

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
- [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;
- [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 Damien O'Connor

MP for West Coast-Tasman

Minister of Agriculture

Minister for Biosecurity

Minister for Land Information

Minister for Rural Communities

Minister for Trade and Export Growth



11 February 2021

Corinne Haines
Chair
Ōtākaro Limited

[23]

Dear Corinne

2021/22 SHAREHOLDER EXPECTATIONS FOR ŌTĀKARO LIMITED

I am writing 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 Ōtākaro Limited (Ōtākaro);
- general expectations for companies and entities owned by the Crown; and
- timeline for the 2020/21 business planning process and governance information (Annex 1).

Ōtākaro-specific expectations

Add value to investments and provide strong project management

Shareholding 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;
- manage fiscal risk to the Crown as shareholder and sponsor of Ōtākaro projects and functions; and
- remain focused on achieving commercial and regenerative outcomes, and supporting the Crown's exit over time on favourable terms.

Asset divestment and management

Recent changes to Ōtākaro's constitution state that the company will divest and manage Anchor Project assets where required by, and/or agreed by the company with, shareholding Ministers. In practice, this reflects that matters of significance relating to the divestment or long-term management of Anchor Project assets like Te Pae Convention Centre (Te Pae) and the Metro Sports Facility (MSF) should generally be raised with shareholding Ministers (for example, through major transaction approvals) where Ministers have not already provided direction on this. However:

- we expect the Board and management, in consultation with the Treasury, to make determinations on what matters qualify as 'significant'; and
- for the avoidance of doubt, we do not expect Ōtākaro to seek Minister's agreement to divest the remaining Performing Arts Precinct land, noting Ministers' decisions have already been made through the global settlement process to allow this to occur.

Prioritise and ensure effective health and safety practices are exercised

We 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, particularly the Treasury, to ensure the spending of public money delivers the outcomes sought by shareholding Ministers.

We recently approved changes to the Ōtākaro constitution, which allow Ministers to involve Ōtākaro in initiatives with broader policy goals than Christchurch regeneration, such as the Crown's shovel-ready project programme and procurement of an acid mine drainage (AMD) solution at Stockton mine. Where shareholding Ministers ask Ōtākaro to take on a new project or role, we expect the board and management to consult with the Treasury on an ongoing basis as this project or role is delivered. Where Ōtākaro proactively identifies an opportunity for the company to support the Crown, we expect the board and management to test that proposal thoroughly with the Treasury before bringing it to the attention of Ministers.

In terms of information sharing, Ōtākaro is to work with the Treasury, and other agencies, to ensure officials and Ministers are well informed on Ōtākaro's progress in the:

- delivery of the remaining anchor projects, particularly Te Pae, MSF and the East Frame Residential Precinct;
- ongoing commercial negotiations with third parties, where appropriate;
- company's land and asset divestment programme;
- funding and monitoring of Canterbury-based shovel-ready projects; and
- procurement of an AMD solution at Stockton mine.

We also expect Ōtākaro to produce appropriate, easy-to-understand reporting with an emphasis on public accountability for its use of funds.

Progress major projects

We expect Ōtākaro to work with the main works contractor and other relevant parties to manage the cost and schedule impacts resulting from COVID-19. We further expect Ōtākaro to undertake the following actions in relation to these major projects:

MSF: agree on a process with the Christchurch City Council for project delivery and transfer of ownership once a revised schedule has been agreed with the main works contractor.

Te Pae: work with the operator, ASM Global, once the cost and schedule impacts of COVID-19 become clearer to agree on a revised:

- funding arrangement;
- business plan for Te Pae operations; and
- operations and market readiness plan for opening.

As Ōtākaro continues to assess the impacts from the COVID-19 lockdown on its projects, we expect to be updated on changes to plans and budget, and updates against the same. 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, analysed and potentially endorsed by the board.

Assist with regeneration and a transition to full local leadership

In Ōtākaro’s ongoing anchor project delivery role, we expect Ōtākaro to balance a desire to achieve good commercial outcomes against the Crown’s regeneration objectives, supporting the Crown’s exit over time on favourable terms. Indeed, normalising the Crown’s relationship with Christchurch through the transition to full local leadership is a key goal of this Government.

