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Infrastructure New Zealand Position Paper: **Private Capital**

Current problem

New Zealand has a significant infrastructure deficit

The New Zealand Infrastructure Commission: Te Waihanga considers that the country would need to spend $31 billion on infrastructure each year for the next 30 years, to build ourselves out the existing infrastructure challenges New Zealand faces. Underinvestment in our crucial infrastructure is one of New Zealand's greatest long-term economic challenges.

We cannot get out of this alone

The Government cannot deliver everything simultaneously itself and will not be able to fund its way out of the current deficit. Constraints around capacity, capability and levels of direct Government borrowing have required prioritisation of projects. This has resulted in the delayed delivery of important public and social infrastructure and inhibited the Government's ability to progress on some of its commitments.

Private capital is underutilised

The private sector's capacity to deliver the required level of development and help address New Zealand's infrastructure deficit is currently under-utilised and provides valuable opportunity to help overcome the current challenges.

Last year there were no PPPs in the pipeline and Government policy meant there would be no partnerships progressed in relation to the construction of prisons, schools or roads. Te Waihanga warned in their PPP review that the current gap between projects creates a risk that the relevant experience and expertise on both the Crown and private sector side is not retained within the market.

Our current policy settings mean that the delivery of public infrastructure primarily sits with the public sector, where infrastructure initiatives are initiated and driven by local or central Government, with the private sector remaining pigeonholed at the back end of the delivery chain.

Further, regulatory flux and uncertainty as a result of a substantive reform agenda has made private investment more unattractive. This should subside as changes to the resource management system, three waters and local government bed in overtime and market participants adjust to these new settings.

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Infrastructure New Zealand's Position

Government needs to better enable and harness the use of private capital

While there are some cases where private capital is being used to deliver public infrastructure, we think there is an opportunity for the Government to expand this approach and make it work more effectively.

A partnership approach between the Government and the private sector would enhance delivery capability, transfer key risks of deliverability to the private sector as well as the ability to bring forward significant infrastructure projects that do not currently have funding committed. Government could still retain responsibility for delivering important social services (e.g. health, corrections) under this model, while leveraging private capital to construct and finance important infrastructure that we need now.

The private sector is well-placed to provide significant support in delivering the country's infrastructure needs through its significant delivery capacity and capability; flexibility to scale up quickly up where it sees increasing demand; size of finance pool; commercial discipline and sophistication; and industry and technical know-how.

There are many ways the government can do this

Using private capital can come in many ways, such as:

A **public private partnership** is typically a long-term contract for the delivery of a service that involves the construction of new or improved infrastructure that is financed from external sources. Full legal ownership of the assets is retained by the Crown. PPP's allow the project cost to be spread over an extended period of time, alleviating the need for significant up-front capital expenditure. When paired with charging mechanisms (e.g. tolls or road pricing) that can partly or fully fund concession costs, PPPs can free up public funds to be used for other infrastructure priorities. Opportunities may also exist around assigning commercial rights to offset concession costs.

A **leasing model** would see the public sector in charge of master-planning, setting the sector strategies, and the project pipeline and retaining ownership of both the infrastructure assets and underlying land. The private sector would – via a competitive tender process – be responsible for financing and delivery (including building and maintaining infrastructure assets) and then leasing the assets back to the Government for a fixed period (e.g. 20-25 years). The private sector operator would then hand the asset over in an acceptable condition at the end of the lease period. Leasing models make greater use of private equity to accelerate infrastructure that would not otherwise be delivered using Crown investment and debt.

Soft loans (and grants), that require zero to low interest rates, can also be used to attract private capital. In some cases, the cost to Government can be limited to the interest cost as repayment of any Crown funding could be a condition of the loan (as was the case with the Ultra-Fast Broadband roll out which leveraged $1.7bn of Government funding to attract $5bn of private capital). This approach has more recently been used in the Government's Shovel Ready stimulus programme and should be used more widely as part of the Government's toolkit.

Key Recommendations

Local and central government do not have the capacity to fund all of Aotearoa's infrastructure needs. Accessing private capital provides an ability to both bring forward projects that would otherwise have been delayed for several years, and release funding for public – and often social – infrastructure that would otherwise not occur.

To do this, Infrastructure New Zealand recommends that:

- The Government should review its current approach to using private capital for public infrastructure, with a view of facilitating greater utilisation of private capital while still ensuring ownership remains with the Crown.
- When looking at how to deliver new infrastructure projects, the Government should explore the potential of different models to attract private capital to enable it to deliver a much larger portfolio of infrastructure projects.