

In confidence

NLTP 2024-27 development update

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Out of Scope

Kia mōhio mai koe | What you need to know

Investment targets

The draft GPS signals four strategic priorities:

- Economic Growth and Productivity
- Maintenance and Resilience
- Safety
- Value for Money

These new priorities underpin several shifts in the way the Government is expecting the land transport system to be managed over the next three years including (but not limited to): a stronger focus on efficiency, effectiveness and value for money; more attention to maintenance and “core” functions (e.g. fixing potholes and maintaining state highways); and less focus on emissions reduction, walking and cycling.

Since March, we have further assessed funding demand and investment targets. In so doing, we have reviewed the priorities set out in the draft GPS and developed scenarios that balance addressing those priorities with other system needs and the investment priorities of approved organisations (AOs¹). For all scenarios, the starting point is to set the “minimum” funding allocation in each activity class at the higher of committed funding or the bottom of the GPS range (refer Attachment 1). Only in PT infrastructure (PTI), especially, and walking and cycling (W&C) do commitments set the minimum funding level. In aggregate, the minimum funding allocations across activity classes, plus debt repayments, account for ca. \$18bn of available funding leaving approximately \$3bn to be allocated to further maintain or enhance service levels and support strategic priorities.

Each scenario assumes that funding for state highway maintenance is set equal to that requested in the state highway activity management plan. This has yet to be fully tested and moderated alongside maintenance bids from AOs but serves as a common basis for this analysis.

In considering how to allocate this funding, particular demands in some activity classes are noteworthy:

- PTI already has ca. \$600m of funding committed above the bottom of the activity class range. With requirements to also fund infrastructure renewals and maintenance, bids for new funding, including named projects in the GPS (e.g. Northwestern Rapid Transport and Airport to Botany) may not be fully met.
- There is a material increase in the state highway improvements (SHI) activity class to progress the Roads of National Significance. The bottom of the GPS range represents a 35% increase in funding from NLTP 21-24.
- There is high demand from councils and NZTA for maintenance funding, including large provisions proposed for emergency works.
- The bids for funding from councils for footpath renewals and maintenance now impacts the W&C activity class. If these bids were met, consistent with the intervention hierarchy, to give priority to maintenance, this would severely limit or eliminate availability of funding for new W&C improvements.
- PT services cost inflation (diesel, driver wages) and new/maintained services (City Rail Link, Te Huia) mean demand represents a significant increase in funding vs. the current NLTP.
- We anticipate funding of \$1,315m will be required to support NZ Police. Current estimates suggest a scaled-back safety camera programme will require a minimum \$195m investment. Accordingly, we expect very limited additional funding will be available within the Safety activity class.

In Attachment 1, we have estimated the level of spend required to maintain levels of service in each activity class. In PTI and W&C the indicative spend includes estimated funding required for infrastructure maintenance and renewal. This analysis suggests a funding “deficit” on this basis of

¹ Primarily councils.

ca. \$0.7bn before new improvements. While these estimates involve significant judgement, this serves to emphasise the funding pressures and trade-offs that will be required.

Investment targets for staying within NLTF revenue

Four possible investment scenarios are illustrated in Attachment 2. Feedback from the Board, and the priorities set out in the Draft GPS, indicate a preference for Scenario 4 (i.e. to fund state highway improvements to the middle of the activity class range, then prioritising state highway maintenance, pothole prevention and public transport services).

The impact on the other activity classes of that scenario would include:

Local Road Maintenance

- Limiting funding growth in Local Road Maintenance to below inflation. The reduction in maintenance operations funding for councils could result in declining levels of service on local road networks.
- It may also mean provisions set aside for Emergency Works would likely need to be cut, with alternative funding or debt facilities needed to help cover these.

PT Services

- Significant reductions to PT service funding from NLTF, would require councils to make substantial increases to fares and/or cut existing services and renegotiate contracts with service providers.

PT Infrastructure

- No station or other PT infrastructure renewals and maintenance likely to be affordable. No funding for any investigations or cost increases.

Local Road Improvements

- Investment target set at the bottom of the GPS range meaning only a limited number of “probable” activities and limited funding for low cost low risk (LCLR) programmes (the main source of project funding for smaller councils).

Walking & Cycling

- No funding for footpath maintenance and renewals. No funding for price increases or any new activities.

Given the impacts of scenario 4, an alternative is to adopt something closer to scenario 2 - which prioritises SHI (to ca. 80% of the activity class mid-point) while freeing up funding (ca. \$1bn compared with scenario 4) for other priority activity classes. This approach is also consistent with GPS priorities but requires greater urgency to identify and implement additional funding and financing arrangements for the Roads of National Significance - in order to support investment closer to the mid-point of the activity class range.

