



<b>NAME</b>	<b>Corporate Governance Statement</b>
<b>NUMBER</b>	1.7
<b>DATE</b>	26 April 2007

**Approved by the Board on:** 13 June 2007

### Introduction

1. REANNZ (Research and Education Advanced Network New Zealand Ltd) is a Crown-owned company set up to establish, own and operate a high-capacity, high-speed telecommunications network for the research and education sectors (KAREN, Kiwi Advanced Research and Education Network).

### Purpose

2. REANNZ's purposes as set out in its constitution are to establish and operate KAREN in order to promote education, research and innovation for the benefit of New Zealand and to:
  - operate in a financially sustainable manner and manage foreseeable upgrades and increases in KAREN capacity through the accumulation of reserves;
  - establish and operate the Company in such a way that it:
    - enables leading-edge e-research;
    - facilitates universal connectivity throughout the New Zealand and international research and education community;
    - encourages broad participation by the research and education sector in New Zealand through accessible technology and cost-effective pricing;
    - connects the research and education sector to the broader innovation sector for pre-commercial, research-based collaboration;
    - facilitates participation by multiple telecommunications-sector partners so as to ensure the greatest possible flexibility for on-going evolution; and
  - endeavour to obtain a commitment from users of KAREN (for example, Tertiary Education Institutions and Crown Research Institutes) to acquire the Crown's shares in the Company within a reasonable timeframe.
3. This Corporate Governance Statement explains the REANNZ governance framework and how that framework applies in practice.

## THE REANNZ CORPORATE GOVERNANCE FRAMEWORK

### Companies Act 1993

4. REANNZ is a limited liability company incorporated under the Companies Act 1993. The Companies Act prescribes most of the governance and accountability requirements for companies, including: incorporation, organisation and operating requirements; defining the relationships between companies and their directors,

shareholders, and creditors; and protections for shareholders and creditors against abuse of management powers.

5. The shareholders of REANNZ are the Minister of Research, Science and Technology, and the Minister of Finance, who each hold 500 shares on behalf of the New Zealand public. REANNZ is therefore a Crown-owned company, this fact alone does not alter REANNZ's core governance and accountability obligations under the Companies Act. However, there are a number of additional governance and accountability obligations which apply to REANNZ by virtue of specific statutory provisions and stated shareholding expectations.

#### **Public Finance Act 1989 & Crown Entities Act 2004**

6. REANNZ is an organisation named in Schedule 4 of the Public Finance Act. This means that certain governance and accountability provisions of the Crown Entities Act apply to REANNZ as if REANNZ were a Crown entity under the Crown Entities Act 2004 (but note that REANNZ is not itself a Crown entity or Crown entity company).
7. Additional governance and accountability obligations on REANNZ under the Crown Entities Act (i.e. as applied by the Public Finance Act) include:
  - Statement of Intent (SOI) (section 139 and associated provisions of the Crown Entities Act);
  - Annual Report (section 150 and associated provisions of the Crown Entities Act);
  - Statement of Service Performance (section 153 Crown Entities Act);
  - Production of annual financial statements and a statement of responsibility for those financial statements, and obtain an audit report from the Auditor-General (sections 154 to 156 Crown Entities Act);
  - Limits on bank accounts, securities, borrowing, guarantees and derivatives (sections 158 & 161-164 Crown Entities Act); and
  - A duty to provide information to REANNZ's responsible minister and the Minister of Finance (sections 133 & 134 Crown Entities Act).
8. REANNZ's Constitution states that the company will *"have regard to"* any whole of government directions that would apply to the company if it were a Crown entity company under the Crown Entities Act.
9. The shareholding Ministers through their 22 August 2005 letter of expectations set out their expectations that REANNZ:
  - Will include in its SOI the process the company intends to follow for the purpose of section 96 of the Crown Entities Act (notice of intention to acquire subsidiaries), as if it were subject to that section; and
  - Will provide in its SOI that the company will comply with section 100 of the Crown Entities Act (rules governing the acquisition of share or interests in companies, trusts, and partnerships, etc), as if REANNZ were subject to that section.

