

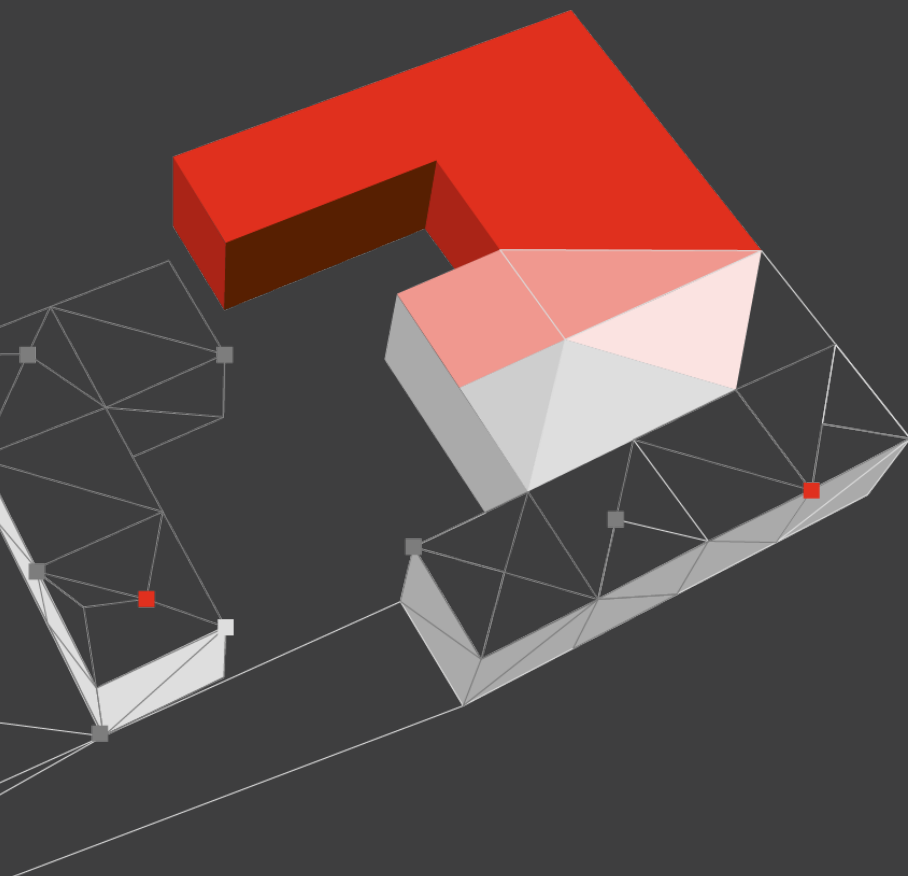
Rebuild New Zealand: infrastructure



How we define infrastructure

Our definition of infrastructure is broad, and encompasses utilities (e.g. power generation, transmission and distribution, gas, water, and telecoms), transportation (e.g. rail, roads, ports and airports), and social infrastructure (e.g. hospitals and schools).

The provision of infrastructure has flow on benefits as it enables vertical construction including housing, further supporting economic growth and meeting social needs.



What should an infrastructure-led recovery look like?

In the wake of the COVID-19 pandemic there has been much discussion about an ‘infrastructure-led recovery’. Infrastructure can play a direct role in stimulating the economy and maintaining employment.

The OECD identifies infrastructure development as a critical means of supporting economic growth, enabling development, facilitating private investment, promoting competitiveness across all sectors of the economy, and an attractive investment opportunity in itself.

The Government’s COVID-19 response includes substantial funding for infrastructure projects, with an initial focus on ‘shovel-ready’ initiatives. This builds on the stimulus funding allocated to projects pre COVID-19. A longer-term set of projects is yet to be announced. This will be critical for the sector and for providing wider economic stimulus.

To enable infrastructure to play a pivotal role in rebuilding New Zealand, there are significant challenges the sector needs to address including procurement, workforce availability, planning and RMA challenges and local government funding constraints. Short and long-term changes in demand for infrastructure assets also need to be considered.

