



SOLGM

NEW ZEALAND SOCIETY OF
LOCAL GOVERNMENT MANAGERS

INFRASTRUCTURE...JOINING THE DOTS

A SUBMISSION TO THE NATIONAL INFRASTRUCTURE UNIT ON THE PRECURSOR TO
THE NATIONAL INFRASTRUCTURE PLAN

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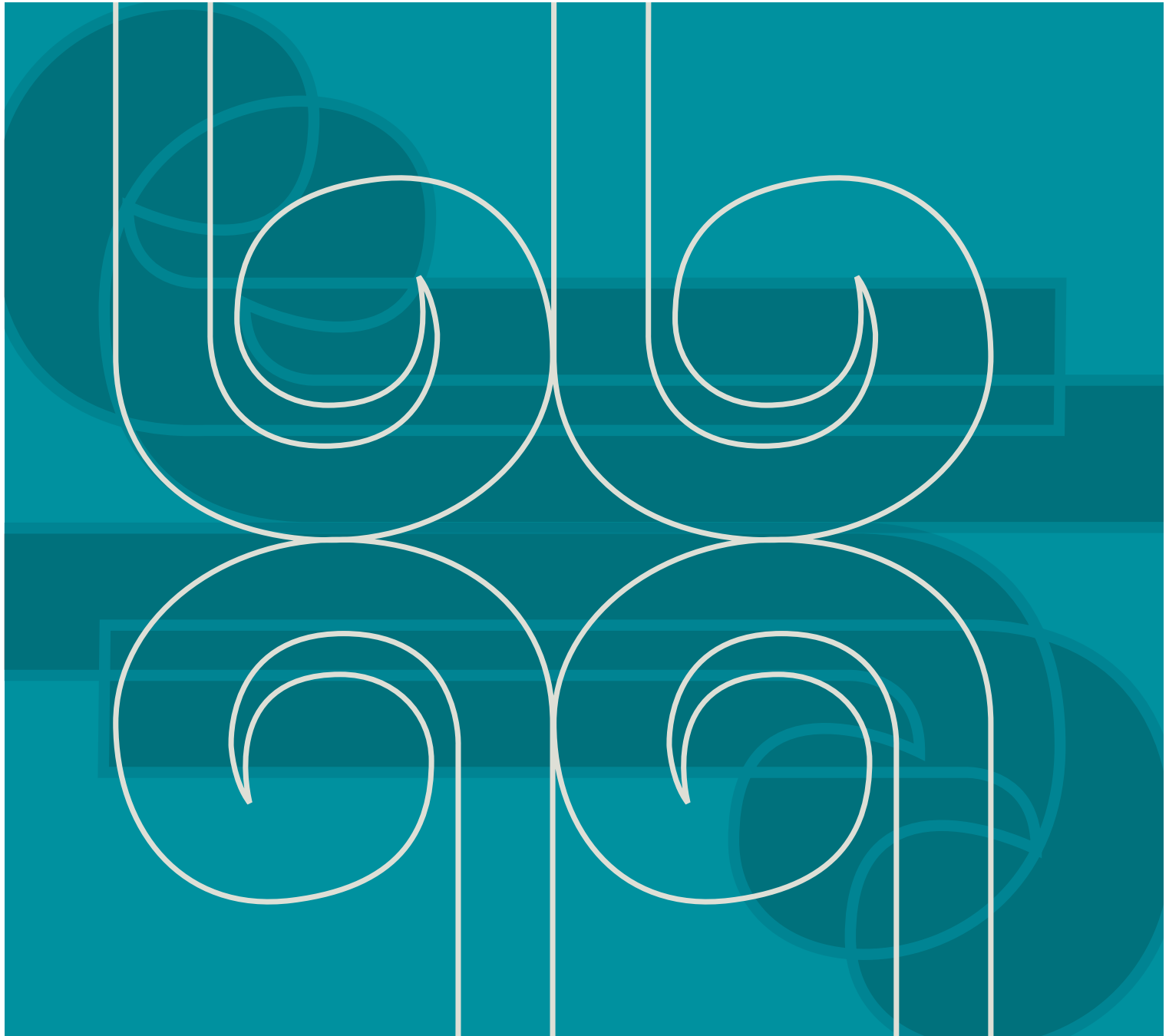


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SOME PRELIMINARIES

Who Are We

The New Zealand Society of Local Government Managers (SOLGM) thanks the National Infrastructure Unit for the opportunity to comment on Infrastructure Facts and Issues: Towards the First National Infrastructure Plan (the precursor).

SOLGM represents approximately 570 local government managers (including Chief Executives and other managers with significant management, policy or strategic development responsibilities) with membership spanning all of the disciplines required in local government. Its vision is:

‘To be the leading influence for local government managers and staff to advance the sustainability of our communities’

The local government sector manages infrastructure (both network and community infrastructure) that is valued at approximately \$90 billion¹, and has a ten year capital works programme of around \$31 billion.

SOLGM’s expertise lies mainly in local government funding, planning and accountability matters rather than in-depth knowledge of any specific part of infrastructure sector. Our submission is therefore brief and focuses mainly on:

- gaps in the sectoral analysis
- the drivers of the cost of infrastructure provision
- various legislative issues that act as blockages to the provision and management of infrastructure.

Some General Comments

Is This An Infrastructure Plan?

The lack of a coherent strategic direction for the infrastructure sector has impacted on the sector and the economy. As we shall see in subsequent discussion, competition between central and local government for scarce contracting resource has resulted in some increases in tender prices. Central government itself has exhibited some degree of ‘disconnect’ in the signals it has sent local government as an infrastructure provider. The Prime Minister and Minister for Infrastructure have both keenly encouraged local government to keep up its spending on infrastructure (to maintain some level of economic activity), while the Minister of Local Government has told the sector it is spending too much.

Based on our reading of page 3 of the document, we are not clear that the Plan will provide such a direction. It appears to be more a consolidation of pre-existing plans and will neither “provide any

The lack of coherent strategic direction for infrastructure has impacted on the sector and the economy

The lack of coherence can be seen in contradictory signals from the Prime Minister and Minister of Infrastructure vis-a-vis those of the Minister of Local Government

¹ Department of Internal Affairs (2009), Summary of Financial Forecasts from 2009/19

more specificity or certainty about future investment than is already provided for by sectoral plans” nor “be a funding or policy commitment”.

