

# The Treasury

## Project Korimako - Release of advice

December 2022

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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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## Treasury Report: Project Korimako: Shareholder board's proposal clarification

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<b>Date:</b>	26 November 2021	<b>Report No:</b>	T2021/2975
		<b>File Number:</b>	SE-2-12-4-2-3

### Action sought

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	Action sought	Deadline
<b>Minister of Finance</b> (Hon Grant Robertson)	<p><b>agree</b> whether or not the Crown is open to discussing [33], [37], [38]</p> <p><b>agree</b> that Treasury officials edit the draft Cabinet paper in the manner outlined in this report</p>	29 November 2021

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
David Stanley	Principal Advisor, Commercial Performance	[39]	[35] ✓
Shelley Hollingsworth	Manager, Commercial Performance		

### Minister's Office actions (if required)

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**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached NZSF letter 5 November 2021, NZSF board letter 24 November 2021)

# Treasury Report: Project Korimako: Shareholder board's proposal clarification

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## Purpose of Report

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1. This report is to advise you about the letter the Chair of the Guardians of the New Zealand Superannuation Fund (NZSF) sent you on 24 November 2021 (the board letter) regarding its proposal to acquire a majority interest in Kiwi Group Holdings Limited (KGH), a specific matter NZSF wishes the Crown to consider in the future ownership arrangements for KGH, and seeks your approval for the types of changes we would make to your draft Cabinet paper in light of the letter, along with a recent 'no surprises' notice from KGH.

## Background

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2. In recent months the Treasury has engaged in discussions with NZSF management regarding the ownership structure of KGH and NZSF's proposal to seek to acquire a majority interest in KGH.
3. You agreed to us asking NZSF to submit a revised KGH ownership proposal that was consistent with the Government's views regarding the ability to maintain KGH ownership within the Crown [33], [37], [38] [T2021/1832 refers].
4. NZSF management completed such a proposal and submitted it to us on 5 November 2021 outlining the high-level parameters under which NZSF suggested commencing negotiations (attached).
5. NZSF advised at the time that the proposal was subject to confirmation by the NZSF board at its 23-24 November 2021 meeting. In order to meet your requirement that Cabinet consider the matter of KGH ownership this year, we prepared a draft Cabinet paper for you to consider ahead of the NZSF board decision – aligning this with a scenario in which the NZSF board would subsequently confirm the parameters outlined in NZSF management's 5 November 2021 letter [T2021/2708 refers].
6. On 24 November, the NZSF Chair sent you a letter stating that the board is unable to confirm the parameters set out in the 5 November 2021 letter. The letter does confirm that NZSF remains interested in acquiring a majority interest in KGH [25], [26], [37]. NZSF would also like ownership arrangement discussions to include the option for NZSF to introduce into KGH, at a suitable time in the future, a minority strategic investor with capital and sector expertise.
7. Another KGH related development during November was KGH's 'no surprises' notice to you advising that it is exploring options to progress a potential sales process for its second-largest operating subsidiary Kiwi Wealth. This is an operating matter and there is no formal sale process underway, but you may want to inform your colleagues about this development.

[25], [26] and [37]

[25], [37]

14.

15.

16. We consider the main pros for this are:

- enhanced competitiveness may be achieved enabling Kiwibank to have a stronger role in the sector, becoming a larger and more valuable bank over time,
- any strategic investor position would be a minority one, and
- the ongoing ownership costs would be shared more widely.

17. We consider the main cons for this are:

- KGH would not be a 100% owned New Zealand company (unless the strategic investor was also a New Zealand entity),
- As a shareholder, the strategic investor would have first right of refusal (along with other KGH shareholders) to any shares offered in the future. This could undermine the Crown's ability to ensure it (directly or indirectly) retains the majority of KGH unless the Crown ensured it had a slightly larger direct shareholding than all non-Crown KGH shareholders combined [33], [37], [38]
- the outside owner would likely have a narrower perception of appropriate long-term objectives for KGH [33], [37], [38] and
- [25]

18. The NZSF board position appears to be that negotiations commence without any pre-determined conditions. The risk of taking this approach is that key Crown objectives are not covered off up front but instead become hurdles to an agreement after considerable time, effort and financial resources have been expended. For example, the Government requires KGH to remain NZ-owned while NZSF has expressed a view that introduction of a sector specific minority investor would be valuable. Such important parameters need to be clear to, and accepted by, all participants early in any process if there is to be a realistic prospect of continuing on towards a successful conclusion.

