

Submission

by

**THE
NEW ZEALAND
INITIATIVE**

to the New Zealand Infrastructure Commission Te Waihanga

on the

**Developing an Enduring National Infrastructure Plan
Discussion Document**

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1. INTRODUCTION AND SUMMARY

- 1.1 This submission on the National Infrastructure Plan Discussion Document is made by The New Zealand Initiative (the Initiative), a Wellington-based think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people.
- 1.2 The Initiative undertakes research that contributes to developing sound public policies in New Zealand and creating a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.
- 1.3 The Initiative's members span the breadth of the New Zealand economy. They value efficient infrastructure planning, funding, and delivery. The views expressed in this submission are those of the author, not those of our members.
- 1.4 The Initiative considers a National Infrastructure Plan could be helpful if it is focused on addressing systemic challenges. We advise against 'picking winners' in the form of specific sectors or individual projects.
- 1.5 The consultation document correctly identifies many of New Zealand's infrastructure challenges. If a National Infrastructure Plan can help address these issues, it will be worthwhile.
- 1.6 It is evident that most challenges are with central and local government owned and operated infrastructure. Greater private ownership and involvement is likely to be beneficial.

2. CONTEXT

- 2.1 New Zealand faces an infrastructure investment deficit estimated at \$210 billion over the next 30 years. This challenge emerges at a time when our infrastructure sector faces significant headwinds. Construction costs have risen one-third faster than prices elsewhere in the economy and infrastructure construction productivity has grown at only one-third the rate of the overall economy. Most concerning, New Zealand ranks near the bottom 10% of high-income countries for infrastructure investment efficiency.
- 2.2 The situation at the local government level is particularly challenging. Many councils are approaching debt limits that constrain their ability to fund essential infrastructure. This creates a serious impediment to growth and development across the country.
- 2.3 Recent major infrastructure initiatives have demonstrated serious weaknesses in our planning and delivery systems. The \$12 billion New Zealand Upgrade Programme saw projects announced without completed business cases and with limited consideration of value for money. Documentation of decision-making was poor, and there was insufficient information about the strategic alignment of investments.
- 2.4 Similarly, the \$3 billion Shovel Ready Programme operated under extremely compressed timeframes for project selection, with unclear rationale for ministerial changes to project lists. Information about value for money was limited, and there was inadequate consideration of delivery capability.
- 2.5 Meanwhile, of 44 capital initiatives considered for Budget 2024, only 18 had business cases, and just three included cost-benefit analyses.

- 2.6 New Zealand's poor performance relative to other high-income countries extends across multiple dimensions of infrastructure governance, especially where it is owned and operated by central and local government. New Zealand ranks particularly poorly in areas such as long-term strategic vision, evidence-informed decision-making, cost-benefit analysis use, efficient public procurement, regulatory frameworks, and evaluation of outcomes. These weaknesses have real consequences. They manifest in deferred maintenance that creates future cost pressures, projects being selected based on political rather than economic criteria, inefficient allocation of limited infrastructure funding, and slow and costly consenting processes.

