



BACKGROUND PAPER 5: PUBLIC PRIVATE PARTNERSHIPS, INTER-IWI CO-INVESTMENT AND ECONOMIC DEVELOPMENT (prepared by Sacha McMeeking, Ngai Tahu)

Introduction

There are significant opportunities for Iwi and hapū to commercially partner together and/or with the Crown at this time for a number of reasons including:

- **Government commitment to public- private partnerships/infrastructure development** – public –private partnerships (PPPs) are a way of commercially partnering with the Crown that are used extensively overseas, but only just emerging in Aotearoa New Zealand. PPPs typically involve some form of infrastructure, and New Zealand urgently needs investment in infrastructure to maintain and enhance our economic development as a nation. Iwi and hapū are attractive commercial partners for the Crown because of our intergenerational investment outlook, the guaranteed retention of New Zealand ownership and conservative approach to commercial endeavours.
- **Growing drive and capability amongst Iwi and hapū to co-invest** – Iwi and hapū have been discussing their commitment to partnering commercially for a number of years, and there is also now a growing capability to give effect to these commitments. It has taken time for Iwi and hapū to obtain the capital to support co-investment, build foundations within Iwi asset entities to support larger and collaborative investments and to review their portfolio balance with a view to moving outside of the traditional focus of primary sector investment. Over the past two decades there have been some compelling examples of inter-Iwi co-investment, and at this time, there seems to be a renewed drive to build on the kotahitanga amongst Iwi and hapū;
- **Treaty relationship** – co-investment with the Crown is also 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 also intrinsically tied to the ongoing success of Iwi.

The work in this area has been progressed under Minister Sharples’ Taskforce on Māori Economic Development. The Taskforce has a number of portfolios spanning; the primary sector; access to capital, labour force development and training, small and medium enterprise development and support; Māori branding opportunities, infrastructure investment, kaupapa Māori models of commercialism and co-investment amongst Iwi and with the Crown. The Taskforce members are: John Tamihere, June McCabe, Daphne Luke, Rob McLeod, Ngahiwi Tomoana, Bentham Ohia and Mark Solomon. Mark Solomon is leading the work stream on co-investment amongst Iwi and with the Crown.

This work aims to support the immediate opportunities available to Iwi and hapū in infrastructure investment. The government has signaled a commitment to invest in the following infrastructure in the near future that Iwi could take a leading role in:

- School development;
- Roads;
- Broadband fibre;

- Health related facilities;
- Prisons.

This paper endeavours to support discussion on commercial collaboration opportunities by providing commentary on the following:

- The current context of the Iwi/Māori economy;
- Identifying some of the issues and questions that Iwi leadership could provide direction on;
- An overview of the work programme under the Māori Economic Development Taskforce designed to support discussion amongst Iwi leadership, including suggested next steps; and
- A primer on PPP investment in infrastructure.

Defining the Context

The Māori economy is at a point of transition. The progressive capital injections from Treaty Settlements and the development initiatives of a range of Māori incorporations are converging to create a diverse Māori economy with enormous potential for growth. Over the last 15 years, research into Māori economic development has tended to concentrate on obstacles to development and producing best practice guides. These efforts have been valuable and fitting for the period. Now however, it is timely for Iwi and Māori to increasingly move our focus to soliciting and acting on real world opportunities.

One of the most powerful opportunities will surely be in the form of commercial partnering amongst Iwi and Māori organizations. The desirability and potential of commercial partnering has been frequently discussed amongst Iwi and Māori Leaders over the last 5 years, as an increasing number of entities reach a point where the benefits of economies of scale and like minded partners become more tangible. However, there have been limited examples where collaboration has been actively pursued, and where it has, improvements could be made to both the design and outcomes. There are also a number of pieces of work that need to be progressed to enable co-investment, including:

- Structures for commercial partnering;
- Conditions of commercial partnering; and
- Scoping opportunities for commercial partnering.

