

## Penlink Tolling Scheme Proposal

In confidence and commercially sensitive

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### Purpose

This paper provides an overview of the proposed tolling scheme for Penlink and seeks approval from the Waka Kotahi Board for this to be submitted to the Minister of Transport (Minister) for consideration.

### Recommendations

It is recommended the Committee recommends the Board:

- **Approves** the submission of the Penlink Tolling Scheme Proposal to the Minister of Transport.

### Strategic relevance

Waka Kotahi policy is to consider the suitability of tolling for all new roads for which it is responsible. Tolling is a critical lever for the achievement of Penlink project outcomes and provides a potential supplement to land transport revenue that can address operating and maintenance costs associated with this important transport corridor and for which funding has not yet been arranged. The use of tolling for Penlink would better support the Government's strategic transport priorities, including encouraging mode shift, supporting uptake of public transport, and reducing carbon emissions, compared to not tolling the road.

## Background

### *Tolling Penlink can help relieve revenue pressure and support transport outcomes*

The Government Policy Statement for Land Transport 2021 (GPS 2021) places an expectation on the transport sector to consider alternative funding and financing options to supplement and support the National Land Transport (NLTF). Specifically, the GPS 2021 states that consideration should be given to approaches where those who directly and significantly benefit from an infrastructure project pay a greater share of its costs.

The NLTF is facing increasing pressure through a combination of an ambitious land transport investment programme and revenue impacts as a result of the COVID-19 pandemic. The New Zealand Upgrade Programme (NZUP) will see significant capital investments of \$8.7 billion into the land transport system, however no provision has been made for the ongoing operating and maintenance costs of these investments, which will ultimately fall on the NLTF (in the absence of other arrangements).

Tolling Penlink provides a potential supplement to land transport revenue to help reduce pressure on the National Land Transport Fund (NLTF) for ongoing operating and maintenance. All engagement since 2006 between Road Controlling Authorities (RCAs) and the public on Penlink has consistently positioned the road as being proposed for tolling.

In addition, key transport benefits and outcomes supported by tolling Penlink are:

- reducing journey time variability for public transport, making it a more attractive option and encouraging mode shift (GPS 2021 strategic priority regarding better travel options)<sup>1</sup>
- producing additional carbon savings compared to an untolled Penlink through increased public transport uptake and negating induced demand (GPS 2021 strategic priority regarding climate change)
- improving the operation of Penlink (travel time savings and trip reliability), but not at the expense of existing routes, and
- better supporting the achievement of the Penlink project objectives.

An equitable outcome for road users that choose not to travel on a tolled Penlink is achieved through the provision of safe and untolled alternative routes.

### *Requirements under the Land Transport Management Act 2003*

The Land Transport Management Act 2003 (LTMA) permits the establishment of road tolling schemes to provide funds which can only be applied to the planning, design, supervision, construction, maintenance, or operation (or any combination of these activities) of the tolled road. A road can only be tolled if it is a new road.

RCAs may submit tolling proposals to the Minister for consideration. The Minister has sole responsibility in recommending the establishment of a road tolling scheme to the Governor-General through an Order in Council. The Minister may consult with Cabinet colleagues before making such a recommendation.

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<sup>1</sup> An exemption from tolls for public transport buses using Penlink is proposed to encourage mode shift and uptake of public transport, as well as not place a burden on local government to fund a local share contribution.

In making a recommendation to the Governor-General, the LTMA requires that the Minister be satisfied:<sup>2</sup>

- that there has been adequate public consultation on the proposed tolling scheme
- with the level of community support for the proposed tolling scheme
- that a feasible, untolled, alternative route is available to road users, and
- that the proposed tolling scheme is efficient and effective.

### ***Public consultation on proposal to toll Penlink***

Penlink satisfied Waka Kotahi internal assessments which consider whether core legislative requirements can be met (e.g. new road, feasible untolled alternative routes are available) and whether the proposed scheme is efficient, effective and represents value for money.

At its September 2021 meeting, the Board approved recommending tolling Penlink and the initiation of public consultation to the Minister. The Board also noted a proposed tolling strategy of three gantries, variable aggregated toll rates at peak and off-peak, and that finance arrangements had not yet been identified for tolling delivery.

In November 2021, the Minister approved Waka Kotahi undertaking public consultation on a proposed tolling scheme for Penlink (BRI-2330 refers).

