

New Zealand Infrastructure Commission
Te Waihanga

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Submission from the Guardians of New Zealand Superannuation on New Zealand Infrastructure Commission Te Waihanga discussion document: *‘Testing our thinking: Developing an enduring National Infrastructure Plan’*

Thank you for the opportunity to provide feedback on Te Waihanga’s discussion document *‘Testing our thinking: Developing an enduring National Infrastructure Plan (NIP)’*.

Summary of Submission

- The NIP has the potential to make a valuable contribution to developing an efficient, effective, and globally competitive infrastructure framework and market – ultimately benefiting New Zealanders.
- The Infrastructure Priorities Programme (IPP) increases certainty, potentially mobilising international interest, investment capital and capacity for New Zealand infrastructure opportunities.
- The current criteria proposed for IPP prioritisation are too narrow. A more comprehensive set of criteria would increase the coherence and enduring effectiveness of the IPP and the resulting work programmes. Specifically, we propose the addition of *‘Sustainability’* and *‘Resourcefulness’* criteria.
 - Sustainability-related criteria such as *‘Alignment with infrastructure sustainability standards’* and *‘Degree of climate readiness and resilience’* would strengthen the proposed IPP approach and reduce the degree to which infrastructure assets contribute, or are vulnerable to, climate change.
 - Prioritising the resourcefulness of proposals could help to foster innovative financing mechanisms and design approaches.
- New Zealand’s competitiveness could be significantly enhanced by the introduction of an incentivised tax regime for nationally-significant infrastructure investment, similar to that operated in many jurisdictions internationally.

Guardians of New Zealand Superannuation

The Guardians of New Zealand Superannuation (Guardians, we) is a Crown entity set up in 2003 to manage and invest the New Zealand Superannuation Fund (Fund) to help pay for the increased cost of universal superannuation entitlements in the future. In 2019, the Government gave the Guardians a second mandate, the Elevate NZ Venture Fund (Elevate).

We invest money on behalf of the Government to help pay for the increased cost of universal superannuation entitlements in the future. The Guardians' purpose is: *Sustainable investment delivering strong returns for all New Zealanders: Kia toitū te haumi hei hua mā ngā tāngata katoa o Aotearoa.*

A long-term, growth-oriented investor holding a mix of public and private assets around the world, the Fund has returned 10% per annum (after costs, before NZ tax) since inception.

We have operational independence regarding investment decisions, which are made on a commercial basis. We adopt a sustainable finance approach to our investing, whereby we consider the implications of our investments for the environment and for society, as well as taking into account environmental, social and governance risks to the Fund.

The Fund's size is approximately NZ\$80 billion; it is projected to total more than \$100 billion by the end of the decade. Further information about the Guardians and the Fund is available [here](#).

Investing in New Zealand

New Zealand is our home market and one in which we have some advantages over other global investors. We are strongly weighted to New Zealand-based assets relative to the size of the local economy, with around 11% of the Fund's total investments by value invested in New Zealand.

In May 2009, the then Minister of Finance, Rt Hon Sir Bill English, issued a Ministerial Directive to the Fund setting out the Government's expectation that: "opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians".

Infrastructure investment

Since inception in 2003, the Fund has made a number of significant infrastructure investments, including

- as a cornerstone investor in Morrison & Co's Public Infrastructure Partners Fund which invested in public-private partnerships (for example in school property and student accommodation) in New Zealand and Australia.
- a decade-long investment in ConnectEast, which owns and operates the 39-kilometre EastLink toll road in Australia.
- Investment alongside Infratil in renewable energy platforms Longroad (in the US) and Galileo (in Europe) now valued over NZ\$2 billion in total.

Within New Zealand, the Guardians' interest is in pursuing attractive opportunities which provide commercial returns and are in line with our sustainable investment approach. Local infrastructure investments can enable us to use our capital alongside expert global partners to

identify innovative opportunities. Our preferred infrastructure investment approach (branded SuperBuild) sees us engage with government and industry, to partner on delivering large-scale infrastructure and urban development projects in New Zealand. It works best for projects which require long-term vision, scale, and innovation, and where partnerships with world-leading peers can add value.

