

## **IN CONFIDENCE**

Office of the Minister of Transport

Chair  
Cabinet Economic Development Committee

### **Update on the New Zealand Transport Agency's investment decision-making framework review**

#### **Proposal**

1. This paper provides the Committee with an update on the New Zealand Transport Agency's (the NZ Transport Agency) work to revise its investment assessment models, including the Investment Assessment Framework (IAF) and Economic Evaluation Manual (EEM), to ensure safety, access, public health, urban development, environmental effects, and network benefits are appropriately incorporated, in fulfilment of Cabinet's directive to report back six-monthly (CAB-18-MIN-0293.02 refers).

#### **Executive summary**

2. The Government Policy Statement on land transport (GPS) 2018 signalled a step-change in the priorities for land transport investment in New Zealand.
3. Decisions on activities included in the National Land Transport Programme (NLTP) are informed by the NZ Transport Agency's investment decision-making framework. This uses a number of tools and assessment approaches including the IAF and EEM:
  - 3.1. The IAF is used by NZTA to prioritise projects, based on how they align with the strategic direction we set.
  - 3.2. The EEM sets out the values and procedures used to value investments in cost-benefit analysis. It is used across the transport sector as the industry standard.
4. On releasing the GPS 2018, Cabinet recognised the importance of changing the NZ Transport Agency investment decision-making framework to recognise the wider costs and benefits that land transport investment can have. This work is key to ensuring that the Government's vision for transforming the land transport system can be realised. At this time, Cabinet requested six-monthly updates on work undertaken to ensure safety, access, public health, urban development, environmental effects, and network benefits are appropriately incorporated. This report-back is provided in fulfilment of this request.
5. The NZ Transport Agency has initiated a review across its investment decision-making framework to ensure that the direction set in GPS 2018 is properly embedded at all levels of the investment process. This work also provides a comprehensive basis

for significantly improving how the transport investment system operates and performs. The improvements will:

- 5.1. Align transport investments to Government outcomes including the Living Standards Framework and Transport Outcomes Framework.
  - 5.2. Improve the methodology and frameworks for how investments are made and managed (e.g. good portfolio management and business case process).
  - 5.3. Build capability in the sector to use and apply investment tools in a more consistent manner.
6. The early focus of this work has been on revising the IAF and EEM. Initial changes to the IAF have:
- 6.1. Ensured that proposed safety-related investments will be given highest priority.
  - 6.2. Introduced performance indicators to allow a wider range of objectives to be recognised in the business case process, such as access and public health.
7. Initial changes to the EEM have:
- 7.1. Updated and clarified the way that the benefits and costs of specific safety-related interventions are valued.
  - 7.2. Improved the accuracy of the costs used to account for factors including vehicle emissions, value of time, reliability and comfort.
8. Overall, I consider that the NZ Transport Agency is taking a comprehensive and considered approach to the review of the investment decision-making framework. This includes strengthening investment appraisal and prioritisation, enhancing the approach to benefits realisation and the development of sector capability in applying investment frameworks.
9. Collectively, the improvements that NZ Transport Agency is leading across these areas, if delivered well, will enable a more effective and integrated investment system better aligned with the Government's transport priorities and also the wellbeing outcomes and the Living Standard Framework.
10. While I believe progress has been made, there are some key areas that need a sustained focus to maintain momentum. The scale and nature of the improvements that the NZ Transport Agency is making are ambitious. It will be important that the NZ Transport Agency Board ensures appropriate focus and resourcing is in place to deliver on the improvements.
11. This is particularly important given the timeframes that the NZ Transport Agency is working to implement the changes. It will also be important that the NZ Transport Agency engages early across the transport sector to socialise changes to the investment framework.

