

# The Treasury

## Shareholder Expectations Letters Information Release

### Release Document

April 2019

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# Rt Hon Winston Peters

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## Deputy Prime Minister

Minister of Foreign Affairs

Minister for Disarmament and Arms Control

Minister for State Owned Enterprises

Minister for Racing



25 FEB 2019

Mr Simon Allen  
Chair  
Crown Infrastructure Partners Ltd  
PO Box 105321  
Auckland City  
AUCKLAND 1143

Dear Mr Allen

## **2019/20 SHAREHOLDER EXPECTATIONS OF CROWN INFRASTRUCTURE PARTNERS LTD**

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Crown Infrastructure Partners (CIP) to address in the business planning process for the 2019/20 financial year.

The Government remains committed to resolving key long-term challenges facing the country including sustainable economic development, increasing exports, decent jobs paying higher wages, a healthy environment, a fair society and good government.

Ministers expect that the Boards of entities that comprise the Crown's Commercial Portfolio will support the Government to resolve these challenges by continuing to maximise the value of the portfolio through improved financial performance and effective capital management.

This letter contains the following information:

- Ministers' specific expectations for CIP, and
- General expectations for the Crown's Commercial Portfolio
- Timetable for the Business Planning Process for 2019/20 (Annex 1).

Although some of the general expectations are highlighted below, the full expectations for the Crown's Commercial Portfolio companies are contained in the Owner's Expectations Manual (OEM). The OEM, and updates, can be found on the Treasury's website <https://treasury.govt.nz/publications/guide/owners-expectations-manual>

Ministers expect that directors and the management of the companies will be familiar with the OEM to ensure shareholder expectations are being met. Attached to this letter is the timeline for the 2019/20 business planning process.

## **Specific Expectations for Crown Infrastructure Partners**

The re-purposing of Crown Fibre Holdings into CIP in 2017 represented a new direction for the company. The expanded scope of the company required CIP to investigate and implement commercial models, including those that enable co-investment from the private sector, or any other sector, to achieve the Government's objectives for the deployment of water and roading infrastructure to support the timely increase of housing supply, in addition to its existing obligations relating to broadband.

### **Broadband Programmes**

#### *Ultra-Fast Broadband (UFB)*

Ministers expect CIP will continue to:

- 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 CIP to maintain a suitable investment policy which appropriately addresses counterparty risk
- be proactive in continuing to monitor end users' experiences and raising issues in a timely manner.

If CIP intends changes to contracts with the LFCs or Chorus that involve policy issues or have any fiscal implications, then we expect you will engage with Ministers, the Treasury, and the Ministry of Business, Innovation and Employment (MBIE) on these changes first.

Ministers expect CIP will continue to have a clear, but limited, role in supporting uptake through:

- working with the LFCs and Chorus around deployment, with a focus on quality and timeliness of connections
- encouraging discussions between Chorus, the LFCs and other utility providers to achieve efficiencies in relation to deployment
- generally promoting UFB by engaging with business/industry groups, retail service providers and others.

#### *Regional Digital Connectivity (RBI2, MBS and other initiatives)*

Ministers appreciate the work CIP has undertaken to progress the Rural Broadband Initiative Phase Two (RBI2) and Mobile Black Spot (MBS) programmes. As you are aware, we have considered options to expand and enhance these programmes.

Ministers expect CIP to actively work with MBIE to provide the necessary technical and commercial expertise to input into its policy advice, as well as providing information directly to Ministers when required. Ministers may periodically request that CIP carries out studies on connectivity solutions to inform this policy work.

A total of \$105 million of existing CIP funding and \$40 million of Provincial Growth Fund (PGF) funding has been contracted for expansion of the RBI2 and MBSF programmes. A further \$40 million from the PGF has been allocated for the West Coast/Southland network upgrade which are being coordinated by CIP. Ministers expect that CIP will work closely with MBIE to advise Ministers on the coverage and other aspects of service delivery that is being achieved with this funding.

Where engaged CIP will support the PGF local digital connectivity programme by contracting with service providers to connect Marae and Regional Digital Hubs and negotiating bulk purchase of digital devices to be provided to Marae and Regional Digital Hubs.

Where engaged CIP will provide advice to emergency services on their next generation critical communication programmes.

Ministers expect CIP to continue its engagement with local communities and keep Ministers informed of opportunities to accelerate and expand connectivity.

### **The Bulk Housing Infrastructure (BHI) Programme**

We appreciate the work that CIP has undertaken to progress the BHI contractual model with the pilot BHI project having reached contractual and financial close.

Ministers expects that CIP will:

1. Roll out the BHI contractual model across high growth centres
2. Work with Treasury on the evolution of the BHI contractual model through the Infrastructure Funding and Financing Programme

#### *Roll out the BHI contractual model across high growth centres*

We now expect further BHI projects to be rolled out using the contractual model that has been created (or variations of the model), and continue to support the acceleration of the provision of housing.