Infrastructure is the Community's Servant not it's Master ...

The provision of infrastructure is a means to an end, not an end in itself. We don't build a road for the sake of building a road, we build it to move goods and people. Likewise water infrastructure sustains life by providing water to drink and a vehicle for sanitary disposal of human waste, as well as providing a resource for industry and agriculture.

We are disappointed that the precursor fails to draw any link between infrastructure and the wider policy objectives and priorities that we as a nation should be pursuing beyond the purely economic.

We are disappointed there is no real link between infrastructure and any of the nation's goals (outside of the economic).

We have seen various reports bemoaning so-called blockages to infrastructural development created by instruments such as the RMA. Policy-makers need to treat some of this discussion with some caution and remember that infrastructure provision invariably cuts across private property rights and community interests. The RMA and related legislation is far from perfect, but these are the only structured tools around that allow for the balancing of competing interests.

The National Infrastructure Plan Must Avoid "Silo Thinking" ...

The precursor sets out a list of infrastructure presented “silo fashion”. That is not unreasonable for a document that has an element of a stocktake about it. There is a risk that the final of thinking about priorities in terms of one type of infrastructure being a higher priority than another, and/or about the development of unlinked priorities for each type of infrastructure.

This mode of thinking tends to come easily to central government as it reflects the institutional structures within which central government bureaucrats work and within which their line accountabilities operate.

There is some evidence of silo thinking in the precursor, and approach the will not be helpful when the plan is prepared.

The local government perspective however confronts us with the fact that the various types of infrastructure all exist in places and in those places they interact. From a local perspective determining infrastructure priorities is about the mix that will operate to advance the goals or address the deficits that are of concern in that particular place. This will differ from place to place and to some extent tend to differ among different types of community according to the scale and intensity of human settlement and the nature of economic activity.

For instance, in rural communities immediate needs tend to focus on the sort of roading network necessary to support the predominant land uses, and according to the geography of the district perhaps also flood control and catchment management works. In small towns the public health drivers for reticulated water supply kick and sewerage treatment take effect, along with fairly basic recreational facilities. As population sizes and densities rise transport providers have to deal with the issues of commuter travel (public transport becomes an issue) and a wider range of community infrastructure comes into play to support quality of life at higher population densities in the face of the diminished stock of open space. A successful National Infrastructure Plan must account for this place specific dimension and the differing needs and priorities of different communities in arriving at a

view on national priorities. It is the total of the infrastructure in the place that either works or does not work satisfactorily.

Different types of infrastructure may according to the circumstances be complemented or be substitutes for one another. Most obviously in a metropolitan setting public transport is a substitute for additional roading capacity and vehicle parking space.

An Infrastructure Plan Must Consider All Responses, and Not Just Be About “Building Stuff” ...

One of the risks with an infrastructure plan is that the sole approach could be to plan to respond to future demand by building more physical infrastructure, and that infrastructure will be conceptualised as being additional increments of the currently familiar and dominant technologies. Some of the discussions of types of infrastructure in the precursor paper refer to demand management options at a level of detail. There is however no acknowledgement that demand management is seen as potentially part of an overall strategy. Demand management can in some instances be to do with pricing but in others may equally to do with regulatory responses. The debate about urban growth limits and intensification of inner city residential neighbourhoods is centrally a debate about the provision of infrastructure. On the one hand it is driven by the greater efficiency of networks that have a high density of connections and less geographic scope. On the other hand the ability to sustain quality of life at higher population densities is centrally about the provision of the higher levels of community infrastructure necessary to achieve this. To some extent improved community infrastructure in more intensively populated inner city areas is a substitute for the ongoing extension of physical infrastructure (roads and pipes) at low connection densities at the margins of urban areas.

Good infrastructural management is about more than just “building stuff”.

Proper Asset Management Involves Thinking Beyond the Electoral Cycle ...

Local government has been formally asset management planning since the early 1990s, and been more or less subject to requirements to do so since 1998². Unlike central government, local government is under statutory obligations to plan long-term (the long-term council community plan or LTCCP)³ and must demonstrate that its plans and management practices are prudent over the useful lives of assets. The whole LTCCP regime is designed to create public debate about levels of service and funding choices, so that financial decisions (such as next year’s rates increase) are not taken in isolation from the impact on current and future levels of service. This discipline, and the discipline of the audit of LTCCPs, has driven considerable improvements in asset management over the past 10 years, to the point where the current crop of LTCCPs represent probably the best quality data our community has ever had on the true cost of providing local services.

We concur that central government’s record at asset management is patchy at best. The closest equivalent instrument to a whole-of-government strategic plan is the budget documentation and the fiscal strategy report. Land transport apart, we are unaware that other agencies undertake robust asset management planning. Indeed the decentralised

2 There is currently no direct statutory requirement to have asset management plans, however there are certain information disclosures required in long-term plans, where the auditors look for plans as evidence that the information is robust.
 3 The statutory timeframe for long-term planning is 10 years, with plans being reviewed each triennium.

delivery of health and education makes it hard for any consistent standard of asset planning in these areas. To the outsider there is some degree of 'reaction' to the assessment of future needs and their asset implications – for example, much of the current debate about so-called "double-bunking" in Corrections appears the result of a failure of successive governments to identify and properly plan for the demand requirements of shifts in justice policy. (Note – we level this criticism at central government as an institution not any particular government or political party).

Central government would benefit from the asset management practices that are "business as usual" in the local government sector.

To us it seems that central government has much to learn from the way local government approaches asset management. It appears some departments have recognised this – we understand some agencies have contracted with the National Asset Management Steering Group for asset management training.

Future Focus ...

Planning for infrastructure, as anything else, requires us to make assumptions about the likely future we are planning for and the extent to which it is likely to differ from the present or the recent past (acknowledging imperfect knowledge and uncertainty). Human responses to changed circumstances have often involved the development and diffusion of new technologies, and most of the sorts of works we typically identify as "infrastructure" represent the technology that has emerged in response to some historic challenge or change in circumstances.

