

THE DEPARTMENT OF INTERNAL AFFAIRS

*Te Tari Taiwhenua*



THE TREASURY  
Kaitohutohu Kaupapa Rawa

Ministry of Economic  
Development  
*Manatū Ōhanga*



Ministry of Transport  
TE MANATŪ WAKA



Ministry for the  
Environment  
*Manatū Mō Te Taiao*

# Infrastructure

## Briefing for the Incoming Minister 2008

## **Introduction**

This briefing aims to respond to the Government's creation of a new, overarching Infrastructure Portfolio. It explores how officials can assist the Government to take an integrated approach to infrastructure policy and deliver on its objectives. It discusses:

- our understanding of your goals for infrastructure
- the scope and objectives of an integrated Infrastructure Portfolio
- the relationship between the Infrastructure Portfolio and sector portfolios, current institutional arrangements and options for supporting the Infrastructure Minister/s
- how priority areas can be progressed – including some suggested next steps as a basis for early discussion between Ministers and officials.

In doing this, the briefing does not seek to replicate the more detailed briefings on infrastructure issues provided to 'sector portfolio' Ministers such as Energy, ICT and Transport.

This briefing has been prepared by the Ministry of Economic Development, the Treasury, the Ministry of Transport, the Department of Internal Affairs and the Ministry for the Environment. The Department of Prime Minister and Cabinet has also been informed.

### **A greater focus on infrastructure policy**

The Government has signalled that it will have a comprehensive policy focus on infrastructure development. This focus will be central to the Government's overall approach to economic management, which is aimed at strengthening economic fundamentals and addressing productivity challenges.

We understand that this focus on infrastructure extends to 'social infrastructure' such as hospitals, schools and prisons – and so implies an interest that extends beyond network infrastructure, to the effective and efficient investment in, and use of, large capital government-funded assets over the long term.

### ***The Government's goals for infrastructure policy***

Based on the policy material released prior to the election, we understand your infrastructure goals to include:

- making sure there are sufficient levels of investment in all types of infrastructure, so as to remove impediments to growth, ensure certainty of supply of infrastructure services and enable new development opportunities
- better anticipating future demand for infrastructure services

- looking for new ways, with acceptable risks, of financing infrastructure spending – to overcome fiscal constraints, spread risk and to provide opportunities for private sector investment
- removing unnecessary regulatory barriers to infrastructure development, while ensuring that other societal interests are safeguarded and costs internalised where appropriate
- better prioritising the public-sector infrastructure spend and making informed and transparent trade-offs
- looking for new ways, with acceptable risks, of governing and managing infrastructure or large critical capital assets and related services
- providing clearer and more consistent signals about infrastructure priorities over the medium-term, thereby providing greater certainty and confidence for users of infrastructure and those investing in complementary services.

We welcome the opportunity to discuss these objectives with you, including how you wish to ensure that a disciplined approach is taken toward infrastructure investment. This would also include whether there are other issues beyond investment in the supply of infrastructure that you may wish to address. For example, high levels of demand for infrastructure are not always indicative of supply deficits and can, instead, point to a need for better management of the demand for existing infrastructure rather than a need for more. Other areas of potential policy focus include the role and capacity of local government, and the impact of skills and other shortages on future infrastructure development.

### **Maximising infrastructure's contribution to economic growth and quality of life**

Infrastructure has a significant impact both on people and on the way they live, directly contributing to both quality of life and economic growth.

We are keen to work with you to identify how we can most effectively use infrastructure policy to lift economic growth in particular, and therefore help shape the infrastructure work-programme.

Available research shows evidence of links between infrastructure and economic growth – particularly in the longer term, and where infrastructure is used efficiently. However, it is unclear whether, or to what extent, infrastructure investment leads to economic growth rather than being driven by it. This presents few 'blueprints' for growth through infrastructure investment.

Instead, the literature identifies three over-arching, general guidelines for infrastructure investment.

