

# The Treasury

## Official information regarding the Crown's support for Air New Zealand as a result of the COVID-19 pandemic

December 2022

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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## Treasury Report: Project 20: Update for the week of 28 March 2022

<b>Date:</b>	31 March 2022	<b>Report No:</b>	T2022/711
		<b>File Number:</b>	SE-1-3-21

### Action sought

	Action sought	Deadline
<b>Minister of Finance</b> (Hon Grant Robertson)	<b>Sign</b> the delegation attached as Annex One <b>Agree</b> to the revision to the appropriation	4 April 2022
<b>Associate Minister of Finance</b> (Hon David Parker)	<b>Agree</b> to the revision to the appropriation	4 April 2022

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Daniel Madley	Senior Analyst, Commercial Performance	[35]	✓
Juston Anderson	Principal Advisor, Commercial Performance		

### Minister's Office actions

**Return** the signed report, and (Minister of Finance only) the signed delegation instrument, to the Treasury.

Note any feedback on the quality of the report

**Enclosure:** [Project 20 - Delegation instrument - Minister of Finance to the Secretary to the Treasury \(Treasury:4632770v1\)](#)

## Treasury Report: Project 20: Update for the week of 28 March 2022

### Purpose of report

1. This report seeks approval:
  - from the Minister of Finance to sign the delegation instrument, attached as **Annex One**, such that the Secretary to the Treasury or Treasury officials can authorise upcoming payments to Air New Zealand Limited (Air NZ) in exchange for redeemable shares and ordinary shares – you have previously entered into agreements committing to make these payments, and
  - from the Minister of Finance and Associate Minister of Finance to rescind the increase in the appropriation for the Crown's equity contribution to Air NZ that you agreed last week, and replace it with a smaller increase that is based on the actual size of the capital raise, now that Air NZ has made final decisions.

### Background and analysis

2. Cabinet agreed in December 2021 that the Crown will be able to subscribe for up to \$1,000m in redeemable shares in Air NZ [DEV-21-MIN-0253 refers]. The Minister of Finance and Air NZ entered into a subscription agreement dated 13 December 2021 in respect of these redeemable shares (T2021/3059 refers). As previously advised (T2022/401 refers) Air NZ intends to issue \$600m of redeemable shares to the Crown to support its liquidity position during the capital raise. There will also be a further \$400m of redeemable shares available for subscription (although it is not currently expected that Air NZ will call for subscription of those shares).
3. The Crown Commitment Letter dated 30 March 2022 between the Minister of Finance and Air NZ (T2022/516 refers) irrevocably committed the Crown to purchasing the number of new shares in Air NZ's equity raise necessary for the Crown to have a 51.0% shareholding in Air NZ post raise. Now that Air NZ has taken final decisions, this is an equity investment of \$601.6m.

#### *Delegation and authorisation*

4. The Treasury requires authorisation from the Minister of Finance to consider Air NZ's requests for these payments by way of subscriptions for redeemable shares and ordinary shares, and to process the cash payments to Air NZ. There are existing delegations relating to debt payments, but not for equity or redeemable shares.
5. Air NZ has provided a call notice whereby the Crown would subscribe for the \$600m in redeemable shares in two tranches, payable on 7 April and 6 May 2022.
6. The Crown is also scheduled to make the equity payment of around \$602m to Air NZ in May 2022.
7. We recommend that the Minister of Finance delegate the authority to consider and approve the requests for these subscriptions for redeemable shares and ordinary shares to the Secretary to the Treasury, and to permit sub-delegation to Treasury officials. As the timing of these payments is already known with certainty, this delegation instrument would expire on 30 June 2022, if not revoked prior.
8. A delegation instrument is attached as **Annex One** for the Minister of Finance's consideration and signature.

9. It will be necessary for the Treasury to receive a signed delegation from the Minister of Finance by 4 April 2022, in order for the redeemable shares payment to be processed and paid to Air NZ by 7 April 2022.

#### *Revision to the appropriation*

10. Cabinet originally agreed an appropriation of [25], [37] for the Crown to purchase ordinary shares in Air NZ, with delegated authority to increase this by a maximum of [25], [37], [38]
11. Last week, we recommended and you agreed, consistent with your delegated authority from Cabinet, to increase the appropriation by [25], [37], [38] (T2022/516 refers). This increase impacted against the Multi-year Capital Allowance. The [25], [37], [38] figure was chosen to allow for the maximum potential Crown equity contribution, as the actual amount was uncertain because Air NZ had not yet taken final decisions.
12. Based on Air NZ's decisions, the Crown equity contribution is now \$601.6m. This amount should not increase. It might decrease very slightly, due to rounding of share allocations to other shareholders down to the nearest whole share – as a result, the Crown might need to purchase very slightly fewer shares, in order to achieve the desired 51.0% shareholding on completion of the offer.
13. We recommend that you now rescind your previous decision (with effect from the date you agree to this recommended action in this report) and instead increase the appropriation by [25], [37] to \$602m.
14. The amended figure will then appear in Budget 2022 documents, and the smaller increase of [25], [37] will impact against the Multi-year Capital Allowance.
15. This change is not strictly necessary, but it would be desirable and provide for greater headroom in the Multi-year Capital Allowance.

#### **Recommended action**

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We recommend that you:

- a **agree** to sign the delegation instrument, attached as Annex One to this report, delegating functions to the Secretary to the Treasury and Treasury officials for the purposes of authorising upcoming payments to Air New Zealand as subscriptions for redeemable shares and ordinary shares

*Agree/disagree.*  
Minister of Finance

- b **rescind** your decisions in recommendations (c) to (e) of T2022/516 regarding the increase in the appropriation titled "Subscription for Ordinary Shares in Air New Zealand", with effect from the date you agree to this recommendation (b)

*Agree/disagree.*  
Minister of Finance

*Agree/disagree.*  
Associate Minister of Finance

- c **approve** the following increase to appropriations, under delegated authority from Cabinet [DEV-21-MIN-0253 paragraph 27 refers] to reflect the Crown's participation in Air New Zealand's planned equity raise, with a corresponding impact on net core Crown debt:

Vote Finance Minister of Finance	\$m – increase/(decrease)				2025/26 & Outyears
	2021/22	2022/23	2023/24	2024/25	
Non-Departmental Capital Expenditure: Subscription for Ordinary Shares in Air New Zealand	[25] and [37]	-	-	-	-
<b>Total Capital</b>					

*Agree/disagree.*  
Minister of Finance

*Agree/disagree.*  
Associate Minister of Finance

- d **agree** that the increase in capital expenditure in recommendation (c) above for the Crown's subscription for new ordinary shares in Air NZ be a charge against the Multi-year Capital Allowance

*Agree/disagree.*  
Minister of Finance

*Agree/disagree.*  
Associate Minister of Finance

- e **agree** that the proposed change to appropriations in recommendation (c) above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply

*Agree/disagree.*  
Minister of Finance

*Agree/disagree.*  
Associate Minister of Finance

Juston Anderson  
**Principal Advisor, Commercial Performance**

Hon Grant Robertson  
**Minister of Finance**

Hon David Parker  
**Associate Minister of Finance**

Date:        /        / 2022

Date:        /        / 2022