tasman district council

Report No:	RCN12-05-11
File No:	A506
Date:	17 May 2012
Decision Required	

Report to: Full Council

Meeting Date: 24 May 2012

Report Author : Gary Clark, Transportation Manager

Subject: **Inflation Adjustments for the Subsidised Roading Programme for the Long Term Plan 2012-2022**

EXECUTIVE SUMMARY

This report discusses matters around inflation adjustments for the subsidised roading programme.

The recommended decision has no rating impact.

It seeks Council's direction on wording and funding changes for inclusion in the final Long Term Plan proposed to be adopted on 21 June 2012.

DRAFT RESOLUTION

THAT the Tasman District Council receives report RCN12-05-11; and

THAT the Tasman District Council retains the inflation adjustment for the local share of the subsidised roading programme in the Draft Long Term Plan in order to meet some of the funding needs of maintaining this asset over the next three years.

REPORT SUMMARY

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Subject: **Inflation Adjustments for the Subsidised Roading Programme for the Long Term Plan 2012-2022**

1. PURPOSE

1.1 This report discusses the issues around the New Zealand Transport Agency's (NZTA) decision not to fund escalation over the next three years of the Regional Land Transport Programme (RLTP). It seeks Council's direction on wording and funding changes for inclusion in the final Long Term Plan 2012-2022.

2. DESCRIPTION OF THE ACTIVITY

2.1 The roading activity represents one of Council's most significant and valuable assets. It consists of sealed and unsealed pavements with structures that provide links between communities, work opportunities and places to visit. It has a value of around $530 million, last assessed in June 2011. This value accounts for around half of the total value all of the Council-owned assets.

2.2 The activity includes 1700kms of formed roads with around 950kms being sealed and 750kms unsealed. There are also a significant amount of paper roads across the District that need Council management in some form. There are 475 bridges that require ongoing maintenance. There are 2800 streetlights to provide power and maintenance along with other aspects required for the management of this roading infrastructure including signs, road markings and drainage.

3. BACKGROUND

3.1 In the 2009-2012 Regional Land Transport Programme (RLTP), NZTA removed the escalation from New Zealand's roading programmes and it has confirmed that this approach will also be taken for the 2012-2015 RLTP. The total funding made available from central government will be confirmed in the National Land Transport Programme (NLTP) which is due to be released on 30 August 2012.

3.2 In preparing the Draft Long Term Plan, inflation was added to the roading budgets which is consistent with all other activities across Council. The subsidised roading budget which attracts part funding from NZTA was also included with inflation adjustments over the ten year time frame of the Draft Long Term Plan. However, the NZTA subsidy income stream was also inflated in line with the underlying budgets. We now know that NZTA is not providing this cost escalation for the subsidised budget. This is discussed further in the options analysis. The implication is that the inflation portion of the Operation and Maintenance budgets does not attract an NZTA subsidy in the first three years of the Draft Long Term Plan.

3.3 Accordingly NZTA's funding position is limited to what is provided in the RLTP with no escalation. This approach fails to recognise the true costs of providing this activity to the community. The actual funding requirements over time have been correctly identified and accounted for in the Draft Long Term Plan. Council's approach accounts for the likely increased cost over time to maintain this strategic asset. There will, however, be a shortfall in funding of the overall budgets because of NZTA's decision not to fund inflation.

3.4 NZTA has also clearly indicated that the amount of funding available for road controlling authorities is over subscribed and cuts are likely to be made to proposed programmes for the 2012-2015 time period. It is unclear how this will affect Tasman District at the time of writing this report. Council will be kept up to date as more information comes available. This information will not be available in time for incorporation into the final Long Term Plan budgets prior to adoption on 21 June 2012.

3.5 NZTA escalation changes process was not factored into the Ten Year Plan 2009-2019 due to the timing of the this decision by NZTA. Since 2009, every year through the Annual Plan process, Council has reduced the roading budgets by way of removing inflation because NZTA was not providing its share to the subsidised programme. It should be noted that only one other Council activity was not inflated over this period.

3.6 This has allowed Council to provide further general rate saving to the community of around 1.5% for 2010/2011 and 2011/2012. This has been at the expense of maintaining our District's roads.

4. MATTERS TO BE CONSIDERED

Why Inflate?

4.1 It is unclear why central government has decided to not provide escalation for the day-to-day operations of New Zealand's road network, apart from trying to reduce costs. Looking after what has been built is important to ensure any investment in this critical infrastructure is not wasted by the gradual deterioration of the pavements and structures.

4.2 During the preparation of the Draft Long Term Plan, Council identified three priorities one of which was "maintaining the core infrastructure in our communities". Central government does not appear to put the same priority on maintaining existing assets. It appears to be giving a high priority to construction of the Roads of National Significance (RoNS) works over maintaining the existing assets.

