Submission of Taituarā – Local Government Professionals Aotearoa in respect of *Testing our Thinking: Te whakapātaritari I ō mātou whakaaro*

1. *What are the most critical challenges the National Infrastructure Plan needs to address over the next 30 years?*

Taituarā — Local Government Professionals Aotearoa thanks Te Waihanga, the New Zealand Infrastructure Commission (the Commission) for the opportunity to submit in respect of *Testing our Thinking: Te whakapātaritari I ō mātou whakaaro* (the paper).

Taituarā (formerly the NZ Society of Local Government Managers) is an incorporated society of just over 1000 members drawn from local government Chief Executives, senior managers, and council staff with significant policy or operational responsibilities. We are an apolitical organisation. Our contribution lies in our wealth of knowledge of the local government sector and of the technical, practical, and managerial implications of legislation.

Our vision is:

> *Professional local government management, leading staff and enabling communities to shape their future.*

Our primary role is to help local authorities perform their roles and responsibilities as effectively and efficiently as possible.

Local government is a key provider of infrastructure. We own almost all the nation's three water and flood protection assets, some 90 per cent (by length) of the road infrastructure, and community facilities such as parks, libraries, museums, etc. According to the Department of Internal Affairs, the sector owns around $135 billion in fixed assets, most of which are either network infrastructure or community infrastructure.

We see the following as the key challenges.

Resilience – while pockets of good practice exist, it seems that New Zealand is only a small way towards having a clear understanding of the challenges to the resilience of our infrastructure networks. We seem to constantly lowball the impact of a changing climate, particularly seismic risk. Covid-19 demonstrated a lack of a pandemic plan (other than for influenza), but also underscored the vulnerability of some supply chains, including professional labour and some construction materials

Population change – New Zealand generally has a good understanding of when and where population growth is likely to occur. There is some degree of urban myth about depopulation – the latest Census data shows all but two local authorities have gained population in the last five years. The funding of growth is a major challenge. We are not as convinced that New Zealand has, as a nation, done much thinking about the impact of an aging population and the extent to which demand for infrastructure changes. The aging population has mostly been treated as an affordability issue.

Skills – this is one of the areas where it appears there has been least progress since the adoption of the Infrastructure Strategy. The Who's Working in Infrastructure report provides a baseline regarding the current size of the workforce and key statistics but does not provide long-term estimates of what is required, much less where these skills might come from. All the other challenges listed here could be resolved.

Governance – New Zealand has a shortage of people with the skills and knowledge to govern an infrastructure-based business (this has major implications for projects such as water reform). Figure 3 suggests that NZ lags behind OECD practice in almost all of the commercially based aspects of infrastructure governance (such as procurement, cost/benefit analysis, and evidence-based decision-making).

Funding/affordability - but it is too simplistic to ascribe the funding challenge solely to a lack of money coming into the system. The present strategy is correct in its emphasis on managing demand, better investment decision-making and effective asset management. We'd also add that New Zealand needs to have a more robust discussion about health and environmental standards, the processes through which these are set, and the different strategies for managing these risks.

2. How can Māori perspectives and principles be used to strengthen the National Infrastructure Plan's approach to long-term infrastructure planning?

We consider the following pillars of te Ao Māori to be particularly relevant to the plan:

- Oranga (well-being or good health) - emphasises the importance of taking a long-term view and acting now for intergenerational change.
- Kaitiakitanga (guardianship) – we need to incentivise decision-makers to take whole-of-life approaches to their investment decisions (e.g., project cost is not just the capital cost) and in the design of maintenance and renewal standards. This principle also encourages genuine long-term thinking.
- Whanaungātanga (family/connectedness) - testing our Thinking talks about the need to build connections between sectors – many challenges are the same. Silos between different types of infrastructure and different types of providers need to be broken down, and the building of networks such as communities of practice should be encouraged. Central and local governments can learn much from each other – we need to get past the elitism and mistrust that can characterise relations between the two.

3. What are the main sources of uncertainty in infrastructure planning, and how can they be addressed when considering new capital investment?

We consider the main sources of risk in considering long-term capital investment include, but are not limited to:

- *the political cycle* – changes in policy regarding funding, environmental and health standards, even matters such as building codes and immigration policy standards can all impact the demand for and nature of the investment.
- *funding* – the last couple of transport investment cycles have been marked by last-minute significant alterations to the Government's funding intentions.
- *economic conditions* – strongly linked to both of the above, economic conditions are a major source of uncertainty. In particular, changes in cost and availability of finance.
- *capacity constraints* – are there going to be enough of the right resources available to undertake the work? More often, the question revolves not around the availability of the resource but the cost of doing so – as the Commission's own work shows – demand-pull is a very real factor in increasing the costs of infrastructure provision. This is why the pipeline and skill strategy referred to in later answers are critical.

4. How can the National Infrastructure Pipeline be used better to support infrastructure planning and delivery across New Zealand?

The main function of the pipeline is as a device for promoting certainty for infrastructure providers, thereby giving them the confidence to invest in plant and equipment. For example, a provider might have machinery needed to bore a large-

scale tunnel in the knowledge that there are X tunnelling projects coming over the next three years, Y projected for the next ten, etc.

Providers also gain greater certainty in determining their long-term workforce needs – both in terms of numbers and types of skills. Potential new entrants to the infrastructure workforce can also make judgements about employment prospects, which is critical for those trades that require an initial outlay of time and money (such as an engineering degree). The pipeline needs to be supplemented with an in-depth analysis of what resources will be needed – money and skills.

5. Are we focussing on the right problems, and are there others we should consider?

We consider that Table One provides a good overall summary of the issues that the Commission is and should be focussed on.

6. What changes would enable better infrastructure investment decisions by central and local governments?

New Zealand needs a regulatory framework that empowers all infrastructure providers, whether public or private sector, with full access to pricing and charging powers. Our answer to question 15 further expands on this. The quid pro quo for that is that consumer/user confidence in these decisions will require that public-sector-provided network infrastructure be brought into the scope of economic regulation (and indeed, as we write this, upcoming legislation will bring three water services within economic regulation).

To us, one of the most surprising facts in the paper has been the central government's lack of observance of its own project evaluation processes.

We are not naïve – political decisions are a fact of life in infrastructure provision. But these projects should be put through the evaluation process just as any other would – the public needs assurance that tax dollars are going to the highest value use and where the Government has made a policy decision that judgement needs to be exposed. It is not enough to say, "We won the last election", if public finance legislation should be amended to strengthen this.

As a rule, we'd observe that there is considerable scope for enhancing the standard of project evaluation advice in local government. The sector would benefit from development of a few scalable, user-friendly project evaluation tools and an investment in training and resources to support the sector to use them (including for elected members).

We'd also like to hear more about Treasury Investment Management and what, if any, elements of it are portable between sectors.

7. How should we think about balancing competing investment needs when there is not enough money to build everything?

No comment.

8. How can we improve leadership in public infrastructure projects to ensure they're well-planned and delivered? What's stopping us from doing this?

No specific comments, other than one of the applications of the infrastructure pipeline, would be to ensure that there is a flow of such work to keep those with the necessary skills and experience employed.

The capability framework appears sound. What we don't 'get', though, is a sense of the priority items or of what steps are being taken with industry to 'roll this out.'

9. How can we build a more capable and diverse infrastructure workforce that draws on all of New Zealand's talent?

This question has an element of 'running before we learn to walk' in that there is still so much we don't know about the ongoing skill needs of the infrastructure workforce.

