

The Treasury

Letters of Expectation Information Release

August 2021

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[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Hon Dr David Clark

MP for Dunedin

Minister of Commerce and Consumer Affairs
Minister for the Digital Economy and Communications
Minister for State Owned Enterprises
Minister of Statistics
Minister Responsible for the Earthquake Commission



Mr Mark Binns
Chair
Crown Infrastructure Partners Limited
PO Box 105321
AUCKLAND 1143

Dear Mark,

2021/22 OWNER EXPECTATIONS FOR CROWN INFRASTRUCTURE PARTNERS LIMITED

I am writing to outline the matters that we expect your board to address in the 2021/22 business planning round.

Government priorities and the response to COVID-19

The COVID-19 pandemic brought unexpected challenges for all New Zealanders. The response to COVID-19 will be of central importance in the coming year. The Government has three overarching objectives: continuing our health response to keep New Zealanders safe from the virus, accelerating the economic recovery from COVID-19 and laying the foundations for a more sustainable and equitable future.

Investing in critical infrastructure and public services will be important to our economic recovery, along with a focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality in light of the challenges caused by climate change. The Government will also be focused on supporting small businesses, training and job creation opportunities for workers and businesses, and delivering programmes to bolster New Zealand's exports.

Companies and entities that are owned by the Crown will play a role in supporting the response to COVID-19 and social and economic recovery. During 2020 Crown entity and company boards outlined the challenges that they have faced and the strategies that boards have adopted to respond. We expect that you will continue to advise Ministers this year, well in advance of any emerging issues.

The responsible management of Crown-owned company assets and finances, including sound investment and careful control of debt, can also make an important contribution to the COVID-19 recovery ambitions of New Zealanders.

Through the evolving and uncertain COVID-19 environment, we expect that you will continue to focus on your ongoing viability and provision of goods and services. In doing so, we ask that you consider the impact of your decisions on your staff and suppliers.

This letter contains the following information:

- Ministers' specific expectations for Crown Infrastructure Partners Limited (CIP);
- general expectations for companies and entities owned by the Crown; and

- timeline for the 2021/22 business planning process and governance information (Annex 1).

Entity-specific expectations

Maintaining focus on core functions, and working with officials

Ministers expect CIP to focus on delivering its core functions, and on meeting the expectations outlined in this letter. CIP is a delivery agent for Government policy, and should work with the relevant policy agencies, and with the Treasury's National Infrastructure Unit (NIU) and Housing and Urban Growth (HUG) teams, to ensure broader policy considerations are being accounted for in the delivery of its work programmes, and before management puts new proposals to Ministers. In this context, CIP should work closely with:

- the Ministry of Business, Innovation and Employment (MBIE) as the policy leaders for digital connectivity;
- the Ministry of Housing and Urban Development (MHUD) as the policy leaders for housing infrastructure, and the Treasury's HUG team;
- the Department of Internal Affairs (DIA) as the policy lead for 3 Waters Reform,
- New Zealand Police as the policy lead for the Public Safety Network (PSN) programme; and
- the Treasury's NIU team as the policy leaders for the shovel-ready projects programme.

The Treasury's Commercial Performance team, in representing the Crown's ownership interest in CIP, should be consulted where funding issues emerge in CIP's work, or where CIP may be required to deliver work which sits outside its core functions and the expectations outlined in the letter.

Shovel-ready projects

Ministers expect CIP to focus on executing its roles in relation to shovel-ready projects (programme oversight and project funding/monitoring), as outlined in the following letters:

- 24 July 2020: A letter from the Minister of Infrastructure outlining ministerial expectations and instructions for the delivery of CIP's shovel-ready project functions; and
- 6 August 2020: A letter from the Minister of Finance outlining expectations for seeking final project approvals from Infrastructure Reference Group Ministers.

CIP should engage with the Treasury as it delivers its work, ensuring officials have the requisite information to provide advice to IRG Ministers on how well the programme is delivering the desired outcomes, and to shareholding Minister on how well CIP is meeting performance measures in the SPE. When developing its accountability documents, CIP should also seek and consider feedback from the Treasury in designing performance measures for its work on this programme.

CIP's role to date in advising Ministers on matters relating to shovel-ready projects has been important. However, as the shovel-ready project programme moves from the 'Contracting Phase' to the 'Delivery and Monitoring' phase, we expect a return to normal engagement practice. This includes meaningfully engaging with the Treasury as matters are brought to the attention of IRG Ministers.

Where issues emerge due to shovel-ready projects being affected by changes to the Resource Management Act, it is expected that CIP will play a central role in coordinating the response to those issues. We expect CIP to consult with the Treasury when advising IRG Ministers on these matters.

CIP should carefully manage operational spending in relation to its shovel-ready project roles, minimising costs where possible. We note that CIP's resourcing model relies heavily on third party support, and we expect management to remain focused on achieving a resourcing mix that balances the delivery of programme objectives, the management of costs and the retention of capability and knowledge.

Where CIP invests Crown funding provided for shovel-ready projects, CIP should utilise any returns made on those investments to reduce the need for the Crown to provide CIP with operating funding. Additionally, where funding is provided to a Project Owner in the form of a loan, Ministers expect CIP to use loan repayments to reduce the need for the Crown to provide CIP with operating funding. If repaid loan amounts exceed operating funding requirements, we expect CIP to engage Treasury officials to discuss these surpluses in the first instance. We may request that the surpluses are returned to the Crown for use on other priorities.

Where funding gaps emerge (i.e. where allocated funding is forecast to fall short of what is required to cover commitments to Project Owners), CIP should raise this with the Treasury in the first instance, and then with IRG Ministers.

The broadband programme

Delivering the UFB objectives

Ministers expect CIP will continue to:

- Monitor the pricing caps, specified products and service levels required by both UFB1 and UFB2 contracts consistent with the requirements of the Telecommunications Act 2001, as well as continuing to monitor investment, quality and timeliness of deployment under UFB contracts with Local Fibre Companies (LFCs) and Chorus.
- Monitor the financial and operational performance of the LFCs and Chorus to the extent that there could be potential impacts on the infrastructure deployment and/or the value of investments held.
- Monitor its cash flow and provide up-to-date cash flow forecasts (which includes identifying the amount of funding returned by network partners, and whether this funding is to be held as CIP reserves or to be paid back to the Crown). Shareholding Ministers expect CIP to maintain a suitable investment policy which appropriately addresses counterparty risk.

Ministers expect CIP to work closely with MBIE and Treasury officials in ensuring there is a strong policy rationale and efficient commercial basis for expanding the capacity or upgrading the capability of publicly funded digital infrastructure in the future, beyond the applicable initial contract periods, to meet demand during the functional life of the infrastructure assets. Ministers also expect CIP to ensure that inadvertent infrastructure 'overbuild' is kept to the minimum necessary to achieve infrastructure programme service objectives.

CIP is expected to work with Treasury officials to understand how its role, operational expenditure and resource allocations will adjust to align with changes to the UFB and other digital connectivity programmes as these are completed over time. CIP should also keep Treasury officials informed of any opportunities to prudently exit from UFB investments, and to work closely with officials to return these funds to the Crown where possible.

Regional Digital Connectivity (RBI2, MBSF and other initiatives)

Ministers expect CIP will continue implementing:

- the Rural Broadband Initiative phase two/Mobile Black Spots Fund (RBI2/MBSF) programme, including its expansion;
- the West Coast and Southland fibre links deployment;
- the marae digital connectivity programme;
- additional West Coast Provincial Growth Fund-funded broadband and mobile deployment;
- the rural capacity upgrades programme; and
- the Infrastructure Reference Group digital connectivity programme,

We expect CIP to do this in close collaboration with relevant MBIE, Provincial Development Unit and Te Puni Kokiri officials. Ministers expect that CIP will continue to provide quarterly updates on this work.

Ministers expect CIP to continue working closely with the Rural Connectivity Group and regional wireless internet service providers, and to continue its engagement with local communities, in the deployment of regional digital infrastructure. CIP should be proactive in addressing issues raised at a community level, and to identify opportunities to accelerate and expand connectivity. Ministers expect that CIP will continue to provide quarterly updates on this work.

In the event that further funding or other new initiatives are announced for digital connectivity improvements, we expect CIP to meaningfully engage with MBIE officials before bringing proposals to Ministers, ensuring that broader communications policy objectives are being considered.

Other connectivity programmes

CIP is a delivery partner for the PSN programme, responsible for managing procurement and delivery of radio and cellular network infrastructure. CIP should provide quarterly updates on this work, consistent with CIP's wider reporting on the PSN programme to the PSN lead agency and executive governance board.

CIP should seek and consider feedback from New Zealand Police in developing PSN-related performance measures for inclusion in its accountability documents. We also expect CIP to engage with the Treasury prior to any proposed significant change in CIP's role in the PSN programme being agreed.

Infrastructure funding and financing

The Infrastructure Funding and Financing Act 2020 (the IFF Act) received Royal assent in August 2020. The Act enables the new Infrastructure Levy Model (the model) for funding the delivery of infrastructure projects for housing and urban development.

CIP has been identified to undertake a facilitation function to assist in the development of levy proposals. In undertaking this role we expect that CIP structure levy proposals to be feasibly commercial, facilitate competitive infrastructure procurement practices, ensure all parties are involved at the relevant stages, and aid in the development of levy proposals. In carrying out this work, Ministers expect CIP to:

- Take a 'whole of system' approach throughout the facilitation process to ensure decisions made under the model are timely, evidence based, and reflect level of risk agreed between CIP and officials. This will include engaging collaboratively with councils, developers, officials, and any other relevant parties.
- Provide to stakeholders, the MHUD, the Treasury and other government departments, in a timely fashion when requested, any information that is of relevance to development of second opinion advice or for monitoring purposes under the model.
- Proactively develop and share outward-facing guidance for relevant parties so that they can understand how to engage CIP, the model's processes and the types of outcomes that the model can deliver.
- Incorporate guidance and feedback from the Treasury, the MHUD and other stakeholders, into its facilitation approach.