First, in order for infrastructure investment to promote growth, it needs to be very carefully targeted, highlighting the importance of robust cost-benefit analysis undertaken on a project-by-project basis. There is evidence to show that, where

used appropriately, this approach can lead to economic gains. An Australian study, for example, found that investment in road infrastructure, on the basis of thorough economic analyses, could raise GDP by 2.5 percent over ten years.<sup>1</sup>

Second, having the right competition policy and regulatory settings for infrastructure investment can have significant implications for economic growth. The Australian Productivity Commission, for example, has found that the wide-ranging competition and structural reforms introduced as part of the National Competition Policy, contributed to an increase of about 2.5 percent to GDP, or the "equivalent of an additional \$7,000 to the average Australian household". These reforms allowed private firms to compete in many previously public-owned infrastructure markets, including electricity, rail and telecommunications.<sup>2</sup>

Third, there is the potential for infrastructure investment to reduce growth where it is poorly targeted or over-supplied.

We look forward to considering the effectiveness of current infrastructure policy settings, relative to these guidelines, as your work programme develops.

## Options for supporting a new Minister of Infrastructure

### Current arrangements

Current institutional arrangements for infrastructure reflect the heterogeneous nature of the four network infrastructure sectors:

- *energy* – comprising electricity generation and transmission and the oil and gas sectors
- *telecommunications* – comprising fixed-line phone and broadband and mobile infrastructure
- *transport* – comprising road, rail, ports and airports
- *water* – comprising irrigation, drinking and wastewater assets.<sup>3</sup>

While there are some common policy issues and functions that apply across each area, they do not constitute a single 'sector' and involve diverse funding, ownership and regulatory arrangements. Responsibilities are shared between the public and private sectors, and central and local government. Accordingly, to the extent that public sector oversight is provided, it is currently divided across multiple agencies:

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<sup>1</sup> See Cox, J.B. 1994. *Refocusing Road Reform*. Report for the Business Council of Australia. Melbourne.

<sup>2</sup> See McInerney, L., Nadarajah, C., and Perkins, F. 2007. *Australia's Infrastructure Policy and the COAG National Reform Agenda*. Australian Treasury.

<sup>3</sup> Note that this discussion excludes water allocation and quality issues.

- *energy and telecommunications* oversight is provided by the Ministry of Economic Development
- *transport* oversight is provided by the Ministry of Transport
- *rail* oversight is currently sitting within The Treasury, although this is an anomaly that needs to be addressed
- *water infrastructure* oversight is shared between the Ministry for the Environment, the Ministry of Health (for drinking water and waste water) and the Department of Internal Affairs.

These arrangements also reflect the split that is currently observed between the management of network infrastructure and 'social infrastructure,' including schools, health services, prisons and other publicly-owned capital assets.

The work of other central government agencies impacts on infrastructure policy in a variety of ways. For example, the Ministry for the Environment on resource management and climate change policies, the Department of Internal Affairs is hosting work on sustainable urban development, and the Department of Building and Housing deals with regulatory matters related to building and construction and on more targeted issues such as urban intensification and renewal.

Effort has also been made to better integrate infrastructure policy and planning across central and local government. A particular focus is on Auckland which is a major source of demand for infrastructure investment. Most of the above agencies participate in a joint Auckland office – the Government Urban and Economic Development Office (GUEDO).<sup>4</sup> One of the functions of GUEDO is to promote better integration of advice for Ministers and co-ordination of central government infrastructure in Auckland.

The development of the Auckland One Plan involves active engagement with local government to drive better coordinated and prioritised planning and infrastructure investment across the wider Auckland metropolitan region. This process gives central government greater clarity about regional investment priorities and should result in fewer ad hoc funding requests than has been typical in the past. Over time the One Plan should provide a framework for extracting better value from infrastructure investment in the Auckland region.

### ***Scope of new Ministerial role, and implications for Ministerial support options***

Under the previous government, the 'Minister for Infrastructure' position was a notional role only and was performed by the Minister of Finance on an 'as needed' basis. Conversely, we understand that the primary intention for your new role is "to

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<sup>4</sup> The agencies making up GUEDO are the Ministries of Economic Development, Transport, Environment, Labour, Agriculture and Forestry, Internal Affairs and the State Services Commission, Treasury and Department of Prime Minister and Cabinet.

reshape, co-ordinate, and then oversee the Government's infrastructure objectives." We also understand that a key function of this role will be to develop and oversee the National Infrastructure Plan.

