

The Treasury

Letters of Expectations Information Release

September 2020

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Key to sections of the Act under which information has been withheld:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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SENT

07 JAN 2020

Sandi Beatie
Chair
Education Payroll Limited
PO Box 12 141 Thorndon
WELLINGTON 6144
[23]

Dear Sandi

2020/21 SHAREHOLDER EXPECTATIONS FOR EDUCATION PAYROLL LIMITED

I am writing on behalf of the shareholding Ministers to outline the matters that we expect the Board of Education Payroll Limited (EPL) to address in the business planning process for the 2020/21 financial year.

The Government remains committed to resolving key long-term challenges facing the country including sustainable and inclusive economic development, supporting thriving and sustainable regions, preserving our natural capital, particularly in view of climate change, leveraging technology to boost productivity and a fair society for all New Zealanders.

We expect that the boards of entities that comprise the Crown's commercial portfolio will support the Government to resolve these challenges by continuing to maximise the value of the portfolio through improved financial performance and effective capital management.

This letter contains the following information:

- our specific expectations for EPL;
- general expectations for the Crown's commercial portfolio; and
- the timeline for the 2020/21 business planning process and governance information (Annex 1).

Entity specific expectations

Roll-out of the Education Payroll Development Programme

We expect that EPL will continue to deliver the Education Payroll Development Programme (EDPD) and realise the benefits as per the 2016 Detailed Business Case and the Master Services Agreement (MSA) Statement of Works with the Ministry of Education (the Ministry), without adversely impacting delivery of the schools payroll service.

Ongoing delivery of the schools payroll

We expect EPL will:

- continue to effectively deliver schools payroll as a financially sustainable company and continue to operate within the contract terms and deliver the services in accordance with the MSA with the Ministry while delivering value for money to the Crown;
- take any necessary measures to prevent data or cyber security breaches and to comply with recommendations from the National Cyber Security Centre; and
- ensure it is able to provide assurance on schools payroll performance consistent with good industry practice, e.g. that EPL is operating under an industry standard payroll control environment that addresses schools' payroll risks, the Performance Measurement Framework is complete, and requisite performance reporting is in place.

Government engagement

EPL should continue effectively engaging with the Government, including:

- a the Ministry, the Treasury and other agencies as part of an integrated approach to achieve the Government's policy objectives in the education sector
- b the Ministry as it progresses work to address schools' payroll non-compliance with the Holidays Act (2003)
- c the Treasury and the Ministry as EPL's organisational strategy and the Ministry's potential options for future delivery of the schools payroll, including consideration of the future form of the education payroll service, are developed
- d the Treasury to provide regular financial information as per the Owner's Expectation Manual and as required
- e providing early warnings to the Treasury and the Ministry if there are any anticipated or actual delays in implementation of the Education Payroll Development Programme, and information on the likely impact on benefits realisation
- f the Treasury to provide early indication of any risks to the repayment and phasing of the Crown loan facility, and
- g the Ministry, the Treasury and other agencies to inform them of any material impacts of proposals (initiated either by EPL or by the agencies) that may affect the education sector or delivery of the MSA with the Ministry.

General expectations

Although some of the general expectations are highlighted below, the full expectations for the Crown's commercial portfolio companies are contained in the Owner's Expectations Manual (OEM). The OEM, including updates, can be found on the Treasury's website: <https://treasury.govt.nz/publications/guide/owners-expectations-manual>.

Ministers expect that both directors and management of the Crown companies will be familiar with the OEM to ensure shareholder expectations are being met. Attached to this letter (Annex 1), is the timeline for the 2020/21 business planning process and key milestones.

Capital structure

Ministers expect that the board will periodically review the capital structure of the entity to ensure that:

- a it is appropriate for the entity; and
- b any borrowing is maintained at a prudent level.

Entities are expected to return any surplus capital to the Crown so that it may be used to fund other Crown priorities.

Wellbeing focus

Ministers expect entities to be cognisant of the Government's focus on wellbeing. We are supportive of the reporting frameworks being adopted, to varying degrees, across the Crown's commercial entities (such as Integrated Reporting), which are increasingly being used by companies internationally.

Executive pay

Ministers acknowledge that it is the Board's role to set the executive team's remuneration. We expect that the remuneration will be appropriately linked to performance, and set at a level sufficient to attract and retain the necessary skills to drive an effective and efficient operation.

Ministers are, however, also mindful of the Government's focus on raising pay levels for those on low and middle incomes. To this end, we expect boards to take a conservative approach with respect to executive remuneration and to have robust processes in place to support, and publicly justify, the decisions made. The shareholding Ministers are focused on the transparency of executive remuneration, and we expect to see this reflected in your entity's annual report. If you have not already, you will receive a letter shortly outlining these expectations.

Support diversity

Consistent with Government support for increased diversity and gender balance on boards, entities are encouraged to support diversity and inclusion in the workplace and in leadership.

Governance – board evaluations

Board evaluations help boards improve performance and contribute to advice to the shareholding Ministers on board composition. A full, independent board evaluation is expected to be undertaken at least every three years, with a more limited interim evaluation between those times. Information should also be provided on investment in director development.

No surprises

Ministers expect to be informed well in advance of any material or significant events relating to the entity, whether positive or negative. Examples of matters that could fall within the 'no surprises' policy could include, but are not limited to: any risk to financial forecasts, imminent media coverage of any activities that could attract critical media comment or on which the shareholding Ministers could be asked to express a view.

In particular, companies should inform Ministers' offices before the announcement of all financial results, and before companies appear in front of select committees.

Engagement

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions please contact Alex Ng (on ^[39]) or Alice Courtney (on ^[39]). Alternatively you can contact Shelley Hollingsworth, Manager Commercial Performance (on ^[39]).

Yours sincerely



Hon Chris Hipkins
Minister of Education
on behalf of the shareholding Ministers

cc: Arlene White, CEO, Education Payroll Limited,^[39]

Annex 1

Timetable for the Business Planning Process for 2020/21

Table 1: Summary timetable for the Business Planning Process

<i>Due by</i>	<i>Key Action</i>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
Friday, 28 February	Board sends Strategic Issues letter to Ministers
Thursday, 30 April	Board submits draft SOI (if required), SPE and business plan
Friday, 29 May	Board provides advice on: <ul style="list-style-type: none">• whether special fees are sought for 2020/21;• the professional development spend in 2019/20 and the proposed professional development budget for 2020/21; and• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.
Tuesday, 30 June	Board delivers final SOI (if required) and SPE to the shareholding Ministers
As soon as practicable after delivery of the final SOI (if required) and SPE to Ministers	Company to publish SOI (if required) and SPE on its website

All entities are expected to provide the shareholding Ministers with a **Strategic Issues letter**, by **Friday, 28 February 2020** in response to the Letter of Expectations. Should your company wish to engage with the shareholding Ministers to seek clarification around their expectations, we would ask that you advise the Treasury as early as possible of such intentions.

Entities are expected to provide the shareholding Ministers with a draft SOI (if required), SPE and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Thursday, 30 April 2020**.

The final SOI (if required) and SPE should be delivered to the shareholding Ministers on or before **Tuesday, 30 June 2020**.

The shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.

Further guidance on the timetable is contained in section 5.6.4 of the OEM. The OEM is available from the Treasury's website.