

In confidence

Emergency Works Investment Policy Review: Update & options for engagement

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Whāinga | Purpose: For decision

This paper seeks the Board's endorsement of proposed policy changes for consultation with the sector.

He kupu whakatau | Recommendations

Management recommends the Board:

- **Endorses** proceeding with consultation with the sector on the proposed changes to emergency works investment policies, including to funding assistance rates:
 - change the qualifying trigger for an emergency event attracting an enhanced FAR to a 1 in 20-year event from a 1 in 10-year event;
 - reduce the enhanced FAR from normal FAR +20% to normal FAR +10%;
 - restrict policy provision for bespoke FAR (i.e. greater than enhanced FAR) to extreme events for which Crown funding is made available;
 - retain the current trigger for enhanced FAR as costs exceeding 10% of approved organisations annual maintenance spend.
- **Notes** the proposed implementation date of 1 July 2025 for changes to funding assistance rates.

Take matua | Key points

- Current EWIP policy settings impose an increasing financial burden on the NLTF with costs expected to continue to increase as the intensity and frequency of emergency events grows.
- Proposed changes to defray the impacts on the NLTF entail amending the triggers for enhanced funding assistance rates (FARs) and reducing the level and availability of higher (enhanced or bespoke) FARs. As a result, an increased share of the costs of emergency events would transfer to approved organisations (primarily councils).
- Proposed changes are intended to improve the ability of the NLTF to absorb the costs of qualifying events. Extreme events, such as the North Island Weather Events (NIWE), will inevitably require additional Crown support.
- In parallel with the policy review, we will discuss with the Crown alternate arrangements, including the triggers for the Crown providing funding (and possibly financing), to enhance the ability of the NLTF to respond to more severe events.

He kōrero mō tēnei kaupapa | Background

In recent years, the scale and intensity of natural events has increased significantly. For example, the annual cost to the NLTF for emergency works has risen in nominal terms from \$148m in 2013/2014 to \$666m in 2023/2024 (including NIWE). NLTF spend on emergency works has exceeded the provision made in the adopted NLTP in eight of the past eleven years. In conjunction, the number of activities for which enhanced and bespoke FAR funding has been applied has approximately doubled.

Currently, EWIP provides for an enhanced FAR (normal FAR + 20%) for response and recovery costs and normal FAR for related improvements (e.g. increased resilience or higher service levels) and rebuild (e.g. a new road alignment). EWIP also contemplates that the Board may approve a bespoke FAR in cases of financial hardship. Past approvals of very high, bespoke FARs (95-100%) for locally or nationally significant events has created a precedent with expectations for a high level of NLTF (central government) funding support in such circumstances¹.

In December 2023, we informed the Committee of a review of [EWIP](#).

The review recommends changes to: FARs; the NZTA uneconomic transport infrastructure policy; and procedural and other policy changes described below.

Kia mōhio mai koe | What you need to know

Proposed FAR changes for engagement

A range of options for changes to FAR for emergency works (EW) have been considered – primarily targeted at reducing the financial burden on the NLTF so that there is more certainty that the NLTF is able to cover costs arising from emergency events (refer Attachment 1 to see the range of options and the impacts and reasons for making changes). From the options considered, the proposed changes are to:

- change the qualifying trigger for an emergency event attracting an enhanced FAR to a more severe 1 in 20-year event from a 1 in 10-year event;
- reduce the enhanced FAR from normal FAR +20% to normal FAR +10%;²
- restrict policy provision for bespoke FAR (i.e. greater than enhanced FAR) to extreme events for which Crown funding is made available;
- retain the current trigger for enhanced FAR as costs exceeding 10% of annual maintenance spend.

We recommend continuing to provide enhanced EW funding for both post-event response and recovery. The strategic rationale for providing an enhanced FAR for response and recovery work is to ensure continuity of transport networks. This is consistent with the draft GPS 2024 direction that 'access to markets is essential and this means having a resilient network that is well maintained'. Faced with the need for immediate response to an emergency event, an approved organisation relies on an enhanced FAR so that funding doesn't prevent a timely response to address safety and unblock access. The enhanced FAR provides additional funding assistance for these unexpected events which may be unbudgeted by approved organisations. Approved organisations have more time to find local share for recovery work, such as borrowing and/or reprioritising investment in transport improvements. The long-term goal is for approved organisations to invest in resilience

¹ For example, in response to damage post: the Kaikoura earthquake; severe events on the east coast and in Marlborough.

² To illustrate the change, Christchurch City Council's enhanced FAR would reduce from 71% to 61%; Wairoa District Council's enhanced FAR would reduce from 95% to 85%.

programmes to reduce the impacts of emergency events and have in place funds or borrowing facilities for emergency events.

