

# FUTURE INVESTMENT FUND

Building a Stronger Economy



## Building savings and investment

National is increasing savings and creating jobs built on exports and productive investment. We're getting on top of debt, and returning to surplus sooner.

We will extend the successful mixed-ownership model – where the Government owns most of a company, but offers a minority stake to investors – to four state-owned energy companies, and reduce the government's stake in Air New Zealand. This will give Kiwis a chance to invest in large New Zealand companies.

## The Future Investment Fund

The mixed ownership model will free up capital so the Government can invest more in public assets and new infrastructure without increasing borrowing from overseas.

National will establish the Future Investment Fund to receive all proceeds from the mixed ownership model – estimated to be \$5 billion to \$7 billion over three-to-five years from 2012.

The Future Investment Fund will invest in capital projects that help grow our economy and improve public services.

The first \$1 billion in the Future Investment Fund will go towards building 21<sup>st</sup> Century Schools so that Kiwi children can get the education they need to succeed.

See National's [21st Century Schools](#) policy for more details.

## Key facts



**Extend mixed ownership** to four state-owned energy companies – Mighty River Power, Meridian, Genesis, and Solid Energy – but retain majority government control.



Reduce the Government's share in Air New Zealand but retain control. The company is already operating under mixed ownership.



**Establish the Future Investment Fund** to invest the proceeds from the Mixed Ownership Model



**Invest in new public assets:** Use the Future Investment Fund to build new schools, hospitals, roads and rail, and other public assets – without borrowing more.

## Our guarantees



**Government retains control:** The Government will keep over 50% of each company.



**Priority for Kiwi investors:** New Zealanders will be at the front of the queue for shareholdings.



**New investment opportunities:** These companies will provide more opportunities for Kiwi investors.



**Protection for consumers:** Industry regulations will protect consumers.

## National has...

### Explored the mixed ownership model

- ✓ Announced we were exploring extending the successful mixed-ownership model – where the government owns the majority stake in a company and the remainder is owned by the private sector.

The best example of the mixed ownership model is Air New Zealand. The government owns 75 per cent of the company, and the remainder is owned by investors, institutions, investment funds, and other companies.

- ✓ Asked Treasury for advice on the merits and viability of:
  - Extending the mixed-ownership model to Mighty River Power, Meridian, Genesis, and Solid Energy, with the Government retaining a majority stake in these companies.
  - Reducing the Government's shareholding in Air New Zealand, while maintaining a majority stake.

New Zealanders are expected to own at least 85 to 90 per cent of the companies, including the Government's majority shareholding.

*“The markets are going to be surprised by the degree of domestic demand for these assets because when the institutions think about generation, when they think about inflation hedge size and equity, this is just a natural asset. And I can say as a fund manager we will definitely be repatriating money from those sorts of assets offshore to buy them onshore.”*

- Sam Stubbs, Chief Executive of Tower Investments

## Investing in our future

### Opportunities for Kiwi investors

The mixed ownership model will give Kiwis a fantastic opportunity to invest in this country's future. It will provide something to invest in other than housing or finance companies. As a result, we'll have a stronger stock market which will help New Zealand grow faster.

Kiwis don't want to put their future at risk with a switch back to the unaffordable and big-spending ways of the past. They want a strong and growing economy that provides more opportunities, better wages, and the high-quality public services they need.

That's exactly what National will deliver.

### Opportunities for government investment

The Government owns around \$245 billion of assets on behalf of taxpayers. These investments need to be managed as effectively as possible.

Over the next five years, the Government is expected to acquire a further net \$22 billion more of assets, so that New Zealanders have the roads, public transport, electricity network, schools, hospitals, broadband, and other infrastructure they need.

Mixed ownership is expected to free up between \$5 billion and \$7 billion over 3 to 5 years.

This money will help the Government invest in new public assets without having to borrow more from overseas lenders and increase interest payments at a time when finances are extremely tight.

# What we will do next...

## Extend the mixed-ownership model

### 1. Sell a partial stake in five state-owned companies, but retain majority control

→ Extend the successful mixed-ownership model to four state-owned energy companies – Mighty River Power, Meridian, Genesis, and Solid Energy – and ensure the government maintains at least 51% shareholding.

→ Reduce the Government's existing 75 per cent shareholding in Air New Zealand, while keeping majority control.

