

**Selling the Family Silver: The Sale of
Wellington Airport
A Case Study in Local Government
Decision-Making**

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Preface

This paper was prepared by Rob Laking, working with Local Futures researchers¹. The intention was to make it one of a small number of accounts of actual significant strategic decisions in local government, so the researchers would have an understanding of the political and institutional environment in which Councillors and Council managers make decisions.

The evidence for the case study is drawn from the files of the Wellington City Council, media reports, and interviews with a small number of the key players. We are grateful to Mark Blumsky, Kerry Prendergast, Andy Foster, Sue Piper, and Kent Clark (all of whom were on Council at the time) and to Garry Poole (WCC Chief Executive then and now) for agreeing to be interviewed.

Allan Johnston, a member of the Local Futures project team, commented on an earlier draft, from his own experience as a Councillor at the time. Paul Desborough of the City Council staff arranged interviews, helped obtain documents, explained Council processes and offered helpful comments on an earlier draft. Helcia Knap compiled and annotated a set of documents and relevant media reports. Nicola Kahu-Grace typed transcripts of the interviews. Kayt Robinson checked the transcripts against the original recordings and arranged for edited excerpts to be vetted by the interviewees. Marianne Henderson of the Local Futures team provided administrative support.

We have quoted extensively from the transcripts of interviews. In some cases what the interviewees said has been edited to clarify the re-phrasings which are normal in everyday speech. The edited excerpts from the transcripts were then checked with the interviewee. There are then a small number of further minor changes to the quotations used in this case study. In draft, the case study was shown to the interviewees, but they have no responsibility for the final version of the report.

The Local Futures case studies were not intended to be representative. Indeed in the case of the sale of Wellington airport there were some highly unusual -- almost unique -- factors. Although a number of councils in New Zealand own at least part of a local or regional airport, only Wellington found itself in the middle of a major national political row about airport ownership, which was itself part of an ongoing national debate about "selling the family silver". We believe there are nevertheless some lessons to be learned about decision-making at a local level from this case study. But even if there aren't -- and

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the non-sale of Wellington City Council's shares in the Wellington airport stands as a unique set of events in the history of local government - this is still a story worth telling.

Part One: What Happened

In November 1997, Mark Blumsky, Mayor of Wellington, met the Rt Hon Bill Birch, Minister of Finance, to discuss the future ownership of Wellington International Airport Limited (WIAL), the company that owned and operated Wellington Airport.² The New Zealand Government held 66% of the shares in WIAL and Wellington City Council (WCC) the remaining 34%. Both Mr Birch and the Mayor were reportedly keen to arrange a joint sale to a private buyer. The Mayor was reasonably certain of being able to secure a majority of Councillors for sale.

By mid-1998 the Government had confirmed its intention to sell its shares, but Mayor Blumsky had been unable to carry his Council with him: at a meeting on 30 July 1998 the Council voted 11-8 to retain its minority shareholding. Today WIAL is two-thirds owned by a Infratil, a New Zealand-based investment company, and the WCC retains its 34% shareholding.

The events between the initial meeting between Birch and Blumsky and the non-sale decision seven months later were a potent mix of ideology and public opinion. In the ensuing months, the debate on the sale of the airport was to be a major national as well as a local Wellington political issue.

An airstrip had existed at Rongotai on the narrow isthmus between Lyall Bay and the Miramar Peninsula since the 1920s for light aviation with some commercial services but Wellington's main passenger airport was in fact located at Paraparaumu, some 50 kilometres north of the city³. In the late 1950s a large hill at the northern end of the airport was bulldozed into Evans Bay and a breakwater constructed at the southern end and on the Lyall Bay side to accommodate an extended runway suitable for handling the National Airways Corporation's domestic passenger fleet⁴. In 1959 the extended airport was opened for scheduled commercial passenger services.

From 1959 until 1990, the airport was owned and operated as a division of the Council. A major issue for the airport in the 1970s and 1980s was the inadequacy of the passenger terminal, converted from an old hangar. An international terminal was opened in 1977, but the Council's plans for a new \$10m domestic terminal, announced in 1981, were scrapped two years later when costs rose to \$16m. In 1985 the Government announced a \$20m plan for a new terminal but these plans were put on hold in 1986 when the Australian airline Ansett entered the domestic passenger market in competition with Air New Zealand. Ansett immediately started work on its own terminal, which spurred Air New Zealand into its own redevelopment of the old terminal. The upgraded Air New Zealand terminal was opened in 1987 and the new Ansett terminal in 1988.

In 1990 ownership of the airport was vested in a new company, WIAL. The New

² Meeting foreshadowed in WIAL08, p 1.

³ History to 1997 mainly from WIAL47.

⁴ In 1978 NAC merged with Air New Zealand (then a purely international passenger airline).

Zealand Government acquired 66% of the shares in the new company and the remaining 34% of the shares were held by WCC. The new company began planning for a major airport upgrade. Early plans to widen the airstrip, which required the removal of 180 houses, the Miramar golf course, two schools and a number of businesses were shelved after protests from local residents. But a redevelopment plan was finalised in 1994 and work on a brand new \$41m terminal was begun in 1997 as part of an \$85m upgrade.

By the mid-1990s however the New Zealand Government was considering divesting its interest in airport companies. In 1997 it had commissioned a scoping study of the sale of its interest in Auckland International Airport (AIAL). It seemed likely to WCC's advisors that "the outcome of the AIAL's review [would] have significant implications for WCC as shareholder in WIAL"⁵. Treasury officials had advised WCC officers that "...airports are not one of the Crown's 'strategic assets'" and that Mr Birch was "enthusiastic" about the possible sale of WIAL as well as AIAL.

On 4 December, the new Prime Minister Jenny Shipley, together with Mr Birch and her New Zealand First coalition partner and Treasurer Winston Peters joined with Mayor Blumsky to announce the commissioning of a "scoping review" of WIAL to report in February 1998. Bids were solicited from several private sector financial consultants and Macquarie (NZ) Ltd was selected.

While Messrs Birch and Blumsky were clearly leaning towards a sale, political opinion elsewhere was mixed. Wellington MPs were divided between those who questioned the need for the airport to remain in public ownership and those who regarded it as a "strategic asset"⁶. Opinion amongst City Councillors was also divided.

At a national level, New Zealand First had joined the coalition led by National with an agreement on retaining government ownership of "strategic assets". The coalition agreement specifically provided that "the prior approval of ratepayers or consumers is required for the sale of over 24.9% of airports"⁷. In commenting on the scoping study, Mr Peters said the Government would consider the demands that Wellington Airport's further development was likely to make on taxpayers but also that the Government was "not making decisions forced on us by a council."⁸ Macquarie submitted its report in mid-February 1998. The staff report on the Macquarie review summarised the Review's findings: there were no legal impediments to a sale; WCC would benefit greatly from selling the same time as the Crown because it would share in the control premium (estimated as 20% above the price on a separate sale of a minority interest); sale to a new owner was highly unlikely to have any effects on the airport's international traffic or on the completion of the terminal development; the Crown and WCC regulatory interests would not be affected (and were likely to be "enhanced" by) a sale; and dividend returns

⁵ WIAL08, p 2.

⁶ WIAL48.

⁷ Wording obtained from WIAL41.

⁸ WIAL13.

were likely to remain low for the next 3-5 years “with some risks associated with later financial returns”⁹.