Based on these broad objectives, we are expecting this to be primarily a leadership and co-ordination role across portfolios. This could involve:

- overseeing the activities of individual, sector-specific infrastructure Ministers
- leading on whole-of-government infrastructure issues, such as procurement, public-private partnerships, and capital asset management
- leading on over-arching infrastructure priorities, including Budget priorities and allocation decisions under the 20-year National Infrastructure Plan.

This approach could also entail the creation of an infrastructure-focused Cabinet sub-committee or more informal grouping of Ministers to be chaired by you.

Beyond this, it will be useful to discuss with you the 'boundaries' of your role, as you see them, including how your role as Minister for Infrastructure will link with your role as Minister of Finance. There are also particular questions to resolve around whether the Minister for Infrastructure role will include responsibility for social as well as network infrastructure, and whether it will include responsibility for public sector capital asset management generally. For example, depending on how the role is configured, the infrastructure portfolio could:

- be restricted to network infrastructure
- include both network and social infrastructure (prisons, schools etc.), but exclude capital asset management more generally
- include both network and social infrastructure, as well as capital asset management.

We note that, of these options, the third could achieve the greatest integration of your interests across the infrastructure and finance portfolios; it would also provide an opportunity to put new discipline around government spending.

### ***Ministerial support options***

Possible support options for the Minister include:

- a new separate agency
- a project team involving a mix of public sector and, potentially, private sector secondments
- a permanent unit within an existing department.

We have discounted the first and second option – the first because it would require significantly more resources than other options and the second because the long-term nature of the National Infrastructure Plan requires something more permanent than a project team.

A permanent unit could provide dedicated secretariat, research and policy/advisory support services. It could assist in planning and monitoring the National Infrastructure Plan and have a direct reporting line to the Minister of Infrastructure, in much the same way that the Crown Company Monitoring Advisory Unit (CCMAU) within the Treasury has a direct reporting line to the Minister for SOEs and other shareholding Ministers.

Depending on placement of the unit, resourcing may be an issue. However, we expect that some resource could come from secondments from the other infrastructure agencies. We also anticipate there being some peak work demands for the unit – particularly at the planning stages of the National Infrastructure Plan – that could be met through outsourcing.

Possible 'home' departments for such a unit may be:

- the Treasury, if the Ministerial role includes responsibility for Budget decisions and for new whole-of-government procurement processes, such as public-private partnerships
- a discrete office within the Ministry of Economic Development or the Ministry of Transport.

In either case, we note that it would also be possible to design a complementary role for the private sector and local government through the creation of an Infrastructure Council, or similar. This could enable the private sector and local government to contribute actively to the development and direction of the National Infrastructure Plan.

## **New co-ordinated infrastructure work programme**

### ***Leadership and planning***

We understand that the framework for a new, co-ordinated infrastructure programme will be provided by the 20-year National Infrastructure Plan that you intend to develop.

We are aware that you intend for this to:

- be developed in consultation with local government
- set a clear direction for vital national infrastructure investment, including top priority projects

- take into account New Zealand's needs in a rapidly changing world, including the need for infrastructure projects that contribute to a cleaner environment and a stronger economy
- address the planning, regulation, governance, and finance of infrastructure, including an agreed set of projects that will receive central government support and a timetable for their investment and delivery.

You have also already identified the following projects for inclusion in the plan:

| <b>Project</b>  | <b>Indicative cost</b>   |
|---|--|
| National high-speed broadband network   | \$1,500 million over six years                                       |
| New roading and transport initiatives <ul style="list-style-type: none"> <li>• Waikato Expressway</li> <li>• Tauranga Central Corridor</li> </ul> | \$750 million over ten years<br>\$100 million over five to six years |
| Additional prison   | \$315 million  |
| 21 <sup>st</sup> century school building programme  | \$500 million over three years                                       |

We are aware of successful examples of similar plans internationally, including the Irish National Development Plan and Ontario Five-Year Infrastructure Investment Plans. Closer to home, we have also followed with interest the experience of South East Queensland and of New South Wales, and would look to learn from the experience of these State governments in implementing a similar approach in New Zealand.

