

25 October 2018

Infrastructure Body Consultation

The Treasury
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Submission of Water New Zealand on Proposal for a New Independent Infrastructure Body

1. Water New Zealand (**Water NZ**) is a national not-for-profit sector organisation comprising approximately 1900 corporate and individual members in New Zealand and overseas. Water NZ is the principal voice for the water sector, focusing on the sustainable management and promotion of the water environment and encompassing the three waters: drinking water, waste and storm waters.
2. Water NZ supports the proposal to establish a new independent infrastructure body (**Body**) and is grateful for the opportunity to provide feedback from the perspective of the water sector.

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)?

3. A key feature of the Body will be its ability to integrate and align functions regarding infrastructure assessment, strategy, procurement and delivery. It should reduce risk through oversight of the infrastructure system and continuously reviewing alignment between project prioritisation, implementation, long-term strategy, and outcomes. To be effective in building alignment, the Body will need to operate in an open and collaborative way building consensus through inclusiveness.
4. Water NZ submits that the Body's governance, structure and independence will be critical to its success. Water NZ considers that the Body should have an independent Board appointed by Cabinet comprising up to nine members. The mix of appointees should include public and private sector experts with both strategic and major project delivery experience.
5. Water NZ supports the extension of the Body's advice and assistance to both central and local government, noting that capacity and capability across councils is generally not as well-resourced as that of major Government departments.

6. The efficacy of the Body will lie in the quality of the work that it does and the calibre of the recommendations it makes. As such, the Body will need to attract people of the highest calibre to undertake its work.

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

7. This must carefully negotiate the tension between a Body which has greater or lesser independence versus a greater or lesser role in implementing policy.
8. The Body must have authority derived from its recognised expertise in order to credibly raise issues, influence and lead change, where needed. Independence is central to this. Its mission must be to build durable cross-party support on solutions to long term challenges. As such, Water NZ submits that the Body should be established by statute and report independently to Parliament.
9. However, while the Body needs to be independent, it must also be close to political decision making. It is critical that it fosters an effective working relationship with the Government and maintains a “no surprises” partnership with ministers and officials in government. The culture of the organisation needs to be collaborative, building a “trusted advisor” status with current and future governments.
10. Water NZ considers that the following functions, in particular, are technical in nature, and as such, require independence:
 - a. Assessing the condition of New Zealand’s infrastructure assets
 - b. Developing a shared understanding of New Zealand’s long-term infrastructure strategy
 - c. Identifying New Zealand’s highest priority infrastructure needs
 - d. Identifying and commenting on the barriers to delivering good infrastructure outcomes
 - e. Providing best practice guidance on project procurement and delivery
11. Independent recommendations and guidance with respect to these functions will provide an objective and coherent picture of the shortcomings of New Zealand’s infrastructure, the highest priority needs, the barriers to delivery, and a long term strategy to overcoming barriers to meeting infrastructure needs.

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

12. Water NZ considers that all of the listed functions are essential to the efficient and effective functioning of the Body. It is the integration of these functions which will ensure that true value is provided by the creation of a new Body.
13. Water NZ places particular emphasis on the need to ensure that quality information is available as to the state of 3 waters infrastructure, and that the information is collected and reported on in a consistent manner. The current systems within local government do not allow good comparison between Councils and are not comprehensive.

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

14. In addition to the functions proposed, Water NZ considers that the body should have a function to review and recommend business cases for all “major” projects, as well as conduct ex post evaluations of projects to understand how they have performed relative to business case projections. This function will have several benefits:
 - a. The Body will be able to ensure that each business case is technically accurate.
 - b. The Body will be able to form a view as to how the need for the project compares with other priorities.
 - c. The Body will be best placed to identify the broadest spectrum of project benefits, including from improved integration with other initiatives, resilience, wider social and environmental impacts and other hard to measure qualitative benefits.
 - d. The Body will possess the capability to identify the broadest range of project risks and costs, including from climate change and financial trends, which a service-oriented department is less equipped to evaluate.

