



Crown
Infrastructure
Partners

CROWN INFRASTRUCTURE PARTNERS LIMITED

STATEMENT OF PERFORMANCE EXPECTATIONS

1 JULY 2019 - 30 JUNE 2020

June 2019

Presented to the House of Representatives
pursuant to the Crown Entities Act 2004



CONTENTS

1. Introduction	1
2. CIP's purpose, objectives, scope and outputs for fiscal year 2020	2
3. CIP's reportable outputs	4
4. UFB and RB12/MBSF Partners' operational and service performance	8
5. Key business assumptions	10
6. Significant accounting policies	12
7. Financial statements	14
Appendix: Directory	18

1: INTRODUCTION

This Statement of Performance Expectations (SPE) is submitted by the Board of Directors of Crown Infrastructure Partners Limited (CIP), pursuant to the Crown Entities Act 2004. It sets out the performance expected of CIP for the period 1 July 2019 to 30 June 2020.

STATEMENT OF RESPONSIBILITY

CIP is responsible for the statements contained in this document, including the appropriateness of the business assumptions underlying them. CIP is also responsible for internal control systems that provide reasonable assurance as to the integrity of its financial reporting.

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Simon Allen, Chair
30 June 2019

Keith Tempest

Keith Tempest, Director
30 June 2019

2: CIP’S PURPOSE, OBJECTIVES, SCOPE AND OUTPUTS FOR FISCAL YEAR 2020

2.1 CIP’S PURPOSE AND OBJECTIVES

The key purpose and objectives of CIP are to implement the Government’s Ultra-Fast Broadband (UFB)¹ programme (the **UFB Objective**), phase two of the Rural Broadband Initiative and Mobile Black Spot Fund programme (the **RBI2/MBSF Objective**), the **Provincial Growth Fund (PGF) Digital Connectivity Objectives** and infrastructure financing for bulk housing and other classes of infrastructure (the **Infrastructure Financing Objective**).

CIP’s vision and policy goals, functions and strategic priorities are set out in the diagram on the opposite page.

CIP’s Statement of Intent for July 2018 to June 2022 outlines CIP’s vision, strategic priorities and functions to achieve the UFB Objective, the RBI2/MBSF Objective and the Infrastructure Financing Objective.

CIP’s work contributes to a number of the Government’s Wellbeing and Living Standards Framework domains of wellbeing, as identified by The Treasury², including civic engagement and governance, health, housing, knowledge and skills, jobs and earnings, social connections and subjective wellbeing.

In this context, CIP works across a number of the capitals contributing to the living standards of New Zealanders, and is focussed on collaboration across a number of arms of the Government to achieve these outcomes as well as intergenerational wellbeing.

The deployment of fibre broadband infrastructure to 86% of the population, the deployment of rural broadband and mobile coverage to the most remote rural parts of the country and the financing of bulk housing and other forms of infrastructure supports social connectedness and cohesiveness, supports both urban and rural economic growth and is inter-generational in nature and benefit.

More specifically, CIP’s programmes align with the following Wellbeing Budget priorities:

- a. investment in digital connectivity can be an enabler to create opportunities for productive businesses, regions and iwi to transition to a sustainable and low-emissions economy through the use of technology;
- b. investment in digital connectivity is a key enabler in the digital age to support innovation, social and economic opportunities; and
- c. the focus on digital connectivity and support for marae will be an enabler for iwi/Māori to utilise digital technologies to improve skills and develop commerce opportunities.



Marua site - Credit: The RCG

¹ For the purposes of the UFB initiative, UFB means a fibre-to-the-premise broadband service making available a minimum uncontested 100 megabits per second (Mbps) downstream (from the internet to the user) and 50 Mbps upstream (from the user to the internet), capable of being upgraded to 10 times these speeds.

² The Treasury, *Our People, Our Country, Our Future – Living Standards Framework: Background and Future Work* dated 4 December 2018, page 4.

VISION AND POLICY GOAL

- To accelerate the roll-out of UFB to 75% of New Zealanders by December 2019, and to 86% of New Zealanders by 2022 (the **UFB Objective**)³
- To improve broadband coverage for the last 4% of the population and mobile coverage on state highways and in tourist areas (the **RBI2/MBSF Objective**)
- To design and implement commercial models to be used for Crown investment in three-waters and transport infrastructure to support land development for housing, as well as other economic infrastructure identified in conjunction with the Government (the **Infrastructure Financing Objective**).



CIP FUNCTIONS

- CIP will ensure the UFB Objective, the RBI2/MBSF Objective and the Infrastructure Financing Objective are achieved by:
- Managing contracts to deliver the UFB and RBI2/MBSF Objectives
 - Implementing contracts and sourcing third party financing to fund housing infrastructure
 - Monitoring and investing Crown funds in infrastructure partners
 - Supporting Government policy objectives for the delivery of infrastructure to improve high-speed broadband and mobile coverage, economic infrastructure identified in conjunction with the Government, and to accelerate housing supply.



