

The Treasury

Mixed Ownership Model for Crown Commercial Entities: Treasury Advice Information Release

4 September 2012

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Mixed Ownership Model - Reporting Schedule up to the Election

Date:	2 August 2011	Report No:	T2011/1674
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note this report	8.30am, 3 August 2011
Minister for State Owned Enterprises (Hon Tony Ryall)	Note this report	8.30am, 3 August 2011
Associate Minister of Finance (Hon Steven Joyce)	Note this report	8.30am, 3 August 2011

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Dominic Milicich	Senior Analyst, Commercial Transactions Group	[1]	✓
Andrew Blazey	Manager, Commercial Transactions Group	[1]	

Minister of Finance's Office Actions (if required)

None.

Minister for State Owned Enterprises' Office Actions (if required)

None.

Enclosure: Yes (attached)

Treasury Report: Mixed Ownership Model - Reporting Schedule up to the Election

Purpose of Report

1. You are meeting officials from Treasury and representatives from Deutsche Bank at 8.30am on Wednesday 3 August 2011 to discuss progress on the preparatory stage of extending the Mixed Ownership Model (MOM). This report sets out the proposed agenda for that meeting and outlines the reporting we intend to provide to Ministers from that point.

Proposed Agenda for 3 August 2011

2. At the meeting we propose to cover the following topics:
 - Progress relative to the work programme
 - Pre/post election decision making and timetable
 - Issues relating to allocation, foreign ownership, iwi and the regulatory environment
 - Risk and assurance, and
 - Communication.
3. We will bring discussion materials with us for the meeting.

Reporting Programme

4. We will provide ministers with regular updates on the progress being made on the project as well as highlighting risks and raising issues as these arise. This regular reporting will take the form of oral and written briefings. Progress reports will be sent to you each fortnight commencing Thursday 4 August. In line with Ministers' preferences, these reports will be in a style similar to those supplied by Crown Fibre Holdings. Meetings have been set-up in your diary on 3 August, 7 September and 26 September. We propose to brief you on approximately a four weekly basis, depending on your availability.
5. In addition to regular progress reporting, there are some significant policy issues where officials will need ministerial guidance. We will provide more substantive discussion papers on these issues. The first of these, on incentives to encourage widespread New Zealand retail participation, was provided earlier this week [T2011/1578 refers]. Examples of other substantive issues will include legislative requirements, foreign investment issues, and governance arrangements.

Work Programme

6. The months leading up to the election will involve us completing an intensive work programme on the MOM project. The work of the Crown Advisor during this period will culminate in the completion of a Sales Programme report, which will be a major input to the Treasury advice to Ministers. A summarised version of the table of contents for that report is attached as an annex; this gives a good overview of the issues to be covered over this period.
7. Much of the material to be included in the Sales Programme report will come from the scoping studies to be completed on Meridian, Mighty River Power, Genesis, and Solid Energy. The scoping studies are to determine:
 - whether there are any company-specific issues that need to be resolved before the company can be included in the MOM program
 - whether any restructuring of the companies is desirable to maximise value
 - whether there any issues that may affect the timing of the float of a company within the overall MOM program
 - whether shares should be sold in tranches
 - indicative share prices, and
 - the marketing strategy for each company.

Table 1: Summary Work Programme

	Phase 1				Phase 2				Phase 3 >>	
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Phase 1 - Policy development										
Appoint Probity Advisor										
Assemble Project Team										
Phase 2 - Preparation										
Appoint Crown advisor										
Appoint Scoping study advisors										
Scoping studies undertaken										
Appoint legal, and accounting panels										
Policy development										
Sales program advice developed										
Identify sales panel										
Phase 3 - Consultation and implementation										
Appoint sales advisors										
Consultation										

8. We are presently tendering for parties to undertake scoping studies. The scoping study advisors will commence work on 15 August and take eight weeks to complete their reports. We are one week behind our intended schedule; however this has not compromised our overall timetable.
9. Separate from the work on scoping studies will be an assessment of regulatory issues and consideration of policy issues which might impact on the design, transition or aftermarket aspects of implementing mixed ownership. The regulatory issues include:
 - natural resource issues: water, carbon, minerals, RMA

- financial market issues: takeovers codes, related party rules, listing requirements, and
 - international markets: free trade obligations, overseas investment rules.
10. During the preparatory stage, our assessment of policy issues will inform the design of a sales programme. If implemented, the assessment will contribute to the due diligence the Crown will need to undertake as part of the disclosure requirements for prospectus documents.
 11. Aspects of our work are likely to require discussion with external parties, for example, when considering the design of governance arrangements, including board structure and remuneration, we plan to seek views from industry experts, such as the Institute of Directors.
 12. Regarding Maori consultation, we are assuming that formal consultation with Maori will not be possible before the election; however, some preparatory steps could be undertaken, depending on Ministers' views. In particular, we may need the assistance to help us define the purpose of the consultation, how we should conduct it, what we should aim to achieve, and over what time period the consultation should take place. We will discuss this topic at our meeting on 3 August.

Engaging SOEs

13. Since appointing a Crown advisor, we have met the chairs of SOEs and held follow-up meetings with executive members from each SOE identified for mixed ownership. The chairs are focussed on when they will have opportunities to engage Ministers and Treasury on their respective views regarding mixed ownership. Below are the specific initiatives we are proposing on this matter:
 - We will continue to meet the chairs as a group as well as offer to update each board separately on our work. Tentative dates for meeting chairs are: 29 August, 10 October, 7 November.
 - Shareholding Ministers' next opportunity to meet the boards will be at the annual general meeting for each company. We are working with your offices on dates for a Minister to attend these meetings.
 - We have sought views from each SOE on the potential scoping study firms that best understand and work well with that SOE. Given our focus on managing timeframes, we wish to ensure there are the best possible working relationships between advisors and SOEs in order to assist the flow of information and discussion of issues.
 - We will also be seeking views on the same issue at the time we consider sales syndicate members.
 - We have undertaken to show each SOE a copy of the final scoping study report for that company and to seek the board's view on the report's findings. As such, the scoping study reports and the feedback from the boards will contribute to Treasury's advice.

14. At the front of our minds is the need to ensure the commercial confidentiality of the company's information, while at the same time ensuring that the shareholder and its advisors have the necessary information to prepare a potential sales programme. To help ensure confidentiality is maintained we are establishing a confidentiality protocol to frame our engagement and drafting confidentiality agreements for advisors.
15. In the majority of cases, each board has formed a subcommittee on mixed ownership issues and specific directors have responsibility for the matter. We have reported to you separately on director fees in terms of an implication from the workload. [T2011/1602 refers].
16. [3]

Recommended Action

We recommend that you **note** this report before meeting officials at 8.30am on Wednesday 3 August 2011.

Andrew Blazey
**Manager, Commercial Transactions
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

Hon Steven Joyce
Associate Minister of Finance

