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TRANSCRIPT

The Infrastructure Priorities Programme in action

How the New Zealand Defence Force embraced the IPP

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Please note: the transcript has been edited to make reading as easy as possible.

Introduction: Welcome to Infrastructure for a better future, a series where we have honest conversations about the infrastructure challenges we are facing and how we can build a better Aotearoa. In each episode we talk to experts from here and overseas about what works when it comes to addressing these issues.

Nadine Dodge: Hi there. I'm Nadine Dodge. I'm Director of the Infrastructure Priorities Programme at the New Zealand Infrastructure Commission, which is our programme to independently review and assess business cases at set points in the planning process. That probably all sounds kind of boring and wonky, but it's a process to make sure that the infrastructure projects that we're building in New Zealand are actually delivering value for money and are solving New Zealand's problems. That's quite important, especially if projects are being paid for by the taxpayer and the general public. We want to know that the money that we're paying in our taxes is being spent well. At a wider level, the programme is seeking to provide information to people who are developing infrastructure projects to help them understand what a good process looks like. This means that over time, we're getting better projects coming through the system, and better value for the things that we invest.

We have here with us today, Phil Gurnsey from the New Zealand Defence Force (NZDF), who's here to talk about the projects that they're working on. So, Phil, could you introduce yourself and tell us a bit about who you are and what you do?

Phil Gurnsey: Kia ora, my name is Phil Gurnsey. I'm the General Manager for Estate Strategy within the Defence Estate and Infrastructure at NZDF. It's a role I've held for 10 years, and my role sits at the front end of our business case cycle: defining problems, identifying what users need, and then pulling together a programme of investments that will see us out for the next 50 years. I look at the estate footprint, what the current environment is, take on board government direction and policy, and deliver against our Defence Capability Plan, which was recently updated and released by the Government this year.

The Defence estate is 80,000 hectares of land. It has over 7,000 buildings. It delivers for the outputs of 14,000 people, across Army, Navy and Air Force, to the extent that it's there to deliver the military capability that New Zealand requires to meet the Government's needs. Our focus is very much on delivering military outputs. We have nine camps and bases, and you can think of them as nine town centres, because they have everything from community facilities, to sleeping accommodation, to dining and messing facilities. They have their own wastewater treatment plants and potable water supply. In fact, we've got every piece of infrastructure across the camps and bases except for railway lines, and we used to have those. We operate airports, ports and we've got more roads in the Defence estate than Auckland has in terms of its operation. It's just hugely diverse in terms of the infrastructure that we manage.

Nadine Dodge: I think it’s a really interesting example, because it’s a portfolio, something that you need to look across – a network. It’s also something that has all these various different infrastructure pieces, as well as having this huge focus on renewal and regeneration of an estate, rather than building new as well. A combination of upgrades and renewal. It's a really interesting case study that lots of other similar portfolios can learn from. It probably has lots of similarities with our healthcare as well as our corrections infrastructure. They'll be different, but have similarities in terms of having big portfolios spread across the country, doing different jobs in different places.

I just wanted to talk a bit about our definition at the New Zealand Infrastructure Commission about what good looks like in a business case, and then work through how you think about those things, and incorporating them as you develop your investment proposals.

We have three tests of what we think good looks like. First is strategic alignment. Really, what we want to see is that people have a good problem definition, and then that problem definition is contributing to achieving those objectives that have been set either by infrastructure sectors, Cabinet, or Parliament. So what we're looking for, is agencies to know what they're doing, and that a proposal is contributing to something that the Government cares about.

The second is value for money, which I think is the easiest one to understand. It's just providing net benefits above and beyond the cost to provide. It sounds kind of simple, but it's maybe easier said than done in some different infrastructure sectors. The last is deliverability, which is a combination of different things that lead to, can you actually deliver the thing and get the outcomes that you want? It's a combination of governance, understanding, your commercial approach, as well as your scoping and project maturity, so that you can actually achieve the benefits sought.

I guess maybe starting at the top, I think that this is actually the most important thing of any infrastructure project, which is understanding the problem that you're trying to solve. Because if you don't know what the problem is, how do you know what success looks like, and how do you know if you've solved it? How are you thinking about developing those clear and well-evidenced problems so that you know that the problem is real, where it is, and how big it is?

