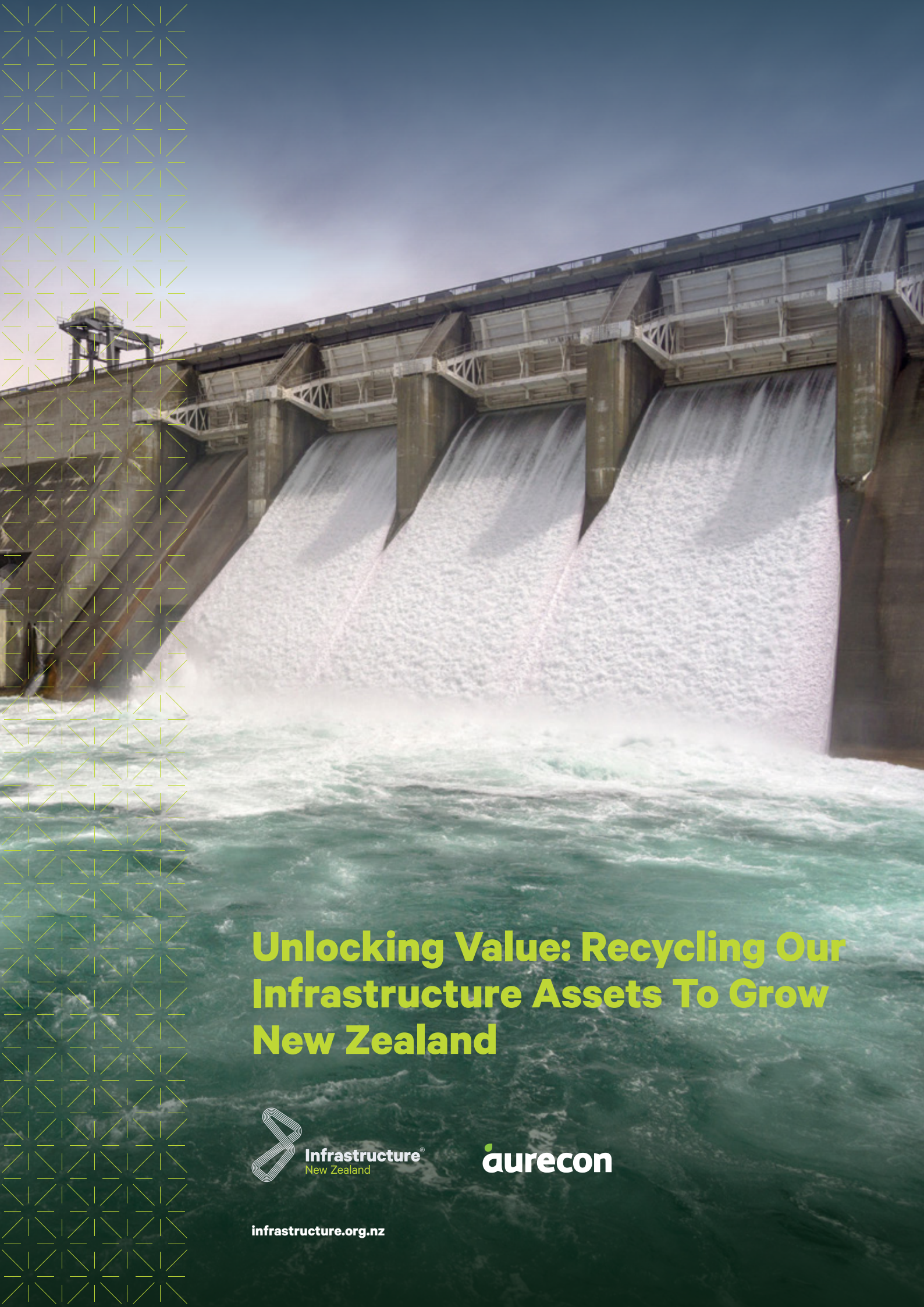


Unlocking Value: Recycling Our Infrastructure Assets To Grow New Zealand



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“In any asset recycling transaction, capital that is realised from an asset is recycled back into higher performing infrastructure in some shape or form. This allows for public outcomes that are desired of our infrastructure to be met without the burden of additional debt.”

1

Introduction

Unlocking economic value from the assets we already own presents an opportunity to deliver more infrastructure without increasing debt. Time and time again our infrastructure projects are cancelled, deferred, or rescope to fit within constrained capital allowances, which not only adds cost, but means New Zealanders are not getting what is needed out of the infrastructure system.

This paper explores the topic of asset recycling; partnering with the private sector on our existing public assets and “recycling” cash back into the system to deliver more infrastructure that New Zealand needs.

New Zealand’s persistent underinvestment in infrastructure has become a major long-term challenge for our economy and productivity. Our infrastructure assets¹ were valued at \$287 billion in 2022 ^[1], but over the last 30 years renewal investment in these assets has not kept pace with depreciation. This means as well as building new infrastructure to support a growing population, we face a bow wave of asset renewal for existing assets that are increasingly expensive to maintain and delivering less-effective outcomes for the communities they serve. Chronic underinvestment combined with increased demand means

we now have a significant infrastructure deficit. With 90% of our infrastructure stock built since the 1950s, it is critical to plan for renewals as these assets wear out.

