

The Treasury

Letters of Expectations Information Release

September 2020

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Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

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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Hon Shane Jones

Minister of Forestry

Minister for Infrastructure

Minister for Regional Economic Development

Associate Minister of Finance

Associate Minister for State Owned Enterprises

Associate Minister of Transport



Mr Rodger Finlay
Chair
New Zealand Post Limited
[23]

Dear Rodger

SHAREHOLDER EXPECTATIONS FOR NEW ZEALAND POST LIMITED

I am writing on behalf of the shareholding Ministers of New Zealand Post Limited (NZ Post) to provide an updated expectations letter in light of the negative economic impacts of COVID-19, and the resultant Government equity injection into NZ Post. This letter does not supersede the expectations set out in the *2020/21 Shareholder Expectations for New Zealand Post Limited*, but instead supplements these with specific expectations related to the negative economic impacts of COVID-19 and the equity injection.

The Government is committed to resolving the key short term and long term challenges facing New Zealand including sustainable and inclusive economic development, supporting thriving and sustainable regions, leveraging technology to boost productivity and a fair society for all New Zealanders. The Government is undertaking steps to mitigate the negative impact of COVID-19 on the wider economy. Ministers expect that the boards of entities that are within the Crown's commercial portfolio will support the Government in its economic response to COVID-19 by continuing to maximise the value of their companies through effective capital management, reasonably managing costs, and seeking efficiencies.

The Crown support extended to NZ Post in the form of equity reflects the Government's strong support for NZ Post to continue to be a successful business providing essential communication and logistical services to New Zealanders. The equity injection is intended to provide funding support to NZ Post to mitigate the negative economic impacts of COVID-19 and enable the continuation of NZ Post's essential mail and courier services.

Consultation on Network Strategy investment

In December 2019 we noted our support for NZ Post investing in its parcel network infrastructure, the Network Strategy, provided the required funding is within NZ Post's internal capacity and it has a strong and well evidenced long-term commercial proposition.

Due to the negative economic impact that COVID-19 is having on NZ Post's business, we recognise there is a scenario in which NZ Post will no longer be able to fund the investment from its internal capacity and it will need to rely in part on the Government's equity injection if it decides to progress with the investment.

We recognise that investments with strong commercial propositions could contribute to the Government's efforts to promote economic recovery post-COVID-19. However, as a result of COVID-19 and the potential negative change in underlying economic conditions, we expect the Board will seek a revised business case from management for the Network Strategy investment to reaffirm the commercial proposition before making a decision to continue. This would include, for example, assessing whether the expected return on the investment would meet the hurdle-rate return on equity in the anticipated more subdued market conditions. Ministers expect to be consulted on the updated business case for this important investment, and anticipate that NZ Post will commence work on an updated business case as soon as practicable.

Repayment of surplus equity via a special dividend

Ministers have enabled the provision of rapid and flexible Crown support to NZ Post via the \$150 million equity subscription in two tranches. Ministers appreciated the need to provide certainty of support to NZ Post and, as such, acted to implement the equity injection as quickly as possible, while the actual extent of the impacts on the business are still uncertain.

Ministers expect NZ Post to keep the Treasury updated as to the extent of the impacts on NZ Post as these occur. If the impacts are less than expected and NZ Post does not require all of the subscribed for equity, Ministers expect that this surplus capital will be returned to the Government via payment of a special dividend at the half-yearly interval(s) at which dividends are usually paid.

Consultation prior to any noteworthy business reorganisation or restructuring

We understand that NZ Post may need to undertake measures to right-size its operations, in order to operate the business as efficiently as possible in the anticipated more subdued market conditions post COVID-19. We anticipate that NZ Post will take the necessary steps to realign its business with customer demand, as well as actively manage the cost of its workforce and other expenses. We expect, however, that NZ Post will consider its duty of social responsibility under the SOE Act in the way that it approaches any such activity and will consult with Ministers prior to undertaking decisions on business restructuring or other changes that would result in a noteworthy reduction of employees and/or contractors.

Other support packages

We understand that NZ Post has accessed other support packages issued by the Government to mitigate the negative economic impacts of COVID-19, namely the Wage Subsidy Scheme. We expect that, where NZ Post is eligible to do so, you will continue to access any further financial support measures available to entities impacted by COVID-19.

Engagement

We expect NZ Post to liaise with officials from the Treasury on a regular basis as the impacts of COVID-19 on the business become more apparent. If you have any questions relating to the expectations expressed in this letter please contact Madeleine Lock on ^[39] in the

first instance. Alternatively, you may wish to contact Shelley Hollingsworth, Manager - Commercial Performance on ^[39]

Yours sincerely



Hon Shane Jones
Associate Minister for State Owned Enterprises
on behalf of shareholding Ministers

cc: Mr David Walsh, CEO, New Zealand Post, ^[23]