



**ROADING  
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22 March 2006

Rick van Barneveld  
Chief Executive  
Transit New Zealand  
PO Box 5084  
**Wellington**

Dear Rick

## **Transit's Draft 2006/07 – 2015/16 Ten Year State Highway Forecast**

Thank you for the opportunity to provide comment on this Forecast. As you are aware Roding New Zealand members carry out by far the majority of Transit NZ's work and have a combined turnover in excess of \$2.0 billion pa.

Our comments focus on the impact of the Forecast on the contracting Industry rather than on the merit and priority of specific projects contained in the Forecast.

In essence, the thrust of our comments focus on the need for restoring the confidence and trust of the contracting sector in Transit. Putting this another way we strongly believe that Transit needs to provide funding certainty and a smooth construction programme so that contractors have the confidence to gear up for the extra construction work. This approach will minimize future price increases because competition cannot be maintained without growth in the Industry. In summary we ask that

- Transit's ten year forecast and programme is urgently restored to the August 2005 level to restore contractor confidence.

In response to Transit's previous 10 year forecasts and central government's funding announcements over recent years the contracting sector has increased in size by around 50% over the last five years and taken on more than 1000 new employees in the last year. This has been in anticipation of the substantial increase in construction works.

The reduced draft forecast/programme now before us means that contractors will have excess capacity, will stop hiring new staff, possibly lay off staff or move out of the roading sector. We believe this is most unsatisfactory.

- Transit provides the contracting industry with a fixed three year construction programme to provide certainty in the medium term. This certainly is necessary to keep up the momentum and drive for increasing the size of the industry. It seems to us that we have reached the end of the first wave of projects being tendered out for which resource consents and other planning issues had been resolved. We would now appreciate certainty around the next wave of projects to be tendered out.
- Transit continues to hold discussions with industry representatives every three to four months on the major works programme to ensure a smooth programme of work continues to occur.

- Transit's full construction programme including smaller projects is presented to industry at a regional level at least annually and regional updates are provided through the year if the programme changes.
- Transit works more in a partnership manner with contractors and therefore becomes more of a client of choice. The partnership approach is happening a lot more with private sector and other Government clients. Roothing New Zealand raises this issue because it wants to see contractors queuing up to bid for Transit jobs. Becoming a client of choice is often more about the positive way the contract relationships operate, rather than anything else. It will also speed up the delivery of projects.
- Transit continues to review its capacity to be able to deliver its construction programme. We are aware that Transit has recently increased its capacity but we continue to ask this because of
  - our view that this could be limiting Transit's ability to deliver on an accelerated project development programme to deliver land transport networks to resolve the backlog issues which are heavily impacting on the economy in many areas
  - the size of the programme
  - the number of hurdles that need to be jumped before a project can be put out to tender
  - the extra work required in managing contracts because of the move away from track record and the desirability of moving towards more alliance type contracts.
- Transit needs to continue to fund the I & R phases of projects to ensure projects continue to be available for construction in the medium and long term.

Regarding the issue of cost pressures in the Industry, we would like to suggest that the contracting sector is currently still competitive and increases in tender prices have been largely due to cost increases of inputs. We support these statements by observing that

- There are around 150 contractors prequalified to carry out Transit NZ's work
- Cost increases in 2004/05 have been in the order of 10 to 15% due to increases in the cost of materials, wages, training and recruitment.
- The average number of tenderers for Transit work over the past 6 months is 3.1.
- This level of tendering (3.1 tenderers/contract) is the same as in 2003, before the announcement of increased funding.
- Because a Strategy was developed in 2003 to grow the Industry, the size of the road contracting sector has grown substantially in recent years, ensuring the 3.1 bidders per contract continues.

We note in the Forecast that debt funding and tolls are included to enable Auckland's Western Ring Route to proceed as soon as possible. We support debt funding for this project being repaid through tolls because the early construction of this route will help to solve Auckland's traffic congestion and safety problems. Debt funding will ensure the route is affordable and tolls will prevent the route from becoming congested in the short to medium term through the traffic demand management effect of a toll price.

We also note and support Transit's strong commitment to funding maintenance of the existing road network prior to any construction work. We believe this is necessary to preserve the capital investment made in the roading network over many years.

We trust you find this submission helpful and would like to be heard in support of it.

Yours sincerely



Chris Olsen  
**Chief Executive**