

# The Treasury

## A New Independent Infrastructure Body – Background Papers

### Release Document

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Chair  
Cabinet Government Administration and Expenditure Review Committee

## Infrastructure Institutional Settings

### Proposal

- 1 This paper proposes a step change in how we plan for and deliver infrastructure in New Zealand so the Government can ensure our infrastructure delivers outcomes that will improve the wellbeing of New Zealanders. Specifically, this includes:
  - 1.1 Establishing an infrastructure entity, which is consistent with models in similar jurisdictions, that will:
    - 1.1.1 Provide new, expert, central transactional capability to support the delivery of major infrastructure projects across central and local government.
    - 1.1.2 Act as a first point of contact for all interested private sector parties in relation to upcoming infrastructure investment and delivery opportunities.
    - 1.1.3 Provide an additional stream of advice to assist ministers with identifying, prioritising and assuring the delivery of infrastructure projects. This will include:
      - 1.1.3.1 Gathering and publishing evidence on the state of infrastructure assets and networks.
      - 1.1.3.2 Assisting the Minister for Infrastructure in developing a long-term vision for infrastructure planning and delivery.
      - 1.1.3.3 Providing advice to the Minister for Infrastructure on New Zealand's highest priority infrastructure investment needs.
      - 1.1.3.4 Publicly identifying and socialising regulatory and market barriers to better infrastructure outcomes.
      - 1.1.3.5 Coordinating and publishing infrastructure capital intentions plans and pipeline information.

## Executive Summary

- 2 New Zealand faces a level of infrastructure investment over the next 10 years that is unprecedented, with a number of New Zealand's infrastructure networks needing critical renewals at once. For example, around 19 per cent of our public hospitals are assessed by District Health Boards as being in poor or very poor condition, the state schooling estate has both condition and capacity challenges, and parts of our water network are over 100 years old. Our transport and urban infrastructure is struggling to keep up with population growth, increased demand and changing needs including the transition to a low emissions economy. Also the IMF identifies investment in infrastructure as a critical issue for New Zealand's economic growth.
- 3 Extensive feedback from engagement with the market and government agencies has identified four key problems in the current infrastructure system: that there is a lack of integrated investment decisions within and across central and local government; a lack of visibility, pipeline and scale in New Zealand projects; our overriding focus is on building new assets, rather than the outcomes we are trying to achieve and our ability to deliver on them; and central and local government procurement capability is at times lacking.
- 4 With these challenges ahead of us, if central government does not appropriately address these problems it will result in a lost opportunity to improve economic performance and social and environmental wellbeing for generations to come. Our capacity and capability within Government to deliver this programme may be strained, which risks investments costing more or delivering fewer benefits than expected. Now more than ever before, we cannot afford waste. We need to build and make better use of investment and infrastructure capability across the public sector to ensure we get the benefits we expect from infrastructure assets and to ensure we are delivering the right social, economic, environmental, cultural, and security outcomes.
- 5 Achieving good infrastructure outcomes requires us to think about the full infrastructure life-cycle, from planning to delivery to decommissioning. Good infrastructure outcomes start with having an agreed vision of the future. Subsequent planning and funding decisions need to be clearly linked to the strategy, and procuring entities need to have the ability and incentive to forward plan. This ensures we are investing in the right infrastructure to meet our needs, and that the market can take confidence from a clear pipeline of committed projects. A clear and committed pipeline also enables procuring entities and the private sector to develop their internal capability to match the forward work programme.
- 6 In response to these challenges, the Minister of Finance, the Minister of Transport, Housing and Urban Development and I directed Treasury officials to undertake the Infrastructure Institutional Settings Review, which has informed the proposals in this paper.
- 7 This paper proposes options to strengthen infrastructure strategy, planning, investment and delivery. My preferred option is to:
  - 7.1 Establish an infrastructure entity, an independent body with the ability to speak publicly on infrastructure issues. The Infrastructure entity, which is consistent with models in similar jurisdictions, will:

- 7.1.1 Provide new, expert, central capability to support the delivery of major infrastructure projects across central and local government, including some projects that are already planned or underway.
  - 7.1.2 Act as 'one window to government' for investors, linking investors to procuring entities, informing investors on regulatory and market settings and promoting the pipeline.
  - 7.1.3 Deliver "New Zealand Inc" Infrastructure strategy and planning, and provide an additional stream of advice to assist ministers with identifying, prioritising and assuring the delivery of infrastructure projects.
- 8 Giving the entity the ability to speak publicly on infrastructure issues is key to ensuring the entity carries out the functions I have described above most effectively. Necessarily, a public voice requires a degree of independence or distance from ministers, although there are options as to the degree of this independence. Notably, in the context of this proposal, this does not mean taking away decision rights or direction setting from ministers.
- 9 The benefits to government of an independent infrastructure entity include:
- 9.1 Its ability to raise infrastructure issues or specific projects as topics of discussion before they become the subject of political debate.
  - 9.2 Its ability to provide government with an additional source of expert advice to help governments make more informed investment decisions. This advice will assist us with identifying, prioritising and assuring delivery of infrastructure projects.
  - 9.3 It will allow government to raise infrastructure ideas, to test if they are valuable and to help build the case for them. We could also use this function to test the public appetite for controversial infrastructure projects.
  - 9.4 The infrastructure entity could use its public voice to interact with, and provide public comment on, the activities of local government and the market. This would allow government to understand and engage with other actors in the infrastructure system who contribute to the success of projects achieving outcomes.
  - 9.5 It will allow increased engagement and influence with local government. The Infrastructure entity is intended to serve both central and local government.
- 10 Benefits for New Zealand include:
- 10.1 It should help ensure New Zealand invests in the infrastructure it needs at the right times and in the right places. This ensures New Zealand secures the outcomes it seeks from infrastructure over time.
  - 10.2 Increased market confidence in the credibility of the infrastructure investment landscape and willingness to invest in building infrastructure capability and to participate in bidding for investment projects. This benefits public sector entities and the government through improving the market's ability to deliver public projects at efficient cost.
- 11 There are benefits of providing joined up infrastructure strategy, planning and delivery functions through a single Infrastructure entity. These include:

- 11.1 Best practice set at the strategy and planning phases can influence outcomes when projects are delivered.
  - 11.2 Lessons from project delivery ought to influence the strategy and planning of infrastructure. For example, delivery intelligence informs investment needs or problem identification and planning insights can help inform industry engagement.
  - 11.3 An infrastructure entity that provides an overall value proposition from a delivery agency's perspective will achieve better engagement with its strategy and planning functions.
  - 11.4 Joined up strategy and delivery allows infrastructure projects to be sequenced appropriately allowing market capacity to be optimised through time, reducing "boom and bust" cycles.
  - 11.5 An independent entity would be better able to attract the skills and capability necessary to deliver the highest-value infrastructure outcomes, and reduces the risk of competing priorities eroding the resources applied to the infrastructure function, which might be present in an agency with a broader function.
- 12 Notably, the infrastructure entity will be empowered to make recommendations to ministers but decision-making rights and direction setting will remain with ministers and departmental chief executives as at present. Further, the infrastructure entity will not look to duplicate other ongoing work streams, rather it will be enabling and complementary to those work streams.
  - 13 Establishing a new entity will take time to get up and running. But noting the need for urgent support with certain major infrastructure projects that are already underway, this paper proposes the following in the short-term:
    - 13.1 To establish the new, central infrastructure project support function within Treasury, while an infrastructure entity is established. This could be initially established by 1 November 2018 with a gradual build up in capacity and mandate.
    - 13.2 To set up an establishment unit within the Treasury to develop advice for ministers on a detailed design for the infrastructure entity. The infrastructure entity will be established by 1 October 2019.
  - 14 These proposals will contribute to the Minister of State Services vision for a more collaborative and integrated public sector, though they also rely on the Treasury's work to consider longer-term funding models, and rules and expectations on agencies, to improve incentives for planning and delivery of infrastructure.