STRATEGIC PRIORITIES

- 1: Monitor health and safety performance by partners and promote improvement where necessary
- 2: Ensure deployment targets reached for both UFB and RBI2/MBSF Objectives
- 3: Identify a pipeline of feasible infrastructure projects for completion in 2020 and beyond
- 4: Two projects identified and advanced for financing, if advised by Government, subject to legislation
- 5: Stay within fiscal envelope for the three infrastructure programmes
- 6: Manage contracts effectively for the three infrastructure programmes
- 7: Ensure return of invested funds from infrastructure partners as per contractual arrangements
- 8: Support Government policy for broadband, mobile and housing infrastructure by providing advice where appropriate.

³ CIP is responsible for the roll-out of UFB to 86% of the population by 2022, with the remaining 1% being private fibre that CIP is not responsible for.

3: CIP’S REPORTABLE OUTPUTS

Section 3 describes CIP’s outputs for the period from 1 July 2019 to 30 June 2020, which are reportable under section 149E(1)(a) of the Crown Entities Act 2004. CIP’s performance targets for fiscal year 2020 relate to UFB deployment, progress of RBI2 and MBSF initiatives, UFB installation, PGF Digital Connectivity progress, Infrastructure Financing, and financial and operational efficiency.

In addition to the reportable output class measures, CIP has contractual service levels for UFB and RBI2/MBSF measuring partners’ performance which have also been included in this SPE. CIP monitors the operational and service performance of its UFB and RBI2/MBSF contractual partners (**Partners**), as described in Section 4. These matters are the responsibility of each Partner; CIP’s role is to monitor performance to ensure that contractually agreed service levels are met. CIP also monitors health and safety performance across the various infrastructure programmes. Accordingly, these matters are regarded by CIP as non-reportable outputs for fiscal year 2020 under section 149E(1)(c) of the Crown Entities Act.

Performance on CIP’s reportable outputs and Partner measures will be reported in CIP’s Annual Report.

3.1 CIP’S PERFORMANCE TARGETS

3.1.1 UFB, RBI2/MBSF DEPLOYMENT

UFB, RBI2/MBSF DEPLOYMENT						
REPORTABLE MEASURE		FISCAL 2019 TO JUN 2019		FISCAL 2020 TO JUN 2020		PROJECT COMPLETE 2022/2023
		Plan	% Completed	Plan	% Completed	Plan
1	Number of UFB premises handed over by Partners to CIP or the applicable LFC under UFB (000's)	1,205	84%	1,292	90%	1,434
2	The number of broadband End Users (such as households and businesses) able to connect to UFB (000's)	1,559	86%	1,656	91%	1,818
3	Percentage of population with access to UFB ⁴	76%	88%	80%	93%	86%
4	Rural End Users to receive improved broadband ⁵	38,645	46%	54,075	64%	84,327
5	Mobile Black Spot Tourist sites covered	22	13%	52	31%	168
6	Mobile Black Spot Highway Kilometres covered	343	24%	608	43%	1,406
7	Population percentage receiving improved rural broadband ⁴	1.5%	44%	2.2%	64%	3.4%

UFB deployment

This class of outputs tracks CIP’s progress towards the achievement of the UFB Objectives.

CIP’s performance in terms of the UFB deployment is based on the number of premises handed over by the Partners, a verifiable and audited measure. CIP’s performance in terms of the number of End Users (such as households and businesses) able to connect to UFB is measured by CIP and its UFB Partners using a geospatial dataset.

RBI2/MBSF programme

This class of outputs tracks CIP’s progress towards the achievement of the RBI2/MBSF Objectives.

CIP’s performance in terms of the number of RBI2 End Users able to receive improved broadband is based on the number of ‘Eligible End Users’ (rural households and businesses) and Marae handed over by the Partners, a verifiable and audited measure. CIP’s performance in terms of the number of End Users (such as households and businesses) and Marae able to connect to improved broadband under RBI2 is measured by CIP and its RBI2 Partners using a geospatial dataset.

For MBSF, there are two classes of output that track CIP’s progress towards achievement of the RBI2/MBSF Objectives:

- a: contracted MBSF tourist sites covered; and
- b: contracted MBSF state highway kilometres covered.

CIP’s performance in terms of the number of MBSF tourist sites and state highway kilometres covered with mobile coverage is based on the number of sites and kilometres of coverage handed over by the Partners, a verifiable and audited measure.

3.1.2 UFB, MARAE AND FIBRE LINK INSTALLATION MEASURES

REPORTABLE MEASURES		FISCAL 2019 TARGET	FISCAL 2020 TARGET
1	UFB: Average days to provision a UFB wholesale service	≤ 40 days	≤ 30 days
2	UFB: End User satisfaction with UFB installation	≥ 75%	≥ FY19 ⁶
3	PGF: Time to connect Marae capable of connection	N/A	< 60 days ⁷
4	Fibre Links (Haast and Milford) contract awarded and deployment on plan for completion by end of 2020/21	N/A	On plan to achieve 2020/21 completion

Successful and timely installation of UFB

CIP works with its Partners to ensure that UFB is being successfully delivered. As well as the contractual service levels measuring Partners’ performance, which follow in Section 4, the main measures that CIP will focus on improving with Partners for fiscal 2020 are overall average days to connect to UFB, for all classes of installation, and End User satisfaction with UFB installation.

