

# The Treasury

## Project Korimako - Release of advice

### December 2022

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#### Cabinet Document Details

Title: **Cabinet Paper: DEV-22-SUB-0051: Update on Kiwi Group Holdings (Kiwibank)**

Date: **24 March 2022**

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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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Minister of Finance

Chair  
Cabinet Economic Development Committee

## **UPDATE ON KIWI GROUP HOLDINGS (KIWIBANK)**

### **Purpose**

1. This paper updates Cabinet on negotiations with the New Zealand Superannuation Fund (NZSF) regarding the purchase of shares in Kiwi Group Holdings (KGH) and proposes that the Government moves to purchase sufficient shares in KGH to ensure KGH's ownership is stable and the Crown can establish sustainable long-term ownership arrangements for KGH. An appropriation is sought to cover the additional cost of specialist commercial and legal expertise to advise on the transaction. The Minister of Finance and Associate Minister of Finance (Hon David Parker) will negotiate the purchase of KGH shares conditional on Cabinet approval of the necessary appropriations from Cabinet following the Budget moratorium.

### **Executive Summary**

2. KGH is a holding company which wholly owns Kiwibank Limited (Kiwibank) and other adjacent subsidiaries including Kiwi Wealth Limited (Kiwi Wealth) and New Zealand Home Loan Company Limited. KGH is currently owned by New Zealand Post (NZ Post, 53%), NZSF (25%) and the Accident Compensation Corporation (ACC, 22%).
3. In my previous submission to Cabinet I noted that the current shareholding arrangements are adding constraints to the performance of KGH and Kiwibank as the KGH shareholders currently are [25]

In addition, KGH shareholder interests have diverged in recent years and this affects group effectiveness in long-term strategic decision-making for operating subsidiaries. In 2021 NZ Post and ACC indicated a desire to sell their KGH shares while NZSF had offered, subject to an acceptable price, to purchase NZ Post's KGH shares to achieve control and drive improved performance.

4. Cabinet agreed to proceed with the NZSF proposal as long as its proposal could 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. If not, the Crown would proceed by pursuing direct majority Crown ownership [CAB-21-MIN-0528 refers].
5. NZSF has recently reconsidered its position after taking into account the Crown's required parameters for the future KGH ownership arrangements and has decided that it no longer wishes to purchase a majority ownership in KGH. It has formally withdrawn from that process.

6. This now means that none of KGH's three current shareholders have expressed an intention to purchase more of KGH. In addition, ACC and NZ Post have over the last two years indicated preferences to divest and NZSF may also consider this option. With the 'lock-up' period having expired at the end of October 2021, KGH shareholders are able to offer their shares to the Crown to the extent they are not acquired by other KGH shareholders, and any shares not acquired by the Crown can then be offered to third parties. To the extent that the Crown does not acquire any shares offered in KGH, it will not be able to influence who becomes the owner of those shares.

7. [33], [37] and [38]

8. To achieve the June deadline, negotiations with the existing KGH shareholders need to actively proceed over the coming months. As I signaled in December 2021, for the Crown to move to directly purchase shares in KGH, additional funding will be required for the contracting of specialist commercial and legal advisors to advise the Crown on the share transaction. An appropriation of \$4 million is sought for this purpose.

9. It is important, however, that the amount of funding available for share purchases remains confidential as this commercially sensitive information would affect the outcome of those negotiations. I am not therefore proposing that capital appropriations for KGH share purchases be provided at this time as this information would be disclosed in Budget documents.

10. I am proposing that Cabinet agrees to the Minister of Finance and Associate Minister of Finance (Hon David Parker) negotiating to purchase KGH shares as required to meet the Government's policy objectives, subject to Cabinet agreement to the relevant capital appropriations following the Budget 2022 moratorium. It is my preference to focus negotiations on purchasing KGH shares from ACC and NZ Post, as ACC has indicated its interest in selling and I do not view NZ Post as the preferred entity through which the Crown expresses its ownership interest in KGH and Kiwibank. [38]

11. The total potential size of KGH share purchases could be as much as [33], [37], [38] [25], [33], [37]

This amount represents the most capital-intensive interim position where the Crown contracts to purchase 100% of KGH's shares. [33], [37], [38]

12. While any share transactions [33], [37], [38] will occur within the broader Crown, purchasing shares from NZSF and ACC will add to core Crown debt. However, impacts on core Crown debt from purchasing shares from NZ Post would likely be reduced by the receipt of a special dividend from NZ Post of most of the sales proceeds that company receives.