The recovery plan and programme of investment presents opportunities to improve the provision of infrastructure so it benefits all New Zealanders. Investment decisions must support broader economic and social outcomes, including sustainability and equity. Reform of existing and, in some cases outdated, delivery and funding models will be required to accelerate development, improve efficiency, and reduce cost.



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What we are seeing now

There are several key themes and challenges caused by COVID-19 affecting the infrastructure sector:



Central government support – In response to a forecast downturn in the infrastructure and construction sector, and to stimulate the economy, the COVID-19 Response and Recovery Fund was established with \$3 billion set aside initially to fund a selection of ‘shovel-ready’ infrastructure projects across the country. This initiative built on the \$12 billion New Zealand Upgrade Programme announced in January 2020, and Provincial Growth Fund infrastructure investments.

The Infrastructure Industry Reference Group (IRG) was tasked with identifying ‘shovel-ready’ projects to put forward to Ministers for possible investment. It received over 1,900 submissions with a combined value of \$136 billion, with the first 12 projects announced on 1 July 2020.

In addition to fiscal stimulus, the Government introduced legislation to Parliament to establish a new fast-track resource consenting and designation processes, with an initial 11 projects announced in June 2020.



Local government constraints – Local governments throughout the country are facing reduced revenue from development contributions, building and consent fees, public transport and parking fees, events and community facilities, as well as lower dividends from council-owned businesses, such as ports and airports. Lower revenue not only reduces funding available for infrastructure investment, but also increases debt to revenue ratios, further limiting councils’ ability to borrow to fund investment. Councils have responded by reducing their spend on non-essential services and deferring non-essential investments.



Construction sector challenges

– There was already significant pressure on balance sheets and working capital pre COVID-19 due to the nature of existing contractual arrangements and the low margins that are prevalent. The COVID-induced lockdown, ongoing project delays and extended time frames have added further stress to the financial position of many in the sector. Some projects have also been mothballed.



Changing behaviours – COVID-19

has accelerated trends toward workplace flexibility, remote working, and use of video conferencing. This has affected the demand for transportation infrastructure, reduced public transport patronage and increased the reliance on communications networks as a critical element of our nation’s infrastructure. Ultimately those trends will alter how our cities are used and the infrastructure cities require.



Travel restrictions –

Border restrictions have reduced international visitor numbers to near zero and are likely to remain in place for some time. This has had a severe impact on airports, airlines, and other transportation providers. Regions reliant on tourists have been hit hard. Restrictions are also impacting the ability to retain highly skilled and specialised personnel and bring in new experts to work on projects.



Housing – Inability to access

financing is creating uncertainty in the private sector which, coupled with declining sales volumes, is placing the building and development market under pressure. The Government signalled in its Budget 2020 a commitment to building 8,000 public and transitional homes over the next four to five years, funding this through rent subsidies, along with a Kāinga Ora financing programme.

Opportunities for the sector

While ‘shovel-ready’ responded to an immediate need for economic stimulus, we believe a more comprehensive medium-to-long-term infrastructure programme, that is outside of ‘business as usual’, is needed to enable a sustainable recovery for New Zealand. That programme should address the significant underinvestment in infrastructure of past decades.

The Infrastructure Commission is well placed to lead initiatives in this area, along with industry action through the Construction Sector Accord. However, the current substantial programme of infrastructure investment proposed as part of the recovery plan also provides a catalyst for change in the sector including:

Considering the demand for infrastructure, not just supply

Traditionally users of some form of infrastructure have not faced price signals for use, and where they do, they are not well correlated to time of use. As part of our investment puzzle, central and local government agencies should make the best use of existing infrastructure and be bolder in pricing to better determine when and how it is built. Roading, rail, and water could all benefit from improved pricing signals.

Investing for broader outcomes

Bold investment decisions are needed to ensure that infrastructure creates lasting benefits for productivity, growth and sustainable job creation, rather than simply facilitating direct employment. Projects need to be viewed holistically to ensure they are coordinated and are a strong catalyst for both wider economic development and social outcomes.

Investigating new funding models

New ways of funding infrastructure need to be considered, in order to accelerate development, harness private capital, better manage risk and reduce reliance on Crown and local authority balance sheets. Changes introduced by the Government as part of the Urban Growth Agenda may facilitate broader capital options.

