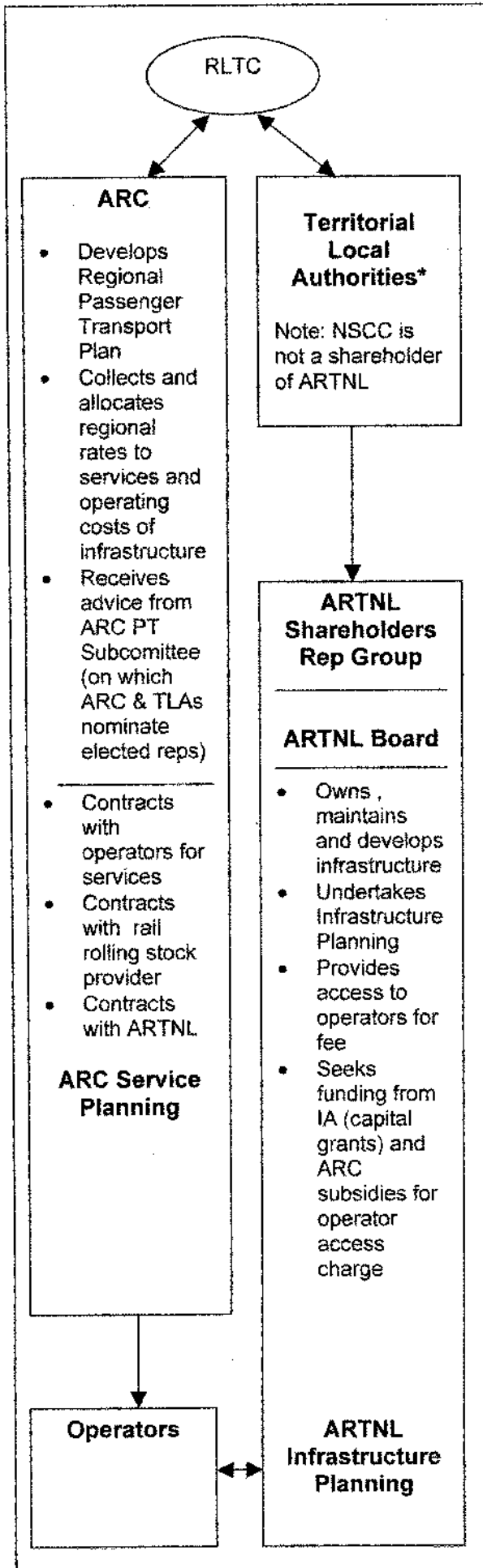


1.3.2 These arrangements would compare to existing funding arrangements in the following way:

- Under existing funding arrangements
  - The ARC rates regionally (largest source of operational funds) for services and operating costs of infrastructure
  - Transfund provides operational subsidies based on patronage (ARC bears residual risk)
  - Infrastructure Auckland provides capital grants for infrastructure
  - TLA's provide funding for local PT infrastructure (raised by rates)

## 1.4 Current Situation



## Regional Land Transport Committee (RLTC)

- 14 March 2003
- ARC has statutory responsibility to develop RLTS (covering land transport and passenger transport) through the RLTC
  - Prioritises projects and identifies funding
  - Wide membership: ARC, TA's, ARTML, Transit NZ, Transfund, LTSA, IA, User representatives, Police etc
  - By convention, ARC follows majority decision of RLTC
  - Officer support is co-ordinated by RTEG (RTEG is a group of senior managers from the ARC and TA's)
  - Co-ordinates with ARTNL, TLA's via ARC Passenger Transport Subcommittee

## ARC

- Has statutory responsibility to prepare and consult on Regional Passenger Transport Plan
- Negotiates, manages and monitors passenger service contracts with private operators
- Collects regional rates and allocates to PT services and operating costs of infrastructure (indirectly through service payments to PT operators)
- Coordinates with ARTNL SRG and Board (via MoU) and TA's

## ARC Service Planning Group

- Consists of ARC officers
- Does the tactical service planning for PT, including deciding on best mix of modes, service standards, route development.
- Distributes PT funds to operators
- Registers commercial passenger transport services provided by private operators
- Specifies, negotiates and monitors contracts with operators for subsidised services
- Coordinates with ARTNL

## ARTNL

- A CCO (LATE structure) owned by 6 TLA's via a Shareholder Representative Group
- Voting on SRG determined by population based formula
- Governed by a Board
- Owns, manages and develops the rail corridors and the ferry wharves
- Does infrastructure planning and specification (including service standards and levels)
- Contracts with providers to maintain and upgrade infrastructure
- Provides infrastructure access to PT service operators

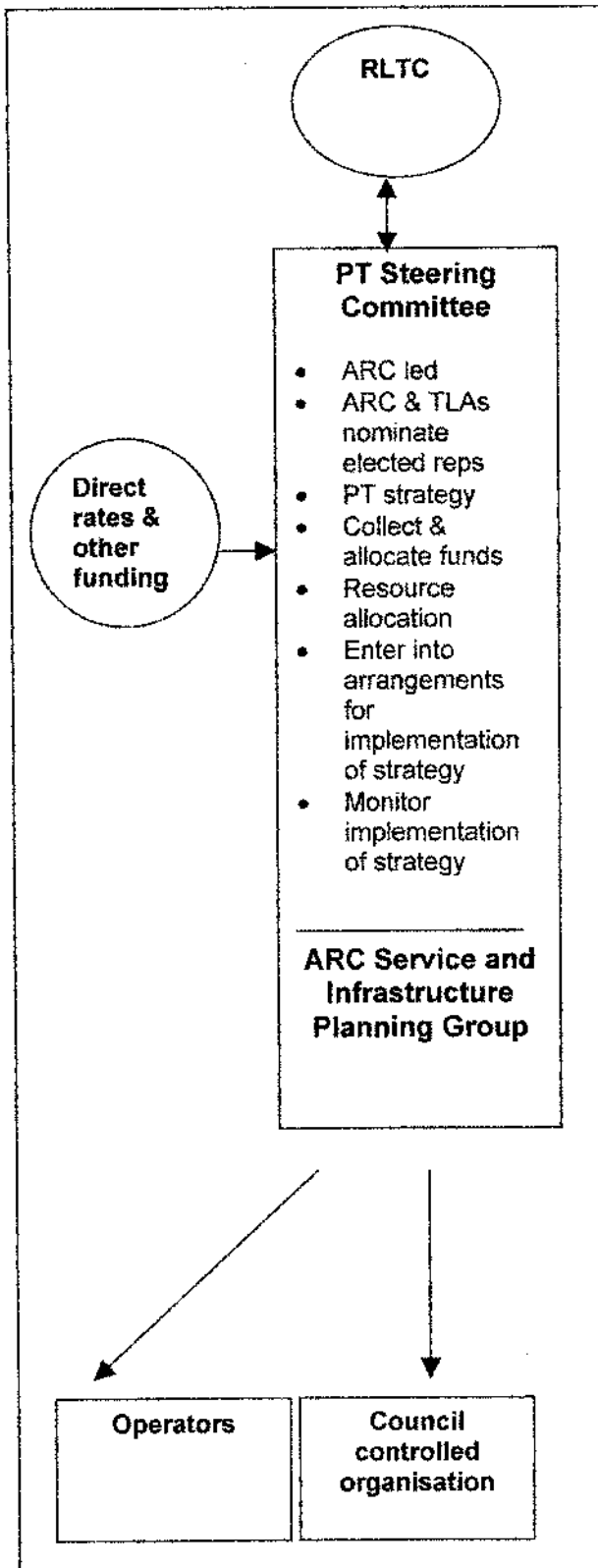
## TA's

- Own and manage local roads, bus stops and bus priority lanes
- Develop some major PT infrastructure (Britomart, North Shore Bus infrastructure)
- North Shore City Council owns ferry wharves
- Provide share capital to ARTNL
- Provide some operating costs to ARTNL

