Reference: 20160170

3 August 2016

[redacted]

Thank you for your request made under the Official Information Act, received on 25 May 2016. You requested:

- *Copies of all correspondence between the Crown Monitoring Unit and TVNZ regarding TVNZ's Auckland head office refurbishment*

- *Copies of all internal correspondence within the Crown Monitoring Unit regarding TVNZ's Auckland head office refurbishment*

- *Copies of all correspondence between the Crown Monitoring Unit and the Ministers of Finance, Broadcasting or State Owned Enterprises regarding TVNZ's Auckland head office refurbishment*

- *Copies of all reports, memos, briefings or any other documents regarding TVNZ's Auckland head office refurbishment*

On 2 June 2016 I wrote to you advising that I had transferred to Television New Zealand (TVNZ) the parts of your request represented by documents originated by TVNZ. The other parts of your request remain with the Treasury.

In respect of the parts of your request remaining with the Treasury, on 21 June 2016 I decided to extend the time limit for deciding on your request by an additional 30 working days because of the consultations needed to make a decision on your request.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	9 February 2016	Email about Q2 results	Release in part
2.	12 October 2015	Email about PwC report	Release in part
3.	1 October 2015	Aide Memoire: TVNZ Update on Project One	Release in part
4.	30 September 2015	Email about Project One Update	Release in part
5.	1 September 2015	Email about Project One Update	Release in part
6.	31 July 2015	Email about tour of TVC property	Release relevant information
7.	15 July 2015	Aide Memoire: TVNZ Update on TV Centre Refurbishment Cost	Release in part
8.	15 June 2016	Email about TVC queries	Release in part
9.	28 August 2013	Letter from Ministers to TVNZ Chair	Release in full
10.	15 August 2013	Letter from TVNZ Chair to Ministers	Release in full
11.	15 August 2013	Treasury Report: Television New Zealand Ltd – Dividend Relief	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,

- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,

- legally privileged information, under section 9(2)(h) – to maintain legal professional privilege, and

- commercially sensitive information, under section 9(2)(i) – to protect the commercial position of the person who supplied the information, or who is the subject of the information.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Craig Weise
Manager, Strategy and Policy

OIA 20160170
Documents being Released

1.	Email about Q2 results	1
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From: Rodney Parker <Rodney.Parker@tvnz.co.nz>
Sent: Tuesday, 9 February 2016 12:28 p.m.
To: Kathy Jones [TSY]
Cc: David Croft
Subject: RE: Q2 result queries

HI Kathy

Please see our responses in red below

Regards
Rodney

Rodney Parker
Chief Financial Officer
D. +64 9 916 7524 **M.** s9(2)(a) **E.** rodney.parker@tvnz.co.nz

---

From: Kathy Jones [TSY] [mailto:Kathy.Jones@treasury.govt.nz]
Sent: Friday, 5 February 2016 4:33 p.m.
To: David Croft; Rodney Parker
Subject: Q2 result queries

[UNCLASSIFIED]

Hello David, Rodney

Would you mind please answering the following questions around the Q2 results:

1. Deleted - Not Relevant to Request

2.

3. Does the shortfall in capex relate mostly to Project One? Yes, timing difference

4. How much capex to complete now? Will capex extend into FY17? At 31 December the balance to complete the project is $15.3m. We expect that the majority of the cost will be incurred in FY16, although final payments (including retentions) won't be made until FY17.

5. Deleted - Not Relevant to Request

Many thanks

Kathy Jones | Principal Advisor | **The Treasury**
Tel: +64 48907426 | Kathy.Jones@treasury.govt.nz

From: s9(2)(g)(i)
Sent: Monday, 12 October 2015 3:18 p.m.
To: Kathy Jones [TSY]
Cc: Aaron Gill [TSY]
Subject: RE: Draft PwC Report

Hi Kathy,

No worries. I took a little while getting back to you myself on this.

s9(2)(h)

If you require anything further on this or any other issue please do not hesitate to contact me. Am glad to be of assistance.

s9(2)(g)(i) | Solicitor | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: Kathy Jones [TSY]
Sent: Monday, 12 October 2015 10:17 a.m.
To: s9(2)(g)(i)
Cc: Aaron Gill [TSY]
Subject: RE: Draft PwC Report

[UNCLASSIFIED]

s9(2)(g)(i)

Firstly, apologies for not replying last week. I was on leave and neglected to put on my out-of-office until after your email.

Secondly, thank you very much for your very full analysis. It is useful. Interestingly, I discussed TVNZ's involvement with PMCoE with them, and they said that they had had virtually no contact beyond a very initial approach but thought that TVNZ "had downloaded the guidelines".

Juston/Aaron : I do not think we need to follow up any further and can put that particular matter aside.

Cheers

Kathy Jones | Principal Advisor | **The Treasury**
Tel: +64 48907426 | Kathy.Jones@treasury.govt.nz

From: s9(2)(g)(i)
Sent: Monday, 5 October 2015 12:35 p.m.
To: Kathy Jones [TSY]
Subject: RE: Draft PwC Report

[IN-CONFIDENCE]

Please note all advice contained herein is confidential and legally privileged. Legal privilege may potentially be broken if all or parts of this advice are seen by outside parties.

