



Institute of Finance Professionals New Zealand Inc.

26 October 2018

Infrastructure Body Consultation
The Treasury
PO Box 374
Wellington 6140

Email: infrastructure@treasury.govt.nz

By Email

INFINZ Submission on a New Independent Infrastructure Body

The Institute of Finance Professionals in New Zealand Inc. (INFINZ) is the peak industry body for capital markets professionals in New Zealand. INFINZ has a membership of approximately 1,600 members from across the finance and capital markets ecosystem.

We support the proposal to create a new independent infrastructure body to improve the planning and delivery of infrastructure in New Zealand. We have appended our detailed submissions on the form you provided.

We are happy for our submissions to be published.

We would also welcome the opportunity to discuss further with you any aspect of our submissions or the proposal.

Kind regards

A handwritten signature in blue ink, appearing to be 'R Pennington', with a long horizontal line extending to the right.

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Organisation name:	INFINZ (Institute of Financial Professionals NZ). Prepared by Ross Pennington, Chair of Advocacy, INFINZ.
Nature of your business:	INFINZ is the peak industry body for capital markets professionals in New Zealand. INFINZ has a membership of approximately 1,600 members from across the finance and capital markets ecosystem.
	Publishable.

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Questions for Submitters

1 What do you think are essential features of the new independent infrastructure body, so it can deliver on its core purpose to strengthen infrastructure strategy, planning, investment and delivery (note functions are discussed below)?

Response:

Key attributes

The intent of an independent infrastructure body (“**i-body**”) is to improve planning and delivery of infrastructure in New Zealand, drawing on overseas models – and in particular the various State infrastructure bodies in Australia. INFENZ supports this proposal.

To be most effective, INFENZ submits that the i-body should have the following attributes:

- **Independence:** To have credibility and fulfil its functions, it is important that the i-body is – and is seen to be – independent from political influence as to its analysis and decisions. Independence from *central* government is also important to reflect the complexity of the infrastructure planning and delivery landscape in New Zealand, including the core role of local authorities and other relatively autonomous infrastructure delivery agencies and the downstream impacts on entities such as HNZ and initiatives such as Kiwibuild.

This is particularly important given the significant impact of infrastructure choices (including those resulting in deferral or non-completion of crucial infrastructure) and the desirability of infrastructure decisions being evidence-based and well-informed. The significance of this factor can also be expected to increase with improvements in the availability and quality of, and ability to utilise, data; particularly to the extent that such data may become inter-woven with infrastructure delivery initiatives (as for example is being considered under the *Smarter Transport Pricing/The Congestion Question* project). In this respect, we would expect the model for the i-body to have some similar features to those applying to (for example) Pharmac, Guardians of New Zealand Superannuation Fund, and ACC.

- **Credibility:** While it can be expected to take some time for the i-body to get established and build a reputation, its structure will be important in ensuring the credibility of the organisation, which will derive from its resources, capability and perceived independence. These will also help drive its practical influence, as ultimately the i-body will be judged by the extent to which it contributes to the required step-change in planning and delivery of infrastructure. The latter will also likely require changes beyond the body itself, as we comment on below. Guidance can be gained in these questions of resourcing and structure from best practice models – for example, in addition to the Australian i-body entities that have been closely

considered, organisations such as CDPQ Infra, Infrastructure Ontario and Scottish Futures Trust hold useful lessons and benchmarks.

