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<th><strong>BOARD PAPER</strong></th>
<th><strong>Investment and Operations Committee</strong></th>
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<td><strong>Board function:</strong></td>
<td>Significant planning, investment and operational matters</td>
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<td><strong>Subject:</strong></td>
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PURPOSE

1. To support a discussion on how to manage the potential impact of the Nelson Southern Link investigation on the use of Regional (R) funding in the Nelson region, and to seek the Investment and Operations Committee’s recommendation that the Board agrees to allow the use of R funds in Nelson to extend beyond the current June 30 2018 deadline.

SUMMARY

2. Nelson is one of the few Regions with R funds unspent but looking to spend those funds in the National Land Transport Programme 2015-18 as required by the Agency.

3. The draft Regional Land Transport Plan (RLTP) for Nelson has identified projects that could fully expend Nelson’s R fund in the allotted period. Consultation on the draft RLTP has closed, and hearings and deliberations took place in February.

4. The Accelerated Regional Road Package announced by the Government in July 2014 includes funding to accelerate investigation and design (but not consenting or construction) of the Nelson Southern Link (NSL) in Nelson.

5. Work to prepare the business case for the NSL is underway. However, there will be insufficient information before July 2015 (when the next NLTP period begins) to inform a recommendation on whether the NSL should be included in Nelson’s RLTP for 2015-18.

6. If there is a desire to include the NSL, then a further decision will need to be made on whether to proceed with projects that are currently in the RLTP (which include SH6 Quarantine Road Roundabout, SH6 Rai Saddle improvements and the $14m Rocks Road walking and cycling
project) and have R funds assigned to them, or to delay these projects until the Detailed Business Case for NSL is delivered (in about March 2016).

7. A further complication is that the Regional (R) funding policy requires any remaining R funds to be spent by 30 June 2018 – the end of the 2015-18 NLTP Period. If Nelson’s R funds were allocated to this project it is unlikely they would be spent by 30 June 2018.

8. We think it prudent to keep open the option of using the R funds available, and propose we provide for extending the deadline for spending R funds in Nelson as a special case. We consider that it is unlikely that this will set a precedent or pose a risk that can’t be managed. We therefore propose that the Board agrees to allow the use of R funds in Nelson to extend beyond the current June 30 2018 deadline.

**RECOMMENDATION**

9. That the Investment and Operations Committee recommends the NZ Transport Agency Board agrees to allow the use of R funds in Nelson to extend beyond the current June 30 2018 deadline.

**BACKGROUND**

**Nelson Southern Arterial Investigation Project**

10. The Accelerated Regional Road Package announced by the Government in July 2014 includes funding to accelerate investigation and design of the Nelson Southern Link (NSL) in Nelson. The
Minister of Transport has asked the Transport Agency to commence the investigation and (if appropriate) design in 2014/15.

11. Crown funding only relates to investigation and design – not consenting or construction. The decision on whether to use Crown funding to proceed with consenting and construction rests with the Minister of Transport. As part of our investigation we have been asked to identify how this project would measure up against NLTP investment criteria.

12. Construction could commence in the 2018-21 NLTP period at the earliest and the current estimated construction cost is $40-50m.

13. The Business Case Approach is being applied with the indicative timeline as follows:
   - Strategic Business Case – completed by 1 March 2015
   - Programme Business Case – approval by late April 2015
   - Indicative Business Case (including any updates to current scheme cost estimates) – approval by 30 June 2015

Current R funds and RLTP

14. The Agency’s current R fund policy was decided by the Board in June 2012 (refer Board paper 2012/06/0654), and requires R funds to be assigned by 30 June 2015 and spent by 30 June 2018, effectively aligning them with the 2015-18 NLTP.

15. The Board’s June 2012 decision to extend the period for R funds expenditure to 30 June 2018 was made to address the issue of a tightly constrained state highway improvement programme and to balance the tension between investing in high priority national projects and projects in areas with uncommitted R funds which were often of a lower national priority.
16. Nelson currently has around $16m of R funds available to be utilised on the highest priority projects in the Nelson Region.

