

Vested Assets – Deep Dive Report

Recommendation

That the Board:

- i. Receive the report.

Executive summary

AT receives vested assets from developers and the NZ Transport Agency, with more than half a billion dollars worth received in the last five years. Whilst the largest portion is land, it also includes infrastructure within the road corridor. Issues have been raised with design and physical works carried out by developers, and several initiatives are underway to make improvements to the process.

Vested assets arise when property developers undertake development in an area which requires them to build infrastructure. A design is agreed between Auckland Council (AC) and the developer and development contributions are paid. When the development is complete the infrastructure is vested to entities within the AC Group. They are recognised at fair value when control of the asset is transferred to the AC Group. Assets are also vested by the Transport Agency when the state highway status is revoked and they become local roads. They are then transferred to AT, adding to the local roading network.

Vested assets bring associated consequential operating costs for AT. Historically it has been difficult to accurately forecast these costs. No additional funding has been received to manage vested assets. A study was completed for the Auckland Transport Alignment Programme (ATAP) that has ascertained the funding needs on a more robust basis. This data will be used for the next Long Term Plan (LTP).

Background

Vested assets are assets transferred from developers to meet their obligations under the building / resource consent issued for subdivisions. Other sources include the NZ Transport Agency, for assets no longer classified as state highways. They consist of land under roads, and all infrastructure within that roading corridor, including:

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|----------------------------|--|---|
| • Road Land | • Drainage associated with the road | • Traffic signals, signs, road markings, |
| • Footpaths and cycle ways | • Street Gardens and Trees | • Speed Humps, Traffic Islands and Bollards |
| • Street lighting | • Bus Shelters | |
| • Road Bridges | • Retaining Walls, Railings and fences | |

Value vested to Auckland Transport	Ex Developers	Ex NZTA	Miscellaneous ¹	Total
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(\$000)				
2016/17 (YTD)	40,338			40,338
2015/16	151,495			151,495
2014/15	162,483		444	162,926
2013/14	94,852	123	211	95,186

¹ Occasionally other minor assets, such as CCTV cameras, are given to AT at no cost.

The total value of vested assets depends on the development of subdivisions within the region. This is expected to increase in the foreseeable future. A budget was included in the last LTP for \$140 million per annum (\$100 million land and \$40 million for associated assets).

Vested Assets 2015/16	\$000
Vested Land	112,453
Road - Formation	9,983
Roading Base, Surface, Footpaths and Drainage	22,051
Street lighting, Traffic Control and other associated assets	7,008
Total	151,495

Vested Assets from Developers

AC Consent and Development Engineers regulate design and physical work carried out by developers. Road and associated work should be to AT's standards (known as ATCOP). On completion of the work, the developer is issued with a 224C certificate which confirms acceptance by AC. At this point, the roading component of the work becomes the responsibility of AT. A team of Development Engineers (AC), AT Quality Assurance Team representative and a Road Corridor Delivery team member will carry out a visual inspection of the work on completion.

Issues arise where the work completed is:

- Below required standard
- Above required standards e.g. using asphalt on suburban roads
- Needing higher than normal ongoing opex e.g. managing vegetation

There is limited leverage to do anything at the point of handover. Recent examples observed include:

- Work not to specification
 - Urban design and street amenities – high maintenance cost vs. new design
 - Raised pedestrian crossings and speed tables installed with varying designs, in some cases with little differentiation from decorative surface finishes
 - Footpaths that have been constructed with steeper longitudinal gradients than allowed in AT specifications
 - Vehicle crossings installed without the correct splays
- Lack of connectivity with existing infrastructure
- Visibility and safety issues

As a consequence, AT is working with AC to improve the following:

- 1) AT should have a representative or “project manager” for project quality control
- 2) Identify to AC Consenting/Development Engineers what needs to be referred to AT for review (not all plans are sent to AT for approval)
- 3) A maintenance person should be sent development plans for review. The issue of limited resources within Road Corridor Delivery to carry out this work would need to be addressed.
- 4) AT staff should be notified in advance of all work that is to be carried out in the road corridor as a result of new developments
- 5) AT representatives (QA and RCD) should attend all final inspections where maintenance items are to be accepted by AT
- 6) The current turn-around times often do not allow for a good quality, comprehensive response back to AC (feedback to be provided in five days)

Time constraints and resources appeared to be the main areas where improvements could be made. Liaison between AC and AT for the processing and approving of consented work has been improved, however, AT is not involved in all consent approvals that include roading, and issues such as those above continue to come through. Most of the issues above are of a ‘practical’ nature, and might more readily be picked up before the construction phase by engineers with road construction or maintenance experience. Resourcing the specialists is the main challenge.

