

# LOW COST LOW RISK PROGRAMMES

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

29 MAY 2020

Waka Kotahi NZ Transport Agency has increased the threshold for low cost, low risk (LCLR) activities from \$1M to \$2M for the 2021–24 NLTP period. Waka Kotahi expects Activity Management Plans (AMPs) or the equivalent for public transport activities to provide the overall business case for these LCLR activities, including setting out its approach to addressing gaps in the existing customer level of service and optimising its programme. LCLR activities can also arise from other programme business cases, such as the Safe Network Programme. Business cases are only required for activities with a total cost exceeding \$2M in the 2021–24 period.

Additional information about location, benefit and strategic priority will be required to help with tracking investment against the delivery of Government Policy Statement on Land Transport (GPS) priorities, and on closing gaps in customer level of service. Waka Kotahi has updated guidance on LCLR programmes to reflect this.

## PURPOSE

The purpose of this paper is to:

- define low cost low risk (LCLR)
- outline the LCLR threshold
- outline updated LCLR information requirements
- define associated improvements.

## LOW COST LOW RISK DEFINITION

Waka Kotahi has amended and simplified the definition of a Low Cost Low Risk activity for the 2021-24 National Land Transport Programme as:

'Any activity within an identified activity class that has a total implementation cost within the Low Cost Low Risk threshold'

LCLR activities will be grouped into the applicable LCLR in the relevant activity class.

## LOW COST LOW RISK THRESHOLD

The level of the threshold for a LCLR activity was the specifically consulted on with the sector. The feedback was split evenly between keeping the threshold at \$1M, increasing the threshold either based on adjustments of costs, or through to \$5M.

Following the feedback, Waka Kotahi undertook further analysis of various options, ranging from \$1M to \$5M, to understand the impact of increasing the LCLR threshold on activities in the National Land Transport Programme (NLTP). Consideration was also given to the number of activities that each Approved Organisation (AO) included in the 2018–21 NLTP; refer to Appendix 1.

The analysis highlights that:

- Twenty-five AOs are purely funded through their Activity Management Plan (AMP) or Regional Public Transport Plan (RPTP) for Maintenance Renewals and Operations, Public Transport and LCLR expenditure.
- A further 31 AOs would be funded through their AMP or RPTP if the LCLR threshold was increased to \$2M (some will still need to complete a business case as they do have projects in the \$5M range).

**Table 1: 2018–21 National Land Transport Programme by activity cost**

Activity Cost	Number of Projects Included in the NLTP	% of total cumulative NLTP activities	Funding included in the 18-21 NLTP	% of total cumulative funding included in the NLTP	Total Project Costs
<1M	1209	63%	\$ 693,890,508	10%	\$ 1,104,217,885
1-2M	119	69%	\$ 87,537,800	11%	\$ 167,985,247
2-5M	216	80%	\$ 399,001,578	17%	\$ 691,682,014
5-10M	130	87%	\$ 496,013,312	24%	\$ 927,300,408
10-15M	68	91%	\$ 458,588,953	31%	\$ 808,470,503
15-30M	75	95%	\$ 723,610,889	41%	\$ 1,589,837,013
30-50M	39	97%	\$ 592,354,934	49%	\$ 1,454,765,008
50-100M	30	98%	\$ 709,478,196	60%	\$ 2,028,476,431
>100M	36	100%	\$ 2,828,026,691	100%	\$ 15,345,825,541
Total	1922		\$ 6,988,502,861		\$ 24,118,560,050

*\*Note: The number of LCLR projects was estimated by dividing the total LCLR spend by \$1M.*

The analysis in Table 1 highlights that:

- The existing LCLR threshold covers 63% of activities representing 10% of expenditure.
- The Board reserves decision-making for 3% of activities (over \$50M) capturing about 50% of expenditure.

The LCLR programme would have the following coverage at \$2M and \$5M thresholds respectively:

- **\$2M threshold** –an additional 119 projects, which make up a further 6% of NLTP-funded activities, capturing \$88M of NLTP funding making up a further 1% of NLTP expenditure.
- **\$5M threshold** – an additional 335 projects, which make up a further 17% of NLTP-funded activities, capturing \$487M of NLTP funding making up a further 7% of NLTP expenditure.

On considering a range of options, the Waka Kotahi Board approved an increase in the LCLR threshold to \$2M for a LCLR for the 2021–24 NLTP. The threshold refers to the capital cost of the improvement activity (including administration costs) from design through to implementation. The Board decided that a \$2M LCLR threshold effectively balances risk and complexity with efficiency and cost-effective delivery of outcomes in the 2021-24 NLTP.

## MANAGING LCLR THRESHOLDS

### NLTP development and the annual LCLR programme reset

If the total cost to complete an activity, during NLTP development or the annual LCLR programme reset, is close to the LCLR threshold then consideration should be given by the AO, and its Waka Kotahi Investment Advisor, to the likelihood of the activity exceeding the established threshold.

