

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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MP for Wigram

Minister of Energy and Resources

Minister for Greater Christchurch Regeneration

Minister of Housing

Minister of Research, Science and Innovation

16 DEC 2019

Corinne Haines
Chair
Ōtākaro Limited
[23]

Dear Corinne

2020/21 SHAREHOLDER EXPECTATIONS FOR ŌTĀKARO LIMITED

I am writing on behalf of shareholding Ministers to outline our expectations and matters that we expect the Board of Ōtākaro Limited (Ōtākaro) to address in the business planning process for the 2020/21 financial year. This letter contains the following information:

- Context to the letter;
- Ministers' specific expectations for Ōtākaro; and
- General expectations for the Crown's Commercial Portfolio.

Context to this letter

Ōtākaro was established to contribute to the regeneration of Christchurch by adding value to defined anchor projects and Crown land in a manner which balances a desire to achieve good commercial outcomes against the Crown's regeneration objectives, and by supporting the Crown's exit over time on favourable terms. We expect Ōtākaro to achieve its purpose through successful delivery of its objectives and shareholders' expectations as expressed in its Constitution and this and past Letters of Expectations.

Ōtākaro-specific expectations

Add value to investments and provide strong project management

Ministers expect Ōtākaro to:

- deliver defined Crown anchor projects and investments within expected time, cost and quality criteria (discussed further below);
- undertake project procurement, contracting and land transactions appropriately as a Crown-owned market participant, consistent with your purpose;
- add value to the Crown's investment in defined anchor projects and land; and
- manage fiscal risk to the Crown as shareholder and sponsor of Ōtākaro projects and functions.

Prioritise and ensure effective health and safety practices are exercised

Ministers expect that health and safety will be a priority for the board across projects Ōtākaro is involved with.

Provide valued engagement and share information as appropriate

With Ōtākaro being funded by the Crown, we expect a high level of engagement between Ōtākaro and Crown representatives to ensure the spending of public money delivers the outcomes sought by shareholding Ministers. As you will be aware, the Treasury is responsible for commercial monitoring of the company's performance, and the Department of the Prime Minister and Cabinet (DPMC) is the policy lead regarding Ōtākaro's contribution to regeneration outcomes. We expect Ōtākaro to:

- work with these agencies to ensure officials and Ministers are well informed on Ōtākaro's strategy as well as anchor project, investment and land divestment progress; so that officials can appropriately advise Ministers and manage risks to the Crown; and
- provide appropriate reporting and public accountability for its use of funds and activities.

Further, the regeneration of Christchurch, especially the central city, requires many parties to work collaboratively. Along with Crown agencies with regeneration functions such as DPMC and LINZ, we expect Ōtākaro to work pro-actively, openly and cooperatively with key stakeholders as appropriate, including:

- Christchurch City Council (CCC).
- Regenerate Christchurch.
- Development Christchurch Limited.
- Matapopore Charitable Trust.

Progress major projects

Subject to circumstances outside your control, we expect Ōtākaro to undertake the following actions in relation to these major projects:

- **Metro Sports Facility (MSF):** work with officials and the CCC to progress this Facility. In particular, we expect Ōtākaro^[25,37,38] progress main works consistent with the schedule agreed with the main works contractor.
- **Te Pae Convention Centre (Te Pae):** ensure main works progress as planned, and work with the operator, ASM Global, to i) finalise funding arrangements, ii) agree a business plan for Te Pae operations, and iii) establish operations and market ready for opening.
- **Stadium/Canterbury Multi-Use Arena (CMUA):** continue to assist with the Investment/Business Case^[25,37,38]

We expect Ōtākaro to progress these projects within expected time, cost and quality criteria and to keep Ministers and officials updated on progress against agreed plans and budget. In keeping with the "no surprises" policy and Ōtākaro's role, we expect any risks to be flagged early with officials with possible solutions identified and analysed.

Assist with regeneration and a transition to full local leadership

As part of the ongoing transition to full local leadership, we expect Ōtākaro to engage and work with Crown agencies and parties such as the CCC as required to:

- support implementation of the Global Settlement Agreement (GSA) and asset transfers (under the GSA or elsewhere), and
- resolution of the long-term roles and responsibilities for other projects outside the GSA such as MSF, Te Pae, and CMUA.

Manage risks

We do not expect Ōtākaro to take on activities or make commitments that would expose the company or its shareholders to undue financial, reputational, or other risks but to exercise its best judgement on how to manage risks. We further expect that prior to making decisions that materially affect project outcomes or increase costs and risks to the Crown, Ōtākaro will consult with monitoring agencies and Ministers. Where appropriate we also expect Ōtākaro [25,37,38]

Be financially responsible

Shareholding Ministers expect that Ōtākaro will operate in a financially responsible manner, and in accordance with the financial responsibility provisions of the Crown Entities Act and guidance in the Treasury's Owner's Expectation Manual (OEM). In addition, we expect the company to review its operating structure and associated budget annually. We expect that you will be open, proactive, and cooperate with the Treasury, who will be monitoring the company's commercial and financial performance, and DPMC, who will be monitoring its contribution to regeneration outcomes.

Ōtākaro needs to comply with the Cabinet Office Circular 'Investment Management and Asset Performance in the State Services' (CO (19) 6), and Ministers expect Ōtākaro to maintain: i) effective investment, asset, and project management practices, and ii) an upper quartile Investor Confidence Rating.

[25,37,38]

Plan across projects through to ultimate exit

We expect Ōtākaro's Business Plan to explain how you intend the company's work programme to be sequenced over its whole lifespan, to support the Crown's exit from its interests in anchor projects and land over the medium term while optimising returns on a portfolio basis. We also expect you to work with officials to consider options for longer term commitments or roles. We expect your planning documents (discussed further in Annex 1) to indicate key decisions impacting Ōtākaro's planning, and how these might impact original intentions for disestablishment after seven years. This should also consider how capital invested in Ōtākaro will be managed.

General expectations

Operate in accordance with the Treasury's Owner's Expectation Manual

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.

Executive pay to be appropriate and justifiable

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 enable Crown owned companies to operate as successful businesses and to be as profitable and efficient as comparable businesses that are not owned by the Crown.

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. Shareholding Ministers will be focused on the transparency of executive remuneration, and we expect to see this reflected in your annual report. . If you have not already, you will shortly receive a letter 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.

Undertake regular Board evaluations

Board evaluations help Boards improve performance and contribute to advice to 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 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 Angus White (on ^[39]). Alternatively you can contact Maureena van der Lem, Manager Commercial Performance (on ^[39]). Within DPMC's Greater Christchurch Group, queries related to the wider purpose and objectives of Ōtākaro should be directed to Anne Shaw (on ^[39]).

Warm regards

A handwritten signature in black ink, appearing to read 'M. Woods', written in a cursive style.

Hon Dr Megan Woods
Minister for Greater Christchurch Regeneration
On behalf of shareholding Ministers

cc John Bridgman, CEO, Ōtākaro 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 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 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 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 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 shareholding Ministers on or before **Tuesday, 30 June 2020**.

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.