We considered options (with a cost to the NLTF) that could incentivise approved organisations to invest more in resilience (such as enhanced FARs for business cases or investment in improved resilience). We could not identify a practical means to achieve the latter, noting that approved organisations are already so incentivised – and arguably more so if the level of EW support from the NLTF is reduced. In practice, lack of local share is likely to be the overriding influence on the level of investment in added resilience. As part of the consultation, we will seek views on financial incentives to ensure approved organisations appropriately invest in resilience.

In combination, the recommended changes would be expected to reduce costs to the NLTF for EW by \$35-45m per annum, excluding bespoke FARs.

The changes to reduce NLTF support are all likely to be challenged and criticised by approved organisations given other fiscal pressures. In the past approved organisations have responded to emergency events by diverting funding away from maintenance and renewals work (and sometimes improvement projects) and drawn on debt facilities or reserve funds where available to meet local share costs of response and recovery work.

Timing for policy changes

Our initial intention was for changes to take effect from 1 July 2024 – i.e. the effective start date of the next NLTP. While the start of an NLTP is most “logical” it is ultimately arbitrary and a change, whatever the date, will create perceived winners and losers. On reflection, we feel making changes to FARs now would not enable the sector to adjust budgets and annual plans. We considered a variety of alternate dates and, on balance, recommend a start date of 1 July 2025. This provides ample time for sector engagement and adaptation to any agreed changes. It also allows the opportunity to fully engage with the Crown on its “backstop” role in relation to nationally significant events that would overwhelm the NLTF and, if necessary, align any resulting policy changes. A later date of 1 July 2027 was seen as too distant given the increased frequency of adverse weather events and the constraints on the NLTF over the period.

In conjunction with changes to FARs, changes that affect the application of enhanced FARs are proposed:

- including fire as a qualifying event;
- clarifying the application of the policy to public transport and walking and cycling infrastructure, as well as road infrastructure, due to the draft GPS requirement to separate costs into different activity classes.

Other policy changes being proposed

Updates to policy scope, definitions, planning & processes to improve policy effectiveness

Other changes in EWIP are proposed to take effect from 1 July 2024 because the impacts are minor and don't require approved organisations to revise their annual plans. These changes include updating the uneconomic transport infrastructure policy and other work categories including using definitions of response, recovery, rebuild and resilience to be consistent with recently published documents³. Work categories will also be updated to reflect draft GPS 2024 changes in Activity Classes in which emergency works sit. Process changes will be made to enable timely decisions about changing levels of service in relation to recovery or rebuild and meeting legislative requirements.

³ [National Resilience Programme Business Case \(nzta.govt.nz\)](https://www.nzta.govt.nz/national-resilience-programme-business-case), the [Waka Kotahi Resilience-response-framework](#).

Uneconomic transport infrastructure policy updates to support alternative solutions

If roads or other transport infrastructure are determined to be uneconomic, NZTA may decide not to fund, or to fund in part or in full, recovery work to the appropriate level of service. The uneconomic transport infrastructure policy is being updated to:

- better consider value for money alongside wider outcomes, including considering non-monetised benefits (including social and cultural impacts) alongside a benefit cost ratio in a funding decision
- include a requirement that alternative funding sources are explored (e.g. Regional Infrastructure Fund, insurance, Tourism Infrastructure Fund, etc.)
- consider options for access or a different level of service, and
- consider community led retreat proposals, where relevant, in line with wider government policy.

Measures to support the NLTF in extreme circumstances

At the start of the NLTP, provision is made to fund an estimated level of emergency works in each activity class. This estimate is necessarily subject to the risk of large forecasting error. There is also an incentive to err towards under-provisioning, i.e. reduce funding “withheld” and unavailable for investing in other activities (such as routine maintenance). To partly mitigate this risk, we have a revolving short-term “shock” facility that can be drawn down for surprise or unforeseen events – which is repayable in the next NLTP period. The shock is currently \$250m and was fully drawn to cover COVID related effects earlier in the 2021-24 NLTP. It was therefore unavailable to help meet the costs of NIWE and would, in any event, have only met a fraction of the actual costs.

There are a number of options to be explored with the Crown that, in effect, provide increased “insurance” for emergency events and supplement the “self-insurance” represented by the EW provision:

- an increase to the size of the current shock-facility
- a more flexible “stand-by” facility that could be scaled based on the size of events to be repaid from the NLTF over time, and
- a clear trigger point at which Crown support would be available.

This work will be progressed in the coming months, alongside the funding and financing work mentioned in the CEs Report, including engagement with MOT and Treasury.

He whakaaro anō | Other key considerations

Tiro rangi me te taiao | Environmental & climate change considerations

The review takes account of wider adaptation and resilience aspirations and how any proposed changes would align with and contribute to them.