12. I am advised that the Ministry of Transport (the Ministry) is playing both a monitoring and governance role in the review. As the responsible monitoring agency, the Ministry is partnering with the NZ Transport Agency to refine the approach to the wider investment decision-making framework review, in particular, to ensure that the review:
  - 12.1. Is properly coordinated, and that the focus on the IAF/EEM is not diluted.
  - 12.2. Encompasses a monitoring and reporting approach in respect of benefits realisation throughout the investment process.
  - 12.3. Is sufficiently resourced, particularly to support the sector to adapt to changes made at the implementation stage.
13. At the same time, the Ministry together with Treasury, are substantive members of the governance group for the NZ Transport Agency's review, and will play an active role in progressing it. The Ministry is co-leading a key workstream in the review that aims to strengthen investment appraisal to embed a mode-neutral, system-based approach to transport investments. Improvements in this area will streamline the Government's ability to shape the investment management system. It will also enable the NZTA to focus on its core delivery role.
14. The Ministry will provide me and the Associate Minister of Transport with regular updates on progress. I consider that the extensive involvement of the Ministry and Treasury throughout the process, coupled with the regular progress reporting, will provide sufficient assurance that the review is heading in the right direction to address Cabinet's earlier concerns. On that basis I propose that these report-backs to Cabinet be shifted to a by-exceptions basis.
15. The NZ Transport Agency's investment decision-making framework review will only improve one part of a complex system. I am also keen to ensure that assessment and evaluation undertaken across the wider transport sector drives the outcomes we are seeking – through investment, but also using other tools, such as regulation.
16. To strengthen the work in this space and ensure it can drive the necessary system-wide improvements in assessment and evaluation, the Minister of Finance and I have approved a funding proposal from the Ministry. The additional funding will support the development of a comprehensive assessment and evaluation framework. This framework will be applied across the transport system, including all potential policy options and modes – leading, in the long-term, to improvements in evidence-based planning.

**On agreeing to issue the GPS 2018, Cabinet recognised the importance of making changes to the NZ Transport Agency's investment decision-making framework**

*GPS 2018 signals a significant shift in the priorities for land transport investment*

17. On 25 June 2018, Cabinet agreed to release the final GPS 2018 (CAB-18-MIN-0293.02 refers).
18. The GPS is the Government's primary statutory lever to guide land transport investment over ten years. It sets the strategic direction, priorities and funding

parameters that steer the NZ Transport Agency's investment of around \$4 billion from the National Land Transport Fund (NLTF) each year.

19. GPS 2018 signalled a step-change in the strategic direction and priorities for the land transport system, and a record level of investment. It reflects this Government's intention to drive system-level transformation, as well as our wider commitment to creating liveable cities and thriving regions.
20. Our vision for land transport is captured in the four strategic priorities set out in GPS 2018: a safer transport network free of death and serious injury (*safety*); accessible and affordable transport (*access*); reduced emissions (*environment*); and delivering the right solutions at best cost (*value for money*).

*The NZ Transport Agency's investment decision-making framework determines how GPS priorities are realised*

21. The NZ Transport Agency is statutorily required to give effect to the GPS through the mix of land transport activities included in the National Land Transport Programme (NLTP) and funded from the NLTF.
22. Decisions on activities included in the NLTP are informed by the NZ Transport Agency's investment decision-making framework. This framework comprises a number of tools and approaches applied at different stages of its planning and investment process, including the IAF and EEM:
  - 22.1. The IAF is used by NZTA to prioritise projects, based on how they align with the strategic direction we set.
  - 22.2. The EEM sets out the values and procedures used to value investments in cost-benefit analysis. It is used across the transport sector as the industry standard.
23. To satisfy its statutory obligations, the NZ Transport Agency must ensure that its investment decision-making framework accounts for the strategic direction and funding settings prescribed in the GPS.
24. The step-change we signalled through GPS 2018 created a need for the NZ Transport Agency to review and adjust its investment decision-making framework. This work is essential to ensuring that the vision we set out for land transport is delivered through our investment, to the benefit of all New Zealanders.
25. I am bringing this report before the Committee to provide an update on the NZ Transport Agency's progress revising its investment decision-making framework – in particular, recognising the wider benefits land transport investment can leverage.

**The NZ Transport Agency has initiated a broad review of its investment decision-making framework and is making progress**

26. The NZ Transport Agency has taken a number of immediate steps to adapt the IAF and EEM to the new direction of GPS 2018. In doing so, they have started to respond

to the expectation I set, and the concerns expressed by Cabinet, when the GPS 2018 was released.

