

The Treasury

Project Korimako - Release of advice

December 2022

This document has been proactively released by the Treasury/Minister of Finance (Hon Grant Robertson) on the Treasury website at

<https://treasury.govt.nz/publications/information-release/project-korimako>

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [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

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.



Treasury Report: Project Korimako February Update

Date:	3 March 2022	Report No:	T2022/313
		File Number:	SE-2-12-4-2-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Provide feedback on the draft Cabinet paper and indicate a preferred method for providing funding certainty for KGH share purchases	8 March 2022
Associate Minister of Finance (Hon Dr Megan Woods)	Note the contents of the report and the draft Cabinet paper	8 March 2022
Associate Minister of Finance (Hon David Parker)	Provide feedback on the draft Cabinet paper	8 March 2022

Contact for telephone discussion (if required)

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

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes [Project Korimako Cabinet Paper - Update on Kiwi Group Holdings \(Kiwibank\) \(Treasury:4620388v2\)](#)

Treasury Report: Project Korimako February Update

Purpose of Report

1. We are initiating monthly update reports on Project Korimako, with this being the update for February 2022. It covers:
 - the conclusion of negotiations with the New Zealand Superannuation Fund (NZSF) regarding the potential purchase of a controlling interest in Kiwi Group Holdings (KGH),
 - the draft Cabinet paper for your consideration proposing that the Crown seek to purchase directly a majority of the shares in KGH (but not necessarily all of the shares in KGH) [33], [37]
 - an update on the work officials are conducting to support negotiations [33], [37], [38]

NZSF Proposal

2. Two negotiating meetings were held with NZSF in January 2022. Officials outlined the importance of the Government's NZ ownership [33], [37], [38] asked NZSF to provide an early indication of price.
3. NZSF indicated that the price of the transaction and the ability to introduce a strategic minority investor are critical. NZSF indicated that it would not be able to provide an indicative price until further discussion with its Board.
4. On 28 February NZSF wrote to you to outline its formal position. NZSF has stated that, taking into account the Crown's required parameters for the future KGH ownership arrangements, it has decided that it no longer wishes to purchase a majority ownership in KGH. It has formally withdrawn from that process.

Direct Crown Control – Draft Cabinet Paper

5. In accordance with the previous Cabinet decision, we have now turned our attention to "pursuing direct majority Crown ownership, by purchasing shares in KGH, [33], [37], [38] [CAB-21-MIN-0528 refers].
6. We note that while it may be necessary for the Crown to acquire a direct majority position in KGH to be able to establish sustainable long-term ownership arrangements, there is another possibility. The Crown may choose to purchase less than a majority of KGH's shares in the interim if it reaches accommodations with any remaining KGH shareholders that result in them supporting the Crown in reaching sustainable long-term ownership arrangements. In that case the Crown could achieve the interim step at lesser cost.
7. However, it should be noted that legally all of the shareholders of KGH can now offer to sell KGH shares as the lock up period in the Crown Deed expired on 31 October 2021.
8. Attached to this report is a draft Cabinet paper for your consideration and comments. The Cabinet paper informs Cabinet that NZSF has withdrawn its proposal and notes

the intention to purchase sufficient shares in KGH [33], [37], [38]