3. KEY PROBLEMS

Political Decision-Making

- 3.1 Much of New Zealand's public infrastructure is owned and operated by central and local government. This makes it subject, directly or indirectly, to political decision-making.
- 3.2 While democratic oversight of infrastructure policy is important, excessive political discretion in project selection and funding allocation can create significant problems. These are highlighted in the Auditor-General's 2023 report on the New Zealand Upgrade Programme and Shovel Ready Programme. Ministers made decisions to progress major projects despite not being fully scoped, planned, or supported with business cases. Some decisions surprised key stakeholders, who only learned about them through the media. The failure to document ministerial decision-making made it difficult to determine why changes were made to project lists or how value for money was assessed.
- 3.3 Policy whiplash is another significant problem. The changes of government in 2017 and 2023 resulted in costly reversals of infrastructure policy. Water services is a significant example. In 2023, the previous Labour government's 'Affordable Water Reforms', consolidated district and city councils' water supply, wastewater, and stormwater into regional water entities. These reforms were quickly repealed by the incoming National-ACT-NZ First coalition government, which is now implementing a different approach, 'Local Water Done Well' (LWDW). LWDW may be a better approach, but the sunk costs, uncertainty and disruptions in maintaining and investing in the assets have been considerable.
- 3.4 The transport sector provides another example. Ministerial control via government policy statements has led to dramatic shifts in priorities between public transport and roads with successive changes in government, especially in 2017 and 2023. This political oscillation creates inefficiencies. Projects have often advanced or been delayed based on political rather than economic criteria. It has also contributed to chronic maintenance deferrals; politicians typically prefer announcing new project spending to funding the maintenance of existing assets.
- 3.5 As the discussion document states, "Project leaders must navigate shifting political agendas that can alter project priorities and cause delays. They need to work within government funding cycles and engage with a diverse range of stakeholders, all of which add complexity."
- 3.6 Much is made of political cycles in infrastructure and the need for bipartisanship. This would be desirable, but some infrastructure decisions are inherently political. The real underlying problem is that projects cannot be scoped and delivered in the time available to a sitting government.

- 3.7 If projects could be delivered within a two-year window, any sitting government could achieve them. If projects could be delivered within a four-year window, a two-term government could achieve them. But slow delivery makes projects hostage to political fortunes. That increases project cost further.
- 3.8 Recent project-specific examples highlight the real-world impacts. The Transmission Gully project encountered significant procurement and delivery challenges partly due to political pressure to proceed quickly. The Auckland City Rail Link has experienced substantial cost escalation, while the Mental Health Infrastructure Programme has faced implementation issues due to poor initial planning. The Auckland Light Rail planning process demonstrates how political considerations can override sound infrastructure planning, leading to delays and increased costs – and ultimately to the demise of projects. Similar lengthy delays and massive cost blow-outs caused the abandonment of the ‘Let’s Get Wellington Moving’ transport plan and the i-ReX Cook Strait Ferry replacement. The scope for Dunedin’s replacement hospital is now being scaled back to fit within its funding appropriation.
- 3.9 It is encouraging that efforts are underway to make infrastructure planning and decision-making less prone to political swings. A positive example is a refreshed Public Private Partnership framework that has been supported by the Labour Party.
- 3.10 Prioritising designation of long-term infrastructure corridors through purchase of options over corridors, combined with rapid consenting and approvals for projects using those corridors, would hasten project delivery, reduce project costs, and make each project less subject to political fortunes.
- 3.11 Infrastructure owned and operated by the private sector (or with mixed private-public ownership) tend to face fewer problems with political decision-making than fully public projects. Instead, problems with infrastructure and services in sectors such as telecommunications, electricity, ports, and airports tend to be caused by policy settings, such as planning processes.
- 3.12 This suggests that greater private sector ownership and/or operation of infrastructure and services would be desirable. In their recent report ‘Unlocking Value: Recycling our Infrastructure Assets to Grow New Zealand’, Infrastructure New Zealand and Aurecon outlined how recycling public assets could help fund New Zealand’s infrastructure needs without increasing debt. ‘Recycling’ means partnering with the private sector on our existing public assets and “recycling” cash back into the system.

Weak Economic Analysis

- 3.13 The weakness of economic analysis in infrastructure decision-making extends beyond individual project failures. It is a systematic problem. Evidence from recent budget processes is particularly concerning. Relatively few capital projects have business cases or cost-benefit analyses. This mirrors broader issues identified by the Infrastructure Commission. New Zealand ranks particularly poorly among OECD countries for evidence-informed decision-making and cost-benefit analysis use.
- 3.14 The consequences of this weak analytical foundation are significant. Projects are frequently selected without adequate consideration of alternatives, including the better maintenance of existing assets. When cost-benefit analyses are conducted, they often suffer from methodological problems. For instance, safety project assessments frequently offset time costs to drivers in the benefit calculation while keeping implementation costs artificially low. This leads to inflated benefit-cost ratios that distort

project selection. Similarly, some costs have been classified as 'negative benefits', thereby reducing the denominator and misleadingly inflating the resulting ratios.

- 3.15 This analytical weakness particularly manifests in project prioritisation. Without robust economic analysis, there is no reliable way to compare the relative merits of competing infrastructure investments. This leads to inefficient allocation of limited funding. Politically favoured projects tend to advance ahead of those that might deliver more significant economic and social benefits.

Funding Model Flaws

- 3.16 Current infrastructure funding arrangements create perverse incentives across multiple sectors.
- 3.17 In transport, there is a fundamental disconnect between user charges and investment decisions. Road users pay through fuel excise and road user charges, but these revenues increasingly fail to cover the full cost of the land transport system. The New Zealand Transport Agency (NZTA) projects that by the late 2020s, there will be a \$6 billion annual gap between user revenue and planned expenditure, creating pressure for general taxation to subsidise the system. An alternative approach for roading would be price-based:
1. Implement congestion charging, where charges are set to maximise the number of trips that can be completed. The prices necessary for achieving that can signal whether there is sufficient demand for capacity increases to warrant providing them.
 2. Abolish the existing NZTA rule against using tolling on routes that do not have a free alternative. The Infrastructure Commission has pointed out that this rule makes it effectively impossible to use tolls to cover the cost of new routes.
 3. Shift to comprehensive Road User Charges (RUC) with route-specific tolls on roads that have higher capital/maintenance cost than the per-km RUC charge. Per km RUC charges should ensure that the roading network covers its cost of capital and maintenance for a base-level road. The route-specific charge should reflect the difference between the RUC per-km charge and the differential cost of that route.
 4. If capacity increases, whether new lanes or new roads, cannot cover their cost, including capital cost, then don't build them. This avoids cost blowouts.
- 3.18 Local government infrastructure funding faces challenges. Development contributions are frequently undersized relative to growth costs. From 2014 through 2021, Tauranga City Council spent over \$481 million providing infrastructure to support growth but collected only \$225 million in developer contributions. Councils approaching their debt limits face particularly stringent constraints. The Local Government Funding Agency requires councils to maintain specific debt-to-revenue ratios, and many high-growth councils are nearing these limits. This creates a situation where councils experience urban growth as a cost to be mitigated rather than a benefit to be sought.
- 3.19 The problem is compounded by poor allocation of risk and first-mover disadvantages in growth areas. When infrastructure is built to serve new development, there is often uncertainty about the timing and scale of follow-on development that might share the costs. This can lead to either over-investment in infrastructure that takes years to be fully utilised or under-investment that constrains growth.
- 3.20 The rating system further complicates matters. It incentivises existing residents to oppose development that might increase their rates, even when such development

would benefit the district or region economically. The government could mitigate this problem by providing councils with a revenue share, so councils are rewarded for economic growth from development. It is encouraging that the government is considering this approach for residential building work – something the Initiative has advocated for at least a decade.

- 3.21 The Initiative also strongly supports greater use of user charging for infrastructure services. There are strong efficiency benefits from volumetric user charging for water services. It is remarkable, then, how many councils still use rates (either fixed per property or based on the value of a property) to recover the water supply and wastewater costs. A commonly cited concern about user charging is its impact on low-income users, but this can be ameliorated through income support.
- 3.22 Reform of infrastructure funding and financing would be welcome, including the ability of councils to share in the benefits of growth and development. The government has a work programme for this. However, it will be very important for any new regime to endure politically. A cross-party consensus, like that on public private partnerships, would be welcome.
- 3.23 Infrastructure owned and operated by the private sector (or with mixed private-public ownership) tend not to face problems with funding and financing. Examples include telecommunications, electricity, ports and airports. It would be useful to consider whether and how to allow and encourage greater private sector ownership and operation of other infrastructure and services.