## **Background**

### ***Definition of infrastructure***

- 15 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 includes buildings and physical networks, principally transport, water, energy, social assets and digital infrastructure such as mobile and broadband infrastructure.
- 16 Ownership and delivery of infrastructure ranges across central government, local government and the private sector. For example, hospitals and state schools are provided by central government, while water infrastructure is owned and operated by local government. The private sector also delivers infrastructure such as electricity and telecommunications.
- 17 For the purposes of this paper, IT systems and the defence fleet are not considered to be infrastructure. The defence estate is considered to be infrastructure. While ICT and the defence fleet would not be within scope of the advice and recommendations that the infrastructure entity would give to ministers, the infrastructure entity could potentially provide transaction and delivery support to the New Zealand Defence Force and other agencies or councils on these asset types.

### ***Status quo***

- 18 The section describes the existing teams within central government involved with setting policy or supporting agencies with the delivery of infrastructure.

### ***National Infrastructure Unit (within Treasury)***

- 19 The current infrastructure policy function sits within the National Infrastructure Unit (NIU). The NIU has three dedicated FTEs to general infrastructure policy. The NIU currently produces the Thirty Year Infrastructure Plan, the Capital Intentions Plan, reports on the state of infrastructure (referred to as evidence bases), provides advice to ministers, supports the National Infrastructure Advisory Board (NIAB) and contributes to the Australia New Zealand Infrastructure Pipeline (ANZIP) alongside other ad hoc infrastructure work.
- 20 Since its establishment in 2009, the NIU has been effective at influencing and shaping infrastructure policy. However, resource constraints mean the current policy function is limited in what it can carry out in comparison to infrastructure policy units in other jurisdictions. The NIU is also limited in the amount of influence it can achieve through its existing functions. It also lacks mandate to drive infrastructure outcomes. For example, the fact that the Thirty Year Infrastructure Plan is not linked to funding or other levers that drive behaviour across the system makes it difficult to enforce.

### ***Public-Private Partnership Team (within Treasury)***

- 21 The Treasury's PPP Team deploys procurement professionals to project teams across central and local government to enhance procurement, delivery, and infrastructure outcomes.
- 22 This team is also responsible for PPP policy and the Standard Form Project Agreement. Agencies considering or implementing PPP procurement must engage with the Treasury

team, who will deploy personnel to assist throughout the procurement process – from the appointment of business case advisors through to contractual negotiations and financial close. The team has a governance role on all New Zealand PPP projects and is deeply connected with market participants, international infrastructure procurement and infrastructure bodies. As such, it is a repository for lessons learned and is able to transfer lessons on best practice from project to project.

- 23 This model of centralised expertise has been successful and is highly regarded. The level of international participation in the New Zealand programme is testament to the benefits of developing a coordinated programme with consistently high procurement discipline.
- 24 The team derives its mandate to support central government agencies from Cabinet Office Circular CO 15(5) and the Government Rules of Sourcing. The strength of this mandate has been key to its level of influence. The team also provides advice to projects using other procurement methods and to local government, but by invitation only and without a clearly defined and enduring role. Its current resourcing limits the team's ability to meet the demands of the PPP Programme, with an ability to support no more than two to three projects in delivery at any given time.

#### *Investment Management and Asset Performance Team (within Treasury)*

- 25 Treasury's Investment Performance and Asset Management (IMAP) team oversees the investment system which consists of the disciplines on agencies and across government that manage investments through their lifecycles. The purpose of this is to ensure the government's planning, selection and delivery of investments – and the way we maintain assets over time – maximises value, minimises waste and makes the biggest possible difference to New Zealanders.
- 26 The IMAP team collaborates with other system players to identify the most significant risks and opportunities within the investment system, and helps co-ordinate responses to these. IMAP's current system priorities are to:
  - 26.1 Reduce the risks of poor asset management practices.
  - 26.2 Improve data quality and analysis of the investment pipeline for all investment types.
  - 26.3 Develop an integrated approach to planning.
  - 26.4 Improve governance and engagement across the investment system.

#### *New Zealand Government Procurement and Property Branch (within MBIE)*

- 27 New Zealand Government Procurement and Property Branch (NZGPP) has functional leadership responsibilities for procurement and property. NZGPP works with government agencies to drive best practice procurement across government. NZGPP's scope extends beyond physical assets and includes social services, IT and other assets or services. NZGPP's focus is on raising standards, improving capability, and reducing duplication in government procurement through a collaborative, centre-led approach. NZGPP's core procurement functions are:
  - 27.1 Building procurement capability across government.

- 27.2 Harnessing government's collective buying power through collaborative contracts.
  - 27.3 Making government easier to do business with.
  - 27.4 Improving commercial skills.
  - 27.5 Using procurement as an enabler to support government priorities (e.g. Canterbury rebuild, business engagement, social sector).
- 28 NZGPP has a commercial pool of procurement experts to assist agencies undertake complex, high-risk or strategically important projects. The Commercial Pool helps ensure major projects reach their objectives, and also helps to improve interactions between government and business. Recent projects include the redevelopment of Scott Base in Antarctica, the New Zealand pavilion for the World Expo 2020 in Dubai, and the Mental Health and Addiction Services Transformation Project.
- 29 The Commercial Pool operates on a cost recovery basis, and is not Crown-funded.

### ***Infrastructure Institutional Settings Review***

- 30 Noting that the status quo is not delivering the outcomes we need, the Ministers of Finance, Transport, Housing and Urban Development and I commissioned officials to review the institutional settings that support infrastructure investment.
- 31 In particular, we directed officials to consider the following:
- 31.1 Whether to aggregate central government infrastructure procurement into a single place within government.
  - 31.2 How to get the settings right in order for us to innovate and to build our domestic expertise and capability along the entire infrastructure value chain.
  - 31.3 How to get a fuller sense of the long-term infrastructure pipeline, and better understand its impact on the market.
  - 31.4 How to ensure we are making the most of opportunities from within the Australian market, making the most of Australian firms' skills and knowledge, and Australia's strong global reputation as a place to invest.

### ***What is broken in the current infrastructure system***

- 32 I have identified seven problems in the current infrastructure system, which are described in Annex 2, along with information on the likely drivers or causes of each problem. Extensive feedback from the market and agencies has identified four of those problems as being the highest priority in the current infrastructure system. The four major problems are described below.

*Problem 1: A lack of integrated investment decisions within and across central and local government*

- 33 At times infrastructure investment decisions are not aligned across and within central and local government. Despite having an agreed long-term vision for infrastructure delivery in the form of the Thirty Year Infrastructure Plan and other planning instruments, decisions

are often still made that are at odds with the agreed long-term vision, and the costs of future infrastructure requirements are often not well known by Ministers and the public.

*Problem 2: Lack of visibility, pipeline and scale in New Zealand projects*

- 34 Multiple planning, funding and delivery models have developed across central and local government leading to a complex infrastructure investment environment.
- 35 This results in a lack of coordination across the infrastructure system and missed opportunities to take advantage of economies of scale and opportunities to sequence projects to match the capacity in the market. It also leads to limited understanding and visibility of high-value or upcoming projects, and funding certainty for these projects, which leads to uncertainty and underinvestment in the sector.

*Problem 3: Our overriding focus is on building new assets, rather than the outcomes we are trying to achieve and our ability to deliver on them*

- 36 When faced with an issue in our infrastructure networks, such as an aging asset or growing congestion, we tend to default to building new assets. Instead, we should be considering other options that may be more cost-effective and achieve the same outcomes.
- 37 This is partly a result of a lack of capability or capacity to consider new approaches to problems.

*Problem 4: Central and local government procurement capability is at times lacking*

- 38 Departments and councils have difficulty finding the capability for infrastructure procurement. Equally, given major infrastructure assets can be many years apart, it is not necessary or feasible for agencies to be geared up at all times with expert infrastructure procurement capability.
- 39 Although NZGPP and the Treasury's PPP teams provide procurement support to departments on particular large-scale capital projects, the two teams' resources are limited.