The staff report also considered ownership in the light of the Council’s strategic interests and reached the following conclusions:

- The Council's strategic interest in the new terminal development would be achieved regardless of ownership;
- A core service review¹⁰ concluded that there was no market failure that would warrant the Council being involved in owning and running an airport;
- The core service review also concluded that “there is some conflict between Council’s obligations to regulate the effects of the Airport and being a part owner”
- As a minority shareholder the Council had relatively little influence over the Airport company’s statement of intent or business plan;
- The most recent dividend received by the Council was 2.9% of paid up capital, considerably below alternative investment returns;
- Macquarie had “concluded that there are strong commercial imperatives for any Airport operator to continue to meet demands for both domestic and international services ... and that it is therefore highly unlikely that any new owner would downgrade or close international flights from the Airport”.

The report recommended that, taking account of the Crown’s intention to sell its shares, the Council should provide for public consultation on a possible divestment of its shareholding in its 1998-99 annual planning process.

The Macquarie review and the accompanying staff report with recommendations were considered at a meeting of the Council’s Finance and Corporate Committee on 23 February 1998. The Committee agreed that the divestment proposals should be included in the draft annual plan but, on an amendment proposed by Councillor Jack Ruben, it also agreed to “investigate the possibility of acquiring a majority interest in Wellington International Airport Ltd and how the company would be managed after purchase”.¹¹

The Finance and Corporate Committee was not a full committee of Council and its decisions had to be referred to the Strategy and Major Projects Committee, a committee

⁹ WIAL18.

¹⁰ One of the series of reviews conducted during 1996 and 1997 of Wellington City Council services to determine whether and on what basis the Council should continue to provide them. (Evening Post, 6 March 1997). The reviews were based on three criteria:

"a) an output which contributes towards achieving Wellington City Council's strategic outcomes as defined by the Council's strategic plan, and b) market failure exists: the private sector does not provide the output to the required level and/or quality and/or c) there are no other effective options available for ensuring the output is provided." According to a New Zealand Business Roundtable submission on the Council's draft annual plan, the core services reviews were a response to the Local Government Amendment Act (No 3) 1996 [which] “requires the Council to give the ‘reasons why activities giving rise to the estimated expenses are to be engaged in’.” (NZBR, 1997).

¹¹ 1WIAL49.

of all Councillors. A special meeting of that committee held on 9 March agreed to include the possible divestment in the draft annual plan¹² but did not take up Councillor Ruben's amendment. Between the two meetings, on the advice of Macquarie, the staff identified a conflict of interest if the Council was intending to work with the crown on a share sale but was also a possible purchaser of the crown's share. The staff paper for the strategy and major projects committee recommended that the Council should not support this option and the idea was dropped.

With the Council's agreement to move the divestment proposal into the annual plan process, two separate streams of activity developed over the next few months. In the first, the Government and the Council would work jointly to test the prospects for sale of the company. In March, the Council signed a sale and purchase agreement with the Minister of Finance and the Minister of State owned Enterprises. The intention was to seek a "trade sale" by inviting proposals from bidding consortiums to acquire all the shares on offer in a single purchase, rather than engineering a public float¹³. It was expected that, with a reasonably competitive bidding process, the existing shareholders would be able to capture the full control premium. WIAL would manage the tendering process on behalf of shareholders, with Macquarie as its commercial adviser. At the same time¹⁴, the Council would undertake its public consultations.

In Garry Poole's view, this agreement did not commit the Council to proceed to a sale. The Government and the Council "would jointly consider the options [and would] take all steps in a reasonable way to enable a sale in one parcel"¹⁵. A final decision on the sale of the Council's shares would need to be timed to coincide with a decision on a preferred purchaser.

At this stage, public consultation became a major issue. The strategy and major projects committee had agreed that a public consultation process should take place separate from the standard annual plan consultations and "public information regarding the sale will be kept simple".

To add to this, the Deputy Prime Minister Winston Peters weighed in with his own views. In a letter to Mr. Blumsky dated 17 March 1998¹⁶, Mr. Peters and Local Government Minister Maurice Williamson referred to a provision in the coalition agreement that "any sales of over 24.9% of power and gas utilities, airports and ports presently owned by local bodies would require the prior approval of ratepayers or consumers" and referred to "a general concern that some local authorities are not satisfactorily taking into account community opinion when deciding to sell assets".

Local authorities, the letter continued, "should, if they are not doing so already, be moving to comply with the new financial management provisions of the Local

¹² WIAL22.

¹³ WIAL18.

¹⁴ WIAL19.

¹⁵ Garry Poole interview

¹⁶ WIAL24.

Government Amendment Act (No. 3) 1996”, particularly to “ensure that communities are regularly consulted on important local authority decisions such as decisions on the ownership of significant assets”.

The letter laid down five requirements for adequate consultation (which, according to a Council staff report, closely tracked the provisions in the Local Government Act for consultation on draft annual plans):

- Getting adequate public notice of any proposal to sell significant assets;
- Providing sufficient information on the rationale for considering any such sale;
- Setting aside a sufficient time for detailed public submissions;
- Enabling the public to be heard in support of this admissions; and
- Genuinely considering each submission before a final decision is taken.

The Council began its process of public consultation on 22 April with a public notice on the share sale proposal in the Dominion and Evening Post newspapers¹⁷. Brochures sent to 60,000 Wellington households covered the draft annual plan and included an insert specifically on the share sale proposal. Articles and advertisements in three local community newspapers covered the major issues in the annual plan, advise how the public could respond, and promoted the public meetings. Newspaper publicity was supported by about 270 spots on commercial radio, advertising the brochure, how the public could respond and the public meetings.

The share sale issue was covered both in four general public meetings on the annual plan and two meetings specifically on the sale of shares. Formal oral submission hearings were held from 8 to 12 June including one day specifically for submissions on the share sale. Meetings of the Strategy and Major Project Committee and full Council held in June also heard oral submissions from ratepayers.

Public consultation was dominated by opposition to the proposal to sell the shares. Andy Foster remembers it as being "surprisingly vocal". Allan Johnston disagrees that was at all surprising. He considers that the public opposition was dominated by a familiar group of central city middle-upper-class residents and a strong group of Labour supporters in eastern and southern suburbs who felt they were regularly shortchanged by the Council in its planning decisions:

Most particularly in the Eastern Ward there were a number of strong community groups able to generate effective campaigns against Council initiatives they opposed – as was their democratic right. And with the southern landfill, Moa Point, the quarry, airport noise etc they did (not unreasonably) sometimes see themselves as getting the raw end of the deal.¹⁸

Garry Poole remembers one meeting held in Kilbirnie, in the Eastern Ward, where Leonie Gill was running the campaign:

The Mayor and myself mainly [attended the public meetings]. The Mayor

¹⁷ Much of the following information on the consultation process is taken from a letter written by lawyers Chapman Tripp to the Overseas Investment Commission [WIAL 38] .

¹⁸ Personal communication

fronted most of it. I can remember the one in the Kilbirnie Community Centre. There were people hanging off the rafters. They were very anti. I don't think we had a supporter in the room and it was chocker. There was Betty [Weeber] and Leonie Gill and anything we said, we were talking absolute nonsense as far as they were concerned.¹⁹

Two Council surveys also polled resident opinion. The Council commissioned A C Nielsen to survey Wellington residents during the period 28 April to 28 May on a number of matters relating to the draft annual plan including the share sale. A question asked whether ratepayers had any concerns about the Council selling its shareholding in the Airport, if it sold with the Government and got a good price. The brochure mailed to all Wellington households included a voluntary questionnaire: the first question was worded similarly to the A C Nielsen question on the share sale.