However, we are also aware of some risks inherent in long-term plans of this type that will need to be addressed at an early stage in the Plan's development. For example, there is a risk that a plan of this type could attract opposition from the private sector, due to a lack of transparency in the project selection process. To guard against this, it would be useful to ensure that inclusion in the plan is subject to robust and open project evaluation processes.

One option is to use a multiple-stage, quality-at-entry approach as part of a broader approach to improved management of capital assets. The Gateway process now being implemented has, in the UK, been combined with a Business Case review mechanism to promote transparency of process, clarity of performance and price expectations, and assurance of delivery. Regardless of the option you choose, we believe that a carefully structured and well managed process will be required to deliver a disciplined approach to infrastructure spending, and to avoid the problems of overspends and underperformance that have characterised some infrastructure projects in the past.

In addition, it is likely that recent Treasury work to improve capital asset management in the State sector, and to develop a long-term capital profile based on planned responses to demand, will provide a useful contribution to the National Infrastructure Plan.



There are also questions that will need to be resolved regarding how this Plan interacts with other, existing infrastructure planning and prioritisation processes.

We look forward to working further with you on the design of this Plan and on the project selection process, and can provide more detailed advice on how to avoid the specific risks discussed above.

### ***Removing barriers to investment***

You have already announced several policy commitments to remove barriers to infrastructure investment – priority consenting, roads of national significance, streamlining the Resource Management Act 1991 (RMA) and initial regulatory reviews of the Local Government Act.

In some of these areas, policy and legislative options are well developed. Officials have, for instance, worked across agencies to identify and agree on options for improving and streamlining RMA processes in accordance with government objectives. Much of this work relates directly to removing barriers to infrastructure development. Identified options include;

#### ***Revisiting central government's role in RMA processes***

Options in this area include:

- setting clear criteria and triggers for call-in and referral to either a Board of Inquiry or the Environment Court
- making more frequent and proactive use of call-in for infrastructure projects, and facilitating a faster and more effective process for appointing high quality Boards of Inquiry
- setting a clear programme for developing national policy statements and national environmental standards as they relate to infrastructure development.

#### ***Improving and streamlining the resource consent applications process***

Options in this area include:

- establishing a priority processing track where, subject to compliance with specified criteria, resource consent applications for infrastructure projects will be subject to one rigorous first-order hearing with appeals to the Environment Court restricted to points of law
- increasing the links between the RMA and the Commerce Act to help prevent submissions and appeals motivated by trade competition
- limiting the scope and timelines within which councils can request further information from applicants, and restrict councils' discretion to increase processing timelines

- providing for private plan changes and resource consent applications to be processed and heard together
- broadening the scope of those able to seek requiring authority status, and therefore able to seek powers to compulsorily acquire land, to include electricity generators and perhaps other infrastructure developers.

### *Increasing regulatory certainty*

Options in this area include:

- ensuring that investment decisions and resource consent applications can be made within a clear and certain regulatory environment by both streamlining plan making processes and improving the quality of decision-making on plan provisions.

Officials are ready to assist the Government to implement these proposals in accordance with election promises. Other potential options for removing barriers to infrastructure investment, such as fundamental amendments to the principles of the RMA or standardisation of council plan provisions, have more far-reaching implications and may benefit from significant analysis and stakeholder input before they can be progressed.

More broadly, we recommend the development of a structured work programme that identifies areas for regulatory review, aimed at reducing barriers to infrastructure development, assigns responsibilities for work and sets out timeframes. An ongoing programme of such work could extend over time to other regulatory areas.

### ***New Investment opportunities***

We have noted your particular interest here in issuing longer-dated infrastructure bonds and in making more routine use of public-private partnerships (PPPs).

The issuing of longer-dated bonds has not been explored previously by officials as it has been possible to raise funds in lower-cost ways. However, as a result of the larger bond programmes forecast over the short to medium term, longer-dated bonds are now being actively considered and officials can advise further on this.

