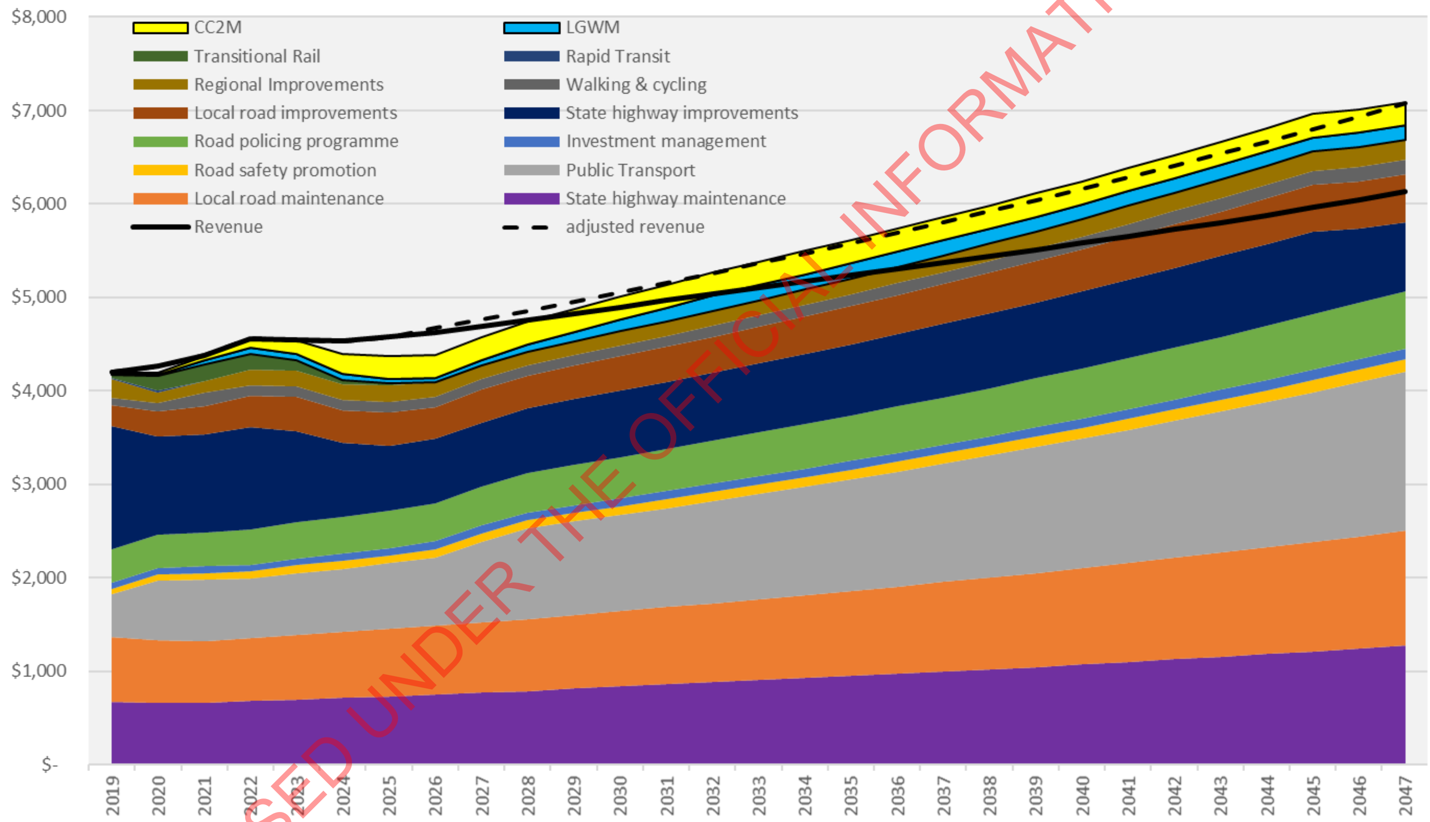
Base case by activity class/project:



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Let's Get Wellington Moving

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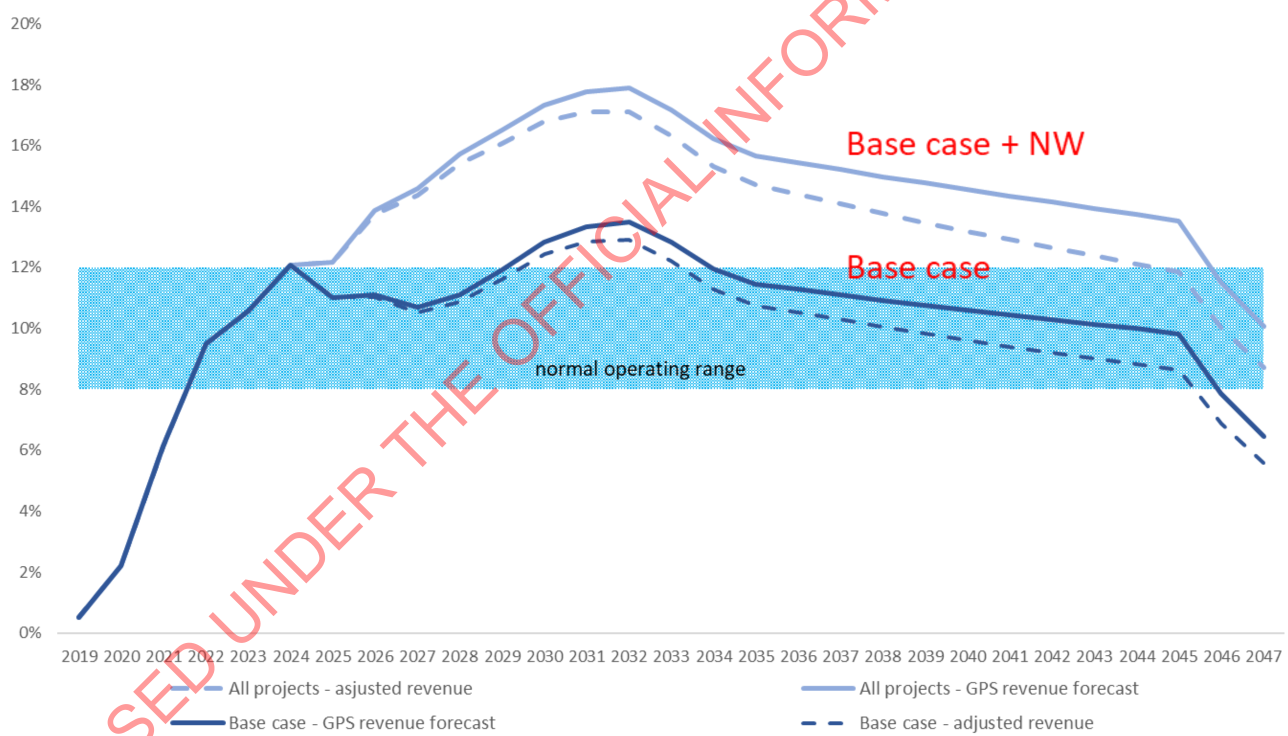
Effect on debt servicing ratio – base case and all projects (that is with North West Rapid Transit:



Penlink Project – unsolicited proposal

- Penlink (+$200 million) is a construction-ready local roads project being delivered by Auckland Transport (AT) and currently planned for construction to commence in 2025/26
- In recent months AT has been undertaking a Business Case process to re-scope the project from four lanes down to two lanes and also investigate alternative funding and financing options in order to bring the construction forward
- The Transport Agency has received a request to submit an Unsolicited Proposal (USP) by Chinese company CTCE. On 27 November 2018, CTCE submitted their initial submission requirements in accordance with Stage 0 of the Transport Agency's USP Review Process and based on the Ministry of Business, Innovation and Employment's (MBIE) All of Government approach
- For a submission to progress past Stage 0, it must demonstrate it can meet minimum criteria, particularly with respect to demonstrating uniqueness
- An Assessment Panel consisting of members from the Transport Agency, AT and Treasury are currently evaluating the submission and will submit a Stage 0 recommendation to the Approval Panel, consisting of Chief Executives and Board Members from AT and the Transport Agency, as well as Jon Grayson from Treasury (Deputy Secretary, Financial and Commercial)