In response to the voluntary "Householder Questionnaire" asking whether respondents had "Concerns about the Council selling its shares in the Airport", 42% said "yes" and 54% said "no". In the AC Nielsen "Representative Survey" on the same question the comparable figures were Yes = 33% and No = 67% (there were 361 responses)²⁰.

There were also 49 written submissions that commented on the WIAL shares proposal. Of these, 24% advocated sale and 72% favoured keeping ownership. About 45% of the submissions came from the Eastern Ward. Arguments advanced in submissions for retention included:

- The airport was an investment or generates income
- The Council would "squander" the proceeds or spend them inappropriately
- The possible loss of public control or ownership
- Concern about foreign ownership.

Opponents of the share sale were organizing their own campaign and surveys and hotly contested the validity of the Council's surveys. Cr Jack Ruben said the Council poll did not ask for a yes or no answer to the sale, so "all the people I have spoken to would not bother answering"²¹. Labour MP Annette King referred to the "Save the Airport CM Research poll, held on a regional basis, in which 69 per cent wanted to keep the airport in Government and Wellington City Council ownership and 15 per cent supported the sale".²² Leonie Gill, a prominent opponent of the sale, later elected to the Council for the Eastern Ward, wrote to the Evening Post that Well-attended meetings, a street opinion poll, submissions to its own annual plan, letters to the editor, ward meetings, an Evening Post-Business Research Centre poll and a scientific, unbiased CM Research poll show overwhelming opposition to any sale.²³

¹⁹ Garry Poole interview.

²⁰ The information in this and the following paragraphs comes from a Council staff report.

²¹ WIAL50

²² WIAL51.

²³ WIAL37.

In the meantime, by mid July interest in a share purchase had narrowed down to a short list of three consortia, reported to be the U.S. based Airport Group International together with the investment bank Credit Suisse First Boston and Australian fund manager Hastings; British contracting firm Serco together with Sky TV shareholder Tappenden Construction and the Todd Corporation; and Wellington-based Infratil and equity partners²⁴. When the bids went unconditional in early August they were expected to be between \$150m and \$240m.

The share sale was also looming as a major test of the stability of the National New Zealand First coalition and which way the Council was going to jump was important to both coalition partners. The Cabinet was expected to decide on the bids it had received on Monday 4 August 1998. In the week before the expected Cabinet decision, some New Zealand First MPs were publicly questioning the desirability of a Government share sale, although their leader quickly moved to distance himself from any public discussion before the decision.²⁵

About this time, the Mayor and the Chief Executive spent 40 minutes briefing the New Zealand First caucus and also met separately with Winston Peters. Garry Poole recalls that they came under fire in both meetings about the Council's consultation process:

I can't recall what NZ First was on about but I remember it was not an issue. I was absolutely confident that whatever it was it wasn't [an issue] [but] when we met with the Deputy Prime Minister/Treasurer ... he was adamant. ... He just completely ignored our view of it and we had done it wrong. ... It was like farting against thunder, trying to get him to even acknowledge [our view].... It was just 'no, you've cocked it up you can't do this'.²⁶

Publicly the Government's position was set out in a letter from Bill Birch to Mayor Blumsky, that "it must be prepared to sell its shares with or without the Council, if it received an attractive bid", but privately National ministers were seeking reassurance from Mayor Blumsky that he had the votes to carry a Council sale. In the Mayor's words, this interest:

... wasn't so much pressure from Government because Government was always told by me that we were in a position of delivering our end of the bargain. So Government really I don't believe put a lot of pressure on Council, certainly didn't put a lot of pressure on me. Government always asked me 'Mark, are you still comfortable', 'yeah, just done a tally, got the numbers, still got the numbers, still got the numbers' so of course I looked awfully stupid on the final day but they had the right to change their mind.²⁷

At 3:00 p.m. on Thursday 30 July the Council met in special session to consider the share sale. In the first of a string of resolutions, Councillors voted eleven to seven for the Council to "inform Government in making its decision that its preference is not to sell the

²⁴ WIAL39.

²⁵ WIAL40.

²⁶ Garry Poole interview

²⁷ Mark Blumsky interview

Airport at this stage". Voting for the resolution were Councillors Barraclough, Cook, Foster, Gotlieb, Kedgley, Nef, Pepperell, Piper, Rubin, Siers and Wade-Brown. Against were Mayor Blumsky and Councillors Armstrong, Johnston, Nicholls, Parkin, Prendergast and Rainbow. A subsequent amendment "that the Council inform the Government that should the Government sell its 66% shareholding in the Wellington Airport, Wellington City Council's preference is to sell its 34% holding" was lost eight to ten. Councillor Nef voted for the amendment but apart from that Councillors lined up on the same sides²⁸.

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. 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, Mr. Birch contacted 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 2/3rds.²⁹

On Wednesday 5 August Mayor Blumsky met the Prime Minister and Mr. Birch at the Beehive³⁰. Andy Foster recalls that he, Sue Piper, Barbara Nef and Garry Poole went with the Mayor. Poole recalls:

We met with the Prime Minister on the 5th of August. [Refers to file note] [It was a] meeting with the Prime Minister and her advisors and so a number of Councillors ... and I accompanied the Mayor and we met the Prime Minister and the Minister of Finance. ... And the Prime Minister kind of 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

²⁸ WIAL41.

²⁹ Mark Blumsky interview

³⁰ 3WIAL53.

have been met ... why are you guys not going for it?" Interviewer: And relying on that Sale and Purchase agreement for support for that position -- so it sounds like the Council had a different interpretation of what the Sale and Purchase Agreement committed them to than did the Government. Poole: Yeah. When we did this we knew all along ultimately we had to get our Council's approval at the end of the process. ... We were very concerned from a management point of view we were going to get trapped in here. ... We were very concerned about being a minority shareholder and so our strong advice was that Government was going to sell and yet we can't stay here at 34 [%] -- we're going to get killed. Poole doesn't think that the Government were really surprised at the vote. "They knew it was 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. They were going, then they went."³¹

The Council then 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 voting was the same as at the 30 July meeting, Councillor Nef voting with the Mayor and his supporters.

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 bidder³². Garry Poole's take on this decision is that it was the result of a tactical move by Rex Nicholls (chair of the Council's Finance Committee) that backfired.

Rex Nicholls ... arranged for Murray Gough to come in and talk to Council.... Murray ... was the former Chief Executive of the New Zealand Dairy Board and ... had extensive experience at working all over the world for all the different companies that the Dairy Board had in place. There were a significant number of those companies where the Dairy Board was in a joint venture in a minority shareholding situation, so 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. ... Murray came into the chamber and I can recall we had a little bit of a scrap -- I mean this is very heated -- and some of the Councillors think [Cr Nicholls] set this bloke up to come in and tell us what Rex wants him to tell him. ... Rather than let this thing disintegrate into a fight ... I said that I had invited him here because I knew Murray, because I used to audit the Dairy Board, because I'd actually worked with him. So I said basically I had invited him because of ... his experience. ... He talked about the minority shareholder situation and how it was difficult to manage. ... So he's just telling people how he saw it and then I recall then what happened was we had questions, and someone during the course of the discussion asked a question: 'okay given what you've just

³¹ Garry Poole interview

³² WIAL46

said,... why do you ever get yourself into a minority [shareholding]' -- a good question – 'and how do you protect yourself?' Bloody hell! And Murray answered by saying 'well we used shareholder agreements'. ... Then all of a sudden everyone who didn't want to sell who 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 outcome.³³

