



IWI

Infrastructure and Investment

Māori Economic Development Taskforce

May 2010





E te kāhui tipua,

Nei rā te reo o Aoraki maunga e topa atu ana ki a koutou hai mihi. E kore rawa tā Tahu Pōtiki puna whakamihi e mimiti noa. Ko koutou tērā e whakaheke mōtuhi ana kia whai oranga ai te iwi Māori. Kua roa nei koutou e whakaporo riaka ana kia ea ai ngā wawata o ō koutou ake whānau, o ō koutou ake hapū, o ō koutou ake iwi. Ko ngā puapua ki aromea kua tutuki i a koutou. Nō reira, kei te mihi. Eke panuku, eke Tangaroa.

Nā koutou te reo karanga, nā mātou ngā kupu tautoko kia okea ururoatia ngā taunāhua o te iwi Māori. E ai ki te whakataukī a ō tātou nei tūpuna, ki te kotahi te kākaho ka whati, ki te kāpuia te kākaho e kore e whati. Nō reira e aku rangatira, nei rā te karanga o Aoraki maunga ki ngā tōpito katoa o te motu kia karapinepine mai i raro i te whakaaro kotahi. Nō reira e aku manukura, nau mai tauti mai ki raro i tōna poho hai wānanga, hai kōrerorero, hai ara whakamua mō tātou, ā, mō kā uri ā muri ake nei.

Tēnā koutou, tēnā koutou, tēnā koutou katoa

**KEYNOTE ADDRESS**



## Keynote Address

### **Ministerial Taskforce on Māori Economic Development “Iwi and Māori assets – the new economic power”**

Keynote address by Te Rūnanga o Ngāi Tahu Kaiwhakahaere  
Friday, 7 May 2010

#### Mihimihi

Welcome and thank you all for joining us here this evening. Tēnā koutou e ngā rangatira for making the trip down to Te Waipounamu for tonight's function and this weekend's Iwi Leaders hui.

Greetings also to the distinguished business community representatives and National Infrastructure Unit officials with us tonight.

I also want to salute the Minister of Māori Affairs, Hon Dr Pita Sharples, for his vision and commitment to Iwi Māori in setting up the Taskforce on Māori Economic Development, which was the genesis for the kete of economic guidelines for Iwi Māori we are launching tonight.

We do not forget it was the very new Minister of Māori Affairs – just months into his job after the November 2008 election – who was the first Minister in the Key Government to hold a summit on the then recession-bound economy. A good four weeks before the Prime Minister held his, in fact.

Eighty were invited to that Māori Economy Summit. And 120 turned up! So you can't accuse us of not being fired up on the economic front.

From that Summit came the call from Iwi leaders and Māori business chiefs that we want to determine our own economic direction and kaupapa.

Hence the setting up of a Māori Economic Development Taskforce, chaired by Dr Sharples himself.

The Taskforce has seven key areas: tribal asset and collaboration, the primary sector, education and training, small to medium enterprises, social and community development, investment and enterprise, and economic growth and infrastructure.

I was appointed chair of the asset and collaboration workstream.

Tonight is a milestone for our group, launching guidelines which will inspire Iwi Māori to work together, create critical mass, partner with the Crown and private sector. . . so that we become a major pillar of the Aotearoa New Zealand economy.

But before looking at these guidelines, I'd like to give you a message that rangatira know well.

That message is about our country, our economy, our future – and not to put too fine a point on it – the message is BROWN.

Māori, and our Pacific Island cousins, are the workforce of our future and Iwi are the emerging economic giant of our country.

Individually, Iwi are finding their feet – collectively, we can stand together and determine our future.

It's a simple fact, but a vitally important one when thinking about Iwi Māori – WE ARE HERE FOREVER!

We are as much part of the landscape as the mountains and the lakes – our people will always be here, our focus will always be here and our money will remain here.



To understand New Zealand's economic future, we must first understand our future demographic realities.

In Census 1951 we were 6.9% of the population.

In Census 2006 that had grown to 14.6%. That's one in seven New Zealanders.

Statistics New Zealand's future projections predict that in 2026 we will be 17% of the population.

There is no official projection for 2050, but on this curve, it's entirely possible that the Māori population will double what it is today – well over the one million mark.

Statistics also tell us that the Māori population is a young one.

The median age for Māori males – at 21 - is almost 14 years below that of New Zealanders in general. For Māori females it is almost 13 years below.

A Statistics New Zealand projection for 2026 – just 16 years from now – shows what the ethnic make-up of students aged 5-9 will look like.

Combined European and Other Populations are decreasing - from 212,000 today to 189,400 in 2026.

Meanwhile Māori and Pasifika are growing. Their combined total today is 108,000, but by 2026 it is estimated to grow to 140,000. A 30% increase in just 16 years.

It's entirely probable there will be more Māori and Pasifika children in our schools than Pakeha well before the middle of this century.

I don't have to tell you that these statistics are important to business leaders. They paint a picture of tomorrow's workforce. Tomorrow's nation.

Incidentally, a full set of these graphs is in the kete folders to be given out this evening.



I'd now like to talk about the "Iwi economy".

While there has been significant growth in Iwi and Māori enterprise over recent decades, I believe it is in the Iwi management of its Treaty assets that we will see the most spectacular development.

It is Iwi that will be the economic powerhouses of the future.

Following the Second World War, job and economic pressures forced Māori to move to urban areas and there was a breakdown of traditional Māori family structures and rural lifestyles.

But today, Iwi are regrouping, regathering our resources and rebuilding.

According the Te Puni Kokiri – the Ministry of Māori Development – the total commercial assets owned in 2005/2006 by Māori individuals, whanau, hapu and Iwi stood at \$16.5billion – a massive increase of \$7.5 billion from 2001.

However, I believe these statistics should be treated with caution. Not only are they now very outdated, but they only include the quantum received by Iwi through significant Treaty Settlements. They do not factor in the growth on balance sheets through borrowing and capital raising against these assets.



They do not include the total assets of any specific and sizeable private companies, for example: Whalewatch Kaikōura or the Tamaki Heritage Tours.

They do not include Māori who have gone into business for themselves. And I include here the huge number of Māori trade trainees who have gone on to run businesses but do not promote themselves as Māori business.

And they do not include the wealth and intrinsic value of other Māori enterprise. For example, the three Wananga – Raukawa, Awanuiarangi or Aotearoa, the later being nationwide and one of the biggest tertiary institutions in the country today.

And it doesn't include the hundreds of Māori health and social service providers up and down the land.

Or Māori Television – which had barely begun when this TPK research was done.

In the area of employment and skills development: a topic that is upper-most at this time of global economic contraction, Māori Television – while mostly Government funded - is a true champion.

A BERL report, commissioned by Māori Television in late 2008, shows that every year since 2004, between 500-600 full-time equivalent jobs have been created as a result of the activities of Māori Television and the independent production community who make many of its programmes.

Of those, 170 are permanent staff at Māori Television.

The BERL report also shows that for the year to June 2008 Māori Television and its production community contributed more than \$41 million to New Zealand's GDP. Since 2004, that contribution has amounted to more than \$185 million.

Māori Television is having a positive impact on our culture, our skill base and our economy.

There has been focus on the commercial successes of Waikato Tainui and Ngāi Tahu – our combined assets are now in excess of \$1 billion.

Ngāi Tahu and Tainui have been doing PPPs and infrastructure development for the past ten years. And in respect of social infrastructure development, we are one of, if not the most experienced partner in New Zealand.

And during this same period a large number of the Māori incorporations and trusts have quietly been notching up some brilliant commercial achievements.

I'll highlight the achievements of just two:

**Tuaropaki Trust**, is an amalgamation of hapu north west of Taupo. It has total assets of more than half a billion dollars, through a diverse portfolio ranging from farming and horticulture to geothermal power generation and satellite communication. It is also an investor in 2degrees.

**Te Huarahi Tika Trust**. This is the Māori Spectrum Trust, which received spectrum allocation and a \$5million Treaty settlement in 2000. Through its commercial arm, Hautaki Limited – led by Bill Osborne – it has formed various partnerships with international telco operators.

Today, through Hautaki Limited, the pan-Māori trust is a 12 percent stakeholder in 2degrees – New Zealand's hugely successful third mobile network that has changed the market and forced Telecom and Vodafone to lower their pricing to compete.

I could give many, many more examples. Two that spring to mind are Wakatu Incorporation and Gisborne's Pakarae Whangara Partnership, which won last year's Ahuwhenua Trophy for Māori excellence in farming.

The Iwi and Māori Economy is already a success story. But it is my belief this is just the beginning.

With this National Government fast-tracking Treaty settlements, professionalisation of Iwi asset management, and with a



Government who understands the value and stability Iwi can bring to national growth, we are about to emerge as a rising economic force in Aotearoa.

Iwi Katoa means “all Iwi together”.

I use it to introduce some thoughts on how Iwi can collaborate and become – like Government – the only other truly long-term tenant in Aotearoa New Zealand.

Because, unlike international shareholders in some of our major corporates, Iwi aren’t going anywhere. We are the first people of this land. And we’re staying.

Today Iwi are in various stages in their tribal journey. Some, like Waikato Tainui and ourselves, are well post Settlement, with established commercial operators.

Others, like the collection of Wellington and Hutt Valley Iwi who make up the Port Nicholson Block Trust – now called Taranaki Whanui Ki Te Upoko O Te Ika – have recently settled with the Crown.

With cash and significant assets in the form of property around Wellington, Taranaki Whanui are on the launch pad for commercial growth.

And then there are others who are just setting off on their Settlement hikoi. Ngapuhi, Aotearoa’s biggest Iwi, with 126 000 who affiliate, is one.

Kaumatua and kuia have told Ngapuhi leaders to get on with a Settlement, and this is happening quickly. They hope to have mandate and begin direct negotiations with the Crown by the end of this year.

The Ngapuhi Settlement will be large, and will have profound effects on the people and economy of Northland.

My belief is that while we can succeed commercially as individual Iwi – and Tainui and Ngāi Tahu have proven we can - we can do so much more collectively.

There are a number of examples of Iwi collaboration to date:

Ngāi Tahu and Tainui have made their first major investment together with the purchase of a stake in listed retirement home company Ryman Healthcare. Also, we have been co-operating over respective fishing investments for some time.

To the North is the Te Taitokerau Iwi CEs’ Forum, of whom six Iwi are well advanced on a telecommunications project that could have far reaching benefits for all in their region.

A case study you will find in our kete is Central North Island Iwi Holdings Limited, a project involving eight Iwi partners, working collaboratively in the management of 178,000 hectares of forestry, with a shareholding stake held by the Crown.

So, working together, Iwi can achieve economy of scales and step up as a pillar of the national economy.

To date the Iwi and Māori economy has largely focussed – and succeeded – in the primary sector: fishing, farming, forestry.

Just over 50% of Māori business is in the primary sector, which is too much. It exposes us to risk.

Iwi Māori are diversifying their investments. As an intergenerational investor we take a deliberate and conservative approach – therefore, the Māori Economic Taskforce believes the next wave will be infrastructure.

And we have big plans.



We see future public/private/Iwi partnerships.

Perhaps on roads, water, health and other strategic infrastructure. It is not impossible to imagine Iwi as cornerstone shareholders in State-Owned Enterprises – making them State-Iwi Owned Enterprises.

It just makes sense, if you think about it. Iwi will have the resources, we want our profits to stay in New Zealand – to reinvest for our people, for New Zealand Inc.

We are the perfect partner for Government. And they are well aware of our thoughts on this matter. A relationship between Crown and Iwi, as co-investors in national infrastructure, is the next step in the Treaty of Waitangi partnership.

And infrastructure is a good strategic fit for Iwi. It provides us with:

- investments with a long-term reliable yield
- an opportunity to have involvement and influence over the developing and managing of the vital assets that make up New Zealand's infrastructure base
- the opportunity to contribute to the economic development of our nation

And that brings me to the purpose of tonight's function – the launch of the Māori Economic Taskforce's first kete of resource guides – to assist Iwi Māori take the next step.

We have developed four resources.

The first is: **Infrastructure Opportunities**, which is really self explanatory.

The second is **Public Private Partnerships**, which looks at the role Iwi can play in PPPs.

The next is **Commercial Entities**, which describes the ways in which Iwi can work together.

Finally we have a guideline on **Case studies for Collaboration** – real life examples of how Iwi Māori have joined forces to successfully generate commercial and social returns.

These are enlightening, insightful documents, and I would like to thank their authors – Iwi Leaders Group technician Sacha McMeeking and the team from PriceWaterhouseCoopers – whose tireless passion and commitment for this vision have made possible what I believe will become recognised as landmark documents in our economic journey.

I urge you to read them. And act on them!

Eighteen months ago, Iwi leaders directed me, as chair of the Asset and Collaboration Workstream – to research this kaupapa and report back with a roadmap to the future, and a how-to kit.

Our team has delivered. It is now up to Iwi katoa to grab the ball and run with it ....fast, and in the direction of the try-line. In life, timing is everything, and I have to warn the timing here is urgent.

Already New Zealand is teaming with international investors who have seen the "open for business" sign pasted on the side of the Beehive. They want a share of the infrastructure action. And they've got chequebooks that do serious talking.

We cannot afford to be elbowed out of the infrastructure market in our own land at this critical point in our modern history.

So I have two messages tonight.



For my fellow Iwi leaders: Our time is now, let's act quickly before these opportunities pass us by forever.

And to the business community: The private sector doesn't know how powerful Iwi Māori is. Make us your first port of call when setting out on a new venture.

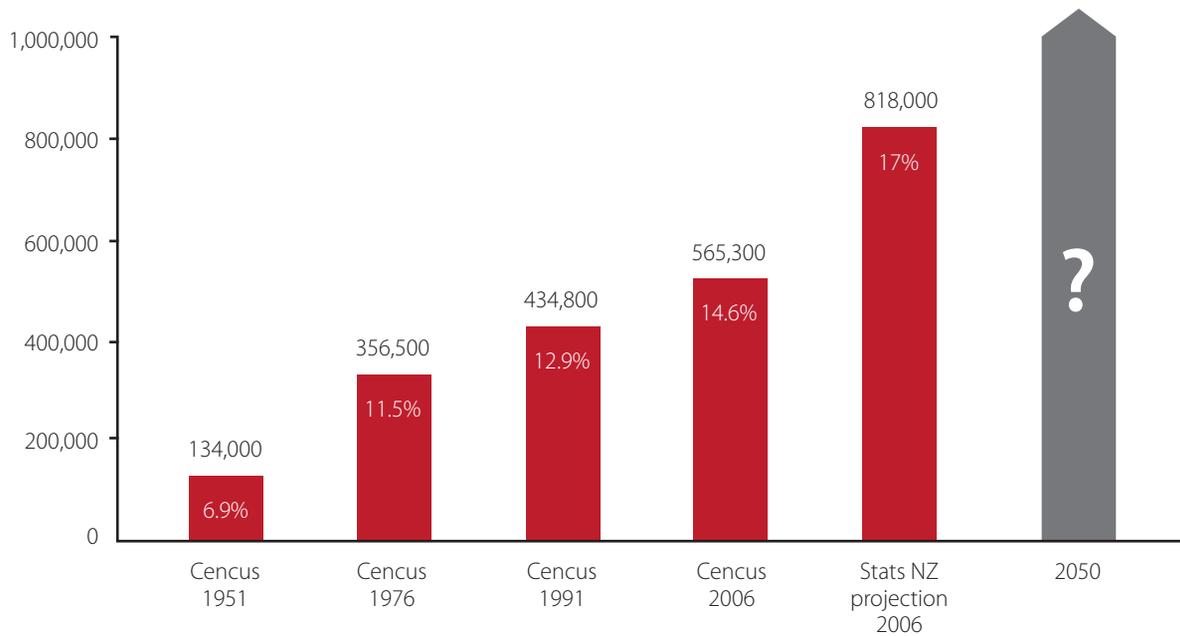
Iwi have taken a leadership position on infrastructure development, and you may find that our thinking is not only influencing Government, but is ahead of it.

Together – Iwi Māori and the private sector – we can create a new business paradigm through this set of guidelines that honours our traditional values, delivers on them and lets us determine our own path.

Iwi and Māori, working with Government and the private sector, will grow a strong Aotearoa New Zealand economy.

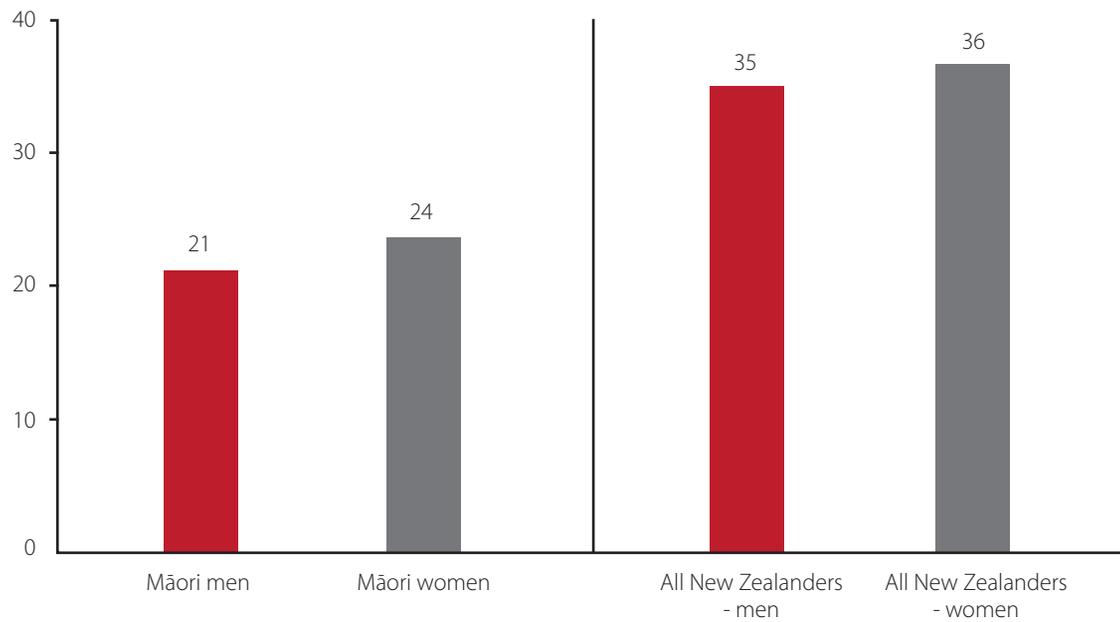
**Mō tātou, ā, mō kā uri ā muri ake nei – For us and our children after us.**

## Growth of the Māori Population



Source: Statistics New Zealand

## Median age of Māori and all New Zealanders Census 2006

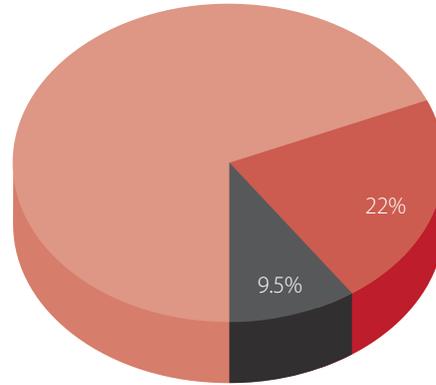
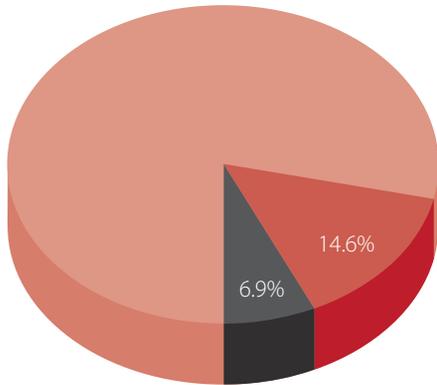


Source: Statistics New Zealand

## Māori and Pasifika today - a young population

**% of NZ population**

**% of student population**



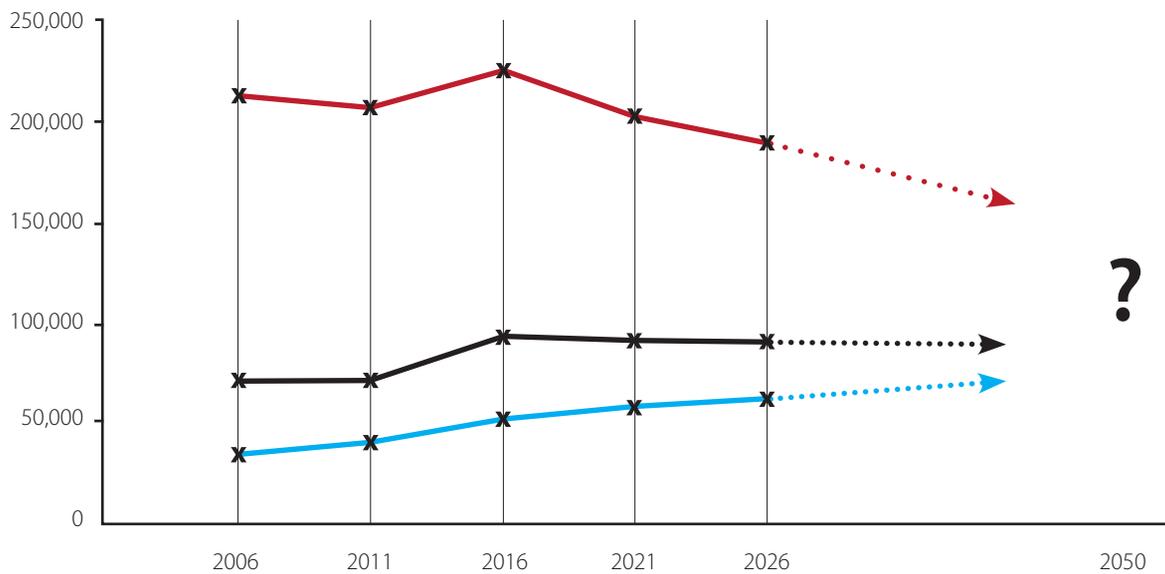
■ Māori population - 14.6%  
 ■ Pasifika population - 6.9%

■ 165,425 Māori students - 22%  
 ■ 71,322 Pasifika students - 9.5%

Source: Ministry of Education (2008) and Statistics New Zealand (Census 2006)

## The browning of Aotearoa New Zealand

Projections for 5 - 9 year olds



■ European or other - Population  
 ■ Māori  
 ■ Pasifika

Source for solid line: Statistics New Zealand



## OVERVIEW OF MATERIALS



## A. Overview

1. This paper provides an overview of a range of strategic issues relating to the involvement and engagement of Iwi Māori in infrastructure co-investments. The paper is also a summary document of the following suite of four accompanying resource guides:
  - Infrastructure Opportunities – a discussion of New Zealand’s infrastructure ‘landscape’, its relevance to Iwi Māori and the potential opportunities emerging for Iwi to consider.
  - Public Private Partnerships – a guide to transactions and deals with a specific focus on infrastructure assets, how PPPs work in that context, the roles Iwi can play in PPPs and the capabilities and technical issues that need to be considered and addressed in order to transact an investment.
  - Commercial Entities – describing the means by which Iwi can collaborate with each other to pool capital and manage risks better for the purpose of making joint/co-investments in infrastructure assets – this may include, for example, creating collaborative vehicles that enable Iwi Māori to engage in a PPP role as set out in the Transactions paper.
  - Case Studies for Collaboration – real life examples of how Iwi Māori have used elements of the approaches discussed in the accompanying papers successfully to generate commercial and social returns.
2. The resource guides have been developed as part of the Assets and Collaboration Workstream of the Māori Economic Taskforce. The Taskforce is looking to contribute to the thinking about how Iwi Māori can examine different models of collaboration, based on kaupapa principles and commercial structures, to help improve the utilisation of Māori assets. This work programme has been progressing alongside a debate over the last 18 months around New Zealand’s infrastructure asset base; this includes questions around how it should be managed, different ways of maintaining and developing the asset base and the importance of good infrastructure investment for enhancing economic growth and social wellbeing.
3. Iwi leaders have been at the forefront of this debate since the election of the current Government. While Iwi Māori look to diversify and strengthen the performance of their own asset bases, there are also important issues to be addressed about the role Iwi have in developing and managing those vital assets that make up New Zealand’s infrastructure base. There is an alignment of interests emerging and work is required to demonstrate how these interests can materialise into practical and attractive opportunities.
4. A key proposal is determining how Iwi Māori could invest in a range of Crown assets, including Crown ‘social infrastructure’ assets such as schools and hospitals, and ‘economic infrastructure’ assets such as toll roads, bridges, tunnels, airports, seaports, rail networks and energy infrastructure. Some of the assets (or the potential for ventures to invest in these assets) will also sit at other levels, such as local government).
5. Collaboration between Iwi is necessary if Iwi are to participate in potential opportunities successfully. The key issues to consider in this regard are:
  - Building trust and relationships between Iwi which strengthen the potential to act collectively.
  - Aggregating investment capital so as to increase the scale and breadth of direct investment opportunities available.
  - Creating greater scale through multi-party investment which also allows greater potential for investment diversification, reducing the concentration of risk for participants. Scaling up also increases the opportunities for direct investment where returns may be superior to a given risk level than passive portfolio investment.
  - Increasing business capability and experience within participating investors, and provide employment opportunities for Māori.

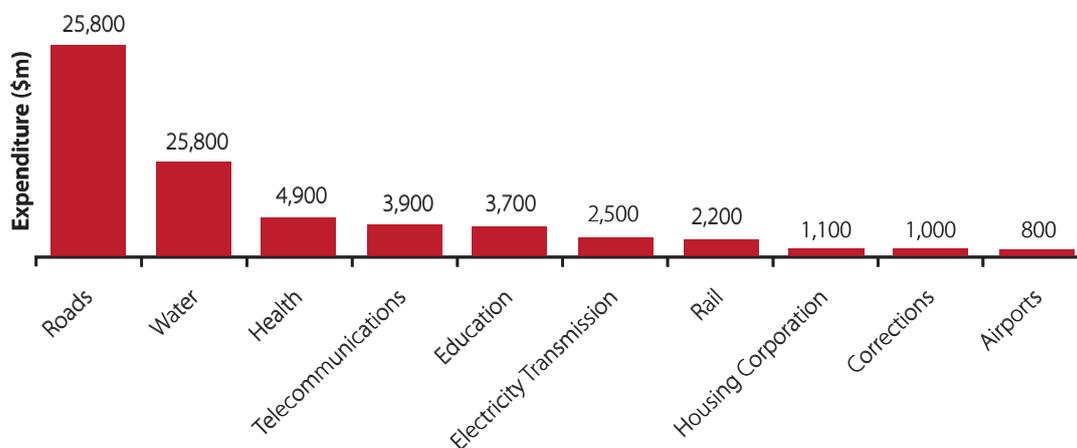
6. The resource guides focus on five sectors that have been identified as strategic areas by Iwi. These sectors are:
  - Education
  - Health
  - Transport
  - Water
  - Energy
7. The release of the National Infrastructure Plan (March 2010) prepared by the National Infrastructure Unit of the Treasury is an important signal from the government of the infrastructure challenges New Zealand faces and how these issues may be addressed. Within the document the government has identified its priorities:
  - a. Public sector investment with an allocation of \$7.5 billion over five years for new capital spending.
  - b. Better management of public infrastructure assets including the consideration of a broader range of options for procuring assets.
  - c. Regulatory reform to make it easier to do get things happening and do business in the infrastructure space.
8. These priorities send strong signals to Iwi. They provide, for example, impetus to the proposition Iwi leaders have been pursuing with the government on models for joint or co-investment arrangements between Iwi partners and the Crown. This proposal presents attractive benefits for the parties involved. For example:
  - a. Economic partnership between Iwi and the Crown with Iwi ownership of core Crown assets reflects long-term economic aspirations and long-term usage requirements on the part of Iwi and the Crown respectively.
  - b. A successful transaction and partnership will allow the derivation of long-term predictable income streams for Iwi while providing the Crown with long-term committed funding.
  - c. Returns can be tailored to reflect specialised nature of the particular asset and risk associated with income stream – where possible, the return can be structured to incentivise long-term cost containment/reduction and/or service performance.
9. Now is the time for Iwi to act. To help with this, the Māori Economic Taskforce is presenting the accompanying resource guides to crystallise and articulate the discussion that has taken place around Māori participation in infrastructure investment so that Iwi can start taking the next steps. These guides are intended to:
  - a. Provide access to technical advice, backed up by analysis of available information on the New Zealand infrastructure landscape (including an analysis of the National Infrastructure Plan) to both identify opportunities as well as outlining the issues that must be resolved in order to progress a potential transaction or investment proposal.
  - b. Signal the commencement of a process to work with Iwi Māori to identify and match opportunities to potential partners with the aim of executing actual deals to test and demonstrate the efficacy of the proposition.
10. A key theme in the resource guides, and the basis of the process mentioned above, is that there are three foundations on which to progress potential opportunities for joint or co-investment opportunities with the Crown. These centre on the need for Iwi to:
  - build trust and relationships amongst each other;
  - consolidate their capital bases; and
  - work collaboratively to identify opportunities.
11. Further details of the process will be discussed with Iwi leaders as part of the release of the guidance and information documentation.



## B. Infrastructure – definition and scope

1. Infrastructure typically takes the form of physical assets often referred to as “capital assets”. Infrastructure falls into two distinct categories: networks and buildings.
  - Networks and supporting structures include roads, ports, airports, telecommunications, broadcasting, rail, electricity transmission and water distribution. These physical networks are important not just for the growth and productivity of our economy but also the location, spread and connectedness of communities and businesses.<sup>1</sup>
  - Buildings, often referred to as “social infrastructure”, include schools, houses, hospitals, prisons and recreational and tourism facilities. They are central to supporting regional development.
2. Other capital, plant and equipment could also be considered within the infrastructure definition. For example, trains and armed forces equipment.
3. A crucial distinction to make is between public and private infrastructure. Public infrastructure – the focus for this paper and its accompanying papers – is primarily funded by government on behalf of citizens. Access to public infrastructure is often very open, with little or no cost to users (e.g., hospitals, schools, state highways). These assets are funded collectively through tax because they are often too expensive for individuals to undertake themselves and there are economic and social benefits for maintaining freedom and equality of access.
4. Private infrastructure, on the other hand, is typically planned, funded and owned privately. Individual companies recoup their investment by charging users to access the services provided by the infrastructure, as an electricity generator would charge the users of electricity from its power plants. Involvement in private infrastructure development is through joint ventures or the provision of debt financing.
12. Over time the conceptual scope of infrastructure will continue to develop and change. The National Infrastructure Plan itself notes the wide set of views around important physical investments that are not included in the Plan at this time. This includes ‘green’ infrastructure and other facilities such as cultural and sporting facilities that may form the focus of infrastructure “investments” but are not necessarily included as part of the present ‘stocktake’. This does not preclude their inclusion in future iterations of the National Infrastructure Plan.
13. For the next twenty years the National Infrastructure Plan – within the sectors it has set its present scope for consideration - identifies a significant amount of planned expenditure as set out below:

Fig 1: Total forecast expenditure (next 20 years) by sector



<sup>1</sup>New Zealand Council for Infrastructure Development, Policy Priorities for Advancing Economic Infrastructure Development in New Zealand; <http://www.nzcid.org.nz/infrastructuredevelopment.html>, last accessed 27/04/2010

14. More generally the table below provides an assessment of the key asset classes above and their likely areas of focus:

Sector	Overview
<b>Transport</b>	<ul style="list-style-type: none"> <li>- A key focus for government since 2003 with the emphasis on improving capacity and productivity.</li> <li>- Major roading programme with seven "Roads of National Significance" spread throughout the country.</li> <li>- Significant urban infrastructure programme including rail.</li> <li>- Legislation now allows toll roads and specifically envisages PPPs.</li> </ul>
<b>Energy and water</b>	<ul style="list-style-type: none"> <li>- Mix of public- and private-led investment.</li> <li>- Identified needs in both the short-term and long-term but characterised by long lead-times and complex regulation.</li> </ul>
<b>Education (compulsory sector)</b>	<ul style="list-style-type: none"> <li>- Accelerated and enhanced spending on school property was a core part of the government's short-term response to the global financial crisis.</li> <li>- Specific target for PPPs.</li> </ul>
<b>Housing</b>	<ul style="list-style-type: none"> <li>- One of the most consistent developers over time (along with education).</li> <li>- Changing demographics mean a need to renew stock to ensure a fit with long term needs (e.g. too many 3 bedroom houses).</li> <li>- Few barriers to private involvement (e.g., PPP already underway in Hobsonville).</li> </ul>
<b>Telecommunications</b>	<ul style="list-style-type: none"> <li>- Largely private companies and private investment, with regulation being a barrier to entry.</li> <li>- \$1.5 billion for ultra-fast broadband developed in partnership with local companies.</li> </ul>
<b>Corrections</b>	<ul style="list-style-type: none"> <li>- Wiri PPP has just been announced.</li> <li>- Range of opportunities for Iwi to advise, finance and/or operate.</li> </ul>
<b>Health</b>	Significant investment in the last decade with hospital construction in most centres but an ongoing need to renew and expand assets.