Hi Kathy,

s9(2)(h)

s9(2)(h)

s9(2)(g)(i) | Solicitor | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: Adam Wood [TSY]
Sent: Wednesday, 16 September 2015 5:03 p.m.
To: Kathy Jones [TSY]

Cc: Aaron Gill [TSY]; s9(2)(g)(i)
Subject: RE: Draft PwC Report

Thanks Kathy.

s9(2)(g)(i) and I will have a look at this and come back to you.

Cheers

Adam Wood | Deputy Treasury Solicitor | **The Treasury**
Tel: +64 4 890 7212 | Adam.Wood@treasury.govt.nz

From: Kathy Jones [TSY]
Sent: Wednesday, 16 September 2015 3:49 p.m.
To: Adam Wood [TSY]
Cc: Aaron Gill [TSY]
Subject: FW: Draft PwC Report

[UNCLASSIFIED]

Hello Adam

Following from our conversation, please find attached the report TVNZ commissioned regarding the Governance and Procurement processes associated with its large refurbishment project.

I am interested in getting a (legal) opinion on the findings of PWC that TVNZ were not bound by the MBIE procurement rules (PMCoE). This is covered on page21 of the report.

Thanks Adam, and I am happy to provide more context if needed.

Regards

Kathy Jones | Principal Advisor | **The Treasury**
Tel: +64 48907426 | Kathy.Jones@treasury.govt.nz

From: Selena Helleur [mailto:Selena.Helleur@tvnz.co.nz]
Sent: Friday, 29 May 2015 8:50 a.m.
To: Kathy Jones [TSY]
Cc: Kevin Kenrick; Brent McAnulty
Subject: Draft PwC Report

Hi Kathy

On behalf of Kevin Kenrick please find attached the draft PwC Report in respect to Project ONE for your reference.

Would you please call Kevin once you have had an opportunity to review the document.

With thanks

Selena

Selena Helleur
Executive Assistant to Kevin Kenrick, Chief Executive Officer
D. +64 9 916 7925 **M.** s9(2)(a) **W.** tvnz.co.nz

IN-CONFIDENCE

THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: T2015/2279 CM-1-3-78-2

Date: 1 October 2015

To: Minister of Finance (Hon Bill English)
Minister of Broadcasting (Hon Amy Adams)

Deadline: None

Aide Memoire: TVNZ Update on Project One

The purpose of this report is to provide Shareholding Ministers of Television New Zealand Ltd (TVNZ) with an update on the cost overrun from TVNZ's refurbishment of its Auckland TV Centre (Project One). This report also advises what actions the TVNZ board has taken to minimise further cost escalation.

Context:

On 26 March 2015 the (then) TVNZ Chair, Wayne Walden, informed Minister Adams of a likely material cost overrun to Project One, above the project budget approved by the TVNZ Board. The Board paused Project One from proceeding to Phase 2 (the final stage) to assess the likely cost overrun, investigate the cause, identify cost mitigation strategies and minimise the risk of further cost escalation.

On 27 May 2015, Joan Withers (appointed Chair on 1 May 2015) advised Minister Adams that the gap between the expected cost and budget was likely to be $15 to $17 million to complete the project. The Treasury was advised on the 28 May 2015 of the likely overrun, two months after Minister Adams was advised.

The original budget was $36.6 million. However, problems with the exterior cladding and weather tightness were identified early in the discovery phase and added $6.7 million to the cost. In June 2014 TVNZ's Board approved a revised total budget of $43.3 million. The latest, Board approved, estimated total cost to complete the project is $58.9 to $60.3 million, approximately 36-39% higher than the June 2014 budget.

Update

Fixed contracts

TVNZ have advised that it has now:

1. Signed a fixed cost-to-completion contract with the lead contractor, Fletcher Construction Company Ltd (Fletchers) for s9(2)(i) This means Fletchers now wear the completion risk with the following exceptions:

(i) discovery of hazardous materials (such as asbestos) - TVNZ considers the risk of this to be low, relying on a report done pre-construction;

(ii) major structural issues - TVNZ considers this unlikely as an early structural engineer's examination found cracks which when x-rayed were found to be superficial.

2. Agreed with Warren and Mahoney (WAM), lead architects, a capped fee of s9(2)(i) s9(2)(i) This was necessary as the architects' fees were previously set to a percentage of the value of the total price, which is higher due to the cost overrun. The independent review from PriceWaterhouseCoopers of the governance and procurement processes raised the possibility that the variance between the design drawings and the "issued for construction" drawings were responsible for substantial additional cost. This would have meant paying WAM extra for contributing to a cost overrun.

Timeline

Phase 2 commenced on 2 September 2015, a three month delay from the original timeline due to the Board pausing the project. The estimated date of completion is now 6 June 2016. The temporary office space at Harbinge Street has been secured until 30 June 2016, with one month rollovers available thereafter if needed.

Cost recovery on consultants

s9(2)(f)(iv)

We understand discussions are being held which focus on liability caps. s9(2)(i)
s9(2)(i)
s9(2)(i)

Other

TVNZ is also looking at further ways to reduce costs. The ground floor, for example will now have carpet tiles, rather than the previously specified wooden floors.

Treasury's view

Since the advice in May 2015 of the $15.5 to $17 million likely cost overruns, the TVNZ Board appears to be taking appropriate steps to minimise the actual cost overrun.