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;

[CAB-21-MIN-0528]

### **Status of Negotiations with NZSF**

20. Negotiations have been taking place between NZSF and Treasury officials and the Crown's commercial and legal advisors. The negotiating parties have placed emphasis on different aspects of a potential transaction.
  - 20.1. Officials outlined the importance of the Government's NZ ownership requirement [33], [37], [38] [38]
  - 20.2. [25] and [38]
21. On 28 February NZSF wrote to me 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.

### **Crown Control of the Long-term Ownership Arrangements for KGH**

22. The implication of NZSF's decision is that it is now necessary to move to the alternate path that Cabinet approved in December 2021, by which the Crown pursues direct majority ownership of KGH [33], [37], [38]. It is my intention that the Crown seeks to reach agreements with sufficient shareholders [33], [37], [38] by 30 June 2022.
23. [25]
- 23.3. [33], [37], [38]

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<sup>1</sup> CAB-21-Min-0528

- 23.4. may involve a lower financial outlay than acquiring a direct majority interest in the future if NZSF (or another entity) had majority control and decided to divest.
24. By being proactive the Government can take the initiative and stabilise the shareholding arrangements rather than leaving it up to the preferences of any shareholders wishing to divest and prompting a share sale process that could put the Crown into response mode in order to avoid KGH shares being sold to third parties.
25. While the Crown will seek to acquire a direct majority position in KGH, there are multiple factors which may influence the overall number of shares needing to be purchased [33], [37], [38]  
Accommodations may be possible with one or more existing KGH shareholders that result in these shareholders [33], [37], [38]  
[33], [37]  
While the most capital-intensive scenario remains a possibility (because legally the existing KGH shareholders could all offer to sell their shares), the Crown will seek to achieve this step at the minimum cost.
26. [33], [37], [38] it will be necessary to maintain momentum in the discussions with KGH shareholders. This paper seeks the necessary appropriation to fund the contracting of additional specialist commercial and legal advisors to advise the Crown on KGH share transactions, as signaled in December 2021 [refer CAB-21-MIN-0528].
27. It is important, however, that the amount of funding available to purchase shares remains confidential as this commercially sensitive information would affect the outcome of those negotiations. I am not therefore proposing that capital appropriations for KGH share purchases be provided at this time as this information would be disclosed in Budget 2022 documents.
28. I am proposing that Cabinet agrees to the Minister of Finance and Associate Minister of Finance (Hon David Parker) negotiating to purchase KGH shares as required to meet the Government's policy objectives, subject to Cabinet agreement to the relevant capital appropriations following the Budget moratorium. [38]
29. [33], [37]

## Financial Implications

30. A \$4 million increase in the multi-year multi-category appropriation "Policy Advice and Financial Services" in Vote Finance is sought to fund the contracting of specialist commercial and legal advice as the Crown moves to directly acquiring control, taking the total amount for specialist commercial advice to \$8 million as I signaled would be the case if there was a shift from NZSF's proposal to the Crown directly purchasing a majority interest in KGH. This will reduce the operating balance by \$4 million, increase core Crown debt by \$4m, and be charged as a pre-commitment against the Budget 2022 operating allowance.
31. [33] and [37] [25], [33], [37]  
figure is based on the most capital-intensive option (i.e. 100% direct Crown control). If the Crown was to purchase less than 100% of KGH shares the expected cost would be proportionately reduced.
32. [33], [37]

[33], [37]

