

27 May 2020

Hon Phil Twyford
Minister of Transport
Parliament Buildings
WELLINGTON

Ref: NZT-4915

Dear Minister

Financial impacts of COVID-19 on the National Land Transport Fund

I refer to my letter to you of 30 April 2020 which described the financial impacts of COVID-19 on the National Land Transport Fund (NLTF) and the further discussion on the subject by the Waka Kotahi NZ Transport Agency Board at its 20 May 2020 meeting.

At that meeting, the Board discussed the challenges of managing the existing National Land Transport Programme. In particular, the Board considered:

- How to best balance the needs of prudently managing the programme against a backdrop of fiscal uncertainty
- How to meet additional COVID-related funding commitments (e.g. to support public transport operators)
- and how to provide leadership and support that is consistent with the Government's objectives to mitigate the worst economic impacts of COVID-19 through maintaining economic activity and employment particularly in regional New Zealand.

The NLTF is, in its own right, an economic enabler in New Zealand's cities and regions. Horizontal infrastructure is important in supporting and maintaining economic activity, and Waka Kotahi has a key role to play in the implementation of the Government's policy approach.

Estimated COVID-related impacts

By way of background, the following is Waka Kotahi's assessment of the financial impact of COVID-19 on the NLTF, which includes a forward projection for the remainder of the current National Land Transport Plan (NLTP in June 2021). These estimates are uncertain at this time and, importantly, assume there is no return to Covid Alert Levels 3 or 4. However, and in aggregate, they provide our best estimate of the order-of-magnitude of the likely impact.

Estimated fiscal impact of COVID-19 (\$million)	To 30 June 2020	To 28 Feb 2021	To 30 June 2021	Total	Comments
Estimated revenue "lost"	500	500	100	1,100	Assumes no return to elevated alert levels
Additional funding for public transport	110	150	70	330	Assumes additional funding support continues in 2020/21

Managing the NLTP to 30 June 2020

As you are aware, Waka Kotahi's borrowing facility has been increased by \$425m to \$675m in order to manage short-term liquidity to 30 June 2020. We appreciate your support in that regard. The Board notes that further Cabinet approval would be required to secure access to additional capital to support the NLTF and meet commitments beyond 30 June 2020. In the absence of this additional support, the Board would need to reduce expenditure dramatically from 1 July 2020, effectively stopping outflows from the NLTF until it can be confident of its solvency.

Pending a decision on the provisions of further capital to manage the NLTF and NLTP, Waka Kotahi is undertaking a review of all ongoing requests for funding in order to ensure they demonstrate value for money and remain relevant in a post-COVID world, and to consider, where practicable, opportunities to defer approvals. Subject to those considerations, Waka Kotahi is continuing for the time being to approve funding for new activities, in addition to ongoing activities and programmes such as maintenance, public transport and construction. In this latter category, I draw to your attention the imminent signing of the alliance contract for Te Ahu a Turanga: the Manawatū-Hawke's Bay highway which establishes the contractual commitment to deliver this \$600m project. I attach, for your information, an example of the types of requests that Waka Kotahi is receiving through its normal application process. You will note the over whelming majority are for minor projects in a financial sense but which represent significant value in a community sense.

The Board considers that its approach balances the objectives outlined above. Particular weight is placed on the need to provide leadership and confidence to the local government sector which, like Waka Kotahi, is reliant on continued funding of the NLTP to continue its programmes of work.

The Board seeks to understand your level of comfort with the approach outlined as a matter of urgency, which will ensure that certainty can be provided to Waka Kotahi's local government partners.

¹

² As above

Support beyond 30 June 2020

The Board has duties to ensure Waka Kotahi prudently manages its assets and liabilities, is financially viable in the long term and acts as a successful going concern. In respect of the NLTF, spending is capped. If the cap is reached, further spend will need to be halted. The Board is entitled to take reasonable expectations as to future inflows into account in its decision making. However, at this stage, the Board is concerned that the lack of clarity on future funding sources will shortly begin to impact on its ability to approve further funding requests. To avoid that situation, we are seeking your confirmation that Government is working to address the funding shortfall beyond 30 June 2020. With the impending annual audit this has become pressing.

Early confirmation of an extension of financial support is similarly important to the sector given that local authorities will be finalising their annual plans and budgets, integral to which are assumptions about the availability of continued NLTF funding.

In terms of Cabinet decisions on further financial support, the Board's preference is that access to further capital to support the fund is sufficient for at least the period to 30 June 2021. Based on the estimates above, access to further capital of \$1.75bn, in addition to the facility increase of \$425m already approved, would meet that requirement. This would also allow for the required repayment of the "seasonal" component of the short-term facilities (\$175 million) during 2020/21.