27. However, the IAF and the EEM are two elements within a broader, investment decision-making framework with many interdependent parts. Changes to the IAF and EEM have therefore been made within a holistic NZ Transport Agency-led review of this framework. This review is intended to ensure that the direction of GPS 2018 embedded throughout the investment system.
28. Other workstreams being progressed through the NZ Transport Agency's investment decision-making review include:
  - 28.1. Reviewing the range of strategic inputs to decision-making – e.g. investment principles and policies, local transport system and spatial plans.
  - 28.2. Considering options for simplifying the business case process.
  - 28.3. Producing guidance on benefits that should be identified and assessed to support monitoring of results.
  - 28.4. Building capability in the sector to apply the changes arising from the review.
29. While I acknowledge that the wider review is necessary, I consider that it is also important to ensure we focus on improving the IAF and EEM. These are the primary tools used to evaluate proposals against the priorities we set out in GPS 2018. I am assured that the Ministry, as a substantive member of the governance group for the review, has worked with the NZ Transport Agency to reinforce this focus.
30. The Ministry is also actively working the NZ Transport Agency to promote better coordination between the work programmes of the review, and with Ministry-led work programmes. This is to ensure that duplication is avoided, and ensure that the review does not stray from its key objectives.

*The IAF has been adjusted to support investment aligned with the strategic direction of GPS 2018*

31. The IAF is used to assess activities' alignment with the results specified in the GPS. It interprets the policy direction and expectations set out in the GPS, providing principles and a framework for prioritising potential investments.
32. The IAF has been amended to give higher priority to investment proposals expected to generate beneficial safety-related outcomes, in line with the strategic emphasis of GPS 2018. These changes will help ensure that interventions to drive improvements in the safety of our transport system are more likely to be progressed and funded.
33. The NZ Transport Agency has also developed key performance indicators for access, public health, economic productivity and positive environmental outcomes, and approved these for use in its business case development process. As business cases are required to quantify the benefits expected from proposed investments to be considered in assessment against the IAF, the development of approved indicators

ensures that the benefits of proposals can be properly captured in the assessment and prioritisation processes.

*Changes to the EEM are also underway to ensure benefits can be valued more accurately*

34. The EEM sets New Zealand's industry standard for the cost-benefit analysis of land transport activities. It includes the procedures and monetised benefit values used in appraising investments. This means that it is core to determining how we value different activities based on the impacts they are expected to have.
35. Improvements have been made to the process for measuring and assessing proposed safe speed treatments in the EEM. Specifically:
  - 35.1. The 'do minimum' scenario for speed management activities has been clarified, allowing it to be properly considered in economic appraisal among options to enable improved safety outcomes and identified, where appropriate, as the 'preferred option'<sup>1</sup>.
  - 35.2. The crash estimation compendium, which presents methods for predicting injury crashes for various road and sites, has been updated.
36. The NZ Transport Agency has also made changes to improve the accuracy of the costs used to account for factors including vehicle emissions, value of time, reliability and comfort.
37. The Ministry and the NZ Transport Agency also have important work underway to update the Value of Statistical Life model in the EEM. The Value of Statistical Life is a proxy for what New Zealanders would be willing to pay to reduce the road toll by one person. It is used to value safety benefits in cost-benefit analysis. The current value is based on surveys conducted in 1991, updated annually to account for inflation. When completed, this work will enable safety to be valued more accurately.

*The NZ Transport Agency is progressing complementary work to align other work programmes and GPS 2018*

38. The way that the NZ Transport Agency gives effect to GPS 2018 is not just defined by its investment decision-making framework, but also how this investment is packaged, delivered and reported on. This means that there are other parts of its business that need to be adapted to the direction set by GPS 2018. As such, the NZ Transport Agency is also:
  - 38.1. Developing National Priority Programmes (NPPs), to enhance the delivery of programmes of activities that offer the greatest contribution towards select safety and access-related results, by incentivising local government delivery.

<sup>1</sup> The 'do-minimum' scenario is the minimum level of expenditure or activity required to reach a level of service/performance deemed acceptable. Different options for interventions are considered against the do-minimum, and it may sometimes be the most acceptable solution to an identified problem (the 'preferred option'). The clarification made in the EEM is that, for safety activities where reducing the speed limit is a potential option, the 'do nothing' scenario is the existing baseline conditions of the network, based on the existing speed limit, infrastructure and services. The 'do minimum' can include benefits and costs of implementing a new safe and appropriate operating speed.

- 38.2. Developing a strategy to drive mode shift.
- 38.3. Expanding the One Network Road Classification system to set consistent levels of service across different modes, to enhance mode-neutral planning.
- 38.4. Working to incorporate best-practice guidance on achieving environmental outcomes into the assessment framework.

**The Ministry will continue to partner with the NZ Transport Agency on its investment decision-making review**

- 39. While I am generally satisfied with the direction of the review and the NZ Transport Agency's commitment to delivering the priorities of GPS 2018, there are two particular areas where I have directed the Ministry to focus its monitoring efforts on.

