

Briefing to Incoming Minister Information Release

Release Document

December 2017

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- [1] 9(2)(k) – to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above.

30 October 2017

Rt Hon Winston Peters
Minister for State Owned Enterprises

Hon Grant Robertson
Minister of Finance



Briefing for the Incoming Shareholding Ministers in the State-Owned Enterprises portfolio

Congratulations on your appointment. I am looking forward to supporting you both as shareholding Ministers in the State-Owned Enterprises portfolio, to help you achieve your priorities as an incoming Government.

The attached briefing gives you a summary of your role, and the responsibilities and the processes that come with it. It also sets out the support we can provide you, as well as some information about the Treasury itself.

There are some key decisions we believe you will need to focus on in the next couple of months.

KiwiRail

In the coalition agreement, the Government has outlined increasing investment in regional rail and providing rail with access to National Land Transport Fund spending. The previous Government directed the Treasury to undertake a review of KiwiRail's long-term investment decisions, capital requirements and funding mechanisms and structure. We believe the current scope of the review will broadly support your initiatives and that the review should continue. We would welcome the opportunity for an early conversation on the Government's objectives for KiwiRail and the future of the review, including any adjustments to its focus, scope and timing.

Crown Infrastructure Partners investing in housing infrastructure

The Treasury is working with Crown Infrastructure Partners (CIP), a re-purposed and renamed Crown Fibre Holdings Ltd, to design the commercial aspects of a model for the Crown to partner with local councils to invest on commercial terms in the road and water infrastructure required to support housing development in high growth areas (eg, Auckland, Hamilton, Tauranga and Queenstown). The CIP Board has been asked to report back to its shareholding Ministers in October/November 2017.

Wind down of Solid Energy and handover of the Pike River Mine

Solid Energy went into voluntary administration in September 2015. Since then it has been working towards selling as many assets as possible before going into a solvent liquidation, which is scheduled for March 2018. As of 1 September 2017, most of the mines have been sold including the largest mine, Stockton, which was sold to BT Mining Limited (BT), a joint venture between Bathurst Resources and Talleys. We expect that shareholding Ministers may be asked to make decisions on handover arrangements for the Pike River Mine, along with the management of other residual liabilities of the company. The Ministry of Business, Innovation and Employment is leading post-election advice on the future of the Pike River Mine (with the assistance of the Department of Conservation and the Treasury), including advice on establishment of a new entity, and management of the mine site after Solid Energy's liquidation.

Landcorp Farming strategy and dividends

Landcorp Farming's initial 2017/18 Statement of Corporate Intent and business plan was not approved by shareholding Ministers owing to: (i) proposed significant changes to the company's strategy; and (ii) Landcorp Farming was not forecasting to pay dividends over the period to 2020. The Treasury will report to shareholding Ministers on Landcorp Farming's revised 2017/18 Statement of Corporate Intent in the month of November.

Board appointments

The Treasury is currently preparing for the April 2018 appointments round for vacancies on the boards of companies in the commercial portfolio. The Treasury will report to shareholding Ministers on the commencement of this process during November.

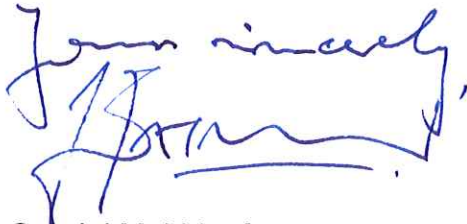
Capital management in the portfolio

In due course we would like to talk to you about whether we should adopt a more active approach to capital management in the portfolio. Currently, many companies have dividend policies which allow them to reinvest large amounts of capital into the company. This has the effect of increasing the Crown's exposure to these companies without the benefit of an explicit government decision, and with no opportunity to

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consider whether there is a better use for the funds. Ideally, a conversation with you would take place prior to the next business planning round, which will commence in late 2017 when we report to you with draft Letters of Expectation for the companies in the portfolio.

We look forward to discussing these issues with you.

A handwritten signature in blue ink, appearing to read 'Gabriel Makhoul', with a stylized flourish at the end.

Gabriel Makhoul

Please note that the Treasury will provide a copy of this briefing (under a separate cover letter) to the Ministers listed below, in their capacity as shareholding Ministers for Crown companies that are also monitored by the Treasury as part of its commercial portfolio.

*Hon Dr Megan Woods
Minister for Greater Christchurch Regeneration (Ōtākaro Ltd)
Minister of Research, Science and Innovation (REANNZ)
Minister Responsible for the Earthquake Commission (EQC, Southern Response)*

*Hon Chris Hipkins
Minister of Education (Education Payroll and Network for Learning)*

*Hon Andrew Little
Minister of Justice (Public Trust)*

*Hon David Parker
Minister for Economic Development (NZ Venture Investment Fund)*

*Hon Damien O'Connor
Minister of Agriculture (Animal Control Products Ltd, Crown Irrigation)*

*Hon Clare Curran
Minister of Broadcasting, Communications and Digital Media (TVNZ, RNZ)*

31 October 2017

Hon Dr Megan Woods
Minister for Greater Christchurch Regeneration
Minister of Research, Science and Innovation
Minister Responsible for the Earthquake Commission



Briefing for Incoming Shareholding Ministers

Congratulations on your appointment. I am looking forward to supporting you as shareholding Minister in Crown companies that are monitored by the Treasury.

The attached briefing, which has been drafted primarily for the State-Owned Enterprises portfolio, has been copied to you because it provides useful information on your role and responsibilities as a shareholding Minister for Ōtākaro Ltd, the Earthquake Commission, Southern Response and REANNZ. It explains the appointments and business planning processes for Crown companies. It also sets out the support we can provide you, as well as some information about the Treasury itself.

The information in this briefing is largely generic, and applies across the portfolio of commercial companies monitored by the Treasury. For the issues that you may need to focus on in the next few months:

- the DPMC's greater Christchurch group will lead the briefing process on issues associated with Ōtākaro Ltd's anchor projects
- a separate briefing has been provided by the Treasury on the Earthquake Commission, and advice is also being provided on Southern Response;
- we see no immediate issues arising for REANNZ, and will be in contact with you later in 2017, when we propose to commence the business planning round.

We look forward to working with you.



Gabriel Makhlouf

31 October 2017

Hon Chris Hipkins
Minister of Education




Briefing for Incoming Shareholding Ministers

Congratulations on your appointment. I am looking forward to supporting you as the shareholding Minister for Education Payroll Limited and Network for Learning Limited.

The attached briefing, which has been drafted primarily for the State-Owned Enterprises portfolio, has been copied to you because it provides useful information on your role and responsibilities as a shareholding Minister. It summarises the appointments and business planning processes, and sets out the support we can provide you, as well as some information about the Treasury itself.

We are not aware of any issues relating to these entities that will require your immediate attention. We will be in contact with you later in 2017, when we propose to commence the business planning round.

We look forward to working with you.



Gabriel Makhlouf

31 October 2017

Hon Andrew Little
Minister of Justice



Briefing for Incoming Shareholding Ministers

Congratulations on your appointment. I am looking forward to supporting you as the Minister responsible for Public Trust.

The attached briefing, which has been drafted primarily for the State-Owned Enterprises portfolio, has been copied to you because it provides useful information on the role and responsibilities of Ministers who are responsible for Crown companies. It summarises the appointments and business planning processes, and sets out the support we can provide you, as well as some information about the Treasury itself.