As a result, Council staff were instructed to draw up a list of matters that could be covered by a shareholder agreement:

There was a lot of discussion between that time [and when] the bomb hit as it were. I mean there were things like ... 'what we'll do is ask them to put 6 million dollars into promoting the city as a tourism destination – no, no, we'll do this, we'll do that'. So there were a number of times, where Infratil ... representatives actually showed up and ...were not anti putting in place certain things in the shareholders agreement. I don't know when we identified Infratil as the preferred purchaser [but] the moment they [were] identified, they made positive noises about being amenable to putting a whole lot of stuff in the shareholders agreement. ... David Cruickshank³⁴ ... put a whole lot of things that we wanted in [a draft] Sale and Purchase Agreement. Interviewer: Was what they said at variance with what you thought they ... appeared to be going to commit to, before the sale? Poole: I would say yes but ... I was never persuaded. I was always sitting there thinking 'let's just get out of here because this just ain't going to happen, they ain't going to do this stuff'. No-one is going to take 66 and basically assume a position at 50-50. It ain't going to happen so this is not real.... I mean they were clever but I could see that this wasn't going to do it for us.

Interviewer: Did you say this in meetings with Councillors?

Poole: I mean we were saying that why would a 66% shareholder give these kind of concessions to a 34% 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.

Interviewer: You said that David Cruickshank nevertheless, prepared a kind of a shopping list ... of the sort of things that would go into the shareholders agreement. Was that on instructions from you or from the Council?

Poole: It was from the Council. ... I think somewhere in one of the resolutions there were some things they wanted included.³⁵

³³ Garry Poole interview

³⁴ WCC Chief Finance Officer

³⁵ Garry Poole interview

Later, when the Council had decided not to sell and the Government had, Prendergast and Poole recollected that Infratil's interest in a shareholders agreement suddenly cooled. A delegation led by the Mayor and including the Deputy Mayor, with the Chief Executive and other Council staff met Lloyd Morrison, Infratil's Managing Director, and other Infratil personnel. In Kerry Prendergast's words:

... the day after the signing, [Infratil] invited us all in and gave us a nice glass of wine and said, 'look, this is a joke, it's not worth the paper its written on. I'm not signing anything.'³⁶

Garry Poole added:

[On] anything of substance Lloyd just said 'no'. ... Like fluffy stuff – “yeah okay” - - but anything with substance, Lloyd's boys would start talking and Lloyd said “don't worry, don't worry, don't bother the answer's no”.³⁷

Part 2: Politics and Organisations

Local Politics

In the minds of local government politicians, two factors distinguish local body politics from politics in central government: by and large, there are no formal parties in local government; and the relationship between local government politicians and their electorates is more personal, more direct and more bound by requirements to consult on major issues.

Council politics

There are certainly political factions on some councils, and this case study demonstrates that. But there is no formal recognition of party in local government similar to that contained in the New Zealand Electoral Act, and no party discipline equivalent to the whipping provisions in Parliament. In central government, in Mark Blumsky's words, “you have no option, you have to vote with the party. ... Here you can cross the floor and do what you like. It's a very different game and on the big issues it's very dangerous.”³⁸

As a result, Andy Foster adds, ...we stand for our own decisions and people say ‘you made that decision’. They don't say your party made that decision -- there's no party to hide behind. ... The last local body election showed that in spades, that people said ‘well it's not necessarily your politics that I vote for, it's you as an individual’. I think that that's an interesting dynamic and I have no idea what the effect [is] on people's decision making.³⁹

Mark Blumsky also maintains that...in local government you are a lot closer to [the electorate] than central government. There is a lot more distance between central government and the population than the Council and the population and people feel they

³⁶ Kerry Prendergast interview

³⁷ Garry Poole interview

³⁸ Mark Blumsky interview

³⁹ Andy Foster interview

own you more, own you more at local government level than what they do at central government level.⁴⁰

The result is that, while semi-permanent blocks or voting factions may emerge in councils, there is much more freedom to change sides in local government than in Parliament. Which way an individual Councillor votes can depend on such factors as beliefs about the role of local government, loyalty to a particular faction, more specific bargains or understandings with other Councillors or the Mayor (more popularly known as "log rolling"), alignment with the opinions of another more senior or experienced councillor, sensitivity to the wishes of a particular "constituency" -- perhaps a ward or maybe just a more general idea of what sort of people voted you in, or more general perceptions of preferences in the electorate as revealed through Councillors' day-to-day contacts with citizens, formal consultation, surveys or the media.

Some councillors, therefore, believe that bargaining for support is a regular feature of Council politics, with a particular focus on those not aligned to a particular position or ideology. Sue Piper described it in the following terms:

There's all kinds of ways it happens, there's the "lets be reasonable" conversation; [or] "and have you thought about...". And then there's the conversation that goes "well if you support this I'll support that". The classic one -- I can't remember what the issue was -- was in the next triennium when Parkin and Shaw wanted Ruth Gottlieb to vote for something... Nobody ever consulted me about it because they knew I'd go ape shit -- the Council's got a policy that we don't name libraries after anybody. And at a Council meeting I was completely gob-smacked: Parkin and Shaw moved that the Kilbirnie Library be renamed the Ruth Gottlieb Library. They were shoring up a vote to come. ... The time when this happens the most of course is at the beginning of triennium when you're setting up the structure of who gets what and 'you support me on this and I'll support you on that'.⁴¹

According to Sue Piper, there are less tangible rewards as well. Their formal positions in Council governance also give the Mayor and senior committee chairs privileged access to information and advice which can be used as bargaining coin: "There are two positions that can end up being privy to information that others might not get or might get but at a much later stage. The first is the Mayor who would have been having briefings throughout on the pros and cons and the what ifs --[briefings] from the CEO or the city administration. That gives the Mayor quite a bit of influence and power and the influence can be exercised in ways [like] suggesting that maybe the following course of action can be gone through or maybe the following questions could be asked -- anticipating what colleagues may or may not ask or what the colleagues may or may not suppose. The second position would be the Chair, either of planning and strategy or finance who again can have off the record conversations with officers exploring the same kinds of issues. There was a third group of course involved with this -- Capital City Investments and the

⁴⁰ Mark Blumsky interview

⁴¹ Sue Piper interview

Chair of that: they were responsible for overseeing our interests in companies and LATES⁴².

Interviewer: But the information is not uniformly distributed?

