



Draft Prioritisation method for the 2021-24 NLTP

Local Government New Zealand's draft submission on the IDMF review

November 2020

We are. LGNZ.

LGNZ is the national organisation of local authorities in New Zealand and all 78 councils are members. LGNZ provides advocacy and policy services, business support, advice and training to our members to assist them to build successful communities throughout New Zealand. Our purpose is to deliver our sector's Vision: "Local democracy powering community and national success." This submission was endorsed under delegated authority by Stuart Crosby, LGNZ President.

Introduction

There is a developing gap between the expectations of the GPS-2021 and the amount of money available through the National Land Transport Fund to deliver the National Land Transport Programme (NLTP) 2021-24.

NZTA have reported that 90 per cent of the funding is already committed to the continuous programmes (refer **Appendix A**).

Councils are reporting that costs of new or improved transport infrastructure are increasing, leading to affordability pressures. Drivers of cost pressures for transport projects include both general increases in construction prices and scope creep that leads to larger or more complex projects (from increased environmental mitigation, increasing expectations around service levels and increasing standards).

The latest Treasury forecast reported that New Zealand has experienced the largest fall in economic activity on record. They forecast that the economic fall-out created by the global COVID-19 pandemic, which started in January 2020, will be felt for years to come. This means a great deal of uncertainty ahead.

The pandemic has caused significant financial pressure for local councils, including loss of revenues from user fees, loss of dividends from council-owned businesses, and deferred rates. Although councils taxation powers, the ability to recoup non-rates revenue declines is extremely limited due to economic hardship. This has pushed up debt levels and will constrain councils' ability to invest in their transport systems in the near future.

In the next 12 months economic conditions are set to change as the impacts of the economic shock cuts more deeply across New Zealand's economy. It is a dramatic turnaround from 2019 when economists were reporting employment growth across 45 of the 54 industries they monitor.

Key points

Waka Kotahi needs to be transparent with councils about the amount of funding available in the NLTF to support projects in the Regional Land Transport Plans (RLTP's). This should be done early in the process so that councils understand the funding limitations and can manage expectations with their communities about what might be affordable.

The option development and assessment process in the current IDMF has landed on a focus on benefits. This is welcome from the perspective of ensuring that projects deliver enduring and widely shared benefits, but it tends to encourage larger/more complex projects at the expense of smaller/simpler projects, as larger projects typically have the potential to deliver more types of benefits. This means that project cost/affordability is often omitted as a consideration in option development and assessment. This indirectly exacerbates financial pressures and funding affordability issues.

The current prioritisation method will favour larger projects and small individual projects will be more easily rejected. This is because projects are scored as having high strategic alignment if they result in a quantitatively large impact, and low strategic alignment if they generate a quantitatively small impact. Large projects are more likely to result in large impacts, even though they may be a less cost-effective way of achieving these benefits than a programme of small projects that cumulatively generate a large impact.

There are limitations in the metrics that support GPS alignment, and significant potential for inconsistent evaluations that make it difficult to accurately compare projects. For instance, how do you measure an increase of 6 per cent shift from private vehicle-based trips to other modes? Is this at corridor level, city level, district level or regional level? Different evaluators may choose different spatial scope for assessing these impacts, resulting in incompatible assessments.

Low cost/low risk projects are being subjected to high levels of bureaucracy by having to use the new method which contradicts the original intent which was to simplify the process and enable councils to get on with their work programmes with minimal admin cost. Every activity has to be part of an RLTP to be considered in the NLTP. Interdependency and criticality will be important when considering the scheduling factor.

Submission

Waka Kotahi established an online questionnaire for submitters to respond to. LGNZ provided the following responses to the questions with supporting recommendations online on 30 October 2020.

How can we improve the prioritisation factors?

There are three prioritisation factors:

- GPS alignment;
- Scheduling; and
- Efficiency.

The affordability issue is not effectively considered:

- The prioritisation factors focus on the benefits and strategic alignment with the GPS but don't effectively consider affordability issues which continue to emerge and challenge councils during the global pandemic.
- The factors are missing consideration of affordability, project cost, and value for money or cost effectiveness – things that would penalise over scoped projects that do more but get diminishing returns from spending more. The method needs a mechanism that recognise that as a problem and a constraint.