Changing circumstances through time lead to changing perceptions of the problem as the most appropriate mix of technology changes. Sewerage treatment was initially the solution to a "public health" problem but has evolved also become a solution to an "environmental degradation problem. Perceptions of the appropriate mix of road building and public transport "technologies" as contributors to moving commuters continue to evolve.

Any plan must manage the risk that while present (old) technology will be represented at the table by providers of that technology, and those whose businesses have come to rely on it ("we have the solution the problem is just that you are not buying enough of it!") while the next / emerging generation of technology will not. There is a challenge to ensure that policies do not emerge which simply entrench currently dominant technologies / solutions rather than the facilitating the emergence of the new ones.

Looking into the crystal ball there are several trends that need to influence thinking about the nation's future infrastructure needs. These are:

- *climate change mitigation* – the world-wide focus on the development of "lower emissions" technology may provide a variety of new solutions within the next few decades and the attachment of prices to emissions will change the relative balance of costs and benefits among already existing technologies in some circumstances;
- *climate change adaptation* – as the expected impacts of climate change begin to emerge perceptions of priorities among types of infrastructural provision may shift (for instance a higher priority on flood protection), and views on the optimal location of some infrastructure may change (because of changed risk assessments).

- *oil prices* – most projections / predictions of the future price of oil suggest significant and sustained increases once the world economy recovers. Oil dependent technologies are likely to become relatively less cost effective through time compared to competing technologies.
- *changing demographics* – in particular the aging population is likely to change infrastructure priorities. For example, many retirement communities will need to plan for a wider range of leisure/community recreation facilities.

THE BASE INFORMATION

Although the information contained in the document is generally accurate and informative, it is far from a complete description of the infrastructure sector in New Zealand. SOLGM has identified several areas where information is missing either completely or in part.

Community Infrastructure

Perhaps the biggest single omission from the precursor, and hence from the early development of the plan itself is much of the nation's stock of community infrastructure (by which we primarily mean recreational facilities such as parks and sportsgrounds, cultural facilities, social housing and libraries).

Community infrastructure is the biggest omission from the precursor.

We say "largely" omitted because central government has identified some components of community infrastructure, and even made those part of one of its four immediate priorities. The precursor recognises the investment that the government is making in five locally owned stadia and the purchase of Queen's Wharf in Auckland. We would also suggest that there is a large element of "community" in infrastructure such as the health, education and corrections systems.

It was not clear to us why the plan covered this infrastructure, and these projects (in the case of the RWC projects), while excluding others.

Estimates from the 2009-19 LTCCPs suggest that local government is expecting to devote slightly more than one-quarter of the projected capital programme on community infrastructure (around \$8 billion) over the next ten years. This is despite community infrastructure generally being given a lower priority and placed on "nice to have" lists.

Community infrastructure promotes the sense of place that is vital to successfully compete in a world where factors of production are mobile.

Why is community infrastructure important? A community (and a nation for that matter) increasingly depend on quality of place to compete in a global economy and stocks of community infrastructure play a significant role alongside network infrastructure when determining overall competitiveness.

In today's world, the mobility of investment capital and, increasingly the mobility of skilled labour means that national economies must compete to attract investment and skilled people. While national policy settings are part of the package of factors relevant to a business location decision, they are not necessarily the most important factor. Access to factors of production in particular raw materials and skilled labour either "on site" or through rapid transport tend to be more important. Increasing competition for skilled labour means that what the Lyons Inquiry (a United Kingdom inquiry into local government funding and related issues) refers to as "quality of place" becomes important

"Although national and global considerations are increasingly important in business location decisions, the distinctiveness of place is an important component in attracting skills and investment in a highly competitive world. Place shaping for economic well-being can therefore involve enhancing local characteristics to

*create attractive locations for different types of businesses and industries, and highly skilled workers and entrepreneurs, as part of a broader role ...*⁴.

McKinlay (2006) correctly notes that the place shaping role is likely to be more important for an economy such as New Zealand's⁵. New Zealand's labour force, while skilled is also small by international standards. New Zealand lacks some key raw materials particularly domestically produced energy (other than electricity). And, of course, New Zealand is distant from European and North American markets.

But the place shaping role and its contribution to economic transformation goes wider than network infrastructure. Communities need to be vibrant, attractive places to live to attract pools of skilled labour. In turn this means that a local authority cannot ignore its stock of community infrastructure (libraries, parks, recreational facilities and the like) and what is sometimes referred to as the "look and feel" of the community. A vibrant, attractive place is also more likely to attract tourism than one that is not.

Solid Waste/Refuse Disposal and Treatment/Recycling⁶

Even assuming that the precursor is correct to focus on the so-called network or "hard" infrastructure the omission of solid waste/refuse disposal infrastructure from the document is surprising. Solid waste infrastructure includes transfer stations, landfills, recycling stations and the like.

Given zero waste initiatives, it is hard to fathom why solid waste , recycling and the like have been omitted.

We understand 60 of the 73 territorial authorities provide collection and treatment of solid waste to all or part of the City or District (in metropolitan areas contracting out of collection and local government ownership of the disposal facility is common). There are also waste treatment facilities that are semi-publicly owned (such as the Canterbury Regional Landfill) and some private provision (particularly with the disposal of more specialised, hazardous or otherwise difficult to handle waste).

Solid waste disposal is an absolute "must have" for a functioning modern society, especially where large groups of people live in the same location. Waste is an inevitable byproduct of economic activity. But waste that is not properly managed is not only unsightly but also acts as a pollutant on air, land and water, and if not managed can be a significant risk to public health and safety.

Each year around 3.2 million tonnes of solid waste is sent to a landfill, and around 2.4 million tonnes is diverted from landfills. Around \$300 million in public expenditure is incurred each year in managing waste – virtually all of it by local government (we are unaware of any central government waste management programmes).

⁴ Lyons (2006)

⁵ McKinlay (2006), Local Government Funding – A Report Prepared for Local Government New Zealand and a Consortium of Councils, page 9.

⁶ The source for statistics on waste is Ministry for the Environment (2007) , Waste Indicators Data, unless otherwise stated figures are for the 2006 year, which represents the latest publicly available data.

Flood and River Control⁷ and Stormwater

The document has largely failed to mention flood and river control and stormwater disposal infrastructure (other than a passing reference to separation of wastewater and stormwater being a major issue for some local authorities).

