



## **ROADING NEW ZEALAND**

### **SUBMISSION**

### **TO THE**

### **NATIONAL INFRASTRUCTURE UNIT – TREASURY**

### **ON**

### **INFRASTRUCTURE FACTS & ISSUES**

### **TOWARDS THE FIRST NATIONAL INFRASTRUCTURE PLAN**

**Contact:**

**Chris Olsen**  
Chief Executive  
Rozing New Zealand  
PO Box 12 412  
**Wellington**

Ph: (04) 471 1186  
Cell: 0274 477 098  
E-mail: [chris@roadingnz.org.nz](mailto:chris@roadingnz.org.nz)

**8<sup>th</sup> October 2009**

---

## Introduction

Roading New Zealand thanks the Government for the opportunity to make a submission on the "Infrastructure: Facts and Issues" document. Roothing New Zealand also congratulates the Government for seeking to develop a National Infrastructure Plan that

- provides funding and programme certainty to private sector contractors
- lifts New Zealand's national productivity
- improves New Zealand's future economic growth

Roothing New Zealand represents contractors who build and maintain New Zealand's land transport infrastructure. While our members carry out the majority of the country's roading work, they are also substantially involved in the construction and maintenance of other infrastructure, such as rail, airports, ports, utilities and energy. The combined turnover of our members is approximately \$3 billion per annum. Roothing New Zealand members have a direct interest in this document as those who build and maintain this country's infrastructure networks.

## Overview of Submission

In summary, we believe that the document is a good start towards the development of a National Infrastructure Plan.

There are, however, a number of issues omitted in the document that we believe are critical in ensuring that New Zealand develops and delivers a sound Infrastructure Plan. These are

- The private sector has developed and funded the majority of New Zealand's roading network over the last 100 years through land subdivisions.
- While Local and Central Government funding for non private sector infrastructure development is and has been severely constrained, some property owners have made gains from publicly funded infrastructure. Prior to 2003 the Local Government Act enabled local authorities to recoup some of these gains through "Betterment".
- There are no linkages between the list of projects in the document and its strategic direction or policy context.

This means that there is no rationale or business case for determining the appropriate levels of funding investment and this could be leading to an under capitalisation of infrastructure.

- High benefit/cost ratios of yet to be built infrastructure are not indications of inadequate infrastructure provision because some desperately needed expensive infrastructure (e.g. in Metropolitan areas) has very low benefit/cost ratios because of the high cost of construction.
- Funding (\$5 billion pa) for the asset management of Government infrastructure appears to be comparable to funding of Government's annual Capex programmes. We believe that the document's half a page on asset management does not do justice to this very important topic. Considerable more information, analysis and guidance is required.
- The interaction between urban planning, land development and infrastructure development needs to be understood, integrated and rationalized in the document to ensure the Infrastructure Plan is robust, effective and deliverable.

- Procurement is a cross sectoral issue and is absolutely critical in ensuring the cost effective and value for money delivery of the National Infrastructure Plan. The Plan needs to provide more guidance on procurement.
- Industry capacity, skills and smooth work programmes are also absolutely critical in ensuring that the Plan is delivered cost effectively. Work programmes that contain boom/bust cycles will add significantly to the cost of delivering the Plan. The credibility and stability of the Plan will also have a direct impact on the cost of the Plan. There is no integration of the various sectors' plans which means the overall impact on the construction sector cannot be determined.
- New Zealand should adopt the Australian model of regulatory reform and include all regulatory requirements for infrastructure development in one Act. This would cover both consents and land use and speed up infrastructure development.
- New Zealand should define the service levels associated with each infrastructure type. The Plan's projects should then be evaluated for their contribution towards achieving these service levels. Only then can the Plan be measured for its effectiveness.
- Drivers of economic growth needs to be defined and quantified. Once this is done further investment options can be considered across all infrastructure types.

Comment on the document's specific questions follow:

### **Base Information and Missing Issues**

Most of New Zealand's roading network has been developed and funded by the private sector by way of land subdivisions. Developers' costs have been recovered through the sale of land sections available for building on. The exceptions to this are the State Highway network and some urban arterials.

Some property owners have made gains (and some have made losses) on property following the construction of some publicly funded key road infrastructure (for example in the years immediately following the construction of the Auckland Harbour Bridge). Prior to 2003 the Local Government Act enabled local authorities to recoup some of these gains through "Betterment" to reinvest in future infrastructure development. One large Auckland city is reported to have funded its growth from a county to a city through "Betterment".

The adequacy of road infrastructure should be determined by comparing the existing levels of service with those agreed as "appropriate". The Plan does not provide this information and it contains no linkages between the list of projects and the Strategic direction or Policy context sections. Making this connection will entail determining which "levels of service" are critical, what the appropriate targets for each one are and whether the Plan addresses these targets or not.

