

Memo

To: Infrastructure Industry Reference Group
From: Business New Zealand
Date: 14 April 2020
Subject: Feedback on shovel-ready projects
Action Required: For noting and discussion

Introduction

This paper represents the collective advice of BusinessNZ and its associated national network constituents, the Employers and Manufacturers Association (EMA), Business Central, Canterbury Employers and Chamber of Commerce (CECC) and the Otago/Southland Employers Association (OSEA) with input from the Business Energy Council (BEC) and the Sustainable Business Council (SBC).

The paper draws on results of a survey undertaken among members of the Major Companies Group within BusinessNZ, with comments and suggestions from more than 40 of those companies (attached as Appendix 1).

The paper also makes recommendations in key areas to support an accelerated programme of infrastructure construction including factors to consider in prioritising projects.

The paper also contains several less well-known or smaller scale projects that could be brought forward in areas such as sustainable energy, schools and hospital infrastructure.

BusinessNZ looks forward to working with government on the development of these shovel-ready projects and on developing a framework for considering longer-term projects.

Overarching principles for considering projects

1. *Partnership approach*

The success of both SCIRT and NCTIR partnership approaches in the Christchurch and Kaikoura rebuilds are models we believe should be the guide to a national infrastructure programme to support the economic recovery from Covid-19. Central and local government combined to prioritise, remove regulatory hurdles and provide the seed funding necessary to bring in the private sector constructors who are geared up to respond to demand quickly.

Under this model government's role, via the recently formed National Infrastructure Commission, would be to prioritise projects and create the workflow pipeline that will encourage the private sector to resource up to respond to that pipeline.

The timing around the pipeline will be critical as the infrastructure sector will have difficulty in recruiting many of the functions needed to support actual construction, including procurement, design and financial experts. Also critical will be recruiting large-scale workforces for projects that are labour intensive. That may require redeployment and retraining from other sectors where large workforces have become unemployed. This is an area that can be assisted by certainty of the pipeline, rapid procurement processes to lock in those contracts for the big constructors and altering the payment scheme to ensure those firms have the capital they need to resource up.

SCIRT and NCTIR also highlighted the benefits of a partnership between the private and public sectors with the public sector providing more rapid consenting processes allowing the private sector constructors to quickly move through the design and consultation phases to construction.

2. Sustainability Principles

The COVID-19 recovery effort presents a once-in-a-generation opportunity to make strategic investments in New Zealand's infrastructure. But in the necessary haste to implement these shovel-ready projects it's important not to lose sight of key goals around sustainability.

The following principles will provide a useful framework for considering suitable shovel-ready infrastructure projects.

- Ensure projects are consistent with New Zealand sustainability framework. This includes the principles of the RMA, the Living Standards Framework and the Government Policy Statement. The lesson from the Canterbury Rebuild is that large-scale projects can be implemented quickly as long as streamlined processes are in place.
- Prioritising projects that contribute to NZ's transition to a net zero carbon economy by 2050. Our attached list of projects include many where there is a win-win-win of growth, jobs and reducing New Zealand's carbon emissions. This includes renewable energy (geothermal, solar and wind) and low-emission transport (electric vehicle infrastructure, rail).
- Ensure projects advance infrastructure sustainability by providing guidance for planners, designers, builders, owners, operators and investors to make decisions that optimise the environmental, social and economic outcomes of infrastructure. One of the easiest ways of doing this is utilising the Infrastructure Sustainability Council of Australia (ISCA) framework. This provides a well-understood framework for ensuring that infrastructure is sustainably built and is already widely adopted in New Zealand. Development.
- Prioritise access and equity by ensuring projects will benefit SMEs as well as larger companies, and by ensuring access to quality infrastructure across the different regions and communities within NZ.

3. Include smaller-scale regional projects

While the focus for the Infrastructure Industry Reference group (IIRG) appears to be on larger scale projects we would urge that smaller scale regional projects, right down to local road maintenance, are not overlooked and it is worrying to see many local councils already halting or further deferring routine maintenance, stopping their use of contractors and freezing rates or cutting spending.