Global warming means adverse weather events will become more frequent. So why is flood/river control and stormwater disposal missing?

Flood and River Control

Around 100 cities and towns and a significant proportion of productive farmland in parts of the Northland, Waikato, Otago, and Canterbury regions are located on floodplain areas. The 2007 review noted the increasing frequency of adverse weather events and expressed concern that flood risk management at that time was drawing largely on historic data and experience which may not be appropriate for a time of climatic change.

Responsibility for the management of flood risk falls mainly to local government (to manage day to day flood risks). Regional councils are responsible for management of catchments and rivers under the Soil Conservation and Rivers Control Act 1941. Territorial authorities do not provide flood management infrastructure as such, but use the Building Act and the Resource Management Act as regulatory devices for mitigating flood risks.

Flood and river control works include stopbanks, weirs, pumping stations and are owned by regional councils (a few are owned by private individuals and maintained by the regional council).

Local government spends approximately \$170 million per annum on river control and flood management infrastructure. A 2007 review of flood risk management concluded that the level of investment in flood and river control needed to increase, while highlighting concerns about the potential affordability of such investment.

Stormwater Disposal

Stormwater disposal assets are owned and maintained by territorial authorities. Ownership of rural drainage schemes is more mixed – with some territorial ownership, some regional council ownership, and some private ownership (both individually and in private drainage schemes).

Coastal Structures

There are three main types of coastal structure – wharves and jetties; navigation aides; and works to protect against coastal erosion (such as seawalls). The former are largely, though not exclusively a responsibility of territorial authorities. Navigation aides are a regional council responsibility under the Harbours Act.

Climate change is likely to reduce the overall effectiveness of coastal defences – sea-level rise will mean greater frequency of defences being overlapped, greater water depths mean greater waves and consequent increased risk of more and greater levels of damage. Studies from the United Kingdom suggest that the cost of providing the same level of

⁷ Unless otherwise stated the source of the statistics on flood and river control is Ministry for the Environment (2007) Meeting the Challenges of Future Flooding in New Zealand

protection as today is likely to increase by between 50 and 300 percent over the coming decades.

Non-Rail Passenger Transport Infrastructure

The precursor appears to have reasonably captured the present level of investment and holdings of the rail component of passenger transport, but this is only part of the overall investment in passenger transport. To the best of our knowledge, only Auckland and Wellington have significant rail passenger transport networks. But road-based passenger transport networks exist in Hamilton, Tauranga, Rotorua, Palmerston North, Napier/Hastings, Gisborne, New Plymouth, Nelson, Timaru, Dunedin and Invercargill.

Non-rail passenger transport infrastructure is AWOL

The infrastructure required to operate services of this nature includes bus shelters, signage and a dedicated terminus in some of the larger metropolitan areas (such as Britomart in Auckland, the Square in Palmerston North etc). Some infrastructure is owned by local authorities⁸, some by passenger transport operators.

Unsubsidised Roothing Works

The precursor makes a sweeping and incorrect statement on page 20

“Local government contributions to the National Land Transport Programme which will be between \$550 million and \$755 million” and an assumption that “local government funding matches the amount from the NLTF assuming a financial assistance rate of 50 percent”.

In fact, local authorities can (and most do) undertake work that is not subsidised from the NLTF such as seal extensions, footpaths, curbing and channelling, traffic calming, of purchase of road furniture and beautification. These may seem minor in their nature but some local authorities report that such expenditure can account for up to a quarter of the overall roading budget. Many of these aspects of the total roading package of services can be among the more contentious of the roading issues that local authorities and their public discuss e.g footpaths on one or both sides of the street, the safety or otherwise of footpaths, the extension of seal programmes to previously unsealed roads. Others such as traffic calming and beautification are attempts to mitigate the externality effects of road use.

Not all road work undertaken by local government is funded from the NLTP

⁸ Some are owned by territorial authorities, others by regional councils (changes made in the Land Transport Management Act 2003 permit regional councils to own passenger transport infrastructure). Generally speaking the bigger the asset, the more likely it is a council will own it.

⁹ As an aside the 50 percent rate of financial assistance is a notional average, actual rates of assistance received by territorial authorities range from 43 percent (most metropolitan councils) to 63 percent.

Operating Needs

The precursor's discussion of the future levels of infrastructural spend in the different sectors appears on first glance to be very focussed on the "big" and the "new" – which means that capital expenditure dominates the discussion.

Providing infrastructure has operating costs, not just capital spend.

This focus totally ignores that assets have life-cycles and that sensible decisions about infrastructure provision cannot be made without proper knowledge of the whole-of-life costs of an asset.

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.

The Future Needs of Subdivisional Development are largely uncommented on...

The precursor is silent on the infrastructure requirements for subdivisional development and industrial development. It talks in the general picture of NZ infrastructure. Development is a major driver for infrastructure spend, both in central and local government. The infrastructure to support subdivisional development is often provided by local government and funded through financial contributions. For those councils experiencing rapid growth a large component of their future capital spend is providing infrastructure for new development and this has to be funded through borrowing with repayment over time - essentially Council is acting as lead developer.

Development also has an impact on central government's provision of infrastructure e.g. road upgrading due to increased traffic (in particular state high way intersection upgrades), new schools in areas of population growth and the like. To ensure that central government's infrastructure spend is better aligned with the needs of growth councils there may be a need for central government's asset management plans to integrate with LTCCPs.

“THE ELEPHANT IN THE ROOM” – THE COST OF FUTURE REQUIREMENTS

Page 99 of the precursor shows that local government expenditure as a percentage of GDP is undergoing something of a “step change” at the present time. Historically local government rates have sat around 2.5 percent of GDP, yet by 2019 on present forecasts local government rates are forecast to account for somewhere around 3.5 percent of GDP. The precursor suggests “the cause of the increase is not immediately obvious”. This section takes the apparent ‘mystery’ out of the increase.

The causes of increasing local government costs is far from a “mystery”.

Local government cost drivers indicate quite different behaviours from general prices ...

When forecasting future levels of cost change for planning purposes many local authorities have used the following price adjustors, at least as a starting point. SOLGM engages BERL to produce these on an annual basis from its Computable General Equilibrium model of the economy.