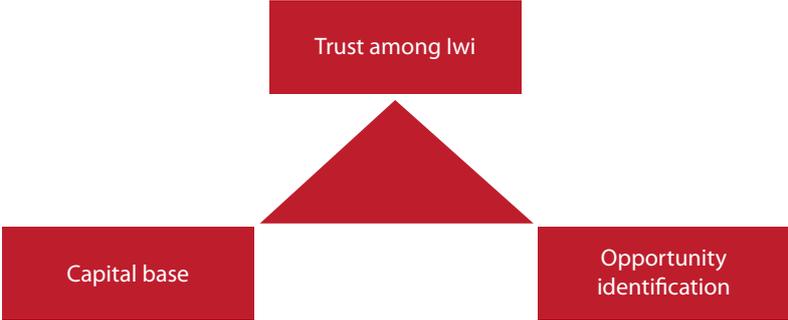
15. Most realistic design and construct and operational opportunities are in the health, education and rural broadband sectors, where the scale and complexity of investment is commensurate with the current capability and capacity of Iwi. This does not preclude Iwi from taking advisory and other roles in larger, more complex projects while they grow their ability to undertake these types of projects. There are a wide range of potential opportunities available – care needs to be taken to how the right opportunities are identified for Iwi Māori and the best mechanisms of engaging in the proposals under consideration.



## C. Key drivers for Iwi Māori

16. There has been considerable dialogue and discussion over the last 18 months about the nationwide picture for infrastructure. Alongside these deliberations, a dialogue has also been progressed between the government and Iwi leaders about the role Iwi could play in addressing this issue.
17. Iwi have asserted a leadership position in infrastructure development, and the aim of these papers from the Taskforce are to support Iwi to benefit, from both an economic development and social perspective, from participating as investors in infrastructure and utilities.
18. This proposition is firmly founded in the concept that a relationship between the Crown and Iwi as co-investors in national infrastructure is the next step in the Treaty of Waitangi partnership. In a post-settlement environment, a new framework for considering our nation's development is intrinsically tied to the ongoing success of Iwi.
19. In addition, Iwi should expect to enjoy a range of benefits from well-targeted and well thought-through infrastructure investment. Whānau, hapu and Iwi should be able to participate in the decisions around what infrastructure is developed and make sure they can capture the benefits that accrue to all citizens. This might include being able to access the types of "business-as-usual" infrastructure development that makes it easier to connect individuals and whanau with each other, their workplaces and their aspirations for their children and future generations through good roads, telecommunications and health and education facilities.
20. It also means hapu and Iwi looking to have their say in the management and operating of new infrastructure developments and using these developments to grow and diversify their own investment portfolios thus growing wealth and resource for future generations.
21. Because Iwi take their responsibilities as long-term stewards of this country seriously, the meeting of minds between the Government and Iwi around the infrastructure debate is timely and appropriate. A co-investment relationship with the Crown is recognition of the responsibilities and obligations Iwi consider themselves to have to contribute to a prosperous New Zealand.
22. In many respects, Iwi should be able to consider themselves "first-choice" partners with the Crown for deals of this nature. This presumption of first choice is based on:
  - a. the Treaty relationship which also reflects the commitment of Iwi, in partnership with the Crown, to contribute to the long-term development of New Zealand;
  - b. the commercial and strategic advantages that come with Iwi as an investor class.
23. A key driving proposition behind this paper and the suite of accompanying papers is the development and promotion of a co-investment model for infrastructure and utility assets.
24. Māori-owned commercial assets were estimated to be worth \$16.5 billion in 2005/06, 52% of which were invested in primary industries, 8% in secondary industries and 40% in the tertiary industries. This economic base grew 83% from \$9 billion in 2001. This, combined with the likelihood of new Treaty settlements and recent economic conditions means that a number of factors are now aligned to support these types of proposals.
25. As most Maori businesses are concentrated in export industries (fishing, forestry, agriculture and tourism), they may feel the effects of the impact the global recession has had on commodity markets and tourism. Investment in infrastructure or other public assets could cement the place of Iwi within the very framework of communities and the nation. These types of investments, by their very nature, will be a major driver in achieving long-term inter-generational prosperity for Iwi Māori.

26. Other factors that enhance the strategic fit of the co-investment approach for Iwi are:
- a. Iwi can use the opportunity from infrastructure and utility investments to diversify their portfolios, thus acquiring investments with a long-term reliable yield, while determining the role they want to play in the management of these assets ie active or passive or iterations between.
  - b. Partnership with government has the additional advantage, depending on policy settings, to lower barriers to entry in infrastructure projects; there may also be opportunities to access and/or develop further opportunities down the track.
  - c. Partnership in infrastructure will also increase technical capabilities for Iwi who can work/invest alongside those who have established roles within the industry. This learning can be transferred to other projects and to future generations to continue the cycle of prosperity.
  - d. Enabling Iwi to make clearer links between their investment and distribution policies over a long forecast period. A key advantage here is the reliable yield over time that Iwi should be able to extract from the investment they make. This will help assist in developing investment and distribution models that align over time.
27. Despite global economic and financial pressures, most available evidence suggests that infrastructure investment and investment in the economic fabric surrounding infrastructure remains a viable long-term proposition. For Iwi, this means identifying the specific opportunities in projects and those corollary projects required to support infrastructure development (for example skills and technical training or sub-contracting support roles). This viewpoint has been strengthened by recent trends towards government intervention and active investment in infrastructure projects.
28. There is a limit on how much time Iwi have to exploit the available opportunities. That is why considering the issues raised here, and in the accompanying papers, is both timely and urgent. The time to act is now. It is hoped, therefore, that by setting out the framework for identifying opportunities and addressing the issues required to advance these opportunities a process can to develop a set of proposals for action can now be started.
29. The foundations of this process are threefold, outlined in the diagram and explained further below.



30. Firstly, trust and relationships need to be developed among Iwi so that when an opportunity is presented:
- legal structures are in place to pursue the opportunity; and
  - all parties understand how they can best contribute to the proposed project's outcome.
31. Iwi will also need to consolidate their capital bases so that they can, respectively:
- invest in diversified portfolios, which can deliver a long-term reliable return;
  - undertake projects that would otherwise be too costly for an individual Iwi to pursue; and
  - increase Iwi attractiveness to debt providers.



32. Further, Iwi can work collaboratively to identify opportunities before they become public, thereby ensuring a chance to shape the opportunity by:
  - sharing personal relationships, for the benefit of all parties;
  - using local Iwi to identify opportunities that could benefit from collaboration.
33. This suite of papers contributes in part to each of these foundations by consolidating a base set of information and analysis that is accessible for Iwi Māori. The ultimate opportunities presented by investment in infrastructure and utilities are ultimately for Iwi Māori to determine.

## D. Summary of accompanying papers

34. This overview paper summarises four accompanying papers that make up a suite of guidance and technical resources to support Iwi Māori in identifying and capitalising on the opportunities infrastructure development presents.

35. Summaries of the four papers are set out in the table below:

Paper	Overview
<p><b>Infrastructure Opportunities</b></p>	<ul style="list-style-type: none"> <li>- Sets out a working definition for “infrastructure” acknowledging the Crown’s focus in the National Infrastructure Plan is necessarily narrowed to areas of public spend where projects have been identified.</li> <li>- Discusses why infrastructure is important – its role in enhancing social and economic wellbeing and how these benefits are of relevance to whanau, hapu and Iwi .</li> <li>- Brings together the focus of a “co-investment” concept where Iwi not only benefit from better and well-thought through infrastructure investment but can start to position themselves as owners, managers and operators of infrastructure.</li> <li>- Uses the National Infrastructure Plan to provide more specific analysis of potential opportunities and a high-level assessment of how Iwi might engage in these opportunities.</li> <li>- Indicates that the “Deals and Transactions Guide” provides more technical and detailed guidance on how a transaction would come together and the issues Iwi need to resolve to progress an opportunity.</li> </ul>
<p><b>Public Private Partnerships</b></p>	<ul style="list-style-type: none"> <li>- Takes the higher level concepts in the Infrastructure Opportunities paper and begins to break them down into the decisions, approaches and pieces of technical advice required to advance a deal or transaction. This includes how Public Private Partnerships works.</li> <li>- Provides commentary on the capabilities and expertise required by Iwi (or that need to be aligned with Iwi capabilities) to progress a deal – this includes consideration to being a participant in a consortia arrangement that would progress a deal (ie with a range of other parties) or the role Iwi may play in a Public Private Partnership.</li> <li>- Corporate finance guidance to work through a range of contributing factors that must be resolved to ensure a successful transaction – this will include advice on issues many Iwi and their asset managers will be already familiar with but is part of the framework to ensure completeness and an “end-to-end” focus.</li> <li>- More detailed commentary and advice on the risks facing investment and activity in the asset classes discussed in the Infrastructure Opportunities paper and advice on mitigating these risks.</li> </ul>



<b>Commercial Entities</b>	<ul style="list-style-type: none"><li>- The Deals and Transactions Guide notes that given the size and scope of the infrastructure opportunities set out in the landscape paper that some form of collaboration between Iwi is likely to accelerate and make more feasible the progression of transactions. Additionally, collaboration vehicles will help manage risk and give all hapu and Iwi who are interested in supporting such proposals a greater opportunity to do so.</li><li>- Having dealt with the financial and analytical issues around a transaction and made decisions around the nature of an acquisition or co-investment venture Iwi need to consider the practical steps required to develop a collaboration or investment vehicle that allows resources and capability to be shared whilst protecting diverse interests.</li><li>- The Kotahitanga Guide provides practical guidance on structural arrangements for multiple party investments. There are a number of vehicles and approaches available for Iwi to use. Which one is most appropriate will depend on the type of asset being built, the role that each party plays and the specific risk and return sharing arrangements that are negotiated.</li></ul>
<b>Collaboration Case Studies</b>	<ul style="list-style-type: none"><li>- To support the concepts discussed across the three preceding papers important context is provided through case studies on examples of innovative collaboration vehicles and approaches.</li><li>- The case studies set out real life examples of how Iwi have utilised elements of public private partnership approaches to undertake investments as well as structures for engaging multiple Iwi in the transfer and ownership of assets or other types of investment activity.</li></ul>

36. The documents above are intended to be guides, with an element of strategic advice and positioning, supported by technical advice and commentary on available information on infrastructure opportunities.
37. We hope that these documents prove valuable to hapū and Iwi interested in advancing their understanding of these concepts and realising the potential benefits. However, it is important to note that a wider process is being engaged to bring prototype transactions to the fore and test the efficacy of the approaches through live deals. Further detail on this work will be released as part of the Assets and Collaboration work programme.



## INFRASTRUCTURE OPPORTUNITIES



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# Executive summary

## *A renewed national focus on infrastructure*

1. After decades of rationalisation and limited investment, New Zealand is renewing its focus on infrastructure development to provide modern economic and social services. The renewed focus has been accompanied by an increasing amount of debate, against the backdrop of global financial and economic instability, about the role of infrastructure in contributing to social and economic wellbeing.
2. The Government has established a National Infrastructure Unit within the Treasury, which has been tasked with increasing the level of centralised infrastructure planning. This paper draws heavily on the National Infrastructure Plan that was published in March 2010 by the Unit to identify opportunities for private-sector investment to take part in national and regional infrastructure projects.
3. The scale of investment and the timing of projects are ambitious and the Government will require finance, expertise and support from other sectors in order to implement its vision. Some of the most significant opportunities are in the early stages of development already and for Iwi Māori to participate in these we will need to undertake a concerted effort to organise ourselves, collectively and individually.

## *The immediate opportunity for Iwi Māori*

4. Iwi Māori are making a substantial contribution to the current debate about the role of infrastructure in promoting New Zealand's economic and social wellbeing. However, there is an argument for increasing our presence and contribution to this debate. This is driven by:
  - the commercial fit between the long-term, reliable returns offered by properly planned and utilised infrastructure and the long-term, intergenerational commercial objectives of Iwi Māori.
  - the proposition that co-investment between Iwi and the Crown in significant, long-lasting national infrastructure is the next step in the Treaty of Waitangi partnership;
  - the fact that in a post-Treaty settlement environment the nation's development is intrinsically tied to the success of Iwi Māori, so that Iwi Māori must have a voice and a stake in the development of vital national infrastructure.
  - Iwi's role as long-term stewards of the country's social and environmental fabric, which is significantly affected by infrastructure development; and
  - the recognition of the responsibilities and obligations Iwi have to contribute to a prosperous New Zealand, and that the provision of infrastructure with wide social, economic and intergeneration impacts as being one way to achieve that.
5. Additionally, Iwi bring a range of commercial and strategic advantages as an investor class and partner for a range of parties when considering the question of infrastructure development.
6. As an investment option, infrastructure fits well with the long-term strategic investment goals of Iwi. As a financier, Iwi could expect modest but stable returns over a long period of time. There are also options in some sectors for Iwi to increase their level of involvement in the development of infrastructure, and their commercial returns, by taking on a wider role in the design, build, management and maintenance of certain assets.
7. Considering these issues is important to setting the context for this paper. The infrastructure landscape is vast and complex in many respects – the intent of this paper then is to break this down somewhat and start to clarify what infrastructure is, why it matters to Aotearoa New Zealand and where potential opportunities exist for Iwi Māori.



### *The infrastructure landscape in Aotearoa New Zealand*

8. The intent of this paper is to set out a summary of New Zealand's infrastructure landscape for Iwi Māori governors, asset managers and other decision makers. The paper also provides further context of the opportunities presenting for Iwi Māori to engage in crafting our infrastructure landscape, backed up with an analysis of available data.
9. The paper includes sections on:
  - what infrastructure is – the types of assets it encompasses, the characteristics of the asset class and the different definitions that can be used to describe it;
  - why infrastructure matters - its contribution to economic and social wellbeing and for Iwi Māori the specific opportunities infrastructure investment presents;
  - what the New Zealand infrastructure landscape looks like at the moment - the historical and domestic context for infrastructure development, the intent of the Government with regard to building and maintaining the current stock and a discussion of the issues to be addressed when considering the future development of infrastructure in New Zealand; and
  - what opportunities are presented by an analysis of the National Infrastructure Plan (NIP) and providing Iwi Māori with:
    - o a summary of what is presently being considered in terms of new infrastructure build across key asset classes;
    - o a more detailed set of opportunities across asset classes that have broad interest for Iwi Māori (education, health, transport, energy and water); and
    - o high-level consideration and advice on how Iwi Māori may wish to get involved in these types of transactions. Further operational and analytical considerations are laid out in an accompanying paper, entitled **Public-Private Partnerships**.
10. Across the infrastructure asset classes, commentary is provided that focuses on what the opportunities may be in those areas open to Iwi Māori and a brief description of how an engagement in a project or transaction might be pursued. This is not exhaustive advice. It is intended to provide background to the more detailed discussion set out in the aforementioned Transactions paper, which focuses on deal mechanics and transaction roles.
11. While Public-Private Partnership (PPP) models of infrastructure procurement have gained a high profile, it is important to note that the government has not committed to the wholesale adoption of PPPs. Moreover, they are not the only model for Iwi to participate in development opportunities. Iwi should look to further strengthen their relationships with existing developers, identifying areas and roles in which they can bring expertise and value under more traditional "design and build" models of procurement.
12. Infrastructure is a credible and worthy investment opportunity for Iwi Māori to consider. How successful groups are engaging with and gaining returns from infrastructure opportunities will depend on the speed with which they can organise and position themselves as credible co-investment partners for the Government. This paper and the other resource guides are intended to help position Iwi groups to better engage in the opportunities on Aotearoa's horizon.

## A. Infrastructure – what is it?

### What is infrastructure?

13. Infrastructure typically takes the form of physical assets often referred to as “capital assets”. Infrastructure falls into two distinct categories: networks and buildings.
  - Networks and supporting structures include roads, ports, airports, telecommunications, broadcasting, rail, electricity transmission and water distribution. These physical networks are important not just for the growth and productivity of our economy but also the location, spread and connectedness of communities and businesses.<sup>1</sup>
  - Buildings, often referred to as “social infrastructure”, include schools, houses, hospitals, prisons and recreational and tourism facilities. They are central to supporting regional development.
14. Other capital, plant and equipment could also be considered within the infrastructure definition. For example, trains and armed forces equipment.
15. A crucial distinction to make is between public and private infrastructure. Public infrastructure – the focus for this paper – is primarily funded by government on behalf of citizens. Access to public infrastructure is often very open, with little or no cost to users (e.g., hospitals, schools, state highways). These assets are funded collectively through tax because they are often too expensive for individuals to undertake themselves and there are economic and social benefits for maintaining freedom and equality of access. Later in this paper we discuss how the financing and delivery of public infrastructure is changing and the opportunity this is creating for Iwi and other investors to become involved.
16. Private infrastructure, on the other hand, is typically planned, funded and owned privately. Individual companies recoup their investment by charging users to access the services provided by the infrastructure, as an electricity generator would charge the users of electricity from its power plants. Involvement in private infrastructure development is through joint ventures or the provision of debt financing.

### Why does it matter?

17. A nation’s infrastructure is important for the services it provides to businesses and the community. Evidence suggests that the quality and quantity of a nation’s infrastructure has a positive impact on long-term economic performance.<sup>2</sup> High-quality social infrastructure is also important for a population’s health and cultural wellbeing. This point is important to keep in mind as poorly planned and under-utilised infrastructure will not deliver the same benefits.
18. Infrastructure also has a positive short-term economic stimulus effect during its development phase. Infrastructure projects provide employment, particularly in the construction sector, and a consistent pipeline of infrastructure projects can “deepen” sectors of the economy that service construction, including the manufacturing and materials supply sector, and the education sector (e.g. industry training). Increasing or bringing forward expenditure on infrastructure was a strategy adopted by governments around the world to help combat the worst affects of the 2008 global financial crisis.
19. As citizens, whānau, hapū and Iwi Māori should expect to enjoy the benefits of well targeted and designed infrastructure investment. As noted by Hon Steven Joyce in a speech at the Korea-New Zealand Business Forum, “Good infrastructure is vital to a well running economy... Good infrastructure enables the movement of people, goods, energy, ideas and information around our country and around the world.”<sup>3</sup>

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1. New Zealand Council for Infrastructure Development, *Policy Priorities for Advancing Economic Infrastructure Development in New Zealand*; <http://www.nzcid.org.nz/infrastructuredevelopment.html>, last accessed 27/04/2010

2. Page 3, [http://www.beehive.govt.nz/sites/all/files/Infrastructure\\_0.pdf](http://www.beehive.govt.nz/sites/all/files/Infrastructure_0.pdf), last accessed 29/04/2010

3. The development of New Zealand’s infrastructure: current and future needs, 3 March 2009 <http://www.beehive.govt.nz/speech/development+new+zealand039s+infrastructure+current+and+future+needs+0>, last accessed 29/04/2010



20. With countries competing for business and their position in the global economy, many nations, states, provincial and city governments are increasing their level of investment in infrastructure. It is suggested that the world's infrastructure needs are likely to amount to \$US71 trillion through to 2030. The infrastructure landscape is considerable in its scope and is an issue that communities of interest around the world are increasingly focused on.

### Drivers of infrastructure development

21. The New Zealand infrastructure landscape is bound up in our history as a country and the developmental path we have taken. This history of development is unfavourable to Māori in many ways and this reflects a trend for indigenous peoples across nations that have been the subject of colonisation. Our landscape also reflects the political decisions and choices we have made as a country.
22. Going forward, it is important to recognise that the decisions made around infrastructure development are just as pertinent and relevant to Iwi Māori as citizens of New Zealand and as investors and guardians of inter-generational wealth and prosperity.

### Historical context

23. In understanding the current infrastructure landscape and, more importantly, thinking about where Iwi Māori want to be positioned, it is useful to think about the phases New Zealand has gone through. New Zealand's infrastructural development can be characterised by five broad phases:
  - **Pioneers:** Up to the end of World War II, much of New Zealand was under-developed. This period can be characterised as laying down the fundamentals of New Zealand's infrastructure including setting out the skeleton of the road network and establishing power generation. Development was haphazard. For example, the cities of Dunedin and Christchurch decided at about the same time in the 1800s to link their cities by road. They both started building the road following the most logical route out of their respective cities. Had they been allowed to continue, the roads would have passed each other about 40 kilometres apart. This incident led to the establishment of the National Roads Board.
  - **Chugging along:** The period between the war and the 1970s was one of consolidation and steady improvement in our capital stock. We built what we thought we needed, where we thought we needed it. As a nation, we started constructing motorways and planning ambitious electricity schemes. Towns sprang up where previously small settlements existed (e.g. Turangi, Tokoroa) and we often neglected the social, economic and environmental impacts of "progress." For example, the impacts of the Public Works Act on communities including hapū and Iwi.

The Government borrowed heavily to fund these projects and many experienced cost overruns due to delays, public opposition and technical problems. The resulting level of indebtedness contributed to New Zealand's fiscal crisis in the early 1990s that saw significant reductions in health, education and welfare spending.

The financial cost of the projects undoubtedly caused many problems for New Zealand, yet today we are still worried about whether we have enough electricity generation capacity. With few exceptions, the projects that contributed to almost bankrupting the government are now delivering significant benefit to the New Zealand economy.
  - **The lost years?:** Deregulation, corporatisation and privatisation of the mid to late 1980s, combined with the fiscal crisis and years of poor economic performance in the 1990s saw a significant downturn in public infrastructure investment per capita. Not only did we reduce the rate at which we built, but the capability to plan and structure finances to get the best out of infrastructure was also reduced.

This period also saw a dramatic change in the way that government procured infrastructure assets. Increasingly the design and construction aspects of projects were contracted to private sector companies that had greater expertise and could deliver projects more cheaply.
  - **Catch-up and planning for the future:** The strong economic performance since 2000 saw New Zealand rapidly pay off Crown debt, including a substantial portion of the Think Big debt. The incoming Labour Government had

intended to move below 30% gross debt as a percentage of GDP (this is the standard way governments measure their debt levels) by 2010. The government had achieved this goal by 2003 and remained on track to be well below 20% by the end of the decade. This changed with the onset of the global financial crisis in 2008.

This reduction in debt, combined with strong operating surpluses, allowed an unprecedented expansion of infrastructure expenditure across a number of fronts. Most hospitals received significant upgrades, the military replaced aging equipment, roading moved from fixing blackspots to major new motorway projects, and schools and tertiary institutions were funded to expand and modernise.

24. The present day situation is one where the infrastructure landscape is mixed. Some sectors have moved beyond bringing run-down and aging assets (e.g., public hospitals and defence force equipment) up to modern standards and are now looking at the requirements needed over the long-term. In other areas, such as the completion of the Auckland motorway network, work is now beginning on projects that had been deferred. In sectors like energy and water (in some regions) there is still a pressing need to bring the existing infrastructure base up to a standard where it can cope with current demand.

### *The drivers of future infrastructure requirements are demographic, but the economic vision for New Zealand is also important*

25. As mentioned above, there are still areas of national importance where the quality of existing infrastructure does not meet the needs of our population or our economy. The gap is particularly acute in the water, energy, transport and telecommunications sectors. These are sectors that are invariably subject to over-allocation of existing resources (as is the case in water), blackouts (electricity), congestion (roads), and poor value for money for consumers relative to other developed countries (telecommunications).
26. Infrastructure planning requires thinking about the future size and composition of New Zealand's population, its needs and demands and the impact of technology. Infrastructure development should reflect the nation's economic vision as well – a vision that Iwi have a significant role in defining and realising.
27. The main demographic forces driving future requirements are:
  - population growth – places pressure on existing capacity;
  - urban density – changes in the demand for infrastructure services in some regions; and
  - population composition, particularly around age – drives changes in the mix of infrastructure.

### **Where are we now?**

28. The Government's fiscal position and its ability to borrow money for capital expenditure is predicted to be weak for the remainder of the decade. The Government is currently looking at ways for the private sector to play a more active role in the finance, ownership and operation of infrastructure projects, enabling more projects to be progressed.
29. The global financial crisis of 2008 has seen governments around the world turn to infrastructure spending as a way of stimulating their flagging economies in the short term, while providing assets to stand them in good stead for the future.
30. The current Government is committed to increasing the stock and quality of infrastructure assets in New Zealand. It has identified investment in productive infrastructure as one of six key policy levers that it will use to achieve its goal of increased economic growth and productivity.

### *Increased central planning of vital economic infrastructure*

31. Good planning is critical to ensuring infrastructure assets are properly utilised and deliver good value for money. The current Government responded to a lack of centralised planning by establishing a National Infrastructure Unit within the Treasury to help coordinate the identification and development of infrastructure opportunities on behalf of central government.



32. The National Infrastructure Unit has recently released its inaugural National Infrastructure Plan, which includes a stocktake of the main central government projects planned for the next twenty years.
33. The plan includes a limited number of local government and private sector projects. Later sections of this paper contain an analysis of the projects contained in the Plan, as well as some additional opportunities in the primary health sector (Integrated Family Health Centres and Whānau Ora Centres).
34. Even with the increased focus on centralised planning, the drivers for many infrastructure projects will be the needs of local populations and local businesses. Iwi have a role to help communicate these needs to planners, funders and other decision makers, both government and non-government.

#### *New ways of procuring and managing state-owned assets*

35. The Government has signalled that it wants to look at new ways of procuring and operating the \$110 billion worth of assets owned by the state. To do this, it has asked agencies to investigate and pilot new models for procuring and operating capital purchases. The focus for agencies is to identify novel ways of involving private groups in the finance and operation of assets.
36. The private sector has traditionally had a significant role in the construction and maintenance of public sector infrastructure. Over the last twenty years, governments have made increasing use of direct private sector involvement in the ownership and financing of public infrastructure, typically through a PPP or Private Finance Initiative (PFI) model.
37. With the appropriate incentives and safeguards in place, it is hoped that these models will lead to more efficient ways of managing infrastructure that better meet the needs of end users.
38. Notable examples of recent PPP projects announced by the Government include:
  - the 1,000-bed male prison in Wiri which will be financed, built and operated by the private sector (under the oversight of the Department of Corrections);
  - the Ministry of Education developing a business case that would see a new primary or secondary school financed, constructed *and owned* by a private sector party who would lease it back to the Ministry for use;
  - a housing development in Hobsonville Point, led by a government-owned company and financed by an Australian residential property development and construction company, AV Jennings.

## Opportunities to participate in new models for procurement

### *How is infrastructure procured?*

39. Infrastructure investment is typically “lumpy” - a developer might only build 3 major power stations in a 20 year period and the costs, when incurred, are significant. For this reason, a great deal of infrastructure investment is either commissioned by government (central and local) or very large companies. Smaller groups tend not to be able to raise the finance to lead a major project without support.
40. Infrastructure projects tend to be characterised as high-risk during the development and construction phases: it takes very careful planning and considerable capability to deliver a project “on time, on budget.” This is due to:
  - The long lead times before construction can begin. For example, the Central Plains Water scheme in Canterbury has been in formal planning processes since 2006/07
  - The risk of construction delay through weather. There is typically a “construction season.” Most earthworks can only be completed when the ground is dry enough. For a multi-year roading project, like the Northern Gateway Toll Road in Auckland, one or two rainy summers can add considerable length and cost to a project.
  - Considerable risk of product and labour inflation during the construction period. The latter part of this decade saw significant price increases in steel and concrete, driven by global construction activity (e.g. China).
41. Adequately managing the risks involved to deliver on these complex projects requires the capabilities and experience of a range of different actors. Often organisations team-up to form an alliance or consortia to contract with government to deliver and operate specific projects.
42. In alliances parties agree to work together as one integrated team in a relationship that is based on the principles of equity, trust, respect, openness, no dispute and no blame. All parties to an alliance, including project funders, are bound to a risk/reward scheme where they all share in the returns or losses, depending on the success or otherwise of the project.<sup>4</sup> Alliances are particularly appropriate in a PPP-type project where the government is seeking to devolve responsibility for the management and operation of the asset.
43. Consortia are best described as a string of sub-contracts underneath the main contract for the procurement of an asset. They are commonly used in traditional procurement models where the allocation of risk and responsibility is reflected in contractual terms and conditions. In a consortia, parties face different risks and rewards depending on the role they play in the project. For example, a party who takes on more construction or operational risk would expect a higher return than a party who only provides debt financing for the same project.
44. While the current Government has sent strong signals about its interest in PPPs, it should be noted that this preference is conditional on PPPs demonstrating greater value for money than traditional procurement models.<sup>5</sup> However, even though PPPs are unlikely to be adopted in a wholesale fashion across the public sector, Iwi can still engage in development projects under more traditional models of procurement.
45. Further detail on the role that Iwi – and other parties – can play in traditional and PPP procurement models is included the accompanying papers entitled *Commercial Entities* and *Public Private Partnerships*.

4. Henneveld, M., 2006. ‘Alliance Contracting Removing The Boundaries For Infrastructure Delivery’, paper prepared for presentation at the Opening Plenary Session of the 2006 Annual Conference of The Transportation Association of Canada Charlottetown, Prince Edward Island.

5. For example, see the Minister’s press release on investigating PPPs to build new primary and secondary schools <http://www.beehive.govt.nz/release/ppps+being+considered+new+school+property>, last accessed 30/04/2010.



### *Identifying the decision maker*

46. The process for making decisions on specific infrastructure development opportunities differs by sector. In sectors dominated by private sector or SOE-led investment (e.g., telecommunications and energy) the decisions are made by individual companies, sometimes with approval from government regulators.
47. For projects led by government, decisions are made by:
  - Ministers - for primary and secondary schools and large projects in the health sector;
  - regional and local authorities - for local roading, water infrastructure, local roads, recreational infrastructure and small projects in the health sector; and
  - the Board of the New Zealand Transport Agency - for national roading projects.
48. Infrastructure planners and decision makers, in the public and private sectors, are also subject to a range of legislative processes and constraints. Legislation, such as the Resource Management Act, is in place to ensure that social, cultural and environmental impacts of infrastructure projects are considered and balanced against economic and commercial interests. Exactly who has regulatory oversight of a project depends on the legislation that is being applied. A list of these regulators includes:
  - Environment Court – for consents under the Resource Management Act (RMA) and the Historic Places Act.
  - Local and regional authorities – consent required for major infrastructure projects under the RMA; road stoppages under the Local Government Act.
  - Ministers – for authorities to force the sale of land under the Public Works Act, with the level of compensation open to appeal; approval to use land that is designated as a Reserve (the Reserves Act); decisions to escalate (“call in”) projects ‘of national significance’ to Minister-appointed boards of enquiry or the environment court.<sup>6</sup>

### *Identifying and tracking opportunities*

49. The National Infrastructure Plan is an attempt to gather information on planned infrastructure investment in one place. However, the Plan does not capture investment in all sectors, or from all types of investors. We know of no existing mechanism for keeping the information in the Plan continuously up-to-date and easily accessible (e.g., through updateable web-based tables). Nevertheless, the Plan is the only publicly available document we know of that spans a wide range of sectors and provides detail on available upcoming projects.
50. If readers are interested in particular sectors, there is a range of sources available to help keep abreast of developments and opportunities, such as:
  - the Government Electronic Tenders Service ([www.gets.govt.nz](http://www.gets.govt.nz));
  - the Ministry of Education School Property Capital Plan (released annually, available from the Ministry);
  - the National Land Transport Programme (released annually)<sup>7</sup>; and
  - Transpower’s Annual Planning Report.<sup>8</sup>
51. Monitoring these and other publicly available documents will not, on its own, provide enough lead-time for investors to organise and position themselves optimally to participate in a project. Potential investors need to engage with officials and other planners in an ongoing dialogue about local and national infrastructure requirements and the opportunities for co-investment.

