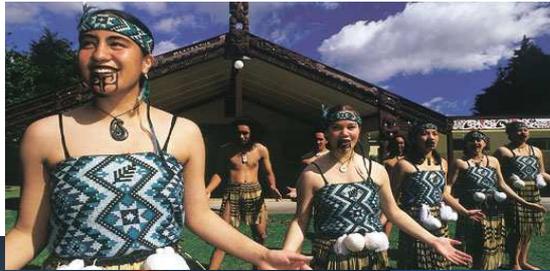


Together  
we can  
*drive*  
change...



# SUBMISSION

INFRASTRUCTURE: FACTS AND ISSUES:  
TOWARDS THE FIRST  
NATIONAL INFRASTRUCTURE PLAN

*October 2009*



**Priority 1** Driving  
Economic  
Growth

1st Floor, Rydal House  
29 Grey Street, PO Box 13057  
Tauranga 3141, New Zealand

Tel: +64 7 571 1401  
Fax: +64 7 571 1402  
[www.priorityone.co.nz](http://www.priorityone.co.nz)

**To:**

Executive Director  
National Infrastructure Unit  
The Treasury  
P O Box 3724  
WELLINGTON

**Name of Submitter:**

Priority One Western Bay of Plenty Inc  
P O Box 13057  
Tauranga

Andrew Coker  
Chief Executive

P. 07 571 1401  
M. 021 432 306  
E. [andrew@priorityone.co.nz](mailto:andrew@priorityone.co.nz)

**Submission:**

This is Priority One's Submission on Infrastructure: Facts and Issues:  
Towards the First National Infrastructure Plan.

**Signed:**



---

Andrew Coker  
**Chief Executive**  
**PRIORITY ONE**

**5 October 2009**

# SUBMISSION FROM PRIORITY ONE

## 1.0 PRIORITY ONE

This submission is made by Priority One, the economic development organisation covering Tauranga city and the Western Bay of Plenty district (the Western Bay of Plenty sub-region). The organisation was established in 2001 by the business community and is valued sufficiently to be funded by over 230 member organisations representing the major proportion of the sub-region's economic activity.

Priority One is also the recognised economic development organisation for Tauranga City Council and Western Bay of Plenty District Council and is contracted by the local authorities to administer and deliver initiatives identified through SmartEconomy, the sub-region's economic development strategy. Since establishment, Priority One's underlying philosophy has been one of "leadership by the business community in partnership with local government to deliver sound economic development strategies and actions".

One of the most important economic development issues facing the country is the need to provide lead infrastructure, which is critical to effective growth management and New Zealand's economy. If we want to retain and attract skilled professionals and new business, and stimulate investment, it is essential that the efficient infrastructure in place to ensure New Zealand remains internationally competitive.

## 2.0 SUB-REGIONAL GROWTH MANAGEMENT

The Western Bay of Plenty sub-region's population is expected to double by 2021 and reach 289,000 by 2051 - comprising around five per cent of New Zealand's population. However the sub-region is fortunate to have clear and complementary development and growth management strategies in place.

SmartGrowth is the sub-region's growth management strategy. It was developed to ensure that, as the Western Bay grows, it will continue to be a great place to live and do business. The adopted SmartGrowth strategy was launched by the Prime Minister in May 2004.

The strategy was developed after concern about the potential for loss of quality of life and prosperity as a result of rapid urban growth and urban sprawl. In particular there were concerns about traffic congestion, loss of open space, farmland and habitat, infrastructure costs and inner city decline. The programme is led by Environment Bay of Plenty, Tauranga City Council, Western Bay of Plenty District Council, and tangata whenua, with input from agencies, business support organisations, central government and other service providers.

SmartGrowth recognises the inter-relationship between community, environmental and economic issues and the need to find well coordinated solutions to address them. In this context, SmartGrowth is a "cross-sectoral"

concept implying partnership and collaboration between local government, iwi, business and the community. The strategy makes provision for sustainable urban and rural development, specifically for the next 20 years and generally for the next 50 years. As such, there has been considerable thinking undertaken around the significance of infrastructure and what is required.

