

19 March 2025

s9(2)(a)

Via email: s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act (OIA) request, received on 11 March 2025. You requested:

"Under the Official Information Act, I request information on the repayment expectations for private equity contributions in infrastructure projects.

Specifically, I'm interested in understanding how this approach aligns with value for money. The Crown can typically borrow at the government bond rate, which offers a lower risk return rate of 4.64% for 10-year bonds. In contrast, private equity investment usually requires a return exceeding 8%. This suggests that if the taxpayer funds a return higher than the government borrowing rate, and if the budget isn't balanced, we're essentially borrowing more at 4.64% to pay higher returns on the equity investment. Moreover, even if the taxpayer directly funds it, the interest cost for the project would be significantly less than the required return of the private equity investment.

It seems counterintuitive to encourage private investment into infrastructure when the government could initially fund these projects through debt at a cheaper rate, and fully own the asset at the end of the period. The cost of maintaining a fully owned asset is typically much lower than the lease costs that private investors require to generate a return on their capital. Moreover, by leasing, the Crown forfeits any potential capital appreciation, which is then incorporated into the market return that the private equity holder requires. As a result, buying them out at a later date would likely cost significantly more.

Given the current government's value for money priority, and the upcoming Global Investment Summit focused on private investment in Government projects, I'm interested in understanding how this strategy aligns with value for money for taxpayers, especially considering that the required return from foreign capital is higher than the NZ government's borrowing rate.

Could you please provide any briefings and analyses from the Infrastructure Commission and/or Treasury on this matter?"

As you may be aware, the New Zealand Infrastructure Commission/Te Waihanga (the Commission) has recently proactively released our key advice and Cabinet material on the New Zealand public private partnership (PPP) framework. This information can be found on our website here: <https://media.umbraco.io/te-waihanga-30-year-strategy/gjnh5tqj/cabinet-paper-and-advice-on-ppp-framework.pdf>. You may be particularly interested in the aide memoire titled *TW-2024-456 August IIMG agenda item – PPP model and policy update* (pages 13-31) and the sections covering the Affordability Threshold (paragraphs 41-45), the qualitative value for money test (paragraphs 60-64) and the Public Sector Comparator (paragraphs 65-69).

We do not hold any other information that potentially falls within the scope of your request. Accordingly, I am refusing your request for briefings and analyses from the Commission under section 18(d) of the OIA as this information is publicly available.

The information to which your request relates is also closely connected with the functions of the Treasury. In these circumstances, we have, as required by section 14 of the OIA, transferred your request to the Treasury. You can expect to hear from the Treasury soon.

Please note that this letter (with your personal details removed) may be published on the Commission's website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely



Andy Hagan
General Manager, Investment