

In confidence

Review of Current Tolling Arrangements

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Issue owner: Howard Cattermole, Chief Financial Officer

Whāinga | Purpose: For decision

This paper seeks approval to increase toll tariffs to reflect movements in the consumer price index (CPI).

He kupu whakatau | Recommendations

Management recommends the Board:

- **Approves** increases in toll tariffs on the Northern Gateway, Tauranga Eastern Link and Takitimu Drive Toll Roads from 1 July 2023, as follows:

	Cars / Motorcycles		Trucks	
	From	To	From	To
Northern Gateway Toll Road	\$2.40	\$2.60	\$4.80	\$5.20
Tauranga Eastern Link Toll Road	\$2.10	\$2.30	\$5.20	\$5.60
Takitimu Drive Toll Road	\$1.90	\$2.10	\$5.00	\$5.40

- **Notes** an option to announce a deferred start to the increases (e.g. to take effect from 1 July 2024) might be considered in light of recent weather events impacting the upper and eastern North Island.
- **Notes** the proposed changes are equivalent to 2% per annum since the previous increases in 2019, rounded to the nearest 10c increment – below actual CPI increases of nearer 4%.
- **Notes** the increase in administration costs from 70c to 80c.

Take matua | Key points

- Toll revenue is used to: repay debt/notional debt and related interest associated with each road, as well as meeting the administrative costs of toll collection and operation including sensors and back-office system.
- Increases in tolls from time to time are necessary to ensure the repayment of debt in a timely manner.
- We have reviewed the administration costs of collection in line with the cost allocation basis used for the regulatory fees and funding review. A CPI-based increase from 70c to 80c, the first since 2011, will ensure the fee remains cost reflective, including meeting the costs of a new tolling back-office system.
- Given the current cost of living pressures, we recommend a lower 2% p.a. increase that “looks through the recent spike in CPI”. For comparison, Tauranga City Council is consulting on an annual rates increase of 13.7%.

He kōrero mō tēnei kaupapa | Background

Waka Kotahi currently operates three toll roads: Northern Gateway (NGTR), Tauranga Eastern Link (TELTR) and Takitimu Drive (TDTR). In addition, tolling has also been proposed for Penlink.

Over time, traffic volumes have been impacted by Covid related lockdowns. Previous tolling increases have not led to additional diversion onto the alternate route (refer Attachment 1).

Tolling is not a particularly efficient method of revenue collection compared to FED or RUC with low tariffs relative to the costs of installing and maintaining gantries and sensors, collection costs plus back-office software (now undergoing replacement). Tolling has, however, allowed the roads to be constructed earlier than would have occurred without tolling. Also, the key beneficiaries of the roads contribute directly to their costs.

Toll revenue can only be used for the purposes of debt repayment and/or maintaining the toll road.

Tariffs were last reviewed in October 2018, Board paper “Review of Current Tolling Arrangements” refers, with the increase taking effect in March 2019. The fee to cover the administrative cost of collection has not been reviewed since 2011.

Kia mōhio mai koe | What you need to know

Proposed increases meet debt repayment obligations and costs of new back-office system

Waka Kotahi has typically reviewed tolls every three years. The current increase was delayed as we worked through a costing review of tolling that took into account the forecast costs of the new tolling back-office system.

The proposal balances tariff increases with paydown of the debt. The increases manage our debt obligations efficiently. With the current traffic assumptions and increased tariff, debts are expected to be repaid somewhat ahead of the original borrowing assumptions (refer table below). At this point tolls are due to cease. If recent increases in interest rates persist, repayment dates could extend by several years from those indicated.

We do not consider that there would be an increase in traffic diversion to the alternate (un-tolled) route, due to the comparatively small increases in the tariffs. Attachment 1 has information on tolling volumes and the impact of the previous CPI increases. Nonetheless, increasing tariffs is consistent with the wider policy objective of discouraging private vehicle use relative to public transport or active modes.

There is time and cost involved in increasing tariffs, with new signage, customer engagement, changes to tolling and payment systems and customer accounts. The costs are expected to be in the range of \$300,000-\$400,000.