While Public Trust is a statutory entity, rather than a company, its legislation gives it objectives that are very similar to those of the State-Owned Enterprises, including for example to operate as an effective business.

There are no policy issues relating to Public Trust that require your immediate attention. In due course, however, we look forward to briefing you on the company's business strategy and performance, and discussing issues around the Crown's guarantee of the Public Trust's common fund.

We look forward to working with you.



Gabriel Makhlouf

31 October 2017

Hon David Parker
Minister for Economic Development



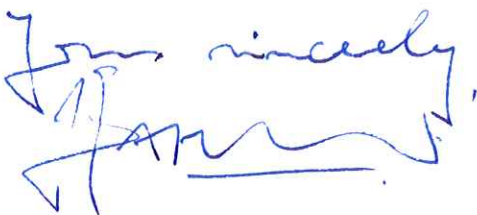
Briefing for Incoming Shareholding Ministers

Congratulations on your appointment. I am looking forward to supporting you as the shareholding Minister for the New Zealand Venture Investment Fund.

The attached briefing, which has been drafted primarily for the State-Owned Enterprises portfolio, has been copied to you because it provides useful information on your role and responsibilities as a shareholding Minister. It summarises the appointments and business planning processes, and sets out the support we can provide you, as well as some information about the Treasury itself.

We are not aware of any issues relating to this entity that will require your immediate attention. We will be in contact with you later in 2017, when we propose to commence the business planning round.

We look forward to working with you.



Gabriel Makhlouf

31 October 2017

Hon Damien O'Connor
Minister of Agriculture



Briefing for Incoming Shareholding Ministers

Congratulations on your appointment. I am looking forward to supporting you as shareholding Minister in Animal Control Products Limited and Crown Irrigation Investments Limited.

The attached briefing, which has been drafted primarily for the State-Owned Enterprises portfolio, has been copied to you because it provides useful information on your role and responsibilities as a shareholding Minister. It explains the appointments and business planning processes for Crown companies. It also sets out the support we can provide you, as well as some information about the Treasury itself.

The information in this briefing is largely generic, and applies across the portfolio of commercial companies monitored by the Treasury.

However, we look forward to a conversation with you about the Government's intentions with respect to Crown Irrigation Investments Limited, as set out in the agreements with your coalition and support partners.

We look forward to working with you.



Gabriel Makhlouf

31 October 2017

Hon Clare Curran
Minister of Broadcasting, Communications and Digital Media



Briefing for Incoming Shareholding Ministers

Congratulations on your appointment. I am looking forward to supporting you as shareholding Minister in RNZ and TVNZ.

The attached briefing, which has been drafted primarily for the State-Owned Enterprises portfolio, has been copied to you because it provides useful information on your role and responsibilities as a shareholding Minister. It explains the appointments and business planning processes for Crown companies. It also sets out the support we can provide you, as well as some information about the Treasury itself.

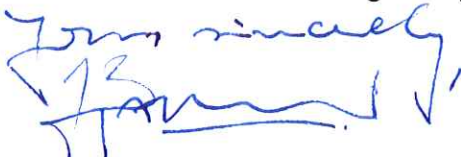
The information in this briefing is largely generic, and applies across the portfolio of companies monitored by the Treasury.

TVNZ is monitored solely by the Treasury, while monitoring responsibility for RNZ is shared between the Treasury and the Ministry for Culture and Heritage. This reflects the fact that, while RNZ is a company, it is not a commercial entity and instead has public policy objectives.

We will commence the business planning round for these entities in late 2017 when we provide you with draft Letters of Expectations. We would welcome a conversation with you, in advance of preparing the draft letters, to discuss the Government's policy objectives for RNZ, and the commercial challenges facing TVNZ.

We also intend to engage with you in November on appointments issues for both boards.

We look forward to working with you.



Gabriel Makhlouf



Briefing for Incoming Shareholding Ministers

October 2017

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Introduction

This briefing is intended primarily for the Minister of Finance and the Minister for State Owned Enterprises, who are joint shareholders in the State-Owned Enterprises (SOEs).

Along with SOEs, this briefing also covers a number of commercial or mixed objective entities which in some cases have different shareholding arrangements (typically, with shareholding responsibilities shared between the Minister of Finance and the responsible policy minister). Together, this briefing refers to this group of companies as the commercial portfolio.

We have included these companies because there are principles and processes which are common across all companies that have been established to carry out Crown business, whether their objectives are commercial or not. Most importantly, shareholding Ministers should understand what levers they have to guide companies that are governed by independent boards. The two most important levers are the business planning process (covered in Section III) and the board appointments process (covered in Section IV).

This briefing has therefore been copied to the following Ministers:

- Minister for Greater Christchurch Regeneration, Minister Responsible for the Earthquake Commission, Minister for Research, Science and Innovation, Minister of Education; Minister of Justice, Minister for Economic Development, Minister for Agriculture; Minister for Broadcasting, Communications and Digital Media. We expect that these Ministers will receive separate entity briefings from the responsible policy department, addressing issues specific to those entities.

The briefing is structured as follows:

- Section I provides a description of the commercial portfolio, and sets out the governance and legislative framework for the entities.
- Section II describes shareholding Ministers' role and responsibilities.
- Section III describes the business planning cycle of the entities, and the role of shareholding Ministers in this cycle.
- Section IV describes the board appointments process and the appointing Ministers' roles and responsibilities in this process. It also details upcoming appointments.
- Section V is an overview of the Treasury's approach to monitoring the commercial portfolio.

