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For Practitioners, Policy Makers and Planners in Public Infrastructure

## Difficult Decisions

Have you ever been in a position of having to make, or contribute to a major infrastructure decision in a hurry when vital information was missing? In an ideal world this would not happen; but in the real world, of course, it happens much of the time! What can you do?

This was the situation at the end of last year for New Zealand as it tried to decide on a stadium to accommodate the 2011 Rugby World Cup. It provides interesting lessons for all. In particular, it is a good example of how you establish the case for the “Keeping Your Options Open” option.

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## Editorial: Difficult Decisions

Infrastructure decisions are difficult decisions, usually made more difficult by leaving them to a real or perceived ‘last’ moment (or creating a crisis for that purpose) requiring decisions to be made in haste, in an emotional climate, and with insufficient information. Nearly always the ‘solution’ proposed requires by-passing due process - those checks and balances that we, in wiser times, build into our systems to avoid the worst mistakes.

An example in Australia at the moment is the federal government’s \$10.5b ‘plan’ for water proposed in haste without examination, analysis or costing. In New Zealand, the decision over the stadium to support their winning bid for the 2011 Rugby World Cup is another.

**We all face the same issues** - but generally on a smaller scale. All councils, government departments, and private and state organisations that are involved in infrastructure decisions face the same issues - **but they are easier to see when writ large in the form of major national projects.**

If we were to define a ‘good’ solution to an infrastructure question as one that the vast majority of the community would support and where there would be minimum regret after the event, what characteristics would it have? I would think that the following 4 would be high on the list:

\* <http://www.covec.co.nz/pdf/StadiumCBAFinalReport.pdf>

- \*Transparent, open (not secretive ‘behind closed doors’) discussions
- \*Clear, comprehensible and believable cost estimates
- \*And the same for estimates of benefits
- \*Manageable risk

I do not pretend to any degree of expertness on the Auckland Stadium decisions but it has engaged a lot of minds and much has been written. **What can we learn from these efforts?**

**The situation.** In 2005, New Zealand had won the rights to the 2011 Rugby World Cup based on an upgrade of its existing Eden Park site and at an estimated cost of about \$185M. By late 2006, this cost had risen to \$385M and a new option had surfaced, the idea of a brand new Waterfront stadium at a cost of over \$500M. In neither case had serious engineering, quantity surveying, architectural and financial analysis been carried out and both figures were considered very tentative. However the Waterfront Option caught the imagination of the central government who indicated that this was the one they favoured - and would be prepared to fund. But they needed to consult both the Auckland City Council and the Auckland Regional Council, so they did, but gave them just two weeks to respond! The councils commissioned a report by Covec to help them think through the issues. This 28 page clearly written report, cited in this issue, is worth reading and considering if you are engaged in a “difficult decision” \*

**Consider and Enjoy!**  
**Penny Burns**  
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## The Challenge

Although a number of possible locations had been considered for the Rugby Stadium, in the end it came down to just two - an enlargement of the existing Eden Park stadium, 3km south of the city, (at an estimated cost of \$385m) or a brand new waterfront site (at an estimated cost of \$500m - \$700m). The central government were known to favour the waterfront site and sought comment from the Auckland Regional and Auckland City councils - *in just two weeks!* The councils commissioned a report on the Cost Benefits of the two options to help them in their response.



Given that neither the costs nor the benefits had been well developed and time was short, the report needed to find a way to quickly outline the broad issues in a way that would be helpful to the councils in making their decision in the absence of this information.

In the last issue of SAM we considered the broad frame of a decision making framework that focussed firstly on what the solution needed to be able to do, what needs it serviced, in order to be considered a good solution, then it looked at options, and lastly, choices. Could that framework be useful in the current situation?