Out of Scope

Out of Scope

Enhanced financial assistance rates (FARs)

FARs represent the level of subsidy from NZTA for co-investments with AOs. Normal funding assistance rates (FARs) for the 2024-27 NLTP period were approved by the Board in August 2023. These are the default FAR. We are developing the NLTP on the basis that the use of enhanced FARs (i.e. greater than normal FAR) is minimised – given affordability constraints. At this stage, the only activities expected to receive enhanced FARs are:

- Emergency works in line with our emergency works policy and subject to any future policy changes following the current review (refer to separate paper)
- NIWE recovery programme – subject to Crown funding
- Inter-regional PT services (Te Huia and Capital Connection)
- Total mobility scheme⁴
- Special purpose roads (SPRs) – 100% FAR

³ Without funding allocations, partners may receive a “qualified” audit from the Office of the Auditor General because there is insufficient funding certainty to determine whether the plan is achievable.

⁴ Subsidised taxi services for people who have difficulty using buses, trains or ferries because of a physical, psychological, sensory or neurological disability. The fare subsidy represents an effective FAR of 60%.

- Front-loading (at 100% FAR) funding for Auckland Transport's early integration costs of the National Ticketing Solution in 2024-27 - offset by reduced FARs during NLTP 2027-30.

Our intention is to decline any requests for enhanced FARs for other activities (e.g. living streets programme)⁵.

Reduced financial assistance rates (FARs)

The draft GPS 2024 suggests NZTA consider "amending" the FAR for maintenance of walking and cycling facilities. Two options were considered:

- retaining the normal FAR; or
- lowering the FAR to shift more of the financial burden to ratepayers (including users) rather than the NLTF which receives no resulting revenue.

To the extent that funding is provided to cover cycleway and footpath maintenance, a lowered FAR could reduce the NLTF contribution required, potentially allowing some funding of high priority improvement activities that otherwise may not receive funding. However, retaining the normal FAR may provide an appropriate balance between ratepayers and motor vehicle users because of the indirect benefits to motor vehicle users, their direct use of footpaths, and the need to maintain safe operation of these facilities.

For consistency, Management considers that the same FAR should apply to maintenance of walking and cycling facilities as walking and cycling improvements. Depending on the NLTP scenarios adopted, if total funding for cycle and footpath maintenance is below the level requested by councils, applying a normal FAR would in any event represent a de facto cut compared to fully funding at "normal FAR".

The draft GPS also expects greater farebox recovery and third-party revenue by public transport authorities. To start with, three options were considered:

- providing funding without explicit linkage to the level of farebox recovery (status quo); or
- monitoring patronage and farebox returns, with a view to future policy changes; or
- applying a lower FAR for PT services – i.e. essentially requiring councils to find alternate revenue and/or increase fares in order to maintain services or cut existing public transport services.

We recommend that reduced (i.e. below normal) FARs not be applied to footpath and cycle path maintenance, while further analysis is undertaken to consider the implications of employing reduced FAR for public transport services. As such we will continue to monitor patronage and farebox returns and leave funding at normal FAR for now, pending further evidence and analysis to assess how best to meet the GPS expectation. This will consider, for example, options to link funding to optimisation efforts including farebox return and improved value for money.

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⁵ A council always has the option to write to the Board requesting an enhanced FAR – noting that in any event final decisions on FARs are reserved to the Board.

Out of Scope

Ngā tūraru matua | Key risks and how we will manage them

Key risk	Management approach
There is insufficient funding available for strategic priorities in the revised draft GPS because the NLTF is expected to fund road or rail recovery activities relating to the North Island Weather Events (NIWE)	<ul style="list-style-type: none">• We are seeking early advice on whether NIWE funding will be separate or sufficient.• If NIWE funding is sufficient, investment targets will need to be amended and funding approvals may need to be deferred

Out of Scope

Increased funding in some activity classes results in heightened expectations when much of this funding is already committed.

- Communications will continue to indicate where funding is substantially committed

There is a lack of certainty around forecast spend within activity classes caused by delayed work due to local government funding constraints, greater than forecast inflation or other external factors.

- Risk adjustments and where appropriate “over-programming will occur within activity classes to account for these, where possible.

Out of Scope

Overall revenue may mean that some Activity Class Investment Targets are set below a level required meet government ambition and/or ensure levels of service are maintained.

- Investigate opportunities for additional funding and financing so that investment targets can be increased during the course of the NLTP.

