

# INFRASTRUCTURE INVESTMENT FOR COVID-19 RECOVERY

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THE COVID-19 PANDEMIC NECESSITATED SIGNIFICANT PUBLIC HEALTH AND ECONOMIC POLICY RESPONSES CENTRED ON ADDRESSING THE HUMAN IMPACTS OF THE HEALTH CRISIS. YET, MEASURES AIMED AT SLOWING THE SPREAD OF THE VIRUS ARE HAVING FAR-REACHING IMPACTS ON NEW ZEALAND SOCIETY AND THE WIDER ECONOMY.



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Progress against COVID-19 remains central to economic recovery, with infrastructure stimulus providing a key opportunity to keep people employed, stimulate the regions and maintain productive capacity – thereby enabling New Zealand to recover in the quickest time possible. Infrastructure investment is not just being relied upon to deliver economic stimulus, it is also critical to the long-term wellbeing of New Zealanders.

#### HOW ARE WE TRACKING SINCE THE COVID-19 PANDEMIC HIT?

The horizontal and vertical infrastructure sectors were some of the hardest hit by COVID-19 disruptions. Relative to 2019, activity in these sectors experienced marked declines since Q2 2020. Vertical infrastructure, a sector predominantly driven by private investment, experienced the greatest decline in activity, falling by 27 per cent in Q2 2020, relative to Q2 2019, and more recently by 19 per cent in Q3 2021, relative to Q3 2019. The residential infrastructure sector has been alone in showing recovery since Q2 2020.

Delivery of timely stimulus is, however, not without its challenges. In April 2020, the government tasked the Infrastructure Reference Group to identify infrastructure projects above \$10 million in value that were ready to start ('shovel ready') in the near term, to increase the speed of benefits realisation, and thereby reduce the anticipated economic impacts of the COVID-19 pandemic. Almost two years later, there is still some way to go to achieve the projections set for shovel-ready projects, as shown in Table 1.

Looking ahead, according to the New Zealand Infrastructure Commission, Te Waihangā, the current infrastructure pipeline is \$65 billion, including 2588 ongoing and planned projects. Approximately 47 per cent will be invested in Auckland and a further 9 per cent will be spent in Wellington. Over 50 per cent of the pipeline is focused on key enabling infrastructure (transport at 35 per cent and water at 19 per cent).

**Table 1. Progress on shovel-ready projects: April 2020 to September 2021**

Indicator	Percentage of projection
Projects completed	12 per cent (27 out of 230)
Commenced construction	80 per cent (185 out of 230)
Total spend	27 per cent
Procurement committed	39 per cent
Full-time-equivalent jobs achieved	39 per cent

Source: Crown Infrastructure Partners<sup>1</sup>

#### WHAT ARE THE KEY CHALLENGES HOLDING US BACK?

Investment in infrastructure is a key policy focus of government, but it requires careful planning and delivery monitoring to achieve desired outcomes. Evidence-based decision-making is critical when it comes to prioritising projects in the short term.

<sup>1</sup> Crown Infrastructure Partners, Quarterly Infrastructure Reference Groups Update, 20 September 2021, accessible at: [www.crowninfrastructure.govt.nz](http://www.crowninfrastructure.govt.nz)



