

The Treasury

A New Independent Infrastructure Body – Background Papers

Release Document

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Briefing for GOV, 15 May 2018: Infrastructure Institutional Settings Review

Purpose of Report

1. This report outlines the instructions given to Treasury on reporting back with options to enhance the institutional settings that support infrastructure investment decision-making. This paper also lists initial considerations for making institutional changes.
2. The scope of the options will be 'whole-of-system', covering strategy, funding, planning and major infrastructure project delivery support. The paper will also consider the necessary incentives or decision rights, particularly at the interface between central and local government.

Infrastructure Institutional Settings Review (IISR)

3. Ministers Robertson, Twyford and I have asked Treasury, in consultation with other officials, local government and industry, to report back by late June with a Cabinet paper on options for improving the institutional settings that support infrastructure decision-making. In particular, this will focus on ensuring the government is appropriately positioned to address the infrastructure challenges that New Zealand faces over 30 years and beyond, but also to address more immediate challenges.
4. The advice will cover a spectrum of institutional changes on how central government engages with other departments, local government and the market in different ways, ranging from facilitative to directive.
5. In particular, we highlighted four areas of focus:
 - Whether we need to aggregate central government major infrastructure project delivery support in to a single place within government
 - Get the settings right in order for us to innovate and to build our domestic expertise and capability along the entire infrastructure value chain
 - Get a fuller sense of the long-term infrastructure pipeline, covering central government, local government and the private sector. Also to better understand its impact on the market where central government, local government and the market make procurement decisions
 - Ensure we are making the most of opportunities from within the Australian market, including opportunities to position New Zealand closer to the Australian market.
6. Treasury has been reviewing infrastructure institutional settings since March. To date, Treasury have identified the following barriers to improving the funding, planning and delivery of infrastructure. These findings were reinforced by my recent delegation to Australia to meet with ministers, senior infrastructure officials and market leaders:
 - Decisions within and across central and local government are not well integrated.
 - There is a lack of visibility, pipeline and scale projects in New Zealand.
 - Our overriding focus is on building new assets, rather than the outcomes we are trying to achieve and our ability to deliver on them.

- Evidence does not always inform infrastructure investment decisions.
 - There are still gaps in our information and data.
 - Skills shortages are one of the greatest challenges faced by industry.
 - Central and local government infrastructure procurement capability is at times lacking.
7. We have directed officials to engage a wide range of private sector stakeholders. I have directed officials to engage with [2] and BusinessNZ. In terms of local government, officials will engage Auckland Council and [2] among others.
 8. In terms of scope, our focus is on how central government can be better organised to direct, incentivise or influence infrastructure investment outcomes across central and local government.
 9. The Review will cross-reference other related work programmes, including the Infrastructure Funding and Financing workstream, Three Waters Review, Urban Growth Agenda, Treasury's Capital Investment Framework Review and others.
 10. The Review will also take in to account the impacts that institutional changes will have on the wider system. It will also take in to account existing institutional arrangements and their capability to address the infrastructure challenges that ministers have described.
 11. In terms of scope, infrastructure refers to the fixed, long-lived structures that facilitate the production of goods and services and underpin many aspects of quality of life. Infrastructure is made up of physical networks, principally transport, water, energy, communications and social assets.
 12. The Review will also consider sectors or areas of particular urgency that may need to target in the short-term before further whole-of-system changes are implemented.

Lessons from Infrastructure Delegation to Australia, 18 – 20 April 2018

13. Below are some key observations from my recent delegation to meet with ministers, senior infrastructure officials and market leaders in the Commonwealth, Victorian, NSW and Queensland governments.

Infrastructure bodies (I-bodies)

14. All the governments we met with had in recent years established a dedicated central infrastructure centre of expertise, known as infrastructure bodies (I-bodies). I-bodies were generally established for two main reasons:
 - a perceived misuse of public resources due to the politicisation of infrastructure investment decisions, and
 - public concerns that certain jurisdictions lacked a plan to deal with perceived infrastructure deficits.
15. All I-bodies have different functions, as Table 1 overleaf demonstrates.
16. Benefits of the model included greater strategic coherence to whole-of-government infrastructure policy, reduced political risk, improved market and investor certainty, and stronger public confidence in infrastructure delivery.

17. As the I-bodies all carry a degree of independence, they are able to give advice that is genuinely free, frank and independent and – unlike line agencies – uncoloured by the need to secure annual budgetary allocations.
18. Most I-bodies also produce independently-assessed lists of infrastructure. Priority lists are seen to place credibility on particular projects. Generally, projects not on the list are not debated.
19. Though most I-bodies are at an early stage, they are thought to enjoy broad public support. Public confidence had also translated into bipartisan political support; a point which private sector contacts said delivered greater investment certainty across electoral cycles.

Observations from the Australian market

20. While all private sector contacts reported an ongoing commercial interest in New Zealand, this was tempered by a number of negative perceptions:
 - the absence of a clear and coherent future project pipeline - transport projects being a notable exception
 - the complexity and opacity of regulatory barriers, especially at the local government level
 - the perception that partnering with a local firm or consortium remained an unofficial prerequisite for operating in New Zealand
 - that the market remained subject to residual post-election political and policy uncertainty
 - inflated project costs from market concentration in the New Zealand materials sector, and
 - variable infrastructure procurement and other policy approaches among agencies.

Next steps

21. Treasury will report back to me on a weekly basis as the options paper for Cabinet develops. Over the next six weeks, Treasury will consult across government and with industry.
22. Ahead of the final Cabinet paper being submitted to GOV, I will present a draft to a wide set of infrastructure-related ministers. This will likely be in mid-June.
23. In terms of assessing how government could be best placed to deliver on each of these functions, there are three key considerations that ministers need to make:
 - Whether amendments to the status quo may be enough to have the necessary impact
 - Whether centralisation of functions is required (either within or outside core Crown)
 - Whether centralisation and independence are required.
24. For an independent entity to successfully deliver on any of the functions below, it will need to have a legislative or Cabinet mandate, or funding tied to it in order to incentivise agencies and councils to engage with it.
25. In summary, we need the whole system and functions working well and together to make a material difference to outcomes. Also there are opportunities to enhance the

performance of all the functions – some of which will be assisted by institutional change but not exclusively.

Discussion topics

26. I would like to seek your feedback on the following points related to the Infrastructure Institutional Settings Review
- In addition to the stakeholders that Treasury will engage as part of the Review (see para 7), I would welcome suggestions from ministers on other suitable stakeholders that officials should engage.
 - I welcome a discussion with ministers on any other arising matters, including whether there are any impacts or overlaps on existing infrastructure-related work programmes that we need to be aware of.

Table 1: Infrastructure bodies' primary functions

	Strategy	Audit	Priority list	Funding	Planning	Business case dvlpmt	Project assurance	Pipeline	Procurement	Delivery	Post-evaluation
<i>I Australia</i>	✓	✓	✓				✓				
<i>I Victoria</i>	✓										
<i>INSW</i>	✓	✓	✓	✓	✓		✓	✓	✓	✓	
<i>Building QLD</i>			✓			✓	✓				