In our view, probably the most important recommendation in the present strategy was to *"deliver a national infrastructure skills plan to ensure New Zealand has the right people with the right skills to deliver our infrastructure over the medium to long term."*

At the same time, we observe that this is possibly the area where there has been the least progress on the strategy's recommendations. We know more about the size of the infrastructure workforce and who works in infrastructure (thanks to the Commission's report Who's Working in Infrastructure). There have also been some advanced skill development of frameworks, especially project leadership.

But overall, the response to date appears piecemeal. We are unaware of any estimate of the total workforce needs for the infrastructure sector, which is believed to be substantial. The three waters reform work found that the estimated number of full-time employees in three waters professions is expected to increase from 5000 FTE to around 9000 FTE.

The paper notes that immigration is one of the primary drivers of the growth of the infrastructural labour force. Who's Working in Infrastructure found that one in four infrastructure workforces holds a visa. Taituarā has long championed making infrastructure-related trades priority occupations for immigration.

But a balance must be struck. An over-reliance on immigration can be a major risk to the delivery of infrastructure – in times when immigration is restricted (for example, during the COVID pandemic when the borders were closed), skill shortages are exacerbated.

But we also need to build more resilience into the infrastructure by growing the domestic labour supply into the infrastructure trades. That begins in schools considering how subjects such as mathematics, physics, chemistry, and (even) communication-rich subjects such as English are taught.

Other initiatives, such as the Construction Accord, have examined strategies to attract more people into construction trades. Something similar is needed for infrastructure-related trades such as civil engineering, quantity surveying, and (yes) project leadership/management.

Changes to the policy settings for student assistance to incentivise study could pay dividends. For example, a write-off of student loans for people who study civil engineering and stay in New Zealand for a set number of years. Targeted assistance with fees might also prove effective. Any such assistance would require careful design – New Zealand cannot afford to subsidise study for the Australian market!

We also observe that the career path for some infrastructure trades is unclear and fragmented. Retention is an issue. One of local government's major skill issues is retaining young civil engineers beyond 5-10 years i.e. a job in local government serves as an apprenticeship for the consultancies and Australia and Europe.

Infrastructure skills are not only a workforce issue – but also have a governance dimension. Those governing infrastructure need a basic understanding of concepts such as the asset lifecycle, the drivers of demand and cost, and the fundamentals of the different asset strategies.

The various water reform processes all pursued aggregation, in part on the assumption that this would enable access to a pool of professional directors with this expertise. Not all of the local government sector accepts this proposition, but regardless, the pool of skilled directors is limited and not evenly spread throughout the country.

Local government has limited professional development available for elected members and others involved in infrastructure governance. LGNZ's training arm, Equip, offers courses in financial governance, including the basics of asset management and some funding. We observe that these are optional, poorly integrated into other offerings (such as elected member induction), and perceived as 'expensive' in some quarters. Take-up is hindered by a public perception that elected member travel is anything other than an investment.

10. What approaches could be used to get better value from our infrastructure dollar? What's stopping us from doing this?

The paper discusses strengthening the central government's ability to act as a smart client of infrastructure. Much of what has been said can be applied equally to local government. Procurement and contract management are areas of potential gain.

11. What strategies would encourage a better long-term view of asset management, and how could asset management planning be improved? What's stopping us from doing this?

From a local government perspective, we see key steps to a better long-term view of asset management as being:

- adding a direct requirement to prepare asset plans to the Local Government Act – currently, asset planning (the process) is a legal requirement, but documenting that into formal plans is not.
- empowering the public to ask informed questions by developing a user-friendly or summary asset plan.
- removing the restrictions on the use of pricing for network infrastructure incentivising better use of what infrastructure, for example, by avoiding or delaying capacity extensions or recognising those users that place particularly heavy costs/burdens on the network.
- identifying and disseminating examples of local authorities sharing capability and not just focussing on full-service amalgamations.
- considering whether there is a role for systematic external reviews of asset plans and whether this should be tied to sector performance improvement frameworks (such as Council mark).
- enhancing governors' knowledge of asset management and why this is central to their role.