Out of Scope

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Attachment 1: Activity class ranges and indicative spend to maintain levels of service

Activity class (\$m)	GPS range		Minimum Spend	Indicative spend to maintain LOS	Comment on indicative spend to maintain LOS
	Lower	Upper			
State highway pothole prevention	1370	2280	1370	1880	Indicative spend aligns with funding bid in the State Highway Management Plan, with provision for emergency works (EW).
State highway operations	1890	2570	1890	2570	
Local Road pothole prevention	1820	2530	1820	2010	Developed from funding model, Council bids and 21-24 spend/ achievement rates, incl. provision for EW.
Local Road operations	780	1520	780	1760	
Public transport services	1260	2310	1260	1950	Based on moderated view of continuous programmes (inclusive of CRL), includes NTS opex and funding for critical service improvements
Investment management	205	265	205	245	Indicative spend allows for NLTP/ RLTP development costs, sector research, land transport security.
Safety	1530	1830	1530	1670	Indicative spend incl. Police, constrained camera prog and NDAs
Rail network incl Crown	740	1670	740	740	In line with GPS direction NLTF spend limited to track user charger; and includes spending to be met from additional Crown funding (\$690m)
Public transport Infrastructure	870	2190	1485	1695	Indicative spend includes \$205M for maintenance, operations, and renewals only.
State highway Improvements	3750	6250	3750	3750	No LOS requirement to fund above bottom of GPS range
Local road Improvements	460	1210	460	460	No LOS requirement to fund above bottom of GPS range
Walking and cycling	275	510	300	480	Includes \$180M for footpath renewals and maintenance only.
Total funding	14950	25135	15590	19210	
Debt repayments	2300	2300	2300	2300	
Regulatory funding ¹			150	150	
Total including debt repayment			18040	21660	GPS revenue = 20200; this total also includes provision for Crown funding for rail of \$690M offsetting similar spend assumption above
Revenue			20950	20950	
Funds available after meeting minimum spends			2910	(710)	

¹ Land transport revenue/NLTF "top-slice to part fund regulatory activities.

Attachment 2: Alternate investment scenarios

Scenario	Key impacts on other activity classes
1. Local Road Maintenance Focus Local Road pothole repairs and operations receives a similar percentage increase in total funding as proposed for the State Highway maintenance activity classes.	<p>State Highway Improvements</p> <ul style="list-style-type: none"> Investment target set at the minimum. We expect even with the target set at the lower range \$3.75bn, funding will be sufficient to include a high number of medium to high priority projects in the NLTP as “probable”. <p>Local Road Improvements</p> <ul style="list-style-type: none"> Investment target set at the lower range means only a limited number of “probable” activities, with limited funding for low cost low risk (LCLR) programmes (main source of project funding for smaller councils). <p>Public Transport Improvements</p> <ul style="list-style-type: none"> Funding level would need to be set below the minimum to maintain levels of service. Only a small number of high priority activities would be included as “possible” (incl. named GPS projects North-western RT, Airport to Botany). Subject to deferral/ delay across the committed programme, reductions may also be needed in PT infrastructure maintenance or refusal of pending price level adjustments. <p>Walking & Cycling</p> <ul style="list-style-type: none"> W&C investment target would be set \$100m above the minimum, allowing a provision for footpath renewals and maintenance (well-short of funding demand from Councils ca \$220m). Only a very small number of W&C activities included as “possible”. <p>Safety</p> <ul style="list-style-type: none"> Investment target set close to the minimum level; sufficient Police programme (\$1,315m), a scaled back Safety Camera Programme ca. \$190m (i.e. no new cameras) and minimal funding (\$20-\$30m) for Road Safety Promotions (ca. \$100m reduction in spend from 21-24).
2. Balanced with priority for State Highway Improvements Balanced programme but with priority given to state highway improvements Activity Class setting the investment target at \$3,970m ¹ .	<p>Local Road Maintenance</p> <ul style="list-style-type: none"> Limits the growth in funding to Local Road Maintenance compared with State Highway Maintenance. <p>Public Transport Infrastructure</p> <ul style="list-style-type: none"> Reduces the level of funding a further \$10m from scenario 1 (\$30m below the indicative spend to maintain levels of service). <p>Walking & Cycling</p> <ul style="list-style-type: none"> Further reduces funding for walking and cycling, would allow a small provision (\$50m) for cycle and footpath renewals or maintenance. <p>Safety</p> <ul style="list-style-type: none"> Scope for funding level for the safety activity class to increase \$20m.

¹ Percent increase as above based on State Highway Improvements Activity Class and Road to Zero State Highway projects excluding PPP repayments (debt) .

