

The Treasury

Infrastructure Reference Group (IRG) establishment and work to date Information Release

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Office of the Minister for Economic Development

Office of the Minister for Infrastructure

Chair, Cabinet

Infrastructure Reference Group (IRG) establishment and work to date

Proposal

1. This paper outlines the Terms of Reference and proposed approach for the newly established Infrastructure Reference Group (IRG) in response to the COVID-19 crisis. The IRG has been tasked with developing a report of possible infrastructure and construction projects and programmes that are ready, or close to ready, to get under way. The IRG has been told to seek projects that have high labour intensity, create economic and/or public benefit nationally or regionally and could be deployed as part of a stimulatory package, should Cabinet desire.

Executive summary

2. The ability to execute any Government supported pipeline that is developed in an efficient and effective manner will require central Government to pull several levers, including legislative changes and funding.
3. The IRG was established due to concerns of a large downturn in the infrastructure and construction sector as a result of COVID-19. The overall sector is approximately 13 per cent of GDP, employs well over 500,000 people and many more indirectly, plays a crucial role in respect of a number of nationally important projects, and has the potential to stimulate the economy if managed well.
4. The IRG is providing advice to the Government on issues affecting the infrastructure and construction sector as a result of the COVID-19 situation. Its initial task is to identify 'shovel ready/near ready' infrastructure projects from local government, the public sector and (where projects can be repurposed for public/regional benefit) the private sector that have, in each case, been or will likely be impacted by COVID-19. The IRG will report back to the Ministers of Finance, Economic Development and Infrastructure with its findings in May.
5. Importantly, the IRG is not deciding on projects or making any final recommendations.

6. The objectives it has been asked to consider in collating its report align are threefold:
 - 6.1. an increased focus on immediate job creation and income growth;
 - 6.2. construction activity that will be underway within the next 12 months, and;
 - 6.3. a high degree of visibility to the community, to give the public confidence that renewed economic activity is underway.
7. These are the same three focuses guiding the reprioritisation of the Provincial Growth Fund to ensure its investments are best able to support our economic recovery.
8. The work of the IRG will not cut across Government agencies' ability to progress worthwhile projects through the COVID-19 Response and Recovery Fund. These may be projects that may have longer lead-in times or meet different criteria to the proposed pipeline the IRG has been asked to develop. Treasury will provide guidance to agencies on how decisions on the COVID-19 Response and Recovery Fund will be made.
7. The IRG will provide a list of projects which are not included in the final report to the relevant agency for consideration by relevant portfolio Ministers. The portfolio Minister may then seek to support the initiative through the COVID-19 Response and Recovery Fund. Some projects may be relevant to more than one portfolio and will be provided to more than one Minister. For example, cross-cutting portfolios like urban development, primary industries, climate change, and infrastructure are likely to be relevant to a significant number of projects.
8. Furthermore, Treasury and the Ministry of Business, Innovation and Employment are preparing advice for the Minister of Finance and Minister of Economic Development on a broader assessment framework for COVID-19 Response and Recovery Fund and post-COVID economic strategy to inform Cabinet's decision making. The Ministry for the Environment is also preparing advice for the Minister for Climate Change and Cabinet about opportunities for alignment between the COVID-19 Response and Recovery Fund and the transition to a clean, green and carbon neutral New Zealand as outlined in the Economic Plan.
9. The IRG is working alongside the Infrastructure Commission and the Construction Accord who are both represented on the IRG Review Board. A close working relationship with Provincial Development Unit (PDU) will ensure there is no duplication of projects – any project less than \$10 million in a region is transferred to PDU and where the project is less than \$20 million and more suited to PGF funding then it is transferred to the PDU.
10. The IRG will also provide independent advice on other matters impacting the construction industry, including proposed emergency consenting powers and fast tracking of procurement by the public sector.

Background

11. We were tasked by the Minister of Finance to prepare a report on potential infrastructure projects for consideration by Budget Ministers and Cabinet (*refer Budget Cab paper para 22.1*).
12. In order to have this report prepared, we asked Mark Binns, the Chair of Crown Infrastructure Partners (CIP), to prepare the report alongside a new Infrastructure Reference Group (IRG) comprising Rosie Mercer, Brian Roche, Alan Bollard, Greg Miller and Andrew Crisp (nominee; representing the Construction Accord). Mr Binns will chair the IRG. CIP will act as secretariat for the IRG and provide support and resource for the report's preparation.
13. Importantly, the IRG Report is not deciding on specific projects or making any final recommendations. The IRG report will summarise the project information received, grouping this by construction readiness, employment intensity, economic and/or public benefit, by Government assistance (including funding) requested, environmental impact and mapping to the Government Economic Plan's eight focuses. The report is not intended to be an investment decision making paper. Ministers will have a further opportunity to consider any final recommendations on investment parameters in an accompanying paper.
14. An accompanying paper to the IRG Report, informed by the IRG Report, will propose options for the Government to consider on which infrastructure sectors with a regional focus the Government may consider supporting (including financial), the possible outcomes of supporting those sectors/regions and the parameters to be considered in selecting projects to support in those sectors and regions.. The broad types of Government financial support being sought will also be outlined.
15. The IRG was established due to concerns of a large downturn in the infrastructure and construction sector as a result of COVID-19. Many projects have been deferred or stopped as commercial revenues dry up or funding lines are difficult to access, hence large numbers of contractors (large and small) and sector supply chains are in distress and employees likely to be out of work.
16. IRG has canvassed the infrastructure and construction sector to understand the degree of impact that COVID-19 is having on the future project pipeline. Initial results show about 23 per cent of existing planned projects are now in jeopardy, making up about 20 per cent of the total value. This is a significant problem in terms of value and employment. This number is likely to increase and many projects in the pre-funding stage are likely to be shelved, causing longer term issues.
17. Infrastructure construction and maintenance is a highly labour-intensive industry, so maintaining and accelerating projects where possible will create/maintain substantial direct and indirect employment opportunities, helping to offset the redundancies and job losses that will be seen in other sectors.

18. The infrastructure sector is approximately 13 per cent of GDP, employs well over 500,000 people, is strategically important for nation building purposes, and is well placed to help stimulate our economy if managed effectively.

Infrastructure Reference Group (IRG)

19. The IRG, supported by CIP, is seeking to identify 'shovel ready' or 'near shovel ready' (i.e. within 12 months) infrastructure projects from local government, the public sector and (where projects can be repurposed for public/regional benefit) the private sector that have, in each case, been impacted by COVID-19.
20. The IRG terms of reference are set out in the Annex One.
21. On 1 April 2020, CIP released a project information request to the industry and stakeholders (including construction companies, engineering and project management firms, commercial property owners/developers, local Government, central Government agencies and Iwi corporations) in order to identify projects that may be suitable for any potential Government support. The project information request responses were due to CIP on 14 April 2020.
22. Both private and public agencies have been invited to submit responses and will be included in the IRG Report provided they meet certain criteria as set out in this paper, a key one being construction ready within 12 months, projects outside this timeframe will not be included. The invitation takes a very broad view of infrastructure and includes maintenance work on infrastructure – for example three water pipe replacement, road resealing/refurbishing, safety improvements and so on.
23. The IRG is focused on 'shovel ready' or 'near ready' (within 12 months) projects continuing to be implemented, and the available work force and contractors being redeployed to (and supply chains utilised for) new projects or deferred maintenance work. It is important for the economy that the infrastructure and construction sector capability and capacity is maintained during the economic recovery, so that a total rebuild of the sector does not need to occur. It could be argued that the industry is still suffering from the prolonged slow-down in the early 1990s and associated exit of skilled tradespeople.
24. The IRG has also provided independent advice and feedback on the issues impacting the construction sector that will need to be considered by Government in order for projects to be successfully procured at speed. IRG will also advise:
 - 24.1. The Minister for the Environment on any proposed changes to the Resource Management Act 1991;
 - 24.2. The Minister of Economic Development on any changes to the Government Procurement Rules; and
 - 24.3. The Minister for Infrastructure on any streamlining or fast tracking of Government Better Business Case process.

25. The IRG report will include discussion of key issues and levers needed to rapidly deploy projects. The may form the basis of a second Cabinet paper from the IRG should Ministers require one.