FORECAST PRICE ADJUSTORS 2009-19¹⁰

Year ending	Road	Property	Water	Energy	Staff	Other
Jun 06	5.7	3.9	11.9	25.8	3.5	4.6
Jun 07	4.9	3.9	-1.7	-4.2	2.9	3.3
Jun 08	3.8	3.7	8.1	14.4	4.3	6.4
Jun 09	5.0	2.3	8.0	9.0	2.6	6.0
Jun 10	3.4	2.7	3.9	3.1	2.7	3.4
Jun 11	2.6	2.8	2.3	2.6	2.4	3.4
Jun 12	2.8	3.3	3.2	2.4	2.4	2.4
Jun 13	2.4	2.6	3.0	2.8	2.7	2.4
Jun 14	2.4	2.5	3.1	2.9	2.6	2.3
Jun 15	2.4	3.0	3.3	3.3	2.6	2.4
Jun 16	2.4	3.1	3.4	3.3	2.6	2.4
Jun 17	2.5	2.5	3.3	3.4	3.1	2.4
Jun 18	2.4	2.4	3.4	3.4	3.2	2.5
Jun 19	2.2	2.3	3.5	3.5	3.1	2.5

Compare these with forecasts of key macroeconomic statistics from the most recent Budget Economic and Fiscal Update.

	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast	2013 Forecast
GDP (% change year ended June)	-0.9	-1.7	1.8	2.9	4.0
CPI Inflation	3.0	2.4	1.7	1.2	1.6

¹⁰ Source: BERL (2009) Forecasts of Price Level Adjustors to 2009-19, page 9.

In short, the graph on page 99 of the precursor is a reflection of a simple economic reality – the civil construction industry has not felt the recession to the same extent as the remainder of the economy. Given the large capital programmes in both central and local government and that the former was trying to keep spending as a short-term boost to economic activity (and encouraging the local government sector to do so as well) this shouldn't really be much of surprise.

The civil construction industry did not feel the pinch as soon as the remainder of the economy and this featured in prices.

A comparison with the actual figures for the year to June 2009 reveals they are surprisingly accurate. Statistics New Zealand's Capital Goods Price Index (CGPI) shows – the cost of pipelines increased 10.3 percent, transport 4.8 percent, and earthmoving 5.5 percent¹¹.

The rapid rate of growth in the cost of providing infrastructure is not a new phenomenon. The Independent Inquiry into Local Government Rates¹² found that the "transport ways" component of the CGPI increase by 34 percent between June 1999 and June 2006, and the pipelines index increased by 40 percent over the same time period. This compares with an increase of 20 percent in the CPI over the same time period. The Inquiry noted that this was different from the historic experience, where local government cost indices had historically tracked very close to the CPI. They concluded that

The costs of infrastructure have outstripped the CPI for some years

"the local government sector faced and is likely to continue to face price increases for some of its activities that are higher than the CPI. This has resulted in an increase in costs to deliver the same levels of service."

It is worth noting that these findings were delivered in August 2007, just as the prices of petrol and the associated products were beginning their rapid increase. It is also worth remembering that the CGPI like most other price indices produced by Statistics New Zealand is "quality controlled" – a statistical process to ensure that only changes in price for the same quantity and quality of the good or service is captured (significantly one of the few "odd men out" is the local government rates component of the CPI). The 2006 Ministerial Advisory Group on Roothing Costs (MAG)¹³ found that there had been overall project cost increases "in the range of 30 to 40 percent in the past five years, with increases generally higher in Auckland than in other regions"¹⁴.

An understanding of the cost drivers involved in infrastructure provision is vital to the production of a realistic, robust National Infrastructure Plan. More attention should have been given to this in the precursor rather than merely commenting that the causes were not obvious.

11 Anecdotal evidence suggests that the impact of the recession was starting to filter through in the road contracting industry in the June quarter of 2009, with the price of some individual tenders coming in substantially below expected levels.

12 Independent Inquiry into Rates (2007), pp81-82.

13 Ministerial Advisory Group on Roothing Costs (2006) Final Report – August 2006

14 This finding is particularly significant – roughly 40 percent of the capital programme nationwide is in the seven Auckland territorial authorities and one regional council.

So why might input prices be increasing to the extent they have? There is no single factor, rising input prices are the result of the interplay of:

- rising capital programmes both in local and central government leading to competition for scarce civil construction resource – although the ‘trimming’ of plans at both levels in 2009 may go some way to calm the market, we have no doubt that there is an element of demand-pull in cost increases especially at regional level
- a shortage of skilled labour, particularly of civil engineers but also of people in the trades relevant to civil construction. We note MAG also echoed this in their report
- increased cost of raw materials in 2007 and the early part of 2008 – especially for petroleum and related products, and steel and related products (MAG)
- overheated demand in property markets had a real effect on tender prices – increases in subdivision activity created greater demand in the civil construction industry (new roads, branch lines for reticulation etc) .

Although not strictly speaking an input cost, it is also worth noting that the overheating in the property market pre 2008 has also had an impact on the cost of infrastructural provision both at the stage of acquiring land for public works, and through its impact on asset replacement values and depreciation requirements. While land values generally decreased for much of 2008 and the early part of 2009, it appears land values are about to resume their upward march.

We note that many of these same drivers have impacted on central government – the 2006 Ministerial Advisory Group on roading costs was a response to a large, sudden and unexpected cost increases for the provision of the National Roothing Programme.

Increasing Standards

As a general rule standards for the provision of infrastructure have risen across the board in recent years – especially the provision of network infrastructure. The main drivers for these are primarily greater public awareness of environmental and health risk, and lower public tolerance of service failure.

Increasing standards, often out of central government, are also playing a role.

Environmental concerns impact on local authorities in two major ways. Firstly through the direct influence of the public on local authorities (for example, a metropolitan authority is undertaking a major upgrade of its sewage system largely because the local community has indicated it will no longer tolerate being unable to swim at a local beach 3-4 weeks per year). This also manifests itself through conditions imposed on resource consents. The MAG report concluded that the mitigation of environmental effects and associated costs have been a significant (but unquantified) driver of roading costs, by widening project scope, especially in urban areas.

