

NATIONAL'S INFRASTRUCTURE PLAN: BUILDING FOR A BRIGHTER FUTURE

New Zealand needs better-quality infrastructure to strengthen our economy and to deliver New Zealanders and their families the jobs, quality of life, and financial security they expect.

National has a comprehensive infrastructure plan to ensure a step change in New Zealand infrastructure investment and to reduce development delays.

We believe that developing New Zealand's infrastructure is essential to getting us through this downturn and on to a path to stronger future economic growth.

In the immediate future, National's infrastructure plan will create jobs for New Zealanders and growth opportunities for businesses, while, in the medium-term, providing the conditions and assets needed to put our country on to a strong growth path.

National's economic management plan focuses on providing much-needed immediate stimulus to the economy, strengthening underlying economic fundamentals, and laying the foundations for a future increase in productivity. Our infrastructure plan is essential to achieving those goals.

THE PROBLEM

For the past several years, New Zealand has shown the symptoms of a severe infrastructure deficit:

- Excessive traffic jams.
- Slow Internet connections and low broadband penetration.
- Inadequate public transport networks.
- Calls to cut back on electricity use.
- Insufficient and out-of-date school facilities.

These problems have reduced New Zealanders' quality of life. They have also constrained productivity growth and put pressure on inflation and interest rates.

These problems have been caused by two underlying issues:

1. Insufficient investment from government and private investors.
2. Excessive red tape holding back developments.

New Zealand cannot afford these impediments to growth and investment – not in the current economic environment and not in the future.

This year's rapid downturn has highlighted how quickly the economy came up against capacity constraints, caused in part by an infrastructure deficit. National is determined to address those constraints to ensure they don't re-emerge as the economy gathers speed again.

National will step up our investment in infrastructure to get our economy moving again. Importantly, this step up in investment will be matched by the legislative and regulatory reforms needed to ensure infrastructure projects aren't hampered by long court hearings, delays, and excessive red tape.



A STEP UP IN INVESTMENT

Each year, the Budget contains new spending on capital projects over and above that which has already been committed by the Government.

In its economic and financial updates, the Government makes an allowance for this new capital investment in future Budgets, planning to invest a certain amount each year.

The current Government is proposing to invest \$900 million in each future Budget on new capital initiatives, as the latest Fiscal Strategy Report makes clear:

“Last year we increased our capital allowance for capital initiatives in future Budgets from \$750 million to \$900 million to reflect the continuing priority of infrastructure investment over coming years. We are maintaining this capital allowance for future Budgets at \$900 million.” (2008 Fiscal Strategy Report, p51).

Table 2.9 of the recently-released Pre-Election Fiscal Update (PREFU) shows how this capital allowance is spread across future years, bearing in mind that some new capital spending in future years has already been committed in previous Budgets.

It shows that Labour is planning to invest an additional \$500 million in 2009/10 on new capital projects over and above what has already been committed, an additional \$750 million in 2010/11, and an additional \$900 million in subsequent years.

National believes this is not enough to enable a step up in much-needed infrastructure like transport, telecommunications, and education.

National's fiscal policy includes a substantial increase in infrastructure investment over the next six years, totalling \$3.7 billion. This takes the form of an increase in the capital allowance in each of the next six Budgets, adding to the capital allowances that Labour has already planned.

This means that over the next six years, National will invest \$8.55 billion on new capital projects above and beyond infrastructure investment that is already budgeted for – just over 75% more than Labour intends to spend (Table 1).

