

Submission to the National Infrastructure Unit

In the matter of
Infrastructure: Facts and Issues

From
Local Government New Zealand

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INTRODUCTION

1. *Local Government New Zealand* thanks Treasury for the opportunity to make this submission in relation to the *Infrastructure: Facts and Issues* document.
2. *Local Government New Zealand* makes this submission on behalf of the National Council representing the interests of all local authorities of New Zealand. While individual Councils may make submissions, the intention of this submission is to present a “whole of local government” view.
3. *Local Government New Zealand* supports the government’s intent to take a pragmatic, long-term view on infrastructure. The link between infrastructure and economic growth is well-documented, and yet coordinated policy development in this area has been neglected for too long. Although this document notes that the Crown is the largest owner of built assets in New Zealand, local government is the second largest. This gap will continue to close as local authorities have collectively planned to spend an additional \$30 billion on infrastructure over the next decade. This makes the local government sector a key partner in any strategic infrastructure conversation.
4. It is noted that the *Infrastructure: Facts and Issues* document is not the National Infrastructure Plan, or even a draft Plan. This submission aims to treat it like the discussion document which it more accurately is. However, the Issues document does raise questions about what a final Plan aims to achieve. If the document is a reflection that the final Plan will be more inventory than strategy (or any other more “appropriate” synonym for strategy) then it misses a vital opportunity. With sufficient support, such a Plan could coordinate our future development to improve the prosperity of all New Zealanders. We will not close the gap with Australia without world-class infrastructure. A National Infrastructure Plan should contribute to the strategic thinking to enable such long-term goals.
5. A National Infrastructure Plan also presents an opportunity for both central and local government to begin targeting investments towards a shared vision of our future. Achieving this goal will require a more holistic approach than currently indicated, and recognition that the individual infrastructures within our network form part of an interdependent whole. It should also recognise that infrastructure can influence multiple policy outcomes beyond economic development. It will

need to establish the roles of markets, central government, and local government, and dictate sustainable funding processes. The final document should not only provide direction, but also be a tool for enabling a more integrated approach to planning.

6. Although this submission will predominantly be focussed at a reasonably high level, it will also provide more detailed comments from the perspective of local government. If the development of a National Infrastructure Plan is to be an iterative process, we hope that this submission represents the start of ongoing dialogue with the National Infrastructure Unit.

7. *Local Government New Zealand* prepared this submission following:

- an analysis of the issues document
- detailed feedback from local authorities on the practical implications of the issues document
- the analysis of that feedback and a detailed analysis of the legislative obligations on local authorities.

8. This final submission was endorsed under delegated authority by:

- Lawrence Yule, President, National Council
- Peter Tennent, Transport Portfolio, National Council
- Ian McKelvie, Infrastructure Portfolio, National Council.

HOW WILL THE NATIONAL INFRASTRUCTURE PLAN ACHIEVE ITS STATED PURPOSE?

9. The stated purpose of a National Infrastructure Plan is “to present a high-level view of the state of New Zealand’s infrastructure, describe the principles and direction of future investment, improve alignment between national and regional planning, establish greater discipline around infrastructure decisions, and increase public awareness about the role that infrastructure plays in supporting and raising the nation’s living standards”.¹ *Local Government New Zealand* is strongly supportive of a Plan that can achieve all of these objectives.

¹ Infrastructure: Facts and Issues, Introduction, Purpose of a National Infrastructure Plan, page 2.

