

STOCKTAKE OF THE LAND TRANSPORT NZ FUNDING ALLOCATION PROCESS

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ABSTRACT

The Land Transport New Zealand funding allocation process was designed to meet Land Transport Management Act 2003 (LTMA) requirements for government land transport funding through the National Land Transport Programme. The process is multi-modal, encouraging long-term planning and allowing funding flexibility to achieve the broader LTMA outcomes. One result has been an increase in the scale and complexity of land transport investments.

The government value for money reviews on land transport investment suggested that the process could be improved and a two phase review is underway.

This paper reports on the phase one stocktake which was completed in March 2008 and concluded that the process sets out a logical framework for land transport funding but there are issues that need to be addressed.

The funding allocation process faced the challenges of continuous adaptation and improvement. The process had proved its flexibility in improving methodologies as well as embracing changes in funding rules and policy shifts.

The vast majority of stakeholders are supportive of the approach and agree that it moves the transport sector in the right direction.

However, knowledge and awareness of the funding allocation process among funding applicants and other stakeholders is low

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BACKGROUND

Land Transport NZ's funding allocation process was devised in 2002 to meet the requirements placed on approved organisations and Land Transport NZ under the Land Transport Management Act 2003 (LTMA) for land transport investments through the National Land Transport Programme (NLTP). The process reflected a new multi-modal approach, encouraging long-term planning and allowing funding flexibility to achieve an integrated, safe, responsive and sustainable land transport system.

The emerging funding allocation process was peer reviewed in 2003 by Transport Research Laboratories UK Limited (TRL). It was recommended at the time that the funding allocation process be reviewed in the medium to long term (after 2 to 3 years) to capture the experiences following practical implementation.

The funding allocation process comprises six stages. The stages allowed Land Transport NZ to:

- assist approved organisations to understand Land Transport NZ legislated responsibilities when preparing and approving the NLTP and approving activities to enable them to formulate proposals that best meet those requirements
- ensure proposals are assessed satisfactorily
- prioritise and programme activities over a 10-year period in accordance with Land Transport NZ's objective and other requirements in the LTMA
- approve activities and activity classes for funding in accordance with LTMA requirements
- report on the contribution that the NLTP has made towards achieving the outcomes of the government as set out in the LTMA