Mixed ownership will mean savers have the opportunity to invest in Kiwi companies. This will be an investment opportunity for savers looking to put their money in something other than housing or finance companies.

### 2. Give priority to Kiwi investors

→ Ensure New Zealanders are at the front of the queue for shares.

We expect that Kiwis will own at least 85 to 90 per cent of each company – including the government's majority shareholding.

We're confident New Zealanders will choose to invest. Funds available include:

- More than \$300 billion of investments, excluding private homes.
- KiwiSaver providers have about \$9 billion invested – due to double in 4 years.
- New Zealand institutions have about \$59 billion under management.
- Crown financial institutions, including the Super Fund, ACC, and GSF, have almost \$40 billion under management.
- Iwi have more than \$10 billion of assets.

### 3. Stagger share sales appropriately

→ Offer shares in these five state-owned companies at appropriate times over three to five years, beginning in 2012.

Selling shares at sensible intervals will ensure maximum return for taxpayers.

### 4. Place a cap on shareholdings

→ Set a maximum cap for non-government shareholders – likely to be 10 per cent.

This will ensure:

- A wide spread of shareholders.
- No single shareholder, other than the Government, can own a large proportion of the shares, limiting their influence on the company.

### 5. Drive better performance

→ Focus on gaining better performance from taxpayer assets.

Mixed-ownership will:

- Expose these companies to private-sector discipline and greater scrutiny.
- Allow these companies to access capital and grow without being fully dependent on the Government.

### 6. Protect consumers

→ Monitor competition in the markets that these companies operate in

The companies in the mixed ownership model will continue to operate under legislation that ensures competition in the marketplace. National will monitor competition to ensure that regulations are working effectively to protect consumers.

## What we will do next...

### Establish the Future Investment Fund

#### 1. Set up a new fund for investing in public infrastructure assets

- Establish a new fund called the Future Investment Fund (FIF).

The Future Investment Fund will be a government-owned fund dedicated to building public infrastructure and funding other new capital projects over the next five budgets. The fund will be managed by the Treasury.

- Put all the proceeds raised from the mixed ownership model into the Future Investment Fund.

A minority stake in the five state-owned assets subject to the mixed ownership model will be sold at appropriate times over three-to-five years starting from 2012.

Proceeds are expected to be in the range of \$5 billion to \$7 billion – about 3 per cent of the Crown's total assets.

On their latest commercial valuations, selling down to 51% of each of the five companies would result in proceeds of \$6.5 billion. The actual figure will depend on market conditions and on what proportion of the assets is ultimately sold.

The Fund will accumulate money as the Government sells some of its shares in the companies subject to the mixed ownership model.

#### 2. Use the Future Investment Fund to invest in public infrastructure assets

- Fund capital projects that help our economy grow and improve public services.

The FIF will invest in capital projects that have economic and social benefits for New Zealand which are greater than the cost of capital.

Possible capital projects include new or upgraded assets such as:

- Hospitals.
- Schools and other education infrastructure.
- Rail and public transport development.
- Public sector information and communications technology.
- Infrastructure recovery from natural disasters.

- Allocate the first \$1 billion from the FIF to build 21<sup>st</sup> Century Schools.

National has committed to investing the first \$1 billion from the Future Investment Fund into:

- Building new, modern schools.
- Rejuvenating existing schools on the same site.
- Building new, modern teaching areas in existing schools.
- Wiring up many more schools with fibre, to take advantage of ultra-fast broadband.

For more details, see our **21st Century Schools** policy.

## Labour would take New Zealand backwards

### Labour:

✘ Would turn their back on the successful mixed-ownership model – even though they set it up and applied it to Air New Zealand.

In July 2009, Phil Goff said "Air New Zealand today, under a majority government shareholding but with quite competent management, has done as well as any airline across the world."

✘ Would not give New Zealanders the chance to invest in more local companies.

✘ Would continue its unaffordable and big borrowing and spending ways of the past.

✘ Sold 100% of more than \$9 billion worth of state assets between 1984 and 1990, including Telecom and the Post Office Bank.

National is not proposing full private ownership. We are extending the successful mixed-ownership model that's already working for Air New Zealand.

Labour would stop New Zealand investing in much-needed infrastructure and social assets such as schools, hospitals, and ultra-fast broadband, or borrow more from overseas and owe our future.

**We can't afford another dose of Labour.**