“In the future, project costs are expected to rise significantly for mitigating social and environmental effect such as: noise; unwanted visual effects, ecological impacts and pollution. Stormwater treatment is emerging as a major cost factor, especially for highway stormwater retrofits or for new roading developments. Mitigation of heritage issues will also continue to be a significant cost for

a number of route options.¹⁵

Secondly environmental concerns manifest themselves through the standards set by central government agencies. Of most concern are the standards coming out of the Ministry for the Environment and the Building Act 2004, to quote MAG again:

*“The Building Act 2004 now covers the design and construction of bridges, culverts and retaining walls. Seismic loading and concrete durability requirements have increased, which has led to additional costs. **Compliance administration has added cost but little value.** (emphasis supplied)¹⁶”*

At the present time, central government’s consideration of the cost impacts of the new standards it proposes is patchy at best. Proper cost/benefit analyses are not often performed – witness the recent moratorium placed on drinking water and air quality standards, ostensibly so that a cost/benefit analysis can be undertaken. Consideration of the costs of these standards is incomplete, or even on occasion not carried out at all – and there are guidelines for doing so both in the policy-making process and the preparation of Cabinet papers.

Environmental awareness is also changing our perceptions of what infrastructure is for. To take a good example, in the 1950s and 60s the purpose of wastewater treatment infrastructure was seen as the protection of public health, while this is still seen as important in the 21st century, such infrastructure is now seen as much as for the avoidance of environmental degradation. The Government’s introduction of the Sanitary Works Subsidy Scheme (SWSS) is a recognition of this.

15 MAG (2007), Report on Roding Costs, page 20.

16 MAG (2007), Report on Roding Costs, page 21.

BLOCKAGES TO INFRASTRUCTURE DEVELOPMENT

In this section we discuss some of the legislative blockages to infrastructural development and delivery on an ongoing basis. While many of these have been raised by other organisations, and no doubt will be raised again, we think its useful to put a managerial and technical perspective.

Limits on Private Sector Involvement

Some legislation appears fixated with the public sector as a means of service delivery, possibly something of an overreaction to the privatisation and commercialisation of public services that characterised the period 1985-1993.

The Local Government Act limits local authority use of the private sector.

With infrastructure these include:

- local authorities cannot sell water and wastewater assets or even enter into many types of alternative service delivery arrangements for these services (section 136, Local Government Act 2002). While public private partnerships (PPP) arrangements such as franchising (as in Papakura) are legally permitted, these are limited to 15 years, placing severe restrictions on the ability of franchisees make any financial return
- local authorities are placed under requirements to explicitly disclose “how” the addition, maintenance, replacement and renewal of assets will be done (schedule 10, Local Government Act 2002). As an aside it has never been very clear to the sector what these provisions actually required, on a literal reading an acceptable answer might have been “we are going to get a spade, dig a hole in the ground and put a piece of pipe in”
- decisions to transfer ownership or control of a strategic asset to or from a local authority, or any decision that impacts on the capacity of a local authority to deliver activities in their plans trigger what is known as an “LTCCP amendment”. An amendment is a change to the long-term plan that among other things, must be audited and go through the special consultative procedure (section 97, Local Government Act). The Act specifically includes port and airport company shares and community housing within the definition of strategic assets, many local authorities include their network and community infrastructure within their definition of strategic asset, thus between plan proposals require an amendment
- local authorities must undertake public consultation on any proposal to change the mode of delivery of a significant activity (section 88). While this leaves changes in the mode of service delivery entirely legal the cost of undertaking consultation under the special consultative procedures of the Local Government Act can act as a disincentive especially in smaller local authorities
- requirements to adopt a policy on public-private partnerships as part of the LTCCP. Once adopted this policy can only be amended by amendment to the LTCCP with the consequent consultation and audit requirements. The areas where local authorities are most likely to enter into PPPs involve the provision of network infrastructure (e.g. roads, water) and some types of community facility (e.g. stadia). There have been several high

profile “issues” with PPP in overseas jurisdictions that carried unexpected cost and other consequences for the public sector, despite many PPPs in overseas jurisdictions working well. The policy ensures that local authorities and their communities have thought about the risks involved before entering into these arrangements¹⁷.

When read as a whole these provisions provide both legal and practical limits on the involvement of the private sector in water and wastewater services. They appear to be rooted in a belief that public sector delivery of services is important for its own sake, rather than as a means to an end. Innovation is impeded and use of the private sector to seek cost-efficiency and service improvement are effectively stifled.

... and this stifles incentives to look for ways of providing the service more cheaply and innovatively.

Local authorities are already under obligations (section 14, Local Government Act) to:

- give effect to their priorities in an effective and efficient manner
- exercise prudent stewardship and effective and efficient use of resources and
- take into account the foreseeable future needs of future generations.

We are hopeful that some or all of the above may be resolved in an upcoming Local Government Amendment Bill, but if not then these are unnecessary barriers that could be addressed in future legislation.

Decision-Making Provisions

The Local Government Act also provides another potential source of blockage to infrastructural development, especially any project that is likely to be controversial. These lie in the prescriptive nature, complexity, cost and effectiveness of the decision making and consultation provisions of sections 76-81 of the Act.

Decision-making requirements add to the costs of projects – especially where they are controversial.

Section 77 provides a checklist of things local authorities are required to consider when making a decision. Section 78 places local authorities under an obligation to consider community views when making decisions, with consideration required at the point where:

- problems are identified and objectives determined
- identification of options
- assessment of options
- adoption of proposals.

Section 78 does not necessarily require consultation, for example a local authority might use information it already has on community views. All of the above are subject to a general compliance provision (section 79) which allows local authorities to tailor the degree of compliance on any particular decision to significance of the decision and the circumstances in which the decision is taken.

¹⁷ The requirement to have a PPP policy may also have been a reflection of the policy views of the then Minister of Local Government which could be summarised as supporting private financing of such projects but being wary about private ownership of the infrastructure in the long-term.

Read in their most favourable light the consultation and decision-making provisions are a set of steps that a local authority could (and in some cases should) take when making major decisions, and a set of considerations that are matters that should be taken into account when making decisions. The tolerances that were built into the Act were intended to reflect the real role of consultation as described above.

