

Reference: 20170341



12 December 2017

Grace Haden
fyi-request-6702-b478aa93@requests.fyi.org.nz

Dear Grace Haden

Thank you for your Official Information Act request, received on 16 October 2017. You requested (verbatim):

Please provide copies of all reports and investigations conducted with regards to Tamaki regeneration limited prior to transferring the housing corp stock to this company.

when was treasury advised of the change of plan of transferring housing corp stock to tamaki regeneration limited instead of Tamaki redevelopment company limited as planned and reported by parliament and referred to in parliamentary reports https://www.parliament.nz/resource/en-NZ/SCR_72722/4dc2d69aa01084d6eaff8bbb1df6c1e2d2885d28 and https://www.parliament.nz/resource/en-NZ/SCR_72691/424d087dcfdd920b5e23c4a3c48d85ee1acc66e5

Tamaki regeneration limited filed a constitution prior to government stocks being transferred into it and share holding being transferred from the ministers what in put did treasury have in the constitutions and why is this constitution different to the extensive constitution which tamaki redevelopment company limited had when it was the intended recipient of the assets .

was treasury consulted over the change of plan of vesting the property in tamki regeneration limited please provide documents whihc show the consultation .

Is treasury aware of the massive confusion which exists with regards to tamaki regeneration limited and tamaki redevelopment company limited whihc on letter head of the companies is referred to as a fictional company tamaki regeneration company limited.

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what steps is treasury taking to safe guard the assets and ensure that the transfer has occurred as signed off as intended and not signed off by the ministers to the incorrect company due to the confusion which has arisen in the use of a fictional name and a so called legal group which includes both the companies.

On 15 November 2017 I wrote to you advising that I was extending the time limit for deciding on your request by an additional 20 working days.

In addition, on 11 October 2017 you made the following request to the previous Minister of Finance (verbatim)

- 1.the authorities signed by the minister of finance to set up Tamaki regeneration limited*
- 2. all documentation which discusses the need to set up Tamaki regeneration limited along side Tamaki redevelopment company limited.*
- 3. documents relating to the setting up of THA GP limited as a subsidiary of Tamaki redevelopment limited and the subsequent setting up of the limited partnership Tamaki housing association LP .*
- 4. all research and notes which relate to Tamaki housing association LP and discussing the implications of crown owned assets being controlled by a Limited partnership and its legal status as a crown entity .*
- 5. On 14 and 15 April 2016 Tamaki redevelopment company limited was removed as a share holder of Tamaki regeneration limited , please provide all documentation which facilitated the removal and the reinstatement of Tamaki regeneration limited and please advise what the actual share registry of the crown owned enterprise Tamaki regeneration limited shows.*
- 6 please provide directives which facilitated the removal of the names of the minister of housing and minister of finance on 31 march 2017 from the share registry .*
- 7 Tamaki redevelopment company limited is listed as the ultimate holding company of Tamaki regeneration limited yet it holds 0 % of the shares please provide all documentation that shows that the ministers are aware of this and have approved this .*
- 8 Please provide all documents which allow for delegation of authority from the minister of finance and show who it was delegated to and what the terms and limitations of the delegation was in terms of being able to set up companies in the name of the minister of finance.*
- 9 documents which show that the constitution of tamaki regeneration was approved by the minister of finance.*

Information Being Released

You have asked a number of questions regarding Treasury's involvement in the Tāmaki transaction and Ministerial decision making. Treasury was a member of the project team that executed the Tamaki transaction. The attached Treasury report details the nature of the Tāmaki transaction and demonstrates Ministers' involvement in decision making. It makes clear that Tāmaki Regeneration Ltd and the Tāmaki Housing Association are subsidiary entities controlled by Tāmaki Redevelopment

Company Ltd. As such, documentation relating to those entities is the responsibility of Tāmaki Redevelopment Company Limited. The report confirms that the transaction was conducted in the manner in which it was planned.

The online Companies Office register only provides limited information about details of shareholders and company documents, as required by the Companies Act 1993 and its regulations. In particular, the online register does not specify whether shares are “ordinary shares” or a different class of shares.

Ordinary shares are shares that provide rights to dividends and voting rights (see section 36 of the Companies Act 1993).

