

**NEW ZEALAND BUSINESS ROUNDTABLE**

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**SUBMISSION ON INFRASTRUCTURE  
AUCKLAND'S  
DRAFT ANNUAL PLAN 1999-2000  
LONG-TERM FUNDING PLAN 1999-2009  
AND STATEMENT OF CORPORATE INTENT  
1999-2002**

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**JUNE 1999**

# **INFRASTRUCTURE AUCKLAND'S DRAFT ANNUAL PLAN, LONG TERM FUNDING PLAN AND STATEMENT OF CORPORATE INTENT**

## **1 Overview**

- 1.1 This submission on Infrastructure Auckland's 1999-2000 draft annual plan, long-term funding plan 1999-2009 and statement of corporate intent 1999-2002 (the Plan) is made by the New Zealand Business Roundtable (NZBR). The NZBR is an organisation of chief executives of major New Zealand businesses. The purpose of the organisation is to contribute to the development of sound public policies that reflect overall New Zealand interests.
- 1.2 It is vital that Infrastructure Auckland establishes a valid and consistent view of its role and function that conforms fully with its governing legislation. We consider that in the Plan Infrastructure Auckland has not adequately distinguished its responsibilities and activities from those of other agencies and it has given insufficient attention to its statutory obligation to fund public (not private) good activities.
- 1.3 Infrastructure Auckland has adopted multiple evaluation criteria (MCE) to decide grants. The many criteria for grants are potentially in conflict with one another, for instance the principle of economic efficiency and the benefit principle. There is no sound basis to decide among them. A standard public policy analysis of funding proposals, consistent with the relevant statutory provisions, should replace the MCE methodology.
- 1.4 The Plan forecasts grants of \$30 million a year through to 2009. While it is difficult to forecast the level of grants in advance of applications, the forecast implies that the key argument advanced by local body politicians for retaining the assets of the former Auckland Regional Services Trust was, at a minimum, grossly overstated. Councils and other applicants have had several months to submit applications for transport and stormwater projects that were to cost billions of dollars but very few have been received.
- 1.5 Infrastructure Auckland should fund the upgrading of stormwater treatment and disposal on the isthmus. Some classes of transport projects, for instance

passenger transport operations and services, are unlikely to satisfy the criteria for grants contained in the Local Government Act 1974 (the Act).

- 1.6 Infrastructure Auckland should exit from its investment in Ports of Auckland Limited, Northern Disposals Limited and America's Cup Village Limited. Infrastructure Auckland should invest its capital in a diversified portfolio of low risk securities. The public should be consulted on this investment strategy as required by statute. Infrastructure Auckland should provide a high quality analysis to inform such consultations.
- 1.7 Local government, especially in the main urban centres, is impeding economic development as the OECD observed in its recent report.<sup>1</sup> We are of the view that central government will have to initiate a new round of policy reforms because councils and related bodies have shown that they are unable to focus on their core activities and raise their performance. The future of Infrastructure Auckland should be examined afresh in the context of such a review.
- 1.8 The balance of this submission is presented in two sections. The principal function of Infrastructure Auckland is discussed in the next section (section 2). Its investment activities are examined in section 3.

## **2 The principal function of Infrastructure Auckland**

- 2.1 The principal function of Infrastructure Auckland is clearly set out in section 707ZZK(1) of the Act:

The principal function of Infrastructure Auckland is to contribute funds, by way of grants, in respect of projects, or parts of projects, undertaken in the Auckland Region for the purposes of providing –

- (a) Land transport; or
- (b) Any passenger service; or
- (c) Any passenger transport operation; or
- (d) Stormwater infrastructure, –

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<sup>1</sup> Organisation for Economic Co-operation and Development (1999), *OECD Economic Surveys 1998-1999: New Zealand*, Organisation for Economic Co-operation and Development, Paris.

Where the projects or parts of projects generate benefits to the community generally in addition to any benefits that accrue to any identifiable persons or groups of persons.

Goods and services that provide benefits to people or groups of people that cannot feasibly be identified are known as public goods. Thus Infrastructure Auckland's principal function relates to the making of grants in respect of public good transport and stormwater projects. It also has some functions in respect of the America's Cup yachting event.

- 2.2 Instead of focusing on its principal function as defined in the Act, the Plan envisages a wider role and function that may lead Infrastructure Auckland to engage in activities that are arguably *ultra vires*. Infrastructure Auckland's vision, for instance, is that:

The people of the Auckland region enjoy a superior quality of life within a vibrant, harmonious, safe and economically successful region, based on a healthy environment.

Infrastructure Auckland does not have responsibility for the quality of life, regional harmony, safety, economic success or environmental matters. The responsibilities of local authorities in the region apply to aspects of these goals but even they do not have sole or prime responsibility for them. Infrastructure Auckland should not adopt a vision statement that cannot be advanced or achieved by pursuing its lawful activities.

- 2.3 The role adopted by Infrastructure Auckland is not entirely consistent with its statutory function. Infrastructure Auckland has defined its role as follows:

Infrastructure Auckland is the custodian of a fund of regional investments and will manage the investments entrusted to it, using sound business practice[,] to provide tangible benefits for the community, principally through grants to transport and stormwater projects.

Infrastructure Auckland's principal purpose is not to make grants that provide "tangible benefits for the community" but to make grants that *generate benefits to the community generally in addition to any benefits that accrue to any identifiable persons or groups of persons*. This qualification is the critical element that distinguishes private and public goods. While it is recognised in some passages in the Plan, it is ignored in others.

- 2.4 There is no discussion in the Plan of what might constitute a public good activity. Housing choice and affordability, and several other factors that are referred to on pages 26-29, are not related to public good criteria.
- 2.5 It is implausible that the proposed extension of the Museum of Transport and Technology's tramline from the zoo to its aviation hanger falls within the principal function of Infrastructure Auckland. A grant of \$1.4 million has been requested. Users of the tram can and should be charged and potential free riders can be prohibited from using the tram. The benefits accrue to the users with no significant benefits flowing to other people. Infrastructure Auckland should be funding genuine public good transport and stormwater infrastructure and not antiquated modes of transport that provide amusement for some but have nothing at all to do with relieving congestion or overcoming major stormwater problems. How could the tramline project possibly satisfy the "legislative filters" as claimed?
- 2.6 The grant allocation process is reported to emphasise "multi criteria evaluation" which "provides insight to assist in quality decision making where there are complex multiple objectives." The chairman's message also says there are "many criteria" for grants. The weightings proposed on page 28 are arbitrary. More importantly, Infrastructure Auckland's methodology cannot possibly resolve conflicts among the criteria on a sound basis. Infrastructure Auckland has an unambiguous function that emphasises the funding of certain public good projects. The problem arises from the confused conceptual framework reflected in clause 5.2 of the Infrastructure Auckland Deed. It adds several criteria that are not contained in the Act and provides no basis for resolving conflicts among them. The Deed should be revisited. A standard public policy analysis of proposals, consistent with the relevant statutory provisions, should replace the MCE methodology.
- 2.7 The long-term funding plan assumes that grants through to 2009 will amount to \$30 million a year. This level "approximates net surplus income." The legislation states, however, that the capital of Infrastructure Auckland can be reduced by grants that exceed its income. Moreover, income for this purpose is defined to include cash investments (currently \$273 million). While the Plan

notes that capital may be distributed, it generally conveys the impression that Infrastructure Auckland would like to retain its capital intact.

- 2.8 The forecast of grants at \$30 million a year to 2009 is inconsistent with the argument advanced by local body politicians for the establishment of Infrastructure Auckland. While the level of funding cannot be forecast with certainty until applications are received and evaluated, Infrastructure Auckland should emphasise that its capital is available to fund all projects that satisfy the statutory criteria. There is no need to prioritise such projects as suggested on page 26 unless Infrastructure Auckland's capital would be insufficient to fund all projects that satisfy the statutory criteria.
- 2.9 The Plan states that transport and stormwater projects should be given equal consideration. That approach is doubtful given the principal function of Infrastructure Auckland. Infrastructure Auckland should fund the major upgrading of stormwater systems that is required on the isthmus. Stormwater disposal and treatment, most notably in relation to footpaths and roads, are public good activities. A similar argument might apply in respect of stormwater from private properties if it is not feasible to apply efficient prices.
- 2.10 In contrast to stormwater projects, passenger transport operations and services, including so-called bus rapid transit services and passenger services for the elderly, are private activities. No significant benefits accrue to persons or groups other than the users. Such operations and services do not necessarily reduce road congestion as is often asserted. More importantly, the choice faced by people is not a simple one between the use of a private motorcar and mass passenger transport. A host of factors, such as where people choose to live, work and shop, which school their children attend and whether they rent a video or go to the movies, affect the demand for transport services. The implementation of more efficient prices for road services, such as tolls, and appropriate new investment in roading is required to address congestion. These matters are examined in greater detail in our submission on the Draft Auckland Regional Land Transport Strategy which is attached.

2.11 The strategic environment section of the Plan states that:

Significant effort on the part of Auckland local authorities and the ARC has led to the development of three important guiding documents. [They are the] Regional Growth Strategy, the Auckland Regional Land Transport Strategy and the Auckland Region Urban Stormwater Strategy.

