

NZTA Funding Assistance Rate (FAR) Variation

GLOSSARY

Auckland Council	(AC)
Auckland Transport	(AT)
Funding Assistance Rate	(FAR)
New Zealand Transport Agency	(NZTA)
National Land Transport Programme	(NLTP)

EXECUTIVE SUMMARY

In August the Board considered a proposal from NZTA to vary the Financial Assistance Rates for NZTA subsidy to reduce the subsidy paid to AT by \$50m per annum for the 2011/12 and 2012/13 financial years and pay an increased subsidy to compensate for the reduction in the 2013/14 and 2014/15 financial years. The Board agreed in principle with this proposal.

The matter has now been considered by AC. This report seeks the Board's approval of an agreement to vary the FAR received from NZTA for AT's local roading and passenger transport improvement projects, maintenance and renewals from 2011/2012 to 2014/2015.

The agreement is intended to help manage NZTA's cashflow so that transport projects can continue during a period where NZTA has funding commitments in other areas, and has imposed a moratorium on new funding applications. This proposal will allow work to continue in the Auckland Region.

The proposal is to:

- increase the proportion of the programme which is funded from AC during 2011/12 and 2012/13 for maintenance and renewals by \$50m and
- increase the proportion of the programme which is funded by AC during 2012/13 by \$35 million for local roading projects and \$15 million for PT infrastructure projects
- NZTA would increase the proportion of the programme which is funded for these activities in 2013/14 and 2014/15. This is achieved by varying the NZTA FAR.

RECOMMENDATIONS

It is recommended that the AT Board:

- Agrees to amend the FAR for AT's activities in 2011/12 and 2012/13 to a lower FAR, and for a compensating higher FAR to be paid reflecting the earlier lower FAR any holding costs in 2013/14 and 2014/15;
- Notes that AC has endorsed AT agreeing to variation of the FAR for 2011/12 – 2014/15 subject to a written agreement between AT and NZTA;
- Approves the Chief Executive entering into the Cashflow and FAR Application Agreement (2011-2015) agreement with NZTA; and
- Agrees that AT, NZTA and AC staff work together on how the agreement will be released.

STRATEGIC CONTEXT

The current NZTA moratorium on NLTP funding approvals would delay the start of local roading and PT infrastructure projects until funds become available in the 2012-15 NLTP. If this continues, AT will miss the summer construction season and the Christmas closedown of rail services, severely impacting on the amount of the capital works programme delivered within this financial year.

The FAR variation, as proposed, will enable NZTA to continue to apply funding to committed projects such as Waterview. It will enable AT to continue to deliver local road and public transport improvement projects as planned during 2011/12 and 2012/13. It effectively pre-commits \$100 million in the next NLTP to AT.

BACKGROUND

FAR Variation Proposal

The FAR variation proposal was considered at the August Board meeting a summary of the key points from that meeting is attached (Attachment 1).

The FAR variation proposal is to:

- “front-load” \$50m of AT’s share of Auckland’s maintenance and renewals programme (i.e. increase the proportion of the programme which is funded from AC and other sources). NZTA would “back-load” its funding share for these activities in 2013/14 and 2014/15 (i.e. increase the proportion of the programme which is funded by NZTA)
- “front-load” \$35 million of AT share for specific local roading and \$15 million for specific PT infrastructure projects over the same period. Again, NZTA would “back-load” its share for these activities in 2013/14 and 2014/15. This would enable AT to progress local roading and PT improvement projects which would otherwise be subject to the NZTA moratorium on new funding.

The front and back loading of AT/NZTA shares would be achieved by varying the NZTA FAR. The FAR’s for the maintenance and renewals programme over the four year period would equate to a slightly higher weighted average base FAR for the period to compensate AT for the extra programme holding costs incurred by front-loading its share through AC’s loan facilities.

AT and NZTA staff have prepared an agreement for the FAR variation, which is included as Attachment 3. This has been prepared by in house legal advisors and an independent review of the agreement is being jointly sought.

Auckland Council Input

AC input has been sought and the resolutions from the Council meeting which considered the issue are included in Attachment 2. In accordance with those resolutions, the final version of the agreement needs to be reviewed and approved by AC’s Chief Financial Officer and the Chair of the Strategy and Finance Committee. The AT CFO has met with the CFO of AC to determine whether AC is comfortable with the agreement. One issue was raised relating to the certainty that AT/AC would get sufficient funds from NZTA in 2013/14 and 2014/15 to recover the funds foregone in the first year in relation to Maintenance and renewals. The agreement has been modified to ensure this is covered with certainty. The Board will be updated on the status of the AC confirmation of the revised agreement, so the agreement can be signed immediately if approved by the Board.

THE AGREEMENT

The Agreement for the change to the FAR is attached (Attachment 3). The objectives of the parties are listed below.

NZTA

- To ensure that \$50m of savings is identified in this financial year to ease their cashflow pressures
- To ensure that \$50m of savings are achieved for the 2012/13 financial year
- To ensure that the AT capital work programme is able to progress while NZTA has the cash flow pressure in the next two financial years.

Auckland Transport

- To ensure that the subsidy foregone in 2011/12 and 2012/13 is paid to AT in 2013/14 and 2014/15 with allowance for the costs incurred by AT/AC in altering the subsidy rates
- To ensure that AT capital works are able to be approved for subsidy so that the capital work programme can progress

There is significant alignment in the goals.

