

State Highway Revocation - Update

Glossary

Auckland Council	(AC)
Auckland Transport	(AT)
Memorandum of Understanding	(MoU)
New Zealand Transport Agency	(NZTA)
Land Transport Management Act	(LTMA)

Executive Summary

NZTA has indicated that six sections of state highway in Auckland are no longer required as state highways and intend transferring these sections to AT's control and management and AC's ownership under the provisions of the LTMA. This report provides an update with respect to reaching a fiscally neutral position to AT for the revocations.

The main cost to AT for managing the sections of revoked highway is the maintenance and renewal expenditure. AT estimates the likely cost of maintenance and renewals for the revoked sections of state highway will be \$14.7m (3 Years). This is less than NZTA's estimated costs in 2010/11 of \$18.1m, because the level of service will reduce to reflect those of an arterial road compared to that previously provided as a state highway.

NZTA's financial assistance to AT for maintenance and renewals in the 2012-2015 RLTP has increased by \$14.4m from the 2009-2012 RLTP in recognition of the revocation process thus providing a realistically neutral position for AT.

AT and NZTA have jointly developed an MoU as provided in attachment 1, to outline the principles, conditions and respective obligations of the parties, under which AT will accept the revocation of the sections of roads. A key principle is that AT has inspected the relevant state highways and has prepared a list of remedial works it considers NZTA should undertake prior to revocation at NZTA's cost. All parties will use their best endeavours to provide a seamless transition for the customer based on the 'one system' approach.

Recommendations

It is recommended that the Board:

- i). Receive this report.
- ii). Approve AT taking over control and management of those sections of state highway revoked by NZTA as outlined in this and previous reports, subject to the principles and conditions in the MoU.
- iii). Delegates authority to the Chief Executive to finalise and sign the MoU.

Background

As a result of state highway construction in Auckland over the past several years, NZTA have indicated to AT that six sections of state highway are no longer required as part of the state highway network. As a consequence NZTA intends revoking these sections of state highway such that they will be transferred to AT's control and management.

Maintenance and Renewal Costs

The main cost to AT for managing the sections of revoked highway is the maintenance and renewal expenditure. NZTA's estimated operational expenditure (2010/11) of \$18.1m for all sections of road subject to revocation is based on a pro rata amount of the total regional maintenance and renewal cost on the basis of state highway level of service provision.

AT has undertaken analysis to determine the likely cost of maintenance and renewals to AT based on the requirements of the particular sections of road rather than a pro rata amount of the total regional cost. The AT estimate is \$14.7m (3yrs) which is less (\$3.4m 3yrs) than NZTA's estimate reflecting levels of service associated with an arterial road rather than a state highway. A comparison of the estimates is provided in Table 1.

Table 1: Maintenance and Renewal Costs

	NZTA Estimate	AT Estimate
Maintenance pa	\$3.317m	\$3.317m
Renewals pa	\$2.717m	\$1.57m
Total pa	\$6m	\$4.89m
Total 3 Years	\$18.1	\$14.7m

While maintenance costs will remain similar, as they consist mainly of fixed costs such as mowing and lighting, the cost of renewals will be approximately \$1.57m pa being \$1.2m less than if state highway demands and levels of service were maintained. The key factors taken into account with respect to the estimate comparison are:

- NZTA's forward works programme – NZTA's recent renewal work has reduced some of the immediate need for renewal work by AT
- Change in levels of service (from state highway to local road)
- Efficiency savings with new contracts
- Reduction of traffic volume, on the sections to be revoked, as traffic shifts on to the new sections of state highway. Reduced traffic volumes, particularly freight, extend the life of the asset. This is not valid for SH17 since the toll road has been in operation since 2009.

Regional Land Transport Programme

AT's Regional Land Transport Programme (RLTP) is approved every three years by the NZTA. The RLTP determines the budget cap that NZTA will provide financial assistance for.

NZTA has indicated that the maintenance and renewal financial assistance AT will receive in the 2012-2015 RLTP will increase \$14.4m from the RLTP 2009-2012. The increase is over the equivalent proportion of the calculated base amount funded in the 2009/2012 RLTP period.

NZTA has indicated that the Auckland Transport RLTP moderation process included consideration of the 51km of revoked State Highway as a proportion of the whole of Auckland Transport's network length.

In recognition of the growth of the network (including the 51km of State Highway) NZTA allocated Auckland Transport an overall increase to the budget of 4.1%.¹ By comparison the NZTA Highways and Network Operation received an increase of approximately 2.0% nationally. Most other territorial authorities received a 2.3 % increase.

The RLTP 2009-12 allocation of \$233.4m has been increased by \$14.4m to \$247.7m in the RLTP 2012-15.

NZTA expects that escalation is treated as part of core business and therefore does not account for escalation when allocating funds to Maintenance, Operations and Renewals activity classes.

NZTA intends to allocate all the funding that is available. AT may seek additional funding but NZTA's ability to provide that funding depends on discretionary funding becoming available during the period.

While the revised allocation for maintenance and renewals in the 2012-2015 RLTP has increased by \$14.4m, the maintenance cost for the state highways to be revoked is estimated to be \$14.7m. This leaves a deficit of \$0.3m over three years reasonably reflecting a fiscally neutral position for AT.

Next Steps

AT has inspected the state highways to be revoked and has prepared a list of remedial works it considers NZTA should undertake prior to revocation at NZTA's cost. The parties will work together in good faith to agree upon the remedial work required to ensure the state highways are fit for purpose. These remedial works may decrease the future renewal requirements for AT.

For the maintenance and renewal of the revoked sections of state highway to be fiscally neutral, AT will be required to achieve savings of \$100k pa over the 51km of revoked highways. This is considered achievable through minor adjustments to levels of service and attention to efficiency gains. Therefore, it is recommended that AT accept the management and control of the sections of state highway to be revoked as per the terms of the Memorandum of Understanding.

Attachments

Attachment 1 – Memorandum of Understanding SH Revocation

¹ This percentage is based on the calculated base for AT's RLTP 2009-2012 of \$553.7m which is a pro-rata amount including eight months of maintenance of the roads subsequently transferred to Waikato and Hauraki Districts'.

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