6. <http://www.mfe.govt.nz/rma/central/call-ins.html>, last accessed 27/04/2010

7. <http://www.nzta.govt.nz/resources/national-land-transport-programme/2009-2012/index.html>, last accessed 2/5/2010

8. <http://www.gridnewzealand.co.nz/n3610,4.html>, last accessed 2/5/2010

## B. The opportunity for Iwi Māori

### **What is the opportunity for Iwi Māori?**

52. There is a growing recognition of alternative ways of developing, building and managing infrastructure. Innovative ways of funding infrastructure construction (for example, through PPPs and similar ventures) will continue to evolve. Iwi need to be on the forefront of such developments, as their ability to contribute to the acceleration and success of transactions will become increasingly important.
53. The alignment of Iwi interests with those of the Crown in a co-investment model for infrastructure and utility assets has never been more feasible than it is today. Driven by the global financial crisis of 2008 and economic conditions, and the asset base created for Iwi through Treaty settlements, a number of factors are now aligned to support these types of proposals.

### **What is the relevance for Iwi Māori?**

54. Once projects are completed they can deliver tangible, very long-term benefits to the investors, the economy and society as a whole.<sup>9</sup> As tangata whenua, Iwi have an interest realising benefits not just at the level of the individual investor but for the nation as a whole. The rest of this section crystallises the link between the objectives of Iwi Māori and specific features of infrastructure as a form of commercial investment and national development.

### ***Promoting the long-term, intergenerational prosperity of Iwi Māori***

55. The types of investments discussed in this paper are generally 'low risk' once construction is complete and provide for the generation of stable and long-term commercial and economic returns. This will be a major driver in achieving long-term inter-generational prosperity for Iwi Māori who will reap the benefits of direct investment in these projects.
56. Infrastructure is also a way for Iwi to broaden their commercial investment portfolios with assets that generate cash returns over a long period of time. This will assist Iwi in development of investment and distribution models that align over time.
57. Partnership in infrastructure will provide a learning opportunity for some Iwi, who will be able to work and invest alongside those who have established roles within the industry. This learning can be transferred to other projects and to future generations to continue the cycle of increasing prosperity.

### ***Strengthening the leadership role of Iwi Māori and their partnership with the Crown***

58. It is natural to view the emergence of Crown and Iwi as co-investors in national infrastructure as the next step in the Treaty of Waitangi partnership. In a post-settlement environment, a new framework for considering our nation's development is intrinsically tied to the ongoing success of Iwi. In many respects Iwi should be able to consider themselves "first-choice" partners with the Crown for deals of this nature. This presumption of first choice is justified on the basis of the Treaty relationship and the desire of Iwi to contribute to the long-term development of New Zealand.

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9. For an overview of the evidence linking infrastructure to improved national productivity and wellbeing, see National Infrastructure Unit (2010) *National Infrastructure Plan*, page 10.



59. As partners, Iwi should expect to have a direct say in how key utility and infrastructure assets are deployed, managed and run. The development process offers opportunities for Iwi to act as, among other things, key advisors to planners and developers. That Iwi have a voice in this space is not just important from a Treaty partnership perspective but also from a community development perspective, where local communities rely on the leadership of Iwi to promote their social and economic tōnuitanga.
60. Large-scale projects have traditionally been a source of significant economic development in rural areas, providing employment not only to those who work directly on a project, but also to industries servicing the asset. Such projects could bring renewed vitality to economically depressed regions.
61. Partnership with government has the additional advantage, depending on policy settings, to lower barriers to entry in infrastructure projects; there may also be opportunities to access and/or develop further opportunities in the future.

*Iwi Māori have a long-term role as stewards and guardians of national taonga*

62. As well as the role of Iwi in promoting the long-term economic and social aspirations of hapū and whānau, Iwi have also adopted a role as stewards of national wellbeing and taonga. This is a role that Iwi Māori have demonstrated a long-term and serious commitment to.
63. The opportunity to influence planning and progress specific developments is where Iwi can make the greatest contribution to a national economic vision. This vision should provide for the benefit of all New Zealanders without undermining the long-term viability of the land to provide for its people.
64. An example of this is in the energy sector, where greater levels of investment in clean, renewable energy generation will help to contain price increases without the negative environmental impacts of power stations that use fossil fuels. This will be immensely beneficial to Iwi and hapū who are already struggling to afford power and heat for their homes but who wish to preserve their whenua for future generations.

*Promoting national prosperity through the provision of socially and economically useful assets*

65. The wider economic and social benefits for hapū and whānau brought by improved national infrastructure could be significant: from keeping communities connected across rural and urban domains through access to cost-effective information and communications technology to ensuring that current and future generations enjoy access to a sustainable health and education network by having schools and hospitals located in the right place and appropriately maintained.

## C. Stocktake of projects

66. This section presents a sectoral analysis of the infrastructure projects that were included in the National Infrastructure Plan. The Plan is not an exhaustive list of infrastructure projects that are planned or being considered. For example, it contains very little information on private sector or local authority-led investment. However, it does bring together the long-term capital expenditure intentions of a wide range of government agencies.
67. The Plan includes projects at different stages of development, from projects that have yet to be considered by decision-makers to projects that are underway. The opportunity for Iwi to become involved is greatest where projects are desired but do not yet have funding or contractors assigned. In this instance, Iwi can help speed the commissioning of these projects through, for example, the provision of finance.
68. The projects themselves range from upgrades or repairs to existing infrastructure (e.g., fixing classrooms affected by weather tightness problems) to land acquisition and new building construction. Land acquisition and new building construction are the most obvious and rewarding projects for Iwi to undertake as there is potential for Iwi to finance, build and own the asset, and leverage off existing land holdings.
69. The regional distribution of opportunities in the health, education and transport contained in the National Infrastructure Plan are presented in an accompanying set of maps.

### Disclaimers

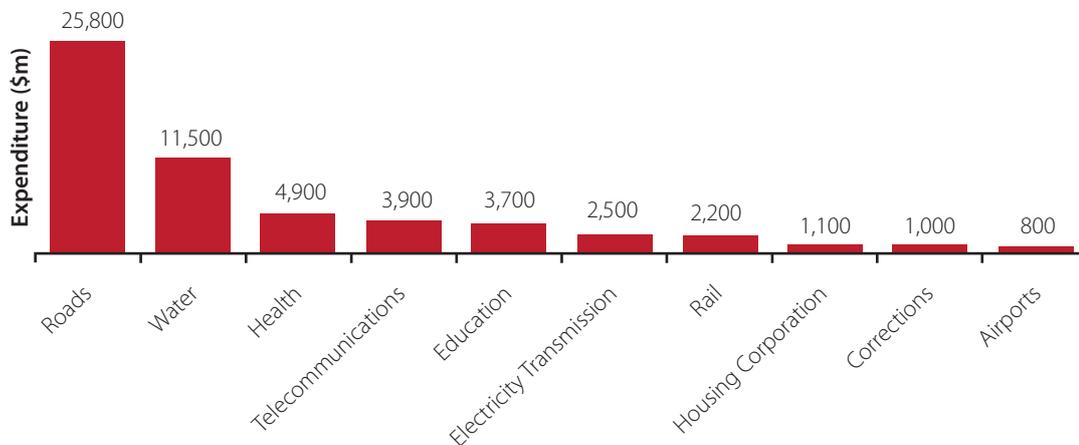
70. Unless otherwise stated, the facts and figures presented below were sourced from the National Infrastructure Plan.
71. It is important to note that in analysing the National Infrastructure Plan we have not attempted to establish the veracity of the facts and figures presented in it. In particular, we caution against the interpretation of specific projects contained in the Plan as 'live opportunities' that are available to participate in. In some cases, it may be that the projects listed in the Plan under consideration and yet-to-be built are in fact built, underway or cancelled.
72. Opportunities described in the Plan are best interpreted as illustrative only. Once Iwi Māori have identified the type of asset they are interested in investing in, they will then need to engage with relevant officials and organisations to develop a specific project.

### Overview

73. Figure 1 shows the total forecast expenditure on infrastructure over the next twenty years and beyond, by sector. Total forecast expenditure is estimated to amount to approximately \$57 billion. This figure includes projects that have been committed to and projects that are yet to secure funding or approval.



**Figure 1: Total forecast expenditure (next 20 years) by sector**



Source: National Infrastructure Plan, PwC Analysis

74. Table 1 below provides an overview of key aspects and trends in the various infrastructure sectors covered by the National Infrastructure Plan. Little is known about sectors that are dominated by private sector-led investment (in energy generation, airports, ports and telecommunications) as the value of planned investment is treated as commercially sensitive.

**Table 1: Overview of infrastructure sectors**

Sector	Overview
<b>Transport</b>	<ul style="list-style-type: none"> <li>• A key focus for government since 2003 with the emphasis on improving capacity and productivity.</li> <li>• Major roading programme with seven “Roads of National Significance” spread throughout the country.</li> <li>• Significant urban infrastructure programme including rail.</li> <li>• Legislation now allows toll roads and specifically envisages PPPs.</li> </ul>
<b>Energy and water</b>	<ul style="list-style-type: none"> <li>• Mix of public- and private-led investment.</li> <li>• Identified needs in both the short-term and long-term but characterised by long lead-times and complex regulation.</li> </ul>
<b>Education (compulsory sector)</b>	<ul style="list-style-type: none"> <li>• Accelerated and enhanced spending on school property was a core part of the Government’s short-term response to the global financial crisis.</li> <li>• Specific target for PPPs.</li> </ul>
<b>Housing</b>	<ul style="list-style-type: none"> <li>• One of the most consistent developers over time (along with education).</li> <li>• Changing demographics mean a need to renew stock to ensure a fit with long-term needs (e.g. too many 3 bedroom houses).</li> <li>• Few barriers to private involvement (e.g., PPP already underway in Hobsonville).</li> </ul>
<b>Telecommunications</b>	<ul style="list-style-type: none"> <li>• Largely private companies and private investment, with regulation being a barrier to entry.</li> <li>• \$1.5 billion for ultra-fast broadband to be developed in partnership with local companies.</li> </ul>
<b>Corrections</b>	<ul style="list-style-type: none"> <li>• Wiri PPP has just been announced.</li> <li>• Range of opportunities for lwi to advise, finance and/or operate.</li> </ul>

75. The remainder of this paper describes each infrastructure sector in more detail and outlines the opportunities that exist for lwi and other groups to participate in future development projects. One of the key distinctions made is between different project development statuses. These are outlined below in order of descending development:

- Underway – project is currently under construction.
- Committed – project is planned, has a budget and a contractor assigned.
- Planned – project is planned but may not have funding or a contractor assigned.
- To be considered – means that a decision is yet to be made on whether, or when, the project will be undertaken.



## Education sector

76. The Ministry's current procurement approach is to tender for a contractor or consortium to undertake the design and construction of new schools under a two-stage contract. The contractor is responsible for developing a design that can be built without exceeding a maximum price per expected student. At the completion of construction, the government owns the asset and is responsible for its maintenance.
77. However, the Ministry is actively investigating the viability and desirability of PPP models for new school procurement through a small-scale business case and pilot.

### *What type of investment is this?*

78. Public school infrastructure investments can be broadly defined in terms of two asset classes – commercial construction and commercial property ownership. Different rates of return can be expected from different investment scenarios. For example, maintaining the operation of the asset has the potential to yield greater income, but also carries higher risk than simply leasing land.
79. Investing in education is potentially straightforward as school construction is relatively low-risk and it provides an opportunity for some Iwi to lease their existing land holdings.

### *Commercial construction*

80. Commercial construction is an established market requiring specialist knowledge and capability. In the short-term, as well as providing project finance and maintaining ownership of the property, Iwi could help facilitate resource consent and community buy-in for certain projects.
81. Key risks related to design and construction include, but are not limited to, consents, materials, labour and project phasing. These risks escalate in magnitude with the scale and complexity of the project.

### *Commercial property ownership*

82. A Commercial Property Ownership structure is akin to a PPP where the asset owners provide whole-of-life maintenance and servicing of the asset. The Crown would still be the provider of education delivered using the asset.
83. Construction and ownership of an asset such as a school provides a constant rate of return through rental income. A likely scenario is that Iwi would finance, construct and maintain a school for the Ministry of Education. Revenue is generated via a long-term (20 - 30 year) lease and any long-term real estate appreciation. The returns for this type of asset are likely to be lower than for a strictly commercial asset because the Crown carries a very low default risk and engages in very long lease terms.

### *Demographic change drives demand*

84. New Zealand's population is expected to grow by 22% between 2006 and 2031. Although the projected number of school-aged children does not change significantly, the distribution of this group does change. Consequently, there will be a need for further schools to be built, particularly in the Auckland area.
85. On-going investment in the education sector is important as the time between when future demand is identified and needs to be met can be short. Sudden changes in migration patterns and birth rates affect the demand for schooling in different regions leaving limited time to respond to increased demand.

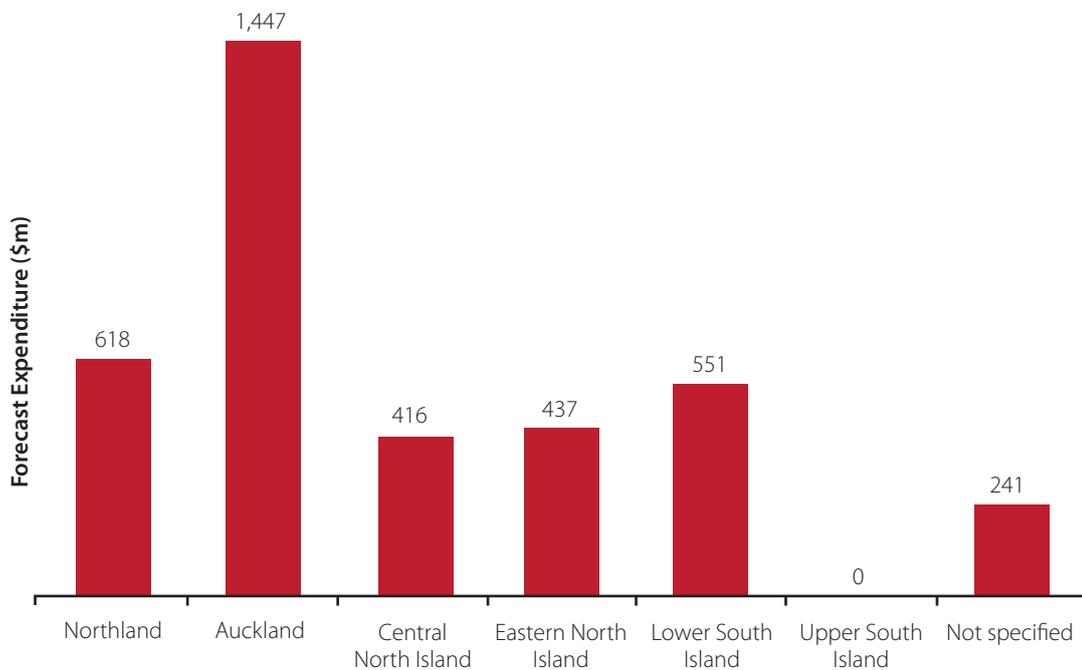
### Fiscal context

86. In 2009, the Ministry of Education's total capital expenditure intentions for 2010/11 was projected to be \$712 million with a shortfall of \$116 million that cannot be met through depreciation funding and would need to be met through additional funding through the Budget process. The Ministry of Education's total capital projection over the period covered in the National Infrastructure Plan is expected to cost around \$7 billion, with a total shortfall of approximately \$2 billion over the 2009/2019 period.
87. In the short-term, the Plan details \$314 million worth of planned capital expenditure to 2012, including plans to build 13 new school sites with a total expenditure of \$245 million.
88. The Government has announced that it is actively investigating new methods of procuring primary and secondary schools through PPPs. A pilot project is underway which, if it proves to represent value for money, may be adopted on a wider basis.

### Potential opportunities

89. Figure 2 below shows the forecast level of expenditure on education sector projects over the next decade to 2020, including expected expenditure on repair and upgrade projects. A map showing forecast expenditure in each region is included in annex seven.
90. Cost estimates are not publicly available for some projects yet (e.g., the two projects in Christchurch) as they are yet to be approved. Auckland and Northland have the largest shares of forecast expenditure.

**Figure 2: Forecast expenditure by region (next 10 years)**



91. Table 2 provides detail on some specific projects that may be suitable for private sector parties to engage with Government in a PPP-type arrangement. Refer to annexes three and four for a more comprehensive list.



92. According to the National Infrastructure Plan, and some additional research, these projects are in the planning, or consideration stage and are all related to the acquisition of new land or assets.

**Table 2: Development opportunities available in the education sector (next 10 years)**

Project	Stage of development	Forecast expenditure (\$m)
Babich Primary School	Planned	-
Halswell (designation costs) Christchurch	Planned	-
Kura/Wharekura construction from baselines	To be considered	61
Kura/Wharekura forecast construction	To be considered	47
Churton Park Primary Lower Hutt	Planned	9
Pegasus (designation and site costs) Christchurch	Planned	-
Takanini Primary Stage 2	Planned	-
Waipapa (new school site acquisition )	Planned	-
Hobsonville (planning only)	Planned	-
Papamoa East (site fees)	Planned	-
Whangarei (new school site acquisition )	Planned	-
Site purchases for schools that require new funding	To be considered	214
Forecast site purchases	To be considered	170
Forecast construction of new schools	To be considered	428
Construction of schools that require new funding	To be considered	345
Construction of new schools from within baselines	To be considered	223
<b>Total</b>		<b>1,487</b>

93. Projects that do not have expenditure included are yet to be finally approved by government. Approval is granted each year through the Budget capital funding allocation process. Figures for other items are early cost estimates for *groups* of projects (e.g., 'site purchases') and are subject to change and further refinement through the tendering process. School construction projects can range from \$7 – \$60 million. A new school development costs \$16m, on average, excluding land.

#### *What are the opportunities for Iwi Māori?*

94. Of particular interest to Iwi is the \$47m worth of expenditure on kura and wharekura. These are mainly planned to be located in Auckland and the Eastern North Island. To prepare to participate in these opportunities, Iwi Maori should look to:
- identify the role that Iwi want to play in these projects;
  - identify key partners (design and construction companies) needed to help deliver a an asset such as a school;
  - identify and engage with nationally and regionally located officials from the Ministry of Education to help shape early opportunity developments; and
  - begin a process for deciding how, if at all, local Iwi might combine capital or capability.

## Energy sector

### *What type of investment is this?*

95. Projects in electricity sector are expensive and complex. The two main asset types include generation (power stations) and transmission infrastructure.

### *Generation*

96. Generation assets are long-term investments. An asset's operational lifespan is usually around 25 years. This can be significantly longer for hydro generation and shorter for wind turbines. There is a number of risks, particularly associated with, but not limited to, obtaining consent, design and construction. In certain cases access to fuel (such as limited gas reserves) can also be problematic.
97. If Iwi were to own an asset, the potential returns are higher but are subject to risk from price and demand volatility. Established electricity generators manage this risk through hedging contracts and vertical integration by operating retail businesses. Partnering with an established generator is one way for Iwi to manage risks while taking advantage of the higher returns from an equity stake.
98. Investments in electricity generation require significant scale. Recent investment examples include:
- 132MW Nga Awa Purua geothermal \$400m;<sup>10</sup>
  - CCGT gas turbine 385 MW \$650 - \$700m;<sup>11</sup>
  - West Wind (140MW) and White Hills (58 MW) are estimated to have cost \$400m<sup>12</sup> and \$175m<sup>13</sup> respectively.

### *What are the opportunities for Iwi Māori?*

99. Current Māori participation in the generation sector is through large geothermal and wind projects. In these projects Iwi provide access to land and resources to established generators in return for resource/royalty payments.
100. Opportunities exist for Iwi to further engage in this area by leveraging off existing land and resource holdings to contribute resources in return for equity under joint venture arrangements with an experienced operator contracted. There may also be potential to leverage off resources and linkages in other sectors, such as water rights and irrigation schemes, which can be used for small-scale generation. Participation in this market, however, would be limited without interaction with existing market participants.

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10. <http://ioj.iewe.org.uk/local/pacific/nz/auckland/2010-geothermal-stn.cfm>, last accessed 2/5/2010

11. <http://www.power-technology.com/projects/EP3/>, last accessed 2/5/2010

12. <http://www.power-technology.com/projects/westwindproject/>; last accessed 26/04/2010

13. Based on an estimated \$3m per megawatt installed (Submission to Environment Court, Statement of evidence of Bryan Leyland on behalf of Roch Patrick Sullivan; <http://www.wind-watch.org/documents/wp-content/uploads/leyland-cost-projecthayes-nz.pdf>; last accessed 26/04/2010.



### *Transmission/distribution*

101. Transmission investments require significant scale and as a result are currently undertaken almost solely by Transpower (an SOE). Distribution businesses effectively have local regulated monopolies over electricity distribution and earn regulated, stable returns.
102. To date, there does not appear to have been any direct investment by Māori in these sectors. However, where Iwi have strong relationships with developers (typically local lines companies) there is potential for investment into specific dedicated transmission and distribution projects. Many lines companies have strong linkages to their local communities. PwC are aware that some of these businesses are looking to tap into local funding sources (through equity or debt offerings) to fund some of their electricity infrastructure developments.

### *Resource extraction processing (oil/gas/coal)*

103. Resource extraction is associated with high (although potentially volatile) returns and high upfront risk. The risk can potentially be mitigated through joint venture arrangements for initial drilling costs and diversified portfolios of properties. However, as a result of this volatility and risk, resource extraction probably does not meet the desired medium to long-term sustainable return profile of Māori investors.

### *Demand drivers*

104. Demand for electricity is forecast to increase at around 1 - 2% per annum.<sup>14</sup> This is the equivalent of approximately 150MW to 200MW per annum of additional generating capacity (excluding replacement plant requirements). There is a reasonably constant need to:
- construct additional generation capacity;
  - develop the transmission grid and distribution networks to enable them to cope with increased loads; and
  - replace ageing infrastructure.

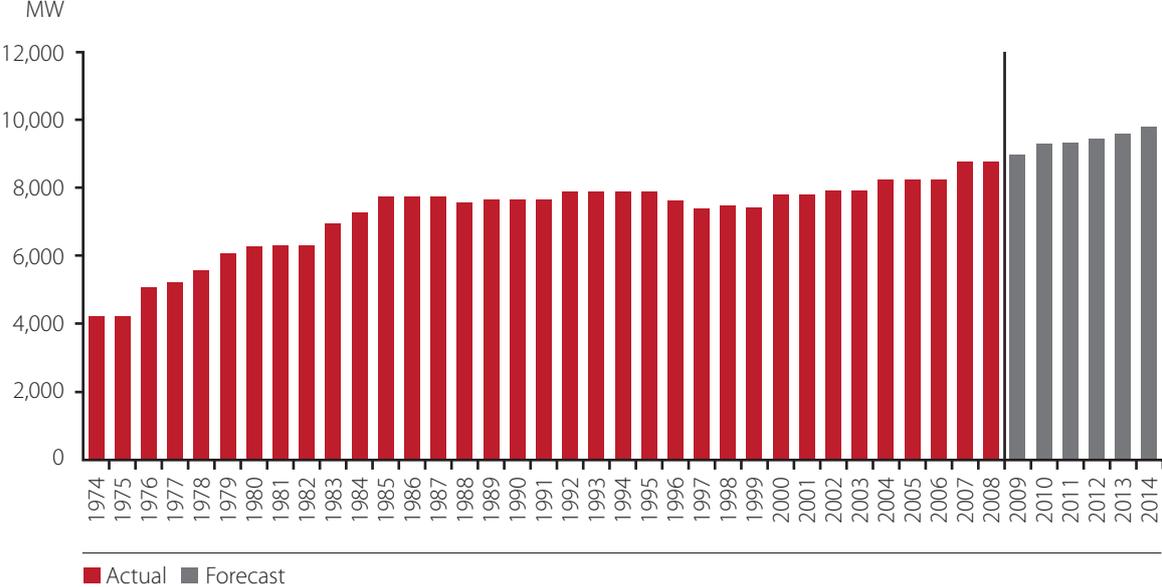
### *Fiscal context*

105. Generation capacity is expected to increase (see Figure 3). While accurate forecasts of the cost of additional generation capacity are not readily available, we estimate that annual generation expenditure would be around \$500m to \$600m per annum, based on 200MW of additional capacity per annum.

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14. <http://www.electricitycommission.govt.nz/opdev/modelling/demand/index.html>, last accessed 26/04/2010

**Figure 3: Actual and forecast generation capacity (to 2014)**



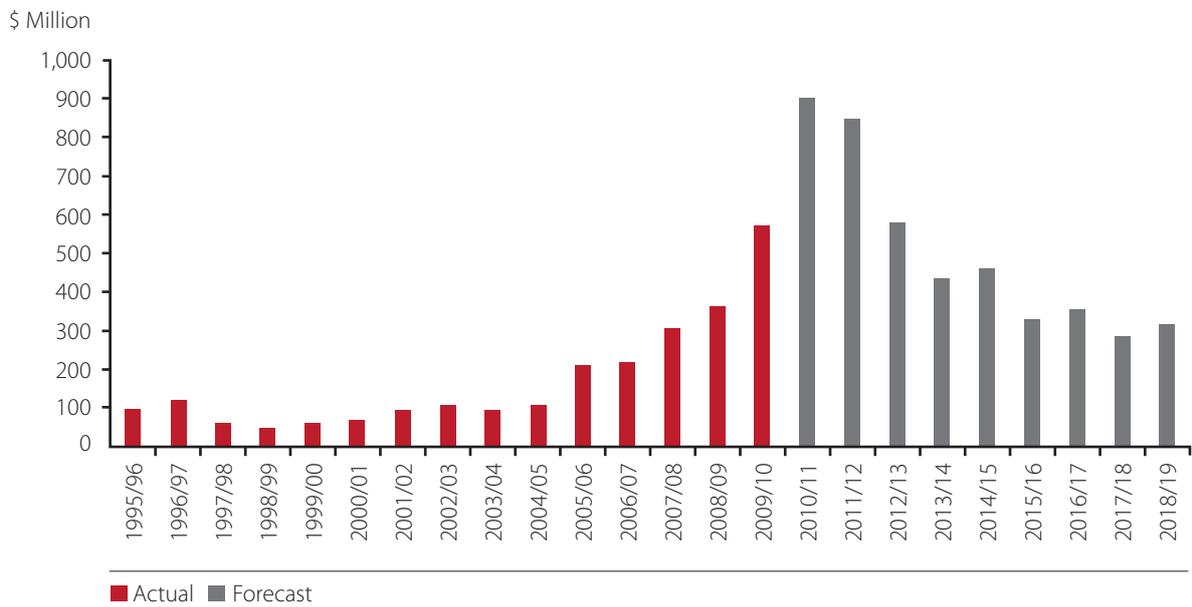
Note: Does not include co-generation

Source: The Treasury using Ministry of Economic Development data 2009

- 106. Following on from a number of decades of underinvestment, Transpower has planned significant investment over the next decade. Total capital expenditure by lines companies is projected to average in excess of \$500 million per annum for the next few years until 2012/13 before falling away to around \$300 million per annum (Figure 4). This expenditure is dominated by asset replacement and renewals, and system growth.
- 107. Given the integrated nature of these network assets, the identification of specific projects and methods of revenue capture is problematic. This makes debt financing easier to undertake than the establishment of an equity share in a specific initiative.



**Figure 4: Forecast annual expenditure on transmission assets**



Source: Transpower

### *Potential opportunities*

108. Table 3 contains information on transmission projects that are planned by Transpower over the next few years. These projects have either been approved by the Electricity Commission (the market regulator) or are pending approval. Projects that are pending approval do not have cost information available.

### *What are the opportunities for Iwi Māori?*

109. As the table demonstrates, new construction or large-scale upgrades are very expensive. It would be hard for Iwi to engage in these types of projects at any deeper level of participation than as a part-provider of finance.

**Table 3: Planned transmission projects (2011 to 2013)**

Project	Total Spend (\$m)	Time frame	Project Status
Masterton-Mangamaire-Woodville Line Conductor Replacement	17	2011	Planned
Wilton 110 kV Interconnection Transformer Replacement	10	2011	Planned
Western Bay of Plenty Upgrade	-	2011	Planned
North Island Grid Upgrade	824	2010	Planned
HVDC Inter-Island Link Pole 3 Project	672	2012	Planned
Upper North Island Reactive Power	-	2012	Planned
Wairakei to Whakamaru New Transmission Line Project	141	2012	Planned
North Auckland and Northland Grid Upgrade Project	473	2013	Planned
West Coast Grid Upgrade	19	2013	Planned
Lower Waitaki Valley	-	2011	Planned
Upper South Island Grid Upgrade	-	2013	Planned
Lower South Island Reliability	-	2013	Planned
Lower South Island Renewables	150	2013	Planned
<b>Total</b>	<b>2,306</b>		

110. The National Infrastructure Plan contains numerous generation projects. However, cost information is limited. Table 4 contains a selected number of projects to illustrate the breadth of scale and cost. For further information on specific projects refer to annex one.

**Table 4: Selected planned generation projects**

Project	Fuel	Owner/ Operator	Capacity (MW)	In Service Date	Estimated Cost (based on average cost per MW)
Rotoma	Geothermal	Rotoma No 1 Corporation	35.0	2015-2020	\$116.6m
Long Gully	Wind	Mighty River Power	12.5	2015-2020	\$34.4m
North Bank Tunnel	Hydro	Meridian Enegy	200-280	2015-2020	\$280-395m
Rakaia River	Hydro	Ashburton Com. Water Trust	16.0	2015-2020	\$22.4m



## Health sector

### *Sector background*

111. District Health Boards (DHBs) collectively manage \$4.3 billion of assets and are responsible for capital expenditure in their regions. However, the government maintains control over large investment decisions.
112. Investment in the primary health sector (e.g., General Practitioners) is led by privately owned profit and not-for-profit organisations.
113. Changes are underway to improve the quality of DHB asset management. The recent decision to establish a business unit within the Ministry of Health to focus on service planning and capital investment, in particular, is intended to support better decision-making for health sector infrastructure.
114. The Government plans to devolve more services and funding from DHBs to primary health providers. Part of this strategy is the creation of Integrated Family Health Centres / Whānau Ora Centres. These centres will require infrastructure investment from a range of sources.

### *What type of investment is this?*

115. Investment in the Health sector is realistic for Iwi as it contains manageable opportunities to start developing a baseline of experience and capability. The complexity of potential opportunities is not yet fully known. At this stage, the role Iwi investors could play ranges from providing finance, to design, build-and-lease or whole-of-life operation.

### *What are the opportunities for Iwi Māori?*

#### **1) Co-investment with a DHB for the design, construction and ownership of an infrastructure asset**

116. Health infrastructure assets range in complexity, from car parks to medical theatres. A likely scenario is that Iwi would finance and maintain infrastructure for a DHB, receiving revenue from a lease. Lease payments would need to reflect the relative risk of the asset. For example, clinical buildings typically have a condition-based life of around 50 years. However, changing models of care can shorten the useful life, creating challenges for optimal asset management and pricing.

117. Some examples of DHB investments are:

- \$26m for Waitemata North Shore Car Park
- \$23m for the Waikato Rehabilitation Hub
- \$250m for Waikato Multi Stage Building Programme

#### **2) Co-investment with a General Practice, or group of providers, for the design, construction and ownership of an Integrated Family Health Centre or Whānau Ora Centre**

118. The Government invited interested parties to put forward their proposals for devolving more funding from DHBs to primary health care settings through an Expression of Interest process in 2009. The devolution would, among other things, require new capital to build or transform existing practices to Integrated Family Health Centres or Whānau Ora centres.
119. Nine successful proposals have been accepted into the next phase of the business case development process. No overall analysis of the infrastructure requirements has been produced by the Ministry of Health, but up to 33 (and potentially more) Whānau Ora or Integrated Family Health Centres may be built or redeveloped (Table 5).

**Table 5: Forecast number of Integrated Family Health Centres / Whānau Ora Centres to be developed (next five years)<sup>15</sup>**

<b>Primary Care Providers</b>	<b>Number of proposed IFHC / WOC</b>
Canterbury Clinical Health Network	1
Greater Auckland Integrated Health Network	Up to 12
Health+ Alliance PHO	3
MidCentral PHOs	5
Midlands Network	5
National Māori PHO Coalition	4
Wairarapa Community PHO	Undisclosed
West Coast PHO	Undisclosed
Eastern Bay of Plenty PHOs	3
<b>Total (Based on current information available)</b>	<b>33</b>

120. A likely scenario would be for Iwi to finance and maintain the building for a practice, receiving revenue in the form of rental payments. A preliminary estimate of the cost of upgrading an existing practice to an Integrated Family Health/ Whānau Ora Centre is between \$2 million and \$5 million. The development of a greenfields site could range between \$10 million and \$20 million.

