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Key enablers – mobilising capital for a resilient economy

DISCUSSION DOCUMENT – DRAFT FOR INTERNAL USE

Background

Some estimates suggest two thirds of the capital required for Aotearoa New Zealand's transition to a nature positive net-zero economy by 2050 will need to come from the private sector. This requires unprecedented levels of collaboration, coordination and leadership from across the public, private, community sectors and iwi/Māori organisations.

Professor Sean Kidney is the co-founder and CEO of the Climate Bonds Initiative (CBI) and Professor in Practice for Sustainable Finance at the University of London SOAS Centre for Sustainable Finance. Sean is visiting Aotearoa New Zealand in August 2024, providing an opportunity to open a discussion with Ministers, Government and iwi leaders, and the financial sector on the global landscape and the steps needed to unlock global capital to fund and finance our climate transition, compete in a low emissions future and build long-term resilience into the NZ economy.

CSF has partnered with the Reserve Bank of New Zealand (RBNZ) to convene this discussion between the Reserve Bank Governor, Ministers, Senior Government executives, Sean Kidney, Chairs and senior executives of major NZ financial institutions.

This builds on round table discussions hosted by CSF partners in 2023, the first on reducing risk and building long-term resilience into the NZ economy, the second with the RBNZ on mobilizing private capital for the transition and the use of credit risk weights for climate-related purposes.

This paper has been prepared by CSF to support the discussion by proposing actions that could be taken to scale and accelerate the financing of sustainability initiatives that will help Aotearoa New Zealand meet its ambition to become a resilient, low emissions economy. It sets out some background on those initiatives and how they might be structured and deployed to support the flow of capital into targeted urgent sustainability outcomes. It also touches on the role of capital settings in the banking sector in separately helping to encourage the flow of capital into those initiatives.

With thanks to the representatives from the following organisations, who provided input into this document:

- ANZ
- ASB
- BNZ
- EY
- Harbour Asset Management/First Cape
- HRL Morrison & Co
- New Zealand Green Investment Finance
- The Reserve Bank of New Zealand
- Westpac

Executive summary

Urgency is required to decarbonise Aotearoa New Zealand's economy to meet its 2050 net-zero obligations and mitigate risks to the financial system.

We believe that successful Government interventions to increase investment in sustainable or decarbonisation activities should involve a combination of regulatory, financial, and market-driven approaches.

Government has a role in ensuring:

1.1 Clear, stable and coherent policy frameworks (ideally with bipartisan support)
1.2 Scale, urgency and crowding in private capital
1.3 Provide value for taxpayers
1.4 Risk mitigation
1.5 Market development and standards
1.6 International cooperation

These interventions work best when they are part of a comprehensive strategy that aligns Government policies with the broader goals of sustainable development and climate action.

Aotearoa New Zealand has precedent initiatives that have been deployed to support investment when needed and ensure the availability of lending for businesses and consumers.

Those covered in this paper include:

2. Sustainable finance models and potential precedents
2.1 Climate Fund – initial climate investment pool of circa $10 billion funded through Government debt issuance
2.2 Climate lending supported by a partial Crown guarantee
2.3 Term Lending Facility – climate response
2.4 RBNZ repo eligibility settings
2.5 Resiliency and climate Government bond programmes

3. Trans-Tasman alignment

4. The role of bank capital in sustainable financing
4.1 Impact of Government guarantee on RWA
4.2 Climate-related RWA in capital modelling
4.3 Limited exception to the standardised capital floor requirement
4.4 Supporting liquidity of environmental credits

5. Creating access to private assets

1. Introduction

Urgency is required to decarbonise Aotearoa New Zealand's economy to meet its 2050 net-zero obligations and mitigate risks to the financial system. Both the Government and private sectors have important roles to play in this decarbonisation process and it will require both to collaborate constructively, utilising the relative strengths and expertise of each in originating and deploying financing into the economy.

A significant amount of the capital required for Aotearoa New Zealand's transition to net-zero by 2050 will need to come from the private sector. Achieving the optimal balance of short and long-term social, environmental and economic benefits requires unprecedented levels of collaboration, coordination and leadership from across the public, private, community sectors and iwi/Māori organisations.