This is a somewhat misleading statement. At least one, and possibly two, of the documents are only drafts. The Auckland Regional Council is required to consult on the growth and transport strategies and to take the views of submitters into account. The outcome of its consultations is not expected to be known until October.

2.12 The desired transport outcomes listed on page 11 of the Plan are inappropriate for Infrastructure Auckland. The responsibility for transport outcomes largely rests with Transit New Zealand, the Auckland Regional Council and the relevant territorial local authorities. Secondly, Infrastructure Auckland has not identified any valid public good arguments for its involvement in passenger transport. A decline in patronage of mass passenger transport and the proposition that such transport is not viable without subsidies are not valid grounds for funding by Infrastructure Auckland. The statement that any significant increase in passenger transport usage reduces the need for further costly investment in roads needs to be examined rigorously and not asserted. Analyses undertaken by the Auckland Regional Council are understood to show that only the introduction of efficient prices for road use would have a significant effect on the future demand for roads. So-called innovative solutions to relieve congestion, such as avoiding the need to travel, may well be beyond Infrastructure Auckland's statutory mandate. This is consistent with its decision to decline an application for a grant by Telework NZ.

2.13 A similar criticism applies to the performance measures listed in the statement of corporate intent. It is inappropriate for Infrastructure Auckland to propose performance measures that reflect collective endeavour. That approach confuses rather than furthers accountability. Moreover, it seems inconsistent with section 707ZZZG of the Act which requires Infrastructure Auckland to submit an annual report at the end of the year. The report is required to contain such information about its grant policy as is sufficient to enable an

informed assessment of the extent to which the objectives and provisions of the Plan and policy have been met during the year. This requirement cannot be met by performance measures that primarily relate to other agencies such as travel times, the number of motor accidents, the number of beach closures and shell fish levels and quality. This problem illustrates the lack of focus that is too often reflected in the Plan.

- 2.14 The statement of ecological policy, as presently drafted, reflects a substandard approach to public policy. Infrastructure Auckland should not, for instance, be aiming to reduce "energy consumption and minimising waste associated with its activities." It should instead aim to maximise efficiency, that is produce the greatest output from a given level of resources or achieve a given level of output with the least possible use of resources. The inefficient use of capital, for instance, to reduce energy consumption could reduce the overall welfare of the inhabitants of the Auckland region in whose interest Infrastructure Auckland is required to act.

### **3 Investment activities**

- 3.1 The Auckland Regional Services Trust claimed that it was taking a sound commercial approach to its investigation of the provision of facilities for the America's Cup regatta. The cost borne by residents through Infrastructure Auckland and its predecessor has escalated from the estimate of \$20-30 million in the Trust's draft 1996-97 annual plan to \$86 million. Infrastructure Auckland's investment in America's Cup Village Limited is to be written down by \$24 million or 28 percent (which includes accumulated losses to 30 June 1998). This illustrates the public sector's capacity to make poor investments with little accountability. A further loss to 31 March 1999, the amount of which has not been yet been disclosed, has been incurred.
- 3.2 Infrastructure Auckland is to review its investment strategy during 1999-2000. It is not required to retain its interests in Ports of Auckland Limited, America's Cup Village Limited and Northern Disposals Limited. However, it is required (with some exceptions) to adopt the special consultative procedure in relation to any proposal to sell or dispose of its shares or interests in such ventures.



- 3.3 Infrastructure Auckland does not need to invest in Ports of Auckland Limited and Northern Disposals Limited to undertake its principal function. A standard financial analysis suggests that Infrastructure Auckland should optimise its return for a given level of risk by holding a diversified portfolio of securities. Its present portfolio requires inhabitants of the region to bear undiversified risk. This is not necessary.
- 3.4 There is compelling evidence that public agencies are generally poor managers of business enterprises. They are subject to weak accountability arrangements. Political considerations frequently bias commercial decisions. For instance, the rationalisation of industries through vertical and horizontal integration, such as a possible merger of Ports of Auckland Limited with other domestic or offshore ports, may be impeded. Ports of Auckland Limited argued last year that substantial efficiency benefits would accrue if it were freed from majority public ownership. Efficient port operations are vital to the business sector and the country. They are being impeded by public ownership.
- 3.5 Infrastructure Auckland should focus on its principal function of making grants that conform with the relevant statutory provisions. Consistent with this view, it should dispose of its investment in Ports of Auckland Limited, Northern Disposals Limited and America's Cup Village Limited. Its capital should be invested in a diversified low-risk portfolio of securities.
- 3.6 A principled case for adopting such a strategy should be put to the public in accordance with the Act as soon as possible. Infrastructure Auckland should inform the public by providing a high quality analysis of the issues involved.