NZ TRANSPORT AGENCY
WAKA KOTAHI

# General Circular
# Investment – 11/04

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| **Subject** | **2012-15 NLTP development - changes in NZTA policy and practice from the 2009-12 NLTP** |
| **Circulation** | Transport, Public Transport and Asset Managers, all Approved Organisations<br>NZTA Regional Managers Planning & Investment<br>NZTA Planning & Investment Managers<br>NZTA Principal and Senior Programme Advisors<br>NZTA Highway and Network Operations and Asset Managers<br>Local Government New Zealand<br>Audit New Zealand |
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## Purpose

To advise those involved in the development of land transport activities for inclusion in Regional Land Transport Programmes (RLTPs), as part of the development of the 2012-15 National Land Transport Programme (NLTP), of some changes in NZTA policy and practice from the 2009-12 NLTP.

## Background

Development of the 2012-15 NLTP is underway. The NZTA is developing and rolling out to the sector its Planning & Investment Knowledge Base, which, progressively, will replace the NZTA's Planning, Programming and Funding Manual. The Planning & Investment Knowledge Base is a web-based store of principles, best practice, guidance and policy information to assist planning and investing for outcomes with our investment partners.

The NZTA is taking the opportunity in developing the 2012-15 NLTP to learn from experience during the 2009-12 NLTP and improve and clarify its practices.

***This general circular explains the changes in the NZTA's practice from the 2009-12 NLTP that are to be implemented in the 2012-15 NLTP.***

***It also provides advice on the review and clarification of some work category definitions and funding assistance rates (FAR) that are to be implemented in the 2012-15 NLTP.***

The changes are included in the Planning & Investment Knowledge Base which can be accessed through the following link:

http://www.nzta.govt.nz/resources/planning-and-investment-knowledge-base/

## Classification and treatment of improvement projects

### Minor improvement projects

All improvement projects of $250,000 and less estimated capital cost (including net property purchase cost) that fall within the definition of the following activity classes will be treated as minor improvements:

- New and improved infrastructure for state highways;
- New and improved infrastructure for local roads;
- Public transport facilities (see section 2 below); and
- Walking and cycling facilities.

For the 2009-12 NLTP, projects of less than $250,000 cost could either be included as stand alone projects in an organisation's improvements programme or within a road controlling approved organisation's minor improvements allocation.

1. **Road controlling authorities** who are Approved Organisations, Auckland Transport and the NZTA (state highways) will be allocated up to 5% of their approved maintenance programme allocation as a guaranteed base allocation for minor improvements. These organisations may apply for and negotiate a lower or higher level of funding for minor improvements, with any increase over the 5% allocations being subject to assessment, funding availability and prioritisation. The allocation will cover new and improved infrastructure for state highways and locals roads plus walking and cycling facilities and will be incorporated under Work Category 341.

   Each organisation's minor improvement programme will be expected to contain evidence that demonstrates its contribution to the NZTA's outcomes and its value for money, preferably through reference to a robust Activity/Asset Management Plan.

   In the 2009-12 NLTP, an automatic allocation of 8% of the approved maintenance programme allocation was made for road controlling organisations, with little, if any, requirement for the minor improvements programme to demonstrate value for money.

2. **Regional Councils, Unitary Councils and Auckland Transport** will be allocated up to 5% of their region's approved bus, ferry and rail services programme (Work Categories 511, 512 & 515) allocation as a guaranteed base allocation for **public transport facilities minor improvements.** That provision is to be found from within the approved organisations existing program level and not as an additional allocation. These organisations may apply for and negotiate a lower or higher level of funding for minor improvements with any increase over the 5% allocations being subject to funding availability and prioritisation. The allocation will cover new and improved public transport facilities and will be incorporated under Work Category 531.

In the 2009-12 NLTP, public transport minor improvements are funded from Work Category 514, "Facilities maintenance and operations, with a $20,000 cap on any single improvement.

Each organisation's minor improvement programme will be expected to contain evidence that demonstrates its contribution to NZTA's outcomes and its value for money, preferably through reference to a robust Regional Public Transport Plan. Regional Councils are expected to work with other Approved Organisations, particularly territorial authorities who may be responsible for the implementation of public transport shelters, and the NZTA (for state highways) as required to manage the delivery of their minor improvements programmes.

