

BOARD PAPER

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Board function:	Setting sector and organisational direction
Subject:	Inputs to 2015-18 NLTP Development



PURPOSE

1. This paper outlines a process for engaging the Board in the lead up to sign-off on the 2015-18 National Land Transport Programme in June 2015.
2. It also outlines key policy changes and other emerging issues around public transport services, road safety promotion and local road maintenance programmes, as background for the Board's consideration of indicative funding allocations for these programmes at your meeting on 2 April 2015.



SUMMARY

3. The Board has a critical role in approving the 2015-18 NLTP, and we will be engaging with you at key stages in the process to ensure that you are fully informed in the lead-up to approval of the NLTP in June.
4. Our investment in public transport services, road safety promotion, and local road maintenance is managed under three year programmes rather than through individual investments. Each of these areas has seen policy changes over the last three years which impact on what is included within each programme.
5. These changes include the introduction of the Public Transport Operating Model (PTOM), which will provide greater efficiency in the long term but has some short term cost and timing risks; and the impact of the Funding Assistance Rates (FAR) Review, which requires Approved Organisations to manage smaller emergency events within their maintenance allocations.

6. In Canterbury, the recovery stage of the earthquakes is drawing to a close, and a step up in maintenance costs is proposed as Christchurch's programme is reinstated.
7. Our low confidence in the evidence supporting Auckland's maintenance programme is also a key issue given the size of the increase requested and the potential impact on the local road maintenance activity class.
8. These changes and issues will be reflected in recommendations on indicative funding allocations for these programmes, which we will put forward for your endorsement on 2 April.



RECOMMENDATIONS

9. That the NZ Transport Agency Board:
 - **notes** the timeline for Board consideration of the development of the NLTP in forthcoming meetings; and
 - **notes** that there are a number of new and emerging policy changes and other issues that may impact on programmed activities for public transport services, road safety promotion, and local road maintenance in the 2015-18 NLTP.



BACKGROUND

10. The process and timelines for developing and finalising the NLTP are set out at Attachment 1. We are now at the stage of finalising the assessment, moderation and optimisation for the public transport, road safety promotion, and local road maintenance programmes.



PROCESS FOR ADOPTION OF THE 2015-18 NLTP

11. The Board has a critical role in approving the 2015-18 NLTP. We have set out below how we propose to engage the Board on the NLTP development and key issues to be addressed at the Board meetings in April, May and June.

Meeting Date	NLTP focus
2 April 2015	<p><i>Programme Development Decisions, including Indicative Programmes Approval</i></p> <p>The paper will seek endorsement of indicative investment levels for programme activities by organisations. Programme activities will include public transport, road safety promotion, and state highway and local road maintenance. The paper will also include assurance around value for money and the maintenance of optimal levels of service from existing assets and operations. Allocations can be adjusted, if necessary, at the Board's final adoption of the NLTP in June.</p> <p>We propose to communicate these indicative investment levels to Approved Organisations. We will outline communication risks and how we plan to manage them.</p> <p>The indicative allocations to programmes will comprise around 40% of the \$10.4 billion of funding from the National Land Transport Fund (NLTF) forecast for the 2015-18 NLTP. The balance of around \$6.2 billion will be targeted mostly to improvement activities.</p>

	<p><i>Engagement and Communications Framework</i></p> <p>The paper will outline the proposed communications approach for the NLTP, including principles, objectives and core key messages for the release and launch.</p>
8 May 2015	<p><i>Improvement Activity Classes Discussion</i></p> <p>The paper will outline the context and issues relating to proposed investment in improvement activities in the 2015-18 NLTP, including outcome trade-offs and management of risk and uncertainty. It will seek feedback and direction prior to adoption of the NLTP in June.</p> <p>You will also be asked for guidance on indicative investment levels, and discuss and agree further work required before final sign off on 19 June. This includes draft recommendations to the Minister on the road policing programme.</p>
19 June 2015	<p><i>Adoption of the NLTP</i></p> <p>At this meeting, we will be seeking adoption of the 2015-18 NLTP. You will have an investment paper to determine the makeup and structure of the 2015-18 NLTP, and an assurance paper on due process and legislative requirements which must be met in order to adopt the NLTP.</p> <p>The investment paper will recommend funding allocations to organisations and activity classes and the priority thresholds applied in order to optimise the NLTP, and will seek adoption of the NLTP.</p> <p>Final agreement will be sought on communications messages and approach, with mock ups of communications material presented.</p>