#### **Schedule 1 Ombudsmen Act 1975: REANNZ is defined as a Crown 'Organisation'**

10. REANNZ's inclusion as a Crown 'organisation' in Part 2 Schedule 1 of the Ombudsmen Act 1975 means that several additional pieces of legislation apply to REANNZ, these include:
  - The Ombudsmen Act 1975: An Ombudsman may investigate and review any decision or act of REANNZ relating to a matter of administration and affecting any person;

- The Official Information Act 1982: this creates rights of access to information held by REANNZ except to the extent such information should be withheld in the public interest or to protect personal privacy;
- The Protected Disclosures Act 2000: REANNZ is required to have in place published internal procedures for receiving and appropriately dealing with protected disclosures. For the purposes of this Act the Chief Executive of REANNZ is deemed an 'appropriate authority'.

11. Other public sector legislation applying to REANNZ includes: the Public Audit Act 2000; the Public Records Act 2005; and parts of Part 1 of the State Sector Act [i.e. by virtue of REANNZ being deemed part of the wider "state services"].

## **THE BOARD**

### **The Role of the Board**

12. The business and affairs of REANNZ are managed under the direction and supervision of the REANNZ board. The board ensures that REANNZ acts in a manner consistent with its objectives, its current statement of intent and output agreement and the company constitution.
13. The board is under a duty to manage REANNZ in a legally compliant way in accordance with its corporate governance framework and other legal obligations. REANNZ's legislative compliance policy and systems support the performance of this duty.

### **Composition and Performance**

14. Under its constitution the REANNZ board can comprise between 2 and 9 directors. Currently there are 5 directors. The board contains the following generic competencies:
- high-level skills and understandings of financial and legal issues relating particularly to the information technology and communications sectors;
  - high-level understanding of information technology and communications technology issues and potential;
  - a good understanding of advanced network technology and issues;
  - a good level of knowledge of New Zealand research interests and related international research; and
  - the ability to establish effective business and other working relationships with all stakeholders.
15. The performance of the board and individual directors is reviewed annually by the Chair in a manner consistent with the expectations of shareholding Ministers.

### **Board Committees**

16. The REANNZ board has constituted two committees, an Audit and Compliance Committee and Remuneration Committee. The role of each committee is formally recorded in a mandate document approved by the board.

### **Management Delegation**

17. The board is responsible for guiding the corporate strategy and direction of REANNZ and has overall responsibility for decision making. The board delegates to the Chief Executive responsibility for implementing the board's strategy and for managing the operations of REANNZ. These delegations are set out in the company's Delegated Authorities Policy.

### **Board Processes**

18. The agenda for board meetings is prepared by the Chief Executive in consultation with the Chair. Standing items include: Chief Executive's report; financial reports;

and disclosure compliance and notification of relevant interests by directors. Papers are circulated in advance of meetings; directors are free to raise items not on the agenda. Management is required to provide adequate and timely information to the board on issues that require the board's attention and decision, as well as ongoing reports relating to the operational and financial performance of REANNZ.

## **DIRECTORS**

### **Appointment**

19. REANNZ directors are appointed by the shareholding ministers [i.e. the Minister of Finance and Minister of Research, Science and Technology] following ratification by Cabinet's Appointments and Honours Committee. The director-appointment process is administered for Ministers by the Crown Company Monitoring Advisory Unit.

### **Disclosure Duties and Conflicts of Interest**

20. REANNZ directors have a continuous duty to disclose their interest in any matter relating to REANNZ. The company maintains a register of disclosed interests.
21. Where any REANNZ director has a conflict of interest or is otherwise interested in a transaction or matter, that director's role in that transaction or matter is actively managed by the board in accordance with REANNZ's policy for conflicts of interest.

## **ETHICS**

22. REANNZ subscribes to the principles set out in the New Zealand Public Sector Code of Conduct. REANNZ also has a set of company values, which is underpinned by a number of policies such as its anti-harassment policy and rules for use of company property.

## **FINANCIAL AND PERFORMANCE ACCOUNTABILITY**

### **Planning**

23. The REANNZ board is required to prepare at or before the start of each financial year a Statement of Intent for REANNZ for that financial year and at least the next two years. Behind each SOI sits a detailed business plan which contains the detailed commercial planning for how REANNZ intends to achieve its purposes and objectives. The REANNZ board takes an active role in setting the strategy for REANNZ, including dedicated strategy meetings throughout the year.
24. The SOI promotes the public accountability of REANNZ by:
  - enabling the Crown to participate in the process of setting REANNZ's medium term intentions and undertakings;
  - setting out for the House of Representatives those intentions and undertakings; and
  - providing a benchmark against which REANNZ's actual performance can be assessed.
25. The requirements of the statement of intent are specified in the Crown Entities Act (section 139 & associated provisions) and include:
  - REANNZ's objectives for the full period and how it intends to achieve those objectives;
  - How REANNZ proposes to manage its organisational health and capability;
  - The main financial and non-financial performance measures and standards by which the future performance of REANNZ may be judged;

- Matters on which REANNZ must consult or notify its responsible Minister before making a decision; and
- For the first financial year covered by the statement of intent: forecast financial statements (including any significant underlying assumptions); and a statement of forecast service performance.