## Operators

- Licensed operators run bus, ferry and train services. Approximately half are operated under contract to the ARC and the remainder are commercial.
- Pay access fee to ARTNL for use of its infrastructure

## 1.5 Option A – ARC Led



### Regional Land Transport Committee (RLTC):

14 March 2003

- ARC has statutory responsibility to develop RLTS through the RLTC
- ARC & TLAs directly rate ratepayers
- Breadth of existing membership is maintained
- Elected representatives of ARC and the TLAs nominate and appoint representatives to RLTC and to the PTSC
- Officer support is co-ordinated by RTEG (RTEG is a group of senior managers from the ARC and TA's)

### PT Steering Committee (PTSC)

- Comprises appointed representatives of the ARC, TLA's, Transfund and Transit but only the ARC and TLAs would have voting rights
- Develops PT strategy and priorities for resource allocation and funding. Decisions would need to be "not inconsistent" with the RLTS and RGS, etc.
- ARC & TLA's transfer rates to the PTSC. ARC is primary rater for PT and a residual funder as well. TLA's may provide 'top up' funding for extra benefits. Level of funds supplied may affect degree of influence on decision-making.
- ARC collects funding from other funders and allocates to PTSC
- PTSC then allocates funds to the ARC Service and Infrastructure Planning Group for distribution under contracts to the operators and CCO in accordance with PTSC strategy decisions
- Officer support is provided by a group of officers appointed by the ARC and TLAs, coordinated and led by the ARC
- PTSC has a regional focus which is linked to ARC regional role and leadership

### ARC Service and Infrastructure Planning Group

- Consists of ARC officers
- Does the tactical service and infrastructure planning for PT including deciding on best mix of modes, service and infrastructure standards and levels, route development.
- Distributes PT funds to operators and the CCO
- Specifies, negotiates and monitors contracts with operators and CCO's for services and infrastructure
- Will co-ordinate with TLA's, the CCO, operators, Transit and other relevant bodies

### Council Controlled Organisation (CCO)

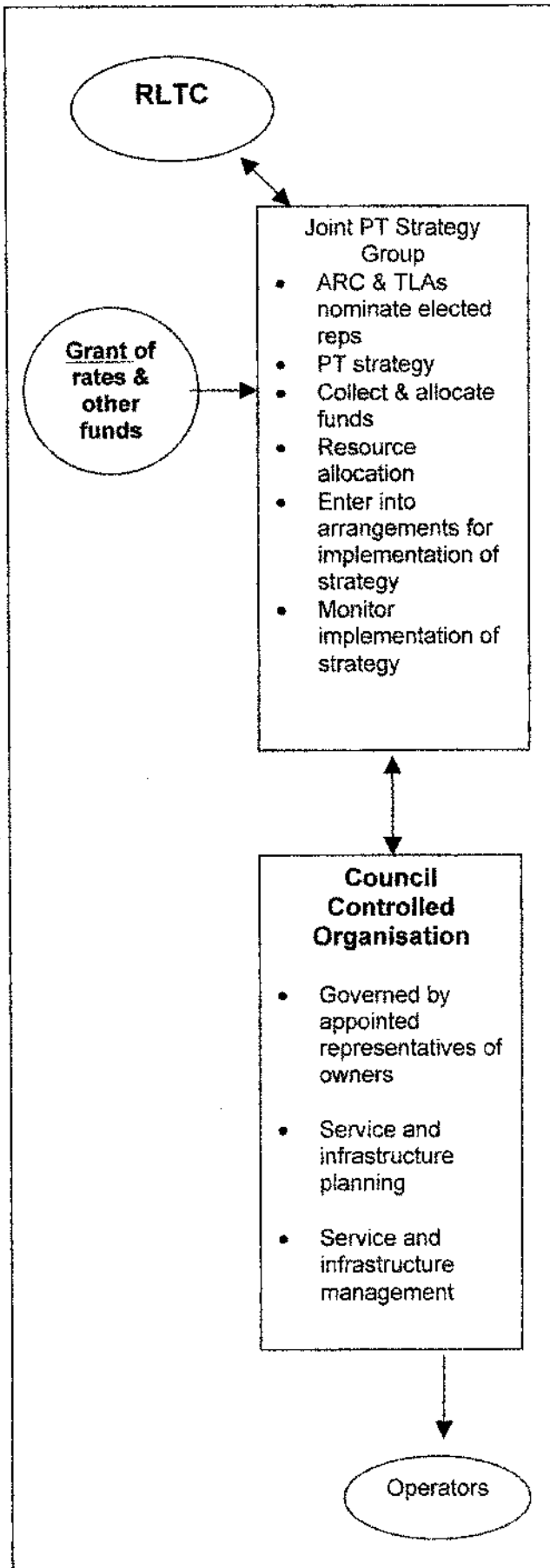
- Owned jointly by the ARC and TLAs\*
- A joint TLA/ARC officer group supporting the PTSC advise and report on stewardship issues
- Infrastructure ownership and management
- Would negotiate access agreements to networks and infrastructure with operators
- Would establish a close contractual and working relationship with operators
- Staff employed by CE of CCO

### Operators

- Licensed operators would run bus, ferry and train services under contract to the ARC, on the PT network owned and managed by the CCO.
- Only licensed and approved operators should be able to use the region's PT network infrastructure.