### **What does the Auckland Rugby Stadium solution need to be able to do?**

#### **1. Auckland is a port. How will a Waterfront stadium impact port services?**

Other port facilities existed nearby should freight need to be diverted (i.e. reducing a negative) but a stadium could be a useful buffer between the port and the city (i.e. creating a positive). *However there was no discussion of the feasibility of transfer, or of the willingness of the Ports Authority to consider such ideas and be willing to make needed changes quickly enough to enable stadium construction to take place. In the end this was a major factor in the decision.*

#### **2. Eden Park is a residential area. How will a stadium impact residential amenity?**

*Traffic and noise impacts meant that constraints had already been placed on the number of night games that could take place and limits on the hours for construction. Issues such as lighting, trees, shading, noise and traffic had been the subject of previous reports and had led to suggestions for mitigation of the disadvantages. If the upgrading was not to go ahead, it was likely that Eden Park would not remain in use after 2011 and would probably be used for further residential - considered in the report to have a higher value.*

#### **3. A stadium needs to provide value for money.**

For both options, firm cost estimates had yet to be determined. (see p. 5) There was also the question of whether a stadium was the best use of land - in either location. *Probably not in the case of Eden Park which could be used instead for residential purposes. Also probably not in the case of the Waterfront option since while Auckland wanted an iconic structure for Auckland, one that would lift its profile and encourage highly qualified people to live there and drive economic development, there was no surety that a stadium was the best iconic structure.*

#### **4. The stadium needs to be accessible by transport and be able to attract both events and spectators if it is to justify its costs.**

Eden Park was restricted in the number of night games it could hold and could not accommodate music events. The Waterfront could host more events and was considered to have better transport facilities and complementary facilities (i.e. somewhere to go before or after the event) and so would attract more spectators.

#### **5. The stadium should increase (and not decrease) Wellbeing.**

There are four wellbeings that need to be considered, environmental, social, cultural and economic. Which wellbeings should take preference in the event (certainty!) of conflict is the area of **Choices**, the third element of our decision framework. The report is particularly useful here in elaborating the nature of the wellbeings.

### **Economic wellbeing**

#### **1. More than additions to GDP.**

The report argues that there is an important difference between GDP and wellbeing. “The key difference”, it says, “is that additional attendance by Aucklanders at a stadium is evidence of additional wellbeing even though GDP may not increase” (the rationale for this is that when dollars are withdrawn from other expenditure and used for attendance at the stadium this indicates a community preference - a preference that was not previously being served, hence the increase in wellbeing.)

#### **2. Little impact on GDP if measured correctly.**

“Economic impact analysis is a way of estimating how much extra GDP will flow from a major event. It is rightly focused on injections of cash into a local economy from elsewhere and profit made from serving those doing the spending. The value added by firms serving this additional demand is the difference between their costs and their sales revenue. Broadly speaking this is the definition of GDP.” “A reasonable working assumption is that (setting aside catalyst effects) neither stadium will make much difference in and of itself to Auckland regional GDP”. (See **SAM Issue 117** “13 Costs and Benefits that Public Sector Decision makers Frequently Fail to Take Into Account” in which we call on USA research that shows why Sporting Facilities fail the economic development test.)

#### **3. Social Wellbeing.**

Attracting people to either stadium was considered to add to social cohesion and would depend on usage.

#### **4. Cultural Wellbeing.**

“If one was setting out to catalyse cultural change in Auckland the objective would probably be to do something as inclusive as possible. Neither stadium would be an obvious contender for this role and a waterfront stadium could use the best site for whatever would catalyse cultural change.” - Not mentioned in the report were cultural implications from the use of the harbour resource.

#### **5. Environmental Wellbeing.**

The waterfront option was reported to be undertaken in a ‘carbon neutral’ manner and if so there might be a slight edge in this. There was an argument in the papers at the time that this would be unsightly. You can judge this for yourself in the artist’s impression on our front page.



# Keep Your Options Open

The Covec report recommended that to avoid making a wrong decision in haste and to avoid paying too much, it would be worth a small cost to 'keep options open'. This is an excerpt.

## Making the wrong decision

“An iconic civic building on the waterfront would promote the consolidation of the CBD. Whilst a stadium could fulfil this role, the risk of locating a stadium there is that we may limit our freedom to undertake other catalyst projects that may better promote the consolidation of the CBD and improve economic, cultural or other wellbeings in the future.

At present, there are two development teams working on separate projects: one for Eden Park and the other for the waterfront option. It appears that neither team will be able to commit to a fixed price contract until the middle of next year. Committing now, to either project, will therefore expose the community to a material risk of costly error.

