

# The Treasury

## Strategic Issues and Shareholder Expectations Letters Information Release

### Release Document

April 2015

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [3] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest
- [4] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [5] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [6] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [7] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



# Office of Hon Todd McClay

MP for Rotorua

Minister of Revenue

Minister for State Owned Enterprises

Associate Minister of Foreign Affairs

Associate Minister of Trade

19 DEC 2014

Simon Allen  
Chair  
Crown Fibre Holdings Limited  
PO Box 105321  
AUCKLAND 1143

Dear Mr Allen

## **2015/16 SHAREHOLDER EXPECTATIONS OF CROWN FIBRE HOLDINGS LTD**

I am writing on behalf of shareholding Ministers to set out our expectations and timetable for the business planning process within the 2015/16 financial year. These build on the expectations set out in previous years.

As you are aware, Crown Fibre Holdings' role is to implement the Government's Ultra-Fast Broadband (UFB) objective, which is to accelerate the roll-out of UFB to 75% of New Zealanders by 31 December 2019, concentrating in the first six years on priority broadband users such as businesses, schools and health services, plus Greenfield developments and certain tranches of residential areas (the "UFB Build Objective"). The Crown remains committed to the achievement of the UFB Build Objective.

### *Delivering the UFB Objective*

Ministers expect Crown Fibre Holdings will:

- Monitor the performance of the contracts with the Local Fibre Companies (LFCs) and Chorus Limited (Chorus) as they relate to investment, quality and timeliness of deployment of UFB, and delivery of UFB agreed products.
- Monitor the financial and operational performance of the LFCs and Chorus to the extent that there could be potential impacts on the rollout and/or the value of investments held.
- Monitor its cash flow and provide up-to-date cash flow forecasts with each capital call. Shareholding Ministers expect Crown Fibre Holdings to maintain a suitable investment policy which appropriately addresses counterparty risk.

If Crown Fibre Holdings receives requests to make, or initiates, changes to contracts with the LFCs and Chorus which involve policy issues or have any fiscal implications then we expect it will engage with Ministers, the Treasury, and the Ministry of Business, Innovation and Employment (MBIE) on these changes first.

Ministers expect Crown Fibre Holdings will continue to have a clear, but limited, role in encouraging uptake through:

- working with the MBIE to develop a work programme to address any supply side barriers to UFB uptake,
- working with LFCs and Chorus around deployment of UFB to priority users,
- encouraging interaction with local Government around fibre deployment, and with Central Government initiatives,
- encouraging discussions between Chorus, LFCs and other utility providers to achieve efficiencies in relation to deployment, and
- generally promoting UFB by talking to business/industry groups, Retail Service Providers (RSPs) and others.

#### *Broadband Programme Extensions*

Following the Government's policy announcements which included the extension of the UFB initiative from a target of 75 percent to 80 percent of New Zealanders and expanding the Rural Broadband Initiative (RBI), we welcome assistance from Crown Fibre Holdings in advising options for the implementation of these policies, building on lessons already learnt. This should not detract focus from your existing mandate.

#### *Performance improvement and material changes in Statement of Performance Expectations forecast*

As the Government is committed to achieving surplus, shareholding Ministers expect Crown Fibre Holdings to continue to:

- set tight, but realistic, operating budgets and manage within those budgets,
- have realistic pay and employment conditions,
- consider how Crown Fibre Holdings' operations can be undertaken in the most efficient and cost effective manner, and how its role and operational expenditure can reduce over time as the UFB deployment proceeds and key targets are met, and
- quantify any risk and advise officials on a timely basis if below-forecast performance is expected.

#### *Capital injections*

There is a high threshold for the Crown to approve any new capital injections beyond the current \$1.345 billion appropriated for the existing programme. Capital injections for the announced extensions to UFB and RBI programmes will be considered separately by Ministers.

#### *Non-Crown debt assurance*

Should you undertake any borrowing, please ensure that all lenders are specifically made aware that borrowing by the company does not represent Crown debt, and accordingly is not guaranteed by the Crown.

## **Timeline**

*Annex 1* to this letter provides the 2015/16 business planning timetable.

## **Engagement**

Should you wish to discuss the contents of this letter, please make arrangements with your Treasury relationship managers, [1]

[1] Alternatively, please contact Fiona Chan (Manager, Governance and Performance on 04 917 6103).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Todd McClay', with a horizontal line underneath the name.

Hon Todd McClay  
**Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc: Graham Mitchell, Chief Executive, Crown Fibre Holdings Ltd

## Annex 1

### Timeline

Below is the normal business planning timetable with the final Statement of Performance Expectations (SPE) and if applicable, Statement of Intent (SOI) due to be received by 1 July 2015.

A reminder that following the 2013 amendments to the Crown Entities Act 2004, SOIs are strategic documents that must cover at least four years. They can remain in place for up to three years, but the responsible Minister can ask for a new SOI at any time. The SPE is an annual document that sets out the annual performance expectations, and provides a base for assessing performance.

Guidance on the content and timing for SOIs and SPEs is available at [www.treasury.govt.nz/publications/guidance/strategy](http://www.treasury.govt.nz/publications/guidance/strategy).

### Key dates for 2015/16

<i>Due date</i>	<i>Key action</i>
27 February	Board sends strategic issues letter to Ministers
1 May	Board submits draft SPE (and if applicable, an SOI)
30 June	Board delivers final SPE to shareholding Ministers (and if applicable, an SOI)

Crown Fibre Holdings is expected to provide shareholding Ministers with a *strategic issues letter*, by **27 February 2015**, setting out the key strategic issues facing the company. Should your company wish to engage with shareholding Ministers to seek clarification, we would ask that you advise Treasury as early as possible of such intentions.

Crown Fibre Holdings is expected to provide shareholding Ministers with a draft SPE (and if applicable, an SOI), consistent with shareholding Ministers' expectations as detailed in this letter, by 1 May 2015.

Shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.

Further guidance can be found in the Owner's Expectations Manual, via the Treasury Commercial Operations website. Here is a link to the site:

<http://www.treasury.govt.nz/commercial/publications/guidance/owners-expectations-manual>.