Work is also under way on options to support the more routine use of PPPs across government. There is currently no practical experience, and relatively little knowledge of PPPs, within the New Zealand public service. There are also no established guidelines. To that end, it is likely to be necessary to establish a central point of oversight, expertise and quality assurance. Internationally, in many cases the Treasury or Department of Finance has a unit that develops the general policy

framework for PPPs and provides guidance and assistance to agencies that let PPP contracts.<sup>5</sup> This guidance is typically focused on:

- project selection
- business case development
- risk assessment and allocation
- development of Public Sector Comparator
- value-for-money evaluations
- standard contract terms
- tendering and contracting procedures.

Officials are able to provide further, more detailed advice on the types of support options that might be appropriate in a New Zealand context at your convenience.

In addition, we would suggest that there is a role for strengthened management across the public capital asset base. Whether addressed in your role as Minister of Finance or as Minister for Infrastructure, we understand that you want to improve how New Zealand manages its capital asset base. New infrastructure projects will add to the \$73 billion of core Crown assets (excluding SOEs) that are currently managed in a decentralised environment. As both Minister of Finance and Minister for Infrastructure you will have opportunities to put in place robust approaches to prioritising and managing purchases, and to ensure that assets are managed cost-effectively across their life cycle.

Excluding the Government's new infrastructure projects, latest indications are that aggregate demand for capital will be \$40-45 billion over the next ten years. This represents supply-side pressure for an additional \$10-15 billion in capital expenditure over ten years, with associated depreciation expenses (operational expenditure, excluding Capital Charges) rising incrementally by perhaps \$0.5 to 0.7 billion per annum. In this environment, clear direction will be required to ensure that the Government's priority projects receive funding. You may also want to discuss how departments and Crown entities can help you to ensure that all major acquisitions deliver value for money, and to manage down aggregate demand for capital expenditure and associated operational expenditure.

Managing in the tight economic environment that we are expecting is likely to require some tough decisions from Ministers, a lift in the quality of business cases being presented to Cabinet, effective management of performance and price risks during and following acquisition, and a focus on extracting as much value as we can from

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<sup>5</sup> This is true in Victoria, where we are aware that *Partnerships Victoria* has been highly successful, and NSW, the UK, Ireland and the Netherlands (the Netherlands Ministry of Finance has a department called the Public Private Partnership and Asset Management Department). In Queensland the Treasury has a role but it appears that the framework and guidance is provided principally by the Department of Infrastructure and Planning.

the existing portfolio of assets. The Treasury would like to brief you on current approaches to managing capital assets, and how the Treasury can support you in your desire to take a disciplined approach to capital expenditure.

### ***The New Zealand Superannuation Fund***

We have noted your interest here in ensuring that there are quality infrastructure investment opportunities available to the New Zealand Superannuation Fund (NZSF), to grow the pool of capital available for developing New Zealand's infrastructure. However, there is a risk that, in financing infrastructure spending through the NZSF, this approach may in effect reduce the level of NZSF pre-funding, as the Crown would be the issuer of new debt (liability) and also hold the debt (asset) in the NZSF.

Funding infrastructure through the NZSF is therefore less transparent than debt. If your main objective is to provide capital for infrastructure spending, then there are a number of options available – including issuing new debt and suspending contributions to the NZSF. The Treasury would welcome an opportunity to talk to you further about how this could be achieved and articulated within the context of the Government's fiscal strategy.

### **Next steps**

#### **Addressing your immediate priorities**

Of the priorities you have already selected for inclusion in the National Infrastructure Plan, the new national broadband network is likely to require the most development and planning.

We are aware of your expectations that private sector investment in this new network will at least match that of public funding, and that the resulting network will be open access and capable of reaching up to 75 percent of the population.

In addition, we would highlight the following outstanding policy issues, from across the infrastructure sectors, as requiring attention over the coming weeks:

- **Waterview** – A report setting out the business case and next steps is ready for Ministers of Transport and Finance, seeking guidance on some matters prior to preparation of a Cabinet paper.
- **Rail** – A cross-agency policy team (Treasury, Ministry of Transport, NZ Transport Agency, Department of the Prime Minister and Cabinet and CCMAU) is due to report to Ministers in February on how best to assess and approve public policy funding for rail, and the allocation of policy and funding roles among the agencies.