“This risk comes from several distinct factors:

- \* Genuine uncertainty over costs
- \* Genuine uncertainty over benefits; and
- \* Market power issues

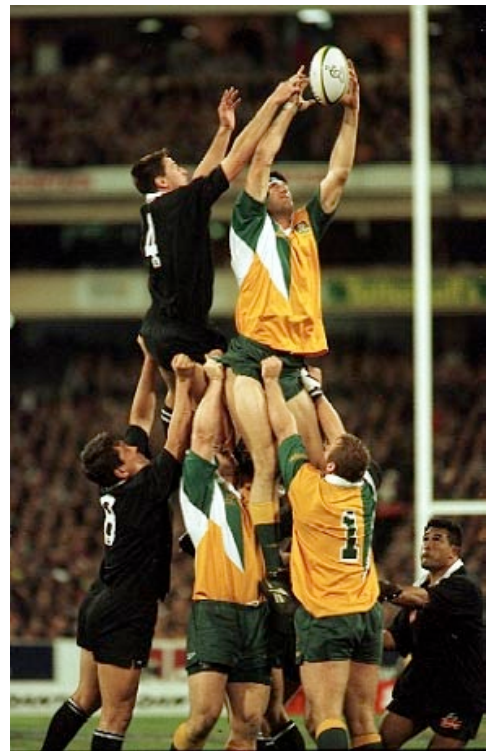
## Paying too much

Regarding the first, it seems that the building contractors are simply not well enough informed to be able to offer a fixed price for either stadium. This appears to be a timing problem: at this stage, insufficient expertise (e.g. civil engineering, construction, quantity surveying, project planning, etc) has been applied to allow any contractor to offer a fixed price.

Along the same lines, the benefits of each option remain poorly understood for reasons articulated elsewhere in this report. As a result, the councils have genuine uncertainty over which project is likely to be better, and are therefore at risk of selecting a poor option.

Finally, a contract signed in such haste that there is not time for a fixed price to be determined confers substantial downstream market power to the seller. Even without active gaming on the part of the contractor, this could cause the adoption of cost-plus contractual form, under which the contractor has relatively weak efficiency incentives. That approach would tend to increase costs, and the consequent financial burden on the community.

All these costs could be mitigated by retaining both options for a period. The councils would have a window of time to review the port land options. Contractors would get a better understanding of the cost of each stadium option. Importantly the two teams would remain in competition with one another until a decision is made. This would create important efficiency incentives and should therefore lead to a contract that is better for the community.”



## The Wash Up

The Auckland City Council came out in favour of the Waterfront Option because it believed



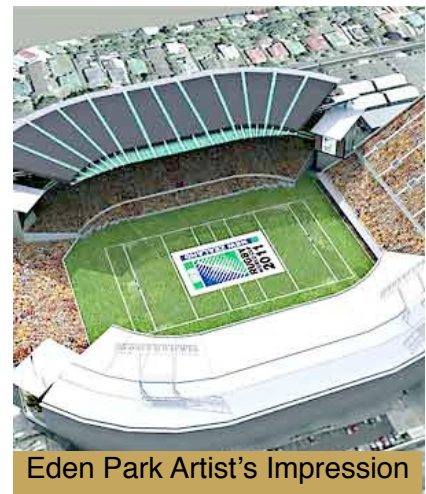
Eden Park now

it would be good for the city; the Auckland Regional Council came out against the Waterfront Option because of disruption to the port services for which it was responsible. The Port Authority had said that it would take until 2009 for them to move their business to free up the land for the stadium and this would not allow enough construction time to ensure the new stadium was operational by 2011.

I find it strange that the opposition of the Port Authority had not been factored into the Cost Benefit study for the councils nor into the central government's support for the Waterfront Option.

**Neither council, it seems, challenged the central government on the reason for haste.** Neither, it seems, proposed to "keep options open" with development of the two projects run side by side until further information was forthcoming on which to make a sound decision. And neither, it seems, challenged the inability of the Ports Authority to move faster.

**Central government did not come out of this dispute with much glory.** Having thrown all of their weight prematurely behind the Waterfront option they were forced to back down by the weight of public opposition when they realised how the government intended to raise the finance and the spanner thrown in the works by the Ports Authority. Two.