INDICATIVE FUNDING ALLOCATIONS

12. As signalled above, at your meeting on 2 April we will ask you to endorse indicative funding allocations for several key programmes: local road maintenance, state highway maintenance, existing public transport services, and road safety promotion programmes.
13. In developing past NLTPs, the Board has endorsed indicative funding allocations for public transport services and road maintenance programmes, and has communicated these to Approved Organisations ahead of the Board's adoption of the final NLTP. These early signals provide Approved Organisations with greater certainty in developing their long term plans, including their setting of rates to cover the local share of the programmes.
14. Indicative allocations can be adjusted, if necessary, at the Board's final adoption of the NLTP in June. Based on past NLTPs, such adjustments are likely to be minor.
15. We apply the Transport Agency's investment hierarchy to prioritise maintenance and operation of current assets and services ahead of improving and adding new services and infrastructure. This means that we optimise allocations for maintenance, public transport services and road safety promotion programmes first to achieve required levels of service. Once this is completed, we consider allocations of the balance of funds in the NLTP to improvement activity classes.
16. The indicative allocations to programmes will comprise around 40% of the \$10.4 billion of funding from the National Land Transport Fund (NLTF) forecast for the 2015-18 NLTP. The balance of around \$6.2 billion will be targeted to improvement activities. As the programmes are still being optimised, this paper does not set out potential allocations for each programme.

17. Draft Regional Land Transport Plans (RLTPs) have been developed by Regional Transport Committees, with the final plans to be submitted to us by 30 April. We have been influencing the development of the RLTPs. (Refer to the Investment and Operations Committee paper – *Update on Influencing Regional Land Transport Plans 15/03/136*) The RLTPs will then be updated to reflect the Board's endorsement of indicative funding allocations in April.
18. The state highways maintenance programme is currently being optimised using a similar process to that applied to local roads, ensuring our obligation to apply the Scrutiny Principle is met, i.e. that, when making planning and funding decisions, the Agency's own activities are subjected to the same level of scrutiny as applied to Approved Organisations' proposals.



POLICY CHANGES AND OTHER ISSUES

19. As part of our process to assess, moderate, and optimise the public transport, road safety promotion, and local road maintenance programmes, we are taking into account a number of recent policy changes and other emerging issues. These policy changes and issues will be reflected in the recommendations we put forward to you on indicative funding allocations, for consideration on 2 April, and are outlined below.

Public transport programmes

20. The rollout of the Public Transport Operating Model (PTOM) will occur through the 2015-18 NLTP. The expected outcomes of this are better value for money through optimising networks, more efficient tendering, more effective partnering with operators, and increased use of tools to incentivise improved performance.

21. To support these outcomes, the NLTP needs to continue to invest in quality service and infrastructure improvements, including the implementation of integrated fares and smart card technology, to drive increased patronage.
22. Most Approved Organisations have provided robust evidence-based bids and we are working through the few outstanding issues with the relevant Approved Organisations. While we are still optimising the programmes, and have yet to firm recommended investment levels, the overall investment level will be within our expected range and close to the level we have been using to plan and manage the NLTF.
23. Implementation of PTOM carries a risk of short-term cost increases because of the uncertainty around re-tendering of contracts that have been in place for over ten years in both Auckland and Wellington. We note that Approved Organisations are not allowing for a contingency to cover the risk of these increases, and we do not intend to either. This is because we consider that any cost increases can be offset against efficiency gains. Further flexibility is provided by the new activity class structure which combines operations and infrastructure in one activity class.
24. We are anticipating efficiencies in a number of areas, a key one being a reduction in the running costs of passenger rail in Auckland due to the introduction of a fully electrified fleet.
25. Significant increases are also anticipated in this activity class due to investment decisions made in previous NLTPs resulting in commitments that affect the 2015-18 NLTP. The largest impact is due to increased costs of interest and principal repayments associated with rail rolling stock and depot commitments in Auckland and Wellington. Other significant commitments include the operational costs arising from additional bus services approved previously, as well as operational costs for Auckland Transport's integrated ticketing system.

26. There are variations in the rates forecast for changes to input cost across Approved Organisations. Some have proposed the use of rates of between 2 and 3% per annum, while others have proposed between 4 and 6%. Our data shows that input costs over the last two years have increased by 1.6% and we are proposing that we apply a rate of 1% per annum to provide an element of programming tension.

Road safety promotion programmes

27. Most Approved Organisations have brought forward quality programmes with evidence that demonstrates their effectiveness. Indications at this stage are that we will be recommending an allocation toward the top of the funding range in the Government Policy Statement on Land Transport (GPS), a little above our previous expectations.
28. The FAR Review has resulted in lower funding assistance rates from the NLTF for this activity a number of Approved Organisations. Some have responded to their affordability issues by maintaining their local share, which reduces the total investment in their road safety promotion programmes. The change has had a minimal impact on the programme as a whole, but is likely to result in a higher proportion of investment from Transport Agency national programmes.