Recommendations:

- Provide for greater consideration of the financial pressures on both the National Land Transport Fund (NLTF) and the Council share over the next three years in the prioritisation method.
- Reframe the metrics as cost effectiveness metrics, outcome per dollar spent as opposed to size of outcome. This would address the issue about bias towards larger projects (refer point three below) and addresses the smaller council issue.
- Add “affordability” as part of the Scheduling factor.

Note: Any improvement works planned to be undertaken by the local authority (RCA) requires their own funding based on their local network needs.

What challenges, if any, do you see in applying the prioritisation factors?

LGNZ supports the responses in this section made by the Transport Special Interest Group (TSIG) (refer **Appendix B**)

In addition LGNZ has been advised of the following challenges identified by its members:

- LGNZ member councils are reporting that applying the prioritisation factors has added significant complexity, ambiguity and unnecessary bureaucracy into the system;
- LGNZ member councils report that measures used for demonstrating GPS alignment are difficult to measure. For example: TDM (travel demand management) activities are hard to measure accurately under the proposed strategic alignment criteria;
- A major challenge is that the new method tends to favour larger councils with large projects and high levels of capability and unintentionally penalises smaller councils with smaller capacity and smaller projects; and
- There is insufficient consideration given to how the process timing requirements align with local governments statutory requirements for annual and long term planning;
 - For example: A key challenge and point of concern is applying the prioritisation factors in the short timeframe available for Approved Organisations (AOs) to prepare their improvement projects by 30 October 2020. It is also noted with concern that the IPM is still draft and could be subject to change as a result of the consultation process. All the initial Improvement activities will have been submitted by 30 October which is in advance of the submissions on IPM closing.

What further guidance is needed to help you apply prioritisation factors to your activities?

LGNZ supports TSIG's recommendation that Waka Kotahi review the guidance to minimise the likelihood of misinterpretation.

LGNZ has the following additional recommendations that will improve implementation of the new method.

Recommendations:

- Establish guidance for councils to manage the cost pressures early in the business case development process. Suggest that NZTA should develop guidance on how councils and projects teams commissioned by NZTA should navigate affordability issues throughout the stages of long list development and assessment, short list development and assessment, and recommended option setting.
- Establish further guidance on the indicative efficiency rating (IER) tool.
- Establish guidance and conduct further testing on how the GPS alignment measures can be applied in practice across the different sized projects (refer **Appendix B**) – For safety for example the crash savings of greater than 40 per cent is very high.

Tell us what you think about the ratings for the 3-factor priority order matrix. Are any changes required?

LGNZ supports the response and recommendations from the LGNZ Transport Special Interest Group (TSIG).

LGNZ has been in discussion with a range of councils who confirm the following:

Ratings used for the 3-factor priority order matrix:

- The proliferation of metrics when applying multi-criteria analysis (MCA) makes it difficult to identify which options are best performing. In practice there's a tendency for options to be filtered in or out based on a (sometimes arbitrarily selected) subset of criteria, or even other criteria that were not in the MCA framework. Some councils report that it is proving difficult to agree on weightings for different criteria. Different parties hold different views and there is a strong element of subjectivity about which effects are important. Averaging of weighting schemes or sensitivity tests are proposed as solutions, but these are only partly successful.
- Project cost (capex and opex) is also seldom appropriately weighted in MCA frameworks (and may not be included at all), which means that an MCA approach often leads project teams to reject cheap options and push towards expensive options as they tick more boxes on the MCA. This approach can create future value for money and financial affordability issues.

Ratings being applied to Low Cost/ Low Risk (LC/LR) projects:

The Low Cost Low Risk funding constraints seem to have been developed specifically for Waka Kotahi state highway activities with their 100 per cent crown funding through the NLTF. Different rules should be provided to accommodate the Waka Kotahi and Council different funding sources. If a local authority has its funding and knows what network improvements it wants based on its community consultation then they should be left to get on with it without the additional limitations added to the associated improvements.

Example: The priority could be HHH but still constrained by the "arbitrary" \$2 million cost per site. If the project cost was over the \$2 million threshold a council should be permitted to invest fully in the balance if the Waka Kotahi did not want to provide full financial assistance. The artificial constraint (The constraint) within the method does not promote efficient or effective investment. Instead it can lead to delivery delays and overly bureaucratic processes triggering additional business case overheads for councils. The associated improvements cost for works which are related to the length of a renewal site will be governed by the length of the project site not arbitrary \$2 million per site constraint.

