The Treasury

Budget 2011 Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[8] 9(2)(h) - to maintain legal professional privilege

[9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Accounting for the Introduction of the Mixed Ownership Model

Illustrative Example

Seeking to illustrate:

Sale of 49% shareholding of four entities

Book value of companies is $9 Billion, 49% is $4.5 Billion

Profit stream from companies is $500 million per year

Dividend stream from companies is $200 million per year

Assumptions

Sale Proceeds of the shareholding is $5 Billion

Costs associated with sale are * of sale proceeds

* [2][3][6][11]

Dividend policy remains unchanged

Sale process evenly spread over two years from 2012

50% rather than 49% used to simplify calculations

The net cash proceeds are applied to net debt
(i.e. The net capital allowance is reduced)

Net debt is reduced through reduced issue of Govt Bonds

The return on the net investment/reduction in debt is equivalent to the Government's long term bond rate at 5.5%

Fiscal Strategy

Operating revenue
Ensure sufficient revenue to meet the operating balance objective

Operating expenses
Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective

Operating balance
Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective

Debt
Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP

Financial Results	2010/11 Forecast $m	Impact 2012 $m	Impact 2013 $m	Impact 2014 $m	Impact 2015 $m	Four-yr impact $m	Description
Taxation as a % of GDP	25.8%						
Core Crown taxation revenue ...	52,527						
... combined with other core Crown revenue ...		(50)	(100)	(100)	(100)	(350)	Dividends foregone,
		121	247	255	263	886	Reduced interest costs
... fund core Crown expenses...	(70,560)		[2][3][6][11]				Costs of sale
... and with SOE and Crown entity results and core Crown gains and losses...		(75)	(150)	(150)	(150)	(525)	(Retained) profit foregone
	2,998	250	250			500	Gain on sale
... result in a whole-of-government operating surplus or deficit...	**(9,116)**		[2][3][6][11]				**Impact on Consolidated Operating Result excluding minority interests**
...with income in SOEs, CEs and the NZS Fund retained...	(2,984)	75	150	150	150	525	Reversing the retained profit foregone (not impacting cash)
... and some items do not impact cash ...	2,203	(250)	(250)			(500)	Gain on sale
... leaving operating cash flows to ...	(9,897)		[2][3][6][11]				
... build up assets in the NZS Fund ...	-						
... meet the net capital expenditure budget ...	(2,264)	2,375	2,375			4,750	Sale Proceeds
... and make advances (e.g. to students and DHBs)	(3,441)						
With the residual cash impact...	**(15,602)**		[2][3][6][11]				**Impact on Core Crown Net debt**
... when combined with opening net debt ...	26,738						
... and other fair value movements in financial assets and financial liabilities ...	(262)						
... results in a closing net debt ...	**42,078**						
... and as a % of GDP	**20.7%**						

Operating Balance Impact

Debt Impact

Explanation
Summarising the impact:

The **Operating Balance** is reduced by the smaller profit from the companies that the Crown gets (represented both by smaller dividends and smaller share of undistibuted profits) , and also the costs of sale, and is increased by the gain on sale and the reduced interest costs from lower net debt.

The impact on **net debt** is the proceeds from the sale, and the lower interest costs, less the cash impact of reduced dividends, and the costs of sale.

In more detail:

For Core Crown revenue, dividends foregone are $100 (i.e. half the previously forecast dividends of $200).

Core Crown expenses are reduced by the lower interst costs on the debt. The Core Crown however incurs the costs associated with the sale process over the two years that it takes, increasing core Crown expenses in those years.

To determine the consolidated whole-of-government operating balance excluding minority interests, the companies' profits rather than their dividends are reported. The retained profits are therefore added to the distributed profits shown under revenue above, and this is impacted because some of those retained profits are attributable to the minority interest.

A gain on sale is also reported, as the proceeds from the shares sold are worth $500 million more than their book value. That gain is spread over the two years the sales occur.

To determine the Core Crown cash operating surpluses or deficit, it is necessary to add back the reduced profits attributable to the Crown as these do not impact cash. The gain on sale is also added back as this gain is included in the net proceeds .

The sales proceeds (a capital receipt) is added to the impact on the Core Crown cash operating deficit to show the impact on debt.