*A sharper focus on benefits realisation*

- 40. I consider that these work programmes need to ensure ongoing assurance and benefits realisation activities are undertaken – throughout both investment decision-making and delivery.
- 41. These activities, alongside transparent reporting, are important to ensure that investment decisions lead the outcomes intended. They provide me with confidence that NLTF investment is being targeted appropriately and managed prudently. As such, I consider that the NZ Transport Agency's work on assurance and benefits realisation needs to be better integrated with the investment decision-making review.
- 42. The Ministry will work with the NZ Transport Agency to ensure that this occurs.

*Careful timing and implementation to ensure the sector can adapt to changes*

- 43. The NZ Transport Agency's wider investment decision-making framework review will have significant implications across its range of stakeholders, especially those that apply for and receive funding from the NLTF. Clear education and guidance will be necessary to support its successful implementation.
- 44. The NZ Transport Agency is working to phase in the revised IAF and EEM by December 2019. It has suggested that this will provide sufficient time to support sector stakeholders in understanding and adapting to the new framework before the preparation of a new NLTP.
- 45. Any delay to delivery of the review would leave the sector less time to adapt before the new NLTP is released. This would place significant pressure on sector resource and capability, especially given that the sector will be considering concurrently how to respond to the refreshed signals sent during engagement on a draft GPS 2021.
- 46. To mitigate the risk that the sector is inadequately supported, the Ministry is working with the NZ Transport Agency to ensure it dedicates enough resource to building sector capability ahead of and following December 2019. The Ministry will have input into the NZ Transport Agency's implementation plan through the oversight group.

*Report back on a by-exceptions basis*

47. Through its monitoring function and representation on the governance group for the investment decision-making review, the Ministry will continue to monitor and support the review's progress.
48. The Ministry will report to me and the Associate Minister of Transport with regular updates on progress, and any areas of concern that emerge. On this basis, I propose that the Committee agree to receive report backs on a by-exceptions basis.

**While satisfactory progress has been made on the review, a more solid foundation for assessment and evaluation is needed across the transport system**

*The values, assumptions and approaches used for transport assessment and evaluation are essential to ensure investment delivers the results this Government is seeking*

49. The NZ Transport Agency's work to ensure that GPS 2018 is given effect is important. However, the overall assessment and evaluation system that impacts how outcomes are realised across the transport system is much broader. Assessment and evaluation is used not only to make investment decisions, but to inform strategies and approaches to deliver on desired outcomes, and to consider the use of levers other than investment – including system and spatial planning, education, and regulation.
50. The complexity of the assessment and evaluation system means that, to properly ensure that Government can deliver on the outcomes identified in the Transport Outcomes and Living Standards Frameworks, we need an overarching, comprehensive assessment and evaluation framework. It is important that this can be applied consistently across the transport system, and used to weigh up all possible interventions, and all modes.
51. The assessment and evaluation frameworks used by transport sector entities, including the NZ Transport Agency, are underpinned by numerous key values, assumptions and approaches. These are used to measure costs and benefits, assess the likely impacts of different options, weigh up trade-offs, and, ultimately, inform the decisions that we take. The quality of our decisions, and the delivery of desired outcomes, therefore depends on the robustness of these different components of the system and how well they work together.
52. I am concerned that there are currently shortcomings in these underpinning factors that limit our ability to drive positive outcomes across the system. These include:
  - 52.1. Inconsistent data and inputs being used across transport modes.
  - 52.2. Out-of-date and narrow values being used in cost-benefit analysis.
  - 52.3. A lack of appropriate evaluation processes.
53. Because these shortcomings are system-wide, they will not be fully addressed by the NZ Transport Agency's review of its investment decision-making framework.
54. I consider that a better-aligned system of assessment and evaluation would:

- 54.1. Use values, parameters, methodologies and inputs for assessment and evaluation models that are consistent across transport modes.
  - 54.2. Have an agreed, clear and broad set of social, economic, and environmental measures to be included in cost-benefit analysis.
  - 54.3. Support the collection of comprehensive data to be used for informing high quality policy-making and investment decisions.
55. To address my concerns, the Minister of Finance and I have approved a proposal from the Ministry seeking funding through Section 9(2) of the Land Transport Management Act 2003 to develop a comprehensive, mode-neutral transport assessment and evaluation system consisting of four main components<sup>2</sup>. These are:
- 55.1. *System performance measures* – develop measures that can be applied across different transport modes, to show how well strategies and initiatives across the transport system are performing and where intervention is required to deliver on the Government’s priorities and desired outcomes for the transport system. This could include measures for areas in which transport’s impact is currently not comprehensively measured, for example, public health.
  - 55.2. *System values and parameters* – build a set of quantified system values and parameters across different transport modes that go across a range of transport outcomes, particularly for those that have not been traditionally sought from transport, such as inclusive access, environmental effects, wellbeing and liveability.
  - 55.3. *System and strategic modelling* – develop a system and strategic modelling suite that can be used to design, estimate and evaluate the impacts of changes to policy settings alongside choices for investment, especially related to revenue and investment policy.
  - 55.4. *System appraisal methodologies* – create a consistent, integrated transport system-wide approach to assessment, which addresses current deficiencies in cost-benefit analysis and expands the range of outcomes that can be considered.
56. This work programme will involve a number of projects to inform the overarching framework, and some ongoing workstreams to embed the framework across the system, and maintain it. Some workstreams are likely needed to fill current gaps, some will be new, and some may be lifted up from parts of the sector to a multi-model, system-wide level led by the Ministry.
57. The work programme will contribute to a more comprehensive understanding of the range of policy and investment options that exist across the transport system and the way they might deliver value or desired outcomes, such as those identified in the Transport Outcomes and Living Standard Frameworks. Over the long-term, I expect this to lead to significant improvements in evidence-based planning.

<sup>2</sup> Section 9(2) enables the Crown to utilise land transport revenue to fund activities carried out by the Ministry and the NZTA related to the protection of the land transport revenue base and maintenance of the integrity of the revenue system.

58. The Ministry is the appropriate department to progress this work given its stewardship role across the wider transport sector, its transport sector agency monitoring responsibilities, and its existing stakeholder relationships.

### **Consultation**

59. The opportunity to comment on this paper was extended to the NZ Transport Agency, the Treasury, the State Services Commission, the Ministry of Business, Innovation and Employment, the Ministry of Primary Industries, the Ministry of Culture and Heritage, the Ministry for the Environment, the Accident Compensation Corporation, the New Zealand Police, Fire and Emergency New Zealand, and Worksafe New Zealand.
60. The NZ Transport Agency, the Treasury, and the Ministry of Business, Innovation and Employment provided feedback on the paper.

### **Financial implications**

61. This paper has no direct financial implications, though it relates to the disbursement of the NLTF.

### **Human rights implications**

62. The content of this paper is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

### **Legislative implications**

63. This paper has no legislative implications.

### **Regulatory Impact Analysis**

64. A Regulatory Impact Analysis is not required for this paper.

### **Gender implications**

65. This paper has no gender implications.

### **Disability perspective**

66. This paper makes no specific proposals relating to people with disabilities.

### **Publicity**

67. Following Cabinet agreement to this paper, I intend to release it in whole on the Ministry of Transport website. This release will be made within thirty days of Cabinet agreement.

## Recommendations

68. The Minister of Transport recommends that the Committee:
1. **note** that the New Zealand Transport Agency is progressing a broad review of its investment decision-making framework to respond to the new direction of Government Policy Statement on land transport 2018
  2. **note** that the New Zealand Transport Agency has taken a number of steps to reflect the signals sent through the Government Policy Statement on land transport 2018 in the Investment Assessment Framework and Economic Evaluation Manual
  3. **note** that the Ministry of Transport has provided feedback on the New Zealand Transport Agency's review of the investment decision-making framework to refine its current approach, address risks to timing, and will continue to monitor and provide input into the review
  4. **note** that the Ministry of Transport will provide me and the Associate Minister of Transport with regular updates on the progress of the review, which I will share with interested Ministers
  5. **agree** that the requirement to report-back to the Committee biannually on the New Zealand Transport Agency's review of the Investment Assessment Framework and Economic Evaluation Manual (CAB-18-MIN-0293.02 refers) be shifted to a by-exceptions basis
  6. **note** that the Minister of Finance and I have approved a proposal by the Ministry of Transport for additional funding to develop a comprehensive and transparent assessment and evaluation framework that can be applied consistently across the transport system
  7. **note** this paper will be released following Cabinet agreement.

Authorised for lodgement

Hon Phil Twyford  
**Minister of Transport**