We believe that successful Government interventions to increase investment in sustainable or decarbonisation activities should involve a combination of regulatory, financial, and market-driven approaches:

1.1 Clear, stable and coherent policy frameworks (ideally with bipartisan support)

- The Government needs to establish clear, long-term policy commitments to decarbonisation and sustainability, ideally in collaboration with a broad cross-section of political parties across Parliament. Consistent and stable regulations provide investors with confidence that Government policies will not change abruptly, reducing perceived risks.
- Streamlining the approval process for sustainable projects can reduce delays and lower costs, making investments more attractive. Alignment of criteria with the Sustainable Finance Taxonomy would provide an objective framework and help with obtaining bipartisan support – it would also reduce lender concerns regarding environmental risks associated with funding of fast-track projects.

1.2 Scale, urgency and crowding in private capital

- Initiatives should be designed to scale quickly to meet the size of the challenge, and to crowd in private capital. This can be done by reducing barriers to attracting capital into state-owned entities, recycling capital for other transition initiatives.
- Leveraging existing market structures for origination helps with speed of adoption (for example the Business Finance Guarantee Scheme), but new market structures should also be considered, recognising that we are competing for capital on the world stage.
- Greater R&D for investment into next frontier technologies could be efficiently scaled and supported through entities like the Elevate Fund, and also serve to drive innovation and attract private investment.

1.3 Provide value for taxpayers

- Ensure broader benefits are considered including reduction of future obligations under NDCs, resilience of energy system, reduction of fuel imports, health benefits of reduced pollution.

1.4 Risk mitigation

- Providing guarantees or insurance to cover specific risks associated with the development of a sustainable investment market can encourage private sector participation.

1.5 Market development and standards

- Developing and promoting standards and a taxonomy for what qualifies as a green or sustainable investment helps investors identify credible opportunities and avoid greenwashing.

- The Government can use its purchasing power to create demand for sustainable products and services, driving investment in these areas, and helping to showcase New Zealand's innovative, sustainable products on the world stage.

1.6 Settings that support efficient, vibrant markets (particularly capital markets)

- Markets and settings that support efficient development are an important foundation for enabling investment.

1.7 International cooperation (and alignment where appropriate)

- Aligning domestic approaches (e.g. NZ Taxonomy) with global standards makes it easier for global investors to invest domestically. Collaborating with other governments and international organisations to set global standards and targets can create a more favourable environment for sustainable investments worldwide.

These interventions work best when they are part of a comprehensive strategy that aligns Government policies with the broader goals of sustainable development and climate action.

Australia and most other key trading partners and aligned economies have already put in place government-supported funding programmes with private sector collaboration to support the flow of capital at interest rates that are accelerating the financing of sustainability initiatives.

Aotearoa New Zealand has precedent initiatives that have been deployed to support investment when needed and ensure the availability of lending for businesses and consumers.

This paper sets out some background on those initiatives and how they might be structured and deployed to support the flow of capital into targeted urgent sustainability outcomes. This paper also touches on the role of capital settings in the banking sector in separately helping to encourage the flow of capital into those initiatives.

Table 1. Summary of the initiatives covered in this paper and their transmission channels

Initiatives		Transmission channel					
Existing precedents	**Country of origin**	**Government investment vehicle**	**Government guaranteed lending**	**Government provision of low-interest lending**	**Reduction in risk-weighted assets**	**Enabling infrastructure**	**Private sector discounting**
NZ GIF	NZ	X					
CEFC	Australia	X					
ARENA	Australia	X					
Business Finance Guarantee Scheme	NZ		X (80% guaranteed)		X		
North Island Weather Events (NIWE) Loan Guarantee Scheme	NZ		X (80% guaranteed)		X		
Term Lending Facility	NZ			X			
Sustainable Finance Strategy	Australia					X	
Residential green lending/mortgage programmes	NZ						X
Government resiliency bonds	NZ, California, and others	X					X
Innovative prudential suggestions provided in this paper							
Alliance of forward looking RWAs	N/A				X		
Exceptions to capital adequacy requirements	N/A				X		
Recognise collateral value of environmental credits in prudential standards	Australia				X		
Reducing insurance premiums for resiliency improvements							X

2. Sustainable finance models and potential precedents

2.1 Climate Fund (at a scale commensurate with the challenge)

Government could create an initial climate investment pool of circa $10 billion funded through Government debt issuance (i.e. NZDMO). The Government bonds would be issued as normal into the global financial market. The cash raised from the issuance could be ring-fenced by the Government for the dedicated purpose of the climate investment pool. The Reserve Bank could also assist the funding of the initiative in the primary or secondary market through direct holdings in its reserves portfolio. (The Reserve Bank is a current owner of Bank of International Settlements (BIS) 'Green Bonds' for example). The recipient(s) of the investment pool would be mandated by the Government to invest on a commercial basis in projects aligned with the Government's priorities. All investments would be aligned to climate adaptation and reduction goals – as per a pre-agreed investment mandate and success criteria.

2.2 Climate lending supported by a partial Crown guarantee

The impact of capital settings on encouraging the flow of capital into the economy is discussed in some more detail below. We highlight here the fact that a precedent arrangement was established in the wake of COVID-19 to provide banks with confidence to lend in times where the risk profile of that lending was elevated and the success of the arrangement was driven in part by the positive impact on bank capital. The Business Finance Guarantee Scheme (BFGS) supported the provision of scheme loans to viable businesses by encouraging the private sector to lend where otherwise they may not, with the Government taking up to 80% of the loan's default risk[1]. The guarantee had the effect of both capping bank losses as well as reducing the capital required to be held (reflecting the guaranteed nature of the lending).

In 2023 the Auckland Anniversary Weekend floods and Cyclone Gabrielle caused widespread catastrophic flooding across large parts of the North Island, devastating communities and businesses in affected regions. In response the Government announced the North Island Weather Events Response and Recovery fund to clean up, rebuild and aid long-term recovery[2]. This package included the North Island Weather Events (NIWE) Loan Guarantee Scheme which was established to provide relief to affected firms seeking commercial lending. This scheme leveraged the Crown's financial strength by carrying 80%of the credit risk on covered loans (aligned to the BFGS), allowing banks to reduce interest rates and offer more flexible terms.

The Government could consider the establishment a similar partial guarantee arrangement over a portion of lending whose purpose is linked to climate reduction or mitigation outcomes and leverage its balance sheet as previously done following COVID-19 and recent weather events. This would require clear definitions of the criteria for eligible lending, as well as a potential cap on the size of the overall Government guarantee. The specific settings could be tuned to reflect Government risk appetite, including adjusting the 80% guarantee coverage. This would be particularly effective if banks were able to pool eligible lending (e.g. climate-related home-loan top-ups for solar installation, purchasing e-vehicles, or double-glazing installation) in a way that reflected the portfolio nature of those loans.

This would encourage the flow of capital in a way that would use existing bank lending origination processes, funding and credit risk management practices, while not requiring any direct material Government investment. It would be important for banks to be able to clearly demonstrate the pass through of the available capital and pricing into the eligible loans covered by the scheme. The increase in

[1] Business and Economic Research Limited (2023), Review of the Business Finance Guarantee Scheme. The Treasury – New Zealand engaged Business and Economic Research Limited (BERL) to undertake a post implementation review of the BFGS, see Treasury's 2022 media statement – Business Finance Guarantee Scheme (BFGS) interim evaluation and information release – proactive release of the Business Finance Guarantee Scheme (BFGS) interim evaluation

[2] The Treasury – New Zealand, North Island Weather Events Response and Recovery Funding

the Government's contingent liabilities is expected to represent a relatively small cost[3] compared to the stimulus this would provide for targeted bank lending to support our climate response[4].

2.3 Term Lending Facility – climate response

In May 2020, RBNZ established a Term Lending Facility (TLF)[5] which was made available to banks and provided access to long-term funding at low interest rates to support bank lending under the BFGS. The facility was made available at Official Cash Rate with high quality collateral pledged by the banks to support the facility.