***What a good infrastructure system looks like***

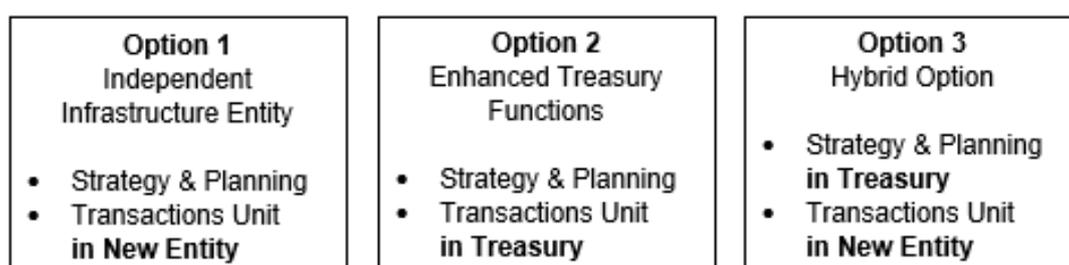
- 40 While poor infrastructure outcomes typically show up during or after an asset is delivered, poor outcomes are often due to poor decisions made during the planning phase.
- 41 Therefore, achieving good infrastructure outcomes requires us to think about the full infrastructure life-cycle, from planning to delivery to decommissioning. Good infrastructure outcomes start with having an agreed vision for the future. Subsequent planning and funding decisions need to be clearly linked to the strategy, and procuring entities need to have the ability and incentive to forward plan. This ensures we are investing in the right infrastructure to meet our needs, and that the market can take confidence from a clear pipeline of committed projects. A clear and committed pipeline also enables procuring entities and the private sector to develop their internal capability to match the forward work programme.

- 42 Delivering the pipeline relies on the right skills and capability being available in our domestic market. For the market, as well as a credible pipeline, they also need confidence that procuring entities have the right skills and capability to engage with.
- 43 Annex 3 describes the various functions that make up the infrastructure system, including a description of each function when it is high performing, and a rating of how I consider these functions to be performing at present.

### Options for improving infrastructure institutional arrangements

- 44 I have identified three options for improving infrastructure institutional arrangements, with a preference to establish an independent infrastructure entity. My recommendation, and other options, are outlined below in Figure 1.

Figure 1: summary of options



#### **Option 1: Establish an independent infrastructure entity [Recommended option]**

- 45 I propose an independent infrastructure entity with the ability to facilitate open engagement and speak publicly on infrastructure issues. There would be two distinct parts that would comprise the infrastructure entity:
- 45.1 Infrastructure strategy and policy advice.
- 45.2 An Infrastructure Transactions Unit.
- 46 These functions are explained in detail below.

#### *Scope of the infrastructure entity*

- 47 In addition to the functions described below, I propose the following scope for the independent infrastructure entity:
- 47.1 The infrastructure entity will be empowered to make recommendations to ministers but decision-making rights and direction setting will remain with ministers and departmental chief executives as at present.
- 47.2 The infrastructure entity will be complementary to and will not duplicate other ongoing work streams.
- 47.3 The infrastructure entity will not have direct funding or project delivery powers.
- 47.4 The infrastructure entity will provide staff to agencies to support them to undertake specialised infrastructure functions related to project delivery, while ownership and responsibility for the asset remains with the procuring entity.

47.5 The Minister for Infrastructure will have clear accountability mechanisms over the infrastructure entity in relation to its strategy and planning functions, including the ability for the Minister to work with Ministerial colleagues across relevant portfolios in order to reflect the Government's infrastructure agenda.

48 I propose that an establishment unit, based within Treasury, develop and report back to Cabinet with advice on the appropriate institutional form for this entity, and how to balance the ability to speak publicly on infrastructure issues with responsiveness to government priorities.

#### *Infrastructure strategy and policy advice*

49 I propose that the infrastructure entity would have a mandate to undertake the following functions that relate to infrastructure strategy and policy:

49.1 Gather and publish evidence on the state of assets and networks - work with agencies, councils and the market to get an overall picture of the state of our infrastructure assets, including a general overview of their age, resilience and whether they are able to deliver a level of service that matches future demographic changes. This would also involve a description of any gaps in our infrastructure network and publishing reports on the above matters.

49.2 Assist the Minister for Infrastructure in developing the long term vision for infrastructure - work with agencies, councils and the market to assist the Government in developing a long-term vision for the delivery of infrastructure. A previous example is the Thirty Year Infrastructure Plan 2015.

49.3 Aligning infrastructure decisions with the long-term vision for infrastructure - publicly highlighting the degree to which infrastructure investment decisions are meeting the objectives of the long-term vision. This could be achieved through the infrastructure entity assessing business cases from agencies who are seeking funding for infrastructure initiatives and providing a comment on how well funding requests align with the long-term view.

49.4 Provide advice to the Minister for Infrastructure on New Zealand's highest value projects - assessing various potential major infrastructure projects against economic, environmental, social, cultural and security measures, and provide advice to the Minister for Infrastructure on the prioritisation of projects. The Government would be required to reflect its own prioritisation as part of the long-term process. The establishment unit would work through the specifics of this assessment criteria in more detail. The criteria would likely include a cost benefit analysis assessment that would be shaped by the Living Standards Framework.

49.5 Coordinate and publish infrastructure capital intentions plans and pipeline information - compiling data from long-term plans and annual reports from central government, local government and the private sector to produce a single capital intentions plan across the entire infrastructure market, looking out approximately 10 years. The Capital Intentions Plan would be published for the market's benefit.

49.6 Engage across central and local government to gather and share information. With the appropriate levers in place, this could go some way to addressing the problem of a lack of information on the current state of our infrastructure and our future needs.

- 49.7 Monitor the performance of projects post-completion, and assess whether these projects have delivered on the outcomes agreed at the outset.
- 49.8 Ensure this mandate is complementary and does not duplicate the mandate of other agencies or workflows.

#### *Standalone Infrastructure Transactions Unit*

- 50 I propose that the infrastructure entity would have a mandate to undertake the following functions that relate to infrastructure transaction support, through the Infrastructure Transactions Unit (ITU), located within the entity:
  - 50.1 Provide tailored infrastructure delivery support to central and local government. Based on a model of centralised market development and deployment of expertise to projects, the ITU would support a wide range of projects including advising on infrastructure funding and financing tools and procurement methods. As a centre of excellence the ITU would enable the transfer of lessons between projects and better enable coordination across sectors. The level of support provided by the ITU would be based on an assessment of both the complexity of the project and base capability of the procuring entity. This support would include representation on project governance boards and 'parachuting in' commercial and transactional capability resource as appropriate.
  - 50.2 Have the ability to recommend to ministers that a project be 'called in' and procured directly by the ITU or another agency where the project is high risk/high value and the procuring agency is assessed as having insufficient transactional capability to deliver the desired project outcomes. Such circumstances are expected to be rare, as it is intended that procuring agencies will continue to lead their respective projects and retain a base level of transactional capability. This decision would only be made by ministers.
  - 50.3 Act as a centralised repository for infrastructure transaction knowledge and best practice, which would help ensure consistency across infrastructure delivery and other transactional processes – which has been a common subject of feedback from both public and private sector parties.
  - 50.4 Have a formal role in supporting business case preparation (specifically the commercial, financial and management cases) and make recommendations to ministers on an appropriate delivery strategy for each project. This could include advice on opportunities and mechanisms for value capture. The role of the ITU would commence at project inception and continue through the project planning and delivery phases.
  - 50.5 Provide a 'first point of contact' for all interested private sector parties in relation to upcoming infrastructure opportunities. It would manage the publication of an up-to-date list of approved projects and actively promote these opportunities to domestic and international markets. The ITU could also lead the development of guidance for, and assessment of, market led proposals (for infrastructure projects not currently planned or proposed by government).