\* There is some flexibility about how ownership is structured. Ownership shares, voting structures etc... are a major issue still for resolution - see section 4.0)

## 1.6 Option B – Jointly Led



### Regional Land Transport Committee (RLTC)

- ARC has statutory responsibility to develop RLTS through RLTC
- ARC & TLAs directly rate ratepayers
- Breadth of existing membership is maintained
- Elected representatives of ARC and the TLAs nominate and appoint representatives to RLTC and to the JPTSG
- Officer support is co-ordinated by RTEG (RTEG is a group of senior managers from the ARC and TLA's)

### Joint PT Strategy Group (JPTSG)

- Comprises appointed representatives of the ARC, TLA's, Transfund and Transit, but only the ARC and TLAS would have voting rights
- The Group could be a statutory entity or a joint committee
- Develop PT strategy and use a joint-decision making process for resource allocation and funding. Decisions would need to be "not inconsistent" with the RLTS and RGS, etc.
- Funders would transfer PT funds to JPTSG according to agreed formula. Level of funds supplied likely to affect degree of influence on decision-making but risk and size may also be taken into account.
- The JPTSG would govern the CCO
- General service standards of a strategic nature will be set by the Group and agreed with the CCO who would in turn develop detailed service standards and service plans
- Funds will be allocated to the CCO according to decisions made by the Group
- Will have a fully dedicated officer group, comprising officers from each of the Councils represented (employed by one council on behalf of the JPTSG if it is a joint committee structure; or employed by the JPTSG if it is a statutory body)
- JPTSG has a regional focus which stems from the collective representation of TLA's and the ARC

### Council Controlled Organisation (CCO)

- The CCO role will include service and infrastructure planning, and management and implementation
- Would be owned jointly by the ARC and TLAs
- Infrastructure ownership and management
- Would negotiate access agreements to networks and infrastructure with operators
- Would establish a close contractual and working relationship with operators
- Will co-ordinate with TLA's and ARC
- Staff employed by CE of CCO

### Operators

- Licensed operators would run bus, ferry and train services under contract to CCO on the PT network owned and managed by the CCO,

8 Only licensed and approved operators should be

## 2.0 KEY DIFFERENCES BETWEEN THE OPTIONS

### 2.1 Summary of Option Differences

2.1.0 Both options have a number of similarities. Specifically, they work within a common framework – the statutory responsibility of the ARC for developing a Regional Land Transport Strategy remains, and the Regional Land Transport Committee is the same under both options. At the other end of the functional spectrum, both options envisage the use of private operators and a Council Controlled Organisation to deliver passenger transport services and infrastructure. The key differences between the options lie in the following areas:

- **Development of passenger transport strategy**

In Option A the development of passenger transport strategy is done by a PT Steering Committee, which is convened by the ARC. In Option B, this is done jointly by either a joint committee or a statutory body. This has implications for decision-making and dispute resolution processes. In Option A, the ARC will be the body of final resort. In Option B, decisions will be made by consensus. Where there is a dispute, it is resolved by mediation and/or voting mechanisms.<sup>1</sup>

- **Funding arrangements**

In Option A, the component of funds raised through rates would be raised primarily by the ARC, with TLA's as 'top up' funders. The ARC would also be a residual funder. In Option B, the component of funds raised through rates would be raised and transferred to the Joint PT Strategy Group according to a formula arranged between the parties.

- **Specification and planning of passenger transport services and infrastructure**

In Option A, service and infrastructure planning and are carried out by the ARC Service and infrastructure planning Group. The role of the CCO is more like that of other passenger transport service operators, and is confined to the operational level. In Option B, the functions carried out by the CCO are broader as they encompass both service and infrastructure planning and delivery.

2.1.1 The specific differences between the options are outlined in the table on page 10.

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<sup>1</sup> Voting mechanisms are a key issue which require resolution at a later date. See section four for some options which could be considered.

2.2 Table of Differences Between Option A and Option B

	Option A	Option B
<p>RLTC</p> <ul style="list-style-type: none"> <li>• Produces RLTS</li> <li>• Broad membership</li> </ul>	<p>Same arrangements for both options</p>	<p>Same arrangements for both options</p>
<p>Structure of PT Committee/Group</p> <ul style="list-style-type: none"> <li>• Prepares PT strategy</li> <li>• Decides high level PT service outcomes and funding needs</li> <li>• Makes trade-offs between capital expenditure and operational expenditure</li> <li>• Collects and allocates funds</li> <li>• Enters into arrangements for implementation</li> <li>• Monitors implementation PT project</li> <li>• Monitors implementation across the region</li> </ul> <p>Note: In both options, the functions of the PT Committee/Group are the same.</p>	<p>Known as Passenger Transport Steering Committee</p> <ul style="list-style-type: none"> <li>• ARC lead</li> <li>• Links into RLTC regarding other transport modes.</li> <li>• ARC &amp; TLAs have voting rights and decisions are taken on a joint basis.</li> <li>• However, if there is a dispute, the ARC can make the final call/or has power of veto.</li> <li>• Officer support is provided by RTEG (staffed through secondments)</li> </ul>	<p>Known as Joint Passenger Transport Strategy Group (Committee of TLAs and ARC)</p> <ul style="list-style-type: none"> <li>• Could be a joint committee or statutory entity with some joint committee characteristics.</li> <li>• ARC &amp; TLA's have voting rights and decisions are taken on a joint basis</li> <li>• If there is a dispute, it is resolved by process of consensus, mediation or majority decisions.</li> <li>• Officer support is provided by a group of officers from the region (employed by one council acting as an agent on behalf of the JPTSG if a joint committee, or employed by the JPTSG if a statutory body).</li> </ul>

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	Option A	Option B
<p><b>Funding Arrangements</b></p> <p>Note: Enforceability of funding commitment by all parties to PT strategy is an issue for both options</p>	<ul style="list-style-type: none"> <li>• Money from a variety of funders is transferred to the PT Steering Committee</li> <li>• A component of these funds is raised from direct rating (primarily by ARC, but also by TLA's)</li> <li>• PT Committee can secure ARC funds but not TA funds without prior agreement.</li> <li>• If dispute ARC can step in as residual funder.</li> </ul>	<ul style="list-style-type: none"> <li>• Money from a variety of funders is transferred to the PT Strategy Group</li> <li>• A component of these funds is raised from direct rating (by ARC and TLA's according to an agreed formula)</li> <li>• If it were a Joint Committee, the PT Strategy Group could not secure ARC/TLA funds without agreement from the body which contributed the funds</li> <li>• If it were statutory entity (not joint committee) the ability of the PT Strategy Group to secure ARC/TLAs for funds would depend upon the processes specified in the legislation creating the statutory entity</li> <li>• No party is a clear residual funder unless it is by agreement and set out in a contract.</li> </ul>
<p><b>Rating Arrangements</b></p>	<ul style="list-style-type: none"> <li>• ARC is the primary rater.</li> <li>• TLAs may provide 'top up' funds from rates for additional benefits</li> <li>• ARC residual rater where there is a short fall</li> <li>• Level of influence on decision-making may bear some relationship to contribution</li> </ul>	<ul style="list-style-type: none"> <li>• Joint approach to rating</li> <li>• Shared arrangement between the parties, (based on a formula, possibly based on contributions and taking into account the level of risk assumed by the parties and their size). If the PT Strategy Group is a joint committee the arrangement is set out by contract, if it is a statutory entity then it might be established by a process specified in legislation.</li> <li>• Level of influence on decision making will bear some relationship to contribution</li> <li>• Larger Councils have greater influence</li> </ul>
<p><b>Resource allocation decision-making.</b></p> <p>Note: The link between the level of contribution and the relative influence of parties on decision-making is a regional equity and accountability issue, which requires resolution under both options.</p>	<ul style="list-style-type: none"> <li>• PT Committee prioritises projects and determines resource allocation.</li> <li>• If the ARC is the primary rater (and provides more funding), then it may have a stronger influence over this process</li> </ul>	<ul style="list-style-type: none"> <li>• PT Strategy Group prioritises projects and determines resource allocation.</li> <li>• The amount of influence over this process will be influenced by the contractual arrangements between the parties and their respective funding contributions.</li> </ul>