Kathy Jones, Principal Advisor, Commercial Operations - Strategy and Policy, 04 890 7426
Juston Anderson, Acting Manager, Commercial Operations - Strategy and Policy, 04 890 7211

From: Rodney Parker <Rodney.Parker@tvnz.co.nz>
Sent: Wednesday, 30 September 2015 1:51 p.m.
To: Kathy Jones [TSY]
Cc: Brent McAnulty
Subject: FW: Project One Update

Hi Kathy

Please see suggested changes below.

s9(2)(i)

Many thanks
Rodney

Rodney Parker
Chief Financial Officer
D. +64 9 916 7524 **M.** s9(2)(a) **E.** rodney.parker@tvnz.co.nz

Suggested changes -

The original budget was $36.6 million. However, problems with the exterior cladding and weather tightness were identified early in the discovery phase and added $6.7 million to the cost. As a result of additional project changes resulting from discovery, the Board approved estimated total cost to complete is now $58.9-60.3 million.

Update

Fixed contracts

TVNZ have advised that they have now:

1. signed a fixed cost-to-completion contract with the lead contractor, Fletcher Construction Company Ltd (Fletchers) for s9(2)(i) This means Fletchers now wear the completion risk with the following exceptions:
   (i) discovery of hazardous materials (such as asbestos) - TVNZ consider the risk of this to be low as there was a report done pre-construction;
   (ii) major structural issues - TVNZ consider this to have low likelihood as a structural engineer's examination found cracks which when x-rayed were found to be superficial.

2. agreed with Warren and Mahoney, lead architects (WAM) a capped fee of s9(2)(i) This was necessary as the architects' fees were previously set to a percentage of the value of the total price, which is higher due to the cost overrun.

Timeline

Phase 2 commenced on 2 September 2015, a three month delay from the original timeline. The estimated date of completion is now 6 June 2016. An option for the extension to the term of lease for the temporary office space at Hardinge Street is being sought, in case it is required.

Cost recovery on consultants

s9(2)(f)(iv)

s9(2)(i)

Kathy Jones | Principal Advisor | **The Treasury**
Tel: +64 48907426 | Kathy.Jones@treasury.govt.nz

From: Kathy Jones [TSY]
Sent: Tuesday, 1 September 2015 6:06 p.m.
To: Aaron Gill [TSY]
Cc: Juston Anderson [TSY]
Subject: TVNZ Project One update

[IN-CONFIDENCE]

1. Signed with Fletchers now, who wear all risk to completion with the exceptions (i) discovery of hazardous materials (asbestos). TVNZ consider this most unlikely as had report done pre-construction (ii)major structural issues. Again TVNZ consider this to have low likelihood as a structural engineer's examination found cracks which when x-rayed were found to be superficial.
2. Cost to completion $50m, equivalent to ~$15.5m overrun (45%)
3. Mitigation measures being undertaken: i) cost recovery on contractors for negligence (Brent McNaulty responsible) (ii) "cost-out engineering" eg using carpet tiles vs the previously spec of wooden floor (Board sub committee of Walsh, Withers and Gerry signing out each variation)
4. Est date of completion : 6 June 16. Start date of Phase2 , 2nd Sept

Cheers

Kathy Jones | Principal Advisor | **The Treasury**
Tel: +64 48907426 | Kathy.Jones@treasury.govt.nz

Deleted - Not Relevant to Request

Deleted - Not Relevant to Request

On 31/07/2015, at 4:40 pm, Kathy Jones [TSY] <Kathy.Jones@treasury.govt.nz> wrote:

[IN-CONFIDENCE]

Hello Joan

Thank you for your time yesterday and I hope the Board meeting went well. Rodney took me on a tour of the TVC property and the finished area is indeed impressive.

Deleted - Not Relevant to Request

Kind regards

Kathy Jones | Principal Advisor | **The Treasury**
Tel: +64 48907426 | Kathy.Jones@treasury.govt.nz

THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: T2015/1567 CM-1-3-78-2

Date: 15 July 2015

To: Minister of Finance (Hon Bill English)
Minister of Broadcasting (Hon Amy Adams)

Deadline: None

Aide Memoire: TVNZ Update on TV Centre Refurbishment Cost Overrun

The purpose of this report is to provide Ministers with an update on the cost overrun for TVNZ's refurbishment of its Auckland TV Centre.

Context:

The (then) Chair, Wayne Walden, informed Minister Adams on 26th March 2015 of potentially material cost overrun to the Project budget approved by the TVNZ Board. The Board advised that they had paused the Project from proceeding to Phase 2 (the final stage) and were commissioning an independent review from PWC of the governance and procurement processes, the Board's entitlement to rely on advice from consultant advisors, and any deficiencies in the consultant advisors' performance.

On 27th May, Joan Withers (appointed Chair on 1 May) advised Minister Adams that the gap between the expected cost and budget was likely to be $15-17 million to complete the project. Treasury was advised on the 28th May of the overrun, of the fact that Minister Adams had been notified, and that Minister English had been informed by Minister Adams.

The original budget was $36.6 million. Problems with the exterior cladding and weather tightness identified early in the discovery phase added $6.7 million. In June 2014 TVNZ's Board had approved a revised total Project budget of $43.3 million. Thus the indicative cost overrun represents 34-39% over the revised budget.