It is these smaller scale projects that are the lifeblood to many smaller infrastructure contractors across the country and perhaps there is a role for the Provincial Growth Fund (PGF) to be deployed even more aggressively and its remit altered to provide funding to those regional councils to keep these contracts rolling and spark new spending. Given the scale of spending proposed on larger projects there is arguably a case for a repurposed PGF to also be given greater levels of funding.

4. *Streamline procurement*

In creating a list of shovel-ready projects it is important that the procurement process is sped up to enable companies to resource up to meet the needs of these projects. Ideas for streamlining the procurement process include the following:

- An open-book approach from government to enable the quick appointment of lead contractors. Certainty around procurement and a project pipeline would also enable Government to ask those lead contractors to include provisions for apprentice training (e.g. CrossRail in London has 3,300 apprentice training positions tied to the construction contract).
- Bundle projects and aggregate smaller contractors, especially in the regions, to help kick-start the small contractor sector – an approach used by Future Scotland in the UK.
- A funding allocation under the PGF for roading projects in a region or bundling some of the school projects already identified in a region could allow for several contractors to work on the same projects at the same time sharing resources and building depths of skills in the regions.
- The recently updated Rules of Procurement have a focus on the Government achieving “broader outcomes” from the procurement process. BusinessNZ is supportive of the new rules and sees procurement as an essential part of building a strong domestic economy by including more of our local businesses in the supply chain of Government purchasing.
- BusinessNZ recommends that new guidance is given by the State Services Commission to Government Agency CEO’s to have a more dedicated focus on Rules 16 and 17.

As a general comment, feedback we have received from many companies is that government procurement has ground to a halt under Level 4. The sooner government agencies can get their current procurement back on track the better it will be from an economic perspective for NZ.

5. *Streamline RMA processes*

The current constraints of the RMA can be a handbrake to the consideration of rapid implementation of major infrastructure builds. Some suggested changes to unlock those RMA constraints include:

- Adopting the SCIRT and NCTIR models where consultation still occurs but at an accelerated rate;
- Apply a National Interest test to push through consents – like the current call in fast-track;
- Adopt a system similar to France where consultation occurs on the original plan over a fixed and limited time;
- Change or remove noise limitations on more isolated sites to allow double shifts where practical;
- Give credible agencies (e.g. NZTA, KiwiRail, major constructors) self-consenting powers for smaller projects (less than \$20 million). Councils could assist and provide quality oversight and have a similar waiver to get their own projects moving quickly; and
- Encourage and use compulsory acquisition powers to expedite projects.

Other areas that could be looked at include:

- Giving local authorities access to more funding alternatives such as targeted rates and asset recycling;
- Repurpose the Provincial Growth fund to provide funding for smaller regional councils to encourage them to invest in maintenance and fund new smaller-scale infrastructure projects; and
- Bundle procurement in areas such as school and hospital upgrades and maintenance across regions and aggregate smaller firms to implement those projects.

Summary of recommended infrastructure projects

1. Prioritise investment in renewable energy and transport

The focus on shovel-ready projects could also lead to an emphasis being placed on horizontal infrastructure projects at the expense of longer-term goals around sustainability.

For example, several energy projects that would reduce or remove the need to burn coal at Huntly to meet peak demands are near ready to go or already consented.

This is also a good time to consider creating a comprehensive national vehicle charging network to support greater electrification of the national freight, public transport and private vehicle fleets to help achieve future emission targets.