	Option A	Option B
<p><b>Service and infrastructure planning</b></p> <ul style="list-style-type: none"> <li>• Tactical service and infrastructure planning for PT</li> <li>• Distributes PT funds to operators/delivery agents</li> <li>• Negotiates access agreements to networks and infrastructure with operators/ delivery agents</li> <li>• Contractual working relationship with operators/service agents</li> </ul>	<ul style="list-style-type: none"> <li>• Undertaken by the ARC Service and infrastructure planning Group.</li> <li>• A department of the ARC</li> <li>• Reports to the PT Committee.</li> <li>• Directly accountable to the Chief Executive Officer of the ARC.</li> <li>• Does planning and specification only</li> </ul>	<ul style="list-style-type: none"> <li>• Undertaken by a CCO.</li> <li>• Directly accountable to Board of the CCO.</li> <li>• Board is appointed by the PT Strategy Group</li> <li>• Jointly owned by TLA's/ARC</li> <li>• Shareholding related to contribution and taking into account risk assumed by the parties and size.</li> <li>• Undertakes implementation functions as it is also a service/infrastructure provider</li> <li>• Is an infrastructure owner and manager</li> </ul>
<p><b>Implementation</b></p>	<ul style="list-style-type: none"> <li>• CCO and operators are implementation agents as they deliver services and infrastructure</li> <li>• Both have a working relationship with the ARC Service and infrastructure planning Group</li> <li>• CCO owned jointly by TLA's and ARC (has working relationship with service and infrastructure planning group). <ul style="list-style-type: none"> <li>- The shareholding of these parties is related to the contribution of assets, risk assumed and size of each.</li> </ul> </li> <li>• The ownership of the CCO is not in direct proportion to funding.*</li> <li>• Licensed operators would run bus, ferry and train services under contract to the ARC Service and Infrastructure Planning Group on the PT network owned and managed by the CCO.</li> </ul> <p>*This is an issue for further debate.</p>	<ul style="list-style-type: none"> <li>• Undertaken under the umbrella of the CCO, which is jointly owned by TAs/ARC (The CCO also does service and infrastructure planning, see above)</li> <li>• The CCO has contractual relationships with operators for the provision of some services etc.</li> <li>• Licensed operators would run bus, ferry and train services under contract to CCO on the PT network owned and managed by the CCO.</li> </ul>

### 3.0 COMPARATIVE STRENGTHS AND WEAKNESSES

CRITERIA	OPTION A		OPTION B	
	Strengths	Weaknesses	Strengths	Weaknesses
<p><b>Aligns Strategy &amp; Funding</b></p> <ul style="list-style-type: none"> <li>• Funding follows strategy</li> <li>• Link between who decides and who funds</li> <li>• Incentives to make the strategy affordable (not a wish list)</li> </ul>	<p>More incentive to produce affordable strategy because ARC is the residual funder (other parties may not be forthcoming with funds and ARC will bridge the gap).</p>	<p>To commit parties to funding, need contractual arrangement. TLA's may be less likely to commit funding if ARC is the lead agency, (through desire to retain influence).</p>	<p>Advice from CCO will assist in making strategy affordable through application of commercial expertise and discipline.</p>	<p>To commit parties to funding, need a contractual arrangement if a joint committee, or legislation if a statutory body.</p>
		<p>Risk that members of PT Committee will want to look after their own patch, but this risk moderated by the existence of a lead agency which can step in and protect the regional interest.</p>		<p>Risk that members of PT Strategy Group will want to look after their own patch.</p>

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CRITERIA	OPTION A		OPTION B	
	Strengths	Weaknesses	Strengths	Weaknesses
<p><b>Integration</b></p> <p>Funding and decision-making is integrated with land use, economic development and environmental considerations, and other modes of land transport across the Auckland region.</p>	<p>ARC has an overview of integration at both policy and service and infrastructure planning levels. Also, ARC is more likely to take a regional view.</p>		<p>Provides a vehicle for range of practical considerations to shape regional view.</p>	<p>Not as strong as there is no lead agency to ensure integration. Less likely to fully integrate broad land use economic development and environmental considerations as the CCO does not have all the relevant information or incentive.</p>
<p><b>Has clear accountability to owners, ratepayers and stakeholders</b></p> <p>Note: Representatives on Committees in both options may not represent the views of their Council.</p>	<p>With ARC as the lead agency for RLTS and PT strategy, integration is more likely.</p>		<p>Members of PT Strategy Group are required to reach agreement.</p>	<p>Negotiation between parties may result in compromises, which do not maximise regional transport outcomes.</p> <p>Risk of delay in decisions.</p>
	<p>Marginally clearer accountability from TLA perspective. At the end of the day ARC has final say and public can hold it to account.</p> <p>Achieves accountability to a regional constituency.</p>	<p>Dual accountability of ARC service planners to ARC and the PT Committee.</p>	<p>Wider accountability to a range of constituents.</p> <p>Accountability link to local constituents of TLA's is maintained.</p>	<p>Disbursed political accountability to ratepayers.</p>

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CRITERIA	OPTION A		OPTION B	
	Strengths	Weaknesses	Strengths	Weaknesses
		<p>Potential confusion over roles/response and accountabilities between ARC service and infrastructure planning and the PT Committee.</p> <p>2 groups of officers support PT Committee and ARC Service and infrastructure planning group.</p>	<p>Officers across the region need to work together to support the PT Strategy Group, but accountability to parent TLA's is maintained.</p>	<p>Officers across the region need to work together to support the PT Strategy Group, but are also accountable to their own TA.</p>
<p>Is responsive to owners, transport users and communities</p>	<p>Service and infrastructure planning inside one regional organisation may be more responsive to the regional community.</p>	<p>Political processes can lead to bogging down.</p> <p>Balance responsiveness and effectiveness.</p>	<p>Joint Strategy Group may be more responsive to Territorial Authority interests and the interests of their communities.</p> <p>May be more responsive to commercial concerns (opportunities and constraints) because of role of CCO.</p>	

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CRITERIA	OPTION A		OPTION B	
	Strengths	Weaknesses	Strengths	Weaknesses
Delivers Service Efficiently		Efficiency may be affected because ARC service infrastructure planning staff will be involved in a range of other tasks/broader roles and bureaucratic processes within the ARC.	CCO offers efficiency gains because: <ul style="list-style-type: none"> <li>Commercial focus and expertise of board and ability to get best deal contract</li> </ul> Integration of service and infrastructure planning and implementation in one organisation.	
is effective in meeting outcomes			CCO has single focus on PT service planning and infrastructure development. More likely to get buy in to implementation if strategy is the product of compromise and negotiation.	

