Chapter 14: Auckland airport shareholding policy

14.1 Policy purpose and overview

The purpose of this policy is to set out the strategy for managing the council's investment in Auckland International Airport Limited (AIAL). The policy sets out the council's wider objectives for its shareholding in AIAL and how it will evaluate any proposals relating to this shareholding.

The policy does not provide for any sale of the council's current shareholding in AIAL although this may be considered in exceptional circumstances. The policy allows the council to undertake a technical transfer of its shareholdings as part of a restructuring transaction that will result in the council shareholding being no less than it was prior to the transaction.

14.2 Policy background

As at 15 June 2012, the council owns 295,921,014 shares in AIAL which equates to a 22.37 per cent shareholding[16]. These are held through its wholly-owned subsidiary Auckland Council Investments Limited (ACIL)[17].

ACIL is the council's vehicle for managing its investment in the airport and implementing this policy as appropriate. ACIL is a CCO and its s activities are governed by the council's CCO accountability policy and its Statement of Intent (SOI). The council's CCO accountability policy and ACIL's SOI includes a requirement that it manages its investment in accordance with this policy.

Section 5 of the LGA 2002 defines the council's shareholding in AIAL as a strategic asset. Under section 97 of the act, a transfer of ownership or control of a strategic asset can only occur if the decision to do so is provided for in the council's long-term plan.

14.3 Policy details

Objectives for shareholding

The objectives are to:

- maintain a strategic stake in Auckland Airport as an important national and regional asset
- ensure an appropriate annual financial return from the investment in the airport.

Strategy

The council's strategy is to:

- maintain its level of ownership where this does not require additional investment
- consider selling its shares only if the council would be substantially better off as a result or worse off by maintaining its holding

16 There has been a slight decrease in council's shareholding from the 2011/2012 year due to the council not participating in the company's Dividend Reinvestment Plan (DRP).

17 ACIL holds the shares via its subsidiaries Airport Shares (Auckland) Limited (165,501,630 shares) and Airport Shares (Manukau) Limited (130,419,384 shares). The shares are valued at $731 million based on a price of $2.47 as at close of business 15 June 2012.

- maintain a strong relationship with Auckland Airport directors and senior officers
- use the expertise of ACIL in managing its investment in the airport
- appropriately structure its investment in ACIL and its subsidiaries to take maximum advantage of any opportunities for the management of its debt portfolio
- monitor the risks associated with the airport both operationally and financially including the mix of debt and equity in the balance sheet.

Dividend reinvestment plan

The council will decide whether or not to participate in the Dividend Reinvestment Plan (DRP) on a case by case basis.

Rights and securities issues

The council will decide whether or not to participate in rights and securities issues on a case by case basis. In determining whether it will participate or not the council will take into account the:

- matters set out in this policy
- impact of funding an additional investment on the council's financial position in the short and long term
- extent of any discount to the market in the issue price, bearing in mind the likelihood of the council being able to realise this
- future prospects for the business
- economic effects of the rights or other securities issue structure.

Takeover offers, mergers and capital restructuring

The council on advice from ACIL will assess any options that may become available to it against the following seven general criteria. In applying these criteria, the council will follow the decision-making principles outlined in the LGA 2002.

1. Overall impact: the overall impact on the current and future social, economic, environmental and cultural well-being of the community. This assessment will include the likelihood of Auckland Airport's role as an integral part of the city's regional and national transport system being enhanced or compromised.
2. Feasibility: the likelihood of successfully implementing the option, as measured by the extent of tax, legal and other issues that would need to be worked through to successfully do so.
3. Strategic value: the impact in terms of the council's long-term objectives, desired community outcomes and the broader public interest. This would be reflected in factors such as:

    a. the council's ability to have input into the appointment of directors to the board of Auckland Airport
    b. the council's ability to have input into the management of Auckland Airport
    c. the level of public scrutiny of the management of Auckland Airport
    d. the level of council ownership and influence
    e. the level of shareholding held by a single shareholder other than the council should not exceed 50 per cent
    f. the level of New Zealand ownership of Auckland Airport
    g. the commitment of new shareholders to the development of the airport.

4. The council's ability to block a full takeover of Auckland Airport or otherwise block ownership changes that could significantly impact on the business plan and operations of Auckland Airport.

5. Financial returns: the impact on the council's projected after tax cash flows over the remaining period of the LTP 2012-2022 and beyond.

6. Liquidity: the ability of the council to quickly change its shareholding to cash if required. This would be reflected in factors such as whether the council's shares can still be traded on the New Zealand Stock Exchange, the likely number of buyers for the council's shareholding, and any new procedures or restrictions that may be put in place in relation to the council's exiting its investment.

7. Risk: the likelihood and impact of negative consequences. This includes any operational risk associated with changes to the management or operation of Auckland Airport, as well as the financial risk associated with an increase in the level of debt funding of Auckland Airport. A higher level of debt would reduce the airport's capital expenditure flexibility and increase the risk associated with the airport's ability to make future distributions to shareholders.

The council recognises that, as AIAL is a widely held company, it may not in all circumstances be able to achieve all of the objectives above but will ensure that as many as possible are achieved. The council may consider selling its shareholding in the event of a takeover that would leave it as the only other remaining shareholder and hence lacking any influence over the direction of the airport.

Implementation options

A change in ownership or control of some or all of the council's shareholding in AIAL or a restructure of the council's interest may take place by any of the options listed below, or by a combination of those options, or in any other ways that satisfy the council's policy set out above.

Option 1: The council joins a consortium, which will execute a full or partial takeover or otherwise acquire a substantial stake in Auckland Airport. The council would achieve an ultimate stake at least equivalent to its percentage holding in the Auckland Airport prior to the transaction in the airport by taking shares, or other securities, in the consortium.

Option 2: The council agrees to AIAL merging with another company, exchanging the council's shares in the airport for shares or other securities in the new entity, provided the council would achieve an ultimate stake in the new entity at least equivalent to its percentage holding in the Auckland Airport prior to the transaction.

Option 3: The council agrees to AIAL being restructured so that its business units separate into stand-alone entities, with the council receiving a proportionate equity stake in one or all of the stand-alone entities, provided that the council would achieve an ultimate stake at least equivalent to its percentage holding in the Auckland Airport prior to the transaction of the combined equity of the stand-alone entities.

Option 4: The council sells shares, or other securities, in Auckland Airport for cash or some other form of consideration, provided that the council's ultimate stake in the airport is at least equivalent to its percentage holding in the Auckland Airport prior to the transaction.

Option 5: The council buys shares or other securities in Auckland Airport.

Option 6: The council transfers its ownership stake in Auckland Airport to a holding company.

Option 7: The council exchanges its share in the airport for other securities in the airport.

14.4 Adoption and amendment of this policy

The council must use the special consultative procedure set out in the LGA 2002 to adopt this policy and make any significant amendments to it.