

BOARD PAPER

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Recommended by:	Dave Brash, Group Manager, Planning & Investment
Board function:	Setting sector and organisational direction
Subject:	NLTP development decisions: endorsement of indicative investment levels for programmed activities



PURPOSE

1. To seek the Board's endorsement of indicative investment levels for programmed activities in the 2015-18 National Land Transport Programme (NLTP), so that these indicative levels can be released to Approved Organisations. This will provide AOs with greater certainty in developing their regional and district council Long Term Plans, and assurance that the proposed investments will deliver 'fit for purpose' levels of service.



SUMMARY

2. The proposed indicative investment levels for programmed activities (public transport services, road safety promotion, and local road and state highway maintenance programmes) will allocate around \$4 billion (close to 40%) of National Land Transport Fund (NLTF) funding for 2015-18, with the balance of funds mostly targeted to improvement activities. These investment levels are in line with the forecast NLTF revenue over the 2015-18 NLTP of around \$10.4 billion. They also reflect application of the Transport Agency's investment hierarchy, to maintain and operate existing assets and services to 'fit for purpose' levels of service, ahead of improving and adding new infrastructure.
3. All of the programmes have been optimised and reflect outcomes in the Government Policy Statement on Land Transport (the GPS):
 - the public transport services programmes are focused on more effective core services throughout New Zealand and making the most of urban network capacity. We are recommending an indicative investment level of \$890 million to achieve this.

- road safety promotion programmes are focussed on safety outcomes and reflect themes identified in the Safer Journeys strategy. We are recommending an indicative investment level of \$102 million to deliver the programmes.
 - maintenance programmes are focused on maintaining consistent, appropriate levels of service to support economic growth and productivity and safety, which are sustainable at the least whole of life cost. We are recommending indicative investment levels of \$1,427 million for local road maintenance and \$1,530 million for state highways maintenance.
4. Some issues and risks have been identified, such as the need for improvement in activity management planning, gaps in the evidence supporting Auckland Transport's maintenance bid, and concerns about Greater Wellington Regional Council's response to implementation of the Public Transport Operating Model (PTOM) and the evidence base for some of their major investment proposals.

RECOMMENDATIONS

5. That the NZ Transport Agency Board:
- a) **Endorses** the following indicative investment levels for Approved Organisations and the Transport Agency for public transport service, road safety promotion, and local road and state highway maintenance programmes in the 2015-18 NLTP:

Programme	Indicative investment level \$ million
Public transport services - investment in existing public transport services and operation, excluding infrastructure and service improvements.	890
Road safety promotion – investment in road safety promotion programmes by Approved Organisations and Transport Agency groups	102
Local road maintenance – investment in operation, maintenance and renewal of existing local roads, excluding emergency works.	1,427
State highways maintenance – investment in operation, maintenance and renewal of existing state highways, excluding emergency works.	1,530

- b) **Agrees** to advise each Approved Organisation of the indicative investment levels for each of its programmes, to assist with development of its Long Term Plan.
- c) **Notes** that the indicative investment levels for the four programmes have been developed through an optimisation process that has ensured they will deliver 'fit for purpose' levels of service on a sustained basis.



BACKGROUND

6. The 2015-18 NLTP is being developed to the timeline previously agreed with the Board (Board paper 13/11/0762) and is at a point where negotiations on indicative investment levels are being concluded with Approved Organisations and Transport Agency groups. The agreed timeline is set out in Attachment 1.
7. The results of the negotiations and Transport Agency optimisation sessions are now being brought together to develop the final NLTP, which will be recommended to the Board for adoption at its meeting on 19 June.
8. This briefing first looks at indicative investment levels as part of the overall NLTP, then provides assurance around revenue before explaining how each of the four programmes have been optimised.



BALANCING THE NLTF – HIGH LEVEL OVERVIEW

9. Board endorsement of indicative investment levels for programmed activities will signal a firm, but not binding, commitment on NLTF funds. We are recommending indicative investment levels aimed at achieving optimal levels of service in the programmes, which will allocate around \$4.0 billion (roughly 40%) of NLTF funding for 2015-18. The balance of about \$6.5 billion will be targeted primarily to improvement activities, with provisions also made for road policing, emergency works response, and NLTP planning and management.
10. The planned expenditure for the 2015-18 NLTP on programmed activities covered in this paper, improvements, and other activities is shown in Table 1. Overall, expenditure is about \$0.7

billion lower than was forecast in late 2012, following completion of the joint Transport Agency, Ministry of Transport and Treasury project to provide government with a 30 year view of transport expenditure (Board paper 12/12/0694 refers).

Table 1: Overview of NLTF forecast expenditure

Type of activity	2015-18 NLTP Late 2012 forecast NLTF expenditure \$ billions	2015-18 NLTP Planned NLTF expenditure \$ billions	Difference between forecasts \$ billions
Programmed (this paper)	4.2	4.0	-0.2
Improvements	5.5	5.0	-0.5
Other	1.5	1.5	0.0
TOTAL	11.2	10.5	-0.7

11. The 2012 plan was underpinned by a revenue forecast that incorporated 3c/litre increases in fuel excise duty (FED) and road user charges (RUC) as agreed by Cabinet. This was to provide sufficient funding to deliver a state highway improvements programme, including the Roads of National Significance, to the timeline desired by government. Subsequently, the revenue forecast proved to be optimistic.

12. As shown in Table 1, the lower revenue forecast impacts mainly on improvements, with state highway activities, including the Roads of National Significance, being delivered slower than was anticipated in 2012. Delivery of 'mainstream' state highway activities is also being impacted by NLTF funds being transferred to the new Regional Improvements activity class, and greater investment in cycling leveraged by the Urban Cycling Programme. The reduced expenditure for programmed activities is due to a lower rate of increase in input costs now being forecast, along with delivery efficiencies.
13. The Board could opt to reduce investment in programmed activities and increase investment in improvements to boost delivery of state highway projects closer to the 2012 plan. However, we do not recommend this option. The proposed investment levels reflect application of the Transport Agency's investment hierarchy – to maintain and operate existing assets and services to 'fit for purpose' levels of service, ahead of improving and adding new infrastructure.¹ We consider that the balance achieved from our recommended investment levels is optimal. A reduction in programmed activity investment would mean that delivery of 'fit for purpose' levels of service from existing assets and operations could not be sustained.

¹ This hierarchy was agreed by the Board in relation to the 2012-15 NLTP and continues to inform development of the 2015-18 NLTP. It helps give effect to one of our planning and investment principles: to optimise the provision and use of the land transport network. Details of these principles and hierarchy are published on the Agency's Planning and Investment Knowledge Base at <https://www.pikb.co.nz/home/the-way-we-work/nzta-planning-and-investment-principles/optimize-the-provision-and-use-of-the-land-transport-network/>



REVENUE UNDERPINNING INVESTMENT

14. Revenue underpinning the indicative investment levels forecast into the NLTF over the 2015-18 NLTP is around \$10.4 billion from fuel excise duties (FED), road user charges (RUC), motor vehicle registry licences and fees, and state highway property income and disposals.
15. At an NLTP level, revenue of around \$14.1 billion includes, in addition to the NLTF, around \$2.8 billion of co-invested local funds as well as another \$0.9 billion of Crown and debt funding.
16. Key risks to revenue are:
 - Cabinet not approving FED and RUC rate increases for 2016/17 and 2017/18, assumed in the forecast to be at the same rate as the forecast increase in the Consumer Price Index. This would reduce NLTF revenue by between \$100 million and \$200 million, and
 - the ability of local authorities to raise local share to meet the increased level of co-invested activities in the 2015-18 NLTP, which requires around \$300 million (13%) more local funds than provided in the 2012-15 NLTP.



INDICATIVE INVESTMENT LEVELS

17. There are four key programmes for consideration. Indicative investment levels can be adjusted, if necessary, at the Board's final adoption of the NLTP on 19 June.
18. An overview of the proposed investment levels compared to the 2012-15 NLTP is provided in Attachment 2, and the general optimisation process applied to the programmes is shown in Attachment 3.

Public transport programmes

Outcomes

19. The focus of public transport programme investment continues to be moving more people at the urban peaks, particularly through congested areas for work and education; and making transport choices available to people, including those who would otherwise be unable to participate fully in the workforce or education system.
20. We are focussed on improving the use of the capacity of the network, especially to move more people at the peak. Targeting a mix of economic and social outcomes, and driving for improved effectiveness, we are focussing our 2015-18 investment primarily on more effective core services through provincial and urban New Zealand, and on making the most of network capacity in our major urban centres.
21. Patronage growth over the 2012-15 NLTP has been quite strong as shown in Table 2. For the 2015-18 NLTP we expect to see continued patronage growth across the country and urban patronage gains resulting from the previous upfront investment to improve metro rail services in Auckland and Wellington, and improvements in contracting of services (through PTOM), bus network design, integrated ticketing and fares, timetabling and service offerings, which will roll out during the 2015-18 NLTP.

Table 2: Patronage growth in average boardings per year

Region	2009-12 NLTP	2012-15 NLTP	Change from 2009-12	2015-18 NLTP	Change from 2012-15
Auckland	65.8m	71.7m	9%	77.5m	8%

Wellington	35.5m	35.8m	1%	37.5m	5%
Canterbury	14.0m	14.2m	1%	15.8m	11%
Rest of NZ	13.2m	14.8m	12%	16.7m	13%
TOTAL	128.6m	136.4m	6%	147.5m	8%

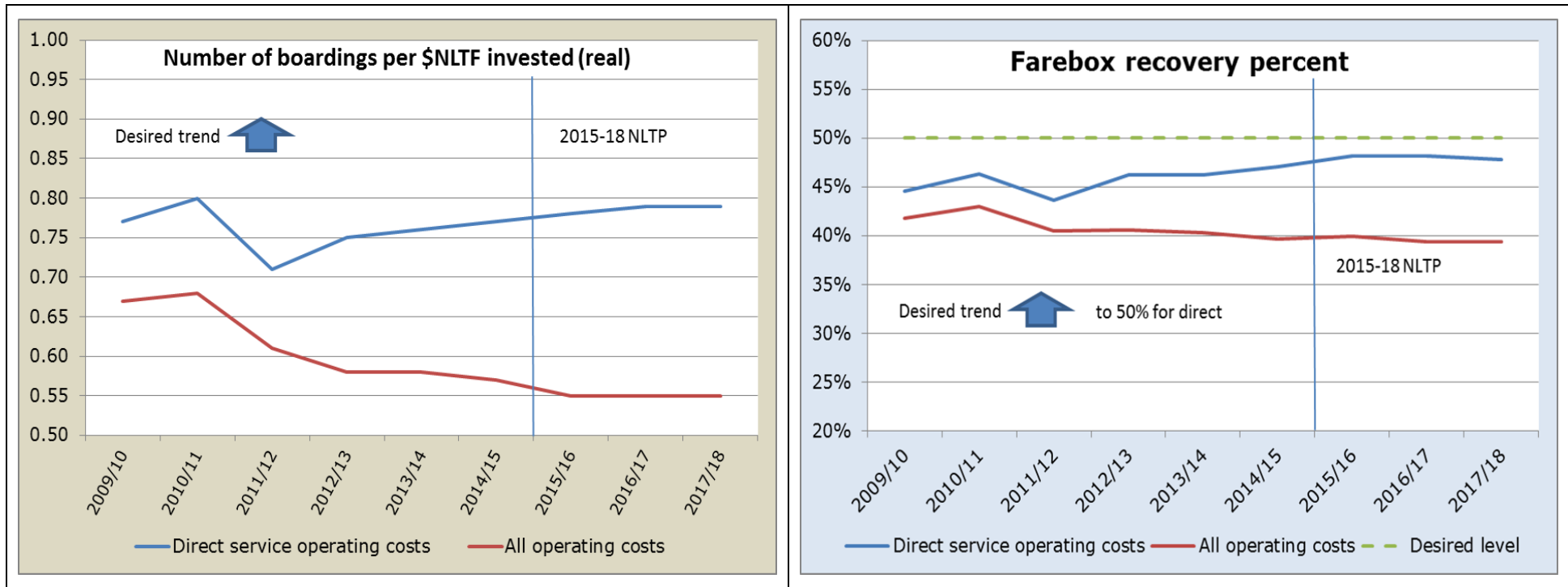
22. Auckland is forecasting continued strong growth in patronage despite the planned removal of some ferry services as exempt services (discussed further below) from its forecasts. Wellington is forecasting quite strong growth for a more mature network, mostly off the back of recent strong growth in rail patronage. Canterbury is still recovering from the impact of the earthquakes and is anticipating very strong growth over the next NLTP, approaching its 2009/10 patronage of 17.4 million boardings. Tauranga (school bus services) and Otago (planned ramp up of public transport in Dunedin) are key drivers for patronage growth in the rest of the regions.
23. In the three metros we require good connection between the public transport services and network improvements programmes to ensure we maximise the value of NLTP investment in public transport – as measured by increased patronage, improving farebox recovery, and efficient pricing of services.
24. This investment focus is consistent with continued efficiency improvements in the delivery of public transport services, as set out in the key short and medium term results sought in the 2015-25 Government Policy Statement on Land Transport (GPS):
- a reduction in the cost of public transport per passenger kilometre
 - a reduction in variability in efficiency between areas