In particular, we expect CIP to:

- liaise with Councils who are facing constraints in their ability to invest in infrastructure to enable housing growth and create a pipeline of suitable projects. The participating Councils should include Auckland, Hamilton, Tauranga, Queenstown and can extend, but is not limited to, other growing Councils such as Wellington, Christchurch, Palmerston North, New Plymouth, Nelson and Dunedin
- identify, negotiate and agree facilitation, financing and funding arrangements
- conduct lessons learnt exercises with regard to how its commercial model has performed on its BHI projects, incorporating any developments and enhancements for subsequent projects

*Work with Treasury on the evolution of the BHI contractual model through the Infrastructure Funding and Financing Programme*

The Infrastructure Funding and Financing Programme (IFF) is part of this Government's Urban Growth Agenda (UGA). The objective of IFF is to improve housing affordability, by enabling responsive infrastructure provision and appropriate cost allocation, including the use of project financing and access to financial capital. The primary focus of the IFF work is on alternative financing models and on evolving the BHI contractual model into a legislative model. This will remove some of the limitations of the BHI contractual model; enabling alternative financing models to be applied to a broader range of infrastructure projects whilst limiting the impact on the balance sheet of the Crown and local authorities.

The planned BHI legislative model includes the need for a Crown owned entity to facilitate and recommend infrastructure projects for the legislative model. The Crown owned entity will assess the feasibility of projects, facilitate the negotiations between the developer, local authority, contractors, financiers, the Crown and other parties and recommend the use of legislative powers. In addition, the Crown owned entity will deal with any funding and financing issues that may arise during the life of the project.

At this stage, our expectation is that this role will be fulfilled by CIP. As part of this process, we expect that consideration of the optimal structure of CIP will be required to ensure CIP is well-placed to deliver on the proposed new infrastructure functions.

We have instructed Treasury to keep the CIP Board and management informed of the ongoing IFF programme before any final policy decisions on functions/forms are decided to assist in any potential change. In the interim, and as noted above, CIP should maintain momentum through rolling out the BHI contractual model.

Ministers expect CIP to monitor and report on these programmes in a similar way as it does for the UFB programmes. The CIP 2019/20 SPE should include appropriate specific measures for the RBI2 and MBS programmes and the BHI programme.

### **Performance improvement**

We expect CIP to:

- set tight, but realistic, operating budgets and manage within those budgets
- create a robust resourcing plan for the delivery of the BHI programme
- apply learnings from its BHI projects to continually enhance its commercial models
- have realistic pay and employment conditions
- consider how CIP operations can be undertaken in the most efficient and effective manner taking into account its dual role, and how its role and operational expenditure can reduce over time as the broadband infrastructure deployments proceed and key targets are met
- advise the Crown of any opportunities to prudently exit from UFB investments.

### **General expectations**

Expectations for *Significant Capital Investment* and *Board Evaluations*, which were previously included in this letter, have now been included in the OEM update, July 2018.

### *Capital structure*

Ministers expect that the Board will periodically review the capital structure of the entity to ensure that it is:

- (i) appropriate for the entity; and
- (ii) any borrowing is maintained at a prudent level.

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

CIP is expected to return any surplus capital to the Crown so that it may be used to fund other Crown priorities.

### *Commercial valuations*

Ministers place significant reliance on the Board's estimate of CIP's commercial value. We expect these valuations to be robust, and to be either prepared or reviewed independently, where appropriate. The review should include the reviewer's view of key assumptions included in the model. Guidance on the commercial preparation and disclosure is provided in Annex 2 of the OEM.

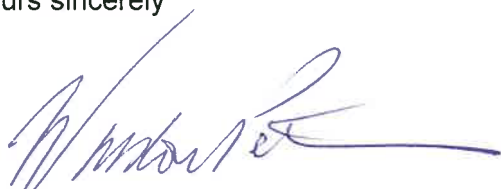
### *Diversity*

Consistent with government support for increased diversity and gender balance on Boards, entities are encouraged to support diversity and inclusion in the workplace and in leadership.

## **Engagement**

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions please contact Jean-Marc Petit (on [6] \_\_\_\_\_) or Juston Anderson (on [6] \_\_\_\_\_).

Yours sincerely



Rt Hon Winston Peters  
**Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc: Graham Mitchell, CEO, Crown Infrastructure Partners Ltd  
Sean Wynne, Deputy CEO – Bulk Infrastructure, Crown Infrastructure Partners Ltd

## Annex 1

### *Timetable for the Business Planning Process for 2019/20*

Table 1: Summary timetable for the Business Planning Process

<i>Due by</i>	<i>Key Action</i>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
Thursday, 28 February	Board sends Strategic Issues letter to Ministers
Tuesday, 30 April	Board submits draft SOI (if required), SPE and business plan
Friday, 28 June	Board delivers final SOI (if required) and SPE to shareholding Ministers
As soon as practicable after delivery of the final SOI to Ministers	Company to publish SOI on its website

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **Friday, 8 March 2019** in response to the Letter of Expectations. Should your company wish to engage with shareholding Ministers to seek clarification around their expectations, we would ask that you advise the Treasury as early as possible of such intentions.

Entities are expected to provide shareholding Ministers with a draft SOI (if required), SPE and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Tuesday, 30 April 2019**.

The final SOI (if required) and SPE should be delivered to shareholding Ministers on or before **Friday, 28 June 2019**.

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

Further guidance on the timetable is contained in section 5.6.4 of the OEM. The OEM is available from the Treasury's website.