The success of SmartGrowth is directly related to the quality of the working relationships responsible for its implementation. This strong collaborative approach has fed down into the development of SmartEconomy, the sub-region's economic development strategy. Implementation of SmartEconomy involves over 30 representatives from organisations, agencies, education providers, local and central government and businesses in key industry sectors. Priority One is responsible for overseeing the implementation of SmartEconomy. One of the strategy's key areas of focus is on the sustainable growth of the region's export sector.

As noted in the National Infrastructure Plan discussion paper, the Western Bay of Plenty sub-region is part of the Auckland – Hamilton – Tauranga 'growth triangle'. This area is projected to be home to over 35 per cent of New Zealand's population by 2031.

### **3.0 COLLABORATIVE APPROACH TO DEVELOPING THIS SUBMISSION**

In line with the collaborative approach taken by SmartGrowth and SmartEconomy, this submission has been prepared in consultation with the following organisations and business sectors:

- Tauranga City Council
- Western Bay of Plenty District Council
- Environment Bay of Plenty
- Port of Tauranga
- TrustPower
- Tauranga Airport Authority
- New Zealand Kiwifruit Growers Inc
- Bay of Plenty District Health Board
- SmartGrowth
- SmartEconomy
- Priority One Western Bay of Plenty Inc

### **4.0 TOWARDS THE FIRST NATIONAL INFRASTRUCTURE PLAN**

Priority One congratulates the National Infrastructure Unit on the development of the discussion document 'Towards the First National Infrastructure Plan'. It is essential for New Zealand to have a plan for infrastructure development to:

- Maximise economic outcomes.
- Improve productivity to improve standards of living.
- Stimulate private investment.
- Identify national projects of significance and priorities.

- Enable long term, integrated and efficient infrastructure planning.
- Improve alignment between national and regional planning.
- Increase public awareness of the total cost of various levels of service.

## 5.0 GUIDING PRINCIPLES

In developing the National Infrastructure Plan, it is recommended that it be undertaken in accord with a range of guiding principles. This would assist with ensuring that there is consistency in considering matters across the range of infrastructure sectors. The following principles are proposed for consideration:

- It is essential that infrastructure planning and investment is undertaken in accordance with a “whole of government” view and approach. This will ensure desired outcomes flow through with a uniform approach and collective ownership by government departments.
- Central government budgeting priorities should reflect the National Infrastructure Plan and ultimately form the basis of investment through the government’s annual budget process.
- A strategic ‘NZ Inc’ approach is essential to avoid waste and duplication and ensure the best rate of return on investment in what is a relatively small economy. Capital is scarce, therefore it is crucial that it be applied to those infrastructure needs that will generate the highest investment return. The timing of projects and the value/cost of various levels of service are important components of this strategy.
- The ‘NZ Inc’ approach should be extended to ensure that consideration is given to the establishment of a hierarchy of strategic infrastructure assets, considering those in both public and private ownership. The identification of national roads of significance throughout New Zealand has ensured investment is directed for the greatest economic return. This model could also be applied to key areas of strategic infrastructure such as ports, airports and rail.
- In the development of strategic infrastructure, it is important that to ensure that long term returns are calculated as well as initial returns so that the ‘whole of life’ cost/benefit is understood.
- Ensure there is absolute clarity in regard to demand and the costs associated with differing levels of service prior to the progression of any infrastructure project.
- Infrastructure investment must be undertaken based on strong commercial principles.
- That it be recognised that public funding will, at times, be required to catalyse and initially support the establishment of lead infrastructure, which may ultimately be passed onto private investment and operation to drive innovation and maximise performance (eg public transport, broadband).

## 6.0 SPECIFIC FEEDBACK SOUGHT

Consideration has been given to the seven questions outlined on page 2 of the discussion paper. Our responses are as follows:

### 6.1. Is the sectoral analysis an accurate and informative description of the sector?

#### 6.1.1 *Electricity*

[Para 30] Question the statement: *'Generation safety margins are expected to increase in the next decade'*. This is a level of service issue. If there is increased investment in safety margins there will be a lower level of return on the investment, resulting in inefficiencies. Is it essential to provide an electricity system with "no outages" or would a maximum of three hours suffice? This and other level of service debates should take place before further investment occurs.