- **Tools:** To succeed, both the i-body, and underlying procurement and delivery agencies, will need to have access to the tools required to deliver on the infrastructure strategy and related project pipeline, which in turn will lend additional credibility to that pipeline and increase the effectiveness of the i-body as a “shot front” for New Zealand infrastructure. In this regard, one of the most important tools to help infrastructure become more responsive to needs triggered by growth, technological change, climate change, and other resilience challenges, will be well-designed funding and value capture mechanisms, a robust and replicable investment structure to facilitate financing initiatives, and ideally also a rational framework for considering and coordinating central and/or local government project support (both financial and non-financial) and risk allocation. The story of how New Zealand became a leader in ultrafast broadband and internet connectivity through Crown Fibre (now Crown Infrastructure Partners), and some of the surprising benefits of that (such as a booming domestic gaming industry), is a good example of how public-private innovation can create significant benefits and of the notion of investment more generally.
- **Connected:** Capital, expertise and resource for significant infrastructure projects will commonly be found in international markets, as will best practice examples and also lessons drawn from ideas or projects that didn’t work well. An i-body should have the capability to engage or partner with peer organisations, infrastructure funds, EPC contractors, economists and planning experts, and other specialists from jurisdictions around the globe facing similar challenges. NZ Super Fund and ACC provide examples of what can be achieved in this respect, and also show how quickly the best practice can start to be generated here and flow back to the international marketplace.
- **Joined up:** There are multiple agencies involved in delivering infrastructure, and this already crowded field is going to get more so with the introduction of a UDA, the Alliance, and other initiatives around housing. There is also a large number of Ministries and agencies with interests in planning and delivery of infrastructure. To address the infrastructure deficit and begin to optimise investment required to achieve our economic and social potential, this system needs to become more streamlined and joined up. As such, it is important for the i-body to be designed, governed and resourced in a way that maximises coordination and reduces inefficient interfaces.
- **Governance:** Expertise is all-important, as are rigour and performance. These factors should direct questions about institutional form and governance. As noted below, we think the Crown entity form is the most suitable, and that there could also be significant benefits in adapting the sort of specialised advisory committees seen at agencies such as Pharmac and NZ Super Fund. The selection process for leadership staff of the i-body should also be designed to reflect its independence and need for expertise.
- **Location:** Infrastructure problems are diverse in nature and geography – from urban growth pressures in the Auckland-Hamilton-Tauranga triangle, to coping with tourism demands in Queenstown and Rotorua, to regions facing low or declining populations and economic growth. Further, to be effective and credible, an i-body needs to be able to attract the best talent. Subsidiarity is also crucial, which at a minimum for the

i-body will involve a proper structure for liaison with relevant local authorities and other delivery agencies. For each of these reasons, it is important that this body is not bound to a particular location, but can have a physical presence wherever makes the most sense.

- **Responsive to the NZ landscape:** The i-body initiative ultimately will be judged on whether it is effective in the sense of improving the planning and delivery of infrastructure in New Zealand. Its design must be carefully adapted to New Zealand's unique conditions and its complex infrastructure delivery landscape, drawing from and complementing its strengths, and addressing gaps that are currently creating weaknesses.

In this regard, the Consultation Document draws heavily on the example of Infrastructure Australia and the various State "I-Bodies", such as Infrastructure NSW. We think this is appropriate, particularly in light of the initiative in promoting a trans-Tasman procurement market. However, we note that a key difference is that infrastructure planning and delivery is primarily a State matter in Australia, making the alignment of the relevant I-Bodies strategy and delivery functions a different and possibly more straightforward proposition (something also likely enhanced by their close proximity to some of the world's leading specialist infrastructure funds). By contrast, both planning and delivery are more complex in New Zealand, and the i-body will need to be designed with that in mind.

2 What relationship should the independent infrastructure body have with the government?

Response:

General comments

We endorse the proposal for the body to have independence and a "public voice" mandate – one of the key issues in infrastructure is the sometimes poor quality of public debate on it, and objective data – particularly on needs, benefits, and trade-offs – would help bring more balance to it.

We also broadly agree with the proposals in the policy papers that the i-body should be empowered to make recommendations to Ministers but that decision-making rights should remain with Ministers and departmental chief executives. We believe it would be useful to add to that caveats that input would be provided prior to publication, to increase the credibility of both the i-body itself and of New Zealand's overall infrastructure strategy and programme. In particular, there should be an expectation that any material departure from what the evidence and data are saying is the right course ought to be published and explained, in a similar way as for legislative proposals involving a breach of the Bill of Rights Act.

Again as a result of the need for a more evidence-based (and less lurchingly political) approach to infrastructure decisions, other relevant models for the relationship to the Government would be Pharmac and the Climate Change Commission.