- increased network productivity on main routes within our major metropolitan areas (e.g. improved bus transfer facilities).

Indicative investment level

25. We recommend an indicative investment level from the NLTF of \$890 million for the 2015-18 NLTP. This is an increase of \$120 million on the forecast spend for 2012-15 and reflects:
- increased patronage and new services
 - slower than planned delivery of Auckland rail rolling stock in 2012-15, to be caught up in 2015-18
 - delays in new bus services contracts in Auckland during 2012-15, again to be caught up in 2015-18
 - an allowance of 1% per annum for input cost changes
 - heavy maintenance costs for Wellington's trains as they come out of warranty
 - funding commitments made in previous NLTPs that impact the 2015-18 NLTP, including repayment of loans for Auckland and Wellington electric units.
26. Backing out input cost changes between the current and 2015-18 NLTPs, as well as prior funding commitments flowing into 2015-18, the real cost increase is small at around 0.3%. We consider this reasonable as it comprises periodic costs (e.g. heavy maintenance for Wellington trains), network and contract adjustments, partly offset by cost efficiencies, e.g. \$14 million from Auckland transitioning to a modern, fully electrified train fleet. We are expecting further efficiency gains as other improvements roll out, including new PTOM contracts and timetable and route improvements. The trends in our efficiency indicators – boardings per \$NLTF and fare box recovery – are set out in the graphs below. The direct service operating cost indicators exclude costs such as operationalising of Auckland and Wellington rail rolling stock and depot

loan repayment, marketing, integrated ticketing operation and total mobility costs. Their performance in the 2015-18 NLTP is dependent on the patronage growth forecast by Approved Organisations in Table 2.



Optimisation and issues

- 27. In general, Approved Organisations' bids for existing services are realistic and supported by robust evidence. One exception is Greater Wellington Regional Council as we have concerns over speed of response to PTOM, the connectedness of their strategic planning of their diverse

public transport activities, and the state of their evidence base and explanation of expected benefits for some major proposed investments (e.g. heavy maintenance work on its Matangi fleet). We propose holding back \$15 million of its programme funding in reserve until satisfied with further evidence, and are considering options for conditions on funding for Greater Wellington's 2015-18 programme.

28. There is also a side issue relating to concessionary fares. Currently, the NLTF funds concessionary fare payments for some services in Auckland and Wellington that have been specified as 'exempt services' under the Land Transport Management Act, meaning they are ineligible for NLTF funding. These services include the Wellington Airport Flyer bus, Wellington cable car, and the Waiheke Island, Devonport and Stanley Bay ferries in Auckland.
29. A related issue is the NLTF subsidy for Auckland Transport's evening peak free travel for SuperGold card holders. This was a stop-gap measure due to technical constraints on bus ticketing equipment when the SuperGold card was introduced in 2008 and, with the implementation of the HOP scheme, we no longer intend funding this concession. We are developing the operational policy to resolve both of these concessionary fare issues before the Board adopts the 2015-18 NLTP in June and will discuss these with the Investment and Operations Committee in May.

Road Safety Promotion

Outcomes

30. Road Safety Promotion programmes are focussed on safety outcomes, in particular to give effect to the GPS result of reducing deaths and serious injuries from road crashes. The programmes complement safety outcome investment in other activity classes, and in Road Policing in particular. They target road user behaviour through a range of approaches incorporating education, skill building, and advertising.
31. The Road Safety Promotion programmes also give effect to the GPS by focussing investment on the high and medium risk themes identified by the Safer Journeys strategy, including alcohol and drugs, younger drivers, and speed. In addition to these themes, activities are also included to target emerging themes, where a high personal risk at a community level is demonstrated through the Transport Agency's 'communities at risk' register.