Average days to connect is measured by each Partner and is the average days for completion of orders measured from the date received and accepted by the Partner to the date the End User’s wholesale service is installed and commissioned. End User satisfaction with the UFB installation is measured by each Partner through surveys of a sample of End Users who have recently had UFB installed.

PGF Marae provisioning

This class of outputs tracks CIP’s progress towards the achievement of the PGF Marae digital connectivity component of the PGF Digital Connectivity Objectives by the measuring of timely provisioning of services.

CIP’s performance in terms of the PGF Marae programme is based on the number of Marae that are capable of being connected⁸ to broadband that are provisioned for broadband service and have all required hardware in place within 60 working days of receiving an approved order from the Provincial Development Unit. This measure will apply from the date the service provider procurement contracts are in place. This is a verifiable and audited measure. This will be measured by CIP using a database.

PGF fibre link progress

This class of outputs tracks CIP’s progress towards the achievement of the PGF fibre link objective component of the PGF Digital Connectivity Objectives.

CIP’s performance in terms of achieving this objective is based on the fibre links being tendered, contracts awarded and construction being underway, which are verifiable and audited measures. This will be measured on the basis of milestones achieved under the contract with the Partner deploying the fibre link(s), excluding Force Majeure events.

⁴ 2019 is forecast as there was no plan for this measure in the 2019 SPE.

⁵ End User plan includes commercial mobile broadband and commercial wireless internet service provider coverage.

⁶ The FY19 average as reported in CIP’s Annual Report.

⁷ Post-service provider contracts being in place.

⁸ Capable of being connected means that the Marae has access to a broadband infrastructure network.

3.1.3 CONTRACTUAL MEASURES FOR THE INFRASTRUCTURE FINANCING OBJECTIVE

CONTRACTUAL MEASURES		
REPORTABLE MEASURE		FISCAL 2020 TARGET
1	Two feasible infrastructure Projects identified for financing under legislative model ⁹	By end of fiscal 2020
2	Pipeline established for feasible projects where Infrastructure financing can be utilised for fiscal years 2021 and beyond	By end of fiscal 2020

Infrastructure financing

This class of outputs tracks CIP's progress towards the achievement of the Infrastructure Financing Objective.

CIP's performance in terms of establishing a pipeline of accelerated infrastructure projects which will benefit from infrastructure financing from fiscal 2021 and beyond will be measured based on production of an objectively verifiable list of projects, some of which will have a reasonable likelihood of being successfully achieved from fiscal 2021 and beyond.



⁹ Subject to Infrastructure Funding and Financing legislation being enacted. 'Feasible' means the projects that meet the Infrastructure Funding and Financing criteria.

3.1.4 CIP'S PERFORMANCE TARGETS FOR FINANCIAL AND OPERATIONAL EFFICIENCY

PERFORMANCE TARGETS FOR FINANCIAL AND OPERATIONAL EFFICIENCY			
FINANCIAL YEAR		FISCAL 2019 PLAN	FISCAL 2020 PLAN
1	Funding per UFB premise handed over	1,155	1,369
2	Funding per End User (such as households and businesses) able to connect to UFB ¹⁰	965	1,190
3	Funding per Rural Broadband End User handed over ¹¹	1,717	3,099
4	CIP operational cost as percentage of annual investment/grants	6%	5%

Financial and operational efficiency

Funding of broadband programmes per End User

These measures outline the level of CIP (Government) funding per End User (household or business) that will receive improved broadband under the UFB and RBI2/MBSF programmes.

Funding for the UFB programme is provided by way of loans and equity and is repaid by UFB Partners over time. The funding per UFB End User increases in fiscal 2020 as a greater number of smaller UFB expansion towns have UFB deployed to them. CIP's level of funding for UFB expansion town premises is higher as it includes backhaul to major UFB cities and larger street frontages.

RBI2/MBSF is grant-funded which is not repaid by RBI2/MBSF Partners. Funding per End User will vary over time due to the mix of technology, remoteness and density of End Users.

Operational efficiency

This measure outlines the operational efficiency of establishing and managing the various infrastructure programmes.

Each year the CIP Board, in conjunction with its shareholding Ministers and the relevant policy Ministers, plans CIP's future level of resourcing, which depends on the:

- overall progress made towards achieving the UFB Objective, the RBI2/MBSF Objective, the PGF Digital Connectivity Objective and the Infrastructure Financing Objective;
- Partners' performance in satisfactorily meeting their contractual obligations for infrastructure deployment and, where relevant, operations; and
- degree to which the Crown investment is actively monitored, based on the current level of risk and the level of support required by the Government.