3 Waters Reform

The 3 Waters Reform programme is being led by DIA, with CIP playing a supporting role. Ministers expect a high degree of collaboration between CIP management and personnel, and DIA as CIP's monitoring and reporting role begins in December 2020.

In particular, we expect CIP to consider:

- the appropriate level of due diligence to be carried out by CIP in relation to both delivery plan reporting and council milestones; and
- appropriate quarterly reporting on delivery plans.

Noting the importance of local government buy-in to the success of the 3 Waters Reform programme, and partnership approach, Ministers expect CIP to cultivate strong working collaborative tripartite relationships with Councils and DIA. Ministers also expect CIP to proactively engage DIA where it appears relationship issues are emerging.

General expectations

The Treasury released an updated Owner's Expectations document in April 2020 (www.treasury.govt.nz/publications/guide/owners-expectations). The document sets out Ministers' expectations on matters such as information-sharing and engagement with the Treasury, board evaluations, thresholds for consultation or approvals for significant investments, and timeframes for reporting and business planning documents. Some key expectations are reiterated in this letter below.

We ask that you circulate this document to all directors on your board so that they are aware of and understand the frameworks and expectations unique to Crown companies and entities.

Well-being focus

Ministers expect all boards to be cognisant of the Government's focus on well-being. The Government's wellbeing approach is based on a balance of the four capitals in the Treasury Living Standards Framework – Financial, Human, Natural and Social Capital. Boards should consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting. In this respect, some important aspects include corporate social responsibility and acting as a good employer, particularly if boards need to make decisions to respond to commercial or financial challenges such as the impact of COVID-19.

Capital structure

Boards should consider Ministers' comments during the annual business planning round when setting their desired capital structure, level of future reinvestment, and capital expenditure.

Disclosure of senior management remuneration

Ministers acknowledge that the board is involved in setting the remuneration for the executive team. We expect that remuneration will be appropriately linked to performance and set at a level sufficient to attract and retain the necessary skills within the executive to enable Crown companies and entities to operate successfully.

At the same time, we expect boards to adopt good practice disclosure when reporting on senior management remuneration and, if required, to be able to justify publicly the remuneration decisions that they have made. Shareholding Ministers remain focused on executive remuneration being communicated transparently, and we expect to see this reflected in detailed disclosures in your annual report. We intend to give feedback on the disclosures in your 2019/20 annual report soon.

Supporting diversity

Consistent with the Government's support for diversity and gender balance on boards, boards are encouraged to support diversity and inclusion in the workplace and in leadership teams.

Board performance evaluations

Performance evaluations help boards to improve performance and contribute to the Treasury's advice to Ministers on board composition. We expect that evaluations will now take place annually and should ideally be conducted by an independent evaluator.

No surprises

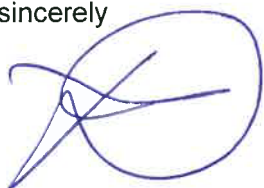
Ministers expect to be informed well in advance of any material or significant events relating to your company, whether positive or negative. The Owner's Expectations document provides some examples of matters that could fall within the 'no surprises' policy.

In particular, boards should inform Ministers' offices before the announcement of all financial results, and before appearances in front of select committees.

Further information

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 Mark O'Regan (on [39]) . Alternatively, you can contact Juston Anderson, Acting Manager, Commercial Performance (on [39])

Yours sincerely



Hon Dr David Clark
Minister of State Owned Enterprises
on behalf of shareholding Ministers

cc: Graham Mitchel, CEO, Crown Infrastructure Partners Limited,
[23]

Annex 1

Timetable for the Business Planning Process for 2021/22

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
26 February	Board sends Strategic Issues letter to Ministers
30 April	Board submits draft Statement of Intent (SOI) if required, Statement of Performance Expectations (SPE) and business plan
28 May	Board provides advice on: <ul style="list-style-type: none">• whether special fees are sought for 2021/22;• the professional development spend in 2020/21 and the proposed professional development budget for 2021/22; and• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.
30 June	Board delivers final SOI (if required) and SPE to shareholding Ministers
As soon as practicable after delivery of the final SOI (if required) and SPE to Ministers	Entity to publish SOI (if required) and SPE on its website

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **26 February 2021** in response to the Letter of Expectations. Should your entity 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 **30 April 2021**.

The final SOI (if required) and SPE should be delivered to shareholding Ministers on or before **30 June 2021**.

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

Further information is available in the Owner's Expectations document (www.treasury.govt.nz/publications/guide/owners-expectations).