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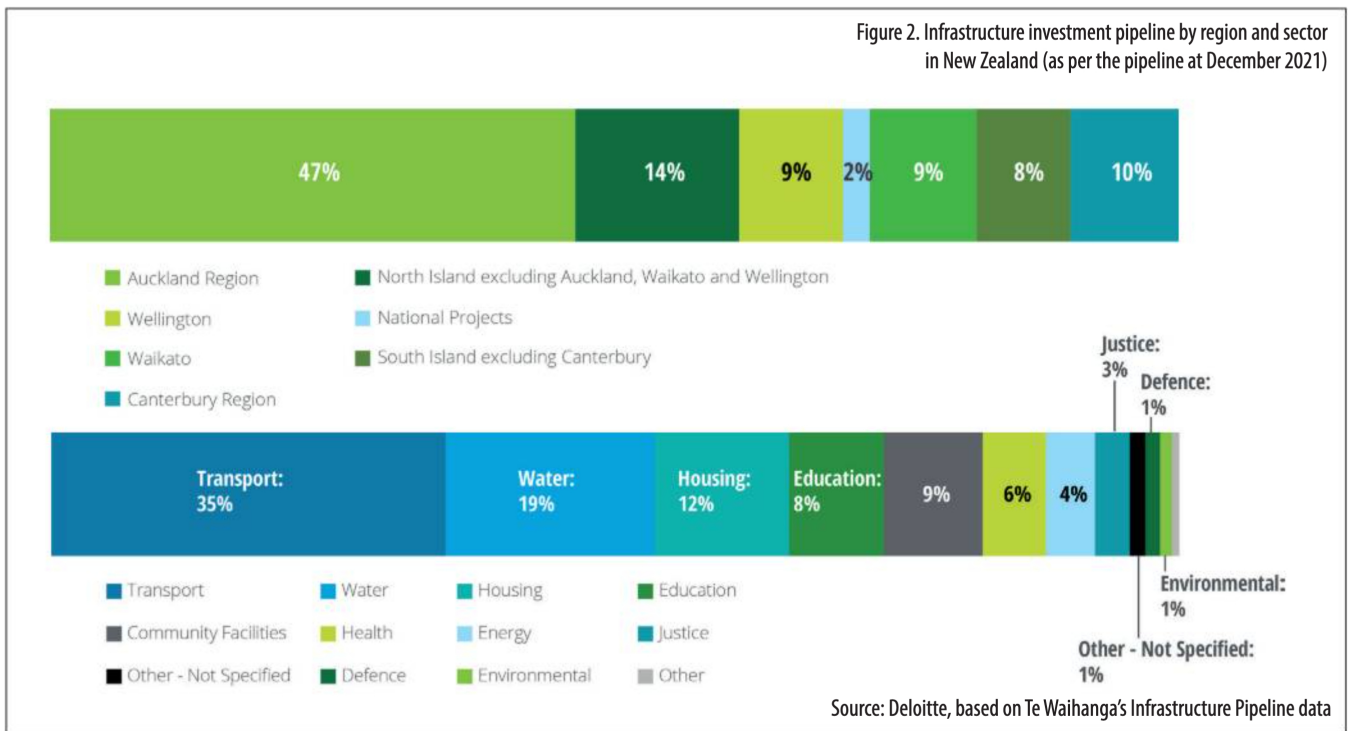
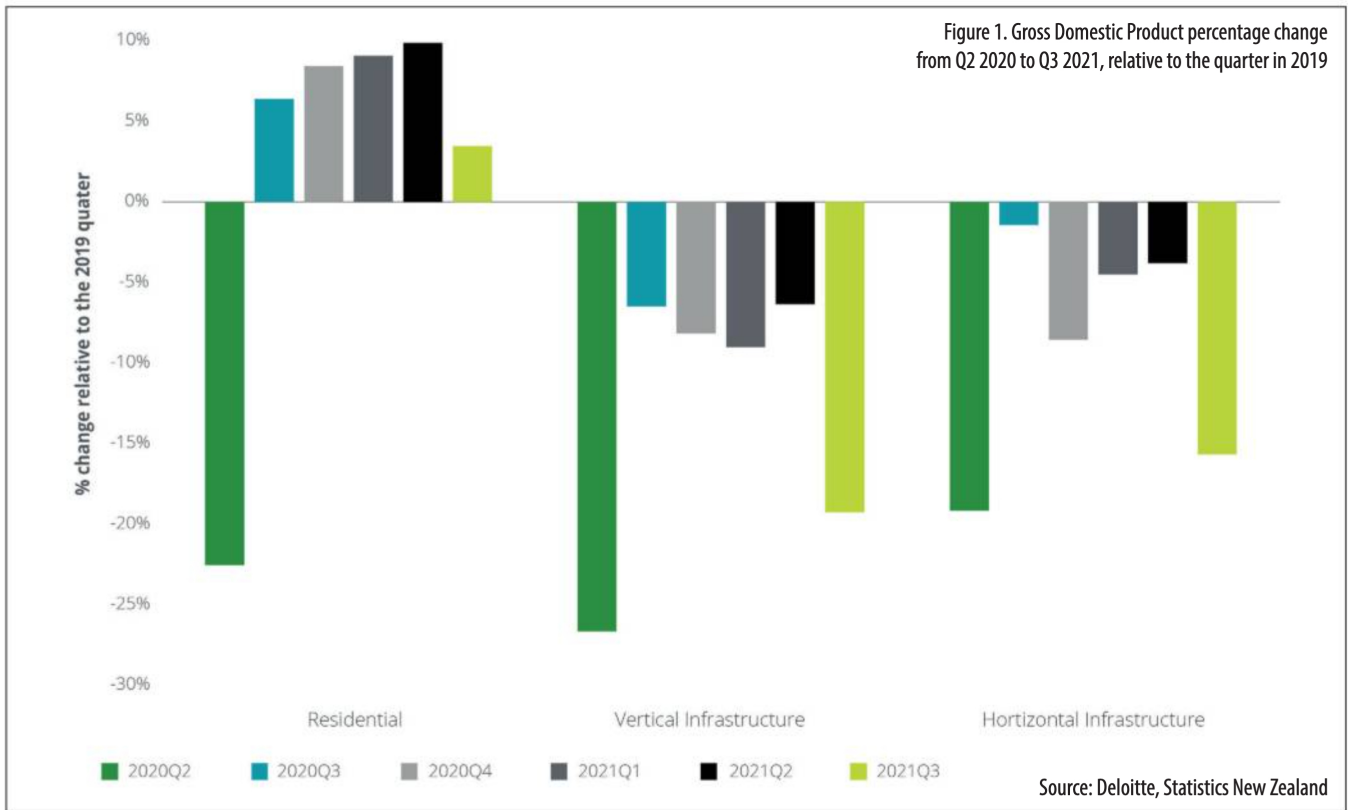
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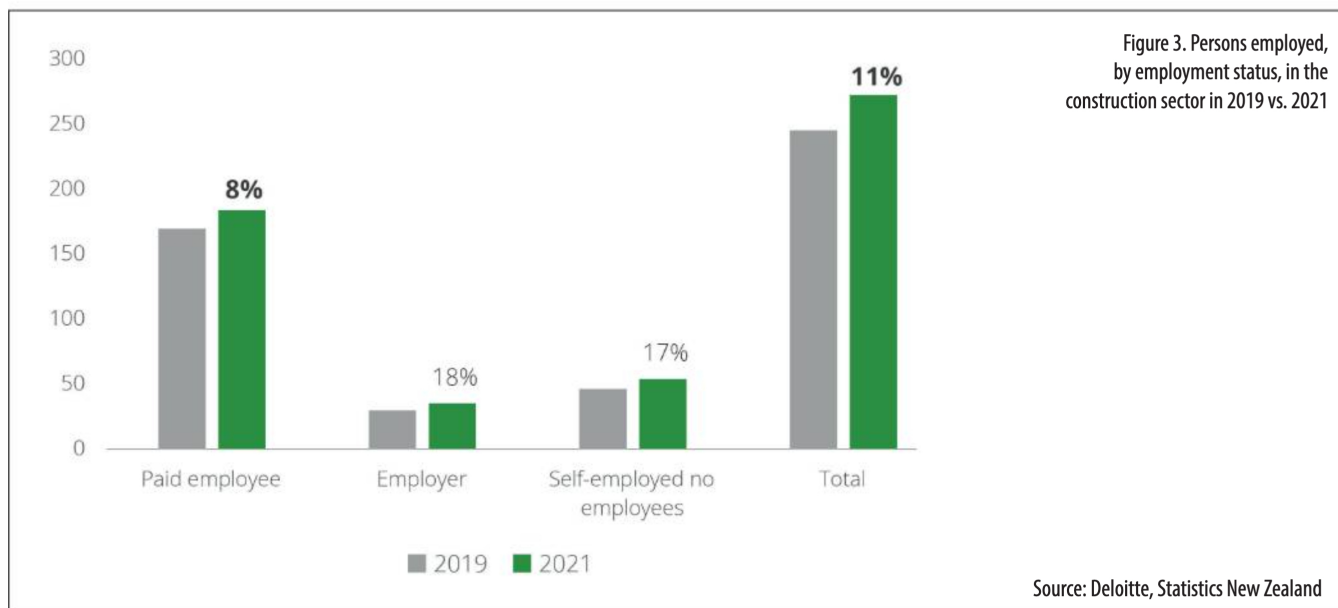
Infrastructure programs and projects are facing budget, delivery schedule, and associated benefits realisation delays. This can be due to a range of factors, including supply chain disruptions, a tight labour market and unprecedented cost escalation due to external factors. In addition, complexity and interrelationships for larger-scale programs of work also necessitate time-consuming scoping, and business case assessment work, to be completed before project delivery works can commence.