33. Purchasing KGH shares will have impacts on gross sovereign debt and core Crown debt. The Crown directly purchasing 100% of KGH would likely cost in excess of \$2 billion but a special dividend from NZ Post reflecting most of the sales proceeds from its KGH shares would partially offset this cost. For example, based on a \$2 billion value for KGH, if the Crown purchased 100% of KGH directly, gross sovereign-issued debt and core Crown debt would increase [25]

[33], [37], [38]

### **Legislative Implications**

34. There are no legislative implications from this proposal.

### **Human Rights, Gender implications, Disability Perspective**

35. None.

### **Publicity**

36. No publicity is proposed given the commercial sensitivity of any transaction in KGH shares. It is also uncertain whether any transaction will occur as it is subject to the transacting parties successfully negotiating a deal, with agreement on price a potential sticking point. There has, however, already been media speculation regarding KGH ownership as it is public knowledge that the share lock-up period has expired. I will respond to media commentary as required by reiterating that the Government's policy is for KGH to remain Crown owned.

### **Proactive Release**

37. I do not intend to release this Cabinet paper proactively in whole or in part, until any negotiations regarding changes in KGH shareholding arrangements and other commercially sensitive matters are finalised. There is considerable uncertainty as to the specific outcomes of negotiations between KGH shareholders [33], [37], [38]

To release

information about these matters before offers are made and agreements reached has the potential to distract and unsettle the board and management of KGH's operating subsidiaries (especially Kiwibank during the early part of its transformation period) and could undermine both the course of negotiations [33], [37], [38]

### **Consultation**

38. The Department of the Prime Minister and Cabinet has been informed.

### **Recommendations**

I propose that Cabinet:

1. **note** that Kiwi Group Holdings (KGH) is a holding company which wholly owns Kiwibank Limited (Kiwibank) and other adjacent subsidiaries including Kiwi Wealth Limited and Kiwi Home Loan Company Limited
2. **note** that KGH is currently owned by New Zealand Post Limited (NZ Post, 53%), New Zealand Superannuation Fund (NZSF, 25%), and Accident Compensation Corporation (ACC, 22%)

3. [25]
  
4. **note** that in December 2021 NZ Post and ACC indicated a desire to sell their KGH shares while NZSF had offered to purchase NZ Post's KGH shares
5. **note** that on 13 December 2021 Cabinet:
  - 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; [CAB-21-MIN-0528 refers]
6. **note** that NZSF has now formally notified the Government that it is no longer interested in purchasing NZ Post's KGH shares
7. **note** that it is now necessary to move to the Government's alternative option of pursuing direct majority Crown ownership, by purchasing shares in KGH, [33], [37], [38] consistent with the previous Cabinet decision
8. **note** that it is my intention that the Crown seek to reach agreements with KGH shareholders by 30 June 2022 that enable the Crown to establish sustainable long-term ownership arrangements for KGH
9. **note** that to maintain momentum with the process to resolve KGH's ownership arrangements funding certainty needs to be provided now for funding for specialist commercial and legal advisors
10. **note** that specialist commercial and legal advisors will be required to support the Crown's involvement in the negotiations including:
  - 10.1. supporting Treasury in negotiations on behalf of the Crown in determining alternative acquisition strategies and recommending a preferred strategy to the Government,
  - 10.2. supporting the actual negotiations [33], [37], [38]
  - 10.3. due diligence and independent testing of the pricing that is proposed for any share transactions [33], [37], [38]
  
  - 10.4. [33], [37], [38]
  
  - 10.5. any necessary amendments to the Crown Deed and KGH shareholders agreement

11. **approve** the following changes to the appropriation to provide for the Kiwi Group Holdings 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)	4.000	-	-	-	-

12. **agree** that the proposed change to the appropriation for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
13. **agree** that the expenses incurred under recommendation 11 above be charged as a pre-commitment against the Budget 2022 operating allowance
14. **agree** to the Minister of Finance and Associate Minister of Finance (Hon David Parker) negotiating to purchase KGH shares as required to meet the Government's policy objectives, subject to Cabinet agreement to the relevant capital appropriations following the Budget 2022 moratorium

Authorised for lodgement

Hon Grant Robertson  
Minister of Finance