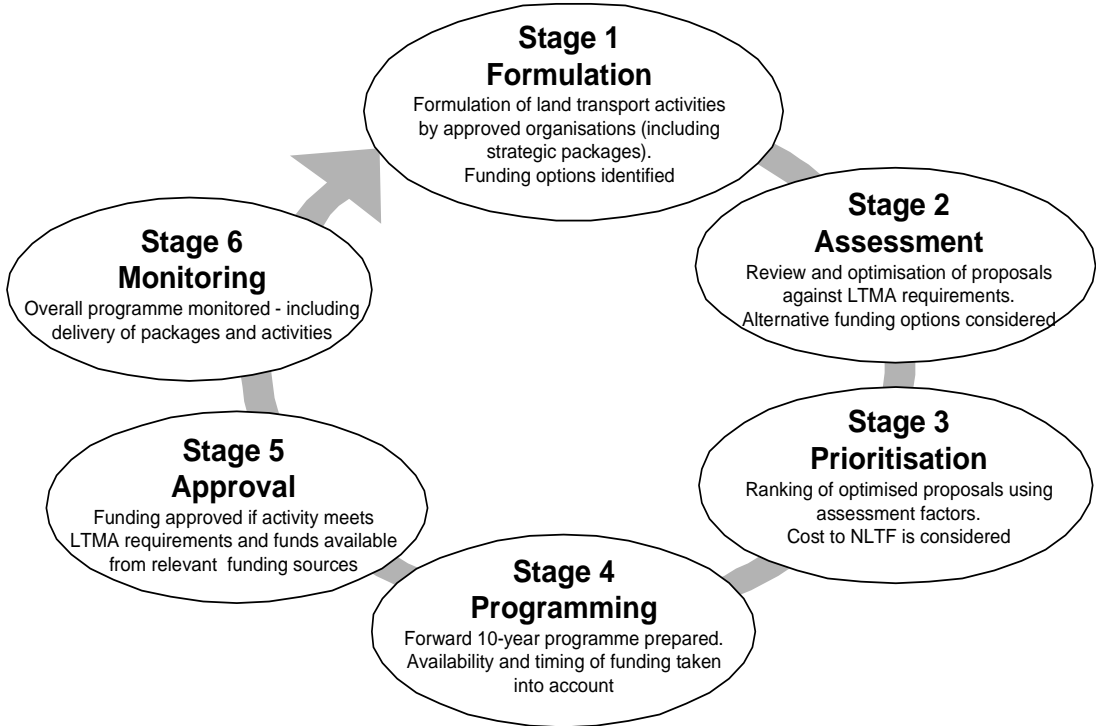


Figure 1. The six stage funding allocation process

The six stages involved formulation of land transport programmes by approved organisations, assessment of these against LTMA requirements, prioritisation of these, preparation of the 10-year programme, funding approval and overall programme monitoring. At the assessment stage Land Transport NZ evaluated each proposal against:

- the seriousness and urgency of the transport issue or problem addressed
- the effectiveness of the proposed solution in dealing with the issue
- the economic efficiency of the proposal

A qualitative and quantitative assessment system is used, whereby each proposal is evaluated under each of these criteria as high, medium or low. Land Transport NZ prioritised the proposals according to the assessment, take account of the affordability of the proposals and the opportunity to integrate proposals to achieve the efficient and effective use of resources.

GOVERNMENT VALUE FOR MONEY REVIEWS

There has been an increase in the scale and complexity of projects influenced by the government's commitment to increase funding and to achieve the broader LTMA outcomes.

The Ministerial Advisory Group on Rooding Costs Final Report, August 2006 (MAG) found a need to review the strategic planning and detailed decision-making framework to ensure optimal selection and scope and thereby control the growth in project costs in the future. The Final Report on the Review of Value for Money in the Land Transport Sector from the EXG Review, April 2007 (EXG) identified issues around maximizing value for money from the NLTP, minimizing future cost increases, improving monitoring, reporting of allocation and expenditure. The Next Steps in the Land Transport Review, April 2007 (Next Steps) recommended changes to the government land transport sector in terms of investment planning, funding and structure with a view to enhancing agency responsiveness, performance, capability and value for money.

A recommendation from the various reviews was that the funding allocation process could be improved. The EXG report to Cabinet recommended that Land Transport NZ commission an independent review of the robustness of the funding allocation processes, including:

- How Land Transport NZ's current processes might be streamlined.
- How transparency in Land Transport NZ's funding allocation process can be improved.
- Whether the way that the assessment criteria of seriousness and urgency, effectiveness and efficiency are being used, and the relationships among the criteria, are likely to result in value for money decisions.

STOCKTAKE PART OF VALUE FOR MONEY REVIEW

The October 2007 update to Cabinet on value for money review initiatives revised the cabinet decision regarding the review of the funding allocation process. The original scope and timeframes were amended to provide for a two phase review of the funding allocation process. This was to ensure the review can take account of and support:

- Next Steps legislation (Land Transport Management Amendment Bill 2008).
- Objectives and targets in the update of the New Zealand Transport Strategy.
- Any changes arising from other value for money workstreams (eg discount rate review).

The two phase review consists of:

- An initial stocktake commissioned by Land Transport NZ for completion by the end of March 2008, of the current funding allocation process to assess its performance in meeting the requirements of the Land Transport Management Act 2003.
- A comprehensive independent review that will recommend changes to the funding allocation process in light of the new funding and planning processes resulting from the Next Steps legislation, the findings of other value for money review initiatives, and the priorities identified by the updated New Zealand Transport Strategy.

The second phase will fulfil the original requirements for an independent review and will recommend changes to the funding allocation process.

STOCKTAKE PROVIDER

TRL was the lead consultant for the stocktake as the first phase of the review. TRL partnered with AEA Technology, Stimpson & Co Limited and Transport Futures Limited. TRL and AEA are UK based firms while Stimpson & Co and Transport Futures provided local presence for information gathering and review.

STOCKTAKE METHODOLOGY

The stocktake was conducted between December 2007 and March 2008 through seven key tasks, compilation of evidence base documents, desktop review (documentation analysis), investigative review (stakeholder interviews), benchmarking (comparison with the processes in UK and Australia), case studies, SWOT analysis and key findings. 74 people were interviewed from 35 organisations for the investigative review and case studies.

The project was guided by a steering group to review progress and comment on intermediate results. Ministry of Transport, the Treasury, Land Transport New Zealand, Transit and Local Government NZ had representation on the steering group. The final report was completed and delivered on 28 March 2008.

