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**Ministry for Primary Industries**  
Manatū Ahu Matua



12 April 2013

Document Number: B12-695

## Meeting with the Crown Irrigation Investment Company Establishment Board

### Purpose:

This brief provides background notes and talking points for your meeting on 17 April 2013 with the Establishment Board charged with establishing a Crown-owned company to manage the Crown's investments in regional water storage and off-farm irrigation infrastructure.

Minister	Action Required:	Minister's Deadline
Minister for Primary Industries	Note the contents of this brief.	Before your meeting scheduled for 12.30pm on 17 April 2013.
CC Minister of Finance, Associate Minister for Primary Industries		

### MPI Officials Attending the Meeting

Deborah Roche, Damian Diack and Prakash Narayan

### Contact for telephone discussion (if required)

	Name	Position	Work	After Hours
Responsible Manager	Karen Adair	Acting Director, Sector Policy	04 819 4467	021 409993
Principal Author	Prakash Narayan	Senior Analyst Sector Policy	04 894 0690	

## Key Messages

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1. This brief provides background notes for your meeting on 17 April 2013 with the Establishment Board charged with establishing a Crown-owned company to manage the Crown's investments in regional water storage and off-farm irrigation infrastructure.
2. The meeting is at 12.30pm at PricewaterhouseCoopers' (PWC) Boardroom, Level 16, 113-119 The Terrace, Wellington. The Board is holding its April meeting on that day.
3. The Board has invited you to:
  - a. meet its members;
  - b. outline the Government's policy objectives for investing in irrigation schemes; and
  - c. respond to questions from the Board members on the Government's policy objectives and the proposed institutional arrangements as contained in the MPI briefing paper B12-574.
4. You appointed the following to the Establishment Board in February 2013 (short background on each member and the Board's key tasks are provided later in appendices 1 and 2 attached to this brief):
  - Alison Paterson (Chair)
  - Debra (Debbie) Birch
  - Lindsay Crossen
  - Donald (Don) Huse
  - Christopher (Chris) Kelly
  - Graeme Sutton
  - Michael Webb
5. Key issues that the Board members are likely to raise and suggested responses are included in this brief.
6. The Establishment Board has also considered the institutional arrangements as contained in the briefing paper B12-574, and will be writing to you to provide the Board's comments on those proposed arrangements.
7. The Board has indicated to MPI officials that it will be recommending to the Ministers that you disagree with recommendation 24(o) in briefing paper B12-574. The Board is of the view that with respect to any divestments from any schemes the Company's Board and the shareholding Ministers consider on a case-by-case basis whether the divestments are to be returned to the Crown or reinvested in a new scheme.
8. You and the Minister of Finance will be joint shareholders of the irrigation investment company. You will therefore be also representing the Minister of Finance at the 17<sup>th</sup> April Establishment Board meeting. MPI has consulted the Treasury in the development of this briefing paper.

## Recommendations

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9. MPI recommends that you **note** the contents of this briefing paper.

Noted

Karen Adair  
Acting Director  
Sector Policy

Hon Nathan Guy  
Minister for Primary Industries

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## Talking Points

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You may want to make general introductory statements as follows:

- The Minister of Finance and I have appointed the Establishment Board to advise us and develop a business plan for the Company to implement a Government policy. The policy proposal is for the Company to co-invest in off-farm irrigation schemes which would not otherwise be established and are expected to be commercially viable in the long term.
- The Board of the Company will be commercially focussed making commercial decisions, albeit with lower return expectations compared with a private sector investor.
- The Cabinet decision to invest in irrigation infrastructure, and the establishment of a company to carry out that investment, reflects a two stage programme. The Irrigation Acceleration Fund ensures the schemes are investment ready with the investment function to be carried out by the Company.
- To that end the Company should solely take a commercial focus to its investment decisions. Other aspects of the schemes, such as social, environmental and economic benefits at regional and national level, will be considered by scheme proponents as they finalise their schemes and secure resource consent to reach the 'investment ready' stage.

Key issues that the Board members are likely to raise are outlined below together with suggested responses from MPI.

Question:

What is the Crown's **policy objective** for this investment?

Suggested response:

This is an initiative to unlock reliable water, through well designed schemes, to support ongoing economic growth. The primary rationale for the Crown to invest is to expedite the development of such schemes to maximise the long term economic growth benefits from irrigation.