It's clear though that the notion of independence should not be taken to such extremes that it starts to undermine accountability or the influence of the i-body, particularly when it comes to such things as project pipelines and capital intentions. If decisions on those are ultimately in the hands of central government ministers or of local authority governing bodies (and in the latter case must be included in their annual long-term plans to the extent they are going to be funded and carried out), then it would detract from the credibility of any project pipeline to priorities projects at odds with those politically determined choices. Once again, however, where projects are being selected in the face of evidence against them, this should need to be rigorously explained by the decision-maker. Ideally the i-body and key central and local government delivery agencies would develop a shared vision and set it out in spatial planning and other documents (as is done in an Auckland context with the 30-year Auckland Plan, ATAP, FULSS and other documents).

Organisational form

The organisational form and governance of the body should be aligned with its function, having regard to similar entities in the Government sphere. In our view, the most suitable organisational form is likely to be a Crown entity under the Crown Entities Act 2004 (CEA), with the key question becoming which of the “statutory entity” types is most appropriate within the CEA framework, being:

- **Crown agents** (which must give effect to government policy when directed by the responsible Minister). These are named in Part 1 of Schedule 1 (which includes entities such as ACC, EQC, EPA, HNZ, NZTA and Pharmac)
- **Autonomous Crown entities** (which must have regard to government policy when directed by the responsible Minister). These are named in Part 2 of Schedule 1 (which includes entities such as GSF, Guardians of NZ Super Fund, and various ‘Commissions’ such as the Broadcasting and Lotteries Commission)
- **Independent Crown entities** (which are generally independent of government policy). These are named in Part 3 of Schedule 1 (which includes entities such as the Commerce Commission, FMA and Productivity Commission)

Of those, either Crown agent (like NZTA and HNZ) or autonomous Crown entity (like NZ Super Fund) seem the most logical choices, but the ultimate decision would no doubt factor in the specific statutory implications attending to those forms, most notably as to appointments (section 28 CAA), removal (sections 36-39 CAA), remuneration (section 47 CAA), and directions (section 103-108) (in any case as may be modified for the i-body), to achieve the right mix of independence, influence and accountability.

We do not think it would be optimal to constitute the body as a department of state or as an Office of Parliament under the Public Finance Act 1989 (PFA), because it would diminish its independence and would miss the opportunity for the body to be grouped with ‘like’ agencies.

Another possibility would be for the body to be a ‘Schedule 4’ entity under the PFA (examples include AgResearch, the Maori Trustee and the Lottery Board) or a ‘Schedule 4A’ entity, which are non-listed companies in which the Crown is a shareholder, such as CAML, Crown Infrastructure Partners, Otakaro, and Tamaki Redevelopment. We do not support that either. The i-body’s core roles would be in formulating and publishing infrastructure strategy and not being a delivery vehicle.

i In particular, what level and form of independence does the body need to be credible and influential from your perspective?

Response:

For the reasons given under Question 1, it is imperative that the i-body is – and is seen to be – independent from political influence as to its analysis and decisions. The i-body is not proposed to have a balance sheet, so its effectiveness will rest on its analytical output and its credibility. However, as noted above, it is also important that the i-body is seen to have influence – the ear of government, and other procuring agencies – so the notion of independence should not be carried so far that it undermines that, or the body’s accountability.

ii Should the level and form of independence vary according to each different function? *If yes, please elaborate*

Response:

To the extent it relates to debate and having a “public voice” and to analytical or fact-based matters, independence is critical.

But equally, to have credibility, matters relating to infrastructure priorities and long term capital intentions need to reflect central and local government political decisions.

In relation to the suggested involvement in procurement, we think the basis for this needs to be more fully developed, particularly so that it is focused on filling gaps. We also think that, particularly as the organisation resources up, it will have to make careful choices about priorities and resource allocation on the very broad range of things that potentially could form part of the i-body’s remit.