4.3 All other Council activities are inflated across the ten years of the Long Term Plan to meet the needs of the increased costs for looking after assets and the day-to-day operations of the organisation.

4.4 Roads are one of Council's most significant assets both in terms of size and value. The roading network provides for all our community to access the rest of the District, visitors to travel around the region and it encourages economic growth through accessibility and road condition. To ensure this significant asset is maintained to meet the needs of future demand there is a need to provide for inflation to the operating budgets to keep up with the ongoing costs.

4.5 As with buildings which are maintained and budgets inflated to cover costs out in the future, the same principle applies to roads. The material needs of roads increase with inflation. As discussed in Council meetings, the key components to maintaining roads are typically increasing and these are usually over and above normally quoted inflation figures. This is due to the increased costs of base materials and its effect across the whole supply chain. It should also be noted that the road network will experience increased traffic from population growth and economic activity associated with freight movements.

4.6 As required under the conditions of contract and the New Zealand Standard NZ3109, our longer term contracts such as Maintenance and Operations include requirements to provide escalation adjustments. This is done on a yearly basis to the contract prices through an escalation clause within the contract documents. Last year the roading budgets were cut to provide for the escalation requirements of the contracts. This led to the work programme being reduced. This has happened in previous years as well. Staff have only been able to manage this increasing shortfall in budgets through the competitive market we are in due to the economic climate and changes in levels of service. Some of the levels of service which have been changed have been unpopular such as reductions to the level of road delineation, however, this is the only way to manage the shortfall.

4.7 Council asked for further reductions in the roading budgets to address rate and debt challenges in the Draft Long Term Plan process. This has resulted in further reductions in levels of service which once implemented on the network will be equally unpopular but necessary in this constrained economic environment. Such reduced levels of service will include reductions in the amount of mowing of road verges, less gravel on some unsealed roads and less maintenance on some of our lower volume sealed roads.

4.8 As noted above, the budgets in the roading area have been reduced to below what is required to sustainably manage the road network. This has led to reductions in the level of service for certain parts of the activities undertaken on the road network. There is no scope to accommodate further reductions or increases in the costs associated with this activity now without significantly impacting on the future condition of our road network.

4.9 By not providing inflation to this activity, like all other activities across Council, we will end up with a road network needing huge sums of funding to bring it back to an acceptable level of service and maintainable condition.

Network Condition

4.10 A recent report from our consultants looked at the condition of the network and tried to identify the long term risks and costs associated with the maintenance and funding of this activity. The broad conclusions were:

- The recommended budget scenario of $4.5 million is able to maintain the conditions of Surface Integrity Index (SII), average surface age and surface residual life. This budget will also improve the current roughness distribution due to low percentages of heavy vehicles in most of the local authorities which is the main driver for rutting and roughness.
- The current budget scenario of $3.7 million is not able to maintain the conditions of Surface Integrity Index (SII), average surface age and surface residual life. This budget is able to maintain and slightly improve the current roughness distributions.

4.11 The budgets provided within the Draft Annual Plan have been trimmed and provide for the $3.7 million scenario, which is unsustainable over time.

4.12 As noted above, this is one of the District's most strategic assets in terms of providing for the community, its asset value and economic development. The data we are now collecting is showing that the gap between what we need to do and what is actually being funded is increasing with an overall deterioration of the asset. This, if not addressed in the near future, will lead to the need to reduce the level of services we provide to community. Roads are one of the most visible assets we have and their condition is most apparent when not up to an acceptable standard. We will also need to undertake significant capital renewals to bring the network back to meet the needs of the communities that they serve.

5. OPTIONS

5.1 The table below shows the effect on general rate and the budget allocations over time. The table shows the inflation components of the Roading Budgets for Operations and Maintenance, as well as Capital Projects. These are also broken down into the NZTA share and local share.

5.2 The table also provides for the budget allocation for the first three years of the Draft Long Term Plan for which NZTA has stated that it will not fund escalation. This is in line with the three year RLTP for 2012-2015. It should be noted that at this stage any decisions on escalation past the 2012-2015 RLTP have not been made.

5.3 It should also be noted and as stated above, NZTA has indicated that the requests for funding in the next three years exceed the allocations available. The effect on this with regard to our funding request is not known at this stage.

REDUCTION in Budget for	2012/2013		
	NZTA Share	Local Share	Total
Operating Expenses	109,061	108,397	217,458
Capital Expenditure	184,353	169,998	354,351
Total Budget Reduction	**293,414**	**278,395**	**571,809**
	2013/2014		
	NZTA Share	**Local Share**	**Total**
Operating Expenses	232,266	230,529	462,795
Capital Expenditure	369,298	336,756	706,054
Total Budget Reduction	**601,564**	**567,285**	**1,168,849**
	2014/2015		
	NZTA Share	**Local Share**	**Total**
Operating Expenses	352,357	351,147	703,504
Capital Expenditure	559,722	507,156	1,066,878
Total Budget Reduction	**912,079**	**858,303**	**1,770,382**
Three Year Totals	**2012/2015**		
	NZTA Share	**Local Share**	**Total**
Operating Expenses	693,684	690,073	1,383,757
Capital Expenditure	1,113,373	1,013,910	2,127,283
Total Budget Reduction	**1,807,057**	**1,703,983**	**3,511,040**

5.4 The information in the table is discussed in more detail in the options below.

Option 1 – No Inflation for both NZTA and Local Share

5.5 This option carries on the same philosophy that Council has taken in the last two years by not providing for inflation to this activity. It should be noted that this has already led to the need for staff to reduce levels of service with regard to road delineation and mowing standards.

5.6 This approach is also inconsistent with Council's other activities which all receive inflation adjustments over time to account for the increase in costs of providing services.

5.7 The roading activity has been underfunded for the last two years as a result of removing inflation and continuing this trend will lead to a significant jump in funding needed to catch up in 2015/2016 of the Long Term Plan. This jump in costs could be as high as $4 million to return the levels of funding needs for this activity to retain existing levels of service.

5.8 The expected reduction in the roading budget if inflation is removed would be around $572,000 from the total roading budget for 2012/2013 and around $3.5 million over the three year programme.

5.9 Removing all of the inflation adjustment from the roading programme will result in a general rate saving of around $120,000 for 2012/2013 and $860,000 over the three years.

5.10 This option is likely to lead to lower volume sealed roads in the District reverting back to unsealed gravel roads and a general deterioration in the condition of the asset over the three years. This would apply to the roads under 100 vehicles per day in the first instance.

Option 2 – Only inflate Local Share

5.11 This option looks at providing an inflation adjustment for the local share only to at least meet some of the funding needs of maintaining this asset over the next three years.

5.12 The nature of the current market while it still remains competitive, could allow staff to maintain the current road condition. It should be noted that changes in the market or costs in the materials that are used will add to the pressure of the shortfall in funding.

5.13 By providing the local share, when it comes to the 2015 Long Term Plan the increase in general rate component would be smaller than what is required in Option 1 to claw back up to the actual needs to maintain this activity especially if NZTA decides to start funding escalation in the next RLTP.

5.14 The expected reduction in the roading budgets for this option if inflation of the local share is provided and nothing for NZTA share would be around $290,000 from the total roading budget for 2012/2013 and around $1.8 million over the three year programme.

5.15 It should be noted that this option has no effect on the current rates set in the Draft Long Term Plan. This option was modelled due to the complexity of the subsidy rates for this activity and the need be consistent with the application of inflation adjustments to activity areas across Council.

5.16 Even with this option there may be some changes to the level of service. This could also possibly result in some sealed roads going back to unsealed pavements.

Option 3 – Inflate all costs

5.17 This option takes both the inflation of the local share and the inflation on the NZTA component to provide the level of funding needed to maintain this asset appropriately. This would require Council to fund the missing NZTA share.

5.18 A report on the deterioration of the network shows that due to the steady decrease in funding of this activity, the amount of funding needed for intervention works to bring the road pavements back up to a suitable standard is increasing. Allocating funding to address the gap provided by NZTA will ensure that expensive works to address the deterioration of the network is minimised in the future.

5.19 There would be no reduction in the roading budgets for this option with the activity being fully funded.

5.20 This budget allocation will allow the level of services and maintenance of the roading activity to continue at the same level and possibly some improvement depending on market and economic conditions.

5.21 The additional funding from general rate has not been calculated by the Funding Model at this stage. It is expected that the increase in general rate required for this would be estimated at around $900,000 over the three years.

5.22 This increase would have a significant impact on trying to provide rate increases that are affordable.

5.23 There may be ways to further reduce spending in the Roading Activity however this is likely to lead to further reductions in the condition of the asset and levels of service. These reductions may be managed and minimised through the competitive procurement processes that the Engineering Services Department has in place.

6. SIGNIFICANCE

6.1 This is not significant in terms of the Significance Policy, but there is likely to be an impact on Council's levels of service.

7. RECOMMENDATION

7.1 During the Long Term Plan workshops, Councillors expressed the preference for Option 2, which is to retain funding to inflate the local share component of maintenance and operations for subsidised roads, as the Draft Long Term Plan budgets already allowed for this funding and it would not result in further rates increases.

8. DRAFT RESOLUTION

THAT the Tasman District Council receives report RCN12-05-11; and

THAT the Tasman District Council retains the inflation adjustment for the local share of the subsidised roading programme in the Draft Long Term Plan in order to meet some of the funding needs of maintaining this asset over the next three years.