#### *The value of a public voice*

- 51 A key feature of the infrastructure entity's operations that will lead to the desired improvement in the infrastructure system is the ability to speak publicly on infrastructure issues. This could involve publicly identifying the gaps in the infrastructure system or whether there are particular market structures or regulatory settings that are presenting difficulties for the efficient delivery of infrastructure. By making these processes public, it ensures the highest-value projects and outcomes are identified. It gives the market confidence that governments will make informed choices in advance of the need for change.
- 52 The experience from infrastructure bodies in Australia has shown that it is important for the infrastructure entity to strike a balance between speaking publicly and achieving the support of government, in order to be truly effective. Overseas experience has also shown that the more effective infrastructure bodies operate on a 'no surprises approach' with ministers.
- 53 Necessarily, a public voice requires a degree of independence or distance from ministers, although there are options as to the degree of this independence. Notably, in the context of this proposal, this does not mean taking away decision rights from ministers.

### *Benefits and risks of an independent infrastructure entity*

#### *Benefits for government*

- 54 The benefits for government of an independent infrastructure entity include:
- 54.1 Its ability to raise infrastructure issues or specific projects as topics of public discussion before they become the subject of political debate, building public consensus for particular infrastructure activities, garnering support and removing barriers to good infrastructure projects being supported.
- 54.2 Its ability to provide governments with an additional source of expert advice to help them make more informed investment decisions. This is most effective when carried out by an entity with some degree of distance from ministers, with the ability to publicly speak on infrastructure issues and investment needs. Australian experience has shown that an independent stream of policy advice has led to more market predictability as infrastructure planning has become more stable and predictable across electoral cycles. Experience from Australia has also shown that the infrastructure bodies have given ministers an additional stream of advice to inform their investment decisions, including a new platform to test their ideas.
- 54.3 Government could raise infrastructure ideas to the infrastructure entity, to test if they were valuable and to help build the case for them. This function could also test the public appetite for controversial infrastructure projects.
- 54.4 The infrastructure entity could use its public voice to interact with, and provide public comment on, the activities of local government and the market. This would allow central government to understand other actors in the infrastructure system who contribute to the success of projects achieving outcomes.
- 54.5 Increased engagement and influence with local government. Currently, the location of infrastructure functions within Treasury creates the perception of central government intervention in local government issues, and reduces the likelihood that local government will engage with it. An infrastructure entity will be intended

from the outset to serve both central and local government, and in its detailed design will seek to overcome the limitations inherent in central government participating at local government level.

### *Benefits for New Zealand*

55 The benefits for New Zealand include:

- 55.1 By bringing greater understanding and certainty about the impact of investment choices on the country's prospects, the infrastructure entity will help ensure New Zealand invests in the infrastructure it needs at the right times and in the right places. This ensures New Zealand secures the outcomes it seeks from infrastructure over time.
- 55.2 Increased market confidence in the credibility of the infrastructure investment landscape and willingness to invest in building infrastructure capability and to participate in bidding for investment projects. Markets are not as clear as they would like to be about future potential infrastructure investments because of a lack of coordination and lack of visibility in the infrastructure pipeline. The benefits to public sector entities and the government arise through improving the market's ability to deliver public projects at efficient cost.

### *Benefits of joined up infrastructure strategy, planning and delivery functions*

56 Retaining the strategy, planning and transaction support functions within the same organisation delivers particular benefits. For this reason, I consider that an option that keeps the two functions together is superior to one that separates the functions between organisations, such as Option 3. These benefits include:

- 56.1 The value of having these functions in the same organisation is to ensure that best practice set at the strategy and planning phases influences outcomes when projects are delivered.
- 56.2 Lessons from project delivery ought to influence the strategy and planning of infrastructure. For example, project delivery informs investment needs and problem identification and planning insights can help inform industry engagement. From an external perspective, industry feedback gained through project delivery is likely to inform future strategy, policy and planning matters.
- 56.3 An infrastructure entity that provides an overall value proposition from a delivery agency's perspective will achieve better engagement with its strategy and planning functions. For example, if an infrastructure-intensive agency sees an infrastructure entity using its delivery support function to support particular projects from a whole-of-New Zealand perspective, that agency may be more likely to engage with the infrastructure entity on planning and delivery.
- 56.4 Having the strategy, planning and delivery functions joined up increases the ability for strategy to inform delivery. This will make it easier for projects to be sequenced appropriately, which will allow market capacity to be optimised through time and will reduce "boom and bust" cycles.
- 56.5 An independent entity would be better able to attract the skills and capability necessary to deliver the highest-value infrastructure outcomes. Further, placing

resource in an independent entity reduces the risk of competing priorities eroding the resources applied to the infrastructure function, which might be present in an agency with a broader function such as Treasury. Having dedicated, highly skilled infrastructure practitioners available would in turn provide credibility to the infrastructure entity, increasing the perception within the market, central government and local government that the entity provides a valuable infrastructure function.

### *Risks of an independent infrastructure entity*

- 57 The risks of locating infrastructure strategy and policy functions within an independent infrastructure entity include:
- 57.1 The possibility that an independent entity is less collaborative with agencies developing infrastructure policy advice than if the entity and its functions remained within the Treasury.
  - 57.2 By being too removed from central decision-making processes, an independent entity could have less influence on government decision-making.
  - 57.3 By disconnecting strategy and policy from funding processes that Treasury is involved in, such as the annual Budget process, there is a risk the infrastructure entity's advice is not considered to be important by agencies and local authorities.
  - 57.4 Compliance costs for agencies could also increase if they need to support ministers with responding to recommendations from the infrastructure entity.
  - 57.5 A lack of accountability to Government and responsiveness to Government policy and public need. The risk that an independent entity weakens the Government's overall ability to meet investment needs for the greater public good could be mitigated through clear purpose and objective parameters for the new entity in addition to clear accountability mechanisms to the Minister for Infrastructure, including ensuring the Government retains overall responsibility for direction setting and prioritisation.
- 58 All of these risks could be mitigated by ensuring that the infrastructure entity strikes a balance between building a credible public voice and retaining the support of ministers.

### *Resourcing*

- 59 Similar infrastructure entities in other jurisdictions require approximately <sup>[1]</sup> in operating expenditure per annum to cover 35 FTEs plus other operational expenditure. Detailed costs will be developed by the establishment unit and confirmed in the report back to Cabinet by 1 March 2019, <sup>[1]</sup>

I expect that this investment will likely result in savings over the long-term for the Crown as the infrastructure entity helps agencies and councils to achieve better outcomes and value for money.

### *Transitioning to an infrastructure entity*

- 60 The design considerations of a new infrastructure entity, including the institutional form, powers, and the resulting resourcing and funding requirements will take some time to work

through. The State Services Commission advises that, depending on the institutional form the entity takes, the process of establishing a new entity could take as long as 12 months if legislative changes are required.

61 Noting the need for urgent support with certain major infrastructure projects that are underway, this paper proposes the following in the short-term:

61.1 Establishing a new interim Infrastructure Transactions Unit within Treasury, as the infrastructure entity is established.

61.1.1 This could be initially established by 1 November 2018 with a gradual build up in capacity and mandate. The intention would then be that the ITU transition into the infrastructure entity as part of its establishment. In seeking to establish the interim ITU as soon as possible, the timeframe between Cabinet's agreement to the recommendations below and the establishment of the interim unit has been kept short. This may necessitate the ITU initially being resourced with existing Treasury staff working on infrastructure procurement with a gradual build-up of capacity and capability over time.

61.1.2 The interim ITU will effectively replace the existing PPP team, as described above. The pipeline information held by IMAP could inform the interim ITU as to which major projects to get involved with. The lessons learned from the interim ITU could inform the strategy and planning work currently undertaken by the NIU.

61.1.3 The interim ITU would work closely with other entities like Crown Infrastructure Partners or other special purpose vehicles.

61.1.4 [1]

61.2 Appoint an establishment unit within the Treasury to develop the detailed design of the nature and form of the infrastructure entity, which would be operating by 1 October 2019. The establishment unit would be directed by the National Infrastructure Advisory Board, and report to me as Minister for Infrastructure in the first instance. The establishment unit will report back to Cabinet by 1 March 2019 with recommendations on the detailed design for the entity.

61.3 Setting up the establishment unit and an interim Infrastructure Transactions Unit within Treasury will cost a total of \$4.240 million one-off funding through to 1 October 2019. This paper seeks agreement for this one-off funding to be met from the between-Budget contingency, established as part of Budget 2018.