I The Commercial Portfolio

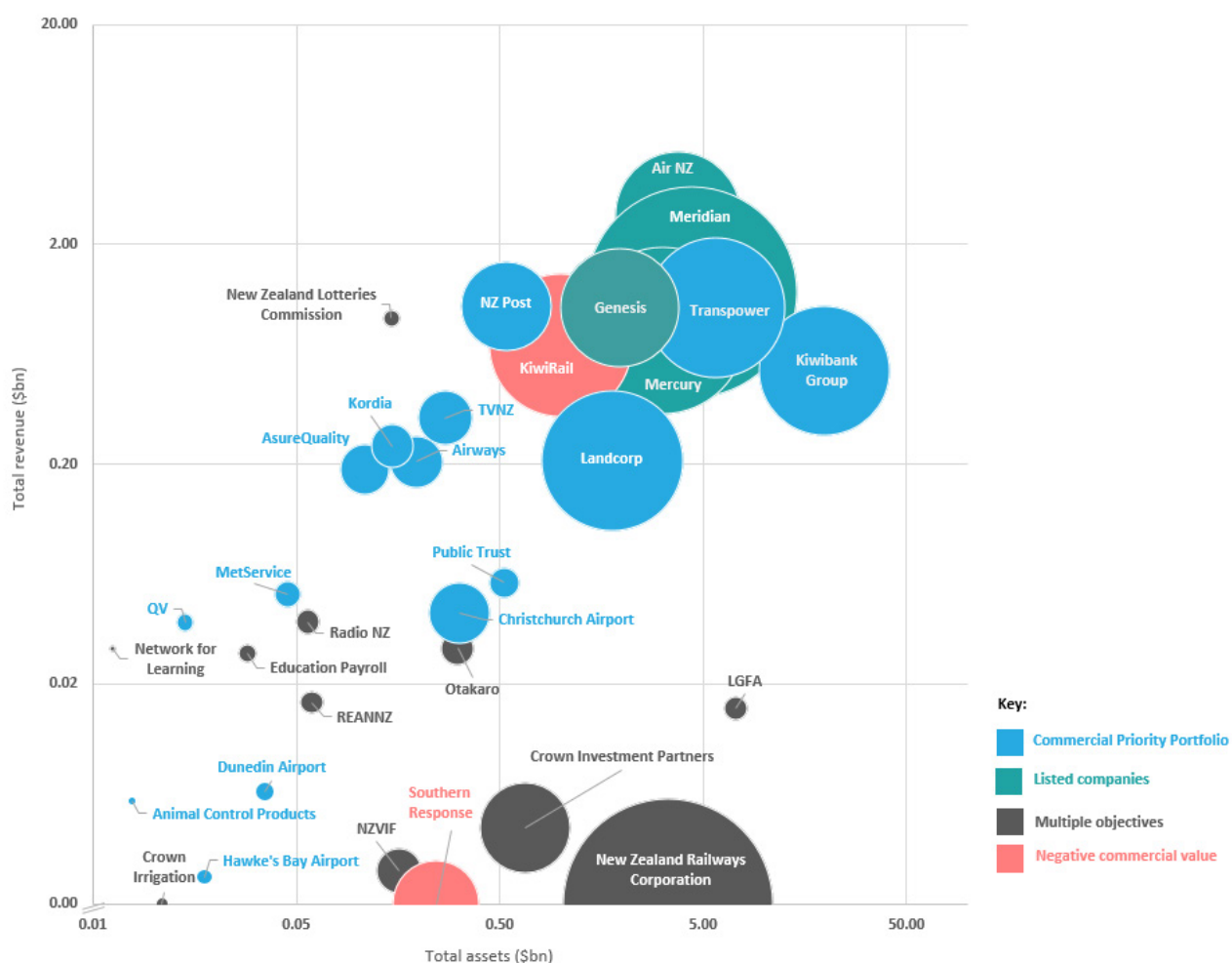
Entities in the Commercial Portfolio

The commercial portfolio includes SOEs, Crown companies, Crown entities, publicly listed companies and a number of Schedule 4A companies and other mixed objective companies. There are also a number of companies that manage residual assets and liabilities. The entities and their shareholding Ministers are set out below.

		Shareholding Ministers		
		MoF	MinSOEs	Other Minister
State-Owned Enterprises	Airways Corporation of NZ Ltd	x	x	
	Animal Control Products Ltd	x		Agriculture
	AsureQuality Ltd	x	x	
	KiwiRail Holdings Ltd	x	x	
	Kordia	x	x	
	Landcorp Farming Ltd	x	x	
	Meteorological Service of NZ Ltd	x	x	
	NZ Post (incl. Kiwibank)	x	x	
	Quotable Value Ltd	x	x	
	Transpower	x	x	
Companies with mixed ownership	Listed companies			
	Air NZ (51.9%)	x		
	Genesis Energy (51.2%)	x	x	
	Meridian Energy (51.0%)	x	x	
	Mercury NZ (52.0%)	x	x	
	Council controlled organisations			
	Christchurch Airport (25%)	x	x	
	Dunedin Airport (50%)	x	x	
	Hawke's Bay Airport (50%)	x	x	
Crown companies and Crown entities	New Zealand Venture Investment Fund	x		Economic Development
	Television New Zealand	x		Broadcasting, Communications and Digital Media
	Crown Irrigation Investments	x		Agriculture
	REANNZ	x		Research, Science and Innovation
	Public Trust			Justice
Schedule 4A companies	Crown Infrastructure Partners	x	x	
	Education Payroll Ltd	x		Education
	Ōtākaro Ltd	x		Greater Christchurch Regeneration
	Network for Learning	x		Education
Residual entities	Solid Energy	x	x	
	New Zealand Railways Corporation	x	x	
	ECNZ	x	x	
	Crown Asset Management Ltd	x	x	
	Southern Response Earthquake Services	x		Earthquake Commission

Size and Scope of the Portfolio

The diagram below provides a visual representation of the commercial portfolio, with assets and revenues on the x and y axes, and the estimated commercial valuation of each company (or the net asset value for the multiple objectives companies) represented by the size of the company's "bubble". The commercial valuation reflects the board's estimate of the fair market value of the Crown's investment in the company. Note the scale is logarithmic.



This portfolio has a commercial valuation of around \$18 billion (around half of which is the current market value of the Crown's equity in the four mixed ownership model companies) which is around 16% of the value of the Crown's total net worth as at 30 June 2017. The value of the capital invested in the commercial portfolio is significant when considering the Crown's competing capital requirements in social and infrastructure assets.

The portfolio is heavily weighted towards the energy sector. There is also a high weighting towards land holdings through Landcorp and the New Zealand Railways Corporation (NZRC). The other large investments are Kiwibank and Air New Zealand. Eight of the companies in the Crown portfolio are in the top 50 companies in New Zealand as measured by total revenue. In practice, the number of commercial

Crown companies has decreased over time as companies have either been sold, wound-up or failed. However, recent Governments have increasingly made use of the corporate form to implement policy and, as a result, the number of mixed objective companies has increased.

Legislative Framework

The legal and accountability framework governing the Crown's commercial portfolio is based on New Zealand corporate law. This includes company law and other regulation that applies to companies, including competition, securities markets, health and safety, employment, financial reporting and industry-specific legislation. Corporate law provides a well-established framework for entity governance and accountability, including:

- company formation, administration, amalgamation and liquidation
- constitution, capacity and powers
- shareholders' rights and obligations
- directors' powers and duties, and
- disclosure and financial accountability.

This corporate legislative framework is overlaid by a number of pieces of legislation that create additional rights and obligations for individual companies:



The State-Owned Enterprise Act 1986 was introduced to enable the corporatisation of large government departments. It requires SOEs to operate as commercial businesses. The Act requires the Crown to be 100% shareholder of the SOEs. Currently, 14 companies are listed on Schedule 1 of the SOE Act (although Learning Media Limited is in liquidation). These companies include our largest wholly Crown-owned commercial companies – Landcorp and Transpower.

The SOE Act was the only statutory framework for Crown-owned companies until 2004 when the **Crown Entities Act** was passed. The Crown Entities Act allows for the creation of standalone corporate bodies (companies or corporate entities), that operate at arm's length from Ministers but are still an integral part of the State sector. This framework has effectively allowed for the creation of a number of quasi-

commercial entities where commercial objectives may be mixed with public good functions.

The Public Finance (Mixed Ownership Model) Amendment Act was passed in 2012 and is now incorporated into the Public Finance Act 1989 (Part 5A). This allowed for Genesis Energy, Mercury NZ and Meridian Energy to be removed from the SOE Act and listed on the stock exchange, with the Crown retaining a majority shareholding. The legislation requires a 51% minimum Crown shareholding, restricts any other party from holding more than 10% and carries over the Treaty of Waitangi provisions from the SOE Act.