Eden Park Artist's Impression

"Now a secret agenda has been sprung upon the nation - and Auckland local bodies in particular - to make a decision on an Auckland waterfront stadium within a week, with no information as to guarantees of consentability, funding or construction.

***You wouldn't design a backyard patio in this cavalier fashion!*** Blog comment

**And yet competition from the Waterfront Option had proved very effective.** The Eden Park team, fearing that they were losing out to the Waterfront option, refocused their efforts and came back with a different - and cheaper - stadium upgrade option, down to \$320M from \$385M. Forced to rethink they have now (Feb 07) come out with an even cheaper option \$190M using temporary seating, an option that has met with approval from the International body. As a 'regional stadium', however, the charge is now with Auckland and the sporting body.



## Funding - it is more than just dollars.

Every day the papers report more demands from various interests for 'more government funding'. Their claim is invariably that their cause is a just one. But hardly ever do they tackle the problem that more money for their cause means less for another, either now or in the future. Just as long as *they* don't have to pay, the various interests do not pay much attention to *what* has to suffer the loss to compensate for their gain.

Throughout the discussion on the Stadium, the focus was on WHO was going to pay - Auckland City ratepayers, Auckland Regional ratepayers, or the central government.

This came down to whether the Stadium was a regional stadium (it was generally agreed that Eden Park, even revamped, was a regional stadium) or a national stadium (there was some dispute over whether the Waterfront Option would be considered a national stadium and therefore funded by the central government and the general taxpayer. Non-Aucklanders were not too thrilled at this!)

But little attention was paid as to **HOW** the central government would fund the Waterfront Option should that be chosen. And it is the 'how' that determines who gives up their claim on resources so that others can have access to them. Many probably thought that some of the existing \$3 billion cash surplus would have been used. However, as the stadium would do nothing to increase economic capacity this meant the present over the future.

**"Someone else pays"** But do they, really?

When the central government came out with the proposal that the stadium be paid for by a combination of airport levies and a bed tax, the finance minister was pleased. With this solution tourists pay not the ratepayer.

But the tourism industry was not so pleased! New Zealand depends heavily on the tourist industry, so credence had to be given to the industry when it argued that these new taxes would not serve New Zealand well in the eyes of its visitors. New Zealand air travellers did not consider that they should be the ones to fund the stadium either!

If the surplus *were* to be used, New Zealanders have a right to expect a return on their investment, at least equal to the current returns, and in general rather more to allow for the increased risk. But were such returns likely? People pointed out that even Australia had trouble filling large stadiums it had built for special purposes. And the sell off of the stadium in Sydney prepared for the Olympic Games for only \$140m was much quoted.



## Funding - it's not even about dollars

It's about who gets to use available resources.

The relevance for us of Ken Henry's 'closed door' address to Treasury

You may celebrate when your budget is increased and think about the valuable things that you can now do. But are they *more* valuable than those sections that missed out on an increase because of your budget?

When the country has lots of unemployment and therefore spare resources, we can increase the demand on them without causing others to go without.

But Australia is currently experiencing very low unemployment figures. This is the reason why Ken Henry sounded a word of caution on government spending. "Expansionary fiscal policy [more government spending] tends to crowd out private activity" he said. Actually this is a little misleading - ANY extra spending when a country is close to full employment will crowd out other activity. Witness the impact that the mining boom has had. (Try recruiting engineers if you are a council!)

"There is a temptation to think that all problems can be solved by government spending." say Henry, Head of Treasury.

### Message for Asset Managers

When planning for new investment or renewal of existing infrastructure, funding is not enough.

You need to develop a resources plan. Don't assume the skilled resources will be available to you when you want them. Increasingly this is not the case.

**Example:** A Public Sector Housing Authority decided to increase its housing stock in the middle of a boom in private housing. The extra demand it put on the market raised prices to everyone and the Authority achieved far fewer stock additions for its dollars than it had planned. It complained about the tight market conditions - without realising that they were a major contributor to the problem!

In a boom economy, it pays to defer new capital spending if you want to get the most 'bang for your buck'.

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