Councils report that Low Cost/Low Risk (LC/LR) projects are being subjected to high levels of bureaucracy by having to use the new method which contradicts the original intent from the IDMF review which was to simplify the process and enable councils to get on with their work programmes with minimal administration and compliance cost.

Recommendations:

- Waka Kotahi to review the need to apply the new prioritisation methodology to LC/LR projects.
- For the proposed (reinstated) Associated Improvements which are to be combined with asset renewal activities we would like to see the following removed from the LCLR requirements, that is the:
 - HHM priority of 4 (which may be adjusted); and
 - Limited to 20 per cent of renewal costs.
- “The constraint” should be removed for Councils renewal activities that deliver their levels of service.

Note: This alternative approach would enable councils to invest above \$2M if they can find and fund the amount for each project without the additional Waka Kotahi input and support.

Thinking of the activities in your area that could give effect to the GPS, would the draft investment prioritisation method enable you to include that activity in the NLTP? If not, what's missing?

This to be submitted independently by LGNZ members where considered necessary.

We have suggested a way to take account of RLTPs. How might this approach impact your RLTP?

Please refer to the response from LGNZ's Transport Special Interest Group (TSIG) submission.

Do you have any other feedback on the draft IPM?

LGNZ has consulted with members representing the Metro, Rural, Provincial, Unitary and Regional Sectors. We submit the following feedback in addition to what has been discussed above.

- That the draft investment prioritisation method for the 2021-24 National Land Transport Programme has added significant complexity and unnecessary bureaucracy into the system;

- The Investment Prioritisation Method (IPM) is very prescriptive and difficult to follow;
- Many councils are facing significant financial constraints due to the scale of infrastructure requirements and revenue losses from Covid, and so it's important to keep an eye on compliance and admin costs throughout transport project planning and development; and
- Some councils (AO's) are reporting that there is now more work because the spreadsheets have changed. They are not user friendly at a time when councils are extremely busy. Some spreadsheets were difficult to unlock.

Recommendations:

- Explore co-designing suggested improvements with representatives from the local government sector.
- Provide unlocked version of the spreadsheet or an additional unlocked version to assist with the efficiency in managing the multi-year LCLR programme.

Appendix A

Continuous programmes that have funding already allocated in the NLTP as a priority

- Public transport continuous programme including:
 - Existing public transport services (includes total mobility) (forms part of public transport services activity class), and
 - Maintenance (including renewals) of public transport facilities and infrastructure (forms part of the public transport infrastructure activity class).
- Local road maintenance programme (includes operations, maintenance and renewal activities).
- State highways maintenance programme (includes operations, maintenance and renewal activities).
- Road Safety Partnership Programme (road policing).
- Road safety promotion.
- Investment management.

Appendix B

TSIG submission on Waka Kotahi's Investment Prioritisation Method (IPM)

TSIG Submission on Waka Kotahi's Investment Prioritisation Method (IPM)

28 October 2020

Note: these submission points will be transposed into Waka Kotahi's online submission form when completed.

Your name: Greg Campbell

Your organisation: Transport Special Interest Group

Are you providing this feedback as an individual or organisation?

I am providing this feedback on behalf of the Local Government NZ, Regional Sector, Transport Special Interest Group (TSIG)

Prioritisation factors

Waka Kotahi has reviewed its approach to prioritising investments (formerly set out in the Investment Assessment Framework). It is proposing to move from two prioritisation factors to three (as was the case before 2018), to better differentiate activities.

