An asset for capital recycling

If it feels like the pressure is building on New Zealand's ability to fund our community infrastructure, that's because it is.

Up and down the country, signs of strain are starting to show. Water pipes are failing. Roads need urgent repairs. Schools, hospitals, and social housing are stretching to meet growing demand. And then, there's the rising threat of climate change, made all too real by Cyclone Gabrielle and the devastating Auckland Anniversary floods. The cost of preparing for the future is no longer theoretical. It's at our doorstep.

ASB has put a number on it: $1 trillion. That's what it will take over the next 30 years to address our infrastructure shortfall. It's a figure so large it almost feels untouchable. But ignoring it isn't an option.

Communities are feeling this financial weight and their ability to pay. Research in 2024 from Infometrics showed that in draft long-term plans across 48 councils, average rates increases of 15 percent are on the table - the largest hike since 1990. For everyday homeowners, it's a confronting reality. For councils, it's a desperate balancing act: do they invest in what's needed, or simply try to hold the line?

But the costs keep climbing. Building a bridge now costs 38 percent more than it did just three years ago. Sewage systems? Up 30 percent. Roads and water supplies, they are now 27 percent more expensive. And that's before you consider inflation, debt servicing, insurance premiums, and rising audit costs, all of which are squeezing council budgets even further.

No wonder we're hearing language from councils such as: "tough decisions," "back to basics," "something has to change".

It's clear action needs to be taken.

It isn't just about councils asking their ratepayers to pay more? What if it's also about making smarter choices with the assets and capital councils already have?

Both central and local government have successfully used NZ public markets to raise capital. And, across both, there are a wide range of assets - valuable, investible assets - that don't necessarily need to be held in public hands forever. Think ports, airports, electricity lines companies. Even the gentailers, Kiwibank and Transpower, to name but a few.

The asset recycling idea isn't new. In fact, we've seen it succeed. The mixed-ownership model, and the listing of Napier Port, and Auckland Council's sell down of its assets in Auckland International Airport (and into a Auckland Future Fund) has brought in new investments, improved performance and still allows the Government and councils to retain a meaningful stake.

A 2018 review of the mixed ownership model found that, following partial privatisation, the gentailers improved their dividend returns, lowered their debt, and became more efficient with capital. That's the power of capital recycling - taking money tied up in assets that no longer need full public ownership, and reinvesting it where it's most needed.

Importantly, this isn't about selling to plug gaps. It's about freeing up capital to build the things that matter most: resilient hospitals, future-proofed schools, reliable roads and pipes, well-equipped libraries and swimming pools. Assets that directly improve quality of life.

Many councils are already starting to explore this path - not out of ideology, but out of necessity. Because the reality is, New Zealand cannot afford to keep funding tomorrow's needs with yesterdays playbook. The Government and councils need another tool in their toolbox and utilising New Zealand's public markets.

And when the numbers are this big, when the need is this urgent, and when the opportunity is this clear - it's time we had a serious conversation about what we own, what we value, and how we build a future that works for everyone.

NZX

CASE STUDY

Napier Port IPO

Navigating new horizons

In December 2019, Napier Port Holdings chartered a new course for its future, listing 45% of Napier Port on the NZX through an Initial Public Offering (IPO).

Since 1989, the Hawke's Bay Regional Council (HBRC) had maintained full ownership of Napier Port. However, growing capital constraints, the port's need for expansion, risk diversification, and the increasing demand for sustainable capital investment, prompted a reassessment of the existing model.

To understand the motivations behind this significant move, the challenges faced, and the benefits of the IPO to date, NZX spoke with Hawke's Bay Regional Councillor Neil Kirton and Napier Port Holdings Chief Financial Officer Kristen Lie.

WHAT WAS THE BACKGROUND TO NAPIER PORT LISTING ON THE NZX?

Neil Kirton: "We (the Hawke's Bay Regional Council) had the experience from Christchurch, with the Christchurch Earthquake, that told us we faced a lot of exposure. Napier Port was 75% of our income, so in order to spread our risk, we needed to take a step forward and change the setting in terms of our investment."

Kristen Lie noted that over the past decade Napier Port had experienced around six and a half percent of annual compounding trade growth, with revenues following a similar trajectory. This prompted the need for the Port to expand its operations and seek additional capital to meet increasing demands.

HBRC and Napier Port's Senior Leadership Team explored multiple options, including private investment, leasing to an international operator, and an IPO. However, retaining majority public ownership was a key priority, making the IPO the preferred strategy.

WHAT WAS THE STAKEHOLDER ENGAGEMENT STRATEGY?

Given Napier Port's deep-rooted connection with its community, it was no surprise that public sentiment strongly favoured keeping it in local hands.

As a result, during the initial proposal process, HBRC and Napier Port engaged extensively with local stakeholders, including politicians, businesses, employees, local iwi, ratepayers, community groups, and shareholders.

Kristen acknowledged that while there were some initial reservations or concerns, these offered a valuable opportunity for all parties and stakeholders to have an open discussion.

"The business case for the community was clear: we needed to ensure the future sustainability of the Port, meet the growing needs of the local economy, and secure jobs and further economic benefits for the region."

WHAT WERE KEY FACTORS TO CONSIDER WHEN GOING THROUGH THE LISTING PROCESS?

After securing strong community support and deciding to pursue a public listing, the crucial step was assembling a team of advisors to guide them through the process.

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Napier Port Holdings Chief Financial Officer,
Kristen Lie

The appointment process was a highly collaborative effort, involving the management team, the board, and the Hawkes Bay Regional Investment Company, representing the shareholder.

"I'd have to say the process was exceptionally well run", Neil Kirton says. "Having experts on board got us over the line on so many issues. All the anxiety that we were having as councillors and decision makers was removed because we had a very clear process."

Kristen Lie added that bringing together a high calibre of people, from lawyers to financial and commercial advisors, was vital to ensuring the whole process ran smoothly.

WHAT WERE THE KEY BENEFITS FROM LISTING?

The IPO unlocked $234 million of capital, enabling Napier Port to expand its berth capacity through the development of 6 Wharf, formally known as Te Whiti.

By enabling more 'parking spaces' for vessels, Napier Port can now handle more containers, bulk cargoes such as logs, and allow cruise ships to call.

"With Te Whiti, we don't have capacity issues anymore. That doesn't mean we don't have any operational issues or challenges, but it does mean that we're able to facilitate trade through the port in different ways," Kristen Lie says.

Last year alone, 571 vessels visited the port, five million tonnes of cargo was handled and 138,280 cruise passengers visited the region.

Both Kristen and Neil emphasised how the IPO provided significant benefits to both the community and shareholders. Despite challenging years of pandemic and cyclone, the company has met its targets to date, and results being reported now, and dividends paid to shareholders are higher than before listing.

"When councils undertake an exercise in selling public assets, it's always fraught with the notion that the ratepayer is going to miss out," Neil says.

CONCLUSION

The Napier Port IPO has delivered substantial benefits, enabling critical infrastructure expansion, financial diversification for the Hawke's Bay Regional Council, and economic growth for the community. The capital injection has strengthened regional trade, increased shareholder returns, and secured Napier Port's long-term sustainability, ensuring it remains a vital asset for the Hawke's Bay region.

> The key benefits of listing have been outstanding. We've achieved major developments to accommodate world trade and, at the same time, the Council has been able to double its equity and freed up capital.

Hawke's Bay Regional Councillor,
Neil Kirton