PWC Draft Report Findings

s9(2)(g)(i)

[redacted]

The report concludes that TVNZ was entitled to rely on these advisers, and while in some areas TVNZ could have done things better, it has clearly communicated it's expectations in respect of costs. The report states "..*[PWC] consider that the Board has appropriately discharged its governance function throughout the Project's duration*."

Treasury has not seen the terms of the terms of engagement but notes that the report was based on a desktop review of documentation and discussions with TVNZ management and Board members.

Update

TVNZ has employed a suite of new consultants to advise in terms of the magnitude of the cost overrun, and to assist TVNZ in developing design, project management and cost mitigation strategies over the remainder of the Project. These advisors include:

- John Coers – consulting property advisor
- Bill Barras – independent quantity surveyor
- Brian Aitken – independent architect
- BECA – consulting engineers
- Stuart Mills QC – lawyer advising on the various contracts and scope for redress

The Board now have a sub-committee comprising Joan Withers, Therese Walsh and Alison Gerry overseeing the Project. Much of the last month has been spent in weekly discussions with Fletchers in order to get a fixed cost-to-completion price. The Chair, supported by legal advice, maintains that the construction contract with Fletchers was adequate to protect against unreasonable variation claims and that the final price should reflect no more than what should have been the price for the total project.

Phase 2 remains suspended so the completion date has been pushed out at least 3-4 months. This will increase the cost of the temporary location of TVNZ in alternate premises (estimated ~$1m). We do not know the cost of the additional consultants. There may be opportunity for redress from the original consultants if it can be proved that their lack of performance contributed to a loss of opportunity to mitigate the increasing costs. This may involve litigation.

Treasury's view

Treasury has expressed concern to the Chair that the cost overrun had not been signalled to us in March. s9(2)(g)(i)
s9(2)(g)(i)
s9(2)(g)(i)
s9(2)(g)(i) We also have concern that MBIE's Property Management Centre of Expertise (PMCoE) had little input nor had been appraised of progress throughout the Project.

We can form no view as to the appropriateness of the final price but note that the Project's capex was never going to produce income nor reduce operating cost to the extent of meeting TVNZ's cost of capital. The book value of the land and buildings is estimated on completion at $93m. An updated market value is scheduled for May 2016 but is unlikely to be less, given the increase in land values.

The cost overruns will reduce TVNZ's capacity for (special) dividend payment. However from an owner's perspective, the key value driver for TVNZ remains the adverse impact of industry trends on TV advertising revenues. The meeting of Ministers with the Chair and CEO on 28th July to discuss strategic options should focus on seeking the best outcome in terms of risk adjusted returns.

Kathy Jones, Principal Advisor, Commercial Operations - Governance and Performance, 04 890 7426

Juston Anderson, Acting Manager, Commercial Operations - Governance and Performance, 04 890 7211

From: Rodney Parker <Rodney.Parker@tvnz.co.nz>
Sent: Monday, 15 June 2015 3:02 p.m.
To: Kathy Jones [TSY]
Cc: Kevin Kenrick
Subject: RE: queries

Hi Kathy

In respect of the TVC book values,

- The book value of the land is $12.0m and the Market valuation of the land in May 2012 was $31.5m. We have commissioned an update of the land valuation (which we should have by the end of June) & the valuer has indicated that the value will likely have doubled, say $60.0m.

- The book value of the TVC building is estimated to be $81m - $21.0m existing building book value plus $60.0m project One costs (capitalised)

- The book value of land and buildings at completion is estimate to be $93.0m ($12.0 + 81.0m); we will get an updated market value of land and buildings at May 2016, but we don't expect that there is any likelihood the the market value will be less than the book value, given the increase in land values only.

I have checked with Kevin regarding the briefing presentation – we will have a version that you can share with Ministers by close of business Wednesday. We would strongly recommend not using the first draft

Many thanks
Rodney

Rodney Parker
Chief Financial Officer
D. +64 9 916 7524 **M.** s9(2)(a) **E.** rodney.parker@tvnz.co.nz

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From: Kathy Jones [TSY] [mailto:Kathy.Jones@treasury.govt.nz]
Sent: Monday, 15 June 2015 1:20 p.m.
To: Rodney Parker
Subject: queries

[UNCLASSIFIED]

Thanks Rodney

That valuation work is interesting. I will be coming back with questions but not this week.

I do have a few questions about the TVC:
- What's the book value now? (broken down between book value prior to refurb plus capex to date)
- What is the estimated market valuation post completion?

What's the earliest I can get the briefing presentation? I need to send it to the Mins' offices tomorrow with a cover note – happy to use the draft we went over last week but if there is a later version that would be better.

Regards

Kathy Jones | Principal Advisor | **The Treasury**
Tel: +64 48907426 | Kathy.Jones@treasury.govt.nz

From: Rodney Parker [mailto:Rodney.Parker@tvnz.co.nz]
Sent: Monday, 15 June 2015 9:24 a.m.
To: Kathy Jones [TSY]
Cc: ^EXT: Joan Withers; Kevin Kenrick
Subject: TVNZ - Final FY2016 Annual Plan, Valuation and SOPE

Hi Kathy

Apologies for the delay – please find attached the final versions of the TVNZ FY2016 Annual Plan, SOPE and the Valuation report prepared by Cameron Partners.