### ***Approval is sought to submit the tolling proposal to the Minister***

Following completion of tolling assessments of Penlink and public consultation, approval is sought from the Board to submit the Penlink Tolling Scheme Proposal to the Minister. Under Statutory Delegation 6.1 and Business Rule BRI-196, only the Board may approve an application to the Minister to establish a road tolling scheme. A Tolling Scheme Proposal is the application mechanism referenced in delegation 6.1 and BRI-196, and provides the Minister with the information required to decide whether to recommend the development of an Order in Council to give effect to the proposed tolling scheme.

## **Key issues**

### ***Penlink tolling scheme proposal***

The Penlink Tolling Scheme Proposal advises the Minister of the proposed tolling scheme design and provides information that is relevant within the context of the requirements under the LTMA, including the following matters.

### ***Public consultation and level of public support***

From 17 January to 13 February 2022, Waka Kotahi conducted public consultation on a proposed tolling scheme for Penlink. There was a significant level of participation from the community and resulted in 3,337 submissions being received. An overview of the consultation process and the key themes of submissions are contained in the *Public Feedback Report: Penlink Tolling Scheme Proposal* (Document 2 available in Resource Centre), which will also be provided to the Minister.

Overall, 37% of submitters supported the proposal or offered conditional support if changes were made to the proposal, and 60% of submitters did not support the tolling of Penlink (or tolling in

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<sup>2</sup> LTMA, section 48(1).

general). Most submitters who offered conditional support were concerned with the level of the proposed toll rates.

Public feedback has been carefully considered and the proposal revised to respond to some of the main submission themes. Some efficiency changes have been made to the tolling scheme design, enabling proposed toll rates to be reduced (discussed in the next section) and so this may go some way to satisfying submitters that offered conditional support on this basis.

### **Efficiency of the tolling scheme**

Efficiency improvements have been made to the proposed tolling scheme:

- retaining \$0.70 per trip rather than per toll point - applying the transaction charge by trip rather than each toll point reduces administration costs .
- reducing the number of toll points from three to two - the tolling point consulted on near Stillwater is not economically viable and its removal reduces capital costs (low traffic volumes generate revenue that only covers around 10% of the capital cost of installing tolling infrastructure at that location).

We have reduced the proposed toll rates from the levels publicly consulted on to reflect the lower costs of the tolling scheme that need to be recovered, e.g. maximum toll charges for end-to-end travel on Penlink have been reduced to \$3 at peak (from \$4) and \$2 off-peak (from \$3) for light vehicles.<sup>3</sup>

The Ministry of Transport has shared initial observations on the Penlink Tolling Scheme Proposal and its main concerns relate to the efficiency of the tolling scheme. The key themes from the Ministry of Transport's initial observations are set out below along with Waka Kotahi considerations in response:

<b>Ministry of Transport initial observations</b>	<b>Waka Kotahi considerations</b>
The tolled option for Penlink has lower benefits and higher costs according to the cost benefit analysis compared to the untolled option. This indicates that the tolled option is the least favourable option from a societal perspective, yet it is still the preferred option for Waka Kotahi.	While the tolled option for Penlink has a lower BCR, the tolling proposal highlights the benefits of tolling in terms of: <ul style="list-style-type: none"><li>• providing a potential supplement for land transport revenue in an increasingly fiscally constrained environment,</li><li>• supporting Government strategic transport priorities and Penlink project outcomes.</li></ul>

<sup>3</sup> Heavy vehicles would be tolled at a rate that is double the proposed toll prices for light vehicles at peak and off-peak times on Penlink.

Ministry of Transport initial observations	Waka Kotahi considerations
<p>The capital investment in tolling infrastructure (\$20 million) and revenue retained by Waka Kotahi for its tolling business (\$0.70 per trip) are considered significant within the context of the proposed toll rates and amount of operations and maintenance costs to be recovered. These costs all need to be recovered from users of Penlink through the toll rates.</p>	<p>The tolling scheme design options have been carefully considered and the proposal is as efficient as we can make it, including through reducing the number of toll points from three to two (saving \$7 million in tolling infrastructure). Important reductions in proposed toll rates have been possible as a result of reducing costs of the tolling scheme and this was a key theme from the feedback received through public consultation.</p> <p>Consultation with the public has been transparent regarding the toll rates also recovering the tolling infrastructure costs and the amount of revenue being retained by Waka Kotahi for its tolling business.</p>

### ***Relationship with the Penlink Implementation Business Case***

The Minister of Transport and the Minister of Finance will be presented with the Penlink Implementation Business Case at the same time as the Penlink Tolling Scheme Proposal is provided to the Minister of Transport. The Penlink Implementation Business Case provides details on both a tolled and untolled option, including the effects of tolling on project objectives and wider Government strategic priorities for transport. The tolling proposal reflects the key findings from the ImBC rather than reproducing that level of detail in the tolling proposal.