10. Although the sectoral analysis within the issues document presents a high-level view of the state of some parts of New Zealand's infrastructure, it is not immediately obvious how the final Plan will achieve the other limbs of its purpose. If a National Infrastructure Plan mirrors the issues document as an incomplete stocktake of disaggregated physical infrastructures and post-fact policy decisions, it may do little more than occupy shelf space. It needs to offer guidance on all aspects of the purpose statement in order to become an effective and integrated planning tool.
11. Fulfilling its purpose will require a substantial change in emphasis. However, most importantly and contrary to what is stated in paragraph 8², we believe that a final Plan **should be directive to the extent that it demonstrates leadership**. Infrastructure planning in New Zealand has historically been uncoordinated (and relatively short-sighted), and is a major cause of the perceived "infrastructure deficit" (misalignment between service capacity and demand) the country is now facing.³ While a summary of the state of our infrastructure is critical for efficient asset management, a National Infrastructure Plan should also coordinate new investment in conjunction with renewal and maintenance. This can only be achieved with bold government leadership.
12. To be effective as well as bold, a National Infrastructure Plan **should also view each disaggregated component as being part of an interdependent network**. Infrastructures do not exist in isolation and a change to one part of the system will invariably impact on other parts within its relative proximity. This is because infrastructure not only fulfils a purpose, but occupies space. It effects, and is affected by, the community and infrastructure around it.
13. Once physical infrastructure is constructed it becomes part of an interdependent network regardless of who owns or manages it. For example, the state highway network would be useless if it was not connected to the network of local roads. Roads are also not built to go nowhere. They are built to move people and freight. As they occupy physical space, they offer links to other physical

² The Plan will consolidate existing sector plans for investment in infrastructure as far as these have been developed. However, it will **not** ... be directive.

³ It is important to note that the term "infrastructure deficit" is highly subjective. The Infrastructure Audit undertaken by PriceWaterhouseCoopers in 2004 concluded that, "... at a national level, New Zealand's infrastructure is in reasonable condition. Subject to an ongoing appropriate level of investment, it should not pose a barrier to the Government's growth and sustainable development objectives." Ministry of Economic Development Infrastructure Stocktake, Infrastructure Audit, January 2004.

destinations and services. A decision to build a new road (either local or state highway) should not be made without considering the impact it will make on other infrastructure. It should also not be made without considering its contribution (either positive or negative) to wider policy objectives.

14. In order to achieve its stated purpose, *Local Government New Zealand* believes that a National Infrastructure Plan needs to be directive to the extent that it demonstrates leadership, and should also view each disaggregated component as being part of an interdependent network.

POLICY CONTEXT AND DECISION MAKING

15. The application of the principles outlined in the “Policy Context” presents an opportunity for the Plan to demonstrate leadership. A principles approach ensures that decisions can be made consistently within a transparent framework, enabling more integrated planning. It also allows decisions on specific infrastructures to be made on a case-by-case basis. Detailed comment will be made on each Principle separately.

Principle 1 - Role of Markets and Government

16. This principle plays a crucial role in establishing the role of government as a provider of goods and services. However, it needs to go further and also acknowledge and differentiate the role of local government in the provision of goods and services. For example, explanation is required for why urban water is the responsibility of local government.

17. *Local Government New Zealand* agrees with the role of government identified by a), b) and c) of Principle 1. However, the role of local government is slightly different than the role of central government. Local government also has a role in providing services with externality benefits that cannot be realised under a user pays model, but are readily achievable under a redistributive funding model. Such services are generally provided by infrastructural assets with very long life cycles. Accordingly, these assets demand a measure of public influence in ownership to ensure the balance between affordability and levels of service is retained.

18. *Local Government New Zealand* proposes two additional principles to apply to the role of local government in the provision of goods and service:

- d) *Externality benefits can only be realised through redistribution*
- e) *Accountability is best focussed on achieved broad community objectives rather than short term commercial outcomes*

19. Principle 1 then goes on to outline how sectors, where the government has a role to provide goods and services, will be funded. This should be a new principle in its own right. It should also contain more comprehensive information. For example, the fact that local roads (representing 88% of the network by length, and 50% of VKT) and passenger transport service costs are half funded by rates (which is a land tax). It also fails to recognise that other transport options within road corridors (such as walking and cycling) are entirely funded by rates. Lastly, such a comment should acknowledge that transport is a service not only offered by roads, but also rail, air and sea.