62 The establishment unit will consider, and report back to Cabinet on the ideal institutional form of the infrastructure entity. Determining the best institutional form for the entity will also require discussion with central and local government organisations that currently plan and deliver infrastructure, as to how the entity could be best structured to achieve its

intended outcomes. In its report back to Cabinet, the establishment unit will take into account:

- 62.1 The scope and functions of the infrastructure entity, as described above.
- 62.2 The design of any legislation required to establish the entity.
- 62.3 How the infrastructure entity could incentivise desired outcomes.
- 62.4 Detail of the types of policy functions to be undertaken by the infrastructure entity.
- 62.5 The appropriate funding (amount and mechanisms) of the entity.
- 62.6 The best method for transferring the central infrastructure project support function within Treasury into the entity, with minimum disruption to its work programme.
- 62.7 Accountability mechanisms for the Minister for Infrastructure and Government to retain control over the Government's policy direction and prioritisation.
- 62.8 The overall purpose and objectives of the infrastructure entity to ensure it is properly directed toward considering the broader public good benefits of infrastructure investment.

63 In addition the establishment unit will provide advice to Ministers in the report back to Cabinet on:

- 63.1 How the infrastructure entity will fit with existing and new elements of the infrastructure system, eg transport and water owners, funders and regulators. This paper outlines below the relationships with a number of key work programmes of this Government.
- 63.2 The arrangements that will be put in place to ensure the infrastructure entity is able to effectively perform its role while recognising the ultimate responsibility for Governments to make decisions on infrastructure, eg Government Policy Statement, public reporting, performance expectations and targets.

***Option 2: Enhanced Treasury function (putting more resource into the status quo)***

64 This option puts more resource into the infrastructure policy advice and major infrastructure project delivery support functions within the Treasury.

65 The infrastructure policy advice function would carry out similar work to the status quo: producing the Thirty Year Infrastructure Plan, the Capital Intentions Plan, reporting on the state of infrastructure and providing advice to ministers. However greater resource would allow the policy advice function to better identify and address issues holding back infrastructure, develop a more thorough understanding of the state of our infrastructure and our future needs, and produce a wider range of reports. Greater resource could also increase the policy function's ability to be at the table on high-priority infrastructure policy matters such as three waters to provide a strategic infrastructure perspective.

66 The infrastructure delivery support function would follow, to the extent possible, a similar central advisory model as the ITU outlined above, but would remain within the Treasury. In order to facilitate an ability to intervene and provide support to central government across all infrastructure delivery types, this unit would require some form of strengthened

mandate (potentially as part of the Cabinet Office Circular (15)5 update) and additional resource.

*Benefits and risks of this option*

67 The benefits of this option include:

- 67.1 Greater resource would provide the ability to better identify and address issues holding back infrastructure, develop a better understanding of the state and needs of our infrastructure, increase reporting and better engage with the market.
- 67.2 Maintaining links to funding. Keeping infrastructure functions within Treasury maintains a stronger link to funding, such as the Budget process, than if infrastructure functions were in an independent entity.
- 67.3 Joined-up infrastructure policy advice. It would likely be easier to ensure policy advice on infrastructure is joined up across sectors and with policy for related areas if all infrastructure functions remain within the Treasury.
- 67.4 Leveraging existing functions within the Treasury also means immediate help could be provided to high-risk projects that are planned or underway, though an immediate phased ramp-up is possible under all options.

68 The risks of this option include:

- 68.1 A lack of the ability to engage and speak publicly on infrastructure issues would reduce the ability to influence infrastructure outcomes, because the infrastructure functions would lack the ability to hold agencies to account publicly.
- 68.2 Enhanced resource alone would not ensure functions within Treasury are effective, however this risk could be mitigated by seeking appropriate mandate.
- 68.3 The enhanced Treasury unit will likely face challenges attracting and retaining the necessary expertise at sufficient scale. This in part reflects the challenges the Treasury and other agencies have experienced in attracting candidates with relevant commercial experience to roles within the core public service, including a perceived inability to match market remuneration for specialist expertise and offer comparable progression opportunities.
- 68.4 Being based within the Treasury may make it less likely that local government would utilise the services of an Infrastructure Transactions Unit on a voluntary basis than if it were removed from the Crown.
- 68.5 Perception of less credibility by the market. Placing infrastructure functions within Treasury or another agency would increase the risk the market perceives political influence to be driving infrastructure decisions, which in turn would drive market uncertainty.
- 68.6 Infrastructure resource may be reprioritised. Being based within the Treasury there is a risk that dedicated infrastructure resource is reprioritised as priorities within the agency change.
- 68.7 Like option 1, this option would also likely increase compliance costs for agencies.

## *Resourcing*

- 69 This option will require approximately 10 additional FTEs for infrastructure policy advice and 20 additional FTEs for major infrastructure delivery support. It is estimated that this could cost \$15 million in operating expenditure per annum, though the Treasury could provide a more thorough cost assessment if this option is preferred.

### ***Option 3: Hybrid Option (putting more resource into existing infrastructure policy advice within the Treasury, plus establishing a standalone Infrastructure Transactions Unit outside the Treasury)***

- 70 This option also proposes putting more resource into infrastructure policy advice within the Treasury (as per Option 2 above). However, under this option, infrastructure delivery support would be provided by a dedicated Infrastructure Transactions Unit outside Treasury to provide the functionality described in Option 1.
- 71 The strategy, planning and policy functions of this option would be identical to those in Option 2.
- 72 A standalone ITU would set standards and expectations for agencies on project delivery, report on project outcomes, provide support for agencies on transactional matters related to project delivery, lead market interaction and assist agencies with local authorities with financial models.

## *Benefits and risks of this option*

- 73 The benefits of this option include:
- 73.1 Greater policy resource would provide the ability to better identify and address issues holding back infrastructure, develop a better understanding of the state and needs of our infrastructure, and increase reporting. This could go some way in addressing problems identified around our overriding focus on building new assets, and gaps in our information and data.
  - 73.2 Maintaining links to funding. Keeping infrastructure functions within Treasury maintains a stronger link to funding, such as the Budget process, than if infrastructure functions were in an independent entity.
  - 73.3 Joined-up infrastructure policy advice. It would likely be easier to ensure policy advice on infrastructure is joined up across sectors and with policy for related areas if infrastructure functions remain within the Treasury.
  - 73.4 Locating the ITU outside of the Treasury, with appropriate mandate, will enable greater levels of engagement and influence with local government and allow for the potential to directly manage infrastructure projects where appropriate (as agreed by Ministers).
  - 73.5 As described under Option 1, by locating the ITU outside of Treasury its ability to attract and develop the necessary commercial practitioners is also greatly enhanced.
- 74 The risks of this option include:

- 74.1 A lack of the ability to engage and speak publicly on infrastructure issues would reduce the ability to influence infrastructure outcomes, because the infrastructure functions would lack the ability to hold agencies to account publicly.
- 74.2 Separating infrastructure delivery from strategy, planning and policy. The greatest risk of this option is that the separation of the delivery function could lead to the standalone ITU entity placing too much focus on assets and not enough on outcomes.
- 74.3 Enhanced resource alone would not ensure functions within Treasury are effective, however this risk could be mitigated by seeking appropriate mandate.
- 74.4 Infrastructure strategy, planning and policy resource may be reprioritised. Being based within the Treasury there is a risk that dedicated infrastructure resource is reprioritised as priorities within the agency change.
- 74.5 Like Options 1 and 2, this option would also likely increase compliance costs for agencies.

### *Resourcing*

- 75 This option requires 10 additional FTEs for infrastructure policy advice plus 20 additional FTEs for major infrastructure delivery support. There would also be additional administration costs, overheads and costs relating to the new entity. This is estimated to cost \$20 million in operating expenditure per annum, though the Treasury could provide a more thorough cost assessment if this option is preferred.