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CRITERIA	OPTION A		OPTION B	
	Strengths	Weaknesses	Strengths	Weaknesses
Is a viable option which can be implemented effectively	Possible if LTMB is enacted without significant changes.			Requires legislation to set up a statutory entity (not if it is a joint committee). Could be a considerable delay. Takes longer to reach agreement regarding sharing costs and funding contributions. Would need to transfer staff and hire new staff.
Is able to secure a robust funding stream over time	ARC is a funder of last resort to ensure funding stream.		CCO may be better able to leverage finance: <ul style="list-style-type: none"> <li>• Debt</li> <li>• Commercial opportunities</li> </ul>	Enforcement of rating contributions by TAs and ARC (if on a contractual basis).
Has flexibility to evolve into other organisational entities over time.		Would require legislation. Becomes embedded in wider ARC organisation.	A single focus on PT may make it easier to evolve to a single Transport entity.	Would require legislation.

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## **4.0 ISSUES FOR FURTHER CONSIDERATION**

4.0.1 There are a number of second order issues which have been alluded to in this paper, but which would require further investigation once a preferred governance option has been identified. These issues do not distinguish between the two options outlined in this paper, but would have to be addressed under either option.

### **4.1 Voting Rights**

4.1.0 The issue of how voting rights should be determined remains unresolved. A variety of co-operative models exist in the Auckland region which employ different voting structures that could inform decisions in this process. These include:

- Watercare Shareholders Representative Group
- Infrastructure Auckland Electoral College
- Museum Trust Board
- Regional Growth Forum
- Auckland Regional Economic Development Strategy

4.1.1 Some of the following ideas/principles could be used to help determine voting rights include:

- Financial contribution
- Population
- Ownership of assets
- Risk allocation
- Majority rules
- Equal voting power
- 'No taxation without representation'
- Other formula based on the interests of the greater good

### **4.2 Structure of a Council Controlled Organisation**

4.2.1 Both options refer to Council Controlled Organisations, albeit with differing roles. The Local Government Act 2002 defines a Council Controlled Organisation broadly and allows it to take a number of forms. The CCO in either option could be a LATE or company structure, a trust, or something else. Officers are currently investigating options for this.

### **4.3 Ownership of the Council Controlled Organisation**

4.3.1 The formula for determining the ownership of the Council Controlled Organisation in both options has not been determined and will require resolution under both options.

#### **4.4 Role of Infrastructure Auckland**

- 4.3.1 The role of Infrastructure Auckland is not canvassed in this paper as this is considered to be an issue for resolution once a preferred governance structure has been arrived at. A variety of alternatives exist but these do not differentiate between Option A or B.

# AUCKLAND MAYORAL FORUM PROPOSAL FOR FUNDING THE COMPLETION OF THE INTEGRATED TRANSPORT NETWORK FOR THE AUCKLAND REGION BY 2010

By the Mayors of Rodney District, North Shore City, Waitakere City, Auckland City, Manukau City, Papakura District, Franklin District and Chairman of the Auckland Regional Council

7 March 2003

“Money never starts an idea; it is the idea that starts the money.”

W.J. Cameron

## Introduction

This paper presents a pragmatic proposal to assist Auckland to raise the \$2.4 billion of additional capital required to implement the unfunded components of its Regional Land Transport Strategy (RLTS) with a sense of urgency and speed. Implementation of the proposal will assist the Region to:

- Provide the roading network and public transport system necessary to ensure that Auckland is a vibrant and globally competitive city; and,
- Contribute to fulfilling on time the (proposed) New Zealand Transport Strategy vision: ***“An affordable, integrated, safe, responsive & sustainable transport system by 2010.”***

The paper has been prepared for the Auckland Mayoral Forum by council chief executives drawing on work already underway by a Regional Transport Executive Group for the Auckland Regional Land Transport Committee. The Auckland Transport Action Group (ATAG), Auckland Business Forum and a number of other private sector groups and CEOs who share a strong concern to ensure provision of a responsive & sustainable transport network which meets the needs of the Auckland Region, have been consulted in the writing of this paper.

The paper provides:

- Background on how current arrangements for funding will not allow completion of a fundamentally needed roading and rail network as defined by the RLTS, and why the Auckland Mayoral Forum has taken the unprecedented step of putting forward a proposal to move the RLTS to a “fundable” strategy that takes into account funding from all reasonable sources.
- Analysis of the current funding gap, and assessment of additional work that could be underway immediately and/or has been delayed or is threatened with delay by this funding shortfall.
- Assessment of alternative capital sources available to meet the funding shortfall, together with assessment of options for Auckland to determine and put in place appropriate debt servicing arrangements, showing that the funding gap is manageable.

- A proposal to raise \$2.4 billion to complete the Region's key strategic transport network components as soon as practical with cash flow determined on a "build as becomes buildable" basis.
- **An agreement has been reached by the Auckland Mayoral Forum to pursue with their respective Councils:**
  - (i) Using Infrastructure Auckland's grants to fund debt repayment for the four years beginning July 2004, accompanied by one-off capital contributions from
    - Budget surplus
    - Consolidated fund
  - (ii) The implementation of network pricing/congestion charging after that time beginning with a comprehensive feasibility study to evaluate the implementation of a network pricing model in Auckland, and significant opportunity for public debate
  - (iii) The furthering of investigation of interim capital and revenue options should network pricing take longer to implement:
    - Regional Fuel Tax
    - Regional RUC Levy
    - Transfund Debt Servicing Contribution
    - Project Specific Tolls
  - (iii) Lobbying for the Land Transport Management Bill to provide the flexibility needed to implement any or all of the above options.
- We ask that Government and Auckland work together to urgently implement the proposal which comprises:
  - Immediate preparation of a financial business plan for Auckland (with Transit NZ) to raise \$5b from existing and new sources and provide for funding agreements with Transfund, Infrastructure Auckland and local authorities
  - Execution of a number of supporting process and legislative improvements working these through in an effective partnership team between Government and Auckland.

## **Background**

At the heart of Auckland's traffic congestion is a long-standing failure to build the planned responsive and sustainable transport system able to keep pace with the Region's economic growth and lifestyle demands. The networks planned are not unreasonable, but modest requirements of a competitive and growing city of over a million people. Arguments of unreasonableness flow from restricted access to funding.

Reliance on funding from Transfund, Infrastructure Auckland and rates on a pay-as-you-go basis has tied us to an inflexible and limited source of capital, offered on a project by project basis. We have been able to complete bits of routes as they stack up to non-strategic criteria, scattered across the region.

Passenger transport projects, including regional road-based busway options, find it difficult to qualify for funding under the traditional benefit:cost approach. Transfund's Alternatives to Roothing (ATR) procedures, which attempt to deal with this issue, are extremely complex and lack a strategic context.

The consequence is that not one full route has been completed or is planned to be completed in the next ten years. The completion of the fundamental and basic planned road and rail networks is decades away.

While Transfund funds projects, the RLTS attempts to define the basic strategic networks, whole route by whole route. Consequently, Transfund's project evaluation process takes account of only part of the goals to be achieved by the RLTS.