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Penlink Project – unsolicited proposal

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- As the output of the Stage 0 Initial Submission Assessment, the Assessment Panel will deliver a Recommendation Report to the Approval Panel and aim to have this completed this calendar year
- The Report will either recommend the proposal to move to the next Stage (Stage 1 – Detailed Proposal), or to be rejected from continuing further
- Due to the value of this procurement, endorsement of the recommendation will be sought from the Transport Agency Board
- In order to progress this efficiently, an out-of-cycle Transport Agency Board Paper will likely be required
- On Approval of the recommendation, CTCE will be informed of the outcome and provided feedback regarding the assessment
- Results of the outcome will be maintained in a Transport Agency managed USP register for future reference

Auckland Transport public transport fares

- The Transport Agency has approved and included, in the NLTP 2018-2021, $590 million - plus a contingency of $80 million - for the Auckland continuous public transport programme, based on AT's budgeted fare revenue
- The AT budget includes a 2% fare increase across the board in 2019, expected to increase fare revenue by $1.7 million in 2019, and $3.7 million annualised in financial year 2020 and beyond (total annual fare revenue is approximately $215 million)
- AT is considering not increasing fares, assuming that this will decrease fare revenue and is seeking support from Auckland Council and the Transport Agency to make up any revenue shortfall
- The approved contingency of $80 million has been earmarked, as required, for anticipated but not yet quantified cost escalation, such as regional fuel tax and labour costs. Possible changes to regional fare settings have not been included in the contingency estimates
- The Transport Agency will continue to discuss and work closely with AT to understand any implications of a nil fare increase for the funding envelope currently approved for the NLTP 2018-2021
- AT has not yet provided evidence in support of their assumptions about the impacts of the planned 2% fare increase, or a nil fare increase, on patronage and total fare revenue

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Auckland Transport public transport fares

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- Auckland patronage is currently growing at around 4% annually across the board and is expected to continue to grow, with associated growth in fare revenue
- The Transport Agency position is that AT will need to manage any fare changes within the total $590 million envelope. Any additional NLTF funding beyond this amount would have to be re-prioritised from other committed public transport expenditure and should not be assumed
- If AT does not implement fare increases, leading to a reduction in fare revenue, the Transport Agency will need assurance about the benefits delivered from such an approach (for instance, increased uptake of public transport), in order to commit contingency or other NLTF funding to replace fare revenue
- The implications of this approach are:
  - Other regions may look to reduce fares and seek NLTF funding to make up for any subsequent shortfalls in fare revenue, driven off the Government focus on mode shift and removal of an aggregate national farebox recovery target
  - A strong message to Auckland and other regions that fare policy is their responsibility and they need to plan the revenue required from fares, balancing regional and central government objectives, alongside committed revenue from rates and the NLTF
  - In making decisions for investment in public transport, the Transport Agency will consider how regional fare policies, including regional farebox recovery, align with investment objectives

Review of the new Wellington City bus services

- The Transport Agency is co-sponsoring, with Greater Wellington Regional Council (GWRC), an external review of the implementation of the new Wellington city bus services, to be completed in two phases
- The first phase reviewed the immediate implementation issues. Phase two will look at more systemic matters - such as the inter-dependence of network planning, service procurement, fleet innovation and partnering contractual arrangements. The objective is to identify lessons learned that can be applied in Wellington and nationally to support mode shift through on-going improvements to regional delivery of public transport services
- The Transport Agency has provided input into and feedback on the draft first report. The GWRC has reviewed the phase one report and will be releasing it publicly on 14 December 2018 or soon after. The phase one report is available in the Resource Centre of Diligent Boards for Board reference
- The phase one report identified a range of operational implementation matters that led to the initial problems, including inadequate communications to manage public expectations, erroneous assumptions about the change-readiness of the major incumbent operator and questions about where decision-making sat for the big decisions and managing risk
- Some of these operational matters, especially in regards to the GWRC relationship with the major incumbent operator are still problematic, but overall service performance statistics are improving

