

# The Treasury

## Letters of Expectation Information Release

July 2021

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[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Sandi Beatie  
Chair  
Education Payroll Limited  
P O Box 12 141 Thorndon  
WELLINGTON 6144

[23]

Dear Sandi

## **2021/22 OWNER EXPECTATIONS FOR EDUCATION PAYROLL LIMITED**

I am writing on behalf of shareholding Ministers to outline the matters that we expect your board to address in the 2021/22 business planning round.

### **Government priorities and the response to COVID-19**

The COVID-19 pandemic brought unexpected challenges for all New Zealanders. The response to COVID-19 will be of central importance in the coming year. The Government has three overarching objectives: continuing our health response to keep New Zealanders safe from the virus, accelerating the economic recovery from COVID-19 and laying the foundations for a more sustainable and equitable future.

Investing in critical infrastructure and public services will be important to our economic recovery, along with a focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality in light of the challenges caused by climate change. The Government will also be focused on supporting small businesses, training and job creation opportunities for workers and businesses and delivering programmes to bolster New Zealand's exports.

Companies and entities that are owned by the Crown will play a role in supporting the response to COVID-19 and social and economic recovery. During 2020 Crown entity and company boards outlined the challenges that they have faced and the strategies that boards have adopted to respond. We expect that you will continue to advise Ministers this year, well in advance of any emerging issues.

The responsible management of Crown-owned company assets and finances, including sound investment and careful control of debt, can also make an important contribution to the COVID-19 recovery ambitions of New Zealanders.

Through the evolving and uncertain COVID-19 environment, we expect that you will continue to focus on your ongoing viability and provision of goods and services. In doing so, we ask that you consider the impact of your decisions on your staff and suppliers.

This letter contains the following information:

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

## **Entity-specific expectations**

### *Education Payroll Development Programme*

We expect that EPL will continue to progress the 10-year Education Payroll Development Programme (EPDP). This includes managing technology risks and the Oracle database upgrade, as well as realising the benefits as per the 2016 Detailed Business Case and the Master Service Agreement (MSA) and Statements of Work with the Ministry of Education (the Ministry), without adversely impacting delivery of the schools payroll service. This will require ensuring adequate skilled resource is available to deliver on all current and contemplated work.

### *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;
- 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;
- implement collective agreements within 3 pay periods of receiving full business requirements from the Ministry of Education; and
- implement pay equity claim settlements within agreed timeframes.

### *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 document and as required;

- f 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;
- g the Treasury to provide early indication of any risks to the repayment and phasing of the Crown loan facility; and
- h 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**

The Treasury released an updated Owner's Expectations document in April 2020 ([www.treasury.govt.nz/publications/guide/owners-expectations](http://www.treasury.govt.nz/publications/guide/owners-expectations)). The document sets out Ministers' expectations on matters such as information-sharing and engagement with the Treasury, board evaluations, thresholds for consultation or approvals for significant investments and timeframes for reporting and business planning documents. Some key expectations are reiterated in this letter below.

We ask that you circulate this document to all directors on your board so that they are aware of and understand the frameworks and expectations unique to Crown companies and entities.

#### *Well-being focus*

Ministers expect all boards to be cognisant of the Government's focus on well-being. The Government's well-being approach is based on a balance of the four capitals in the Treasury Living Standards Framework – Financial, Human, Natural and Social Capital. Boards should consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting. In this respect, some important aspects include corporate social responsibility and acting as a good employer, particularly if boards need to make decisions to respond to commercial or financial challenges such as the impact of COVID-19.

#### *Capital structure and dividends*

Where appropriate, boards are expected to return any surplus capital to the Crown so that it may be used to fund other government priorities. Boards should consider Ministers' comments during the annual business planning round when setting their dividend policy, desired capital structure, level of future reinvestment and capital expenditure.

#### *Disclosure of senior management remuneration*

Ministers acknowledge that the board is involved in setting the remuneration for the executive team. We expect that remuneration will be appropriately linked to performance and set at a level sufficient to attract and retain the necessary skills within the executive to enable Crown companies and entities to operate successfully.

At the same time, we expect boards to adopt good practice disclosure when reporting on senior management remuneration and, if required, to be able to justify publicly the remuneration decisions that they have made. Shareholding Ministers remain focused on executive remuneration being communicated transparently and we expect to see this reflected in detailed disclosures in your annual report. We intend to give feedback on the disclosures in your 2019/20 annual report soon.

### *Supporting diversity*

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

### *Board performance evaluations*

Performance evaluations help boards to improve performance and contribute to the Treasury's advice to Ministers on board composition. We expect that evaluations will now take place annually and should ideally be conducted by an independent evaluator.

### *No surprises*

Ministers expect to be informed well in advance of any material or significant events relating to your company, whether positive or negative. The Owner's Expectations document provides some examples of matters that could fall within the 'no surprises' policy.

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

### **Further information**

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] . Alternatively, you can contact Shelley Hollingsworth, Manager, Commercial Performance (on [39] .

Yours sincerely

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

cc: Arlene White, CEO, Education Payroll Limited  
[23]

## Annex 1

### *Timetable for the Business Planning Process for 2021/22*

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
19 March	Board sends Strategic Issues letter to Ministers
30 April	Board submits draft Statement of Intent (SOI) if required, Statement of Performance Expectations (SPE) and business plan
28 May	Board provides advice on: <ul style="list-style-type: none"><li>• whether special fees are sought for 2021/22;</li><li>• the professional development spend in 2020/21 and the proposed professional development budget for 2021/22; and</li><li>• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.</li></ul>
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	Entity to publish SOI (if required) and SPE on its website

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **19 March 2021** in response to the Letter of Expectations. Should your entity 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 **30 April 2021**.

The final SOI (if required) and SPE should be delivered to shareholding Ministers on or before **30 June 2021**.

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

Further information is available in the Owner's Expectations document ([www.treasury.govt.nz/publications/guide/owners-expectations](http://www.treasury.govt.nz/publications/guide/owners-expectations)).