

The family silver: the sale of Wellington Airport (B)

At the July 30 special meeting to consider the sale of its 34 percent shareholding in Wellington Airport, Wellington City Council voted on a number of resolutions.

In the first, Councillors voted eleven to seven for the Council to “inform Government in making its decision that its preference is not to sell the Airport at this stage”.

A subsequent amendment “that the Council inform the Government that should the Government sell its 66 percent shareholding in the Wellington Airport, Wellington City Council’s preference is to sell its 34 percent holding” was lost eight to ten.¹

Mark Blumsky, who had been confident he had the numbers for sale, said “of course I looked awfully stupid on the final day but they had the right to change their mind.”²

Publicly at least, the Mayor was not yet ready to concede defeat. The Council resolutions stopped short of a final decision not to sell. The Government had still officially to decide whether it would sell its own shares. The Council would then meet again to review its decision.

Problems in the Coalition

But the Government was having its own problems within the coalition. New Zealand First opinion was hardening against a sale and its opposition was strengthened by the support within the Council for retaining its shares. In any event, the Cabinet did not make a decision on Monday 3 August. Instead, Finance Minister Bill Birch contacted

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¹ Wellington City Council Minutes From: Special Meeting of the Council, 30 July 1998.

² Mark Blumsky interview.

the Mayor to ask for clarification of the Council's position on sale of its shares. The Council met briefly on 4 August and agreed to adjourn for two days "to allow time for a delegation of Councillors to meet with Government ministers in an attempt to clarify the Government's position".

Mark Blumsky recalls that the Government was less than pleased with the outcome of the 30 July meeting:

"At the end... they got pretty pissed off. I remember some of the phone calls I had to make directly after that Council meeting and they were pretty grumpy about the fact because they reckoned that it also cost them money, that's why. I mean, because they could ... only exit their two-thirds."³

On Wednesday 5 August Mayor Blumsky, with Councillors Foster, Piper, Nef and CEO Garry Poole met the Prime Minister Jenny Shipley and Finance Minister Bill Birch at the Beehive.⁴ Poole recalls:

"...The Prime Minister went to give us a bit of a serve... The Mayor expressed [the] delegation's great concern at the integrity of Council being questioned; and the Prime Minister referred the Mayor to the 'Sale and Purchase Agreement, dated 31 March' which governed the sale process. The Prime Minister noted that the price proposed was very acceptable in that the conditions regarding the criteria of the appropriate purchase had been met by the preferred bidder and therefore the Prime Minister questioned how the Wellington City Council could decide not to proceed with the sale. Then the Mayor referred to the ... first clause of the agreement [which] stated, 'neither the Ministers nor the Council had decided to sell their shares'. So the Prime Minister was basically saying 'all the conditions have been met ... why are you guys not going for it?'"⁵

Poole felt the Government knew the vote was likely to be touch and go. "But ... they took a pretty dim view of us. And that meant they weren't prepared to hold up anything, give us some space to try and nail this thing."⁶

The Council reconvened on Thursday 6 August to consider a motion put by the Mayor approving the sale of the Council's shareholding, "explicitly conditional upon both the Crown and the Council jointly and contemporaneously selling their 100% shareholding". The motion was lost eleven to seven.

The Council also voted twelve to seven (the Mayor in support) in favour of a resolution moved by Sue Kedgley, for the Chief Executive and the Mayor to attempt to negotiate a shareholders' agreement with the preferred bidder.⁷ This was the unintended consequence of an invitation by Rex Nicholls (chair of the Council's Finance Committee) for former Dairy Board Chief Executive Murray Gough to speak to the Council. In Garry Poole's view:

"Rex's objective in inviting Murray was to reinforce that if you are a minority shareholder you are screwed - I mean I'm sure that's what he wanted to have happen. And it backfired. ... He talked about the minority shareholder situation and how it was difficult to manage. ... [When we later had questions someone asked] 'okay given what you've just said, ... why do you ever get yourself into a minority [shareholding]' ... a good question - 'and how do you protect yourself?' ... And Murray answered by saying 'well we used shareholder agreements'. ... Then all of a sudden everyone who didn't want to sell who

³ Mark Blumsky interview.

