

The Treasury

Project Korimako - Release of advice

December 2022

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Cabinet Document Details

Title: **Cabinet Minute: CAB-21-MIN-0528: Proposal for Kiwi Group Holdings: Kiwibank**

Date: **13 December 2021**

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- [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
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [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

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Cabinet

Minute of Decision

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Proposal for Kiwi Group Holdings: Kiwibank

Portfolio **Finance**

On 13 December 2021, following reference from the Cabinet Economic Development Committee, Cabinet:

- 1 **noted** that Kiwi Group Holdings (KGH) is a holding company which wholly owns Kiwibank Limited (Kiwibank) and other adjacent subsidiaries including Kiwi Wealth and Kiwi Home Loans;
- 2 **noted** that KGH is currently owned by New Zealand Post (53%), New Zealand Superannuation Fund (25%) and Accident Compensation Corporation (22%);
- 3 [25] and [37]
- 4 **noted** that the New Zealand Post (NZ Post) board no longer sees a strategic rationale for the company remaining invested in KGH and would like to divest its shares;
- 5 [25] and [37]
- while ACC would like to divest, NZSF would like to take a controlling position [25], [37]
- 6 **noted** that after considering several ownership options the Minister of Finance has shortlisted two options for KGH ownership: NZSF control; and direct majority Crown ownership;
- 7 [33]
- 8 **noted** that the Minister of Finance has considered the merits of the two shortlisted ownership options using the following criteria:
 - 8.1 long term New Zealand ownership of Kiwibank: ensuring the Government's requirement that Kiwibank remains New Zealand-owned with at least a majority of the shares remaining (directly or indirectly) within the Crown;
 - 8.2 some level of Government influence as to the objectives of Kiwibank: having the ability to influence the objectives of Kiwibank;

- 8.3 for Kiwibank to be a disruptor bank while also acting commercially (as a minimum the need for the bank to continue to be self-sustainable); supporting Kiwibank to be a genuine competitor in the banking industry;
- 8.4 [33], [37], [38]
- 8.5 cost: [33], [37], [38]
there are different impacts on the core Crown and the Crown balance sheet;
- 9 **noted** that the advantages of NZSF's proposal are that:
- 9.1 it best supports the Kiwibank as a disruptor bank criterion as NZSF is well placed to provide capable ownership and governance during Kiwibank's key transformation period and the growth capital required;
- 9.2 NZSF purchasing NZ Post's shares is estimated to reduce gross sovereign-issued debt and core Crown debt by [25]
- 9.3 NZSF and other remaining shareholders would be responsible for funding ongoing capital requirements of Kiwibank [25]
- 10 **noted** that the advantages of direct Crown majority control are that:
- 10.1 direct ownership is the most secure means of ensuring ongoing Crown majority ownership;
- 10.2 direct majority ownership offers significant influence [25], [37], issue shareholder's expectations and determine availability of growth capital;
- 10.3 [33], [37], [38]
- 10.4 acquiring direct majority Crown ownership now may involve a lower financial outlay than acquiring a direct majority interest from NZSF in the future if it has majority control and decides to divest;
- 11 **noted** that NZSF has expressed a preference to introduce a strategic minority investor once Kiwibank's Te Ara Hou transformation process is completed to further help Kiwibank achieve its long-term potential in the New Zealand market;
- 12 **noted** that if the Government was to allow the introduction of a non-Crown shareholder, the Crown would need to directly own a shareholding greater than that of the non-Crown shareholder to maintain majority control of KGH in the future;
- 13 **agreed** that negotiations on NZSF's proposal should be allowed to proceed if NZSF agrees that the only investors that can become KGH shareholders in the future are those that ensure continuation of the Government's requirement that Kiwibank remains New Zealand-owned with at least a majority of the shares remaining (directly or indirectly) within the Crown;

- 14 **agreed** that if NZSF is unable to agree to the Government's requirement in paragraph 13:
- 14.1 the Crown will proceed by pursuing direct majority Crown ownership, by purchasing shares in KGH, [33], [37], [38]
 - 14.2 the Minister of Finance is invited to report back to Cabinet by the end of February 2022 seeking the appropriations necessary to fund the share purchases and to provide funding for the changed nature of the KGH ownership negotiations;
- 15 **authorised** the Minister of Finance and Associate Minister of Finance (Hon David Parker) to take all necessary measures to support the KGH transaction [33], [37], [38]
including matters such as amendments to the Crown Deed, entering other legal arrangements on behalf of the Crown [33], [37], [38]
- 16 **noted** that there is no certainty that a transaction will take place as the parties will need to negotiate and there is no certainty that sellers and acquirers will agree to terms, with price likely being a major potential sticking point;
- 17 **invited** the Minister of Finance to report back to Cabinet Economic Development Committee with an update by 30 June 2022 or at the failure or conclusion of the transaction if earlier;
- 18 **noted** that specialist commercial and legal advisors will be required to support the Crown's involvement in the negotiations including:
- 18.1 establishing future lock-up arrangements and maintaining on-going rights of first refusal and information requirements;
 - 18.2 [33], [37], [38]
 - 18.3 due diligence and independently testing the pricing that is proposed for any share transactions that might be undertaken by the Crown [33], [37], [38]

- 19 **approved** the following changes to the appropriation to provide for the KGH ownership negotiations, with a corresponding impact on the operating balance and net core Crown debt:

| Vote Finance Minister of Finance | \$m – increase/(decrease) | | | | |
|--|---------------------------|---------|---------|---------|--------------------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 & Outyears |
| Multi-Year Multi-Category Appropriation Expenses and Capital Expenditure: Policy Advice and Financial Services MCA Departmental Output Expense: Policy Advice (funded by revenue Crown) | 4.0 | - | - | - | - |

- 20 **agreed** that the proposed changes to appropriations for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 21 **agreed** that the expenses incurred under recommendation 19 above be charged against the between-Budget contingency established as part of Budget 2021.

Michael Webster
Secretary of the Cabinet