Phil Gurnsey: Fundamentally we start right at the beginning. If we are able to define the problem so that there is a case for change. We must prove a case for change before we move into solutions for it. Is the infrastructure providing on the outputs we require for it? What is the thing that we're actually asking for? To think of an infrastructure solution in the first instance is probably looking at it from the wrong lens. We have to think about what we're looking to deliver and the outcome, that could be that we’re there to provide for humanitarian relief? Or maybe we’re there for regional support? There to provide training? It can be done different ways, and infrastructure is only one of the solutions that can achieve it.

Once we've decided that infrastructure is part of the problem, we look at the evidence about what the information and our asset data telling us is? What's the condition of the current infrastructure and what is the user requirement against that? What is the user experience? We're working with our service people to help identify what outcomes they're wanting to achieve. We're also looking within the system of government. It's not just about us, it's also about what other agencies are wanting to achieve as well, using the extent of resources that we have available to deliver the outputs for the government in a defence sense.

The problem is really critical, and if you don't have the clear problem definition, you can't really move on. That's the reason why there's an extended look at that through the Better Business Case process, where the strategic assessment is your first evaluation.

Nadine Dodge: Another area of business cases that I think is really important, but also often very challenging for people, is options analysis. What we look for in the Better Business Case framework, as well as in the Infrastructure Priorities Programme, is that people look for a wide range of solutions to solve a potential problem and should start with a long list. We give a rough guide of eight to 12 solutions – that's kind of just a guide. What we're looking for is a wide range of ways to solve a problem, and ideally some that are quite different in terms of dimensions, lower cost to higher cost, as well as some out of the box, maybe non-built, or non-traditional solutions. The reason why we want that is that we don't want anyone to come back and say, “Have you looked at this? Have you looked at that? Your processes weren't good because you didn't consider this”. That means that when you make a shorter list of options, you feel confident that you haven't neglected anything. Imagine shopping for a house, you’ve probably gone to a lot of different open homes, have a clear idea of what you want before you put in an offer. You probably shouldn't put an offer on a new house if you only ever looked at that one house and haven't looked at different neighbourhoods and figured out what different houses cost. I just want to talk about that a bit in terms of how you go through options analysis process, are there any learnings there?

Phil Gurnsey: Getting from a long list to a short list is about establishing critical success factors by which you're measuring the various options against. Clearly, right up at the front of that is value for money. In our case, recently with the Defence Capability Plan, we've looked at what is the minimum viable capability we're going to be delivering against? It's key. To change it and focus on the way that we should be focusing on delivering outcomes. We don't want to gold plate everything, but we also don't want to save a penny to spend a pound in terms of the maintenance and the whole-of-life costs. It's a balance that has to be made against whole-of-life costs and value for money upfront.

Some things that can really help through the process is doing cost-benefit analysis. It's hard to put a money value on some of the softer human benefits of outcomes, but where we can put a value on the cost-benefit, then it has been of an advantage. That's one of the things that's come through the IPP process. Value for money and cost benefits are two of the things that the reviewers are keen to look at. Our process is normally done through a workshop with the relevant organisational stakeholders involved. It's that sort of combined input with different views and different perspectives that gets us to the conclusion, rather than just a desktop exercise done by the business case writer.

Nadine Dodge: Before we move on to more delivery kind of stuff, I’m thinking about that cost-benefit analysis approach and approach to cost estimates. I think you're quite right that that is something that we think is really important, but something that I think is maybe not always what people want to hear. New Zealand has somewhat of a challenging fiscal forecasting environment. If you look at Treasury's fiscal forecasts over the next 30 years, we're looking at a future of a limited amount of money and not being in a position to afford everything that we want. I like to say that we can't come up with billion dollar solutions to every $500 million problem, because we just don't have the money for gold plated solutions everywhere. I know that NZDF has kind of pushed the boat out on trying to monetise benefits that maybe aren't traditionally monetised. Are there any examples you can talk about there?

Phil Gurnsey: Well, in the case of accommodation, messing and dining, when we provide barracks for our people at camps and bases, we've tried to go through and look at the cost associated with not being able to deliver on a person’s role. The benefits that they may get from having a restful night’s sleep to be able to deliver their role, and we add that into the cost-benefit analysis process. You can't monetise everything, so you're going to have to come up with some intangible benefits that are more reflective in language.

This was one of the things we've struggled with most. What is the benefit to New Zealand of having a Defence Force? How can you put a dollar value on that? We know that the benefit is there when it's not available. When a flood occurs in the Hawke's Bay, for example, and the Defence Force wasn't there to help clean up, we would know the outcome, and we're able to put up an element of dollars on that. But in terms of our contribution that we've made to society by being there to help, it's actually very hard to say, what is the benefit for the person by them having a restful night's sleep and then flying a plane for 11 hours?

