

Reference: 20210526



TE TAI ŌHANGA  
THE TREASURY

2 December 2021

Dear [REDACTED]

Thank you for your Official Information Act (OIA) request, received on 4 November 2021. You requested the following the following reports:

- *Treasury Report T2021/1005: Finance Priorities Meeting - Hypothecation of ETS Proceeds*
- *Treasury Report T2021/1092: NZGIF: Further advice on sector specific objectives*
- *Joint Report by the Treasury and Ministry of Transport T2021/1526: Funding Approvals for the Clean Car Discount*
- *Joint Report by the Treasury and Ministry for the Environment T2021/1566: Funding and Financing the Transition*

### Information being released

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	30 April 2021	Treasury Report T2021/1092: NZGIF: Further advice on sector specific objectives	Released in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the OIA, as applicable:

- commercially sensitive information, under section 9(2)(b)(i) – to protect information where the making available of the information would disclose a trade secret
- confidential information, under section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

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<https://treasury.govt.nz>

### Information publicly available

The following documents covered by your request are publicly available on the Treasury and the Ministry of Transport websites:

Item	Date	Document Description	Website Address
2.	29 April 2021	Treasury Report T2021/1005: Finance Priorities Meeting - Hypothecation of ETS Proceeds	<a href="https://www.treasury.govt.nz/sites/default/files/2021-11/oia-20210343.pdf">https://www.treasury.govt.nz/sites/default/files/2021-11/oia-20210343.pdf</a>
3.	24 June 2021	Joint Report by the Treasury and Ministry of Transport T2021/1526: Funding Approvals for the Clean Car Discount	<a href="https://www.transport.govt.nz/assets/Uploads/1.-Redacted-OC210459-Funding-Approvals-for-the-Clean-Car-Discount-SIGNED-Min-Wood-27.6.2021.pdf">https://www.transport.govt.nz/assets/Uploads/1.-Redacted-OC210459-Funding-Approvals-for-the-Clean-Car-Discount-SIGNED-Min-Wood-27.6.2021.pdf</a>

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the OIA – *the information requested is or will soon be publicly available.*

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the OIA, on the grounds described in the documents.

### Information withheld

I have decided to withhold in full the document listed below under section s9(2)(f)(iv) of the OIA – *to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials*

Item	Date	Document Description	Decision
4.	2 July 2021	Joint Report by the Treasury and Ministry for the Environment T2021/1566: Funding and Financing the Transition	Withheld under s9(2)(f)(iv)

In making my decision, I have considered the public interest considerations in section 9(1) of the OIA.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

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

Yours sincerely

Reubhan Swann  
**Manager, Ministerial Advisory Service**

# 20210526

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THE TREASURY

## Treasury Report: NZGIF: Advice on Sector Specific Objectives

<b>Date:</b>	30 April 2021	<b>Report No:</b>	T2021/1092
		<b>File Number:</b>	CM-1-3-119-1

### Action sought

	Action sought	Deadline
<b>Minister of Finance</b> (Hon Grant Robertson)	<p><b>note</b> that NZGIF's mandate can include waste and plastics where there is an emissions objective, but constitutional change would be required for any objective over and above emissions.</p> <p><b>note</b> that public sector transport is already included in NZGIF's investment objectives.</p>	6 May 2021
<b>Minister of Climate Change</b> (Hon James Shaw)	<p><b>agree</b> to specify sectors for targeted NZGIF investment through a Letter of Expectations.</p> <p><b>agree</b> that the \$300 million in Budget 2021 funding should not be 'ring-fenced' to ensure capital is not redundant prior to investment readiness.</p>	

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ben Roberts	Analyst, Financial Institutions	s9(2)(k)	N/A (mob) ✓
Joseph Sant	Manager, Financial Institutions		N/A (mob)

### Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

## Treasury Report: NZGIF: Advice on Sector Specific Objectives

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### Purpose of Report

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1. You have requested further advice on options for allocating New Zealand Green Investment Finance Ltd (NZGIF) Budget 2021 funding to specific sectors, these being waste, plastics and the decarbonisation of public transport.
2. The Treasury previously advised Shareholding Ministers that specific sector objectives could be best communicated through a Letter of Expectations (LoE) [T2020/3707 *refers*]. This approach would send a clear signal that the Board must respond to and would enable flexibility for efficient use of capital in sectors at various levels of investment maturity.
3. This briefing provides further advice on the merits and risks of the proposal. We also discuss where additional information would be required on specific sector investment objectives, particularly for plastics.
4. We have consulted NZGIF as part of preparing this briefing. This has been completed with urgency ahead of budget announcements. The goal is to provide you with confidence around those announcements, but we consider more detail would be required prior to making specific capital allocation decisions.

### Background

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5. NZGIF's core mission is to accelerate investment that reduces Green House Gas (GHG) emissions in New Zealand. At present, NZGIF's five target sectors for investment are: transport (incl. public transport), process heat, distributed energy, built environment, and agriculture.
6. As set out by its establishing Cabinet paper, NZGIF is excluded from investing in the state sector (excl. local government), carbon capture and storage, forestry and large-scale electricity generation. Shareholding Ministers are granted the ability to change these exclusions by way of amending the company constitution.
7. While NZGIF is narrowly focused on the low-emissions market, it aims to achieve sufficient diversification by investing across a range of financial instruments, industries, technology and counterparties to meet investment risk requirements.
8. NZGIF's mandate is to multiply the effect of its capital through engaging private sector investors on commercially viable investments. To do this, it must generate a track record of value generative investments via a diversified portfolio (limiting the risk of singular investments that do not return as expected).
9. s9(2)(b)(i)  

10. Institutional investors require NZGIF to increase scale, or package opportunities to present scale, in order to deliver the multiplier effect and maximise the effectiveness of NZGIF's limited capital.

## Analysis

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### ***NZGIF's broad mandate can accommodate an expansion of its target sectors to include waste and plastics without constitutional change***

11. NZGIF interprets its mission as supporting the decarbonisation of the economy. On this basis, waste and plastics, given their material emissions impacts, can be added to NZGIF's target sectors without a change to its constitution. However, if the goal for waste and plastics goes beyond the by-product of emissions, then this would require a constitutional change.
12. Public transport is already captured by NZGIF's current target sectors; however, this only relates to private sector and local government. Targeted investment into any other types of public transport outside of the above would require changes to NZGIF's exclusions list, which could be easily achieved through Shareholding Minister agreement.
13. NZGIF is already involved in several opportunities in the decarbonising public transport sector including:
  - a \$5.8m debt and equity investment in Carbn Group, which has fleet advisory and fleet financing subsidiaries that are actively investigating public transport opportunities,
  - s9(2)(b)(i)
  -
14. Given the existing involvement in the sector and inclusion in NZGIF's mandate, it is not necessary to adjust target sectors to include public transport. However, Shareholding Ministers could send clear expectations that you expect focus should be placed on progressing opportunities in the sector in the near-term.

### ***A clear direction is needed on the nature of waste and plastics investment...***

15. Investment into the waste and plastics can be achieved within NZGIF's existing mandate as processes in each sector generate GHG emissions. Though not all opportunities will have a low-emissions element, NZGIF do see commercially viable opportunities that fit with its mandate in both sectors.
16. Given the short time frame for this advice, NZGIF cautions that while it has engaged with some counterparties on prospective plastics opportunities, a broad assessment of the sector's maturity would be required to fully understand opportunities. This activity would be prioritised if plastics were added as a target sector.
17. NZGIF has investigated opportunities in 'bio-gas waste to energy' and other waste/recycling proposals. It has also discussed upcoming changes to the waste minimisation programme with the Ministry for the Environment. There are clear synergies with respect to waste as it relates to emissions reduction.