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

Key risk	Management
Reputational risk - negative publicity and feedback	Test proposed FAR changes via engagement, clear communication of changes, impacts, rationale and consideration of feedback.

Financial risk – affordability for NLTF and approved organisations	Provide adequate time for changes to be incorporated into annual plans and debt facilities. Investment in maintenance, renewals and resilience to reduce the impacts from emergency events and improve the resilience of the transport system.
Inability to fund response and recovery for nationally significant events	Engage Treasury on trigger (event size / cost) for additional Crown funding or financing options.
Councils cannot afford increased local share	Councils may seek Crown funding, increase borrowing, or may prioritise different activities in the Annual and Long-Term plans. Clarify process and requirements for hardship support.

Ā muri ake nei | Next steps

Subject to Board agreement, including to the proposed implementation date, we will undertake consultation with the sector, including approved organisations, iwi / Māori as advised by Te Mātangi and central government agencies (Ministry of Transport, Treasury). We will provide a report back and seek Board approval for any changes to FARs or any other significant policy changes.

Prior to engagement we will inform the Minister of the proposed changes on a no surprises basis.

In parallel with consultation, we will engage with Ministry of Transport and Treasury on seeking to clarify the circumstances in which central government would fund a nationally significant event that overwhelms the financial ability of the NLTF and approved organisation to fund response and recovery works.

Ngā whakapiringa | Attachments

Attachment 1	Options for changes to emergency works FARs – recommended option highlighted
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Attachment 1: Options for changes to emergency works FARs – recommended option highlighted

Lever	Options considered	Approx. \$m impacts (NLTF share average 10-year forecast)	Why?	Impact of change
Qualifying event threshold Limit enhanced FAR to larger events (current threshold is 1 in 10-year event)	Retain threshold at 1 in 10-year event	Nil	<ul style="list-style-type: none"> 1 in 10-year events are now more frequent Smaller events should be managed by AOs at normal FAR Better aligns to original principle that enhanced FAR is available to support 'severe' events Helps manage sustainability of the NLTF 	<ul style="list-style-type: none"> Normal FAR applies to more routine events Increased financial burden on AOs to provide local share Reduced burden on NLTF Could incentivise more proactive maintenance and resilience focus from AOs More guidance is required to verify event magnitude
	Change threshold to 1 in 20-year event ¹	\$20-25m saving		
	Change threshold to 1 in 50-year event	\$35-45m saving		
Maintenance threshold Increase cost threshold to qualify for enhanced FAR (current threshold is costs exceed 10% of annual maintenance budget)	Increase qualifying cost threshold to 20% of annual maintenance budget	\$2-4m saving	<ul style="list-style-type: none"> Retaining the threshold to avoid rushing delivery to maximise FAR 	<ul style="list-style-type: none"> No change proposed.
	Retain current threshold	Nil		
Enhanced FAR Reduce level of FAR enhancement (currently Normal FAR +20% as a default)	Enhanced FAR retained at normal FAR + 20%	Nil	<ul style="list-style-type: none"> Constrains cost escalation with greater local share Helps manage sustainability of the NLTF in providing the enhanced FAR 	<ul style="list-style-type: none"> Greater local share contribution to response and recovery works Could incentivise shift to more proactive asset maintenance and resilience focus from AOs Reduced financial burden on NLTF
	Enhanced FAR reduced to normal FAR + 10%	\$15-20m saving		
	No enhanced FARs	\$30-45m saving		
Bespoke FAR	Only applies if matched by Crown top-up to NLTF	\$35-50 million saving for a severe event		

¹ A 1in 20-year event has a 5% annual exceedance probability i.e. 5% chance in any given year of the event occurring.

Lever	Options considered	Approx. \$m impacts (NLTF share average 10-year forecast)	Why?	Impact of change
<p>Restrict policy provision for bespoke FARs (i.e. above enhanced FARs)</p> <p>Current policy is that the Board may consider a bespoke FAR where there is evidence that an extreme event results in EW expenditure beyond an AOs ability to raise local share and continue to provide appropriate levels of service over the next three years</p>		over a 3 year recovery	<ul style="list-style-type: none"> Removes NZTA's role as a funder of local share when an AO cannot afford its local share Limits expectations and applications to consider for bespoke FAR (except if Crown funding enables a higher FAR) 	<ul style="list-style-type: none"> Removes/limits expectation of very high FAR for EW if an AO cannot afford its local share Does not preclude Government from funding a higher level of support if it determines AOs may choose to engage directly with government to seek Crown funding for extremely large events
	Remove provision for bespoke FAR entirely	As above		
	Specify a financial hardship trigger to clarify eligibility			