Indicative investment level

32. For the 2015-18 NLTP we are seeking endorsement of an indicative investment level of \$102 million, a \$7 million increase over the forecast 2012-15 expenditure. The increase comes from a higher bid by the Transport Agency for nationally delivered activities, partly offset by lower Approved Organisation bids impacted by the FAR Review. The \$102 million includes a \$3 million reserve for a Transport Agency speed management proposal, which is yet to be assessed and prioritised.

Optimisation and issues

33. Most Approved Organisations have adopted our signals about targeting programmes to risk. Our optimisation has confirmed most of the funding requested in Approved Organisation bids, although activities assessed to be ineffective or ineligible were removed. The most significant reductions were in Auckland Transport's programme for its "Safer Communities" bids, which

included activities that cannot be funded under this activity class. Table 3 shows the bids received, and the recommended investment levels in total and NLTF terms.

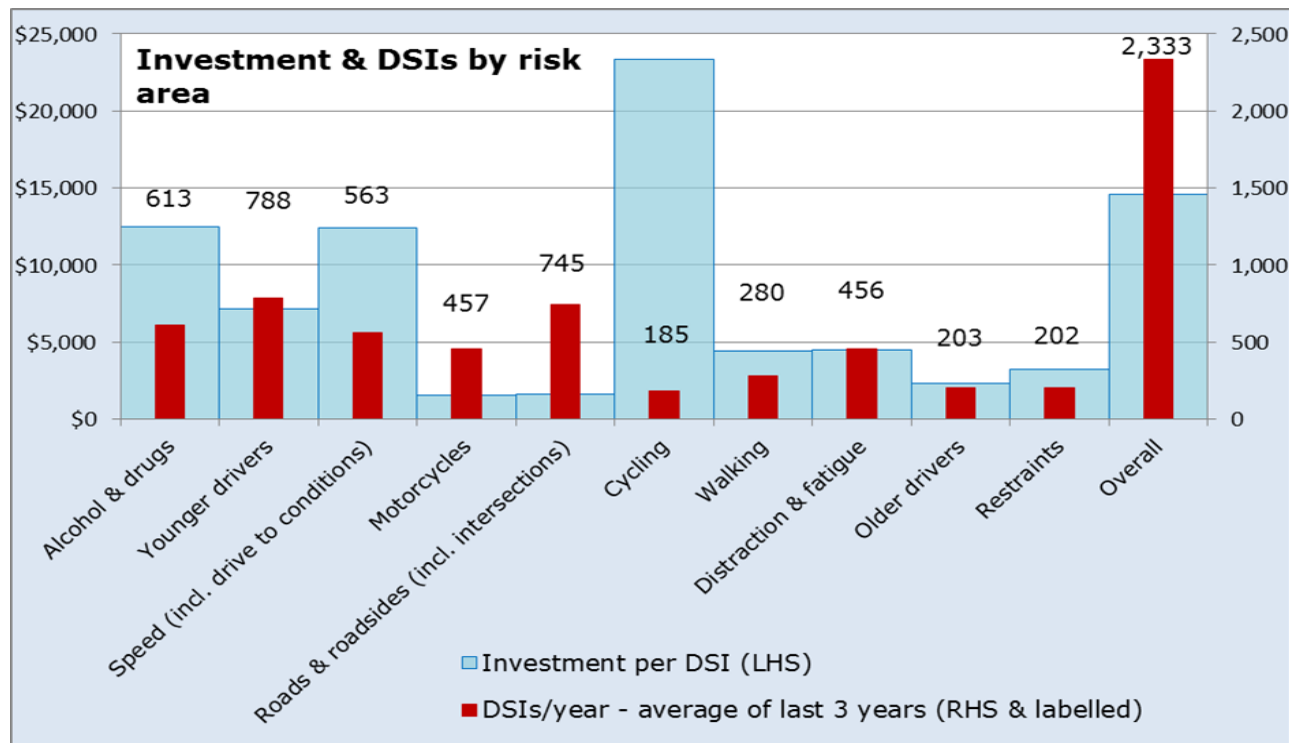
Table 3: Road Safety Promotion bids and indicative investment levels

Organisation type	Programme bids received – total cost \$ million	Indicative investment level – total cost \$ million	Indicative investment level – NLTF cost \$ million
Approved Organisations	71.0	63.8	33.0
State highways (Transport Agency)	3.9	1.9	1.9
Other Transport Agency groups	66.9	66.9	66.9
TOTAL	141.8	132.6	101.8

34. Transport Agency proposals were subjected to the same level of scrutiny as applied to Approved Organisation bids. The indicative investment level recommended for other Transport Agency groups is unchanged from the programme bid and reflects the progressive development of the programme business case and close alignment with Safer Journeys priorities.
35. The proposed Road Safety Promotion investment levels per death and serious injury (DSI) for the risk areas identified in Safer Journeys are shown in the following graph. Highlights are:
 - high investment per DSI in cycling to support the substantial lift in cycling improvements investment as a result of the Urban Cycling Programme.
 - highest Safer Journeys priorities are alcohol and drugs, younger drivers, speed, motorcycles and roads & roadsides. Our investment targets the first three of these, but is

lighter relative to the DSIs in the motorcycles and roads & roadsides as, apart from a few specific initiatives, our general experience is that road safety promotion investment has limited effectiveness in reducing DSIs in these areas.

- investment in lower priority Safer Journeys themes is focussed on communities with high personal risk, as rated by the Agency’s communities at risk register.
- investment in the restraints theme is justified by alternate data sets, e.g. NZ Police reports of restraint use, due to limited DSI data in this area.



Note - a DSI may be attributed to more than one risk area, hence the sum of the DSIs in the graph exceeds the Overall DSI total.

36. Approved Organisations and the Transport Agency are aware that the Safer Journeys strategy will be reviewed and the next action plan released during 2015. The national and local programmes have the flexibility to be adjusted to reflect any change in priority raised by the new action plan.

