

The Treasury

Mixed Ownership Model for Crown Commercial Entities: Proceeds from the GSO Programme Information Release

19 December 2013

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information, or who is the subject of the information
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- [6] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice, or
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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: Estimated proceeds from the GSO programme

Date:	1 November 2013	Report No:	T2013/2733
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note contents	None
Associate Minister of Finance (Hon Steven Joyce)	Note contents	None
Minister for State Owned Enterprises (Hon Tony Ryall)	Note contents	None

Contact for Telephone Discussion (if required)

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Actions for the Minister's Office Staff (if required)

None.

Enclosure: No

Treasury Report: Estimated proceeds from the GSO programme

1. The Government has now raised gross proceeds of \$3.57 billion from the IPOs of Mighty River Power and Meridian. We estimate that the remaining transactions in the Government Share Offers (GSO) programme will raise a further ^[6]
2. ^{[4],[6]} Therefore we estimate the gross proceeds from the GSO programme will be around \$4.8 billion.

	^[6]
Mighty River Power	1,686 (actual proceeds)
Meridian	1,883 (actual proceeds)
Genesis	^[6]
Air New Zealand	
Total gross proceeds	

Genesis

- ^{[3],[6]} 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.

Air New Zealand

10. Cabinet has agreed that the Crown can sell 20% of the total shares on issue in Air NZ, or around 220 million shares, which would leave Crown ownership at around 53%.
11. As at close of trading on 30 October, Air NZ's share price was \$1.63. The share price has increased significantly in recent weeks and is now at a five-year high.
12. At market price, around 220 million shares would be worth roughly \$360 million. However, it is possible that for a transaction of this size the Crown will not be able to achieve market price. ^[6]
13. ^[6]

Half-Year Economic and Fiscal Update (HYEFU)

14. The HYEFU will include an updated estimate of proceeds from the GSO programme. Previous EFUs have assumed \$6 billion, the midpoint of the \$5 to 7 billion range. With the Meridian proceeds now known and the Genesis proceeds able to be benchmarked against Meridian and MRP, this is no longer an appropriate estimate.
15. We recommend that the HYEFU assumes gross proceeds from the GSO programme of \$4.8 billion, which is our current best estimate (rounded to the nearest \$200 million). We do not think it would be appropriate for the HYEFU to round to the nearest billion, i.e. to round up to \$5 billion.
16. In addition to reducing the sale proceeds we have also updated the HYEFU assumption around the completion date of the sales programme. In previous forecasts we have assumed the programme would be spread equally across four years, with completion in the 2015/16 financial year. HYEFU will assume that the programme will now be completed in the current financial year with only the second instalment of the Meridian proceeds being received in 2014/15. This change increases cash proceeds in the current year, while reducing them in subsequent years. In addition, the full impact of foregone profits and dividends, and interest cost savings, will now be recognised from 2014/15 instead of 2016/17, as previously assumed in the forecasts.
17. These assumptions have been used to prepare the preliminary fiscal forecasts (due to be completed by 4 November). Assumptions for inclusion in the final fiscal forecasts will need to be confirmed by 15 November. The HYEFU will be published on 17 December.
18. In previous EFUs we have included specific disclosure about the sales programme, detailing the estimated fiscal impact (e.g. foregone profits and dividends, interest cost savings). This disclosure could be made as the programme had either not commenced or was only part-way through, and therefore individual sales were not separately identifiable. Now that there are only two IPOs remaining, we are considering the level of disclosure that is permissible in the HYEFU. We will report to you separately on this.

Future Investment Fund

19. The Future Investment Fund (FIF) was established in Budget 2012 to fund all new capital expenditure through to Budget 2016 (and replaced the capital allowances) so as to meet the Government's Budget 2011 commitment to fund all new capital expenditure from the existing Crown balance sheet.
20. To date, just under \$2 billion has been allocated¹ from the FIF in Budgets 2012 and 2013. Sector allocations for 21st Century Schools and priority health investments of \$1 billion each have also been ring-fenced within the Fund. The revised estimates of proceeds from the GSO programmes impacts the Fund by significantly reducing the unallocated funding available from the FIF for future budgets or to repay debt.

Future Investment Fund Summary – HYEFU 2013 (prelim)

Expenditure (\$million)	Budget 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017	Total
Future Investment Fund Spending Profile HYEFU 2013 (prelim)	533	1,420	1,000	900	900	[6]	[6]
Revenue (\$million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Actual GSO proceeds HYEFU 2013	-	1,686	1,256	627	-	-	3,569
Expected GSO proceeds HYEFU 2013 (prelim)	-	-	[6]	-	-	-	[6]
FIF Balance (\$million)	Budget 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017	Total
FIF accumulated balance at each Budget	-533	-268	[6]	[6]	[6]	-	-
Sector Allocations	Budget 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Unallocated	Total
21st Century Schools - allocated so far	35	184	-	-	-	781	1,000
Health Investments - allocated so far	53	431	-	-	-	516	1,000

21. The key implications for the FIF from the revised estimates are:
 - Based on current forecasts, the Government does not need to alter the current FIF spending profile as the current profile still ensures the FIF funds all new capital expenditure through to Budget 2016.
 - There is now unlikely to be any funding remaining in the FIF past Budget 2016 to use to either repay debt or fund new capital expenditure in Budget 2017.
 - There will need to be strong discipline and prioritisation of all new capital expenditure and Ministers should seek to stay within the current spending profile.
 - Given public commitments around health and education investments, priorities for new spending should be in these areas.
 - The reduced estimates of GSO proceeds should also help strengthen the case to have greater scrutiny over baseline-funded capital investments.

¹ This figure has been revised down from the \$2.1 billion allocated in BEFU 2013 given recent funding decisions on Solid Energy (\$100 million reduction) and reclassification of technical initiatives in Vote Health in Budget 2012 (\$35.5 million reduction).

Recommended Action

We recommend that you **note** the contents of this report.

Chris White
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Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises