

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 March Update

Date:	31 March 2022	Report No:	T2022/648
		File Number:	SE-1-3-22

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of this report.	7 April 2022
Associate Minister of Finance (Hon Dr Megan Woods)	Note the contents of this report.	7 April 2022
Associate Minister of Finance (Hon David Parker)	Note the contents of this report.	7 April 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: No

Treasury Report: Project Korimako March Update

Executive Summary

This report outlines the status of discussions with each of the Kiwi Group Holdings Limited (KGH) shareholders. The report also briefs you on [33], [37], [38] and our proposed approach to putting in place arrangements for directly holding KGH shares.

We have established an agreed process with KGH shareholders for discussions on the Crown potentially purchasing KGH shares

[38]

Each of the KGH shareholders brings a different perspective to discussions with the Government:

- Accident Compensation Corporation (ACC) has stated it wishes to find an exit solution that is acceptable to the Crown and ACC. It intends to sell if it can achieve a fair value. Discussions with ACC are commercially straightforward and will focus on price.
- New Zealand Superannuation Fund (NZSF) has indicated that it is still considering its position as a shareholder [25], [37]

[33], [37], [38]

[25], [37]

- New Zealand Post (NZ Post) remains keen to sell its KGH shareholding and would like to receive a non-binding proposal from the Crown. [33], [37], [38]

[33], [37], [38]

¹ A strategic minority investor [33], [37], [38] that could bring specialist expertise to Kiwibank enhancing its longer-term performance capability in a competitive market was first mooted by NZSF in November 2021.

Work has commenced on considering the merits of the various methods by which the Crown could hold shares in KGH

We are currently determining a short-list of options (and our recommendation) for the method by which the Crown could hold shares in KGH, as well as expected timeframes for implementation.

Establishment of a new vehicle (such as a Crown entity company or a schedule 4A company) would take considerable time and resource, given that it involves selecting and appointing a board of directors, developing the company nature / purpose / functions and constitution, drafting a letter of expectations etc, as well as procedural steps involving Cabinet approvals and passage of Orders in Council. From experience, our initial ballpark estimate is that this process would take a minimum of 4-5 months to complete. Funding for the full establishment and operation of a Crown vehicle is not covered by the appropriation Cabinet will be considering on 4 April [T2022/313 refers]. We will continue to develop our thinking before reporting to you with a formal recommendation in April.

Recommended Action

We recommend that you **note** the contents of this report.

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

Treasury Report: Project Korimako March Update

Purpose of Report

1. This report is your March update on Project Korimako. It includes a summary of the status of discussions with each of the Kiwi Group Holdings (KGH) shareholders. The report also briefs you on [33], [37], [38] and our proposed approach to putting in place arrangements for the Crown to directly hold KGH shares.

Discussions with KGH Shareholders

2. [38]

3.

4.

Accident Compensation Corporation (ACC)

5. Amongst KGH shareholders, ACC is the most straightforward to deal with. ACC has indicated an intention to sell at a fair value and, other than the fair value requirement, has stated it wishes to find an exit solution that is acceptable to the Crown.
6. ACC indicated that it will provide officials with some KGH valuation perspectives by 1 April. ACC is keen to receive an indicative non-binding proposal from the Crown. We agreed to continue engaging as required and that we would revert back to ACC once we had authority to provide it with the indicative non-binding proposal.

New Zealand Superannuation Fund (NZSF)

7. NZSF has indicated that it is still considering its position as a shareholder [25], [37]
8. We have previously stated that there may be benefits in retaining NZSF as a KGH shareholder. [25], [37]

, it would be beneficial for changes to shareholding arrangements to be as undistruptive as possible. NZSF management has been supportive of the

transformation programme and has been contributing positively to KGH decision-making.

9. [25], [37]

The nature of future Governance arrangements

10. Governance arrangements are a component of NZSF's assessment whether KGH meets its investment criteria. Important governance considerations are:
 - a *maintaining a commercial imperative for Kiwibank* - performing as a commercial business focussing on and building its strategic strengths in a competitive marketplace [25]
and
 - b *maintaining key arrangements under the Crown Deed* - arrangements covered by the Crown Deed were necessary to introduce NZSF and ACC as KGH shareholders and would provide a sound basis for dealings between shareholders (including any new shareholders) and the Crown going forward.
11. These considerations are not inconsistent with the ownership objectives the Crown has stated for Kiwibank, such as the intention for Kiwibank to remain commercially focused and to be a disruptor bank strongly competing in the banking and financial services sector.
12. [33], [37], [38]

