MacKay ON MONEY

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY

I never had much time for Jim Bolger as Prime Minister. Between 1990 and 1997 he oversaw just under seven billion dollars in asset sales including both Auckland and Wellington airports ($559m), Forestry Corp ($1.6b), BNZ ($849m), NZ Rail ($328m), and Timberlands ($366m). In the first budget while leader, he went back on his promise to remove the tax surcharge on superannuation. And during his watch, he had a wonderful chance to do something positive about Kiwis saving for their own retirement and in my opinion, blew it.

To me he also came across as awfully up himself which I only find appealing in a contortionist. So when he was given the reins as Chairman at NZ Post, I didn't have a good feeling. He has gone now and the head honcho is another ex politician Sir Michael Cullen.

Back in 1987 according to their website, "The old New Zealand Post Office splits in three separate state owned enterprises on 1 April – New Zealand Post Limited, Telecom Corporation of New Zealand Limited and Postbank Limited. [On 16 October 1987 the] SOE Minister announces that 432 Post Offices are too [sic] close with 560 jobs to go." I researched this in early November and I'm sure by the time you'll read this they will have fixed the typo.

If you remember back 25 years, the Labour guys inspired by Roger Douglas and with Cullen as Senior Whip, ended up flogging off Postbank to the ANZ for $665m. Then Telecom to Bell Atlantic Corporation and Ameritech Corporation for $4.25b.

A year later, Telecom listed on the NZ, Australian and New York Stock Exchanges. And then in 1993, those two foreign companies sold down their shareholding to 49.6 per cent.

Back to NZ Post and Kiwibank. According to Wikipedia "the bank was initiated as part of Jim Anderson's Alliance Party policy during the 1999–2002 term of the Labour-led coalition Government. Jim Anderton revealed in his valedictory speech that after spending three hours trying to convince then Finance Minister Michael Cullen of the wisdom of setting up the bank Annette King told Cullen "Michael, Jim's beaten back every argument against the bank we've ever put up. For God's sake give him the bloody bank". Cullen replied "Oh, all right then!" And that's how Kiwibank got cracking in May 2001 with her parent company being NZ Post.

It has been a great success having had a bright and energetic Sam Knowles at its helm for its first 10 years. You will note the double irony with Sir Michael Cullen (in the thick of it when Labour sold Postbank in 1989 and then completely against resurrecting a look alike in 2001) now being the current Chairman of the parent company. Mind you, Jim Bolger sold NZ Rail in 1993 for $328m. In July 2008 Helen Clark's lot with none other than Cullen in charge of the purse strings, bought it back in what we are told, a run down state for more than double the original selling price at $665m. Then they appointed none other than Bolger, the bugger who sold it off in the first place, as Chairman! Talk about jobs for the boys.

For the year ended June 30, Kiwibank clocked up a good profit of $79 million. NZ Post, the parent company declared a profit of $169 million including a one off accounting gain of $96 million because of some restructuring profit leaving $73 million actual profit. If $79 million was from Kiwibank, on first glance it looks like NZ Post made a loss. They did report that 54 million fewer letters had been delivered over the period. Mind you, tens of thousands of letters were found in the lounge of a postie's house in Arrowtown in November, so I'm not sure whether they count as "delivered" or "undelivered".

Now the NZ Post solution to lower revenue appears to always be to increase the postage charges or to reduce the service.

I was taught at University there are two ways to increase profit. Either sell more widgets or reduce costs. At some stage, costs just simply cannot be trimmed more and so more sales seem a good solution. NZ Post says this is an electronic age and customers are communicating differently and I of course agree. But I also know in our company, every time the postage goes up, we look at ways of not sending correspondence via post versus the alternative. So eventually we will be forced by NZ Post to not send anything at all by mail.

The rail and bus network has this same dilemma. Charge the commuters what the companies want to, but then no-one will use public transport at all. Charge less and more will use it. And by the way, not having used buses apart from when overseas, I'm now habitually travelling from the Hutt to Wellington via the Airport Flyer. It's a great service, leaving every 15 (soon to be 20) minutes.

Ian, one of my colleagues refuses to travel in this way. He says his grandfather died on a bus and his dad at a bus stop, so there is therefore a fatal connection with his family and buses. I have told him both my father and grandfather died in a bed, but dammit, I'm not sleeping on the couch.

Way back in February this year, I had done a fair bit of straw polling. In the course of my profession I talk to many people from varying backgrounds, age, gender and wealth. It was a time when the Crafar farms and asset sales were topical. It was also before the Treaty and water rights debates were getting started.

