

INVESTMENT PRINCIPLES

A technical paper prepared for the Investment Decision-Making Framework Review

27 NOVEMBER 2019

Waka Kotahi NZ Transport Agency's existing investment principles have been reviewed and rewritten to ensure that their role in investment decision making is clear, from both an internal and external customer perspective, and to better reflect current investment priorities and practice. Five new investment principles have been created, to sit alongside operating principles set out in the Land Transport Management Act 2003. The new principles are high level, holistic and enduring, supported by underlying investment policies that will help guide investment choices and provide more detailed information, where needed. The revised investment principles will be used to guide new investment policies, the application of existing investment policies, and in developing transport solutions to be funded out of the National Land Transport Fund. The changes will take effect from 1 July 2020

REVISED INVESTMENT PRINCIPLES

Waka Kotahi NZ Transport Agency's five investment new principles are:

Invest in the transport system to achieve multiple government outcomes

We prioritise our investment to deliver the key land transport outcomes under the Government Policy Statement on Land Transport. We encourage activities and packages of solutions that are deliberately designed to deliver multiple outcomes, including contributing to wider government priorities where transport has a role to play.

Take a comprehensive approach to delivering best value for money

We require all alternatives and options to be considered to ensure the most effective and efficient solutions are implemented, and that assessment of 'value' considers social, environmental, safety and economic impacts, costs and benefits. We ensure there is an equitable sharing of costs across activities to reflect both public and private benefits.

Ensure solutions are future-focused and adaptable

We ensure intergenerational and land-use impacts of activities are understood so that immediate decisions do not undermine long term system outcomes, and that whole-of-life cost and effects are accounted for. Recognising that things change, activities should also be able to adapt in response to technology and be resilient to unexpected events.

Promote alignment on local and national priorities and impacts

We work together with our investment partners and other agencies to align national and regional priorities, and ensure investment decisions are coordinated and clearly linked to strategic planning frameworks. We require that effective community and Māori engagement is undertaken to ensure local needs have been considered.

Make decisions following a transparent process linked to a strong evidence base

We are open and clear about the assessment factors leading to a decision, and use timely, fit-for-purpose processes that are easy to understand and can be scaled to the appropriate level of risk. We will continue to improve future investment decision making through the ongoing evaluation of results to ensure evidence remains robust.

BACKGROUND

A principle is defined as a high-level value statement that is the foundation for an approach, behaviour or for a chain of reasoning.

The review process has included the following components in order to identify principles relating to investment of the National Land Transport Fund:

- a) desktop stocktake of the existing planning and investment principles and policies which are located on the Agency's web-based Planning and Investment Knowledge Base (PIKB)
- b) design workshop with representatives from across the Agency and the Ministry of Transport
- c) literature review of other organisations' overarching investment principles
- d) legal opinion regarding the status of current principles.

OUTCOMES OF THE REVIEW

PIKB stocktake results

Current principles

The Transport Agency currently has 10 planning and investment principles:

1. A partnership approach to planning and investment

The Transport Agency adopts a partnership approach, founded on trust, clarity and accountability, in its planning and investment decision making.

2. Development of a robust, evidence based investment case

The Transport Agency applies the business case approach to support planning and investing for outcomes, achieve value for money and ensure early stakeholder collaboration. This means to develop a robust, evidence investment case.

3. An integrated approach to land use and transport planning

An integrated approach to land use and transport planning will be used to optimise existing and new investments in the transport network, support access to social and economic opportunities and to foster liveable cities and thriving regions.

4. Optimising the maintenance, use and provision of the land transport network

Transport Agency investment at a whole-of-network level is to achieve an optimised, integrated transport network that targets the areas of greatest need, is fit for purpose and provides best value for money.

5. Right outcomes, at the right time and at the right cost

The Transport Agency invests funds to land transport activities to deliver the right outcomes, at the right time and at the right cost.

6. Risk-based approach

The Transport Agency applies a risk-based approach to ensure risks are considered and managed through the planning to delivery process, including financing.

7. A safe system approach

The safe system approach will be applied to planning, improving, maintaining, renewing and operating components of the land transport system.

8. Working in a socially and environmentally responsible manner

The Transport Agency aims to make land transport investments that improve community wellbeing overall and avoid or mitigate the adverse environmental effects of transport by working in a socially and environmentally responsible manner.

9. Those who pay should benefit from land transport investment

The Transport Agency intends that the land transport system users that provide the revenue into the National Land Transport Fund will benefit from its investments and that other beneficiaries, as a general principle, should pay for the benefits they receive.

10. Scrutiny principle

Legislation requires that for certain land transport planning and funding decisions, the Transport Agency must give the same level of scrutiny to its own activities as it would give to those of approved organisations. The Transport Agency calls this requirement the 'scrutiny principle'.

The main issues identified with the current principles can be categorised as:

- current principles relate to planning and investment, rather than just investment
- these contain a mix of high-level strategic intent, operational policy, legislative requirements, and funding conditions/rules and business case requirements
- it is inappropriate for the Transport Agency to rephrase legislative requirements as principles.