The main change to the draft Annual Plan is the increase in the Project One capex following the recent completion of the assessment of the potential cost over-run. This adds an additional $5m to the capex shown in the cash flow in FY2016. There is no impact on the forecast earnings in FY2016, but the forecast earnings for FY2017 & 2018 have been updated to reflect (a) reduction in interested earned and (b) increase in building depreciation. The forecast balance sheet for FY2017 & 2018 have also been updated.

In respect of the estimate commercial valuation of the Crowns' investment in TVNZ, the approach adopted by the Board is shown in section 11 of the Annual Plan

The SOPE has also been updated. The only change is a $5m increase in 'investing activities' in the cash flow shown on page 9.

If you have any questions, please don't hesitate to contact me.

Can you please confirm the number of copies of the SOPE that you require for tabling in the House

Many thanks
Rodney

Rodney Parker
Chief Financial Officer
D. +64 9 916 7524 **M.** s9(2)(a) **E.** rodney.parker@tvnz.co.nz

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For more information on the Television New Zealand Group, visit us

Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
MP for Clutha-Southland

- 4 SEP 2013

2 8 AUG 2013

Mr Wayne Walden
Chair
Television New Zealand Ltd
PO Box 3819
AUCKLAND 1140

Dear Wayne Walden

Refurbishment of 100 Victoria Street West, Auckland

We understand that the Board wishes to invest in the refurbishment of 100 Victoria Street West, Auckland. In order to do so, Television New Zealand Ltd (TVNZ) is seeking a temporary relaxation of the requirement to pay annual operating dividends, as contemplated in TVNZ's Statement of Intent, to an amount equivalent to the total actual building refurbishment costs.

Shareholding Ministers are supportive of TVNZ making the investment in the refurbishment of 100 Victoria Street West. As discussed, we understand TVNZ will work with the Crown's Property Management Centre of Expertise, to ensure that best practice is followed. Please keep Suzy Morrissey in the Crown Ownership Monitoring Unit updated on TVNZ's progress on refurbishment.

Shareholding Ministers agree to forgo dividends as contemplated in the TVNZ Statement of Intent to a maximum amount equivalent to TVNZ's additional cash requirement, which we estimate at approximately $32.6 million (being the cost of refurbishment and decamp less the proceeds from sale of 85 and 91 Hobson St). This reflects TVNZ's need to retain surplus cash from operations, based on the timing of the proposed refurbishment work and its expected cash in-flows from capital disposals.

We note that, in line with the guidance in the Owner's Expectation Manual, TVNZ has a threshold for consultation with shareholding Ministers of approximately $7.5 million. We look forward to being consulted on any appropriate projects above this threshold.

Transfer of Avalon archives facility to the Crown

As part of the discussion around the refurbishment, TVNZ has also sought clarity on the Government's position regarding transfer the TVNZ Archive facility in Avalon to the Crown. This transfer has been the subject of negotiations for some time, and is a

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand. Telephone 64 4 817 6801 Facsimile 64 4 817 6501

mechanism for progressing the Government's policy objective of improving public access to New Zealand's audio-visual heritage.

To clarify our position, the Government intends to finalise negotiations with TVNZ to purchase the land and buildings associated with the archive facility at Avalon, and become the custodian of the collection, with responsibility for the on-going operations of the facility.

Finalising the transfer is dependent on the Chief Archivist giving independent approval as required under the Public Records Act 2005. The Chief Archivist has a legislative requirement to consult publicly for 30 days before making a final decision.

The Crown intends to pay TVNZ market value for the land and buildings of the TVNZ Archives facility. We understand Darroch valued these at $8 million; however, given the time that has passed, it is our expectation that another independent valuation would be undertaken.

There are a number of additional issues other than cost that need to be resolved to both the Government and TVNZ's satisfaction before a Heads of Agreement can be signed. These particularly focus on the on-going management of the collection, and include ensuring there is scope for appropriate public access following the transfer, and the ability of the Crown to receive income related to management of the collection. It is our expectation that both parties undertake best endeavours to resolve these in a manner agreeable to both parties.

Capital Structure Review

Given the amount of dividend relief agreed, it continues to be Shareholding Ministers' intention to undertake a Capital Structure Review of TVNZ, once there is greater certainty regarding the capital implications of both the refurbishment and the archives transfer, to give us comfort that TVNZ's balance sheet is appropriately structured.

We wish you all the best for your refurbishment project and would be grateful if you would include regular updates on the project in your Quarterly Reports.

Yours sincerely

Hon Bill English
Minister of Finance

Hon Craig Foss
Minister of Broadcasting

TVNZ

Television New Zealand Ltd
Te Reo Tātaki
100 Victoria Street West
PO Box 3819
Auckland 1140
New Zealand
tvnz.co.nz

15 August 2013

Hon Bill English
Minister of Finance

Hon Craig Foss
Minister of Broadcasting

Parliament Buildings
WELLINGTON

Dear Ministers

DIVIDEND FORGIVENESS

TVNZ wishes to invest in the refurbishment of its premises at 100 Victoria Street West in Auckland to enable a consolidation of all staff into one premises. This would allow TVNZ to designate premises at 87 and 91 Hobson Street as surplus to operational requirements.

The estimate of the cost of refurbishment, provided by independent quantity surveyors, is $36.6 million.

In order to fund this investment, TVNZ is seeking temporary relaxation of the requirement to pay annual operating dividends over the next 3 years, as contemplated by the TVNZ Statement of Intent.