Organisations may apply for minor improvements funding assistance through the minor improvements module in Transport Investment Online (TIO). They may apply for a lower level of funding for minor improvements, including no funding at all, than is provided by the guaranteed base allocation.

The reasons for the changes are to:

- ensure a "clean" split between minor improvements programmes, with their simplified funding application process, and small improvement projects, which require a separate application for each activity in TIO;
- enable **road controlling** organisations the flexibility to tailor their minor improvements programmes to their needs, rather than be limited to an 8% allocation;
- provide consistency across all infrastructure improvement activities for roading, walking & cycling and public transport; and
- ensure a more rigorous approach to assuring value for money from the NZTA's investment in minor improvements.

**Small improvement projects**

Improvement projects of greater than $250,000 and not more than $5 million estimated capital cost (including net property cost) will be treated as small improvement projects. Currently in the 2009-12 NLTP, the threshold between large and small/generic projects is $4.5 million.

Projects of $250,000 and lower estimated capital cost will form part of an organisation's minor improvement programme and cannot be treated as small projects.

Funding assistance applications may be made through the small projects module in TIO. Small projects can be linked to packages and, if the package is developed sufficiently, may carry the package assessment profile as assessed through the NZTA's assessment framework. Currently, "generic" projects cannot carry the package profile.

The reasons for the changes are to:

- ensure a "clean" split between  minor improvements programmes, with their simple funding application process, and small projects, which require a separate application for each activity in TIO;
- adjust the small/large project threshold upwards to $5 million, which will simplify more funding applications; and.
- enable small projects to be linked to packages and carry the package assessment profile.

**Large improvement projects**

Improvement projects of greater than $5 million estimated capital cost (including net property cost) will be treated as large improvement projects. Currently the threshold for a large project is $4.5 million cost.

Organisations may apply for funding assistance through TIO using the large projects module. Large projects may be linked to packages and carry the full package assessment profile provided the package is developed sufficiently.

The NZTA requires that any large project over $20 million estimated capital costs, for which investigation funding is being sought in the 2012-15 NLTP, must be under-pinned by an NZTA supported strategy, unless agreed otherwise by the NZTA. If organisations have not had their strategies formally supported by the NZTA and wish to apply for investigation funding for their projects during the 2012-15 NLTP, they may propose the investigation for inclusion in the NLTP provided there is an accompanying activity in the transport planning activity class covering the development of the underlying strategy.

The reasons for the changes are to:

- adjust the small/large project threshold upwards to $5 million, which will simplify more funding applications; and
- strengthen (integrate) the linkage between strategies, packages and projects and take another step to having all activities under-pinned by NZTA supported strategies or plans.

## Groups of small improvement projects

There is no requirement for organisations to develop groups of small improvement projects in the 2012-15 NLTP. The NZTA will set up groups and group allocations, with one group only per activity class, where these are warranted; generally where an organisation has 3 or more small projects in an activity class. An organisation that does not receive a group allocation may apply for funding assistance for its small project(s) under a separate funding application from NZTA's national funding pool in the same way as it would apply for funding for a large project. Currently in the 2009-12 NLTP, all generic projects must be in one of 3 groups per activity class.

The reasons for the changes are to:

- utilise the group allocation concept where the scale warrants its use and avoid the system and transaction costs that have resulted from requiring all small/generic projects to belong to a group; and
- simplify the implementation of the group concept by having only one group per activity class instead of three.

## No generic assessment profiles

There will be no generic assessment profiles applying in the 2012-15 NLTP, which will mean that all small projects will require assessment using the NZTA's assessment framework to determine an assessment profile. Currently, generic assessment profiles are applied mandatorily for all grouped projects.

The reasons for the changes are to:

- clarify assessment and avoid the ambiguity arising from applying a generic profile concept within an assessment framework that has specific criteria especially for strategic fit ratings; and
- enable small projects to be considered on their merits under consistent application of the assessment framework, rather than having "averaged" generic profiles applied mandatorily.

Note – assessment of small projects in TIO will be much simpler than is the case currently for large projects. Some increase in effort will be required to assess small projects for strategic fit and effectiveness in addition to the current requirement to assess economic efficiency. This effort should be offset to a large degree by the shift to minor improvements of projects that currently have to be individually assessed.

## Peer review requirements

Independent, external[1] peer review of large improvement projects of over $5 million estimated construction cost will be mandatory. The NZTA encourages independent peer review of projects between $1 million and $5 million estimated construction cost, and, at the very least, expects that these projects will be internally peer reviewed. There is no requirement for peer review of projects of less than $1 million cost, unless there is a significant associated risk around cost estimation. Currently, "complex" improvement projects must be independently peer reviewed.