Another question in this context is about how any impingements on independence should be given effect – for example, through governance (e.g. SOI), call-in/over-ride powers, directions under the CAA, or section 26 type mechanisms. Ultimately it is important that all parties are pragmatic and work to make the proposal succeed.

3 Thinking about the possible functions proposed in this document (listed below), how important is each function on a scale of 1 (not very important) to 5 (essential)?

Functions to consider and comment on:

- ▶ Assess the condition of New Zealand’s infrastructure assets

Not very important					Essential
1	2	3	4	5	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	

▶ Develop a shared understanding of New Zealand's long-term infrastructure strategy
<p>Not very important Essential</p> <p>1 2 3 4 5</p> <p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/></p>
▶ Identify New Zealand's highest priority infrastructure needs
<p>Not very important Essential</p> <p>1 2 3 4 5</p> <p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/></p>
▶ Identify and comment on the barriers to delivering good infrastructure outcomes
<p>Not very important Essential</p> <p>1 2 3 4 5</p> <p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/></p>
▶ Publish long-term capital intentions
<p>Not very important Essential</p> <p>1 2 3 4 5</p> <p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/></p>
▶ Act as a 'shop front' for the market including publish a pipeline of infrastructure projects
<p>Not very important Essential</p> <p>1 2 3 4 5</p> <p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/></p>
▶ Provide project procurement and delivery support
<p>Not very important Essential</p> <p>1 2 3 4 5</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>
▶ Provide best practice guidance on project procurement and delivery
<p>Not very important Essential</p> <p>1 2 3 4 5</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>

4 Are there any other functions, in addition to the proposed list above, which you think the independent infrastructure body should carry out?

If so, please rate the importance of each additional function on a scale of 1 (not very important) to 5 (essential).

Response:

We indicated in our submissions above that, at least in its initial phase, the i-body should place relatively more emphasis on assessing asset condition, developing strategy, and prioritising projects – and relatively less on procurement and delivery support and best practice (albeit there are obviously gains to be made in these areas). We have also made the point that there is a lot an i-body could do and it will have finite resources, so it will need to prioritise carefully. These are all arguments against adding further functions, but we do list some further potential functions below for consideration.

We note that there are also a number of matters referred to in Treasury's report on functions undertaken by the "i-bodies" in Australia, and we assume the omission is deliberate or possibly is because the function is subsumed within other listed functions:

- **Audit/ex post review:** We agree this should not be a priority for projects that have already been undertaken – it isn't fruitful to go back in time – but we think it is an important part of evolving data and creating best practice to conduct effectiveness reviews on new projects. Priority "3".
- **Data:** Data is critical, and will likely become increasingly so. It is also widely regarded as a key constraint in infrastructure and would be an invaluable tool in underpinning financing initiatives – for example, 84% of respondents to a recent institutional investor survey agreed that benchmarking operational performance, on top of financial performance, would add value – including traffic/demand data, expected and realised construction and operating costs, operating efficiency, productive efficiency (output measures), and the causes and consequences of material events (e.g. failures, negotiation or refinancing) (source: Global Investment Hub/EDHEC, November 2017). Such data on an ongoing basis would also assist in asset management. Arguably generation and analysis of data is implicit within other functions, such as assessing asset condition and formulating strategy, but we think there may be merit in setting it out explicitly. Priority "4".

Other matters (again which may already be implicit) could also include:

- **BCR:** The fact that there is an undersupply of infrastructure suggests that there may be an issue with the way that Benefit-Cost Analyses are undertaken, but regardless of that, there are a number of new challenges and opportunities that will increasingly need to be undertaken when preparing BCRs and will be heavily data-reliant (for example, taking into account carbon impacts – which would also benefit from expert input from the Climate Change Commission – or the impacts of externalities more generally). It would be logical to develop this expertise within the i-body. (Refer generally Arthur Grimes "The Economics of Infrastructure

Investment: Beyond Simple Cost Benefit Analysis” Motu Working Paper No. 10-05, August 2009).)