Issue Identification - Structures for Commercial Partnering

There are a range of commercial partnering arrangements that Iwi and Māori can take off the shelf, for example, structures for joint ventures, and others that we can adapt such as investment funds, unit titles and the like. However, these structures may not be the best way to ensure that all Iwi and Māori organizations have a fair opportunity for commercial growth nor recognise the strategic potential in partnering. For example, a number of Iwi with smaller capital bases have their capital in passive investment, while other Iwi may have large asset bases without ready access to capital. The potential benefit of Iwi with accessible capital investing in the active businesses of Iwi with established expertise is readily apparent. There are many more opportunities of value to Iwi/ Māori and a range of ways we could structure our partnering so that there is fair and equitable benefit for all. The questions that need to be addressed include:

- What are the respective interests and strengths of Iwi and Māori organizations;
- How can we share information on our investment interests and collaboration agenda;
- Is there a role for an Iwi/Māori investment fund to increase the accessibility of capital, what would it look like?
- How do we ensure multiple benefits flow through our membership and communities?
- Who can we work with to better understand the potential structures for partnering?
- What information do Iwi and Māori leaders need to progress work in this area?
- What are the risks, benefits and opportunities of different partnering arrangements (e.g. Iwi-Iwi, Iwi-Incorporations, Iwi- Māori SME, Iwi-private, Iwi-Crown, Iwi-Crown- Private, Iwi – foreign investors)
- Which assets are best suited to partnering arrangements, and the various combinations, with particular attention to the relative rates of return;

- What, if any, commitments are needed from government to facilitate the respective partnering arrangements;
- What, if any, changes are needed from Māori asset holders to engage in these partnering arrangements;

Issue Identification - Conditions of Commercial Partnering

Commercial partnering is obviously based on trust and confidence, which to some extent is reliant on robust and comprehensive information on performance being available. The unique characteristics of Iwi and Māori organizations mean that there is a lack of good benchmarking mechanisms available to assess our respective performance. This is primarily due to the assets not being publically listed and the conservative approaches adopted to limit debt, can also impede the transparency of performance. The inability to benchmark can impair asset management and development, and in worst case scenarios, can also disguise ongoing underperformance. There are a range of options for creating a benchmarking mechanism, ranging from creating a market place where information is shared, developing accountability reporting standards or creating debt holdings (which provide an additional source of capital as an additional benefit).

The key questions underlying these mechanisms include:

- What information do we need on the performance of our potential commercial partners and what information do they need on us;
- How can we share this information?
- Is there a role for a Māori pseudo stock market as a benchmarking tool?

Issue Identification - Scoping Commercial Opportunities

Emerging from the recession, counter-intuitively, there are a series of significant opportunities, particularly for Iwi and Māori organizations. One of the most visible is the prospect of partnering with the Crown in respect of infrastructure through Private Public Partnerships. As PPP's are relatively new to Aotearoa New Zealand and the current government is openly committed to exploring their potential, there is a real opportunity for Iwi and Māori to influence the approach and models that are finally adopted. There is also real potential to secure early partnering opportunities. Iwi and Māori could potentially enhance our ability to engage with the government on policy and actual opportunities by considering:

- What assets are more suitable for Māori; physical infrastructure, social infrastructure or other;
- What are the infrastructure opportunities of the future;
- What are our needs and expectations from infrastructure investment;
- How to we address the capital constraints we are likely to experience;
- What is the role of an Iwi Consortium or Syndicate; and
- What further information and assistance do we need to move forward.

Emerging Answers – the Work of the Māori Economic Development Taskforce

The answers to the questions above will, naturally, emerge only from Iwi and hapū coming together to discuss commercial collaboration. However, there is also technical work that is needed to support those discussions. Under the Ministerial Taskforce on Māori Economic Development, Mark Solomon is leading a work programme that is producing that material. The outputs to date, and imminent, include:

Product/Deliverable	Outcome impact
1. Develop discussion paper on the initial policy framework for considering Iwi-Crown co-investment models	<ul style="list-style-type: none"> - provide a framework for assessing why Crown and Iwi would want to undertake co-investments - provide an initial basis upon which deals might be structured and the merits of investment in infrastructure

2. Specifying the steps required to undertake an infrastructure investment (Terms Sheets for Infrastructure Deals)

- provide the steps and decisions required to allow iwi to work through the merits of transactions
- provide two illustrative examples of what a deals might look like (ie constructing a tolling asset) and what sort of returns might be achieved

3. Asset Class analysis

- provide iwi with an assessment of the different types of investments that can be made across a range of asset classes
- provide iwi with information around potential risks and returns
- give specific examples of potential opportunities emerging for discussion with the government

4. Support specific inter-Iwi collaboration opportunities

- work alongside live opportunities of collaboration to provide scoping/feasibility/execution programmes

5. Work with the Crown on the surrounding policy context

- engage in the National Infrastructure Stocktake and the development of an infrastructure plan for New Zealand involves a strong Iwi perspective;
- engage with the known regulatory constraints are being dealt with in a systematic and informed way – these issues are discussed further below; and
- address the specific issues that may impede the ability of Iwi to engage in a co-investment approach with the Crown are being identified with solutions applied to allow a deal or set of deals to progress.