In the case of Tāmaki Regeneration Ltd, the Crown holds around 1.63 billion of “redeemable preference shares” in Tāmaki Regeneration Ltd. These shares do not have any voting rights and are not ordinary shares. They are a special class of shares, which are allowed by section 37 of the Companies Act 1993. Further details about the redeemable preference shares are contained in the enclosed Treasury Report.

All of the 100 ordinary shares in Tāmaki Regeneration Ltd are owned by Tāmaki Redevelopment Company Ltd. It is those ordinary shares, which have voting rights, that are relevant to the Public Finance Act and Crown Entities Act provisions.

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	26 February 2016	Preparatory Briefing on Documents Required for Execution of the Tamaki Transaction	Release in full

I have decided to release the document listed above in full. In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely



Tom Hall
Manager, Housing



Hon Bill English
ORIGINAL



Treasury Report: Preparatory Briefing on Documents Required for Execution of the Tamaki Transaction

Date:	26 February 2016	Report No:	T2016/219
		File Number:	CM-1-3-115

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note this report. Note that you will sign Tamaki transaction documents on 3 or 4 March 2016	Wednesday 2 March 2016
Minister for Social Housing (Hon Paula Bennett)	Note this report. Note that you will sign Tamaki transaction documents on 3 March 2016	Wednesday 2 March 2016
Minister for Building and Housing (Hon Dr Nick Smith)	Note this report. Note that you will sign Tamaki transaction documents on 3 March 2016	Wednesday 2 March 2016

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Nick Graham	Senior Analyst, Transactions Unit – Social Housing Reform	04 890 7412 (wk)	021 202 4454 (mob) ✓
Dominic Milicich	Principal Advisor, Transactions Unit – Social Housing Reform	04 917 6087 (wk)	N/A (mob)

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes

- 7 MAR 2016

Letter of Expectations for TRC (Treasury:3394098v2)

Treasury Report: Preparatory Briefing on Documents Required for Execution of the Tamaki Transaction

Executive Summary

By 4 March 2016, Ministers will sign the range of documents necessary to execute the Tamaki transaction. This report describes the purpose and impact of each of the documents. In particular, we note how the structure of the transaction acts to protect Crown value and provide certainty regarding the activities that the Tamaki Redevelopment Company (TRC) will pursue.

The documents to be signed have been finalised or negotiated to a near final state. We can provide any of these documents to you if you want. Alternatively, if Ministers are comfortable, we will provide you with executable versions of the documents at the time at which they need to be signed.

A TRC shareholders' meeting is scheduled for 15 March 2016. We will include drafts of the Letter of Expectations and Shareholders Agreement alongside a briefing for this meeting. However, we have attached an initial draft of the Letter of Expectations to give you the chance to provide any early feedback. The plan is for TRC to submit a revised SOI for approval before 31 March 2016.

Recommended Action

We recommend that you **note** the contents of this report.



Dominic Millicich

Principal Advisor, Transactions Unit, Social Housing Reform

SEEN

Hon Bill English
Minister of Finance

Hon Paula Bennett
Minister for Social Housing

Hon Dr Nick Smith
Minister for Building and Housing

Treasury Report: Preparatory Briefing on Documents Required for Execution of the Tamaki Transaction