Funding this infrastructure gap through government debt alone could double our current Crown borrowings². Doubling our debt is not a realistic option due to public palatability and current Government core Crown debt intentions, and we should consider innovative funding and financing mechanisms alongside traditional ones because of this. A refined capital funding toolkit that includes asset recycling has the potential to deliver high quality infrastructure that drives economic growth, boosts productivity and enhances our way of life.

This paper breaks down the details of asset recycling, why we should consider it as a tool to supplement traditional funding, what we need to do it well (including national policy direction), and lessons from the past and other jurisdictions.

¹ Excluding the value of land

² Based on Crown gross borrowings of \$226 billion as at 30 June 2023 ^[25]

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Asset recycling is about making better use of the resources we have

Historic capital investment is tied up in the assets we own. Once a decision has been made to build infrastructure, we invest hundreds of millions, if not billions, of dollars into its construction. Cash is converted into a network of physical assets, concrete and steel. For many reasons, assets shift over time from high to low performing and it can be difficult to conceptualise how we can get our money back when the infrastructure we have built is no longer serving the community it was built for. It is sometimes easier to continue to operate this subpar infrastructure or simply issue debt to build more to compensate for poor service delivery outcomes from our existing assets.

Asset recycling allows us to do more. In constrained financing or conservative political environments, issuing debt is not always a viable option for public sector entities, or there are significant barriers to overcome to do so. Thinking about asset recycling as an alternative to traditional debt, can allow public sector entities to leverage their existing assets to fund the construction of additional infrastructure (either new or upgraded) that otherwise would not have been possible to finance.

Asset recycling also provokes the public sector to question their current and future infrastructure needs. This includes examining whether such infrastructure needs are fulfilled by the existing assets they own or is something more required to achieve desired levels of service. We should continue to question if we are still getting the best value for money from an original investment in our existing assets, and if not, could this money be used to build something more fit for purpose. Asset recycling can unlock an original infrastructure investment and bring cash back into the system through partnering with the private sector. Unlocking this capital can take many forms, including lease arrangements, revenue right transfers (such as tolling), or asset sales.

If an asset has a strong revenue stream attached to it, there could be private sector investment options even if the asset itself is not achieving everything it needs to for its communities, like the Airport example. Asset recycling to the private sector allows for an influx of capital, meaning a public sector entity can use this initial funding to invest in higher performing infrastructure that could replace the out-of-date existing asset when construction of the new one is complete.



Example:

Airports

A theoretical example is an airport owned by a public sector organisation that is well used, but now is too small to meet the flight demands of its community. The public sector organisation is wanting to expand the capacity of the airport but is struggling to access debt to do so due to various existing constraints such as Council debt covenants or competing with other public sector infrastructure priorities.

The public sector owner could temporarily recycle elements of the airport to a private sector investor, get upfront cash, and build an airport expansion. This could include a lease model, where the private sector company would pay an upfront fee to purchase operating or revenue rights over a set period (e.g., ten years). This would allow the private company to collect revenues such as landing fees that provide a good return on investment over the lease period.

The airport owner can then use the private capital to begin expanding the airport to better meet current and future demand. At the end of the lease period control of the airport transfers back to the public sector airport owners who have delivered the expansion and avoided accumulating debt. Alternatively, the public sector owner could use the cash influx to have a conversation with its community about the best use of its infrastructure spending. This could be relevant if there are other infrastructure needs that are not being met.



In any asset recycling transaction, capital that is realised from an asset is recycled back into higher performing infrastructure in some shape or form. This allows for our

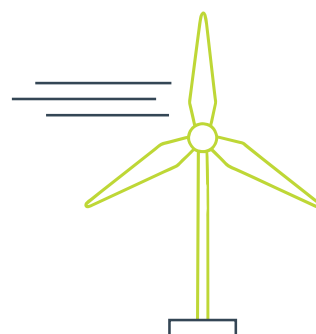
infrastructure to meet desired outcomes for the public without the burden of additional debt.



Capital **is locked in existing assets** that are not delivering the best value for money



Existing assets are monetised to release funding and **recycled to better use infrastructure**



New or upgraded infrastructure **delivers on public outcomes needed** without raising debt

We already practice asset recycling across local and central government, for example, by divesting in underutilised land holdings to invest in new assets. These existing asset recycling transactions however can be piecemeal and non-transparent in nature; particularly when it comes to the reinvestment of funds, which can sometimes be held in accounts that are then drawn down for a range of purposes (including non-infrastructure related purposes).

There is no clear direction or guidance from central government on how the public sector should use asset recycling. Permissions vary across agencies and councils, and some have no direction or guidance at all. This leads to inconsistent application of it as a funding and financing tool. Policy direction is needed to increase its use, and to ensure that we are:

- a) making consistent and optimal decisions that consider the New Zealand's asset mix as a whole, and
- b) balancing the strategic, financial, environmental and social outcomes of these transactions.



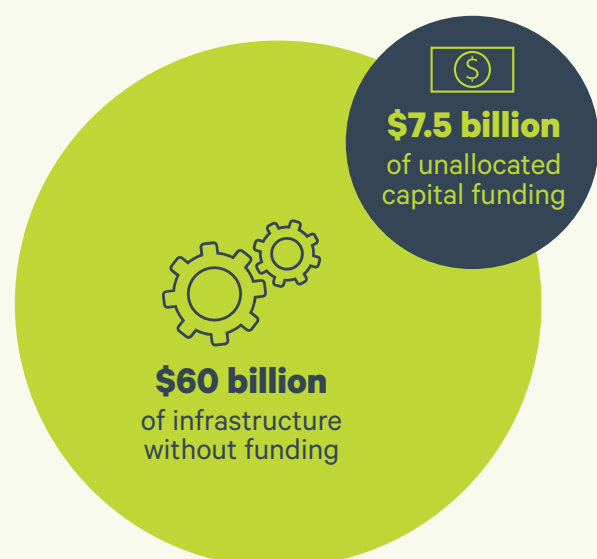
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Why should asset recycling be considered in our capital funding toolkit?