Currently, the Fund has no material investments in New Zealand infrastructure. We continue to resource domestic investment origination activities and are open to considering opportunities, for example:

- A consortium involving the Fund was named the preferred bidder in a 2019 process to develop a light rail system in Auckland, but the Government ultimately decided not to take the bid forward.
- We are undertaking feasibility studies for a large offshore wind project off the coast of Taranaki alongside Copenhagen Infrastructure Partners, and exploring other infrastructure investment opportunities nationally.
- Providing market perspectives to government on institutional investor sentiment around greenfield roading projects
- Infrastructure investment and SuperBuild were explicitly referenced in the Minister of Finance's April 2024 Letter of Expectations to the Guardians: "National Infrastructure is a key priority for this government. In this regard, I encourage you to continue to explore commercially attractive opportunities to invest in New Zealand assets, including infrastructure, housing, and climate-orientated investments."

What international institutional investors look for

New Zealand has not historically been a focus area for significant greenfield infrastructure development - in part due to:

- Relatively small-size, with limited opportunities and uncertain domestic capacity to deliver complex large-scale projects
- Overly complex and changeable resource management and land-use planning policies and regulations, adding uncertainty
- Restrictive overseas investment regulations presenting a constraint to global investors
- Lack of clarity on who potential investors should be talking to and on what basis
- Wariness of political risks based on prior unsuccessful investment propositions.

Investors will be attracted to New Zealand if there is a pipeline of bankable infrastructure projects, underwritten by stable planning, development and overseas investment regulations that are broadly consistent with global norms and standards. Bipartisan support for long term infrastructure projects would also provide additional certainty and confidence to investors.

For example, if New Zealand is to attract large, long-term international and local capital and expertise, a stable and coherent environmental and social impact management policy and regulatory environment is a key pillar – alongside integrated development strategies, funding and planning. A comprehensive NIP, with robust, complementary regulatory frameworks, could bring such coherence.

The Guardians supports the discussion points on financing models - another critical area where progress is needed if New Zealand is to meet its broader infrastructure objectives.

Unquestionably, success in this area will need to improve our ability to attract and secure global infrastructure investment capital. With infrastructure a core asset class for many fast-growing sovereign wealth and pension funds, there will be an increase in the amount of capital seeking attractive investment opportunities globally. Global capital markets are, however, highly competitive.

Attractive opportunity sets are ones which allow investors to take some development and demand risk. Contractual certainty around pricing mechanisms and inflation linkages are also important. Clarity on how proposals will be received and dealt with, including an understanding of the difference between investment negotiations and standard procurement processes, along with issues such as cost recovery, are also key factors.

International peers see a partnership with the Guardians as a de-risking factor. Our sovereign status, sustainable finance focus, and our in-depth understanding of the domestic market are seen as beneficial for investors looking to enter New Zealand and execute large-scale infrastructure projects.

Submissions

In this section we set out our views and submissions on issues raised in the Commission's discussion document. We have provided our feedback more broadly, rather than through direct answers to the questions.

Overall position on the plan

We commend Te Waihangā for the work and insights it has applied to advancing the NIP and preparing this initial discussion document. We view the development of the plan as having the potential to make a valuable contribution to developing an efficient, effective, and globally competitive infrastructure framework and market – and ultimately benefiting New Zealanders.

The work to date on the NIP, in our view, represents a logical and meaningful evolution from the Commission's previous work. It combines a robust top-down and bottom-up approach to plan development, which we believe is appropriate for addressing the strategic goals and inherent complexity of the sector.

The deployment of a mechanism through which to identify and prioritise New Zealand's infrastructure needs is, in our view, a central component of the value that the NIP will add. That approach builds on Te Waihangā's pipeline work, which amounted to an audit of aspirations. By adding a multi-variant prioritisation overlay, the IPP will provide a mechanism through which identified infrastructure needs and options can be tied to beneficial commercial and real-world outcomes. In so doing, the IPP will contribute to maximising the value which can be delivered with limited available resources and capacity. The IPP increases certainty and the potential for mobilising international interest, investment capital and capacity for New Zealand infrastructure opportunities.

We note that infrastructure and housing investments are inherently long-term and often strategic in nature. Roads, bridges, and energy systems must be resilient to long-term changes in the environmental and socio-economic systems in which they function. There is a significant risk that short-term, project-based approaches could lead to higher, more entrenched carbon intensity and/or 'maladaptation' in the New Zealand economy, whereby projects increase asset

vulnerability to natural hazards, rather than building system-wide self-sufficiency, resilience and adaptive capacity.

From an investor's perspective, the IPP therefore has the potential to make a meaningful and important contribution to system-wide planning. Both the NIP and IPP increase the visibility of a prioritised infrastructure programme. This will fit well with those investors with long-term investment horizons.