Potential extent of downturn in the infrastructure and construction industry

26. As part of preparing its report, the IRG has canvassed a number of medium and large scale commercial construction companies to understand the degree of impact that COVID-19 is having on the future project pipelines.
27. Initial projections¹ across these combined organisations show that the extent of existing or planned projects that are now either 'dead' (no longer proceeding), or unlikely to proceed, is 23% overall by number and 20% by value, which is significant for the industries in terms of value and employment lost. ^[25]
28. ^[25]
29. The majority of employees likely to be impacted (or potentially impacted) – and consequently the largest excess capacity – are employees from vertical (buildings) projects
30. A key market in the construction industry is for private residential housing development and construction – this is a very large market of ~\$12.9 billion value (excluding Kainga Ora and recommended Housing and Urban Development proposals²), with ~35,000 houses and ~15,000 apartments/units constructed in the last 12 months³. New Zealand's total construction value for 2019 was approximately \$40 billion (~13% of GDP)⁴. The sector employs large numbers of tradespeople and labourers, and supports large construction firms down to very small owner/operator builders/tradespeople.

¹ Note these are based on very preliminary information provided from sector participants and may not provide a complete picture at this stage. The IRG report will provide a comprehensive analysis.

² We note the state represents a small percentage of the overall housing market.

³ Source: BCI Residential Construction report on constructed dwellings year ended January 2020.

⁴ Source: National Construction Pipeline Report 2019.

31. The residential construction/development sector also supports a considerable supply chain, supports economic activity associated with equipping a new home and land development, and provides substantial government revenues in the form of GST and income tax. It is key for construction to continue at capacity to assist in addressing New Zealand's housing affordability issue.

[25]

Such a significant loss of capacity and capability in this sector will have material impacts on the wider economy and the ability to meet key housing policy goals for housing affordability and reducing homelessness.

Project procurement sources

32. The 'shovel ready'/'near ready' projects that will be identified as meeting the necessary focus areas and capable of being deployed as part of a stimulatory package, will generally fall within one of three broad areas:
 - 32.1. Central government projects are likely to be those which are 'shovel ready'/'near ready' but currently outside Vote funding;
 - 32.2. Local government projects are likely to include local transport projects and refurbishment/maintenance, and three water projects including replacement of aged pipe networks and new water plants to meet safe water/environmental standards. Local Government proposed transport projects will be reviewed by NZTA and three water projects by water sector expertise. IRG will liaise with the Department of Internal Affairs to ensure that advice on potential investment in water infrastructure considers the Government's broader water reform agenda; and
 - 32.3. Private sector projects could be wide ranging, with some being at the high public benefit end and purely commercial development projects with no or little public benefit other than employment. Any private sector projects should not be seen as a transfer of value from the Government to the private sector; only where there is a public/regional benefit can a form of support be provided to ensure the project continues until markets normalise with no transfer of value.

IRG report and process

33. The report will set out potential projects that could be progressed quickly and meet the eligibility criteria.
34. The success of executing any infrastructure pipeline will rely heavily on our ability to streamline RMA processes as well as various other systems, such as the Public Works Act and the Building Act.
35. Inclusion of projects in the report does not mean there will necessarily be any Government support for these projects, nor does exclusion preclude any project from being progressed through the COVID-19 recovery fund.
36. The report will (*note some components below may differ in the final report*):

- 36.1. include both private and public sector projects, including those projects which may not require financial support by the Government but would benefit from non-financial support, such as consenting and/or procurement fast-tracking;
- 36.2. set out the intervention logic and the basis on which projects have been prioritised, and the impact of COVID-19 on that workforce or the likelihood of redeployment to that sector;
- 36.3. set out how the projects on a sector basis in the report complement existing programmes and Government policies;
- 36.4. outline and group the types of the Government intervention being sought for each project (funding, consenting etc.);
- 36.5. ensure there are options for every region across New Zealand to be considered by Ministers; and
- 36.6. provide an indicative assessment of projects based on criteria which is focussed on:
 - 36.6.1. construction readiness, employment/public benefit outcomes, economic and regional/national impact, as discussed below; and
 - 36.6.2. mapping to the Economic Plan's key shifts (i.e. the transition to a clean, green, carbon-neutral and low-waste New Zealand).
37. Once this report is received, The Treasury and MBIE⁵ can provide advice on the report and their view on the above. Budget Ministers will receive the report prior to Cabinet to help ensure alignment with the broader Budget process and priorities.
38. We note that this is not designed to cut across other processes which will be going to Budget Ministers at the same time as this, such as Minister Woods' housing work (refer Budget Cabinet paper 22.2) or Minister Mahuta's three waters work. However, those agencies should feel free to feed that work into it this process as well.

