



association
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HE TŪĀPAPA KI TE ORA INFRASTRUCTURE FOR A BETTER FUTURE

SUBMISSION FROM ACE NEW ZEALAND

INTRODUCTION

Thank you for the opportunity to submit on He Tūāpapa ki te Ora Infrastructure for a Better Future.

ACE New Zealand (the Association of Consulting and Engineering) is a firm-based membership association representing over 220 consulting and engineering firms – from large global firms to employee-owned SMEs and sole traders.

Our members employ approximately 13,500 staff, including engineers, project managers, planners, scientists, architects, surveyors and other technical disciplines relating to the construction and infrastructure sectors. Our teams work together to advise, design and deliver on critical technology, policies and practices, construction and infrastructure, across the built and natural environment in Aotearoa.

Given our role, our submission is focused directly on aspects of the proposed strategy direction that relate to our professional services and consulting businesses.

EXECUTIVE SUMMARY

We support the direction

We support the Infrastructure Commission's work to develop an infrastructure strategy for Aotearoa, and the proposed direction for the strategy.

We were pleased to last year publish our thought leadership report *Infrastructure for the Long Haul – A need for transparency and durability* and to see that this has been helpful to the Commission in setting the proposed direction for New Zealand's Infrastructure Strategy. We maintain our position as set out in that report, and repeat those key messages here:

- Infrastructure investment supports seven jobs for every \$1m of spend, while also permanently increasing our economic output
- Our current infrastructure deficit may be as high as \$75b, or 25% of GDP
- Increased infrastructure construction costs due to lost capacity and capability have cost us \$2.7b over the past decade

- Local government is running out of fiscal headroom and democratic support for infrastructure investment
- Climate change is likely to require significant investment in repairing or replicating at-risk infrastructure
- Central government must further support and empower the New Zealand Infrastructure Commission - Te Waihanga

Additional areas for consideration

There are three challenge areas we believe need to be considered and addressed in the further development of the strategy. Those areas relate to:

- people and capability,
- the role that fair risk and liability settings play in creating a better system, and
- challenges in the insurance market.

We address each of these in more detail below, before turning to answer the specific consultation questions.

PEOPLE

Our people challenges – capability and capacity – are referenced in several places in the document, along with the current workforce shortage and pressure on the infrastructure labour market. In our view, the strategy needs to draw out a stronger focus on our workforce challenges and speak directly to the criticality of taking action to address this for delivering the strategy.

As highlighted in our *Infrastructure for the Long Haul* report, the infrastructure sector is a significant employer, accounting for 40,100 jobs in the year to March 2020. Increased infrastructure costs due to lost capacity and capability have cost us \$2.7 billion over the past decade. Many engineering disciplines have long been on New Zealand's skills shortage list. PwC's research estimates we need about 1,500 new engineers every year (under normal circumstances) to support ongoing economic growth.¹ We also need to retain existing engineers and replace the large number of engineers due to retire in the next 5-10 years. Much of the work engineers do is highly specialised and requires years of training and experience. Our sector is struggling with a lack of available skilled staff. While Covid-19 has amplified it, this is not just a Covid-19 issue.

We need to have a planned and strategic approach to construction sector skills and workforce development and this needs to be a core aspect of our infrastructure strategy.

Our workforce strategy includes, among other things, investment in building the workforce pipeline, investing in building the capability of the current workforce, and ensuring our immigration settings support access to international markets. As noted under C5, our country's economic viability relies heavily on the movement of people, and this includes encouraging people with specialist skills into the country. Access to an international workforce is vital for the consulting sector to be able to make its contribution to the delivery of Government's infrastructure ambitions.

PROCUREMENT AND CONTRACTUAL SETTINGS

There is focus in the document on the role of procurement as a lever to drive better outcomes, including in our climate responsibilities and drive for technological change. The role of social procurement to better engage communities and derive community benefit in infrastructure development, care and maintenance could also be emphasised.

¹ PwC. *Economic contribution of engineering. FINAL Report for Engineering New Zealand. February 2020.*
https://www.engineeringnz.org/documents/587/Economic_contribution_of_engineering_PwC_February_2020.pdf

We support the focus on improving procurement processes, but we want to ensure this doesn't result in a race to the lowest cost. The document talks about "affordable" investment in new infrastructure, but doesn't define "affordable" and specifically asks what can be done to "reduce the cost of delivering infrastructure". As noted in Infrastructure New Zealand's 2018 report *Creating Value Through Procurement*, a funding and procurement environment that rewards least cost offers and risk-shifting ends up exposing all parties to higher whole-of-life cost. As long as cost is more heavily weighted we will miss opportunities for outcomes and will continue with a drive to the lowest price, which can have significant downstream effects.

Rather than a focus on lowest cost, the focus should be on achieving best value for money – with value assessed in a holistic sense, including social and environmental externalities, as well as operating costs. It may mean choosing options with higher initial costs that create greater value and minimise disbenefits. In particular, a lowest cost focus will often be inimical to climate change objectives – low-carbon options may involve more complex and costly design and engineering, as well as new technologies and construction practices that can add to the cost.