3.1 National policy direction on asset recycling could help us access capital funding faster to deliver infrastructure

Central government organisations typically seek funding for capital spending through the annual budget process. Crown revenue (such as taxes) pays for some of this spend, but we rely heavily on issuing new debt. New Zealand's net core crown debt of \$55 billion between 2023 and 2028 is expected to deliver both operating and capital funding over the five-year period ^[2], however the government's budget shows that most of this debt is already allocated, with only \$7.5 billion available for unallocated capital spend between Budget 2025 and Budget 2027 ^[3].

With \$60 billion of our \$150 billion infrastructure pipeline yet to have been allocated an approved funding source ^[4], it is unlikely that public debt will be the answer for all our infrastructure needs.



In 2021, a Sense Partners report ^[5] estimated that public investment would need to almost double as a share of the economy to close the infrastructure gap. The report states this fiscal burden is unlikely to be palatable to both local and central government. While we have options for managing demand to reduce the amount of 'new' infrastructure needed, there is still a clear gap between the debt we can sustainably issue and the infrastructure we need.

Access to capital funding has been a long-standing problem in New Zealand, with public sector agencies sometimes deferring investment in new or upgraded infrastructure because the capital funding isn't there. This is a creeping problem and often goes unseen until a water pipe breaks in the street, or a hospital or classroom visibly deteriorates to the point it cannot be used. With national policy direction on asset recycling, agencies would be able to look to their own balance sheets as a source of capital funding rather than being reliant on a constrained pool of new debt. This could bring forward the point of infrastructure renewal, delivering better outcomes to New Zealanders with fit-for-purpose assets, aligned with up-to-date infrastructure strategies, and updated with modern technologies that optimise delivery for today's needs.

3.2 Re-evaluating what we own will deliver better value for money

Business cases for new infrastructure investment are rigorous, with central government organisations competing to convince Ministers and other decision makers that their project is the best choice out of a limited funding pool during the annual budget process. This often results in highest need services failing to get necessary funding. For local government authorities, the case for new investment

Figure: a yawning funding gap

also needs to be well communicated to the ratepayer during the long-term planning process, and new investment must be traded off against reduced services in other areas, or higher rates for individuals. These processes place a high bar for new investment, which helps us make better decisions when we are considering which infrastructure projects we should build.

We do not treat existing assets the same way. The public sector owns many valuable assets that are either underutilised, or not generating optimal returns and benefits, such as large, underutilised land holdings or roading assets failing to generate economic returns, and whole systems of poorly maintained water assets that cost more to maintain than they should for the services they deliver.

Some public sector organisations review value for money of these assets against what they really need. For example, the Auckland Council and Eke Panuku portfolio optimisation programme looks at Auckland's whole asset and services network and identifies ways to release capital while maintaining or improving services. However, these examples are pepper-potted and only rarely consider the whole asset system. We need to expand our thinking and continuously review the value for money and opportunity costs of the financial resource locked into these assets. This continuous review should be done at a national, whole of system level, so we can optimise value and outcomes holistically, unlock this capital and invest in infrastructure where we need it the most.

A national policy direction on asset recycling could consider the opportunity cost of continuing to maintain and operate existing infrastructure compared to monetising the asset and investing in new or upgraded infrastructure. It could explore which assets we should keep or uplift, and which could be sold or managed by others to improve economic, social and environmental outcomes.

3.3 Private sector expertise could enable better service delivery or more efficient operations

Asset recycling arrangements can involve partnering with private sector companies to deliver public services. This could include direct operation of infrastructure, or commercial management of service delivery. Private sector involvement brings in profit motives and complementary capabilities that may not sit directly within public sector departments. This can drive greater efficiencies and support greater innovation.

Private sector motives also encourage accurate pricing to ensure operating costs can be more accurately recouped from users. Public services often cross subsidise costs between users and non-users, and the real cost to deliver can be obscured. Accurate pricing enables better infrastructure planning, as we work out what assets are actually worth paying for and which aren't. It also drives open discussions and transparency around how much is being subsidised and by whom.

International private sector investment can bring in specialist operational and commercial skills and technologies. These skillsets can help close gaps in our local market, bring fresh thinking and innovation to uplift both efficiency and service delivery. They can also help us deliver or operate non-core infrastructure, such as Auckland Council's solution for Spark Arena, which closed a local capability and capacity gap and allowed the agency to focus on delivering core services.



Example:

Auckland Spark Arena ^[6]

Auckland Council granted a concession to Quay Park Arena Management Limited (QPAM) in 2004 under a BOOT contract (build, own, operate, transfer) for Auckland's indoor arena (now known as Spark arena and previously, Vector arena). The arena cost \$95 million to build ^[7] with Auckland Council making a \$68 million prepayment. The area is to be operated for a period of 40 years by QPAM who has rights to collect revenue from ticket sales before ownership is transferred back to the Council.

