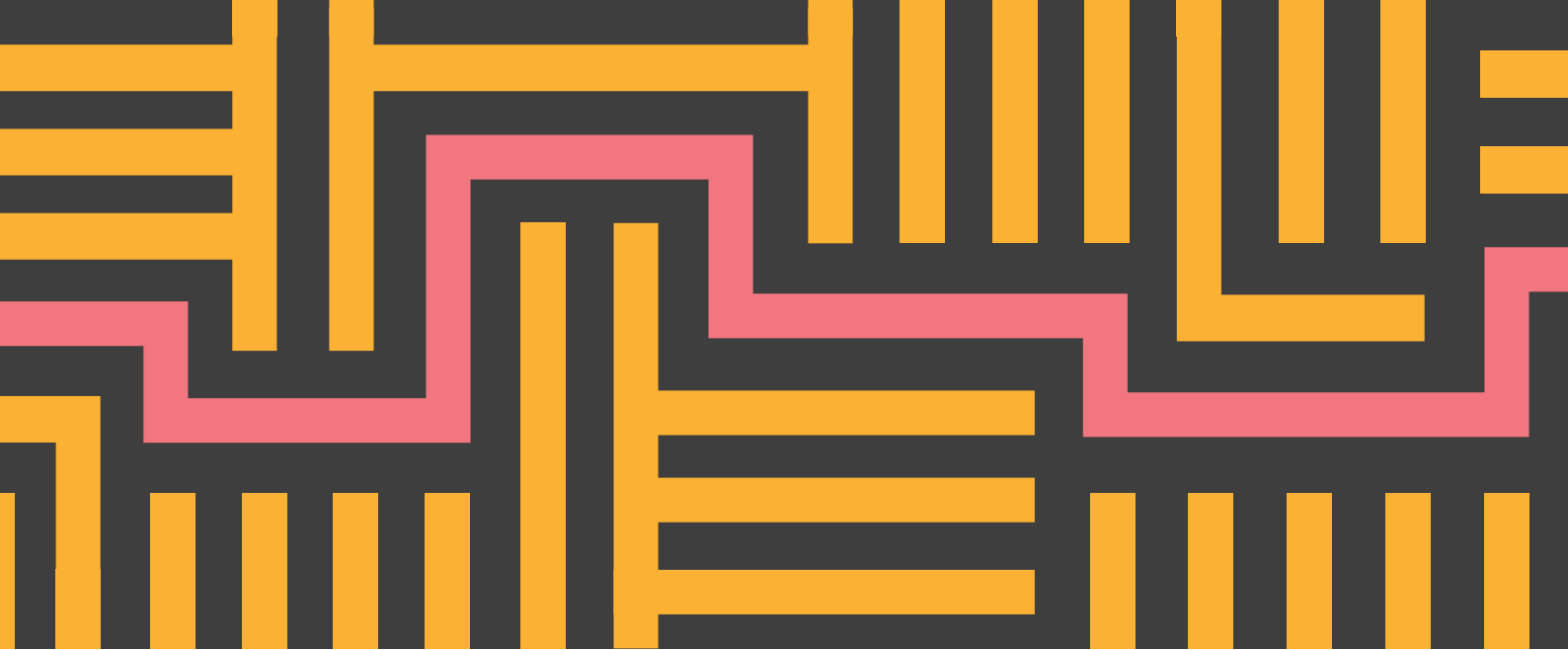


# We support the establishment of a new independent infrastructure body

The opportunity for a step change in our approach to infrastructure in New Zealand

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Infrastructure choices have social, environmental and economic impacts for decades into the future. Optimising infrastructure decision making can improve the value of New Zealand's finite capital resource. The efficient delivery and maintenance of infrastructure is essential for improving the living standards of New Zealanders.

New Zealand can improve its decision making with regards to infrastructure by focusing on delivery and asset management planning. There is an opportunity for a step change in our approach to infrastructure. This includes improving pipeline certainty and better allocating resources. When the market is able to plan effectively it can allocate resource more effectively. These benefits end up in the pockets of New Zealanders.

The goal of a long term, fully funded infrastructure pipeline with partisan support may be challenging given rapidly changing technological, social and political environments, but the benefits would be immense.

## What's essential?

**The Government is proposing two functional areas for the Body, Strategy and Planning, and Project Delivery and Support. For these functions to be successful and for the Body to deliver effectively, it will need to:**



Have a strong Crown mandate, suitably empowered through Ministerial direction and legislative change (if required).



Be appropriately independent with clear separation from existing Crown entities.



Publish a regular infrastructure pipeline based on central government, local government and private sector capital plans, backed by independent review and empirical research, that includes clear recommendations and prioritisation ie a "National Infrastructure Plan".



Require central and local government "To Have Regard To" the recommendations and prioritisation in the "National Infrastructure Plan".



Be a centre of excellence for procurement, funding, financing and asset management planning with early involvement in the project lifecycle.



Have a strong policy and advocacy role for the efficient allocation of capital, that engages positively with the entire range of infrastructure market stakeholders.



Leverages the experience of the National Infrastructure Unit (NIU) by drawing on the people and processes already in place.



Have a mix of government and private sector personnel at employee, executive and Board level, supported by specific consultancy expertise as required.

# Empowerment & Independence

The Body needs to be independent, however the required level of independence may vary by function. The function with the highest level of independence will define the structure of the entire organisation. Consideration also needs to be given to the powers that the Body will have with respect to the Government, central government agencies and local government.

## Strategy and Planning function

The Strategy and Planning function has the opportunity to optimise infrastructure decision making in New Zealand by identifying the highest priority projects, maximising benefits from the finite capital available. In order to identify and prioritise New Zealand's infrastructure needs, a strong mandate and independence is essential.

### **The Body needs to be empowered and resourced.**

There are various levels at which the Body can deliver the Strategy and Planning function, depending on the strength of the mandate and resources afforded to it. A stronger mandate and greater resources will enable a greater level of analysis and critical review, enabling better infrastructure decision making.

At the most basic level the Body can simply function as an aggregator of information, collecting and processing central government, local government and private sector capital intention plans into one cohesive document. Much of this information may be publicly available and the value of the output would be limited.

To enable the Body to undertake its own analysis and critical review of proposed capital intentions, the mandate should include powers to requisition public sector information. This would include access to base data, not just the conclusions or analysed results.

Additionally, where agencies or sectors don't undertake empirical research well enough, the Body may need to undertake its own. Water quality and discharges, traffic pollution and traffic congestion are all examples where the quality of current empirical research is of variable quality and could be improved to aid in decision making. Identifying user needs, and willingness to pay, for levels of service and resilience is another area that may be aided by independent empirical research. The price-quality debate over what level of service (eg water quality) or resilience (eg to natural disaster) infrastructure should provide is fundamental to decision making. To be effective, this would require the Body to be appropriately resourced.

By aggregating capital plans, undertaking critical analysis and (where required) empirical research, the Body can be expected to generate a robust infrastructure pipeline with clear recommendations and prioritisation, a "National Infrastructure Plan" for New Zealand.

### **The Body can drive more efficient use of capital.**

There is often misalignment between the objectives of those with ultimate responsibility for making infrastructure decisions (typically the Government) and infrastructure needs. The Body has the potential to bridge this gap and provide transparency to major infrastructure decisions.

If the Strategy and Planning function is to be effective at influencing infrastructure decision making, it needs suitable powers. Infrastructure decision makers could be required to "Have Regard To" or "Give Effect To" the recommendations of the Body, in the delivery of their own functions.

*If such a power is afforded, it gives the Body the ability to go beyond development of a plan to be a powerful voice in the efficient allocation of capital in New Zealand.*

The requirement to “Have Regard To” may be an appropriate level of empowerment. This does not suggest that the Body should have decision making powers. The Government, relevant agencies and local authorities would continue to be free to undertake whatever projects they wish. It requires the infrastructure decision maker to consider the recommendations of the Body. This will create greater transparency in public infrastructure as any decisions which are counter to Body recommendations would need to be explained and evidenced, generating opportunity for public debate. To the extent that this would apply to local government without central government funding, legislative change may be required.

### **The Body needs to be independent.**

The level of independence of state sector organisations can vary, typically by the level of control the relevant Minister has over key appointments (ie the Board) and to direct, based on Government policy.

The status of an Independent Crown Entity (ICE) (eg the Commerce Commission, Takeovers Panel, Financial Markets Authority and Productivity Commission) would enable the Body to undertake this function without regard to the direction of the responsible Minister. However, this would place it outside the core functions of Government and may render the Body irrelevant. Therefore, the status of an Autonomous Crown Entity may be more appropriate in establishing the Body inside the functions of Government. The perception of independence must be maintained, this can be achieved through the appointment of an appropriate Board.

## **The Board**

With the structural independence limitations discussed above, it is critical that the Board is perceived as independent. Additionally, consideration must be given to the composition of the Board as it will need to cover a wide range of experience including public sector, procurement, contracting, engineering, financing and funding.

Crown entity Boards are typically appointed by the relevant Minister. The New Zealand Super Fund structure may be an appropriate model, where the Board is appointed by an independent panel. If this were to move too far away from the status quo, embedding a skills matrix for the Minister to have regard to, may be an appropriate method of ensuring the full range of skillsets is covered.