[Para 31] Question the statement: *'Review recommendations include measures to improve .... downward pressure on generation costs'*. As government will be aware, generation costs are a factor of exchange rates and construction costs. It is likely that generation costs will increase over time, including the cost of technology changes.

There does not seem to be a global approach to measuring demand in the electricity sector. We believe this is essential to determine New Zealand's absolute requirements in regard to certainty of supply in the long term.

#### **This submission:**

- Recommends the development of a model to measure national demand in the electricity sector.

#### 6.1.2 *Transport : Roads*

Roading has been the catalyst for economic development in the Bay of Plenty. The development of a hierarchy of roads of national significance throughout New Zealand ensures that investment is directed for the greatest economic return.

While this submission supports tolling as a funding option for critical roading infrastructure, we believe that other road pricing models also need to be considered, ie congestion charging.

#### **This submission:**

- Supports the development of a hierarchy to determine roads of national significance, with investment decisions based on economic benefits received.
- Recommendation the investigation of alternative road pricing models such as congestion charging.
- Supports the further development of public private partnerships.
- Recommends that consideration and investment be given to supporting the provision of roading by local authorities, particularly given that the local roading network is around seven times the length

of the state highway system, however carries only half of the vehicle kilometres travelled per annum.

### **6.1.3 Transport : Rail**

Rail is an essential part of the country's infrastructure, however this submission suggests that the current rail system is uneconomic and unsustainable. We propose that the National Infrastructure Plan needs to set the scene for a more streamlined and effective rail system.

#### **This submission:**

- Recommends the development of a plan that integrates rail within an overall long term transport strategy.
- Recommends the development of a hierarchy to determine rail links of national significance, with investment decisions based on economic benefits received and the need to maintain and improve such links.
- Recommends that in areas where the rail service is not economic, there is a review of ongoing levels of service.

### **6.1.4 Transport : Ports**

[Para 136] There are different views on when larger ships will trade with New Zealand. Over the last 20 years, ship size has steadily increased and this trend is expected to continue. Key New Zealand exporters are calling for New Zealand ports to be capable of handling larger container ships over the next 3-5 years. There is a global trend towards larger ships to maximise efficiencies. The New Zealand economy survives or fails on its ability to export, and 99 per cent of trade goes through our sea ports. It is therefore essential that the country's ports can respond to changes in international shipping. Our competitiveness will diminish over time if we ignore this trend. New Zealand exporters do not wish to have longer transit times to get products to the international marketplace by transshipping through high cost Australian ports.

New Zealand port companies do not all have the same funding and public disclosure structure. Some ports are subsidised with regional ratepayer funding and do not meet their cost of capital, while others are run on a commercial model and are extremely efficient as a consequence. This situation provides an unlevel playing field for healthy competition that would reduce inefficiencies.

#### **This submission:**

- Recommends a hierarchy of ports will develop naturally in a similar manner to the identification of roads of national significance if ports priced and invested to achieve a cost of capital return. This will drive investment decisions based on economic benefits received.
- Strongly urges that New Zealand ports be prepared to receive larger container ships. If the country does not follow this international trend, our competitiveness will diminish over time and detrimentally affect our exporters and importers, and ultimately our economy.
- Recognises that a level of competition is required to ensure strategic ports remain market responsive and efficient. However to minimise

inefficiencies, competition needs to commence from a level playing field. It is important to recognise that our main competitors are Australian ports.

- Recommends the development of an integrated approach to the entire logistics supply chain within New Zealand to maximise efficiencies. This therefore ties in with the need to determine and invest in those parts of the rail network that serve both producers of goods and key import/export ports. The same applies to the key parts of the road network.

#### **6.1.5 Transport : Air Services**

This submission raises concerns that decisions on investment in air services is often driven by competition between airlines with a short term view of the outcomes sought. The increase in international airports has resulted in a weakening of the country's national carrier and significantly increased the biosecurity risk to New Zealand's primary sector.