### ***How the recommended option relates to other related work programmes***

- 76 I envisage an entity would be focused on how to ensure we make the right decisions for our infrastructure going forward, rather than attempt to make changes to projects already underway beyond providing delivery support where needed. I do not imagine an entity would look to interfere in areas where the system is working well, nor look to replace existing infrastructure functions within investment intensive agencies. Rather, I suggest a criteria be developed to assess where and to what extent an entity should provide assistance.

### *How the infrastructure entity would interact with the Housing Commission*

- 77 The Housing Commission will enable large-scale complex projects, including consideration of housing-related infrastructure. The priority projects identified by the infrastructure entity could also inform the urban planning decisions made by the Housing Commission. The project list of the Housing Commission should be informed by the outputs of the spatial planning pillar and endorsed by the proposed infrastructure entity. The infrastructure entity's project delivery support capability could also lend assistance to the Housing Commission as required.

### *How the infrastructure entity would interact with the Infrastructure Funding and Financing work stream*

- 78 The Infrastructure Funding and Financing work stream focuses on enabling responsive infrastructure provision and appropriate cost allocation, including the use of project financing and access to financial capital. The infrastructure entity could promote to

councils the outcomes of the infrastructure funding and financing work stream. This would be a core part of the entity's centre of excellence role.

#### *How the infrastructure entity would relate to other work programmes*

79 I anticipate the entity would interact with other related work programmes in the following ways:

79.1 The priority initiatives in the Construction Skills Action Plan seek to mobilise the Government and the sector to address current capacity and capability issues. [1]

The entity would not look to duplicate this work or directly address capacity and capability issues in the sector. However by making improvements such as to better information and pipeline visibility and better advice to ministers around identification and prioritisation of projects, the entity could contribute to addressing some of the uncertainty employers' face when making long term, investment decisions, including investment in the training and development of their employees.

79.2 [1]

Infrastructure strategies, priority lists and other tools could inform the health and education planning pipeline. The infrastructure entity could also provide additional support to [1] on transactional matters relating to project delivery.

79.3 The infrastructure entity could consider how it interacts with the work around transitioning to a net zero emissions economy. Infrastructure choices can encourage behaviour that will reduce emissions, or increase them. The changing climate also has implications for how we evaluate infrastructure projects in terms of their resilience and how they should be built for the future to ensure we adapt to the changing climate.

79.4 The work of the infrastructure entity could inform the Urban Growth Agenda, and vice versa. For example, the infrastructure entity could identify resource management regulation as a barrier to more efficient infrastructure delivery, and could publicly promote spatial planning.

79.5 As for other specific policy programmes, such as three waters and the Future of Rail Review, these types of policy programmes could be identified by the entity as issues for priority focus. But the policy work would be carried out by existing policy agencies.

## **Consultation**

80 Ministry of Business, Innovation and Employment, Ministry of Defence, Defence Force, Ministry of Education, Ministry of Health, Department of Corrections, Ministry of Transport, New Zealand Transport Agency, Department of Internal Affairs, Ministry for the Environment, the Department of Prime Minister and Cabinet and the State Services Commission have been consulted on this paper.

- 81 These agencies, local government and industry representatives were also consulted throughout the Infrastructure Institutional Settings Review on the problem definition and options analysis. Industry and local government were broadly supportive of the proposals in this paper.
- 82 This also included engagement with representatives from local government, industry bodies and the private sector.

## **Financial Implications**

### *Enhanced transactional and project delivery support capability and establishment unit*

- 83 The ITU, established within Treasury by 1 November 2018, will require one-off funding beyond Treasury's baseline of \$3.240 million through to 1 October 2019.
- 84 The establishment unit within Treasury, which would operate through to 1 October 2019, would require one-off funding of \$1 million.

85 The total of \$4.240 million one-off funding required is outlined in the table below:

	\$m – increase/(decrease)			
<b>Vote Finance Minister of Finance</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22 &amp; outyears</b>
Departmental Output Expense:				
Policy Advice – Finance (funded by revenue Crown)	3.392	0.848	-	-
<b>Total Operating</b>	<b>3.392</b>	<b>0.848</b>	-	-

### *Infrastructure entity*

86 There will be financial implications for the infrastructure entity. The estimated operating cost to run the entity is [1] The Treasury will report back on the confirmed cost through the establishment unit report back to Cabinet by 1 March 2019.

87 The majority of the cost to run the entity, once confirmed, will need to be met from new Crown funding. This will require a Budget bid for Budget 2019.

### **Human Rights**

88 The proposal is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

### **Legislative Implications**

89 The proposal to establish an interim Infrastructure Transactions Unit and an establishment unit for an infrastructure entity does not have any legislative implications.

90 Establishing an independent infrastructure entity will have legislative implications. The details of what an infrastructure entity will look like and any related legislative change will be worked through and reported back to Cabinet by the establishment unit by 1 March 2019.

### **Regulatory Impact Analysis**

91 A Regulatory Impact Analysis is not required for this paper.

### **Gender Implications**

92 There are no gender implications of this paper.

### **Disability Perspective**

93 There are no disability perspectives relevant to this paper.

## Publicity

- 94 The Minister for Infrastructure will make a public statement about the decision to establish an infrastructure entity at the 2018 Building Nations Symposium on 17 August 2018.

## Recommendations

The Minister for Infrastructure recommends that the Committee:

- 1 **note** that New Zealand faces a level of infrastructure investment over the next 10 years that is unprecedented, and the Government has a rare opportunity to improve economic performance and social and environmental wellbeing for generations to come
- 2 **note** that if central government does not meet this challenge, it will result in a lost opportunity and fewer benefits than expected
- 3 **note** that achieving good infrastructure outcomes requires about a coordinated approach across the full infrastructure life-cycle, from planning to delivery, and
- 4 **note** that Ministers of Finance, Transport, Housing and Urban Development and myself as Minister for Infrastructure asked officials to review existing institutional settings that support infrastructure decision-making, in particular:
  - 4.1 whether to aggregate central government infrastructure procurement into a single place within government
  - 4.2 how to get the settings right in order for us to innovate and to build our domestic expertise and capability along the entire infrastructure value chain
  - 4.3 how to get a fuller sense of the long-term infrastructure pipeline, and better understand its impact on the market, and
  - 4.4 how to ensure we are making the most of opportunities from within the Australian market, making the most of Australian firms' skills and knowledge, and Australia's strong global reputation as a place to invest.

### *Infrastructure entity*

- 5 **agree in principle** to establish a new independent infrastructure entity by 1 October 2019
- 6 **agree** that the establishment of the infrastructure entity is subject to further decisions from Cabinet on institutional form, powers and funding
- 7 **note** that, along with the Minister of Finance, Minister of Transport, Housing and Urban Development and Minister of State Services, I will report back to Cabinet by 1 March 2019 on
  - 7.1 options for institutional form, powers, and funding for the infrastructure entity
  - 7.2 how the infrastructure entity's role will fit with the wider infrastructure system

- 7.3 arrangements for ensuring the infrastructure entity can effectively perform its role while recognising the ultimate responsibility of Governments to make decisions on infrastructure
- 7.4 accountability mechanisms for the Minister for Infrastructure and Government to retain control over the Government's policy direction and prioritisation, and
- 7.5 the overall purpose and objectives of the entity to ensure it is properly directed toward considering the broader public good benefits of infrastructure investment.

8 **note** that the infrastructure entity will be expected to:

- 8.1.1 gather and publishing evidence on the state of infrastructure assets and networks
- 8.1.2 assist the Minister for Infrastructure in developing a long-term vision for infrastructure planning and delivery
- 8.1.3 provide advice to the Minister for Infrastructure on New Zealand's highest priority infrastructure investment needs
- 8.1.4 publicly identify and socialise regulatory and market barriers to better infrastructure outcomes
- 8.1.5 coordinate and publish capital intentions plans and pipeline information
- 8.1.6 provide new, expert, central transactional capability to support the delivery of major infrastructure projects across central and local government
- 8.1.7 act as a first point of contact for the market in relation to upcoming infrastructure investment and delivery opportunities, and
- 8.1.8 ensure the entity's mandate is complementary and does not duplicate the mandate of other agencies or workflows.