⁴ Waikato Times, "Government split over Wellington Airport sale", 7 August 1998.

⁵ Garry Poole interview.

⁶ Garry Poole interview.

⁷ Wellington City Council: Extract From Minutes: Council Meeting; 6 August 1998

were worried that they were about to be screwed in a minority [shareholding] hooked onto the shareholder agreement and said ... this is the document that could save us. I think that probably changed the [eventual] outcome.”⁸

As a result, Chief Financial Officer David Cruickshank was instructed to draw up a list of matters that could be covered by a shareholder agreement, for discussion with the Wellington-based consortium Infratil NZ, which was offering \$50 million for the Council’s airport shares. Garry Poole recalled that Infratil “made positive noises about being amenable to putting a whole lot of stuff in the shareholders agreement.” He was sceptical and attempted to alert Councillors that it was unlikely that a 66 percent shareholder would give these kinds of concessions to a 34 percent.

“But by then ... the people who didn’t want to listen to us, who didn’t want to go down that track -- the hardcore -- were probably very anti management by this time, because we had been seen to promote the sale of the strategic asset and it was not liked.”⁹

On 7 August 1998, Wellington City Council met for its final vote on the Airport share sales.

At 6.35 am that morning, Councillor Kent Clark stopped his Number 12 bus to Karori and asked his passengers how he should vote. The commuters were predominantly against the sale.

Councillors voted 11 to 8 against the sale, and to leave the Council as a minority shareholder. The votes of Kent Clark and Andy Foster, as expected, proved pivotal. Those in favour of the sale, as well as the Mayor, were Councillors Armstrong, Johnston, Nef, Nicholls, Parkin, Prendergast and Rainbow. Those against were Councillors Barraclough, Clark, Cook, Foster, Gotlieb, Kedgley, Pepperell, Piper, Ruben, Siers and Wade-Brown.

For Mayor Blumsky:

“...the end of it I was pretty sure [Kent Clark] would vote with us and that Andy would probably equivocate as he always does and then flick the other way; but Kent was the one who blew us out of the water...”

“He was absolutely adamant, if not the day before, the day before [that] he was still very much on this side. Absolutely adamant. I remember that, because we knew he was a reasonably important person in the scheme of things...”¹⁰

Both Blumsky and Prendergast were sure that Kent Clark had been got at. However, Clark said he based his decision on the belief that that hanging onto the shares was a good investment for the Council.¹¹ As Cameron Bates reported:

“Mr Clark, who see-sawed over the sale process, said the council’s consultation process was flawed and the overwhelming majority of Wellingtonians were against the sale. He said public opinion, including passengers on his bus routes, the “low” offer of \$50 million for the council’s share, and “bullying” tactics by members of the Coalition Government had persuaded him to vote against the sale.”¹²

Andy Foster’s reasoning for retention was partly based on the expected return from the shares as an investment and partly on a concept of fiscal discipline. He foresaw a significant increase in revenue from dividends in the future, but he says he was also

⁸ Garry Poole interview.

⁹ Garry Poole interview.

¹⁰ Mark Blumsky interview.

¹¹ Kent Clark interview.

¹² Bates, C, “Commuters had say in airport sale decision”, *The Dominion*, 7 August 1998, Ed 2, Page 1.

concerned that the Council “would have employed the money in some generally non-revenue bearing or non-revenue returning asset. So therefore it made sense financially to me to retain the asset.”¹³ But Foster says he was also influenced by the “surprisingly vocal” public opposition to a sale:

“When we started the ... consultation processes, my feeling was that it was almost inevitable we would sell. It was one of those things that the public is probably not going to be too worried about it. The numbers make it look as though, in dollar terms, ... it’s a likely sell. ... We got, I think a surprising strong level of public feedback that people by and large didn’t want to sell.”¹⁴

¹³ Andy Foster interview.

¹⁴ Andy Foster interview.