¹⁰ FY2019 is forecast as there was no plan for this measure in the FY2019 SPE.

¹¹ This includes coverage of End Users by towers only serving End Users (i.e. households and businesses; excludes towers that serve both End Users and mobile black spots).

4: UFB AND RBI2/MBSF PARTNERS’ OPERATIONAL AND SERVICE PERFORMANCE

CIP monitors the operational and service performance of the Partners as described in this section. Delivering on contractual obligations to operate broadband and mobile networks within specified operational and service performance parameters is the Partners’ responsibility. CIP’s role is to monitor performance to ensure that contractually agreed service levels are being met.

4.1 UFB AND RBI2/MBSF SERVICE PERFORMANCE

The minimum service performance measures detailed below have been contractually agreed with the Partners in their agreements with CIP. Enhanced service levels are also available. CIP is responsible for monitoring service performance as per its contracts, while the Partners are responsible for meeting these targets.

CIP’S PARTNERS’ PERFORMANCE TARGETS FOR UFB SERVICE PERFORMANCE	
SERVICE	TARGET
1 Local Fibre Companies UFB1 Provisioning ¹² <ul style="list-style-type: none">ResidentialBusiness/Priority Chorus ¹³ UFB1 and UFB2, and Local Fibre Companies UFB2 Provisioning <ul style="list-style-type: none">All End Users	<ul style="list-style-type: none">Within 4 business daysWithin 6 business days (or date and time as agreed with the End User) <ul style="list-style-type: none">All connections are to be completed on the date agreed between LFC and the RSP/End User (Agreed Date)90% of the Agreed Dates must be within 60 days of a properly completed order
2 Layer 2 ¹⁴ performance per End User: <ul style="list-style-type: none">Residential RestorationBusiness/Priority Restoration	<ul style="list-style-type: none">Within 12 hoursWithin 12 hours
3 Layer 2 network performance per Candidate Area ¹⁵ /POI Area ¹⁶ : <ul style="list-style-type: none">Frame Loss¹⁷ (99% of Frames)Frame Delay (99% of Frames)Frame Delay Variation (99% of Frames)Availability Time/Network	<ul style="list-style-type: none">No more than 0.1%No more than 5 ms (milliseconds) in UFB1 and 7 ms in UFB2¹⁸No more than 3 ms¹⁹ less than 30 minutes or 99.99%
4 Layer 1 ²⁰ performance per End User: <ul style="list-style-type: none">Default RestorationLevel 1 Restoration (Priority)Level 2 Restoration (Priority)Level 3 Restoration (Priority)	<ul style="list-style-type: none">Within 48 hoursWithin 24 hoursWithin 12 hoursWithin 8 hours
5 Layer 1 performance by Candidate Area/POI Area: <ul style="list-style-type: none">Average DowntimeMinimum Availability	<ul style="list-style-type: none">No more than 2 hoursAt least 99.98%, measured over a 12-month period
CIP’S PARTNERS’ PERFORMANCE TARGETS FOR RBI2/MBSF SERVICE PERFORMANCE	
6 Minimum service	90% or more of all Eligible End Users must receive Rural Broadband Retail Services at the Minimum Speeds or greater measured across a rolling 12-month period
7 Operational availability	Rural Broadband Retail Services must have an Average Availability to all Eligible End Users who receive such services on a Grant Funded Network of 99.9% of the time, measured across a 12-month rolling period

CIP reports on the Partners’ progress against these measures in its Annual Report.

¹² ‘UFB1’ refers to the original UFB programme, to provide UFB to 75% of the population by 2019. Provisioning means the installation and activation of a UFB service for an End User such as a household or business. ‘UFB2’ refers to the UFB programme expansions to cover a further 11% of population by 2022.

¹³ Chorus only: If orders exceed anticipated demand by 120%, then Chorus has additional time to complete the order that is proportional to the increase in demand (e.g. a 125% increase in orders above the anticipated demand results in cycle time extending from 60 days to 75 days).

¹⁴ Layer 2 of the Open Systems Interconnection (OSI), associated with active fibre optic network infrastructure.

¹⁵ A Candidate Area is a town or city eligible for UFB.

¹⁶ A Point of Interconnection (POI) Area is a specified group of UFB2 Candidate Areas linked to a UFB1 POI.

¹⁷ A measure of data loss between two specified points.

¹⁸ There is some minor variation between service levels due to backhaul constraints as UFB2 towns can be a considerable distance from the POI. If a primary backhaul link fails, and a secondary link is placed in service, then Frame Delay can increase to 12 milliseconds whilst the secondary link is in use.

¹⁹ As per the CIP Telecommunications Forum measurement regime.

²⁰ Layer 1 of the OSI Model, associated with passive fibre optic network infrastructure.