Piper: It is not distributed at the same time. It is not withheld eventually....I mean some people in the organisation because of their position get in early on in the conversation -- that's all it actually means.⁴³ The advantages to other Councillors, according to Sue Piper, are that: You get more information ... which helps in terms of lobbying colleagues. And you feel a bit more included ... and there is a reward in that in a sense.⁴⁴ Allan Johnston is more sceptical about the extent to which councillors strike deals with each other or with the Mayor on how they'll vote. He believes that the positions of individual Councillors on most issues coming before Council were generally clear and there would be little negotiation on these issues amongst Councillors before the meeting. For the six years he was on the Wellington City Council, "we all tended to know what direction each of us would approach any particular issue."⁴⁵ While there were regular meetings of a large group of Councillors before Council meetings to discuss issues, this was as much about process as persuasion – if this group couldn't collectively buy into something then there was probably no point in pursuing it.⁴⁶

All these factors, in greater or lesser degree, seemed to have been present in the voting decisions of Councillors in the share sale case. All our interviewees were clear that there were three blocks on the Council in the case of the share sale decision. Most Councillors were aligned with one of two blocks from the outset. As Kerry Prendergast put it, ... it was pretty split politically left and right so in the most general sense of the terms left and right, councillors of the Labour, Green, Alliance persuasion, argued that it was a strategic asset of the city and it shouldn't be sold. And those of the centre-right and right through to ACT (and [there] was an ACT member at the time) said it wasn't strategic, we couldn't influence the outcome, we could while there was a government owner but with the private sector two thirds owner, our ability to influence outcomes would be minimal or negligible, and that if we didn't sell with the Government our ability at a later time to sell would be limited.⁴⁷

Allan Johnston, a councillor at the time, also argues that, once it was clear that the Government was going to sell its shareholding, a decision for the Council to follow suit simply followed from a rational calculation of the city's interests:

For a number of Councillors including me this was not an ideological effort to 'sell the family silver'. The issue of selling WCC's shareholding wouldn't even have arisen if the Government wasn't determined to selling its majority shareholding. Once that was clear then a number of Councillors were able to see the

⁴² Local Authority Trading Enterprises

⁴³ Sue Piper interview

⁴⁴ Sue Piper interview

⁴⁵ personal communication

⁴⁶ personal communication

⁴⁷ Kerry Prendergast interview. In Ms Prendergast's view, there would have been a stronger case for keeping the shares if the Government had not been committed to sale.

overwhelming logic of the officers' and advisors' advice re the potential return and more to the point the risks of remaining a minority shareholder. Safeguarding the ratepayers' investment required sale with the Government.⁴⁸

Most of our respondents shared Kerry Prendergast's view that the core members of these blocks, whatever the basis for their views, were unlikely to be persuaded to change their minds. As Sue Piper put it;

There were the endless reports really and they would've discussed price, they would have discussed risks but my recollection of this is that the core for and against teams were not going to be persuaded by anything, really. They had already made up their minds -- that was the reality.⁴⁹

The numbers in these two blocks were fairly evenly divided. Carrying the vote in Council therefore depended upon securing the support of at least one of the very small number of Councillors who were undecided. The Mayor and Deputy Mayor checked regularly with Councillors in the pro-sale block to make sure they were still solid, but all of our interviewees agreed that, in the end, there were only two Councillors who might be persuaded to shift from one camp to another: Kent Clark and Andy Foster. Attention naturally focused on these two Councillors. As Deputy Mayor, Kerry Prendergast had been delegated by the Mayor to keep an eye on the support in Council for an eventual vote. Mark Blumsky also said that he was:

... always talking to other Councillors. ... I didn't trial the Pepperells or the Cooks or the Ritchies. I just didn't bother with them. ... But I certainly kept asking those that I thought were the Andys and the Kent Clarks that maybe [were] not as hard on it as I was or Kerry or Chris or Rex.⁵⁰

Mark Blumsky maintains that, up until the last day or so before the vote, he was sure he had the numbers for a share sale. My discussions with Councillors, of which there were many, always indicated to me that I had the numbers at about ... 11-9, 10-8 -- those sort of numbers. I knew it was a close one but I always thought the numbers were there because we talked it through quite carefully in that regard but then on the last day two of them changed, literally.⁵¹

Both Prendergast and Blumsky regarded Andy Foster as something of a wild card but were fairly sure that Kent Clark would in the end vote for sale. Kerry Prendergast's view was that:

Andy tends to sit on the fence and ... you were never sure at the end of the phone call with Andy: he wouldn't say he wasn't going to support you, he would say 'well he still needed a bit more information but it was probably going to be okay' and then out of the blue he doesn't. [Kent] was also a surprise because I think by the end of it I was pretty sure [he] would vote with us and that Andy would probably

⁴⁸ Personal communication

⁴⁹ Sue Piper interview

⁵⁰ Kerry Prendergast interview

⁵¹ Mark Blumsky interview

equivocate as he always does and then flick the other way; but Kent was the one who blew us out of the water...⁵²

Blumsky was also surprised about Kent Clark's apparent volte-face:

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...⁵³

Both Blumsky and Prendergast were sure that Kent Clark had been got at. Famously, on the eve of the vote, Clark had stopped the number 12 bus he was driving in from Karori and asked his passengers which way he should vote. But they were also sure that he was being "heavily courted" by the no sale faction. In fact, neither Foster or Clark gave the impression that pressure from other councillors was an important factor in the decisions on which way to vote. Neither was going to base their vote on membership of a particular faction. Andy Foster's view was that he would reason it through on the basis of the information and analysis provided:

You had people who were convinced philosophically and in some instances because they would like to see the money released and that we should sell. You had others who were convinced philosophically that we shouldn't and I've got to say that some of those people would be people on both sides who would say 'well whatever you own you should sell it' and other people would say 'what ever you own you should never sell it' and neither of those are particularly credible positions as far as I'm concerned.⁵⁴

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 concerned that the Council "would have employed the money in some generally nonrevenue bearing or non-revenue returning asset. So therefore it made sense financially to me to retain the asset."⁵⁵

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.⁵⁶

Clark believes that hanging onto the shares was a good investment for the Council. He too, never saw himself as belonging to a particular Council faction. Apart from his foray into direct polling on the number 12 bus, he does not seem to have been particularly

⁵² Kerry Prendergast interview

⁵³ Mark Blumsky interview

⁵⁴ Andy Foster interview

⁵⁵ Andy Foster interview

⁵⁶ Andy Foster interview

influenced by public opinion. He says he received "very little" direct input from residents:

I do remember one or two people ringing me and I guess that was expected. People would ask you know as part of the way we voted we hope you vote this way and you had to think okay that's one or two people but out of 40,000 people where does that leave you?⁵⁷

Community politics

Local body politicians seem just as interested in getting re-elected as politicians at the national level and face the same basic incentive of a three-year election cycle. Four factors were mentioned by our respondents as making local government different: the greater accessibility of Councillors to citizens; the greater proportion of purely local issues which affect a relatively small percentage of their constituents; the statutory requirement and political incentive to consult on specific issues; and Councillors' greater ability to represent local interests freed from the constraint of party.

The proposed share sale was a parochial issue for the suburbs around the airport, where it drew a particularly passionate response, and Leonie Gill had led what was generally acknowledged as a very successful campaign to "save our airport". But the debate on the proposal was also city-wide; and it became a major political issue at the national level. Indeed it became a test of the continuing commitment of centre right politicians at both a local and national government level to continue privatisation of public assets. In Wellington's case, three of our interviewees commented that the earlier sale of the City's electricity distribution company, Capital Power, particularly challenged centre left politicians to mobilise to prevent any further "selling the family silver". In short, the ideological battlelines were drawn both inside the Council and in the wider community. So in the minds of most councillors there was no scope for the normal horse-trading of the annual planning process: you were either for the share sale or against it.

