

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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Mr Ian Fitzgerald
Chair
Public Trust
PO Box 8929
AUCKLAND 1150
[23]

12 DEC 2019

Dear Ian

2020/21 MINISTERS' EXPECTATIONS FOR PUBLIC TRUST

I am writing to outline the matters that I expect the Board of Public Trust to address in the business planning process for the 2020/21 financial year.

This 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.

I expect that the boards of companies and 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 Public Trust;
- 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

Public Trust functions

As provided in section 8 of the Public Trust Act 2001 (the Act), I expect Public Trust to develop and promote its business of providing comprehensive estate management and administrative services effectively and efficiently. I welcome the commitment Public Trust has been making to be clear in its purpose, developing a customer-centric and commercially sustainable strategy that contributes to secure futures through effective life planning by New Zealanders.

Retail and other core business services

I ask the Board to continue to strengthen Public Trust's retail and other core business services to New Zealanders in a manner which supports its overall financial viability for the long-term. I expect Public Trust to continue to improve its profitability, although recognising that there are new challenges in a low interest rate environment.

Digital strategy

I expect Public Trust to continue to develop and leverage its digital strategy to:

- provide the appropriate range of delivery channels so as to enhance the accessibility of Public Trust's services to New Zealanders,
- improve operational efficiency, and
- enhance customer and staff experiences.

Capital repayment

Public Trust received two capital injections from the Crown in 2008 and 2009, totalling \$50 million, as a result of losses incurred in the Common Fund. The Crown expects to see this capital returned as soon as Public Trust's financial position is sufficiently robust for repayment to occur. This expectation should be considered in conjunction with the Crown's general expectations for Crown entities in respect of capital structure and maintaining the appropriate balance between returns to the Crown and business investment.

General expectations

Although some of the general expectations are highlighted below, the full expectations for the Crown's commercial portfolio 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 and entities will be familiar with the OEM to ensure Ministers' expectations are being met. Attached to this letter (Annex 1), is the timeline for the 2020/21 business planning process and key milestones.

Enduring Letter of Expectations

Collectively we need to consider how Public Trust can contribute to the Government's objectives, both through what Public Trust delivers and how it delivers it. To help achieve this an enduring letter of expectations (ELOE), which replaces the previous enduring letter of expectations from 2012, was sent to Public Trust on 15 October 2019. The ELOE focusses on Ministers' expectations for seamless Government, board role and integrity, workforce matters, Māori Crown relationships, and entities applying a wellbeing approach to their work, including the need to address climate change. Nothing in this letter supersedes the recent ELOE.

Dividends

Ministers expect positive business performance to result in dividend payments, and that an appropriate balance is maintained between dividends and investment. Our preference is for dividends over new investment.

A statement of the principles adopted by the Board in determining the annual dividend is required to be disclosed in the Statement of Intent (SOI).

Ministers will be highly focused on the principles adopted by the Board to determine the annual dividend; in particular, the relationship between operating cash flow, sustaining capital expenditure, discretionary capital expenditure and dividends paid to shareholders.

Capital structure

Ministers expect that the Board will periodically review the capital structure of the entity to ensure that it is:

- a 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.

Commercial valuations

Ministers place significant reliance on the Board's estimate of the entity's commercial value. We expect these valuations to be robust, and either prepared or reviewed independently, where appropriate. The review should include the reviewer's view of key assumptions included in the model. Guidance on the commercial preparation and disclosure is provided in Annex 2 of the OEM.

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. The Public Trust plays a vital role as a trustee and estate administrator for many low income families and so plays a vital role in the wellbeing of those families. It is the Minister's expectation that the Public Trust will act with a level of prudence consistent with its special place in the trustees' market.

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 enable Crown-owned entities 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. The responsible Minister are focused on the transparency of executive remuneration, and we expect to see this reflected in your entity's annual report.

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 responsible Minister 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

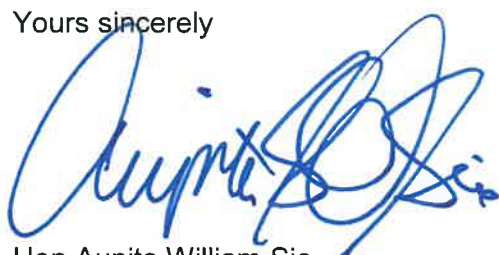
Ministers expect to be informed well in advance of any material or significant events relating to the entity, whether positive or negative. Examples of matters that could fall within the 'no surprises' policy could include, but are not limited to, any risk to financial forecasts, imminent media coverage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

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

Engagement

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

Yours sincerely



Hon Aupito William Sio
Associate Minister of Justice

cc: Glenys Talivai, CEO, Public Trust, ^[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 responsible Minister
As soon as practicable after delivery of the final SOI (if required) and SPE to Minister	Entity to publish SOI (if required) and SPE on its website

All entities are expected to provide the responsible Minister with a **Strategic Issues letter**, by **Friday, 28 February 2020** in response to the Letter of Expectations. Should your entity wish to engage with the responsible Minister 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 responsible Minister 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 responsible Minister on or before **Tuesday, 30 June 2020**.

The responsible Minister 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.