One of the reasons provided for the private sector partnership approach in operating the arena was Auckland Council's lack of experience operating a major event venue. Rather than invest funding to upskill its own capability (which would also come with operating risk), the Council could use private sector expertise to build and operate the arena for the benefit of the public. This allowed the Council to provide additional infrastructure for the community that was outside of its business-as-usual infrastructure operations. The arena now hosts over 500,000 visitors annually and is a sports and entertainment icon for the city.



Initial government support can also help encourage private sector investment at a later date, such as in the Crown Irrigation Investment Limited example below.



Example:

Crown Irrigation Investment Limited

The Government established Crown Irrigation Investment Limited (CIIL) in 2013 to address a market failure which meant regional water storage schemes were unable to attract a sufficient level of offtake agreements prior to construction to ensure they could be fully privately financed. The Government recognised that once constructed, a number of schemes would attract sufficient demand to be viable without the need for ongoing government investment.

The intent was that the Government's investment in the scheme would be repaid once the scheme was commercially viable and that capital could be recycled and invested in further schemes to unlock additional development and productivity. CIIL made four investments in irrigation schemes prior to a change in Government priorities saw its investment mandate ended in 2017.



3.4 Asset recycling can supplement but not replace our existing capital funding mechanisms

An asset recycling policy is not going to solve the infrastructure deficit by itself but will be an important tool to supplement traditional funding mechanisms to make sure we are getting the best value out of the resources we have.

The June 2024 infrastructure pipeline increased by 20% from the previous quarter to \$150 billion^[4], and could continue to rise as contributors identify and plan more infrastructure projects, or identify cost escalation in

existing projects (nearly half of the increase between March 2024 and June 2024 is attributed to increases in existing project values). This increasing pipeline demonstrates the need to consider a variety of funding methods, as well as considering the prioritisation of projects and options to manage demand.

The below diagram illustrates asset recycling supplementing existing funding and financing tools.

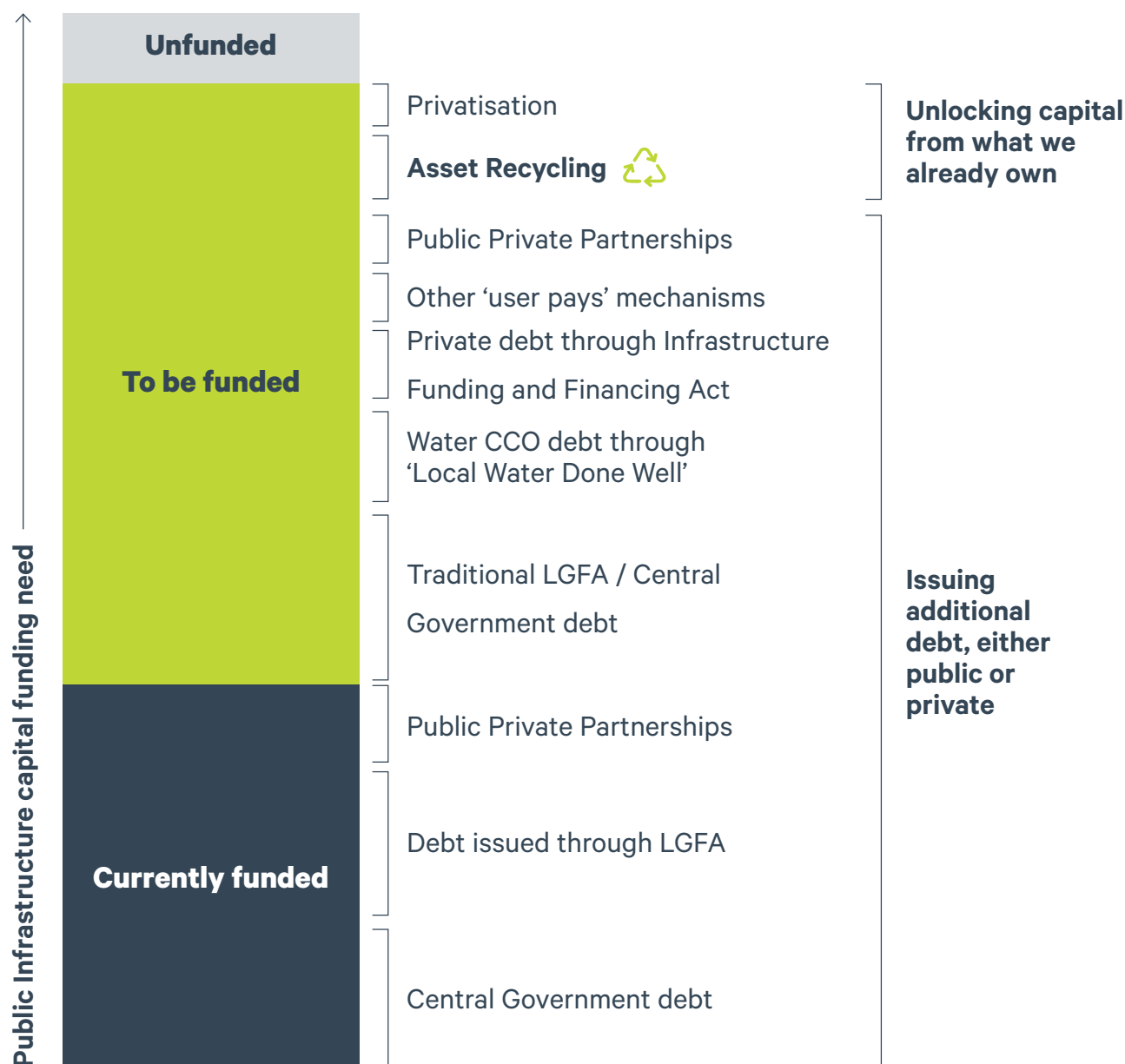


Figure: funding and financing options



What form could asset recycling take? How do we unlock capital from our existing assets?

There are different degrees to which public assets could be recycled to release funding, including both sale and non-sale options depending on the community's need to retain a level of control over the asset. In most ownership and management models of an asset recycling transaction, the exclusive user of the asset remains the public. Any change in how the public use or pay for the asset will need to be weighed up when considering an asset recycling transaction (for example, road tolling).

These ownership, management, and use considerations can be helpful when reviewing strategic assets that are critical to a region's economy or security and may require a level of public control to be retained to ensure decisions on the assets operations take into consideration factors beyond private sector profitability. Examples of asset recycling ownership models are as follows:

- **Partial Ownership:** Here, only a portion of the asset's ownership is transferred to the private sector, with the public sector retaining a majority stake. This model allows for shared control and revenue, where both parties have a vested interest in the asset's success. The public sector benefits from the private sector's efficiencies and rigour while still maintaining control and influence over the asset.
- **Temporary Ownership (Lease or Concession):** The public sector transfers ownership to the private sector for a limited period through mechanisms like leases or concessions. After the specified period, operational control of the asset reverts back to the public sector. The public sector gains access to upfront capital and benefits from private sector expertise for a set duration, without permanently losing the asset. After the term ends, the asset and its revenue potential return to public control.
- **Temporary-Partial Ownership:** This hybrid model involves the temporary transfer of a partial stake in the asset to the private sector. The public sector retains a majority share in the ownership of the asset and will eventually regain full control after the specified period. This structure allows for collaboration between the public and private sectors over a defined period, sharing both the risks and rewards. The public sector retains a long-term interest in the asset while leveraging private capital and expertise in the short to medium term.
- **Full Ownership (Permanent Monetisation):** In this model, the public sector permanently transfers full ownership of an asset to the private sector. This is typically through a full sale, where the asset is sold outright. The public sector relinquishes all control and future revenue streams from the asset but gains a significant one-time capital influx to reinvest. The private sector assumes full responsibility for the asset's management, operations, and risks. This can include the private sector delivering ongoing services, as with privatisation of energy and telco services, or repurposing assets for other uses, including various land and facility optimisation options. For example, an agency might divest the bulk of an under-utilised site for alternative development but retain ownership of a small piece to continue delivering its own services, or they might sell two or three underperforming assets to uplift a fourth.

When funding is released in an asset recycling transaction, it typically involves an upfront influx of cash (or cash equivalent) for the public sector agency. An asset recycling policy enables reinvestment of this cash influx in other infrastructure. The reinvestment is the “recycling” element of asset recycling. This is a critical component of the policy and without this reinvestment these monetisation transactions would not be included in an asset recycling definition. There is some risk, without the correct policy structure in place, that asset owners could apply the funding gained from the release of capital from an asset to other spending priorities. Careful scrutiny must therefore be applied to any asset recycling regime.

Having the right policy, permissions, system settings, and overarching strategy is key to unlocking these opportunities. Some public sector organisations in New Zealand engage in asset recycling in a piecemeal manner, although this can sometimes lack overarching direction and link to the strategic asset management plan. Other public sector organisations can be restricted in entering such transactions through rules and regulations, such as Cabinet Office circular (23) 9, which requires Cabinet approval for disposal of Crown assets with a carrying value of \$1 million or more.



5

Reviewing what we've done in the past

5.1 An asset recycling policy has key differences from privatisation and asset sale arrangements

A transaction that does not recycle proceeds back into better use infrastructure or is not strategic in nature (such as a sale to maximise short-term financial gain without considering the role the asset plays in the system over the long-term) is not asset recycling – and the benefits listed within this paper would not apply to such a deal.

New Zealand has had a long and publicly debated history with privatisation, from the asset sales in the 1990s to pay down public debt, to the state-owned enterprise mixed ownership models of the early 2010s. This included a citizens-initiated referendum in 2013 with 67% of the 1.4 million valid votes voting against selling up to 49%

of Meridian Energy, Mighty River Power, Genesis Power, Solid Energy, and Air New Zealand ^[8]. As the referendum was non-binding, the Prime Minister announced the Government would not be changing its approach and continued with the asset sales despite the strong public response ^[9]. Whether this decision was good or not is still debated in the public realm, from a strategic standpoint (i.e., losing public control of service delivery and pricing) through to financial (loss of dividends to the public over time from the gentailers).

Despite this history, we also have positive examples of asset recycling delivering better outcomes for the community such as the example with Napier Port.





Example:

Napier Port initial public offering to fund wharf development ^{[10] [11] [12] [13]}

In 2019 Hawke's Bay Regional Council agreed to sell a minority share of 45% in Napier Port on the NZX to fund the development of a new wharf. Extensive community consultation on the sale was undertaken, of which 57% of the 3,500 submissions supported funding the new wharf through the sale. The sale proposal was amended following feedback from the public consultation period to include priority share purchase rights of 20% for port employees, residents, non-resident rate payers, and iwi to allow the community to invest in the success of the port.