<p>How can we improve the prioritisation factors?</p>	<p>There are three prioritisation factors:</p> <ul style="list-style-type: none">• GPS alignment• Scheduling• Efficiency. <p>The first and third factors are well established and align to the Government Policy Statement on Land Transport's principles for investing.</p> <p><u>Recommendation:</u> The Scheduling factor which is broken down into Interdependency and Criticality is more difficult to measure and could be improved by also aligning it to the GPS to become "effectiveness" or "investment impact".</p>
<p>What challenges, if any, do you see in applying the prioritisation factors?</p>	<p>One key challenge and point of concern is applying the prioritisation factors in the short timeframe available for Approved Organisations (AOs) to prepare their improvement projects by 30 October 2020. It is also noted with concern that the IPM is still draft and could be subject to change as a result of the consultation process. All the initial Improvements activities will have been submitted by 30 October which is in advance of the submissions on IPM closing.</p> <p>The GPS Alignment factor is important. The detailed L/M/H/VH rating benefits (in the table in Appendix 1) are very specific and we question how accurately these benefits can be measured and that it may be difficult to source appropriate evidence. An example of this is in the two following ranking assessments:</p> <ul style="list-style-type: none">• >Target medium or high collective risk corridors or intersections to achieve a death and serious injury reductions of ≥40% (to score a VH rating)

- 6% change in domestic freight mode share to rail or coastal shipping- measured in tonne-km could also be estimated by \$\$ value (to scope a VH rating)

Another area of concern is around TDM activities which are hard to measure under the proposed strategic alignment criteria (in the table in Appendix 1). The descriptive/qualitative criteria listed in the current table limits the ranking of the behavioural change TDM activities to be Medium only and there is no mention in the High or Very High scale for TDM activities.

At the RLTP submission stage there may be insufficient information to make a useful assessment and a qualitative approach will need to be taken.

The Scheduling factor introduces a new scoring method which is somewhat untested. We note that this factor is the key one when it comes to taking RLTPs into account.

The Scheduling factor indicates the Criticality or Interdependency of the proposed activity (or combination of activities) with other activities in a programme or package or as part of a network.

- Criticality is identified as the significance of the activity's role as part of the network and the degree of impact to users, particularly due to availability or not of alternatives.
- Interdependency with other activities is defined as the degree to which the activity is necessary to unlock the benefits of another related or integrated investment (which may be part of the same programme or package or major housing or industrial development or international event).

A rating of H/M/L impact across either criticality or interdependency with other activities is applied. A H or M score is often associated with being an integral part of a programme or package.

Where neither criticality or interdependency are an issue the activity is given a L.

Submission points:

- It may be challenging to distinguish between GPS alignment and the criticality of an activity (or activities). An activity that can demonstrate high alignment with a GPS criteria would probably also achieve a high rating in terms of criticality.

	<ul style="list-style-type: none"> • There will be some projects in a region that have limited interdependency with other activities but are still of very high importance to a region. TSIG is also concerned that these ‘stand alone’ activities ie those that are not part of a package will be scored L even though they may be of critical importance to a region. • It may become increasingly challenging for local road improvements to obtain funding through the NLTF. • TSIG has concerns about how the Scheduling factor is scored. It is not easily understood and the scoring could be quite subjective. Appendix 1 outlines the scoring process for the Scheduling factor and again there is concern with how the scoring will be done.
<p>What further guidance is needed to help you apply prioritisation factors to your activities?</p>	<p>The timeframes for delivery of transport activities may be impacted by funding availability, planning and property purchases or consultation. “Scheduling” in this context is likely to be misinterpreted. The guidance refers to criticality and interdependence which are not scheduling factors.</p> <p>Submission points:</p> <ul style="list-style-type: none"> • We recommend Waka Kotahi review the guidance to minimise the likelihood of misinterpretation. • We seek further guidance on the Indicative Efficiency Rating and how it is applied. At present the spreadsheet is not easily understood. <p>The Investment Management activities are following the same assessment process, and are normally hard to identify a BCR/IER. Further guidance is needed here for scoring Investment Management activities eg RLTP Mgt</p>

Investment Prioritisation Method

Waka Kotahi has created the draft Investment Prioritisation Method, including the 3-factor priority order matrix and the indicative efficiency rating tool, to help you prioritise your activities for inclusion in the 2021 – 2024 NLTP.