Local road maintenance programmes

29. Most Approved Organisations have responded positively to early investment signals, as well as initiatives from the Road Efficiency Group, and have provided robust, evidence-based bids. Some smaller Approved Organisations have made progress in reviewing their maintenance programmes to identify areas where they can be more efficient. We are still having investment discussions with a number of Organisations where insufficient evidence has been provided to support their bids.
30. Investment discussions have taken into account the expectation for Approved Organisations to demonstrate their intent to implement the One Network Road Classification (ONRC) framework.

31. At this stage the overall investment level for the local road maintenance programmes is within our expected range, although a little higher than the level used for NLTF planning and management.
32. To provide better clarity between maintenance and improvement activities, as required for reporting against the 2015 GPS, we have redefined some activities that were part of the maintenance programme in the 2012-15 NLTP as improvements rather than maintenance activities. The impact on the 2015-18 NLTP maintenance programme will be relatively small.
33. Consistent with the approach previously taken with public transport activities, and as signalled in the FAR Review, administration costs are now required to be included in Approved Organisations' budgets. Previously these were added to maintenance programme costs when claims were made. While the impact is an increase in the total cost of maintenance programme bids, there will be minimal change to NLTF investment levels.
34. The change to emergency works policy as a result of the FAR Review will mean that low cost events, previously funded as emergency works, will now be funded within maintenance programmes. The overall impact should be a small reduction in the funding required from the NLTF, even though basic maintenance programme investment will increase.
35. A number of Approved Organisations intend to replace mercury vapour and high pressure sodium street lights with LED lighting to reduce both electricity and maintenance costs, which we support. For a limited time, we have agreed that accelerated replacement programmes may be treated as improvement activities. A condition of approval is that the predicted savings must be recognised in forward maintenance programmes.
36. A core element of achieving increased returns from maintenance is the implementation of the One Network Road Classification (ONRC) framework. While ONRC gives us a nationally consistent way to differentiate customer levels of service on the network, the main financial

impact of ONRC implementation will be achieved in the 2018-21 NLTP, with performance measures and improvements in Activity Management Plans (AMPs).

37. Good progress is being made in the implementation of the classification system and development of the performance measures, with work still to be done to enable full implementation. All networks have been classified, with the larger metros working through the finer points of classification with support from us and Local Government New Zealand's Equip group. (Refer March Board paper ref # – *One Network Road Classification Performance Measures*.)
38. Other known changes and achievements arising from the introduction of the ONRC and the additional emphasis on AMPs is that Approved Organisations' Road Controlling Authorities are collaborating more; for example, the Waikato Road Asset Technical Alliance (RATA) has been established in the Waikato to enable more efficient management of networks which should deliver cost savings over time. In the southern region, collaborative peer reviewing of networks has enabled reductions in the cost of programmes in Clutha and Queenstown Lakes district councils.
39. Approved Organisations have used different sources to assess input cost rises, with many using a value around 3% per annum as a likely rate. Recent Transport Agency indicators suggest that the rate of change for road maintenance is much lower, particularly since recent falls in oil prices. We are proposing to apply a standard approach to input cost changes for the 2015-18 NLTP, allowing a little under 3% for input cost change over the full three year period.
40. There is a risk that input costs will increase at a faster rate than allowed for under our approach. Our expectation is that Approved Organisations (and HNO for state highways) will manage this risk within their approved allocations, consistent with our practice in the last two NLTPs.

Regional Maintenance Issues

41. Recovery work in Christchurch has now reached a stage where the city needs to reset the baseline for its maintenance programme. Immediately following the earthquakes, the base maintenance programme was reduced as the focus went on recovery work across the main routes. Now a base maintenance programme that recognises the impact of changes in urban form and ongoing earthquake emergency works needs to be reinstated, which will result in an increased maintenance funding allocation. While Christchurch City Council's bid appears reasonable, we are awaiting final evidence to support its proposed programme. We propose to make provision for this within our allocations, but full approval of the programme is dependent on our confidence that it is optimal and can be delivered.
42. The surrounding areas of Christchurch (Selwyn and Waimakariri) have grown substantially as a result of urban migration and their maintenance programmes need some adjustment to cater for the higher traffic volumes.
43. Auckland Transport's bid for 2015-18 was substantially more than the previous period, and lacked full evidence and justification. Given the lack of robust evidence, and taking into account that the transport network condition indicators we monitor are not deteriorating, we are considering allocating only a moderate increase in funding from the 2012-15 programme.



ATTACHMENT

44. There is one attachment
 - NLTP development timelines

Attachment 1

NLTP development timelines

Figure 1: NLTP development timelines

