3.6 Auckland Airport Shareholding Policy

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 NZX listed company that owns and operates Auckland Airport.

The policy does not provide for any sale of the council's current shareholding in AIAL, with the exception of additional shares received through the Dividend Reinvestment Plan, rights issues (or similar) or where there are 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 number of AIAL shares council holds being no less than prior to the transaction.

Policy background

As at November 2020, the council owns 266,328,912 shares in AIAL, which equates to an 18.09 per cent shareholding.

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.

Policy details

Objectives for shareholding

The objectives are to maintain a strategic stake in Auckland Airport as an important national and regional asset, and ensure an appropriate financial return from the investment in the airport.

Strategy

The council's strategy is to:

- maintain the number of shares it holds in AIAL
- consider selling its shares only if the council would be substantially better off as a result, or worse off by maintaining its holding or where the sale relates to the realisation of council's participation in any dividend reinvestment plan, rights and securities issues, takeover offers, mergers, capital restructuring or similar transaction
- maintain a strong relationship with AIAL directors and senior officers
- monitor the risks associated with the airport both operationally and financially.

Dividend reinvestment plan

Council's default position will be to not participate in AIAL's Dividend Reinvestment Plan, but the council may decide to make an exception from time to time.

Rights and securities issues

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

- matters set out in this policy
- impact on the council's financial position of funding an additional investment
- extent of any discount to market in the issue price, taking into account 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 will assess any options that may become available to it in exceptional circumstances 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.
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 size of shareholding held by a single shareholder other than the council should not exceed 50 per cent
    f. the extent 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.
6. Liquidity: the ability of the council to quickly convert 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 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 AIAL, as well as any financial risk associated with an increase in AIAL's level of debt funding. 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 realised. 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 AIAL. 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 AIAL 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 AIAL 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.

Decision-making under this policy

Any decision made under this policy will require the prior approval of the Finance and Performance Committee or the Governing Body. If it is not practicable to hold a meeting within the required timeframes to make a decision, the decision can be made by the Mayor and any two of the Deputy Mayor, Chair and Deputy Chair of the Finance and Performance Committee, after receiving advice from the Chief Executive.

Adoption and amendment of this policy

The council may be required to use a long-term plan amendment process and the special consultative procedure set out in the LGA 2002 to make any significant amendments to this policy.