18. If Ministers wish for NZGIF to target investment in opportunities that go beyond 'low-emissions' in waste and plastics, then constitutional change will be required. This would be the case if Ministers desired a product such as the '\$50m Plastics Innovation Fund' that was proposed at Budget 2021.<sup>1</sup>
19. Changing NZGIF's investment objectives beyond emissions reduction would be a material change to the organisation's market offering. Setting up additional mandates as new market 'products', differentiated from the emissions-reduction objective, can ensure effective positioning and avoid confusion over the capital allocated for each (different) investment objective.
20. Should this be desirable, we would recommend that capital allocation is appropriate for each investment product. NZGIF's internal processes would not be able to evaluate trade-offs between products, where a crude comparison might be 'tons of emissions reduced vs tons of plastics recycled'. The ETS will support transparent pricing of emissions but there is not a similar regulatory signal for the alternative. Therefore, while limiting overall flexibility, allocating capital would support the Board to achieve specific investment missions.

***...and these objectives should be part of an overarching strategy for climate-related investment vehicles***

21. As noted in our previous advice, the greater degree of allocation into particular products and/or sectors, the lesser ability for NZGIF to invest in opportunities of scale. Additional products that incorporate blended finance (grant or concessional funding) presents a significant change to the company constitution.
22. NZGIF has advised that non-commercial approaches would complicate internal disciplines and market reputation, as well as its ability to attract the right capability and private capital. Officials will need extended time to engage with NZGIF if Ministers envisage the plastic mandate as focused on administering grants.
23. You have also received a draft Cabinet paper on the funding and financing programme to deliver the Government's climate objectives. Much of this advice is aligned to the questions you are asking now. We see a likely outcome is the development of an investment institution that will be required to deliver multiple products and will have the flexibility and mandate to work with Ministers on the design of those products to ensure objectives are achieved in the most efficient use of public capital.
24. We think this presents a complex design challenge, for the market and operational clarity reasons presented by NZGIF, but also how the Government will wish to consider its sustainability objectives over time. Officials' strong support for recapitalising NZGIF at this time is to support the development of scalable investments and securing the co-investment approach as a precursor to these bigger decisions. This momentum build is a relatively low-risk strategy while the full suite of funding and financing objectives are presented ahead of Budget 2022.
25. Decisions on NZGIF's mandate may best be incorporated into the broader options we expect to present to Ministers by October 2021. We wish to avoid a decision this year that would introduce operational complexity with the risk that this may not be secure in the long-term.

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<sup>1</sup> A \$50 million plastics innovation fund was proposed to 'support innovative projects that aim to reimagine how we make, use and dispose of plastics, and provide more sustainable options'. The fund was intended to provide grant funding as well as loans and would service projects from a wide range of applicants.

26. This does not stop announcements at budget 2021 that can require NZGIF to develop investible opportunities in the three sectors you have prioritised, consistent with its mandate. This can be a clear signal of your interests and how your investment programme is developing over time. You could also ask NZGIF to specifically understand the opportunity set for investments beyond emissions reduction, in partnership with officials, for a future decision.

***Maintaining a single funding pool allows NZGIF to maximise investment opportunities, enabling flexibility and balance sheet optimisation***

27. NZGIF's current investment approach relies on its ability to flexibly deploy capital, in an optimised manner, across sectors and over time as sector investability evolves.
28. Low emissions markets are still at the nascent stage of maturity. Direct investment requires the opportunistic and dynamic assessment of prospective investments and the consideration of the needs/wants of co-investors at any time. Having unrestricted capital to deploy towards the right opportunities at the right time is key to delivering on NZGIF's objective to multiply the impact of its limited capital.
29. Market experience so far has demonstrated that investability has been sector-dependent; for example, agriculture and process heat have seen fewer commercially viable opportunities than transport or energy efficiency. Had funding been ring-fenced by sector at the outset, that funding would have been locked up and unavailable for other opportunities.
30. Increasing the scale of low-emission investments was a key driver in your decision to recapitalise NZGIF by \$200 million at Budget 2021. Fulfilling this aim will require NZGIF to be able to leverage significant percentages of its capital pool. The increased funding will enable NZGIF to invest up to \$60 million in a single opportunity from June 2021 (20% of total investment capital). Locking up funding within ring-fenced funds would reduce the ambition and scale of potential investments and potentially conflict with the original motivation for recapitalisation, as described by NZGIF.
31. Should you be comfortable with maintaining NZGIF's existing constitution for the time being, we do not recommend that Shareholding Ministers 'ring-fence' funding for specific sector objectives.

