



IN COMMITTEE

Agenda No **5C**

**Submission No TF 01/8/916
File No 540-01**

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Submission to the Transfund Board

IN COMMITTEE

**Subject Wellington Transport Interchange and Hamilton Transport
Centre Projects**

Purpose

- 1 To seek the Transfund Board's:
 - (a) reconsideration of the approach taken to funding the Wellington Transport Interchange and Hamilton Transport Centre, given the approach taken to the Waitemata Waterfront Interchange project; and
 - (b) approval of kick-start funding of \$1.325 million towards the construction of 10 pedestrian shelters (in the vicinity of and related to the Wellington Transport Interchange) by the Wellington City Council.

Recommendations

- 2 That the Transfund New Zealand Board:
 - (a) **reconsiders** its previous decisions made in submission TF 01/6/884, and either:
 - (i) **confirms** its previous decisions; or
 - (ii) **agrees** to make a contribution of up to \$2.778 million to the Wellington City Council for the Wellington Transport Interchange project subject to an acceptable agreement being reached with the Wellington Regional Council, whereby a capital sum of up to \$2.737 million will replace half the equivalent portion of the future patronage payments which the Wellington Regional Council would otherwise receive;
 - (b) **approves** kick-start funding of \$1.325 million towards the construction of 10 pedestrian shelters by the Wellington City Council; and

- (c) retains submission TF 01/8/916 “In Committee” until appropriate agreement has been reached on the allocation of funding as referred to in recommendation (a)(ii) above.

Background and Context

- 3 The Wellington Regional and City Councils (‘WRC’ and ‘WCC’ respectively) have raised issues with respect to the Board’s funding decision for the Wellington Transport Interchange. More specifically, they have written to us rejecting the Board’s application of its double funding policy to the ATR funding that the Interchange would otherwise have been eligible for.
- 4 The Wellington Interchange Project was last brought to the Board for its consideration in June. As noted in the relevant Board submission (TF 01/6/884 refers), if the full amount of patronage funding attributable to the Wellington Transport Interchange proposal (estimated at \$2.737 million in present value terms) is netted off against ATR financial assistance of \$2.778 million, the net financial assistance will be \$40,200.
- 5 The approach taken by the Board at its June meeting involved the Wellington Regional Council (WRC) agreeing to forgo its proportionate future patronage funding revenue in favour of a capital grant being made to the Wellington City Council (WCC). On 4 July the WRC wrote to us agreeing to this approach but they subsequently retracted this position – partly because of the approach taken by the Board to the funding of the Waitemata Waterfront Interchange (WWI) project.
- 6 We have more recently received representations from the WRC and the WCC challenging the application of Transfund’s double funding policy to the Wellington Transport Interchange funding decision. The WCC has also publicly announced that it has stopped construction of the Wellington Transport Interchange due to the lack of agreement on funding issues.
- 7 On 10 August both the WRC and the WCC jointly wrote (appended as Attachment 1) asking the Transfund Board:
- “... to reconsider its funding decision of 21 June 2001 when it allocated \$2.778 million to the Wellington Lambton Interchange on condition that the Wellington Regional Council forgoes \$2.738 million of future patronage growth funding. Our two councils request that the allocation of \$2.778 million be made without conditions and the WRC patronage growth funding and annual patronage payments be paid without similar conditions.”*
- 8 A separate but related issue is the application by the WCC for \$1.325 million towards the construction of 10 pedestrian shelters. The pedestrian shelters were originally included as part of the Wellington Interchange ATR evaluation but were subsequently withdrawn when Transfund’s reviewer concluded that they did not meet an ER funding hurdle of 3.0.
- 9 Both of these issues are covered in more detail below.

