

## Treasury/Ministry of Transport Report: Auckland Transport Strategy and Funding

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<b>Date:</b>	16 July 2003	<b>Treasury Priority:</b>	Medium
<b>Security Level:</b>	IN-CONFIDENCE	<b>Report No:</b>	T2003/1214 MoT

### Action Sought

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	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance	<b>Sign and refer</b> paper for Cabinet Policy Committee	10am Thursday 17 July
Minister of Transport	<b>Sign and refer</b> paper for Cabinet Policy Committee	10am Thursday 17 July
Associate Minister of Finance (Hon Trevor Mallard)	None	None
Associate Minister of Finance (Hon David Cunliffe)	None	None

### Contact for Telephone Discussion (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Rosemary Cook	Principal Advisor, The Treasury		
Alastair Patrick	Manager, Ministry of Transport		✓

**Enclosure: Yes**

16 July 2003

SH-8-8

## Treasury/Ministry of Transport Report: Auckland Transport Strategy and Funding

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### Purpose of Report

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1. On Wednesday 2 July Infrastructure Ministers discussed the proposed work on Auckland Transport Strategy and Funding, and in particular the governance model and work streams proposed by central government and Auckland local government officials for taking this work forward.
2. On 7 July Cabinet Business Committee agreed that the Ministry of Economic Development be added to the Joint Officials Group, and invited Infrastructure Ministers to provide a paper for the Cabinet Policy Committee meeting on 23 July, with advice on the fit between Auckland's stated transport needs and the government's overall transport objectives.
3. The attached paper for Cabinet Policy Committee covers the governance model and work streams proposed for taking the Auckland Transport Strategy and Funding work forward, showing an amended governance model to include MED on the Joint Officials Group, as well as commenting on the issues relevant to the fit between the Auckland stated transport needs and the governments overall transport objectives.

### Recommended Action

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4. We recommend that you **sign** and **refer** the attached paper to the Cabinet Policy Committee.

**Rosemary Cook**  
Principal Advisor  
for Secretary to the Treasury

**Alastair Patrick**  
Manager  
Ministry of Transport

Cabinet Policy Committee

Referred: Yes/No

Referred: Yes/No

**Hon Dr Michael Cullen**  
Minister of Finance

**Hon Paul Swain**  
Minister of Transport

Chair  
CABINET POLICY COMMITTEE

## AUCKLAND TRANSPORT STRATEGY FUNDING

### Executive Summary

5. This paper seeks Cabinet decisions on a framework for progressing work on Auckland transport issues with the Auckland Mayoral Forum (the Forum). At a meeting held on 30 May 2003 with the Forum, the Ministers of Finance and Transport and the Minister Responsible for Auckland Issues, agreed to establish a joint central government/Auckland working group for this purpose.

6. Cabinet agreement is sought for the proposed governance model for the overall project (refer Appendix 1) and the work-streams and sequencing described in this paper.

7. These proposals were considered by the Infrastructure Ministers' Group on 2 July 2003 and were briefly outlined in the Progress Report on Infrastructure Issues on 7 July 2003 [CBC Min (03) 6/1 refers].

### Proposal

8. This paper proposes that Cabinet agree:

- to the governance model for progressing work on Auckland transport funding; and
- that the proposed work-streams described in this paper form the basis for further work with Auckland Mayors and their representatives and central government officials.

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### Background

9. The Ministers of Finance and Transport and the Minister Responsible for Auckland Issues met with the Forum on 30 May 2003. At this meeting Ministers agreed to establish a joint central government/Auckland working group to consider the infrastructure projects contained in the Auckland plan and the Forum's proposals for funding those projects.

10. The proposals in this paper were considered by the Infrastructure Ministers' Group on 2 July 2003 and were briefly outlined in the Progress Report on Infrastructure Issues on 7 July 2003 [CBC Min (03) 6/1 refers].

## **Draft governance proposal**

11. Officials have prepared the attached proposed governance model for Ministers' consideration (refer Appendix 1). The model depicts Infrastructure Ministers and the Forum as responsible for governance of the overall project but notes that the parties have separate interests. For instance, Ministers would have responsibility for addressing, in the first instance, the Budget implications resulting from the project, as well as the interface between the project and the Sustainable Development Programme of Action.