12. How can we improve the way we understand and manage risks to infrastructure? What's stopping us from doing this?

No comments.

13. How can we lower carbon emissions from providing and using infrastructure? What's stopping us from doing this?

The simple answer is that our practices for commissioning, evaluating and designing infrastructure projects do not adequately account for the emissions being generated as a result of the investment.

A fully functioning Emissions Trading Scheme is critical. If not in the ETS, then through some other means. Any other exemptions should be few and minor. A significant increase in the price of emissions units under the scheme will be required to better factor in the long-term cost of emissions. At the time of writing, an NZ emissions unit costs around $45 NZD which is compared with around $145 NZD in Europe and about $112 NZD in the United Kingdom. Climate data released in 2021 by the Climate Change Commission indicated prices need to be over $138 NZD per tonne by 2030 and $250 NZD per tonne by 2050 to meet New Zealand's international obligations.

As an aside, New Zealand's emissions profile differs from that of much of the developed world in that almost half of New Zealand's emissions come from agriculture. That is currently unpriced, while (yet another) alternative means for bringing these emissions into the scheme. While not within the Commission's wheelhouse, we observe that it seems inequitable that infrastructure providers and users – which contribute around 22-23 per cent of emissions are charged when the source of almost half the emissions has dragged their incorporation out by at least 17 years!

14. Are any changes needed to our infrastructure institutions and systems and, if so, what would make the biggest difference

While perhaps not an institutional issue per se, we see scope for providers of different types and in different sectors to learn from each other. Cross-sectoral sharing of learning occurs within infrastructural silos (the Roading Efficiency Group is a good example of this in the public sector). For example, what lessons can those developing pricing structures for water services learn from the multi-tiered approaches that energy and telecommunications providers take?

15. How can best practice network pricing be used to provide better infrastructure outcomes?

In honesty, New Zealand is currently only scratching the surface of the use of pricing for infrastructure services.

Fewer than local authorities have universal metering of water services. A slightly wider subset has metering either for a subset of users or partial charging based on consumption (such as charges for volumes deemed to be excessive). To the best of our knowledge, three toll roads are currently in operation. Solid waste has long operated partially on user charges – though how much these cover the actual cost of waste management and disposal is less certain.

There has been a historic reluctance on the part of policymakers to empower the use of pricing for infrastructure, especially where that infrastructure is in public ownership. And where pricing approaches are empowered, all too often, the model is based on the recovery of financial rather than economic costs. For example, the proxy for a charge for road use (fuel excise) is based on a largely political calculus rather than a true analysis of the direct costs of infrastructure provision, externalities and a cost of capital.

As we write this response, there is (finally) some decision action being taken to allow time-of-use charging, and (after more than 30 years) the central government is examining replacing fuel excise with some form of road user charge for all motor vehicles. However, we remain unconvinced that, for example, the upcoming water reform legislation will be less restrictive, especially for local government entities.

16. What regulatory settings need to change to enable better infrastructure outcomes?

The infrastructure strategy made three recommendations intended to improve the quality of spatial planning without directly recommending that spatial planning be required. Possibly, the Commission was relying on an upcoming Spatial Planning Bill having longevity, but this has not proved to be the case. Possibly, the Commission intended that its recommendations support voluntary planning.

Here's the point—infrastructure is the servant of the community. The infrastructure we build and maintain should pursue our wider economic, environmental, cultural, and social objectives.

Spatial planning (or some other form of integrated strategic planning) serves as a means for communities to determine their priorities and what these mean for the natural and built environment within the community and the investments central government, local government, and others make.

As we write this, the Government has just issued invitations to ‘the regions’ to submit proposals for so-called ‘regional deals’. These deals will proceed from a shared vision and set priorities for infrastructural investments that align with both central and local priorities (read housing and economic development). In those

regions where proposals are accepted, it appears that there would be a need for spatial plan-like thinking.