We seek Shareholding Ministers confirmation that the Crown will forego dividends equivalent to the total actual building refurbishment cost.

We note in the letter from Minister Foss dated 27 June 2013, the expectation that TVNZ will undertake a capital structure review in the near future. We would propose that the capital structure review is postponed until the completion of the building refurbishment project and would appreciate receiving Ministers confirmation of this deferral.

Yours sincerely

Wayne Walden
Chairman

cc Suzy Morrissey, COMU

COMMERCIAL-IN-CONFIDENCE

CROWN OWNERSHIP MONITORING UNIT

Treasury Report: Television New Zealand Ltd - Dividend Relief

Date:	15 August 2013	**Report No:**	T2013/2079

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Agree** recommendations and **sign** letter to Chair	Tuesday 20 August 2013
Associate Minister of Finance (Hon Steven Joyce)	For your information	None
Associate Minister of Finance (Hon Dr Jonathan Coleman)	For your information	None
Minister of Broadcasting (Hon Craig Foss)	**Agree** recommendations and **sign** letter to Chair	Tuesday 20 August 2013

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Suzy Morrissey	Senior Advisor, COMU Monitoring - Commercial	04 917 6292	N/A	✓
James Cunningham	Manager, COMU Monitoring - Commercial	04 890 7222	s9(2)(a)	

Actions for the Ministers' Office's Staff (if required)

Minister of Finance: Sign the letter and send to the Chair, return the signed report to Treasury. Minister of Broadcasting: Sign the letter and forward to the Minister of Finance, return the signed report to Treasury.

Enclosure: Yes (attached)

COMMERCIAL-IN-CONFIDENCE

15 August 2013 CM-1-3-78-2

Treasury Report: Television New Zealand Ltd - Dividend Relief

Executive Summary

Television New Zealand Ltd (TVNZ) is considering a major refurbishment of its Television Centre (TVC) located at 100 Victoria Street West, Auckland. The refurbishment will be required if TVNZ sells 87 and 91 Hobson Street, Auckland to the Sky City Entertainment Group Ltd (Sky City). Sky City wishes to obtain the land as part of the New Zealand International Convention Centre (NZICC) project.

TVNZ engaged independent quality surveyors who have estimated the cost of refurbishment to be $36.6 million. In order to facilitate the refurbishment, TVNZ is requesting a temporary relaxation of the requirement to pay annual operating dividends, equivalent to the total actual building refurbishment cost.

For a capital project of this type, we would normally expect it to be supported by a full business case, setting out the costs and benefits of the project including a Net Present Value (NPV) calculation. A project would only be expected to proceed if it had a positive NPV, unless there were compelling intangible benefits. We have not been provided with a full Business Case, and nor have we been provided with an NPV calculation.

s9(2)(g)(i)

Therefore, Treasury does not support the refurbishment project or TVNZ's request for dividend relief. However, we understand shareholding Ministers are willing to consider TVNZ's request. On that basis, we suggest that shareholding Ministers may wish to initially offer TVNZ sufficient relief to cover the additional cash required by the refurbishment instead. This is an amount of $24.1 million. The draft letter to the Chair included in this report has been drafted on this basis.

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Recommended Action

We recommend that you:

a **note** that shareholding Ministers previously offered TVNZ a temporary relaxation of the requirement to pay annual operating dividends in order to fund the required refurbishment of 100 Victoria Street West;

b **note** that TVNZ has indicated it would like to arrange for dividend relief of such amount as it will incur in capital expenditure to refurbish 100 Victoria Street, Auckland. This is currently estimated at $36.6 million;

c **note** that we would ordinarily expect to receive a full business case (including a Net Present Value calculation), for a major capital project of this type;

d s9(2)(g)(i)

e **note** that Treasury does not support the refurbishment project or TVNZ's request for dividend relief; and

f **agree**, if Ministers are willing to consider TVNZ's request, to instead offer TVNZ dividend relief representing an estimated $24.1 million, as officials believe this amount more accurately reflects TVNZ's additional cash requirement for the planned refurbishment, based on TVNZ's expected financial performance and planned capital disposals.

Agree/disagree.
Minister of Finance

Agree/disagree.
Minister of Broadcasting

James Cunningham
Manager, Monitoring - Commercial

Hon Bill English
Minister of Finance

Hon Craig Foss
Minister of Broadcasting

Purpose of Report

1. The purpose of this report is to provide shareholding Ministers with background information to Television New Zealand Ltd's (TVNZ's) request for a temporary relaxation of the requirement to pay annual operating dividends, as contemplated in its Statement of Intent (SOI).

2. In the letter from TVNZ's Chair dated 15 August 2013, TVNZ has requested dividend relief of such amount as it will incur in capital expenditure to refurbish 100 Victoria Street West, Auckland. This is currently estimated at $36.6 million.

3. This report provides analysis of TVNZ's request and suggests an alternative option for consideration by Ministers. It includes a draft letter for shareholding Ministers to send to the Chair of TVNZ, outlining the measures required by Ministers in order for them to agree to provide temporary dividend relief to TVNZ, should you agree.

Background

4. TVNZ currently operates across two sites in Auckland, at 87 and 91 Hobson Street and 100 Victoria Street West (generally referred to as the Television Centre or TVC). These properties are next door to each other.