The most recent change in legislation governing Crown company ownership was the addition of **Schedule 4A of the Public Finance Act** in 2013. New companies can be added to this schedule by Order in Council, and become subject to the same framework as Crown entity companies. All of the new Crown companies established since 2013 are Schedule 4A companies. Schedule 4A companies may be wholly owned by the Crown, but the Act also provides for companies to be jointly owned by the Crown and other parties, provided the Crown has a majority shareholding.

This legislative framework is supplemented by a body of practice around Crown company monitoring that has built up over the past 30 years, which is set out in the Owner's Expectations Manual (OEM). A copy of the OEM is provided to company directors in the Crown's commercial portfolio and is attached to this briefing. The Treasury is currently working to update guidance on certain matters covered in the OEM.

The Governance Framework

Board composition

All directors are "independent" in that Ministers and officials are not appointed to boards, there are no executive directors, directors rarely have the benefit of an indemnity from the Crown for their actions and individuals are selected from a large pool of candidates.

The initial term for newly appointed directors is three years. Past practice has typically been to reappoint directors for a further three years if they have performed well in their role and their skills remain relevant to the company's needs. Directors have been reappointed for a third term in exceptional circumstances.

Except for the Mixed Ownership Model (MOM) companies, the board appointments are made by Ministers and Cabinet, and the process is managed by the Treasury in consultation with the board. Chairs and Deputy Chairs are explicitly appointed by Ministers, rather than being selected by the board itself.

MOM company appointments follow the NZX Rules. Boards are responsible for recommending candidates for appointment, and directors must periodically retire by rotation and seek reappointment, as required by the Rules. The Crown, as the 51% shareholder, determines the outcome of votes on appointments at Annual Shareholders Meetings (ASM) (unless it chooses to abstain). However, the companies operate under a protocol whereby shareholding Ministers are consulted on the board's candidates, and the proposed appointments are then considered by the Cabinet Appointment and Honours Committee (APH) and Cabinet, before the board puts them up for election at the ASM.

The MOM companies also choose their own Chairs; however, the Minister of Finance must approve the board's choice.

II Ministerial Responsibilities

Companies

The Crown's ownership in commercial entities is usually equally shared between the Minister of Finance and another shareholding Minister, who will vary depending on the company. For example, for SOEs, the Minister of Finance owns 50% of the shares and another shareholding Minister owns the other 50%; for Christchurch Airport the Minister of Finance owns 12.5% of the shares, the Minister for SOEs also owns 12.5% (the other 75% is owned by the Christchurch City Council via Christchurch City Holdings Limited). There are a number of exceptions, including:

- Air New Zealand, where the Minister of Finance is the sole shareholder of the Crown's 51.9% shareholding
- Genesis Energy, Mercury NZ, Meridian Energy and Dunedin Airport, where there is a single Crown shareholding held jointly by the Minister of Finance and the Minister for SOEs, and
- Public Trust, which is a statutory Crown entity, so does not have shares or shareholding Ministers; instead it has a responsible Minister, although the Minister of Finance also has significant powers under Public Trust's legislation.

Regardless of the details, shareholding or responsible Ministers generally exercise their statutory powers jointly on behalf of the Crown. The shareholding Ministers appoint directors, and agree the strategic direction of the company through the Statement of Corporate Intent (for SOEs) and Statement of Intent (other companies and statutory entities). The Crown can also limit the role or power of a company by amending its constitution.

Companies that rely on Crown funding can also enter into contracts with the Crown that can provide for additional oversight, influence or direction by the Crown.

Operational matters are left to be managed by each company's directors, whose directors' duties include requirements that the company remains solvent. A key feature of Crown-owned companies is that the Crown is not liable for their debts or liabilities (except in rare, specific cases).

Companies are expected to consult with shareholding Ministers prior to undertaking significant capital investment decisions. Shareholding Ministers' approval is required for certain material transactions.

The following table summarises some of your key powers in relation to the various categories of Crown-owned companies. The table is not exhaustive; please let us know if you have any questions about specific powers or companies.

Type of Crown-owned company	Powers exercised as shareholding Minister/s (typically exercised by both shareholding Ministers acting in agreement)	Powers exercised as Minister of Finance under the Crown Entities Act 2004
State-Owned Enterprises	<p>Appoint directors, deputy chair and chairperson, approve directors' fees and remove directors.</p> <p>Set content of Statement of Corporate Intent (SCI) – boards must act in accordance with the SCI.</p> <p>Direct a dividend be paid, after consulting with the board.</p> <p>Amend company constitution.</p> <p>Approve or reject resolutions put to shareholders (eg, major transactions).</p> <p>Request information from the SOE, after consulting with the board (may be done by one shareholding Minister).</p>	None.
Mixed Ownership Model companies (Genesis, Mercury and Meridian) and Air New Zealand Limited	<p>Vote at Annual Shareholder Meetings.</p> <p>Vote on any resolutions put to shareholders (eg, approve major transactions or changes to the constitution).</p> <p>Dealing with listed companies also comes with legal risk, and there is the potential for Ministers to personally commit offences. In particular, we suggest you always first seek advice on how to deal with information that could materially change a share price. There is further guidance in CO (12) 7: <i>Guidelines for Dealing with Inside Information About Public Issuers</i>, and we can provide further advice.</p>	None.
Other companies in which the Crown holds shares: Christchurch International Airport Limited (25%) Dunedin International Airport Limited (50%) Hawke's Bay Airport Limited (50%)	<p>Vote on any resolutions put to shareholders (eg, approve major transactions, changes to the constitution or approving directors' fees).</p> <p>Christchurch: appoint two directors (of a maximum six in total), and remove Crown-appointed directors.</p> <p>Dunedin and Hawke's Bay: appoint half the directors, and remove Crown-appointed directors.</p>	None.
Crown Entity Companies (other than Crown Research Institutes) Public Finance Act (PFA) Schedule 4A companies	<p>Appoint directors, deputy chair and chairperson, approve directors' fees and remove directors.</p> <p>Set content of Statement of Intent (SOI) and Statement of Performance Expectations (SPE) – boards must act in a manner consistent with the SOI and SPE.</p> <p>Amend company constitution.</p> <p>Approve or reject resolutions put to shareholders (eg, major transactions).</p> <p>Depending on the company and which financial activity restrictions under the Crown Entities Act apply to it: approve the company investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives.</p> <p>Request information from the company.</p>	<p>With Minister for State Services, give directions to support a whole-of-government approach.</p> <p>For Crown Irrigation Investments Limited only – direct a net surplus be paid to the Crown, after consulting with the company and other shareholding Minister.</p>

Crown Entities

Statutory entities are governed by board members who have obligations under the Crown Entities Act. A statutory entity generally must act to pursue an objective or functions set out in its empowering statute.

The Crown is generally not liable for the debts or liabilities of statutory entities, but in specific cases may choose to take these on. The Crown appoints board members, and agrees the strategic direction of the entity through the Statement of Intent.

The Minister of Finance and the responsible Minister have certain powers over statutory entities. These are contained in the Crown Entities Act:

- With the Minister for State Services, give directions to support a whole-of-government approach.
- Depending on the entity and which financial activity restrictions under the Crown Entities Act apply to it: approve the entity investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives.
- Depending on the entity, direct a net surplus be paid to the Crown, after consulting with the entity.
- Depending on the entity, require an entity to pay a capital charge, after consulting with the entity.
- Request information related to planning and reporting obligations (eg, SPEs).
- Exempt classes of outputs from SPEs.
- Modify reporting requirements for Crown entity groups (eg, parent and subsidiaries).
- Set requirements for bank accounts.
- Give instructions regarding minimum requirements for the publication of information under the Act and prescribing non-financial reporting standards.