The NZTA will reserve the right to select the peer reviewer for any project or to establish a peer review panel for very large and complex packages or projects. Currently, the NZTA reserves the right to require any project to be independently reviewed by an external peer reviewer or to review any project itself. In a few cases, the NZTA has required a peer review panel be established to review very complex/ significant packages and projects.

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[1] "Independent, external" means a peer reviewer who is not an employee or contractor of the organisation making the application or of any consultant(s) that has provided services or advice to the applicant in respect of the activity being peer reviewed. "Independent" also means that the organisation undertaking the peer review is not so commercially reliant on the relationship with the applicant to the extent that its independence may be called into question.

The reasons for the changes are to:

- remove ambiguity around the interpretation of “complex” projects and simplify the thresholds at which independent peer review is required;
- clarify that the NZTA’s right to require any project to be peer reviewed extends to the selection of the peer reviewer; and
- ensure that the NZTA’s practice of requiring peer review panels for significant situations is clearly stated.

## Assumption when there is no BCR or lack of evidence supporting the BCR in developing the NLTP

Our experience from developing past NLTPs is that information demonstrating the economic efficiency of some small and large improvement projects is often incomplete, awaiting the full development of the projects including calculation of the benefit cost ratio (BCR). This does not preclude the projects from inclusion in an RLTP or the NLTP, but it does create some issues around the assessment and prioritisation of these projects.

For the 2012-15 NLTP, the NZTA will rate the economic efficiency of all projects that do not have a stated BCR, or lack evidence supporting their BCRs, as **low**.

When the 2009-12 NLTP was developed, an assumption that the economic efficiency rating of projects that had no evidence to support a BCR would be medium was applied.

The consequence of the default low rating for 2012-15 is that some projects that are at an early stage of development may be prioritised in the NLTP below their ultimate priority, due to the lack of a BCR or evidence supporting a BCR. When these projects are developed and the appropriate evidence is provided, their priority may improve.

Applicants should note that “rating BCRs” that ascribe an arbitrary BCR to certain types of projects are not acceptable; the BCR of any project that requires a rating of economic efficiency must be determined using the procedures set out in the NZTA’s Economic Evaluation Manual.

The reasons for the changes are to:

- ensure a more rigorous approach to assuring value for money from the NZTA’s investment in improvement projects; and
- correctly apply the NZTA’s Investment and Revenue Strategy and Assessment Framework, which requires the default rating for economic efficiency to be low until demonstrated otherwise.

## Developing High Productivity Motor Vehicle activities

In April 2010 new regulations were introduced, which enabled High Productivity Motor Vehicles (HPMVs) to operate under permit on designated routes. Initially, investment has been focused on investigation of routes and the barriers, such as weight restrictions on bridges, to their use as HPMV routes.

Applications for funding are expected in the 2012-15 NLTP for the implementation of projects arising from current investigations. In many cases, it is likely that the HPMV routes will comprise state highway and local road components and will require coordination between the NZTA (for state highways) and one or more local road controlling authorities for project implementation.

The NZTA recommends that HPMV improvement projects that include both state highways and local roads be developed as packages of state highway and local road improvement projects. The package approach enables each organisation to set up their parts as projects and apply for funding from the appropriate activity classes, while being identified as linked to a single package and assessed with a single package profile. This approach should also be applied for local road HPMV activities which span more than one local authority.

HPMV packages need to be set up in TIO by the lead organisation using the packages module so that projects in each package can be linked to it.

The reasons for the recommendation is to:

- accommodate HPMV activities that are implemented by the NZTA and local authorities, or span more than one local authority, and ensure they are linked and assessed as a package;
- align readiness of package components to ensure complete routes are delivered in a coordinated manner and not as sections that are disjointed in time and/or distance.

## Regional Councils eligible for local roads maintenance and operations funding

Regional councils are now eligible to apply to the local roads maintenance and operations activity class, within Work Category 151 - Network and asset management, for the purposes of delivering regionally managed Network User Information activities. This accommodates these activities following the removal of congestion relief, mode shift promotion and network efficiency activities from the Road User Safety activity class in the November 2010 amendment of the Government Policy Statement on Land Transport Funding.