The IPO raised \$234 million which allowed for the construction of the new wharf (completed in 2022 ahead of schedule and within budget) and a fund to invest in Hawke's Bay residents. The IPO and plans for the wharf also increased the value of Hawke's Bay Regional Councils holdings in Napier Port. In 2018 the 100% holdings were valued at \$291 million, and following the sale, the remaining 55% holdings were valued at \$330 million on the Council's balance sheet.



With strong system leadership, governance, and controls on proceeds, it is possible to ring-fence proceeds from asset monetisation into future infrastructure as part of an asset recycling policy.

6

How could we do asset recycling well in a New Zealand context?

6.1 Long-term thinking and system leadership

Thinking about infrastructure as part of a system, rather than individual independent assets, will help decision makers weigh up the pros and cons of retaining public control of infrastructure assets. There are good reasons why some infrastructure should not be divested to private operators; for example, a road might appear to be of low significance in an asset owner's portfolio from a valuation basis, but may form an integral connector between communities where alternative transport options do not exist. Considering the strategic benefits of infrastructure, and the social role it plays in society, is a necessary component of an asset recycling policy.

When reviewing which assets to monetise and the approach, asset owners need to consider all the cost and benefits associated with the options available. This includes any service delivery outcomes or social benefits that a private operator may not pursue in a profit maximisation scenario. This should also be considered to help structure the terms of individual deals; if a social benefit is critical to be retained there may be an option to include terms and conditions in a sale or lease agreement that require the private operator to continue to provide this public benefit while it operates the infrastructure.

System leadership from agencies would also be highly beneficial in setting overall direction and policy for asset recycling. This could include an agency (such as the soon to be established National Infrastructure Agency or the New Zealand Infrastructure Commission) linking the need for infrastructure and the 30-year infrastructure pipeline with existing infrastructure assets that are ripe for recycling. A central agency could also assist in brokering deals with the private sector which could be commercially complex for individual agencies to structure.



6.2 Political and public support

For asset recycling to be an effective strategy it needs to be long lasting and remain in place over political cycles. At a central government level this could include de-politicising the policy by assigning control to central agencies rather than individual transaction decisions being made at a Ministerial level (for example, alignment with the 30-year national infrastructure plan). This could also include a mechanism for local government authorities and council-controlled organisations to access the policy to ensure all public infrastructure owners in New Zealand are working to achieve the same long-term outcomes, regardless of a difference in council make-up (i.e., left or right leaning) across the country at any point in time. This inclusion of local government entities could also consider the use of incentives from central government (for example, a bonus payment for entering an asset recycling transaction). Any incentives proposed would need to consider the financial merits of the asset recycling transaction weighed up against

the bonus payment, to ensure that overall (across both local and central government) the outcome for New Zealand is a positive one.

To ensure asset recycling is long lasting it also needs public support. Clear messaging on the benefits of asset recycling, as well as public engagement on individual transactions will be critical in gaining and retaining their support for asset recycling. While privatisation alone has historically been unpopular^[8], other jurisdictions have found public support when an asset recycling policy has been proposed instead. Meaningful engagement with communities (such as that in the Napier Port example above) and investment in communications and change plans will be beneficial in supporting the success of asset recycling. The effectiveness of communication on the benefits of new infrastructure that the asset owner otherwise wouldn't have been able to build will be key to the policy's success.



Example:

Property NSW^[14]

Research in 2016 for the New South Wales Government (Australia) found in a survey of 1,000 residents that if the benefits of recycling property assets are properly explained 61% of surveyed residents supported the policy with 23% neutral and just 9% opposed.

When asked for how new infrastructure should be paid for, 71% favoured leasing or selling under-utilised assets rather than traditional methods of raising taxes or increasing public debt.





6.3 Strong governance with controls on recycling proceeds

Public trust can be tough to earn, and there needs to be strong governance and controls in place to assure our communities will see the benefits of asset recycling transactions. The longevity of this approach will also depend on the comfort of subsequent governments with these controls and criteria for reinvestment. This includes ring fencing of asset monetisation proceeds towards future infrastructure (either new or upgraded). There are multiple ways to ring-fence proceeds depending on the need for specificity at the time of the transaction.

This could include:

- Establishing a centralised fund that collects all proceeds and makes decisions on new infrastructure as a whole (e.g., proceeds from monetising roads could be invested into water infrastructure (or public transport services and infrastructure) as there could be a higher need for infrastructure in a different asset class).
- Reinvestment into the same asset class from which the proceeds were generated from (e.g., roading asset monetisation means only investing back in transport).
- Proceed reinvestment back into the same type of asset (e.g., recycling an old water treatment facility to invest in a new one that will eventually replace it).

The level of ring fencing required can be determined through an asset recycling policy and may differ across asset classes or include multiple levels of ring fencing depending on the nature of the transaction. Ultimately there needs to be strong and stable governance in place to ensure the overall concept of asset recycling is retained and asset monetisation proceeds are not used for reasons other than asset recycling (such as paying off debt or funding non-strategic projects).



Example:

Restart NSW, Australia ^[15]

In 2011 the NSW Government established the Restart NSW fund to enable the funding and delivery of high-priority infrastructure projects that improve the State's economic growth and productivity. It is supported by the Government's asset recycling programme, with proceeds deposited into the Restart NSW Fund before being invested into infrastructure projects.

As of June 2024, the NSW Government has provided Restart NSW funding to more than 817 local projects, for a total of \$2.47 billion. Over 660 projects are now complete or closed, and a further 157 are in various stages of delivery.

