



TE TAI ŌHANGA  
THE TREASURY

# INFRASTRUCTURE TRANSACTIONS UNIT

## **AECOM Sentiment Report 2019**

The Infrastructure Transactions Unit (ITU), within the New Zealand Treasury, acknowledges the valuable insights the AECOM Sentiment Survey 2019 provides for both public and private sector organisations, and is pleased to provide comment in response.

### **The role of the new Infrastructure Commission – Te Waihanga**

The ITU is due to transfer to the New Zealand Infrastructure Commission, Te Waihanga, later this year. A number of the themes expressed in the Survey Report are central to the establishment of the new Commission, whose role will be to ensure that New Zealand gets the quality infrastructure<sup>1</sup> investment needed to improve New Zealand's long-term economic performance and social wellbeing.

### **The importance of an Infrastructure Pipeline**

A key focus for the new Commission will be the publication of an infrastructure pipeline. The Survey Report highlights the importance of the pipeline in helping industry plan for future growth. We note that the ITU's publication of a prototype infrastructure pipeline in May 2019 is welcomed. Further central and local government investment will be included in an updated pipeline for publication in October.

We note the increase in horizontal infrastructure delivery expectations for the water sector across most regions. Also highlighted is land development along with rail, roads and energy. The ITU will work with local government to capture and ensure that the pipeline reflects these projects.

There are strong expectations for capital spending in relation to health and education infrastructure over the next three years. This is reflected in the published pipeline, including for the South Island (excluding Canterbury), the impact of the new Dunedin Hospital.

### **Key challenges remain**

However, despite the greater optimism in investment and delivery, skills and material shortages remain a key challenge. New Zealand is competing with a strong pipeline of infrastructure projects in Australia and retaining skilled workers will likely remain a challenge. Ensuring that New Zealand has its own strong pipeline of projects, supported by more coordinated planning and aligned with a long term strategy, is important in growing, retaining and attracting the skills we need, as well as being a key role for the new Commission.

The Survey Report highlights a key question as to whether we are trapped in a 'business as usual' mindset and not really examining innovations that could mitigate some of the

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<sup>1</sup> The ITU/Commission's reference to infrastructure includes all physical assets (i.e. vertical buildings and horizontal network infrastructure)

challenges, while commentators highlight the need to look for the right people inside and outside of New Zealand for support and to bring the right skills.

### **Construction Sector Accord as a catalyst for change**

The Construction Sector Accord has highlighted challenges such as low productivity, skills and labour shortages, health and safety issues, lack of innovation and adoption of new technologies, business vulnerability, unbalanced risk allocation, lack of clear and consistently applied regulations, and limited knowledge sharing.

The sector is currently performing below the level required to meet the increasing demand for quality infrastructure and must undergo significant transformation, including in its culture and behaviour, to sustainably and successfully meet the growing demand. Leadership from government and industry in partnership is required to address these challenges.

The Accord is a catalyst for change and the ITU's work is included amongst the Accord's initiatives. We are pleased to be included on the Accord Steering Group responsible for leading the change.

### **Concerns regarding procurement practices**

Survey respondents clearly expressed concerns in relation to procurement practices, including too much focus on securing lowest price, lack of trust between client and contractor, and issues with risk allocation.

These sentiments align with the ITU's recent work to examine various procurement issues and develop guidelines for public sector organisations. The ITU is using this work to inform its role in the Accord and input to MBIE's revised Construction Procurement Guidelines. The revised Government Procurement Rules that come into effect in October 2019 require all government agencies to comply with ITU guidance for infrastructure projects with a total cost of ownership of more than \$50 million.

### **Opportunities for improvement**

Importantly, the ITU has identified that opportunities for improvement include better understanding of the value of risk transfer in the preparation of business cases and selection of appropriate procurement and commercial approaches. This includes a focus on ensuring that public sector leaders of infrastructure projects are better informed as to the impact of risk transfer, including the role of design teams in the development of reference projects for budget purposes.

### **Lack of data**

The Survey Report highlights lessons from Australia and the UK. The ITU is concerned at the poor benchmark data available regarding New Zealand's performance, and the success or otherwise of the various procurement models. There is limited shared information on what is actually achieved at the outturn of a project compared with what was budgeted and tendered. It is not surprising that the Survey highlights Alliances and Public Private Partnerships as more favourable, when these models, by their very nature, require the parties to be more explicit about project risks, what they cost and where they fall. However, many projects are not necessarily good candidates for these approaches.

### **Government and industry need to work together**

An infrastructure project is only successful if everyone is successful and the ITU agrees with the sentiment that a healthy construction market is in the public's best interest to ensure that

capacity will continue to be available to meet New Zealand's needs. Clearly, this is a sentiment echoed by the Accord, but there is also a need for the sector as a whole to provide better information as to fair margins and the impact of risk transfer, alongside expectations of increased investment in workforce capability, greater innovation and increased productivity. The government should not be the benefactor of poor contractors who struggle with pricing, risk management, poor scheduling and difficulties in managing their supply chain. The Accord Ministers have made it clear that lowest price procurement policies are not necessarily appropriate.

### **Long term planning**

The importance of long term planning of our infrastructure is emphasised in a number of places in the Survey Report, including with respect to the layout of entire cities. The new Commission will have an important role in long term planning. Other agencies, such as the proposed Kāinga Ora—Homes and Communities (previously known as the Housing and Urban Development Authority (HUDA)) will also be key to long term planning and the building of communities.

### **Infrastructure funding and financing**

The Survey Report highlights the need for an informed, engaged public discussion regarding infrastructure needs, delivery and how projects are funded and financed. Many councils face funding constraints and may need to turn to alternative forms of funding and financing to bring projects to market as suggested.

The ITU supports the use of alternative funding and financing models where it makes sense, potentially including a number of the examples covered in the report. The government is investigating specific models for the funding and financing of local government infrastructure to support urban development. It is not adverse to public private partnerships in sectors such as transport, although it has ruled them out for hospitals, prisons and schools.

### **Appetite for more private sector investment**

The Survey Report also highlights the "huge appetite" for more private sector investment in New Zealand infrastructure. The ITU's early stage involvement in major projects will provide an opportunity to identify projects that are well suited to private sector investment through alternative financing models.