Additional note: Crown investment will enable schemes to reach the stage where they will become financially viable on commercial terms such that private sector investment can be attracted to replace the Crown.

Question:

What commitment can the Government provide **beyond the \$80 million allocated** for the 2013-14 year?

Suggested response:

I suggest that the Establishment Board work on the basis that it is going to be a \$400 million equity investment company, with \$80 million 'in the bank' initially.

Additional notes: Cabinet has noted and the Government has announced its intention to invest up to \$400 million capital expenditure for future equity investment to deliver on the potential for irrigation. When setting aside \$80 million (first tranche) for investments in 2013-14, Cabinet noted the requests for the remaining \$320 million of capital to come in future budget rounds as schemes near the 'investment-ready' stage.

The availability of the remaining \$320 million will depend on the number and size of the schemes that are investment ready and meet the investment company's criteria. They are likely to be spread out over a number of years. The Crown's financial status at that time and its spending priorities may also impact on future Crown investments.

Question:

**If it is only \$80 million** will the Board need to assess (i) how that may affect the number, type and scale of projects we can invest in and (ii) what impact that may have on achievement of the Government's purpose (e.g. one investment of \$80 million, or 8 investments of \$10 million)?

Suggested response:

Each application is to be assessed on its own merits. The Board is to make a commercial decision with respect to each investment.

Question:

Is it \$400 million in total **or \$400 million recycled?**

Waiting for Ministerial decision:

Your response will depend on your and the Minister of Finance's decision with respect to recommendation 24(o) in the MPI briefing paper B12-574.

Additional notes: Officials' advice to the shareholding Ministers is that the \$400 million is to be the total funding for irrigation investment and all divested capital returned to the Crown. The Establishment Board has indicated to MPI officials that it will be writing to the Ministers recommending that the Company's Board and the shareholding Ministers consider this on a case-by-case basis if and when the Company makes divestments.

Investing in irrigation infrastructure is a long term game, and the Crown is not expecting returns in the short term. Any consideration of the ability to recycle the \$400 million or to increase that sum will require consideration of the Crown's financial status and other spending priorities. The Government will also consider at the time whether investments in irrigation are commercially viable and are delivering on the Government's economic growth objective.

Question:

While it is proposed that the Company will **operate at “arm’s length”** from the Government with respect to investment decisions, what will be the level of Ministerial influence in the **first investment proposal** as the Companies Act requires shareholder approval for a transaction that is more than the Company’s asset value?

Suggested response:

It is our intention that the Company will operate at “arm’s length” from the Crown. That is the reason for Cabinet agreeing to establish a Crown-owned company to manage the investments. With respect to investments in the early stages of the Company, shareholder resolution will be required. However, the Ministers as shareholders will be guided by any processes developed by the Establishment Board and approved by the Ministers.

Question:

The Establishment Board believes that it will be the Board’s responsibility to approve the Company’s **risk management policies** and not the Ministers.

Suggested response:

I agree that the Board will have the responsibility to approve the Company’s risk management policies. However, the shareholding Ministers will approve the Company’s risk management policies associated with the use of derivatives. The Ministers will consider the Company’s application for use of certain derivatives with the associated risk management policies as a package.

Question:

The Establishment Board believes that it will take time for the Board to understand the irrigation landscape and therefore suggests that the **Company’s purpose statement**, to be specified in the Company’s constitution, is not finalised until close to the Company’s registration.

Suggested response:

I agree that the Company’s Board must be comfortable with the purpose statement. A purpose statement is required in the constitution to guide the Board and the shareholding Ministers. The plan is to register the Company on 1 July 2013. That gives over two months to finalise the purpose statement and the Company’s constitution. The Board will be consulted during the development of the Constitution.

Question:

The Establishment Board believes that it should define what are **“best practice investment management approaches”**, and that the definition should not be predetermined by the Ministers.

Suggested response:

One of the key tasks of the Establishment Board is to operationalise the investment principles endorsed by Cabinet in December 2012. As part of that exercise I am expecting that the Board will define what are “best practice investment management approaches”. Ministers will get the opportunity to comment on them when considering the Board’s business plan.