OVERALL FINDINGS

The stocktake concluded that funding allocation process sets out a logical framework for the formulation, assessment and funding decisions for transport solutions to meet LTMA objectives.

The funding allocation process faces the challenges of continuous adaptation and improvement. In recent years the funding allocation process has proved its flexibility in improving its methodologies for assessing proposals as well as embracing external changes such as new funding rules and shifts in policy direction.

The feedback from the vast majority of stakeholders is supportive of the funding allocation process approach and agrees that the transport sector is moving in the right direction.

However, knowledge and awareness of the funding allocation process among approved organisations and other stakeholders is low.

CORE ISSUES IDENTIFIED

Six core issues were identified as being of particular importance. They represent the key issues raised during the stocktake that exerted the greatest influence or concern over the entire funding allocation process. Attachment 1 provides details for these six core issues and issues with each of the six discrete stages of the funding allocation process.

- Integration of land use and transport
- Multi-modal solutions
- Level of complexity
- Transparency (process documentation and stakeholder engagement)
- Delivering NZTS and LTMA objectives
- Value for money

RESPONSE TO THE FINDINGS

The stocktake has been conducted on the funding allocation process as operational up to the 2007/08 NLTP that complies with the 2003 LTMA as amended in 2004. The MAG review, EXG review, and the LTMA Amendment Bill 2008 influenced the evolution of the funding allocation process for the 2008/09 NLTP.

The stocktake has been broad in scope and some of the issues identified are external to the funding allocation process but influential to its performance. Attachment 1 summaries the main issues and assigns each an action and timeframe. The issues were used to scope phase 2 of the review. External issues will be acknowledged in the scope and potential avenues for resolving identified.

In addition to the issues that require attention from the issues register there are some key considerations for phase 2 of the review:

- The future funding allocation process has to reflect the new legislative, strategic and institutional context. Providing clear measurable targets is a key precursor for the success of a future funding allocation process.
- Strengthening the strategic approach within the future funding allocation process and promoting the integration of land-use planning, optioning and multi-modal solutions
- Developing guidance and methodologies to rationalise and improve the assessment and prioritisation stages. International practice can provide some good examples.
- A quality management process to assist with task and knowledge management.
- Developing the internet based interface LTP Online into a tool to promote strategies and packages and to better manage and communicate information to participants and stakeholders in the process.

PHASE 2 – REVIEW OF THE FUNDING ALLOCATION PROCESS

Through the stocktake a series of principles have been identified to guide the development a future funding allocation process. The principles should be seen in the context of the legislative provisions. The stocktake suggests the following principles for the future funding allocation process:

- Strategic
- Integrated
- Reliable
- Transparent
- Responsive
- Value for money

OUTLINE FOR THE PHASE 2 REVIEW

The 2008 amendment to the LTMA and the publication of the New Zealand Transport Strategy 2008 and Government Policy Statement on land transport funding 2009/10 – 2014/15 and the creation of the New Zealand Transport Agency (NZTA) in August 2008 will allow phase 2 of the review to consider how the funding allocation process can be revised to improve alignment with the new legislative and policy context for the transport sector.

A revised funding allocation process will be developed and consulted upon with the sector and stakeholders for publication in 2010. It should then be phased in prior to being fully implemented for the second three year NLTP for 2013/16.

The long timeframe required to complete the review and implement change does not exclude any rationalisation or simplification of the funding allocation process within this period. As noted above some of issues are already being addressed.

ATTACHMENT 1 – MAIN ISSUES IDENTIFIED FROM THE STOCKTAKE

CORE ISSUES

Integrating land-use and transport planning is recognised as an important element to meet the overall LTMA objectives. However, there are relatively few examples of good practice and the vast majority of funding proposals do not fully take land-use integration into account. Lack of awareness, guidance and incentives are considered to be the key reasons.

Multi-modal solutions are also acknowledged as important in delivering the LTMA objectives. There were an increasing number of multi-modal applications and a pro-active approach from Land Transport NZ to receive more proposals for strategic package solutions. Nevertheless, there is a relative lack of guidance and suitable assessment methodologies compared to the development of single mode roading solutions.

The six stages of the funding allocation process are described in a clear and logical manner and this reflects solid overall process. However the process is very complex, as it needs to deal with 22 funding sources, has more than 65 criteria for the assessment and 13 activity classes divided into more than 50 work categories. This leads to problems for approved organisations, as well as requiring significant resources to manage and support the process.