We have seen that lowest cost tendering also creates delivery risk for major infrastructure. The Government has repeatedly encountered cost blow-outs, delayed delivery, and even delivery failure as a result of selecting lowest cost bids that were not realistic.

Greater consistency across procurement processes would also increase productivity.

It ties into our next point. As well as procurement, we also need to ensure that the way we engage services is driven towards creating a better system. Too often our members see contractual settings with unfair risk and liability settings. Risk and liability needs to be fairly apportioned to the parties best able to manage them. We would like to see more consistent and widespread use of industry-accepted standardised contracts. It will increase productivity, reduce costs, ensure parties clearly understand their obligations, and that risk is allocated fairly. Our infrastructure strategy should acknowledge the importance of fair contracts as well as procurement.

INSURANCE

We also consider there is a gap in the strategy in its failure to recognise challenges posed by the current insurance environment as it relates to the infrastructure sector. It includes the availability of professional indemnity insurance, which has a significant impact on our businesses supporting the infrastructure sector.

Issues of professional indemnity have become particularly acute recently due to changes in the worldwide professional indemnity insurance market over the last 24 months, where some insurers are withdrawing from the market and premiums are increasing markedly. Furthermore, in some jurisdictions (most notably in Australia) consultants are now unable to obtain professional indemnity insurance for particular types of work. It creates a huge potential risk not only for consultants but for the infrastructure sector.

RESPONSES TO SPECIFIC CONSULTATION QUESTIONS

Questions 1 and 2: vision, outcomes and principles

We support the proposed vision and decision-making outcomes and principles.

Question 3: Are there any other infrastructure issues, challenges or opportunities that we should consider?

We consider there are at least two other key infrastructure challenges that should be considered in the strategy.

The first relates to our people. In this section, diversity and inclusion is identified as a "long-term trend" on the infrastructure horizon. In our view, the conversation is more broadly around the workforce pipeline and increasing our overall capacity and capability. Diversity and inclusion is a critical part of this, but framing diversity and inclusion as a "trend" is missing the mark in terms of why it is important. See our comment above about the role of people in the strategy.

The second omission is any reference to the challenges posed by the current insurance market to the infrastructure system, including challenges to professionals in our sector obtaining professional indemnity insurance.

Questions 4 to 17: 'Building a Better Future' Action Area and Needs

We support this direction and have no comments to add.

Questions 18 to 23: 'Enabling competitive Cities and Regions' Action Area and Needs

We support this direction and have no comments to add.

Questions 24 to 36: 'Creating a better system' Action Area and Needs

We support this direction and have the following comments:

Question 24: Additional challenges to be considered in this Action Area include the following:

- Ensuring a strong and enduring pipeline of people into our sector – capacity and capability.
- Current challenges of the insurance market (including professional indemnity).
- Lack of consistency across central and local government in the application of systems and process, particularly in relation to procurement, consultancy contracts and the unfair transfer of risk. Each of these things impact the quality of the overall efficiency and effectiveness of our infrastructure system and challenge the productivity of the people working within it.
- As well as a lack of experience at some organisational levels in delivering infrastructure projects, what our members experience is a misalignment between the principles that organisations have committed to through the Construction Sector Accord, and the behaviours of staff working within those organisations. There needs to be a better way to drive behaviour across organisations if we are to make tangible shifts in creating a better system.

Question 33: We support the direction for informed and transparent decision-making, along with the focus on good quality cost-benefit analyses, as advocated for in our report *Infrastructure for the Long Haul*. We also agree that projects must be scoped accurately, and that a pipeline of work should be developed and prioritised. Pipeline uncertainty undermines firms' confidence and investment in capability (people, knowledge and capital). To improve project procurement and delivery we would like to see a focus on consistency as well. Greater consistency will help with improving procurement and the delivery of projects. In line with this, we also think there needs to be a greater focus on the role fair contractual settings play in creating a better system, as noted above.

Question 35: Our members see a lot of waste in the system, from needing to navigate different procurement processes, unfair contractual settings, and a mismatch in behaviour from organisational commitment at the Accord level. Policy u-turns also have a significant impact and result in wastage across the system.

Question 36: The components of the infrastructure system that could have been improved to deliver effective stimulus spending during the Covid-19 pandemic include a clearer and faster pathway between announcements of large infrastructure investment to getting the projects and money into the system. It would also be aligned with more strategic planning for the inevitable skills shortage when our borders were shut or

restricted, to ensure the sector could gear up with the right skills to deliver without being in the place of stress, uncertainty and frustration we are currently faced with.

CONCLUSION

We commend the Infrastructure Commission on the clarity of the proposed direction for the infrastructure strategy, and ask it to consider our three key points outlined above in the strategy's further development. Thank you for the opportunity to comment.

If you have any questions, please contact our Chief Executive Helen Davidson at helen@acenz.org.nz.