Long Term Plan for Auckland Transport

Background

The Auckland Council is required to complete a 10-year LongTerm Plan (LTP) once every three years. The LTP is subject to Audit and is a basis for decision-making and public participation in the decision making process. The next LTP is required to be adopted by 30 June 2012. As Auckland Transport is a significant activity funded by Auckland Council, the LTP will contain a section on the Transport Activity. Auckland Council staff have indicated that they are working to prepare the Long Term Plan on a group basis. We have not seen any details on how they intend to achieve this but have supported the initiative on the basis that it will provide a more complete picture of the services funded by Auckland Council. Staff are engaged with Auckland Council on this issue.

The requirements of the LTP are established under the Local Government Act 2002, and Auckland Council is expecting that Auckland Transport will provide the necessary elements of the plan for the services which are delivered by AT.

Plan Content

The plan will be broken into the following groups of activity:

- *Roads and Footpaths:* including individual activities of Roads, and footpaths
- *Public Transport* including individual activities for Rail, Bus, Ferry, Multimodal and Travel demand Management
- *Parking and Enforcement:* including individual activities for ‘on street’ parking and enforcement, and ‘off street’ parking

The Plan is being prepared on a top down basis, and also from a bottom up basis. The information presented to the Board at this meeting is the first iteration of the top down information with some of the information that has come out of the work of Activity Managers and the Asset Management planners. Therefore there are a number of caveats around the detail, but the first cut does highlight the significant issues that the Board and Auckland Council will need to consider before the plan goes to public consultation and in adopting the final Plan.

It is fair to say that while there are a number of relatively minor issues that emerge from the top down view the major issue for the plan will be funding the major capital work to be undertaken in both the Roads and Rail Activities. We have modelled the activities on a total cost basis with debt sitting within the Transport entity/activity. This has been done in order to be able to assess the total expected cost to the service funders. The implications of the programme is that debt is expected to rise from about $1.2bn to $6.bn in 2030. The models have assumed that 50% of the debt taken on for EMU and CRL will be funded from an on-going grant from the Crown / NZTA. The EMU funding will be agreed by the time the Board meets, the CRL funding will not be known until much later. That means that $1.6bn of debt has new identified funding sources.

Rates requirement for services are expected to rise $480m to $1090m. A substantial increase on the face of it, but not so alarming if considered in regard to impact on an average ratepayer. The population is predicted to grow at about 1.3% per annum. This level of growth for 18 years, plus inflation at the levels predicted by BERL, the rates rise requirement is actually a reduction in real terms. This assumes that the rate required equates to the current rates levied. Given the funding allocations used in the Transitional plan, staff are not able to assert that this is so. This is largely because AT has been treated in the same way as all of the other CCO's in that renewals are not funded from revenue sources, and little funding has been provided for depreciation of the assets, represented in a steady state organisation by renewal. The current LTP had that eliminated by about year four of the eight year plan. This would be reflected in higher rates rises over the early years of the Plan.

Debt at the levels predicted may raise some concerns for two reasons, the ability to service it and the ability to raise it at the same rates of interest. An increase in the interest rate will impact directly onto the costs of service, and through that to the rates required from Auckland Council. If we apply a similar approach to debt analysis as to Rates then in real terms for property the debt has almost doubled, as a baseline would equate to $3.4bn. After allowing for debt which will attract more funding than the debt level has risen by around $1bn slightly less than the "AC/AT" share of the CRL.

While this is only a cursory analysis of the high level numbers, it does reveal that other things remaining constant there is not a major funding problem for the infrastructure programme proposed in the plan. However, it has become apparent over recent months that all other things do not remain equal.

Key Issues

The issues that we will run into and where we need to do more work are:

1. The Roads activity assumes at this stage that NZTA funding arrangements will remain at the same proportions. We know that this is not true as NZTA, like AT, are under funding pressure. Their revenue base does not necessarily grow at the rate of growth plus inflation. Indeed we also cannot assume that Auckland Council funding will grow at growth plus inflation. More work will need to be done with NZTA over the next two months on the funding implications and the NZTA parameters for funding. Board members may recall that this was a factor that was not accounted for in the Capital Work Programme inherited from the legacy organisations and we will not do the same for this LTP. This will mean one or a combination of five things:

   - Rates funding will need to rise,
   - Other revenue will need to rise,
   - The Capital Work Programme will need to reduce,
   - Other expenditure will need to reduce to free up funding, or
   - Assets will need to be sold.

   The Capital Work Programme includes a significant amount of land acquisition, but does not include revenue from that land, or the subsequent release/sale of the land when the capital work has been undertaken. We have a lot more work to do on this before the Plan is complete. Given the resource requirements for new capital, we cannot have capital (debt) tied up in assets with no defined realisation of benefits. We are undertaking more analysis in this area.

2. Depreciation levels are significantly out of alignment with renewal expenditure in the first 15 years. This is not a problem of itself as it could indicate relatively new assets that require less than average renewal. If that is the case then there will be a future implication as replacement requirements ramp up to more than the depreciation. This is the quandary that local government has been dealing with for the past decade, referred to as "funding depreciation". AT will need to determine the extent to which the asset renewal profiles match reality. A legitimate choice in prioritising spend can be to reduce renewal for a period of time to allow funds to flow to new capital items which have a priority. However it is essential that this is a conscious choice as it can only occur for a period of time before significant reduction in service levels leading to increased reactive maintenance become apparent. Asset management plans are being worked through at present.

3. Parking has no provision for new parking facilities except for some Park and Ride. Given the growth in the region and the predictions for the CBD, this does not seem realistic. Also in parking, the revenue flow has been assumed to increase with inflation. Given the constraints on the infringement fee, which is set by Government, this is unlikely to be so. The effect of this constraint is also being worked on. At some point the infringement fees will need to rise in order to maintain the integrity of the infringement system, as at some point it will become cheaper to infringe rather than to comply.

   Parking is likely to provide a valuable tool for promoting the behaviour that AT is trying to promote. Mainly, the objective of providing transport choices and enhancing use of the PT facilities. A parking strategy is being developed and will probably be coming to the Board in September. Issues that are apparent at present are that the mix of parking will need to be considered, the requirement for more parking facilities and the charging regime for parking facilities will need to be considered. In a capital constrained environment parking will need to be considered in light of the five items outline in point 1.

4. Public transport includes some allowance for growth but it is on a constant basis. It is more likely that growth in PT services will be stepped as the capacity constraints inherent in the asset base are reached. A significant amount of work has been done in rail to get to the projections included for the EMU business case but the increases from the CRL are not yet factored into the revenue assumptions, post 2020. Staff are still working on this. Bus is undergoing a review of the PTOM, which has been indicated, to the Board. The implications of this have not yet been included.

Summary

The above is a summary of the major issues as we see them at present. It is likely that the numbers in the document will change as the issues are worked through, however it is also accepted that reality will vary significantly from our plans. At present staff are working to identify the high level issues so that we have a basis for the iterations that the plan will go through.

It is proposed that a presentation will be made to Auckland Council on 26 August, which will cover the major issues at the level identified in this report with supporting dialogue from Finance, Operations and Infrastructure. AT have been asked to provide high level indicative numbers to Auckland Council by 19 August, it is proposed to provide them with the information provided in the attachment with the caveats identified in this report.

Recommendation

That this report be received.

Attachments

Attachment 1 ??

WRITTEN and RECOMMENDED by	David Foster **Chief Financial Officer**	DJ Foster
APPROVED FOR SUBMISSION by	David Warburton **Chief Executive**	D Warburton