

Capital Prioritisation

Purpose

The purpose of this report is to:

- Clarify to the Board the available fiscal envelope for Auckland Transport in particular with respect to 2011/12;
- Advise the Board of the prioritised projects identified in the existing LTP that can be delivered within the available fiscal envelope; and
- Seeks the approval of the Board to include several projects identified as having sufficiently high priority to be included in the LTP to be delivered within the fiscal envelope.

Executive Summary

This paper builds on previous work presented to the Board with regard to the identification of the fiscal envelope for capital works for Auckland Transport. The paper identifies the complexities surrounding identification of funding sources which combine to give the fiscal envelope in 2011/12 of \$604m. This includes the full amount of Auckland Council allocation within the LTP and the calculated NZTA subsidy. The NZTA subsidy calculation takes into account that this is based on a national priority system and is capped by total available funding (hypothecated) and per category by the GPS. It is also noted that for 2011/12 the available fiscal envelope for new projects must acknowledge already committed expenditure of \$385m.

The paper identifies a prioritised programme of new capital works for 2011/12 fiscal year that can be completed to a point where the expected NZTA subsidy is completely void. Additional high priority projects have also been identified that can be commenced should projects be considered to be of sufficient importance that they would attract 100% Auckland Council funding.

Background

For Auckland Transport to be successful it is required to deliver on a portfolio of Capital Projects including both new build and renewals. This investment must target the achievement of optimal value for money in the delivery of the Strategic Objectives of the organisation. That is, each dollar spent must represent the best use of funds in achieving better transport solutions for Auckland.

As funding is always finite a robust process of prioritisation and programming is crucial to ensure that the organisation operates within a defined fiscal envelope while achieving optimal performance against Strategic Objectives. While there will always be some subjectivity around any prioritisation process Auckland Transport has adopted a methodology based on Seriousness, Effectiveness and Efficiency. It is acknowledged that the development of the "Auckland Plan" will influence this methodology however it is likely that this can be catered for within the Seriousness aspect of the prioritisation. It is expected that this will be reviewed in due course.

While the development of the prioritisation of Capital Projects is relatively straight forward the complexity for Auckland Transport is that the definition of the fiscal envelope is not straight forward. Firstly, Auckland Transport has two primary funders being the Auckland Council (AC) and the New Zealand Transport Agency (NZTA). Both of these funders have different rules and categories of funding as well as providing different annual funding caps.

The NZTA takes its overall funding base (the National Land Transport Fund) through direct hypothecation including federal excise duty (FED) and road user charges (RUC). Thus the total fund is somewhat proportional to the total national fuel consumption. Furthermore, the allocation of funding to any one region, like Auckland, is based largely on a national prioritisation process such that the quantum of funding that will be provided is directly related to the national priority of nominated

projects through the Regional Land Transport Programme. This is further complicated through the rationing of the Government Policy Statement and the quantum of funding distributed between the various funding categories.

In summary, what this means is that it is relatively easy for a region to commit and understand its own funding envelope, provided it is not unduly constrained to specific projects, but more difficult to accurately forecast funding from the NZTA. The reliance of the fiscal envelope on projects prioritised does make programming difficult however provided that sound management processes are adopted and flexibility in programming is permitted it is realistic to expect that Auckland Transport will be well positioned to operate within a dynamic fiscal envelope.

At the 16 February 2011 Board meeting a paper was presented entitled Capex Programme Review. The Board deferred this paper requesting further information as to how capital projects will be prioritised and programmed to ensure that we operate within the defined fiscal envelope available to Auckland Transport.

The LTP which has been developed for Auckland Transport represents a consolidated list of transport projects and funding from the LTCCP of the legacy organisations. This identified total funding available for Capital Projects as follows:

- Fiscal Year 2010/2011 - \$438.3m
- Fiscal Year 2011/2012 - \$621.25m
- Fiscal Year 2012/2013 - \$542.1m

Unfortunately this process of consolidation did not take fully into account the probable available level of NZTA subsidy to individual projects thus overestimating the fiscal envelope in 2011/12.

This paper therefore clarifies the available fiscal envelope for Auckland Transport in particular with respect to 2011/12 and indicates the project portfolio for delivery.

Total Fiscal Envelope 2011/12

The available fiscal envelope for capital projects comprises principally three funding sources;

- Capital funding for 2011/12 from Auckland Council
- Capital funding carry over from 2010/11 (Assumed)
- Balance of three year subsidy funding from NZTA

For the 2011/12 fiscal year the available capital project funding and therefore the available fiscal envelope comprises:

Auckland Council - New	\$392m
Auckland Council - Carry Over from 2010/11	\$50m
NZTA Subsidy - Rooding	\$45m
NZTA Subsidy - Public Transport	\$54m
NZTA Subsidy - Walking and Cycling	\$1m
NZTA Subsidy - Renewals	\$47m
Total	\$589m

It should be noted that the Auckland Council Funding line is that stated in the LTP from an identified list of projects with the incorrect NZTA subsidy amount subtracted. In the draft 2011/12 Auckland Council Annual Plan which is currently being consulted on a similar problem exists with the Auckland Council funding identified at \$368m.

It is anticipated that an additional \$15m may become available through the early transfer to Auckland Council of development related monies. This sum increases the 2011/12 fiscal envelope to **\$604m**.

However we have also been advised that Auckland Council has a preference that not all of the Capital funding will be spent. This would lower the organisations interest cost and have a consequential flow-on to the costs and efficiency targets required for the group efficiencies. Also it is anticipated that Council will have a preference to get a subsidy for projects where the work is potentially subsidisable work. Where this is the case the fiscal envelope will have a matching or close to matching reduction in funding from Auckland Council to that of the NZTA so the fiscal envelope for 2011/12 could be assumed to be approximately \$500m. As is identified in this paper, it is proposed to recommend to Auckland Council to retain funding the envelope at \$604m, however noting the preference for completion of non-NZTA subsidisable work where 100% Auckland Council funding is used.

