WIAL shares sale and investment fund

Frequently asked questions relating to the airport share sale and establishment of perpetual investment fund.

Why is the Council considering selling the airport shares?

The Council has two significant financial problems that need to be solved – the first is that we have recently become significantly underinsured ($2.6B) in the event of a major earthquake or other insurance event. The $272m debt headroom the Council had been holding to cover uninsured risk is now insufficient to cover expected losses from a major event. The second problem is that our investment portfolio is heavily concentrated in Wellington-based property assets (93% of the investment portfolio is the airport shares and ground leases). This means our investments are all exposed to the same sorts of risks and disruptive events, particularly natural disasters, and it will be difficult to get sell these investments to raise cash in the event of a natural disaster where the value of the investments has been impacted.

The proposal to sell the minority airport shareholding and invest the proceeds into a new public asset, a perpetual investment fund, has been developed because it would address both the insurance and the diversification problems.

These issues are discussed in more detail in the KPMG balance sheet review documents and the LTP consultation material in the document table.

Haven't the airport shares been a good investment for the Council? Why is an investment fund a better investment for Wellington?

The airport shares have been a good investment for the city. It is important to be clear that the reason the sale is being proposed is because we have a problem with the lack of diversification in our investments and significant underinsurance; not because the shares have been a poor investment.

A perpetual investment fund would address the two key issues identified in the balance sheet review – it would help to meet the costs of underinsurance in the event of a natural disaster and, as a financial asset, it is a different kind of investment to the Council's current investment portfolio which is almost entirely Wellington-based property assets. So in this respect, it diversifies the Council's portfolio, making it more financially resilient.

What happens if the shares aren't sold?

The sale of the shares and the establishment of the investment fund is a key component of the Council's financial strategy, as consulted on through the LTP. If the sale did not go ahead and the fund was not established, the Council would not meet its financial strategy and would need to consider an alternative approach to achieving its financial strategy – this alternative approach would include reductions in the Council's borrowings and capital programme, and potentially reductions in services.

The Council briefing from 23 May in the document table has more information.

What would the proceeds of the share sale be used for?

The proceeds of the sale of the shares would be used to establish a new perpetual investment fund. This would be a publicly-owned fund that would undertake investments to grow the fund in order to have funding available to support the city's recovery from natural disasters, including by covering the insurance gap.

The money in the fund would be ring-fenced, which means funds can only be withdrawn and used for the purposes for which the fund is established (e.g., disaster recovery). The proceeds from the share sale would not be used to pay down Council debt or fund current services. The proceeds would only go into the new investment fund.

Could an investment fund be adequately protected to ensure the funds are only used for their intended purpose?

Yes, the fund would be established with very clear parameters on its use to ensure it is protected and only used for the things it was set up for (e.g., disaster recovery). The fund would also be listed as a strategic asset in the Council's Significance and Engagement Policy which means community consultation would be required to make changes to it. We will also consider whether there is value in special legislation to provide an additional level of protection for the fund – this is an approach that New Plymouth District Council has taken.

The Council briefing from 23 May in the document table has more information about protecting the fund.

What would an investment fund invest in?

If the Council decides to proceed with selling the shares and establishing the fund, the Council will develop a strategy with clear parameters for how the fund invests. The strategy would determine how conservatively or aggressively the money will be invested, and would set any other criteria the Council considers to be important to achieve alongside financial returns. The Council's current assumption is that the fund will have an investment focus on environmental, social and governance factors, although this will be subject to further advice from an investment manager.

What is the consequence of the loss of the dividend income from the airport shares?

If the shares were sold, the Council would no longer receive the dividend income it currently does as a shareholder. However the fund will generate income for the Council which would be expected to offset the loss of the dividend income. Based on an assumed 7% annual return, the Council could split the return on a 5:2 basis which would mean approximately 70% of the investment return would be returned to Council and the remaining 30% reinvested into the fund to enable it to grow.

This split would ensure the Council's return approximately matches the current forecast airport dividends.

The Council briefing on 23 May in the document table has more information about expected returns.

Have other Councils done this?

Other Councils have successfully established similar funds, using the proceeds from asset sales or other funding, to manage their portfolios and diversify their investments. Examples are the New Plymouth District Council Perpetual Investment Fund, the Dunedin City Council Waipori Fund, and the Hawke's Bay Regional Council Future Investment Fund. Auckland Council is also currently planning to establish an equivalent fund.

What other options has the Council considered?

The KPMG balance sheet review identifies four key options to improve the Council's balance sheet resilience, and these are discussed in the KPMG balance sheet review documents in the document table. The Council undertook work on option 1 (capital programme rephasing and operational costs) as part of the LTP, has a programme of insurance work underway with Aon (option 4) to continue maximise the availability and terms of insurance, and has previously used the IFF as a funding tool (and would do so again, where there were suitable projects) (option 3). Even with these options explored, the Council continues to have a large insurance and investment portfolio risk – this is why the review recommends the sale of the airport shares and replacing them with a new investment fund.

How will the sale of the airport shares affect my rates?

The sale of the shares and the establishment of the fund is not expected to have an impact on rates. The current dividend received from the airport (which offsets rates) is expected to be replaced by an investment return to the Council from the fund at an approximately equivalent level.

What are the next steps in establishing an investment fund?

The Council has asked for further advice on a potential sales strategy for the airport shares. This advice will be provided to the Council later this year (by December). At this point, the Council will decide whether or not it wants to proceed with selling the shares and establishing a new investment fund. If the Council decides to proceed, we will update this site with the next steps and timeframes for establishing the fund.