The National Transport Strategy provides a vision and objective framework for transport investment that is absolutely aligned to the regional view in the RLTS, and can only be actioned in the Auckland region by completing the networks as planned.

Changes are needed to the NZ Land Transport Management Bill (NZLTMB) and other legislation to enable Auckland to deliver on this vision and objectives.

On Friday 17 January 2003 the Mayoral Forum unanimously issued the following statement:

**"Funding of major Transport Projects**

The Auckland Mayoral Forum desires that the region develop a united position and agreed strategy to fund accelerated implementation of the Auckland region's planned integrated transport networks as defined in the Regional Land Transport Strategy."

## **Defining the network**

The integrated network has been defined in the Auckland regional land transport strategy. It consists of the key strategic corridors (existing and new) to and through the region for travel using roads and rail, for private and passenger transport. The programme for network completion is the construction of missing corridors/part corridors, and the upgrading of existing corridors. It has a total capital cost estimated at around \$5 billion, and can be built in ten years, should funds become available.

The network completion programme is:

- SH1 – North Shore Busway, Central Motorway Junction, Harbour Bridge to City (with mitigation), Waiouru Crossing, Albany to Puhoi extension
- SH20 – corridor from SH1 (Manukau) to NW Motorway (Avondale – with mitigation)
- SH16 – Grafton Gully upgrade to Port (stages 1 to 3)
- Eastern corridor (with mitigation)
- SH18 Hobsonville deviation
- Penlink
- Interim Rail Plan to 2006
- Notional cost of rail business plan post 2006

This would provide Auckland with a completed strategic passenger transport network linking up to a third of the population's homes and work places, and a roading network

that offers bypass functionality, and connects major industrial areas with the Port and Airport.

## Identifying the funding gap

The current situation facing Auckland is a backlog of critical transport infrastructure investment that cannot be met through conventional funding mechanisms. It is also generally agreed that the cost of building transport infrastructure is increasing and that in Auckland visual and environmental impacts should be taken into account early on in an endeavour to satisfy reasonable community needs.

The amount of capital investment before operating and maintenance costs required by the region over the next 10 years is **\$5 billion**; **\$3.8 billion** for roading projects and **\$1.2 billion** for passenger transport.

Taking all currently committed and projected conventional funding into consideration, the funding gap remaining to be closed in order to complete Auckland's transport networks within 10 years is about **\$2.4 billion**.

## Additional capital funding

Additional capital funding is potentially available from the following three sources and if utilised would help to reduce the funding gap significantly below \$2 billion. The three sources are:

- **Infrastructure Auckland** – Firstly, Infrastructure Auckland could increase their granting programme by \$200 million to \$1 billion by 2008. An increase of this magnitude would greatly assist the region in closing the immediate capital funding gap facing passenger transport. Secondly, Infrastructure Auckland is able to grant funds for debt servicing. If this started from July 2003, the first new funding could be concentrated on getting more projects to the "buildable" stage.
- **Budget surplus**– Treasury recently estimated a government surplus for 2003/04 of \$3.5 billion rising to \$5.2 billion in the next three years. One suggestion is that Auckland be allocated a "catch up" from the surplus of \$500 million a year for the next three years, topped up with a \$-for-\$ contribution from Auckland as revenue sources become available.
- **Consolidated fund** – Of the estimated \$1.7 billion a year generated from transport-related excise, about \$700 million is diverted from the consolidated fund. One suggestion is that this money not be diverted to the consolidated fund but be ear marked for transport infrastructure "catch up" projects.

However, it is apparent that tapping into additional capital funding sources alone will not be sufficient to meet Auckland's objective to achieve accelerated completion of the region's strategic transport infrastructure to the standards required to satisfy Auckland's reasonable economic and social development needs and is not sustainable in the long-run.

## Funding network completion

Accordingly, we conclude that identifying new sources of capital to finance the remaining funding gap is the only practical option to achieve completion of the region's transport network in a way which is consistent with the government's economic, social and environmental goals for New Zealand (NZTS 2002, p.3) and in particular its overall vision for transport (NZTS, p.4):

A49

- By 2010 New Zealand will have an affordable, integrated, safe, responsive, and sustainable transport system.

Identifying accessible, sustainable, and adequate revenue streams will be a critical factor if capital financing is to be successfully used to close the anticipated funding gap.

The key principles and values acknowledged in the development of the strategy for funding the completion Auckland's transport network include:

- The strategy must meet the test of consistency with and contribute to achieving the government's vision for transport of an affordable, integrated, safe, response and sustainable transport system by 2010.
- The funding programme for the strategy must ensure capital is available on a "build as buildable" basis.
- There needs to be a consideration to ensuring regional benefits and "user pay" considerations.
- Recognition that the major source of additional revenue to service the capital financing will be the Auckland region itself.
- Recognition that Auckland is taking a leadership role in partnership with central Government
- Recognition that government legislation and regulation enables efficient, problem-free delivery of the funding strategy.

Assessment of "build as buildable" opportunities coming on stream in the period of the strategy suggest a modest funding requirement in year one, with an accelerated revenue requirement to service financing arrangements in years two-to-ten.

Preliminary estimates based on a simplistic financing scenario indicate a capital-servicing requirement in 2003/4 of approximately \$20m per annum increasing steadily to a peak of around \$250m per annum in 2013/14. Actual costs will be determined by the precise size and timing of the funding gap, the mix of financial instruments employed and the appeal of the available cashflows to finance providers.

The gradual escalation in the revenue requirement will allow the opportunity to progressively introduce new or additional revenue streams over this period. Also, greater certainty around future cashflows will enable the drawdown of further borrowing.

From a high level assessment of a broad range of options for raising revenue we conclude that the introduction of a viable regional network pricing system which charges road users directly, transparently and in relation to their specific utilisation of the roading network is most likely to be the best long-term solution for Auckland.

This will lead onto the development of a comprehensive policy framework and the drafting of appropriate legislation that could be either Auckland specific or nationally applicable.

However, as a first step there needs to be detailed financial modelling undertaken to establish the network pricing models suitable for Auckland, including and especially a benchmark indication of the likely cost per trip arising from each model.

Following the determination of the viable network pricing models for Auckland a comprehensive feasibility study is required to evaluate the options more fully. This will involve:

- Political, economic and social risk assessment, including meeting public expectations
- Refining the infrastructure costs and cashflow requirements for completing the agreed network
- Determining the total revenue requirement to service the new sources of capital required to complete the agreed network
- Determining the extent and nature of the network pricing system to generate the required revenue taking into account revenue risk resulting from the traffic impact of network pricing,
- Determining the structure by which new capital will be procured and serviced
- Determining investor interest
- Assessing the implementation and operational characteristics of different charging technologies
- Assessing coherence with government transport policy and objectives – including integration between roading and public transport objectives.
- Benchmarking against overseas experiences – in particular Norway, London, Singapore and nominated other comparable examples.

To complement the option assessment further work is also required to determine the optimal financial structure to enable network completion. This will include consideration of financial instruments such as:

- **Infrastructure bond options** - For example, central and local government with private sector groups investing funds in agreed infrastructure development initiatives under agreed rate of return scenarios.
- **Private Sector Equity** - including opportunities to attract interest from toll road investors, infrastructure funds, potential concessionaires and local investors
- **Senior Debt** – debt secured against one or a number of organisation's balance sheet.
- **Non- Recourse Debt** - debt secured against a project revenue stream or raised in lieu of revenue from one or more of the interim sources.

This work could be undertaken in two steps:

- Firstly; the completion of a report to enable decisions in principle on the appropriateness of network funding as a sustainable model to meet the current and future needs of Auckland
- Secondly; the completion of a comprehensive feasibility study of network pricing options for Auckland including a political, social and economic assessment of options

## **Interim funding options to minimise delay**

Until a comprehensive network pricing system is in place, interim funding and revenue options will be needed to enable cash to be made available on a "build as buildable" basis to ensure no delay in progressing network completion on account of a funding shortfall. The following options are proposed:

Immediately, the region can better use funds available from Infrastructure Auckland.

- **Infrastructure Auckland (IA)** – IA have indicated an ability to make grants to fund debt servicing in the short-term until other revenue streams are available. The debt servicing will be sufficient to cover funding requirements for a four year period and allow all key roading projects in the region to be commenced.

Secondly, additional funding sources are worthy of further investigation:

- **Regional Fuel Tax** – Options could include: Indexing current petrol tax to inflation, diverting and “ring fencing” Auckland’s share of petrol tax currently going into the consolidated fund for a set time, or until network pricing is established, a moderate increase in the current Local Authority Petroleum Tax. This option would require a legislative change to the current LGA.
- **Regional RUC Levy** - For diesel vehicles to complement a regional petrol tax. The practicalities of this option need to be explored but legislative change will be required
- **Transfund Debt Servicing Contribution** – Advocate for Transfund to establish a funding stream dedicated to debt servicing. For example, seek the re-allocation of \$15m/pa from road maintenance to roading construction in line with Government’s Land Transport Package which could then be dedicated to debt servicing for Auckland
- **Project Specific Tolls** - Evaluate the application of project specific tolls for appropriate projects eg. Penlink, ALPUR Stage 2 and Eastern Transport Corridor, and progress the “projects” under this revenue raising assumption.

The overall conclusion is that the funding gap facing Auckland is manageable. The use of new sources of capital finance in conjunction with the development of secure and sustainable revenue streams and targeted additional capital grants offers a practical solution.

## Legal Framework

The network completion funding package requires a flexible legislative framework that permits the funding options under consideration. This cannot be achieved under current legislative constraints. The Land Transport Management Bill will provide the Auckland region with a more flexible funding framework. However, if the region is to successfully develop and implement a funding strategy that will provide the level of investment required, further flexibility is needed to that framework. There are a number of key amendments that are required to the Bill if it is to provide a sustainable funding regime that will assist the region to successfully undertake an accelerated programme of network completion without becoming bound up and delayed by overly prescriptive legislative requirements.

The key amendments that are recommended are as follows.

- Provide the Minister of Finance with the explicit right to approve Transfund and Transit borrowing to debt fund projects on a “network basis” as opposed to a project-by-project basis.
- Provide a more flexible Transfund evaluation criteria so that it can approve and contractually commit to payments over a long term that support a debt servicing programme.
- Provide a more flexible tolling regime which limits Ministerial involvement to a high level approval of the proposed tolling scheme at an early stage. This will ensure that the scheme meets the public policy requirements while leaving the participants to negotiate and develop the detailed provisions of the scheme.
- Allow tolling of existing parts of the network in order to fund network completion (including servicing a network debt) where those existing parts form an integral component of the network. This will allow an holistic approach to be taken to the planning, construction and funding of the strategic transport network rather than the current piecemeal approach.

- Restrict the Minister's approval of private sector involvement in projects to a high level decision on the key terms of that involvement rather than an in-depth assessment of the detailed terms of the proposed concession agreement.
- Provide for longer private sector concession terms and alternative private ownership structures. A more realistic and pragmatic approach will also need to be taken to the allocation of the traffic volume risk between the private and public sector parties.
- Provide a message that network pricing is a legitimate and appropriate tool for the management of congestion and for funding new infrastructure.

As well as the new legislative framework that will be introduced by the Land Transport Management Bill, further legislation and amendments to existing legislation will be required in order to utilise the various revenue sources currently under consideration. These include the following.

- An increase in the local authority petroleum tax will require special legislation amending the Local Government Act. This amendment could either set new maximum rates which cannot be exceeded or alternatively, permit the local authorities of the region to determine the rate.
- The introduction of a regional road user charge will require special legislation dealing with, amongst other matters, the rate, mechanism for recovery, and enforcement issues.
- Network pricing will require a new legislative framework, which could either be Auckland specific or developed on a generic, nationwide basis. While there are many overseas examples, which could form the basis of a new legislative package, significant policy work will be needed until the form and structure of any new legislation can be developed.

## **Conclusions**

Funding the completion of an integrated transport system in Auckland is manageable. To make it possible, Auckland and central government need to agree to work together and make it happen.

### **From the Funding Plan team:**

Jill McPherson, convenor  
 Barry Mein  
 Catherine Taylor  
 Grant Taylor  
 Chris Freke  
 Tony Garnier  
 Kevin Wright  
 Janine Bell  
 Peter Casey  
 John Williamson  
 Jane Simmonds

## MAYORAL FORUM FUNDING PROPOSAL FOR COMPLETING AUCKLAND'S TRANSPORT NETWORK

7 March 2003

### FUNDING STRATEGY ACTION PLAN – OVERVIEW

1. Implementing the Auckland region's planned integrated transport network as defined in the RLTS has a total capital cost estimated at around \$5 billion, and can be built in 10 years if funds are made available.
2. Of the \$5 billion required, \$3.8 billion is for the region's strategic roading network and \$1.2 billion for passenger transport.
3. Taking all currently committed projected conventional funding into account, **the funding gap remaining to complete the networks within 10 years is about \$2.4 billion.**
4. Assessment of alternative capital sources to meet the funding gap, together with assessment of options for Auckland to put in place appropriate debt servicing arrangements, shows conclusively that **the funding gap can be filled.**
5. For example, Infrastructure Auckland is considering and has the capacity to immediately service debt for a four-year period. This will enable all the region's strategic roading projects to be started. Infrastructure Auckland is also considering granting \$700 million for passenger transport by 2008.
6. Also, the Mayoral Forum has established that over many years Auckland has been missing out on receiving a fair share of the nation's funding allocation, and estimates that a strong case can be made for a "catch up" allocation as an immediate contribution to closing the gap.
7. ***Accordingly, the Auckland Mayoral Forum can pursue with their respective Councils:***
8. Firstly, propose to Infrastructure Auckland to increase their granting programme by \$200 million to \$1 billion by 2008. An increase of this magnitude would greatly assist the region in closing the immediate capital funding gap facing passenger transport.
9. Secondly, propose to Infrastructure Auckland to grant funds for debt servicing from July 2003, with the first new funding concentrated on getting more projects to the "buildable" stage.
10. Thirdly, pursue the option that Auckland be allocated a "catch up" from the government's surplus and/or redistribution of the transport-related excise of about \$700 million annually diverted to the consolidated fund.