All regional council applications must be targeted to maximise the efficiency of the transport network and the capacity and function of existing assets, and will require the alignment and coordination with relevant local authority activity management planning.

## Changes to Work Categories

As part of the process of preparing for the development of the 2012-15 NLTP, the NZTA has taken the opportunity to review and clarify some work categories. The section that follows summarises the changes and reasons for them. Full details of the revised work categories, with their associated FAR, are contained in the Planning & Investment Knowledge Base.

The work categories affected are:

a. **W/C 513, Bus and passenger ferry concession fares** is removed and those costs are to be included in W/C 511, Bus services or W/C 512, Passenger ferry services as appropriate. The requirement for this separate work category is diminishing as more contracts change from net to gross contracts. Also, in other cases the fare subsidy is incorporated into the contract price for the services. Where concessionary fare "top up" payments are made to commercial services operators under current policy that practice may continue but as a charge to the allocations for W/Cs 511 or 512. This aligns the treatment of concessionary fares with that for passenger rail services.

b. **W/C 533, Passenger transport road improvements** is removed. Funding for this activity is to be included within the road controlling organisation's program. The responsibility for maintenance and construction of roads currently rests with the respective road controlling organisation. It has become increasingly difficult to separate the PT component of a road improvement from that for the benefit of other traffic, including HOVs, or for traffic management. Maintenance was and will continue to be incorporated into the road controlling organisation's general maintenance programme. For those reasons it has been decided to discontinue the separate work category.

c. **W/C 524, Public transport information supply, operations and maintenance** is established as a new work category. Prior to this change there was no clear identification of the costs related to the operation and maintenance of the facilities for the provision of PT information. With the growth of technology, particularly electronic ticketing and real time information, these costs are increasing substantially and need to be identifiable. Also, there are significant costs associated with the marketing and promotional activities including timetable information and displays, and operation of call centres, currently being funded across more than work category.

d. **W/C 632, Public transport services administration** was removed from the PPFM for the 2009 -12 NLTP in anticipation of the changes required as a result of amendments to the Land Transport Management Act 2003. Implementation of the processes necessary to give effect to those changes was delayed and funding continued to be made in the 2009 – 12 NLTP under W/C 632. These will take effect for the 2012 – 15 NLTP and the costs previously provided for within W/C 623 are to be reallocated as in-house professional services or as support services costs to the activities or groups of activities that they contribute to.

e. **W/C 531, Public transport facilities renewals and improvements** definition has been clarified and an activity introduced for , "minor improvements", with a guaranteed base allocation of 5% of the provision for public transport services (all modes) with a cap of $250K for any single improvement activity. This provision to be found from within the approved organisations existing program and not as an additional allocation;

f. **W/C 001, Regional land transport planning management** has been retained in a modified form and the grant of 0.15% of the regional land transport programme has been removed. The activities covered by W/C 001 will be of the actual costs, including overheads, associated with:

- regional land transport programme (RLTP) preparation, including consultation, approval, variation and management.
- regional land transport strategy (RLTS) preparation and management, including consultation, approval, variation, monitoring and reporting.

## Changes to the Total Mobility scheme

In addition to the other changes advised here, the NZTA has reviewed its policy related to the Total Mobility scheme with the primary objective of simplifying the complexity related to the calculation of the FAR and to align the treatment of "administration" with that now applying to other activities. The section that follows summarises the changes. Full details are contained in the Planning & Investment Knowledge Base.

a. **W/C 633, Total Mobility administration** is removed and costs for this are to be are to be reallocated as professional services or in-house professional services or as support services costs as a component of W/C 517, Total Mobility operations;

b. **W/C 517, Total Mobility operations.** The calculation of the FAR for this W/C has been simplified by setting a FAR of 60% for all those RCs implementing stage 2 of the Total mobility scheme, and 50% for those that have only signed up to stage 1. These changes will remove the need to reference expenditure back to the 2005/06 allocation. For those approved organisations yet to sign up to the scheme, the FAR will continue at the existing 40% until such time as they do.

c. **W/C 521 Flat Rate payments** has been renamed W/C 521 Wheelchair hoist use payments to better reflect its purpose and the payment rate is amended from $10 (GST incl) to $10 (GST excl) to align it with all other payments from the NLTP. This change also accounts for inflation since the payment was introduced in 2007

## Regional contact

Please contact your Planning and Investment representative for further information or assistance in implementing these changes into your programme.

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