Next Steps

The work programme aims to support at least 3 commercial co-investments amongst Iwi and/or with the Crown before the next election. To support this occurring, it is suggested that the next steps could include:

- Iwi leadership to provide direction on objectives and expectations;
- Iwi asset managers to come together to consider the technical work that has been completed on the profiles of the different classes of infrastructure, with a view to providing recommendations to leadership as to which assets are potentially suitable for co-investment.

Primer on PPP's

PPPs involve either central or local government partnering to some degree via long-term contract (sometimes up to 30 years or more) with private parties. Such contracts are for the design, building, financing, ownership, maintenance, operation and/or ultimate transfer of infrastructure assets that involve some measure of public service dimension.

They can involve private financing, ownership, development and operation at one extreme, and public funding and ownership – with just private sector operation, maintenance, etc – at the other.

Examples of PPP projects in New Zealand include:

- a. Auckland’s indoor arena – Build, Own, Operate and Transfer (BOOT);
- b. Auckland’s Grafton Gully road construction – Project Alliance (pioneered by Transit New Zealand; did not involve private financing or transfer of ownership);
- c. Wellington’s Clear Water project – Design, Build, Maintain and Operate (DBMO);
- d. Papakura’s water and wastewater services – Franchise Agreement for operating facilities;
- d. Canterbury’s regional landfill project – Public-private joint venture with construction undertaken via a Project Alliance; and
- e. Department of Corrections – uses a form of Project Alliance for construction projects under the Regional Prison Development Programme.

Examples of PPP projects in Australia and elsewhere include:

- f. Tunnels, roads and interchanges;
- g. Wastewater treatment and water supply;
- h. Courts and police stations;
- i. Social housing;
- j. Airports and ports;
- k. Electricity generation;
- l. Community complexes and events/sports centres;
- m. Rail and light rail transport systems;
- n. Recycling and waste management facilities;
- o. Prison and correctional facilities; and
- p. Health centres and hospitals.

PPPs usually involve government specifying some form of output requirement, making the partner responsible for achieving that output level, and shifting the costs and risks of the above activities to those best able to manage them. This is to be contrasted with traditional government procurement processes, which often focus more on technical and input specifications. In this way infrastructure services can be delivered in a way that enables efficiencies and improved incentives to be achieved – thereby providing profit opportunities to private partners – while at the same time relaxing government funding constraints and relieving taxpayers of some share of the infrastructure investment risks. Governments ensure there is an element of competition by tendering PPP projects, as a means to improve outcomes for taxpayers (especially since infrastructure projects often involve some aspect of monopoly provision). A key ongoing role for government is to monitor and evaluate PPP project performance to ensure it meets required levels. PPP projects are only undertaken when they provide better value for money than conventional public procurement processes.

Early PPP models overseas stressed the importance of governments being able to take infrastructure investments “off balance sheet” and to relieve funding constraints. However, it is now more common for PPPs to be targeted at achieving “value for money” for taxpayers, on major or complex projects.

The strategic fit for Iwi

This paper proposes that there is now strong alignment of Iwi and Maori organisational interests with those of the Crown in a co-investment model for infrastructure and utility assets. Driven off the global credit crisis and economic conditions, and the economic base that has been created (including Treaty settlements but also through ongoing commercial endeavour - Tuaropaki Trust for example) a number of factors are now aligned to support these types of proposals.

Furthermore, co-investment in infrastructure or other public assets will 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.

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.

The strategic fit for the Crown

As noted earlier in this paper, the government has expressed its willingness to access private sector expertise and input to improve the performance of the public sector asset base and better manage the risks around the delivery of New Zealand's critical infrastructure needs.

Moreover one of the government's responses to the global financial crisis has been to pull infrastructure spend forward as a tool to counter the recessionary impact of slowing economies.

The government is clearly intent on employing the most effective way to deliver infrastructure assets, but the financial market turmoil has challenged private sector involvement.