<p>Tell us what you think about the ratings for the 3-factor priority order matrix. Are any changes required?</p>	<p>There are some measures used for demonstrating GPS alignment that may be difficult to clearly distinguish between Low/Medium/High/Very High (Refer Table in Appendix 1)</p> <p>For example a 2-3% (low) or 4-5% (medium) or >6% (high) shift from private passenger vehicle based trips to other modes on a arterial with 15,000 vkt the difference between 3% and 6% may be only 450 vehicles per day.</p>
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	<p>We also believe that there are inconsistencies in the priority order matrix. For example where there is the same rating in GPS alignment but, swapped rating between scheduling and efficiency, sometimes it comes up the same score and sometimes it does not.</p> <p>When GPS = M, Scheduling = M, Efficiency = H, the score is 6. It is the same score when GPS = M, Scheduling = H, Efficiency = M.</p> <p>But when GPS = M, Scheduling = H, Efficiency = L, the score is 7. It is NOT the same score as GPS = M, Scheduling = L, Efficiency = H (the score is 9).</p> <p>In another submission point we believe the threshold of 10+ for a BCR is set too high for proposals with very high benefits, meaning that very few will meet this criterion.</p> <p>An alternative method might involve stating that a certain percentage (e.g. 10%) of improvement activities with the highest BCRs are given the 'very high' rating. Alternatively, this percentage could be used as a basis for setting an appropriate rating based on past experience.</p> <p><u>Recommendation:</u> Waka Kotahi undertake some testing of the GPS alignment criteria to ensure the percentages at each rating level will obtain value for money.</p> <p>Waka Kotahi consider changing to using a bell curve to determine BCR rating rather than relying on the BCR alone.</p>
<p>Thinking of the activities in your area that could give effect to the GPS, would the draft investment prioritisation method enable you to include that activity in the NLTP? If not, what's missing?</p>	<p>This to be submitted regionally by TSIG members where considered necessary.</p> <p>Investment Management activities could be difficult to include in RLTP/NLTP if the Efficiency factor cannot be scored</p>
<p>We have suggested a way to take account of RLTPs. How might this approach impact your RLTP?</p>	<p>The guidance notes that RLTPs are taken into account for the IPM by:</p> <ul style="list-style-type: none"> • All activities in the 2021 NLTP must be part of an RLTP • The RLTP must best identify the order of priority of significant activities for the first 6 years. The IPM applies to activities in the first 3 years • The IPM Scheduling factor draws from information in RLTPs about interdependency and criticality • The RLTP priority order will be considered in distinguishing between activities with the same priority order in the NLTP <u>where such activities are at the investment threshold for the activity class.</u>

	<p>The draft IPM states that prioritisation is first applied during NLTP development. It would be more accurate to state that the first prioritisation takes place when the RLTP is being developed.</p> <p>The RLTP priority order should be taken into consideration when distinguishing between activities that sit within the same NLTP priority order, rather than being simply used as a tool to distinguish between activities that are at the investment threshold for the activity class. Using the RLTP priority order through-out the assessment will enable a stronger link between regional priorities and investment.</p> <p><u>Recommendation:</u> Waka Kotahi take into consideration the regional priority given to each activity when assessing their activities that sit at the same priority order in the NLTP priority in the NLTP rather than just for projects at the threshold.</p>
<p>Do you have any other feedback on the draft IPM?</p>	<p>In general TSIG finds the draft IPM very prescriptive and difficult to follow. We have concerns that applying the IPM could present a problem to those regional council staff undertaking a RLTP for the first time. We also seek advice on whether all Waka Kotahi staff dealing with the new IPM process will be fully trained and in a position to assist councils through this should the need arise.</p> <p>The draft IPM appears to rely on a substantial and prescriptive evidence base and it is unlikely that AOs will have access to the full evidence, such as transport modelling, required when rating projects for inclusion in the RLTP.</p> <p>This may have an unintended consequence where AOs IPM rankings are inaccurate which may result in some RLTPs not fully meeting the requirements of the NLTP and GPS and thereby jeopardising funding applications for projects/programmes.</p> <p>The approach could be designed to allow AOs to include a ranking of how confident they are of the ranking score - Low, Medium or High with the expectation that as the business case is developed the confidence will increase.</p> <p><u>Recommendation:</u> Make provision in the IPM for provisional ratings and create an assessment of the degree of confidence.</p> <p>Another general concern that TSIG has is that the proposed IPM process may skew funding toward state highway or roading infrastructure projects – for example the GPS alignment factor (under Better Transport Options) uses % change in proportion of population who have better access (measured by a travel time threshold) which reflects improved travel time on road corridors. This outcome may not fit the Government’s GPS emphasis on mode shift to reduce the need for new infrastructure and it may</p>

	not place a high enough priority on walking, cycling or public transport activities or the step change that is required.
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