Wellington Transport Interchange

Recent developments

- 10 In their communications with us, the WRC and WCC consider that it would be inappropriate for the Transfund Board to apply the double funding policy to the Wellington Transport Interchange project. The three main reasons for their approach are that:
- the project essentially involves a replacement of existing infrastructure
 - the original application was made when the Board's patronage funding and double funding policies were not in existence
 - the project has proved to be a fundable project under Transfund's ATR procedures.
- 11 Without wishing to rebut each of the points made by the WRC and WCC in their correspondence/discussions with us, we have responded on the basis that:
- the Board's double funding policy would have been a material factor even if the funding decision had been made prior to the introduction of patronage funding. In setting each council's patronage funding baselines, Transfund's policy enables the Board to take into account other relevant factors when setting both funding and patronage baselines, and it is highly likely that we would have recommended to the Board that it take ATR funding for the Wellington Transport Interchange project into account when setting the WRC's baselines
 - the reasons for the delay in reaching a funding decision on the Wellington Transport Interchange project are not as one-sided as the WRC/WCC correspondence would suggest – the original ATR application was deficient in many respects, it was initially not clear which council was to be the owner of the final structure, and there was a drawn out legal discussion as to whether the project had been properly/appropriately captured in the 2000/01 NRP.
- 12 We disagree with the objections of the WRC and WCC to Transfund's double funding policy and its application to the Wellington Transport Interchange project. However, it could be argued there is an apparent inconsistency between the approach approved by the Board on 21 June for the Wellington Transport Interchange/Hamilton Transport Centre and the approach it applied to the WWI project on 27 July. On that basis we have recommended to the Board that it reconsider its approach.

Implications of WWI decision

- 13 In the case of the WWI project the Transfund Board agreed on 27 July to:
- "...make a contribution of \$20 million to the Auckland City Council for the WWI project subject to an agreement with the ARC, acceptable to Transfund, whereby the \$20 million capital sum will replace half the equivalent portion of the future patronage payments which the ARC would otherwise receive..."*

- 14 Were the Board to instead apply the WWI double funding approach, only half the amount of patronage funding of \$2.737 million (present value terms) generated by the Wellington Transport Interchange project would be required to be offset against lump sum ATR financial assistance to the WCC of \$2.778 million. The effect of applying the WWI approach would be to increase financial assistance to the Wellington region, over and above patronage funding, from \$40,200 under the Board's June decision to \$1.409 million (present value terms).
- 15 If the Board were to follow this approach and be consistent with the Board's WWI decision, payment of ATR financial assistance should be made conditional on:
- "...an agreement with the Wellington Regional Council acceptable to Transfund, whereby a capital sum up to \$2.737 million will replace half the equivalent portion of the future patronage payments which the Wellington Regional Council would otherwise receive".*
- 16 We consider that applying the WWI double funding approach may be more acceptable to the Wellington region than the approach approved by the Board in June, although this has not been confirmed by either the WRC and WCC.

Implications for other similar projects

- 17 In its decision on the Wellington Transport Interchange in June the Board also applied a similar approach to the Hamilton Transport Centre, in that the Hamilton City Council and Environment Waikato would be offered the option to capitalise patronage funding to part fund the construction of the new Centre (up to \$348,480). This option was not pursued by either Hamilton City or Environment Waikato, largely on the basis that they were waiting to see what happened in the Auckland and Wellington regions in relation to their respective projects.
- 18 Depending on the course of action the Board approves in relation to the Wellington Transport Interchange project, it would be appropriate for us to apply the same approach to the Hamilton Transport Centre.
- 19 The Board should note, therefore, the precedent value of the decision made on the Wellington Transport Interchange on the funding of the Hamilton Transport Centre.

WCC pedestrian shelters kick-start funding application

Context

- 20 WCC has requested kick-start funding for 10 pedestrian shelters to be located on key pedestrian approaches to the Wellington Transport Interchange, at a total cost of \$2.208 million. At the 2001/02 kick-start FAR of 60 percent, this proposal is potentially eligible for kick-start funding of \$1.325 million. Appended as Attachment 2 is a diagram of the proposed shelters.

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- 21 The pedestrian shelters will promote public transport by providing shelter to existing and new users of public transport in the Wellington region.
- 22 The proposed pedestrian shelters were originally included as part of the Wellington Transport Interchange ATR funding application. The applicants withdrew the shelters from the application when Transfund's reviewer (SKM) concluded that collectively they yielded an efficiency ratio (ER) of only 2.3, below Transfund's 2000/01 hurdle of 3.0. Following subsequent discussions with WRC and Wellington City officers, the WCC subsequently applied for kick-start funding for the pedestrian shelters.
- 23 As the proposal has an ER comfortably above 1.0 (the kick-start funding hurdle), we support this proposal. However, there are a number of issues associated with it that the Board should be aware of, which we address below.