#### *Demand drivers*

121. The drivers of DHB investments in health infrastructure are population growth, demographic changes, improvements in health technology and the age of long-lived assets. DHBs have forecast significant capital expenditure within the next twenty years. The majority of this expenditure relates to new buildings and the replacement of existing buildings.

#### *Fiscal context*

122. The current capital asset management planning for the Ministry and DHBs covers ten years and is done on a DHB-by-DHB, bottom-up business-as-usual basis.

123. The Ministry of Health is still in discussions with DHBs and Primary Healthcare providers and scheduled to be until July 2010. It is most likely that practice owners and private investors will be required to finance the majority of new infrastructure needed in the primary health sector.

#### *Potential opportunities*

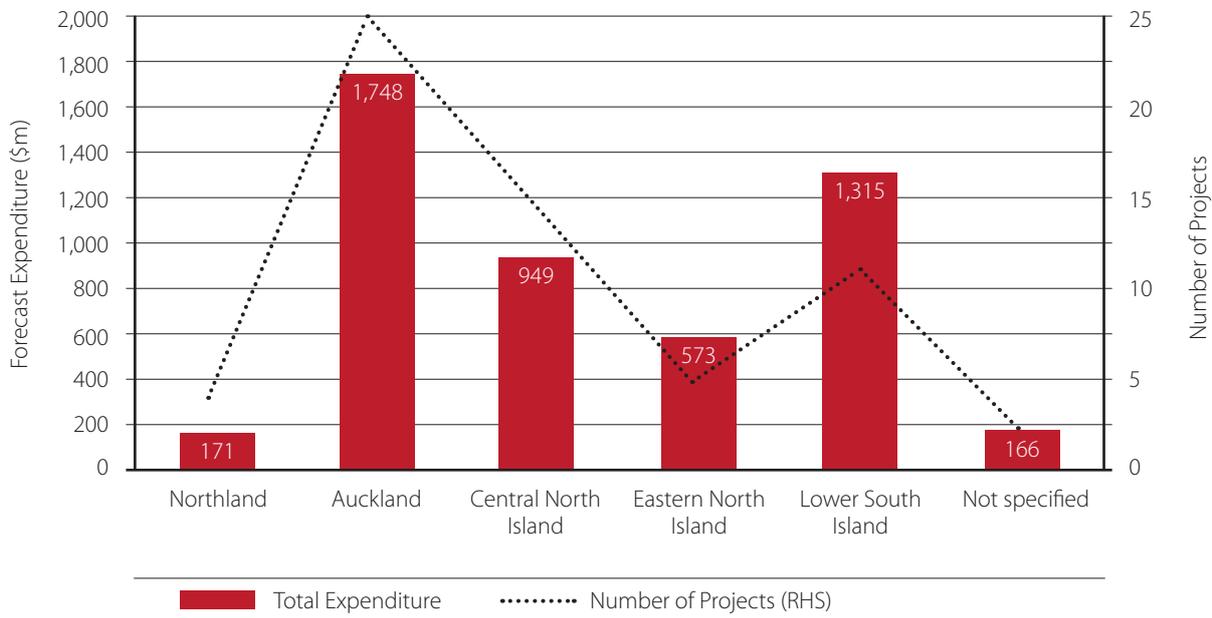
124. Figure 5 below provides an overview of forecast capital expenditure in the health sector over the next ten years. For further information please refer to annex six, a map showing forecast expenditure in each region is included in annex seven.

125. Auckland and the lower South Island stand out as regions with the highest levels of forecast expenditure. Average project cost is higher in the lower South Island than in Auckland (\$120 million versus \$70 million).

15. Ministry of Health (<http://www.moh.govt.nz/moh.nsf/indexmh/phcs-bsmc-proposals>; last accessed 26/04/2010)



Figure 5: Forecast capital expenditure in the health sector (next 10 years)



126. The figure above includes projects already underway, and upgrade and repair projects.

127. A more complete list of projects is included in Table 6. These are largely single-purpose facilities that the Government is yet to make a decision on whether they should go ahead. The opportunity for Iwi here is to engage with Government early on these projects to propose a finance, build and ownership arrangement. Iwi would lease the asset to the government under a long-term contract and be responsible for upkeep and maintenance of the asset (not necessarily its operation). A longer list of planned expenditure in the health sector is included as annex six.

**Table 6: DHB-level development opportunities available in the health sector (next 10 years)**

<b>Project Description</b>	<b>Total Estimated Cost (\$m)</b>
Ashburton Hospital	20
Auckland Green Lane Clinical Centre new all-age Rehab Centre	48
Buller Hospital Aged Care (if not done privately)	20
Canterbury – Riverside Building Stage 1 – Chch Hosp Precinct Plan	400
Canterbury Burwood Hospital / Rehabilitation Facility	70
Canterbury Mental Health	60
Capital and Coast – ICT	23
Counties Manukau – centre for health services innovation	50
Counties Manukau – Manukau Health Park – Stage 2 (includes elective theatres)	71
Counties Manukau – Manukau Health Park – Stage 3	79
Counties Manukau Clinical Services Block Stage 2	108
Green Lane Clinical Centre New Elective surgery facility	24
Greymouth Hospital	110
Hutt ED Theatres	82
Lakes – Rotorua and Taupo Hospitals	90
Manukau Health Park – Stage 1A	123
Manukau Health Park – Stage 1B	49
Nelson Building Programme Completion Buildings 1 & 2	40
Northland Whangarei Stage One	25
Taranaki – New Plymouth Hospital	80
Tauranga Masterplan – Theatres	29
Waikato inpatient Wards Block A	29
Waikato Mental Health Adult (60 beds Inpatient facility)	30
Waikato Rehabilitation Hub	23
Waikato SCR	250
Waitemata – Waitakere Building B – Maternity/SCBU/Paeds/CSS	50
Waitemata DHB Taharoto Mental Health Unit Replacement phase	38
Waitemata North Shore Car Park	26
Waitemata North Shore Hospital Expansion – Service for older adults	116
Waitemata North Shore Hospital Expansion – SSOA 1 (b) & 2 9(a)	46
Waitemata North Shore inpatients building	108
Waitemata Waitakere Expansion Building D: Surgical beds 1	45
Whakatane	65
<b>Total</b>	<b>2,427</b>



## Transport sector

### *Sector background*

128. The transport sector encompasses road, rail, sea and airports. A range of national and local actors invest in transport infrastructure, including national and local government, and private sector companies.
129. All publicly accessible roads are planned, commissioned and owned by the Crown (state highways) or local authorities, with maintenance and new construction funded by various road user charges and contributions from ratepayers.
130. KiwiRail (a SOE) is responsible for funding and commissioning upgrades and maintenance to the rail network. The priority is for investment in areas where rail has the greatest comparative advantage, such as the bulk transport of goods. Investment in metropolitan rail infrastructure is the responsibility of regional councils who work with NZTA and KiwiRail. The significant level of investment in metro services over recent years has required funding from central government.
131. Ports and airports are operated as commercial enterprises, so information on planned intentions is limited.

### *What type of investment is this?*

132. Investment options range from providing financial resources to entering into a consortium arrangement for the finance, design, build and operation of a toll asset. Iwi are unlikely to have the construction experience necessary to manage a transport project on their own but opportunities exist for entering into partnerships with more established players, either as a financier or assisting with the operation of the asset (e.g., toll collection). Expected returns would vary depending on the role that Iwi have in the project and the relative risk of the project. However, for national projects where Iwi only provide finance, the return is likely to be lower as the government is effectively underwriting the investment.
133. Given the current Government's ambitions for the transport sector and the constrained fiscal environment, opportunities exist for third parties to invest in the transport sector as a financier. Total project costs vary significantly, from \$5 million to nearly \$4 billion.

### *Fiscal context*

134. There has been significant investment in recent years in the transport sector, particularly in road and metro rail infrastructure. High levels of investment are expected to continue with the current Government highlighting the link between an effective and efficient transport network and growth in economic productivity - one of its priority goals. While significant investment has been made in metropolitan public transport systems, the need for investment may increase further if the demand for services increases beyond the capacity of the current system to supply.
135. Projects that are planned or underway over the next ten years are summarised by sector below:
- Roads: \$11.1 billion, including \$9.4 billion on identified Roads of National Significance.
  - Rail: \$1.4 billion, with the majority planned for Auckland passenger rail services.

### *Potential opportunities*

136. Table 7 below shows selected opportunities in the transport sector. These projects have been selected based on their availability (i.e., are still in the early stages of planning and have yet to secure finance). A fuller set of projects, including a break down of the Roads of National Significance is included as annex two and a map showing forecast expenditure in each region is included in annex seven.

*What are the opportunities for Iwi Māori?*

137. The transport sector is characterised by expensive and complicated construction of network infrastructure. The scale and complexity involved mean that only a select number of firms have a expertise and infrastructure to undertake design or construction work. In some instances where developers are seeking private finance, Iwi may be able to seek an equity share in the asset, allowing for future returns over and above what would be generated through a commercial loan. Iwi may also act as a strategic advisor for, or on behalf of, a consortium or alliance of developers.

**Table 7: Selected opportunities in the transport sector**

<b>Sector</b>	<b>Project Description</b>	<b>Total estimated Cost (\$m)</b>
Airports	Auckland Airport	42
	Christchurch Airport	230
	Gisborne Airport	6
	Paraparaumu Airport	10
	Queenstown Airport	8
	Rotorua Airport	8
	Wellington Airport	470
	<b>Airports Total</b>	<b>774</b>
Roads	Local road improvements	480
	Local road maintenance and operations	743
	Local road renewals	696
	Public transport infrastructure	269
	State highway improvements – other than roads of national significance	10,958
	State highway improvements – roads of national significance	3,340
	State highway maintenance and operations	897
	State highway renewals	633
	Walking and cycling infrastructure	51
	<b>Roads Total</b>	<b>18,067</b>
<b>Total</b>	<b>18,841</b>	



## Water sector

### *Sector background*

138. Water infrastructure in New Zealand comprises two broad categories, reticulated infrastructure and rural water infrastructure.

### *Reticulated infrastructure*

139. Water systems are typically constructed by local government (and in some cases central government) and funded through rates and development contributions. In some instances, water charging mechanisms are established to recover the some of the costs of operating and financing the infrastructure. The need for further investment in water systems is driven by public health and environmental standards, as well as demographic trends.

140. The total value of water, waste water and storm water assets under local government control is estimated to be approximately \$33 billion. In addition, it is estimated that local government may also manage a further \$1.5 billion worth of flood control and drainage assets.

141. There is limited opportunity for lwi investment in specific projects in reticulated water given the integrated, network nature of these assets.

### *Rural water infrastructure*

142. Irrigation accounts for the largest proportion of water consumption in New Zealand. Approximately 77% of water allocated under resource consents in New Zealand (as at 2006) was for irrigation, with the remainder for industrial use, public water supply and stock watering. The infrastructure ranges from large-scale dams and reservoirs to smaller-scale water tanks and groundwater extraction facilities.

143. Many irrigation schemes, particularly larger ones, were originally developed and owned by government. However, since the mid 1980s the government has divested its interests in rural and water irrigation schemes and development is now undertaken by farmers or other commercial interests.

144. One of the greatest barriers to funding large-scale irrigation developments is accessing finance (under reasonable terms) for the feasibility and construction phases of the project. During these phases the risk of financial loss is significant for potential investors and financiers.

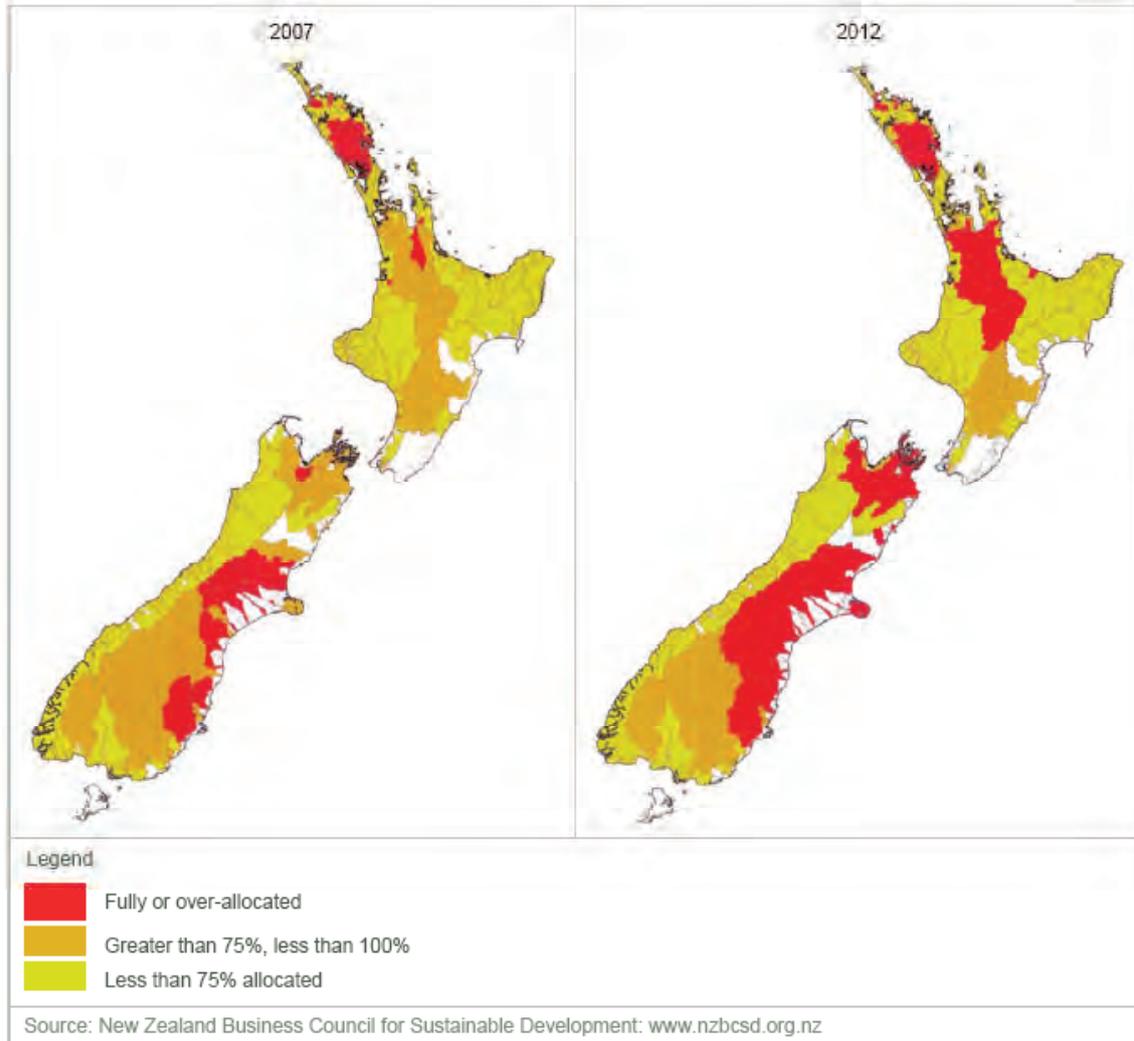
145. Established schemes where start-up, development and take-up risks have been overcome may present more attractive investment opportunities for parties looking for stable returns and low-risk investments. At this point the risk is lower and the returns are generally fixed as a result of high income-certainty through contractual obligations to take water and the majority of operating costs being fixed.

### *Demand drivers*

146. Demand for rural water infrastructure is increasing. The infrastructure supports a variety of agricultural industries (horticulture, dairying, sheep, beef and cropping) and as such is important in the context of maintaining and increasing land productivity.

147. Protection against climate change is also driving demand for reliable sources of water. It is projected that by 2012 water will be fully allocated in most of Canterbury, Waikato, Marlborough and Northland (see Figure 6).

Figure 6: Changing patterns of water allocation



### *Fiscal context*

#### *Reticulated*

148. Across all councils, average annual capital expenditure on water networks is estimated to be around \$1.15 billion per annum over the next ten years. This is approximately 25% of the total forecast capital spend by councils over the same period.

#### *Rural water infrastructure*

149. Rural water infrastructure schemes, consistent with other infrastructure investment opportunities, are highly capital intensive and of significant scale. For example:

- The Barrhill Chertsey scheme (Stage 1: 17,800 hectares) is expected to have a total cost including canals, storage and on-farm development in the vicinity of \$225m, which could easily be replicated in Stage 2: a further 20,000 hectares.



- The Hurunui Water Project (a corporate entity with four shareholders including Iwi and an electricity lines company) is looking to irrigate 42,000 hectares at a cost of up to \$250m.
- Central Plains Water has estimated that the capital costs of its scheme would be in the vicinity of \$400m (for approximately 60,000 hectares).

### *Potential opportunities*

150. The National Infrastructure Plan contains highly aggregated estimates of local authorities capital requirements for water infrastructure over the period 2010-2020. These are:

- \$3.9 billion for water supply;
- \$5.0 billion for waste water; and
- \$2.6 billion for storm water.

151. In 2008, the Ministry of Agriculture and Forestry indicated that it was aware of 22 prospective irrigation schemes, both storage and non-storage based. These were situated predominantly in Canterbury, but also Otago, Tasman, Marlborough, Hawke's Bay and the Bay of Plenty. The map at Figure 8 shows the current and proposed schemes in the Canterbury region as at December 2008. Figure 7 highlights proposed schemes that have acquired consents and those currently seeking consents.

152. Large rural water schemes are potentially beyond the means of farmers and possibly local bodies to develop on their own. A consequence may be the utilisation of corporate investors and/or Public Private Partnership arrangements, including for example, Build, Own Operate and Transfer frameworks.

153. Some common structures involve the contribution of equity by the users of the water and a debt/preferential return structure for a corporate investor. Variability in returns predominantly rests with the ultimate owners (being the users) of the infrastructure. Once the infrastructure demand has been underwritten by users, this type of structure could be appropriate in the context of a preferred, stable return on funds invested. However, as highlighted above, the level of funding required is significant.

154. The government is looking at ways to improve the regulatory frameworks to support rural water infrastructure development, and is keen to see barriers to infrastructure development reduced.

155. Several major schemes have been developed since the devolution of schemes by the government, including Opuha (1998, 16,000 ha), Waimakariri (1999, 18,000ha), North Otago Stage 1 (2006, 10,000ha), and the Wai-iti Valley Augmentation Dam (2006, 800,000m<sup>2</sup>).

**Figure 7: Proposed water schemes (as at 2008)**

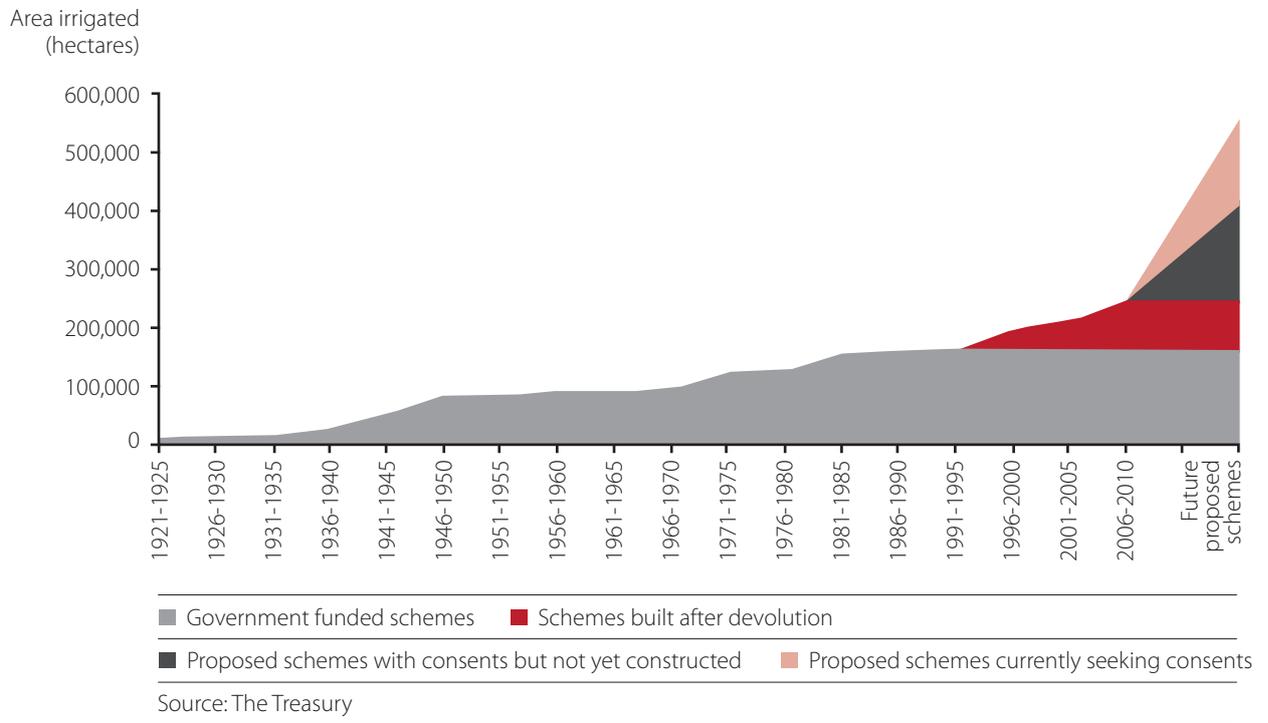
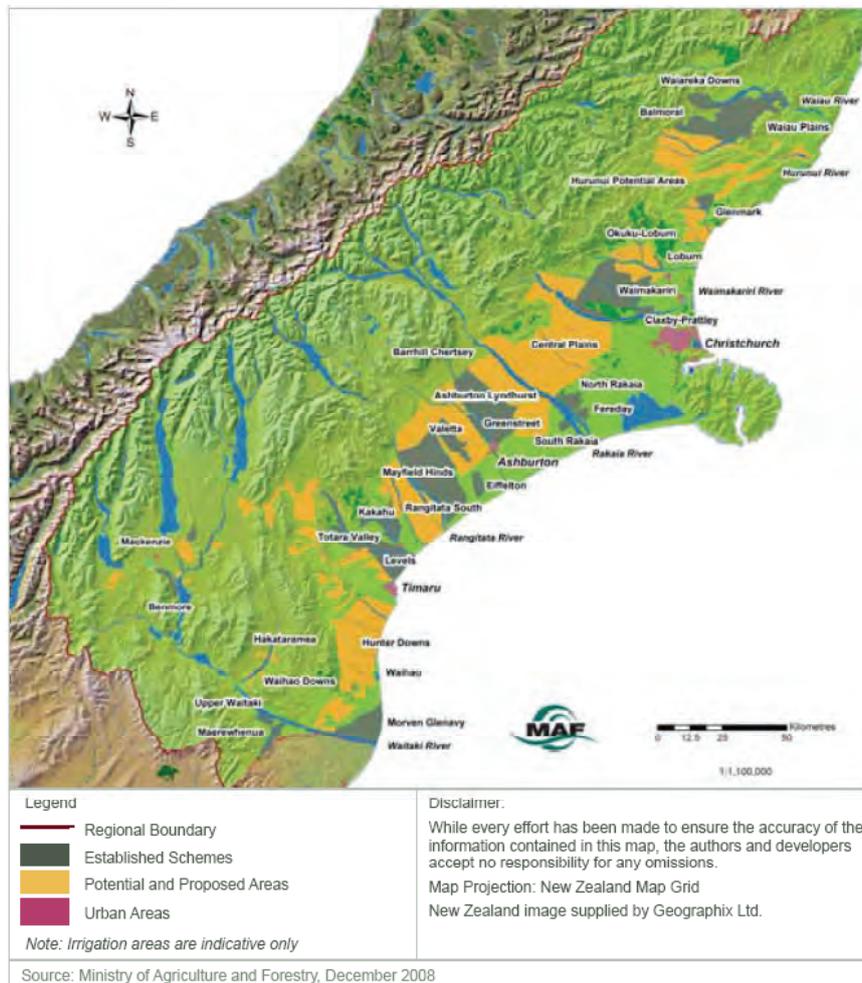




Figure 8: Map of established and proposed schemes in the Canterbury region (as at 2008)



## Telecommunications

### *Regulated and changing industry*

156. This sector is dominated by a small number of private companies. In response to low levels of competition, the government has regulated significant parts of this industry.

157. The pace of change within the telecommunications sector makes it more risky than other infrastructure assets. Investors and developers require specialist knowledge and capability to participate successfully.

### *Government investment*

158. There are currently two significant public sector-led initiatives in the Broadband sector: the Ultra-fast Broadband Investment Initiative and the Rural Broadband Initiative.
159. In 2008, the Government announced it would invest \$1.5 billion expanding access to fibre optic connections (Ultra-fast Broadband Investment Initiative). Thirty three Local Fibre Companies (LFCs) have already entered the selection process with Crown Fibre Holdings, a government agency set up to manage investment nationwide.<sup>16</sup>
160. Open access and dark fibre are the key principles underlying the government's investment. LFCs will be required to provide equality of access and allow consumers to switch easily between providers. Dark fibre means the wholesale customer has control, flexibility and ability to innovate downstream services.
161. The proposed model sees the Crown shoulder a significant portion of the risk, with the partner only required to invest in the network as customers connect. In return, the private partner will meet the LFC's establishment costs and bear the majority of the deployment and execution risk: risks that the Government sees the private sector as best placed to manage.
162. The initial contractual arrangement is expected to last ten years of the LFC's life. Beyond that timeframe the Crown and partner-LFC will revert to more conventional shareholding arrangements.

### *Additional private investment*

163. Telecom is looking to invest \$1.4 billion in cabinet upgrades and a further \$0.3 billion in a Third Generation mobile network. Vodafone plans to invest \$0.5 billion in expanding its 3g network and NZ Communications (owners of 2Degrees mobile network) has been surveyed to spend an additional \$0.15 billion upgrading its network technology and expanding its market share.

### *Potential opportunities*

164. The potential opportunities are for Iwi to purchase an equity share (perhaps in exchange for land access) and provide finance to LFCs with their initial investment. However, the opportunity to form an LFC under the Ultra-Fast Broadband Initiative has passed. More details on the Fibre to the Home initiative are expected once Crown Fibre Holdings has finalised the selection of LFCs.
165. With regard to the Rural Broadband initiative, the Government recently announced a call for expressions of interest from potential suppliers or consortia of suppliers of broadband infrastructure to inform a Request for Proposal (RFP) stage from August 2010.<sup>17</sup> This represents a 'live' opportunity for Iwi Māori and other investors to consider participating in.

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16. [http://www.med.govt.nz/templates/ContentTopicSummary\\_\\_\\_41902.aspx](http://www.med.govt.nz/templates/ContentTopicSummary___41902.aspx), last accessed 2/5/2010

17. <http://www.beehive.govt.nz/release/call+expressions+interest+rural+broadband+initiative+0>, last accessed 29/04/2010



## Conclusion

166. The scale of future infrastructure expenditure in many sectors is large and the opportunities for Iwi Māori, and other investors, are vast. The current government has signalled the importance of ongoing investment in infrastructure to its economic growth agenda and its willingness to investigate an expanded role for private sector finance, ownership and operation of publicly commissioned infrastructure under a PPP-type model. It is important to note that these new models will not totally replace more traditional methods of procurement. For example, more traditional models will be retained where they offer greater value for money or where there are legal or operational reasons for the Crown to retain ownership of the asset.
167. The greatest level of future infrastructure expenditure will be on roads and water systems (drinking, waste, irrigation). This is not only a reflection of the scale of initiative, but also the construction complexity and expense involved.
168. The most ready opportunities for Iwi Māori to undertake PPP-type projects to design, construct and operate assets are in the health and education sector, and in the provision of improved rural broadband infrastructure through the Government's recently announced Rural Broadband Scheme. These are areas where the scale and complexity of investment is commensurate with the current capability and capacity of Iwi Māori. However, this does not preclude Iwi from taking an advisory or other role on larger, more complex projects while they grow their capability.
169. In considering the various roles that Iwi can play in development projects, Iwi need to recognise that high commercial returns are expected by investors who take on higher levels of risk. In areas where particular expertise is required to manage significant and complex risks, such as in capital intensive, technologically advanced industries, the commercial returns to investors can be substantial.
170. Presently, Iwi Māori may not have the expertise to manage such risks and expect such returns. However, the opportunities mentioned above in the health, education and rural broadband areas can still provide investors with a reasonable return and serve as a proving ground for Iwi wanting to gain experience and recognition in the infrastructure development industry.
171. As a very first step, Iwi need to think about organising themselves collectively to take advantage of combined capital and expertise. In parallel with this, Iwi also need to further develop their links with local developers who they may want to form joint ventures with, and local and national infrastructure planners who can provide them with early warning about specific opportunities as they appear on the infrastructure horizon.