Additionally, the involvement of Iwi in a co-investment model recognises the fact that Iwi Māori are natural commercial partners for the Crown. This stems, for both parties, from a vested long-term interest in the well being of the country reflected in:

- a. A strong propensity, for the right class and type of asset, to hold and invest for the long-term horizons necessary for large-scale infrastructure projects. Indeed the Iwi interest in holding for the long haul is a natural antidote to the liquidity and risk mismatch for long-lived economic infrastructure assets.
- b. A desire to invest in New Zealand and create wealth that will be retained domestically. This is also driven by a shared desire to see quality infrastructure built and developed in the country as a central plank for lifting national productivity.
- c. A shared accountability and commitment to public and social good.

There are risks and barriers that need to be identified and ameliorated

The types of arrangements and investments we are discussing all have risk associated with them. Indeed the involvement of Iwi in a co-investment model is, from a taxpayer perspective, about sharing some risk to enhance the likelihood of success in a major infrastructure investment.

Iwi interests also need to consider important questions about capacity and capability to engage in co-investment models. These may include the following issues:

- a. How can sufficient scope and scale be achieved across Iwi investors to make an investment proposal worthwhile for all parties involved? This may include the vexed issue of using leverage more effectively to increase the capacity of Iwi to become involved in a deal or suite of deals.
- b. How to develop sufficiently flexible and responsive governance mechanisms that allow for real-time investment decisions to be made while also reflecting the tikanga and kaupapa values of the entities involved?
- c. How do the significant benefits of engaging Iwi in a model of co-investment with the Crown ameliorate or encourage greater flexibility in terms of how investment deals and risk management approaches are structured?
- d. How will Iwi groups facilitate the strategic discussion required to determine if they will have active or passive investment roles?

The final point above extends into a number of questions. These questions include how do Iwi choose between say, investing in a fund (such as the infrastructure fund to be operated by HRL Morrison & Co and the NZ Superannuation Fund) or taking direct investments in assets they will also manage? The answers to these issues are tied to the value Iwi can bring to active participation in the community and economy as co-investors and managers of infrastructure and utilities. This will need to be counter-balanced by an assessment of capability and how roles and capability can be enhanced over time.

The risks and issues noted above also need to be considered in a broader public policy sense. Paramount to this consideration is acknowledging that the government must ensure that co-investment models or other means of using private sector financing and expertise can only be used if they work and provide value for the taxpayer.

Advancing the public policy questions

There is a set of policy *principles* that need to be considered by the government and Iwi in the very short term to enable the ongoing development of a co-investment approach and the implementation of a prototype or set of prototype deals.

A “circuit-breaker“ to ensure the opportunity to progress investments is not hindered by ponderous and inefficient policy processes could be obtaining a level of agreement between Ministers, officials and Iwi around the following suggested principles:

- a. An acknowledgement that Iwi Māori have a presumptive right to be considered as partners of first choice in co-investment and economic co-management models.
- b. A commitment that Iwi fund and asset managers will be looking to use the full suite of tools available to enhance their ability to participate on points of value and contestability in any co-investment model. This includes exploring mechanisms to enable them to leverage off debt finance.
- c. A commitment to recognising the types of incentives that may be necessary to assist investors engaging in co-investment models. This could be based on an assessment of the quantum of capital required, as well as the managerial or operational involvement that might be expected in a particular venture. However, there needs to be some level of flexibility in this assessment which could be based on the government exploring other options such as its willingness to:
 - i. engage in credit guarantee financing;
 - ii. assume a greater degree of refinancing risk or to underwrite debt;
 - iii. promote marketing to attract institutional investors to buy project debt alongside Iwi organisations; and
 - iv. provide bridge/gap funding for projects.