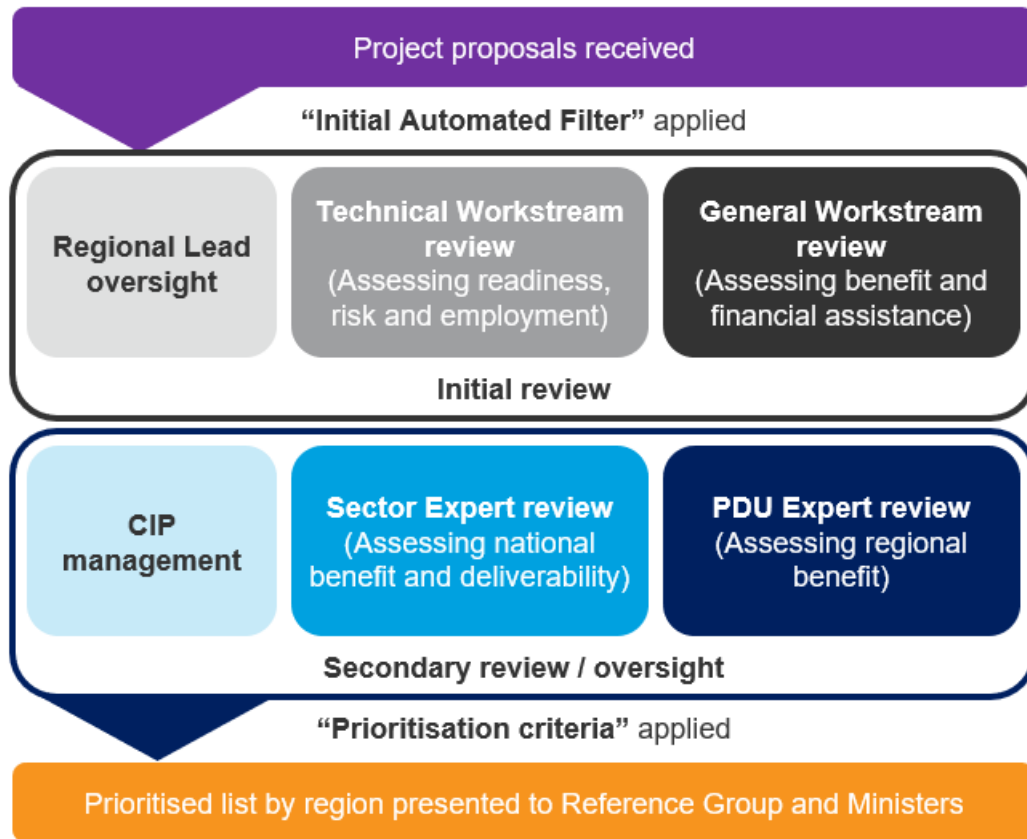
Initial project assessment

39. All projects with a value of less than \$10 million in a region will be sent PDU for consideration. Projects between \$10 million and \$20 million in a region will be discussed between the PDU and IRG to ascertain which agency is best suited to consider it. Projects of \$20 million or more will be assessed by the IRG. IRG regional leads will consult PDU regional leads on all projects in PGF regions to mitigate double ups, understand any priority considerations, and to take advantage of regional knowledge.
40. CIP will support the IRG by first assessing projects against a set of specified criteria and will put forward projects that satisfactorily meet the criteria to IRG

⁵ In consultation with other relevant agencies – for example the Department of Internal Affairs.

for further assessment and potential inclusion in a project list to be provided to Ministers.