Development Contributions (DC’s)

DC’s are fees charged by the Council for residential and non-residential developments, to pay for their share of the extra community and network infrastructure required as a result of their development. AT does not set or receive DC’s directly.

Auckland Council receives DC's for planned and historic growth infrastructure and vested assets for local works and services. Local works may be required as a condition of subdivision consent for the provision of water, parks and roads, and are in addition to the DC charge.

DC's are proportionately calculated by AC, taking into account what AT has outlined as its required budget. The DC's are paid to AC as a cost recovery mechanism which is applied against part of the overall funding provided to AT. If infrastructure is no longer required for an activity in a specific funding area and no other project can provide the same requirements/needs the proportion of development contribution received may be required to be returned to the developer.

Development contributions are one-off and do not cover ongoing opex. Rule changes recently require Councils to only charge developers for direct costs associated with developments (not downstream network impact or ancillary services like libraries).

If AT need more funding for growth projects, a proposal through a budget refresh process (AP, LTP) may be accepted and added to the AP or LTP budget, the associated growth proportion will be included in the development contribution charge when the policy is reviewed.

NZ Transport Agency Assets

Vesting of highways is less frequent. The next significant vesting will be the existing State Highway between Puhoi and Warkworth when the new expressway is complete.

AT is working with the Transport Agency to ensure asset condition is maintained through maintenance and renewals so that no backlog in maintenance is inherited on transfer. The associated Transport Agency activity classes will also need to be increased to ensure the 51% Transport Agency share of subsequent renewals and maintenance is funded.

Consequential Opex

The consequential operational and renewals needs (generally known as consequential opex) is an issue for vested assets due to both the quantum of extra work and lack of funding.

The modelling of consequential opex is challenging due to:

- Difficulty in accurately predicting the quantum of assets to be added in any given year. AT's long term plans provide a good handle of future additions to the network but subdivision developments are governed by commercial imperatives which are beyond the control of AT. As a result, no accurate assessments are available for these projects. Historical trends are often used to overcome this issue, which are not always reliable.
- Unavailability of accurate life cycle cost needs at the inception. These needs are ideally to be ascertained before hand over of assets to AT but generally they are not available. Operational costs need to be catered for at the inception and includes activities such as power supply, cleaning, security, vegetation control and asset inspections etc. Sometimes these needs can be significantly high as demonstrated by the operational costs of the recently completed Northwest Shopping Centre. On the other hand, maintenance costs which are needed for asset repairs are minimal at the inception but will increase with time as assets age. These different requirements are generally not captured accurately at inception for most projects.
- Technology changes will increase the complexity of future infrastructure assets and their transfer will result in both increased maintenance and earlier renewal costs (e.g. smart lamp posts)
- Lack of additional funding provision. Additional opex has to be met from existing budgets.

Further improvements to the current processes are being planned to capture the consequential opex needs more accurately.

For the development of ATAP a study has been completed to ascertain consequential opex on a more robust basis. The following table estimates the consequential opex needs of ATAP.

Consequential Opex for growth within the road corridor Vested Assets – First Decade of ATAP (2019-28)




		\$M	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-28 Total
Maintenance	Consequential Road Network		0.9	1.2	1.5	1.8	2.1	2.4	2.7	3	3.3	3.6	22.2
	Total		0.9	1.2	1.5	1.8	2.1	2.4	2.7	3	3.3	3.6	22.2
Operations	Consequential Road Network		0.6	0.8	1	1.2	1.4	1.7	1.9	2.1	2.3	2.5	15.5
	Total		0.6	0.8	1	1.2	1.4	1.7	1.9	2.1	2.3	2.5	15.5
Renewal	Consequential Road Network		0	0	0	0	0.1	0.4	0.8	1.2	1.7	2.3	6.5
	Total		0	0	0	0	0.1	0.4	0.8	1.2	1.7	2.3	6.5
Grand Total			1.5	2	2.5	3	3.6	4.5	5.4	6.3	7.3	8.4	44.2

This table assumes \$150 million per annum of vested assets.

Next Steps

Process improvements are needed so that AT gets more say in design choices which impact amenity, safety, good design and ongoing cost. AC needs to acknowledge the ongoing opex associated with vested assets given the scale of these.

Document ownership

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