Questions:

What flexibility will the Company's Board have with respect to the **investment principles and investment criteria**, and in particular the threshold for viability of a proposal? Where does viability sit in relation to other criteria e.g. better financial outcomes for the Crown versus greater perceived need for irrigation in a region, i.e. economic versus financial outcomes? How aggressive or conservative should the Company be in its investment approaches?

Suggested response:

The Board of the investment Company will be a commercially focussed Board and will be required to make commercial decisions. Scheme proponents will have considered the economic and social costs and benefits of the scheme, including through the resource consent process, to reach the 'investment ready' stage. It is the Establishment Board's task to operationalise the investment principles endorsed by Cabinet in December 2012 within a commercial framework. Essentially the investment Company should act as any other commercially focused investor, albeit with lower return expectations, when considering investing in schemes.

Questions:

What is the Government's **appetite for risk** and what guidance can the Minister give with respect to expected returns over time?

Suggested response:

The Board is to make a commercial decision with respect to each investment. The Crown will not be seeking a fully commercial rate of return that a private investor will be seeking. However, the Crown expects the investment company to adopt a risk-return profile that enables the Crown to exit the schemes with its investment capital intact. Some schemes may realise modest returns.

Additional note: It is expected that the investment company will develop its own risk-return position once operating and after some exposure to potential applications. The company will be monitored by the Crown Ownership Monitoring Unit and as part of that monitoring the Company will be developing its statement of intent. This provides an opportunity for the Company and the Crown to adopt the risk-return profile for individual investments as more information becomes available with respect to the different schemes.

Question:

Can the Establishment Board commence some of the Company activities early, e.g. appoint a Chief Executive and commence discussions with scheme proponents before the 1 July commencement date?

Suggested response:

It would be difficult for the Minister of Finance and I to agree to early commencement of any of the activities of the Company. That will be outside of the Establishment Board's terms of reference, and no schemes have reached the 'investment ready' stage to be able to commence such discussions. There is already quite a lot for the Establishment Board and the Project team to do before the start date, which is only 11 weeks away.

## Appendix 1: Establishment Board Members

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1. Alison Paterson (Chair), of Auckland, has had a long career in corporate governance in large organisations (latterly more often as Chairperson). She has governance experience in a range of sectors including infrastructure and agriculture, and has often chaired start-up organisations like FarmIQ. She has previously been on the boards of LandCorp Farming and the Reserve Bank. Alison, a chartered accountant, was a farm accountant early in her career.
2. Christopher (Chris) Kelly, of Wellington, has been the Chief Executive of LandCorp Farming since 2001, and has announced that he will be retiring from this position around the middle of 2013. Chris is a member of Massey University Council and director of FarmIQ (a joint Crown/industry initiative to reform the red meat sector). Chris has a veterinary science degree.
3. Debra (Debbie) Birch, of Wellington, is a Deputy Maori Trustee at the Maori Trustee Office in Wellington. She is a current director on Kordia and Crown Assets Management Ltd charged with managing the assets of South Canterbury Finance and five other finance companies in receivership. Debbie is a registered financial advisor, and has around 30 years of experience working in the financial sector, including managing investment portfolios.
4. Michael Webb, of Auckland, is a commercial barrister and a member of the Financial Markets Authority. He has strong legal and financial sector background, and Board leadership experience including chairing an Establishment Board of a Crown company (Learning Media Ltd). He chaired the Ministerial Taskforce on the Regulation of Financial Intermediaries in 2004-05, and is a member of the New Zealand Stock Exchange Discipline Committee. Michael has a law degree.
5. Donald (Don) Huse, of Auckland, is a professional director and a former chief executive of Auckland and Wellington International Airports. He is also a former Chief Financial Officer of Sydney Airport Corporation. Don is a qualified accountant, and current director of Transpower New Zealand and of a number of private sector entities.
6. Lindsay Crossen, of Christchurch, is a qualified civil engineer and a former Chief Executive of Fulton Hogan Contracting. He has extensive experience with managing and contracting large infrastructure projects. Lindsay is a current member of the National Infrastructure Advisory Board, and the Lyttelton Port Company.
7. Graeme Sutton, of Nelson, is a former Chair of Irrigation New Zealand, and a former director of Waimakariri Irrigation Ltd. He is a semi-retired dairy farmer, with dairy farming interests in the South Island. Graeme has held director positions in a number of agribusiness companies.