The result however is that consultation and decision making processes take longer and cost more, but don't necessarily result in better decisions or outcomes. The manner in which the provisions are drafted, especially section 78, create a series of points where local authorities must decide whether consultation is needed. This creates multiple places where a concerned citizen or group could potentially challenge a decision¹⁸. And like any exercise involving judgement, others can and do see things differently, which means there is always ground for argument¹⁹.

Consultation and decision-making take longer but don't necessarily result in better outcomes.

While it was intended that section 79 of the Act would provide some degree of flexibility and thereby allow local authorities to tailor a decision-making process to the importance of the decision and the circumstances in which the decision is made. In practice however, local authorities manage public money, and therefore it is understandable that in most circumstances a local authority will take a risk averse approach. Such a risk averse approach is most likely to manifest itself with major infrastructural projects where the LGA joins the RMA as an avenue for the disaffected to challenge.

In today's fast-paced world, opportunities arise and have to be dealt with in much tighter time-frames, and with more flexibility, than in the past. If the ability to do this is hampered by a prescription on process, then the local authorities – and potentially the country – may miss out on a valuable opportunity. We are competing with countries which do not necessarily have to go through similar processes. It is a question of balance, but we consider further thought, and possible legislative amendment is required.

While this is an issue that can be resolved with some degree of good practice advice (for example in defining and assessing the significance of decisions), we consider that greater clarity and certainty in legislation would avoid much ongoing debate.

As a starting point, section 78(2) appears to create more room for confusion and debate than the remainder of Part Six of the Act. Some members of the public and some in the judiciary are interpreting this as creating a "consult/no consult" decision point at each of four steps in the process – thus the risk averse are engaging with communities more than once on the same issue.

The detailed specification of section 78(2) is therefore both unnecessary and fertile ground for challenge. We consider that this provision could be repealed in its entirety without significantly undermining the letter or spirit of the remainder of the Act. Removal of section 78(2) would leave local authorities under an obligation to consider community views and preferences when making decisions (which few could argue against), with the nature of that consideration and the degree to which local authorities consult being proportional to the size and scale of the decision and appropriate for the circumstances in which the decision is made.

¹⁸ For example, in *Council of Social Services vs Christchurch City* (2008) the plaintiffs alleged that the council should have consulted at all four steps, while the Court disagreed with their assessment in three of four, the one case where the Court did agree was held to have been fatal to the process.

¹⁹ For example, the learned judge in the *Council of Social Services* case saw fit to develop his own definition of the issue that Christchurch's decision-making process "should have considered".

We have asked that this issue be addressed by way of a Local Government Amendment Bill. We raise this in our submission for further consideration in the event that it is not addressed through this means.

Inadequacy of Funding Tools

Volumetric Charging for Water and Wastewater

Section 19 of the Local Government (Rating) Act ('the Rating Act') allows local authorities to set a rate for water supply that is based on a measurement of water used by or supplied to each rateable property. Around 20 local authorities make use of this power, in some individual cases up to 20 percent of the rate take comes from this particular tool.

We endorse comments in the precursor around the importance of pricing as an economic signal of the true cost of a particular activity. However, in the case of the Rating Act the signal is being effectively blunted by some glitches in the drafting of the Rating Act that inhibit the assessment of rates in this way. These include the following:

- issues around the liability for water rates – under rating law the primary liability for rates rests with the owner of a property. Issues arise with the levying of rates on properties such as blocks of flats or shops with one connection to the water system where individual use is not measurable. Depending on the nature of title, the body corporate may not be the owner, in which case practical issues arise in actually determining which person should receive an account and for what
- doubt over whether local authorities can stop or restrict water supply for unpaid rates. Powers to stop water supply for unpaid rates were removed from local authorities with enactment of the Rating Act. Restriction is available but under the Public Health Act 1956 can only be used where the local Medical Officer of Health considers the restriction will not create insanitary conditions, most of these people take the view that any restriction creates an insanitary condition and refuse to allow restriction. This was an effective tool for enforcing water rates (and only water rates) – local authorities note that this is the kind of tool that only has to be used once.

There are barriers to the cost effective use of metering of water supply ...

The Rating Act does not contain a similar provision allowing local authorities to assess rates for wastewater disposal on the same basis. A volumetric charge may be a more equitable mechanism than other alternatives such as a pan charge or a value-based rate in that it is tailored to actual use²⁰. Volumetric charging for both water and wastewater can also provide local authorities with incentives to manage the entire water cycle in an integrated fashion.

And metering for wastewater is not permitted at all.

It is common in overseas jurisdictions for wastewater disposal to be charged on the basis of water consumption (a usual proxy is that wastewater costs are recovered on the assumption that a volume of 80 percent of water consumed on the property eventually leaves the property via the sewage system). However, technology is becoming available to meter wastewater disposal directly – thus the

²⁰ For example, a volume based charge would reflect some of the equity concerns faced by schools, if a school is indeed largely vacant for 12 hours a day, and for 13 weeks per year, then this should reflect itself in use.

legislation should be future-proofed to allow for recovery on either basis.

At the present time the only way a local authority that wishes to volumetrically charge for wastewater can do so is to put its water and wastewater infrastructure into a council controlled organisation (CCO) – essentially placing the service at arms length.

We submit that volumetric charging for water and wastewater is a useful tool both from an infrastructural management and funding standpoint

Road Pricing

We note that the precursor signals that road pricing is being investigated as a longer-term priority.

Much of the local government sector has long supported the introduction of road pricing²¹ both as a means of generating funding for the land transport network and, just as importantly, as a demand management tool. As long ago as 1993 the then Local Government Association and representatives from the Automobile Association and the then Road Transport Forum made joint representations to government supporting the introduction of 24/7 road pricing.

A 24/7 road pricing regime is a natural development in demand management with a focus on controlling congestion and other environmental impacts from road use. From a purely pragmatic standpoint, we also note that increasing fuel efficiency in the petrol driven component of the vehicle fleet, the introduction of hybrid technology into New Zealand, and longer-term developments such as fuel cells, mean that fuel excise duty is probably 15-20 years from ceasing to be a viable revenue source.

Local government has long advocated 24/7 road pricing ...

Road pricing will require some technological development over the short-medium term but in our view the necessary legislative changes can be made in advance of the technology so the tool can be made available when technology has caught up.

Quite apart from questions of technology, its introduction will also raise very challenging policy questions on issues such as when and how to introduce it (nationally or in selected areas such as New Zealand’s main urban centres), should it be revenue neutral or revenue raising, what existing tax or taxes would it replace (and how would it be phased in, especially if 24/7 Road pricing applied only in parts of the country), and what does it imply for existing governance, funding and ownership arrangements for New Zealand’s roads and public transport networks?

As an intermediate step, we would further recommend a review of the restrictions on tolling for new infrastructure in the Land Transport Management Act 2003. Effectively tolling can only be used if central government agrees with the proposal to toll (in that tools require an Order-in-Council made on the recommendation of the Minister of Transport). The Minister is empowered to place any conditions on such an order, and need not give reasons for the decisions they make to

as an intermediate step, restrictions on tolling should be removed.

²¹ See for example. LGNZ, AA and RTA (1993) Land Transport Funding A Submission to Government, LGNZ (1997) Corridor Management: The Option That Works, LGNZ (1999) Streets Ahead, LGNZ (2003) Submission to the Transport and Industrial Relations Select Committee on the Land Transport Management Bill.

recommend or reject a proposal. In short, proposals can be rejected on purely political grounds.

We must also query whether the restriction on tolling of existing road infrastructure is necessary and desirable. If toll revenues are tied to improvements in the roading network then tolling of the existing road network is both rational and defensible on economic grounds. A new road or extension of the carrying capacity of the existing road both extend the overall carrying capacity of the network (either by providing an alternative route or an overall extension of capacity on the existing road). Some new usage will be attracted, but existing users also benefit from reduced travel times and reductions in externality effects on road safety and the environment. It is therefore both reasonable and economically rational to not only toll users of the new road but also users of the existing road for the benefits that accrue.

Although it is not strictly speaking road pricing as such, this is also a convenient place to note our support for the availability of congestion charging as a tool for demand management. Schemes have been successfully trialled overseas for some years (most notably in London, but also Hong Kong and Singapore. Where the revenue from these schemes is tied to

improvements in roading and (particularly) alternatives to roading, the schemes appear to be both effective in terms of traffic reduction and (after the predictable initial consumer resistance) popular with the travelling public. While the technology is available now, and policy work could/should be started now – we accept that this is a medium-long term measure that would require some of the planned improvements in passenger transport services in Auckland and Wellington to come to fruition.

Development Contributions

Section 198 of the Local Government Act provides territorial authorities with the power to require development contributions to recoup cumulative costs of growth. Most territorial authorities have now adopted policies that allow them to access these powers. Councils have chosen to apply development contributions because they consider that new developments should be required to pay for the new or upgraded infrastructure that councils must invest in, in order to meet the needs of that new development. The alternative would be for the whole community to bear the cost through higher rates (whether in upfront payments or to repay debt). Many local authorities do not consider it reasonable that current (or future) ratepayers should bear the full burden of funding infrastructure that is required to service growth.

Development contributions should be extended to regional councils.

Regional councils were not granted these powers under the LGA. There is no difference between regional and territorial authorities with respect to the ability to own assets, including infrastructure. Some (such as Auckland Region and Greater Wellington) fund significant passenger transport infrastructure, flood and river expansion, and the acquisition of regional parks.

With the provisions allowing transfer of activities between the two spheres of government the lines between regional and territorial activity may “blur” in which case funding powers should be duplicatory. For example, the Land Transport Management Act 2003, removed the constraint on regional councils owning and funding passenger transport infrastructure. We submit that the legislation should be future proofed by allowing regional councils access to development contributions on the same basis as territorial authorities.

The PAYGO Approach

We were somewhat surprised to learn that the transport reforms of 2003/2004 etc have not dealt to this out-of-date approach to infrastructural management and funding²². PAYGO essentially means the national roading programme is funded out of current receipts from roaduser-generated revenues (and any other revenues Government wishes to provide). Roads are a long-lived asset, the benefits of which accrue across what can easily be lives of 50-100 years. To fund the development of roads on a PAYGO approach is not greatly dissimilar from a member of the public trying to finance a purchase of a house from their current year's income. There are two comparatively recent reports taking local government to task for its historic unwillingness to borrow²³, evidence (such as that on page 99 of the precursor) suggests that advice has been heeded. Perhaps the Crown would not also contemplate a similar approach.

Central Government Land Tax

We note paragraphs 61-63 discuss the merits of land-tax as opposed to income tax and consumption taxes. We do not disagree with the arguments that land tax is a comparatively efficient and non-distortionary form of taxation (unlike other factors it's immobile, and thus difficult to lawfully avoid or evade).

Nevertheless we wish to signal concerns about the policy and practical issues involved if central government were to move to institute a central government land tax. Both the economic literature and practical experiences of jurisdictions where different levels of government share a common tax base point to confusion on the part of the taxpayer (as to who is delivering what) and a consequential loss of accountability. We also note that the 1998 Government decision to devolve the national property database has left central government without a centralised repository of information from which to levy the tax. While local authorities could act as collection agents (as territorial authorities already do for some regional councils), this serves only to further heighten the potential for loss of accountability. The ratepayer tends to look at "the bottom line" of the account regardless of whatever disclosures are put in place to distinguish between rates levied by territorial authorities and those levied by regional councils. Imagine the confusion that would result if and when the revenue requirements of a third party were added.

Severe accountability issues arise when two tiers of government share the same tax base.

²² This was one of the sector's clarion calls in the late 1990s – it is entirely possible that the cessation of the diversion of fuel excise into the Consolidated Fund took some of the public attention away from this issue.

²³ Central/Local Government Funding Project (2006) Local Government Funding Issues and Independent Inquiry into Rates (2007),Funding Local Government.

IN CONCLUSION

We appreciate the opportunity to comment on the Precursor to the National Infrastructure Plan and trust that the matters we have raised will assist in the future work on the development of the plan.

For the most part, the comments we have provided raise issues as a fairly general level, rather than providing detailed information. This reflects our perception of the early stage of which the Precursor sits in the process towards the development of the plan. It also reflects the constraints of the available timeframe.

We would be happy to contribute further to the exploration of these issues as the process for the development of the plan proceeds. In particular, we would be able to call on the more detailed expertises that exists among our members to assist with areas of your work that relate to local authorities.



Building capability and excellence
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