Some of the principles to consider when prioritising energy projects are set out below:

- Siloed thinking risks unintended consequences and poorly allocated resources. Interconnectivity and system-wide collaboration to unlock exponential growth opportunities, including successful management of energy transitions at all scales is key.
- A well-functioning, vibrant economy relies on investment in sustainable, resilient and affordable energy. In connection to the outbreak of COVID-19 it is important to answer the question of how we can best utilise the placement of resources for the benefit of New Zealand Inc.
- Positioning New Zealand's economy towards high productivity and low emissions' outcomes with a greater emphasis on projects that promote infrastructure resiliency, resource and energy efficiency, innovative technology and training of the future workforce.

There are a range of different funding opportunities for undertaking this work, including:

- European Commission Innovation Fund
- Australian Climate Solutions Fund
- Canadian Carbon Economy Fund

These flagship funding mechanisms all place heavy emphasis on funding projects with the lowest marginal abatement costs. This approach reduces the likelihood of controversy and excessive complexity in targeting the expenditure of resources for emission reduction efforts. A contestable funding system based on highest carbon reduction per capital dollar could be considered.

2. Invest in social infrastructure

The education, health and housing sectors also need major infrastructure boosts. There would be opportunities to accelerate and increase spending on the already announced school upgrade programme, while it is certainly time to upgrade existing and invest in new hospitals, and provincial/regional clinics and mental health facilities. A programme has already been announced and could easily be accelerated and enhanced.

In regions it may be possible to aggregate a number of smaller contractors into a dedicated project team to upgrade schools and or hospitals in those areas. This is an approach adopted in Scotland for a regional school construction and upgrade programme covering more than 50 schools.

There are a number of large-scale housing projects planned around the country. Government may need to assist with managing the risk behind these projects to ensure they go ahead and get them underway quickly.

3. Invest in waste infrastructure

The Government is already endeavouring to address the increasing volumes of waste going to landfill through advocating an increase in the waste levy and creating a greater number of landfills. The Government wants to minimise waste and encourage a more efficient use of resources by moving from a linear 'take, make and waste' economy to a circular economy where resources are cycled (make, use, return) with waste designed out of production. This is part of the longer-term goal of moving to a low-emissions, sustainable and inclusive economy for New Zealand.

We need appropriate infrastructure in place to ensure greater recycling and re-use. While some recycling facilities are reasonably well-developed, others are in their infancy or non-existent. Significant infrastructure is required and it is possible for government, in tandem with industry, to set up new recycling or reprocessing hubs around the country for materials collection, collation, and if need be processing so that:

- Larger quantities of materials can be consolidated locally with no need to ship small quantities long distances;
- economies of scale and economic viability are provided; and
- Businesses relying on such collected material can be co-located in the recycling/reprocessing zone or hub.

Increases in the waste levy will grow revenue from appropriately \$30 million to around \$220-\$250 million per annum by 2023. This will provide significant public investment for the public component of a public-private investment programme.

4. Invest in water infrastructure

Government has plans to upgrade infrastructure and management of the Three Waters across NZ. While it is important to ensure that drinking water requirements are fit for purpose and affordable for communities the one-size-fits-all rules for water will potentially impose significant costs – particularly for small rural schemes where. To offset this government could consider producing additional central government funding to progress upgrades at pace.

As a first step under the "Action for Healthy Waterways" local councils will require significant investment to undertake and review their water plans leading to a need for far greater financial support for both public and private efforts to improve water quality. Greater central government support could include:

- Increased funding for riparian fencing and planting;
- Additional investment to achieve better environmental monitoring and reporting to better inform initiatives aimed at improving water quality; and
- Consideration for increased funding assistance for urban and commercial sewage treatment schemes – particularly for smaller communities and in degraded and at-risk catchments.

There are strong arguments for the further development of storage as a means of supplementing current water supplies to mitigate seasonal variations such as the current drought across the upper North Island. Issues around where and how storage should be built, the cost, rate of return, and who should pay are contentious. Three broad potential funding options are practicable for funding storage:

- full Crown funding from general taxation where the storage is purely a public good; or
- a mix of funding from third parties – i.e. local ratepayers (or possibly a targeted rate for flood protection, for example), the Crown, and users (i.e. applicants – most likely electricity generators and irrigation providers); or
- the applicant (user) of the storage.

BusinessNZ would welcome the opportunity to work with government on progressing this important work.

5. *Invest in workforce capability and capacity*

The four priorities in considering the workforce impacts post Covid 19 are:

- i. Maximise the health sector workforce capacity
- ii. Maximise the essential services workforce capacity
- iii. Retain as many businesses and workers within the current labour market as possible
- iv. Lean into growth industries to maximise employment outcomes during the recovery phase

For the infrastructure sector, priorities 2 – 4 are most relevant, and changes to the labour market and skills will need to be managed through. Notable challenges that Covid-19 creates that need to be factored into thinking about the workforce and education response include:

- Current lack of visibility of the workforce – while major companies and media provide intel on workforce movements, tools like the HLFS and traditional methods of measuring unemployment rates have lag times that are not fit for purpose in such a dynamic environment;
- The workforce capacity may need to be managed through rapid response of two-week employment blocks for physical work as clusters of Covid outbreaks are anticipated for some time. Consideration also needs to be given to utilise the skills of those that may be self-isolating, but are well and available for remote work;
- Although there are immigration exceptions to enable some flow of critical skills, the lack of transport routes to and from New Zealand, and the dependency on other nations that are managing through their own virus responses, makes reliance on immigration risky;
- The workforce will need to be managed on a regional and skills basis, to minimise people movement and contact across the country, and ensure businesses can move with the speed that may be required;
- Skill shortages exist now for many industries such as infrastructure and construction that will be critical to the economic recovery;
- A rethink of how to deliver skills and employment through Government economic stimulus packages provides the opportunity to increase responsiveness of tertiary education to labour market needs, and accelerate some parts of the Government's education reform agenda;
- An 'all of workforce' approach will be needed as mid-skilled people may need to be developed to meet specialist skills that may no longer be able to be sourced from overseas; and
- In addition to the economic risk of the current situation, there is a considerable social risk of creating greater inequities in educational outcomes that could resonate for years to come (for example, an estimated 20% of learners across compulsory and tertiary education are unlikely to have access to the digital tools required to participate in online learning; creating skill bubbles from delay of tertiary provision).

It is important to note that redeployment has already started organically between firms, however providing co-ordination and scale to redeployment is a significant challenge. BusinessNZ is ready to work with the infrastructure sector to undertake early identification of skill and labour market challenges and connect companies and education providers to take adaptive and iterative approaches to meet the skill challenges of the recovery.

BusinessNZ Possible List of Shovel Ready Infrastructure Projects

Below is a suggested short list of projects for the Infrastructure Industry Reference Group (IIRG) to consider. Further information on any of these projects is available upon request.

Industry	Area	Project	Further Information/Notes
Building	Auckland	Planned hospital upgrades to start immediately – possible new hospital in South Auckland to meet population growth	
Building	Bay of Plenty	Tauranga Hospital upgrade	
Building	Bay of Plenty	Whakatane mental health unit to be built	
Building	Taranaki	Co-fund or fully fund now abandoned plan to upgrade Methanex Plant to produce hydrogen	
Building	Canterbury	Fast track the new stadium build	
Building	Otago/Southland	Fast track Queenstown town centre masterplan and construction	
Building	Otago/Southland	Accelerate Dunedin Hospital construction	
Energy	Central North Island	Generation - Contact Energy Tauhara 250 MW geothermal power station	Currently in planning stages. The project provides opportunity for Taupo and surrounding business, estimate 300+ workers involved in the build and ongoing employment (civil works, pipelines, construction, cranes, transport, trades from every sector, engineers etc.).
Electricity	Central North Island	Generation – Tilt Renewable 133 MW Waipipi (South Taranaki) wind farm	Plans to re-power the first two stages of its ageing Tararua wind farm in coming years. This would almost triple the output at those two stages.
Electricity	North Canterbury	Generation - Mainpower's 90 MW Mt Cass wind farm.	Financial close and off-take arrangements are expected to be finalised by July and construction due to be completed by late 2021.
Electricity	Far North	Generation - Maranga Ra solar energy array (Refining NZ)	Could be accelerated while opportunities may arise for different thinking allied to New Zealand's goals for reduced emissions.
Electricity	Far North	Distributed Generation - distributed community solar energy project	The program will target the regional townships of Kaikohe, Waipapa and Kaitaia aiming. The distributed community solar energy project will provide employment opportunities to the local communities, reduce the regions (and NZ Incs) emissions and assist families (protentional savings per families between \$500 - \$700/year on electricity). A full network implementation would remove 10,000 tons of CO2 emissions from the atmosphere.
Energy	Nationwide	Energy Efficiency - LED retrofit projects (i.e.	Reduce energy and consequent operational carbon emissions by more