III The Business Planning Cycle

The business planning cycle for SOEs, Crown companies and Crown entities is set out in the Treasury's Owner's Expectations Manual (OEM). The planning cycle typically follows the process described below, starting with the release of the Letter of Expectations to the commercial entity:

Stage in the business planning cycle	Timing	Treasury's role	Ministers' role and authority
Letter of Expectations: is issued by shareholding Ministers to the board of the entities setting out the shareholders' expectations for the coming year.	November or December	Draft the letters for the shareholding Ministers to review.	Ministers review, amend as required and approve their release.
Strategic Issues Letter: is sent from the board to shareholding Ministers in response to the Letters of Expectations.	February	Review and provide advice to Ministers as required.	Ministers may respond if they desire, either in correspondence or face to face.
Statement of Corporate Intent (SCI) and Business Plans: draft planning documents are provided to shareholding Ministers for their review and approval. Once approved, the SCIs must be tabled in the House of Representatives. Business Plans remain confidential.	April or May	Review the entities' planning documents and provide advice and recommendations to Ministers.	Ministers can request changes to the draft SCI. Upon receipt of the final SCI, Ministers table these in the House. Ministers can also require changes to the final SCI.
Quarterly reporting: the entities provide unaudited quarterly reports on their financial and operational performance.	Each quarter	Report on entity performance, highlighting areas of concern.	Ministers review the report and provide feedback to the Treasury on any matters.
Annual and half-year reports: these documents are provided to shareholding Ministers, who are required to table these in the House.	September and February	Review and summarise entity performance, highlighting areas of concern for SOEs and Airports.	Ministers table the Annual Reports in the House.
Annual Shareholders Meetings (ASM): Ministers or their proxies attend each entity's ASM to agree the passing of resolutions and to discuss general business.	Between September and December	Brief Ministers on resolutions and other business issues worthy of discussion at the ASM. Vote if nominated proxy.	Ministers or their proxies attend ASMs to agree/disagree resolutions and discuss general business.

Other Reporting

The OEM requires commercial entities to provide information to shareholding Ministers under the “No Surprises” policy. Under this policy, shareholding Ministers expect to be informed well in advance of any material or significant events, transactions and other issues relating to the company that may be contentious or could attract public interest, whether positive or negative. Depending on the details or circumstances of the issue, communication can be by way of a telephone call, email, letter or a meeting between the board and shareholding Ministers. Boards should advise the details of the issue and what the board intends to do to respond. Ministers’ offices or the Treasury are usually the first point of contact for most issues under the “No Surprises” policy.

IV Board Appointments and Director Fees

Shareholding Ministers have the authority to appoint directors and the Chairs to the Boards of 100% Crown-owned commercial entities. Board appointments occur regularly throughout a year. Their timing is driven by the board's composition, the term end dates, the length of time directors have been on boards and whether board members seek reappointment.

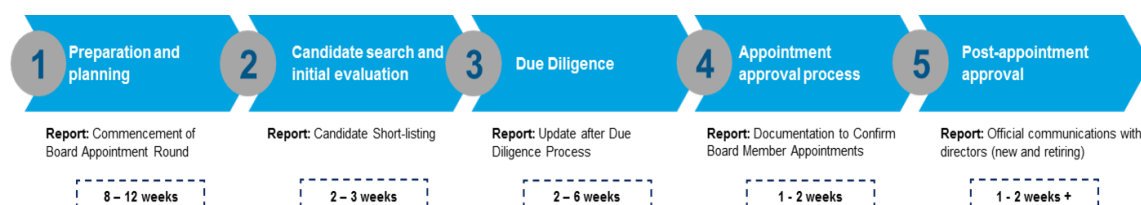
The power of appointment (and removal) rests with the shareholding Ministers. Shareholding Ministers are expected to consult with or inform their Cabinet colleagues on appointments or removal of board members by taking a paper to the Appointments and Honours (APH) Cabinet Committee and Cabinet before making a decision.

The Treasury provides advice, administrative and nomination support throughout the appointments process. This includes:

- analysis of board size, composition and skill requirements. The Treasury works closely with the Chair to understand the skill requirements to meet the agreed strategy and address any performance issues
- analysis of nominations and search for appropriately skilled candidates
- due diligence interview process of candidates selected by the Minister, and
- preparation of Cabinet documentation.

Board Appointment Process

There are currently 91 individual Crown director positions across the 14 SOE boards and three regional airports. Board appointments are governed by a process that was first agreed by Cabinet in 1999 and updated most recently in 2015. The following figure describes a typical appointment round. The process generally takes around four to six months.



- The Treasury identifies forthcoming term ends and develops a skills profile and succession needs for each board in consultation with the Chair.
- The Chair advises preferences for the board members' succession.

- The Ministers agree skills profile and provides an early indication of likely reappointments and retirements.
- The Ministers call for nominations from colleagues and the Treasury calls for nominations from the representative agencies (Te Puni Kōkiri, Ministry for Women, Ministry for Pacific Peoples and Office of Ethnic Communities). The Treasury lists positions on its online candidate database. The Chair is also asked for any nominees. The Treasury reviews its database to identify suitably qualified candidates.
- The Treasury compiles long-lists of options. The Ministers short-list those candidates to be interviewed.
- The Treasury, Chair and another board representative conduct due diligence interviews with short-listed candidates.
- The Treasury provide recommendations on the preferred candidate to the Ministers. The Ministers confirm final preference. The Ministers conduct any final checks with colleagues.
- The Treasury completes background checks, and final reference checks, if required.
- The Ministers take candidates through Cabinet Committee, Cabinet and Caucus.
- Decisions are confirmed – all involved are notified of the outcome.

Note that, in addition to its responsibilities for the commercial portfolio, the Treasury runs appointment processes for some Crown entities, Crown research institutes, Crown financial institutions and the Reserve Bank.

Upcoming Board Appointments

A summary of upcoming board appointments to 30 June 2018 is provided in Annex A of this briefing.