Local body politicians in New Zealand -- like politicians everywhere where public opinion matters -- are exposed to opinion in their everyday individual personal contacts, through correspondence and through the media. This feedback, particularly when there are local groups with strong views on an issue, can be robust. Mark Blumsky commented:

You get a lot of people that give you a hard time and a lot of people can be very persuasive and a lot of people -- I mean a lot of people -- can be very nasty as well. ... Those groups that are passionate about 'how can you sell the water', they can be very nasty and you've either got a hide of tough skin or you haven't. I mean, I walk down the street now and people still spit at me about the by-pass. They still do. People are just like that.⁵⁸

The Mayor's view was simply that he had to take a position and, in the expectation of enough support from his fellow councillors, steer it through the formal process:

⁵⁷ Kent Clark interview

⁵⁸ Mark Blumsky interview

These [major consultations] are different from Annual Plan ones. Annual Plan ones you've ... only got so much money and you can't do them all and so the Annual Plan processes are very important. ... I'm a real fan of ... the community helping you figure out which ones you are going to drive with. But these big ones are different from the Annual Plan ones. These ones are when Council ... has to try and explain its position to the community and accept that there is a group in the community that aren't happy with that.⁵⁹

The Mayor therefore saw consultation as a process of conveying information and (presumably) attempting to mobilise public support, rather than as a significant input into Council decision-making. He had little confidence that the consultation process would provide a balanced picture of public opinion on the issue and thereby give a guide to the electoral consequences for councillors of the decision. "[Consultation] is always very angled. ... There is always in every major consultation I've done an imbalance between those that are so passionately against it and the rest – always, everything I've ever seen."⁶⁰

Kerry Prendergast also believes that consultation on issues with a high political profile is inherently biased.

...one of the things that happens when you consult and you ask people for submissions is that again you get people who tend to ... have very strong views ... either for or against. We of course go out on consultation and we ask for feedback and we get it both in writing and oral. We give people the chance to give it in oral [form] if they're not so good with the written word but we also do the robust survey which is then weighted to make sure that gender balance, ward balance, age balance is right and although we take into account all of [the submissions] the representative one for me weighs more significantly in my mind ... Where we've got four submissions against something ... the Councillors will vote against [it] because 100% of submissions were against ... even though there ... may be an AC Nielsen survey that shows that 60% of Wellingtonians ... like the idea; but they'll ignore that⁶¹

Andy Foster also agreed that public consultation is inherently nonrepresentative. "The only way you can do that is to do market research and that has its usual margins of error as well."⁶² Foster's view was that consultation was useful if it contributed to productively to a process of public argument.

One of the ways I guess, is not only looking at the numbers of people and [asking] are these the people who we hear from all the time -- the usual suspects, whose views are going to be entirely predictable -- or are there other people as well and how well have they thought their views through. It's not just simply saying, I don't like what you're proposing to do or I do like what you're proposing to do. It's

⁵⁹ Mark Blumsky interview

⁶⁰ Mark Blumsky interview

⁶¹ Kerry Prendergast interview

⁶² Andy Foster interview

what's the quality of the argument, how did they come to that view? And that's critical. I mean 10,000 people can say it's a dumb idea. It would help if one or two of them would explain *why* it's a dumb idea. ... Numbers are helpful but for me numbers are not the critical element. It's quality of argument as well or even more. Consultation issues are ones we always face because often we're accused of making decisions which are going against the popular expression [and that] we don't know whether that's what most people think or not, what the so-called silent majority think. Some times we don't, but obviously the most important thing that we have to do is consider the information that is in front of us. So it's not a popularity contest, it's what's the decision that we [should] make that we think is the best decision based on the facts and the information we have.⁶³

Whatever the value of the contribution of public consultation to reasoned debate on the issues, there are two other reasons why it would form part of the process. One is that Councillors are interested in public opinion as an indicator of electoral sentiments. When the final decision was taken not to sell the shares, the triennial local government elections were only three months away. One Councillor dismissed the likely impact of the forthcoming elections on the decision-making. It was evident from the comments of others, however, that they did believe that the position that Councillors took on the vote influenced their electoral prospects. Kerry Prendergast thought that Kent Clark had lost his seat in 1998 as a result of voting against the sale:

Kent lost the election on that. ... His community was supporting the sale ...

The feedback, because I topped the poll in that ward, was that people were pretty upset that representing that ward he did not represent the views of the majority that lived out there.⁶⁴

Although it wasn't always as simple as that:

Out in the ward where Leonie Gill was, who clearly came in on stopping the sell, was Barraclough who was a big promoter of the sale and he got elected that time and Andy Foster is always the highest poll in his ward.⁶⁵

Allan Johnston is generally much more sceptical about the effect of any individual vote by a Councillor on his or her electoral fortunes. Given that most Wellingtonians would be hard pressed to name many, if any, of their Councillors it is difficult to argue that an individual Councillor would lose their seat because of a single decision they had made. Name recognition is clearly [more] important – there is clearly a strong correlation between years on Council and votes received. ... [This] happens over time. Name recognition related to mentions in local and daily press seems key to me plus contacts with local groups and individuals which develop over time (and often before being elected through membership of various community groups).⁶⁶

⁶³ Andy Foster interview

⁶⁴ Kerry Prendergast interview. Allan Johnston on the other hand discounts the effect of Kent Clark's vote on his electoral fortunes. (Personal communication).

⁶⁵ Kerry Prendergast interview

⁶⁶ Personal communication

Regardless of the electoral incentives on Councillors to poll public opinion, the Council was also legally obliged by the Local Government Act to consult publicly on any major asset sale. The requirements for due process weighed heavily on the consultation strategy. The Deputy Prime Minister had written to the Mayor, pointedly reminding the Council of these obligations. The Council had taken advice from staff - who in turn were advised by the Council's lawyers -- on how develop a consultation process which could not be subsequently challenged in court. The resultant strategy was a mix of the standard process for consultation under the Annual Plan and special provisions relating to the share sale. A brochure on the draft Annual Plan -- including a questionnaire on major issues -- went to all Wellington households. Individuals and groups were able to make written submissions. There were also formal public hearings on the draft Annual Plan at which oral submissions could be heard. The householder survey included a question on the share sale and the Council also commissioned a specific survey on the proposal. Finally, several public meetings and hearings focused specifically on the share sale. The requirements of due process obliged the Council to enter into public consultation with an "open mind". An open mind does not mean an empty mind.⁶⁷ Councillors will clearly make up their minds based on a range of influences, including the evidence before them and their values, political preferences and allegiances. Nevertheless, they are expected to approach consultation with an open mind in the sense of willingness to listen to argument and balance what they hear against these other factors in their decision-making. As Sue Piper indicated, it would in fact be difficult to argue in this case that most of the Council were indeed prepared to change their minds as a result of public feedback. In Mark Blumsky's words:

If they'd asked me if I had an open mind I would've had an interesting answer back at them I'm sure at the time; but we did follow the Annual Plan process, we did follow the legitimate ... path we had to follow legally, based on the advice from the CEO, based on advice from Phillips Fox probably.⁶⁸

In addition, there was clearly a debate as to what "public feedback" was actually saying. Those against the sale laid most emphasis on the heated opposition to sale which came through the public meetings and made little reference to the results of the structured surveys. On the other side of the issue, proponents emphasised the biased nature of consultative inputs. Very little attention seems to have been paid to the survey results in the final debate on the issue. Indeed, in a resolution moved by Andy Foster, the Council voted that public opinion was strongly against a sale: the division on the vote more or less reflected alignment on the share sale proposal itself. This was despite the fact that the Council's own commissioned survey at least lent no support to that proposition, and appeared to indicate a widespread lack of concern at the sale.

⁶⁷ Both the principle of an "open mind" and the distinction between "open mind" and "blank mind" were established in the New Zealand Courts in cases involving local government public consultation. (See Controller and Auditor-General (1998), *Public Consultation and Decision-Making in New Zealand*, pp 29-30 for a discussion). The "open mind" rule and other principles of consultation are now enshrined in the Local Government Act 2002 (s.82).