		Schools lighting (MoE); Office building lighting (MBIE and all other govt agencies); Outdoor security lighting (Corrections, Defence, MBIE and all other govt agencies) Road lighting (NZTA)	than 60% over obsolete fluorescent technology, and by more than 80% over incandescent technology.
Energy	Wellington	General cable upgrades	Lifelines project: Replace oil and gas-filled cables with modern insulated cables, protected by 33 kilovolt rings, especially in liquefaction zones. Cost: \$160m. Timeframe: 2019-2025
Maritime	Far North	New floating dry dock to be built at Northport	
Rail	Auckland	Third main trunk rail line – could also add planned fourth line	
Rail	Auckland	Electrify rail line from Papakura to Pukekohe	
Rail	Wellington	Wellington Metro Upgrade Programme (WMUP)	Work begins this year to upgrade capacity and replace some lines. Improves reliability and resilience.
Road	Far North	Four lane road south to Marsden Point industrial area – could continue south to Warkworth	
Road	Auckland	Third lane on motorway from Takanini to Drury – could also extend to Bombay	
Road	Auckland	Penlink – Whangaparaoa to northern motorway road link	
Road	Auckland	Mill Rd link from Manukau to Drury	
Road	Bay of Plenty	Four-lane Tauranga to Katikati – currently only 14kms planned	
Road	Bay of Plenty	Upgrade Tauranga to Hamilton road link	
Road	Bay of Plenty	Te Puna to Tauranga and Belk road to Tauriko roading projects	
Road	Waikato	Four lanes south from Cambridge to Piarere key freight link to Tauranga	
Road	Waikato	Upgrade eastern links out of Hamilton	
Road	Taranaki	Fast track ongoing Mt Messenger road construction	
Road	Wellington	Fast track Wellington Airport to SH1 link upgrade	

Road	Canterbury	Four-lane Christchurch to Ashburton	
Road	Wellington	Melling Interchange	Bring forward construction expected to start end of 2022 with \$258 million funded. Provides safer and more resilient transport to and from Lower Hutt, as well as flood protection to an important intersection. Cost: \$258m. Timeframe: Start End of 2022
Road	Wellington	State Highway 58	Lifelines project: Stabilise slopes above highway at Haywards Hill from State Highway 2 to Mt Cecil Rd (additional to safety improvements already under way). Cost: \$24m. Timeframe: 2020-2023
Water	Wellington	Wellington Infrastructure	Water No cost estimates with a taskforce set to investigate the issue. Serious problem in the city with several incidents since December 2019. Underinvestment major issue. Mayoral taskforce investigation set up prior to lockdown.
Water	Wellington	Porirua Infrastructure	Water Required investment to repair and improve the water system. Cost: \$1.8b. Timeframe: Now
Water	Wellington	Hutt Valley Infrastructure	Water Required investment to repair and improve the water system. Estimated CapEx of \$240 million and \$30 million in OpEx on top of a current budget of \$269 million over 10 years. Cost: \$539m. Timeframe: Now