**SUPPLY DISRUPTIONS**

Global logistics is experiencing pressure, with conditions unlikely to normalise before the end of 2022. Logistics costs are, therefore, likely to remain elevated and shipping reliability will remain a challenge.

The impact of the pandemic has been significant on supply chains. Shipping capacity was idled in the early stages of the pandemic; however, an unexpected surge in consumer demand in 2020, combined with idled capacity, industrial





action and COVID-19-related disruptions at key ports, has caused congestion throughout the global supply chain, with consequent flow-on effects for New Zealand. There is now an international shortage of containers and most available shipping capacity is in use. Schedule reliability is currently well below pre-pandemic levels, with congestion at major international ports. As a result of this situation, global container rates have increased dramatically.

The New Zealand supply chain is under pressure from global disruption to shipping, combined with congestion at local ports. Based on our engagement with port CEOs and operations managers, the general view is that conditions are unlikely to normalise for at least another 12–18 months, if not longer, keeping upwards pressure on logistics costs. Indeed, an ongoing shortage of truck drivers and increasing fuel costs in New Zealand could likely add further pressure to logistics costs. Further, New Zealand's transition away from a zero-COVID approach will also likely cause ongoing disruption.

### ACCESS TO LABOUR

Even during the pandemic, the infrastructure sector was a significant contributor to the New Zealand economy. In 2021, the sector accounted for 10 per cent of all jobs in the economy. The sector has a relatively high proportion of self-employed workers, at around 19 per cent.<sup>2</sup> Total employment in the sector has increased since 2019, as shown in the chart below; however, access to labour and labour shortages to meet heightened demand is expected to persist. As noted by Te Waihangā recently, industry projections suggest that New Zealand will have a shortfall of approximately 118,500 construction workers in 2024.<sup>3</sup>

Border restrictions have increased the pressure on an already stretched construction sector, which is suffering from a shortage of workers. While international borders are starting to reopen, it may still be some time before that readily extends to skilled permanent and temporary migrants – New Zealand's general solution to

short-term skill shortages. In addition, the high level of global infrastructure investment means that New Zealand contractors may not be seeing immediate relief with the reopening of international borders.

### COST ESCALATION

There have also been construction materials shortages, with prices increasing for key inputs such as timber and steel. Rapid cost escalation is expected to continue due to high demand and the supply-chain issues set to extend into 2022.

A lack of workers and material shortages present key challenges for the construction industry. With record amounts of infrastructure work set to be completed, in addition to a material pipeline of residential construction activity, it will be challenging for contractors to deliver projects on time and on budget.

### WHAT CAN WE DO NOW?

Efficient and effective investment in infrastructure should be leveraged as an opportunity to keep people employed, keep businesses afloat and to maintain the productive capacity of the economy. Illustrative steps to help accelerate infrastructure as an economic stimulus could include:

- › government further removing impediments to fast-tracking infrastructure delivery, such as planning and complex procurement, looking towards optimising existing assets for 'quick wins', to deliver near-term national stimulus
- › improved forward planning, including the use of technology, to help deliver infrastructure more efficiently. Better project planning and coordination will allow scarce budget dollars to be spread further (or help offset cost escalation pressures), enable improved project pipeline forecasts and enhance visibility of delivery resource requirements
- › further facilitating access to labour resources by streamlining and clarifying border exemptions, and through targeted initiatives aimed at transitioning workers into infrastructure. //

<sup>2</sup> Based on 2021 (June-year) Statistics New Zealand data

<sup>3</sup> Te Waihangā, Infrastructure Quarterly, October 2021