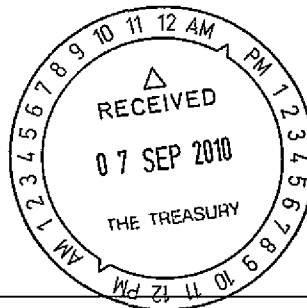




# Cabinet

## Minute of Decision



CAB Min (10) 31/23

Copy No: 16

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Additional Item: Reducing Costs under the Crown Retail Deposit Guarantee Scheme

Portfolio: Finance

On 30 August 2010, Cabinet:

- 1 **noted** that on 26 August 2010 an ad hoc group of Ministers comprising the Prime Minister, Minister of Finance, Associate Minister of Finance (Hon Simon Power), Hon Tony Ryall, Hon Judith Collins, Hon David Carter, and Associate Minister of Finance (Hon Steven Joyce), having been authorised by the Prime Minister to have Power to Act:

#### Background

- 1.1 noted the briefing from officials on the current situation regarding South Canterbury Finance Limited (SCF);
- 1.2 noted that officials would be reporting to the Minister of Finance and the Associate Minister of Finance (Hon Steven Joyce) shortly on a SCF recapitalisation bid;

#### Removal of prior charge holders

- 1.3 agreed that, subject to the Minister of Finance and the Associate Minister of Finance (Hon Steven Joyce) deciding not to accept the recapitalisation bid, in the event SCF defaults the Crown make a secured loan to the receiver to remove prior charge holders;
- 1.4 authorised the Minister of Finance and Associate Minister of Finance (Hon Steven Joyce) to make final decisions about the detail of any loan approved in accordance with paragraph 1.3 above;
- 1.5 agreed to establish a new Non-Departmental Capital Expenditure appropriation "Loan in Respect to Guarantees and Indemnities for the Crown Retail Deposit Guarantee Scheme" in Vote Finance;
- 1.6 agreed that the scope of the appropriation referred to above be "This appropriation is limited to a loan in respect of guarantees and indemnities for the Crown Retail Deposit Guarantee Scheme in Vote Finance";

- 1.7 noted that the loan referred to above is expected to be repaid in full in either 2010/11 or 2011/12;
- 1.8 approved the following changes to appropriations to implement the decisions referred to above;

Vote Finance Minister of Finance	\$m – increase/(decrease)			
	2010/11	2011/12	2012/13	2013/14 & Outyears
Non-departmental Capital Expenditure: Loan in Respect to Guarantees and Indemnities for the Crown Retail Deposit Guarantee Scheme	175.000	-	-	-

- 1.9 agreed that the changes to appropriations for 2010/11 above be included in the 2010/11 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

#### Full payout to all debenture holders

- 1.10 noted that full payout is expected to reduce the fiscal costs of the Crown Retail Deposit Guarantee Scheme (DGS) by approximately \$109 million relative to the standard payout process and that, as a result, no charge against the between Budget contingency will be required;
- 1.11 noted that:
- 1.11.1 the Crown accounts currently include a provision of \$111 million for post-default interest;
  - 1.11.2 under a full payout approach, this cost would be reduced to \$1 million, resulting in an immediate beneficial impact on the Crown accounts of \$110 million;
- 1.12 noted that there will be additional savings of \$9 million against the estimates for the cost of administering the full payout to debenture holders in respect of Departmental Output Expenses “Administration of Guarantees and Indemnities given by the Crown PLA” in Vote Finance;
- 1.13 noted that the Crown paying out both eligible and ineligible creditors would extend the benefits of the guarantee to those that were not intended to benefit from it (including related parties, trusts, financial institutions, non citizens/tax residents and holders of deposits over \$1 million);
- 1.14 noted that the Crown would make payments to eligible depositors under the Non-Departmental Other Expense “Payments in respect of Guarantees and Indemnities PLA”;
- 1.15 noted that it may be possible to also make payments to ineligible depositors under the authority referred to in paragraph 1.14 above, but in case it is not, an appropriation is sought to make these payments;

- 1.16 agreed to establish a new Non-Departmental Other Expense appropriation “Additional Payments to Facilitate Full Payout under the Crown Retail Deposit Guarantee Scheme” in Vote Finance;
- 1.17 agreed that the scope of the appropriation in paragraph 16 above be “This appropriation is limited to payments under the Crown Retail Deposit Guarantee Scheme additional to those covered by the PLA required to facilitate full payout. This includes payments to ineligible investors in entities which default under the Deed of Guarantee up to 12 October 2010 plus a contingency to ensure that payments to the Trustee cover the full costs of paying out all debenture holders”;
- 1.18 noted that the contingency referred to in paragraph 1.17 above is expected to be repaid in full in 2010/11;
- 1.19 approved the following changes to appropriations to implement decisions in paragraphs 1.16 and 1.17 above;

Vote Finance Minister of Finance	\$m – increase/(decrease)			
	2010/11	2011/12	2012/13	2013/14 & Outyears
Non-departmental Other Expense: Additional Payments to Facilitate Full Payout under the Crown Retail Deposit Guarantee Scheme	200.000	-	-	-

- 1.20 agreed that the changes to appropriations for 2010/11 above be included in the 2010/11 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 1.21 agreed that, in the event SCF defaults, the Minister of Finance has the option of paying out both eligible and ineligible depositors, and extending this to creditors in other entities that default under the DGS to address any possible fairness and legal issues;
- 1.22 noted that the Minister of Finance would approve the Crown borrowing back the payment to the Trustee until payment is made out to individual debenture holders;

### General

- 1.23 invited the Minister of Finance and the Associate Minister of Finance (Hon Steven Joyce) to report to Cabinet as soon as practicable on these decisions and on any subsequent decisions made in relation to the above paragraphs;

1.24 noted that the ad hoc group of Ministers are not aware of (and are not in a position to know) the identity of any person or entity affected by the decisions referred to in paragraph 21 above;

2 **noted** the briefing by the Minister of Finance on the current situation regarding SCF.

Secretary of the Cabinet

---

**Distribution:**

Prime Minister

Chief Executive, DPMC

Director PAG, DPMC

Minister of Finance

Secretary to the Treasury

Associate Minister of Finance (Hon Steven Joyce)

Controller and Auditor-General