20. In a similar way to transport, the reference to urban water brushes over the fact that three distinctly different water services (potable water, sanitary waster water and storm water) are being offered by local government. Each service contributes differently to the social, environmental, economic and cultural health of communities. Also missing is reference to rural land drainage and flood protection schemes. Without these services, areas such as the Hauraki and Heretaunga Plains would be considerably less productive.

Principle 2 - Government Services

21. *Local Government New Zealand* has no comment on Principle 2a or Principle 2b.

Principle 3 - Central v Local Government Funding

22. This Principle discourages financial transfers from central and local government because rates can be collected more efficiently than GST or income tax. It appears to imply that if local government requires additional funding, rates can be exploited further as a more economic solution. Ratepayers would universally disagree that the rating base is underexploited. Rates may be comparatively low as a proportion of GDP, but ratepayers are also taxpayers and what they perceive is the total outgoing. This concept is further contradicted by the outcome of the

Shand Rating Inquiry and regular comments lambasting rate rises from the Minister of Local Government. If there is any validity to this argument then the onus is on the government to be more forthright in its support of local government raising rates.

23. This Principle is badly flawed. This is because locally provided services often provide positive externalities that offer national benefits. An example is high quality potable water offering public health benefits. The service is provided to a discrete community from revenue raised locally through rates. However, in a country that “provides” health care, the benefits of the members of that discrete community not getting ill through the consumption of poor quality water are incurred nationally.
24. These broader benefits have been recognised historically by successive governments in the form of contributions to infrastructure in communities. This practice would be discouraged under Principle 3. If this Principle had been in place in the past, the economic and community health benefits provided by water services that could only be built with government assistance would simply not exist today.
25. Of further concern is the fact that a significant proportion of local government infrastructure is coming to the end of its economic life and is in need of renewal or replacement. Although local government has been accumulating depreciation for 15 years (currently totalling 21% of expenditure) it is not nearly sufficient to cover cost. This is because these assets are considerably more than 15 years old, and the fact that many assets were built with assistance from government for the reasons outlined previously.
26. The government has indicated that local government should increase the use of debt financing to meet these costs, and the costs of new capital works. This is happening with Long Term Council Community Plans indicating a doubling of local government debt from \$5.1 billion to \$11 billion over the next ten years. A significant driver for increasing debt was preventing further rates increases. Unfortunately debt funding does not solve the issue, it only postpones it. For example, Gisborne only paid off its tram network in the 1980s, despite removing trams from service almost 60 years earlier. Interest repayments eat in to discretionary expenditure, which is further eroded after assets funded with

borrowed money are then depreciated. The reality is that even with an increased use of debt financing, many assets will not be able to be renewed or replaced without government assistance.

27. The change outlined by Principle 3 will deprive many communities of essential assets which benefit New Zealand as a whole. If a National Infrastructure Plan is not the place for addressing the allocation of responsibilities and appropriate tax bases between central and local government then what is? Until these high-level issues are resolved, Principle 3 should be excluded from the Plan to prevent perverse outcomes from occurring.

Principle 4 - Project Evaluation, Prioritisation and Decision-Making

28. The Issues document accurately states that prioritisation is necessary in a world of limited resources. A National Infrastructure Plan should demonstrate leadership by using Principle 4 to help determine national priorities.

29. The link between infrastructure and economic development is well established. For this reason, *Local Government New Zealand* has no objection with evaluating projects based on their potential contribution to economic welfare. However, infrastructure can also be used to influence social, cultural and environmental wellbeing. A paper commissioned by the Ministry of Economic Development in 2004 acknowledges this by stating that infrastructure:

‘...facilitates specialisation within the economy and raises the productivity of other capital and labour; it broadens social exchange and enhances accessibility.’⁴

30. While economic welfare is important, so too are wider welfare factors. Social, cultural and environmental factors are often overlooked due to the difficulty of translating their benefits into economic terms. Taking a narrow focus on the importance of economic welfare can overlook the importance of wider welfare considerations. It also fails to recognise the strong interdependence between the economic, social, environmental and cultural health of communities.

⁴ Sustainable Infrastructure: A Policy Framework, Report to the Ministry of Economic Development, May 2004, NZIER.

