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# Fast-Tracking Projects for New Zealand's COVID-19 Recovery: The Role of Economic Analysis

By **Kevin Counsell**

In May 2020, the New Zealand government began the process of developing special legislation to support the country's recovery from the economic impacts of the COVID-19 pandemic: the COVID-19 Recovery (Fast Track Consenting) Bill. The proposed legislation will enable infrastructure and development projects to be fast-tracked through the existing resource consent approval process. Should the legislation be enacted, approval would be accelerated for projects relating to "roading, walking and cycling, rail, housing, sediment removal from silted rivers and estuaries, new wetland construction, flood management works, and projects to prevent landfill erosion".<sup>1</sup>

In "normal" times, these projects would require approval through the standard resource consent process under New Zealand's Resource Management Act 1991 (RMA). This process can be time consuming and litigious, particularly for large-scale or contentious projects, sometimes spanning many years as project approvals wind through local government proceedings and various levels of the courts. The intention of the proposed fast-track legislation is to accelerate this process for approved projects, with the aim of supporting investment and employment as New Zealand recovers from the impacts of COVID-19.

The proposed bill lists specific projects for which the fast-track process will apply, but it also allows other projects to apply to be fast-tracked. For the latter, the proposed bill specifies a set of criteria against which potentially eligible fast-tracked projects will be assessed, including various criteria that suggest that the fast-track consenting process will require robust economic analysis. In particular, assessment of eligible projects requires consideration of the following factors, among others:<sup>2</sup>

- The "economic benefits and costs for people or industries affected by COVID-19"; and
- "Whether the project may result in a public benefit". This can include an assessment of whether the project will result in a public benefit by "generating employment", "increasing housing supply", or "providing infrastructure to improve economic, employment, and environmental outcomes, and increase productivity".

As it is currently drafted, the bill does not provide any guidance as to how “economic benefits and costs”, “public benefit”, or aspects such as employment effects are to be assessed. A useful guiding framework in this regard is provided by the economic tool of cost benefit analysis (CBA). CBA is a method of evaluating all relevant benefits and costs associated with a project and weighing those benefits and costs in a way that allows the analyst to determine the overall net benefit. CBA is a widely used tool, both in New Zealand and overseas. For example, it is used by the New Zealand Transport Agency in assessing transport infrastructure projects and by the New Zealand Treasury in assessing policy proposals.

CBA has been used to some extent in decision-making under the RMA to date, although it is thought to be relatively poorly applied.<sup>3</sup> However, CBA could play a valuable role in assessing fast-tracked infrastructure and development projects. To ensure such projects are in the best interests of New Zealand, and that any government (or, ultimately, taxpayer) support for such projects is appropriately targeted, it will be important to have a thorough understanding of their net benefits.

The overall net benefit determined by CBA is a measure of how much “better off” society (in aggregate) is due to a project. While the bill distinguishes between “economic benefits and costs” and “public benefit”, it is interesting that, in economic terms, these would generally be considered equivalent. That is, the economic/public benefit is a measure of the overall well-being of individuals, communities, businesses, and other components that make up society.

Indeed, many of the factors included in the bill’s list of considerations for the “public benefit” can be captured in a rigorous CBA. This includes, for example, productivity gains, which reflect the same output produced at lower cost (or an increase in output at the same cost). CBA can also capture the benefits that arise from increases in the housing supply or employment effects. With appropriate caveats and rigour,<sup>4</sup> CBA can also incorporate the benefits or costs from “external” impacts on environmental elements, such as landscapes, ecosystems, or endangered species.

The above considerations suggest that any economic analysis of fast-tracked projects that assesses both “economic benefits and costs” and “public benefit” will need to be cautious of the potential for double counting. To avoid double counting, it would be preferable to focus on a single metric of the net benefit, as assessed using CBA.

It is also worth highlighting the way in which employment effects are incorporated in CBA. It is sometimes assumed in CBA that there is “full employment”, a situation in which there is a small but non-zero rate of unemployment, arising from natural frictions or structural changes in the economy. In these circumstances, any jobs that arise due to a particular project are simply drawn from jobs elsewhere. That is, jobs at one project “crowd out” jobs at other projects, resulting in no net benefit.

However, when the economy is at less than full employment—that is, there is some involuntary unemployment—new projects can bring the unemployed into the workforce, resulting in a benefit. The COVID-19 pandemic is expected to have a material adverse impact on the labour market; for example, the New Zealand Treasury is forecasting the unemployment rate to approach 10% by September 2020.<sup>5</sup> Therefore, it seems reasonable

to assume that there will be benefits from employment created by fast-tracked projects, at least in the immediate future. Nonetheless, analysis of employment effects requires careful inquiry to be sure that projects truly create jobs, rather than simply shift employees between existing jobs.

In summary, the government's proposed fast-track approach for infrastructure and development projects suggests a clear role for economic analysis, particularly in assessing factors such as economic benefits and employment effects. As discussed in this paper, cost benefit analysis can provide the appropriate framework for this assessment, provided it is done with analytical rigour and careful testing of assumptions and propositions. Such an analysis will ensure that fast-tracked projects will not only support New Zealand's near-term COVID-19 recovery, but will do so in a way that ensures an overall net benefit to New Zealand's society more broadly into the foreseeable future.

## Notes

- <sup>1</sup> Hon David Parker, “Fast-track consenting to get shovel-ready projects moving”, 3 May 2020, available at <https://www.beehive.govt.nz/release/fast-track-consenting-get-shovel-ready-projects-moving>.
- <sup>2</sup> Section 19 of the COVID-19 Recovery (Fast-track Consenting) Bill.
- <sup>3</sup> See the Resource Management Review Panel, “Transforming the resource management system: Opportunities for change”, Issues and Options Paper, November 2019, at Section 102.
- <sup>4</sup> I discuss this in more detail in Kevin Counsell, “Resource Management System Review: Submission on the Issues and Options Paper”, 3 February 2020, available at [https://www.nera.com/content/dam/nera/publications/2020/PUB\\_Resource-Mgmt-Sytem-Review\\_022820.pdf](https://www.nera.com/content/dam/nera/publications/2020/PUB_Resource-Mgmt-Sytem-Review_022820.pdf).
- <sup>5</sup> New Zealand Treasury, “Budget Economic and Fiscal Update”, 14 May 2020.

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## Contact

For further information and questions, please contact the author:

### Kevin Counsell

Senior Consultant

Wellington: +64 4 819 2551

[kevin.counsell@nera.com](mailto:kevin.counsell@nera.com)



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