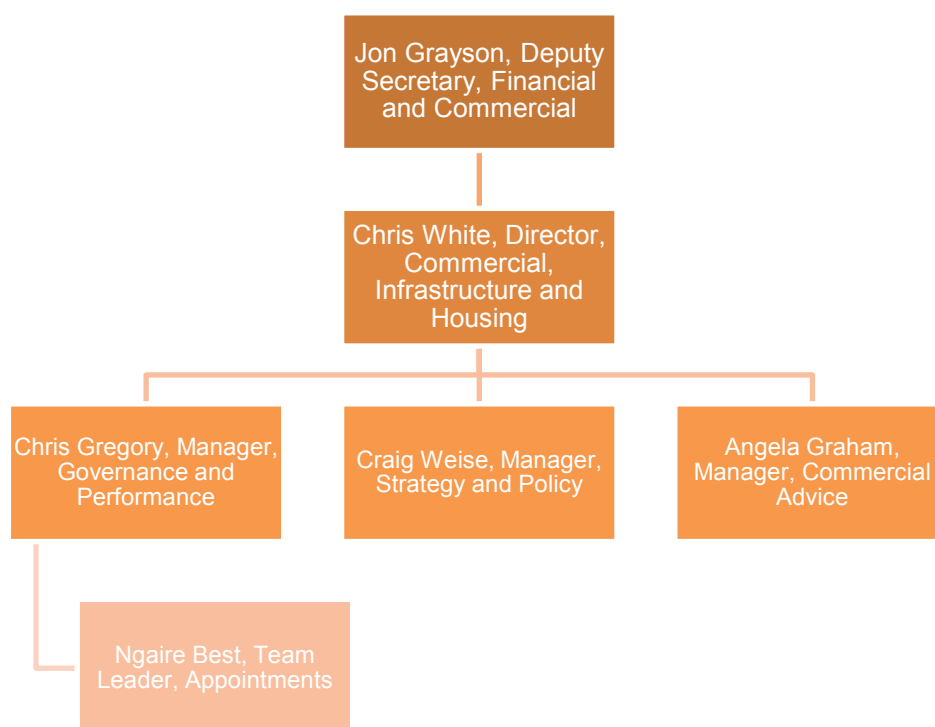
The Cabinet-approved appointment process would usually commence around mid-November to ensure it is completed prior to the term expiry dates. Although final decisions may not occur until closer to the time, there is considerable lead-in work involved in managing the process. As such we will engage with Ministers on these appointments as soon as possible after the election, particularly to seek agreement to the process to be followed and to identify the skill sets sought for the positions.

Director Fees

Ministers set fees in accordance with Cabinet Minute CAB-16-MIN00678 (which applies to SOEs and some other commercial entities) or the State Services Commission's fees framework (which applies to Crown entities). Director fees for Crown companies are drawn from the remuneration annually approved for each board by shareholding Ministers. The rate for the Chair is twice the ordinary unit rate, and the rate for the Deputy Chair is 1.25 times the ordinary unit rate.

V Overview of The Treasury's Monitoring Approach

Organisational Structure of the Monitoring Function

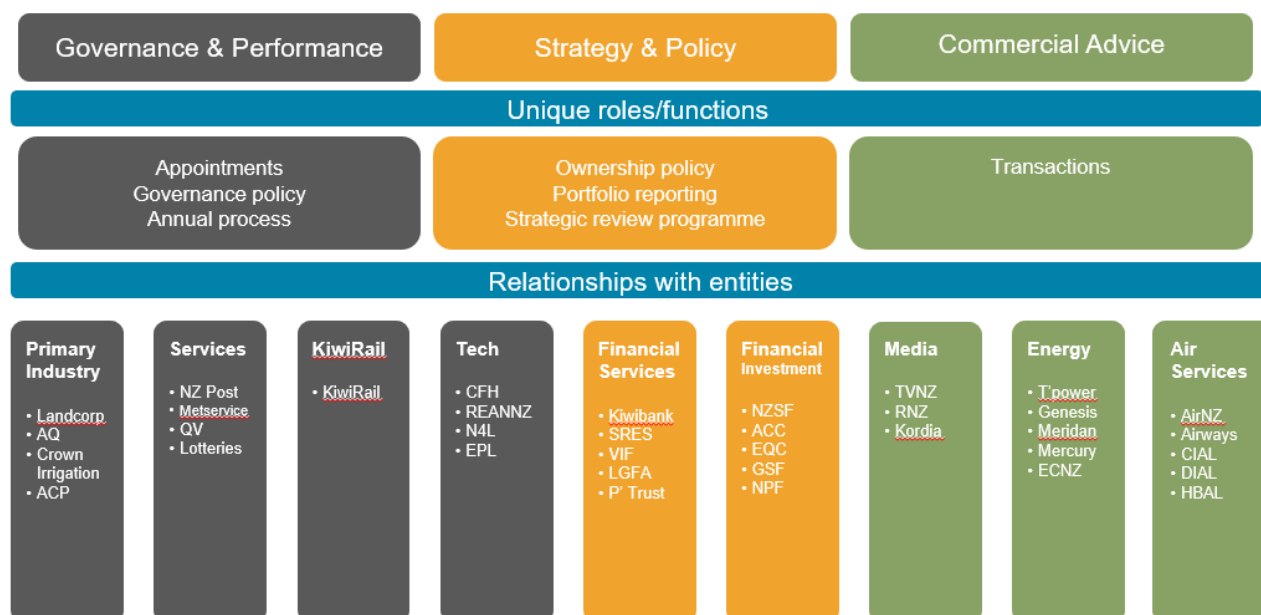


Three teams within the Treasury share responsibility for monitoring the commercial portfolio: Governance and Performance, Strategy and Policy, and Commercial Advice. The teams sit within the Commercial Operations Directorate, led by Chris White, who reports in turn to the Deputy Secretary, Financial and Commercial, Jon Grayson.

There are approximately 30 full-time equivalents (FTEs) across the three teams.

Each team monitors the entities it is responsible for, but each team also has some specialist functions. Monitoring of entities is divided into sectors; for example, the energy sector companies. A team of two to three analysts jointly covers the companies within the sector, with an analyst from the team being the lead relationship manager for each company.

A summary of these teams' purposes and primary functions, and the commercial entities each team monitors is set out in the diagram below.



The Commercial Operations Advisory Board

The Treasury is supported by a Commercial Operations Advisory Board. This Board comprises the Treasury's Deputy Secretary, Financial & Commercial, and five external business men and women with significant corporate experience at senior management and board level. The current external members are Anne Blackburn, Marko Bogoevski, Roger France and Mark Verbiest. There is a vacancy on this Board that we expect to fill in the coming year. These members are appointed by the Secretary to the Treasury.

The Board meets three times a year to discuss matters of commercial relevance to the Commercial Operations directorate, including:

- providing input into the scope and nature of Commercial Operations' strategy and operations, with a view to supporting a more active approach to managing value of these entities and the portfolio overall
- providing guidance on the strategic approach and work programme priorities of the Group, and reviewing progress on their delivery, and
- advising how to maximise the value of the Crown's commercial portfolio, and providing views on entities' strategy and performance through its independent "private sector" perspective.

The Treasury's Approach to Monitoring

Monitoring commercial companies

The starting point for monitoring a commercial company is the concept of capital. All capital has an opportunity cost, and the purpose of monitoring is to understand whether a company's return on capital exceeds its cost, taking into account the risks that the capital will be exposed to over time.

As monitors of the portfolio, we look at both:

- return on capital – as measured by both dividends paid by the company, and any free cash flow that is being reinvested into the company, and
- return of capital – that is, whether there is a case for lowering the level of the Crown's investment in a company (or increasing it, as the case may be).

The Crown has a more complicated set of objectives than a private owner. When the Crown is the owner, it needs to consider not just alternative commercial investments, but also alternative social investments. It also needs to weigh up what non-financial returns may be gained from its investment, and include these when considering the value of ownership versus the cost of capital invested. Markets and technologies are constantly changing, and this means that the risks and benefits of ownership are changing too.

We encourage Ministers to be active owners of the commercial portfolio. That is, we advise you to constantly review the purpose, risks and returns of your capital investment in commercial companies.