Planning framework

Table 1 on page 35 of the discussion document sets out what is, in effect, a planning framework for the NIP. This captures what we believe the Commission, and Government, are trying to achieve and provides an overview of the basis of your planning work. In our view, the framework also provides a foundation for the Commission's on-going strategic discussions and planning. Perhaps this table could be refined and given greater prominence as a robust framework to guide future development of the NIP.

Strategic needs analysis

In our view, the plan would benefit from the addition of further strategic needs analysis, focused on what we are good at in the infrastructure governance space, what we are not, and what needs to be done about it. Again, such an addition to the NIP would ensure that our infrastructure aspirations are considered alongside factors constraining delivery and, therefore, supply.

Institutional context and linkages

If the IPP is to deliver the benefits discussed above, it needs to be well designed, including, importantly, in terms of its fit with the other public policy components currently at play in the New Zealand infrastructure sector.

There has been an unfortunate tendency for reform of processes, regulations, and planning frameworks to add more layers to existing systems. Too often such additions have not improved efficiency (or necessarily advanced their specific objectives), but have increased complexity, reduced accessibility for external (non-public, and other public) entities looking to become involved, and represented a constraint to practical progress. The introduction of the IPP to the infrastructure planning landscape involves the risk of triggering such unintended consequences unless significant attention is paid to policy and planning coherence and harmonisation.

The next stage of NIP development would benefit from clarification on the broader purpose, scope and boundaries of the IPP, including What it does and does not provide; What it complements; What it replaces, and; How it interconnects and integrates with the work of other agencies.

The clarity provided by an explicit statement / graphic of this nature would go a long way to enhancing awareness, improving coherence, and ensuring the IPP improves system accessibility, usability and ultimately, outcomes.

IPP criteria for project scoping, screening, prioritisation, and selection

Another important element is the issue of criteria; that is, the lenses which are applied to screening, prioritisation and selection of infrastructure projects.

The more comprehensive those lenses, the more robust, meaningful, and valuable the resulting prioritised list will be. The lenses (and their weightings) will need to be compatible with the Crown's vision and aspirations as a whole, and those of the agencies it has at work in the broader infrastructure space. We acknowledge this is no easy task, but it is an important part of ensuring that prioritisation exercises build common purpose, generate stakeholder support, and produce outcomes which advance New Zealand's infrastructure, socio-economic, and environmental objectives in an efficient and enduring manner.

The criteria for the IPP prioritisation, as set out in other Commission documents, are three-fold:

- i. **Strategic alignment.** *Does a proposal support future infrastructure priorities and/or improve existing infrastructure systems and networks that New Zealanders need?*
- ii. **Value for money.** *Does a proposal provide value to New Zealand above the costs required to deliver, operate, and maintain it?*
- iii. **Deliverability.** *Can a proposal be successfully implemented and operated over its life?*

While we agree with these core criteria, in our view they are too narrow to deliver on the full potential of the IPP approach. A more comprehensive set of criteria would increase the coherence and enduring effectiveness of the IPP and the NIA's resulting work programme.

We propose the revision to criterion (i) and addition of the following criteria (iv) and (v.) as core factors in proposal prioritisation. We expand on these recommendations below:

Strategic alignment

- i. **[revised] Strategic alignment.** *Degree to which the proposal improves existing infrastructure networks that New Zealanders need, whilst anticipating and addressing future infrastructure requirements and operating environments?*

New capital investment should address the challenges and opportunities of present day infrastructure demands, whilst acknowledging a range of scenarios for evolving future usage. This could include shifting travel volumes, active transport, micro-mobility and new vehicle types (for example autonomous vehicles).

Sustainability

- iv. **Sustainability.** *Degree to which the proposal aligns with established infrastructure sustainability standards; climate change commitments; resilience to natural hazard risk; social impacts, etc.*

Whilst elements of the discussion document speak to the challenge of decarbonisation, the inclusion of a specific 'Sustainability' criterion in the prioritisation framework would strengthen the proposed IPP approach, improve policy coherence, and reduce the likelihood of infrastructure assets driving – and/or being vulnerable to – climate change.

Integrating sustainability would tie the NIP prioritisation approach more closely and meaningfully to that being used internationally by many major infrastructure investors and developers, improving New Zealand's prospects of accessing global infrastructure capital and expertise.