Another issue is that airport navigational equipment is provided by government's SOE, Airways Corporation. Increasingly, and understandably, their investment is focused on main centres, posing issues of ageing technology in regional airports. In the context of an infrastructure plan, we suggest consideration needs to be given to high growth regions set to become main centres that will require upgrades in equipment. Alternatively a different market model will need to be developed to ensure effective investment in critical navigational technology.

#### **This submission:**

- Suggests the government takes a leadership role in restricting the number of international airports to strengthen the national airline, increase efficiencies and reduce the biosecurity risk.
- Recommends the development of a hierarchy of airports in a similar manner to the identification of roads of national significance, which will drive investment decisions based on economic benefits received.
- Suggest consideration be given to long term investment in navigational equipment at regional airports set to become main centres.

#### **6.1.6 Water**

The availability of water is a serious economic issue for New Zealand, which relies on water, particularly for our agriculture and horticulture exports. It is therefore essential that the National Infrastructure Plan treat water as a valuable and finite resource.

Current pricing systems result in a significant waste of water. With growth predicted in pastoral and dairying operations, as well as in the horticulture sector (including for frost protection of kiwifruit), the country is set to face serious issues in future in terms of water availability. A degree of sophistication is needed in pricing measurements, based on high level principals of commercial value at certain periods of time.

As a matter of interest Tauranga is now recognised as a main centre and has two of the most modern micro-filtration water processing plants in the southern hemisphere.

**This submission:**

- Recommends the establishment of an appropriate structure within the Local Government Act/Local Government Rating Act to allow wider pricing options to set levels of service and manage the demand for water (and wastewater services – see below) based on high level principles of commercial value.

### **6.1.7 Wastewater**

Environmental standards (discharge quality, overflow service levels, etc) have progressively raised the ‘level of service’ for wastewater services. What has been wrong about this process is that it has been driven by individual Resource Management Act consenting decisions, rather than through the establishment of some clear national standards, with time periods for councils to meet them if they do not currently do so. The compliance burden has been significant to date with no economic test being applied to the environmental standards being required.

The Resource Management Act has also been used by citizens to prevent essential wastewater system upgrades that are pivotal to improving New Zealand’s ‘clean, green’ image. In some cases these opposing groups have been funded by the Ministry for the Environment’s funding programmes.

Charging for wastewater services is problematic under the Local Government Act and it is not straight forward to introduce volumetric charging for wastewater services. It should be simple.

**This submission:**

- Recommends amending the Local Government Act/Local Government Rating Act to broaden the ability of wastewater (and water supply) services to levy stepped and/or variable volumetric charges for wastewater services that reflect commercial principles.

### **6.1.8 Health**

**This submission:**

- Supports the paper’s sectoral analysis and planned investment in the health sector. It would be of assistance to further explain the relationship of the infrastructure plan to the responsibilities of the Ministry of Health and National Capital Committee in the planning for and investment in health, particularly health infrastructure. It is important that relationships are clear and that the roles of current agencies and delivery of the infrastructure plan does not create duplication.

## 6.2. Are there important infrastructure issues not mentioned?

Listed below are some areas that this submission believes should be considered for inclusion in the National Infrastructure Plan, and two areas which may not be relevant for inclusion in the final plan.

### 6.2.1 *Forestry*

This submission suggests that a key area that is missing from the plan is forestry infrastructure and investment. It is proposed that a longer term government vision is required for forestry within the broader economic picture. Carbon pricing on trees means that forestry will continue to be a viable industry for New Zealand. However much of New Zealand's forestry infrastructure is old and many processing plants are being run down.

An historical inability to return its cost of capital to a number of private, particularly international, investors has seen the industry decline to one of largely the export of logs. It must be recognised that the forestry sector will continue to be an important area of economic production and that government, through the National Infrastructure Plan, may have the opportunity to set the scene for a future vibrant, value added industry in this country.