The establishment of a TLF to support lending to climate-related initiatives could operate in a way that was similar to the TLF providing funding during the COVID period for the BFGS i.e. a climate-related TLF could support lending provided by banks under the cover of a Crown Guarantee as noted above. As with the original TLF, the period during which the facility was made available could be subject to review to ensure the size remained appropriate and the flow of funds through to the underlying climate-related initiatives was evident.

The benefit of a climate TLF facility, aligned to the Clean Energy Finance Corporation (CEFC) approach in Australia, is that the funding is originated centrally to support private sector investment, and the banks (and other funding specialists in the Australian model) use their existing origination processes and market relationships to deliver that funding into the economy. Further factors to consider in the local context for this might include the role of the Centre for Sustainable Finance (or similar entity) in developing a sustainable finance taxonomy that could guide project eligibility for access to funding, as well as its role in reporting on and managing the overall scheme.

In the absence of an TLF type funding arrangement or a BFGS scheme, the role of Government should be considered in making funds available centrally, that could then be accessed under partnering arrangements similar to those used by the CEFC. The potential role of the Centre for Sustainable Finance (or similar entity) in managing such a scheme would also need to be addressed.

2.4 RBNZ repo eligibility settings

RBNZ's Domestic Markets Operations rules include the use of repurchase (repo) agreements with market participants to support the functioning of the financial market. The value of the collateral or securities pledged by banks varies based on the risk profile of the underlying assets and is subject to haircut rules that reflect the inherent risk in a class of securities.

In order to place a premium on the value of climate-related assets that could be pledged as security as part of RBNZ's Markets Operations activities, RBNZ could consider assigning a lower haircut value to those securities. Examples of securities that might attract a lower RBNZ haircut could include climate-related green bonds that have achieved an appropriate rating, as well as climate-related residential mortgage loans that have been pooled as collateral as part of a 'green' Residential Mortgage Backed Security.

The impact of a reduced haircut would be to encourage the flow of capital into those eligible bonds and residential mortgage loans and provide a positive signal into the market regarding the value of these instruments.

[3] The Treasury – New Zealand administers the BFGS and would have loss rates to support further analysis and we expect this to be of the order of 1-2% of lending, which we expect could have a higher risk profile than the lending contemplated.
[4] Discussed further in the *The Role of Bank Capital in Accelerating Sustainable Financing* section below.
[5] Reserve Bank of New Zealand – Te Pūtea Matua (2020), Reserve Bank outlines details of Term Lending Facility

2.5 Resillency and climate Government bond programmes

Similar to New Zealand's Green Bond Programme, internationally Governments continue to expand their climate-related borrowing programmes targetting both resillency and transition projects. For example, California residents are scheduled to vote for a US$10b bond programme in November 2024 that would support projects focussed on widefire prevention, drought preparedness, water infrastructure and pollution reduction.

Without investors willing to lend to the Government for these programmes at discounted interest rate, this type of lending programmme is equivalent to the Government adding to national debt. However, it is likely that the Government could aggregrate investors with signficant interest in the environmental outcomes achieved through these programmes, who may be willing to agree to a reduced financial return or would be willing to lend to the Government based on an interest rate linked to the climate-related outcomes achevied through the programme.

These types of investors would include philantropy, NFPs, impact investors and other signifcant capital holders, if these programme can show how the climate-related outcomes help these investors in the long-run. This would include: insurers (if the programme can show it improves insurance risk), commerical banks (if the progrmame can show how it reduces the default risk of their lending portfolios) and national investors like NZ Super and NZ GIF (if the programme can show it improves economic outcomes for NZers over the long-term).

3. Trans-Tasman alignment

There are peer jurisdictions that we can look to when developing an approach for Aotearoa New Zealand. The Australian Treasury released its Sustainable Finance Roadmap[6] in June 2024, setting out a three-pillar approach aimed at mobilising significant private capital required to achieve net-zero, modernise its financial markets, and maximise the opportunities associated with energy, climate and sustainability goals. The three pillars are improving transparency on climate and sustainability; financial system capabilities; and Government leadership and engagement.