5. TVNZ is currently negotiating with the Sky City Entertainment Group Ltd (Sky City) to sell 87 and 91 Hobson Street, as Sky City wishes to obtain the land as part of the New Zealand International Convention Centre (NZICC) project. If the sale proceeds, TVNZ has advised that TVC would require major refurbishment, at an estimated total cost of $43.6 million.

6. The estimated total cost of $43.6 million is made up of capital expenditure and 'decamp' costs. The estimated cost of refurbishment is $36.6 million and was provided by independent quality surveyors. The work is expected to take place over two years.

7. The 'decamp' costs are estimated to be $7 million and represent the cost of temporary accommodation for the staff currently housed in 87 and 91 Hobson Street, as well as for staff from TVC who will be required to move out once the refurbishment work commences. This is over 500 staff in total and TVNZ proposes to rent space in the Telecom Tower on lower Victoria Street West for this purpose. This site has been selected due to its size, close proximity to TVC and good telecommunications connectivity.

8. As TVC operates on a 24/7 basis, the core broadcasting operations and the daily news programmes will need to be carefully managed throughout the refurbishment project to ensure there is no disruption to services.

9. TVNZ expects that consolidating its entire Auckland-based staff into a refurbished TVC would deliver intangible benefits that would enhance staff engagement and productivity, notwithstanding that there will be very significant disruption over the next 2-3 years.

Analysis

Refurbishment

10. In order to ensure that Best Practice is followed in the refurbishment process, Ministers have requested that the Property Management Centre of Expertise (PMCOE) is engaged to work with TVNZ. This process is underway.

Decamp

11. In total across the two sites, TVNZ has over 500 staff. In order to continue its 24/7 operations, the core broadcasting operations and the daily news programmes will need to be carefully managed throughout the refurbishment project to ensure there is no disruption to services.

12. Part of this management plan is to keep staff close to TVC. TVNZ proposes to rent space in the Telecom Tower on lower Victoria Street for this purpose. This site has been selected due to its size, close proximity to TVC and good telecommunications connectivity. In our view, this is an appropriate alternative site.

Dividend relief

13. TVNZ has requested dividend relief to cover the actual amount of capital expenditure required to refurbish TVC, which is currently estimated at $36.6 million. Based on TVNZ's forecast dividends in its SOI, this would mean that no dividends would be paid to the Crown during the period 2013/14 to 2015/16 inclusive. Dividends would resume in 2016/17 (in respect of TVNZ's operating profit from the 2015/16 income year).

14. As indicated in Table 1 below, it is estimated that $36.7 million of dividends would have been paid to the Crown during the period 2013/14 to 2015/16 inclusive. However, as TVNZ's dividend policy is based on net operating cash-flow, the exact timing of reaching the estimated capital expenditure amount of $36.6 million is subject to change based on TVNZ's financial performance.

Table 1 – Dividends forecast in TVNZ's 2013 Business Plan

$ million	**2013/14**	**2014/15**	**2015/16**	**Total**
Dividend	9.8	11.7	15.2	**36.7**

15. Although TVNZ has requested sufficient dividend relief to cover the full amount of the capital expenditure which it incurs on the refurbishment of TVC, we do not believe that TVNZ requires this extent of support. In our view, if dividend relief is to be granted, it should reflect the additional cash requirement faced by TVNZ as a result of the refurbishment. The expected cash-flows relating to the refurbishment and capital disposals planned by TVNZ are outlined in Table 2 below.

Table 2 – Cash-flows relating to capital projects

$ million	
Estimated refurbishment costs	(36.6)
Estimated 'decamp' costs	(7.0)
Estimated proceeds from sale of Hobson Street	11.5
Estimated proceeds from sale of Avalon facility	8.0
Additional cash requirement	**24.1**

16. If the above approach was adopted, the dividend relief provided would cover the period from 2013/14 to 2015/16. Table 3 below shows the annual breakdown. As noted previously, TVNZ's dividend policy is based on net operating cash-flow, so the exact timing is subject to change, but dividends would be expected to resume in 2015/16.

Table 3 – Dividend relief proposed by officials

$ million	**2013/14**	**2014/15**	**2015/16**	**Total**
Dividend	9.8	11.7	2.6	**24.1**

17. Therefore, although TVNZ has requested dividend relief to cover the full amount of the capital expenditure which it incurs on the refurbishment of TVC, shareholding Ministers may wish to initially offer TVNZ sufficient relief to cover the additional cash required by the refurbishment instead. The draft letter to the Chair included in this report has been drafted on this basis.

Capital Structure Review

18. In the most recent Expectations Letter to TVNZ (dated 20 December 2012), shareholding Ministers indicated that TVNZ was expected to operate with a capital structure commensurate with listed peers. The same message was also provided to the State-Owned Enterprises (SOEs) and COMU periodically commissions independent Capital Structure Reviews for the entities which it monitors. On 27 June 2013, when the Minister of Broadcasting initially raised the possibility of the Crown agreeing to forgo dividends for a period of time, reference was again made to TVNZ's Balance Sheet and capital requirements. Although no timeframe had been formally communicated to TVNZ, officials had been planning to engage with TVNZ on capital structure issues during the coming year.

