

# NZTA Funding Assistance Rate Variation

## Purpose

To seek approval from the Board for a New Zealand Transport Agency (NZTA) and Auckland Transport (AT) joint proposal to vary their Financial Assistance Rate (FAR) for Auckland Transport's local roading improvements, operations, maintenance and renewals, and passenger transport infrastructure activities over a four year period beginning 2011/2012 and ending 2014/2015 and to seek the Board's approval for the CE to enter into negotiations to enable use of AT/AC's cashflow and borrowing capability to help manage the NZTA's cashflow issues and provide certainty of programme delivery to the mutual benefit of AT and NZTA.

## Executive Summary

NZTA has cashflow demands on other projects which has the potential to delay their ability to fund transport in Auckland. In order to maintain the momentum of delivering local road transport activities in Auckland, staff from Auckland Council and Auckland Transport have been in negotiations with NZTA. This paper contains proposals to aid NZTA's cashflow so that a range of high quality transport projects can continue.

## Report

A number of events have occurred that have adversely affected NZTA's ability to fund Auckland Transport's activities. Individually these events could be managed without too much disruption to the National Land Transport Programme (NLTP), but in combination have had a serious impact on NLTP cashflows. These include:

- the February aftershock of the Canterbury Earthquake, which has increased the forecasted costs for emergency works substantially.
- the deferral of the 1.5 cent per litre rise in fuel tax that was scheduled to commence on 1 July 2011.
- strong improvements in construction performance, particularly of major state highway projects. Examples are: Victoria Park Tunnel, which is being constructed in three instead of five years and early completion of the Hobsonville deviation (SH 16 /18).
- the recession and sluggish economy, combined with high fuel costs, is impacting on the revenue into the National Land Transport Fund relative to what was expected in a more buoyant economy with lower fuel costs.
- recasting of expenditure forecasts across the NLTP, pointing to a higher spend by the end of the NLTP than was previously forecast.

NZTA's main concern is their cashflow up to the September 2012 period. NZTA have a \$250 million overdraft facility, which is likely to be exhausted towards the end of 2011/12 and NZTA are not permitted to exceed this overdraft limit.

In order to cope with this situation NZTA are proposing a wide range of options including deferral of NZTA project starting dates and a moratorium on any new approvals.

In order to maintain the momentum of delivering local road transport activities in Auckland and maintain progress with Waterview Connection which has recently been approved for construction, staff from Auckland Council and Auckland Transport have been in discussions with NZTA. There are two proposals which will assist NZTA cashflows and help AT in the approval of works not yet approved;

- (i) to front-load the AT's share of Auckland's maintenance programme which would allow NZTA to free up an additional funding of \$50 million for the Auckland State highway programme over 2011-13. In turn, the NZTA would back-load its funding share for these activities in 2013/14 and 2014/15.
- (ii) to front-load \$35 million of AT share for specific local roading and \$15 million for specific PT infrastructure projects over the same period. Again, the NZTA would back-load its share for these activities in 2013/14 and 2014/15.

The front and back loading of AT/NZTA shares would be achieved by varying the NZTA Financial Assistance Rate (FAR). The FAR rates 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 Auckland Transport for the extra programme holding costs it will incur by front-loading its share through its own loan facilities. Utilising the weighted FAR instrument is deemed to be the most appropriate method to address Auckland Transport's holding costs. This is not an interest payment. Negotiations are on-going on how FAR calculation could compensate for AT's holding costs for local roading and PT infrastructure projects.

An example that demonstrates how the FAR calculation could work is shown in Attachment 1.

In recent months NZTA and AT have signed a partnership charter for transport operations and developed a relationship plan, both of which emphasise the need to develop sound relationships and to progress towards a 'One Network' with shared work programmes that include ranges of initiatives at both strategic and operational levels. The front-loading FAR variation method can be seen in this context as enabling a 'win-win' situation, where the flexibility created will assist the NZTA to deliver nationally significant transport infrastructure, that benefits both Auckland and the rest of New Zealand, and will enable AT to maintain the momentum of its own planned activity without an immediate effect on NZTA's cashflows.

Risks will be mitigated through a formal agreement between the parties, which will include a detailed cashflow that clarifies the specific financial commitments of each party. A communications strategy will be agreed to ensure that the stakeholders are advised appropriately.

There is still some work required to finalise the agreement and to develop the communications plan. The Board is requested to provide its agreement in principle to vary the FAR rate described in this paper, subject to final approval of both the agreement and detailed cashflow by the Chief Executive. It is recommended that this paper, including Attachment 1 to the paper, not be released until the arrangements are finalised, due to the sensitive information regarding confidential discussions with NZTA over investment arrangements contained herein.