- d. Seeking assurances that, as part of other work-streams and policy decisions yet to be made, that the government recognises the importance of consulting with Māori around key aspects of its infrastructure plans in-particular which organisations and areas will be considered as part of the 'priority' roll-out for any infrastructure build.
 - e. Any proposals developed for a co-investment model between Iwi and the Crown will not discourage, nor substitute for, private sector investment from other parties that presents more efficient and effective options for the taxpayer.
 - f. A commitment to investigating innovative solutions to infrastructure problems particularly if a different set of incentives or arrangements can be found to support a project where other private sector operators may be less inclined to participate. For example, this might look at 'hybrid' models for known proposals (such as the government's ultra-fast broadband proposals) where Iwi organisations could develop cheaper alternatives for the roll-out of the infrastructure because of their commitment to longer-term social and economic returns.
 - g. The regulatory and legislative issues that need to be worked through will be done so in consultation with relevant stakeholders so barriers to progressing co-investment models are minimised. Key issues we note, some of which are being progressed, are:
 - i. The Land Transport Management Act to provide for an integrated fully funded transport strategy.
 - ii. The Resource Management Act to enable a single consenting process, incorporating one dominant set of provisions governing essential infrastructure.
 - iii. To streamline the consent process and remove duplication.
 - iv. The Public Works Act to provide additional flexibility to pay a premium to an affected party reflecting disruption of settled use of their property.
 - v. Local government Act and Corrections Act to remove provisions which inhibit private sector partnerships for the provision of public infrastructure.
- 1) These principles would be augmented by consideration of the deal or investment specific risks and implementation issues that will also need to be resolved. The second part of this paper considers these issues in more detail with a particular focus on ensuring Iwi have the suite of tools and approaches to help assess the types of investments they might make. This means:
- a. Considering what investment models look like and what sectors and asset classes might be best suited for co-investment between the Crown and Māori.
 - b. For Iwi groups, examining the key requirements and mechanics required to execute a transaction and the specific tools Iwi could use to help assess the feasibility and risks associated with investments. More detailed information on these tools is attached as annexes.

What do co-investment models look like?

Early models – what has happened before?

Early co-investments focused on telecommunications and transport infrastructure, which, in contrast to social infrastructure, is subject to minimal ongoing change. State-initiated changes are a fact of life in social infrastructure, driven by legislative and social policy imperatives of incumbent governments. Service delivery models and facility solutions for education, health care, aged care and other social services are being adapted to meet such changes, driven by the quest for efficiency and effectiveness, alterations to funding models, government funding priorities and community expectations and needs.

As the current generation of social infrastructure co-investments is successfully delivered and services provided with effectiveness and value-for-money, an increasing environment of certainty and confidence is emerging amongst participating parties and the general public.

The result is more social infrastructure co-investments responsible for the future delivery of government services and programs. Key to this ongoing success and acceptance is the acknowledgement of the inherent nature of change in social infrastructure delivery and operation over the whole concession period, and the adoption of effective mechanisms to manage that change in a mutually beneficial way.

How are economic infrastructure assets managed?

Economic infrastructure assets such as toll-roads, bridges, tunnels, airports, seaports, and rail networks are typically funded and maintained by user-based fees that can be scaled to the benefits they provide and associated costs.

In most economic infrastructure transactions, the acquiring party typically buys the asset outright or acquires a long-term operating lease or concession over which the selling government or agency retains a degree of control. Social infrastructure transactions often take the form of partnerships in which the public agency retains ownership of the underlying asset but a private operator is brought in to provide management and related services.

There are three key pre-requisites to most successful co-investments; a right to operate (license), an operator of the asset or facility and a promoter of finance and/or assets.

License	Government
Operator	Government / Iwi / Third Party
Financer	Iwi and/or owner of assets

Recent trends highlight an enormous demand in telecommunications, education and health, water and sewage treatment as opposed to roads and railways. For example, in China, over 10 million rural citizens have migrated to urban areas each year since 1995, creating massive demand for housing, transportation, communication, education and healthcare services in cities.

Where is investment presently focusing?

Lately, investments have been concentrated in less risky social infrastructural assets in which revenues can be secured through long-term contracts (education, health, prisons and water treatment plants), rather than on payments from end users. The main reasons for this shift are the steady revenue-generating ability, predictability, low-risk and uncomplicated nature of these small-scale investments. These trends reflect a lower appetite for regulatory and political risk among private investors and the reduction of their long term exposure in the market.

Investments in social infrastructural assets such as hospitals, schools and prisons can be categorised as being in their 'growth' stage or 'late' stage:

- a. 'Early' stage investment opportunities include "Greenfield" projects such as new road, bridge and tunnel developments, or assets in higher risk locations or where there are no established demand patterns that can be relied upon.
- b. Growth stage investments typically include expansion projects and new privatizations of existing operating assets. With these assets, there are established operating results that can be analysed, and there are reliable forecasts that can allow for some view of potential operating growth.
- c. Late stage infrastructure assets are considered mature, proven assets capable of generating stable, long-term, inflation-hedged returns. Here, usage of the hospital, school, utility or other facility is well-established, and income is the predominant component of the investment return thus making it an attractive sector for potential investors.