Projects are selected through a range of open and competitive expressions of interest with recommendations made to the Treasurer of NSW for final approval.

To access the fund, projects must improve:

- **Public transport**
- **Roads**
- **Infrastructure required for the economic competitiveness of the State**
- **Local infrastructure in regional areas that are affected by mining operations**
- **Hospital and other health facilities and services**
- **Workplaces for law and justice officers, teachers, nurses and other staff providing services to the public.**

Restart NSW has strong controls in place on reinvestment of funds, including detailed benefit cost ratio analysis for potential projects to be funded. Projects funded from the Restart NSW Fund include a mixture of NSW Government agency-led infrastructure projects, as well as local and community infrastructure projects being delivered by local government, non-government organisations and other entities. Thirty per cent of Restart NSW funding is targeted at regional and rural areas (outside the metropolitan areas of Sydney, Newcastle and Wollongong) over the lifetime of the fund.



Strong governance and controls are also essential to ensuring we are making the best reinvestment decision with the recycled funds. While not specific to asset recycling, any investment in additional infrastructure should consider long term asset management considerations including ongoing operating, maintenance and renewal costs that will be required as a result of building additional infrastructure.

6.4 Commercial expertise and getting the timing right

A high level of commercial expertise is required to ensure there is a “win-win-win” situation in asset recycling deals between the public agency, the private company, and the public users of infrastructure. This will include valuation of existing public assets, and an appropriate level of confidence as to the future revenue streams and cost risks associated with operating the infrastructure over time in order to price the asset recycling transaction fairly between parties. It also includes consideration of other terms and conditions, such as if the private company will

be performing any “above and beyond” service delivery functions for the public’s benefit that they otherwise would not do as part of its normal profit maximisation role.

In some overseas examples this balance of benefits has been unfairly tipped in asset recycling transactions (e.g. a winner and loser scenario) due to a poor understanding of what the actual costs and benefits of the transaction turned out to be. For asset recycling to be a sustainable strategy over time, transaction rewards should be fairly balanced across all parties otherwise the “losing” party may retreat from future asset recycling transactions.



Example:

Chicago Skybridge (United States) ^[16]

Built in 1958, the 7.8 mile (12.5km) road was transferred to a private operator from the City of Chicago with a long term lease in 2005. The Skyway Concession Company (SSC) won the bidding, paying \$1.8 billion (USD) with the right to raise and collect toll revenue on the road, but was also responsible for handling all operational costs including repairs and maintenance. As part of the transaction, the City of Chicago also restricted the toll that could be charged on the road with caps that increased over time.

The City of Chicago saw significant benefits from this transaction, allowing it to establish both mid and long-term reserves as well as an investment fund. However, the private operator has been unable to turn a profit on the transaction with the operational costs outweighing the restricted toll revenue. The private operator raised tolls significantly to compensate (although in line with toll caps) which caused public criticism from commuters and a negative perception of the transaction.



Ensuring asset recycling transactions are made at the right time in the context of the economic environment is also of high importance. Considerations should include the valuation of the asset, appetite of investors, interest rates, and rate of return demanded by the private sector as part

of the transaction. There may be economic cycles where an asset recycling transaction is not the optimal financial decision, and a level of commercial nous will be required to make this assessment (for example, when compared to the cost of issuing debt).

6.5 Understand the community needs including partnering with iwi

Asset recycling is done well when the community understands the benefits and supports the transaction. In the Napier Port example raised previously, Hawke's Bay Regional Council engaged in extensive consultation with the community for the sale. The consultation was genuine and meaningful, with key elements of the proposal being amended based on the feedback.

This paper has touched on private sector expertise from a commercial and technical perspective however partnering with iwi can also provide important insights (both cultural and commercial) that may not exist in other sectors. There are options to partner with iwi for better infrastructure design that reflect the needs of the community and considers the longer term investment horizons that align well with the long-lived nature of infrastructure assets. The below two examples show how good design and partnership can allow for our cities and communities to thrive.



Example:

Christchurch Civic Building Ngāi Tahu partnership ^{[17] [18] [19]}

In 2007, Christchurch City Council and Ngāi Tahu entered into a partnership to purchase and redevelop an old building owned by NZ Post (a State Owned Enterprise), and convert into Council offices (known as the Christchurch Civic Building). The redevelopment was completed through a joint venture company Tuam 2 Ltd, which was 50% owned by the Council, and 50% by Ngāi Tahu. Each partner contributed \$52.5 million.

The redevelopment was completed in 2010. It was the first 6 Green Star rated building in New Zealand and is a major landmark in the landscape of the Christchurch central city. Ngāi Tahu noted the building is an iwi expression of manaakitanga, Ngāi Tahu caring for its people, and of kaitiakitanga – guardianship of the environment.





Example:

Napier Port engagement with iwi throughout wharf development

Napier Port integrated Māori principles into the development of Te Whiti Wharf (or 6 Wharf), allowing the fostering of strong relationships with iwi and improving environmental outcomes of the development because of this partnership.

Some of the specific steps taken throughout the project included the development of a Marine Cultural Health Programme which aligned scientific environmental monitoring with traditional Māori knowledge and values (mātauranga Māori). Napier Port also worked with iwi to ensure the protection of Pania reef throughout the development and repurposed an old revetment wall to create two new artificial reefs that enhance marine biodiversity.