## Annex One: Planned energy generation projects

Project	Fuel	Owner/Operator	Capacity (MW)	In-Service Date	Status
<b>Northland</b>					
Kaipara Harbour pilot	Marine	Crest Energy	1 (pilot)	2011	Consent under appeal
<b>Auckland</b>					
Rodney	Gas	Genesis	480	2013	Consent under appeal
Otahuhu C	Gas	Contact Energy	400	2015-2020	Consented
Awhitu	Wind	Genesis	18	2015-2020	Consented
<b>Waikato</b>					
Centennial Drive - Tauhara	Geothermal	Contact Energy	20	2010	Under construction
Nga Awa Purua	Geothermal	Mighty River Power	132	2010	Under construction
Waipa	Hydro	Hydro Energy Ltd	7	2010	Under construction
Te Uku	Wind	WEL Network	84	2011	Consented
Te Mihi	Geothermal	Contact Energy	60	2013	Consented
Hauāuru mā raki	Wind	Contact Energy	540	2015-2020	Applied for consent
Taharoa	Wind	Taharoa C / PowerCoast	100	2015-2020	Consent under appeal
Taumatatarā	Wind	Ventus	44	2015-2020	Consented
<b>Bay of Plenty</b>					
Rotoma	Geothermal	Rotoma No. 1 Corporation	35	2015-2020	Applied for consent
<b>Taranaki</b>					
Stratford	Gas	Contact Energy	200	2010	Under construction
Waverley	Wind	Allco Wind Energy	135	2011	Applied for consent
Mokau	Hydro	King Country Energy	10	2015-2020	Consent under appeal
<b>Hawke's Bay</b>					
Titiokura	Wind	Unison / Roaring 40s	48	2010	Consented
Te Pohue wind farm	Wind	Hawke's Bay Wind Farm Ltd	225	2011	Consented
Waitahora	Wind	Contact Energy	149-177	2013	Consent under appeal
<b>Manawatu</b>					
Te Rere Hau Stage 4	Wind	NZ Windfarms	15	2010	Consented
Central Wind (Moawhango)	Wind	Meridian Energy	120-130	2015-2020	Consent under appeal
Te Rere Hau Extension	Wind	NZ Windfarms	28	2015-2020	Applied for consent
Turitea	Wind	Mighty River Power	335	2015-2020	Applied for consent
<b>Wellington</b>					
Cook Strait Marine Energy pilot	Marine	Neptune Power	1 (pilot)	2011	Consented

Project	Fuel	Owner/Operator	Capacity (MW)	In-Service Date	Status
Long Gully	Wind	Mighty River Power	12.5	2015-2020	Applied for consent
Mill Creek	Wind	Meridian Energy	71	2015-2020	Consent under appeal
<b>Marlborough</b>					
Wairau	Hydro	TrustPower	70	2012	Consent under appeal
<b>Canterbury</b>					
Belfast	Diesel	Orion	11.5	2012	Consented
Bromley	Diesel	Orion	11.5	2012	Consented
North Bank Tunnel	Hydro	Meridian Energy	200-280	2015-2020	Consent under appeal
Rakaia River	Hydro	Ashburton Com. Water Trust	16	2015-2020	Consented
Mt Cass	Wind	MainPower	41-69	2015-2020	Consent under appeal
<b>West Coast</b>					
Amethyst	Hydro	Westpower / Harihari Hydro Ltd	6	2011	Consented
Arnold (Dobson)	Hydro	TrustPower	46	2011	Consent under appeal
Mokihinui	Hydro	Meridian Energy	85	2013	Applied for consent
Matiri	Hydro	New Zealand Energy Ltd	5	2015-2020	Applied for consent
Stockton Plateau	Hydro	Hydro Developments Ltd	25-50	2015-2020	Applied for consent
<b>Otago</b>					
Mahinerangi	Wind	TrustPower	200	2011	Consented
Project Hayes	Wind	Meridian Energy	630	2011	Consent under appeal
Hawea Control Gate Retrofit	Hydro	Contact Energy	17	2012	Consented
<b>Southland</b>					
Kaiwera Downs	Wind	TrustPower	240	2015-2020	Consented
Mt Stuart	Wind	Pioneer Generation	6	2015-2020	Applied for consent

Source: National Infrastructure Plan and PwC analysis

## Annex Two: Planned transport projects

Sector	Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Roads	State highway improvements – other than roads of national significance	Not specified	1,715	Committed	2010-2015
Roads	Completion of the Auckland Western Ring Route	Auckland	340	Committed	2010-2015
Roads	Christchurch Motorway Projects	Upper South Island	340	Committed	2010-2015
Roads	Waikato Expressway – SH1	Central North Island	340	Committed	2010-2015
Roads	Tauranga Eastern Link	Eastern North Island	340	Committed	2010-2015
Roads	Puhoi to Wellsford – SH1	Auckland	1,240	Planned	2010-2015
Roads	Completion of the Auckland Western Ring Route	Auckland	1,490	Committed	2010-2015
Roads	Auckland Victoria Park Tunnel – SH1	Auckland	396	Committed	2010-2015
Roads	Waikato Expressway – SH1	Central North Island	1,700	Committed	2010-2015
Roads	Tauranga Eastern Link – SH2	Eastern North Island	450	Committed	2010-2015
Roads	Wellington Northern Corridor (Levin to Wellington)	Central North Island	2,100	Planned	2010-2015
Roads	Christchurch Motorway Projects	Upper South Island	660	Committed	2010-2015
Roads	State highway maintenance and operations	Not specified	897	To be considered	2010-2015
Roads	Local road maintenance and operations	Not specified	743	To be considered	2010-2015
Roads	Local road renewals	Not specified	696	To be considered	2010-2015
Roads	State highway renewals	Not specified	633	To be considered	2010-2015
Roads	Local road improvements	Not specified	480	To be considered	2010-2015
Roads	Public transport infrastructure	Not specified	269	To be considered	2010-2015
Roads	Walking and cycling infrastructure	Not specified	51	To be considered	2010-2015
Roads	Additional Waitemata harbour crossing, Auckland	Auckland	4,000	To be considered	2015+
Roads	East-west SH20 connection Auckland	Auckland	1,500	To be considered	2015+
Roads	Auckland urban arterials improvements Auckland	Auckland	1,500	To be considered	2015+
Roads	Auckland Manukau Eastern Transport Initiative (AMETI) Auckland	Auckland	400	To be considered	2015+
Roads	North Shore bus way extensions Auckland	Auckland	225	To be considered	2015+
Roads	Penlink Auckland	Auckland	175	To be considered	2015+
Roads	Kopuku realignment Auckland	Auckland	80	To be considered	2015+
Roads	Hamilton southern links Waikato	Central North Island	600	To be considered	2015+

Sector	Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Roads	Potential improvements to SH1 Desert Road Waikato	Central North Island	165	To be considered	2015+
Roads	Wairere Drive improvements Waikato	Central North Island	100	To be considered	2015+
Roads	Mangatarata four laning Waikato	Central North Island	85	To be considered	2015+
Roads	Church to Timbermill four laning Waikato	Central North Island	80	To be considered	2015+
Roads	Graham's bridge realignment Waikato	Central North Island	60	To be considered	2015+
Roads	Maramarua Deviation Waikato	Central North Island	60	To be considered	2015+
Roads	Tauranga northern arterial Bay of Plenty	Eastern North Island	475	To be considered	2015+
Roads	Hairini link Bay of Plenty	Eastern North Island	200	To be considered	2015+
Roads	Katikati bypass Bay of Plenty	Eastern North Island	100	To be considered	2015+
Roads	Tauriko bypass Bay of Plenty	Eastern North Island	100	To be considered	2015+
Roads	Rotorua eastern arterial Bay of Plenty	Eastern North Island	85	To be considered	2015+
Roads	Omokoroa intersection Bay of Plenty	Eastern North Island	40	To be considered	2015+
Roads	Prebensen Drive Hawkes Bay	Eastern North Island	35	To be considered	2015+
Roads	Vickers Road to New Plymouth	Central North Island	55	To be considered	2015+
Roads	Petone to Grenada link Wellington	Central North Island	250	To be considered	2015+
Roads	Kennedy Good interchange Wellington	Central North Island	125	To be considered	2015+
Roads	Melling interchange Wellington	Central North Island	55	To be considered	2015+
Roads	Potential improvements to SH1 Kaikoura Coast	Upper South Island	150	To be considered	2015+
Roads	Woodend bypass Canterbury	Upper South Island	85	To be considered	2015+
Roads	Lyttleton tunnel improvements Canterbury	Upper South Island	88	To be considered	2015+
Roads	Gates of Haast realignment West Coast	Upper South Island	38	To be considered	2015+
Roads	Homer tunnel improvements Southland	Lower South Island	48	To be considered	2015+
Rail	20 new diesel locomotives 75 Late 2010	Not specified	75	Underway	2010-2015
Rail	Wagon & locomotive upgrades 40 Ongoing	Not specified	40	Committed	2010-2015
Rail	Track and infrastructure upgrades 40 Ongoing	Not specified	40	Committed	2010-2015
Rail	TranzScenic Carriage Upgrades (TranzAlpine and TranzCoastal) 39 2010/11	Not specified	39	Underway	2010-2015
Rail	Double-tracking of Western Line between Newmarket and Swanson 200 June 2010	Auckland	200	Underway	2010-2015



Sector	Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Rail	Trench through New Lynn 160 June 2010	Auckland	160	Underway	2010-2015
Rail	Rehabilitating Onehunga branch line 10 June 2010	Auckland	10	Underway	2010-2015
Rail	Spur line to Manukau 50 October 2010	Auckland	50	Underway	2010-2015
Rail	Railway station upgrades 60 2011	Not specified	60	Underway	2010-2015
Rail	Electrification of the Auckland network (traction and signalling) 500 2013	Auckland	500	Committed	2010-2015
Rail	New electric multiple units (EMUs), including stabling 500 2013	Not specified	500	Committed	2010-2015
Rail	Double-tracking and electrification – McKay's Crossing to Waikanae 90 Late 2010	Central North Island	90	Underway	2010-2015
Rail	Wellington station entry (third line) 40 Mid 2010	Central North Island	40	Underway	2010-2015
Rail	New EMUs (Matangi), including stabling 270 2011	Central North Island	270	Committed	2010-2015
Rail	Compliance (power supply and signalling) with new EMUs 60 2011	Central North Island	60	Committed	2010-2015
Rail	Railway station upgrades (and Kapiti EMU stabling) 25 2011	Central North Island	25	Committed	2010-2015
Airports	Airfield 10 Not known	Auckland	10	Planned	Not specified
Airports	International Terminal 32 Not known	Auckland	32	Planned	Not specified
Airports	New Terminal Development 215 2013	Upper South Island	215	Planned	2010-2015
Airports	Roading and Services Infrastructure 15 2013	Upper South Island	15	Planned	2010-2015
Airports	Runway resurface 6 2016	Eastern North Island	6	Planned	2015-2020
Airports	Runway extension 5 2011	Eastern North Island	5	Underway	2010-2015
Airports	Permanent terminal 10 2013	Central North Island	10	Planned	2010-2015
Airports	Runway asphalt overlay 6 2010	Lower South Island	6	Underway	2010-2015
Airports	Runway end safety area – East 8 2011	Lower South Island	8	Planned	2010-2015
Airports	Runway extension and runway end safety area 8 2011	Central North Island	8	Planned	2010-2015
Airports	North Terminal Pier redevelopment including international terminal	Central North Island	60	Underway	2010-2015
Airports	Ongoing apron-taxiway refurbishment 20 2020	Central North Island	20	Planned	2020+
Airports	Main terminal expansion 195 2030	Central North Island	195	Planned	2020+
Airports	Apron airside and runway works 115 2030	Central North Island	115	Planned	2020+
Airports	Car park expansion 140 2030	Central North Island	140	Planned	2020+

Source: National Infrastructure Plan and PwC analysis

### Annex Three: New school construction

Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Remarkables Primary Dunedin	Lower South Island	17	Underway	2010-2015
Lowes Road Rolleston Christchurch	Lower South Island	15	Underway	2010-2015
Wanaka Primary School Dunedin	Lower South Island	21	Underway	2010-2015
Albany Senior High School	Auckland	61	Constructed	-
Papamoa Primary Rotorua	Eastern North Island	7	Underway	2010-2015
Papamoa Secondary Rotorua	Eastern North Island	31	Underway	2010-2015
Mt Wellington Auckland	Auckland	10	Underway	2010-2015
Waipapa (Kerikeri) Whangarei	Northland	-	Planned	2010-2015
Ormiston Senior High	Auckland	-	Underway	Unknown
Churton Park Lower Hutt	Central North Island	9	Planned	2010-2015
Hingaia Primary Auckland	Auckland	-	Tender Closed	2010-2015
Mission Heights Primary	Auckland	-	Constructed	-
Hobsonville (planning only)	Auckland	-	Planned	2010-2015
Takanini Primary #2	Auckland	-	Planned	Unknown
Auckland	Auckland	-	Planned	2010-2015
Babich Primary School	Auckland	-	Planned	Unknown
Construction of new schools from within baselines	Auckland	138	To be considered	2010-2015
Construction schools that require new funding	Auckland	229	To be considered	2015-2020
Forecast construction of new schools	Auckland	269	To be considered	2015-2020
Kura/Wharekura construction from baselines	Auckland	30	To be considered	2010-2015
Kura/Wharekura forecasted construction	Auckland	22	To be considered	2015-2020
Construction schools that require new funding	Northland	67	To be considered	2015-2020
Forecast construction of new schools	Northland	53	To be considered	2015-2020
Construction schools that require new funding	Central North Island	24	To be considered	2015-2020
Forecast construction of new schools	Central North Island	23	To be considered	2015-2020
Construction of new schools from within baselines	Eastern North Island	37	To be considered	2010-2015
Forecast construction of new schools	Eastern North Island	32	To be considered	2015-2020
Kura/Wharekura construction from baselines	Eastern North Island	31	To be considered	2010-2015
Kura/Wharekura forecasted construction	Eastern North Island	25	To be considered	2015-2020
Construction of new schools from within baselines	Lower South Island	48	To be considered	2010-2015
Construction schools that require new funding	Lower South Island	25	To be considered	2015-2020

Source: National Infrastructure Plan and PwC analysis

#### Annex Four: New school site acquisitions

Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Hobsonville Auckland	Auckland	9	Underway	2010-2015
Hamilton North Secondary	Central North Island	17	Underway	2010-2015
Kumeau/Huapai (primary) Auckland	Auckland	11	Underway	2010-2015
Wakatipu (primary) Dunedin	Lower South Island	9	Constructed	
Papamoa East (site fees)	Eastern North Island	-	Underway	2010-2015
Halswell (designation costs) Christchurch	Upper South Island	-	Underway	2010-2015
Frankton (secondary) Invercargill	Lower South Island	22	Committed	Unknown
Waipapa (Kerikeri)	Northland	1	Committed	Unknown
Whangarei	Northland	-	Committed	Unknown
Pegasus (designation & site costs) Christchurch	Upper South Island	-	Committed	Unknown
Forecasted site purchases	Auckland	149	Planned	Unknown
Site purchases for schools that require new funding	Northland	214	Planned	Unknown
Forecasted site purchases	Northland	21	Committed	Unknown
Forecast construction of new schools	Lower South Island	51	Committed	Unknown

Source: National Infrastructure Plan and PwC analysis

**Annex Five: Ministry of Educations indicated 10-year outlook capital requirement**

<b>Capital Expenditure Profile Millions</b>	<b>09/10 \$m</b>	<b>10/11 \$m</b>	<b>11/12 \$m</b>	<b>12/13 \$m</b>	<b>13/14 \$m</b>	<b>14/15 \$m</b>	<b>15/16 \$m</b>	<b>16/17 \$m</b>	<b>17/18 \$m</b>	<b>18/19 \$m</b>	<b>Total 09/10 – 18/19</b>
Baseline capital expenditure funding available	638	597	490	468	468	468	468	468	468	468	<b>5,001</b>
Total capital expenditure intentions	665	712	802	803	772	746	666	643	647	651	<b>7,107</b>
Additional funding required to meet capital expenditure intentions	28	116	311	336	304	278	198	176	179	183	<b>2,109</b>

Source: National Infrastructure Plan and PwC analysis

Annex Six: Health investment: short term priorities and indicative 10-year capital requirements

Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Waikato – Service & Campus	Central North Island	249	Underway	2010
Bay of Plenty – Project Leading	Eastern North Island	139	Underway	2010
All DHBs – Oral Health Projects	Not specified	116	Underway	2010
National Systems Development Programme	Not specified	50	Underway	2010
Waikato – Acute Medical Precinct Project	Central North Island	30	Underway	2010
Hutt Valley – ED and Theatre Expansion	Central North Island	82	Underway	2010
Lakes – Health Service Improvement Project	Central North Island	90	Underway	2010
Northland – Whangarei Hospital Redevelopment – Stage 1	Northland	25	Committed	2010
Waitemata – Lakeview Extension	Auckland	49	Committed	2010
Taranaki	Central North Island	80	Committed	2010
Counties Manukau	Auckland	209	Committed	2020
Counties Manukau Core Consolidation	Auckland	112	To be considered	2010
Waitemata Elective Surgical Unit and Bed Productivity	Auckland	50	To be considered	2010
Waitemata DHB Taharoto Mental Health Unit Replacement phase	Auckland	38	To be considered	2010
Counties Manukau – centre for health services innovation	Auckland	50	To be considered	2010
Manukau Health Park – Stage 1A	Auckland	123	To be considered	2010
Manukau Health Park – Stage 1B	Auckland	49	To be considered	2010
Green Lane Clinical Centre New Elective surgery facility	Auckland	24	To be considered	2010
Waitemata DHB Education Centre / Health Campus	Auckland	30	To be considered	2010
Waitemata North Shore inpatients building	Auckland	108	To be considered	2020
Auckland Green Lane Clinical Centre new all-age Rehab Centre	Auckland	48	To be considered	2020
Waitemata – Waitakere Building B – Maternity/SCBU/Paed/s/CSS	Auckland	50	To be considered	2020
North Shore Hospital Maternity/Med/Surg/Labs 1	Auckland	30	To be considered	2020
Counties Manukau Clinical Services Block Stage 2	Auckland	108	To be considered	2020

Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Counties Manukau – Manukau Health Park – Stage 2 (includes elective theatres)	Auckland	71	To be considered	2020
Counties Manukau – Manukau Health Park – Stage 3	Auckland	79	To be considered	2020
Counties Manukau Consolidation	Auckland	50	To be considered	2020
Counties Manukau Service Expansion	Auckland	132	To be considered	2020
Waitemata North Shore Hospital Expansion – Service for older adults	Auckland	116	To be considered	2020
Waitemata Waitakere Building B : Medical/Maternity wards 1 & 2	Auckland	40	To be considered	2020
North Shore Hospital Building N: Maternity/Med/Surg/Labs 2	Auckland	65	To be considered	2020
Waitemata North Shore Hospital Expansion – SSOA 1 (b) & 2 9(a)	Auckland	46	To be considered	2020
Waitemata Waitakere Expansion Building D: Surgical beds 1	Auckland	45	To be considered	2020
Waitemata North Shore Car Park	Auckland	26	To be considered	2010
Northland Whangarei Stage One	Northland	25	To be considered	2010
Waikato Acute Medical Precinct (Beds over ED)	Central North Island	55	To be considered	2010
Waikato Rehabilitation Hub	Central North Island	23	To be considered	2010
Whangarei Redevelopment – Stage 2	Northland	41	To be considered	2010
Whangarei Redevelopment – Stage 4	Northland	80	To be considered	2020
Waikato Mental Health Adult (60 beds Inpatient facility)	Central North Island	30	To be considered	2020
Waikato inpatient Wards Block A	Central North Island	29	To be considered	2020
Capital and Coast – ICT	Central North Island	23	To be considered	2010
Taranaki – New Plymouth Hospital	Central North Island	80	To be considered	2010
Hutt ED Theatres	Central North Island	82	To be considered	2020
Taranaki inpatient Block Redevelopment (Stage 2)	Central North Island	37	To be considered	2020
Palmerston North Hospital Reconfiguration (Phase 3)	Central North Island	31	To be considered	2020
Taranaki inpatient Block redevelopment (Stage 3)	Central North Island	28	To be considered	2020
Waikato SCR	Eastern North Island	250	To be considered	2010
Lakes – Rotorua and Taupo Hospitals	Eastern North Island	90	To be considered	2010
Whakatane	Eastern North Island	65	To be considered	2020
Tauranga Masterplan – Theatres	Eastern North Island	29	To be considered	2020
Buller Hospital Aged Care (if not done privately)	Lower South Island	20	To be considered	2010



Project Description	Region	Total estimated cost \$m	Project Status	Timeframe
Canterbury Burwood Hospital / Rehabilitation Facility	Lower South Island	70	To be considered	2020
Canterbury – Riverside Building Stage 1 – Chch Hosp Precinct Plan	Lower South Island	400	To be considered	2020
Ashburton Hospital	Lower South Island	20	To be considered	2020
Greymouth Hospital	Lower South Island	110	To be considered	2020
Canterbury Mental Health	Lower South Island	60	To be considered	2020
Nelson Building Programme Completion Buildings 1 & 2	Lower South Island	40	To be considered	2020
South Canterbury – Clinical Services Block Refurbishment	Lower South Island	20	To be considered	2020
Otago – campus redevelopment phase 2	Lower South Island	150	To be considered	2020
Canterbury – Riverside Building Stage 2 – Chch Hosp Precinct Plan	Lower South Island	250	To be considered	2020
Health Management System (Cant, NMarlb, Sth Cant, MidCentral,Wair, Whang, Nland, CManukau)	Lower South Island	175	To be considered	2020

Source: National Infrastructure Plan and PwC analysis

## Education - examples of potential infrastructure opportunities by region

This information sheet shows examples of infrastructure projects in the Education sector that have been planned or are being considered over the next ten years, by region, if regional information is available.

**Planned projects** are projects that have been committed to but may not have funding or a contractor assigned.

**Projects to be considered** are projects where a decision is yet to be made on whether, or when, the project will be undertaken.



Source: Analysis of National Infrastructure Plan, 2010



## Health sector - examples of potential infrastructure opportunities by region

This information sheet shows examples of infrastructure projects in the Health sector that have been planned or are being considered over the next ten years, by region, if regional information is available.

**Planned projects** are projects that have been committed to but may not have funding or a contractor assigned.

**Projects to be considered** are projects where a decision is yet to be made on whether, or when, the project will be undertaken.



Source: Analysis of National Infrastructure Plan, 2010

## Transport sector - examples of potential infrastructure opportunities by region

This information sheet shows examples of infrastructure projects in the Transport sector that have been planned or are being considered over the next ten years, by region, if regional information is available.

**Planned projects** are projects that have been committed to but may not have funding or a contractor assigned.

**Projects to be considered** are projects where a decision is yet to be made on whether, or when, the project will be undertaken.



Source: Analysis of National Infrastructure Plan, 2010

## PUBLIC PRIVATE PARTNERSHIPS



# 1. Summary

## About this guide

1. This resource guide picks up on the concepts and information provided in the accompanying paper, “Infrastructure Opportunities” and is intended to provide further advice to support the development of a specific transaction or deal structured as a public-private partnership (PPP).
2. The Government has signalled its interest in considering public private partnerships (PPPs) for public sector infrastructure investments but where this makes sense and provides value-for-money for the taxpayer. This paper therefore deliberately focuses on how Iwi could go about constructing a deal to take part in a PPP type investment and the potential roles that could be undertaken in these arrangements.
3. In terms of content the paper focuses on:
  - A discussion on what public private partnerships/PPPs are and how they work, keeping in mind that there may be a variety of ways to enact a PPP and that the guidance offered here reflects a generic approach or “traditional” thinking.
  - The roles that are played by the parties involved and a wider consideration of the value Iwi can bring to these arrangements – this discussion builds on the opportunity identification work set out in the Infrastructure Opportunities paper, with more specific advice and focus around the capabilities, expertise and approaches Iwi need to bring to make investments in particular sectors (or the types of expertise and capabilities Iwi would need to access through other partners)
  - Some considerations on the risks and issues Iwi need to take into account before entering these types of transactions.
  - Hypothetical examples to illustrate potential Iwi involvement in PPP-like arrangements.

## Background

4. Opportunities for investment in infrastructure and utilities are arising because of international and domestic trends examining how the public sector can best acquire infrastructure assets and improve the management and operation of these assets. There is an increasing focus on the private sector “getting the job done” with government and public sector agencies, with the potential private sector roles spanning financing arrangements through to the provision of services that may have once been seen as “core” public sector.
5. These approaches, some of which have been operating overseas for nearly two decades, may lead to a whole host of roles and opportunities for private sector players and for Iwi. They also require Iwi to:
  - Look at ways they can organise themselves collectively to increase scale and reduce risk.
  - Utilise the unique relationship they have with the Crown to participate and indeed lead in the opportunities identification process.
6. To help inform Iwi thinking and decisions around these two matters this paper will take a particular focus on:
  - Articulating the roles Iwi can play in a PPP and the risks associated with these roles.
  - Examining the capability Iwi will need to develop or access through strategic partners to manage risk and exploit opportunities, including through partnerships with other Iwi and other private sector players.

## What is a PPP?

7. The Infrastructure Opportunities paper discusses the opportunities and drivers for Iwi that come from a 'co-investment' approach that may be structured in the form of a PPP or similar arrangement. This paper builds on the opportunities discussed in the Infrastructure paper and focuses on engagements utilising PPP mechanisms.

How are PPPs commonly defined?

8. There are a number of ways for viewing what constitutes a PPP. Any number of potential government and private-sector commercial engagements can encompass a PPP. For the purposes of this paper a common definition is used where PPPs are defined as a long-term contract for the delivery of a service, where the provision of the service requires the construction of a facility or asset.
9. Typically, PPPs involve:
  - the private sector partner(s) financing and operating the asset over its useful life; and
  - ownership of the asset reverting to the Government at contract maturity ie 20-30 years.
10. A key focus of PPPs is the coordination of a range of partners who take on specialist roles they have relative expertise in and/or capability to enhance the likelihood of a successful project that delivers returns to all the players. This includes being able to manage the risks that come with the particular role or function the partner is taking on.
11. This consideration of risk is a core element of the PPP concept. Risk allocation and its financial consequences play a key role in PPP evaluation. The PPP approach looks to improve the management of project risks, making the identification, allocation and management of risks an essential part of the PPP process. In this way value is being sought from the engagement of the private sector to leverage expertise and ensure parties have the right incentives on them to deliver their parts of the venture.

How does this approach differ from traditional procurement?

12. Traditional procurement approaches are quite different as they are usually structured around a "Design and Construct" (D&C) contract or a Design contract, with a separate construction contract. The transactions involve contracting private sector parties to design and/or construct the asset, which is then operated by a government department.
13. Both traditional procurement approaches and PPP contracts should be based on clearly defined outputs, a detailed business case and project development phase, strong project and contract management plans, and involve market testing at a number of levels. What a PPP arrangement will also attempt to do, however, with the private provision of finance, is build an explicit costing of risk into the provision of funding for the project.
14. Additionally, while PPPs also focus on designing and building assets there is also a focus on the maintenance and operation of the asset. This means they include "whole-of-life" costs which are not always built into traditional forms of procurement. As noted above these issues are bound up in how PPPs manage risk by transferring risks to the parties best able to manage them and establishing incentives that reward parties for managing that risk well.
15. PPPs are becoming an increasingly attractive proposition for governments as they shift focus away from procurement to service delivery and allocate risks outside of the public sector and ultimately the taxpayer.
16. The extent to which PPPs will become a basis for infrastructure investment is largely dependent on how beneficial PPPs are for the Government's objectives compared to alternative methods of investing in infrastructure. As stated earlier they need to demonstrate value-for-money for taxpayers and achieve benefits that traditional asset procurement approaches do not.



### What are the roles lwi can take in a PPP?

Potential roles for lwi

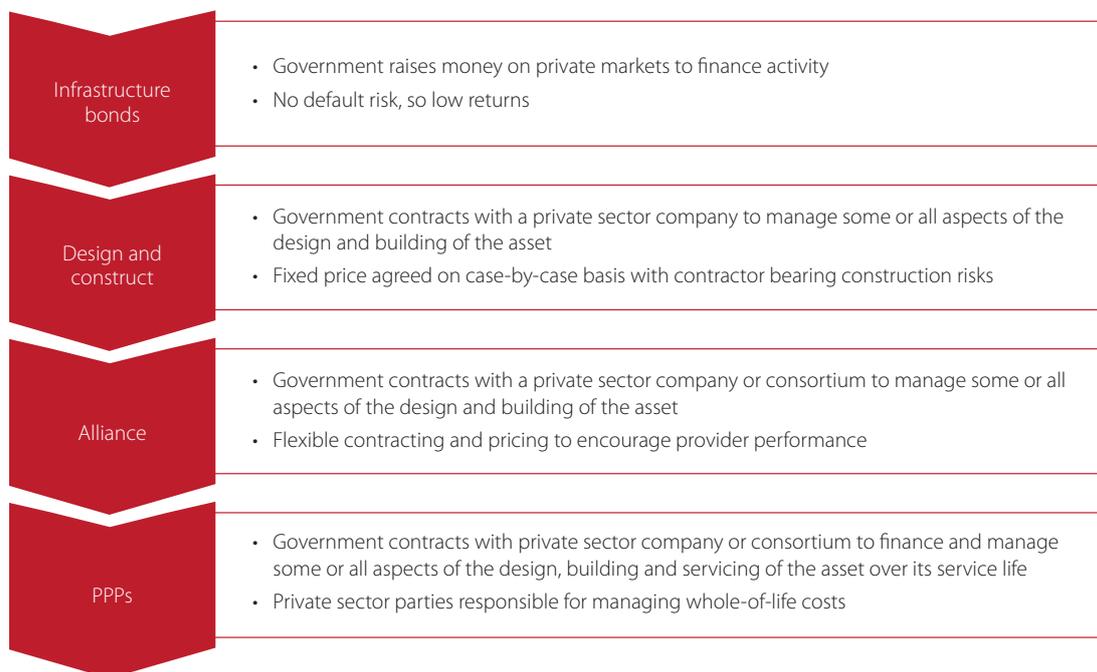
17. The table below sets out a range of roles envisaged for various parties in a PPP. The body of the paper provides further detail on these roles and how lwi can look to engage in them. The key roles are:

<b>Design</b>	Design refers to not only the professional groups such as architects and engineers but also the resources needed to move proposed infrastructure through planning phases
<b>Build</b>	This includes construction companies and labour force providers (e.g. Tradestaff)
<b>Supply</b>	This includes manufacturers and owners of resources such as forests. It also includes logistics. Supply in broader terms can also mean the supply of skilled people through training
<b>Finance</b>	Includes banks, institutional investors, and lwi
<b>Strategic Advice</b>	While smaller in size than other roles, lwi are well placed to act as strategic advisors on projects to speed consent process, provide specialist knowledge or expertise, facilitate community dialogue and buy-in
<b>Owners</b>	Owners can be taken to mean not only the owners of a piece of infrastructure, it may also include landowners who may lease or sell land for infrastructure development
<b>Operators</b>	These are the managers of the infrastructure and can include a number of governance and management roles

18. Each of these roles are linked into a specific component of the PPP arrangement, and the intersection between different roles is discussed in the next section.

### Are PPPs the only approach to engaging in infrastructure investment?

19. A key aspect that has been flagged earlier in this summary and in the accompanying overview paper is how lwi might organise collectively to exploit opportunities in this space. The diagram below demonstrates that there are other ways to think about organising collectively to engage in infrastructure investments that are not limited to specific or “pure” PPP arrangements.



20. As set out above other approaches to consider include entering into alliances, and joint-ventures for specific projects. These approaches may also build the ability of Iwi to take on more complex PPP arrangement. It is important to note that the better organised Iwi are collectively enhances the likelihood Iwi can access a greater range of opportunities and be well positioned, with the right capability and resources, to act on those opportunities effectively.
21. One potential approach for developing the trust and relationships required to build collectives is for Iwi to develop strategic alliances amongst themselves. These could be formal relationships set up to pursue agreed goals relating to infrastructure investments.
22. Strategic alliances are incentive based relationships – one step removed from PPPs - in which the parties agree to work together as one integrated team in a relationship that is based on the principles of equity trust, respect, openness, no dispute and no blame. In alliances, all parties are bound to a risk/reward scheme where they all share savings or losses, depending on the success or otherwise of the project. Risk is managed by the party best placed to control it.
23. Iwi alliances could move forward by establishing and maintaining relationships with investors, design and construction companies and operations and maintenance companies. These relationships would need to be strong enough to be built upon should an opportunity arise. It is likely these relationships could then translate into a formal PPP arrangement as set out in the structure diagram above.

### Opportunity identification process

24. Engaging in the opportunity identification process is another key plank for Iwi consider as part of their consideration of infrastructure investments and PPPs more generally. In New Zealand, the identification, planning and development of infrastructure is somewhat fragmented. Generally speaking, government departments, crown agencies and local authorities develop plans independently of one another and seek funding through local and central government processes.
25. The establishment of a National Infrastructure Unit within Treasury is an attempt to increase the level of national and regional coordination of planning activities. However, this coordination is likely to occur at a strategic, rather than project specific level (except for major projects of national significance).



26. This means that now, and in the future, there is unlikely to be a 'one stop shop' that regularly brings infrastructure planners and potential investors together to progress mutually beneficial projects. Decision making processes on specific opportunities are likely to remain within a diverse range of agencies that have different approaches to planning and advertising their infrastructure pipeline. This presents a problem for investors and groups of investors who want to identify potential opportunities early, allowing enough time to organise and position themselves to participate in any tender process, and influence the high-level design of opportunity.
27. Once a potential opportunity becomes public knowledge, the chance to shape the opportunity and win it has been lost. In order to participate effectively, lwi investors need to be engaged with officials and other planners in an ongoing dialogue about local infrastructure requirements and opportunities for co-investment. This would help them become aware of potential opportunities earlier, allow them to help shape the opportunities and, ultimately, be better positioned to capitalise on the opportunities when they arise.

### **Concluding remarks**

28. There are a wide range of aspects, approaches and asset classes that could be considered within the context of this paper. We have elected to constrain our commentary and advice to the basic decisions required to determine capability needs and make the key decisions necessary to engage in infrastructure-focussed investments. Although other mechanisms are referred to this in the summary, the key focus of this paper remains PPPs.
29. As noted above organising collectively is an important issue that lwi need to consider to improve their ability to engage in infrastructure investments and PPPs. Further context and guidance around how lwi can look to collaborate is provided in the "Commercial Entities" paper and the real-world focussed examples set out in the case-studies paper.

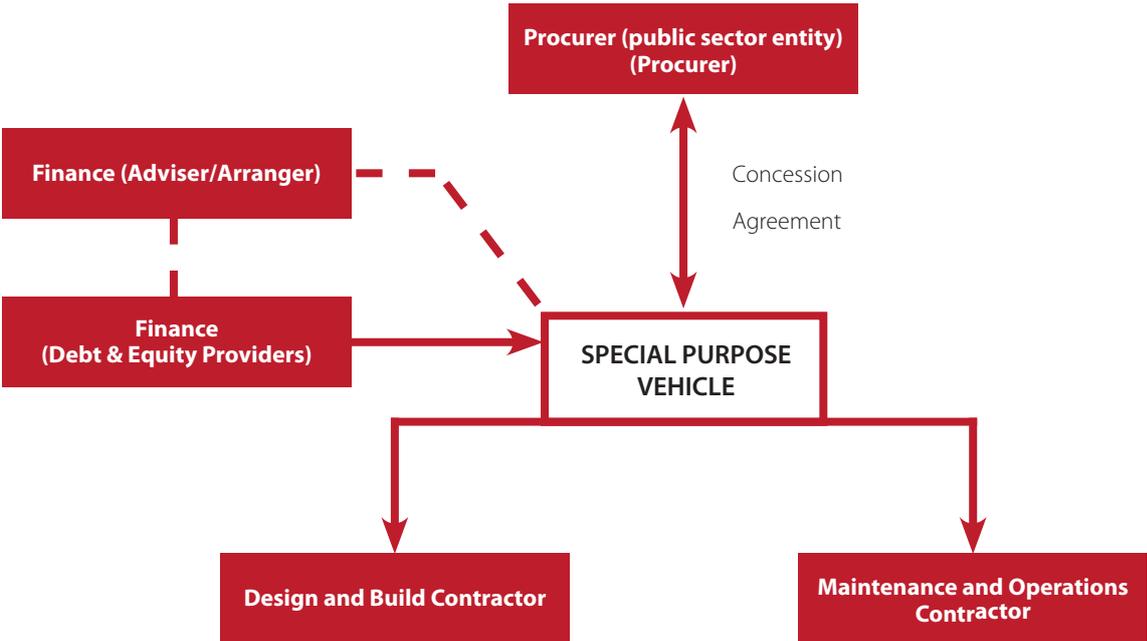
# 4. How are PPPs structured and what are the roles participants play in them?