9 **note** the following scope for the independent infrastructure entity:

- 9.1 The infrastructure entity will be empowered to make recommendations to ministers but decision-making rights and direction setting will remain with ministers and departmental chief executives as at present.
- 9.2 The infrastructure entity will be complementary to and will not duplicate other ongoing work streams.
- 9.3 The infrastructure entity will not have direct funding or project delivery powers.
- 9.4 The infrastructure entity will provide staff to agencies to support them to undertake specialised infrastructure functions related to project delivery, while ownership and responsibility for the asset remains with the procuring entity.
- 9.5 The Minister for Infrastructure will have clear accountability mechanisms over the infrastructure entity in relation to its strategy and planning functions, including the

ability for the Minister for Infrastructure to work with Ministerial colleagues across relevant portfolios in order to reflect the Government's infrastructure agenda.

*Establishing the interim Infrastructure Transactions Unit within Treasury (through to the establishment of the infrastructure entity)*

- 10 **agree** to establish an interim Infrastructure Transactions Unit within Treasury by 1 November 2018, while the infrastructure entity is established
- 11 **agree** that the interim Infrastructure Transactions Unit will provide support to agencies and councils on the planning and delivery of major infrastructure projects
- 12 **note** that the ability of the interim Infrastructure Transactions Unit to support major infrastructure projects will build gradually over time from 1 November 2018, as resourcing and capability is developed
- 13 **note** that changes to Cabinet rules for project planning, delivery and reporting may need to change as a result of the above
- 14 **note** that the Treasury will report back to the Minister of Finance and the Minister for Infrastructure by 10 September 2018 with an establishment plan for the interim ITU, including the development of its operating model and how it will engage with agencies.

*Financial recommendations*

- 15 **agree** to the following changes to appropriations to meet the costs of setting up an establishment group and an interim Infrastructure Transactions Unit within the Treasury, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)			
<b>Vote Finance</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22 &amp; outyears</b>
<b>Minister of Finance</b>				
Departmental Output Expense:				
Policy Advice – Finance (funded by revenue Crown)	3.392	0.848	-	-
<b>Total Operating</b>	<b>3.392</b>	<b>0.848</b>	<b>-</b>	<b>-</b>

- 16 **agree** that the proposed change to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increase be met by Imprest Supply
- 17 **agree** that the expenses incurred under recommendation 15 above be a charge against the between-Budget contingency, established as part of Budget 2018

- 18 **agree** that any unspent portion of the funding for 2018/19 in recommendation 15 above can be transferred to 2019/20, following the completion of 2018/19 audited year-end accounts for Vote Finance
- 19 **agree** that any amount of funding in recommendation 15 above that remains unspent be transferred to the infrastructure entity once it has been established
- 20 **note** that the indicative, ongoing operating cost of the infrastructure entity, based off similar entities in other jurisdictions is estimated to be [1] and that ongoing costs will be confirmed when the establishment unit reports back to Cabinet by 1 March 2019
- 21 **note** the majority of the cost to run the entity, once confirmed, will need to be met by new Crown funding, and
- 22 [1]

Hon Shane Jones  
**Minister for Infrastructure**

Date:

Annex 1 – Summary of market and local government engagement

Stakeholders	Comments
<b>National Infrastructure Advisory Board</b>	<ul style="list-style-type: none"> <li>• There is value in a public voice that can publicly produce priority lists and make recommendations to ministers on improving the market and regulatory settings in order to get better infrastructure outcomes.</li> </ul>
[2] <b>and others at stakeholder event<sup>1</sup></b>	<ul style="list-style-type: none"> <li>• There is a balance to strike with the entity's degree of independence – too far removed and it lacks leverage; too close to the Crown and it could lack credibility.</li> <li>• The right leadership and personnel would be important to making a new infrastructure entity a success.</li> <li>• There is a lack of standardised procurement processes and excessive risk transfer on to bidders.</li> <li>• To have credibility on project delivery support, the entity would require high calibre procurement, financial and project delivery professionals from the public and private sectors.</li> </ul>
[2]	<ul style="list-style-type: none"> <li>• To attract private capital, the market needs greater confidence about an agreed long-term pipeline, and also confidence that government procuring entities have the capability to procure effectively.</li> <li>• 'One window to government' for investors would be valuable. This service could help investors understand New Zealand's regulatory system, market conditions, etc.</li> </ul>
[2]	<ul style="list-style-type: none"> <li>• There is a need for a long-term strategy to set the direction, which then ensures that high-value infrastructure investment decisions are made and delivered well.</li> <li>• A centre of excellence for infrastructure, including funding and financing tools, procurement models and capability for project delivery support, would be valuable.</li> </ul>
[2]	<ul style="list-style-type: none"> <li>• The issue with procurement capability at present is a lack of strategic thinking, not a lack of procurement professionals available to do sourcing and other pro forma procurement activities.</li> <li>• Data to inform infrastructure investment decisions is lacking, particularly across central and local government.</li> </ul>
[2]	<ul style="list-style-type: none"> <li>• Australia is not the solution to a lack of market capacity in New Zealand. The Australian market has a huge pipeline of work, is resource constrained and has a higher labour cost base. Also ideas and innovations from the Australian market are easily accessed by New Zealand tier-1 suppliers.</li> </ul>
[2]	<ul style="list-style-type: none"> <li>• Getting the planning phase right is critical to ensure that the right infrastructure is procured in the right places at the right time. This requires local government to operate under the right incentives, for example funding incentives</li> <li>• General support for the Infrastructure entity proposal</li> <li>• Warned against one size fits all solutions for all infrastructure challenges at the local level.</li> </ul>

<sup>1</sup> This includes senior figures from: [2]