It should be noted that \$282m of Auckland Council contribution to capital funding is from borrowings.

Available Capital Budget for New Projects 2011/12

When programming new capital projects to be delivered within an available fiscal envelope already committed expenditure must be considered. Deducting the committed expenditure from the fiscal envelope defines available capital budget for new projects.

For Auckland Transport committed elements include:

- Projects with contractual commitments
- Public Transport Services
- Transport Planning
- Projects where Auckland Transport contributions were committed through inherited agreements
- Roading and Public Transport Renewals

For the fiscal year 2011/12 this committed expenditure totals \$385m. Taking a fiscal envelope of \$604m this then results in a remaining available capital budget of approximately \$219m for prioritised projects (assuming that Auckland Council funding is retained at LTP levels).

Prioritisation of Projects

Capital projects are identified by Auckland Transport through a number of mechanisms and included within a long list of projects. These range from being identified through the strategic assessment of network needs and the achievement of key transport levels of service through to smaller operational projects. To guide the timing of the implementation of these projects a prioritisation methodology has been designed to reflect the optimal investment in projects to reflect the achievement of the strategic objectives. This has culminated in the production of a prioritised list of capital works as identified in Attachment 1.

Programming of Prioritised Projects

Having defined the fiscal envelope and the available capital budget for new projects in 2011/12 this can be combined with the prioritised list of projects to determine a programme of new capital projects for 2011/12. Naturally, any large project commenced in 2011/12 will have a resultant financial commitment in future years which needs to be considered within the realm of the overall available fiscal envelope. However for Auckland Council funding this is also complicated by the fact that this also reflects a new LTP period. For this reason Auckland Transport will need to provide robust advice to Auckland Council with respect of future programming requirements for the 2012-22 LTP.

Attachment 1 details the prioritised capital programme excluding the committed projects outlined in a previous section. The capital programme has been split into three work categories with high priority projects located at the top of the spreadsheet for each work category being:

- New Infrastructure Local Roads
- Demand Management and Walking and Cycling
- Passenger Transport Infrastructure

Two cut-off lines have been inserted into the programme for each work category.

The red line indicates the extent of the projects that can be delivered utilising Auckland Council funding combined with NZTA subsidy in 2011/12 for each work category. This red line indicates the extent of project delivery within a \$500m fiscal envelope. If we choose to complete projects beyond this line our options are:

- (1) Seek additional funding from NZTA. This would need to be based on the premise that proposed projects had a sufficiently high national priority; or
- (2) For the projects to be 100% funded through Auckland Council. If we assume this option the blue line then represents the extent of projects that can be delivered using the balance of the Auckland Council funding within a \$604m fiscal envelope.

Additional High Priority Schemes

Having undertaken a review of the overall prioritisation of the project list we have determined that there are four projects that have sufficient priority to be accelerated within the programmed works from that identified within the LTP. These are:

- (1) Auckland Transport Rail Station Upgrade Program
- (2) Tiverton Wolverton Route Improvement
- (3) Neilson Street Upgrade (Stage 2)
- (4) Whangaparaoa Road HBC Highway to Red Beach

Papers have previously been submitted to the Board on all these projects. Papers have also previously been provided for projects having increased costs but retaining sufficient priority to progress, being Albany Highway and Glenfield Road.

In 2011/12 the total expenditure for these LTP projects is \$55.595m being made up as follows:

- (1) Roothing \$28.969m
- (2) Public Transport \$26.626m

For Roothing and Public Transport projects, the equivalent expenditure on lower priority projects would need to be deferred to later years and considered within the next LTP.

City Centre Rail Link (CCRL)

The proposed CCRL has been identified as the highest priority Public Transport project, with a projected cost of approximately \$50m over the 2011/12 and 2012/13 financial years (independent of any land acquisitions or capital works). This cost has not been considered when identifying the delivery of capital projects within the fiscal envelope as it is anticipated that project funding mechanisms will be sought outside the LTP capital programme. We have however allowed \$1m within the 2010/11 year for preparatory and business case work.

Next Steps

Subject to Board approval, LTP projects that have been identified as falling below the available funding threshold will be closed down at an appropriate milestone prior to the end of the 2010/11 fiscal year. No further work will be undertaken or costs assigned to these projects until they achieve sufficient priority in a future LTP programme.

Projects falling above the available funding threshold will be progressed and monitored against projected spend profiles. In the event that a higher priority project is delayed due to unforeseen circumstances projects prioritised below the identified fiscal envelope will be promoted into the programme.

Recommendation

That the Auckland Transport Board:

- (1) Notes the total available fiscal envelope for 2011/12 of \$604m (assuming the full Auckland Council funding identified in the LTP is retained)
- (2) Endorses Auckland Transport staff confirming with Auckland Council the level of Auckland Council funding for 2011/12 based on that identified in the LTP and reporting this back to the Board
- (3) Approves the capital programme to the threshold where projects will attract NZTA subsidy in 2011/12
- (4) Approves the balance of the capital programme to the further threshold subject to the available fiscal envelope potentially utilising 100% Auckland Council funding (\$604m) and negotiations with NZTA as required
- (5) Endorse that if no further NZTA subsidy is available, projects below the 2011/12 \$604m threshold will not be programmed in 2011/12
- (6) Approve the inclusion of identified high priority projects or those with price level increases into the Capital programme.

Attachment:

Attachment 1 - Prioritised programme list of capital works.

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