26. The board consults with REANNZ's shareholding Ministers when preparing the statement of intent.

### **Controls**

27. Management accountability for the integrity of REANNZ's financial management processes and financial reporting is reinforced by confirmation to the board in writing, signed by the Chief Executive and Accountant, that those processes have been adhered to and financial reports present a true and fair view, in all material respects, of REANNZ's financial condition. REANNZ's Treasury Policy stipulates controls around cash flows and the management of financial transactions.

28. The REANNZ board will advise the shareholding Ministers where it is contemplating new investments exceeding \$1.5M per transaction (or related set of transactions), and will seek shareholding Ministers' approval in advance for new investments exceeding \$3M per transaction (or related set of transactions).

### **Reporting**

29. REANNZ's annual reporting obligations are set out in the Companies Act (Part 12) and the Crown Entities Act (Section 150 & associated provisions). These Acts prescribe the processes for the preparation and distribution of the REANNZ annual report, and specify the minimum financial and service performance information to be included in the annual report.

### **Annual Report**

30. The Annual Report is to be delivered to Shareholding Ministers within three months of the end of each financial year.

31. The annual report reports on the operations of the company during the financial year, and includes:

- A commentary on the performance for the period;
- A description of the KAREN highlights for the year;
- An audited statement of financial performance, statement of financial position, statement of cash flows, and notes to the accounts (including accounting policies);
- The auditor's report on those financial statements; and
- A confirmation that REANNZ has complied with all statutory environmental obligations.

32. The board provides the shareholding Ministers with quarterly reports covering REANNZ's financial performance for the quarter and year-to-date performance against budgets. Quarterly reports also provide updated end of year forecasts, and commentary on performance for the period. The commentary focuses on any material variances and how these will be addressed. The quarterly reports also comment on major achievements or milestones for the period and the outlook for the next period.

### **AUDIT & SCRUTINY**

33. The Auditor-General is required to be REANNZ's auditor under the Public Audit Act 2001. Under the Public Audit Act the Auditor-General can carry out: financial

report audits; performance audits; and inquiries into any matter concerning a public sector entity's use of its resources.

34. Additional scrutiny of REANNZ on behalf of the Crown occurs through Treasury and the Crown Company Monitoring Advisory Unit which provide ownership monitoring and advice to REANNZ's shareholding Ministers.

35. The Ministry of Research, Science and Technology has a policy oversight role in relation to REANNZ's outcomes.

### **SHAREHOLDER RELATIONS**

36. The shareholding Ministers hold the shares in REANNZ on behalf of the New Zealand public. This means that the law and good stewardship demand that there is a high degree of integrity and transparency in dealings between the REANNZ board and the shareholding Ministers.

37. Consistent with the "no surprises" approach the REANNZ board keeps shareholding Ministers informed on any potentially significant issues. The board will advise Ministers of any applications for connection to KAREN which are declined by REANNZ.

### **Monitoring Service Providers**

38. The operating model of REANNZ is that it is primarily a relationship management and standards and contract establishment organisation, rather than an operational one (from a network perspective). This means REANNZ out-sources day-to-day activities such as network management and concentrates its activities in areas such as reviewing the network standards, network architecture, designs, and continual liaison with key stakeholder communities, at both user and decision-maker levels.

39. Given the reliance on external service providers, this is an area of particular focus of the REANNZ board. The board aims to ensure that REANNZ:

- Engages resources of appropriate quality and capacity, supplied at reasonable cost;
- Procures those resources in accordance with REANNZ's procurement policies;
- Enters comprehensive service level agreements with each external service provider; and
- Systematically monitors the performance of service providers and receives reports any short-comings.

**Policy review date:** June 2010

Donald Clark  
**Chief Executive**