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?

Assess the condition of New Zealand's infrastructure assets

15. The body should have a role in driving consistent best practice reporting standards for infrastructure condition and performance. Water NZ considers that the Body should have statutory powers to require the provision of information in a certain and consistent format. This should build on existing mandatory reporting initiatives, including the Non-Financial Performance Measure Rules and Financial Prudence Measures and be refined in consultation with industry. Only when common standards are used can a coherent picture of New Zealand's infrastructure challenges be produced.
16. For example, Water NZ undertakes an annual benchmarking exercise of councils' performance against a range of 3 waters indicators. This work is undertaken to highlight areas of concern and allow councils to benchmark council performance against other councils. Of the 67 local authorities the most that have ever participated is 50. For the others, Water NZ has no performance metrics. For those that do report, the underlying methods for data collection and capture are so widely varying that in many cases it brings into question whether the data being supplied is comparable.
17. Water NZ considers local authorities should be provided the opportunity to record 3 waters asset data into a common database using common data standards. This work has already started as part of the National Pipe Database Portal Project being run by the Quake Centre. Council asset data could be

used to develop asset management plans on a common platform. This would enable staff at one council to move to another and be immediately familiar with the systems. Planning templates should also be used so that a national picture of work in the “pipeline” can be easily assembled by the new Body.

18. The development of common asset data standards was commenced with a LINZ led “meta-data standards” project. The further development and implementation of these standards is required to enable consistent comparisons of 3 water’s infrastructure and to enable the opportunities outlined in paragraph 17. Water NZ considers that the role-out of these standards should be progressed by the independent infrastructure body.
19. This approach will bring much needed transparency to three waters planning in New Zealand and help to hold local authorities to account in delivering on their roles.

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

20. The Body should develop a draft strategy informed by the condition of New Zealand's infrastructure assets and the highest priority needs. Consultation on the strategy should be required, including through formal hearings, noting that feedback from stakeholders is critical for the Body remaining informed of all issues likely to impact infrastructure over the medium-long term.
21. The Government should be required to respond to the strategy, either by adopting its recommendations or publishing reasons for its different view. This requirement is critical for the Body to have influence and standing. Agencies should not be compelled to align plans to the strategy, but their failure to do so should be subject to ongoing assessment by the Body and the Government should be required to explain why agency plans are not consistent.
22. Three waters planning down to the council level needs to be part of the strategy prepared by the Body. This should not be restricted to projects of national significance. Billions of dollars are spent every year on 3 waters assets and operational upgrades. They must form part of the national infrastructure strategy.
23. Water NZ considers that this strategic function needs the ability to require information from local authorities to understand existing growth projections and infrastructure planning. Water NZ considers that a 30 year planning horizon is appropriate.

Identify New Zealand's highest priority infrastructure needs

24. Prioritisation of infrastructure requires consideration of the needs that are served by such infrastructure. Water NZ considers that people's health and safety must be a paramount consideration in prioritising infrastructure needs. In that regard, Water NZ notes the significant effects health of failures in drinking water infrastructure in Havelock North leading to a major outbreak of gastroenteritis. As the inquiry found:¹

¹ Report of the Havelock North Drinking Water Inquiry: Stage 1, paragraph 1

Safe drinking water is crucial to public health. The outbreak of gastroenteritis in Havelock North in August 2016 shook public confidence in this fundamental service. Some 5,500 of the town's 14,000 residents were estimated to have become ill with campylobacteriosis. Some 45 were subsequently hospitalised. It is possible that the outbreak contributed to three deaths, and an unknown number of residents continue to suffer health complications.

25. Where priority infrastructure needs are identified which have substantial risks and impacts on people's health and safety, there is a case for the Body having powers to require government and agencies to act to address these matters.