4.2 HEALTH AND SAFETY

CIP will ensure that it complies with its obligations under the Health and Safety at Work Act 2015. CIP is committed to the health and safety of its employees, its contractors and the community. CIP will continue to encourage its Partners to achieve zero serious harm injuries.

CIP will also continually seek to improve health and safety processes, awareness and compliance, across its own organisation and through its involvement in Chorus, the LFCs, and RBI2/MBSF Partners, and will encourage its contractors to do the same.

CIP benchmarks the performance of Partners against key health and safety metrics such as the Total Recordable Injury Frequency Rate (TRIFR). The performance on TRIFR across Partners as at 30 April 2019 (on the basis of a rolling 12-month average) is shown below:

PARTNERS’ PERFORMANCE AGAINST WORKPLACE HEALTH AND SAFETY BENCHMARK FOR TELECOMMUNICATIONS INFRASTRUCTURE DEPLOYMENT			
SAFETY METRIC	CIP TELECOMMUNICATIONS	BENCHMARKS	
		NZ CONSTRUCTION	NZ MINING & UTILITIES
TRIFR ²¹	3.1	12	11

UFB and RBI2/MBSF Partners have measures in place to stay below this threshold, and this will be reported on in CIP’s Annual Report.

CIP also focuses on the health, safety and wellness of its own staff, and has a zero-harm environment. CIP has also developed a set of organisational values to maintain a positive working environment that supports our employees to build resilience.



Parihaka Site - Credit: Primo Wireless

²¹ A TRIFR of 10 means there were 10 total recordable injuries (including lost time injuries and medical treatment injuries) per one million hours worked. It is expected that TRIFR across UFB, RBI2/MBSF and PGF programmes for fiscal year 2020 should remain within a range of 3-5. This threshold reflects the increasing risk profile of the build programmes as work expands from cities into smaller towns and more remote rural areas.

5: KEY BUSINESS ASSUMPTIONS

5.1 REPORTING ENTITY

The reporting entity is CIP (the **Company**) and its subsidiaries (the Group). CIP is a limited liability company incorporated under the Companies Act 1993, and is a Crown entity as defined by the Crown Entities Act. CIP is listed in Schedule 4A of the Public Finance Act 1989.

The purpose of the Company, as set out in the Company’s constitution, is to:

- (a) implement the government’s objectives in relation to improving the performance and availability of, and access to:
 - (i) ultra-fast broadband;
 - (ii) rural broadband; and
 - (iii) mobile voice and data coverage,by co-investing with, or making grants to, private sector participants in order to deploy telecommunications network infrastructure; and
- (b) investigate and implement commercial models, including those that will enable co-investment from the private or any other sector, to achieve the government’s objectives for the deployment of water and roading infrastructure to support the timely increase of housing supply.

Modifications to the wording in (b) above in CIP’s Company constitution will likely be required should Infrastructure Funding and Financing legislation be enacted (and CIP is nominated to undertake functions under this legislation) which has the effect of broadening CIP’s scope of activities in the area of infrastructure financing.

CIP’s aim is to provide services to the public and implement Government policy, rather than make a financial return, and as such CIP is a Public Benefit Entity (**PBE**) for the purposes of financial reporting under Public Sector PBE Standards (**PBE Standards**). CIP is a public authority and so is exempt from the payment of income tax. Therefore, no provision has been made for income tax in CIP’s financial statements.

5.2 BASIS OF PREPARATION

Statement of compliance

The prospective financial statements:

- are for the years ended 30 June 2019 and 30 June 2020;
- have been prepared in accordance with the Crown Entities Act, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP);
- comply with PBE FRS-42 Prospective Financial Statements and NZ GAAP as it relates to prospective financial statements; and
- were authorised for issue by the Board of Directors on 6 June 2019.

Annual historical financial statements for these periods will be prepared in accordance with NZ GAAP, NZ PBE Standards and other applicable financial reporting standards as appropriate for PBEs, using the policies outlined in Section 6. The Board of Directors is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

These prospective financial statements have been prepared for the purpose of complying with the Crown Entities Act 2004. The prospective financial statements may not be suitable for another purpose.

Measurement base

The financial statements have been prepared on a historical cost basis except for certain investments that are measured at fair value.

Functional and presentation currency

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand (\$000)s. The functional currency of CIP is New Zealand dollars.

New Zealand Public Benefit Entity Standards

CIP applies New Zealand Tier 1 PBE Standards. The prospective financial statements in the Statement of Performance Expectations has been prepared with consideration of NZ PBE Standards and NZ GAAP.

CIP has adopted PBE IFRS 9 Financial Instruments, in the forecast for fiscal 2019, in line with the early adoption by the Crown. There is no prior period adjustment, and the key impacts have been:

- (a) the Chorus debt securities, have been reclassified from amortised cost to fair value through surplus or deficit (**FVTSD**). At the date of transition (1 July 2018), the Chorus debt securities have been measured at their fair value. The difference between the fair value and the previous carrying amount of \$32.7 million has been recognised as an adjustment to opening retained earnings at that date.
- (b) the Chorus equity securities were reclassified from Available for Sale (**AFS**) to FVTSD. At the date of transition (1 July 2018), \$21,310,000 was reclassified from the AFS revaluation reserve to Retained earnings.

CIP has new disclosure obligations for the receivables and the 3rd party debt portion of the bulk housing infrastructure (**BHI**) investments in the Milldale LP and future Infrastructure Financing Projects. There is a liability in the form of a term loan, and a non-current asset, being the receivable (income payments due from property owners), to which PBE IFRS 9 will apply.

Standards and interpretations that are not yet effective and have not been adopted

There are a number of standards, amendments and interpretations issued but not yet effective that have not been adopted early.

5.3 NOTES TO THE ACCOUNTS

- i. **Interest income:** Interest earned on cash balances with financial institutions, and imputed interest from financial securities;
- ii. **RB12/MBSF/PGF Grant Income:** Are the grants funded by the Telecommunications Development Levy (TDL) and the PGF for improving rural broadband connectivity, reducing mobile blackspots, providing fibre links to Haast and Milford, and digital connectivity to marae;
- iii. **Miscellaneous income:** Is the reimbursement of the expenses incurred by Infrastructure Financing Projects that were directly attributable to the transaction;
- iv. **BHI Income:** The income attributable to CIP for the Infrastructure Financing Projects;
- v. **Fair value changes on investments:** Gains and losses arising from changes in the fair value of CIP’s investments;
- vi. **Depreciation and amortisation:** Depreciation charges on property, plant and equipment;
- vii. **RB12/MBSF/PGF Grant Expenses:** These expenses are the cost of the RB12/MBSF deployment that CIP is paying to The Rural Connectivity Group (**RCG**) and Wireless Internet Service Providers (**WISPs**) funded from the TDL and PGF for improving rural broadband connectivity, reducing mobile blackspots, providing fibre links to Haast and Milford, and digital connectivity to marae.
- viii. **RB12/MBSF CIP-funding:** CIP funds RB12/MBSF expenses where those are not covered by Grant Funding, including site leases, and any operational costs;
- ix. **Other company overheads:** Administrative costs for CIP;
- x. **UFB contribution - Chorus Equity Securities and Debt Securities and CCHL, UFF and NFL loans:** The difference on initial recognition between the fair value of the investment and the contribution by CIP represents CIP’s and the Crown’s contribution towards deployment by one of its Partners, Chorus, that is funded through the issue of debt and equity securities;
- xi. **Cash and cash equivalents:** Cash on hand with New Zealand’s major trading banks; and
- xii. **Capital:** The Crown investment made in CIP is represented by 1,855,400,200 ordinary shares issued at a value of \$1.00, with 1,334 million shares expected to be fully paid in fiscal 2019 and 1,552 million shares paid in 2020. The Crown holds all the issued capital of CIP. All shares have equal voting and dividend rights and share equally in any distribution on wind-up.

6: SIGNIFICANT ACCOUNTING POLICIES

6.1 FORECAST FINANCIAL STATEMENTS

The financial statements contained below are prospective and, by their nature, contain assumptions which may lead to material differences between the prospective financial statements and the actual financial results prepared in future reporting periods. CIP has undertaken a review of its financial models, and believes they remain fit for purpose in assisting CIP in preparing prospective financial statements. Significant assumptions in the preparation of prospective financial statements are for the investments in Chorus, CCHL, UFF, NFL, Milldale LP and any potential other classes of future infrastructure financing projects. The prospective statements for Infrastructure Financing Projects is subject to significant management judgement relating to the timing and quantum of the investments, and the prospective information reflects the best information available to management.

6.2 REVENUE

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

RBI2/MBSF/PGF Grant Income is recognised on receipt of the grant funds from MBIE.

BHI income is recognised on receipt of the income from property owners in the Milldale project and future Infrastructure Financing Projects.

6.3 INVESTMENT IN CHORUS AND CCHL, UFF AND NFL

CIP's investment in loans to CCHL, UFF and NFL are categorised as a "loans and receivables" financial asset and are measured initially at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method.

The investments in unlisted Chorus Equity Securities and Chorus Debt Securities are categorised as financial assets measured at FVTSD, and are measured at fair value.

CIP's shares in NFL are shown as UFB shares in associates, and are equity accounted.

CIP advances funds interest free to CCHL, who provides funding to ESL (UFB build Partner), who in turn advances funds to Enable Networks Limited to fund the deployment of the UFB network (brownfields deployment is complete and funding is for greenfields). The advance is repayable in May 2022 and is secured over the assets of Enable Networks Limited.

Any difference on initial recognition between the fair value of the investment in the debt and equity securities and the contribution by CIP represents CIP's and the Crown's contribution to the deployment of UFB in New Zealand, and is reflected in the line "UFB contributions - Chorus securities" in surplus or deficit in the statement of comprehensive income. CIP's investment in Chorus's warrants is treated as a derivative, which is categorised as a "fair value through profit or loss" financial instrument, is measured at fair value and is accounted for in the same manner as the "fair value through profit or loss" financial instruments above.