While not all elements of the Australian Treasury approach will necessarily be right in the local context, the economic, societal and structural similarities between our countries mean that is a very helpful reference point. Helpfully, Aotearoa New Zealand is already well progressed on many of the elements of that approach, including mandatory climate-related financial disclosures and associated net-zero transition planning arrangements, enhancing market supervision and enforcement via new powers vested in the Financial Markets Authority, and steps to improve access to accurate and consistent climate data.

While the third pillar, Government leadership and engagement will not be covered in any significant way in this paper, the benefits of referencing the Australian Treasury approach are reflected in the international engagement agenda which will prioritise activities that include direct Aotearoa New Zealand participating via ASEAN, and multi-lateral and bi-lateral engagement (e.g. Australia-New Zealand 2+2 Climate and Finance Dialogue) and Australia has also been successful in establishing a collaborative approach to the flow of private sector capital to low carbon solutions via ARENA and the CEFC. ARENA support pre-commercial innovation to renewables and energy efficiency projects by providing financial assistance and sharing knowledge.

Since 2012, ARENA has provided $2.25 billion in grant funding, unlocking a total investment of almost $9.75 billion in Australia's renewable energy industry.

CEFC is an investment vehicle that focusses on providing commercial returns back to Government while reducing GHG emissions reductions. It has access to over $30b from the Australian Government, backing industry-wide decarbonisation, from renewable energy and natural capital to energy efficiency, alternative fuels and low carbon materials. In parallel, they are supporting the transformation of the energy grid, backing sustainable housing and supporting the growth of climate tech innovators. It works collaboratively with co-investors, industry and Government, recognising the urgency of the decarbonisation task. To date, over 62,000 asset finance projects have been delivered via banks and other financing partners, with a combination of both improved access to funding for climate initiatives (e.g. simplified lending origination processes) and discounted interest rates.

It is this combination that will be the marker of success in our local market as well.

Aligned to the Australian model, we should consider the strengths and capabilities in the public and private sectors when assessing potential approaches. As a core principle, we should recognise that the acceleration of investment will mean that access to reduced cost funding to incentivise the flow of capital will be required. In Australia's case, this has been via access to Government funding lines at a reduced rate.

[6] Commonwealth Treasury (2024), Australian Sustainable Finance Roadmap

4. The role of bank capital in accelerating sustainable financing

One of the key determinants of bank appetite to provide lending to parts of the economy is the cost of the capital that is required to support that lending. This is determined by the risk weighting that is associated with that lending – the riskier the lending, the greater the risk weighting, and more capital that must be held. In order to compensate for that increased cost and elevated risk, banks will typically require a higher rate of return through the interest charged.

RBNZ has provided helpful guidance recently to banks and other financial sector participants regarding the management of climate-related risks and risk-weighted assets (RWA) [7]. Aligned to this, RBNZ released a Bulletin on the use of credit risk weights for climate-related purposes[8]. RBNZ has made it clear that risk weights are set to address credit risk and will not be adjusted to achieve other policy outcomes, such as encouraging the flow of capital into climate-related initiatives. This position is aligned with that adopted by RBNZ's global peers and is consistent with best practice set by the Basel Committee.

4.1 Impact of Government guarantee on RWA

As noted above, the approach of using a Government guarantee over a portion of eligible lending has the advantage of leveraging the Crown's balance sheet, while allowing the private sector to fund the lending and manage the origination of the lending, ensuring that appropriate credit risk management disciplines are in place. The effect of the Government guarantee covering a portion of the lending is to provide confidence to banks regarding the size of any potential losses on loan default. This has a positive impact on bank capital because that capped loss and the strength of the guarantee means that the risk weights associated with that lending are significantly lowered. As a result, banks are required to hold less capital against the loans and this has a direct impact on the costs associated with providing that lending and the opportunity for banks to issue these loans at reduced interest rates. This would stimulate the flow of capital and do so at reduced interest rates for borrowers.

4.2 Climate-related RWA in capital modelling

There is one aspect of climate risk and associated lending which is not well aligned to the current approach to the modelling of risk and the associated derivation of risk weights, particularly for those banks that operate on an Internal Ratings Based approach. This is because banks must show that the variables used in their ratings models are able to differentiate for risk, and this is usually done on the basis of long-run historical data sets. In the case of climate-related risk, given its future dated impacts, there may be limited data available to support the analysis of actual vs predicted outcomes in the models and therefore limitations on banks' abilities to produce the evidence required for a model approval submission to be made to the RBNZ.