If the Crown's ownership objectives are not clear, then it is easy for the company's strategy to diverge from the owner's strategy over time. Risks that can arise include:

- reinvestment of free cash into expansion opportunities that are high risk, or low value, to the owner, and/or
- strategies that put the Crown's entire investment at risk (Solid Energy being the obvious example).

The Treasury's strategy for managing this portfolio is to stay actively engaged with the entities we own, so as to better align strategy and use of capital with the shareholders' objectives and risk appetite.

We aim for continuous improvement of our monitoring performance, focusing on:

- increasing our capability and the depth of our understanding, so that we can credibly challenge the companies and provide high-quality advice
- obtaining information from the companies – including key board papers

- engaging early with the company on setting strategic direction, including through the use of periodic strategic reviews, and attending board strategy sessions
- requiring a hurdle rate for new investments that reflects incremental risk, and
- providing a clear expression of the Crown's expectations for each company, including meeting periodically with boards to discuss strategic direction and succession planning.

We are also increasing the amount of information in the public domain on the commercial portfolio to promote better understanding of the purpose, structure and performance of this portfolio.

It will always be difficult for a monitoring agency to turn around an under-performing company. The most effective lever to ensure good performance in the portfolio is to have expert directors on company boards. The Treasury is developing a programme to help support board performance, including:

- bringing directors together to share experiences and discuss best practice, at the twice-yearly directors' breakfast presentations and an annual Chairs' Forum
- making improvements to the governance and appointments framework, and
- proposed changes to the Owner's Expectations Manual.

We also seek your support, by asking you to reinforce certain expectations whenever you are talking to Crown entity Chairs. This includes the expectation that companies will include the shareholder in conversations around strategic direction, risk and succession planning, and that companies will share information with the shareholder when requested.

Monitoring listed companies

The Treasury's approach to monitoring listed companies is set out in a letter to the Chairs of the four mixed ownership listed companies (Mercury, Meridian, Genesis and Air New Zealand) which is published on the Treasury's website. It is intended to provide assurance to investors that the Treasury will take a consistent, commercially focused approach over time, and the companies will continue to operate in the interests of all shareholders. Notably, the protocols include:

- The Crown will not use its position as the majority shareholder to influence the companies to make non-commercial decisions. Company decision making rests at all times with their boards,¹ and the Treasury expects all company decisions to be commercial.

¹ With the exception of matters that must be put to shareholders for approval (eg, major transactions).

- Companies should not engage with shareholding Ministers on regulatory or market issues.
- The Crown retains the right to make regulatory decisions, but these would affect all companies, not just those where the Crown is a majority owner.
- When engaging with the companies and with other interested parties, the Treasury will have access to the same public information that is available to all shareholders. Except in rare circumstances, the Treasury will not have access to any “inside information” on the companies. In the rare situations where the Crown is in possession of “inside information” the Treasury will set up appropriate protocols to ensure that the information is managed appropriately (eg, limited to those who need to know) and not disclosed to unauthorised persons.
- Shareholding Ministers would expect to support the board’s proposed candidates for appointment, as long as Ministers are comfortable that the company is performing well, and that the board has applied appropriate criteria in making the appointment. However, shareholding Ministers reserve the right to nominate and vote for their own candidates, to vote against board-nominated candidates or to vote for candidates nominated by other shareholders if they feel that any of these steps are appropriate. The person who is nominated by the board to be Chair must be approved by the Minister of Finance before being appointed.

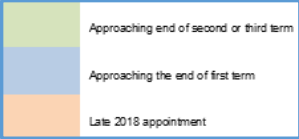
Monitoring mixed objective companies

Mixed objective companies typically use commercial structures to deliver public good objectives. Some (NZVIF, Crown Irrigation Investments) invest in projects with the objective of facilitating private sector co-investment and some manage infrastructure projects (Ōtākaro, Crown Infrastructure Partners); some provide services formerly provided by government departments (Education Payroll Ltd).

Mixed objective companies are generally not expected to provide a commercial return on capital. Rather, directors are being asked to bring their commercial skills and experience to bear in achieving a policy objective. Monitoring therefore focuses on performance and cost effectiveness. The monitoring task is typically shared between the Treasury and the department responsible for the entity’s policy objectives, with the Treasury’s role focused on board appointments, financial performance and any commercial issues arising.

Annex A: Pending Board Appointments

Airways	EOT	ACP	EOT	AsureQuality	EOT	KiwiRail Holdings	EOT	Kordia	EOT	Landcorp	EOT
Judy Kirk	31/10/18	Terry Murdoch	31/10/19	Janine Smith	31/10/19	Trevor Janes	29/09/19	John Quirk	30/04/19	Traci Houppapa	30/04/18
MJ Daly	31/10/19	Pam Clarke	31/10/18	John Ashby	30/04/18	Paula Rebstock	30/04/18	Paul H Adams	31/10/18	John Brakenridge	30/04/19
Grant Kemble	31/10/18	Samantha Sharif	31/10/19	Margot Buick	31/10/19	John Dennehy	31/10/19	Sheridan Broadbent	31/10/19	Nikki Davies-Colley	30/04/18
Bennett Medary	31/10/18			Paul McGilvary	31/10/19	Paul Harper	30/04/19			Chris Day	30/04/18
Chris Moxon	31/10/18			Steve Murray	31/10/19	John Leuchars	30/04/19	Peter Ennis	31/10/18	Pauline Lockett	30/04/18
Terry Murdoch	31/04/18			Bruce Scott	30/04/18	Bob Major	31/10/19	Sophie Haslem	31/10/19	David Nelson	30/04/19
Mark Pitt	31/10/18			Hamish Stevens	31/10/18	Sue McCormack	31/10/19	Vacancy		Tony Reilly	30/04/20
Vacancy				Alison Watters	30/04/19	Mike Pohio	30/04/19	Vacancy		Eric Roy	30/04/18
						Guy Royal	31/10/18				
MetService	EOT	NZ Post	EOT	QV	EOT	Transpower	EOT	Air NZ	EOT	Genesis Energy	EOT
Ant Howard	30/04/20	Jane Taylor	30/04/19	Raewyn Lovett	30/04/19	Tony Ryall	30/04/19	Tony Carter	Current	Jenny Shipley	Current
Judy Kirk	30/04/18	Jackie Lloyd	30/04/19	Roger Bridge	30/04/18	Don Huse	30/04/18	Jan Dawson		Joanna Perry	
Brent Armstrong	30/04/18	Carol Campbell	30/04/18	Neil Barr	30/04/19	Dean Carroll	31/10/19	Paul Bingham		Mark Cross	
Margaret Devlin	30/04/18	Richard Dellabarca	30/04/19	David Cameron-Brown	30/04/19	Pip Dunphy	30/04/18	Rob Jager		John Leuchars	
Stephen Eaton	31/10/18	Al Dunn	30/04/18	Paula Jackson	31/10/19	Jan Evans-Freeman	31/10/18	Linda Jenkinson		Maury Leyland	
Roanne Parker	31/10/19	Julia Hoare	31/10/18	Bennett Medary	30/04/19	Tim Lusk	30/04/18	John Key		Tim Miles	
Sophie Haslem	31/10/18	Richard Leggat	30/04/18	Stephen Panckhurst	31/10/18	Bill Osborne	30/04/19	Jonathan Mason		Doug McKay	
Tupara Morrison	30/04/20	Richie Smith	30/04/18	Kim Wallace	30/04/18			Therese Walsh		Paul Zealand	
Meridian Energy	EOT	Mercury NZ		CIAL		Dunedin Airport		HBAL	EOT	NZVIF	EOT
Chris Moller	Current	Joan Withers	Current	Catherine Drayton (NC C)	31/10/18	Stuart McLauchlan (NC C)	30/10/19	Tony Porter (NC C)	30/06/18	Murray Gribben	30/06/19
Peter Wilson		Prue Flacks		Justin Murray	30/04/20	Tony Allison	31/10/18	Wendie Harvey	30/06/19	Anne Blackburn	30/06/18
Mark Cairns		Andy Lark		Kate Morrison (NC)	31/10/20	Trish Oakley (NC)	31/10/19	Sarah Park (NC)	30/06/20	Roger Bridge	30/06/18
Jan Dawson		James Miller		Andre Lovatt (NC)	31/10/20	Mark Rogers	31/10/19	Taine Randell	30/06/20	David Flacks	30/06/18
Mary Devine		Keith Smith		Laura Palomino de Forbes	30/04/18					Richard Hughes	30/06/18
Anake Goodall		Patrick Strange		Chris Paulsen (NC)	31/10/19						
Steve Reindler		Mike Taitoko									
Mark Verbiest											