- **Funding/value capture:** It is the nature of infrastructure assets that, at least to some extent, they can be self-funding over their life – provided that an appropriate asset-backed financing structure is available and that revenue streams and/or value capture mechanisms can be dedicated to the asset’s capital, funding and operating costs. In these cases, we think that an appropriately resourced i-body could perform an indispensable role in providing expertise and services, such as preliminary evaluation and transaction support, to test business cases and to assist in carrying out projects using these tools.

5 Thinking about each possible function individually (including any additional functions you have listed above) how could the new independent infrastructure body best achieve each function?

Functions to consider and comment on

- ▶ Assess the condition of New Zealand's infrastructure assets

Response:

This fundamentally requires access to data, expertise about best practice in asset management and understanding of factors impacting on resilience (climate change, demographic, technological).

- ▶ Develop a shared understanding of New Zealand's long-term infrastructure strategy

Response:

Engagement with various actors in delivery landscape, particularly those outside of central government or its agencies (including NZTA, HNZ) – especially local government but also private (electricity, telecoms, etc).

- ▶ Identify New Zealand's highest priority infrastructure needs

Response:

This involves choices which are partly political and distributional. It needs to be evidence-based, for example along lines of the Pharmac model. But it also needs to be informed by political choices, including those in reflected in LTPs.

- ▶ Identify and comment on the barriers to delivering good infrastructure outcomes

Response:

In our view, this is a critical function, and will require the i-body to have – and be able to in-source – specialist economic and other relevant expertise. The i-body will also need to be designed with sufficient flexibility to work within, and respond to, a rapidly changing environment so as to complement and contribute to other initiatives – e.g. the proposed UDA, initiatives relating to three waters, and the Smarter Transport Pricing / The Congestion Question project.

In doing so, the i-body will be able to draw on a lot of experience and literature. Because of concerns about the pervasive global infrastructure deficit and its impact on economic and social outcomes, a lot of work has been done by the World Bank, OECD and similar bodies in identifying barriers to delivering good infrastructure outcomes and looking for solutions to them. (Refer for example Sutherland et al “Infrastructure Investment: Links to Growth and the Role of Public Policies” (March 2009) OECD Economics Department Working Paper No 686; the OECD working paper “Private Financing and Government Support to Promote Long-Term Investments in Infrastructure” (September 2014); World Bank “Overcoming Constraints to the Financing Of Infrastructure: Success Stories and Lessons Learned: Country, Sector and Project Examples of Overcoming Constraints to

the Financing of Infrastructure” (Staff Report, January 2014); and McKinsey Global Institute “Bridging Global Infrastructure Gaps” (June 2016).)

We also note that a consensus is emerging that a key problem in the context of housing is inflated land prices resulting from restrictive land use regulation – a widespread phenomenon in the developed world, which (in addition to its clear social and wealth impacts) is undermining agglomeration economies and productivity (refer for example Chang-Tai Hsieh and Enrico Moretti “Housing Constraints and Spatial Misallocation” (March 2018) and Katharina Knoll, Moritz Schularick, Thomas Steger “No Price Like Home: Global House Prices, 1870 – 2012” (CESIFO Working Paper No. 5006, April 2015). However, it is one thing to identify this problem, and another thing again to solve it, as it ultimately results from a political dynamic. In practical terms, there is evidence that these land use regulations are very difficult to reform, which in turn suggests that other solutions should be sought in the meantime.

In that respect, we consider that private financing solutions may offer the most potential in a New Zealand context, particularly for greenfield infrastructures – as these at least may enable growth to fund growth in a way where the tab is picked up by the benefitting cohort of new house buyers and by the developers of those properties. An example of this is the CIP’s new role in financing bulk housing-enabling infrastructure.

For the massive infrastructure investments that will be required to address climate-change and resilience challenges, those may require a different national conversation about externalities and investment – a conversation that may become easier once the effects of climate change are increasingly beginning to be felt, but in any event would benefit from being informed by objective data and analysis as could be provided by an independent and well-resourced i-body. Analysis in this area this would benefit from coordination between the i-body and the Climate Change Commission.