**12. Management of the project, and in particular the co-ordination of work both between the parties and across the various work-streams, would be undertaken by a Joint Officials' Group (JOG). This group would report jointly to Infrastructure Ministers and the Forum. The group would comprise advisers from the Offices of the Ministers of Finance and Transport, Forum representatives, officials from the Treasury, Ministry of Transport, the Ministry of Economic Development and the Department of Prime Minister and Cabinet, as well as an LGNZ representative.**

13. The members of the nine separate work-streams (refer Appendix I) would report directly to JOG. This will ensure central government and Forum responsibility for overall control of the work-streams. Both parties will participate in all work-streams and other government departments (including the Department of Internal Affairs, the Ministry for the Environment and the Ministry of Social Development) will also be involved at this level, where appropriate.

14. While this work is specific to Auckland, the results will have implications for other work underway in transport policy. The Ministry of Transport will be ensuring that the results of the Auckland specific work are incorporated into national transport policy as appropriate.

15. The Minister for Industry and Regional Development and the Minister with responsibility for Urban Affairs have responsibility for implementing the Sustainable Cities part of the government's Sustainable Development Programme of Action. The Sustainable Cities work includes a major focus on Auckland sustainability over the next three years. This work is linked to, and will have input into, the Auckland transport work. The Sustainable Cities officials group will provide JOG with wider departmental input, expertise in urban sustainability, linkages to other aspects of the sustainable Auckland action plan, and other support as needed. The departmental input will offer a 'whole of government' approach, rather than separate consultations.

16. In addition, it is proposed that the Sustainable Cities work programme will include active involvement in the work on implementing worthwhile transport demand management options including any demonstration projects.

17. Ministers are currently proposing that Cabinet establish an ad hoc Ministerial Committee on Urban Affairs, that would meet at times as a Forum with Auckland Mayors and Council representatives on the wider **sustainable Auckland work programme.**

**18. Central government officials will also work as required to ensure co-ordination between the Auckland transport work and the Sustainable Cities work programme, as well as the Infrastructure Stocktake being undertaken by the Ministry of Economic Development.**

### **Proposed work-streams**

19. The Forum proposed that the overall project comprise seven separate streams of work: Network Completion, Interim Revenue/ Regional Petrol Tax, Debt Structure/ entity, Network Pricing Feasibility Study, Mitigation Policy, Advocacy and Business Plan.

20. Officials consider that this overall package is acceptable (with some minor amendments and slight name changes) and the addition of two further work-streams: Social and Economic Impacts and Transport Demand Management: Non-Pricing Options. It will also be important to ensure the whole package is considered under the framework of the New Zealand Transport Strategy and that it takes account of the Major Projects Review announced by Transit New Zealand and Transfund New Zealand on 30 June 2003. The proposed final package of work-streams is therefore:

- Network Completion
- Interim Funding
- Debt Financing
- Transport Demand Management: Non-Pricing Options
- Transport Demand Management: Pricing Options
- Mitigation and Consents
- Social and Economic Impacts
- Communications and
- the overall Business Plan.

21. Additional work-streams may also need to be set up further into the process depending on the outcome of work under these streams.

22. It will be important to ensure the outcome of this work is consistent with the government's transport objectives and priorities. In particular, the Auckland plan will need to be considered against the framework of the New Zealand Transport Strategy, as well as the government's broader public policy objectives. The issue of the "fit" between the final Auckland plan and the government's transport objectives will therefore be a common thread throughout all of the above work-streams.

23. There are several issues that will need to be considered by central government in evaluating the Auckland proposal, for example key related issues such as demand management, cycling and pedestrian networks, integration with public transport development, or emissions. The possible impact of network pricing post 2010 will also have to be considered. As well there may be a question about the ability of the road construction industry to cope with the projected work without encountering skill shortages or price inflation.

24. Whatever approach is finally taken for Auckland is very likely to be the de facto solution for the rest of New Zealand at some future point. The government may wish to make it clear that it wants to see the Auckland solution in place before it considers any further changes.

## Network Completion

25. The Forum has identified \$5 billion in network investment it would like completed by 2010. It considers it will be able to fund \$2.6 billion of this sum from existing sources, leaving a \$2.4 billion funding shortfall over this period. The government now needs to determine its position on the overall package identified by the Forum.

26. This will include an assessment of:

- whether the overall package compiled by Auckland (the Forum and the Auckland Regional Land Transport Committee) is consistent with the government's desired public policy outcomes, including how it fits with the vision and objectives of the New Zealand Transport Strategy (e.g. incorporation of road, rail, public transport, walking and cycling, freight needs) and an assessment of benefits and costs; and
- the estimated costs of the package including the size of the funding gap out to 2010 and the practicality and prioritisation of the project sequencing proposed.

27. This work will also identify where further network capacity improvements may be sought in the future including the impact of known projects beyond the 2010 horizon of this project.

28. The Network Completion work will provide key inputs to the Interim Funding, Debt Funding and Network Pricing work-streams.

## INTERIM FUNDING

29. This work-stream will involve a two-step process:

- comparing the total costs identified in the Network Completion work against known sources of funding (e.g. taxes, rates, grants including Transfund's 10-year financial forecasts) to identify the nature of any funding shortfall; and
- identifying and evaluating potential sources of short-term funding (e.g. capital injections, regional rates/ taxation, regional dedication, regional petrol tax), and how those potential sources might help close the funding gap.

30. The Forum has proposed that this work consist of:

- a one-off capital contribution by the Crown (\$1.4 billion over 3 years); or
- dedication of all fuel excise duty currently allocated to the Crown Account (\$700 million a year for 1.5 years); and
- regional fuel tax, regional RUC (regional dedication of national tax or a new regional tax).

31. The Interim Funding work will provide the key input to the Debt Financing work and will inform any Budget-related work.

## DEBT FINANCING

32. This work will involve an assessment of generic debt financing mechanisms and their potential application to the specific projects identified in the Network Completion work (and future enhancements of Auckland's transport infrastructure). This assessment will also take into account the funding gap identified in the Network Completion and Interim Funding work.

33. The Forum has suggested:

- \$1 billion in borrowing, mainly for State highway projects;
- that the borrowing be undertaken by a new entity or Transfund New Zealand; and
- that interest repayments be funded by Infrastructure Auckland until 2007 and then funded by tolls or ongoing regional taxes.

34. Other options might emerge from the review of the Auckland specific provisions in the Local Government Act 1974, and the Sustainable Cities work on infrastructure governance.

35. If debt financing is to be adopted without limiting funding for new projects in the future, new sources of funding need to be identified. These sources can be general revenue or project specific revenue. Decisions on Debt Financing are therefore likely to be closely linked to decisions on the Network Pricing work.

36. This work will support the work being carried out by the Treasury on infrastructure financing as it relates to Auckland.

#### **Transport Demand Management: Non-pricing options**

37. This work involves identifying a range of measures that would encourage better use of existing capacity on the network (e.g. site specific transport plans, linking traffic light systems, parking charges) but which do not involve directly charging for the use of the network. Issues to be considered include the identification of worthwhile forms of transport demand management, and implementation strategies that will attract support from local road, state highway and public transport agencies. The group will also work to ensure co-ordination with the Sustainable Cities group.

38. This work would overlap with Transport Demand Management: Pricing options. An effective communications strategy is likely to be a vital element in any transport demand management work and form an important component of the final Business Plan.

#### **Transport Demand Management: Pricing options**

39. The work will involve identifying how direct pricing measures (e.g. tolling of existing roads) could contribute toward multiple objectives, including congestion management and funding of new roads. Issues to be considered include the purpose of such a regime, the form it might take, including the institutional arrangements required to ensure an integrated approach to toll levels, billing, exemptions and enforcement. The Forum has suggested network pricing be introduced after 2007.

40. There are significant issues concerning the practicality and public acceptability of network pricing, as well as the potential administrative arrangements and any decision will need to be based on a careful analysis of the environmental, social and economic impacts of the proposal. A decision to pursue pricing would also need to be accompanied by a robust communications plan.

41. This work has a close relationship to the Transport Demand Management: Non-pricing options, Social and Economic Impacts, the Communications and the Business Plan work-streams.



## Mitigation and Consents

42. The work-stream involves:

- addressing public concerns about the effect of new projects on the natural environment and local amenities of the network projects proposed and;
- ensuring consent processes are optimal.

43. In response to public concerns, the Forum has proposed a higher standard of avoidance of unnecessary adverse effects on the environment and mitigation involving tunnelling for the Harbour Bridge to City, Avondale Extension and Eastern Highway projects.

44. Any network development in Auckland is likely to face considerable community scrutiny under the Resource Management Act 1991 and the widened consultation provisions under the Land Transport Management Bill 2002 (the Bill). The Bill also currently requires that Transit take into account the need to “minimise adverse effects on the environment”. Any private/public partnership projects will also be required to have the support of the communities affected by them. The combined effect of this legislative framework and the uncertain impact on the time required to obtain statutory consents may limit the use of public/private partnerships and increase the cost of projects. Consequently, it is important that a comprehensive process to meet public concerns be developed so that the risk of undue delays to the consents process can be minimised.