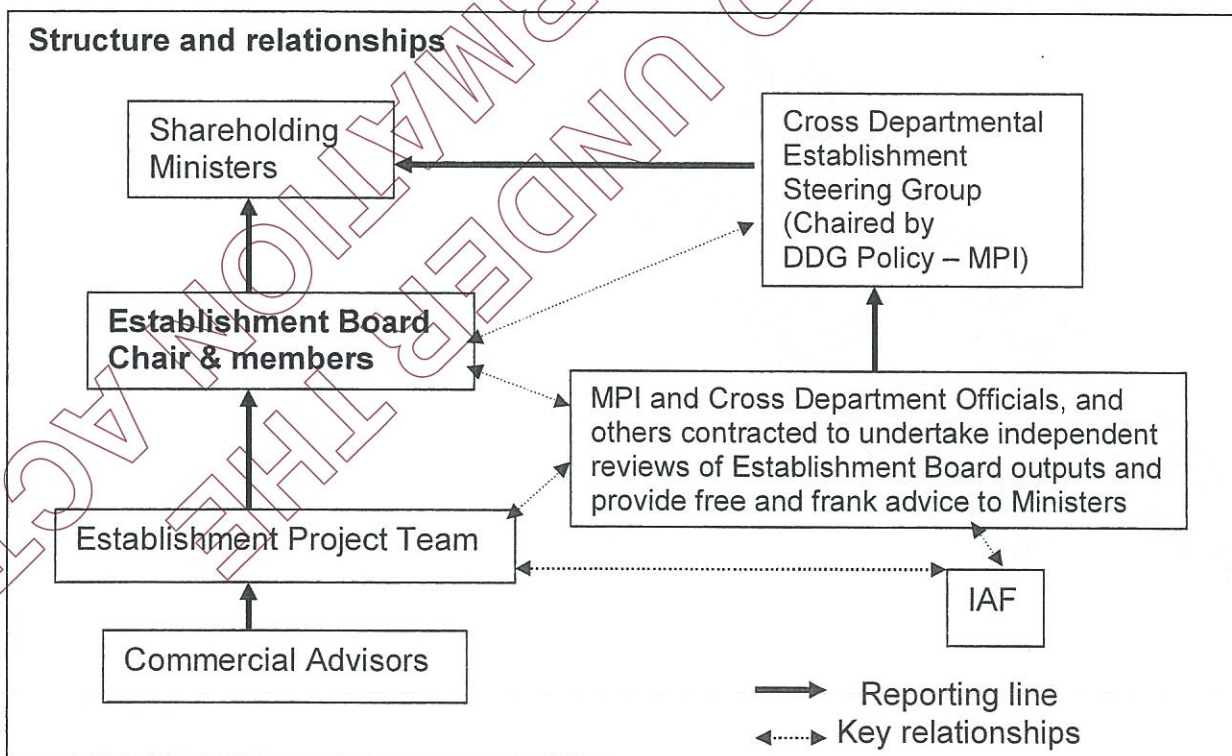
## Appendix 2: Key tasks and relationships of the Establishment Board

### Key tasks of the Establishment Board

1. The purpose of the Establishment Board is to anticipate, plan and prepare for the company's operations from 1 July 2013.
2. The key tasks for the Establishment Board are:
  - 2.1 Review proposed institutional arrangements for the company and suggest any revisions to Shareholding Ministers.
  - 2.2 Develop resources and documents that the company can adopt for its own use, for example strategic planning documents, a budget, a view on target operating model, investment principles, etc. The resources that the Board develops should lay a foundation for the company to begin its operations, meet Ministers' expectations and fulfil its obligations.
  - 2.3 Consider how the Board might operationalise the investment principles.
  - 2.4 Commence the process of appointing a Chief Executive.

### Establishment Board structure and relationships

3. The Board (and the project team) will seek guidance from the Cross Departmental Steering Group, and will interact with officials, and the Irrigation Acceleration Fund (IAF) team to ensure that the Company's resources and documents will deliver on Cabinet's objectives, and are aligned with government policies and processes.



4. MPI is meeting the costs of the Establishment Board, and is providing staffing resources through secondments and contracts as required.