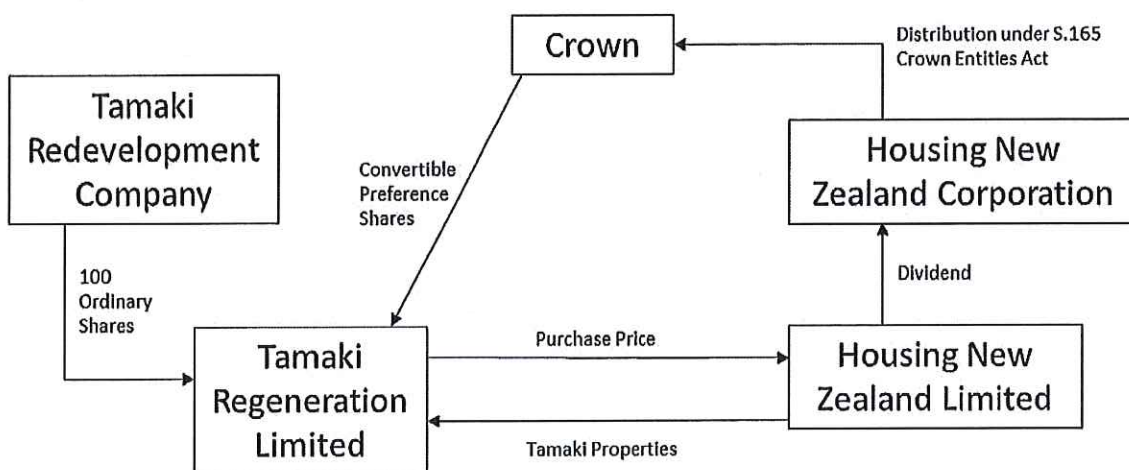
Purpose of Report

1. This report briefs you on the full range of documents that are required for the execution of the Tamaki transaction. A draft of the Letter of Expectations for TRC is attached for any early feedback Ministers may wish to provide.

Background

2. The Tamaki transaction involves the funding flows depicted in the figure below.

Figure One: Funding for the Tamaki Transaction



3. The main points to note regarding the funding flows for the transaction are:
 - i. the sale and purchase of the properties will occur between subsidiaries of TRC and HNZC, namely Tamaki Regeneration Limited (TRL) and Housing New Zealand Limited (HNZL)
 - ii. the purchase price has been established as book value¹, and
 - iii. the value of the convertible preference shares, the dividend from HNZL to HNZC, and the distribution under section 165 of the Crown Entities Act each equal the purchase price meaning that no net cash is involved in the transaction.
4. The documents associated with each leg of the transaction are as follows:
 - i. sale and purchase between TRL and HNZL – **Deed of Transfer and Payment Deed**
 - ii. Crown funding TRL for the purchase – **Subscription Agreement, Call Option Deed, and Payment Deed**

¹ Definition provided in paragraph 10.

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- iii. Crown extracting the purchase price from HNZN – **Notice under Section 165 of the Crown Entities Act and Payment Deed**
 - iv. TRC **shareholder resolution** approving entry by TRC into Deed of Transfer as a major transaction, and
 - v. Ministerial approval for TRC and TRL to grant indemnities contained in transaction documents.
5. In addition, other documents need to be updated or created due to the significant change in TRC's operations, as follows:
- i. Amended constitution for TRC
 - ii. Amended constitution for TRL
 - iii. New Shareholders' Agreement (replacing the existing Heads of Agreement)
 - iv. Letter of Expectations, and
 - v. Statement of Intent.
6. We summarise the impact and procedural requirements for each of the documents below.

Effecting the Transaction of Properties

Transfer Deed

7. TRC and HNZN have negotiated the terms of a document called the Deed of Transfer that gives effect to the sale and purchase of the Tamaki properties.
8. Under the Deed of Transfer, HNZN agrees to sell its Tamaki properties to a TRC subsidiary, TRL. The sale also includes the transfer of all rights associated with those properties such as rights to unpaid rent, the right to recover damages from tenants, and the benefit of existing bonds. A small number of Community Group Housing properties, being properties leased or licenced to community group housing operators also form part of the property sale.
9. In addition the Deed of Transfer makes provision for:
 - the on-going supply of property management services for the Tamaki properties, by HNZN's Auckland east supplier of such services, and
 - the transfer of contracts in respect of a number of ongoing property developments being undertaken for HNZN in the Tamaki area and which are to be taken over by the TRC group.
10. The purchase price for the sale is the book value of the Tamaki properties and associated assets (with book value being defined as the June 2015 revaluation values plus or minus acquisitions, disposals and impairments, less depreciation in the 15/16 year) together with GST (if any). This is anticipated to be a sum approximating \$1.6 billion.

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11. The Deed of Transfer expressly excludes from the scope of the sale, the transfer of certain Crown debt (being debt due to the Crown as a result of overpayments of income related rent subsidies), a single property that is subject to a lease to buy arrangement, and four properties that were thought to be HNZN owned, but in fact have remained in Crown ownership. TRC will take over the management of these Crown properties pending decisions being made whether, and if so, the basis on which those properties could transfer into TRC ownership.²
12. The parties record in the Deed of Transfer their commitment to achieving a smooth and seamless transition. In this connection HNZN and TRC have agreed a set of documented guidelines for the transition (to deal with tenancy, housing and financial management activities that will be "in-flight" at the time of settlement) along with a data migration strategy for the transfer of Tamaki related tenant and property information from HNZN's information technology system to a TRC data base.

