

File No. TP/1/9/7
edgecombe12jul_awb

12 July 2002

Mark Edgecombe
Transfund New Zealand
P O Box 2331
WELLINGTON

Dear Sir

Submission on Transfund's Funding Allocation Framework

The following is a submission on Transfund's proposed Funding Allocation Framework. This submission is written on behalf of the Wellington Regional Council and its Regional Land Transport Committee. The submission seeks to respond to the "Position Paper" issued May 2002.

We welcome the change in direction announced by the Government on 28 February 2002 and the consequential Transfund proposals for a new funding allocation framework.

The Government has announced changes in direction that appear to have merit in terms of international best practice but there have been no actual changes in legislation so Transfund still has to comply with the previous legislative framework. This would suggest that the current proposals may be a transition arrangement. Given that "transition arrangements" can exist for lengthy periods this submission is written in terms of the proposed Funding Allocation Framework being a long term proposition.

We acknowledge that Transfund has moved away from a simple BCR project based approach to a more multi-variable strategic analysis. We would encourage Transfund to research further "world's best" practice in the use of these multi-variable techniques. Over time we would expect further refinement and additions be made to the funding allocation process to reflect that research.

We would like to see greater devolution of decision making to local transport agencies. Our ultimate approach would be for Transfund to bulk fund regional strategies. As a step in this direction we would like Transfund to increase its level and categories of bulk funding. This will become increasingly possible once there is a statutory NLTS that is reflected in the RLTS.

Finally, we congratulate Transfund on its use of this new approach for the 2002/03 Annual National Transport Programme. We recognise that Transfund had a very short time to implement the new approach and as a consequence erred on the side of caution. We are sure all stakeholders saw the potential benefits and now look forward to further development of it in the coming years.

The rest of this submission examines the funding allocation framework using the following criteria. Is it:

- technically sound and consistent with international best practice
- consistent with achievement with Government's objectives and priorities
- consistent with good decision making by being transparent and ensuring the decision makers are accountable to key stakeholders and the public in general?

The comments relate to the "Position Paper" issued by Transfund dated May 2002. Paragraph numbers used refer to the same paragraph numbers in the position paper.

4. It is our understanding that the Minister's intent in establishing the five priority areas is that these were not a priority order with severe congestion being the top priority down to road safety being the last of the priority areas. We believe that Transfund may have misunderstood the Minister's intent by interpreting these priorities as a priority order.

We are further concerned that Transfund's Project Evaluation Manual and its proposed changes gives a strong emphasis to congestion relief. It is our view that the coupling of the emphasis on congestion relief in the Project Evaluation Manual with severe congestion relief being regarded as a priority area will lead to double counting in the area of congestion relief unless this was the intention. In that case this should have been stated explicitly.

5. We believe that the establishment of a robust New Zealand Transport Strategy (NZTS) is urgently required. The NZTS should give direction to transport policy and establish priorities for funding allocation. We are concerned that in the first use of this funding allocation process priorities were determined by the Minister. In the interests of transparency and accountability the priorities for investment should be driven through the NZTS which we would expect would have gone through a statutory public consultation process. In addition, the funding allocation framework requires consistency and should provide a high degree of certainty to stakeholders that a proposal will be funded or otherwise. This would require a clear NZTS to establish priorities for investment rather than announcements from the Minister that could be somewhat ad hoc.
6. The content of the variation to Transfund's Performance Agreement is supported as a move towards international best practice. We note that Transfund is required "as far as possible" to achieve alignment between its funding allocation framework and Regional Land Transport Strategies. We would expect in future to see some analysis to show how Transfund is achieving "as far as possible" alignment between Regional Land Transport Strategies and its funding allocations. If Transfund is relying on road controlling authorities to align their submissions to strategies then again this should be stated.

We would also note that under the first bullet point of this paragraph in the "Position Paper" that only the Regional Land Transport Strategy is a statutory document that by legislation is required to achieve specified outcomes and go through a statutory consultation process.

9. We are concerned that the initial allocation of funds into the NLTP output groups is made by the Transfund Board having regard to the NZTS and government's funding priorities. The Transfund Board is not accountable to its stakeholders or anyone else

except perhaps the Minister. There is no transparency in “having regard” to the NZTS and government’s funding priorities. How much “regard” is sufficient regard? Will such allocations have sufficient consistency built into them to ensure a reasonable degree of certainty for agencies making funding applications in subsequent years? Sufficient direction from the NZTS is required to address this issue to ensure consistency, certainty and accountability.

10. We are concerned that Transfund still proposes a project based evaluation process. This is inconsistent with international best practice where, for example, in the United Kingdom funding is allocated on a package based approach. The package is the physical representation of a soundly based strategy. Project based evaluation methods may be appropriate for isolated minor projects in rural areas. However, in dense multi modal urban networks such as Wellington, strong interdependencies exist between proposals and across modes. Isolated project based evaluation will lead to sub-optimal decision making.
11. We are concerned that the decision not to spend the initial allocation of funding to each output lies with the Transfund Board in consultation with the Minister. What criteria will be applied in making this decision? What is an appropriate level of expenditure in each output area? What criteria will be applied to reallocation of any uncommitted funds? This process lacks transparency, accountability and there appears to be no measure as to what are appropriate funding levels in each output. There is inadequate transparency, accountability and certainty in this process. Strong guidance is required from the NZTS to address this issue.
12. It is noted that no account is taken of a proposal’s priority in the relevant Regional Land Transport Strategy with respect to the pre-qualification criteria set out in attachment 2. Each of the output groups mentioned could have transparent priorities established for them in a Regional Land Transport Strategy. It is noted that no account is taken of a proposal’s priority in the relevant Regional Land Transport Strategy in the Project Attribute Sheet. There is some reference to the views of the RCA and the Regional Land Transport Committee in the Project Attribute Sheet. It is acknowledged that taking into account the views of stakeholders has merit but this is very different from attempting to align with the priorities of a Regional Land Transport Strategy. A Regional Land Transport Strategy is a statutory document which is designed to achieve statutory defined outcomes and is required to comply with a statutory public consultation process. No such requirements apply to views of an RCA or an RLTC.