Waikato Bus Services

- Bus services in Hamilton City have been disrupted by an ongoing dispute between Go Bus - the contracted provider of bus services in Hamilton - and some of Go Bus employees, who are members of First Union (approximately 80 out of 350 employees in the Waikato region)
- The dispute is over the base hourly rate drivers should be paid. First Union members are seeking the living wage (as determined by Living Wage Aotearoa) of $20.55, which Go Bus has rejected as unaffordable
- Waikato Regional Council (WRC) has been approached to address the funding 'gap' between what Go Bus is prepared to offer its drivers and the living wage. The estimated annual cost of this is $900,000, which is to cover the difference between what Go Bus has offered in negotiations and accommodating the payment of living wages to drivers as sought by First Union

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Waikato Bus Services

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- WRC has stated that it cannot close the funding gap from rates, without a significant increase in fares. WRC has approached the Transport Agency to help resolve the issue and is looking for a contribution from the NLTF toward the estimated annual cost at normal Financial Assistance Rate
- The Transport Agency is working with WRC on its current proposal, which is to use the Financial Incentive Mechanism (FIM) implemented under the Public Transport Operating Model to address the funding gap. The FIM is a tool intended to incentivise better public transport performance (such as faster patronage growth), through providing additional revenue to operators over base contract payments, subject to operators meeting agreed performance targets. The Transport Agency's role is to work with WRC to ensure its proposal is consistent with the Transport Agency's investment and procurement requirements

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Waikato Bus Services

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- There are risks that WRC and the Transport Agency need to manage in pursuing a solution, including precedent for other transport contracts in place across New Zealand, financial constraints which both parties are working within and potential legal risks associated with providing additional funding to an incumbent supplier for a risk the supplier is expected to manage, absent of a formal Government position on payment of the living wage
- Because the NLTF is fully allocated for the current National Land Transport Programme, WRC have been advised that an additional contribution from the NLTF toward the WRC proposal is unlikely and that WRC would need to look at re-prioritising its existing public transport programme to fund
- The Transport Agency will continue to assist WRC where it is able

Ensuring effective delivery: Transport Agency and Auckland Transport

- To give effect to the Government's increased focus on urban areas, the Transport Agency and Auckland Transport senior leaders met to determine how both organisations could work together more effectively to deliver the transport outcomes for Auckland
- With a complex array of stakeholders and central government agencies focused on Auckland, together with a significantly increased works programme, there is an opportunity for the Transport Agency and Auckland Transport to be better aligned and more effective in their delivery of the Auckland Transport Alignment Project (ATAP)
- A number of areas were identified where better alignment and coordination between the two organisations would resulted in a better customer and/or business outcomes, and an action plan has been developed
- A Programme Leadership Team consisting of Transport Agency and Auckland Transport senior leaders is being formed to monitor the progress of the ATAP work programme, manage risks and opportunities, resolve escalations and to align both organisations to ensure stakeholders have confidence in ATAP's delivery

Business Case: Process and delivery improvements

- As part of the Investment Decision Making (IDM) Review, the Transport Agency is accelerating its continuous improvement approach to business case processes
- The focus is on reducing time and cost in the business case cycle from preparation to delivery
- The project is informed by stakeholder feedback and stakeholders are embedded in the project work
- The current focus is to pilot simpler and quicker ways of developing business cases
- Learnings from the pilots will be applied as part of the IDM Review to:
  - empower the business to make the right decisions
  - review how the Transport Agency gives effect to its accountabilities for business case preparation
  - identify the capability gaps for recruitment