RNZ	EOT	TVNZ	EOT	CIIL	EOT	REANNZ		Public Trust	EOT	CIP	EOT
Richard Griffin	30/04/18	Therese Walsh	30/04/18	Debbie Birch	30/06/18	Jim Donovan	30/06/18	Ian Fitzgerald	31/10/19	Simon Allen	31/10/18
Jane Taylor	30/04/19	Andy Coupe	31/10/19	Lindsay Crossen	30/06/19	Ross Peat	30/06/18	Fiona Oliver	31/10/18	Miriam Dean	31/10/18
Melissa Clark-Reynolds	30/04/20	Abby Foote	31/10/19	Brian Harrison	31/07/18	Simon Hall	30/06/18	Simon Craddock	31/10/18	Danelle Dinsdale	30/04/20
Rodger Finlay	30/04/18	Cameron Harland	31/10/19	Chris Kelly	30/06/18	Susie Johnstone	31/12/17	John Duncan	31/10/18	Murray Milner	30/04/20
Bill Francis	30/04/19	Toko Kapea	31/10/18	Linda Robertson	31/10/18	Steve Weaver	30/06/20	Bevan Killick	31/10/18	Keith Tempest	30/04/20
Mike O'Donnell	31/08/18	Kevin Malloy	31/10/18	Graeme Sutton	30/06/19			Dianne McAteer	31/10/18		
Graham Pryor	30/04/19	Julia Raue	31/10/19	Michael Webb	30/06/18			Graham Naylor	31/10/18		
		Sussan Turner	30/04/18					Vacancy			
EPL	EOT	Ōtākaro	EOT	N4L	EOT	Solid Energy	EOT	NZRC	EOT	ECNZ	EOT
Murray Jack	30/06/19	Ross Butler	16/02/19	Helen Robinson	30/06/18	Andy Coupe	31/10/18	Trevor Janes	29/09/19	Victor Wu	30/04/18
Sandi Beatie	30/06/19	Miriam Dean	16/02/19	Mark Yeoman	30/06/19	Keiran Horne	31/10/18	Paul East	31/10/18	Jane Meares	30/04/18
Cathy Magiannis	26/08/18	Corinne Haines	30/06/19	Jeremy Banks	30/06/20	Rabin Rabindran	31/10/18	Sharon Shea	31/10/18		
Marcel van den Assum	30/06/19	Peter Townsend	16/02/19	Jack Matthews	30/04/19	David Reece	31/10/18				
				Karen Poutasi	30/06/20	Neville Sneddon	31/10/18				
				Rick Shera	30/06/18						
				Linda Tame	30/06/18						
CAML	EOT	SRES	EOT								
Gary Traveller	30/06/18	Ross Butler	30/06/20							Colour Key: 	
Peter Castle	30/06/18	Anne Urlwin	30/06/18								
		Jenn Bestwick	30/06/18								
		Bevan Killick	30/06/20								
		Susan Thodey	30/06/18								

Annex B: Our Organisational Structure

Our teams and key contact information

DS Macro Economics and Growth	
Deputy Secretary, Bryan Chapple	[1]
Director Growth and Public Services, Grace Campbell-Macdonald Teams: Business Growth & Innovation, Matthew Gilbert, Manager Regulatory Quality, Matthew Gilbert, Manager Economic Strategy & Productivity, Simon McLoughlin, Manager Education & Skills, Diana Cook, Manager Labour Market, Immigration & Tertiary, Kristie Carter, Acting Manager Natural Resources, Alastair Cameron, Acting Manager	
Director Economic System, James Beard Teams: Macroeconomic & Fiscal Policy, Renee Philip, Manager Modelling & Research and Forecasting, Peter Gardiner, Manager Financial Markets & International, Dasha Leonova, Manager Tax Strategy, Mark Vink, Manager	
DS Strategy, Performance & Engagement, and Chief Operating Officer	
Deputy Secretary and Chief Operating Officer, Fiona Ross	[1]
Teams: People & Wellbeing, Fiona Foster Chief People Officer Finance, Strategy & Performance, Glenn McStay, Chief Financial Officer Information & Technology, Tom Byrne, Chief Information Officer Legal, Facilities, Administration & Ministerial Advisory, Jeremy Salmond, Treasury Solicitor and Chief Security Officer Office of the Executive & Communications, Vicki Plater, Chief of Staff/ Manager Engagement	

DS Financial and Commercial	
Deputy Secretary, Jon Grayson	[1]
Director Commercial, Infrastructure & Housing, Chris White Teams: Commercial Advice, Angela Graham, Manager Governance & Performance, Chris Gregory, Manager Strategy & Policy, Craig Weise, Manager Housing, Tom Hall, Manager National Infrastructure Unit, David Taylor, Manager Transactions Unit – Social Housing, Stacey Wymer, Head	
Director Financial Operations and Head of NZDMO, Sarah Vrede Teams: Accounting & Transactional Services, Charles England, Head Business Information, Dan Clayton, Head Portfolio Management, Murray Jones, Head Risk Policy & Balance Sheet, Andrew Hagan, Head NZ Export Credit Office (NZECCO), Chris Chapman, Manager	
DS Budget and Public Services	
Deputy Secretary, Struan Little	[1]
Director Budget and Public Investment, Andrew Blazey Teams: Justice, Security & Government Services, Colin Hall, Manager Investment Management Asset Performance, Ben McBride, Manager Health, Carolyn Palmer, Manager Welfare and Oranga Tamariki, Kristie Carter, Acting Manager Fiscal & State Sector Management, Angela Mellish, Manager	
Head of Government Finance Profession and Chief Government Accountant, Paul Helm Teams: Strategic Performance Improvement, Sarah Hardy, Manager Fiscal Reporting, Nicola Haslam, Manager	
DS Chief Economic Adviser	
Chief Economic Adviser, Tim Ng	[1]
Teams: Economic Capability, Tony Burton, Deputy Chief Economic Adviser Analytics & Insights, Andrew Hunter, Manager	