A mix of public and private sector Board members is recommended. Regardless of the appointment process, careful consideration must be given to ensure the perception of independence is maintained as conflicts can be perceived on both the public and private sector sides.

The Board should provide the recommendations to Ministers (as is the case with many Crown Entity Boards).

## Project Delivery and Support function

Procurement is becoming increasingly complex.

As infrastructure projects and procurement becomes more complex, the skills and resource required to successfully undertake it are becoming more demanding. Smaller organisations, or those that only undertake projects periodically, are finding it more difficult to source the necessary skills and resource to develop business cases and procure complex infrastructure.

The Project Delivery and Support function has the potential to support central and local government through business case development and procurement and enable more complex projects, which may realise a greater range of benefits to the procuring authority, for example alternative financing arrangements such as Build, Own, Operate, Transfer (BOOTs) and Public Private Partnerships (PPPs).

*A resource matrix of procuring authority expertise and project complexity may be useful in determining the resource allocated to support the project.*

An example of this function being undertaken with success is the Treasury Public Private Partnership (PPP) Team. The team undertook the role of a centre of expertise for all stages of PPP procurement, with individual team members assisting agencies in their procurement processes. This was achieved successfully against the backdrop of Treasury as a Department, and therefore having a relatively low level of Crown independence.

Therefore, for the Project Delivery and Support function, a lower level of independence is likely to be sufficient. While a level of structural Crown independence may assist in undertaking this function, effective independence comes from the involvement of a separate body to the procuring authority, with a strong mandate to be involved.

## To be successful a strong mandate for involvement is required.

For **central government**, a requirement for consultation and use of the Body expertise for infrastructure projects over a material value (eg \$50 million) could be embedded in the Cabinet Manual. Letters of Expectations to Crown Agencies (eg District Health Board, New Zealand Transport Agency (NZTA)) could include the same requirement. Both documents may also require projects to examine alternative financing mechanisms other than Crown capital appropriation, with support from the Body.

When funding requests go to cabinet, the Body could provide comment, in much the same way Treasury provides a second opinion today, this is so Ministers are clear as to their view. However, greater value will be gained by the Body being involved as early as possible in project development.

It should be considered how widely this requirement extends. For example, it may not be appropriate to extend Body consultation to State Owned Enterprises (SOEs). Where SOEs are the benefactor of central government funding (eg KiwiRail) there will be an implicit requirement anyway.

For **local government** the mandate is more challenging as much of their infrastructure is funded independently of central government. For local government, Body consultation could be tied to funding requests or distributions whenever there is central government funding (eg the Auckland Transport Alignment Project, Let's Get Wellington Moving and other Regional Land Transport Fund projects). While local government would be free to call on support from the Body, mandated involvement may require legislation change where central government funding is not involved.

# What's missing?

The Body will be hamstrung in its operations without three other functions:



policy and advocacy



funding and finance



asset management planning

**Policy and Advocacy:** as part of the strategy and planning function, the Body will invariably find pricing signals and practices that lead to the inefficient allocation of capital to infrastructure (eg road pricing), or inefficient operational issues (eg 3 waters operations). When a policy issue emerges the Body should have the ability to identify the issue, prioritise it alongside other issues and work with the relevant departmental agency toward a better outcome (the Body may have Memorandum of Understandings with certain key government departments). Advocacy (or public understanding) should be similar to that conducted by the FMA or The Panel on Takeovers and Mergers, where those organisations embark on stakeholder relationship programmes (eg with contractors, funders, infrastructure purchases, etc).

**Funding and Finance:** will be increasingly important over time, and should be actively considered as part of the operations of the Body. There are two key elements to this:

**Funding:** What value is created by new infrastructure, above that caught in a traditional cost benefit ratio, then determining whether there are any beneficiaries who should contribute to the capital expenditure will be critical elements of identifying infrastructure funding sources.

**Financing:** Investigation into what delivery alternatives there are for infrastructure projects, beyond core crown capital appropriations and how can they be financed.

**Asset Management Planning:** The benefits created when attention is paid to whole of life asset management are clear. Therefore, as part of the Strategy and Planning and Project Delivery and Support functions, focus should be given to supporting whole of life asset management planning. This has been employed very successfully in the New Zealand PPP programme where project structuring and objectives have driven long term asset management thinking to the benefit of the user, owner and wider public. Robust asset management planning during the business case development and procurement phases is essential to maximising the benefits of infrastructure over time. The Body has the opportunity to create a step change in how New Zealand manages its assets.

PwC supports the establishment of a new independent infrastructure body. If suitably empowered and appropriately independent, it has the potential to maximise the social, environmental and economic benefits infrastructure provides, while more effectively employing New Zealand's finite capital resource.



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