Kick-start funding of capital projects

- 24 Collectively, the shelter proposals cost \$2.208 million, which significantly exceeds Transfund's \$400,000 limit on kick-start funding of individual capital projects. Wellington City has lodged ten separate applications on the grounds that each shelter is an independent project costing no more than \$400,000. We consider that, while there are inter-dependencies between some of the shelter proposals, each shelter contributes individually to the combined benefits of all ten shelters. We therefore consider that there is an adequate case for considering each shelter as a stand-alone project for kick-start funding purposes.

Quantum of kick-start funding

- 25 Kick-start funding of the shelter proposals yields a Transfund contribution of \$1,324,621 at a 60 percent FAR for 2001/02. It seems anomalous that the pedestrian shelters qualify for high funding relative to the Wellington Transport Interchange project which, in contrast to this proposal, met Transfund's ATR evaluation criteria and provides greater benefits to road and passenger transport users than the pedestrian shelters. Nevertheless, we consider that, on the basis that each shelter is an independent project, the proposal qualifies for kick-start funding, to which Transfund's double funding policy does not apply.

Value for money

- 26 As previously noted, the ATR evaluation concluded that the proposed shelters yield an ER of 2.3, and result in benefits to existing and new users of passenger transport. For example, once in place, the shelters are forecast to generate approximately 23,000 new passenger transport users per annum. However, this forecast is inherently uncertain and it will be difficult to verify, because passenger transport users are only one class of beneficiary of the pedestrian shelters. It will therefore be difficult to reliably attribute any growth in public transport patronage to the pedestrian shelters. Further, it might be argued that kick-start funding this proposal could be at the expense of alternative higher value passenger transport projects, particularly projects related more directly to the provision of services.

- 27 Notwithstanding the above, Transfund’s procedures provide for funding of “passenger transport shelters” as part of the “Improved, Comfort, Access and Security” kick-start expenditure category. We consider that the outcome of the ATR evaluation is sufficiently robust to justify classifying the pedestrian shelters as “passenger transport shelters”. Further, another relevant factor is Transfund’s requirement that non-service related proposals must comprise no more than 50 percent of a region’s kick-start expenditure over the period to 30 June 2003. Wellington Region’s proposed kick-start expenditure to 30 June 2003 (including approved projects, applications currently under consideration by Transfund and deferred applications) is summarised below.

<i>Proposal type</i>		<i>Total cost</i>	<i>% of total cost</i>
Services	Improved services	\$7,437,500	59.1%
	Commercial trials	\$2,129,600	16.9%
Non-services	Improved comfort, access and security	\$2,897,700	23.0%
	Greater awareness	\$128,000	1.0%
Grand total		\$12,592,800	100.0%

- 28 It will be noted that improved services (including commercial trials) account for around 76 percent of the Wellington Region’s current kick-start programme. Provided that Wellington’s planned service improvement proposals are largely implemented its kick start programme – inclusive of the proposed pedestrian shelters – will comply with Transfund’s 50 percent expenditure constraint on non-service improvement proposals.

Communications Strategy

- 29 We propose to prepare an appropriate media release once the Board decision has been made and, if recommendation (a)(ii) is adopted, publish the release once appropriate agreement is reached with and between the parties concerned.

In Committee Status

- 30 We recommend that the Board keep this submission “In Committee” until Transfund has agreed a resolution of the “double funding” issue with the WRC and WCC with respect to the Wellington Transport Interchange project.

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Attachments

31 The following attachment is appended to this submission:

Attachment 1: Copy of joint letter from Gary Poole, WCC Chief Executive and Howard Stone, WRC General Manager

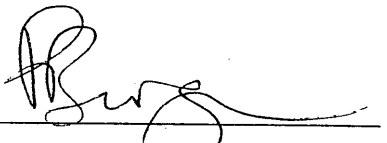
Attachment 2: Diagram of proposed Wellington City Pedestrian Shelters (to be tabled)

Author:



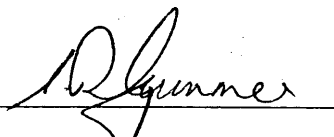
PM Paul Maloney
Evaluation Analyst

Recommended By:



Pieter Burghout
Planning & Evaluation Manager

Approved by:



Martin Gummer
Chief Executive