Given climate change will create both adverse outcomes (e.g. through physical damage or transition rendering parts of the economy unviable) as well as positive outcomes (e.g. lowering the cost of electricity generation through solar investment and creating longer-term sustainable businesses in these areas), it would be helpful for the modelling of risk weights to contemplate the use of predictive data sets, as well as those that are backward looking when assessing model performance. RBNZ addresses this matter in part in its Bulletin article, however it would be helpful for RBNZ to provide greater detail regarding the use of forward-looking data to ensure that banks can appropriately recognise both downside risks, as well as ensuring capital is adjusted for lending to businesses that are expected to be long-run more sustainable than others (e.g. solar or wind developments or businesses operating with proven management expertise in areas that are expected to benefit from the climate transition).

[7] Reserve Bank of New Zealand – Te Pūtea Matua (2023), Managing climate-related risks
[8] Reserve Bank of New Zealand – Te Pūtea Matua (2024), The use of credit risk weights for climate-related purposes

4.3 Limited exception to the standardised capital floor requirement

Finally, to have a more material impact on the availability and cost of lending, the RBNZ could ideally consider some form of limited exception to the standardised capital floor requirement in relation to the eligible climate-related lending. Against a backdrop of significant capital requirements for banks in Aotearoa New Zealand, a limited exception that applied to eligible climate-related lending may be appropriate for a limited period while we mobilise the investment required to address the climate challenge. This might allow banks to scale low-interest lending programmes, such as green lending products for residential housing upgrades, that provide heavily subsides interest rates to accelerate the update of residential energy efficiency improvements and electrification (such as insulation, double glazing, heat pumps, rooftop solar, batteries and EVs), to include additional resiliency measures (such as stormwater upgrades, flood defences, water tanks) and also extend the scale of these products. These types of products are currently capped in size and to the sectors that can access them because the discount directly impacts a bank's margin. The RBNZ could provide significant relief through opening lending to the banks at the Official Cash Rate or reducing capital adequacy requirements for lending under these programmes, if banks scale these programmes. Insurers could also contribute to these types of programmes by offering a general insurance premium discount for resiliency improvements, if these improvements also reduce insurance risk. This would also help reduce upfront costs and accelerate action with shared benefits across the financial sector.

4.4 Supporting liquidity of environmental credits

Other actions prudential regulators can take to help the financial sector recognise the value of environmental outcomes is to provide the infrastructure to support the liquidity of environmental credits, where appropriate. The liquidity of a market is a key factor in determining the risk associated with a financial instrument, with higher liquidity decreasing investment risk and low liquidity (a common characteristic of environmental markets) increasing investment risk. In December 2023, APRA proposed amendments to APS 113: Capital Adequacy: Internal Ratings-based Approach to Credit Risk to allow Australian Carbon Credit Units (ACCUs) to be held as collateral by banks to recognise their recoverable value. This amendment will allow Australian banks to develop products, such as pre-payments for ACCUs, to improve the bankability and reduce investment risk of these products. It would be helpful if RBNZ could explore the potential to recognise NZ Units (NZUs) as eligible collateral on this side of the Tasman as a minor adjustment to its capital framework.

5. Creating access to private assets

The recent Centre for Sustainable Finance Toitū Tahua (CSF) work on Investing in Private Assets identified key barriers and challenges that may have limited or discouraged investment by KiwiSaver funds into private assets. If these barriers are resolved and the industry moves toward a larger allocation to private assets this will require a pipeline of investable assets in New Zealand. . A relatively small allocation to private assets could see billions of dollars available to invest in this asset class . Investors have a genuine desire to allocate a significant proportion of these funds into New Zealand. However, consideration needs to be given to sourcing investable assets domestically.

The Government should ensure the right settings are in place for both central and local government to enable private investment flows into assets on their respective balance sheets at scale and pace. This would allow the creation of liquidity, balance sheet efficiency and the ability to fund assets at the lowest cost of capital.