The approach applied by many global infrastructure standards and leading large-scale investors such as the NZ Super Fund increasingly encompasses a 'sustainable finance' focus. Under this approach, alongside the required financial returns, investors seek confidence that environmental and social risks to assets can be managed, and to look for investments which will have a positive impact on environmental and social outcomes.¹

We would be happy to work with Te Waihanga to discuss our approach and methods necessary to address these considerations. For example, this may include the following:

Alignment with infrastructure sustainability standards

The sustainable finance approach is especially relevant for infrastructure investments, given the inherent materiality of environmental, social and governance (ESG) considerations for real asset investment portfolios. For example:

- **GRESB** is an independent organisation that provides validated ESG performance data and peer benchmarks for a growing proportion of investors and managers in real estate and infrastructure (www.gresb.com).
- **Infrastructure Sustainability Council (ISC)** is an Australian/New Zealand-based body providing robust, proven mechanisms for de-risking the design and delivery phase of major infrastructure projects (e.g. enhancing efficiency, providing credibility, increasing social licence, and reducing reputational risk) - whilst maximising the broader positive socio-economic and environmental outcomes assets can deliver.

We propose that the IPP adopts and applies the ISC Planning Tool (www.iscouncil.org/is-planning-tool) as a part of the screening and prioritisation mechanism for any infrastructure projects with an anticipated budget greater than NZD100 million. This would effectively replicate and extend the established approach to IS Ratings as part of the NZTA's current 'Sustainability Rating Scheme'.²

Climate readiness and resilience

While the discussion document does a good job of highlighting the importance of climate-related issues in the context of the Emissions Reduction Plan (ERP), that focus is not clearly carried through to the proposed approach to prioritisation.

The systemic nature of climate-related risk to the New Zealand economy – and especially infrastructure - warrants inclusion of a specific prioritisation criteria referencing climate change. This should include greater consideration of greenhouse gas emissions, New Zealand's international obligations, and physical climate change impacts / resilience.

Noting that the above referenced standards already include climate change-related criteria, at the very least, prioritisation should factor in each project's:

- Net lifecycle GHG emissions

¹ [Joint statement: Australia-New Zealand 2+2 Climate and Finance Dialogue | Beehive.govt.nz](https://www.beehive.govt.nz/joint-statement-australia-new-zealand-2+2-climate-and-finance-dialogue)

² nzta.govt.nz/roads-and-rail/highways-information-portal/technical-disciplines/environment-and-sustainability-in-our-operations/environmental-technical-areas/sustainability-rating-scheme

- Degree of alignment with a Net Zero 2050 pathway / commitment - in light of the ERP, our international commitments (Paris Agreement; NZ-EU trade agreement; etc.), and Nationally Determined Contributions.
- Degree of exposure / resilience to natural hazard risks, including the implications of climate change scenarios above 3.0 degrees Celsius warming (by 2100).

Given the often critical and long-term nature of many infrastructure assets, these are issues which will certainly be considered by any serious investor. Their inclusion within the IPP prioritisation criteria will help to significantly de-risk and streamline any resulting private investment due diligence and decision-making.

Resourcefulness

- v. *Resourcefulness.*** *Degree to which the proposal makes effective use of alternative tax, financing and/or funding mechanisms to efficiently address public budget constraints.*

The consultation document appropriately includes an important focus on funding solutions. We agree with the Commission's assertions that pricing, regulation, and education are important tools in demand management and shaping user behaviour. Pricing is also important for ensuring efficient use of infrastructure and creating funding sources for the maintenance and delivery of infrastructure projects.

There would be value in also considering the benefits associated with reform of the tax regime for infrastructure investors. New Zealand's competitiveness could be significantly enhanced by the introduction of an incentivised tax regime for nationally-significant infrastructure investment, similar to that operated in many jurisdictions internationally. Such a regime may involve:

- A lower tax rate than the prevailing company rate, set for a meaningful period of the asset life
- No additional tax impost on profit distribution to both domestic and foreign investors
- Full deductibility of third-party non-recourse funding.

Specific criteria could be established to determine a proposal's overall resourcefulness, including qualification for the alternative infrastructure taxation treatment. These criteria could include considerations of the public utility associated with a project, along with the proponent's track record of delivery and commitment to contributing global expertise.

Thank you again for providing us with the opportunity to comment on Te Waihanga's work to develop a NIP. This is important work, and the discussion document represents excellent progress.

We would be happy to discuss our views in more detail and look forward to continuing to work with Te Waihanga as it works to finalise the NIB, as well as on other aspects of its responsibilities.

For further information:

