

In confidence

NLTP 2024-27 progress update

ELT owner: Sara Lindsay, Group General Manager Commercial and Corporate
Issue owner: Gareth Hughes, NLTP Development Manager

Out of Scope

Released under the Official Information Act 1982

Kia mōhio mai Koe | What you need to know

Draft GPS – proposed funding and investment

The draft GPS identifies an expenditure target for NLTP 2024-27 of \$18.7b (after debt repayments), with \$12.4b identified for operating expenditure and \$6.2b for capital investment. In lieu of near-term increases to fuel excise duty (FED) and road user charges (RUC), a Crown capital grant is proposed to supplement revenue. In addition, it is proposed that NZTA take on an additional \$3.1b of Crown debt.

Funding \$bn	FY25- FY27	10-years
Core revenue	13.1	46.3
FED/RUC/MVR increases (from 1 Jan 2027)	0.9	14.4
Crown capital grants	3.1	3.1
Debt financing	3.1	3.1
Total Gross Funding	20.2	66.9
Less existing debt repayments	(2.3)	(10.2)
Plus crown funding for rail	0.7	0.7
Total Net Funding	18.7	57.4

Additional debt

As discussed at the February “Debt Management” Board Workshop, consideration will need to be given as to whether (or the extent to which) further debt is assumed, including what assurances from the Crown are required to support additional debt.

Our view is that additional Crown assurances would provide a high degree of comfort and recommend consideration be given to the following:

- A new Letter of Comfort – similar to that provided in 2021 in conjunction with the \$2b NLTP support².
- A commitment from the Government to progress, with urgency, the Sustainable Land Transport Revenue review (formerly the Future of the Revenue System) to address both the quantum and sources of revenue required to meet land transport investment needs including NZTA debt obligations.

s 9(2)(f)(iv)

² “Letter of Comfort regarding debt financing support for the NLTP 2021-24 and future NLTF revenue settings” from Minister of Finance, 26 August 2021

- s 9(2)(f)(iv)

Activity Class Investment Targets

Investment targets play a critical role in the development of the NLTP. Investment targets are set by the Board to direct funds to each activity class during the NLTP period. Targets must fall within the funding range set for each activity class. Targets should also provide sufficient funding to meet existing funding obligations³. In total, the investment targets should be set equal to forecast revenue.

Attachment 2 presents an early view of possible investment targets – using ranges at this stage to indicate the preliminary nature and potential discretion available. Given an overall revenue constraint, the exercise of this discretion would not be available in all activity classes (i.e. once investment choices are made in some activity classes, this would eliminate some or all discretion in other activity classes).

It is stressed that the indicated ranges are preliminary and tentative noting that:

- The draft GPS remains open for consultation and final details of key changes are still to be confirmed. This includes likely reallocating some activities to different activity classes⁴. The draft GPS identifies “increased maintenance and resilience” as a priority. The draft GPS also expresses concerns about increased funding for public transport services given patronage levels and the low level of farebox contributions.
- We have yet to receive bids from councils for improvement activities to gauge “funding demand”. That said, we anticipate there will be limited scope to adjust funding to meet that demand in the activity classes of interest, as explained further below.
- A revised State Highway Investment Proposal (SHIP) aligned to the draft GPS is not yet finalised.

While any decision making is premature, in considering the allocation of funding between activity classes and setting investment targets, we can set out some requirements and proposed principles:

- targets must be set no lower than the bottom of the GPS funding range
- targets must be set no lower than the forecast funding needed to complete already approved activities (there is approximately \$4.5b of funding already approved across the improvement activity classes)
- targets for state highway maintenance (now split into two classes) to be set at the level required to progressively restore the network to an acceptable level
- a similarly high priority given to adequately funding local road maintenance
- increased provision for emergency works for both state highways and local roads compared to the current NLTP
- Public Transport (PT) services funding limited to that required to maintain current services plus “essential” service increments only (e.g. CRL enablement, NTS operations)
- targets should allow progress in responding to Government direction through the GPS (incl. roads of national and regional significance, as well as named PT projects).

³ NZTA has limited powers to revoke a funding approval communicated to a council/ approved organisation as a final decision.

⁴ For example, the draft GPS expects that footpath and cycleway renewals and maintenance will be allocated to the Walking & Cycling activity class (previously included in road maintenance).

These principles will be further developed in conjunction with the draft and final GPS.

Based on these principles, Attachment 2 highlights some of the key issues relevant to each activity class in more detail. Notably:

- little or no scope for new investment in walking and cycling (W&C) activities, given the existing committed programme and the anticipated transfer to W&C of cycle and footpath maintenance costs and W&C components of roading projects approved in 2024-27;
- limited funding for new local road improvements with the target likely to be set at the bottom end of the funding range;
- there will likely be significant affordability constraints in PT Infrastructure with large investment required for the National Ticketing Service, alongside projects named in the draft GPS (including Eastern Busway, Northwest Rapid Transit, Airport to Botany etc.);
- funding for state highway improvements, including for the roads of national significance, likely to be set toward the lower end of an albeit very wide funding range.

Out of Scope

Released under the Official Information Act 1982

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 not separate or sufficient, investment targets will need to be amended and funding approvals may need to be deferred

Out of Scope

The final GPS adjusts strategic priorities and re-allocates funding between activity classes resulting in partners needing to revisit their programmes

- Additional time will be provided to partners to adjust their programmes should the draft GPS undergo significant revision

⁶ Many activities are at the pre-business case stage when submitted for inclusion so their prioritisation at adoption of the NLTP is based on high level information only.