⁶⁸ Mark Blumsky interview.

National politics

From the viewpoint of history, the most unusual feature of the Council's share sale decision was certainly its impact on national politics. It is not unusual for local government issues to draw the attention of the national media and comment from national politicians; but it is not often that a council to find itself embroiled in a major national political crisis to the extent that Wellington did. Because of the opposition inside New Zealand First to the sale of the Government's shares, both National Party Ministers and their coalition partners from New Zealand First were intensely interested in the outcome of the Council vote. Similarly, at least some Councillors believed they were being used as a stalking horse by both parties. Quite apart from the close cooperation between Council staff and Government officials on the sale process, several other factors tend to lend support to this view. They include Blumsky's reassurance of ministers that he "had the votes", his appearance before the New Zealand First caucus, Winston Peters weighing in on the question of consultation, and the urgent meetings and heated discussions with National ministers around the time of the final decision.

The role of staff and advisors

Both staff and contracted advisors played a significant role in the input to the decision. The key staff players were Garry Poole, the Chief Executive, Tony Watson, head of the Council's Monitoring Unit (charged with monitoring the Council's ownership and other interests in its various joint ventures, subsidiaries and associates), and the newly appointed Chief Financial Officer David Cruickshank⁶⁹. Garry Poole took up his position as Chief Executive of the Council in February 1998 (about the time the Macquarie scoping report was received). He was closely involved in all the subsequent work on the proposal. Poole was the main link between the Mayor and Council staff, and attended all the main meetings on the proposal: inside the Council, with the community, and with the Government. Tony Watson worked closely with Macquarie throughout the process. Watson signed off the reports that went to the Council. His reports summarised the advice from Macquarie and placed it in the context of the Council's strategic and investment interests. David Cruickshank was responsible for estimating the impact of a sale on the Council's overall financial position and strategy.

But the Council, and Council staff in particular, also relied on outside advice, particularly on the financial implications of the sale⁷⁰. The Council's main financial advisers throughout the process were Macquarie New Zealand Limited. Macquarie NZ is a wholly-owned subsidiary of Macquarie Bank, an Australian investment bank, and specialises in New Zealand in "the provision of corporate advisory services to large corporates and governments"⁷¹. In 1997 Macquarie had advised the Council on the sale of

⁶⁹ We were unable to interview either Tony Watson or David Cruickshank.

⁷⁰ For legal advice, the Council called from time to time on Phillips Fox, a law firm with long-standing connections on both sides of the Tasman, and the Council's main general legal advisers.

⁷¹ Macquarie New Zealand Limited (1998). Synopsis of Review: Wellington International Airport.

its 51% shareholding in Capital Power, the local Wellington electricity distribution company.⁷² Macquarie wrote the original scoping study that began the sale investigation, advised the Council on options for sale (for example, on the premium likely to be gained from a trade sale), and assisted with the management of the market-testing process which led to the selection of a preferred purchaser. They also advised the New Zealand Treasury, who were advising on the sale of the Government shares.

Most of those interviewed were clear that Macquarie provided expertise and ability to negotiate that Council officers couldn't. From Sue Piper's point of view, "Macquarie's would have been engaged because everybody would have agreed that we didn't have the skills and the expertise and the experience and so and we would've expected fair and frank advice and we got it."⁷³ Mark Blumsky said that Macquarie added value by "understanding risk":

You're getting the picture of the airport industry [from] people that had a lot more knowledge of it than a Council Officer would ever have. So you've gone to the market, you've asked the market to put forward companies, organisations that can best give you the situation and knowledge and then go in and bat for you. When it came down to negotiation ... they can also stand. It's very hard for the Council officers to get themselves into negotiation positions as well.⁷⁴

As well as providing advisory support to the Council, staff were responsible for managing the process. This included, in Andy Foster's words, "...making sure we have access to the information that is available, the processes of selection of expert advice if that expert advice is needed (and in this instance it was), [and] communication in a fair and balanced way of the pros and cons to the public. ... Often again you get the accusation that the information that is put out is slanted one way or another. ... Where there are issues of confidentiality make sure those things are impressed upon us."⁷⁵

The formal relationship between staff and the Council itself is through the Mayor. The amendments to local government legislation in 1989 placed the Chief Executive clearly in control of the management of the staff, reporting directly to the Mayor.

Previously, heads of Council departments mostly reported directly to the chairs of Council committees. The 1989 amendments changed all that. The law changes did not prevent contact between senior Council officers and councillors (particularly committee chairs); but they certainly did strengthen the position of the Mayor by giving him or her or privileged access to Council staff. The strength of the Mayor- Chief Executive axis has become a commonplace of local government in New Zealand. A strong working relationship between the two significantly increases the Mayor's power to control access to information and to manage issues. This relationship has two possible effects. One is, as noted elsewhere, to provide the Mayor with privileged access to the resources of the Council as an organisation. But also, in distancing other Councillors from direct contact

⁷² Macquarie Bank Limited (1997). Annual Review, 1997.

⁷³ Sue Piper interview

⁷⁴ Mark Blumsky interview

⁷⁵ Andy Foster interview

with staff, it may have on average diminished their trust in Council officers. In Wellington's case, Allan Johnston notes, other Councillors felt at a disadvantage because of...the level of resourcing the Mayor (and Deputy Mayor) had, such as PAs, press officers, research assistants. Debates each year about the Mayor's office budget were often cranky because of a feeling that Councillors were on their own and at a substantial disadvantage to a Mayor with the resources to 'manage' (read manipulate) the process.⁷⁶

Not just in this case, relationships between Councillors and staff could be tense. Most Councillors generally accepted the integrity of the advice that staff were providing -- Sue Piper had no doubt about it in this case. While Kent Clark sometimes wondered if staff were trying to steer him towards a position that they favoured, he also voiced his concerns about the lack of respect shown by some Councillors for staff:

I always thought that Council staff did an incredible amount of work to present something but it was really the Councillors who got into any public debate but we didn't actually do the work, we didn't write the papers. We just sat there and criticized them, shredded them, tore them to bits, pulled an officer to pieces basically. ... I used to sit there and think 'this is not nice behaviour' sometimes. I mean why should we be able to have that privilege and they wouldn't really have the right to respond?⁷⁷

This might be expected to be a particular risk when the Mayor, as in this case, was leading one faction of the Council in a major political battle with another faction. And indeed to some extent it appears that the role of Council staff in advising and managing process was the subject of hostile criticism by some councillors. In this particular case, Garry Poole said:

... it was such a volatile thing. ... The non sellers lost confidence -- or trust or whatever the word is -- in the officers and the sellers, [whose position] officers were supporting, ... they gained confidence.⁷⁸

Poole recalled one particular incident shortly after David Cruickshank took up his position as Chief Finance Officer:

Within days of arriving, the CFO had fallen out with Councillor Kedgley. ... His first Council meeting was on this issue and by morning tea ... she had labelled him a right wing something or other -- capitalist or something. She walked up to him. He was stunned because he had just arrived at that place and this Councillor walks up and basically abuses him within days of arriving. I mean it was kind of more aimed at the senior management.⁷⁹

The opponents of the sale might well argue that their suspicion was justified. In fact, both the Mayor and the Chief Executive were quite clear that Council staff were in favour of exiting the investment, particularly if the Government concluded its own deal with a private buyer and left the Council in a minority position. In the Mayor's case, this meant that they were on his team:

⁷⁶ Personal communication

⁷⁷ Kent Clark interview

⁷⁸ Garry Poole interview

⁷⁹ Garry Poole interview

Without a doubt the Council officers were as big a fan of exiting the airport company as my group on Council. So without a doubt we strategised with officers to deliver the result as best as we could. Officers actually saw risk in Council owning that asset and felt better use of the money would be made if we released it. So officers were a very strong tool for us.⁸⁰

Indeed, Mark Blumsky said, there was one officer “who ... was probably so obviously in favour of selling that even I thought he was over the top with some of his enthusiasm whereas the CEO ... plays the game very well.”⁸¹

On the other hand, staff could argue that it was their job to analyse the options and consequences of retaining a minority shareholding and to recommend the option that they believed was in the Council's best interests. Garry Poole's view was that the non sale faction on Council was hostile:

...because we were recommending a course of action that they philosophically disagreed with. Their view was ‘this is a strategic asset, you can't sell it’. And we're saying: ‘if it's a strategic asset -- probably is -- ... who's going to buy it, pay this kind of money and run the thing into the bloody ground?’. ... Whoever owns the airport, their interests are reliant on the city. The better they promote the city, the more traffic they have, the better the facility looks, the better it is for them and for us. So we're saying there is an alignment of interests, we can maximize our return by selling out at the same time and if we don't sell at the same time how are we ever going to get out of this thing?⁸²

But Poole also acknowledged that staff had to earn the Council's trust by the quality of their work.

To be frank, some of the work that we did in these days was crap. I couldn't believe my first annual plan: it was just a joke. People bullshitting all over the place. It was just nonsense. ... Some of [the councilors] just listened to this ... and accepted it. Others ... could see through some of this stuff. A lot of the time they didn't seem to be interested in kicking it but when they decided they wanted to kind of kick the tires they did. Often you poke your finger and go straight through. I remember a classic for me: we were recommending the purchase of the Owhiro Bay quarry in my first days of being [chief executive]. Some Councillor asked the very reasonable question how much it was valued at and nobody knew. You know we hadn't even valued it, and I'm recommending spend X million buying the blimmen thing. That basic. So in some ways I mean there was a competence issue underlying this. Poole's basic solution to this problem is for staff to demonstrate their professional competence. He recalled the debate in the Council over a proposal to sell city works, the Council's business unit: There was one Councillor who led the charge against it. I think she might have started out not trusting us thinking we we're a right

⁸⁰ Mark Blumsky interview

⁸¹ Mark Blumsky interview

⁸² Garry Poole interview

wing faction or something, but by the end of the process it turned around to a position of trust. So I think we've evolved.⁸³

⁸³ Garry Poole interview.

Epilogue

In American Graffiti, Steven Spielberg's iconic tale of one long summer night in the lives of a group of American high school students, just before the credits roll the movie gives brief accounts of the future lives of each of the main protagonists. This case study finishes with the Council no-sale decision, but a brief note on what happened next may be of interest.

- Mark Blumsky was re-elected Mayor in the 1998 Council elections. He did not stand for election in 2001. He is currently the National Party candidate for Wellington Central.
- Kerry Prendergast was elected Mayor in 2001, and re-elected in 2004.
- Kent Clark lost his seat in the 1998 election. Sue Piper was re-elected to Council in 1998 and 2001 but failed to gain re-election in 2004. Andy Foster is still a Councillor.
- Garry Poole is still Chief Executive of the Wellington City Council.
- Shortly after the sale of the Government's shares in WIAL, Winston Peters pulled his New Zealand First Party out of the coalition with National. The National Party was defeated by a Labour-led coalition in the 1999 General Election.
- The Council still holds its 34% shareholding in WIAL. Dividends paid 1999-2004 have averaged 4% of shareholders' equity. No dividend was paid in the year to 31 March 2004. The Council is currently discussing dividend policy with Infratil.

Annex: Kent Clark -- experiences of a new city councillor

Note: all quotes from Kent Clark interview

Kent Clark served one term as a city councillor having been elected in 1995. Kent said he "loved it" but confessed that he was a "complete novice" to local government when he joined the Council. "I had no sort of interest in any outside organisations; I hadn't been on a community organisation; so I really came in with few ideas about what I'd like to see happen in the city. And this sort of thing coming up, I was just sitting there thinking 'Wow! We are making monstrous decisions here, involving huge amounts of money and it's going to affect the future'. ... It was huge and I had nothing in my background, apart from what I knew of the City Council bus transport and that was pretty limited. ... I can remember the CEO at the time, Angela Griffin, just saying to me, 'you'll find this a huge learning curve for the first 6 months from going from nowhere just to figure out how decisions are made to what you are doing, what you are dealing with here'. ... I guess other people would tell me -- and it was true -- you'd lose sight of the very basic things you came in here wanting to achieve."

Kent had to combine a full-time job as a bus driver for Stagecoach with his responsibilities as a city councillor. "A lot of people said 'you'll either have to give up and perhaps work part time'. I guess there were myself and I think one or two other Councillors at the time who were working full or part time and managed to keep that going." Stagecoach "were very accommodating. ... I worked split shifts so I [could] operate morning meetings. Afternoon ones if I needed to have the whole day, I could arrange that at an hour's notice, basically."

But the additional workload of Council and committees was daunting, and Kent said he found problems keeping up with the paperwork. "I have to admit, I didn't read all of them (laughs). To be honest I found it, not a nightmare, but it was a huge amount of paperwork to get through. Certainly some months there was more than others. ... I'd basically go through everything and just have a quick glimpse at some of the finance things. On some of the other committees that [I wasn't] sitting on, I didn't take too much of an interest, just thinking well some of these are going to come up for a vote from the Council once they come back from their committees. I found it hard enough keeping up with your own committees that you are sitting on and doing resource consents and some of the things. I would say that I wasn't the only Councillor of the time and probably even today that wouldn't read all of the papers or fully digest what they are being presented with." He relied to some extent on more senior Councillors to advise him. "I'm not a financial person and it wasn't one that I sat on and I very rarely went along to their meetings to see what was going on but I did use to talk to people like Councillor Nicholls. I'd sort of sound [out] where he was coming from [as] the Chair of the committee; and often on strategy [people] like Councillor Parkin who had slightly different views." But he tried to make up his own mind about each issue. "I used to sit there and think 'you know, where do I sit amongst this? I didn't come in voting for this but I have to make a decision.' I felt it was very important that every Councillor used their vote in that sense to make a decision."

He did not see himself as belonging either to the left group or the right group on the Council. "There wasn't these two big blocks all the time that would just outnumber each other. It often went that way with the votes but there would always be one or two of us that would change sides on many issues and I didn't feel at any time that if I'd come in as a so called left-sided councillor that I had to vote always on that side. I wasn't a member, such as of a Labour party that would say 'this is what the Caucus wants you to do, you'll vote this way'. I would've found that very difficult." Kent said he found his views changing in his first six months on the Council as a result of his exposure to the information he received and to the views of other Councillors and the community. "I was very much in favour of the first proposals of the change that were put forward for the waterfront, but I suppose six months to a year later my views had changed dramatically as well. And yet had they had a vote early on I probably would've voted for a huge row of apartments down Oriental Parade side and Chaffers Park would have gone. But a year later you start to see things slightly different and you start to think of the community and where they can go and things like that."

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⁸⁴ Compiled by Helcia Knap, September 2004. ID Numbers and some additional documents (starting with WIAL47) added by Rob Laking, January 2005.

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