31. Under the Local Government Act 2002⁵, local authorities are tasked with promoting the social, economic, environmental and cultural health of their communities. Delegating this wider responsibility to local government does not divest central government of the same responsibility on a national level. A social cost-benefit analysis may be an imperfect tool, but it is the best tool available. However, as it is just a tool, the outcome of a social cost benefit analysis should not be treated as gospel. *Local Government New Zealand* is strongly supportive of paragraph 68, that if the result of a social cost-benefit analysis does not feel intuitively right, further inquiry or an independent review may be appropriate.⁶

32. As mentioned previously, to be effective as well as bold, a National Infrastructure Plan should also view each disaggregated component as being part of an interdependent network. In light of this, decisions on individual projects should also be made after taking into consideration the implications for the wider network. This is mentioned obliquely in the issues document with the statement that: projects should be prioritised in terms of their contribution to the economy's productivity.⁷ This concept should be specifically reinforced by Principle 4. However, it should also avoid focussing too narrowly on economic development.

33. *Local Government New Zealand* recommends the following points be added to Principle 4:

- *Contribution to the economy's productivity*
- *Contribution to the social, environmental and cultural welfare of New Zealander's*

Principle 5 - Asset Management

34. *Local Government New Zealand* is strongly supportive of the Crown's desire to manage its assets more effectively. However, achieving Principle 5 will require the government to undertake a significant change in its thinking.

⁵ Section 3 (d), Local Government Act 2002.

⁶ Because of the complexity of the analysis and the large numbers that are usually involved, bias can result from analysis being led astray by 'intuition', 'common sense' or 'judgment'. Therefore, if the result of a CBA does not seem intuitively tight, further inquiry or an independent review may be appropriate. Infrastructure: Facts and Issues, September 2009, paragraph 68, page 15.

⁷ The best solution should then be prioritized in terms of its contribution to social welfare and the economy's productivity. Infrastructure: Facts and Issues, September 2009, paragraph 66, page 15.

35. Local government is obligated under statute to conduct long-term planning with the regular development of long-term council community plans (LTCCP).⁸ The discipline required in auditing LTCCPs has significantly improved and refined asset management in local government.
36. To date, central government has been unwilling to subject itself to the same reporting requirements. The lessons learned in the transition to whole-of-life costing could (and should) be applied to central government assets.

BASE INFORMATION MISSING FROM THE SECTORAL ANALYSIS

37. There are several important categories missing from the sectoral analysis in the issues document. Categories missing from the infrastructure audit will be outlined separately.

Operating Requirements

38. Assets have life cycles. As an asset, or parts of an asset, reaches the end of its life cycle it needs to be renewed or replaced. Asset operating requirements are significant, and should be captured by a National Infrastructure Plan. This is not reflected by the issues document, which in contrast is dominated by capital expenditure.
39. Ongoing operational funding requirements are a significant expenditure requirement in the local government sector, especially for smaller local authorities (where for example they have inherited a road network built for the needs of the 1940s and 50s and are now left to maintain it). Analysis from the draft 2009-19 LTCCPs shows that local authorities expect to incur approximately \$6.7 billion in interest costs over the next ten years and some \$18.5 billion on depreciation costs on their fixed assets.

Community Infrastructure

40. A significant omission from the issues document is community infrastructure, predominantly owned and managed by local government. Although government contributions to upgrading facilities for the Rugby World Cup 2011 are listed as an

⁸ Section 93, Local Government Act 2002.

immediate priority, other recreational facilities are excluded from the sectoral analysis.

41. Although the government does not play a major role in providing recreational assets, they are still a significant component of our national infrastructure network. During the year to 30 June 2008, Culture, Recreation and Sport made up 18.2% of local government expenditure.⁹ This includes assets such as parks, reserves, swimming pools, recreational facilities, public toilets, information centres, libraries, public halls and cemeteries.
42. Community infrastructure contributes to numerous policy objectives focussed on improving community health. Due to the significance of additional investment in recreational assets planned by local government over the next decade, community infrastructure will also make a major contribution to economic development.
43. The recreational facilities provided by local government play a major part in defining communities. They affect the desirability of places to live and work, and have a positive impact on our standard of living. Community infrastructure is integral to making New Zealand globally competitive as a destination, and should at least be included in any stock take of our national infrastructure.