#### **Meeting with infrastructure Chief Executives**

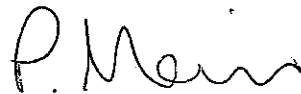
We understand that you wish to meet with the Chief Executives of infrastructure agencies in the near future. This may be an opportunity to discuss issues raised in this briefing, including:

- the scope of your role as Minister for Infrastructure, and the links to your role as Minister of Finance
- the type of agency support you are likely to require
- how fast you want to progress key infrastructure projects (noting fiscal and other constraints)
- ensuring progress on priorities, and how we can help you to manage expectations and risks
- how we can help promote consistency, quality, affordability and value-for-money across major infrastructure projects.

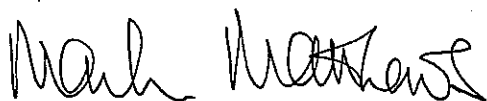
If you would like the scope of this Ministerial role to extend to responsibility for capital asset management across the public sector, it would also be useful to discuss with you how departments and Crown entities can help you to manage aggregate demand for capital expenditure and to live within spending limits.



David Smol  
Chief Executive  
Ministry of Economic Development



for John Whitehead  
Chief Executive  
The Treasury



Martin Matthews  
Secretary of Transport  
Ministry of Transport



Brendan Boyle  
Chief Executive  
The Department of Internal Affairs



Paul Reynolds  
Chief Executive  
Ministry for the Environment

## APPENDIX 1: INFRASTRUCTURE AND RELATED PORTFOLIOS

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|---|---|
| <p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Leadership of 'infrastructure' theme – co-ordination across component portfolios</li> <li>• Development and oversight of plan and funding priorities</li> <li>• Cross-cutting themes (for example, financing options, PPP's, )</li> <li>• Interface with 'social infrastructure' programme – Capital Asset</li> </ul> | <p><b>Finance</b></p> <ul style="list-style-type: none"> <li>• Broader economic policy</li> <li>• Fiscal policy and budget management</li> <li>• Value for money</li> <li>• NZ Superannuation Fund</li> </ul> |
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### Network Infrastructure

|   |   |
|---|---|
| <p><b>Energy</b></p> <p><i>Issues from BIM</i></p> <ul style="list-style-type: none"> <li>• Security of supply</li> <li>• Competition in electricity markets</li> <li>• Investment in electricity generation and transmission</li> <li>• Responding to climate change</li> <li>• Energy efficiency</li> <li>• Maximising the contribution of oil and gas to economic development</li> </ul> | <p><b>ICT</b></p> <p><i>Issues from BIM</i></p> <ul style="list-style-type: none"> <li>• Roll-out of ultra-fast broadband</li> <li>• Promoting investment in ICT more generally</li> <li>• Dealing with new technologies and convergence</li> <li>• Promoting the development of digital content, digital capability and cyber-security and safety</li> </ul> |
|---|---|

|  |  |
|--|--|
| <p><b>Transport</b></p> <p><i>Issues from BIM</i></p> <ul style="list-style-type: none"> <li>• Road user charges review</li> <li>• Funding and charging review</li> <li>• Waterview connection as a public/private partnership</li> <li>• The development of a freight strategy/plan</li> <li>• Critical routes project</li> <li>• Heavy vehicle productivity trial</li> <li>• Sea-change strategy implementation</li> </ul> | <p><b>Water (Local Government, Environment, Health)</b></p> <p>Issues from BIM's</p> <ul style="list-style-type: none"> <li>• Proposed stocktake on water and waste-water network infrastructure</li> <li>• Poor water quality in some regions creates additional costs for treatment of drinking water</li> <li>• Further economic development in some regions will require more water storage and distribution systems and/or reallocation to higher value uses</li> </ul> |
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|   |                                     |
|---|-------------------------------------|
| <p><b>Large publicly owned capital asset issues</b></p> <ul style="list-style-type: none"> <li>• Health (hospitals)</li> <li>• Education (schools)</li> <li>• Corrections (prisons)</li> <li>• Courts (courts)</li> <li>• Housing portfolio and major developments etc</li> </ul> | <p><b>Social Infrastructure</b></p> |
|---|-------------------------------------|

Areas of policy with strong links to infrastructure

Environment (RMA etc), Climate Change, Local Government, Building, Construction and Housing, Labour / Skills, Commerce (competition issues) ....