Slow and Costly Planning Processes

- 3.24 The current planning and consenting framework for infrastructure represents a significant barrier to efficient infrastructure delivery. A 2021 paper by Sapere for the Infrastructure Commission estimated that consenting processes for infrastructure projects alone cost \$1.29 billion per year - and this figure only considers Resource Management Act (RMA) processes, not other conservation-related legislation. The cost burden is particularly severe for smaller projects, for which consenting can consume up to 15.9% of the total project budget, compared to 0.7% for projects between \$100 million and \$1 billion.
- 3.25 The problem extends beyond just cost. The same research showed consent processing times increased by 50% between 2014 and 2019. This creates significant delays in project delivery and adds to overall project costs. The system also fails to give appropriate weight to economic and social benefits of development relative to environmental and conservation considerations. While environmental protection is important, the current framework makes it difficult to progress even clearly beneficial projects in a timely manner.
- 3.26 Regionally and nationally significant projects can be rejected or have onerous conditions placed on them under the RMA and conservation legislation, often with insufficient consideration of their economic benefits. The problem is compounded by overlapping regulatory requirements. For instance, infrastructure projects involving foreign investors often have their environmental impacts separately assessed through both the RMA, the Conservation Act, and the Overseas Investment Act, all using different criteria. This requires reworking the same information twice or more, adding to costs without necessarily increasing benefits.
- 3.27 These issues are particularly acute for critical infrastructure that crosses multiple jurisdictions or requires consideration under multiple regulatory regimes. The current

system lacks effective mechanisms for considering the interconnected nature of infrastructure networks. That leads to fragmented decision-making and missed opportunities for coordinated development.

- 3.28 The Fast-Track Approvals Bill represents a step toward addressing these issues. However, more fundamental reform is needed to create an efficient and predictable planning system that enables beneficial infrastructure development while maintaining appropriate environmental safeguards. The Initiative hopes that the government's Phase 3 replacement of the RMA will achieve this, but it will be very important for any new legislation to endure politically. A cross-party consensus, like that on public private partnerships, would be welcome.

4. RESPONSES TO CONSULTATION QUESTIONS

- 4.1 The Infrastructure Commission has posed seventeen questions about the future of New Zealand's infrastructure.

Addressing Critical Challenges (Questions 1-3)

- 4.2 The most critical infrastructure challenges (Q1) facing New Zealand over the next thirty years centre on institutional reform, funding sustainability, and system efficiency. Institutional reform must reduce political interference in project selection, including through greater private ownership and/or operation of infrastructure. We should seek to build stronger governance frameworks, improve project delivery capability, and increase speed of delivery. This includes purchasing options for infrastructure corridors, so they can quickly be designated and paying a premium for the land relative to comparable land.
- 4.3 Funding sustainability must address local government debt constraints and move towards user-pay models that better align costs and benefits. System efficiency demands streamlined approval processes and improved procurement practices.
- 4.4 The incorporation of te ao Māori perspectives (Q2) can strengthen infrastructure planning by emphasising long-term intergenerational thinking and environmental stewardship. However, these considerations should complement rather than override sound economic analysis.
- 4.5 These challenges are complicated by significant uncertainties (Q3) in infrastructure planning, including population growth and distribution, technological change, climate impacts, and economic conditions. We recommend addressing these uncertainties through robust cost-benefit analysis, which includes sensitivity testing, real options analysis, staged decision-making, flexible design approaches, and asset recycling.

Infrastructure Pipeline and Problem Definition (Questions 4-5)

- 4.6 The National Infrastructure Pipeline should serve as more than a project database (Q4). It should firstly ensure there are price-based funding systems that ensure projects recover their costs from users. This would be complimented by incorporating standardised economic analysis, providing transparency on project status, enabling better coordination between agencies, and supporting workforce planning. However, other problems (Q5) also require attention. These include weak institutional incentives for efficiency, poor alignment between costs and benefits, insufficient private sector participation, and regulatory barriers to innovation.