Solid Waste

44. Waste disposal is often defined as a “core service” of local authorities. Our towns and cities would be unable to function without regular and efficient waste management. Waste that is not properly managed not only undermines a locations amenity, but pollutes the air and waterways, and poses a significant risk to public health.
45. Waste management collectively costs local authorities \$285 million each year. The economic productivity enabled by this service can be expected to be many times this. *Local Government New Zealand* believes Solid Waste is a critical omission from the sectoral analysis outlined in the issues document.

⁹ www.localcouncils.govt.nz

Stormwater

46. Stormwater disposal assets and facilities are another key component of a functioning urban environment. These assets are owned and managed by local government and excluded from the issues document. Stormwater management is about minimising the risk and disruption to social and business activity from rainfall events. In addition to ongoing operational and maintenance costs many communities are facing significant capital costs to meet the needs imposed by urban densification (increases run-off rates and leads to higher volumes), higher levels of risk protection and better water quality discharge standards. It is an integral part of any new development, and should be included in the sectoral analysis outlined in the issues document.

Flood and River Control

47. Many of our cities, towns and productive farmland are located on flood plains. Flood management is another “core service” offered by many local authorities across the country. Regional councils are directly responsible for managing catchments and rivers under the Soil Conservation and Rivers Control Act 1941 and own and manage physical infrastructure including stop banks, weirs and pumping stations. Territorial authorities use the Building Act 2004 and Resource Management Act 1991 as regulatory devices for mitigating flood risks.

48. Local government spends approximately \$300 million on maintaining flood and river control works each year, with this amount expected to rise as a result of climatic changes over the next century. *Local Government New Zealand* believes flood and river control to be essential elements of our national infrastructure and should be included in the sectoral analysis.

Road-based Passenger Transport (buses)

49. Although the issues document contains reference to rail passenger transport, it fails to recognise the significant investment of local government in road-based passenger transport (buses). Bus services are either fully funded or subsidised by regional councils under the Public Transport Management Act 2008. Territorial authorities are responsible for providing associated infrastructure such as terminals, shelters and signage.

50. Road-based passenger transport represents a significant infrastructure investment, with bus services active in many of our cities, including Auckland, Wellington, Christchurch, Hamilton, Tauranga, Rotorua, Palmerston North, Napier/Hastings, Gisborne, New Plymouth, Nelson, Timaru, Dunedin and Invercargill. The annual cost to local authorities of offering passenger transport services is \$223 million. If rail passenger transport is included by the issues document, we cannot see any reason that road-based passenger transport services should be specifically excluded.

Unsubsidised Roading Works

51. Within the road corridor the New Zealand Transport Agency subsidies apply primarily to the pavement between the kerbs (or road edges where there are no kerbs), lighting, signage and other support infrastructure. So whilst a street sump to collect stormwater will be subsidised, the discharge piped network (other than the first 1.0m) is not. Similarly footpaths are not subsidised. Additionally councils often undertake subsidisable road works at their own full cost where agreement on co-funding can not be reached with the Agency. This currently applies to seal extensions and some pavement smoothing works. Works such as seal extensions often have positive social and economic consequences through dust suppression and reduced maintenance costs. The value of subsidisable, but non subsidised road work is picked up in the road asset valuation data. However, the considerable investment in footpaths is not.

CROSS-SECTORAL ISSUES

52. The issues document concludes by raising several cross-sectoral issues. Brief comment will be made on each of these issues separately.

Regulatory Issues

53. Local government is also suffering the burden of compliance costs imposed by a legacy of over-regulation. As such, *Local Government New Zealand* is generally supportive of the government's agenda for regulatory reform.

