

Media Statement
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Potential for consensus on infrastructure planning, pricing and performance

Representatives from the Labour, Green and Act parties and the NZ Council for Infrastructure Development found common ground on the need for long term infrastructure planning, improved cost benefit analysis and pricing of infrastructure at the NZCID Building Nations Symposium on Wednesday.

"When you're planning investment for your grandchildren, it makes no sense to change direction every three years depending on the composition of government. You can't build a nation that way, and we certainly cannot afford to rebuild Christchurch that way." NZCID CEO Stephen Selwood says.

"It is clear from the debate that parties have difficulty reaching agreement over project prioritisation. Much of the panel discussion focussed on the relative merits of the so called "holiday highway", the motorway extension from Puhoi to Wellsford, as compared with Auckland's proposed CBD rail loop.

"But there is support for closer alignment at the policy level. In particular, there was continued support for further RMA reform, and all representatives expressed concern at the way cost-benefit analysis (CBA) is currently performed and applied.

"We need a more balanced outcomes focussed approach, one which better captures economic, social and environmental benefits and "disbenefits".

"This is critical for the development of national plans, especially for Auckland and Christchurch.

"One particular aspect of CBA which resonated with representatives was the blanket use of 8% discount rates, an issue that was specifically identified by Green Party Co-Leader Russel Norman.

"Discount rates are used by infrastructure planning agencies to project the value of net benefits into the future. In setting discount rates at 8%, the government is expecting an 8% return per annum over the measurable life of an asset on the basis that it could invest that money elsewhere and receive that level of return. That's obviously out of line with the actual performance of the government's wider balance sheet and results in critical infrastructure investment being deferred or abandoned. Discount rates in Australia are 6% and in the UK and Europe as low as 3% to 4%.

"One of the key difficulties with a high discount rate is that long term benefits are effectively discounted away. When considering inter generational infrastructure projects like the Christchurch CBD development, Auckland's CBD loop or Puhoi-Wellsford motorway extension, all of which promise large long term "second order benefits", an 8% discount rate misrepresents long term project value, compromising investment which would otherwise bring jobs, business and opportunity to local communities.

"There was consensus on the need for a robust review of CBA processes to better inform strategic infrastructure decisions.

"We were also pleased that support was retained for central infrastructure planning and leadership.

"Labour's Transport and Infrastructure spokesperson Shane Jones rightly pointed out that the post-'Think Big' reaction to central planning went too far and has left New Zealand with a legacy of under-investment in critical infrastructure.

"There have been big advances over recent years in the coordination, alignment and integration of central government infrastructure planning, procurement and funding. We need these processes in place if we are to lift productivity and raise living standards. Markets perform better when there is confidence about central government direction and regulatory policy.

"Finally there was broad agreement that pricing of road use and water supplies was both environmentally and economically sound. Market pricing was strongly supported by Act Party spokesperson Sir Roger Douglas but also received support from Russel Norman and Shane Jones, as long as provision was made to support disadvantaged communities.

"Earlier in the day Minister of Transport Steven Joyce emphasised the importance of maximising the return on infrastructure investment, including optimising central and local government balance sheets.

"Positively, the Minister didn't discount road pricing in Auckland, supported by Mayor Brown. But he was not yet convinced that additional taxes are needed, in the short term at least. He would want to be convinced of the economic case for introduction of any new funding mechanisms, that there is a sound business case for all major investments proposed and that maximum value is extracted from Council balance sheets before considering any such proposals.

"With significant funding challenges facing Government and Councils it is clear that the widest possible range of funding options will need to be considered, not only in Auckland and Christchurch, but across the country as a whole.

"The recognition of the need for new ways to plan, evaluate, approve and fund infrastructure investment by all political parties provides an opportunity for building political consensus around these important challenges. NZCID will now commission substantial research into these issues over the next 12 months and will look for support from key central and local government agencies to effect a change in the way New Zealand delivers critical infrastructure" said Selwood.