▶ Publish long-term capital intentions

Response:

An effective publication of capital intentions involves an amalgam of the intentions of a wide range of bodies involved in the planning and delivery of infrastructure, including central and local government agencies and the private sector. There may be a tension here with the i-body’s evidence-based brief and its independence, since the capital intentions (at least those to be funded on the relevant time horizon) ultimately will be determined by independent and diverse actors under political processes. The i-body, like those agencies, will also need to find innovative ways to meet the distinct challenges of growing, stable and shrinking regions – there is a diversity of issues and responses required. The credibility of any long-term capital intentions publication will ultimately be reliant on the adequacy and responsiveness of underlying funding and financing tools.

▶ Act as a ‘shop front’ for the market including publish a pipeline of infrastructure projects

Response:

The i-body is not proposed to have a balance sheet so its credibility will depend on its influence, which will be increased if it has access to the right funding and financing tools.

▶ Provide project procurement and delivery support

Response:

This is a complex issue, in part because of capabilities which already exist in the market and how the i-body will fit in, particularly in circumstances where infrastructure is being delivered by local government or autonomous agencies and the central government has no or only minimal 'skin in the game'. This role could take considerable resource and potentially move focus from higher priorities and where the i-body can be most effective.

▶ Provide best practice guidance on project procurement and delivery

Response:

The evidence from jurisdictions such as Canada is that best practice comes from frequency and expertise, and is not necessarily a 'one-size-fits-all' proposition. A credible pipeline of investable projects is strongly in the national interest.

▶ Any additional functions you have proposed

Response:

Addressed above.

6 How could the new independent infrastructure body best work with local government and the market to help them plan long-term infrastructure?

Response:

In our opinion, given the core role of local authorities in providing core network infrastructures (transport and three waters), how it works with local government is a critical success factor for the i-body.

It will be important for the i-body to have a strong understanding of local government – including the diversity of challenges and resources, and the commonality of imbalance in incentives and insufficiency of tools, particularly in responding to challenges of growth or of decline. There are also pervasive constraints, many of which arise from the extensive accountability and consensus-building requirements built into local government legislation. As is clear from recent reports from the Productivity Commission on urban planning, adding to this are costs, delays and frustrations involved with a flawed land use regulatory framework.

There are also key differences in the structures of local authorities (unitary, territorial and regional), their powers, and their requirements – for example as to the preparation of spatial plans.

Another important aspect of this is that while infrastructure projects are often massive in scale, the degree of on-the-ground community engagement required to move projects forward is not necessarily always well understood. It also has a deeply political dimension (the findings of the *Royal Commission on Auckland Governance* (March 2009) are instructive in this regard), the dynamics of which need to be understood particularly to the extent that progress is going to be dependent on new funding and value capture tools (as we think it must be) – including how the dynamics are different from brownfield to khaki to greenfield.

This is why subsidiarity is a crucial concept in infrastructure delivery. But it also gives rise to challenges of scale and coordination. These challenges could be greatly assisted by an expert and independent i-body to help ensure that the regions don't get left behind, by bringing high quality data, best practice, connections to local and international expertise, and transactional tools which enable pooling of like projects to achieve scale.

All of this argues for a high degree of coordination and liaison with local authorities, for which an example is offered by the ATAP model. In this regard, we also think it would be helpful to consider building advisory committees into the i-body model, along the lines of those used by entities such as Pharmac and NZ Super Fund, to support local authority liaison and coordination.

7 How could the new independent infrastructure body best engage with the market?

Response:

Actively and continuously. Similar entities like Infrastructure Ontario are proactive in the international community, telling their story and picking up on lessons from other agencies, which provides mutual benefits. Closer to home, entities like NZ Super Fund and ACC exhibit high quality engagement both domestically and internationally.

8 What information should a published pipeline of infrastructure projects include?

Response:

There are plentiful models for published project pipelines, both at home and abroad – most notably, those documents already published by the NIU. Successful examples overseas include the Juncker/EU plan 2015-17, the UK National Infrastructure Delivery Plan 2016-21, the Investing in Canada Plan 2016-28, and the Australian Infrastructure Plan 2015-30.