This approach will also provide the basis for a business case to justify the appropriate level of Capex for infrastructure development. Currently there appears to be a vacuum in this area which could be leading to an under capitalisation of infrastructure inhibiting New Zealand's economic growth.

---

Once the Government has determined and justified the appropriate levels of Capex it will have the confidence to explore and locate different sources of funding.

Using benefit/cost ratios as an indicator of road infrastructure adequacy we believe is flawed because any high priority projects may be compromised by high cost. This is precisely the reason why we have so much urban congestion in Auckland. The high cost of major urban roading projects means that they tend to have low benefit/cost ratios.

## **Decision Making**

There appears to be no robust analysis or interpretation of current and future infrastructure needs to determine and justify the list of projects contained in the document. There also appears to be no connection between the list of projects and the strategic content and policy sections of the document.

The document's half page on asset management appears to be grossly deficient given that Government Departments' asset management expenditure of around \$5 billion pa is comparable to their annual capital expenditure.

Far more information should be included in the Plan reflecting for instance the experience gained in the roading sector since the mid 1980s on asset management. Key principles such as asset inventory, asset condition, economic assessment of maintenance options and on going reviews need to be included as a minimum. Analysis to determine deferred maintenance should also be carried out. It's interesting to note that in the roading sector, private sector contractors have been heavily involved in the asset management of the roading network since the late 1990s through Performance Specified Maintenance Contracts. These contracts resulted in maintenance interventions being based more on a financial/commercial basis as opposed to a purely economic one.

Local Government through INGENIUM has considerable expertise and track record in asset management.

## **Cross Sectoral Issues**

Urban Planning has a direct link to land development and infrastructure development across all infrastructure sectors. To give proper effect to any future National Infrastructure Plan urban planning and its role in infrastructure development needs to be understood, rationalised and articulated in the Plan.

Procurement of infrastructure is also common across all sectors and is important for the cost effective and value for money delivery of the Plan. The Plan should refer to best practice in procurement to ensure that all sectors are up to speed with best practice.

Defining services that should be contracted out as those that can be clearly specified we believe is not correct. We believe services should be contracted out to achieve better value for money and to better manage risk. This is why road maintenance was contracted out in the early 1990s. The Local Government Amendment Act 2003 and the Controller and Auditor General both contain guidance on when to contract out services.

---

Industry capacity and skills are also cross sectoral issues. If industry supply does not match the demands of a National Infrastructure Plan then additional costs for either redundancies or extra recruitment and training will be incurred. Providing it is credible and stable the Plan should provide certainty to the private sector for it to invest at the right level in people and plant. Perhaps one of the biggest advantages of the Plan will be the bringing together of all infrastructure construction programmes so that the total peaks and troughs across the construction sector can be seen. Measures such as smoothing across the total programme can then take place if desirable.

### **Regulatory Reform**

We note the good progress the Government is making on Stage I of RMA reform. We believe that in order to have the country's Roads of National Significance built in a timely manner Stage II of the RMA reform will need to be completed within the next two years.

We are also aware that some States in Australia have combined all regulatory requirements for infrastructure development (including land use) into one piece of legislation. We believe that this is highly desirable for New Zealand as well for speeding up infrastructure development and construction.

### **Aspiration**

We believe that KPIs need to be developed for the Government's Infrastructure goals of economic growth and productivity. These KPIs need to reflect the drivers of the respective goals and objectives. Once these drivers are understood appropriate levels of services should be established for each one. For instance, these levels of service could relate to congestion or fatalities. These levels of services would vary across the different infrastructure sectors and the Plan would measure the contribution of each sector to the achievement of the Government's goals and objectives through the attainment of the respective KPIs.

A continuous improvement process would then need to be established to identify the characteristics of projects within the Plan that contribute most to achieving the Government's objectives. Once these characteristics are identified and understood the Plan should be reviewed to optimise such projects.

Each infrastructure sector (roads, rail, water etc) would need to develop and publish a 10 year and 20 year construction plan.

### **Link to Economic Growth**

Without knowing the drivers of economic growth from infrastructure development it is impossible to identify what additional investment would help New Zealand increase its rate of economic growth.

---

We believe that perhaps one of the most beneficial elements of the National Infrastructure Plan would be the identification of the drivers of economic growth and showing how the Infrastructure Plan of each sector contributes to these drivers.

We trust you find this submission helpful and we wish to speak to it during submission hearings.

A handwritten signature in black ink, appearing to read 'C. Olsen', with a long horizontal flourish extending to the right.

Chris Olsen (FIPNZ)  
**Chief Executive**