## Introduction

- 30. As set out in Section One the working definition used for a PPP is a long term contract for delivery of a service where the provision of the service requires the construction of a facility or asset. Section One also notes the range of roles in a PPP and the traditional structure for these arrangements.
- 31. This section of the paper looks to explain in more detail the roles undertaken by each party in a PPP and weave into each the role the types of risks that need to be managed in undertaking these roles. There may seem to be an undue focus on risk but this is only because the management risk will dictate the ability of a party to achieve their desired returns.
- 32. In general terms, the higher the risk taken, the higher the required or expected return and conversely low risk propositions will generate a lower return. For example, the lowest risk investments are typically considered to be investments in government stock.
- 33. In considering the desirability of any particular investment in infrastructure projects, Iwi would need to consider the various risks which arise from different levels of involvement. Risk is the potential variation from the expected result and can be both positive and negative. The key focus, therefore, is finding risks where Iwi have a strategic advantage that would make positive variations more likely. More discussion on risks around the specific roles in a PPP is set out below. Specific risk terminologies are described in the attached glossary.

## The roles in a PPP

- 34. The roles in a PPP shown in the diagram detail below. Some participants may have more than one role, for example, an Iwi could be both an equity sponsor and an operations and maintenance contractor.





### **Procurer (public sector entity)**

35. The procurer is usually a public sector entity, such as a government agency or a state-owned enterprise. The public sector participant is driven by economic and social imperatives and aims to transfer most of its risk to the private sector. The benefits to the government of undertaking a PPP and doing this are that project cost is reduced and, as both private and public funds are utilised, a more infrastructure development can be undertaken.
36. The procurer will seek to achieve a value for money public sector comparator. In other words, it seeks to achieve good value for money compared to the risk-adjusted cost of delivering the project itself or what it would be willing to pay for delivery of the project services.
37. The procurer sets the terms of the deal (for example, the payment mechanism), awards the contract, and has a legal agreement with the SPV. It is responsible for the annual annual concession fee payment and monitors the performance of the private sector partners in the PPP.
38. Some risks that may be retained or shared by the procurer include:
  - Land acquisition;
  - Force Majeure;
  - Treaty of Waitangi claims;
  - Law changes.

### **Design and Build (D&B) Contractor**

39. The design and build contractor is the member of the PPP consortium responsible for design, construction and costing components of the bid. It is usually private sector player and will need to have expertise as this part of the project is complex and a large component of the bid evaluation may be based on design and construction innovation. It is mostly likely an equity sponsor in the project, entering into a contract with the SPV.
40. The pricing for the design and build phase of a PPP includes a profit margin for the contractor. The contractor also aims to get equity returns (if it is an equity sponsor), any bonuses for completing construction early, and may receive a share of refinancing returns.
41. Concession agreement and contracts with the design and build contractor and the maintenance and operations contractor are usually very detailed and complex. Bid costs for a design and build contractor can be expensive, with no guaranteed return.

### **Operations and Maintenance (O&M) Contractor**

42. The O&M contractor may be part of the consortium and be an equity sponsor to the project. It is responsible for operating the asset or facility once it is built. It is often a subsidiary of the design and construction entity, but could equally be another party to the PPP, such as an Iwi and/or a specialist operator. A number of major international companies such as Serco provide O&M services in a range of sectors including transport, health, education and local Government.
43. The O&M contractor aims to get a return that is usually fixed by O&M contract. This may mean that the level of service it provides is tied to the payment mechanism set by the procurer. In most situations, O&M contractors will be paid a fixed amount at regular intervals for their services.
44. In some circumstances there may be scope for a variable component based on achievement of particular KPIs.

45. Depending on the nature of the asset, there may be a single O&M contractor, or there may be several separate roles.
46. For example, in the case of a school, there may be separate parties responsible for operation/service delivery (e.g. education) and maintenance of the physical asset (e.g. buildings). Alternately, in the case of a toll bridge, there may be one party responsible for both maintenance of the bridge and operation of tolling booths.
47. Operations and maintenance contracts are typically for a fixed period of time, at the conclusion of which the asset owner is able to elect whether to re-sign the current contractor, or put out a tender.
48. The risks associated with O&M contracts are:
  - Bid risk;
  - Risk of non-renewal of contract; and
  - Maintenance risk.

### **Finance: Equity and debt investors**

49. Debt and equity sponsors provide money for a given return (debt) or a forecasted return (equity). These could be banks institutional investors or Iwi. Members of the PPP consortium, for example, the design and build contractor, may also provide debt or equity to the project.

#### Equity investors - overview

50. Equity sponsors take on higher risk than debt sponsors, standing last in queue in the event of a default in order to gain greater benefit from the success of the project. It is common, however, for equity sponsors to de-risk the project and offload it to institutional investors once it has been constructed.
51. An equity investment reflects a residual claim on a project's cash flows after all others are paid. It is the highest risk form of investment within a project and will require a greater expected return for the risk taken by the investors.
52. In general, equity investment offers greater possible returns, but the quantum and timing of those returns is generally uncertain. For a large and successful project, there is significant opportunity for equity investors to receive substantial gains. However, there is also a risk that some or all of their investment may be lost in the event that the project performs poorly.
53. Equity returns come in the form of dividends and capital gains on capital amounts invested.

#### What risks do equity investors bear?

54. Equity investors ultimately bear the risks associated with operating the assets, including:
  - Demand risk
  - Competition risk.
55. As such, equity investors need unique skills to manage these risks to get super economic returns.
56. There is often a subscription agreement and/or shareholders' agreement governing the terms of the equity investment and the relationship between shareholders. The provisions contained in these agreements can also materially affect the value of the investment – for example, a restriction on the ability of Iwi to sell their shares.
57. Depending upon the likely cash flow from the project, dividends may not be paid until the project begins to generate a positive cash flow (or in some circumstances may not be paid at all).



58. Capital gains are generally only realised when the investor sells their equity interest. While it may be foreseeable that Iwi would ultimately seek to sell an equity stake held by them in, say, a toll road or car park, this may not be the case for investments in social infrastructure assets such as schools or hospitals.
59. The risk profile is also a product of the payment mechanism. For example, availability payments would amount to lower risk.

#### Debt investors

60. Debt returns are largely fixed, assuming that the investors hold to maturity, no default and no embedded options but they may be compensated for additional risk, however, as the government prefers smaller amounts of debt as it indicates more 'buy in' from project sponsors, debt to equity ratios are likely to be between 10-20 percent.
61. Providers of debt receive a priority claim over cash flows, typically ahead of others and frequently secured over particular assets within a project or business. Debt providers typically require a minimum contribution of equity and/or subordinated debt in order to provide them with satisfactory assurance that their priority claims will be met. As providers of debt capital typically receive fixed or near fixed returns if they hold to maturity and assuming no defaults on embedded options at much lower rates than equity providers, they require a greater degree of comfort over their cash flows than equity providers.
62. To the extent that debt investors are likely to receive a fixed return, the main risk that they face is the credit risk of the special purpose vehicle. This may be affected to some extent by the operating performance of the asset itself. Debt providers do not need unique skills to get super economic returns.

#### **Special purpose vehicle (SPV)**

63. The special purpose vehicle is the entity set up by the consortium directly responsible for contracting with the Crown for service delivery, and is ultimately the central 'hub' which engages D&C and O&M contractors, as well as seeking equity and debt funding from external sources.
64. As the SPV also takes on all risks to the extent not passed on to the private sector (such as industrial relations, construction cost and demand risks), it seeks contract out aspects of the projects to third parties in a way that genuinely mitigates its risk. For example, once construction is contracted out at an agreed price, any variances in the cost of construction would be borne by the D&C contractor.
65. The SPV seeks to achieve tolling or availability payments. These would ideally reflect a premium over a long-term Government bond rate, with the size of that premium reflecting the relative risk borne by the SPV. This income may be dependent on achieving of KPIs set by other parties, e.g. the procurer. The SPV also tries to achieve good risk outcomes and refinance debt at lower interest rates.
66. Management of the SPV requires experience in project management and service delivery, and relationships with D&C and O&M contractors are of substantial importance. Key risks to the SPV include:
  - Project risk
  - Demand risk
  - Competitive risk
  - Expected life risk.

## **Advisory**

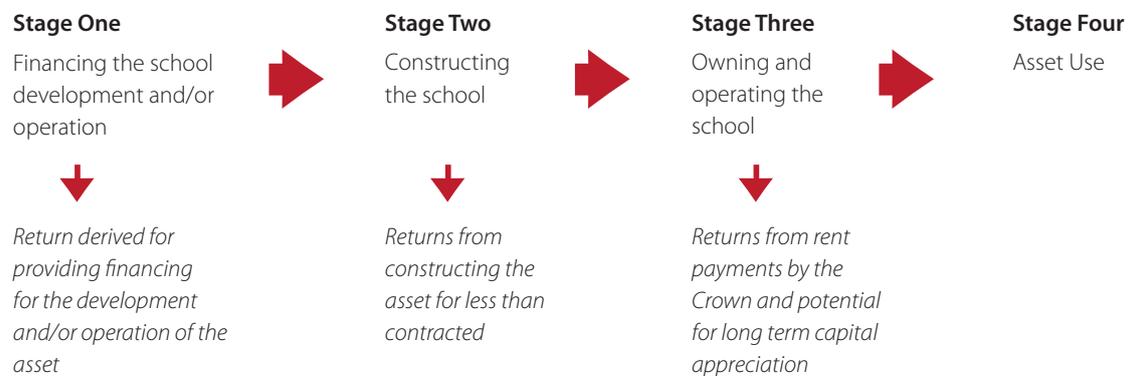
67. A financial adviser/arranger acts to manage the consortium that bids for the deal by arranging debt and equity sponsors. It may have underwriting facilities, which would expose it to a potential equity loss. The financial adviser/arranger seeks to earn fees advising the consortium, usually paid by the consortium, success fees if the bid is successful, make refinancing gains and benefit from any related commercial opportunities.
68. Further advisory roles may also be available, such as advice on consent processes, assisting with community consultation, assisting with access to sites or providing specialist knowledge or expertise, or example, where the project requires specialist knowledge, expertise or networks that an lwi has unique ability to provide.
  - Understanding its target asset portfolio combination and target debt ratio and undertaking a capital budgeting process.
  - Being proactive in the opportunity identification process.
  - Consider the development of alliance-type relationships that could be built on to enter into collaborative deals.



## 6. Engaging in PPPs – managing risks and building capability

### Introduction

69. As outlined in the previous section, participating in one role of a PPP is a different proposition to participating in another.
70. The diagram below shows the different stages of an infrastructure investment, using a school as an example. All stages of the investment require both debt and equity investment. Each stage of the roles has a different risk and return profile and different capability requirements in terms of resources and expertise.



71. Iwi could seek involvement in many of the roles in a PPP, such as:
- Finance: as a debt and/or equity provider to the SPV
  - Design and build: involvement in design and construction of physical components of infrastructure
  - Operator: as an operations or maintenance contractor (either partially or fully)
  - Advisory: as a manager of the SPV or consortium.
72. However, the extent to which risks and rewards present also depends on the sector or asset class under consideration. Therefore this section considers the potential involvement of Iwi in a PPP by considering the capability required to manage risks around both roles and asset classes.

## What capability is required to manage functional risks?

### Finance: debt / equity investor

73. Iwi may have the ability and opportunity to invest capital directly in the project. There are a number of forms this investment could take:
  - a single Iwi could invest in a particular project (this may be appropriate if the project is one of particular significance to that Iwi);
  - Iwi partnerships could invest in a project or projects collectively; or
  - Iwi could co-invest with the Crown.
74. Due to the size of many infrastructure investments, it is likely that Iwi would need to collaborate with each other to act as a debt or equity investor. Importantly, equity providers in PPPs need unique skills to get super economic returns, whereas debt providers do not.
75. It should also be noted that investments can also be made in the form of assets or rights (e.g. rights to use land), which may be more accessible than cash for some Iwi.
76. Additionally, if Iwi participate as a minority equity investor and have no other involvement in the project, they may have limited scope to influence decision-making in relation to the asset and their investment.

### Design and Build (D&B) Contractor

77. D&B activities are typically:
  - High risk. If the contractor is unable to complete the project within the anticipated time frame or if costs are greater than anticipated, the D&B contractor's margin will be materially reduced and there is a risk of loss. However, early (or on-time) completion at below-budget cost may result in substantial margin gains.
  - Capital intensive. Substantial investment in equipment is required and funding requirements during construction are also likely to be substantial, depending upon the timing of any progress payments.
78. For these reasons, D&B activities are often carried out by large construction companies (such as Mainzeal or Fletcher Construction), typically in concert with architects/designers and consulting engineers as required, who have the financial capacity to manage the risk and funding requirements.
79. D&B roles also require skilled designers, architects and engineers, particularly where there are specific construction issues, for example, steep terrain or a specific design requirement.
80. Regardless of whether Iwi decide to embark on more intensive D&B roles, we would expect Iwi to be consulted relation to design aspects of any physical infrastructure.



### **Operations and Maintenance (O&M) Contractor**

81. The levels of expertise required in operations or service delivery roles could vary quite substantially. For example, operating a school would require specialist expertise in the form of teachers (or the ability to recruit teaching staff), whereas the staffing requirements for the operation of a parking building would be less demanding (security and clerks).
82. The required skill base could also vary quite substantially for maintenance roles. Whilst the required skills would be comparatively straightforward for simple building assets (e.g. schools), engineering-intensive assets such as bridges and power stations would require substantial engineering expertise in order to be able to meet maintenance demands.
83. A logical step would be for an Iwi would be to conduct an inventory of the skills and skilled labour that it currently possesses to establish not only the areas where it is well equipped to participate, but also where it may be helpful for it to develop or acquire such expertise.
84. An advantage of taking part in operations and maintenance is that the skills associated with the role are often transferable to other projects or assets. To illustrate this, a number of major international companies such as Serco provide O&M services in a range of sectors including transport, health, education and local government.

### **Management / Operation of the SPV**

85. Management of the SPV requires experience in project management and service delivery, and relationships with D&C and O&M contractors are of substantial importance.
86. Although this further advisory role is relatively smaller than others in a PPP, Iwi may be well placed to play this in some circumstances. Iwi could be an invaluable participant in a PPP in circumstances where it is able to advise on the consent process, provide specialist knowledge or expertise, for example, where the project requires specialist knowledge, expertise, land/access or networks that an Iwi has unique ability to provide.

### **Capability is required to address potential risks in asset classes and exploit opportunities**

87. When evaluating whether to invest in a particular sector or asset class, Iwi will need to consider the capability requirements of the asset class against:
  - their financial capability;
  - where their unique advantages lie; and
  - which risks they are best placed to managed.
88. Some considerations Iwi would need to make for the health, education, transport, energy and water sectors are outlined below:

## Health

### Overview

89. The Health sector presents opportunities that could range from the design, construction and operation of a hospital (ie highly complex and expensive) to more generic build and design projects eg an integrated family health care centre or a hospital car park.
90. Generally speaking, the higher degree of clinical complexity around the nature of the service and asset design then the greater degree of health specific expertise required to engage in particular roles in the project. It should be noted, however, that some roles in a health project do not require health-specific expertise, e.g. taking up debt or equity financing roles or operating/maintaining non-health assets like car parks or aspects of construction that do not require clinical/medical expertise.

### Who bears the risks?

91. In the health sector, the private party often bears the risk of the construction phase. This includes site risks (dealing with the construction site), the condition of existing buildings, development approval risks, design, construction and commissioning risks.
92. These risks are significant as is the scale of the investment, and as a result the risks are often managed by the engagement of established, large companies with experience in the construction sector (for example, Fletcher Construction, Hawkins). While these risks are typically best managed by these types of businesses, it does not preclude lwi – with the right level of experience and capability – to play the oversight management role of construction providers. Additionally, there may be subcontracting roles, which lwi could deliver under these contracts. This would allow lwi to develop the pre-requisite skills required, with the potential to develop a unique proposition in the delivery of certain subcontracts on these projects.
93. The private party also bears the risk of operational phase. This includes the risk of having to provide non-core services as not to disrupt the clinical services and the actual operating costs being higher than anticipated.
94. If a service provider is rewarded on a performance basis, any failure in meeting relevant service specifications could result in reduced payments or ultimately, termination of the project deed.

### Other special features of health projects

95. It is common for health staff workers to be provided to the project company and its sub-contractors for the term of the project for the purpose of the provision of defined non-clinical services. The project company is responsible for the health staff members' training and development, determining their rostering and working arrangements and ensuring that they have access to those things required to enable them to perform their work including uniforms, protective clothing, vehicles and equipment and materials. As such, all of the normal risks of employment are passed on to the project company.
96. The provision of these services involves significant operational and managerial skills. There is a role for lwi in providing these services where it is demonstrated lwi can develop a significant unique financial proposition for them in doing so. It is worth noting that established businesses already provide these services so lwi would either need to partner with organisations who have these skills or base themselves around an lwi partner that has already developed the right capabilities.
97. To the extent that lwi consider that the financial rewards and any non-financial benefits (such as developing skills and knowledge) would justify their investment in such contracts, lwi could look to acquire some of these skills through partnership with some of the existing delivery providers.



## Education

### Overview

98. Education projects, for the purposes of this paper and reflecting the analysis carried out in the Infrastructure Opportunities paper, focus on building and operating schools. This could potentially extend to other forms of educational facility where this potential for government and private sector engagement along the spectrum of joint-ventures, alliancing and PPPs.

Necessary capabilities – design and build, operation and maintenance

99. Lwi looking to participate in building and operating a school will need to be capable of managing a range of risks generic to construction projects and specific to operating a school. The construction risks that need to be managed are similar to those considered above and need extensive experience to ensure the risks are appropriately managed.

100. As an operator, an Lwi investor would need to have the ability to:

- deliver the services and ensure the facility is fit for purpose at required levels
- control maintenance and operating costs and manage replacement and refurbishment of the facility
- deal with change in laws and policies.

101. The maintenance contracts associated with new school developments may provide opportunities for Lwi. While the maintenance and operating contracts may involve less risk and possibly therefore enable the use of more generic maintenance contracting skills than some other large infrastructure projects, the key issue is whether Lwi have unique, and therefore valuable capabilities to undertake these contracts. In certain circumstances these contracts may provide opportunities for local employment and therefore broader economic and social development opportunities for Lwi.

Potential opportunities?

102. A potential investment scenario could be the provision of equity into education PPPs, providing a reduced equity return, in exchange for agreement to employ and/train local resources (although it would be prudent to minimise the extent of equity exposure in such a case, to ensure returns foregone are not significant compared to the Lwi's broader portfolio). Other opportunities may exist depending on the scope and scale of the project and the desired level of return sought by Lwi.

## Energy

### Overview

103. Projects in the electricity sector are expensive and complex. The two main asset types include generation (power stations) and transmission infrastructure.

104. Opportunities exist for Lwi to further engage in this area by leveraging off existing land and resource holdings to contribute resources in return for equity under joint venture arrangements with an experienced operator contracted. There may also be potential to leverage off resources and linkages in other sectors, such as water rights and irrigation schemes, which can be used for small scale generation.

Key risks and complexities

105. Energy infrastructure requires large scale investment, with significant risks attached. Design and construction risk in the energy sector is highly specialised and in most cases for example generation developments, most of the equipment is procured internationally from experienced large multinationals. Civil works also tend to be significant and these are typically handled by experienced contractors with extensive experience in large projects.

106. Similarly, generation assets are highly specialised and the maintenance contracts for these assets require specialist skills. As a result there are a small number of highly specialised contractors that undertake these roles, who are best able to manage to risks with the provision of these services.
107. There are also significant risks that arise in the generation market, not least of which include managing the operation of the plant to optimise performance and pricing, but also participating in a real-time, competitive wholesale electricity market. Currently these skills rest with a handful of large companies (the electricity generators).

Where can Iwi participate?

108. While there may appear to be limited roles for Iwi in the construction, design and operation of these assets, there are real opportunities for Iwi participation in a funding level.
109. Proven investment models include the participation of equity (either directly through cash) or indirectly (through the provision of access or resource). However, in many of these cases, Iwi have typically participated in a passive basis on these types of projects, due to the scale of the investment required (of which Iwi can contribute some but not all of the debt and equity) and the desire of the generators to have sufficient control over the operation of the assets. Iwi can also contribute significantly in assisting these projects through the various levels of consenting and consultation required, which in some cases can be of significant financial benefit to the project developers.
110. Iwi have been developing their knowledge and experience in this area and as holders of significant resources (such as geothermal fields, land holdings for wind farms and potentially water rights), financial participation through debt and equity funding is possible. However, given the scale of these activities, it will be critical that specific Iwi consider the extent to which they choose to invest in any specific project, versus a desire to broadly spread risks over a diversified portfolio.

## Transport

Overview

111. For the purposes of this paper transport assets encompass roading infrastructure and networks. It does not focus on ports, for example. Generally speaking transport projects are very large projects that require specialist expertise in design and construction.

Risks

112. Equity and O&M participation in transport investments requires expertise in managing generic project risks, for example, being able to ensure that the project is completed on time and within budget and that project outcomes are reached.
113. As highlighted previously, construction risks are typically significant on infrastructure projects – these risks are probably not best managed by Iwi. However we would note that transport infrastructure often requires extensive consultation and consenting, an area where Iwi has the potential to add value to the project developers.
114. In addition to this, transport infrastructure involves some risks that are unique or acute in the sector. Some of the capabilities that Iwi looking to actively participate in transport investments will need involve being able to:
- work with difficult contractors
  - meet regulatory bodies' standards (i.e. Transit NZ)
  - ensure that disruption to affected communities are minimised
  - ensure health and safety and training of all staff members
  - take responsibility for environmental management and restoration of the site.

Potential opportunities



115. While tendering for the main contracts for major transports projects could be difficult for Iwi, there is a potential opportunity for Iwi to be engaged in a subcontracting role (possibly in conjunction with a reduced equity return) and to bring local consultation experience and skills. To take a significant financing stake in a transport venture would require collaboration amongst Iwi and/or other parties. Thinking more broadly there are also potential advisory opportunities in facilitating resource consent and community buy in.

### **Water (e.g. Construction of water management project)**

#### Overview

116. A high level of expertise is required to work in the water sector given the size of the investments required, the long lived nature of the assets, construction, planning and site risks, and public health implications.
117. Projects are typically expansion of existing networks or renewals projects.
118. There are a range of opportunities for Iwi to engage in these investments as enablers through the provision of strategic assets and advice or access to resource. Large rural water schemes also represent opportunities – the key issue to resolve here is finance and access to expertise through, for example, Public Private Partnership arrangements, including for example, Build, Own Operate and Transfer frameworks..

#### Risks and expertise required

119. The majority of assets in the water sector (drinking water, waste water and stormwater) are owned and managed by local government entities. There is a high level of expertise required to work in the water sector given the size of the investments required, the long lived nature of the assets, construction, planning and site risks, and public health implications.
120. As these projects are typically expansion of existing networks or renewals projects, it is often difficult to carve out standalone definable projects. The ownership model also provides comparatively cheap funding opportunities for these types of projects.

#### Opportunities for Iwi

121. However, there is potential in smaller, local communities for these types of projects, which might align well with local Iwi, from a funding perspective (relative scale), local consenting and consultation, water stewardship and the ability to provide re-source as sub-contractors and maintenance, providing benefits to local economies.
122. Once again, some of the skills required to effectively manage the maintenance and operation of such assets would need to be developed (either through partnership arrangements or potentially traded off against a less than commercial return). However, as in the cases above, the returns from these types of asset are long term in nature, and the skills developed in maintaining this type of infrastructure (asset planning, project management) can often be leveraged into other similar operating and maintenance contracts.
123. These types of local assets would provide an opportunity for equity or debt investment on a smaller scale, thus providing better portfolio diversity for Iwi investors.

## 8. Examples of how PPPs might function - including indicative terms sheets.

### Overview

124. The intent of this section is to provide hypothetical examples of how Iwi groups might participate in the ownership of two areas of potential interest – school ownership and roading infrastructure.
125. These examples are not case studies – the accompanying paper “Case Study Examples for Collaboration” set out real world illustrations of how different aspects of the collaboration spectrum have been implemented. The examples below – which also include the types of terms that would need to be considered in the transaction – are designed to fit within the technical definitions of a public private partnership.

### Iwi ownership of school to be leased to the Crown

126. For the purpose of illustrating Iwi ownership of a ‘social infrastructure’ asset we have used a new primary school as an example.
127. Education is and is likely to remain a core state service that is delivered at virtually no direct cost (other than “voluntary” fees) to users (students). For the purpose of illustration we have considered a hypothetical new primary school (in Wanaka), which is likely to have a total cost of approximately \$20m, the majority of which would be spent on the construction of school buildings such as classrooms, administrative offices, sports facilities, and other buildings to accommodate extra-curricula activities and support functions.
128. Schools tend to be purpose built facilities that incorporate design and service elements that would not ordinarily be included within other buildings used for more general commercial or industrial purposes. Given its purpose-built nature, the roles, responsibilities and risks associated with design, construction and cost need to be clearly allocated between Iwi and the Crown.
129. The majority of the return to Iwi as the school property owner will likely comprise an assured long-term base rental stream. The base rental return relating to the provision of the asset is likely to provide a return on capital invested, most probably priced at a small margin above the risk-free rate or with some form of index-based adjustment. Depending on the extent to which Iwi assume responsibility for the provision of “services” alongside the asset (such as maintenance responsibilities), then the overall returns can incorporate a performance element.
130. From the Crown’s perspective as Lessee and user of the facility, it will be attracted to an arrangement that provides greater certainty of cost (relative to direct ownership by the Crown) combined with incentives to encourage long-term cost reduction, with cost being measured by reference to the total long-term cost of occupying the facility (i.e. base rental, plus all property-related outgoings including property utilities and maintenance). This may offer opportunity to Iwi to not only own but also manage the facility, and by so doing, if the long-term total occupancy cost can be reduced, then there would be the prospect of additional returns to Iwi as owner providing the facility is maintained and made available in accordance with pre-agreed minimum standards (key performance indicators – KPIs).
131. Generally, the Crown will expect a school to remain in existence in situ over a relatively long-term period (say 50 or more years), given it is also a social asset that supports the local community. Conversely demographic changes over an extended period could impact demand, possibly to the point that the Crown no longer requires the school. The Crown is therefore likely to require rights of renewal that provide it with the certainty of long-term occupancy, but with an ability to terminate earlier, should demographic trends change significantly such that a school is no longer required in that particular location. The mechanism for determining compensation should early termination rights be exercised should be negotiated at the outset.



132. Similarly, the Crown may seek a right to purchase on some agreed basis upon eventual expiry of the lease, in order that it can continue with the provision of schooling in that particular locality, rather than having to potentially incur the cost of buying another site to build a replacement school, should Iwi have a preference at that future date not to renew the lease.

**Indicative Key Terms of Deal:**

- Parties
  - o Iwi, as owner and Lessor; and
  - o Crown (by reference to Ministry of Education) as Lessee.
- Detailed description of asset
  - o Land (legal description);
  - o Existing improvements (buildings, other facilities such as sports fields, roading and services); and
  - o Intended future improvements (to cater for future expansion).
- Duration
  - o Commencement date;
  - o Initial expiry date;
  - o Right(s) of renewal;
  - o Final expiry date; and
  - o Rights of early termination (on part of both Lessor and Lessee).
- Permitted use
  - o As school only.
- Right to sublease (very unlikely in case of a school)
  - o Only with Lessor's consent, which may be withheld at the Lessor's absolute discretion where Sub-Lessee is not the Crown or a Crown agency; and
  - o Where Sub-Lessee is the Crown or another Crown agency, then consent cannot be unreasonably withheld.
- Rental
  - o Base rental;
  - o Improvements rental (in addition to base);
  - o Incentive rental (in relation to achieved long-term total occupancy cost savings);
  - o Frequency of rent reviews;
  - o Minimum rental payable following each review;
  - o Frequency of rental payments (monthly); and
  - o Process for resolving disputes over rentals.
- Maintenance responsibility
  - o KPI's for minimum maintenance and service standards;
  - o Exterior maintenance;
  - o Interior maintenance; and
  - o Services and infrastructure maintenance.

- Periodic refurbishments and major upgrades
  - o Requirement for Lessor to maintain “reserve fund” for purpose of funding periodic refurbishments in accordance with pre-agreed standards;
  - o Process for determining work to be undertaken as part of any major upgrade; and
  - o Rental payable in respect of future improvements.
- Insurance
  - o Lessor’s insurance obligation; and
  - o Lessee’s insurance obligation.
- Lessee’s first right of refusal
  - o To purchase should Lessor elect to sell;
  - o To purchase upon expiry of lease; and
  - o Valuation process for resolving price disagreement.

#### **Iwi ownership and operation of a new bridge with tolling arrangement**

133. For the purposes of illustrating the economics of the Crown and Iwi co-investing in roading infrastructure, we have specifically focussed on a discrete roading project. Roading requires funding, either indirectly through subsidies from the Crown or directly through private user tolls (wholly/partly).
134. Road tolls have been used in New Zealand to advance construction of projects which would otherwise take many more years to implement (e.g. the Tauranga Eastern Link Toll Road (TELT), bought forward between five and ten years). Tolling is generally only used to cover a portion of the total cost (e.g. 50% in the case of TELT). A toll also needs to be low enough to encourage people to use the road, whilst raising enough to cover direct costs, meet interest charges and repay debt.
135. In New Zealand there is a requirement that the Minister of Transport has to be satisfied that a feasible untolled alternative route is available and that tolling the road will contribute to assisting economic development, amongst other criteria. It has also been considered politically appropriate to remove the toll as soon as debt and financing costs have been covered (estimated to be 35 years in the case of TELT).
136. For the purposes of our illustrative analysis we assume a bridge (e.g. Kopu bridge over the Firth of Thames) is constructed and owned by the Iwi for a period. We have chosen this project as the hypothetical example, because it is one that the current Government has signalled plans to accelerate; secondly it is of a size that could potentially be feasible for Iwi (c.\$58m); and thirdly it is a relatively self contained project. However, note that our use of this specific example by way of illustration should not be interpreted as conveying any understanding on the part of PwC that the Crown has any intention of adopting a tolling model for the new Kopu bridge.
137. Iwi, as the owner of the bridge would derive a return in the nature of rent, broadly determined under one of two alternative approaches, depending on the basis that the Crown ultimately takes ownership at the end of the lease period:
- a. Sufficient to cover a pre-agreed economic return (return on capital and a return sufficient to cover operations, maintenance and toll collection costs), and subsequently hand over the asset to the Crown for appropriate consideration (calculated on a pre-agreed basis, e.g. Depreciated Replacement Cost assessed by a third-party valuation specialist); or
  - b. Sufficient to cover pre-agreed economic return (return on capital, return to cover operations etc per above) and principal (return of capital), and a subsequent hand over the asset to the Crown for a nominal consideration, once the asset has been fully “paid off”.
138. Under both approaches any payments from the Crown to Iwi for the provision of the bridge would be subject to abatement, in cases of failure to meet contractually defined performance standards, reflecting the likely requirement for the Crown to subsidise or to top-up toll revenue. Examples of such performance standards might include average vehicle flow rates at various times, the time taken to respond to call-centre complaints, accident response time and time taken to re-open the bridge, extent of time bridge (or individual lanes) closed for maintenance work etc.



139. The handover under Option A will occur significantly earlier than Option B, all other things being equal (including top-up payments, discussed below).
140. Whilst this illustrative example has incorporated direct user funding via toll charges, the decision to impose tolling is a separate issue for the Crown. Under alternative arrangements, Iwi could still have responsibility for ownership, financing, maintenance, and operation of the bridge, with the Crown compensating Iwi via 'availability payments' (akin to rent), meaning that Iwi would not bear any demand (volume) risk, in which case their returns might be expected to be lower.
141. Given the importance of maintaining the operating integrity and safety standards that are integral to a roading asset of this nature, there would likely be a requirement for 'reserve funding' to be implemented so as to ensure that maintenance work and major upgrades can be carried out over the duration of the arrangement, although this should really serve as a backstop mechanism. The contractual arrangements should incentivise Iwi to efficiently programme maintenance, so as to smooth these costs in the most economical manner over time whilst maintaining the bridge in a fully serviceable condition in accordance with "best practice", so as to maximise its income stream.
142. Unlike a social infrastructure asset such as a school or hospital, in the case of roading infrastructure, the Crown is likely to insist upon eventual Crown ownership, albeit the lease duration might extend for a long period of time (possibly several decades or more). This is because the individual piece of roading forms part of the entire roading network which the Crown will wish to own and control over the very long-term.

