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Infrastructure Commission  
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To the New Zealand Infrastructure Commission

## **Submission on the Consultation Document, Infrastructure for a Better Future**

### ***Background***

Thank you for the opportunity to provide feedback on the consultation document, *He Tūāpapa ki te Ora, Infrastructure for a Better Future*. We commend the effort to run such a widely consulted process to set out a direction for New Zealand's Infrastructure Strategy.

The New Zealand Superannuation Fund (the Fund) invests money, on behalf of the Government, to help pre-fund universal superannuation entitlements in the future. The Fund is managed by a Crown entity, the Guardians of New Zealand Superannuation (the Guardians). As at 15 June 2021, the Fund totalled NZ\$58 billion, of which, approximately NZ\$7 billion is invested domestically.

The Guardians operates within a legislative mandate that requires it to "*invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:*

- *best practice portfolio management;*
- *maximising returns without undue risk to the Fund as a whole; and*
- *avoiding prejudice to New Zealand's reputation as a responsible member of the world community."*

The Fund has statutory independence from the Government, by way of a 'double arm's length' Crown entity structure, which encourages a focus on long-term objectives. Further information with respect to our approach to investing in New Zealand is available [here](#).

In 2009, the Guardians received a Direction from the Minister of Finance requesting the Fund to appropriately identify and consider opportunities to increase the allocation to New Zealand assets in the Fund, subject to the Guardians' duty to invest in a prudent, commercial basis. The promotion of domestic infrastructure investment is specifically noted within the Direction.

The Minister of Finance's 22 December 2020 Letter of Expectation to the Guardians also requested that we "*...consider the confluence of interests with your organisation in areas for social, sustainable and/or infrastructure investments that can also be beneficial for long-term investment strategies.*"

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### *Summary of Submission*

We are supportive of the actions of the Infrastructure Commission ('Commission'), and of the vision that has been established in the document. A long-term infrastructure strategy is critical given the substantial deficit New Zealand is facing as a country and how this impacts on productivity and global competitiveness.

We agree with the outcomes and principles that were used to guide the strategy and to inform infrastructure investment decisions. The Action Areas and Needs also provide a useful framing, whilst the identified Options provide a useful set of alternatives for consideration.

We have focused our submission in three areas that we think could be further strengthened in the draft Infrastructure Strategy, which the Minister of Infrastructure will receive in September 2021:

1. ideas for further work to explore and implement a wider set of funding mechanisms;
2. consideration of alternative finance and delivery partners;
3. the importance of outlining implementation steps, such as prioritising actions and clarifying roles for execution of the Strategy, including the Commission's own role.

### *Funding Mechanisms*

The Consultation Document puts a much needed focus on funding solutions with particular emphasis given to 'getting the price right'. We agree with the Commission's assertions that pricing, regulation and education are important tools in demand management and shaping user behaviour. Pricing is also important for ensuring efficient use of infrastructure and creating funding sources for maintenance and delivery of infrastructure projects.

Pricing tools mentioned in the paper include well-established user payment systems internationally, such as congestion charges, water metering and waste disposal rates. It is also important to recognise that tax-based funding streams from central and local government may be needed to unlock opportunities for lead infrastructure or where costs are too high for user payment systems to be affordable or recover full project costs. In these cases, there are international examples of capital subsidy programmes to fill the gap (sometimes linked to milestones, performance parameters, or positive social or environmental outcomes), or availability payment systems, where government allocate a long-term payment stream to specific service provision. Such mechanisms need to be designed on the basis of tangible social/environmental needs and ensure that the economic benefits outweigh the cost of the infrastructure investment.

For large scale infrastructure, the 'dynamic effects' – those that change the structure of the economy – are not typically well captured by traditional Cost Benefit Analysis frameworks. For efficient infrastructure planning and investment decision-making, these effects need to be effectively identified, modelled, understood and priced.

The Guardians recently worked alongside Canadian infrastructure investor CDPQ to explore financing, designing, building and operating the Auckland Light Rail Project. As part of the Guardians' work on this project, we identified a number of potential mechanisms to assist in funding the project. For example:

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- options for charging property owners who would benefit from the infrastructure investment through land value capture mechanisms - similar in structure to the Infrastructure Funding and Financing (IFF) legislation;
- payment for use of infrastructure, in this case ticketing;
- the Government contributing capital through an equity investment in the project that could generate a financial return rather than being a grant.

The Guardians submits that there would be significant value in the Crown taking a proactive approach to exploring and implementing new infrastructure funding models in the New Zealand context, as a priority, in order to more effectively allocate the cost of infrastructure projects planned in this Strategy. It is useful to do this preparatory work outside of the urgency of a specific project to enable better debate about structures and evaluation of the pros/cons of different options.