Local Road Maintenance

Outcomes

37. The key short and medium term results sought by the GPS are to maintain appropriate levels of service to support economic growth and productivity and safety, while improving productivity in maintaining the network and reducing unexplained variation across networks.
38. Optimisation of the Transport Agency's investment in local roads maintenance is to ensure that networks are maintained in a state that is safe and enables economic growth and productivity, at the least whole of life cost.
39. Maintenance contributes to a number of outcomes, including network security and resilience, reduction in deaths and serious injuries, making best use of urban network capacity and maintaining journey time reliability. It achieves these by applying appropriate maintenance practices, addressing road defects, optimising traffic flows, ensuring road conditions are safe and appropriate, and through the use of smart asset and network management.

Indicative investment level

40. We are seeking endorsement of an NLTF indicative investment level of \$1,427 million for the local road maintenance programme, excluding emergency works. This is a 13.4% increase on comparable 2012-15 expenditure. However, taking input cost increases between the 2012-15 and 2015-18 NLTPs into account, as well as the impact of the FAR Review and reinstatement of Christchurch's maintenance programme, expenditure remains the same in real terms, i.e. there is no material increase or decrease. We consider this reasonable, given growth in the network and the increases in some Approved Organisations' programmes based on need, which have been offset by improved efficiencies in delivery.

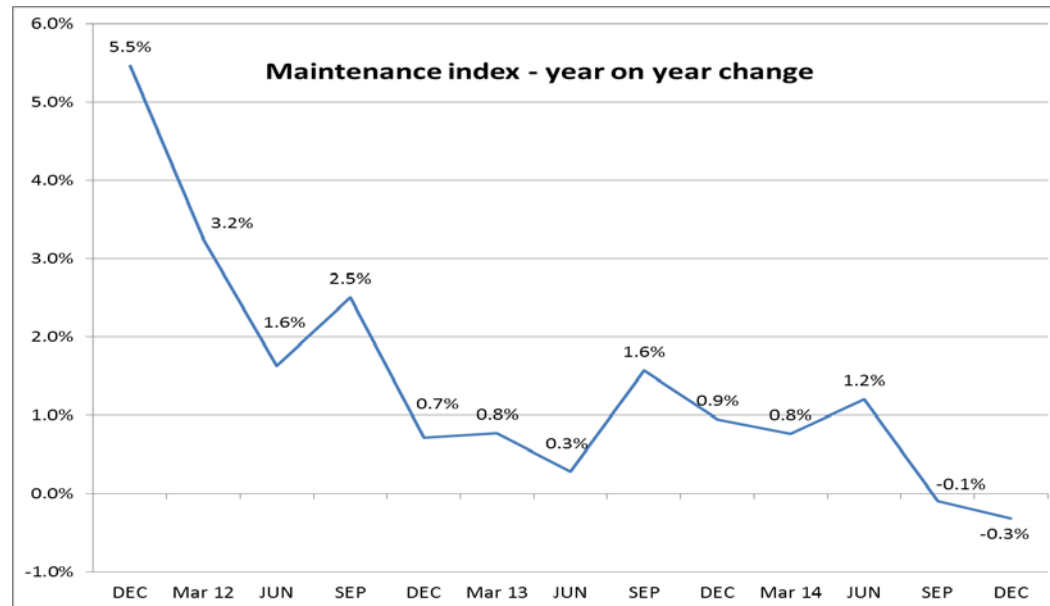
Optimisation and issues

41. Optimisation of the 2015-18 local roads maintenance programme involved a range of tools and methodologies, including:
- assessment of activity management plans
 - analysis of key road condition indicator trends to detect material changes that would indicate more or less investment is required
 - benchmarking of unit costs amongst peer group members
 - rationing of funding to stay within the GPS funding range and to tension programmes
 - visual inspections of proposed maintenance and renewal treatment sites, particularly where substantial increases in funding were being sought
 - establishment of regional and national peer/expert panel groups to challenge practices and programmes
 - regional negotiation and national moderation of programmes.

42. We consider that the process applied to optimisation of the 2015-18 local road maintenance programmes has improved from 2012-15. A number of Approved Organisations' programmes have reduced from 2012-15 levels, reflecting an improved focus on 'right-sizing' programmes to what is needed. Some reductions have been voluntary, with the Approved Organisation recognising the need itself, while others have been the result of hard conversations and negotiations. For example, discussions with the Queenstown Lakes District Council have led to a reduction in its renewals programme and an allocation that is \$12 million (27%) less than the 2012-15 NLTP.
43. The level of granularity for benchmarking and robustness of data remain issues, but we expect these to be addressed through implementation of the Roding Efficiency Group initiatives, including the One Network Road Classification framework. As a result, we expect that optimisation in developing the 2018-21 NLTP will be more precise.
44. Major issues that emerged from optimisation are:
- assessment of Activity Management Plans revealed that there is room for improvement, with few being of a standard that would qualify them as robust business cases under the Agency's Business Case Approach. Given the recent introduction of the business case approach, we anticipated this transition and expect considerable improvements in these over the next 3 year period as on-going work from the Road Efficiency Group lifts capability.
 - Auckland Transport's bid for 2015-18 was \$908 million, substantially more than the previous NLTP's forecast expenditure of \$572 million (against a bid of \$801 million). Following our examination of the network and indicator trends, we have concluded that there is insufficient evidence to support all of the requested increase. We propose an indicative investment moderately above the last NLTP, based on adjustments for input cost