19. During recent discussions and its letter of 15 August 2013 to shareholding Ministers, TVNZ has indicated that it would like any Capital Structure Review to be undertaken only at the end of the refurbishment process. In part this is because TVNZ wants to ensure that it can retain the extent of net operating profit it chooses, in order to fund the refurbishment of TVC and relocation costs. TVNZ also recognises that a major refurbishment will be time-consuming and require careful management, due to the 24/7 nature of its operations.

20. TVNZ has acknowledged that the expected cash-flows over the next three years (assuming all capital projects proceed) would result in an excess of cash and that, as a result, a special dividend may be declared at the end of that time.

21. It is arguable that the Capital Structure Review could be undertaken during the refurbishment process, as businesses face 'non-standard' issues on a regular basis. However, in our view, we believe the extent of the refurbishment project, including the relocation of over 500 staff and the major works required at TVC, makes undertaking a Capital Structure Review at the same time an unnecessary burden for TVNZ. Therefore, it would not be unreasonable to agree to TVNZ's request to delay the Capital Structure Review until the refurbishment is complete.

Financial Analysis

22. Providing dividend relief to a company to fund a capital project is effectively the same as providing it with a capital injection for the project. Either way the Crown has less cash available to it to spend on its other priorities.

23. For a capital project of this type, we would normally expect it to be supported by a full business case, setting out the costs and benefits of the project including a Net Present Value (NPV) calculation. We would generally expect the project to only proceed if it had a positive NPV, unless there were compelling intangible benefits. We have not been provided with a full Business Case, and nor have we been provided with an NPV calculation.

24. s9(2)(g)(i) [redacted]

s9(2)(g)(i)

25. In agreeing to provide the dividend relief to facilitate the project, shareholding Ministers should be aware that the project is effectively destroying approximately s9(2)(g)(i) of shareholder value. In addition, all else being equal, it will have a negative impact on TVNZ's profits due to the additional depreciation costs on 100 Victoria Street West and due to the cost of capital tied up in the project.

26. Based on the above analysis, Treasury does not support the refurbishment project or TVNZ's request for dividend relief.

Are there any other options?

27. TVNZ has previously considered the possibility of selling the TVC and relocating to a new purpose-built building in a less expensive part of Auckland. However, the cost of this was estimated to be above tens of millions of dollars and therefore prohibitive, and it would be likely to have an even lower NPV than the current proposal. Accordingly, we think the current proposal is preferable, notwithstanding that it too will have a negative NPV.

Risks

28. Any risk that TVNZ may have chosen to refurbish TVC to a higher standard (and at a higher cost) than the Crown may have expected should be mitigated by TVNZ's agreement to follow the process outlined by the Property Management Centre of Expertise.

29. The TVNZ Board may not wish to accept shareholding Ministers' initial offer of dividend relief to the extent of additional cash required for the refurbishment (expected to be equivalent to approximately two years of dividends) and may seek to discuss this further, with a view to achieving relief for the total actual refurbishment cost (expected to be equivalent to three years of dividends) as originally requested.

30. The Crown had included the dividends forecast in TVNZ's SOI for 2014, 2015 and 2016 in its revenue forecast. If the alternative dividend relief is provided and utilised, the Crown will receive \$9.8 million less revenue in 2014, \$11.7 million less in 2015, and \$2.6 million less in 2016, being a total of \$24.1 million less revenue than forecast.

31. Assuming the Crown has to borrow more to replace the expected dividend revenue, the financial implication of this decision is that net debt will increase by \$24.1 million.

Letter drafted but not sent

Mr Wayne Walden
Chair
Television New Zealand Ltd
PO Box 3819
AUCKLAND 1140

Dear Wayne Walden

Refurbishment of 100 Victoria Street West, Auckland

We understand that the Board wishes to invest in the refurbishment of 100 Victoria Street West, Auckland, at an estimated cost of $36.6 million. In order to do so, TVNZ is seeking a temporary relaxation of the requirement to pay annual operating dividends, as contemplated in Television New Zealand Ltd's (TVNZ's) Statement of Intent, to an amount equivalent to the total actual building refurbishment costs.

Shareholding Ministers are supportive of TVNZ making the investment in the refurbishment of 100 Victoria Street West, provided that TVNZ works with the Crown's Property Management Centre of Expertise, to ensure that best practice is followed. Please liaise with Suzy Morrissey in the Crown Ownership Monitoring Unit to ensure this requirement is met.

Subject to satisfaction of the condition above, shareholding Ministers agree to forgo dividends from the 2013/14 financial year, to a maximum amount equivalent to TVNZ's additional cash requirement, which we estimate at approximately $24.1 million. We believe this alternative proposal reflects TVNZ's need to retain surplus cash from operations, based on the timing of the proposed refurbishment work and its expected cash in-flows from capital disposals. These include the expected proceeds from the sale of 87 and 91 Hobson Street, Auckland to the Sky City Entertainment Group and another proposed land and building sale in Avalon, Wellington.

We also agree to defer the Capital Structure Review contemplated in the letter from the Minister of Broadcasting dated 27 June 2013. This is on the understanding that such a review will be undertaken at the conclusion of the refurbishment project and that should TVNZ be in a position of holding surplus cash at that time, such surplus cash will be distributed to the Crown.

We wish you all the best for your refurbishment project and would be grateful if you would include regular updates on the project in your Quarterly Reports.

Yours sincerely

Hon Bill English
Minister of Finance

Hon Craig Foss
Minister of Broadcasting