

# The Treasury

## Budget 2011 Information Release

### Release Document

June 2011

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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
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- [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.

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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.

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THE TREASURY

Kaitohutohu Kaupapa Rawa

To: Minister of Finance, Minister for State Owned Enterprises

## **AIDE MEMOIRE: INCORPORATING THE IMPACTS OF MIXED OWNERSHIP MODEL IN THE BUDGET**

### **Total Fiscal Impact**

The attached example entitled 'Accounting for the Introduction of the Mixed Ownership Model' describes the accounting impact of a potential float of shares in SOEs. The example is based around a 49% sale of SOEs with a book value of \$9 billion. The main points to note in the example are:

- The impact on the Total Crown Operating Balance (shown as Consolidated Operating Result in the example) is determined by any gain or loss on sale, the negative impact on the balance of dividends foregone, foregone retained profits and the costs of making a sale, and the positive impact on the balance of reduced interest costs.
- The net impact on debt is the combination of the sale proceeds and the items above, after excluding any non-cash items.

Because the Crown retains a controlling interest in the assets, the full value of the asset would remain on the balance sheet. Therefore a partial float would lift total net worth, reflecting the proceeds from the sale. The net worth attributable to the Crown would not change as the proceeds of the sale would be offset by an increase in 'net worth attributable to minority interests'.

### **Incorporating decisions into the fiscal forecasts and Budget documents**

The Public Finance Act requires that the fiscal impacts of all Government decisions and other circumstances are included in the *Economic and Fiscal Update*, ideally in the forecast financial statements. If the fiscal implications of a decision cannot be quantified for particular years with reasonable certainty, the Act requires that the fiscal implications are instead disclosed in the statement of specific fiscal risks.

We have identified three approaches to the treatment of the mixed ownership model in the Budget Economic and Fiscal Update. The application of these options will depend on the decisions that Cabinet makes between now and when the 2011 Budget is finalised.

- Option 1: fully reflect all of the financial flows into the forecast financial statements. To do this there would need to be a Cabinet decision to proceed with the partial floats, and sufficient information to make assumptions with reasonable certainty about the timing and size of the fiscal implications.
- Option 2: exclude all of the financial flows from the forecast financial statements. Include a positive *specific fiscal risk* against the debt forecasts relating to the possible partial floats. This would apply if either no Cabinet

decision about partial floats had been made or if there was significant uncertainty quantifying the impacts.

- Option 3: exclude all of the financial flows as in option 2, but incorporate a lower debt track into the forecasts by setting the capital allowance to zero for Budgets 2012 to 2014. This would require Cabinet agreement that the government would not borrow any money for new capital spending. Any capital spending would need to be met from other sources of funding, such as the partial floats.

We consider that it is unlikely that Cabinet will have made sufficient decisions for Budget 2011 to implement the first option. Whether or not the third option is possible will depend on the decisions that Cabinet makes and an assessment of whether reducing the capital allowances to zero is a credible track for future Budgets. One way to achieve this would be for the Fiscal Strategy Report to state that the government would contemplate new capital spending in future Budgets, but only if it was met from other sources of funding.

We will provide further information about the impact of decisions on the fiscal forecasts as advice regarding the mixed ownership model is developed.

### **Impact of decisions on the operating allowance**

The main impact of the mixed ownership model will be on the balance sheet, with the operating impacts likely to be much smaller.

The Fiscal Management Approach captures the changes in operating expenses and operating revenue as part of the operating allowance set aside for discretionary spending in the Budget. The net operating impact arising from any float would be charged against the operating allowance in future Budgets, once the precise details are known.

In the illustrative example there would be no net call against the operating allowance, as the net impact of the example is to improve the total Crown operating balance. This net impact largely arises as the impact of lower interest expenses offsets the impact of lower operating revenue. In this scenario the improved operating balance could be used to reduce debt or to fund other priorities.

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