6.4 INVESTMENT IN BULK HOUSING AND OTHER CLASSES OF INFRASTRUCTURE

CIP's investment in bulk housing infrastructure is categorised as a "loans and receivables", the receivable is measured initially at fair value, and the loan is at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method. In the build phase of BHI, interest expense is capitalised, and once build is completed interest expense will be recognised in the statement of forecast comprehensive income.

In financial statements, the investment in unlisted equity securities of bulk housing infrastructure is categorised as an available-for-sale financial asset, and is measured at fair value.

CIP has a secured loan of approximately \$60 million, with a fixed interest rate for a 35-year period. The loan is to be secured over the bulk housing infrastructure revenue stream, with recourse to the development lot owners through an encumbrance on the land. There is no recourse or guarantee provided by either CIP or the Crown for this loan. During the build phase of the development, the interest on the loan is capitalised against the loan until completion of the construction phase of the project. The loan is measured subsequently at amortised cost using the effective interest method.

6.5 CREDITORS AND OTHER PAYABLES

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms; therefore, the carrying values of creditors and other payables approximate their fair values.

6.6 GOODS AND SERVICES TAX

All items in the financial statements are presented exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from, Inland Revenue, including the GST relating to investing and financing activities, is classified as operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed excluding GST.

6.7 INCOME TAX

The Company is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax by CIP in the Company's financial statements.

6.8 STATEMENT OF CASH FLOWS

The definitions of the terms used in the statement of cash flows are:

- i. cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily converted to known amounts of cash and are subject to an insignificant risk of changes in value;
- ii. operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities;
- iii. investing activities are those activities relating to the acquisition and disposal of current and non-current investments, property, plant and equipment, intangible assets and other non-current assets; and
- iv. financing activities are those activities that result in changes in the size and composition of the debt and contributed equity of the Company.

6.9 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements CIP has made estimates and assumptions concerning the future, which may differ from subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management has exercised its judgement in respect of arriving at the fair values of its investments in Chorus and Milldale loans and receivables, including assumptions in respect of fibre uptake by Chorus customers by June 2020.

7: FINANCIAL STATEMENTS

STATEMENT OF FORECAST COMPREHENSIVE INCOME

FOR THE PERIOD 2019-2020

	2018/19 Forecast \$000	2019/20 Plan \$000
Income		
Interest income	28,487	36,144
RBI2/MBSF Grant Income	31,196	154,700
Miscellaneous income	1,227	2,424
BHI Income	-	430
Net fair value gains/(losses) on financial assets at fair value through surplus or deficit	24,061	(22,167)
Fair value gain on derivatives	-	15
Total income	84,971	171,546
Expenses		
Directors fees	318	328
Wages and salaries	4,942	6,392
Depreciation expense	96	96
Professional & advisory fees	4,577	6,018
RBI2/MBSF Grant Expenses	31,196	154,700
RBI2/MBSF - CIP funding	601	17,768
Other expenses	2,246	3,472
UFB contributions	97,306	93,936
Bulk housing project contributions	-	3,913
Fair value loss on derivatives	267	-
Total expenses	141,549	286,623
Net surplus/(deficit) before tax	(56,578)	(115,077)
Tax expense/(credit)	-	-
Net surplus/(deficit) for the year	(56,578)	(115,077)

STATEMENT OF FORECAST CHANGES IN EQUITY

FOR THE PERIOD 2019-2020

	Capital \$000	AFS Reserve \$000	Retained Earnings \$000	Attributable to Equity Holders of Parent \$000	Wholly Owned Subsidiary \$000	Total \$000
Opening balance 1 July 2018 (actual)	1,072,900	21,310	(602,657)	491,553	-	491,553
Change in accounting policy (adoption of NZ IFRS 9)	-	(21,310)	53,982	32,672	-	32,672
Restated opening balance 1 July 2018	1,072,900	-	(548,675)	524,225	-	524,225
Comprehensive income						
Net deficit	-	-	(56,578)	(56,212)	(366)	(56,578)
Other comprehensive income and expense	-	-	-	-	-	-
Total comprehensive income and expense	-	-	(56,578)	(56,212)	(366)	(56,578)
Owners' transactions						
Share transactions with minority interests	-	-	-	-	-	-
UFB Capital contributions - Crown	245,000	-	-	245,000	-	245,000
BHI Capital contributions - Crown	17,000	-	-	13,240	3,760	17,000
Closing balance 30 June 2019 (forecast)	1,334,900	-	(605,253)	726,253	3,394	729,647
Opening balance 1 July 2019	1,334,900	-	(605,253)	726,253	3,394	729,647
Comprehensive income						
Net deficit	-	-	(115,077)	(115,151)	74	(115,077)
Other comprehensive income and expense	-	-	-	-	-	-
Total comprehensive income and expense	-	-	(115,077)	(115,151)	74	(115,077)
Owners' transactions						
Share transactions with minority interests	-	-	-	-	-	-
UFB Capital contributions - Crown	159,500	-	-	159,500	-	159,500
BHI Capital contributions - Crown	57,935	-	-	7,395	50,540	57,935
Closing balance 30 June 2020 (forecast)	1,552,335	-	(720,330)	777,997	54,008	832,005