The Implementation Business Case has been drafted to enable approval from Joint Ministers independent of the Minister's decision on the Penlink Tolling Scheme Proposal, enabling the construction contract to be awarded irrespective of the tolling decision.

### **Risks**

There were two risks noted in the September paper to the Board which still remain but are now considered less likely to eventuate.

#### ***New back-office tolling system is needed***

The Waka Kotahi existing back-office system for tolling is reaching end of life, and to preserve current and future tolling operations (and provide a platform for other payments), a new back-office system is needed. In addition, the current level of functionality of the existing back-office system is limited to single point, flat rate tolling. The proposed Penlink tolling scheme requires increased levels of functionality than what the existing back-office system can deliver.

At its March 2022 meeting, the Board approved the Business Case for a new back-office system for the Waka Kotahi tolling business (*Tolling Back Office Systems Replacement*, 1 March 2022, Investment and Delivery Committee meeting). A preferred supplier has been selected and the project is progressing well. The risk of not having a new back-office system prior to Penlink opening is considered to be low, but it is a dependency for the Penlink tolling scheme to be operationalised.

#### ***Stillwater residents are not exempt from tolls***

As advised in the September paper to the Board, it was noted that the Rodney District Council may have previously agreed an arrangement with the Stillwater community that it would be exempt from

paying a toll due to disruption during Penlink construction. However, despite engagement with the community and Auckland Transport, no evidence of this has come to light.

Nearly all submissions from the Stillwater community in the consultation process reiterated a request for an exemption.

For efficiency reasons as noted above, the toll point near Stillwater has been removed in the proposal, which reduces the toll payable from Stillwater to SH1 to \$1 (rather than \$3 during peak and \$2 in off-peak). The Stillwater community will not be exempt from paying tolls like any other road users travelling on Penlink and passing through the toll points at either end of Penlink.

### **Public perception of toll operating costs**

Our modelling estimates that a small proportion of trips on Penlink would incur a proposed toll rate of \$1 at peak or off-peak (i.e. trips involving travel between State Highway 1 and local connections west of the bridge). The \$1 toll rate for these shorter trips was consulted on with the public. Given \$0.70 per trip is retained by Waka Kotahi to operate its tolling business, there is a potential risk that the public may question the efficiency of the tolling scheme. Although the \$0.70 represents a relatively high proportion of the \$1 toll rate, the amount retained by Waka Kotahi to operate its tolling business is calculated to be 37% of the total revenue generated by the Penlink tolling scheme.

### **Next steps**

Should the Board agree to recommend the Penlink tolling scheme proposal to the Minister, a covering briefing is being prepared to accompany the proposal and Public Feedback Report. This advice is planned to be provided to the Minister in April 2022, after a decision by the Board is received.

### **Health & safety, customer/stakeholder & environmental impact**

The impact of this decision is considered by Waka Kotahi to be neutral in terms of health and safety, the public and other stakeholders, and the environment.

On balance, we consider a decision to recommend the tolling of Penlink to the Minister is neutral regarding these factors given:

- *positive* – tolling produces additional carbon savings compared to an untolled Penlink through increased public transport uptake and negating induced demand (GPS 2021 strategic priority regarding climate change)
- *positive* – tolling reduces journey time variability for public transport, making it a more attractive option and encouraging mode shift (GPS 2021 strategic priority regarding better travel options)
- *neutral* – compared to the untolled option, there are fewer expected safety benefits with tolling as less traffic will be using Penlink which has higher safety standards. Our analysis indicates that deaths and serious injuries would be approximately the same regarding tolled and untolled options for Penlink. Both tolled and untolled options improve safety outcomes compared to not building Penlink.

- *negative* - key stakeholders and the majority of submitters (60%) do not support the proposal to toll Penlink and there may be negative media attention.

## Related documents

*Recommendation to seek tolling on Penlink*, 22 September 2021, Investment and Delivery Committee meeting.

*Penlink Implementation Business Case*, 20 April 2022, Investment and Delivery Committee meeting.

## Resource Centre

**Document 1** Penlink Tolling Scheme Proposal

**Document 2** Public Feedback Report

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