9. The paper seeks an appropriation to cover the estimated \$4 million cost of specialist commercial and legal expertise to advise on the purchase of KGH shares. This additional estimated cost was included in the December 2021 Cabinet paper.
10. In addition, a tagged capital contingency of [33], [37], [38] and delegated authority for the Minister of Finance and Associate Minister of Finance (Hon David Parker) is proposed in the paper to allow for the purchase of shares in KGH. We propose that the paper be scheduled for the Cabinet meeting on 4 April 2022.
11. The size of the contingency is based on the most recent valuation work underway, as discussed later in this report, and represents the most capital-intensive option (i.e. acquisition of 100% of KGH). While more likely scenarios involve a lower financial outlay, we consider that the tagged capital contingency should cover the most capital-intensive scenario. Now that the KGH shareholder lock up period has ended, the Crown may need to respond to one or more (and potentially all) existing KGH shareholders offering to sell their KGH shares.
12. You previously indicated new ownership arrangements for KGH were required to be agreed by 30 June 2022. At a minimum, having this contingent financial authority and advisor funding in place is required in order to meet that timing expectation. We note that there are a range of other factors, such as how the individual KGH shareholders may act, which may affect the timeframe. We are developing strategies to mitigate the risk of not meeting the timing you have specified.
13. In light of this timing objective, we consider that it is necessary for Cabinet to consider this matter ahead of the Budget moratorium. Funding certainty is necessary for the Crown's negotiators to be able to significantly progress negotiations with KGH shareholders over the coming months.
14. Seeking a capital appropriation to fund the purchase of shares ahead of the Budget moratorium is not favoured. A capital appropriation would result in the commercially sensitive amount under the appropriation being revealed to the public (and the potential sellers of KGH shares) prior to negotiations being completed with the KGH shareholders. It is important that the amount of funding available remains confidential as this commercially sensitive information would affect the outcome of those negotiations.
15. A tagged capital contingency would be part of an amalgam of capital allowances and so would boost the overall amount but would not itself be revealed. There might, of course, be questions about the overall size of the capital allowances.
16. An alternative to the tagged capital contingency, that would still maintain confidentiality of the funding available, would be to seek broad Cabinet agreement to the negotiation parameters (but not a capital appropriation or contingency), with a further paper to Cabinet (closer to 1 July 2022, post the Budget Moratorium) seeking a 2022/23 capital appropriation. In this case, there would be no representation in the Budget 2022 documents reflecting Cabinet's decision to seek a direct majority interest in KGH, as the 2022/23 capital appropriation would only become public through the 2022/23 Supplementary Estimates (released in May 2023). Seeking the capital appropriation after the Budget Moratorium is a viable option but could hamper the negotiation process and/or hinder the ability to respond to shareholder offers or proposals unless officials have clear parameters from Cabinet regarding acceptable terms.

Workstream Updates

17. In parallel with discussions with NZSF, officials and our advisors have been:
 - undertaking valuation work to prepare for discussions on the price of KGH shares,
 - maintaining engagement with the Accident Compensation Corporation (ACC) and New Zealand Post Limited (NZ Post), and
 - [33], [37], [38]
18. We provide below a summary of the progress we have achieved to date on these workstreams and we note that we will continue to develop these workstreams, keep you updated on key matters, and provide you with advice when required.

Valuation Workstream

19. It is important for us to form our own view on the value of KGH to be able to negotiate share transactions. Goldman Sachs, our commercial advisor, has been undertaking a benchmarking analysis comparing Kiwibank's operating performance against a number of Australasian banks and then estimating its value based on the market values of those Australasian banks. We will continue to refine and develop this work.
20. [33], [37]

ACC Engagement

21. Our discussions with ACC have focused on its KGH price expectations, ACC's thoughts on the introduction of any new investors from outside the Crown if ACC was to remain invested, and ACC's objectives (and potential matters for negotiation) if it was to remain invested.
22. It is unclear whether ACC will remain a shareholder in KGH. It has engaged Cameron Partners and Simpson Grierson to advise it on its options.
23. [33], [37], [38]
24. Treasury officials will engage with ACC later this week to advance discussions.

NZ Post Engagement

25. Our discussions with NZ Post have focussed on its KGH price expectations. In addition, NZ Post has indicated that due to its improved financial position it no longer needs to sell its stake in KGH in order to meet its parcel investment capex programme.
26. Accordingly, NZ Post is also interested in alternative options for the ownership of KGH if successful negotiations (for the sale of its interest in KGH) cannot be reached with NZSF. Under a scenario where NZ Post cannot sell its stake in KGH for a reasonable price it has proposed an “enhanced status quo” arrangement in which NZ Post retains its interest in KGH, provided certain governance and strategic alignment matters [25] are addressed.
27. Treasury officials are scheduled to meet again with NZ Post’s transaction committee on 8 March 2022.

[33], [37], [38]

28. [33], [37], [38]

29.

30.

Recommended Action

We recommend that you:

- a **provide** feedback on the attached draft Cabinet paper
- b **agree** to seek funding to cover the estimated \$4 million additional cost of specialist commercial and legal expertise to advise on the purchase of KGH shares, as previously signalled in the December 2021 Cabinet paper

Agree/disagree.

Minister of Finance

Agree/disagree.

Associate Minister of Finance (Hon David Parker)

AND EITHER:

- c **agree** to using a tagged capital contingency of [33], [37], [38] to cover the potential capital cost of purchasing KGH shares and for this to be sought ahead of negotiations and the Budget moratorium through the above Cabinet paper

Agree/disagree.

Minister of Finance

OR

- d **agree** to seeking Cabinet agreement to the negotiation parameters for the purchase of KGH shares with a further paper to Cabinet post the Budget Moratorium seeking a 2022/23 capital appropriation to cover the potential purchase of KGH shares.

Agree/disagree.

Minister of Finance

Shelley Hollingsworth
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Hon David Parker
Associate Minister of Finance