Nadine Dodge: That must be a challenge, having to become an expert in a variety of different infrastructure sectors, rather than just having one that you can focus on. I thought I might go into more of the deliverability components, which is how you actually can feel confident that you can go ahead and deliver the thing. I wanted to talk first on governance structures. I feel like this is something that sounds really boring, but I'll say that I come to this job from having worked on infrastructure projects at a local government level, and I think that this is just so critical.

Phil Gurnsey: The defence capability process and the capability management framework sets up clear processes by which we deliver projects. When we have established a straight upfront understanding about the scale of the project and the problem, we then appropriately size the governance to meet that problem. We do an initial evaluation against some set criteria within our capability framework to understand how we then set up a project or project team to deliver against that programme or project. On the basis of that, we're also looking to make sure that the governance has the appropriate level of expertise and reflects the things that you need. In our case: construction understanding, financial management, deliverability, the performance of the organisation, and so on, and then bringing users experiences in as well. We always have independent expertise within our governance team, so we bring them from outside to understand how we deliver against all of our programmes. That's key, whether it's a base upgrade or whether it's delivering housing.

Nadine Dodge: I know that you have quite a lot of different projects going on. Some are incredibly large. Some are maybe large programmes that kind of devolve into small projects. How does the governance change depending on the size and complexity of the projects?

Phil Gurnsey: The NZDF reviews all governance processes regularly – we've just re-established a new governance regime around the top end. We have an investment committee and we also have governance contained within the Ministry of Defence, which runs any new capable acquisitions. Just recently, we've been looking to replace the 757 aircraft with an A321 aircraft, that has a governance oversight. The investments that we make at NZDF tend to focus more about delivering against replacement infrastructure, and that governance review enables us to keep things relevant as we go. We also have a tolerance framework which helps support that governance in terms of understanding about when things get escalated or not.

Nadine Dodge: All right, so I might want to move on now in terms of commercial approach. I guess I should just set out we don't have a particular preference at the New Zealand Infrastructure Commission that people should use this commercial approach or that commercial approach, or this is the best one to use in this situation. Really, what we say in our guidance is that we want people to have thought those things through themselves. We want people to consider the pros and cons, and most importantly, know what they're going to do that if their project does get funded, they understand what the next step is, and they're kind of ready and prepared to move through that process, and that what they're doing has a logic to it, and they can defend it.

It might sound all wishy-washy, but I think it's really just that we want to see good thinking there, and we want people to know what they're doing. I know that NZDF is evolving its commercial approaches, and thinking about different commercial approaches, and you mentioned PPP. I know that NZDF has been thinking about using PPP as well. What's your thought on this?

Phil Gurnsey: It's evolving. So in the last five years, we've established an alliance for professional services to help us deliver in a traditional manner, a design-bid-build approach to the majority of infrastructure that's helped us build the capacity within our own organisation, but also been able to deliver at speed and pace and execution that we require as we continue on the pathway of delivering infrastructure. There are other mechanisms which we're looking at, and whether that's moving out to a more design and build, out in the market, or ECI, early contractor engagement, or PPP.

The commercial model by which you're choosing for delivery really depends on the nature of the outcome you're wanting to achieve. In fact, some of the other ways you can deliver is that you don't actually need to build at all. You could go and engage through a strategic lease to deliver them. For example, in the case of corporate accommodation, we lease $35 million worth of infrastructure every year. We don't need to own that.

We have decided that that's the best way of delivering the majority of things that we have away from camps and bases. Where we are able to get infrastructure, develop it with the owner, what we require, and then when that infrastructure ceases to be of a quality that we're required to deliver output, we move on to another location.

Nadine Dodge: That's very much similar to what I was talking about in terms of understanding the pros and cons or at least thinking through and having a logic to what might be appropriate in different contexts, and what you're looking for in a particular project, and different projects will be very different from one another.

All right, so the last one is about scoping, and I think I was talking about this earlier. This is an interesting one that came out of a few of our major reviews that we did at the New Zealand Infrastructure Commission. Here we're asking if the project, as the way it's been described and scoped in the business case, is sufficient to unlock the benefits that people are looking for in the project? So that might sound kind of weird, but to give an example, if you want to build a new, or operate a new, bus route, buying busses would be one thing, or getting a contractor on board to deliver the bus services, but you would also need to have a timetable, have a website, have all the bus stops. So if someone was proposing that, we would want to make sure that all of those things that were going to happen so that the benefits that they want to achieve are there. If they just had someone to operate a bus line, but they hadn't built the bus stops, that wouldn't actually be sufficient to unlock the benefits.