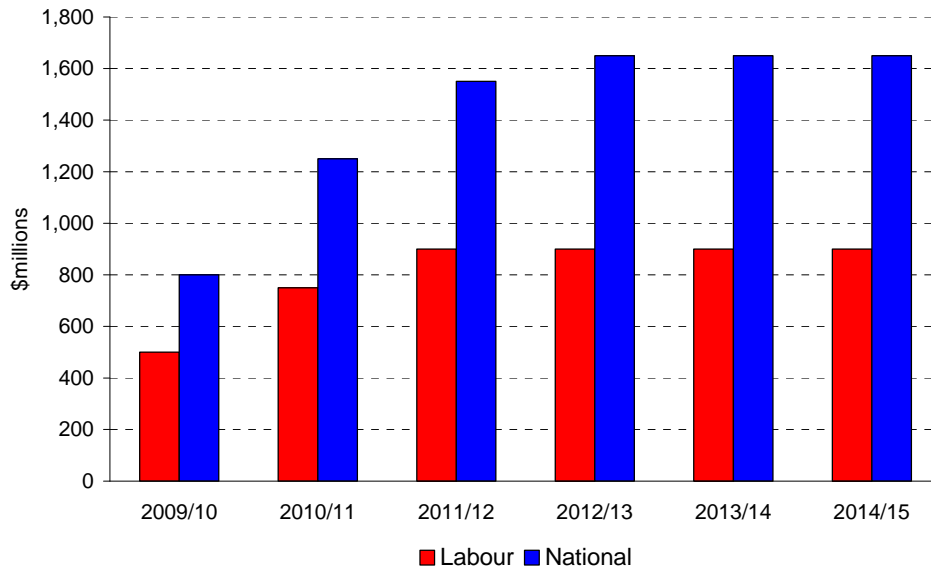
National will have \$800 million in new capital available for investing next year and \$3.6 billion available for investing over our first term.

Table 1 – Future new Capital Allowances – National and Labour

	Labour (\$millions)	National (\$millions)
2009/10	500	800
2010/11	750	1,250
2011/12	900	1,550
2012/13	900	1,650
2013/14	900	1,650
2014/15	900	1,650
TOTAL	4,850	8,550

Sources: 2008 PREFU, Table 2.9; 2008 Fiscal Strategy Report; National's fiscal policy.



Figure 1 – Future New Capital Allowances – National and Labour

STIMULUS AND RESPONSIBLE FISCAL POLICY

National's increased infrastructure investment will provide some much-needed stimulus to New Zealand's flagging economy. It will give more New Zealand firms the opportunity to lock in long-term contracts and it will give them the confidence to take on new employees. It will also improve the incentives for firms and employers to invest, and it will bolster their confidence in New Zealand's future growth opportunities.

Increasing infrastructure investment is a critical way in which the Crown can use its balance sheet to provide New Zealanders with jobs and security in the midst of domestic and global recession.

National's step up in infrastructure investment will also be an important part of sparking economic growth in the medium term. It will play a key role in improving the productivity of the New Zealand economy as we begin to move out of the recession and into a period of growth.

National will achieve this step up in infrastructure investment while delivering a healthier operating balance than Labour in every year apart from 2009/2010, when extra fiscal stimulus will be warranted.

Because of other policy decisions National has taken, this step up in investment will have little effect on projected core Crown gross debt, both in the short term and longer term. Over the next 15 years gross-debt-to-GDP will average 26.9% under National compared to 26.8% under Labour.

NEW INVESTMENT PROGRAMME

National's step up in capital investment will allow us to roll out a range of new infrastructure projects across a range of sectors, beyond business-as-usual Crown capital commitments.

They will include, for example, new roading projects not currently in the 10-year plan, the development of a future-proofed broadband network, and other significant areas of investment.

It will also include essential capital injections in areas that Labour has not budgeted for. For example, one significant area of infrastructure investment that National is committed to is a 21st century school building programme. The Treasury noted in the PREFU fiscal risks section that Labour has not budgeted for the capital injections that will be needed to meet New Zealand's future schooling requirements.¹ National is determined to address this challenge, and we will have more to say about this in coming days.

Because of our planned step up in investment, National is able to commit to a range of significant additional infrastructure projects not budgeted for by Labour, some of which we have already announced – as listed below – and some of which we will announce in the coming days.

National will invest in the following infrastructure projects:

Ultra-fast broadband network	\$1,500 million over six years.
New roading and transport initiatives	
- Waikato Expressway	\$750 million over 10 years.
Additional prison	\$315 million.
21 st century school building programme	\$500 million over three years.

National will announce more specific infrastructure projects before the election, and we will allow a cushion of capital funding for new infrastructure requirements that may arise in Government.

LEADERSHIP AND PLANNING

National recognises that New Zealand also needs to make better use of the baseline infrastructure investment of government. We will take a fresh look at the way New Zealand approaches infrastructure investment in order to ensure we can deliver better results for New Zealanders and their families.