Improving Investment Decisions (Questions 6-7)

- 4.7 Better infrastructure investment decisions require fundamental changes to decision-making frameworks (Q6). We support greater private ownership and/or operation of infrastructure. We would also support mandatory cost-benefit analysis, developing clear investment criteria, and strengthening asset management requirements. Competing investment needs (Q7) should be managed through rigorous economic analysis to guide prioritisation, supported by user-pays funding models and better demand management.

Project Leadership and Workforce Development (Questions 8-9)

- 4.8 Improving infrastructure project leadership (Q8) requires the development of broader and deeper professional project management. It must include strong commercial expertise, clear accountability frameworks, and better alignment of incentives with outcomes. Current barriers include political interference in delivery, lack of clear career pathways, and insufficient commercial expertise in the public sector.
- 4.9 Building a more capable infrastructure workforce (Q9) demands long-term pipeline visibility to support workforce planning, professional development pathways, and partnerships with education providers. Workforce diversity should be pursued within a merit-based framework focused on building capability.

Value for Money and Asset Management (Questions 10-11)

- 4.10 Better value for money (Q10) can be achieved by selecting the right projects through using price-based funding systems, that ensure projects cover their costs, as well as rigorous cost benefit analysis. In addition, decision-makers should use standardised designs, improve procurement practices, better risk allocation, and capture scale economies through project bundling. Current barriers include political resistance to pricing, pressure for bespoke solutions, poor coordination between agencies, and fragmented delivery approaches.
- 4.11 Asset management (Q11) can be improved by encouraging greater private ownership and/or operation of infrastructure and services. Other options (especially for central and local government owned and operated infrastructure) include mandatory asset management plans with independent review, ring-fencing maintenance funding, and establishing clear renewal funding pathways.

Risk Management and Emissions Reduction (Questions 12-13)

- 4.12 Infrastructure risk management (Q12) should be improved through comprehensive assessment frameworks, better data collection and analysis, and clear responsibilities for risk management.
- 4.13 Emissions reduction (Q13) is best achieved through carbon pricing via the Emissions Trading Scheme rather than direct regulation. Carbon pricing enables market responses and reduces barriers to the adoption of low-emissions technologies.

Institutional Reform and Network Pricing (Questions 14-16)

- 4.14 Fundamental institutional reform (Q14) should encourage greater private ownership and/or operation of infrastructure and services. Other options would include establishing an independent infrastructure authority with a clear mandate,

strengthening economic analysis requirements, and better alignment of users and funders. Asset recycling should also be advanced.

- 4.15 Network pricing (Q15) should incorporate universal road user charges, time-of-use pricing for congested infrastructure, volumetric charging for water, and value capture mechanisms. It should embed a principle that growth pays for growth, and that new infrastructure should be able to cover its full cost over time through charges to the beneficiaries of that infrastructure. It should embed a principle that renewals pay for renewals similarly.
- 4.16 Regulatory settings (Q16) should be streamlined and be subject to rigorous cost benefit analysis. Planning reform should proceed to unblock slow and costly processes.

Additional Considerations (Question 17)

- 4.17 The National Infrastructure Plan should establish a clear implementation pathway with specific timeframes and metrics for success. Regular reporting on progress will be essential, as will maintaining momentum on associated reforms to institutions, funding and financing, and planning processes.
- 4.18 The Plan should draw on international best practice and enable greater private sector ownership and/or operation in infrastructure and services, including asset recycling and private public partnerships.
- 4.19 Cross-party political consensus would be desirable to avoid the inefficiencies and disruptions caused by political swings. However, increasing the speed of project delivery would do a lot to reduce such risks.

5. CONCLUSION

- 5.1 The National Infrastructure Plan represents an important opportunity to address New Zealand's infrastructure challenges.
- 5.2 We encourage the Infrastructure Commission to focus on encouraging greater private ownership and/or operation of infrastructure and services; reform to funding systems, especially price-based user charges; stronger economic analysis; and reform of planning processes to speed up infrastructure delivery.
- 5.3 The Initiative appreciates the opportunity to submit on this important issue and would welcome the chance to discuss our recommendations further.