54. It is unsure from the issues document how a National Infrastructure Plan will identify and reduce existing hurdles to investment in infrastructure beyond what is

being picked up by reviews already underway. Although a National Infrastructure Plan acknowledges such issues, comments on regulatory barriers will be made as submissions to reviews of specific legislations.

Funding Infrastructure: the Government's Fiscal Strategy

55. The impending period of fiscal restraint applies to local government as well as central government. This places even more importance on cost-effectiveness and responsible asset management. As statements to this effect have been made previously, no additional comment is required.

Financing Infrastructure: PPPs

56. Local authorities are currently writing Procurement Strategies to fulfil the criteria dictated by the New Zealand Transport Agency as part of the Regional Land Transport Programme process. However, these Procurement Strategies will be used for all procurement arrangements, not just transport. The appropriate use of Public-Private Partnerships for financing infrastructure projects will also be considered. However, Public-Private Partnerships are only one of many available models for financing infrastructure projects. The model used for financing a particular infrastructure should be made on a case-by-case process.

Local Government Finances

57. The analysis outlined in this section is misleading and totally inadequate. Local government has been faced with cost pressures from several sources including inflationary pressures, increasing quality and quantity of services, and increasing compliance costs. *Local Government New Zealand* is entirely supportive of the analysis on pages 8-10 of the submission on the issues document made by the New Zealand Society of Local Government Managers (SOLGM).

Demographic trends

58. Between 1991 and 2006 the percentage of the population living in our main urban areas (settlements larger than 30,000) increased from 69.6% to 71.8%.

This growth came at the expense of declines in urban areas smaller than 30,000 and rural areas.¹⁰

59. This trend will lead to increased costs for ratepayers living outside urban areas as proportionately less people are taxed to pay for necessary community services. *Local Government New Zealand* would like a National Infrastructure Plan to address the long-term funding issues generated by a continuing trend towards urbanisation.

Climate Change

60. The document acknowledges that climate change is a very significant environmental and economic issue. However, it is a dangerous assumption to focus only on the cost of emission reduction commitments and ignore the adaptation requirements that may be forced upon us.
61. Adaptation will involve protecting or relocating existing assets. If, for example, sea levels were to rise significantly, it could, for example, have major implications for our railway corridors and roading network. This applies not only to existing assets but also to new projects. Each new infrastructure project built in an area identified as being at-risk is also potentially a future liability.
62. If New Zealand is to take the risks presented by climate change seriously, a National Infrastructure Plan should attempt to identify strategic areas of high-vulnerability. Vulnerability to the potential effects of climate change can then be included as a selection criterion for assessing projects against.

RECOMMENDATIONS

63. *Local Government New Zealand* would like to again thank the Infrastructure Unit at the Treasury for the opportunity to make a submission on the Infrastructure: Facts and Issues document. We hope this submission represents the start of an ongoing dialogue during the future development and refinement of National Infrastructure Plans.

¹⁰ <http://www.stats.govt.nz/~media/Statistics/Publications/Internal-Migration/Urban-rural-migration/urban-and-rural-migration.ashx>

64. Based on the issues document, *Local Government New Zealand* recommends that a National Infrastructure Plan:

- is directive to the extent that it demonstrates leadership
- views each disaggregated component as part of an integrated network
- establishes the roles of local government, central government and the private sector in providing goods and services
- does not discourage financial transfers between local and central government
- addresses the allocation of responsibilities and appropriate tax bases between central and local government
- evaluates projects on more than their contribution to economic growth, including social, cultural and environmental outcomes
- instigates a review into how the Crown can manage its assets more effectively, including whole-of-life accountability
- include ongoing requirements, community infrastructure, solid waste, stormwater, flood and river control control, road-based passenger transport (buses) and unsubsidised roading works to the sectoral analysis
- represent the analysis on local government financing outlined on pages 8-10 of the SOLGM submission
- address the issues generated by a continuing demographic trend towards urbanisation
- also use vulnerability to the potential effects of climate change as a selection criterion for assessing new major projects against.