The Investing in Private Assets work done through the CSF focused on investment by KiwiSaver providers and other investors into sustainable, long-term assets and infrastructure. We acknowledge that not all assets on central and local government balance sheets will directly support sustainability objectives or adaptation activities. However, this approach could enable both the investment and support by the private sector in sustainable assets and generate funding that could then be allocated to Government investment in environmental and social objectives. These objectives would closely align to the recently announced climate strategy and the Aotearoa New Zealand Sustainable Finance Taxonomy e.g. renewable energy, electrification of transport, roading (adaptation) and access to clean water.

Case studies

Australia

Australian superannuation funds have a much higher exposure to alternative asset classes (including private debt and equity) than KiwiSaver funds in New Zealand. The regularly invest in large federal or state government assets. Examples:

Ausgrid

Ausgrid is the largest distributor of electricity on Australia's East Coast is jointly owned by the New South Wales Government, AustralianSuper, IFM Investors and APG Asset Management group.

Sydney Airport

The airport is owned and operated by Sydney Airport Corporation Limited (SACL). SACL is ultimately owned by the Sydney Aviation Alliance (SAA) which is an Australian-led consortium comprising IFM Australian Infrastructure Fund, AustralianSuper, Australian Retirement Trust, IFM Global Infrastructure Fund and Global Infrastructure Partners.

There are many other examples of this type of private ownership by Australian superannuation funds.

New Zealand

There are also some examples of this in New Zealand. With the right mechanisms in place this could be scaled to provide large amounts of capital to build sustainable infrastructure.

Ngāti Toa school purchase and long-term lease back to the Government

The initial deal equates to a total of approximately 144 hectares, making Ngāti Toa the largest landlord of the Ministry of Education. The deal involves lending partners funding the majority of the $352 million purchase, rather than using iwi cash assets. While the iwi will not see any income for the next 25 years due to loan repayments, it ensures that future generations will be in a strong financial position and benefit from a steady income in perpetuity.

Auckland Council Future Fund proposal

The proposal currently out for consultation looks at transferring the council's shareholding in Auckland International Airport Limited (just over 11 per cent) and the Ports of Auckland (POAL) to a separately managed fund. The proposal initially includes 1) the ability to sell down some of its share in Auckland Airport and 2) Leasing the operations of POAL to an external party for around 35 years, receiving an upfront payment for the lease, which would be invested into the future fund.

Incorporating lessons from the above examples

Specific deal structures will need to be developed, however there are number of assets within central and local ownership that would be of interest to investors. These include electricity companies, schools, hospitals, roads and digital assets (e.g. licencing).

The New Zealand electricity sector is a good example of how this could work. The central government could sell a portion of its share of New Zealand's electricity companies to a collective investment vehicle or a long-term investor with capacity to actively support private equity investments such as the Guardians of New Zealand Superannuation fund. (The deal structure could also include other institutional long-term investors and an option for the Government to buy back after a specified timeframe. This example would allow the Government to generate capital that could then be allocated to meet New Zealand's climate commitments or key social objectives. It would also enable a supportive ownership structure, primarily investors with long-term investment horizons and ability to provide active support to their investments.

Appendix: Australian Sustainable Finance Roadmap – New Zealand comparison table

Australian Roadmap action	Australia	New Zealand
Implementing mandatory climate-related disclosures	✓	✓
Developing a sustainable finance taxonomy	6 sectors	1 sector
Supporting credible net-zero transition planning	✓	✓
Government-led sector decarbonisation pathways, and how they may support or interact with corporate transition planning guidance	✓	X
Developing sustainable investment product labels	✓	X
Enhancing market supervision and enforcement	✓	X
Identifying and responding to systemic financial risks	✓ (APRA/RBA)	✓ (RBNZ)
Addressing data and analytical challenges	✓	X
Ensuring fit-for0purpose regulatory frameworks – specifically – make sure super funds are able to invest in ways that deliver the best possible returns for members	✓	✓ (MBIE)
Issuing sovereign green bonds	✓	✓
Stepping up international engagement	✓	-