41. The process established and overseen by CIP for assessing projects is summarised in the following diagram.



42. The criteria to assess projects is summarised in the below:
- 42.1. **Construction readiness** risk adjusted (within 6 months (list 1), within 12 months (list 2), and any project outside 12 months will be parked and not assessed) – adjustment will be made to timing where such projects would benefit from any Resource Management Act/consenting fast-tracking legislation;
 - 42.2. **Direct Employment** – continuous and new employment as a direct outcome of the project, as a ratio of project capital expenditure with prioritisation given to the most employment-intensive projects; and

- 42.3. **National and Regional benefit** – the overriding priorities for grouping projects in the IRG Report being economic stabilisation, stimulation and rebuild in ways that are mapped with the Government's Economic Plan including the transition to a carbon-neutral New Zealand, prioritising projects that have cross-cutting benefits to a range of sectors, e.g. housing construction, hospitals and medical facilities, transport, energy, ecosystem services/nature, access to economic and other amenities. This assessment will be made by an initial ranking based on whether the generic project type is expected to enable economic stimulation (multiplier impacts) across multiple sectors with, two further assessments also being made as follows:
- 42.3.1. **Multi-regional or national benefit over time:** Reflecting greater potential for multiplier impacts throughout New Zealand which should prioritise projects that will deliver a substantial stream of benefits to their location and the nation over time; and
 - 42.3.2. **Growth or new infrastructure:** Reflecting the benefit from unlocking of capacity constraints or addressing unmet need.
43. Projects will also be grouped (but not prioritised) by the types of Government assistance requested, such as non-financial assistance, underwrite or guarantee, commercial co-funding, concessionary funding, grant funding and not specified. This will provide insight into the types of Government assistance being requested by projects. The IRG report to Ministers will consider how these types of Government assistance could apply if the Government decides to support the higher-benefit projects.
44. As noted earlier, the IRG prioritisation process is to provide Government with a view based on highest benefit of the projects received that are construction ready or near ready. This process is not a business case review of projects or a recommended list of projects for Government to immediately invest in. The latter would be decided by Responsible Ministers on the basis that Government made a decision to fiscally support the infrastructure sector.

Governance and resourcing

45. The IRG will report to a sub-committee of Ministers being the Minister of Finance and the Ministers for Economic Development and Infrastructure. This sub-committee will in turn involve Budget Ministers, to ensure alignment with the broader Budget priorities.
46. The IRG Review Board comprises Mark Binns as Chair (also Chair of CIP), Rosie Mercer (deputy chairperson of the PGF's independent advisory panel and sustainability manager at Ports of Auckland), Brian Roche (Chair NZTA and CRL), Greg Miller (CEO Kiwirail), Alan Bollard (Chair of the Infrastructure Commission, Te Waihanga) and Andrew Crisp (nominee; CEO Ministry of Housing and Urban Development, representing the Construction Accord). The IRG also has representation from the Infrastructure Commission ensure alignment when assessing projects.
47. CIP is supporting the IRG. CIP was selected for this role given its proven track record on delivery of complex nationwide infrastructure projects such as the Ultra-fast Broadband programme (~\$5.5 billion), experience engaging and transacting with the private sector for infrastructure delivery, being independent, and its close working relationship with Government.
48. CIP will be utilising engineering consulting firms (BECA and Motts Macdonald) to assess technical aspects of each project submitted through the project information request process and these reviews will be undertaken by their regional teams. KPMG and a financial adviser will review the general benefit aspects of the projects. As noted above, the PDU will provide the regional perspective and sector experts (for example in transport (NZTA), rail (Kiwirail), housing (nominated by Kainga Ora/the Ministry of Housing and Urban Development), health (nominated by Ministry of Health) and water infrastructure will provide the sector perspective. The Infrastructure Commission is also providing resource to assist with other Government projects and in national benefit reviews.
49. Other sectors which will involve needing expert advice include telecommunications, three waters, environment, tourism, airports/ports and agriculture.
50. CIP are overseeing and managing the process on behalf of IRG and is intending to liaise with Treasury officials as the report findings develop.

Consultation

51. The Treasury, the Ministry for Housing and Urban Development, the Ministry of Business, Innovation and Employment, the Provincial Development Unit, NZTA and the Infrastructure Commission have been consulted in preparation of this paper. The Department of the Prime Minister and Cabinet [PAG] has been informed.