Options for the form of additional capital to address the COVID-related costs will require further engagement, including with the Treasury. The Board's preference is for funding capital injections over financing, which recognises the one-off and unforeseen nature of COVID-related costs. From a prudence perspective we need to be mindful of receiving financing through borrowings that we can not readily payback.

Planning for the next NLTP

While financing clearly has a role to play in the delivery of the draft GPS, the Board's preference for funding over financing also recognises the future burden that financing would impose on the NLTF. There was already a shortfall in the NLTF to fully meet the expectations of the draft 2021 Government Policy Statement during the next NLTP 2021-24. COVID-related delays will mean a greater carry-over of incomplete projects from the current NLTP into the next, and financing costs would further worsen that picture.

Conclusion

We recognise that this is a challenging time for Government and New Zealand. I hope that setting out the Board's position in relation to some of Waka Kotahi's major challenges is both helpful and constructive. I look forward, in particular, to:

- a. Your confirmation that the Board's approach is consistent with the Government's immediate expectations.
- b. Confirmation over the next 3-4 weeks of the Government's decision on providing further financial support for the NLTF beyond 30 June 2020. We remain committed to finding a sustainable solution to these issues.

I am of course available as necessary to discuss this letter at your convenience.

Yours sincerely

A handwritten signature in black ink that reads "Brian Roche". The signature is written in a cursive style with a large initial 'B'.

Sir Brian Roche

Chair

Waka Kotahi NZ Transport Agency Board

cc Hon Shane Jones, Associate Minister of Transport
Hon Julie Anne Genter, Associate Minister of Transport
Peter Mersi Secretary for Transport and Chief Executive, Ministry of Transport

Attachment: Illustrative list of NLTP funding approvals

Attachment: Illustrative list from NLTP funding approvals under management delegation (30 April/14 May funding committees)

Project name	Organisation	Type	\$ Funding Total	\$ Funding NLTF share
Bankwood Road/Comries Road intersection safety improvements (Standard safety intervention)	Hamilton City Council	New/next phase	\$1,200,000	\$906,000
Northern Arterial Extension and Cranford Street Upgrade (Northern Corridor Downstream Effects Cycleway links)	Christchurch City Council	Cost/scope adjustment	\$4,000,000	\$2,040,000
Maunganui Road Walking and Cycling Improvements	Tauranga City Council	New/next phase	\$8,930,899	\$4,554,754
Tairawhiti Package: 50 Max (Provincial Growth Fund/NLTP)	Gisborne District Council	New/next phase	\$3,000,000	\$2,040,000
Hamilton City Council Biking and Micro-mobility Single Stage Business Case	Hamilton City Council	New/next phase	\$577,240	\$294,392
SH27 Mangawhero Bridge Replacement	Waka Kotahi	New/next phase	\$15,344,054	\$15,344,054
Rolleston Transport Improvements Programme Business Case	Waka Kotahi	Cost/scope adjustment	\$250,000	\$250,000
SH1S Bluff Highway/Elles Road Intersection Improvement	Waka Kotahi	New/next phase	\$8,037,173	\$8,037,173
Gore River Track	Gore District Council	New/next phase	\$3,628,000	\$1,995,400
Network solution for preventing, detecting and warning of Wrong Way Drivers on Auckland Motorways	Waka Kotahi	New/next phase	\$8,620,000	\$8,620,000

Auckland Cycle Network Victoria Street West Cycleway	Auckland Transport	Cost/scope adjustment	\$2,979,325	\$1,519,456
Tomarata Bridge Repairs and Improvements	Kaipara District Council	Cost/scope adjustment	\$1,800,000	\$1,098,000
Kapiti Coast East/West Connectors	Kapiti Coast District Council	Cost/scope adjustment	\$90,000	\$45,900
Wellington Cycle Network – Eastern Package “Cobham Drive” Implementation	Wellington City Council	Cost/scope adjustment	\$1,519,000	\$774,690
Glen Eden Village Safety Intervention Treatments	Auckland Transport	New/next phase	\$5,785,014	\$4,367,686
Otaki to North Levin SH1/57 northern Section (Standard Safety Intervention)	Waka Kotahi	New/next phase	\$1,070,000	\$1,070,000
SH2 Masterton to Carterton (Standard Safety Intervention)	Waka Kotahi	New/next phase	\$910,000	\$910,000
Waipapa Corridor Improvements Project (Waipapa Roundabout)	Waka Kotahi	Cost/scope adjustment	\$15,267,172	\$15,267,172
Queenstown Lakes Spatial Plan Programme Business Case	Queenstown Lakes District Council	New/next phase	\$197,388	\$100,668
Weigh Right Programme D (Regional and Arterial Road Coverage) Single Stage Business Case	Waka Kotahi	New/next phase	\$75,000	\$75,000