17. The draft RLTP for Nelson has identified projects that could fully expend Nelson’s R fund in the allotted period. The NSL is not currently signalled for investment because the information available was inadequate to meet NLTP investment criteria. Consultation on the draft RLTP has closed, and hearings and deliberations took place in February.

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**ANALYSIS AND DISCUSSION**

18. In July, when the next NLTP period begins, we should have enough information from the NSL Indicative Business Case to know whether it is likely that a decision will have to be made about including this project in the RLTP and extending R funds.

19. If this is a possibility, then a further decision will need to be made on whether to proceed with projects that are currently in the RLTP and have R funds assigned to them, or to delay these projects until the Detailed Business Case for NSL is delivered.

20. Projects potentially affected include: SH6 Quarantine Road Roundabout, SH6 Rai Saddle improvements, and the $14m Rocks Road walking and cycling project which is currently in its final stages of design. These projects and NSL have a high degree of local visibility, and a decision to delay or proceed could result in negative press coverage and stakeholder feedback.

21. Once the detailed Business Case for the NSL is completed, we will report back to the Minister of Transport on the assessment of the project in terms of the Agency’s investment assessment framework, including the benefit and cost appraisal; and the likely timing of the project if funded from the NLTP or should Crown funding be available.
22. If the project were to be funded from the NLTP, Nelson’s Regional Transport Committee (RTC) would need to add it to the RLTP and we would assess the project’s priority against other projects in the region. If it were the highest priority we could reassign the R funds and make a decision to extend the R funds at the same time.

23. The R fund timeline would need to be extended, as consenting the project will be complex and mean construction would not commence until the next NLTP period. It would also mean those projects currently identified for R funds would only proceed if they met the threshold for National funds or the new Regional (R2) funding activity class.

24. This situation is complex as a number of work streams need to come together to enable the key decisions to be made. The more significant decisions are around the project and the RLTP/NLTP where we have existing mechanisms and processes to manage these decisions, and the associated risk.

RISKS

25. Delivery of Nelson’s RLTP for 2015-18 is dependent on the outcome of a number of investigations and the overall RLTP and NLTP processes. There is a risk that delays in one area could impact on the overall ability to deliver improvements in Nelson.

26. It is also important that we continue to assess the relationships between the range of projects across Nelson to ensure the best outcome is realised for the whole network. We may be able to package the projects together, or even sequence the projects, in a way that delivers greater benefits than those from the individual projects.
27. The NSL and use of R funds are polarising issues from both a community and political perspective.

28. These risks are best managed through supporting relevant parties to understand and utilise the relevant processes and frameworks. The Regional Director and senior staff will continue to work closely with those involved in this matter to ensure they understand the systems and processes and their role in them.

**Potential Precedence Issues**

29. Of the other regions with R funds remaining, only Southland and Gisborne may consider this an opportunity to look at timing of their projects, as other regions already have clearly established priorities. Southland has a major project identified and once that is completed there will only be $1-$2 million R funds remaining which should easily be managed within their programme. Gisborne is working hard to utilise its R fund spend and as it is focusing strongly on enhancing the State highway network, the Agency delivery is the key component of timing of R fund spend in Gisborne. Consequently we consider that the risk of flow-on effects in other regions is minor and manageable.

**FINANCIAL IMPLICATIONS**

30. This process could potentially slow spend in Nelson, however the impact is not considered significant against the wider NLTP.
COMMUNICATION AND ENGAGEMENT

31. We are working actively with Nelson City Council, the Regional Transport Committee, local MP – Hon Dr Nick Smith, and the Minister of Transport – Hon Simon Bridges, to ensure that they understand the way programmes develop and evolve over time, and how the RLTP / NLTP processes are designed to accommodate these changes while ensuring that decisions are made in a robust way.

ATTACHMENT

There is one attachment:

- Map of the Southern Arterial
Attachment 1: Map of the Southern Arterial