Annex 2: Key problems in the current infrastructure system

PROBLEM	LIKELY DRIVERS / CAUSES OF PROBLEM
<p><b>A lack of integrated investment decisions within and across central and local government</b></p> <ul style="list-style-type: none"> <li>• Good examples of central-local government interaction to deliver infrastructure do exist, for example the National Land Transport Programme (NLTP) and the Auckland Transport Alignment Project (ATAP).</li> <li>• However, at times incentives are not sufficient to ensure decisions are aligned. Decisions are sometimes still made independent of strategic planning even when decision-makers have agreed to the strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of capability/capacity within local government to deliver on national direction;</li> <li>• Lack of financing (ability to access money) and funding (ability to repay money) to invest in infrastructure;</li> <li>• Lack of incentive for local government to prioritise delivering on national direction against competing priorities;</li> <li>• A lack of regulatory monitoring and enforcement from central government.</li> </ul>
<p><b>Lack of visibility, pipeline and scale in New Zealand projects</b></p> <ul style="list-style-type: none"> <li>• Multiple planning, funding and delivery models have developed across central and local government leading to a complex infrastructure investment environment.</li> <li>• This results in a lack of coordination across the infrastructure system, missed opportunities to take advantage of economies of scale and compare within and between asset classes, and limited visibility which leads to uncertainty in the sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Planning is not integrated;</li> <li>• Plans are often not backed up by the funds needed to implement them, undermining certainty they will be delivered on;</li> <li>• There is no entity shining a light across investment programmes in order to identify opportunities or assist in aligning planning and decision-making.</li> </ul>
<p><b>Our overriding focus is on building new assets, rather than the outcomes we are trying to achieve and our ability to deliver on them</b></p> <ul style="list-style-type: none"> <li>• When faced with an issue in our infrastructure networks, such as an aging asset or growing congestion, we tend to go straight to an asset solution. However simply building things to address our problems is no longer sustainable.</li> </ul>	<ul style="list-style-type: none"> <li>• We lack an understanding of the future levels of service we wish to provide, which would provide an indication of whether or not an asset solution is required;</li> <li>• Capacity/capability constraints can make it difficult to introduce innovative methods;</li> <li>• Lessons from successful projects are not transferred from other projects as often as they could be.</li> </ul>
<p><b>Evidence does not always inform infrastructure investment decisions</b></p> <ul style="list-style-type: none"> <li>• Our decision-making is not always informed by cost-benefit analysis or business cases. This can undermine achieving value for money of the best possible outcome.</li> </ul>	<ul style="list-style-type: none"> <li>• Poor evidence-based definition of problems resulting in issues not being recognised or addressed, or poor options being developed;</li> <li>• Decision-makers ignoring cost benefit analysis, business cases and other tools, including overarching strategies or programmes of investment;</li> <li>• Sources of cost benefit analysis and business cases are not trusted;</li> <li>• A lack of strategic planning/long term thinking about capital needs;</li> <li>• A lack of framework for prioritising investments (even within the Budget process).</li> </ul>
<p><b>Gaps in our information and data still exist, particularly for Crown investment intentions</b></p> <ul style="list-style-type: none"> <li>• Information on the Crown's investment intentions is sufficient to inform high-level reports, however it does not meet requisite standards of quality or completeness to form the basis of a decision-making tool.</li> <li>• The information provided is not always consistent across portfolios, has limited visibility beyond 1-2 years and sometimes information is not submitted by agencies.</li> </ul>	<ul style="list-style-type: none"> <li>• Agencies themselves may not have good visibility of their forward work programme;</li> <li>• There is little incentive to disclose long term intentions in the absence of funding certainty for these projects;</li> <li>• Agencies may struggle to forward-plan effectively in the absence of funding certainty.</li> </ul>
<p><b>Skills shortages are one of the greatest challenges faced by industry</b></p> <ul style="list-style-type: none"> <li>• The construction workforce does not have the size and skills to deliver New Zealand's growing pipeline of projects.</li> <li>• MBIE estimates that by 2020, the total national shortfall of demand over supply could amount to about 46,000 construction-related workers (8 per cent of construction-related occupations workforce).</li> </ul>	<ul style="list-style-type: none"> <li>• A lack of infrastructure investment certainty, which is a critical factor affecting employers' appetite and commitment to training and up-skilling its workforce;</li> <li>• A lack of visibility of investment pipelines, needed so that employers can plan and respond more effectively in partnership with training providers, industry leaders and sector bodies.</li> </ul>
<p><b>Central and local government procurement capability is at times lacking</b></p> <ul style="list-style-type: none"> <li>• Departments and councils have difficulty being appropriately geared up at all times for infrastructure procurement.</li> <li>• Although MBIE's NZ Government Procurement (NZGP) and the Treasury's PPP teams provide procurement support to departments on particular large-scale capital projects however, there is acknowledgment that the two teams' resources are limited.</li> </ul>	<ul style="list-style-type: none"> <li>• A lack of all-of-government thinking: opportunities for delivering infrastructure at a larger scale and utilising professional capability across the public system are often lost. This is partly enforced by a Vote and budget structure largely siloed by agency;</li> <li>• It is difficult to move resources from one project to the next, particularly between agencies.</li> <li>• Existing procurement capacity and capability is siloed within individual departments or councils.</li> </ul>

Annex 3: an optimal infrastructure system broken down by function, and its current performance

INFRASTRUCTURE FUNCTION	CURRENT STATUS	FEATURES OF THIS FUNCTION WHEN IT IS PERFORMING WELL
AUDIT/EVIDENCE BASE		<ul style="list-style-type: none"> <li>• <b>Robust stocktakes of policy settings, processes (e.g. procurement) and projects:</b> an evidence base should combine information on the state of current assets with predictions for future demand to identify required levels of service and any gaps that may arise.</li> <li>• <b>Credible audit of the overall system's performance:</b> an audit should take a whole of system view and should be seen as credible. An auditing entity located closely within central government may be seen as less credible than an independent entity.</li> </ul>
STRATEGY		<ul style="list-style-type: none"> <li>• <b>A strategy that has leverage:</b> infrastructure strategies need to either incentivise or bind all relevant parties to an agreed set of principles or actions, for example by linking decisions to funding, similar to the National Land Transport Programme.</li> <li>• <b>A strategy unfettered by the government of the day needs to be seen as credible:</b> well performing strategies should make independent recommendations and require governments to respond, while having been developed collaboratively with ministers, the public sector, industry and other stakeholders. A credible strategy requires buy-in from across central government, local government and the private sector. A practical demonstration of the strategy could take the form of a priority list, which identifies and ranks the projects expected to deliver the greatest return on investment in terms of public value.</li> </ul>
PLANNING		<ul style="list-style-type: none"> <li>• <b>Plans within central government and across local government and the private sector are integrated:</b> integrated planning provides opportunities to achieve economies of scale and scope, sequencing of projects and sharing of resources.</li> <li>• <b>Central and local government need to be incentivised/mandated to undertake forward planning:</b> forward planning can be incentivised by linking planning to funding.</li> <li>• <b>Planning decisions are linked to strategy and funding availability:</b> planning decisions should also be directly informed by the strategy and priority list. This needs to be either incentivised through a mechanism like funding, or required under statute.</li> <li>• <b>Planning decisions are informed by market soundings and considerations regarding market capacity:</b> planning entities should have active engagement with the market, and to understand the opportunities and constraints within the market.</li> </ul>
FUNDING		<ul style="list-style-type: none"> <li>• <b>A wide range of funding and financing tools are available:</b> a wide range of tools need to be available to allow for more flexibility in funding and financing infrastructure so that infrastructure can be built in a timely manner.</li> <li>• <b>Funding decisions are linked to strategy and planning:</b> before the decision to fund a project is made, the project should be assessed to determine whether the outcomes align with the strategy above, and whether it has been included in planning.</li> </ul>
PROJECT ASSURANCE		<ul style="list-style-type: none"> <li>• <b>Project assurance requirements that are proportionate to level of investment and risk:</b> project assurance requirements should be appropriate for the cost and risk of a particular project, avoiding over-assurance when not needed and under-assurance where more project assurance is required.</li> <li>• <b>Projects are assessed on whether they need to be 'called in' and delivered by a different agency with the appropriate capability/capacity:</b> in some instances where projects have a high level of risk or complexity, beyond the capability of organisations, it may be necessary to 'call in' projects or require entities to make use of centralised expertise to help deliver that investment.</li> </ul>
PIPELINE		<ul style="list-style-type: none"> <li>• <b>A credible list of projects with a multi-year planning horizon to take to market:</b> a credible pipeline would consist of a list of projects that had funding certainty, or near certainty, over the coming 3-5 years. This would provide the market with the ability to gear up appropriately for upcoming work, not only with plant and equipment but also with skills and human resource.</li> <li>• <b>NB establishing a credible pipeline requires all of the above functions to be performing well.</b></li> </ul>
INFRASTRUCTURE PROCUREMENT		<ul style="list-style-type: none"> <li>• <b>Procurement approaches and processes are consistent, capability is adequate and lessons are transferred between projects</b></li> <li>• <b>Value for money and outcomes are met:</b> entities must have a detailed understanding of what they are procuring, the value and risk and how important the procurement is to achieving their overall goals.</li> <li>• <b>Market has confidence in central and local government procurement capability:</b> by providing foresight and transparency on the future procurement of projects and establishing the right financial policies and products to support private investment.</li> </ul>
PROJECT DELIVERY		<ul style="list-style-type: none"> <li>• <b>Projects meet time, cost, Budget measures:</b> delivery approaches must best balance project cost and risk against achieving project objectives and outcomes.</li> <li>• <b>Projects have adequate project management services</b></li> </ul>
OPERATIONAL MANAGEMENT & MAINTENANCE		<ul style="list-style-type: none"> <li>• <b>Projects are adequately monitored on an ongoing basis:</b> managing delivery should ensure that what has been agreed is delivered, to the appropriate quality standards.</li> <li>• <b>Adequate asset management skills and mechanisms</b></li> </ul>
POST-EVALUATION		<ul style="list-style-type: none"> <li>• <b>Post-evaluation includes a cross-reference against audit/evidence base function above, to assess whether the project met the desired outcome:</b> Effective post-evaluation of a project or programme should include evaluation of both the delivery and the outcomes of a project. This should then feed back into the audit or evidence base and include lessons learnt for future projects.</li> </ul>