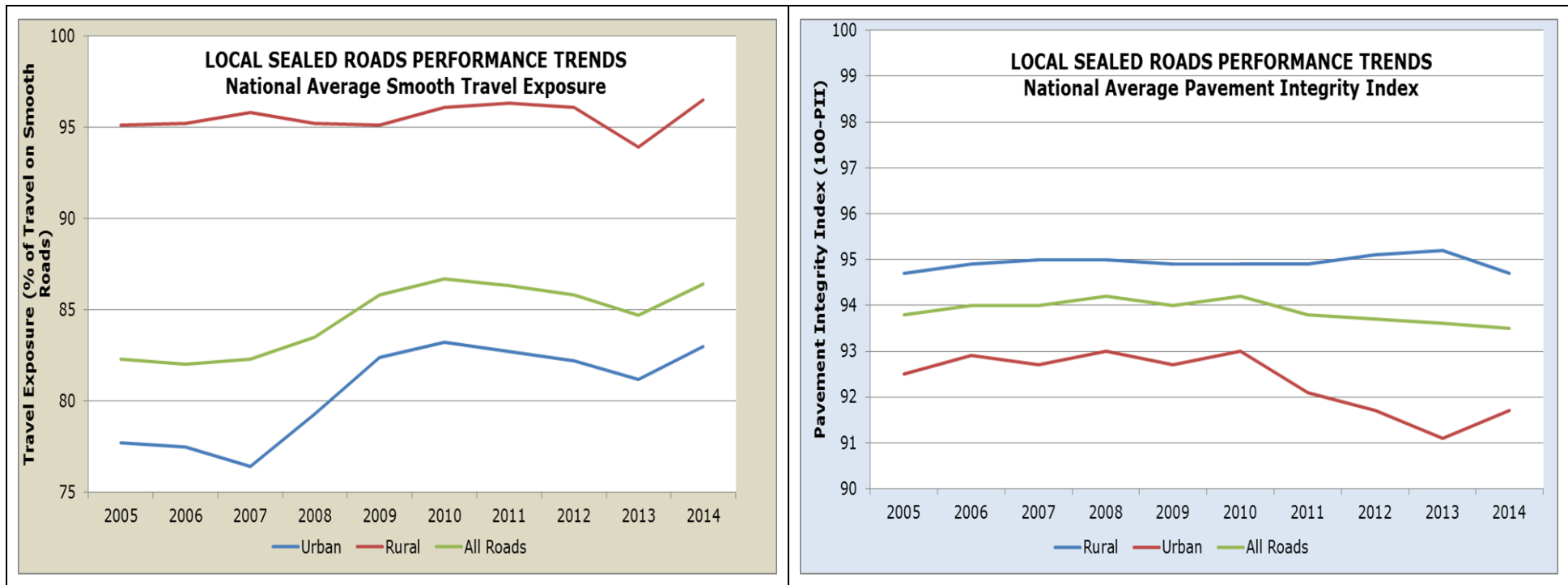
changes, administration and the 2.5% growth in the length of the network over the past three years.

- Christchurch is seeking to increase its three year allocation from \$106 million to \$145 million. Evidence from before the earthquake showed that Christchurch's resurfacing work needed to be increased. Since then, the base maintenance programme has been reduced in the areas impacted by the earthquakes, with priority given to recovery work. We have assessed the Christchurch bid by comparing its transport network condition indicators and costs to those of other local authorities, and support the \$145 million indicative investment level.
- growth in the surrounding areas around Christchurch has occurred as a result of the earthquakes. Based on this and other evidence, we support Selwyn District Council's request to increase its baseline three year programme from about \$26 million to \$32 million. Similarly, we support Waikamariri District Council's request to increase its three year programme from \$25 million to \$29 million.
- assumptions on potential input cost changes over the NLTP period vary substantially amongst Approved Organisations and the Transport Agency. We are applying a rate of increase of 0.9% per annum in determining the indicative investment levels. This is below most Approved Organisations' proposed rates, which are largely based on consultant BERL's advice, but is reasonably consistent with movements in the Transport Agency's maintenance index over the last two years (refer to graph below). The same rate will be applied to the Transport Agency's state highway maintenance programme.



45. When the Board adopts the NLTP in June, the investment levels will be confirmed for the three year period. Approved Organisations will be expected to manage input cost change and programming risks within their investment levels, and we are not proposing to hold a reserve to cover risk as we did for the 2012-15 NLTP. It proved to be superfluous and initially tied up funds that could have been put to use elsewhere.
46. As the NLTP is delivered, we will monitor the condition of Approved Organisation networks and use the performance information to inform the funding ranges for the next GPS and investment levels for the 2018-21 NLTP. If, through analysis of new evidence, we consider there has been under or over investment in the 2015-18 NLTP, the opportunity exists to adjust the following NLTP to ensure medium to long term levels of service are sustained at the least whole of life cost.

47. Local road indicators show no significant deterioration and show the overall network to be in reasonable condition – refer to graphs below. The increase in smooth travel exposure over the last year may be due to several local authorities updating their traffic counts, resulting in a recalibration of the index rather than an improvement per se.