The risks for each party were identified during the negotiations and are shown below:

Auckland Transport	NZTA
Subsidy rate alterations mean AT loses more than the requested savings and that the subsidy rates in subsequent years yield less additional subsidy than the subsidy delayed	Subsidy rate alterations do not yield the savings requested, and that subsequent years cost more than the savings achieved in the first two years
Items included in the agreement are items that NZTA would have approved for subsidy even if the agreement was not in place	The agreement includes sums of subsidy that NZTA would have not paid even if the agreement had not been in place. This could occur with an underspend of the AT subsidised programme

The risks to each party are the opposite risk to the counterparty, therefore the incentive is on each party to ensure the highest possible level of certainty in the cashflows between the parties.

This has been achieved as follows:

- NZTA will get a certain \$50m in saving in year 1 as we have identified the most certain spending category for the subsidy reduction in year 1. That category is Maintenance and Renewals. In clause 6 of the agreement the FAR reduces by a calculation that ensures NZTA pays \$50m less subsidy in year 1. In financial years 2013/14 and 2014/15 the subsidy rate is increase by adding the defined “additional AT Funding” of \$27m in each year. The additional sum is set to allow for the costs of delaying receipt by AT.

- NZTA will also pay less subsidy for “approved local roading” and “ approved public transport projects” in 2012/13, to achieve the \$50m saving requested for the second year of the agreement. This again has been set as an amount certain by stating the first \$64.4m of approved road projects and the first \$25m of public transport projects will be paid by AT. This equates to \$50m less subsidy being:

- \$64.4 m at 54.33% subsidy (\$35m) and
- \$25m at 60% subsidy (\$15m)

There is also scope for other projects to be approved to ensure AT is not disadvantaged in that year for other subsidy that may be available.

AT ensures that it recovers the financial assistance in subsequent years through the approved projects “funding cash flow”. This clause ensures that the approved projects will receive the subsidy over the four years of the Agreement at the appropriate subsidy rate of 54.33% for roads and 60% for public transport. Clause 7 achieves these points.

It is noted that clause 7 does not allow for any increased costs to AT. The increased costs are recovered by the fact that the subsidy rate for the approved projects is set at the current financial assistance rates, rather than the lower rates that would apply for projects approved after 30 June 2012.

While the agreement contains no specific early termination clause or earlier payment of the subsidy delayed, clauses 6d and 7e, effectively allow this to occur with agreement between the parties by changing the “Additional AT funding” and the “agreed project funding cash flows” respectively. To comply with restrictions placed on NZTA, the wording reflects that the agreement is not a loan from AT to NZTA, but is an agreement to change financial assistance rates to achieve the goals of both parties.

Financial Impacts

The tables below indicate how the variation to the FAR could be accommodated within the total fiscal envelope currently approved by AC and the impact on the Profit and loss statements (noting that budget values are subject to finalisation through AC’s Long Term Plan):

ORIGINAL BUDGET	2011/2012 (\$m)	2012/2013 (\$m)	2013/2014 (\$m)	2014/2015 (\$m)	Total 4-Year Investment (\$m)
Revenue	776	Not finalised the agreement will be included in the budget	Not finalised the agreement will be included in the budget	Not finalised the agreement will be included in the budget	
Expenses	793	As above	As above	As above	
Net Profit	(17)	As above	As above	As above	
Council	395	377	373	370	1515
NZTA	151	123	127	130	531
Annual Total	546	500	500	500	2046

REVISED BUDGET (varied FAR)	2011/2012 (\$m)	2012/2013 (\$m)	2013/2014 (\$m)	2014/2015 (\$m)	Total 4-Year Investment (\$m)
Revenue	726				
Expenses	793				
Net Profit	(67)				
Council	395	377	371	368	1511
NZTA	101	73	179	182	535
Annual Total	496	450	550	550	2046

Note: Figures exclude inflation and holding costs

While the proposal is funding neutral due to the funding being substituted by AC, the arrangement will reduce revenue and substitute the funds with a capital funding. This means that the agreement will result in a lower profit.

However, the original budgets do not include Vested Assets revenue as this became apparent only after the plan was prepared. Vested Assets are assets which become AT assets when a subdivision or other development creates a road or footpath. We are expecting that the Vested Assets for this financial year to be \$60m to \$80m and similar or higher levels in subsequent years. Accounting staff are working with AC to determine the level of Vested Asset but it is difficult to predict as it is influenced by development levels and the timing of completion of development which is outside AT and AC control. The loss in revenue from NZTA will be offset by the Vested Assets and so the expected profit is expected to be close to budgeted levels.

For the current financial year, AT is forecasting a \$50m underspend in the base capital works programme (excluding the recently agreed and separately funded expenditure on the EMU procurement and depot). Therefore, AT is able to absorb the \$50m reduction in subsidy from NZTA without the need for more AC funding.

For 2012/13 and subsequent years the Long-term Plan will include the impacts of the FAR agreement between each of the first three financial years.

ATTACHMENTS

Attachment 1 – Summary of the matters considered by Auckland Transport Board in August

Attachment 2 – Council resolutions passed at its meeting on 24 November 2011

Attachment 3 – Cashflow and FAR Application Agreement (2011-2015)

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