In terms of effectiveness, a recent institutional investor survey indicated a relatively low level of awareness of these plans (the peak was 35% of investors ‘very well aware’ of the EU plan), but the majority of institutional investors had at least some recognition of them, and there was support generally for the proposition that the plans would improve the attractiveness of investments in the countries publishing them. (Refer GIH/EDHEC “Investor Perceptions of Infrastructure, 2017” (November 2017).)

9 What type of support could the new independent infrastructure body provide to the market in order to act as a ‘shop front’ (Function 6)?

Response:

The shop front role is difficult because providers have the greatest incentives to talk to procuring agencies rather than engaging at earlier stages of the planning and delivery process. As such, the degree of success the i-body has a ‘shop front’ will ultimately depend on the credibility and capability of the entity, which will in turn be influenced by its structure and resources.

10 How could the new independent infrastructure body best assist local government to support and deliver infrastructure projects?

Response:

Please refer to our comments under Question 6, including as to the diversity of local authority circumstances and challenges.

In our view, the most significant issue facing local authorities in the context of infrastructure are their balance sheet constraints, inadequate funding and financing tools to address the requirements of growth or the challenges of technological and climate change, and imbalanced incentives (for example, they bear the majority of the risks for growth infrastructure but most of the benefits in terms of revenues accrue to the central government through its more diverse funding sources, such as GST). These issues have been heavily rehearsed by the Productivity Commission in a series of reports on urban development and planning matters and are currently the subject of further work by the Commission. Ultimately they can only be resolved by creating more responsive infrastructure funding and financing tools.

11 Are there any other comments you wish to make?

This could include comments on the form and governance of the new independent infrastructure body.

Response:

Thanks for the opportunity to submit on this important initiative. Our concluding thoughts would be:

- **Make a start:** The infrastructure deficit is an urgent problem and it's important not to let the perfect become the enemy of the good. An i-body has an important role to play in improving the planning and delivery of infrastructure in New Zealand – a role that will only become more significant as the available delivery options, and the financing and funding toolkit, are enhanced. It is important to get the body established and to enable it to grow and evolve, in line with (and helping to advise on and deliver) these developments. So long as it has the right structure, an i-body can develop its resources and capability – and deliver increasing returns – through time.
- **Understand the threat and opportunity:** Issues of productivity, carbon transition, technological and demographic change, economic mobility, and resilience are interwoven, and have a common theme of requiring increased infrastructure investment as a core part of the response. These are increasingly complex and ultimately data and evidence-driven issues, which would benefit from an expert and independent i-body to continuously monitor and advise on them, as well as facilitating public debate and consensus-building. The IMF estimates that infrastructure investment lags need in New Zealand by around 0.3% of GDP a year on average and that closing this gap by 2040 would generate a long-term real GDP gain of between 0.65 and 1.00% of GDP annually (or around \$2.8 billion a year in today's dollars). More than that, it is crucial

to maintaining economic and social mobility. It is imperative, then, that this opportunity is not missed. Creating an i-body will not fix things of itself, but it is an important step in the right direction.

- **Facilitate investment:** Looking forward, INFINZ submits that the capital markets can be an important part of creating a more responsive infrastructure environment and that an i-body could perform a crucial role in facilitating access to the capital markets. It has been recognised by the Productivity Commission and by successive governments that access to private finance is a key to breaking the infrastructure deadlock. Infrastructure assets, with their very long life and high quality cashflows, are ideally suited to institutional investment – in particular from funds which have an ESG mandate.

The timing is right to make real progress in this area. The current year has been described as a “*golden age of infrastructure fundraising*”, with US\$68 billion of raised in 41 separate funds by September (source: *Infrastructure Investor*, October 2018), in an environment where the biggest concern was already ‘*too much money chasing too few deals*’ (source: Global Investment Hub/EDHEC Institutional Investor Survey July 2018). There are more than 34 specialist infrastructure funds that have an Asia-Pacific mandate and a further 43 with a global mandate – Australia, in particular, is a place where many of the leading funds are domiciled. This represents an unprecedented opportunity to develop and implement innovative financing and funding to tap this capital and expertise in delivering growth-enabling infrastructure.