Scenario	Key impacts on other activity classes
<p>3. Balanced across Activity Classes</p> <p>Balance discretionary spend across improvement activity classes.</p>	<p>Local Road Maintenance</p> <ul style="list-style-type: none"> Reduces funding growth in Local Road Maintenance to just above the rate of inflation. <p>Local Road Improvements</p> <ul style="list-style-type: none"> Only scenario that would fund local road improvements above the bottom of range. We expect minimal new local road improvements to be affordable under all scenarios. <p>PT Services</p> <ul style="list-style-type: none"> Only option that would fund PT services to the level currently forecast as required to maintain levels of service. With scenario 1, requiring funding \$60M below the minimum. <p>PT Infrastructure</p> <ul style="list-style-type: none"> Only option that would enable full PT infrastructure maintenance programme and small amount of funding for minor investigations.
<p>4. Maximise State Highway improvements</p> <p>Fund State Highways to the middle of the Activity Class Range (\$5bn).</p>	<p>Local Road Maintenance</p> <ul style="list-style-type: none"> Limiting funding growth in Local Road Maintenance to below inflation. The reduction in maintenance operations funding for Councils could result in declining levels of service on local road networks. It may also mean provisions set aside for Emergency Works would likely need to be cut, with alternative funding or debt facilities needed to help cover these. <p>PT Services</p> <ul style="list-style-type: none"> Significant reductions to PT service funding from NLTF, would require Councils to renegotiate contracts with service providers and/or increase farebox. <p>PT Infrastructure</p> <ul style="list-style-type: none"> No station or other PT infrastructure renewals and maintenance likely to be affordable. No funding for any investigations or cost increases. <p>Local Road Improvements</p> <ul style="list-style-type: none"> Investment target set at the lower range means only a limited number of "probable" activities, with limited funding for low cost low risk (LCLR) programmes (main source of project funding for smaller councils). <p>Walking & Cycling</p> <ul style="list-style-type: none"> No funding for footpath maintenance and renewals. No funding for price increases or any new activities.

Attachment 3: Alternate investment scenarios – financial implications

Activity class	GPS range		Scenario 1: prioritise LRM			Scenario 2: balanced SHI			Scenario 3: balanced across ACs			Scenario 4: prioritise SHI		
	Lower	Upper	Invest target	% of AC midpoint	% diff. in spend 21-24	Invest target	% of AC midpoint	% diff. in spend 21-24	Invest target	% of AC midpoint	% diff. in spend 21-24	Invest target	% of AC midpoint	% diff. in spend 21-24
State highway pothole prevention	1370	2280	1850	101%	39%	1850	101%	39%	1850	101%	39%	1850	101%	39%
State highway operations	1890	2570	2570	115%		2570	115%		2570	115%		2570	115%	
Local Road pothole prevention	1820	2530	1840	85%	43%	1820	84%	37%	1820	84%	34%	1820	84%	22%
Local Road operations	780	1520	1520	132%		1390	121%		1315	114%		1030	90%	
Public transport services	1260	2310	1890	106%	29%	1910	107%	30%	1930	108%	32%	1510	85%	3%
Investment management	205	265	235	100%	9%	235	100%	9%	245	104%	14%	205	87%	-5%
Safety	1530	1830	1570	93%	3%	1580	94%	4%	1650	98%	9%	1530	91%	1%
Rail network incl Crown	740	1670	740	61%	-35%	740	61%	-35%	740	61%	-35%	740	61%	-35%
Public transport Infrastructure	870	2190	1675	109%	24%	1665	109%	23%	1695	111%	25%	1485	97%	10%
State highway Improvements	3750	6250	3750	75%	25%	3930	79%	31%	3770	75%	26%	5000	100%	67%
Local road Improvements	460	1210	460	55%	-26%	460	55%	-26%	480	57%	-23%	460	55%	-26%
Walking and cycling	275	510	400	102%	-38%	350	89%	-46%	435	111%	-33%	300	76%	-54%
Total funding	14950	25135	18500			18500			18500			18500		
Debt repayments	2300	2300	2300			2300			2300			2300		
Regulatory & SAR			150			150			150			150		
Total revenue incl. Crown rail			20950			20950			20950			20950		

*Note: The 21-24 spend in State Highway and Local Road Improvements has been amended to include Road to Zero infrastructure improvements, while PPP payments have been excluded, noting these fall under debt repayments in 24-27. The variance between State Highway Maintenance and Local Road Maintenance percentages is due to footpath renewals and end-of-life bridge replacements being excluded from 21-24 spend in local road maintenance and included in the Walking & Cycling and Local Road Improvements activity class spend for comparison purposes. Note: the State Highway Maintenance spend for 21-24 already excludes end of life bridge replacements, with minimal expenditure in footpath and cycleway renewals in 21-24.

Attachment 4: Scenario comparison

Scenario 1	Local Road Maintenance focus
Scenario 2	Enhance priorities for SH improvements
Scenario 3	Balanced other
Scenario 4	Maximise SH improvements