Financial Implications

52. CIP can utilise its existing Bulk Housing Infrastructure appropriation for the IRG work, however this funding will need to be repurposed and The Treasury will finalise this for the approval of the Minister of Finance. CIP will also have its purpose as set out in its company constitution expanded to include the activities it is undertaking to support the IRG, and this will be approved by CIP's shareholding Ministers.

Legislative Implications

53. There are no legislative implications arising from this paper.

Impact Analysis

54. No Impact Analysis is required as there are no legislative implications arising from this paper.

Human Rights

55. There are no human rights implications.

Gender Implications

56. The Ministry for Women has commented that women (especially wāhine Maori) are a vulnerable labour force. Consideration of women as a specific labour market population group needs to be considered in order to assess whether any benefits will flow to women and other vulnerable groups as a result of any decisions by Government as a result of the IRG Report.

Disability Perspective

57. There are no disability implications.

Publicity

58. The communications approach will be managed by my office, in consultation with other entities as appropriate. I expect a low level of business and media attention.

Proactive Release

59. I intend to publicly release a copy of this paper in accordance with Cabinet's proactive release policy.

Recommendations

The Minister for Economic Development and the Minister for Infrastructure recommend that the Cabinet:

1. **Agree** that the Infrastructure Reference Group (**IRG**), established in response to the current COVID-19 situation, will initially prepare a list of infrastructure projects that are ready (or near ready) for construction, meet certain national/regional benefit criteria, are aligned with Government policy and could be deployed as part of a stimulatory package.
2. **Note** that the IRG is not a decision making body, nor will it attempt to rank projects.
3. **Note** that the three guiding principles being used by the IRG are the same as the ones being used in the repurposing of the Provincial Growth Fund.
4. **Agree** the Terms of Reference for the IRG and Crown Infrastructure Partners (**CIP**) assisting the IRG.
5. **Agree** the scope of work proposed for the IRG.
6. **Note** that the report is expected to be presented to Ministers in May 2020.
7. **Invite** the Minister of Economic Development and Minister of Infrastructure to report back on the Infrastructure Reference Group's report in May 2020.
8. **Note** that Budget Ministers' views will be sought prior to the report back in recommendation 5, to help ensure alignment with the broader Budget process and priorities.
9. **Note** that the IRG will provide a full list of projects which are not included in the final report to the relevant agency for consideration by relevant portfolio Ministers.
10. **Note** that some projects are likely to be relevant to more than one portfolio Minister and Ministers with cross-Government portfolio interests (e.g. primary industries, climate change, urban development, etc) will therefore be provided with extensive lists of projects relevant to their cross-cutting portfolios.
11. **Note** that The Treasury and the Ministry of Business, Innovation and Employment are preparing advice for the Minister of Finance and Minister of Economic Development on a broader assessment framework for COVID-19 Response and Recovery Fund and post-COVID economic strategy.
12. **Note** that infrastructure investments have the potential to support several of the Government's other goals as outlined in the Economic Plan and across a broad range of portfolios including housing, primary industries, conservation, energy and resources, and climate change.
13. **Note** the Ministry for the Environment is preparing advice for the Minister for Climate Change and Cabinet about opportunities for alignment between the COVID-19 Response and Recovery Fund and the transition to a clean, green and carbon neutral New Zealand as outlined in the Economic Plan.

14. **Note** that the IRG has provided feedback and recommendations for consideration on the Ministry for the Environment's proposed emergency Resource Management Act/Public Works Act legislative framework, and will provide recommendations on the fast-tracking of government procurement rules and Government business case processes in response to the COVID-19 situation.
15. **Note** that further advice from the IRG including recommendations on how a co-ordinated and centralised approach can be adopted to enable projects to be accelerated may form the basis of a second Cabinet paper should Ministers desire it.
16. **Note** that any operational funding required by IRG and CIP to seek project information from the industry and prepare the report for Ministers can be funded from within existing appropriations, although a portion of the appropriation will need to be repurposed.

Authorised for lodgement

Hon Phil Twyford
Minister for Economic Development

Hon Shane Jones
Minister for Infrastructure