

# BACKGROUND TO THE DRAFT INVESTMENT ASSESSMENT CRITERIA FOR ROAD MAINTENANCE PROGRAMMES SUBMITTED TO THE 2018-21 NLTP

ATTACHMENT 1

July 2016



## PURPOSE

To seek feedback from Approved Organisations on the Transport Agency's draft investment criteria for assessing road maintenance programmes for funding assistance in the 2018-21 National Land Transport Programme (NLTP).

## INTRODUCTION

### BACKGROUND TO EMBEDDING THE ONRC INTO NLTP INVESTMENT DECISION MAKING

The Transport Agency is working closely with the sector and the Road Efficiency Group (REG) to ensure that future investments in road maintenance will deliver the best outcomes to support a thriving New Zealand.

The REG was formed in 2012 as a collaborative project between local government and the NZ Transport Agency in response to the findings of the Road Maintenance Task Force (RMTF). The RMTF identified four general areas for the sector to improve the cost effectiveness and delivery of road maintenance:

- Adapting the business models used to deliver maintenance, renewals and operations
- Improved procurement practices and support of the new business models
- Improved prioritisation and optimisation through level of service differentiation
- Consistent introduction of enhanced asset management practices.

The Transport Agency (in collaboration with REG) aims to create and embed a new national funding and activity management structure for roads using the **One Network Road Classification (ONRC)**, and improve value for money, customer focus, consistency, collaboration, and quality in road activity management.

ONRC will help road controlling authorities operate, maintain and deliver good-quality local infrastructure that is efficient, effective and appropriate to present and future circumstances. It will also help give road users more consistency and certainty about what services to expect on the national road network.

## The Investment Assessment Framework

The Transport Agency uses an Investment Assessment Framework (IAF) to assess and prioritise activities for funding within the NLTP. Application of the IAF establishes a ranking profile for every activity to be considered for inclusion in the NLTP.

The current IAF uses a core set of criteria for assessing all activities by activity class, with subtle variances for each type of activity. The current maintenance criteria apply equally to both the Local Road and State Highway maintenance activity classes.

N.B. the funding range for each activity class is set by government in the Government Policy Statement on land transport (the GPS).

Within the REG programme of work the Transport Agency, as the 'owner' of the IAF, agreed to review the maintenance assessment criteria by 30 June 2016. This review was to ensure the framework and criteria support the embedding of ONRC and customer level of service considerations into investment decision making for maintenance activities.

Release of the attached draft criteria is the first step in clarifying the requirements for assessing maintenance programmes for funding in the 2018-21 NLTP.

## SECTOR ENGAGEMENT ON THE DEVELOPMENT OF THE DRAFT CRITERIA

The Transport Agency sought sector feedback on an early draft of the revised assessment criteria via the REG Leadership Group. The Leadership Group was supportive of the way in which the draft policy had brought the ONRC and customer levels of service considerations into the assessment criteria together with the proposal for the Transport Agency to be more direct in the assessment of Activity Management Plans. This feedback was useful in refining the final draft and identifying future tools and guidance that will need to be developed to assist the sector implement the new criteria.

## INVESTMENT DECISION MAKING FRAMEWORK REVIEW

In 2015 the Transport Agency commenced a review of investment decision making to give stakeholders long-term confidence that the Transport Agency's investment decision making and considerations are fit for purpose, aligned with international best practice, and delivering the right transport outcomes for New Zealand. This review is a collaborative effort by the Transport Agency, Ministry of Transport, Treasury and representatives of local government

The review arose from concern by Treasury and Ministry of Transport about the use of multi-criteria assessment instead of a purer benefit cost appraisal approach. In essence their concerns were whether the best investments were being funded from the National Land Transport Fund (NLTF). Other areas for improvement included:

- clarity and transparency around assessment criteria, the reasons for investment decisions and underlying assumptions

- removing any real or potential overlap between assessment criteria and make the criteria and how they are applied easier to understand
- more guidance on how the investment decision-making framework and the business case approach fit together.

To inform the review, the Transport Agency commissioned an independent analysis by Ernst & Young of International Guidelines and Practice on Transport Project Appraisal, and compared the Transport Agency's approach against international best practice. In particular the Ernst and Young review compared the Agency's approach to Sweden, United Kingdom, Australia, Germany and the Netherlands. It found that the Agency's approach had many of the elements of international best practice, including a similar balance between pure cost benefit appraisal and the integration of other measures and factors to assist policy responsiveness.

We sent a letter to all council chief executives in October 2015 to inform local government of this review and invite further input.

The IAF redesign is well underway to address the findings arising from the review and this will result in changes that improve decision making across the Agency, with a focus on being clearer and more transparent about how this is done, and keeping our stakeholders at the heart of what we do.

The re-designed IAF will guide and support the 2018-21 NLTP process. We are expecting to release it early in 2017.

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## DEVELOPMENT OF DRAFT MAINTENANCE ASSESSMENT CRITERIA

### LINK BETWEEN MAINTENANCE REVIEW AND INVESTMENT DECISION MAKING REVIEW

The maintenance assessment criteria review has been undertaken in parallel with, but ahead of, the deliverables for the wider investment decision making review. In taking account of the drivers for that wider review we consider that the emphasis for maintenance programmes should be weighted more on the effectiveness and efficiency criteria and less on the strategic fit.

### DRIVERS FOR CHANGE TO CURRENT ASSESSMENT CRITERIA

In developing the draft assessment criteria for maintenance for the 2018-21 NLTP and beyond, we identified a number of key drivers for changing the current criteria:

- the need to achieve greater consistency in our assessment of maintenance programmes, with the ability to differentiate how we will ultimately allocate from the NLTF to maintenance. This then requires us to also think about the role of the assessment profile for ranking a maintenance programme and how this will be used in determining funding allocation.

- the current criteria and language for maintenance assessment is based on the approach applied to managing improvement activities. Improvement activities are supported by a standalone business case approach (BCA), and the BCA language we use in the business case approach is about proving a case for change. Applying the BCA principles to a maintenance programmes requires a case to be developed for the first dollar invested (i.e. base programme) and the last dollar invested (i.e. by identifying any additional value that could be achieved by an increased programme) having regard to the ONRC and customer levels of service not a simple assessment of current costs plus a provision for escalation.

Other factors considered:

- criteria would benefit from being stable and enduring over time but need to have greater agility to respond to direction via future GPS documents and other direction from government without a full/partial rewrite
- reinforce the ONRC customer levels of service approach
- greater recognition of the importance of smart buyer, effective management systems and practises
- greater transparency and consistency in NLTP decision making for maintenance
- affirming our current position that maintenance programmes must be developed on a sound business case approach
- affirm the ability to differentiate investment levels using the IAF three factor approach
- the current assessment criteria are built off the criteria for improvement activities which are a 'go /no go' type of decision, whereas maintenance is a continuous activity for which the Agency assessment and investment decisions need to be able to target NLTF investment to best effect on an enduring basis.

### Greater clarity on the role of Activity Management Planning

The new criteria emphasise the need for Activity Management Plans to:

- be based on a solid evidence base with robust options analysis
- show a clear link to the ONRC framework
- embed the customer levels of service in an appropriate way for the network
- demonstrate where the Approved Organisation's network performance and cost of delivery sits on a comparative basis to similar networks i.e. self-benchmarking analysis
- demonstrate best practise activity management practise that addresses the principles of the business case approach supported by good practise asset management.

### Addressing service level gaps

Allocation of funding in the NLTP is managed against the Activity Class funding ranges set out in the GPS.

The maintenance assessment criteria apply to the Maintenance Activity Class. Service level gaps that can be addressed through enhanced maintenance practice are eligible for consideration of funding through the Maintenance Activity Class. Examples include:

- improving travel time reliability through better traffic management
- improving resilience through proactive maintenance

Major gaps in service level that can only be addressed through capital improvements are addressed through the relevant Improvements activity classes, e.g. adding lane capacity to achieve travel time reliability.

## THE DRAFT MAINTENANCE ASSESSMENT CRITERIA

Below we provide commentary on the new concept of baseline funding and draft assessment criteria. The draft criteria are attached as Attachment 2.

### NEW CONCEPT OF BASELINE FUNDING

A key new concept for maintenance assessment is the introduction of a baseline level for maintenance funding. We are required by the Land Transport Management Act 2012 to give effect to the GPS, and the amount of baseline funding will be influenced by the funding provided for the Maintenance Activity classes in the GPS. At this point in time we cannot, therefore, indicate whether maintenance funding will increase or decrease.

The baseline funding for maintenance for each Approved Organisation will be informed by the business cases that are presented, including the Approved Organisations self-benchmarking assessment for performance against the ONRC customer levels of service and cost effectiveness.

Emergency works will continue to be managed outside of the proposed baseline allocations.

The baseline funding will be set at a value that should be sufficient to manage a network without undue risk of a network regressing below acceptable levels of service. We consider the value may also need to be set at a level which puts sufficient tension into the sector to encourage best practice activity management and delivery; but the final methodology for doing this is yet to be determined

Only those Approved Organisations meeting the Medium or High thresholds for performance set out in all the criteria below will be eligible for consideration of a maintenance allocation higher than the baseline funding level.

## PROPOSED STRATEGIC FIT CRITERIA

We consider that the Strategic Fit criteria should be more explicitly linked to ONRC customer levels of service. The key features of this are:

Low	Default profile remains
Medium	Delivering to ONRC customer outcomes - recognising that it may not be all customer levels of service for all outcome areas
High	Only given if there is a significant customer level of service deficit explicitly linked to the GPS priorities, as set out in the Transport Agency's signalled investment priorities

## PROPOSED EFFECTIVENESS CRITERIA

The changes proposed to these criteria provide the biggest opportunity for implementing the new approach to maintenance investment. This will be achieved through differentiated rating, to recognise those Approved Organisations that are adapting to the ONRC framework and are performing well. We consider the new criteria will also encourage Approved Organisations to improve network management, decision making, etc. in support of the ONRC approach.

The draft effectiveness criteria are explicit to maintenance programmes and aim to achieve the improvements listed above by:

- strengthening the linkage to Activity Management Planning
- recognising the importance of smart buyer capacity and practise in achieving truly effective maintenance over time
- explicitly recognising and encouraging strong asset management linked to activity management by assessing capability through benchmarking
- reinforcing and recognising the role of effective management, administration etc and the procedural elements we mandate including addressing previous audit findings, reporting and financial forecasting.

## PROPOSED EFFICIENCY CRITERIA

The criteria are unchanged. However, we propose developing more explicit guidance on how the comparative cost efficiency will be determined.

The draft thinking is that the comparative efficiency will be determined through sector benchmarking for like networks and similar conditions. We expect this work to be developed through modelling by the Transport Agency in conjunction with REG and through Approved Organisation's self-benchmarking over the period to June 2017.

## WHAT HAPPENS NEXT?

### FINALISING THE MAINTENANCE INVESTMENT ASSESSMENT CRITERIA

The Transport Agency's wider investment decision making review is due to report its findings to the Transport Agency Board in October 2016. As noted we expect to release the wider review decisions early in 2017.

Depending on the Board's decisions we expect to be in a position to confirm the Transport Agency's maintenance assessment criteria by the end of 2016 but no later than February 2017.

### GUIDANCE ON PERFORMANCE MEASURES AND ACTIVITY MANAGEMENT PLANNING FOR THE 2018-21 NLTP

The 2018-21 NLTP will tell a compelling customer focussed investment story. To achieve this, we will work with the sector over the next year to establish a suite of benchmark cost performance measures indicators which will enable us to determine the customer value in investing in various components of maintenance programmes, i.e. what are the safety, efficiency and reliability outcomes we expect to achieve through the NLTP investments.

The Transport Agency will develop the NLTP suite of performance measures to be used for funding decisions from the REG ONRC measures.

The Transport Agency expects that all Approved Organisations will clearly demonstrate in their Activity Management Plan their current and projected future state performance against the customer levels of service targets. If an Approved Organisation wants to continue investing in, or increase investment to achieve customer levels of service higher than the agreed performance targets, it will require detailed justification within the Activity.

All Approved Organisations should already be thinking about the need to review their Activity Management Plans to ensure the plan is robust and demonstrates how it takes account of ONRC.

Activity Management Plans will be a key source of supporting information for maintenance programmes submitted to the 2018-21 NLTP. Maintenance programme submissions should be based on a thorough analysis of need, a rigorous analysis of maintenance intervention strategies and costs having regard to the ONRC and customer levels of service and reflect best practice for activity management planning and smart procurement.

We expect to finalise the assessment methodology before we issue the 2018-21 NLTP instructions in 2017.

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## FEEDBACK

The Transport Agency is not intending to undertake full consultation on the draft IAF assessment criteria. However, we would appreciate your feedback on the new approach to assessing maintenance programmes, in particular:

Please email your feedback to Mark Yaxley the project manager at [mark.yaxley@nzta.govt.nz](mailto:mark.yaxley@nzta.govt.nz) by 5pm Friday 19th August 2016.

1 Do you consider the proposed approach to assessing maintenance programmes will achieve the aims of the Road Efficiency Group to improve the delivery of cost effective customer focussed road maintenance activities?

YES

NO

COMMENT

2 Is the approach to assessing how well each Approved Organisation has embed the ONRC customer outcomes and the business case principles into their maintenance programmes clear?

YES

NO

COMMENT

3 Do you support the Transport Agency proposal to use a broad assessment of an Approved Organisation's capability to inform the ranking of maintenance programmes for inclusion in the NLTP?

YES

NO

COMMENT

4 Can you foresee any challenges in implementing the new approach to developing maintenance programmes and the use of the new IAF assessment criteria?

YES

NO

COMMENT

### ENQUIRIES

All enquiries relating to this document should be directed to your regional Transport Agency Planning and Investment contacts or Mark Yaxley direct at [mark.yaxley@nzta.govt.nz](mailto:mark.yaxley@nzta.govt.nz)

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