

**Transport Agency and Contractors Fighting the Recession**

Yeah Right, I hear you all say. With the Government's massive construction programme for roads of national significance I'm sure you are all thinking that beating the recession in our part of the construction sector is as easy as falling off a log. If only it was that easy.

It is true that the Government is looking to spend billions over the next 10 years on road construction. But it's also true that these roads of national significance have long construction lead times and the previous Government had significantly wound back road construction. The result was that early last year there were very few projects in the drawer. At the same time there was a sense of urgency to get construction work underway to improve the country's productivity and to offset the effects of the recession. This lack of ready to go projects was a major constraint for the Government when it put together its stimulus package in February last year. You may recall that only \$142M of the \$500M stimulus package related to roading. Furthermore, the \$142M was to be spent over three years.

Looking back, it's interesting to compare this approach to that of the Obama Government. The keynote speaker from USA at our Roothing NZ Conference last year told us that the roading component of Obama's stimulus package was \$27 billion and that contracts had to be let for 50% of it within 100 days. Contracts for the balance had to be let within a year. This was achieved not through the construction of big projects but the construction of many small projects, maintenance and renewals. Research showed that maintenance expenditure stimulated the economy much more than construction expenditure because it was more labour intensive which spread the multiplier effect wider through the economy. In New Zealand road maintenance activities are about twice as labour intensive as construction, on average.

It's important here to give the NZ Transport Agency (NZTA) credit where credit is due. In addition to the Government's stimulus package, NZTA in collaboration with the contracting sector embarked on a similar strategy of increasing the construction of small projects, and increasing maintenance renewals. The results speak for themselves in NZTA's 2009/10 Annual Report. Instead of spending \$142M extra over three years NZTA spent an extra \$172M in the first six months of 2010.

The second initiative that NZTA, and in particular its General Manager of Highways and Network Operations, Colin Crampton, should be acknowledged for is establishing an Industry/NZTA Collaborative Group charged with speeding up the delivery of NZTA's road construction programme. This Group involved Roothing New Zealand (RNZ), the NZ Contractors' Federation (NZCF) and the Association of Consulting Engineers NZ (ACENZ). In-depth discussions on how to bring work onto the market quicker took place.

These discussions have resulted in changes to procurement processes to reduce the time and resources needed for the tender process. The Group also determined the optimum time to tender the various projects given the available tendering resources across the sector.

These changes have resulted in a significant shift in the type of construction contracts used. The pressure to have projects completed as soon as possible without compromising value for money has led to a significant move away from traditional type contracts to the Alliance and the "Early Contractor Involvement" models. This is not only good for delivering benefits to the motorists quicker, it also brings forward the construction phase of the project keeping people employed so they are not lost from the Industry. Looking to the future RNZ believes that there are further initiatives available to speed up delivery of the construction programme.

In a bid to avert further redundancies in the contracting sector RNZ invited the NZCF last November, to join us and make joint representation to NZTA and the Minister of Transport, the Hon. Steven Joyce, to increase NZTA's maintenance and/or construction work thereby offsetting the downturn in private sector land development and local authority work. It was hoped that this would enable the Industry to maintain skills and capacity so it could handle the increased work load due to come onto the market in two years time.

We got an excellent response from NZTA and the Minister. You may have seen coverage of this issue in the media.

This brings me to the third area that NZTA needs to be congratulated for. It's their February 2010 announcement of bringing forward funding of up to \$50M to be spent before June of this year on state highways and local council roads to offset the current downturn.

Roading New Zealand would like to thank NZTA for its collaborative and positive response to the Industry's issues. We believe it's a lesson for other clients in the construction sector.