11. Fourthly, to further investigate additional revenue options of:
  - Regional fuel tax
  - Regional RUC levy
  - Transfund debt servicing contribution
  - "Project" specific tolls
12. Fifthly, to encourage a regional (and New Zealand) debate on sustainable funding options for Auckland, and in particular a network pricing model.
13. This debate is needed because it is a conclusion of the work undertaken for this proposal that tapping into additional capital funding from public sources alone will not be sufficient to achieve accelerated completion of agreed transport infrastructure to the standards required to satisfy Auckland's reasonable economic, lifestyle and environmental needs **and is not sustainable to meet longer-term demands.**
14. The Mayoral Forum can lead the debate with a comprehensive feasibility study to evaluate the implementation of a network pricing model, and preparation of a discussion document.
15. Finally, to lobby Wellington for the Land Transport Management Bill to **provide the flexibility needed to implement any or all of the above options.**

#### **Next Steps**

16. The Mayoral Forum can request that Auckland and Government work together to **urgently action the proposal** by:
  - Immediate preparation of a financial business plan (10 years) for Auckland to raise \$5 billion from existing and new sources and provide for funding agreements with Infrastructure Auckland, Transfund and local authorities.
  - Immediate preparation of work programmes, including costings and milestones, to start land purchase, design and preliminary earthworks of all projects physically able to achieve "buildable status" in the summers of 2003/04 and 2004/05 but NOT currently funded to be commenced.
  - Immediate preparation of a comprehensive feasibility study and discussion document to enable the region to evaluate the implementation of sustainable long-term transport infrastructure funding options including network pricing models in Auckland.
17. Progress on the above requests to be reported to the next Mayoral Forum meeting and to the Regional Land Transport Committee.

## **Consultation**

18. This paper has drawn on and wishes to acknowledge the work already under way by Infrastructure Auckland and a Regional Transport Executive Group for the Auckland Regional Land Transport Committee. The Auckland Transport Action Group (ATAG), Auckland Business Forum and a number of other private sector groups supporting a responsive and sustainable transport network in Auckland have been consulted in the preparation of this proposal.
19. It is anticipated that this paper will be forwarded as a Mayoral Forum proposal to the Auckland Regional Land Transport Committee and individual councils for adoption, and also seeking the support of private sector and community leaders and groups, before making a formal approach to Government.
20. Going to Wellington with one Auckland voice will, we believe, add considerable weight to our case. Meanwhile the paper addresses the Mayoral Forum desire that Auckland to be seen to be acting proactively and responsibly – taking all possible steps to solve its problem!
21. With most Aucklanders agreed that transport is the region's number one issue and requiring the united and single-minded attention of its elected representatives, the Mayoral Forum can seize this opportunity to move with a sense of urgency and speed to implement this proposal.

## **Recommendation:**

- **that the Mayoral Forum agrees that this paper represents their collective view**
- **that the Mayoral Forum pursues this proposal with their respective Councils, the Regional Land Transport Committee and central government.**

**MINUTES OF AN ORDINARY MEETING OF THE PROJECTS SPECIAL COMMITTEE  
HELD IN THE CIVIC CENTRE, 6 WAIPAREIRA AVENUE, LINCOLN,  
WAITAKERE CITY, ON WEDNESDAY, 5 MARCH 2003  
COMMENCING AT 9.38 AM.**

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**PRESENT:**

Councillors    RP    Dallow, QPM, JP (Chairperson)  
                  JP    Lawley (Deputy Chairperson)  
                  DQ    Battersby, JP  
                  BA    Brady, JP  
                  JM    Clews, QSO, JP  
                  AC    Fenton

Deputy Mayor CA Stone (ex officio)

**IN ATTENDANCE:**

Group Manager: Asset Management  
Consultancy Services Business Manager  
Project Manager Consultancy Services  
Aquatic & Recreation Centre Manager  
Service Manager Aftercare and Special Projects  
Aftercare/Special Projects: Design Engineer  
Mayoral Executive Officer  
Committee Secretary: A Chan

**1    APOLOGIES**

323/2003

MOVED by Cr Clews, seconded Cr Brady:

That an apology from J Dragicevich for absence be received and sustained.

**CARRIED**

**2    URGENT BUSINESS**

There was no Urgent Business.

**3    CONFIRMATION OF MINUTES**

324/2003

MOVED by Cr Brady, seconded Cr Fenton:

That the minutes of the Ordinary Meeting of the Projects Special Committee held on Wednesday, 5 February 2003, as circulated, be taken as read and now be confirmed.

**CARRIED**

**A57**

**4 PRESENTATIONS**

**DECLARATION OF INTEREST**

9.39 am Cr Dallow declared an interest on item 4(A) Waitakere Sports Complex, vacated the Chair and spoke and answered questions in his capacity as Chairman of the Waitakere Sports Complex Board.

9.40 am Cr Lawley assumed the Chair.

**(A) WAITAKERE SPORTS COMPLEX**

Suresh Nagaiya in his capacity as the Waitakere Sports Complex Development Board Projects Manager made a presentation to update the Projects Special Committee on the progress thus far on the Waitakere Sports Complex.

10.02 am Cr Dallow resumed the Chair.

**(B) AQUATIC CENTRE UPGRADE**

Simon Guillemain, Business Manager, Consultancy Services made a presentation to update the Projects Special Committee on the Aquatic Centre Upgrade.

325/2003

MOVED by Cr Stone, seconded Cr Clews:

That the information be received.

**CARRIED**

326/2003

MOVED by Cr Brady, seconded Cr Stone:

1. That a record of the ongoing costs (including all staff time) together with the options for resolutions of the dispute, be brought back to the Projects Special Committee at the next meeting.
2. That the Beca reports on tender process and practical completion be brought back to the Projects Special Committee when completed.

**CARRIED**

**5 SERVICES UPDATE - CREMATION OPERATIONS AT WAIKUMETE CEMETERY**

327/2003

MOVED by Cr Clews, seconded Cr Brady:

That the information be received.

**CARRIED**

11.01 am Cr Stone left the meeting.

**AS8**

328/2003

MOVED by Cr Battersby, seconded Cr Fenton:

That the Director: City Services be authorised to initiate the process for replacement of the Waitemata cremators and renovation of the crematorium as outlined in the agenda report.

**CARRIED**

11.22 am

The Chairperson thanked members for their attendance and attention to business and declared the meeting closed.

CONFIRMED AT AN ORDINARY MEETING OF THE  
PROJECTS SPECIAL COMMITTEE HELD ON

**DATE:**.....

**CHAIRPERSON:**.....

AS9