Phil Gurnsey: Yeah, I think right upfront, that you need well defined user requirements, and that that helps then define what needs to be delivered. Then you've got to test that it is actually what the user needs. It might be that they said, in our case, define that you have to have a certain level of security for a building. But does that actual security necessarily need to be there in order to deliver the outcome? Can they deliver through different ways? Could they use another facility on site to be able to deliver the outcome they're trying to achieve? Once you go through that, and you might do it through an indicative business case at that problem definition, and once you get back into a detailed business case, you really need to check again that you've got the right user requirement right up front before you're actually progressing again, because things change over time. So new information always comes in, and we're in a very dynamic environment.

Nadine Dodge: Yeah, I think that that's such a good point, especially for infrastructure. You know, if you're buying computers or something like that, they last for five years, maybe. If you're building a major infrastructure project, it might last for 30 to 300 years, so you need to actually build it in a way that will meet the needs in that amount of time. Or if it doesn't meet the needs, it has a way to be flexible and adapt. That's something that I think is really important to actually achieve benefits, not just of today, the way things are right now, but actually avoid the need of, kind of prematurely decommissioning things that could have had a longer life.

I might just turn now over to you, NZDF has been very enthusiastic participants in the IPP. We've been getting to read a variety of different business cases. How have you seen the Programme? How does it work for you? Do you have any questions for me about it?

Phil Gurnsey: I would have to say right at the very start, I was very skeptical, and I remember the first time that we met was a little frosty – to the extent that we were challenging you. Why we were having to do this process on top of us having to complete Gateway Reviews? What was the value of the Programme? I think the IPP actually proves its value by the fact that we have six projects which went through out of the 14 in the first round, which were accepted by the Infrastructure Commission and identified as being a national priority. We were able to then build that into our business case responses back to Cabinet. To say, look, Ministers, these projects are really important for New Zealand and help deliver the outcomes that New Zealanders want. They've been assessed as being either investment-ready or preferred to go to the next level of investment.

We think that the process has been robust, challenging, and gives us insight to help build on those business cases. Because business cases are not static. They evolve over time as you go through and deliver them. We engaged early because we wanted to show that we were investment ready to Government and we've been developing over a period of time these investment cases to justify the level of investment. We were resourced up to do it, so we made sure that there were people that were inputting and collecting the information that we had, and responding to the questions that were coming through. I think that was an easy process in the end. My initial skepticism sort of faded away when I realised that the outcome was just really gathering the information that we had already, it wasn't seeking to complete a Gateway Review. It's a slightly different process which we could go into, but was actually looking to have an evaluation over all of the projects, and as we go through the next rounds, we've encouraged our Ministry of Defence colleagues to have an input as well.

Nadine Dodge: Yeah, thanks so much for that. I think I'll say quite openly that this is our first year running the programme. We're running it as a trial where standing up something new is not always easy. Standing something new into an existing system, and kind of slotting in can be a bit tricky, so we're very open to feedback, and we'll be doing a review of the Programme, and hopefully make it even easier and more collaborative for people to be involved.

Phil Gurnsey: I think one of the process learnings has been that everyone has done a bathroom renovation at some point, so they know exactly what infrastructure is. But actually, they've gone straight to a solution, maybe they needed to have to provide some assumptions and constraints about that bathroom renovation in the first instance, they need to understand what is the fiscal constraints and what parameters they're working in? How big can the solution be? I think we constantly have people jumping in our instances to a solution because they think that's the best way to deliver as they've seen a solution, that's what they want. They want that everywhere. But actually, it might not be the most efficient way of delivering the outcome they want. We have to kind of challenge that as advisors through the process, making sure that we understand the outcome that they're looking for, and keeping them focused on the outcome rather than, rather than the solution.

Nadine Dodge: Amazing. Well. Thank you so much. It's been wonderful having you here today and all the best with your various business cases as you progress them.

Phil Gurnsey: Thank you very much, Nadine.

Narrator: Thanks for listening. Find out more about the work Te Waihanga is doing to transform Aotearoa at **tewaihanga.govt.nz**