
Applying the Draft Investment Assessment Framework to Improvement Activities

NZTA

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VERSION 2.0

Investment Assessment Framework for the 2018-21 National Land Transport Programme

The Transport Agency has updated the assessment criteria for Improvement Activities. The key changes involve the continued embedding of the Business Case Approach, improving the clarity and transparency of the Transport Agency's investment decision making process, and the implementation of a streamlined approach for low cost/ low risk investments. This document describes how the Investment Assessment Framework will apply to Improvement Activities.

For guidance and detailed information on the Investment Assessment Framework please refer to the Transport Agency's Planning and Investment Knowledge Base - @ <http://www.nzta.govt.nz/planning-and-investment/>



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More information

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INTRODUCTION

The Transport Agency provides funding assistance from the National Land Transport Fund to investment partners to deliver programmes and projects to maintain and improve levels of service being delivered in the land transport system. Legislative requirements under the Land Transport Management Act 2003 and direction given by the Minister of Transport in the current Government Policy Statement on land transport (GPS) are reflected in the Transport Agency's operational policy and requirements for funding assistance.

The Investment Assessment Framework is a key tool the Transport Agency uses to comply with the legislation and give effect to the GPS. It will remain in draft form until the GPS is published. Once finalised, it will apply to all investment approvals made in the 2018-21 National Land Transport Programme.

"Investment partners" is a term that covers approved organisations (regional, unitary and territorial authorities, as well as the Department of Conservation and the Waitangi Trust), the New Zealand Police and the Transport Agency itself, in its planning and delivery functions, for state highway and nationally delivered activities.

This document describes the application of the Investment Assessment Framework to improvement activities, which are investments in the land transport system, intended to address problems and improve levels of service. Examples of improvement activities include new or realigned roads, traffic signals, bus and train stations, new or extended public transport services and new walking and cycling facilities.

The [Planning and Investment Knowledge Base](#) is the most current source of guidance for funding requests from the National Land Transport Fund. If there is a difference in criteria between the Knowledge Base and this document, the Knowledge Base should be treated as the more up to date and correct.

THE BUSINESS CASE APPROACH AND THE INVESTMENT ASSESSMENT FRAMEWORK

The Transport Agency requires the principles of the business case approach to be applied to the development of an investment partner's improvement proposal.

Feedback from the transport sector regarding the investment decision making process that includes the business case approach and the investment assessment framework has been used to develop a fit-for-purpose approach for proposals seeking investment from the National Land Transport Fund. A draft Investment Assessment Framework was released for sector consideration in mid-March and feedback used to update it subject to release of the final GPS 2018.

The draft Investment Assessment Framework to apply to the 2018-21 National Land Transport Programme encompasses:

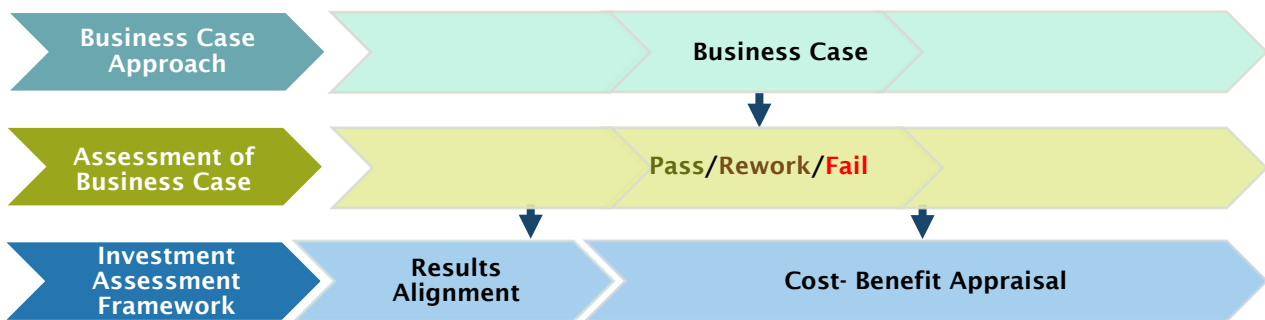
- a change to a two-factor assessment
- modification of the Transport Agency's investment decision making process to recognise the assessment of the business case as a gateway into assessment under the Investment Assessment Framework
- introduction of a 'Very High' rating for Results Alignment and Cost-Benefit Appraisal

- introduction of a streamlined approach that combines both the business case approach and Investment Assessment Framework for low cost/ low risk investments

The Transport Agency has introduced assessment of the business case and programming support (explained below under the Prioritisation and Programming section) as investment decision making support tools. These tools enable the Transport Agency to differentiate proposal priorities based on the maturity of the business case and the identified urgency to address the underlying issues.