It is noted that the Project Attribute Sheet makes no allowance for the views of Regional Councils with respect to passenger transport services or alternatives to roading.

It is noted that the Project Attribute Sheet fails to recognise Government’s new land transport policy and its vision for an *affordable, integrated, safe, responsive and sustainable* transport system as outlined in paragraph 4 of Transfund’s position paper.

It is further noted that the Project Attribute Sheet makes no allowance for the synergies that may exist between one proposal and another or the possibility that one proposal may undermine another. These interdependencies can be significant in dense multimodal networks such as that which exists in the Wellington region. Failure to recognise these relationships will invariably lead to sub-optimal decision making.

We have concern that there is no transparency in the relative weightings that might apply to the factors that make up the Project Attribute Sheet and the decision as to whether a proposal meets pre-qualification criteria. How important is the proposal's benefit-cost ratio? How important are the views of the RCA or the RLTC? The lack of transparency in Transfund's proposed process is a primary contributor to uncertainty that agencies wishing to make a funding application will experience.

We note that the Evaluation Criteria for each NLTP Output Group for Road Construction provides for an extra weighting for congestion relief where there is little risk of induced traffic and a high degree of support from communities affected by it. How significant is this extra weighting? What is "little" induced traffic? What is "a high degree of support from communities affected by it?" There needs to be transparent criteria applied which identifies explicitly:

- the extra weighting
- what constitutes little induced traffic – is this 0%, 10% or some other figure?

Invariably a major road construction scheme will have several affected communities. These may include immediately adjacent land owners, users from all over the region, business interests and others. The views of these different communities may not always be the same. There is no way for Transfund to make decisions on this issue and determine if there is a high degree of community support. In addition the Transfund Board are not accountable to these communities. The only option Transfund has is to examine the appropriate Regional Land Transport Strategy, which by law has identified the region's needs, identified the most desirable means of responding to those needs and undertaken a statutory public consultation exercise.

13. All the comments that are made in respect to paragraph 12 apply also to paragraph 13.
14. Why is the BCR/ER used as the first criteria to prioritise proposals? It would be more appropriate to begin with the priorities established by the NZTS (or Government's transport policy priorities in the absence of an NZTS) and then consider the priorities established by the Regional Land Transport Strategies.

The decision as to whether a proposal has sufficiently high priority again appears to have little transparency. To what extent does the information in the Project Attribute Sheet influence this decision? How does the agency applying for funds have any certainty on the success or otherwise of a funding application?

15. The importance of Government's overall priorities will vary throughout the country. Regional Land Transport Strategies are required by legislation to identify needs and to propose the most desirable means of responding to those needs. It is understood that Regional Land Transport Strategies will be required to be not inconsistent with the NZTS so it would appear that the Regional Land Transport Strategy is well placed to contribute significantly to the stage four prioritisation process.
16. The establishment of a five-year indicative programme is supported in principle. The moving away from an annual funding regime is consistent with a strategic approach to funding. It is noted that a five year framework provides an opportunity to establish a link between Regional Land Transport Strategies and Transfund's financial planning.
18. The decision to reallocate funds from one output group to another requires transparency and accountability. What criteria will be applied to determine if:

- sufficient expenditure has occurred in a particular output group
- what are the priority output groups that unspent allocations should be reallocated to?

Conclusion

The Wellington Regional Council and its Regional Land Transport Committee has some concerns with Transfund's proposed Funding Allocation Framework. Council congratulates Transfund and supports a need to change from the previous framework to the new interim approach but it is not yet persuaded that the changes are sufficient. It is our view that:

- the key funding allocation decisions to the respective output groups lack transparency and the Transfund Board and the Minister who make these decisions do not have direct accountability to key stakeholders or the public.
- the decisions on pre-qualification and prioritisation of proposals by the Transfund Board would not make these decisions in a transparent way and no clear understanding of the relative importance of the respective attributes on the Project Attribute Sheet is given.
- this lack of transparency and accountability directly lead to a system that will lack certainty and predictability for key stakeholders.
- the interim funding allocation framework does not fully support Government's vision for transport to be affordable, integrated, safe, responsive and sustainable.
- the interim funding allocation framework does not achieve alignment with Regional Land Transport Strategies.
- the philosophy of the interim funding allocation framework has moved towards international best practice but still has a project based focus rather than a package based and strategy outcome focus – which will lead to sub-optimum decision making.
- the move towards a five year financial planning model does have merit and is supported.

Yours sincerely

DAVE WATSON
Divisional Manager, Transport