Identify and comment on the barriers to delivering good infrastructure outcomes

26. In respect of the three waters, a key barrier to delivering good infrastructure outcomes is the fragmented nature of three waters decision making between 67 utilities. Coupled to this is a governance structure and priority setting process at council level which is not fit for purpose when considering infrastructure decisions. In addition, there is a lack of capacity and capability in many small councils, both human in terms of skills and capital in terms of funding.
27. In Water NZ's experience, the aggregation of 3 waters functions into larger entities (e.g. Watercare and Wellington Water) has been an effective approach to addressing the aforementioned barriers to infrastructure outcomes. A number of the Body's proposed functions addressed in the later sections of this submission would also assist in addressing these barriers.

Publish a pipeline of infrastructure projects and act as a 'shop front' for the market including Publish long-term capital intention

28. Water NZ considers that it is necessary for the Body to have sufficient information gathering powers to understand the investment plans of local authorities in three waters infrastructure. This pipeline will provide vital information to private sector entities to 'tool up' and have capacity to meet market demands.

Provide best practice guidance on project procurement and delivery

29. The Body should become the foremost depository for procurement expertise, knowledge and capability in New Zealand. It should lead development of procurement skills, technology and delivery models, advise on governance and connect with equivalent bodies overseas to share and import learnings. This function is critical to ensuring procurement continues to evolve as a core activity and that improvements are constantly made.
30. There is a desperate need to achieve best practice consistency in the way in which councils procure local government works. The Body can assist in this issue by providing standard processes for assessment of tenders, and standard contractual terms. These processes and terms would provide a baseline of practice that should not be deviated from without good justification.

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

31. Water NZ considers that the Body will best work with local government to plan long term infrastructure through its functions of:
 - a. Assessing the condition of local government infrastructure assets;
 - b. Develop a shared understanding of New Zealand's long-term infrastructure strategy;
 - c. Identifying highest priority infrastructure needs;
 - d. Reviewing and recommending business cases;
 - e. Publishing a pipeline of infrastructure projects and acting as a 'shop front' for the market including Publish long-term capital intention;
 - f. Provide best practice guidance on project procurement and delivery.

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

32. This is essentially through provision of information in terms of long term capital intentions and a pipeline of infrastructure projects, as well as acting as an intermediary or 'shop front'. The key point is to provide greater investment certainty to the market to enable retention and building of capacity by private sector firms.

What information should a published pipeline of infrastructure projects include?

33. The published pipeline should cover the next 10 years and identify:
 - a. responsible agencies;
 - b. project status;
 - c. approximate contract size; and
 - d. potential procurement options, including where private capital will be considered.
34. It should be reviewed annually, with ongoing updates made to a digital version throughout the year. There should be a dollar cut off value below which projects are not included.

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

35. Water NZ considers that the Body's 'shop front' role would be acting as an intermediary and facilitating greater cohesion in the infrastructure market place. In particular this would include:
 - a. Facilitating tender processes;
 - b. Fostering consortiums to bid for contracts;
 - c. Working with banks and investors to facilitate funding for projects.

36. The Body should advise on the most appropriate procurement model, as well as the timing and process for engaging the market, evaluating tenders and providing feedback to industry.
37. The 'shop-front' role would include the provision of software platforms for recording 3 waters asset and customer data that are aligned with consistent data standards. This function would enable the opportunities outlined in paragraph 17.

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

38. The new Body needs to provide guidance and direction to councils. Efficiencies will be gained when consistent methods are adopted. Two specific opportunities to provide consistency would be providing best practice support for tendering and contract negotiations.
39. There is too much unnecessary local variability in systems, methodologies, and conditions of consent for water projects. Wastewater treatment plant discharges in particular should be made consistent by the provision of a national wastewater discharge standard. Water NZ has been advocating that such a standard should be introduced. Improved consent compliance could be achieved through the introduction of risk based management approaches, as is the case with drinking water.

Conclusion

40. A representative from Water NZ is happy to meet with officials to discuss this submission if required.

Sincerely

John Pfahlert
Chief Executive