#### **Indicative Key Terms of Deal:**

- Parties
  - o Iwi, as owner until handover; and
  - o Crown (by reference to Transit New Zealand and the relevant Minister), as provider of top-up payments and as subsequent owner.
- Detailed description of assets
  - o Land (legal description);
  - o Bridge civil works; and
  - o Tolling infrastructure.
- Construction
  - o Crown agency to design the bridge to requisite specifications that incorporate long-term capacity requirements;
  - o Crown agency to project manage construction;
  - o The Crown's role in design and project management enables the Crown to control total capital spend, which is important given this serves as a key input to the level of returns required by Iwi as owners; but
  - o Since the design approach and construction methodology/materials will effect future maintenance requirements, costs, and operating efficiencies, Iwi will need to have some role within the design and build process in order to "protect" their future returns.

- Funding and credit risk
  - o At the outset, lwi either deposit the total cost in escrow or provide other security to cover payment;
  - o Mechanism for construction progress payments to be met by lwi during construction phase;
  - o Any funds held on deposit generate interest return payable to lwi; and
  - o Once funds applied as progress payments towards construction, these costs are capitalised including interest cost during construction period, and form part of the total asset cost base for lwi.
- Duration and flexibility
  - o Commencement date;
  - o Expiry (and handover) date;
  - o Rights of early termination (on part of both Crown and lwi); and
  - o Given the long-term nature of the contractual arrangement, additional provisions will need to be incorporated to provide future flexibility, for example to cater for a circumstance where there is an alternative route established or alternative road-charging regimes effect toll revenue.
- Permitted use
  - o Bridge for vehicle types as permitted on State Highways;
  - o Specifications supplied by Crown agency; and
  - o Depending on design, there may be use restrictions (e.g. heavy vehicles with axle weight exceeding certain thresholds may not be permitted to use bridge).
- Tolling and top-up payments
  - o lwi to achieve an agreed rate of return through a combination of toll monies and Crown top-up payments;
  - o This mechanism allows for a palatable toll charge (say \$3/\$6 for cars/trucks imposed one way only), whilst mitigating volume/demand risk to the lwi; and
  - o Mechanism required for re-setting the rate of return (e.g. minimum return on capital invested with CPI adjustments etc).
- Toll
  - o Initial toll rate;
  - o Toll inflationary adjustment mechanism, applied at periodic intervals (say every five years);
  - o Toll implications to deal with unanticipated events (earthquake, extra lanes etc);
  - o Audited toll measurement/collection system for transparency purposes;
  - o Open book accounting policy, using pre-agreed accounting policies and procedures;
  - o Agreed service standards (e.g. average wait time to pay toll, maximum wait time etc);
  - o Collection risk shared between lwi (primary responsibility) and Crown (back-up enforcement); and
  - o Provision for inter-operability with the proposed NZTA National Tolling System (or the alternate prospect that NZTA would conduct the toll collection process itself).
- Operations and maintenance responsibility
  - o Pre-agreed minimum service and maintenance standards (KPI's), covering matters such as engineering standards, safety requirements, operating capacity, periodic closures etc;
  - o Services and infrastructure maintenance roles and responsibilities;
  - o Obligation to maintain maintenance records; and
  - o Requirement to hand over bridge to Crown at the expiry date in "sound working order" (to be defined).



- Maintenance capex provisioning
  - o Annual maintenance capex provisioning mechanism to ensure periodic “major upgrades” are undertaken so as to ensure agreed service and safety standards for bridge adhered to.
- Major unanticipated capital works (e.g. earthquake, bridge failure, flooding, rising sea levels)
  - o Capital cost borne by lwi, with a mechanism to recover additional return on capital, through additional toll and/or additional top-up payment. Crown agency to assess/approve any necessary capital works; and
  - o lwi to use Crown agency to procure additional capital works, per original bridge procurement mechanism.
- Crown recourse in the event of lwi non-performance (toll collection, bridge maintenance etc)
  - o Primarily, contractual arrangements should incentivise lwi to ensure performance in accordance with contractual KPI's, and conversely, will impose penalties (through reduced income) in situations of non-performance;
  - o Arbitration/mediation process to be initiated where there are repeated performance breaches, serious deficiencies or similar;
  - o Crown recourse to firstly take over operations, with subsequent right to acquire ownership if default not remedied; and
  - o Transaction value based on independent qualified valuer assessment.
- Insurance
  - o Against terrorism, earthquake etc, borne by Crown's self insurance policy;
  - o Construction risk shared by agreement between Crown and contractor; and
  - o Crown to reimburse lwi through top-up payments if bridge/toll unable to be used due to construction problems or delays.

## 9. Conclusion

144. A change in the infrastructure landscape may lead to a range of roles and opportunities for private sector players and, importantly, for Iwi. They will require Iwi to:
- Look at ways they can organise themselves collectively to increase scale and reduce risk.
  - Utilise the unique relationship they have with the Crown to participate or lead in the opportunities identification process.
145. A key focus of PPPs is the coordination of a range of partners who take on specialist roles they have relative expertise in and/or capability in. This includes being able to manage the risks that come with the particular role or function the partner is taking on. A key consideration for Iwi is to understand which roles they are best placed to play in a particular investment. This paper has examined the capability Iwi will need to participate in PPPs in various roles and sectors.
146. Due to the size of many infrastructure investments, it is likely that Iwi would need to collaborate with each other to act as a debt or equity investor. Importantly, equity providers in PPPs need unique skills to get super economic returns, whereas debt providers do not.
147. An important next step for Iwi will be engaging in the opportunity identification process.
148. In New Zealand, the identification, planning and development of infrastructure is currently fragmented. Although the Government has moved to increase the level of national and regional coordination of planning activities, this coordination is likely to occur at a strategic, rather than project specific level, except for major projects of national significance.
149. This means that Iwi as investors will need to actively seek to identify opportunities early. Allowing enough time to organise and position themselves to participate in any tender process, and influence the high-level design of any opportunity. In order to participate effectively, Iwi investors need to be engaged with officials and other planners in an ongoing dialogue about local infrastructure requirements and opportunities for co-investment as once a potential opportunity becomes public knowledge, the chance to shape the opportunity and win it has been lost. As changes in the infrastructure landscape are happening now, it is important that Iwi move quickly to determine their role in it.

## COMMERCIAL ENTITIES



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# 1. Introduction

1. This guide is intended to assist Iwi Māori to select appropriate legal structures to facilitate collaborative multi-party investment.
2. Every investment requires specific structuring advice based on the actual details. This guide is intended only to provide general information on the structural choices available. It attempts to highlight issues that may be of particular interest to Iwi-Māori co-investing with other Iwi or with non-Iwi Māori investors. Iwi Māori investors should always obtain specific advice on an investment before proceeding.

## **Collaborative investment**

3. The Māori Economic Taskforce believes that there are significant direct investment opportunities available to Iwi Māori. However, access to these opportunities requires a larger scale investment than many individual Māori organisations can sustain due to the funds available for investment and concerns about concentration of a risk in a single investment.
4. The Māori Economic Taskforce believes that Māori organisations should consider combining available investment capacity and seek opportunities on a collaborative basis. The intended benefits of such an approach are:
  - To build trust and relationships between Iwi which strengthen the potential to act collectively.
  - To aggregate investment capital so as to increase the scale and breadth of direct investment opportunities available.
  - Greater scale and multi-party investment also allows greater potential for investment diversification, reducing the concentration of risk for participants.
  - Scale increases the opportunities for direct investment where returns may be superior to a given risk level than passive portfolio investment.
  - Collaborative Iwi Māori investment in businesses of scale will increase business capability and experience within participating investors, and provide employment opportunities for Māori.

## **PPPs are just one way of implementing co-investment**

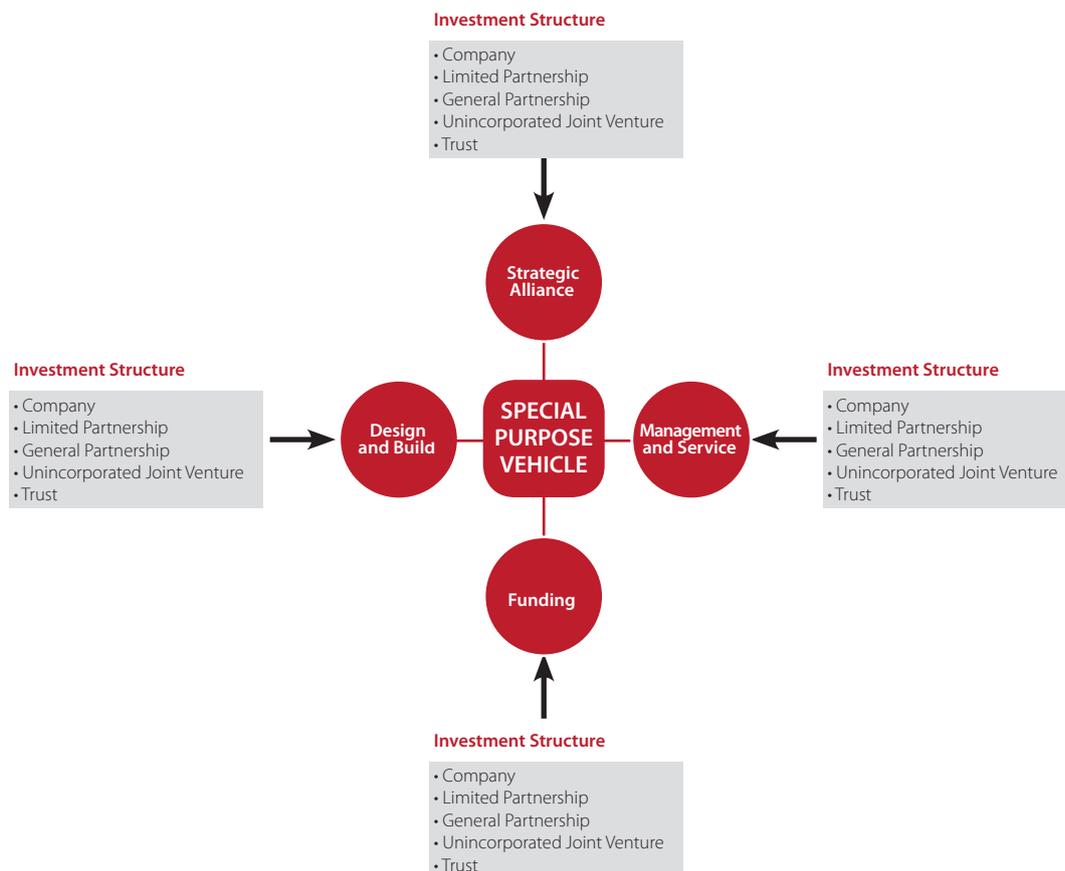
5. Public Private Partnerships (PPPs) are not the only model for co-investment with the Crown, although PPPs have currency in terms of public debate. Co-investment with the Crown can result in varying levels of involvement by the commercial partner. Additionally, it should be noted that, the potential scale, industry and volume of co-investment arrangements are yet to be finalised by the Government.
6. Much the same, the goals of reinforcing relationships among Iwi, optimising capital bases and identifying commercial opportunities, should not be limited to co-investment with the Crown. Iwi can add value in similar ways entering partnerships and strategic alliances with commercial partners.
7. As referred to in the Infrastructure Opportunities paper, infrastructure investment is generally expensive and complex with not all benefits able to be captured by the operators. For these reasons, Iwi need to be cautious and measured in their approach.



8. This guide sets out structuring and frameworks that can help manage risk and increase opportunity to participate in co-investment. It outlines five common structures lwi could potentially use in co-investment situations:

- a company
- a limited partnership
- a general partnership
- an unincorporated joint venture; and
- a trust.

9. The diagram below outlines the involvement that lwi could bring to any particular partnership using the vehicles in this guide. The bullet points outline how the structural choices described within this paper could be used to deliver a co-investment arrangement. This is non-specific to any opportunity or lwi, and the advantages and disadvantages of each would need overall consideration on a case by case basis.



### Investment structures

10. When several parties collaborate to co-invest, many things need to be discussed and agreed. For example, the type of investment, the level of risk, the strategy, the timeframe, how the investment will be managed and what returns are sought are all matters that will need to be agreed between the parties. In addition, a legal structure is required to facilitate the success of the collaboration.

11. This guide focuses only on the types of legal structure that might be considered for collaborative investment by lwi Māori.

## 2. Drivers for Investment Structures

12. This section describes, at a high level, some of the drivers of investment structure choice for Iwi Maori when looking to participate in a collaborative investment. In this guide we have considered five common structural choices:
- a company
  - a limited partnership;
  - a general partnership
  - an unincorporated joint venture; and
  - a trust.
13. There are a range of other less common structural choices (e.g. portfolio investment entities, superannuation schemes) that may have specific application in limited circumstances, and the above structural choices can be used in combination with each other as well. However, this guide is limited to a general examination of the five most common structural choices.

### Evaluating investment structure choices

14. The ultimate choice of structure for any given investment will depend on the circumstances. Investors would evaluate the specific requirements of the investment against their preferences and selection criteria. Factors would include the type of asset being built, the role that each party plays and the specific risk and return sharing arrangements that are negotiated.
15. There are many drivers of investment structure. However, this guide focuses on five criteria that are likely to be most important to Iwi Māori when deciding whether to use one structure over another:
- a) The type of investment:**  
Is the investment a direct or portfolio investment? Is the investment a financial investment such as a loan or shares in another business, or does it involve participating in an existing or new operating business.
  - b) Liability protection and risk management:**  
How risky is the investment and what is the nature of the risks? How can the investor protect its other assets from the risk associated with the investment?
  - c) Governance**  
How will the investment be governed? How will each co-investor's rights and interests be protected and balanced against each other? What governance frameworks are available at law or by way of contract or agreement?
  - d) Tax**  
What is the tax treatment of the structure? What is the tax profile of each investor (e.g. a tax exempt charity or a Māori Authority subject to 19.5% tax)?
  - e) Commercial acceptability and flexibility.**  
How commercially acceptable is the structure to customers, suppliers, bankers and other stakeholders? Does the structure allow easy entry or exit of investors?
  - f) Realising kaupapa Māori principles**  
Kaupapa Māori principles are also a driver of investment structure choice. For example, investors may wish to have equal voting power in an entity, despite having unequal shares in it. The chosen structure for that investment would therefore need to have sufficient flexibility to give effect to this, and other aspects of kaupapa Māori principles.



### **Tax as a value driver**

16. For Iwi Māori entities, the tax treatment of an investment is likely to be an important and unique driver of value.
17. Iwi Māori organisations are likely to have a range of tax rates applying to entities within their wider groups. For example:
  - tax exempt registered charitable entities (trusts and companies)
  - Māori authorities taxed at 19.5%
  - companies taxed at 30%
  - trusts taxed at 33% on retained income.
18. An Iwi Māori investor that is tax exempt, or has a 19.5% tax rate, will earn higher after tax returns from an investment than a standard company investor with a 30% tax rate or an individual with a 38% tax rate.
19. In order to apply the tax exemption or 19.5% tax rate to the investment proceeds, an Iwi Māori investor needs to invest through structures that allow the profits to be taxed at the investor tax rate, so called 'flow through' entities for tax purposes. 'Flow through' entities include a limited partnership, a general partnership, an unincorporated joint venture, and to a lesser extent, a trust.

### **Limited liability as a value driver**

20. All investment comes with risk. The higher the risk of an investment, then the higher that the rate of return on an investment should be in order to compensate for that risk. However, if a business risk does turn into an actual liability, then it is important to protect unrelated assets from that liability.
21. Iwi Māori organisations will have a range of assets, some of which they will be comfortable to expose to investment risk, while other assets will form part of an organisation's puihui and should not be exposed to any risk.
22. Some structural choices such as joint ventures and general partnerships can allow risk to 'flow through' to the joint venture participant or the partner. Other structural choices such as a company, or a limited partnership, will contain the liability within the entity, meaning that an Iwi Māori investor's risk is limited to the capital invested in that venture only, protecting its puihui from loss.

### **Governance as a value driver**

23. Good governance of a collaborative investment is a critical driver of value. Much value has been lost in collaborative investments when relationships between the co-investors have deteriorated and clear governance frameworks have not been available to resolve difficulties and preserve the value of the investment.
24. Any structural choice can be designed to have good governance structures. Some of the structural choices have legislative frameworks that assist the establishment of good governance (such as companies and limited partnerships) and others (such as unincorporated joint ventures) rely on embedding the governance structure in the contractual arrangements between the parties.
25. However it is achieved, good governance is vital to successful and profitable collaborative investment.

### 3. Structural choices

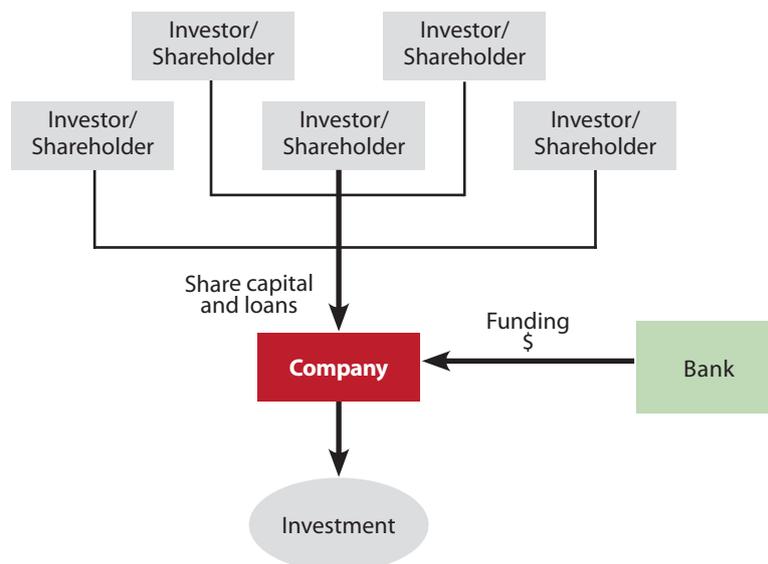
26. This section provides a description and an overview of the advantages and disadvantages of five potential structural choices for a collaborative investment.

#### 1. Company

27. A company is a well understood and commonly used structural choice for collaborative investment.

28. A collaborative investment using a company would broadly be structured as follows:

- Each shareholder will make capital contributions to the company in exchange for shares and/or debt.
- The shares will provide voting rights in the company proportionate to their investment in the company (it is possible to have some shares with voting rights and others without if desired).
- The shareholder's liability will be limited to the amount payable for the shares.
- A board of directors will be appointed to manage the business and affairs of the company or oversee a management team.
- There can be an unlimited number of shareholders.
- A company is a separate legal entity, separate from its shareholders and management.
- Returns to investors can be by dividends on shares or by interest on loans.





### *Advantages of company structure*

- Each shareholder's liability is limited to the amount contributed to the share capital of the company.
- Changes in shareholders generally have minimal impact on the continued operation of the company.
- A company is easy to set up and its ongoing regulatory compliance is in most cases fairly straight forward.
- It is easy for shareholders to enter and exit by acquiring or selling shares.
- A company has a clear governance framework.
- A company is a familiar and commercial acceptable structural choice in New Zealand and internationally.

### *Disadvantages of a company structure*

- No 'flow through' tax treatment.

### *Limited liability*

- Generally shareholders are not liable for the obligations of the company and therefore the amount they have at risk is limited to the capital that they have invested or committed to invest in exchange for the company's shares.

### *Governance and Management*

- A company is governed under rules prescribed by the Companies Act 1993 and the constitution of the company.
- A board of directors is appointed by the shareholders and is responsible for governing the business and affairs of the company.
- A shareholders agreement can be used to govern the relationship between shareholders and is not a publicly available document.

### *Entry and Exit*

- Entry made by acquiring shares in the company either from the issue of new shares or purchasing existing shares from other shareholders.
- The business owned by the company can be sold to a purchaser either by a sale of shares in the company, or by a sale of business assets (each has different tax implications).
- No adverse tax consequences should arise to the company on exit and entry of shareholders, subject to shareholder continuity rules. If shareholder continuity falls below 66% or 49%, imputation credits and tax losses will be forfeited respectively.
- A change in shareholders of a company does not trigger the realisation of the underlying assets owned by the company.

### *Tax treatment*

- The company is subject to tax at the company rate of 30% on taxable profits.
- 49% shareholder continuity is required to carry forward tax losses and offset against future profits.
- Unlike a limited partnership, there is no 'flow-through' tax treatment. Profits and losses remain at the company level and are unable to be passed up to the shareholders.
- Capital contributions to the company are non-deductible to the shareholders and non-taxable to the company.
- Dividends may be taxable to shareholders (other than tax exempt charities), however imputation credits attached to the dividends may be available to offset the shareholder's tax liability.

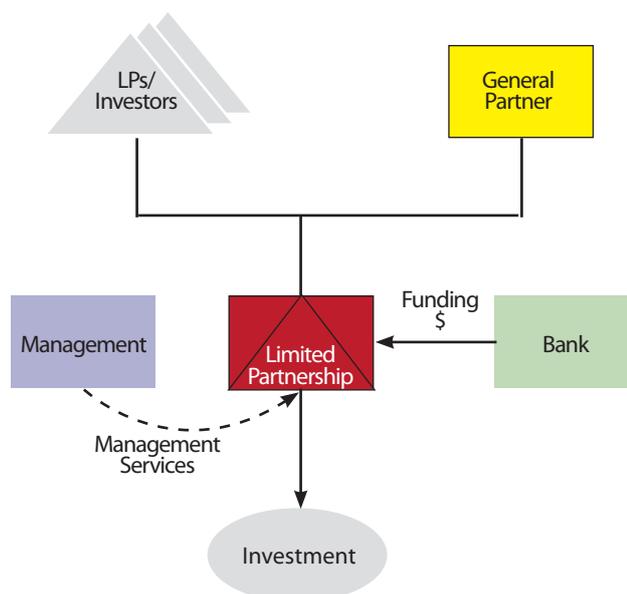
- If investors/shareholders are tax exempt entities (or Māori Authorities taxable at 19.5%) interest returns may be preferred to imputed dividend returns to maximise value (certain restrictions for tax need to be considered that deem interest to be dividends).
- Capital gains can only be distributed to resident shareholders tax free on liquidation.
- There are restrictions on extracting share capital tax free.

### Realising kaupapa Māori principles

- The extent to which a company can realise kaupapa Māori principles depends on its constitution and whether its management and governance is set up to enable this. A key benefit of a company is its clear governance framework. These mechanisms could potentially be used to incorporate kaupapa Māori principles, for example, by way of a shareholders' agreement to govern the relationship between shareholders.

## 2. Limited Partnership

29. A limited partnership can provide an appropriate structure for most collaborative investment opportunities.
30. A collaborative investment using a limited partnership could be broadly structured as follows:
- Limited partners (the investors) will make capital contributions to the limited partnership.
  - The limited partners will also hold shares and voting rights in the general partner proportionate to their investment in the limited partnership.
  - The shares in the general partner will have a purely nominal value.
  - The general partner will be a limited liability company.
  - The general partner will manage the limited partnership, either directly with its own staff or through contractual arrangements.
  - External funding may be obtained.
  - Funds will be used by the limited partnership to acquire the investment.
  - Returns from the investment will be used to pay for costs of the limited partnership and any excess funds may be distributed out to the limited partners (depending on the arrangements made), used to reduce debt or retained for expansion or further investment.





### *Advantages of a limited partnership structure*

- Each limited partner's liability is limited to the amount contributed or agreed to be contributed as capital to the limited partnership.
- A limited partnership has 'flow through' treatment for tax purposes.
- A clear legal framework that is governed by a specific Act of Parliament which prescribes minimum requirements.
- Relatively easy to establish and operate.
- While a relatively new entity to New Zealand (introduced in 2008), it is a commercially acceptable entity, and is an accepted structural choice in many overseas countries as well.
- A limited partnership is broadly similar to a normal company with the added benefit of flow through tax treatment.

### *Disadvantages of a limited partnership structure*

- A relatively new vehicle.
- Slightly more complex than a normal company.

### *Limited Liability*

- Provided that the limited partners do not take part in the management of the limited partnership, their liability will be limited to the capital that they contribute to the partnership.
- The general partner's liability is not limited. The general partner will be jointly and severally liable for the obligations of the limited partnership to the extent the limited partnership cannot meet those obligations.
- This risk can be managed as the general partner can itself be a limited liability company and should not hold significant assets.

### *Governance and Management*

- Limited partnerships are established under the Limited Partnerships Act 2008, which provides a very broad governance framework.
- The fundamental governance documents of the limited partnership are:
  - o the partnership agreement
  - o the constitution and operation of the general partner
- The limited partners will not take any part in the day-to-day management of the limited partnership. The general partner will manage the limited partnership.
- A board of directors appointed by the limited partners can govern the general partner, recommend a manager or contract manager to the limited partners, and approve all major investments.
- Limited partners can hold voting rights on key strategic decisions such as:
  - o variations to the partnership agreement,
  - o variations to the manner of the operation of the general partner company,
  - o appointing the board of the general partner company,
  - o approving the engagement of a contract manager of the general partner company,
  - o approving variations in the composition of the partnership,

- An investment mandate can be agreed at the outset. It will direct the Board of the general partner in relation to the investment strategy. It will include such things as the type of investment the limited partnership will make and any restrictions on investment (e.g. environmental/ geographical/ cultural/ ethical considerations).

### *Entry and Exit*

- Entry made by contributing capital, and that can be cash or assets.
- Entry can be made by purchasing an existing partnership share.
- Limited partners can exit in full or in part by sale of partnership share.
- A sale can trigger tax consequences for an exiting partner.
- Rules for exiting are governed by partnership deed, may prescribe approval processes for new partner, pre-emptive rights for existing partners.

### *Tax Treatment*

- The limited partnership is treated as a 'flow through' entity for tax purposes.
- The underlying taxable gains or losses to flow directly to the limited partners. This may allow the underlying income to be tax exempt for any limited partners that have charitable status or are subject to tax at 19.5% for limited partners that are Māori authorities.
- The tax losses flowing through to limited partners is limited to the value of their investment, with any excess losses carried forward by the limited partnership against future profits.
- A potential disadvantage of investing through a limited partnership is that the exit or entry of a limited partner to the partnership can in some circumstances trigger a taxable event. This arises because when a partner exits, they are deemed to dispose of their share of the underlying assets of the partnership. If those assets are revenue assets and above certain thresholds, then this will trigger a disposal for that partner for tax purposes. However, if that partner is a tax exempt charitable entity, or a Māori Authority with a 19.5% tax rate, that taxable event may not be a material issue in considering the structure.

### *Realising kaupapa Māori principles*

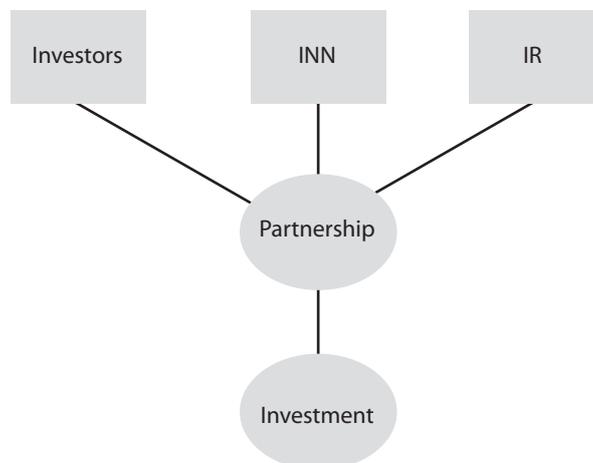
- The limited partnership vehicle is designed to be relatively flexible, with the benefits of limited liability and flow-through tax treatment. The extent to which a limited partnership can realise kaupapa Māori principles depends on the nature of the partnership agreement and the constitution of the general partner. There is no conceptual barrier to collective principles being incorporated into these mechanisms, however, some aspects of the arrangement (for example, the limited partner not taking part in the management of the partnership) would have to be adhered to.

## **3. A General Partnership**

31. A general partnership may in some cases provide an appropriate structure for collaborative investment opportunities.

32. A collaborative investment using a general partnership could be broadly structured as follows:

- Partners (the investors) would make capital contributions to the partnership.
- External funding may be obtained.
- Funds will be used by the general partnership to acquire the investment.
- Returns from the investment will be used to pay for costs of the general partnership and any excess funds may be distributed out to the partners (depending on the arrangements made), used to reduce debt or retained for expansion or further investment.



#### *Advantages of a general partnership structure*

- A general partnership has 'flow through' treatment for tax purposes.
- Relatively easy to establish and operate.
- It is a commercially acceptable entity, and is an accepted structural choice in many overseas countries as well.
- Very flexible, the partnership deed can be developed to suit the specific needs of the co-investors.

#### *Disadvantages of a general partnership*

- Unlimited joint and several liability.

#### *Unlimited Liability*

- A partner in a general partnership carries joint and several liability for the obligations of the partnership. As such a general partner can not only lose the capital that they have contributed, but they can also be liable for the other partners' share of the obligations of the partnership if the other partners are unable or do not pay up.
- This risk can be managed if the general partner itself is a limited liability company and should not hold significant assets other than the partnership interest. However, this approach reduces the effectiveness of the 'flow through' tax treatment.

#### *Governance and Management*

- General partnerships are lightly regulated under the Partnerships Act 1908 which provides a very broad governance framework in the absence of a partnership deed.
- The fundamental governance document of the general partnership is its partnership deed.
- How the partnership is governed will be agreed between the partners and specified in the partnership deed.

#### *Entry and Exit*

- Entry made by contributing capital, and that can be cash or assets.
- Entry can be made by purchasing an existing partnership share.
- Partners can exit in full or in part by sale of partnership share.

- A sale can trigger tax consequences for an exiting partner.
- Rules for exiting are governed by partnership deed, may prescribe approval processes for a new partner, or pre-emptive rights for existing partners.

#### *Tax Treatment*

- A general partnership is treated as a 'flow through' entity for tax purposes.
- The underlying taxable gains or losses to flow directly to the partners. This may allow the underlying income to be tax exempt for any limited partners that have charitable status or are subject to tax at 19.5% for partners that are Māori authorities.
- The tax losses flowing through to limited partners is limited to the value of their investment, with any excess losses carried forward by the limited partnership against future profits.
- A potential disadvantage of investing through a general partnership is that the exit or entry of a partner to the partnership can in some circumstances trigger a taxable event. This arises because when a partner exits, they are deemed to dispose of their share of the underlying assets of the partnership. If those assets are revenue assets and above certain thresholds, then this will trigger a disposal for that partner for tax purposes. However, if that partner is a tax exempt charitable entity, or a Māori Authority with a 19.5% tax rate, that taxable event may not be a material issue in considering the structure.

#### *Realising kaupapa Māori principles*

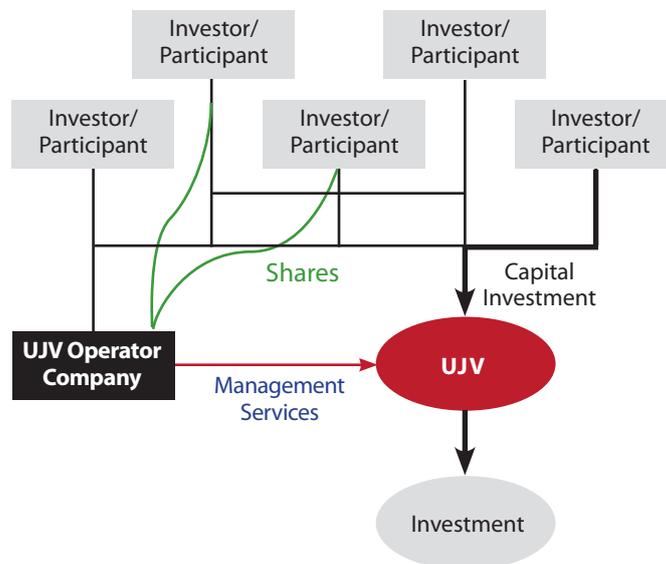
- A general partnership is a very flexible commercial arrangement. The joint and several unlimited liability nature of a partnership, although not desirable from a risk perspective, could lend itself to a more collective approach between partners. The partnership deed is a mechanism that could potentially be used to incorporate kaupapa Māori principles in the arrangements between partners.