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Considering financing sources

Financing sources should be considered with respect to outcomes to be achieved and effects on the intergenerational debt burden. There is a trade-off for private financing between cost and the level of risk-transfer, with one option for the Crown and local authorities to recycle capital from projects where risk has already been reduced (as is the case with built assets), into projects to be developed.

Planning and approval processes

Planning and approval processes should be streamlined to improve efficiency and accelerate the procurement and delivery of projects. Business cases need to be more focused, and when coupled with a refined funding and finance framework, create a real infrastructure pipeline. Clear governance and accountability around project delivery, coupled with improved planning will provide confidence throughout the construction supply chain.

Reforming delivery models

There is an opportunity to change the way infrastructure is delivered nationally to improve efficiency and reduce cost. New Zealand's traditional approach to delivery is often highly localised. This doesn't bring the benefits of strategic planning and procurement that a nation of five million should experience. We need to look at regionalised decisions that leverage scale and are, where appropriate, nationally consistent. The water sector is an obvious example that would benefit from a regional approach.

Collaboration between the public and private sector

Recovery will need effective partnership with a balance between government-led recovery and opportunities for private sector involvement. The optimal form of government involvement will differ by asset type and project, and may involve investment, ownership, regulation or reform. Government should ensure there is greater collaboration between its procurement agencies to maximise the benefit to the Crown resulting from the deployment of infrastructure, and partner with the private sector through delivery models that are less complex and fairly allocate risk to encourage rapid deployment.

Reforming the port sector

Coupled with improved transportation pricing, the opportunity exists to reform the port sector by consolidating existing ownership to ensure future investment is more efficient and better meets the demands of exporters and importers, with the reforms feeding into the road and rail connections that would optimise supply chains. This reform would also assist in reducing local government balance sheet commitment to the port sector.

Enabling sustainability

There is a need to ensure that investment decisions and actions support New Zealand's commitment to reducing its environmental impact and ensure the prosperity and sustainability of future generations. The role of road and rail will be a key consideration, including how well carbon is charged for as part of transport emissions. Recent initiatives such as the establishment of the NZ Green Investment Fund and Climate Change Commission will be central to leading the development of best practice in this area.

Responding to societal change

The planning and delivery of infrastructure needs to respond to evolving needs over the short and long term, such as the changes in transportation patterns that are already becoming evident and the vastly increased importance of effective and resilient communications infrastructure. Infrastructure must also respond to an aging population.

Leveraging iwi involvement

Iwi have a key role to play in the delivery of infrastructure across all regions of New Zealand, both as substantial land owners and as investors with typically long-term investment horizons. Iwi involvement in projects may also help to align projects with the broader economic and social goals and outcomes that government social policies are working to achieve.

Contact us

PwC has advised on many of New Zealand's largest infrastructure projects spanning road and rail, port sector, communications and IT, healthcare, housing and other forms of social infrastructure. We have deep relationships with key stakeholders including central and local government. We pride ourselves on a focused partnership approach to our work in the sector, based on principles of trust, independence and challenging insight, using specialist teams tailored to specific client needs.

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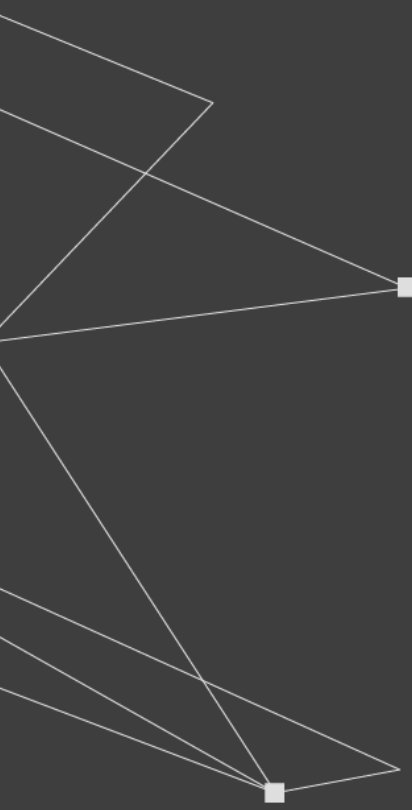
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