## Next Steps / Key Issues

The current moratorium on NLTP funding approvals, if continued, would delay the start of high quality local roading and PT infrastructure projects until funds become available in the 2012-15 NLTP. At the same time, the Highway and Network Operations Group must slow or defer development and delivery of selected state highway projects in the current NLTP to help manage NZTA's cashflows.

The FAR variation, as proposed, will improve the NZTA's ability to direct funding into committed projects such as Waterview. It will also help Auckland Transport continue to deliver some improvement projects without impacting NZTA's cashflows over the next two years. It will mean that, in 2013/14 and 2014/15, the NZTA will need to adjust it's FAR for the affected activities to balance the overall FAR, which effectively pre-commits \$100 million in the next NLTP to Auckland Transport. Many of these improvement projects have at least in part been approved and/or supported by the NZTA Board and are of a high quality and assist AT and NZTA to implement a 'One Network' partnership approach.

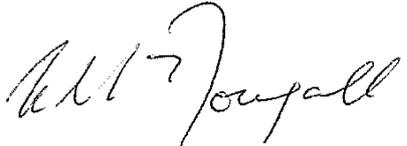
Auckland Transport will need to work with Auckland Council to gain approval of the funding arrangement as it will have an impact on the funding required from AC in the current and following year. However, it is possible that this arrangement may be able to be accommodated within the current funding allocated by AC, dependent on the actual achieved level of capital work.

## Recommendation

1. That this report be received
2. That the Board agrees in principal, subject to the approval of Auckland Council,
  - i) to agree with NZTA to amend the Financial Assistance Rate for Auckland Transport's activities in 2011-13 to a lower FAR, and for a compensating higher FAR to be paid reflecting holding costs in 2013 -15, ,
  - ii) to delegate final approval of both the agreement and detailed cashflow to the Chief Executive; and
  - iii) to withhold release of this Board paper until the agreement for the FAR variation has been finalised, to enable AT to carry out negotiations without prejudice or disadvantage.

## Attachment

### Attachment 1 - Examples - AT FAR Variation Proposals

<b>WRITTEN BY</b>	Stuart McDougall <b>RLTP Manager</b>	
<b>RECOMMENDED by</b>	David Foster <b>Chief Financial Officer</b>	
<b>APPROVED FOR SUBMISSION by</b>	David Warburton <b>Chief Executive</b>	

## Examples - Auckland Transport FAR Variation Proposal

The following tables provide **examples** to demonstrate how the FAR variation principles would work in practice. Actual parameters such as programme allocations, 2012-15 approved base and construction FARs, project cost estimates, weighted FAR to accommodate project cost arrangements would need to be used to determine the final amounts in the tables.

### a) Auckland Transport maintenance programme FAR variation

Year	AT maintenance programme (NZTA & local shares) \$ million	NZTA FAR (2009-12 actual & 2012-15 assumed)	NZTA normal share of AT programme \$ million	NZTA proposed share of AT programme including AT holding cost \$ million	Effective FAR under proposal	AT's extra expenditure carried each year under the proposal \$ million	AT Holding Cost
2011/12	180.00	44.33%	79.79	31.54	17.52%	50.00	1.75
2012/13	180.00	43.00%	77.40	79.15	43.97%	50.00	1.75
2013/14	180.00	43.00%	77.40	104.15	57.86%	50.00	1.75
2014/15	180.00	43.00%	77.40	103.28	57.38%	25.00	0.88
<b>TOTAL</b>	<b>720.00</b>	<b>43.33%</b>	<b>311.99</b>	<b>318.12</b>	<b>44.18%</b>		<b>6.13</b>

### b) Auckland Transport local road improvements FAR variation - E.g. Project "A" with a total cost of \$20 million and a construction period of 5 years

Year	Project A total cost (NZTA & local shares) \$ million	NZTA FAR (2009-12 construction rate applies as approved in that NLTP)	NZTA normal share of Project A cost \$ million	NZTA proposed share of Project A cost \$ million	Effective FAR under proposal
2011/12	3.00	54.33%	1.630	-	0.00%
2012/13	5.00	54.33%	2.717	-	0.00%
2013/14	5.00	54.33%	2.717	4.500	90.00%
2014/15	5.00	54.33%	2.717	4.500	90.00%
2014/16	2.00	54.33%	1.087	1.866	93.30%
<b>Total</b>	<b>20.00</b>	<b>54.33%</b>	<b>10.866</b>	<b>10.866</b>	<b>54.33%</b>