#### **4. Unincorporated joint venture**

33. An unincorporated joint venture is not a separate legal entity but simply a contractual arrangement between the parties.

34. A collaborative investment using an unincorporated joint venture might be broadly structured as follows:

- Participants in the joint venture make a joint contractual agreement to undertake a particular transactions or a business.
- Similar to a partnership, an unincorporated joint venture is treated as 'flow through' for tax purposes.
- All income and expenses are attributed to the participants in accordance with the terms of the joint venture agreement (e.g. generally in proportion to the amount invested).
- Participants in an unincorporated joint venture will be liable for the obligations of the joint venture, but generally only for their share of the obligations.
- Often a joint venture operating company is appointed to operate the joint venture on behalf of the participants.



#### *Advantages of an unincorporated joint venture*

- An unincorporated joint venture has 'flow through' treatment for tax purposes.
- Can be easy to establish and operate, but not always.
- Very flexible, the joint venture contract can be developed to suit the specific needs of the co-investors
- It is a commercially acceptable arrangement in New Zealand although they are not commonly used in NZ except in specific industries such as petroleum exploration and development and forestry.

#### *Disadvantages of an unincorporated joint venture*

- Unlimited liability.
- Lack of a clear legal governance framework compared to say a company or limited partnership.
- Entry and exit may be complex and require extensive negotiation with other participants.

#### *Unlimited Liability*

- A participant in an unincorporated joint venture will generally be liable for their share of the obligations of the unincorporated joint venture. As such, their liability can extend beyond just the capital that they have contributed.
- This risk can be managed if the joint venture participant itself is a limited liability company and should not hold significant assets other than the joint venture interest. However, this approach reduces the effectiveness of the 'flow through' tax treatment.

### *Governance and Management*

- Governance arrangements for unincorporated joint ventures are not prescribed by law but are agreed between the parties.
- The fundamental governance document is the joint venture agreement.
- The joint venture is not recognised as a separate legal entity so each joint venture participant must be a party to all contracts made by the joint venture.
- Joint venture participants will sometimes establish an operator company to manage the business of the unincorporated joint venture and enter into contracts as nominee for the joint venture participants.
- The shareholders of the operator company will appoint a board of directors who will oversee management.
- The operator company will be governed by a constitution and shareholders agreement.

### *Entry/Exit*

- Similar to a partnership, participants enter into the unincorporated joint venture by contributing capital.
- If a joint venture is terminated then assets and liabilities will be dealt with in accordance with the joint venture agreement.
- If a participant wishes to exit the joint venture, this would be achieved via a sale of that participant's proportional share in the assets and liabilities which will have the normal tax consequences (e.g. depreciation recovery on certain assets). This could become a complex exercise if participants wanted to exit the joint venture at various times.
- Carve out arrangements can be complicated if some participants do not want to fully participate in certain transactions undertaken by the joint venture.

### *Tax Treatment*

- The unincorporated joint venture is not itself subject to tax, rather the results flow through to be taxed in the hands of the joint venture participants.
- Any taxable profits will be subject to tax at the participants' marginal tax rates.
- As with a partnership, any tax losses incurred would be allocated to the participants of the joint venture and available to be carried forward (but no cap on flow-through of losses like a limited partnership).
- Capital gains derived by the joint venture may be distributed tax free to the participants.

### *Realising kaupapa Māori principles*

- An unincorporated joint venture is a very flexible commercial arrangement and the joint venture contract could potentially be used to as a mechanism to provide for kaupapa Māori principles in arrangements between investors.



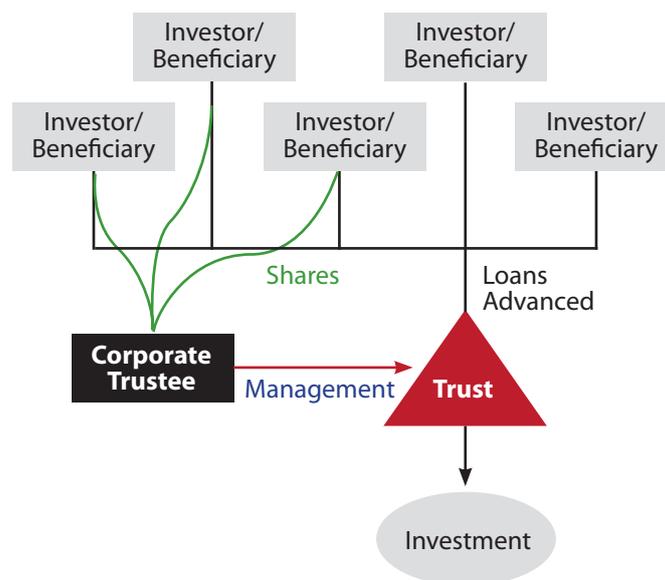
## 5. Trust structure

35. A trust is not a separate legal entity. It comprises a legal arrangement that is established and governed by a trust deed between:

- a settlor (person who establishes the trust and gifts property to the trust);
- a trustee (person who governs the trust); and
- Beneficiaries (persons who can receive benefits or distributions from the trust).

36. A collaborative investment using a trust structure would broadly be structure as follows:

- A corporate trustee would be used which is owned by the major (or all) beneficiaries/investors.
- An investor does not have an “ownership interest” in the trust fund and so their investment cannot be sold. Therefore, investors would likely fund the trust by way of debt, which can be sold, assigned or repaid on exit.
- Profits would be distributed to beneficiaries in accordance with the provisions of the trust deed.



### *Advantages of a trust*

- Potentially a very flexible arrangement
- Partial ‘flow through’ possible – profits can be distributed to beneficiaries
- Investor/beneficiaries not exposed to unlimited liability.

### *Disadvantages of a trust*

- Not always an easy structure to add new investors or exit investors.
- Retained profits taxed at trustee rate of 33%.
- More complex than a normal company.
- Potentially taxed as a company if deemed to be a unit trust.

### *Governance and Management*

- A trustee of a trust acts in a separate and distinct capacity from that person as an individual or as a trustee of another trust.
- The trustee has a fiduciary duty to act in the best interests of the beneficiaries, but in accordance with the trust deed.
- The key governance document is the trust deed.
- The shareholders of the corporate trustee would appoint a board of directors who would oversee management and sign resolutions for actions to be taken by the trust.

### *Entry/Exit*

- As the investors do not own any shares or have a claim over the property held by the trust, exit from this structure is less flexible.
- The trust deed can be drafted to enable beneficiaries to be added or removed in future.
- It is likely that the trust will be funded by way of debt from the investors. On exit, the debt investment could be sold.
- This makes receiving an unrealised gain on exit problematic compared with a sale of shares or partnership interest which can be sold at a gain. The loan to the trust can be sold at a gain if necessary.
- Admitting new investors cannot be done by selling “ownership interests” therefore making the process complicated.
- A wind up of this structure would require a sale of the trust property and distribution to the beneficiaries in accordance with the trust deed.

### *Tax Treatment*

- Taxable income derived and retained by the trust will be taxed at 33% (current trust tax rate).
- Income distributed as ‘beneficiary income’ to beneficiaries of the trust is not taxable to the trust, but is taxed in the hands of the beneficiary (certain timing requirements for distribution of beneficiary income apply).
- On exit, any gain on sale of the debt investment would likely be taxable (subject to the tax profile of the seller); and any loss likely to be non-deductible.
- In the event that a trust provides for the subscription of capital in exchange for participation in the profits of the trust then the trust will be deemed to be a unit trust for tax purposes and taxed like a company (see the previous section).

### *Realising kaupapa Māori principles*

37. The extent to which kaupapa Māori principles can be realised in a trust structure depends on the nature of the trust deed, which is the mechanism that would provide for this. Maori assets are often held in trust structures, but they can give rise to governance challenges.



## 4. Conclusion

38. There are five common structures used in commercial ventures and other, less common structural choices (e.g. portfolio investment entities, superannuation schemes) that may have specific application in limited circumstances. The five structures examined in this paper have certain commercial features, such as:

- Level of liability protection
- Flow-through tax treatment (or tax rate if not flow-through)
- Flexibility for raising funds
- Exit mechanisms for investors
- Methods for distributions.

39. These are summarised in the table below.

Issues	Company	Limited partnership	Partnership	Unincorporated Joint Venture	Trust
<b>Limited liability</b>	Shareholders - limited	- Limited partners - limited - General partner - unlimited	No joint and several liability	Severally liable	- Trustee has personal liability (trustee may be a company) - Major beneficiaries may be asked to provide guarantees
<b>Tax losses</b>	- No flow through of losses - 49% continuity required to carry forward losses	Flow through to partners, but restricted to value of investment	Flow through to partners	Flow through to participants	No flow through
<b>Raising Funds</b>	Flexible	Flexible	Flexible	Limited to participant's ability	Limited
- equity	√	√	√	√	X
- debt	√	√	√	X	√
<b>Tax rate</b>	30%	Partner's marginal tax rate	Partner's marginal tax rate	Participant's marginal tax rate	- Trustee @ 33% - Beneficiary income @ marginal rate

Issues	Company	Limited partnership	Partnership	Unincorporated Joint Venture	Trust
<b>Distributions</b>	- Fully imputed dividends - Capital gains tax free only on liquidation - Restriction on extracting share capital tax free	Not applicable as flow through to partners	Not applicable as flow through to partners	Not applicable as flow through to participants	- Beneficiary income is taxable to beneficiary - Retained trustee income, capital gains and corpus exempt
<b>Exit strategies for investors</b>	- Sale of business - Sale of shares (low level of tax complexity)	Sale of partnership interest (some tax complexity)	Sale of partnership interest (some tax complexity)	Sale of participation interests (high level of tax complexity)	Sale/assignment of debt investment (low level of tax complexity)
<b>Winding up the structure</b>	Liquidation	Sale of assets	Sale of assets	Sale of entire undertaking or assets	Sale of trust property and distribution to the beneficiaries

40. There are a number of structures and approaches available to lwi when setting up an investment vehicle. Which one is most appropriate will depend on the preferences of the investors and the specific circumstances of the investment itself.
41. A good structural choice for an investment would allow the parties to engage collaboratively in a way that manages risks, is tax efficient and promotes good governance. Importantly, it would also realise the principles of kaupapa Māori and foster āta among the investors.
42. Choosing an appropriate investment structure can help enable the pursuit of the objectives of collaborative lwi Māori, however, a commercial or legal structure on its own will not ensure a good collaborative relationship between parties. Principles of kaupapa Māori are likely to come to the fore as proposals progress to working relationships that based on trust and collective success.

## CASE STUDIES



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# 1. Overview

1. This document contains a select number of recent commercial transactions demonstrating where Iwi Māori have either engaged in:
  - key elements of a PPP-type arrangement with the Crown or local government; and/or
  - have entered into collaborative arrangements with each other based on commercial structures that also seek to be mana enhancing for the participants.
2. The case studies have been selected to illustrate the key drivers of success for these arrangements and to demonstrate that Iwi Māori are already pursuing the types of arrangements that have been discussed in the set of accompanying papers.
3. What the case studies illustrate most clearly are the key drivers required to make these engagements successful. These can be summarised as:
  - a) The importance of building and maintaining strong relationships with all parties involved in the transaction or venture – these relationships need to be built on trust, mana enhancing and driven by principles of openness, transparency and reciprocity.
  - b) The careful utilisation of different commercial structures, be they joint ventures, elements of PPPs or the use of limited partnership and company structures, enables Iwi to combine investment capacity and build a foundation to seek larger opportunities.
  - c) Technical skill sets and capabilities are important to properly mitigate risks and how these skills can be obtained through partnership with other Iwi.
  - d) Structures and shareholder agreements need to be commercially robust and reflect the long-term strategy and aspirations of the investors.
4. The case studies also help anchor the concepts and ideas presented in the accompanying papers *Public Private Partnerships* and *Commercial Entities* through the use of real world examples relevant to Iwi Māori.
5. The following sections contain further detail on the illustrative case studies. They are:
  - a set of three separate design, build and operate ventures between various national and local government agencies and Ngāi Tahu Property; and
  - commercial structures used to drive and enhance the management of collaborative forestry initiatives.



## 2. Design, build, own and leaseback examples

6. The section below contains case material relating to three South Island commercial property developments undertaken by Ngāi Tahu Property. The projects and principal tenants are:
  - Christchurch Civic Building; Christchurch City Council
  - Queenstown court facilities; Ministry of Justice
  - Christchurch police station; New Zealand Police
7. Each development project involved Ngāi Tahu Property purchasing land and developing, or re-developing, buildings to lease back to the respective tenant over a long tenure. Because Ngāi Tahu Property retained ownership of the properties and responsibility for their upkeep and maintenance, these projects fit into the broad category of a Public-Private Partnership (PPP).
8. However, each project also has unique features and arrangements which serve to highlight the multitude of issues and considerations that are involved in such transactions.
9. All the examples below involve Ngāi Tahu Property entering into a long-term commercial arrangement with the government for the provision of premises and property management services. For Ngāi Tahu Property this provides the following key benefits:
  - Stable rental income at near-market rates;
  - Cash returns over a long time horizon;
  - An avenue for further cementing Ngāi Tahu Property's relationship with the Crown; and
  - A way for Ngāi Tahu to demonstrate their commitment to local communities through the provision of important public infrastructure.

### Christchurch Civic Building

**Principal tenant:** Christchurch City Council

**Opening date:** August 2010 (still in construction)

**Total planned development cost:** \$112.4m



#### Overview

10. The re-development of the Christchurch Civic Building is a joint-venture between Christchurch City Council and Ngāi Tahu Property. It involves the purchase and redevelopment of the former Christchurch Mail Centre into new Civic Offices for the Christchurch City Council.
11. The project is significant in that it is the first PPP to develop a major local government facility in New Zealand, with Ngāi Tahu Property and Christchurch City Council sharing the costs of development equally and taking an equal ownership stake.

12. From Ngāi Tahu Property's perspective this project is stable and low-risk. It will provide a strong cash return for the risks involved and provide stable rental income over a long period of time.

### *Key terms and conditions*

13. Total investment in the design and construction of the project was \$112.4m. These costs were shared equally between Christchurch City Council and Ngāi Tahu Property through a Special Purpose Vehicle (SPV).
14. Upon completion, Christchurch City Council will take over the building as the principal tenants with an initial lease term of 24 years, at the end of which they would have right of renewal. Rent is paid to the shareholding organisations through the SPV.
15. Management of the development and ongoing property management is being undertaken by Ngāi Tahu Property.

### Queenstown court facility

**Principal tenant:** Ministry of Justice

**Opening date:** September 2006

**Total development cost:** \$4.8m



### *Background*

16. Previously the Ministry of Justice Queenstown court was housed in a building owned by Ngāi Tahu Property. Upon completion of their historic lease term, the Ministry of Justice signalled its intention to look for new, more modern premises. Rather than lose a valuable tenant, Ngāi Tahu Property offered a counter-proposal to develop and lease a new building to meet the changing requirements of the courts. This was accepted by the Ministry of Justice.
17. The genesis of this case study highlights the benefits of being able to identify opportunities early by maintaining close relationships with potential and existing tenants. Had the Ministry of Justice gone to tender for their new premises, Ngāi Tahu Property may have lost a valuable client.

### *Overview of the deal*

18. This transaction involved Ngāi Tahu Property purchasing land in central Queenstown and designing and constructing a new court facility which, on completion, was leased to the Crown for a period of 20 years, commencing 11 September 2006. Development, management, investment management and property management was provided by Ngāi Tahu Property.



19. The Crown took a long-term lease over the completed development on the following terms and conditions:

Initial Lease Term	20 years
Rights of Renewal	3 x 5 years each
Initial Annual Rental	\$514,880 p.a.
Rent Review Provisions	Annual CPI increase plus a market review every 5 years.

#### *Outcome for Ngāi Tahu Property*

20. In a financial sense, the development of a new courts facility for the Ministry of Justice was successful, earning an initial cash return on investment during the first year of 10.7%. Ngāi Tahu Property considered this return reasonably strong, given the stability of income that a tenant such as the Ministry of Justice provides.
21. The property, which cost \$4.8 million to develop, is currently valued at \$8.1 million.

### Christchurch police station

**Principal tenant:** New Zealand Police

**Commencement date:** July 2000

**Total development cost:** \$11.3m



#### *Overview*

22. In this example, Ngāi Tahu Property purchased the property from the Crown at current market value and leased the building back to the Crown (New Zealand Police) on a long-term lease.
23. These types of arrangements provide benefits for both parties. Ngāi Tahu Property, as an established property company, can provide property management services to New Zealand Police at a cheaper rate than in-house provision. In return, as well as the earnings from any capital gains, Ngāi Tahu Property have secured a long-term, low-risk tenant in the New Zealand Police. The risk is especially low in this example as the building is single purpose and there are very few opportunities for the Police to relocate elsewhere.

*Key terms and conditions*

24. The purchase price was agreed at \$11.3 million and Police took a long-term lease under the following terms and conditions.

Initial Lease Term	17 years
Rights of Renewal	5 x 6 years each
Initial Annual Rental	\$1.1m
Rent Review Provisions	Rental increases every 3 years

25. The investment provided Ngāi Tahu Property a 9.76% initial cash return on the total investment cost of \$11.3 million. Given the very low-risk of the tenant, and the long term of the lease, Ngāi Tahu Property considers this a very successful outcome.

26. Ngāi Tahu Property has owned this building for 10 years and the company has revalued the property annually over that time. In addition to the cash rental paid each year, the property value has grown by \$5.2 million to \$16.5million.



### 3. Multi-lateral structures

27. Iwi have clearly stated that co-investment amongst Iwi is a strategic priority. Access to a number of opportunities will require a larger scale investment than many individual Iwi Māori organisations can sustain given their funds available for investment and concerns about concentration of a risk in a single investment. One way for Iwi to overcome these issues is to combine available investment capacity and seek opportunities on a collaborative basis.
28. Outlined below are two examples of collaborative Iwi legal structures that are being used to progress opportunities and manage investments and assets. The key features of each structure are outlined below. For further discussion of the relative advantages and disadvantages of a range of structures, please refer to the accompanying *Commercial Entities* paper.

#### Central North Island Iwi Holdings Limited

##### *Overview*

29. The Central North Island Iwi Holdings Limited (CNI) agreement was developed to manage a significant Treaty of Waitangi settlement. The project involves eight Iwi partners working collaboratively in the management of 178,000 hectares of forestry, with a shareholding stake held by the Crown.
30. The long-term commercial goal is to establish a forestry management company that will create and capture local and global opportunities, and engage in related forestry activities. The goal of the agreement was to recognise the shared interests of central North Island Iwi with respect to mana whenua. The CNI agreement reflected an important step in the journey towards greater collective enterprise in tikanga Māori.<sup>1</sup>
31. The structural arrangements of the CNI agreement are rigid and inflexible compared with other potential types of arrangements. In particular, there is no exit or entry mechanism for shareholders, which keeps current shareholders locked in and potential buyers locked out. This is a strong commitment by the eight Iwi to achieve their long-term goal of producing social and economic gains for Māori.
32. The agreement has taken the legal structure of a company and the key points of its structural arrangements include:
  - all parties having equal voting rights in decisions; and
  - the distribution of commercial returns according to the relative shareholding of the parties.

##### *Advantages of company structure*

33. The following are the advantages of having the legal structure of a company:
  - Each shareholder's liability is limited to the amount of capital contributed to the company.
  - It is easy for shareholders to enter and exit by acquiring or selling shares and changes in shareholders generally have minimal impact on the continued operation of the company (although there is no mechanism for changing shareholders in this case).
  - A company is easy to set up and its ongoing regulatory compliance is, in most cases, fairly straight forward.
  - A company has a clear governance framework.
  - A company is recognised as a familiar and commercially acceptable structure in New Zealand and internationally.

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1. For more detail on the background and kaupapa of the CNI agreement, visit: <http://www.cniforest.co.nz/CNI.aspx>

### *Disadvantages of a company structure*

- Companies are usually taxed at a rate of 30%, which is higher than the individual tax rates of Māori shareholders (as Māori Authorities).

### **Lwi afforestation partnership**

#### *Overview*

34. In response to Lwi concerns about the impact of the Emissions Trading Scheme on some past Treaty of Waitangi settlements, the Crown proposed establishing a partnership with Lwi to develop forestry blocks to act as carbon sinks.
35. The afforestation initiative has two primary goals. The first is to give affect to the whanaungatanga for all Lwi by undertaking a prototype deal of this nature and developing a pathway for other Lwi groups to learn from. The second is to achieve redress for the commercial disadvantage suffered by the five Lwi as a result of the ETS development.
36. The intent of the afforestation initiative is broadly aligned with the terms and objectives of the CNI. No final decisions have yet been made on which opportunities the collective will pursue but all Lwi are engaged in an ongoing dialogue. Key differences with the CNI agreement include:
  - the afforestation agreement is likely to allow for the entry and exit of shareholders, meaning the investment is scalable;
  - the afforestation initiative will also need to achieve a balance between equality of decision making rights and commercial interests – but no decisions have been made as yet on the relationship between voting rights and commercial interest.

### *Advantages of a limited partnership structure*

37. The Lwi partners are considering, but have not yet decided on, a limited partnership as the commercial entity. A limited partnership is broadly similar to a normal company with the added benefit of flow through tax treatment. The following are the main advantages of having the legal structure of a limited partnership:
  - Each partner's liability is limited to the amount contributed as capital to the partnership.
  - A limited partnership can be taxed at the rate of individual members (flow through tax treatment), which may be lower than a company tax.
  - The structure has a clear legal framework that is governed by a specific Act of Parliament prescribing minimum requirements (e.g., for public disclosure of financial performance).
  - They are relatively easy to establish and operate.
  - While a relatively new entity to New Zealand (introduced in 2008), a limited partnership is a commercially acceptable entity, and is also an accepted structural choice in many other countries as well.

### *Disadvantages of a limited partnership structure*

- A relatively new vehicle with a short legislative history and legal precedent in New Zealand.
- A limited partnership is slightly more complex to establish than a normal company.



## 4. What are the lessons from the case studies?

38. This concluding section contains a summary of the six main lessons from these case studies. The lessons are for Iwi to draw on, to continue the process of evolution towards Iwi deepening their economic stake in New Zealand and partnership with the Crown.

### *Building, leveraging and maintaining relationships....*

#### *...with the community, the Crown, Iwi partners...*

39. Building and maintaining relationships is demonstrably the most critical component in the success of the ventures described in this document. It is also a reflection of the importance of relationships in kaupapa Māori.
40. The key point is that Māori are long-term partners with the New Zealand nation and the Government, and that in order to be fully realised, these relationships require attention and cultivation. This means working together to seek deals of mutual interest and benefit, being open and transparent about the benefits that each party expects from each engagement, and seeking compromise by putting long-term gains ahead of short-term interests.
41. Relationships can also be formed collectively amongst Iwi in order to exploit opportunities, share risk and pool resources. Both the CNI collective and afforestation partnership initiative illustrate means by which Iwi can group together, recognising each other's mana as a way of advancing projects of mutual interest and benefit.
42. Collaboration allows Iwi to benefit from one another's relationships with local planners and users of assets. In this way, Iwi can participate in transactions that cross territorial boundaries as is the case with the afforestation scheme.

#### *...and with end users.*

43. Several of the commercial 'design, construct and own' deals undertaken by Ngāi Tahu Property Holding emphasise the commercial advantages of building and maintaining relationships with key stakeholders. For example, Ngāi Tahu Property's strong relationships with the Queenstown courts and Ministry of Justice avoided the need to re-tender – where Ngāi Tahu Property could have potentially lost a valuable tenant to a competitor. Instead a mutually beneficial solution was agreed between the two parties with minimum effort and cost.
44. Another example is where Ngāi Tahu Property's relationship with the Crown and New Zealand Police, gave it the opportunity to purchase the Christchurch police building in 2000 at market rates and lease it back to the Crown on a long-term lease. Ngāi Tahu has now owned this building for 10 years, and over this time it has generated a consistent cash return and capital gain.
45. It should be noted that strong relationships are not just important for the opportunities they deliver. In some cases they enable the agreement of highly favourable terms in recognition of the trust and value inherent in the relationship – this can work to the advantage of all parties.

### *Remaining open and transparent*

46. Openness and transparency are critical to the cultivation of long-term relationships in a partnership context. Each party should be prepared to disclose their expectations of agreed returns and benefits. This should be approached in an honest fashion and is not an opportunity for parties to engage in gamesmanship (for example, by deliberately under-estimating the cost of a construction project with the covert intention of reaping rewards during the operation of the asset).

47. The construction of both the Christchurch Civic Building and the Queenstown courts required specialised designs, so there were few market comparators against which to benchmark costs. This required openness on the true cost of development and strong, joint upfront analysis and planning to ensure that the project could be done for the specified cost. Furthermore, the Christchurch Civic Building project involved a shared equity arrangement between Christchurch City Council and Ngāi Tahu Property, which required Ngāi Tahu Property to be upfront about its expected returns from its role as project manager and (eventual) property manager.

#### *Combining investment capacity through joint ventures enables larger opportunities to be realised*

48. In order to participate in larger, more significant ventures, Iwi will need to combine their investment capital. Greater scale increases an entity's ability to engage in direct investment (rather than passive portfolio investment) and as a result it may earn superior returns for the same level of risk.
49. Multi-party investment also allows for greater investment diversification because individual Iwi put a lower proportion of investment capital into single projects. This reduces the concentration of risk for investors. Operating in a multi-party environment also provides the opportunity for Iwi to gain experience in larger projects and learn from each other.
50. The best example of this type of collaborative approach for Iwi is in the sharing of the management responsibility of central North Island forestry, and potential forestry blocks for afforestation and participation in carbon trading. This delivers a more efficient management structure than Iwi could deliver individually. These case studies also serve to demonstrate how Iwi of varying commercial size can join up and still operate under a consensus-based or egalitarian governance structure to give effect to the principles of kaupapa Māori and the protection of mana whenua.
51. Another example of the benefits of joint capital is the Christchurch Civic Building: without a joint venture with Christchurch City Council, Ngāi Tahu would have had to use a much larger proportion of its available investment capital to design and construct the building.

#### *The correct skill set and capability is required to properly manage risks*

52. Ngāi Tahu has built up its expertise in the design, construction and management of property. This experience allows Ngāi Tahu to properly scope the risks associated with these investments and how they can best be managed and mitigated. It also enables them to better manage the performance of sub-contractors.
53. Through the afforestation partnership Iwi have been able to leverage off one another's knowledge. The afforestation partnership has particularly benefited from lessons learned by Central North Island Iwi Holdings Limited (CNI) over the optimal structure of the agreement to give effect to the group's purpose.
54. As more transactions and agreements are established the depth and breadth of the collective knowledge base will grow.

#### *The structure of entities and shareholder agreements needs to reflect the long-term strategy of investors*

55. When several parties collaborate to co-invest, many things need to be discussed and agreed. For example, the type of investment, level of risk, strategy, time-frame, how the investment will be managed and the level of returns sought are all matters that will need to be agreed between the parties. In addition, a legal structure is required to facilitate the success of the collaboration and realise partners' investment and strategic objectives.
56. Section 3 of this paper compares and contrasts two novel approaches to structuring agreements and entities. While the CNI structural agreement is relatively rigid and clearly aimed at protecting equal decision-making rights, this was agreed to in order to recognise the long-term commitment that these Iwi had to their whenua papatipu.



## Conclusion

57. The few case studies presented here illustrate the importance of relationships, collaboration and the careful analysis of the benefits and constraints associated with the various structures and vehicles available to progress opportunities and manage assets. They also demonstrate the benefits of sharing capital, resources, knowledge and a national vision for Iwi Māori and Aotearoa New Zealand.
58. As the lessons above demonstrate, size does not matter when Iwi choose to adopt a more collaborative approach to progressing these opportunities. Pooling capital, expertise and local knowledge mean that smaller parties still make a significant contribution to projects and initiatives and, in return, can learn from the experience of larger Iwi and leverage off a greater capital base.
59. The expectation is that the collective commercial knowledge and experience that Iwi hold will continue to grow over time as more projects are undertaken and lessons shared. This will be facilitated by formal learning and development mechanisms, such as this paper, and more informal transfer of skills and experience while working in collaborative settings.
60. Finally, these case studies reflect how Iwi can successfully work together, mana to mana, in a way that enhances the collective and individual mana of all parties and promotes the long-term interest of Iwi Māori. Different legal and commercial vehicles are a way to give affect to these principles. As the two forestry case studies presented here demonstrate, arrangements and structures can be tailored to meet the specific objectives of an initiative or group of investors. Further information on the various structures that can be adopted by groups of Iwi is discussed in the accompanying *Commercial Entities* paper.



## GLOSSARY



## Glossary

<b>Alliance</b>	A combination of groups and/or individuals who agree to work together as one integrated team. All parties in an alliance, including project funders, are bound to a risk/reward scheme where they all share in the project's returns or losses.
<b>Bid risk</b>	The risk that bidders in a competitive bid process will bid at rates that are higher or lower than the true cost of delivering the project. Bid risk is most relevant for principals when they are evaluating proposals. However, companies that bid too low are at risk of bearing cost overruns during the course of the project.
<b>Competition risk</b>	The risk that a particular investment is subject to changing levels of competition. For example, an operator running a car park could be impacted by the development or closing of a competing facility in its vicinity. This may contribute to reduced or increased demand and cash flow deviating from expectations
<b>Consortium</b>	A combination of groups and individuals who agree to work together to deliver a project. Each party is only responsible to the group in respect to the obligations that are set out in the consortium's contract (i.e. there is no shared risk/reward scheme).
<b>Debt</b>	An amount of money provided to an organisation or individual in exchange for a form of compensation that excludes an equity shareholding.
<b>Debt investor</b>	Has priority on the organisations cash flows and the investment is secured with particular assets. Debt investors default claims, typically fall ahead of others investors. Debt returns are often fixed, assuming that the investors hold to maturity.
<b>Demand risk</b>	The risk that the returns will be better or worse than expected at inception due to changes in demand for the product of investment. The investors whose cash flow is dependent on returns will bear this risk.
<b>Development risk</b>	The risk that the cost of a project will exceed budget, or not meet contractual specifications. For example, if a party undertakes a particular development (e.g. car park building / schools / toll road) and it is responsible for the completion of the project, it may find itself responsible for cost over-runs which can be substantial. Conversely, the potential upside is to develop ahead of time and under budget.
<b>Expected life risk</b>	The risk that the invested product is superseded by a new product. For example, an investment in a fixed line telephone network may be threatened by the advent of new technology, such as cell phones.

<b>Equity</b>	Equal to assets minus liabilities, representing value attributed to the organisation's owners.
<b>Equity Investor</b>	Provides assets to an organisation / individual in exchange for compensation. Generally takes on higher risk than debt investors by standing last in queue in the event of a default. This is rewarded by the potential to gain greater benefit and exercise a form of control within the organisation.
<b>Flow through tax treatment</b>	The entity's income is taxed at the investors' rate. (e.g. it is tax exempt for any investors that have charitable status, or are subject to tax at 19.5% for limited partners that are Māori authorities.)
<b>Liabilities</b>	Legal debts or obligations that arise during the course of business operations. Liabilities are settled over time through the transfer of compensation.
<b>Limited liability</b>	The legal status whereby investors cannot lose more than their original investment, protecting the investors' personal assets.
<b>Maintenance risk</b>	The risk that assets require more or less repairs and maintenance than the level originally projected. The operator of the asset (who is not necessarily the developer) usually bears this risk.
<b>Public-Private Partnership (PPP)</b>	PPP is an umbrella term covering a multitude of different arrangements between private sector parties and public sector agencies to design, build, finance or operate a facility or asset. PPPs differ from traditional methods of procurement in that the private sector bears a greater range of risks, depending on their level of involvement (e.g. developers bear the risk of cost overruns, operators bear the risk of changes in demand).
<b>Public Finance Initiative (PFI)</b>	<p>A PFI is a type of PPP. In its most common form a private sector party (or parties) designs, builds, finances and operates facilities under a contract with a public sector agency. A key feature of a PFI is that risks associated with the project are transferred to the private sector party to manage.</p> <p>Once the contract has expired, ownership of the asset either remains with the private sector contractor, or is returned to the public sector, depending on the terms of the original contract.</p>
<b>Special Purpose Vehicle (SPV)</b>	An SPV is an entity set up by a consortium or alliance to act as a central 'hub' to engage sub-contractors and seek debt and equity funding from external sources.

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