STATEMENT OF FORECAST FINANCIAL POSITION

FOR THE PERIOD 2019-2020

	2018/19 Forecast \$000	2019/20 Plan \$000
Current assets		
Cash and cash equivalents	111,397	93,498
Trade and other receivables	-	50
GST receivable	915	213
Prepayments	68	39
Total current assets	112,380	93,800
Non-current assets		
Property, plant and equipment	98	77
UFB investments in loans and receivables	156,776	168,061
UFB investments in shares in associates	14,285	13,245
UFB investments in debt securities	234,745	247,095
UFB investments in equity securities	211,655	263,338
Bulk housing projects	13,211	99,647
Total non-current assets	630,770	791,463
Total assets	743,150	885,263
Current liabilities		
Creditors and other payables	3,146	3,069
Employee entitlements	906	929
Total current liabilities	4,052	3,998
Term liabilities		
Term loan	9,451	49,260
Total term liabilities	9,451	49,260
Total liabilities	13,503	53,258
Net assets	729,647	832,005
Contributed capital	1,334,900	1,552,335
Retained earnings	(605,253)	(720,330)
Total equity	729,647	832,005
Equity attributable to parent	729,647	832,005
Total equity	729,647	832,005

STATEMENT OF FORECAST CASH FLOWS

FOR THE PERIOD 2019-2020

	2018/19 Forecast \$000	2019/20 Plan \$000
Cash flows from operating activities		
Receipts from customers	-	430
Interest received	1,502	1,151
Grants received	38,180	154,700
Miscellaneous receipts	1,227	2,192
Payments to suppliers and employees	(17,694)	(15,721)
Payments to RBI2/MBSF - CIP funded	(601)	(17,768)
Grants payments	(32,946)	(154,700)
Interest payment	(963)	(1,224)
Goods and services tax (net)	15	420
<i>Net cash inflow/(outflow) from operating activities</i>	<i>(11,280)</i>	<i>(30,520)</i>
Cash flows from investing activities		
Purchase of property, plant and equipment	(75)	(75)
UFB investments in loans and receivables	(20,652)	(10,231)
UFB investments in shares in associates	(141)	-
UFB investments in debt securities	(67,191)	(21,770)
UFB investments in equity securities	(128,966)	(124,462)
Bulk housing projects	(12,248)	(89,125)
Proceeds from sale to minority interests	1,422	1,040
<i>Net cash outflow from investing activities</i>	<i>(227,851)</i>	<i>(244,623)</i>
Cash flows from financing activities		
Proceeds from third party debt	9,451	39,809
UFB capital contribution	290,000	159,500
Bulk housing capital contribution	17,000	57,935
<i>Net cash inflow from financing activities</i>	<i>316,451</i>	<i>257,244</i>
Net increase/(decrease) in cash and cash equivalents	77,320	(17,899)
Cash and cash equivalents at the beginning of the year	34,077	111,397
Cash and cash equivalents at the end of the year	111,397	93,498

APPENDIX: DIRECTORY

Shareholders

The Minister of Finance
The Minister for State Owned Enterprises

Registered office

c/- Bell Gully
Level 22, Vero Centre
48 Shortland Street
Auckland Central
Auckland 1010, New Zealand

Contact address

PO Box 105321
Auckland City
Auckland 1143, New Zealand

Email: info@crowinfrastructure.govt.nz
www.crowninfrastructure.govt.nz
Phone: +64 9 912 1970

Auditor

The Auditor-General, pursuant to
section 15 of the Public Audit Act 2001

Solicitor

Bell Gully

Bankers

ANZ Bank New Zealand Limited
ASB Bank Limited
Bank of New Zealand Limited
Kiwibank Limited
Westpac New Zealand Limited

Senior Management

Graham Mitchell,
Chief Executive Officer

Sean Wynne,
Deputy Chief Executive Officer -
Bulk Housing Infrastructure

Dougal Evison,
Finance Director

John Greenhough,
Chief Technology Officer

Kathryn Mitchell,
Chief Legal and Risk Officer

Nick Manning,
General Manager Government
and Industry Affairs

Board of Directors

Simon Allen (Chairman)
Mark Binns
Miriam Dean CNZM QC
Danelle Dinsdale
Keith Tempest



Kakahu tower - Credit: Ultimate Broadband

Back Cover Image:
Fisher Riley - Credit: The RCG



Milldale development
Credit: Fulton Hogan