Design workshop

A workshop was held over two half days in October 2018, with participants from the Transport Agency and the Ministry of Transport. The format included:

- a) discussing the role and purpose of principles vs policies vs process vs guidance
- b) 'user stories' to identify how stakeholders may use investment principles in practical settings
- c) review of each of the 10 current principles to determine relevance of structure and content
- d) identification of any gaps in the current principles.

Key conclusions from the workshop were:

- While the current principles are for 'planning and investment', the new version should be reframed as investment decision-making principles.
- Principles and policies provide the bridge between 'strategy' and projects:
 - Principles provide overarching direction – they should be enduring, holistic, relatively brief, and there shouldn't be too many of them (although there is a trade-off between keeping them simple and providing useful guidance).
 - Within the IDM framework, principles need to articulate both '**Why** do we invest?' and '**How** do we invest?'
 - Policies are a means to deliver on the principles, and may be both operational and tactical (but are separate to the 'big P' strategic policy guiding outcomes e.g. the Government Policy Statement on Land Transport (GPS)).
- 'Principles' are used in multiple documents/domains, and there is some risk of confusion, so where possible (and within our control) it may be useful to limit the use of the terminology – e.g. Business Case Approach principles vs overarching principles.
- User stories indicated that principles may be useful to:
 - provide assurance that the Transport Agency is taking the right approach and focusing on the right issues
 - reinforce that there is consistency across different government agencies
 - frame exploratory discussions with the Transport Agency and councils prior to a funding case commencing
 - help 'tell the story' in education and communication activities
 - structure advice to the Board
 - increase agility where innovative or 'outside-the-box' proposals are being considered, moving away from a box-ticking exercise
 - demonstrate that underlying policies and procedures have a clear reason for existing and are aligned.
- 'Systems thinking' means different things to different people, and we need to build a common understanding and position on what it means in the IDM context.
- Behaviour change will be critical to ensure the intent of any principle/policy change is reflected in practice.
- Going forward, there were three commonly agreed principle 'themes':
 - contribution to government outcomes

- value for money/investment
- fair and transparent decision-making.
- Other concepts with the potential to be elevated to principle level were: being adaptable and future focused; partnership and collaboration; ongoing learning and benefits realisation; and being a responsible investor (e.g. minimising harm).

Literature review

Examples of investment principles from 10 other organisations have been reviewed to inform the development of updated principles. Key findings were:

- The principles were generally quite process-oriented, rather than being directive in terms of why/what to focus investment on.
- Language was relatively high-level and generic, with the individual principles often being in statement form, which some brief explanatory text.
- The number of principles ranged from four to 15.
- There were no examples of how they specifically linked to underlying policies – more often they talked about providing overarching guidance, rather than illustrating specific actions to deliver on the principles.

As such, there was no obvious example to ‘replicate’ from a Transport Agency perspective, given the desire for our investment principles to both provide direction for **why** we invest, and **how** investment decisions are made. However, there was some useful takeaways from individual organisations in terms of language, format, and themes.

Legal opinion

Queries have also been raised regarding the legal status of the current principles and policies, specifically:

- a) clarity on what principles, policies and guidance have higher standing over others; and
- b) whether the Transport Agency is following robust processes that stand up judicially.

The summary of legal advice is:

- Statutory requirements under the Land Transport Management Act 2003 (LTMA) have the highest standing, in particular section 20 regarding approval of activities. This highlights giving effect to the GPS; seeking value for money; using different methods of assessment; setting funding conditions and funding assistance rates; and meet the scrutiny principle.
- The Transport Agency must also act in accordance with the functions and operating principles in sections 95 to 96, which includes contributing to an effective, efficient and safe land transport system; acting in a transparent manner in its decision making; and exhibiting a sense of social and environmental responsibility.
- In terms of non-statutory principles and policies that may exist, it is at the discretion of the Agency to specify which have higher standing than others. However, we need to demonstrate that all non-statutory principles, policies and procedures are relevant considerations within the decision-making process – i.e. they relate to or stem from the high-level statutory requirements.
- A judicial review involves ensuring proper process is followed and that only relevant considerations are factored into the decision. Essentially, the Transport Agency must be open and clear about the assessment factors leading to investment decisions. Also relevant is what is happening in practice (which has not been included in this review).

- As such, identifying the principles, policies and procedures decision-makers are expected to apply is crucial, both in terms of transparency, but also so that it is clear that the decisions are being made on the right grounds.
- Given the previous lack of clarity around how the various components of investment decision making fit together and inform one another – improving this will be an important output of the overarching Investment Decision-Making Framework (IDMF) review, and ensuring there is a clear map back to all of the considerations in the LTMA that need to be factored into decisions.
- Regarding current principles, the main area of caution was the *‘Those who pay should benefit from the land transport investment’* principle, as once in the National Land Transport Fund, funds can be applied to any of the items in section 10(3) of the LTMA. This supports the feedback from the stocktake and design workshop that this principle is no longer relevant and should be removed.