Included within the tolling increase is an increase for the administration costs of tolling collection. An increase in the base collection rate from 70c to 80c is reflective of current/forecast costs and also provides the added funding needed to cover the costs of the new tolling back-office system.

Toll increases must be set in accordance with the relevant Orders in Council

The Orders in Council for each of the toll roads has similar wording – in essence that Waka Kotahi may from time to time increase tolls provided increases do not exceed CPI increases and are rounded to the nearest 10c.

The increases proposed are in accordance with the Orders in Council and do not require Ministerial approval. However, the Ministry of Transport will be informed.

The history of tariff increases is set out in Attachment 2.

The proposed increases will enable debt repayment

Each toll road has debt (or notional debt) associated with its establishment.

- Northern Gateway was part-financed with debt held by the Debt Management Office of \$158 million (largely at floating rates, currently 2.85%);
- Tauranga Eastern Link was part-financed with debt held by Waka Kotahi of \$107 million, (largely at fixed-rates ranging from 4.99-5.14%; \$20 million at floating rates);
- Takatimu Drive was purchased for \$65 million from Tauranga City Council in 2015 using the National Land Transport Fund (NLTF). The Board determined that the \$65 million notional debt plus its opportunity costs would be recovered from tolls on the road to the NLTF (current notional interest rate 4%, previously 8%).

The modelling of repayment profiles is summarised below, including the original assumptions for final repayment and current projections based on the proposed tariff increases and traffic volume assumptions. For comparison, the expected final repayment dates for no increase or for a “2% p.a. CPI” scenario applied instead of actual CPI are also included:

	NG TR	TEL TR	TD TR
Year tolling commenced	July 2009	August 2015	August 2015
Original Debt	\$158m	\$107m	\$65m
Debt outstanding at 30 June 2022	\$204m	\$107m	\$52m
Estimated final repayment date:			
Original business case (which assumed CPI increases)	By 2045	By 2044	By 2041
With increase based on actual CPI i.e. 4% p.a.	By 2037	By 2038	By 2030
With proposed tariff increase i.e. at 2% p.a.	By 2039	By 2040	By 2031
With no tariff increase	By 2043	By 2045	By 2032

Repayment forecasts assume a continuation of a “low interest rate” environment. Northern Gateway and Takatimu Drive repayments are sensitive to interest rate (or associated opportunity cost) assumptions.

He whakaaro anō | Other key considerations

Ō tātou hononga | Partner, community and stakeholder considerations

Given other cost of living pressures, tariff increases are unlikely to be popular, particularly as there are currently road works on Takatimu Drive toll road and Tauranga Eastern Link toll road impacting on service levels.

Delaying increases would add to the pressure for future increases and/or defers final debt repayment and therefore extends the period over which the road is tolled.

However, were a response to cost of living issues and recent weather events required, announcement of the increases but deferred, say, by 12 months to 1 July 2024 could be considered. This would reduce revenue by \$4m and, all else equal, extend forecast debt repayment dates by approximately three months. Total tolling revenue across all three roads in 2021/22 was \$31.8 million.

Ngā tūraru matua | Key risks and how we will manage them

Key risk	Management
Negative publicity and feedback	A communications plan including updating information already included on our website
Road works on two of the toll roads mean that a reduced level of service applies	This will be covered as part of the communications plan. Noting that users can use the non-tolled alternative route.

Ā muri ake nei | Next steps

A detailed project plan (and team) is required to implement the changes. This includes: signage changes; system changes (through the Kapsch tolling system); retail network changes; payment and customer account changes; customer engagement and advice. In addition, a communications package will be prepared including: media content; website changes and notification through local newspapers to explain the increases and to ensure the necessary notices are provided as required by the Orders in Council.

The likely duration of the work and for the team, including the notice period of 28 days, is three months.