National will:

- Appoint a Minister of Infrastructure to reshape, co-ordinate, and then oversee the Government's infrastructure objectives.
- Create a 20-year National Infrastructure Plan spelling out our investment objectives, the plan will:
 - Be developed in consultation with local government.
 - Set a clear direction for vital national infrastructure investment, including top priority projects.
 - Take into account New Zealand's needs in a rapidly changing world, including the need for infrastructure projects that contribute to a cleaner environment and a stronger economy.
 - Address the planning, regulation, governance, and finance of infrastructure, including an agreed set of projects that will receive central government support and a timetable for their investment and delivery.

¹ See page 69 of the PREFU, 'Education School Property changed quantified risk': "Capital injections for school property will be required in future years to accommodate roll growth and to establish new schools in response to regional population changes... The Minister of Finance has yet to fully consider the quantum of this risk."

MAKING INFRASTRUCTURE INVESTMENT A REALITY

The legislation and compliance barriers of yesterday will prevent New Zealand from laying the right foundations for the economy of today and tomorrow. New Zealanders are rightly fed up with infrastructure paralysis by analysis. The barriers to infrastructure development must come down.

Under the current Government, complex and confusing rules and processes, particularly in the Resource Management Act, are holding back and slowing down infrastructure investment. Every day New Zealanders pay the price for these development delays.

The current Government talks about infrastructure investment, but through its own legislation and red tape it creates excessive barriers to that investment. Delays in decision-making and time-lags between contract-signing and earth-digging have led to huge escalations in project costs. The end result is that too much time and money is being wasted, meaning New Zealanders have to put up with sub-standard infrastructure.

We need to unlock these bottlenecks to ensure a step up in government infrastructure investment leads to timely results for New Zealanders.

National will reduce the barriers to effective and timely investment in infrastructure.

National will:

- Introduce a Priority Consenting process to streamline resource consents for major infrastructure projects of critical national importance.
 - These consents will not go through the local council but will instead be called in and determined nationally.
 - This process will still allow for proper environmental assessment and will enable communities to have their say.
 - The law will require a decision on these Priority Consents within nine months.
- Introduce a new category of state highway called Roads of National Significance that will be singled out as essential roads that require priority treatment.
- Review and, where necessary, reform the Local Government Act and the Land Transport Management Act to reduce infrastructure delays and speed up development.
- Streamline and simplify the Resource Management Act, as detailed in our previously released policy paper.

NEW INVESTMENT OPPORTUNITIES

National believes New Zealanders should have the opportunity to invest in the infrastructure that will help build New Zealand's future.

We will introduce infrastructure bonds to open up the financing of infrastructure projects to a wider range of investors. We will also dispense with the blind ideology that has locked the private sector out of public infrastructure development and operation for so long.

National will:

- Introduce longer-dated infrastructure bonds for quality long-term assets.
- Work with local government to help them develop their infrastructure financing



tools.

- Make greater use of public private partnerships for the development and management of infrastructure assets.

These new bonds and financing tools will give Kiwi mums and dads opportunities to invest in infrastructure projects, through their Super funds and KiwiSaver accounts. They will also allow Crown financial institutions, such as the NZ Super Fund and ACC, to invest in quality assets.

And, importantly, they will help raise the revenue needed to ensure the Government and local bodies can invest in the infrastructure that our communities and country need to grow.

THE NEW ZEALAND SUPERANNUATION FUND

The New Zealand Superannuation Fund (NZSF) contains billions of dollars. This pool of capital belongs to all New Zealanders and it should serve all New Zealanders.

Right now, taxpayers are making contributions of around \$2 billion every year to the NZSF, most of which is invested overseas. As of 30 June 2008, the Super Fund had almost \$14 billion of investments, of which less than a quarter was invested in New Zealand. This means that more than \$10 billion of the NZSF is currently invested overseas.

National believes more of these funds should be used to help grow the New Zealand economy. This should include investment through both central- and local government-issued infrastructure bonds and other infrastructure projects. This is a significant pool of financial capital and has the potential to make a significant boost to New Zealand's infrastructure prospects.

National will:

- Set a target for the Guardians of the Fund to invest at least 40% of the Super Fund in New Zealand.
- Ensure there are quality infrastructure investment opportunities available to the NZ Super Fund and thereby grow the pool of capital available for developing New Zealand's infrastructure.