6.6 Create the impetus

To build momentum behind asset recycling in the public sector, we could consider options that incentivise uptake within a specific timeframe for early adopters. In Australia, the federal government introduced a 15% incentive payment to state governments based on the value of the asset recycling transaction. This policy not only encouraged local governments to participate in asset recycling but also ensured that the proceeds were reinvested into new infrastructure projects, creating a virtuous cycle of investment and development. While this paper does not advocate for any specific incentive, the application of asset recycling as a tool will require central government involvement to create the necessary momentum.

Such incentives could be worth exploring in a New Zealand context, however policy makers should consider:

- The split between central and local government funding for infrastructure more generally, and if such an incentive could create excessive burden on central government to pay for additional local infrastructure that it otherwise would not.
- Equity concerns, as wealthier regions that are more likely to engage in asset recycling could benefit disproportionately.
- If incentives could encourage sub-optimal transactions, with the incentive effectively acting as a subsidy for a transaction that would otherwise be making a loss.
- Administrative cost and complexity of managing such an incentive programme.
- If the cost of the incentive combined with the asset recycling transaction creates at least a proportional benefit for New Zealanders as a whole.

The success of asset recycling depends on favourable market conditions, which can be affected by economic downturns or asset value fluctuations. Ensuring long-term sustainability by reinvesting proceeds in a manner that delivers lasting benefits is crucial, requiring a clear policy aligned with broader infrastructure goals. By anticipating and addressing the incentive challenges above, a more effective and resilient incentive programme could be designed to help create momentum and realise the benefits from asset recycling.

6.7 Risks of Asset Recycling: Lessons from Australia

While asset recycling can provide significant benefits, it also carries inherent risks that must be carefully managed. Australia's experience with asset recycling offers valuable lessons for New Zealand.

One notable example is the lease of the Port of Darwin, which raised national security concerns and highlighted the importance of considering geopolitical implications in asset transactions ^[20]. This case underscores the need for national security assessments and clear guidelines on foreign investment in critical infrastructure before proceeding with any asset recycling transaction.

Another example is the sale of TransGrid, New South Wales' electricity transmission network, to a consortium of private investors. This transaction led to concerns about increased electricity prices and the loss of public control over essential services. It illustrates the potential for public backlash and the importance of maintaining regulatory oversight to protect consumer interests. Recent

developments highlight ongoing issues with TransGrid. An industrial dispute between TransGrid and the Electrical Trades Union (ETU) has caused delays in grid connections and raised concerns about the reliability of the network. This dispute has impacted the connection of new renewable energy projects and increased wholesale electricity prices, illustrating the challenges in maintaining the network under private ownership.

Transferring income-generating assets to the private sector can also have long-term financial implications for government revenue. The loss of steady income streams from these assets may impact the government's ability to fund future infrastructure projects. Therefore, it is crucial to carefully evaluate the financial trade-offs and ensure that the proceeds are reinvested in a way that delivers sustainable benefits.

We can learn from these examples and mitigate risk in New Zealand with a well thought out asset recycling policy that includes strong governance and controls. To ensure our critical assets that are vital to national security and public welfare are not compromised in an asset recycling transaction, policy direction on asset recycling should also consider and be aligned with current and future infrastructure and national security policy, including work underway by the Department of Prime Minister and Cabinet on New Zealand's Critical Infrastructure Resilience. In aligning such policies, we can better navigate the complexities of asset recycling and maximise its benefits while mitigating associated risks.



7

Additional examples from overseas

There are many examples from overseas on successful asset monetisation and recycling transactions. We have included two additional examples below.



Example:

National Highways India ^[21]

In 2016, India's Government authorised the National Highways of India to monetise its public funded highway projects with private sector involvement.

For brownfield assets, the Government developed the toll-operate-transfer model which allows for private entities to acquire operation and maintenance rights of existing toll roads in the country. This reduces the operational involvement of National Highways post construction.

The private company pays an upfront fee to secure operating rights for 30 years. There are also provisions in place to manage adverse demand risks which has attracted private investment.





Example:

Arizona Department of Transport ^[22]

In 2018 the Arizona Department of Transport (ADOT) completed its largest land sale in history, selling \$28.7 million of land. ADOT then used the proceeds to fund new capital projects, including the widening of the I-10 interchange.

The land parcel was home to several buildings but reflects an underutilised asset as the ADOT was not developing on it.



8

In Summary

Asset recycling could play a critical role in New Zealand's infrastructure funding and financing landscape. With increasing pressure on public debt and a high-cost infrastructure delivery pipeline and deficit, we can look to our balance sheets for existing assets that may be under-utilised or under-performing.

Government leadership with national policy direction is needed to increase the uptake of asset recycling. With aligned system settings, adequate controls to maximise the

value of proceed reinvestment and long-term thinking, we have the power to make better decisions on the resources invested in our infrastructure assets.

In developing this paper, the industry is demonstrating it is prepared to come to the table with expertise and ideas. With a clear collaborative objective, we would like to partner with Government if it chooses to work through an asset recycling policy.



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An aerial photograph of a concrete bridge spanning a wide, turquoise river. The river's water is a vibrant blue-green color, with white rapids visible in the center. The left bank is covered in dense green forest, with a small sandy beach area near the bridge. A blue car is parked on the road leading to the bridge. The right bank also has greenery and a white car is visible further down the road. The bridge has a dark asphalt surface and white guardrails. The overall scene is bright and clear, suggesting a sunny day.

**Government leadership
with national policy direction
is needed to increase the
uptake of asset recycling.**

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