45. This work-stream will enable the network design to be further refined and the impact of these measures fully integrated into any final package.

## Social and Economic Impacts

46. Any package that emerges from the combined network completion, financing, funding, and pricing package is likely to have far reaching social and economic impacts. These impacts could range from business relocations to changes in transport costs for low-income families.

47. The nature of these impacts, particularly in terms of equity issues, needs to be carefully assessed and measures identified to address any unacceptable impacts before the Business Plan is finalised. This group will work on this with the Sustainable Cities group.

48. This work has a close relationship with the Network Completion work, and in particular the assessment of proposals against the vision and objectives of the New Zealand Transport Strategy.

## Communications

49. This work will involve the overall communications strategy for the project. A communication protocol will need to be developed between the government and the Forum covering both the need for confidentiality and the communication of significant decisions with the public at appropriate points. This will include matters such as

responsibilities for public communications, the need to agree on common terms and the timing of announcements on progress and major decisions.

### Business plan

50. This work will involve drawing together all of the individual work streams and consolidating them into a unified analysis of the network, financing, funding, and pricing proposals, measures to manage the costs, optimise the benefits and identify the steps required to deliver the overall package of proposals. This will also need to feed into the review of strategic planning processes operating in Auckland as appropriate.

### ***Timing/ Resource Issues***

51. The Forum's proposal did not include advice on sequencing of the different streams of work. In some respects, final decisions in respect of all of the work-streams are dependent on agreement on the particular projects to be included in the final package. That is, the work on Network Completion will need to be informed by the other work streams and developed in parallel with them. The business plan would be developed once the Network Completion work has been finalised.

52. Officials estimate the Network Completion work will take approximately five months in total and be finalised in December 2003, with a Business Plan developed in January/February for consideration in the 2004 Budget.

53. Officials note that this suggested timeframe will have resourcing implications but have not yet had sufficient opportunity to develop an estimate of the resources needed.

### ***Budget Implications***

54. The timing of government funding decisions in respect of the final package of proposals is dependent on the source(s) of funds. The main sources of land transport revenue (Fuel Excise Duty, Road User Charges) are tied taxes and can be increased by legislation and Order-in-Council respectively. Consequently, both changes can be made outside the Budget process. However, an increase in the amount of Fuel Excise Duty allocated to the National Roads Fund (i.e. increased funding from the Crown Account) would have implications for other government expenditure and therefore should be considered as part of the Budget process. Any other potential funding measures with fiscal implications for the government (e.g. borrowing, capital injection) are also best considered in the Budget context.

### **Consultation**

55. The Department of the Prime Minister and Cabinet, the Ministry for Economic Development, the Department of Internal Affairs, the Ministry for the Environment and the Ministry of Social Development have been consulted on this paper. The proposals in this paper have also been discussed with Forum representatives and in general terms with member of the Forum. It is proposed that details of the

workstreams and governance models be discussed at the next forum meeting on 22 August.

### **Financial Implications**

56. There are no financial implications arising from this paper. There is, however, the potential for significant financial implications depending on the outcome of the overall work programme. As noted in paragraph 50, the timing of the programme will enable Ministers to consider key decisions as part of the budget process.

### **Legislative Human Rights, Regulatory and Publicity Implications**

57. There are no legislative, Human Rights Act or regulatory implications arising from this paper. No publicity is planned regarding the decisions contained in this paper. There is, however, the potential for legislative implications depending on the outcome of the overall work programme.