19. The letter from the NZSF board does not provide that confidence. However, there may still be merit in pursuing discussions with NZSF once the Crown has responded to the NZSF suggestion regarding a strategic investor, so the position regarding that matter is clear and NZSF understands that the Crown's key objectives regarding KGH ownership are not up for negotiation. We note that it is possible that NZSF's board will not want to seek a majority interest in KGH if the Crown is not open to the future introduction of a strategic minority investor.

## Draft Cabinet paper

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20. The current draft Cabinet paper includes the two shortlisted options being:
  - (i) The NZSF 5 November 2021 proposal to seek to acquire a majority interest in KGH within high level parameters as outlined in that letter following discussions with Treasury officials, and
  - (ii) The Crown seeking to acquire the majority of KGH directly.
21. The NZSF board letter of 24 November 2021 effectively replaces the specificity of option (i) with the more general approach that *NZSF is open to entering into discussions with both the Crown and New Zealand Post to investigate the possibility of increasing NZSF's shareholding in KGH* – and that it is seeking control for the reasons previously outlined.
22. [25] and [37]
- 23.
- 24.
25. Whether there is a transaction for NZSF to acquire a majority of KGH (subject to approvals) or failing that negotiations commence for the Crown to purchase shares in KGH directly, the Minister will report back to Cabinet.
26. Therefore, the new option (i) would now have two stages to it if NZSF does not acquire a majority interest in KGH i.e. attempt option (i) and failing that, follow option (ii). Alternatively, as before, Cabinet may opt to proceed directly in line with option (ii), to secure a direct Crown majority interest in KGH.
27. The reference to Treasury preferring the earlier option (i) will be removed as this detailed option no longer exists.
28. Treasury officials are structuring their procurement of external advice to support them through the options under each of these possible eventualities. If Cabinet opts to proceed with option (i) and it does not result in a successful set of transactions, the Treasury would need additional transaction-related funding to proceed to the Crown majority acquisition phase (potentially another \$4 million up to \$6 million depending on what was achieved in the initial phase).

## Next Steps

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29. We seek from you a decision on whether or not the Crown is open to the possibility of a minority strategic investor in KGH in the future, or alternatively that this is a matter to be considered by Cabinet as part of its consideration of option (i) - this will influence the way in which we redraft the Cabinet paper. For example we will note that NZSF may not proceed down the majority ownership pathway without an assurance that the Crown is open to the possibility of a minority strategic investor in the future or once it

has had further opportunity to consider the parameters within which the Crown considers NZSF can seek to acquire a majority interest in KGH.

30. We also seek your decision on whether or not you want anything included in the Cabinet paper regarding KGH's recent 'no surprises' notice about Kiwi Wealth (noting that this is an operating matter for KGH). We suggest that rather than include this matter in the Cabinet paper, you may want to discuss the development at Cabinet and we can provide you with talking points on the matter.
31. We will amend the current draft Cabinet paper and provide this to your office by 1:30 pm on Monday 29 November 2021 with tracked changes for your consideration.

## Recommended Action

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We recommend that you:

EITHER:

- a **agree** that the possibility of a minority strategic investor [33], [37], [38] is inconsistent with the Crown's key ownership objectives for KGH

*Agree/disagree.*

OR:

- b **agree** that the Crown is open to discussing the possibility of a minority strategic investor in KGH in discussions with New Zealand Superannuation Fund (NZSF) about its potential acquisition of a majority interest in KGH by acquiring shares from New Zealand Post Limited (NZ Post)

*Agree/disagree.*

OR:

- c **agree** that it should be considered by Cabinet whether or not the Crown is open to discussing the possibility of a minority strategic investor in KGH in discussions with NZSF about its potential acquisition of a majority interest in KGH by acquiring shares from NZ Post

*Agree/disagree.*

AND:

- d **agree** that Treasury officials edit the draft Cabinet paper in line with your decision in recommendation a, b or c above and in the manner outlined in paragraphs 21 to 28 of this report.

*Agree/disagree.*

AND EITHER:

- e **agree** to verbally update your Cabinet colleagues about the recent 'no surprises' notice regarding KGH operating subsidiary Kiwi Wealth, in which case the Treasury will prepare talking points for your Cabinet discussion

*Agree/disagree.*

OR:

- f **agree** that Treasury officials include reference to KGH's recent 'no surprises' notice regarding KGH operating subsidiary Kiwi Wealth in the draft Cabinet paper

*Agree/disagree.*

Shelley Hollingsworth  
**Manager, Commercial Performance**

Hon Grant Robertson  
**Minister of Finance**