If there is a high probability that the activity will exceed the threshold, then the AO should be prudent and not include the activity in its LCLR programme, instead completing a Point of Entry with Waka Kotahi to identify the business case pathway and obtain funding to develop the appropriate business case (generally expected to be a Single-stage Business Case (SSBC) Lite).

### Implementation phase

During the implementation phase, if it is identified that the LCLR activity is expected to exceed the threshold then the AO must contact its Waka Kotahi Investment Advisor immediately. Waka Kotahi will exercise its discretion to either retain the activity within the LCLR programme, require a SSBC Lite to be prepared, or require a cost scope adjustment to be prepared. Consideration will be given to the following factors:

- the reason for the activity exceeding the threshold
- the amount by which the activity's cost is expected to exceed the threshold
- if the activity's scope changed
- any other instances a LCLR activity exceeds the threshold
- extent to which risk is already adequately addressed.

The adjusted cost for the activity will be paid for within the AO's existing funding allocation for its LCLR programme. No additional funding will be provided, meaning the adjustment will need to be offset by the deferral or under-expenditure of other activities within the AO's LCLR programme.

If any activity is expected to exceed the LCLR threshold, approval to fund the activity under the LCLR programme needs to be obtained from Waka Kotahi. Any AO that commits to, or commences, a new activity prior to funding approval from Waka Kotahi or commits expenditure on an activity in excess of the funding approval, does so at its own risk.

# INFORMATION REQUIREMENTS

## Additional information requirements

Waka Kotahi has completed a review of the LCLR information requirements. Additional information requirements are required to provide sufficient information to support the increased LCLR threshold, and to enable monitoring benefits and the contribution that LCLR programmes to GPS strategic priorities.

The following additional information is required for LCLR activities:

- **Individually listed projects** – Activities will need to be individually listed to clarify what is included in the LCLR programme.
- **GPS alignment** – The GPS strategic priority an activity best aligns with will need to be stated for each individual activity.
- **Activity location information** – Location information will need to be provided for each individual activity to allow benefits mapping to be undertaken across the LCLR programme.
- **Benefits** – The primary benefit will need to be identified for each LCLR activity. This will allow benefit measurement to be undertaken.

The additional information for LCLR is required for the 2021–24 NLTP and subsequent NLTPs. Waka Kotahi is working with AOs and the Transport Investment Online (TIO) team to confirm how this information will be input into TIO to ensure these requirements are not burdensome, and that the LCLR programme retains its flexibility. Process guidance is also being developed to outline completing and uploading a LCLR funding request and programme into TIO.

## LCLR programmes in separate activity classes

LCLR activities will be grouped into a LCLR programme in each of the following activity classes (subject to changes to activity classes in the Government Policy Statement on Land Transport (GPS) 2021):

- Road to Zero
- Public transport infrastructure
- Walking and cycling improvements
- Local road improvements
- State highway improvements.

Guidance and a template will be provided after the GPS 2021 has been finalised. These have been informed by feedback from the consultation.

## Requirements for inclusion in the 2021-24 NLTP

Waka Kotahi expects AMPs, or the equivalent for public transport activities, to provide the overall business case for an AO's LCLR programmes. This includes setting out its approach to addressing gaps in the existing customer level of service and optimising the programme. LCLR activities may also arise from other programme business cases, such as the Safe Network Programme. Activity-level business cases are only required for investments with a total cost exceeding \$2M in the 2021–24 period.

An AO is required to provide the following to Waka Kotahi for a LCLR programme:

- completed and approved bid template to obtain a three-year funding allocation
- draft LCLR detailed activity list template that supports the AO's bid for a three-year funding allocation
- completed information to enable draw down of funding, including the list of activities to be carried out for the year with required information.

## ASSOCIATED IMPROVEMENTS

An associated improvement is defined as:

*'Improvement activities that are completed in conjunction with programmed renewals. The renewal must be the primary reason for the works being completed'*

Associated improvements are discretionary capital improvements where there is a step change in level of service provided by Waka Kotahi or the AO and, therefore, should be capitalised. Treasury has raised concerns in the past about Waka Kotahi charging capital works to maintenance activity classes. The associated improvements process is simple but provides transparency over completed capital works, as these activities are charged to improvement activity classes.

Associated improvements are to be reinstated and expanded to consider all transport modes for the 2021–24 NLTP. The reinstatement and expanding of associated improvements align with the draft design report and the supportive feedback Waka Kotahi received from the consultation.

To ensure associated improvements deliver value for money, and align with the GPS 2021, these improvements can only be considered for:

- seal width improvements carried out in conjunction with road renewals, if the main benefit is to either least-cost maintenance treatment, improve safety or meet the customer level of service for the road's functional classification
- minor drainage improvements, if the improvement is necessary to mitigate the frequency and risk of closure to a level of service appropriate for its functional classification
- changes in the configuration of the general layout of road, footpath or public transport facilities to include new minor traffic management equipment, amended layout and facilities to meet the customer levels of service (all modes) for the functional classification.

The following rules are in place for associated improvements to ensure costs are manageable and that they provide value for money:

- The renewal must be the primary reason for the substantive works.
- Improvements must be charged in full to the LCLR work category.
- Improvements may exceed \$2M by exception in consultation with your Waka Kotahi Investment Advisor and through seeking appropriate delegated approval.
- The total cost of the associated works must not exceed 20% of the cost of the renewals work.
- Associated improvements must be added to the LCLR programme when they are identified. However, the AO needs to remain within its allocated funding for its LCLR programme. Any associated improvements completed that result in the AO exceeding its allocated LCLR funding will not be funded by Waka Kotahi.

## APPENDIX 1: APPROVED ORGANISATIONS BY COMPLEXITY

<b>Very Low Complexity Approved Organisations</b> (All capital projects below \$1M)	<b>Low Complexity Approved Organisations</b> (Some small capital projects above \$1M)	<b>Medium Complexity Approved Organisations</b> (Most capital projects \$1M-\$5M)	<b>High Complexity Approved Organisations</b> (Some capital projects >\$5M)
20 Road Controlling Authorities 5 Regional Councils	29 Road Controlling Authorities 2 Regional Councils	13 Road Controlling Authorities 3 Regional Councils	7 Road Controlling Authorities 1 Regional Council
<ul style="list-style-type: none"> <li>• Buller District Council (DC)</li> <li>• Carterton DC</li> <li>• Central Otago DC</li> <li>• Chatham Islands Council</li> <li>• Hauraki DC</li> <li>• Horowhenua DC</li> <li>• Kapiti Coast DC</li> <li>• Kawerau DC</li> <li>• Mackenzie DC</li> <li>• Masterton DC</li> <li>• Matamata-Piako DC</li> <li>• Opotiki DC</li> <li>• Otorohanga DC</li> <li>• South Waikato DC</li> <li>• South Wairarapa DC</li> <li>• Stratford DC</li> <li>• Taupo DC</li> <li>• Waimate DC</li> <li>• Westland DC</li> <li>• Department of Conservation</li> </ul> <p><b>Regional Councils</b></p> <ul style="list-style-type: none"> <li>• Manawatu/Whanganui</li> <li>• Environment Southland</li> <li>• Northland</li> <li>• Taranaki</li> <li>• West Coast</li> </ul>	<ul style="list-style-type: none"> <li>• Ashburton DC</li> <li>• Central Hawkes Bay DC</li> <li>• Clutha DC</li> <li>• Grey DC</li> <li>• Gore DC</li> <li>• Hurunui DC</li> <li>• Invercargill City Council</li> <li>• Kaikoura DC</li> <li>• Kaipara DC</li> <li>• Manawatu DC</li> <li>• Marlborough DC</li> <li>• Napier City Council</li> <li>• Nelson City Council</li> <li>• New Plymouth DC</li> <li>• Rangitikei DC</li> <li>• Ruapehu DC</li> <li>• South Taranaki DC</li> <li>• Southland DC</li> <li>• Tararua DC</li> <li>• Tasman DC</li> <li>• Thames-Coromandel DC</li> <li>• Timaru DC</li> <li>• Upper Hutt City Council</li> <li>• Waikato DC</li> <li>• Waimakariri DC</li> <li>• Waipa DC</li> <li>• Wairoa DC</li> <li>• Waitaki DC</li> <li>• Waitomo DC</li> </ul> <p><b>Regional Councils</b></p> <ul style="list-style-type: none"> <li>• Bay of Plenty</li> <li>• Hawkes Bay</li> </ul>	<ul style="list-style-type: none"> <li>• Dunedin City Council</li> <li>• Far North DC</li> <li>• Gisborne DC</li> <li>• Hastings DC</li> <li>• Hutt City Council</li> <li>• Palmerston North City Council</li> <li>• Porirua City Council</li> <li>• Rotorua Lakes Council</li> <li>• Selwyn DC</li> <li>• Western Bay of Plenty DC</li> <li>• Whakatane DC</li> <li>• Whanganui DC</li> <li>• Whangarei DC</li> </ul> <p><b>Regional Councils</b></p> <ul style="list-style-type: none"> <li>• Environment Canterbury</li> <li>• Otago</li> <li>• Waikato</li> </ul>	<ul style="list-style-type: none"> <li>• Waka Kotahi NZ Transport Agency</li> <li>• Auckland Transport</li> <li>• Christchurch City Council</li> <li>• Hamilton City Council</li> <li>• Tauranga City Council</li> <li>• Queenstown-Lakes DC</li> <li>• Wellington City Council</li> </ul> <p><b>Regional Councils</b></p> <ul style="list-style-type: none"> <li>• Greater Wellington</li> </ul>