Key risk	Management approach
Increased funding in some activity classes results in heightened expectations when much of this funding may already be committed	<ul style="list-style-type: none"> Our communications will continue to indicate where funding is already substantially committed
Funding availability within activity classes is reduced by factors including price level adjustments and external factors including the police negotiations	<ul style="list-style-type: none"> Risk adjustments will occur within activity classes to account for these where possible
GPS direction, NLTF constraint and activity class ranges may result in some projects/ programmes being stopped or slowed with operational implications including NZTA's role as a regulator (e.g. Rail).	<ul style="list-style-type: none"> Communications with the Minister and Ministry of Transport including feedback on the draft GPS should highlight funding constraint and implications. Where appropriate explore alternative revenue and other funding options.

Out of Scope

Out of Scope

Out of Scope

Released under the Official Information Act 1982

Attachment 1

Out of Scope

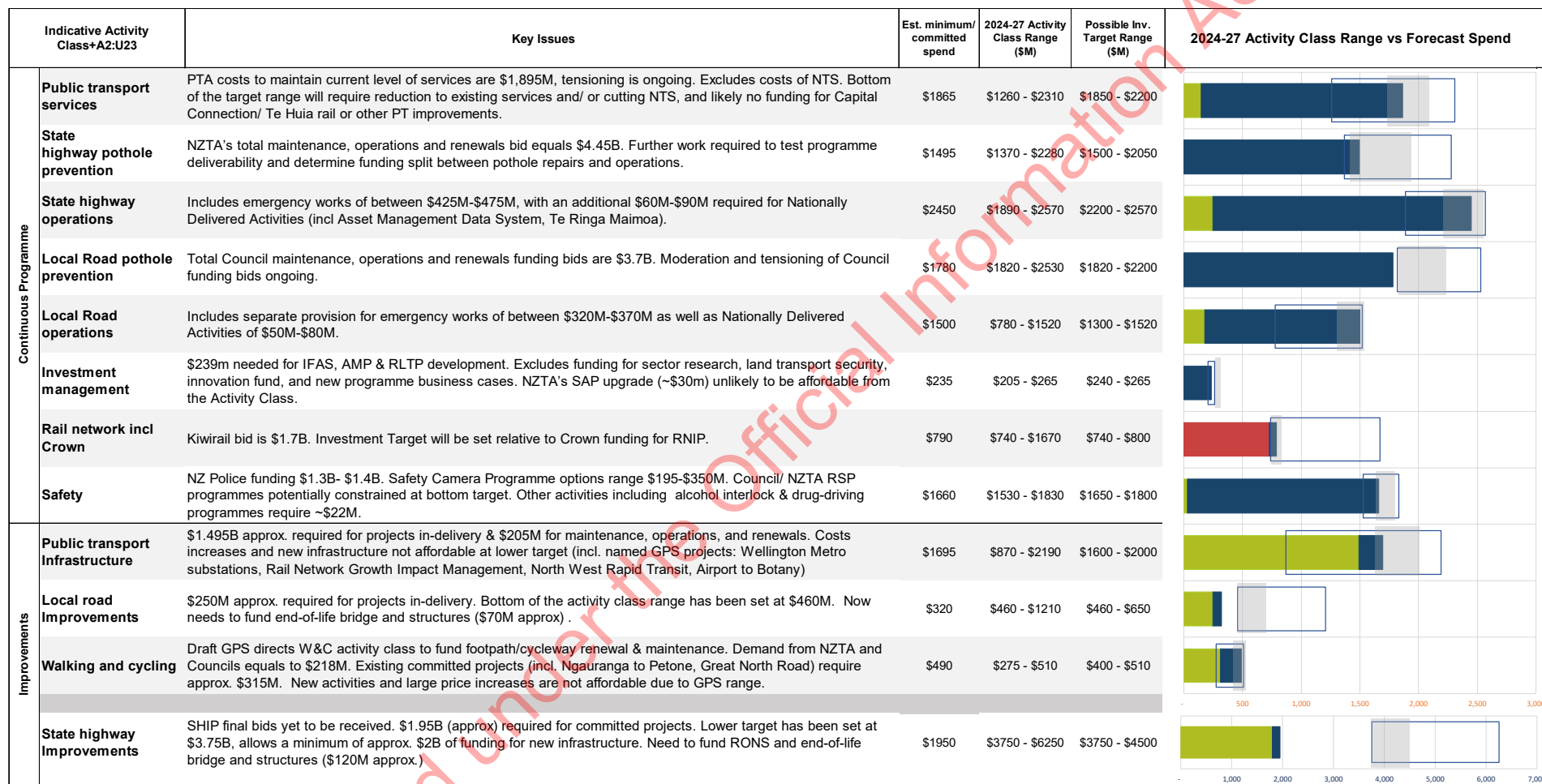
Released under the Official Information Act 1982

Out of Scope

Released under the Official Information Act 1982

Attachment 2

Overview of activity class funding ranges and possible investment targets



KEY:

Committed Spend - NLTF
 Forecast Minimum Spend
 Committed Spend - Crown
 Draft GPS AC Range
 Possible Investment Target