***Adjusting NZGIF's target sectors through a revised Letter of Expectations (LoE) provides flexibility and could be used to support Budget announcements***

32. In our previous advice, we recommended that NZGIF's 2021/22 LoE would be an appropriate place for Ministers to express any expectation that new Government funding should be invested to support particular sectors.
33. NZGIF agrees with our advice and has provided additional confidence in how it would respond to such a letter. NZGIF expects to affirm its intent to expand its focus to the target sectors and communicate this intent in public announcements once this instruction is received. Therefore, the timing of the LoE could be coordinated with budget announcements. We suggest that your offices co-ordinate with NZGIF on the rollout of any communications regarding sector specific objectives.
34. NZGIF also agrees with Treasury advice that capital efficiency is an important construct of its investment strategy. By not constraining capital allocation to specific sectors, Ministers retain flexibility to adjust expectations over time and would allow NZGIF to target large scale opportunities on sectors as they become investible.
35. NZGIF would apply its full skill set to develop immature sectors to become investible over time. Capital can then be recycled from early opportunities to deliver on these objectives. The alternative is to make capital redundant until sectors mature to an investible stage.

36. Ministers could request that NZGIF's Statement of Performance Expectations (SPE) specifically measure how it intends to achieve sector by sector outcomes. NZGIF would then be required to report against these measures in its Annual Report. Regular conversations with the Board then become the forum to assess the company's performance in identifying and executing investment opportunities in each sector.
37. NZGIF recognises that more significant scope changes in the future can be achieved but further work to explore the most effective way to achieve this is required. We have incorporated relevant excerpts from NZGIF's response letter to the Treasury in an Appendix to this briefing.

## Recommended Action

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We recommend that you:

- a **note** that NZGIF's broad mandate allows investment into public transport, plastics and waste without constitutional change, so long as the investments are focused on emissions reduction. Any non-emissions objective would require constitution change.
- b **note** that public sector transport is already included in NZGIF's target sectors and the company recognises opportunities in bio-gas to waste energy. However, there is less clarity on Government objectives for investment into plastics emissions.
- c **note** that Ministers will receive advice on a broad climate funding and financing strategy by October 2021 and this is likely to include options to either expand NZGIF's mandate or consider whether an alternative investment institution can better suit the Government's sustainability objectives.
- d **agree** to either:
- i. commit the \$300 million in Budget 2021 funding (\$100 million held in contingency for decision at Budget 2022) to NZGIF's general capital pool and not 'ring-fence' funding to specific sector objectives.

*Agree/disagree.*  
Minister of Finance

*Agree/disagree.*  
Minister of Climate Change

Or

- ii. meet with officials and the NZGIF Chief Executive to discuss how best to achieve your ambition for investment into plastics this year.

*Agree/disagree.*  
Minister of Finance

*Agree/disagree.*  
Minister of Climate Change

- e **agree** to use a revised Letter of Expectations to require NZGIF to expand its target investment sectors to waste and plastics. This letter could also communicate that:
- i. NZGIF should place specific focus on pursuing opportunities in public transport decarbonisation, and
  - ii. NZGIF's Statement of Performance Expectations should specifically measure how it intends to achieve outcomes in plastics, waste and public transport decarbonisation.
  - iii. NZGIF should investigate how it could achieve broader objectives with plastics waste reduction, including options for alternative products and/or effective recycling and disposal, for a future Government decision.

*Agree/disagree.*  
Minister of Finance

*Agree/disagree.*  
Minister of Climate Change



Joseph Sant  
**Manager, Financial Institutions**

Hon Grant Robertson  
**Minister of Finance**

Hon James Shaw  
**Minister of Climate Change**

s9(2)(ba)(i)

