NZCTU
Te Kauae Kaimahi

Submission to the Infrastructure Commission on the:

Draft National Infrastructure Plan

Submitted by the New Zealand Council of Trade Unions Te Kauae Kaimahi

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This submission is made on behalf of the 32 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (NZCTU). With over 340,000 union members, the NZCTU is one of the largest democratic organisations in New Zealand.

The NZCTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga), the Māori arm of Te Kauae Kaimahi (NZCTU), which represents approximately 60,000 Māori workers.

Introduction

1. The draft National Infrastructure Plan sets out key challenges facing New Zealand when it comes to building and maintaining infrastructure and the Infrastructure Commission's recommendations for how we can address these challenges.

2. The NZCTU particularly welcomes the Commission's analysis of the efficiency deficit of New Zealand infrastructure spending – the poor value for money we have been getting from our infrastructure investment compared to most other OECD countries.

3. We also welcome the Commission's work to highlight the importance of developing an infrastructure plan that recognises the long-term challenges posed by climate change and an ageing population. It is crucial that we plan for these changes now.

4. We are pleased to see the Commission has made efforts to incorporate a Te Ao Māori view in its analysis and has consulted experts in this field to inform the development of the plan. This is reflected in the advice tendered by the Commission on planning for the long-term and the need to be responsive to the infrastructure needs of Māori communities.

5. We take this opportunity to comment on select aspects of the draft plan.

Investing in maintenance and developing a stable pipeline of projects

6. We support the Commission's advice that investment in maintenance and renewals should be treated as a priority. For decades, important central and local government infrastructure has not been adequately maintained. The bill has now come due for much of this deferred maintenance, most prominently in our water system and our health system.

7. To this end, we agree with the Commission's recommendations to legislatively require central government agencies to publish long-term asset management and investment plans and to report on their performance against these plans. This will help to address the lack of public visibility on maintenance investment and help hold government accountable.

8. We also support the focus on investment in hospitals recommended by the Commission. On the Commission's analysis, investment in hospitals needs to effectively double as a

percentage of GDP over the coming decades. Working people and their families are finding it increasingly difficult to access health services when they need them. This will only increase as the population ages and demand on the health system increases.

9. We wish to emphasise the fundamental importance of establishing bi-partisan agreement on the funding of maintenance and renewals, and, ideally, of critical new infrastructure (such as hospitals) that needs to get built to deal with population growth and rising demand. We recommend the Commission emphasise this more strongly in its final advice to government.

10. We are strongly supportive of the Commission's recommendation that the government's fiscal strategy should be informed by a needs assessment of New Zealand infrastructure and the Commission's long-term view of needs. We recommend this could be achieved by requiring government to publish a national infrastructure needs assessment as part of the annual budget process. This should set out the infrastructure needs of the country over the next 30 years and the government's plan for meeting these needs. This would, as with the long-term asset management and investment plans, help support transparency and political accountability on infrastructure.

Workforce development

11. We support the Commission's recommendation that better workforce development planning is needed in the sector and should be informed by infrastructure investment and asset management plans as well as the Commission's assessment of long-term needs. We particularly welcome the Commission's identification of the importance of enabling more Māori and female workers into this sector.

12. We are concerned that the reform of the vocational education and training sector currently underway will create further uncertainty and instability in workforce development planning, which has been lacklustre for years. It is therefore crucial that the Industry Skills Board for infrastructure (which is yet to be stood up) is linked in with the Infrastructure Commission in developing a strategic view of workforce needs over the next 30 years and developing relevant training standards and assessments for this workforce.

Funding

The government's fiscal strategy

13. We note that the Commission's recommendations on funding models are framed within the fiscal sustainability targets chosen by the government. The current government has set quite restrictive targets. Most notably, the government intends to reduce net core Crown debt to below 40% of GDP and, over the long term, maintain it within a range of 20–40% of GDP. Simultaneously, it intends to reduce core Crown expenditure to around 30% of GDP.

14. Our view is that these targets are unnecessarily restrictive. There is room for net core Crown debt to increase moderately, so long as this is funding necessary infrastructure. More significantly, in the context of a growing superannuation and healthcare bill, restricting core Crown expenditure to 30% of GDP will constrain government's ability to deliver necessary infrastructure. Our view is that core Crown expenditure (and thus revenue) needs to *increase* moderately as a percentage of the economy over the long term.