However, the government has committed to an initial tranche of no more than three by the 2026 general election. This begs the question of what happens outside the select three regions (or parts of regions) and/or after 2026 (especially if there is a change of government).

At the time of writing, the Government has announced the intended replacement of the Resource Management Act with a bill about the management of environmental effects and a second bill about the built environment. It is unclear whether and when the Government intends to pursue spatial planning.

The central government needs to clarify its commitment to infrastructure management and reflect that in legislation such as the Land Transport Management Act 2003. Instruments such as the GPS-Land Transport need a thirty-year horizon (much as local government infrastructure strategies do) with detailed ten-year funding commitments. Legislative settings should be sector-agnostic in their commitment to these fundamental settings.

We'd also add that the timing of the GPS Land Transport must be better aligned with the timeframes for preparing the Regional Land Transport Strategies and local authority long-term plans.

Please also refer to our above comment about the Public Finance Act being strengthened to strengthen this discipline in central government. The central government is in no position to preach fiscal discipline to the local government when its own appears to be spotty!

17. Do you have any additional comments or suggestions that you would like us to consider as we develop the National Infrastructure Plan?

A few comments that replicate feedback we've provided to earlier engagements that Te Waihanga has undertaken.

The omission of community infrastructure remains an ongoing detraction on what an otherwise robust document and work programme.

Taituarā notes that the draft is silent on community infrastructure other than that provided by the central government. Beyond one or two mentions of parks and libraries, there is no real discussion of issues and challenges in these sectors and no recommendations on them at all.

The mobility of skilled labour and investment capital is generally lower than it was at any time in the last 500 years. With digitisation and global markets, more jobs can be undertaken from literally anywhere, with the home nation increasingly becoming a concept for tax purposes only. New Zealand competes on its environment, lifestyle factors, and the business-friendly nature of its regulatory environment.

Communities need to be vibrant, attractive places to live to attract skilled labour. 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.

The Commission should be taking steps to incorporate these assets into future editions of the strategy. In the current strategy, that would require some scene-setting and a statement of the intent to get these assets into future editions of the strategy. Taituarā has strongly recommended that local authorities upgrade their own data on these assets and suggests the Commission might do the same.

The paper's emphasis on pricing as a tool for infrastructure management is undermined by the Crown's providing itself with a free pass on some current mechanisms.

The Commission has previously recommended the removal of Crown exemptions from rates. We have discussed the lack of rationale for an exemption in many forums and do not wish to elaborate further. We accept that there are transition issues and that there may be a case for a nationally agreed-upon common approach to rating crown entities.

Crown developments such as new schools, tertiary education facilities, prisons, social housing developments, and the like require council-provided infrastructure to function. In some cases, this requires the provision of a peak capacity – for example, school sewage disposal needs to be built for a three-times daily peak demand.

Some developments, such as tertiary establishments, high schools, and planned housing developments, are the size of small communities.

Development contributions are not a tax – they are more of a targeted charge for a service. The (specious) rationale that the Crown does not pay tax is not available in this case. With guidance, an appeal process (to an independent Commissioner) and/or a nationally determined process for setting development contributions, the (equally specious) argument that councils might treat Crown developments as 'cash cows' is completely removed.

The Crown faces the true costs of providing for its development projects. It will be provided with a strong incentive to use land efficiently and, further, to work with local authorities to determine present and future community needs and the optimum placement of facilities. Having to pay a development contribution will encourage the Crown to participate in strategic planning actively.

A nationally developed good-practice guide to development contributions already exists – jointly developed by the Department of Internal Affairs, Taituarā and the Development Contributions Working Group (in consultation with the development community).[1]

We observe that this recommendation is for a nationally determined process, not nationally set charging levels. This is sensible as the cost of infrastructure provision varies markedly.

[1] This can be viewed at https://www.dia.govt.nz/diawebsite.nsf/Files/Development-contributions-policies-guide/$file/Development-contributions-policies-guide-v2.pdf