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28 May 2013

Document Number: B12-847

## Crown Irrigation Investments Limited – appropriation 2013/14

### Purpose:

To seek your approval to appropriate \$80 million allocated in the 2013 Budget for investments in irrigation infrastructure from 1 July 2013 to the Ministry for Primary Industries. This will be invested by Crown Irrigation Investments Limited on behalf of the Crown.

Minister	Action Required:	Minister's Deadline
Minister of Finance	Note and agree the recommendations contained in this briefing paper.	By 7 June 2013 so that appropriate arrangements can be made between Treasury and MPI prior to the Company's 1 July 2013 commencement date.
Minister for Primary Industries		
CC Associate Minister for Primary Industries		

### Contact for telephone discussion (if required)

	Name	Position	Work	After Hours
Responsible Manager	Karen Adair	Acting Director Sector Policy	04 819 4467	021 409993
Principal Author	Prakash Narayan	Senior Analyst Sector Policy	04 894 0690	

1. Cabinet Economic Growth and Infrastructure Committee (EGI) agreed on 12 December 2012 to set aside an allocation of \$80.0 million in Budget 2013 capital allowance to facilitate the Crown's investments in regional off-farm irrigation infrastructure in 2013/14. This is to be charged against the Future Investment Fund [EGI Min (12) 29/5 refers]. EGI was authorised by Cabinet to have Power to Act [CAB Min (12) 44/34 refers].
2. EGI also agreed on 12 December 2012 to authorise the Minister of Finance and the Minister for Primary Industries jointly to approve changes to appropriations required to give effect to the above.
3. EGI also agreed that the Crown-owned investment company's operating expenditure will be financed out of its \$80.0 million capital allowance.
4. The Government announced in Budget 2013 to proceed with the above, and allocated \$80.0 million towards this proposal. Some of this funding may not be required in the 2013/14 financial year because of delays in scheme proposals reaching investment-ready stage in that year. Should that be the case approval will be sought to carry forward the unspent appropriation into future financial years.
5. This funding has not yet been appropriated as the appropriation must refer to the name of the company, which was agreed by the Establishment Board on 10 May 2013 and the name was reserved with the Companies Office on 13 May 2013. The Board has agreed to name the company as "Crown Irrigation Investments Limited". The company will be formally registered on 1 July 2013.
6. Note that Treasury was consulted in the preparation of this brief and it concurs with the recommendations below.

## Recommendations

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7. MPI recommends that you:
  1. **Note** that on 12 December 2012 Cabinet Economic Growth and Infrastructure Committee, having been authorised by Cabinet to have Power to Act, agreed [EGI Min (12) 29/5 and Cab Min (12) 44/34 refer] to:
    - set aside an allocation of \$80.0 million in the Budget 2013 capital allowance to facilitate the Crown's investments in regional water storage and off-farm irrigation infrastructure, and that this be charged against the Future Investment Fund; and
    - authorise the Minister of Finance and the Minister for Primary Industries jointly to approve changes to appropriations required to give effect to the changes above, to up to \$80 million;
  2. **Agree** to establish the following new Non-departmental Capital Expenditure appropriation "Crown Irrigation Investments Limited";

**Noted**

**Agreed / Not Agreed**

3. **Agree** that the scope of this appropriation be “This appropriation is limited to the Crown’s investment in Crown Irrigation Investments Limited.”;

**Agreed / Not Agreed**

4. **Agree** to approve the following change to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on debt:

Vote Primary Industries Minister for Primary Industries	\$m – increase/(decrease)				
	2012/13	2013/14	2014/15	2015/16	2016/17 & Outyears
Non-departmental Capital Expenditure: Crown Irrigation Investments Limited	-	80.000	-	-	-

**Agreed / Not Agreed**

5. **Agree** that the proposed change to appropriations for 2013/14 above be included in the 2013/14 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

**Agreed / Not Agreed**

6. **Note** that the capital expenditure incurred under recommendation 4 above be charged against the Future Investment Fund; and

**Noted**

7. **Note** that approval will be sought to carry forward any unspent amount allocated under the above appropriation into future financial years.

**Noted**

Karen Adair  
Acting Director  
Sector Policy  
Policy

Hon Bill English  
Minister of Finance

/ / 2013

Hon Nathan Guy  
Minister for Primary Industries

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