### *Alternative Financing and Delivery Partners*

As the consultation document points out, investment levels in network and growth infrastructure are, in many cases, sub-optimal in New Zealand. The resulting quality of our infrastructure is, and will increasingly become, a serious and material economic and social constraint on New Zealand. The Guardians shares the Government's view that this issue needs to be addressed through an integrated approach. New Zealand has predominantly applied a public delivery approach to infrastructure projects. Given constrained resources and the reality that all associated agencies have specific strengths and limitations, this approach acts to constrain investment and hamper delivery; contributing to less than optimal outcomes. Enabling alternative delivery models and a broader range of infrastructure project sponsors will help to support innovation, address sub-optimal investment levels and the resulting infrastructure deficit.

Institutional investors play a major role in infrastructure financing and delivery internationally. As an example of an alternative delivery approach, the Guardians has indicated its interest in investing in domestic opportunities via *SuperBuild*; a partnership model to co-design, finance and deliver major domestic infrastructure projects. We consider the Fund well-suited to investing directly in New Zealand's infrastructure projects; being local, Crown-owned, sustainability-focused and with a long term investment horizon. The *SuperBuild* model, along with the Fund's international networks, provides a mechanism to attract and commit an increased level of overseas capital and expertise to New Zealand projects. We would welcome the opportunity to discuss how we can use *SuperBuild* to make a meaningful contribution to advancing the Crown and the Commission's strategic infrastructure objectives.

Based on the Guardians' experience with the Auckland Light Rail process, it is our view that there is a need for the Crown to clarify and formalise its approach to receiving and considering unsolicited investment proposals. If New Zealand is to be successful in developing and utilising innovative new financing, funding and delivery approaches, unsolicited proposals could play a role. Agreed and well-understood policies, procedures and structures in relation to such proposals will create an investment environment and a level of certainty conducive to attracting meaningful and relevant unsolicited ideas and proposals. The *He Tūāpapa ki te Ora, Infrastructure for a Better Future* process provides an excellent and timely opportunity to catalyse the work necessary to achieve this. Again, there is significant value in designing these approaches in advance so that we are not trying to develop and apply while in motion.

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We note that similar models to the Guardians *SuperBuild* approach have been successfully utilised overseas; there are multiple examples internationally where governments or local provinces/states have partnered with long term capital providers to finance and deliver infrastructure. Recent examples include infrastructure investment platforms established by the Indonesian Investment Authority and India's National Infrastructure and Investment Fund. Both enable partnership with global international investors. Equally, many jurisdictions have adopted nationally significant infrastructure regimes to provide greater regulatory and tax certainty, creating an attractive environment for long term infrastructure investors. This may become necessary to implement locally for New Zealand to compete with other jurisdictions looking to attract world class expertise.

### *Clarity on priorities and roles, including the Infrastructure Commission, in strategy execution*

For the Infrastructure Strategy to deliver on its objectives, we believe it needs to have a clearer focus on how it will be implemented and what that involves. For instance, given constrained resources, it would benefit from greater clarity in terms of the relative priorities of its recommendations and associated work.

Alongside this, there would be a great deal of value in the Strategy providing a more detailed explanation of the stakeholders who will need to be involved in implementing high priority actions, while more clearly outlining the timing and scope of that involvement.

To increase certainty, we believe the document should include a more detailed explanation of what the Commission sees as its specific role(s) in strategy implementation. For example, the Commission could play a central, coordinating role in the development of infrastructure business cases or overseeing implementation of certain actions. As part of this work, the Commission could help in the identification of capital or funding gaps and, therefore, potential investment (or co-investment) opportunities. New Zealand is a complex market, and accurate identification of the priorities will help support both the development of local industry and attracting international talent/capital.

### **Conclusion**

We welcome the release of the Infrastructure Commission's consultation document, *He Tūāpapa ki te Ora, Infrastructure for a Better Future*, and the opportunity to provide a submission ahead of the draft Strategy. The role of infrastructure is critical in terms of enhancing New Zealand's productivity, our global competitiveness, living standards - as well as meeting our climate change and sustainability goals. We believe a framework for alternative funding and financing mechanisms and/or delivery models needs to be more clearly outlined in the Strategy, alongside the respective roles and responsibilities of the Infrastructure Commission and other stakeholders in ensuring implementation.

We would welcome the opportunity to answer any questions or provide further feedback to the Commission should this be helpful.

For more information:

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