In terms of transparency, the information sent to applicants as well as publicly available information is relatively weak in comparison with international practices. The majority of stages, particularly prioritisation and programming, are seen as a 'black box' by approved organisations and other stakeholders.

The strategic gap between the NZTS/LTMA and implementation via the funding allocation process and the NLTP – identified in the Next Steps Review – was a major problem for guiding and measuring the progress against government objectives. The absence of agreed and measurable targets leads to a high level of ambiguity in assessing environmental and social impacts. Clear measurable indicators would set a framework for improving the assessment stage as well as providing a better basis for monitoring outcomes.

The expanded range of funding sources, activity classes, work categories, assessment criteria and thresholds have led to a number of different 'pathways' that proposals may follow. This had a potential negative impact on the administrative burden and compliance costs of the funding allocation process, on approved organisations and on Land Transport NZ. This should be reviewed to identify where consolidation and simplification is possible.

There is an unbalanced relationship between the quantified benefit cost ratio used in the economic efficiency assessment factor and the largely qualitative basis and weaker methodologies for other factors (seriousness & urgency and effectiveness) in the overall pursuit of value for money. This is not in line with international best practice, as best value should be based on an appropriate and balanced view.

ISSUES WITH THE FUNDING ALLOCATION PROCESS STAGES

Issues to be addressed at the discrete stages within the funding allocation process were identified in the stocktake.

Formulation stage

Land Transport NZ had limited control or influence on formulation, and lacks a mechanism to ensure that approved organisations take the LTMA fully into account. NZTA should continue with a pro-active approach. Further improvements to the formulation stage include

developing guidance on alternatives and options to ensure that these are fully considered and ensuring that other sector strategies are considered. Issues to be considered for phase 2 include:

- Strategies or packages as a precondition for funding
- Improvement of LTP Online to support packages
- Develop methodologies for a tiering approach
- Guidance on alternatives and options
- Robust link between objectives and transport activities
- Robust link to wider government strategies
- Future forecasting to identify problems before discussing solutions
- Future cascading strategy

Assessment stage

The peer review process as part of the assessment enables other approved organisations to comment on the assessments and this could be strengthened. Assessments also benefit from a simple high level summary (the assessment profile); the use of a BCR that is helpful in comparing the efficiency of similar projects and an assessment process that is flexible and not too mechanistic overall. Significant opportunities exist for enhancing the assessment stage including developing a tailored approach to specific proposal types and developing a clearer differentiation between assessment factors and criteria. Issues could also be weighted to reflect the length of impact of a factor or category. It will also be important for the assessment to remain flexible and continually improved to accommodate changes in policy and knowledge. Issues to be considered for phase 2 include:

- Rationalisation and improved guidance for the assessment factors of Seriousness and Urgency, and Effectiveness
- Recognising needs for affected communities and user groups
- Review of the Economic Evaluation Manuals
- Improved assessment methods for packages and strategies
- Consistent reporting and evidence
- Peer review standardisation
- Strengthen the long term perspective in the evaluation

Prioritisation stage

Land Transport NZ performed internal reviews of funding proposals to check the assessment undertaken by the approved organisation. There was a lack of guidance on how prioritisation is undertaken and a lack of transparency which could be addressed through stronger information and communication practices. There were also opportunities to improve the way that the prioritisation actively helps the funding allocation process to reflect the wider policy agenda represented in the LTMA (eg. on environmental and social issues). The prioritisation stage's treatment of packages as opposed to individual projects could also be enhanced which could contribute to a more integrated approach. Issues to be considered for phase 2 include:

- Guidance for prioritisation
- Documentation for aggregation method
- Review of use of the assessment thresholds for the different funding sources
- Transparency, rationale, understanding and distinction with respect to the programming stage

Programming stage

Once prioritisation has taken place, projects and packages are put into a programming framework to identify when the funding will be available. This will be developed into a three year cycle in the future, however there is already a 5 year state highway budget plan and 10 year forecast which sets the financial framework, and this reduces the flexibility of programming function. Programming is also impacted by the constraints governing various funding sources (ie. Local, Regional, Crown and National). Ensuring consistency of programming in terms of the programme cycle, funding source, and ensuring robustness of funding plans could be key improvements. Issues to be considered for phase 2 include:

- Improving consistency in the framework for prioritisation
- Safeguard checks during the programming stage
- Robustness of funding plans
- Extension of the programme cycle

Approval stage

The approval process was not transparent to approved organisations, and this stage could be simpler with little administration if other phases are undertaken correctly. Issues to be considered for phase 2 include:

- Future funding allocations of between modes

Monitoring stage

Current monitoring practice was emerging for the funding allocation process, with monitoring taking place on a limited range of parameters (eg. project value, safety and asset management). There were significant opportunities to improve the monitoring stage to cover the breadth of policy outcomes and generate a consistent cascaded approach to monitoring and feedback across the national, regional and local levels. Issues to be considered for phase 2 include:

- Developing a national monitoring system
- Cascaded monitoring to enable target setting at different levels
- Monitoring and approval of transport strategies and plans
- Improve the feedback loop from audits and monitoring

PROPOSED RESPONSES TO THE MAIN ISSUES IDENTIFIED

| Theme | Issue | Response | Timeframe |
|------------|--|---|-----------------|
| Integrated | Further guidance for integration of transport into land use planning | NZTA Regional Land Transport Programme guidelines | 2009/12 NLTP |
| Integrated | Further use of integrated transport models | NZTA policy work programme | 2008/09 |
| Integrated | Adoption of impact assessment tools | Include in phase 2 review scope | 2010 |
| Integrated | Improved assessment methods for packages and strategies | NZTA Planning, Programming and Funding Manual | 2008/09 NLTP |
| Integrated | Future funding allocation between modes | Government Policy Statement | 2009/12 NLTP |

| Theme | Issue | Response | Timeframe |
|--------------|--|---|------------------|
| Integrated | Cascaded monitoring to enable target setting at different levels | Include in phase 2 review scope | 2009/12 NLTP |
| Integrated | Wider stakeholder engagement at strategic level | Include in phase 2 review scope | 2010 |
| Integrated | Integrate other sector perspective policies | Include in phase 2 review scope | 2010 |
| Responsive | Further support for strategies and studies | NZTA Planning, Programming and Funding Manual | 2009/12 NLTP |
| Responsive | Further guidance for transport demand management | Include in phase 2 review scope | 2010 |
| Responsive | Greater advice on the formulation and assessment of alternatives and options | NZTA Planning, Programming and Funding Manual | 2008/09 NLTP |
| Responsive | Review activity classes and work categories to ensure a 'level playing field' | Government Policy Statement | 2009/12 NLTP |
| Responsive | Strengthen the long term perspective in the evaluation | Discount rate reviews by Ministry of Transport and Treasury | 2008 |
| Responsive | Improve the feedback from audits and monitoring | Include in phase 2 review scope | 2009/12 NLTP |
| Streamline | LTP-Online improvements | Underway | 2009/12 NLTP |
| Streamline | Streamlining for lower cost activities (priority for packages and block funding) | NZTA Planning, Programming and Funding Manual | 2009/12 NLTP |
| Streamline | Set up quality assurance process | Include in phase 2 review scope | 2010 |
| Streamline | Streamline and cascade objectives (consistency between different scales) | Include in phase 2 review scope | 2009/12 NLTP |
| Streamline | Review of Economic Evaluation Manuals | Include in phase 2 review scope | 2010 |
| Transparent | Close the 'knowledge gap' between applicants and stakeholders | Stepping forward NLTP sector capability development | 2008/09 |
| Transparent | Rationalisation and guidance on prioritisation | NZTA Planning, Programming and Funding Manual | 2009/12 NLTP |

| Theme | Issue | Response | Timeframe |
|--------------|--|---|------------------|
| Transparent | Access to information | NZTA Planning, Programming and Funding Manual | 2008/09 NLTP |
| Transparent | Improve reporting on outcomes | Include in phase 2 review scope | 2009/12 NLTP |
| Transparent | Recognising interrelation and trade-offs between targets | Include in phase 2 review scope | 2009/12 NLTP |
| Transparent | Enhance guidance on forecasting | Include in phase 2 review scope | 2010 |
| Transparent | Rationalisation of the assessment factors | NZTA Planning, Programming and Funding Manual | 2008/09 NLTP |
| Transparent | Consistent reporting and evidence | Include in phase 2 review scope | 2010 |
| Transparent | Peer review standardisation | NZTA Planning, Programming and Funding Manual | 2008/09 NLTP |