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I asked various people how they felt about selling some more of our assets and whether foreign companies should own our farmland.

Bruce, one of New Zealand's leading stockbrokers (and in his youth, a serious trader in Brierley shares) was in favour of privatisation, partly in order to strengthen our capital markets to provide Kiwis some other investment options.

No-one else I can recall had these lofty altruistic reasons and were all agin both lots of sales.

Keen to set the Government on the right path and to appraise them of just exactly how the public was thinking, I rattled off a letter to the PM. He's a good bloke; I have met him a few times and he remembers my name when he says hello, which is a terrific political talent.

I set out logically I thought, why they shouldn't flog off much of the remaining family silver and why we didn't want to become tenants in our own country, with large foreign companies owning our farmland. I don't object to an individual who wants to live in NZ, owning land here like James Cameron but a big overseas corporation – no way.

Anyway, I foolishly thought communication by letter would also mean I could avail myself of the service that NZ Post advertises, namely to deliver that letter to the person noted on the envelope. In this case the PM.

As it turns out, because I never got a reply, I simply thought John had other things on his mind and the PM's department was busy with far more lofty stuff, as opposed to acknowledging receipt of my well meant note.

Some time later in the year while having lunch with MP Katrina Shanks and Minister Chris Tremain, in passing I mentioned the PM didn't reply to his mail these days. I was quickly promised an early solution if I resent the letter. And the promise was kept.

It turns out the PM had never got my letter in the first place, so I can only assume the PM's minders opened it, read it, decided it was a load of old cobblers and chucked it out, or it got lost in the post, or it's in some Central Otago postie's private collection.

I never put a stamp on letters to Parliamentarians. I have always been told one does not have to. Something to do with

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democracy I understood. Maybe that's the problem.

However, I now have a very nice reply from the Hon Tony Ryall, Minister of State Owned Enterprises to whom the PM had passed on my now well read letter. It talks about the reasons for selling assets which include controlling "[public] debt [which they want to cap] at or around $72 billion, or 30 per cent of GDP". As a comparison, in 2011 the US gross debt to GDP was 103 per cent. Japan 230 per cent. Germany 81 per cent. UK 82 per cent. Netherlands 65 per cent. Australia 24 per cent and Chile a tiny 11 per cent.

Our nation's private debt is the fifth worst in the OECD apparently. Topic for another article. That overseas bank fuelled property boom has a lot to answer for.

Tony Ryall goes on to say "…the minority sale of our energy companies is estimated to raise $5 to $7 billion which would otherwise have to be borrowed from foreign banks, and would raise our net debt to around $80 billion. …."

He then writes "I can assure you that the Government has taken into account the reduction in dividends that it will receive as a result of the share offers…. [Treasury's] Fiscal Strategy Report estimated that the Government share offers will result in $180 million of dividends being paid to minority owners in 2016, rather than to the Crown. This compares to $256 million in estimated finance cost savings from the Government share offers. Therefore the net cash impact on the Government is positive."

Now if this is correct, my rough calculations are as follows. If there are $180 million in dividends being paid to minority shareholders, this would imply a dividend yield of between 2.57 per cent ($180m divided by $7b) or 3.60 per cent ($180m divided by $5b). It depends on how much they can flog the shares off at. The top 50 NZ shares currently have an average dividend yield of around 7.5 per cent by the way.

I wouldn't have thought too many punters would have wanted to purchase at a 2.5 per cent or 3.6 per cent yield. Which means they will want to pay less than $5b or $7b or they pay the higher price but they will be prepared to take a short term low yield in the expectation of an increase in this yield. How? By increasing profits of course. How does this happen? I told you earlier. By cutting costs or services or by charging more for power. Simple really.

What about competition you may say? Well, how efficiently has that worked with power costs since we started this whole energy reorganisation and deregulation game? It's not rocket science to see what "deregulation" has done to power bills. Just check out your own and compare the annual rises with inflation.

The alternative is to flog the shares off at a cheaper price. But that's a bad idea isn't it?

There's another argument against selling good assets, along the same lines as the dividend yield one, as above.

Since 1985 until now, 10 year Government Stock rates have averaged about eight per cent. That's how much interest the Government would give you each year if you bought a term deposit type security from them with 10 years to run. In May 1985, in order to borrow 10 year money from the public and various institutions, the Government had to pay a whopping 19 per cent p.a. However, in today's low interest environment, 10 year NZ Government Stock has a yield of around 3.5 per cent p.a.

So why would you sell some good assets presumably generating a better return than this, when you could borrow at 3.5 per cent or pay off debt that is costing you only 3.5 per cent?