The key point for these purposes is that an independent i-body has an important role to play in any circumstances, but – in an environment where an enhanced toolkit is available to enable growth to fund growth – could fulfil an indispensable role in mediating and facilitating access to these new tools. Because of the dispersed and diverse nature of the New Zealand infrastructure delivery landscape, an i-body could also perform an essential function of enabling projects to be pooled to scale.

- **Competing in the international market:** Although New Zealand’s infrastructure issues are serious, they are not unique – the worldwide infrastructure deficit has been calculated to exceed \$21 trillion, and to be growing at more than \$1.5 trillion each year.

Compared to many countries, however, New Zealand is in an enviable position to try to resolve this issue – as noted by rating agencies in relation to both central government and our larger local authorities and by the IMF in its recent Article IV review, we have strong institutions, fiscal headroom, a high credit rating (including of our banking system), a good international reputation, and (perhaps most importantly) the ability to undertake reform. In particular, this makes New Zealand a positive environment to attract a portion of the unprecedented capital inflows to infrastructure funds and to benefit from the expertise they are able to provide. However, it is also important to note that – again because the infrastructure deficit is an almost universal phenomenon in both developed and emerging markets – the market to attract capital, technology and EPC resource is a global one and is highly competitive.

In this race, New Zealand also has some handicaps, including scale, distance from core markets, capacity issues, balance sheet constraints and limitations on funding tools affecting local authorities in particular, and also possibly some credibility question marks because of mistakes that have been made in the past (which

hopefully would have been less likely to be made if there was an i-body advising the government and the various procurement agencies). As such, if the i-body is going to be a game-changer as opposed to just a 'nice to have', it is of utmost importance that it is structured so as to be able to develop the independence, expertise, credibility, and other attributes that would enable it to be held in the sort of regard internationally that is enjoyed by New Zealand Super Fund and ACC in the institutional investment/SWF community.

- **Clarity on roles:** There are multiple agencies involved in delivering infrastructure, and this already crowded field is going to get more so with the introduction of a UDA, the Alliance, and other initiatives around housing. As such, it is important that the i-body's roles are crystal clear, and that its capability, resource and governance structure are consistent with delivery of them – otherwise there is a risk it will just add another interface to an already complex landscape.
- **Resource:** Infrastructure is complex, and this is not restricted to technology matters and the multiple interfaces involved. The i-body will need to have the resource to be able to reliably and flexibly in-source and out-source the range of capabilities required to be effective, and should look to best practice examples in how to achieve this. In our view an excellent example is offered by the CDPQ Infra unit that has been established in Montreal by La Caisse de Quebec.
- **Subsidiarity and scale:** While infrastructure projects are often massive in scale, the degree of on-the-ground community engagement required to move projects forward is not necessarily always well understood. It also has a deeply political dimension (the findings of the *Royal Commission on Auckland Governance* (March 2009) are instructive in this regard), the dynamics of which need to be understood particularly to the extent that progress is going to be dependent on new funding and value capture tools (as we think it must be) – including how the dynamics are different from brownfield to khaki to greenfield.

This is why subsidiarity is a crucial concept in infrastructure delivery. But it also gives rise to challenges of scale and coordination. These challenges could be greatly assisted by an expert and independent i-body to help ensure that the regions don't get left behind, by bringing high quality data, best practice, connections to local and international expertise, and transactional tools which enable pooling of like projects to achieve scale.

- **Location:** Infrastructure problems are diverse in nature and geography – from urban growth issues in the Auckland-Hamilton-Tauranga triangle, to coping with tourism demands in Queenstown and Rotorua, to regions facing low or declining populations and economic growth. Further, to be effective and credible, an i-body needs to be able to attract the best talent. As noted, subsidiarity is also crucial, which at a minimum for the i-body will involve a proper structure for liaison with relevant local authorities and other delivery agencies. For each of these reasons, it is important that this body is not bound to a particular location, but can have a physical presence wherever makes the most sense.