The business case approach principles and Investment Assessment Framework are clearly linked through the assessment of the business case, and improved guidance on the business case approach principles is being integrated into the investment decision making process.

The business case is owned by the investment partner throughout the process. The Transport Agency's role, as manager of the National Land Transport Fund, is to satisfy itself that the business case is robust and that the proposed investment represents good value for money.



Investment decision making

The investment decision making process and Investment Assessment Framework are applied through a progressive development process between the Transport Agency and its investment partners to ascertain the:

- underlying problem and the benefits to be gained by addressing it
- scope of the proposed improvement activity
- current and desired service levels
- current and desired cost levels
- funding sources and amounts
- value for money
- assessment of the business case including:
 - proposal quality/methodology
 - evidence/information used and its quality

Value for money is defined as “doing the right things in the right place at the right time for the right price in the right way to achieve the right outcomes”.

Long term strategic view

The Transport Agency is developing a long term strategic view to support investment partner's to focus on the strategic intent and urgency of their proposals. The long term strategic view represents one of the first demonstrations of the Transport Agency's new strategy in action approach, working

in close collaboration with investment partners and stakeholders to create a shared view of what is required of the transport system in the future. It covers the priority challenges and opportunities faced by the system and the interventions needed at a strategic level over the next 30 years. It is an engagement tool and a conversation starter, and provides a basis for business cases for long term system planning.

The long term strategic view sets out an understanding of the transport system and the key factors that are shaping the future issues and opportunities for each region. It identifies major business cases that are being progressed and funded. The purpose of the long term strategic view is to serve as a strategic level document and is not designed to capture the full extent of the issues and opportunities.

Assessment of the business case

As part of further embedding the business case approach into the investment decision making process, the Transport Agency will assess the business case submitted in support of proposed improvement activities. The business case can refer to a range of supporting documents, strategies, or programme business cases.

Assessment of the business case is a critical step in the investment decision making process and enables the Transport Agency to ascertain throughout the proposal development steps that robust evidence exists to demonstrate that the principles of the business case approach have been applied appropriately.

The assessment takes the form of open questions that should form the basis of a discussion with investment partners to give them confidence that they are putting their best proposal forward, and to provide the Transport Agency the assurance that the principles of the business case approach have been applied properly. More detail around this process and the assessment template is provided with the Assessment of the Business Case guidance in the [Planning and Investment Knowledge Base](#).

Improvement activities

Proposals for improvement activities may be considered if the benefits of an activity address a gap in customer levels of service, or improve efficiency of the overall land transport system in delivering the existing customer levels of service.

The Transport Agency may agree to provide funding assistance if:

- sufficient funding is available in the activity class and in the National Land Transport Fund to support funding requests
- the improvement proposal is supported by a robust business case that clearly demonstrates the value of investing in the level of service change, including meeting the Transport Agency's investment threshold for the activity class
- the investment partner is able to demonstrate their readiness and ability to deliver through their business case

Customer levels of service

The Transport Agency recognises that customer levels of service measures are not fully developed for all activities. For road maintenance and improvements, the One Network Road Classification has been

adopted by the sector to ensure national consistency around the appropriate levels of service that should be delivered by the network across the classification hierarchy. All investment partners are required to clearly evidence the customer levels of service that they propose to deliver and how they relate to the One Network Road Classification measures.

Any identified gap in customer levels of service must relate to the appropriate customer levels of service applicable to the specific road classification. They apply:

- where nationally consistent levels of service exist for customer journeys on roads the Transport Agency uses the One Network Road Classification. The One Network Road Classification can be applied to the road network for commuting, freight and tourist journeys, and also provides customer level of service attributes for resilience, travel time reliability, and amenity (roughness)
- for safety levels of service where the Transport Agency adopts thresholds for addressing medium and high safety risk derived from Safer Journeys areas of concern

Exceptions

- public transport and walking and cycling where no nationally consistent level of service or classification exists yet. A New Zealand level of service for cycling is in development and will be available in 2018. Currently, in these activity classes, the Transport Agency uses proxies to determine the significance of the problem, issue or opportunity,
- journeys that are best served by cycling where the Transport Agency uses NZ Transport Agency Cycling network guidance for the application of Austroads Levels of Service
- journeys that are best served by public transport, where the Transport Agency uses the investment partner's business case or supporting evidence to guide options and services in major metro areas for commuter journeys and social services in other areas

Clarity and transparency

The Transport Agency is committed to demonstrating:

- that it manages investment consistently to deliver the best outcomes for New Zealanders, in line with GPS direction
- its processes, tools and systems are easy to understand
- the reasons for making investment decisions are transparent

To achieve this, the Transport Agency will:

- assist investment partners in identifying the best investment opportunities that achieve the most effective improvements
- provide investment partners with a better understanding of why and how investment decisions are made to better equip them to develop business cases
- ensure the clarity and transparency principles are embedded in the way it works through consistent assessment of business cases

INVESTMENT ASSESSMENT FRAMEWORK: RESULTS ALIGNMENT

Use of Results Alignment rating

For the 2018-21 National Land Transport Programme, the Results Alignment rating will be used by the Transport Agency to assess the significance of a problem, issue or opportunity relative to desired results set out in the GPS. For road improvement activities the rating assessment will also consider the proposed customer levels of service against those set out in the One Network Road Classification framework for road based activities.