### **Recommendations**

58. It is recommended that the Committee:

- a. **note** that at a meeting with the Forum on 30 May 2003 the Ministers of Transport and Finance and the Minister responsible for Auckland issues agreed to establish a joint central government/ Auckland working group to consider the proposals contained in the Forum's proposed transport plan for the Auckland region;
- b. **note** that it will be important to ensure the outcome of the overall work programme is consistent with the government's transport objectives and priorities, in particular, the New Zealand Transport Strategy, and that establishing this consistency will be a common thread throughout all of the above work-streams;
- c. **note** that officials have developed the proposed governance model (refer Appendix 1) and the work-streams and sequencing described in this paper (refer Appendix 2) to form the basis for further work on Auckland transport issues with Auckland Mayors and their representatives and central government officials;
- d. **note** that the proposed governance model contains a Joint Officials' Group containing advisers from the Offices of the Ministers of Finance and Transport, Forum representatives, officials from the Treasury, Ministry of Transport, the Ministry of Economic Development and the Department of Prime Minister and Cabinet, as well as a LGNZ representative, and that this group would report jointly to Infrastructure Ministers and the Forum;
- e. **note** that the proposals contained in this paper were considered by the Infrastructure Ministers' Group on 2 July 2003, were briefly outlined in the Progress Report on Infrastructure Issues on 7 July 2003 [CBC Min (03) 6/1 refers] and have been discussed with Auckland Mayoral Forum representatives;
- f. **note** the proposals of the Minister for Industry and Regional Development and the Minister with responsibility for Urban affairs to establish an ad hoc Ministerial Committee on Urban Affairs, that would meet at times as a Forum with Auckland Mayors, and Council representatives, on the wider sustainable Auckland work programme;

- g. **note** the overlap and synergies between this programme and the Sustainable Cities Programme of Action, and the review of the Auckland specific provisions in the Local Government Act 1974;
- h. **note** that papers produced as part of this work programme will be provided to other government departments and aligned with the work of these agencies (including the Department of Internal Affairs, the Ministry for the Environment, the Ministry of Social Development), where appropriate;
- i. **agree** that the proposed governance model, and work-streams described in this paper form the basis of further work on Auckland transport issues between Auckland Mayors and their representatives and central government officials; and
- j. **agree** that the details of the workstream and governance models be discussed at the next Auckland Mayoral Meeting on 22 August 2003.

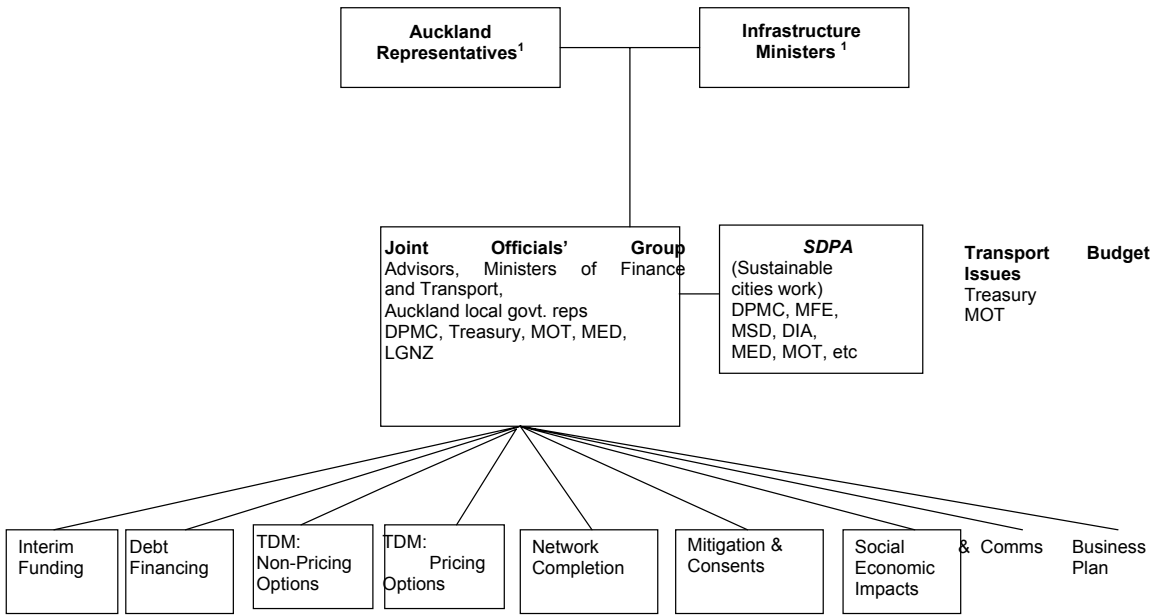
Hon Dr Michael Cullen  
**Minister of Finance**

Hon Paul Swain  
**Minister of Transport**

**Date**

**Date**

**Appendix 1: Draft Government Proposal**



<sup>1</sup> Note that both the Auckland representatives and Ministers will collectively act as 'champions' for the project. Also note that it is proposed that three Ministers (Finance, Transport, Associate Transport/Auckland Issues) be the primary contact with Auckland representatives on this project.

**THIS IS NOT APPROVED GOVERNMENT POLICY**

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