Ngā whakapiringa | Attachments

Attachment 1	Toll road traffic volumes
Attachment 2	History of tariff increases
Attachment 3	Alternative of actual CPI p.a. increase (using Sep CPI)

Attachment 1: toll road traffic volumes

NGTR Traffic Volumes and Network Usage

Period to	Annual volumes '000	Percentage increase	Comments
30-Jun-09	1,944		Opening January 2009
30-Jun-10	4,918		
30-Jun-11	5,116	4.03%	
30-Jun-12	5,186	1.36%	Tolls increased March 2012
30-Jun-13	5,385	3.85%	
30-Jun-14	5,741	6.60%	
30-Jun-15	6,057	5.52%	
30-Jun-16	6,629	9.44%	Tolls increased November 2015
30-Jun-17	7,041	6.21%	
30-Jun-18	7,389	4.94%	
30-Jun-19	7,519	1.75%	
30-Jun-20	6,769	-9.97%	
30-Jun-21	7,436	9.86%	
30-Jun-22	6,225	-16.29%	

Note: orange shading reflects Covid impacted years and traffic volumes are not necessarily following usual patterns

TELTR Traffic Volumes and Network Usage

Period to	Annual volumes '000	Percentage increase	Comments
30-Jun-16	2,627		Opening August 2015
30-Jun-17	3,371		
30-Jun-18	3,753	11.35%	
30-Jun-19	3,976	5.93%	
30-Jun-20	3,712	-6.62%	
30-Jun-21	4,183	12.69%	
30-Jun-22	3,890	-7.01%	

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TDTR Traffic Volumes and Network Usage

Period to	Annual volumes 000	Percentage increase	Comments
30-Jun-16	2,511		Transport Agency became tolling operator August 2015
30-Jun-17	3,378	34.53%	
30-Jun-18	3,860	14.29%	
30-Jun-19	4,365	13.08%	
30-Jun-20	4,149	-4.95%	
30-Jun-21	4,863	17.21%	
30-Jun-22	4,661	-4.16%	

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Attachment 2: History of tariff increases

Northern Gateway Toll Road

Established under clause 9 of the existing Order in Council for the “Land Transport Management (Road Tolling Scheme for ALPURT B2) Order 2005”

	Car/Motorcycle	Truck	Cumulative CPI
Base July 2004	\$1.80	\$3.60	
Opening January 2009	\$2.00	\$4.00	14.59%: July 2004 – December 2008
March 2012	\$2.20	\$4.40	23.95%: July 2004 – December 2011
November 2015	\$2.30	\$4.70	27.97%: July 2004 – March 2015
July 2019	\$2.40	\$4.80	32.91%: July 2004 – June 2018
July 2023	\$2.80	\$5.60	55.47%: July 2004 – Sept 2022

Tauranga Eastern Link Toll Road

Established under clause 8 of the existing Order in Council for the “Land Transport Management (Road Tolling Scheme for Tauranga Eastern Link) Order 2015”

	Car/Motorcycle	Truck	CPI
August 2015	\$2.00	\$5.00	
July 2019	\$2.10	\$5.20	3.65%: Sept 2015 – June 2018
July 2023	\$2.40	\$6.10	21.25%: Sept 2015 - Sept 2022

Takitimu Drive Toll Road

Under clause 7 of the existing Order in Council for the “Land Transport Management (Road Tolling Scheme for Takitimu Drive) Order 2015”

	Car/Motorcycle	Truck	CPI
August 2015	\$1.80	\$4.80	
July 2019	\$1.90	\$5.00	3.65%: Sept 2015 – June 2018
July 2023	\$2.20	\$5.80	21.25%: Sept 2015 - Sept 2022

Attachment 3: alternative of actual CPI p.a. (vs. 2%) increase

Impact on tariff

Alternate tariff (vs. proposal)	Cars/Motorcycles		Trucks	
	From	To	From	To
Northern Gateway	\$2.40	\$2.80 (\$2.60)	\$4.80	\$5.60 (\$5.20)
Tauranga Eastern Link	\$2.10	\$2.40 (\$2.30)	\$5.20	\$6.10 (\$5.60)
Takitimu Drive	\$1.90	\$2.20 (\$2.10)	\$5.00	\$5.80 (\$5.40)

Impact on debt repayment

	Year Debt Repaid	
	Actual CPI	2%
Northern Gateway Toll Road (NG TR)	2037	2039
Tauranga Eastern Link Toll Road (TEL TR)	2038	2040
Takitimu Drive Toll Road (TD TR)	2030	2031

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