The Treasury

Budget 2011 Information Release

Release Document

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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

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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.

Cabinet

CAB Min (11) 18/6

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Minute of Decision

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Extending the Mixed Ownership Model

Portfolios: Finance / State Owned Enterprises

On 9 May 2011, Cabinet:

Background

1 **noted** that the *2010 Investment Statement of the Government of New Zealand* stated that the government's investment intentions included, among others:

1.1 continuing to look at introducing private sector capital and disciplines where appropriate to help drive the performance of State assets;

1.2 more actively reprioritising Crown capital to its highest value use;

2 **noted** that Air New Zealand currently operates under a Mixed Ownership Model, where the Crown owns a majority the company but there is a minority of outside equity;

3 **noted** that on 27 January 2011, the Minister of Finance and the Minister for State Owned Enterprises wrote to the Secretary of the Treasury requesting advice on the merits and viability of:

3.1 extending the Mixed Ownership Model to Mighty River Power, Meridian Energy, Genesis Energy, and Solid Energy with the Crown retaining a majority stake in these companies;

3.2 reducing the Crown's shareholding in Air New Zealand, again while maintaining a majority stake;

The Treasury's advice

4 **noted** that the Treasury has advised that extending the Mixed Ownership Model:

4.1 has significant merit because of the potential to reinforce efficiency, fiscal, and capital market development policy goals while providing moderate economic gains;

4.2 is viable over a 3 to 5 year programme, but is a significant and complex undertaking even by international standards, and there are a wide range of execution and other risks that could have a material impact on how the programme proceeds;

4.3 will require a high degree of flexibility to be retained in order to deal with the considerable uncertainty and execution risks;

4.4 could be undertaken to meet the government's five tests;

Decision to proceed with the Mixed Ownership Model

5 **agreed** to extend the Mixed Ownership Model to Genesis Energy, Meridian Energy, Mighty River Power, and Solid Energy, and to further reduce the Crown's shareholding in Air New Zealand, over a 3 to 5 year programme beginning in 2012, with the objectives and key policy parameters as outlined below, and subject to the government receiving a mandate in the 2011 general election, market conditions and detailed scoping studies;

6 **noted** that extending the Mixed Ownership Model will require a legislative amendment to remove Genesis Energy, Meridian Energy, Mighty River Power, and Solid Energy from the State Owned Enterprises Act 1986;

Objectives

7 **agreed** that the government has ten objectives for the mixed ownership model:

7.1 *fiscal (static)* – optimise the value for the Crown and freeing up capital;

7.2 *fiscal (dynamic)* – allow the companies to obtain growth capital without depending entirely on the government;

7.3 *capital market development* – broaden the pool of investments available to New Zealand savers, and increase the depth of New Zealand capital markets;

7.4 *New Zealand participation* – place New Zealand investors at the front of the queue and achieve widespread and substantial New Zealand share ownership;

7.5 *commercial disciplines* – ensure these large and important companies reap the benefits of sharper commercial disciplines, more transparency, and greater external oversight to allow them to make the strongest possible contribution to New Zealand's economic growth;

7.6 *majority Crown ownership* – ensure the government has a controlling stake;

7.7 *good investment opportunities* – ensure the companies involved present good opportunities for investors;

7.8 *protect consumers* – ensure that industry specific regulations adequately protect New Zealand consumers;

7.9 *low execution risk* – successful implementation is achieved (such as good demand for shares, and the shares perform well after listing);

7.10 *timing* – the programme will be well advanced by 2014, to allow capital to be released over the next few years to finance other capital priorities;

8 **noted** that it is not possible for all ten objectives to be maximised simultaneously, and that objectives will need to be balanced throughout the process;

Key policy parameters

9 **agreed** to a general principle of maintaining considerable flexibility throughout the process to provide the government with sufficient policy space to deal with execution and other risks as they arise;

10 **agreed** that 51 per cent is the minimum ownership level for the Crown, but that a higher level may be appropriate for some companies following detailed scoping study analysis to prevent dilution below 51 per cent over time;

11 **agreed** that Initial Public Offering (IPO) is the preferred method for extending the Mixed Ownership Model;

12 **agreed** that restructuring options be considered for Genesis Energy and Solid Energy in detailed scoping studies;

13 **agreed** to maintain maximum flexibility on the use of financial incentives to achieve widespread and substantial New Zealand participation by keeping them in reserve while their need is investigated as part of company scoping studies;

14 **agreed** to consider the use of hard foreign ownership restrictions, such as individual or total ownership caps, or separate domestic shares;

15 **agreed** that the exact timing for extending the Mixed Ownership Model to individual companies be determined following detailed scoping study analysis;

16 **agreed** that the government should exert a level of control over the companies under a Mixed Ownership Model that is similar but not necessarily identical to the current approach for Air New Zealand;

17 **agreed** that options for iwi participation, managing contemporary/pan iwi claims on natural resources, and potential title issues be considered as a detailed programme for extending the Mixed Ownership Model is developed;

Publicity

18 **noted** that it is planned that the extension of the Mixed Ownership Model be announced as part of Budget 2011;

19 **noted** that IPO processes are particularly sensitive to comments or announcements by government Ministers and that any comments on Air New Zealand will need to comply with the Securities Markets Act 1988;

20 **authorised** the Prime Minister, the Minister of Finance, and the Minister for State Owned Enterprises to determine which Minister(s) are authorised to comment on the extension of the Mixed Ownership Model;

Next steps in 2011

21 **agreed** that iwi will be consulted through the Iwi Leaders Forum and other forums as appropriate prior to the programme being finalised;

22 **agreed** that the Treasury contract for detailed scoping studies for Genesis Energy, Meridian Energy, Mighty River Power, Solid Energy, and Air New Zealand;

23 **agreed** that the Treasury take initial steps to design a work programme for 2012;

24 **agreed** that the Treasury appoint:

24.1 a Probity Adviser to ensure that processes associated with the extension of the Mixed Ownership Model programme are beyond reproach to the maximum extent possible;

24.2 a dedicated Crown adviser for the Mixed Ownership Model programme;

25 **noted** that officials would consider the appointment of an independent adviser for shareholding Ministers;

26 **noted** that none of the work planned to be undertaken ahead of the 2011 general election commits the government to proceed ahead of receiving a mandate from the electorate;

Financial implications

27 **noted** that likely proceeds from the extension of the Mixed Ownership Model are in the order of $5-7 billion, depending on the exact structure of the programme;

28 **noted** that releasing capital from the commercial part of the balance sheet could be used to fund high priority new investment off the government's balance sheet as an alternative to further borrowing;

29 **agreed** that capital released from the extension of the Mixed Ownership Model be incorporated into the Budget processes for the relevant financial years;

30 **noted** that $5.9 million of funding is required for pre-implementation work, of which $4 million was sought through the 2011 Budget Package Cabinet paper with the remaining $1.9 million being reprioritised from within the Treasury's baseline;

31 **noted** that any additional funding unspent during pre-implementation work will either be returned to the Crown during the 2012 March Baseline Update or Cabinet's approval will be sought to use any under spend to contribute to implementation phase costs;

32 **noted** that additional transactional funding of around [2][3][6][11] will be required once the overall programme structure has been determined following detailed scoping study analysis, and that there is there is potential for some of these costs to be offset against capital proceeds.

Secretary of the Cabinet

Reference: CAB (11) 234

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