### 6.2.2 *"Homeless" NZ Inc Projects*

There are 'NZ Inc'. projects that are essential that don't necessarily have a natural home ministry in Wellington. This leads to high levels of frustration in regions affected by this situation. Two examples in the Bay of Plenty are:

#### ▪ **Opotiki Harbour Development**

It has taken over eight years for a sea farm of 3,800 ha to be consented beyond appeal 6 km off the coast of Opotiki. (There is an outstanding judicial review of the Mfish decision still). The Opotiki Harbour entrance consents have been granted. New Zealand has a major opportunity to be a world leader in aquaculture (sea farming and land based production). The waters off the Eastern Bay of Plenty are a pristine resource and perfectly positioned to become a centre of excellence in aquaculture. Harbour entrance groynes will be 'sunk public infrastructure' and they cannot be privately owned, rated or charged for. Wharves and jetties can but the user fees will never repay the cost of the Harbour entrance upgrade. The boats needed to service the sea farm (daily) cannot travel from Tauranga (it's too far - six hours each way) and Whakatane Harbour is tidal and unsuitable in rough weather. \$40 million is needed for the harbour upgrade and it will require a local, regional and central funding plan to succeed. The project will create 900 new jobs and could deliver the stepped change required in the Eastern Bay of Plenty, both economically and socially. There is no sponsoring ministry or 'NZ Inc' approach to this project in Wellington and this submission suggests that there should be.

- **East Coast Main Trunk Railway Bridge No. 71**

This is just one of the aging bridges in Kiwirail's network of over 1,600 bridges. Tauranga City Council has a \$100 million wastewater pipeline project that sees a wastewater interceptor pipe needing to cross the harbour. The most sensible long term option is to place the pipe on the railway bridge, thereby providing for the bridge to be upgraded and avoiding a submarine pipeline across the harbour floor. Consents are held for both options. Kiwirail (ON Track) has offered the NPV of the avoided maintenance costs towards the project, while Tauranga City Council has offered the equivalent cost of the submarine pipeline option, plus a new walkway/cycle way atop the pipe. There is a funding gap and there is no 'home' to consider this project. It has been worked on with the government since 2007 and needs to be built by 2013. Currently MOT, through the Group Manager: Road and Rail, has offered to include the project in a package of rail investments to be considered by the government early in 2010, however with no immediate justification for the project it is likely to be overlooked. The bridge is one of the busiest rail bridges in the country.

**This submission:**

- Recommends that the forestry sector be included as a key element of infrastructure within the plan and incentives to drive investment in forestry processing, in particular onshore value add, be investigated.
- Does not agree that 'Education (primary/secondary)' is a key element of the country's infrastructure and recommends it be removed from the plan. Primary and secondary education have a more local focus as opposed to tertiary education, which has a regional and national focus.
- Recommends the inclusion of 'Education (tertiary)' as an important element for growing the nation's economy. If the National Infrastructure Plan is focusing on elements which will maximise economic outcomes, tertiary education is critical infrastructure. There is also concern about the return on investment from existing tertiary institution capital investment decision-making. In addition, tertiary education covers multiple regions and therefore there needs to be consideration of investment and tertiary provision across regions.
- Recommends the removal of 'Corrections' as this is delivering on Central Government responsibilities and has a more specific facility focus.
- Recommends that the Infrastructure Unit takes responsibility for co-ordinating 'NZ Inc' projects, from a Wellington perspective, when there is no 'home ministry' for the project.
- Suggests there needs to be a discussion around the inclusion of solid waste infrastructure in the plan.
- Notes that petroleum, benzene and gas infrastructure are missing from the Energy section of the plan.

- 6.3. For projects to contribute to community / national welfare and economic growth, their expected benefits must be greater than their costs (measured comprehensively). Are there other considerations that should be taken into account?

**This submission:**

- Strongly urges that cost benefit analyses must be determined over the whole life of the infrastructure or project, rather than taking just a short term view. The whole of life of a project may exceed 50-100 years.
- Supports the concept of welfare, including economic growth, environmental and health considerations, measured by a social cost benefit analysis. This is particularly important when considering intangible social benefits and costs and determining whether the project is likely to add or detract from the cost of welfare.

- 6.4. A number of cross sectoral issues are identified. Are there other cross-sectoral issues that should be included?

**6.4.1 Resource Management Act**

There is concern that the consultative process required under the Resource Management Act can add significant costs, including lengthy delays, to infrastructure projects that will benefit the wider population when opposition is received from an individual or relatively small group of people. In addition, compared to the United Kingdom EPA, New Zealand's appeal rights are very generous.

**This submission:**

- Suggests a review and streamlining of the RMA appeals process, giving consideration to the model used in the United Kingdom and in some Australian states.
- Urges the ongoing focus by government towards the full and timely resolution of Treaty claims currently under negotiation. The RMA tends to be used as a default position for arguing Treaty issues and therefore slowing or preventing projects that would provide economic benefits.

**6.4.2 Local Authority Debt**

[Para 361] It should be noted that the graph at the top of page 100 showing the amount of debt carried by local authorities is significantly understated. This is due to Ten Year Plans being adjusted to give a more favourable picture of local authority debt levels in order for their respective LTCCPs to be politically acceptable within their communities. Once the rating thresholds and tolerances are identified, planned expenditure is simply removed or deferred from the plans in question.

**6.5. Are there important regulatory constraints on the development of infrastructure that are not being addressed by the government's current regulatory reform programme?**

This submission strongly recommends ongoing discussion and debate in regard to the privatisation of state-owned commercial assets that are essential for New Zealand's competitiveness. It is our view that some public assets are inefficient and under-performing, and may present significant opportunities to contribute to future infrastructure funding by the release of value through whole or partial sale.

An example of this could be that the New Zealand Superannuation Fund is utilised as an investment tool in some State Owned Enterprises, enhancing performance by providing an external transparency on performance without compromising New Zealand ownership.

**6.6 For each infrastructure sector, is it possible or desirable to define the service level New Zealand should aspire to?**

As outlined in the guiding principles recommended earlier in this submission, we believe it is critical in maximising the economic outcomes of infrastructure investment to clearly define the service levels that should be aspired to and to quantify the costs and benefits of exceeding or reducing those levels of service. There is a perception among New Zealanders that services such as health, water and roading are essentially 'free', not realising the true cost to provide these services and where that cost is borne. There is also a belief that it is desirable to have world-class facilities throughout New Zealand, when this is simply not achievable.

**This submission:**

- Strongly supports a campaign by the National Infrastructure Unit to increase public awareness of the total costs and benefits of varying levels of service.
- That optimum levels of service for infrastructure investment are determined based on sound understanding of needs and the country's ability to pay.
- Strongly suggests that the approach to the infrastructure plan be one of picking future winners (nominate sectors, e.g. forestry, aquaculture, etc) that will drive our economy into periods of substantial and rapid growth. This may require that levels of service differ throughout the country and a combination of both national and regional levels of service for the range of infrastructure that the plan will cover.

**6.7 What additional investment would help New Zealand to increase its rate of economic growth? How can we be confident that this additional investment is a prudent use of scarce funds?**

**This submission:**

- Strongly supports additional investment to build on our competitiveness as an international trading economy by ensuring internal supply chain infrastructure is as efficient as possible, for

example the rail linkages within the 'growth triangle' of Auckland, Tauranga and Hamilton.

- Recommends that infrastructure investments are prioritised on the basis of their capital demands and rate of return on investment to the New Zealand economy as a whole.
- Seeks consideration that, as an increasingly important driver of productivity, investments in technology infrastructure be considered as essential as transport and water infrastructure and be given similar consideration.
- Strongly supports selecting some key industries that New Zealand is likely to be internationally successful in over the next 50 years, such as food technology, aquaculture, forestry, etc.

## **7.0 ENGAGEMENT IN THE DEVELOPMENT OF THE NATIONAL INFRASTRUCTURE PLAN**

Priority One appreciates the opportunity to provide input at this early stage of the development of a National Infrastructure Plan. The Western Bay of Plenty is a proactive and engaged region, with a strong philosophy of taking responsibility for delivering the outcomes required through collaborative partnerships between the public and private sectors, and the community.

We therefore look forward to the opportunity to discuss the matters raised in this submission and contribute further to the development of New Zealand's first National Infrastructure Plan.

Such engagement assists with both understanding and achieving a commitment to support the development of projects related to delivery of the infrastructure plan.