15. We understand that the government's fiscal strategy is beyond the Commission's control, but it is important to highlight that it is a choice to maintain this very restrictive fiscal environment and that this constrains the government's ability to fund necessary infrastructure.

User-pays funding models

16. We do *not* support the Commission's recommendation to transition to a fully user-pays network infrastructure system. User-pays models for raising revenue compare poorly with other approaches and should only be considered for isolated infrastructure projects, as a last resort if other options are not feasible. We strongly oppose a wholesale turn to user-pays for network infrastructure, under any circumstances.

17. The main issue is that user-pays models typically have regressive distributional consequences. For example, if water becomes metred, then poorer households end up paying a larger proportion of their income on water than wealthier households (this is already the case with electricity and gas). In turn, poorer households can be forced to reduce their water usage, whereas wealthier households are not. Likewise, user-pays can also mean that network infrastructure is more likely to get built in wealthier areas, or that the quality of the infrastructure will substantially vary depending on how wealthy a region is.

18. Lower-income households already pay a higher share of their income towards funding infrastructure. The Commission's guidance would see this dynamic continue. Under the Commission's modelling, the lowest income quintile in the country (the poorest 20% of households) would be contributing around 1.7% of their annual income to fund infrastructure development while the highest income quintile (the richest 20% of households) would only be contributing 0.3%.

19. User-pays models also risk de-democratising infrastructure over the long run. Rather than being a public service that is equally available to all, regardless of income, user-pays infrastructure becomes more like a market service that is dependent on one's ability to pay.

20. We recognise that the Commission's advice is somewhat sensitive to these issues. The Commission notes that not every piece of network infrastructure needs to fully "pay its own way", as this is not realistic. Cross-subsidisation should occur – for example, more densely populated areas should help to pay for network infrastructure in less densely populated areas. However, this still leaves unaddressed the challenge of delivering equitable outcomes for lower-income households.

21. One of the key reasons the Commission recommends this transition to a fully user-pays network infrastructure system is that it will free up money to fund social infrastructure such as hospitals and schools. However, there are other options available. Specifically, central government could look to revenue-raising initiatives that provide it with the necessary fiscal firepower to meet our growing infrastructure needs.

22. For example, revenue raised via a comprehensive capital gains tax (which we currently lack) could be ringfenced for investment in certain kinds of public infrastructure – targeted, say, towards renewing and upgrading our hospital infrastructure. This would free up money for investment in other parts of our infrastructure ecosystem, including network infrastructure such as water that it would be preferable to keep fully publicly accessible. The same logic could be applied to a wealth tax (which we also lack).

23. We recognise that tax policy is somewhat beyond the scope of the Commission's advice (although user-pays funding models are essentially a form of taxation). However, we recommend the Commission notes that options exist on the revenue side that government may wish to explore. This is a necessary counterpoint to the other advice tendered by the Commission relating to funding, which is framed within the current government's restrictive fiscal strategy.

24. User-pays funding models should be a last resort. And if user-pays models are used, it is *essential* that the ownership of the underlying infrastructure remains in public hands. Coupling user-pays with privatisation is a recipe for disaster. This is because many infrastructure systems are natural monopolies. Private ownership of these systems therefore enables abuses of market power. Working households pay the price in the form of higher-than-otherwise charges and reduced quality of service.

Local government

25. Finally, we note that local government has, for years, struggled to raise sufficient revenue to adequately maintain key infrastructure. Councils are often expected to deliver expensive infrastructure systems but are not enabled by central government to raise the revenue needed to meet these demands.

26. We are therefore highly concerned by the government's apparent intentions to cap local council rates. This will make the job of councils far more difficult and will exacerbate underinvestment in necessary infrastructure. It may also incentivise councils to sell off important infrastructure assets to raise revenue.

27. We encourage the Commission to give thought to how local government can be better supported to deliver and maintain infrastructure in the final draft. We recommend the establishment of a central–local government accord that clearly delineates the responsibilities of both local and central government when it comes to infrastructure delivery (but also other services) and outlines how the appropriate funding will be found to enable each party to deliver on its responsibilities. We believe this is necessary to increase transparency and enable local government to hold central government to account.

For further information, please contact

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