Payment Deed

13. The Payment Deed sets out how each party to the transaction will perform the actions required of it to fund the transaction. The Payment Deed provides certainty to all parties. While in effect the transaction is just a shift on the Crown balance sheet of assets from one entity it owns to another that it also effectively owns, there are different entities with independent boards that are involved in the transfer (Crown, HNZN, HNZN and TRL). The Deed mitigates any risk that the flows get interrupted. It should eliminate any settlement risk on the transaction. The deed should provide legal certainty to each party as to how its obligation is being discharged and should make the payment flows clear for accounting, audit, and tax purposes.

Ministerial approval for TRC and TRL to grant indemnities

14. The transaction documents TRC and TRL must sign include some indemnities, generally granted in favour of HNZN and HNZN. TRC and TRL have statutory limitations on their ability to grant indemnities. The indemnities are not permitted by legislation because they will not be entered into in the ordinary course of business for TRC and TRL. The Minister of Finance and TRC's other shareholding Minister, Hon Nick Smith, can jointly grant approval under section 160 of the Crown Entities Act 2004 for TRC and TRL to grant the indemnities. This is necessary for TRC and TRL to enter the transaction. A notice of the approval will be published in the Gazette.

Extracting the Sales Proceeds

15. Extracting the sales proceeds from HNZN allows for the transaction to occur with no cash impact. Extracting the funds will be achieved using a notice under section 165 of the Crown Entities Act. Under that section the Minister of Finance has the ability to require a Crown entity to pay a distribution after a consultation process. This process has almost been completed.

² There are RFR and potentially PWA issues to address in any transfer of Crown owned properties plus a consultation process with local iwi before the transfer proceeds. In addition there is also the question of deciding the most appropriate mechanism for sale of these properties under the Housing Act.

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16. The Minister responsible for HNZC (Minister English) wrote to the Chair of HNZC on 15 December 2015 and received a response from the Chair on January 15 2016. The Chair noted that "the purpose of the current consultation is to facilitate the Tamaki transfer only and, in particular, to facilitate the return of sale proceeds from HNZC to the Crown. Subject to ratification from the Board, I advise that there are no impediments in my view to receiving a letter from you under section 165 of the Crown Entities Act." The Board of HNZC has subsequently met and ratified the Chair's view³.
17. The Minister of Finance is also required to consult with the Minister responsible for HNZC. Transfers of Ministerial responsibility under the Crown Entities Act have not been put in place, so Minister English holds both of those portfolios for Crown Entities Act purposes. To avoid a situation where Minister English is perceived to be consulting with himself, we propose to reallocate Ministerial responsibilities for the purposes of section 165 of the Crown Entities Act. You can anticipate a more detailed report on this early next week.
18. The section 165 notice for the Minister of Finance (once delegated) to send has been finalised and HNZC has been consulted on the form of the notice. There are two items to note.
 - i. The notice includes a formula for calculating the distribution rather than a figure. The exact figure will not be known until around 21 March 2016. Buying and selling properties and demolitions are ongoing until the start of the blackout period on 16 March 2016. Once property activity ceases the formula will be applied to calculate the exact sales price.
 - ii. The Minister will sign the notice at the same time as the Deed of Transfer. The signed notice will then be tabled at the 15 March 2016 meeting of the HNZC Board. This will allow the Board of HNZC to approve the payment of the dividend from HNZL to HNZC and the distribution from HNZC to the Crown on settlement on 31 March 2016.

Protecting Crown Value

19. Two overarching principles have guided the development of the nature of the transaction. These are that:
 - even though the Auckland Council will remain a 41% owner of TRC, the Crown will retain all the value associated with the properties that it is transferring into TRC, and
 - the level of expenditure for TRC to commit to social initiatives will be an amount agreed with Ministers (it was not intended that TRC would be able to spend the \$1.6b of assets it will receive as it sees fit).
20. The protections that the Crown requires to achieve these intentions is provided by the combination of restrictions in the constitution of TRL, veto rights contained within the subscription agreement for the convertible preference shares, and the call option. These instruments:
 - restrict the ability of TRL to use the assets and the associated income stream for anything apart from the management and redevelopment of the assets
 - restrict the ability for TRL to transfer funds to the parent company, and

³ HNZC are providing a letter confirming this position.

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- allow the Crown to take control of all the ordinary shares in TRL should it deem it necessary to do so.

21. Specifically, the constitution of TRL contains the following clause.

The purpose of the Company is to:

- acquire Housing New Zealand Limited's properties in Tamaki ("Tamaki Properties");*
- ensure the Tamaki Properties are properly maintained;*
- enter into contracts and arrangements for the large scale redevelopment of the Tamaki Properties;*
- enter into contracts with investors to purchase Tamaki Properties following redevelopment; and*
- enter into contracts with Tamaki Housing Association Limited Partnership to facilitate the management and rental of the Tamaki Properties.*

22. This clause means that TRL is not able to incur expenditure on broader social and economic regeneration initiatives. These initiatives can only be done by TRC. TRC, however, while having the ability to incur expenditure on social and economic regeneration initiatives will only have funds to the extent that TRL pays it dividends. The subscription agreement provides the Crown with the following veto rights:

The Company must obtain prior written approval of the Crown to the following:

- any material changes to its agreements with THA GP Limited or the Tamaki Housing Association Limited Partnership and, in particular, to payments obligations under those agreements;*
- any dividends or other distributions to be paid in respect of Ordinary Shares in excess of the approved budget in the Statement of Performance Expectations and Statement of Intent for Tamaki Redevelopment Company Limited's operating costs related to the financial year in which the dividends or distributions are to be paid;*
- any significant actions which are not consistent with either the Business Case or the Statement of Intent of its parent company, Tamaki Redevelopment Company Limited;*
- issue to any person or acquisition from any person of any debt (other than bank deposits), equity or hybrid securities (including, for the avoidance of doubt, the issue of Ordinary Shares by any means);*
- any amendment or replacement of the Company's Constitution;*
- any merger or restructure of the Company;*
- the incorporation of any subsidiary or any other entity;*
- the entry into of any partnership, joint venture, limited partnership, strategic alliance or any analogous relationship;*
- making an investment inconsistent with the manner prescribed by the Cabinet Circular in respect of Crown owned entities;*
- entering into of any Significant Transactions;*
- entering into any third party financing arrangements, including any non-ordinary course of business securitisation of any Company assets;*

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- l. giving any guarantees (with or without security) or providing an indemnity to any person (with or without security) other than in the ordinary course of business or permitted director and officer indemnification; and*
 - m. lending or advancing money to any entity (including its parent and related entities) other than making deposits with bankers.*
23. The ability to restrict dividends (clause b above) means that the Crown can control the level of expenditure on social regeneration initiatives and funds cannot be released to the parent company (and potentially paid to the Council as a 41% shareholder) without the specific approval of the Crown. The intention is that TRC makes the case for its activities and the associated funding through its Statement of Intent. If the Government agrees it would consent to a dividend from TRL to TRC that was sufficient to fund those activities.
24. Finally, the Crown could potentially want to take direct control of the entire ordinary shareholding of TRL, either because it decides that TRL is performing poorly or because the redevelopment has been very successful⁴ and it needs to capture the value. The subscription agreement provides the Crown with the right to convert its preference shares into ordinary shares. At the point of conversion the call option allows the Crown to purchase the other ordinary shares in TRL for a nominal fee. The Crown also has the right to reject a redemption notice from TRL if necessary.

Updating the Governance Documents to Reflect the Change in Circumstances

25. The role and functions of TRC will change significantly once the transaction occurs. The Shareholders Agreement between Crown and Council, TRC's constitution, TRC's Statement of Intent, and the letter of expectations all need to be updated to reflect its changed circumstances. We have also taken the opportunity to update the documents so that they reflect more standard practice, in terms of the SOI being the key accountability document.

TRC's Constitution

26. The TRC constitution is relatively standard, although two key Tamaki specific features are:
- i. The company purpose (which remains unchanged from the original constitution), as being to pursue the transformation Objectives, in accordance with the Statement of Intent by:
 - a. leading and integrating a programme of activities (with involvement of public, private and non-government organisations) to transform Tāmaki, including planning and preparatory activities
 - b. procuring and/or influencing physical and spatial development, including with regard to housing, infrastructure and amenities, and
 - c. facilitating the alignment design and delivery of place-based social and economic projects to lift prosperity and well-being in Tāmaki

⁴ Gains in value may appear unlikely but the structure prepares for them in any case. For illustrative purposes, imagine that the total value received from the development over 20 years is \$2b. The preference shares will have a face value of approximately \$1.6b reflecting the book value today. Without the call option and the ability to reject redemptions, TRL could issue a redemption notice, pay \$1.6b to the Crown extinguishing the preference shares, and have \$400m to distribute to TRC which could spend the money or pay it out as a dividend, 41% of which would accrue to the Council. Under the proposed structure, the Crown would reject such a redemption notice, issue a conversion notice, exercise its call option, and achieve ownership of 100% of TRL ordinary shares and control of the full \$2b.

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- ii. A clause has been inserted to give the directors more comfort that their duties to the company are wider than that of a standard company which is often to maximise financial returns (if maximising financial return was the objective many of the outcomes that shareholders want could not be achieved).

The company will seek to maximise the company's financial return having regard to:

- a. *parameters agreed by Shareholders and notified by the Company, and*
- b. *the economic and social outcomes the Company is expected by the Crown to deliver as reflected in its statement of intent.*

Heads of Agreement/Shareholders Agreement

27. The current heads of agreement is to be replaced with a shareholders agreement. The heads of agreement contained quite a prescriptive work plan for TRC to follow that is now largely out of date. In any case, TRC's plans are more appropriately set out in its SOI. The shareholders agreement will focus on the commitments made by the shareholders and how they will work together and will be discussed at the shareholders' meeting on 15 March 2016.

Letter of Expectations / Statement of Intent

28. We have prepared a draft Letter of Expectations (attached), in consultation with TRC, to guide TRC in updating its SOI. The Letter of Expectations and draft SOI can be discussed at the shareholders' meeting on 15 March 2016.
29. The Letter of Expectations makes it clear that TRC's primary job is to deliver on the business case as agreed by Cabinet late last year. It notes that the intention is for TRC to not be a long term holder of social houses or provider of tenancy management services, but that this role will be transferred to a range of third parties through appropriate procurement processes.

TRC Funding

30. The Letter of Expectations also addresses a request by TRC to increase the loan facility to cover unplanned expenditures related to the transfer from HNZN. It is now apparent that both the Fenchurch and Overlea developments and the Northern Glen Innes contract will achieve less progress than expected at the point at which the Tamaki transaction is finalised. This has the effect of transferring the costs yet to be incurred on these projects from HNZN to TRC. This is fiscally neutral for the Crown but creates an increased cashflow requirement for TRC. In addition, TRC has now calculated the cash impact from meeting the upfront GST implications of the transaction that will only be recovered over time. In total, TRC will now incur costs of between \$50m-\$65m that it was not expecting.
31. TRC management has discussed with officials whether the size of its loan facility could be increased to account for these additional costs. We do not recommend increasing TRC's loan facility. The size of the loan facility was established based on an indicative list of development projects in Tamaki that TRC could pursue. At this early stage there is considerable uncertainty which of these projects may be able to be progressed. In addition, the indicative drawdown schedule provided by TRC involved a cumulative loan drawdown of only \$58m to the end of June 2017 with the facility not scheduled to be fully drawn down ahead of 2020.

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- 32. Therefore, the size of the loan facility is sufficient to cover the increased costs now expected as well as TRC's projected development expenses in the 2016/17 year. If it becomes clear that additional development expenditures would further enhance the speed and quality of the Tamaki regeneration in subsequent years, TRC could make a case for increasing the loan facility in the 2017 Budget.
- 33. In order to give comfort to the TRC board that they do have the cash to cover these extra costs we propose including in the letter that you support the use of the current facility to cover these costs. The TRC Board may still be unhappy accepting these extra costs, but they would have a difficult time arguing that they cannot bear these costs as part of the transfer based on solvency grounds, as their equity position will be extremely strong post the transfer.

Proposed Timing

- 34. We have discussed your availability to sign documents with your respective offices. It appears that March 3 2016 will be the most feasible date. Documents to be signed on March 3 2016 include:

Document	Signatories
Ministerial approval for TRC and TRL to grant indemnities (if not signed earlier)	English & Smith
Updated TRC Constitution	English & Smith
TRC shareholder resolution approving entry by TRC into Deed of Transfer as a major transaction	English & Smith
New TRL Constitution	TRC
Deed of Transfer	Bennett & English
Payment Deed	Bennett & English
Delegations for ancillary documents	Bennett & English
S. 165 Notice	Finance (delegate)
Subscription Agreement	English & Smith
Call Option	English & Smith

- 35. The documents above have been finalised or negotiated to a near final state. We can provide any of these documents to you if you want. Alternatively, if Ministers are comfortable, we will provide you with executable versions of the documents at the time at which they need to be signed.
- 36. Documents to be finalised by 31 March 2016 are:
 - i. Letter of Expectations
 - ii. Updated SOI
 - iii. Shareholders' Agreement

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37. A shareholders' meeting is scheduled for 15 March 2016. We will include drafts of the Letter of Expectations and Shareholders Agreement alongside a briefing for this meeting. However, we have attached an initial draft of the Letter of Expectations to give you the chance to provide any early feedback. The plan is for TRC to submit a revised SOI for approval before 31 March 2016.

Mr Brian Donnelly
Chair of Tamaki Redevelopment Company
PO Box 18070
Glen Innes
Auckland 1072

Dear Brian

Letter of Expectations for Period commencing 1 April 2016

TRC is moving into an exciting new era with the transfer of the HNZC properties to it on 31 March 2016. Alongside the transfer, shareholders are providing you with a new constitution which clearly sets out the purpose of TRC.

Importantly, your four strategic objectives remain:

- **Social:** Supporting Tāmaki residents and families to gain the skills, knowledge and employment opportunities to progress their lives;
- **Economic:** Strengthening the local economy and unlocking the potential of the Tāmaki area to enable a prosperous community and deliver better value for money to the Crown (with a focus on increasing the return on investment and realising the potential value from state and council-owned housing);
- **Spatial:** Creating safe and connected neighbourhoods that support the social and economic development of Tāmaki and its community; and
- **Housing Resources:** Optimising the use of land and existing housing stock to effectively support and deliver social and economic results, including progressing private housing development and better public housing options for Tāmaki.

In addition to these I expect you to also have regard for the social housing reform programme objectives:

- Ensure that people who need housing support can access it and receive social services that meet their needs.
- Ensure that social housing is of the right size and configuration, and in the right areas, for those households that need it.

- Help social housing tenants to independence, as appropriate.
- Encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities.
- Help increase the supply of affordable housing, especially in Auckland.

Your key task is to implement the Cabinet decision that approved your business case for large scale development.

Specifically the Company will manage the Redevelopment Programme by ensuring:

- the regeneration is conducted generally in accordance with the Business Case and, in particular, by the procurement of:
 - long term, large scale housing services (including tenancy management and property management);
 - a consortium comprising of a large scale development partner and a long term owner of the redeveloped social housing for the first development precinct; and
 - consideration of the approach to the second development precinct;
- that TRC will be responsible for tenancy and property management of the Tāmaki houses until this responsibility is transferred to a third party with the Tamaki Housing Association ('THA'). I expect timeframes for this transfer to be determined through the procurement process which will be concluded in 2017.
- that ownership of newly developed social houses in Tāmaki is transferred to third parties by 31 March 2018;
- that responsibility for family assistance and liaison is transferred to an independent community based organisation by 31 March 2020; and
- that frameworks are developed to evaluate the effectiveness of interventions in Tāmaki and the progress of key areas of interest in the Redevelopment Programme. This includes:
 - an outcomes framework;
 - an evaluation framework; and
 - an evaluation plan.

Should it become apparent during the procurement processes that market conditions require a change of approach, I expect you to report back to shareholding Ministers detailing any proposed changes.

In undertaking this redevelopment programme you will:

- develop at least 2500 houses over the next 10-15 years into over 7500 new dwellings, and

- meet the government commitment that those who are impacted by the redevelopment and are still in need of social housing will have the opportunity to remain within the community.

In your SOI, you can acknowledge that these plans would not be the same as if houses were owned by a private company who would seek to maximise the financial return.

The Crown is not expecting the same financial return from these assets as a private owner would. It is recognised that to maximise the economic and social returns likely requires trading off some financial return for TRC. However I do expect you to act business-like and transparent at all times and maximise value within the constraints we agree. I expect you to significantly outperform the baseline financial projections included in the business case.

I acknowledge that there may be significant operating losses incurred by TRC in the future as the current HNZC properties are sold for regeneration purposes and the houses written off prior to demolition. These impacts will only be able to be reasonably forecast once the procurement process has been completed and the arrangements with preferred bidders are confirmed.

I acknowledge there are unplanned expenditures for TRC following the transaction due to HNZC making less progress than forecast on the Fenchurch and Overlea and the Northern Glen Innes contracts, and the timing implications of the GST treatment of the transaction. The additional value of these costs estimated at somewhere between \$50 million and \$65 million. These costs can be met from the existing \$200 million loan facility. As further development expenditures that would further enhance the speed and quality of the Tamaki regeneration become more certain you are invited to make a case for further funding.

I expect TRC to take into account the potential economic and social impacts that are wider than the Tamaki area. In this regard I expect:

- the evaluation for large scale procurement to take into account the potential economic benefits that a particular bidder would bring to the wider economy in terms of introducing new supply chains, new and innovative construction techniques etc., and
- TRC to work constructively with relevant agencies, to make sure the learning about collective impact, social investment, and urban regeneration programmes is transferrable to other areas.

I expect TRC and its partners to engage with MSD early to ensure that the social houses are of the right size and configuration, and in the right areas, for those households that need it in the Tamaki area. It would reflect poorly on your performance if social houses are built in the Tamaki area that MSD does not want to pay for.

Social and Economic regeneration

Your strategic objectives give you the mandate to carry out the development and undertake other activities to help meet wider social and economic objectives in the Tamaki region, working alongside other stakeholders.

I want you to become an agency I can hold up as an example of best practice in bringing a business-like approach to social and economic activities. I expect you to back your activities up with solid business cases drawing on as much information and quantified costs and benefits as possible. The first such example should be the case you make to me for drawing down the loan facility for the pilot of the family by family initiative.

I appreciate the work currently being carried out with social sector agencies in the Social and Economic steering group. At this stage I see TRC's role to:

- Continue working constructively with other agencies in the SER steering group to develop an approach that both meet the needs of the residents of Tamaki and the system as a whole
- Establish backbone organisation functions to pilot in the Tamaki area
- Identify needs, commissioning new short term stop-gap services and influence increases to effectiveness and efficiencies to existing services
- Build community capacity and seek community engagement.

Excluding the family by family pilot initiative your funding levels for economic and social activities can remain in line with [previous projections]. However I would like TRC in conjunction with the relevant social sector agencies and Treasury, to report to me and relevant social sector ministers, on the proposed nature and level of funding for the ongoing social and economic regeneration programme in the Tamaki area, in time for this to be incorporated in TRC 2017 SPE or in time to be incorporated into any of the redevelopment procurement process where appropriate.

I also have the following expectations in terms of your dealings with iwi

- Engage with iwi (settled and yet to settle) so that they are kept up to date on your public plans and are aware of any opportunities to formally participate in any procurement process,
- Have regard to the customary interests of iwi in land during processes involving sale or disposal, including giving iwi with strong customary interest appropriate opportunities to participate in that process; and
- Alert us as your responsible shareholding Ministers and relevant oversight agencies to any issues regarding iwi or Māori interests in land arising from proposed sales or disposal of land.

These expectations are directed at providing an opportunity for relevant iwi to participate in sale processes. It is, of course, the responsibility of your board and management to make decisions for TRC, including whether the steps above are appropriate when considering the sale of land. The Crown expects these steps will not result in TRC realising less from a sale than you might have otherwise obtained. However, they will require you to take more responsibility for determining whether there are any relevant Māori interests in the land you want to sell and to engage with iwi early in the process. The OTS, PSCU and TPK may be able to provide some assistance to you, but will not necessarily have full knowledge of iwi interests. There is no substitute for direct engagement with iwi.

Where applicable, you should be following the expectations set out in the Treasury Owners Expectation Manual.

I look forward to seeing the positive outcomes that Tamaki regeneration will produce for the residents of Tamaki and the learnings that we can then apply elsewhere.

Yours Sincerely

Hon Bill English
Minister of Finance

DRAFT