Ratings

The strategic cases behind proposed improvement activities will be assessed for results alignment under four ratings – low, medium, high and very high. The general requirements for these ratings are set out in the [Planning and Investment Knowledge Base](#), with specific requirements set out for each type of improvement activities, as below:

- [Assessment of road improvements](#)
- [Assessment of public transport improvements](#)
- [Assessment of walking and cycling improvements](#)

INVESTMENT ASSESSMENT FRAMEWORK: COST- BENEFIT APPRAISAL

Cost- Benefit Appraisal

As a rule, improvement activities are given a rating in bands for Cost Benefit Appraisal based on their benefit cost ratios. These incorporate whole-of-life costs and benefits calculated using methodologies from the Transport Agency's Economic Evaluation Manual. Benefit cost ratios fall into the following bands:

- from 0 to 0.9
- from 1 to 2.9
- from 3 to 4.9
- from 5 to 9.9
- 10 or above

Project level funding approvals will be made on the basis of the calculated benefit cost ratios rather than the bands. At the programme business case phase, bands provide sufficient basis for prioritisation given the uncertainty around the high level costs and benefits.

ASSESSMENT CRITERIA SUMMARY

An activity or programme has assessment ratings for Results Alignment and Cost-Benefit Appraisal as shown below:

Assessment factor		Rating
Results Alignment	Assessment of how well the problem/issue/opportunity identified aligns with results identified in the Government Policy Statement and guided by the Long Term Strategic View	Low / Medium / High / Very High
Cost-Benefit Appraisal	Assessment of the whole-of-life benefits and costs based on the Economic Evaluation Manual for improvement activities	For improvements, benefit-cost ratio ratings of: 0 – 0.9 / 1-2.9 / 3-4.9 / 5-9.9 / 10+

ASSESSMENT PROFILE

The investment assessment profile is a summary view of the Transport Agency's assessment of an investment proposal using the Results Alignment criteria and Cost Benefit Appraisal along with Programming Support. For example, an improvement project that is assessed as being of High results alignment, with a benefit-cost ratio of 2.6 and is based on a problem that needs to be addressed in a three to ten year timeframe would have a profile of H/2.6/3-10.

STREAMLINED ASSESSMENT

Low cost/low risk proposals

Investment partners do not have to complete a full, detailed business case for low cost/low risk improvement activities of up to \$1 million implementation cost (nominal cost, including property costs), nor does the Transport Agency need to assess them fully (but it may include them in Audit activities). Provided each low cost/low risk improvement has an acceptable alignment with the GPS, such improvements can be bundled into a low cost/low risk programme.

The Transport Agency supports programmes of low cost/low risk improvement activities as highly effective and efficient ways of delivering on user outcomes. For these investments, the effort required and compliance costs are significantly reduced.

Programmes of improvement activities that are low cost/low risk require a list of proposed projects, using a mandatory template, showing key details, including Results Alignment.

The assessment of the business case for low cost/low risk improvement activities can be evidenced in activity management plans, regional public transport plans, road safety actions plans and other documentation.

Guidance for assessment of low cost/low risk programmes is found in the [Planning and Investment Knowledge Base](#).

PRIORITISATION AND PROGRAMMING

The two assessment factors of results alignment and cost-benefit appraisal are brought together to form an assessment profile that determines a proposal's priority, where the ranking is based on:

- meeting the desired results of the investment strategy
- achieving the desired results in the most efficient way

Results Alignment	Cost- Benefit Appraisal	Rank
	Improvements	
Very High	1 and above	1
Low / Medium / High	10 and above	2
High	5 to 9.9	3
High	3 to 4.9	4
High	1 to 2.9	5
Medium	5 to 9.9	4
Medium	3 to 4.9	5
Medium	1 to 2.9	6
Low	5 to 9.9	7
Low	3 to 4.9	8
Low	1 to 2.9	Exclude or by NZTA discretion

Programming of activities will be informed by their priority from the above table and also by the Programming Support urgency rating. The urgency rating provides a view of when the issue or opportunity needs to be addressed, i.e. within 3 years, 3 to 10 years, or beyond 10 years. Programming will also be influenced by the allocation and remaining availability of funding from the National Land Transport Fund within each activity class, and other funding sources including local funding.