Kiwibank's prospects for growth beyond the Te Ara Hou transformation

13. Beyond the Te Ara Hou transformation it will still be necessary for Kiwibank to further improve and adapt to compete in an environment which will inevitably continue to evolve rapidly. Kiwibank's major competitors are based in a much larger market (Australia) giving them earlier insights into new trends, while they also have better access to new technologies. This was a feature behind NZSF enquiring about the extent of the Government's openness to the introduction of a minority strategic investor at "a suitable time" in the future.
14. NZSF has re-iterated this position including its view that the type of expertise Kiwibank would need is more likely to come from international markets than to be home-grown.
[33], [37], [38]

Any financial incentives for NZSF to remain invested

15. [25], [37]

[33], [37], [38]

[25], [37]

16. We recognise that there are likely advantages from NZSF remaining as a KGH shareholder. If NZSF remains a shareholder in KGH, its institutional knowledge and discipline [25], [37] continue to be applied [33], [37]

17. We are listening to NZSF's proposals but have remained non-committal. It seems likely that NZSF's governance concerns could be accommodated based on our understanding of the Government's intentions. [33], [37], [38]

[25], [33], [34], [38]

18. [33], [37]

New Zealand Post

19. NZ Post wishes to sell its KGH shareholding and would like to receive a non-binding proposal from the Crown. NZ Post has undertaken to provide officials with some KGH valuation perspectives in early April, in particular noting what the carrying value of its KGH investment is likely to be as at 30 June 2022.

20. [33], [37], [38]

NZ Post would like, however, to book the potential sale transaction in this financial year (2021/22) if possible, but understand that any sale proceeds will only flow to it early in the next financial year. A parallel workstream will consider NZ Post's appropriate capital structure and this will be used to determine the amount of sales proceeds NZ Post retains and the amount that it returns to the Crown as a dividend.

21. We agreed to continue engaging as required and that we would revert back to them once we had authority to provide them with an indicative non-binding proposal.

[33], [37], [38]

22. [33], [37], [38]

[33], [37], [38]

[33], [37], [38]

23. [33], [37], [38]

24.

25.

26.

27.

28.

29.

Establishment of a Crown Investment Vehicle

30. We have been considering the optimum structure for the Crown to hold shares in KGH. The paper Cabinet will be considering on 4 April [T2022/313 refers] refers to direct Crown ownership. By “direct” ownership we are referring to KGH shares being held either directly by the Crown, or by a company (or other entity) wholly-owned by the Crown.
31. In particular, we are currently determining a short-list of options (and our recommendation) for the method by which the Crown could hold shares in KGH, as well as expected timeframes for implementation.
32. By way of interim update, the full set of options includes:
- a direct ownership of KGH shares by shareholding Ministers (i.e., no holding entity vehicle),
 - b a statutory entity (including a Crown agent, an autonomous Crown entity and an independent Crown entity) under the Crown Entities Act 2004,
 - c a Crown entity company under the Crown Entities Act 2004,
 - d a state-owned enterprise (SOE) under the State-Owned Enterprises Act 1986,
 - e a company listed in Schedule 4A of the Public Finance Act 1989,
 - f an organisation listed in Schedule 4 of the Public Finance Act 1989, and
 - g a Crown owned company not subject to any legislative framework.
33. We note that establishment of a new vehicle (such as a Crown entity company or a schedule 4A company) would take considerable time and resource, given that it involves selecting and appointing a board of directors, developing the company nature / purpose / functions and constitution, drafting a letter of expectations etc, as well as procedural steps involving Cabinet approvals and passage of Orders in Council. From experience, our initial ballpark estimate is that this process would take at least 4-5 months.

34. We are considering alternative strategies; for example, it may be that a transaction can be negotiated and signed by Ministers in the first instance, with a holding vehicle subsequently established.
35. If the decision is made to proceed with a new Crown investment vehicle, we would need to work on its establishment in parallel with the current Project Korimako workstreams (such as negotiations with KGH shareholders).
36. In addition, creating a new vehicle will incur establishment costs, as well as ongoing operating expenses such as directors' fees. Funding for the full establishment and operation of a Crown vehicle is not covered by the appropriation Cabinet will be considering on 4 April [T2022/313 refers].
37. We will report to you more fully in April once we have completed our policy work around the benefits, constraints and costs of the various options for holding a direct Crown shareholding in KGH.

Next Steps

38. Non-binding discussions with KGH shareholders will continue until 26 April 2022. In April we will provide more in-depth advice and seek decisions from you regarding:
 - a [33], [37], [38]
 - b the manner in which the Crown will hold its KGH shareholding, and
 - c [33], [37]
39. We have noted earlier in this report that the establishment of a vehicle to hold the Crown's KGH shareholding would take some months. Making decisions on this matter in April would enable us to progress this workstream so that it is unlikely to hinder the completion of the project within your intended timeframe.