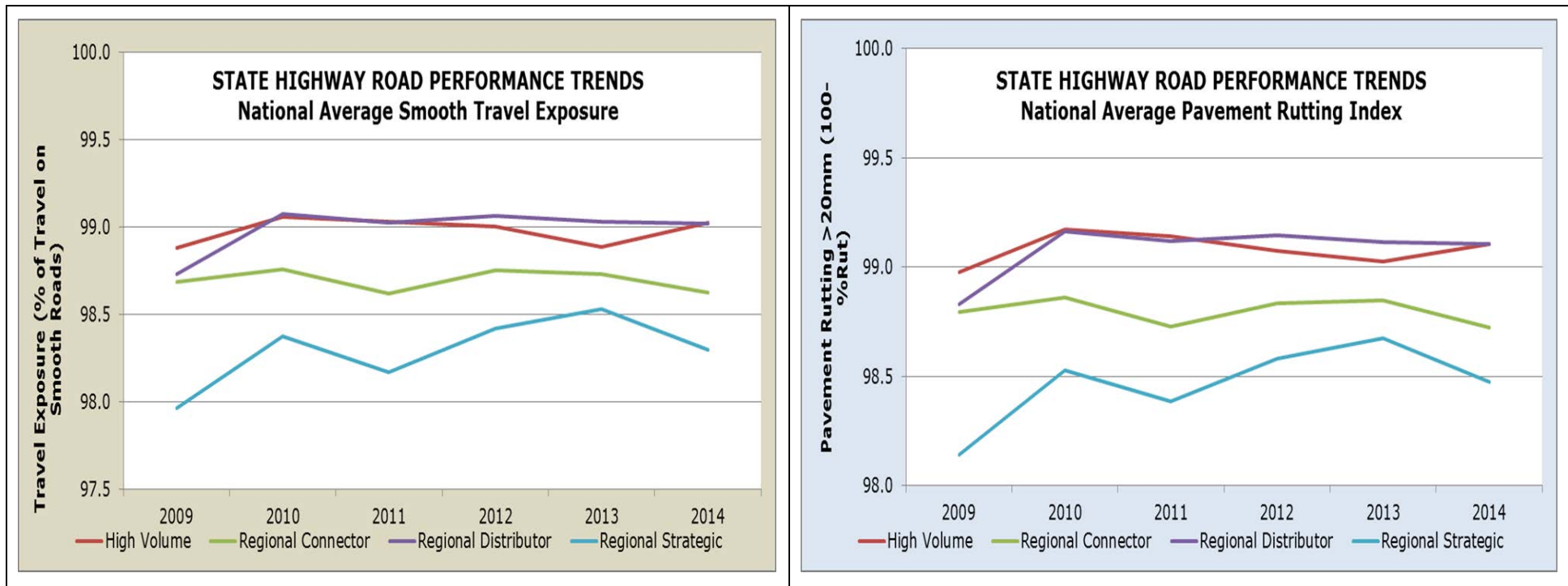
48. We propose to apply conditions of funding for a number of Approved Organisations that have yet to submit plans setting out their transition to incorporating the Business Case Approach within Activity Management Plans, and which are yet to include steps for fully implementing the One Network Road Classification framework. Submission of transition plans was communicated

as a pre-requisite for obtaining an unconditional allocation. We anticipate that all Approved Organisations will submit transition plans by 31 March and will confirm this at the Board meeting on 2 April.

State Highway Maintenance

Outcomes

49. Key state highway maintenance results sought under the GPS are the same as for local roads maintenance discussed above. Where state highways vary from local roads is in the intensity of demand on key parts of the network. State highways comprise 12% of the national roading network, and carry 50% of private vehicle kilometres travelled and 67% of freight vehicle travel. This intensity of use means the state highway network has greater capacity to contribute to GPS results, such as reduced deaths and serious injuries and economic growth and productivity.
50. It achieves these results in a similar way to local road maintenance, via appropriate maintenance practises, addressing road defects, optimising traffic flows, ensuring road conditions are appropriate, and through the use of smart asset and network management.
51. The condition graphs below for state highways show that overall there has been a decline in surface condition in general but not for high volume roads. This reflects priority settings on the state highway network over recent years and the reduction in levels of service on lower volume roads is a managed response to the settings. Rutting, which is an indication of deep seated pavement wear, is improving slightly on high volume roads.



Indicative investment level

52. We are seeking the Board’s endorsement of an indicative investment level of \$1,530 million for the 2015-18 NLTP, excluding emergency works. This is a 7.4% increase on forecast expenditure in the 2012-15 NLTP, on a like for like basis. Taking input cost increases between the 2012-15 and 2015-18 NLTPs into account, as well as the impact of the FAR Review on the treatment of minor emergency events, the real increase is about 3.9%. We consider this to be reasonable, given the increase in costs from the growth in network assets and operation, as well as increasing freight demand, offset by efficiency dividends delivered from improved procurement and asset management practices.

Optimisation and issues

53. Optimisation of the state highway maintenance programme has followed a similar path to the local roads optimisation, and the level of scrutiny applied to assessing the bid has been similar to that applied to Approved Organisation requests.
54. We have tensioned the state highway maintenance programme tightly through an internal process of challenging levels of service and costs to arrive at the programme bid. There is a strong linkage between the State Highway Activity Management Plan, its supporting planning documents, and the proposed programme. We have carried out considerable work around the procurement of contracted services, and the expectation of achieving efficiency dividends from programme delivery is being carried through to the 2015-18 NLTP.
55. The main point of difference between the programme bid and our recommended indicative investment level is the assumed level of input cost changes over the next three years. Assumptions for the bid were formulated over a year ago, at a time when the Treasury was forecasting over 2% per year inflation and oil prices were holding up at around \$US100 per barrel. We have now experienced a prolonged period of low cost inflation and, recently, oil prices have dropped substantially. This, along with signals from the market and economic commentators, has informed our view of low input cost changes continuing for some time, hence our assumption of 0.9% per annum change for maintenance programmes for the 2015-18 NLTP. However, some in the sector view this as being toward the low end of the potential range of input cost change and consider that the rates could be higher by the end of the NLTP, especially if the oil price shifts up out of its recent range of around \$US50-60 per barrel.
56. As for any forecast, the probability exists that the environment will change and our assumed rate of cost change will prove to be 'wrong'. Similar to our signals to local roading authorities, we expect to manage input cost risk within this final investment level. Should we see higher rates of input cost change, the key risk is that levels of service on the state highway network

could be impacted adversely during the NLTP period. The condition of the state highway network will continue to be monitored during delivery of the 2015-18 NLTP. It will be possible to adjust the 2018-21 NLTP investment levels for under or over investment in the three year period of the 2015-18 NLTP to ensure medium to long term levels of service are sustained at least whole of life cost.



COMMUNICATION AND ENGAGEMENT

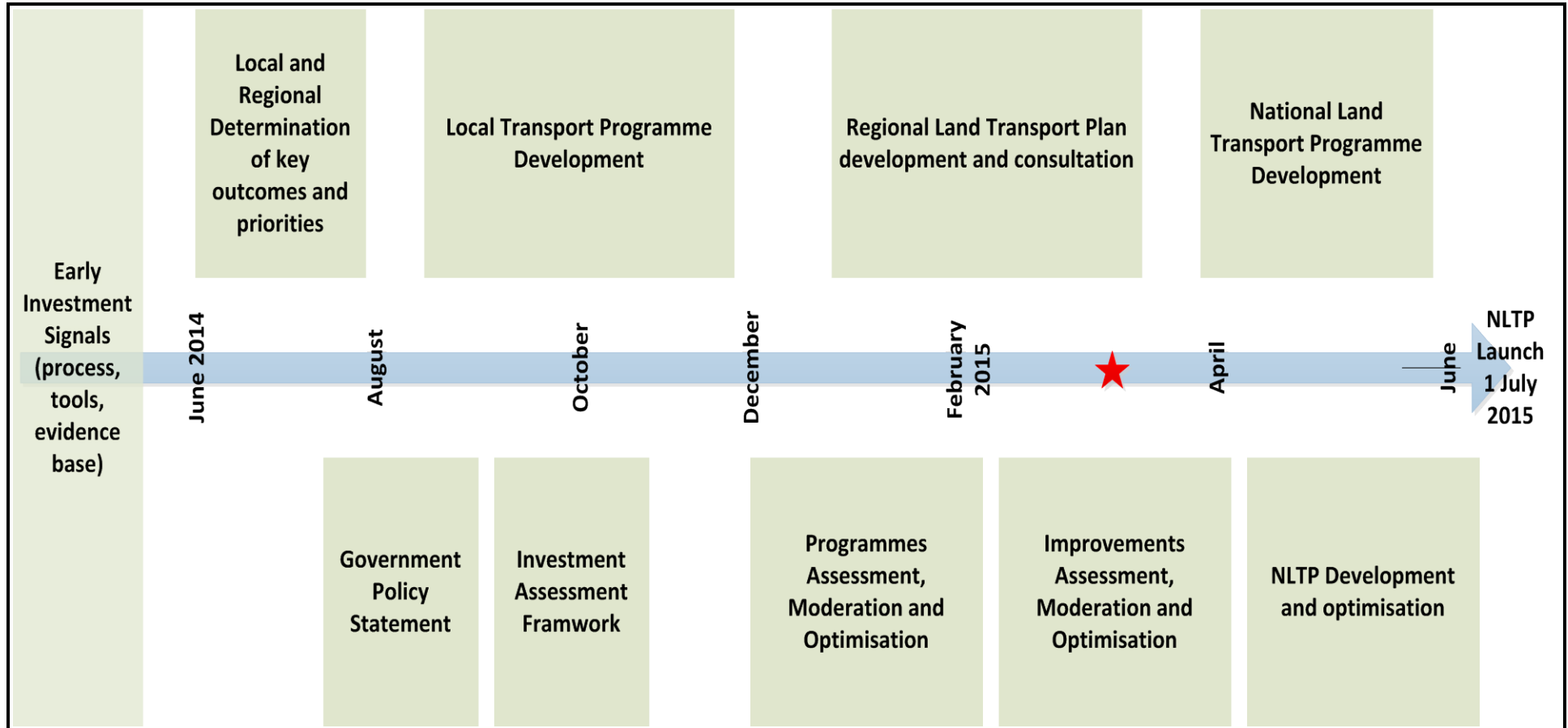
57. Board paper 15/04/0910 describes our engagement and communications approach for the NLTP, setting out the key principles and tactics we will apply.
58. Following the Board's endorsement of the indicative investment levels for programmed activities, we will communicate the outcome directly to each Approved Organisation. Our regional staff will follow up to explain the investment intentions and what it means for individual councils in order to mitigate any risk of mis-understanding or out of context mis interpretation, and address any uncertainties. This early advice to Approved Organisations worked well for the 2012/15 NLTP. It is expected by our stakeholders, and provides certainty for them in developing regional and district council long term plans.
59. Recognising the role of the Minister is important and we need to support this process. We will brief his office to ensure awareness of the Board's indicative decisions and our communication approach.



ATTACHMENTS

60. There are 3 attachments:
- Attachment 1: NLTP timelines
 - Attachment 2: Overview of NLTF indicative investment levels
 - Attachment 3: Optimisation process
61. Further supporting information is also available on the Board Books Resource Centre, including in relation to:
- revenue
 - individual programme analysis.

Attachment 1: NLTP timelines



★ Current position

Attachment 2: Overview of NLTF indicative investment levels

Programme	2015-18 NLTP Indicative investment level \$ million	2012-15 NLTP Forecast expenditure \$ million	Nominal change from 2012-15 NLTP \$ million	Nominal change from 2012-15 NLTP %	Real change from 2012-15 NLTP* %
Public transport services, excluding infrastructure improvements & new services	890	770	120	15.6%	0.3%
* Real equals nominal less input cost change and prior NLTP commitments					
Road safety promotion	102	95	7	7.4%	4.1%
* Real equals nominal less input cost change					
Local road maintenance, excluding emergency works	1,427	1,258	169	13.4%	0%
* Real equals nominal less input cost change, impact of FAR Review change and reinstatement of Christchurch programme					
State highway maintenance, excluding emergency works	1,530	1,424	106	7.4%	3.9%
* Real equals nominal less input cost change and change in minor emergency events treatment from the FAR Review					

Attachment 3: Optimisation process