Now presumably the clever young 25-year-olds at Treasury would provide some well thought out reasons. In the 90s, I suggested to the Prime Minister's husband it was time to give our manufacturing sector a break and thus halt more job losses. He replied that Treasury had done a report saying it was financially better for the country to have people on the dole than for them to be working in factories making widgets we could buy cheaper overseas. Silly me. Bugger welfare dependency, crime, loss of self esteem and a new under-class.

I went to a luncheon with some business people at the Angus Inn earlier in the year when Bill English was trying to justify the family silver sale. A chap there who was agreeing with Bill said "If you are struggling financially with a big mortgage but with a pleasure boat on a trailer in the back yard, you should sell it." Quite right too. But that was an erroneous analogy.

Here's one that's on the mark. By some amazing stroke of luck, you discover the bank mortgage you have is fixed for 10 years at 3.5 per cent p.a. and cannot be changed. You can however make repayments with no penalties. (Our office manager had such a deal from an insurance company in 1973.)

In the meantime Great Aunt Mabel dies just after getting a birthday telegram from the Queen. She leaves you a managed diversified investment portfolio invested in monopolies guaranteed to earn you at least a net six per cent p.a. after tax.

Do you sell the portfolio and repay the bank loan?

If you say "sell" there's a job at Treasury just waiting for you. Post them your C.V. But not if you live in Queenstown!

These are generalised comments only and should not be taken as personalised advice. Disclosure Statements are available on request and free of charge.

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Adding real value to our region

BY PRUE LAMASON

Sometimes the economic benefit of the Wellington Regional Council's activities may not be immediately obvious.

There are things we see every day… I'm thinking of CentrePort with its stacks of logs many of us drive past on our way to or from work in Wellington city – or construction crews working along the banks of the Hutt River.

But how do these sorts of activities benefit the Hutt Valley? And how is Wellington Regional Council involved?

Many people do not realise CentrePort – the region's import/export hub located on Wellington city's waterfront – is jointly owned by the Wellington Regional Council and Horizons Regional Council.

A few stats to underline the important role this company plays in our region: CentrePort employs 200 people; last year 661 international ship calls were made and approximately $3 billion worth of cargo was handled by the port; last year 83 cruise ships berthed at CentrePort with an estimate value to the region of $30 million; this season CentrePort will host 91 cruise vessels bringing an estimated $43.2 million to the region and 225,000 visitors.

In the past financial year to June 2012, CentrePort has achieved an underlying profit (profit before taxes and fair value adjustments) of $16.5 million. This is a 45 per cent increase in underlying profit over the past four years.

By being a shareholder in CentrePort, we help to keep a busy freighting hub in public ownership and we have a profitable investment for the regional council and the region – including the Hutt Valley, with great returns by way of dividends.

And what of all that construction activity near the Hutt River? Flood protection – it's not the most glamorous of topics. And in "peacetime" it can be easy to forget just how devastating a major flood in the Hutt Valley would be. But the fact is the Hutt Valley is a floodplain for the Hutt River – as evidenced by some destructive floods in the past.

The cost of a major flood is hard to fathom. It's more than just financial - the social and psychological costs are huge too. But to put a number on it, a major breach in current flood defences between Connolly Street and Fairway Drive would cause approximately $1.6 billion worth of damage to the Lower Hutt central area.

One point six billion is a huge sum and it's why we're spending $11.4 million on the "Boulcott-Hutt" stopbank project – a construction programme to improve flood defences in that area.

We will actually be finishing the Boulcott-Hutt stopbank construction a year ahead of schedule. We had projected a 2014 completion date but thanks to the cooperation of Boulcott's Farm Heritage Golf Club (whose grounds were affected by the works), we have been able to bring the completion date forward to June 2013.

Important to note – helping to keep businesses and residents in the Hutt Valley safe from flooding is something in which the entire region invests. Yes, Lower Hutt residents pay more in their regional rates for flood protection than, say, Wellington city residents do. But the fact is all regional ratepayers do contribute towards flood protection, no matter where they live.

This is an important demonstration of the interconnectedness of our region's cities and districts and how the financial support from the region as a whole can boost the infrastructure and resilience of an individual territory.

Before I sign off – and on perhaps a lighter note – a reminder the Wellington Regional Council's superb Great Outdoors summer events programme is about to start. Visit www.gw.govt.nz/summerevents for the programme and booking information. There are wonderful experiences in store for young and old, the fit and the not-so-fit. Even better – the events are either free or low-cost. Make sure you don't miss out!

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