Our expectation is that Ōtākaro will engage and work with Crown agencies and other parties, such as the Christchurch City Council, as required to:

- support implementation of the Global Settlement Agreement (GSA)
- finalise the transfer of assets (under the GSA or elsewhere);
- honour its commitment to deliver workable solutions for the Bus Interchange roof and heat pump issues, in accordance with the GSA, by 30 September 2021; and
- resolve the long-term roles and responsibilities for other projects such as MSF and Te Pae.

Carry out the monitoring and funding of shovel-ready projects in Canterbury

Ōtākaro should be focused on executing its roles in relation to shovel-ready projects (project funding/monitoring). These roles were described in the letter from the Minister of Infrastructure dated 23 July 2020, outlining ministerial expectations and instructions for the delivery of Ōtākaro’s shovel-ready project roles.

We expect you to work closely with the Treasury and Crown Infrastructure Partners (CIP) as you deliver your work, ensuring officials have the requisite information to provide advice to Ministers on how well the programme is delivering the desired outcomes, and how well Ōtākaro is meeting performance expectations.

Where issues emerge due to shovel-ready projects being affected by changes to the Resource Management Act, Ōtākaro will need to play a central role in coordinating the response to those issues. We expect Ōtākaro to consult with the Treasury prior to engaging us on these matters.

Ōtākaro is to carefully manage operational spending in relation to its shovel-ready project roles, minimising costs where possible.

Where Ōtākaro invests Crown funding provided for shovel-ready projects, we expect Ōtākaro to utilise any returns made on those investments to reduce the need for the Crown to provide Ōtākaro with operating funding. Where funding gaps emerge (i.e. where allocated funding is forecast to fall short of what is required to cover commitments to Project Owners), we expect you to raise this with the Treasury in the first instance, and then with us.

Support the procurement of an alternative AMD solution at Stockton Mine

We appreciate the willingness of the Ōtākaro board and management to assist the Treasury, on behalf of the Crown, with the procurement of an alternative AMD solution at Stockton Mine. This is an important project, which will have positive environmental impacts and will manage a long-term liability.

Our expectation is that Ōtākaro will manage a full and thorough procurement process, including carrying out a feasibility study on a short list of preferred options for an alternative AMD solution at Stockton and providing recommendations to the Treasury. These recommendations will inform the Treasury's advice to Cabinet on the options it has available to implement an alternative AMD solution.

We expect Ōtākaro to prudently manage the external costs associated with this work in line with the agreed budgets, and to work collaboratively throughout the project with the Treasury as the responsible agency for the delivery of advice to Cabinet.

Manage risks

The board and management is to exercise its best judgement in the management of risk. Ōtākaro should not take on activities or make commitments that would expose the company or its shareholders to undue financial, reputational, or other risks.

Prior to making decisions that materially affect project outcomes or increase costs and risks to the Crown, Ōtākaro will consult with Crown officials and Ministers. Where appropriate, we also expect Ōtākaro to transparently share project financial information with the Christchurch City Council (for projects which the Council will be the end owner) or Crown organisations where they have or are contributing funds, or key inputs, to projects being delivered by Ōtākaro.

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 Expectations. In addition, we expect the company to review its operating structure and associated budget annually. We expect that you will be open, proactive, and cooperative with the Treasury, which will be monitoring the company's commercial and financial performance.

Ōtākaro needs to comply with the Cabinet Office Circular 'Investment Management and Asset Performance in the State Services' (CO19(6)), and Ministers expect Ōtākaro to maintain:

- effective investment, asset, and project management practices; and
- an upper quartile Investor Confidence Rating.

As a result, Ōtākaro is expected to undertake the Treasury's Better Business Case review process for any new projects considered.

Shareholding Ministers do not expect the proceeds of asset divestment to be applied to new investments, but consider that the retention of sales proceeds in excess of associated debt (including capitalised interest) provides an incentive to achieve good value for the Crown.

These may be applied to meet cost pressures in the anchor project programme and operating costs in line with the funding agreement or ultimately be kept available for any Outstanding Balance that may result in Vendor Financing.

[38]

General expectations

The Treasury released an updated Owner's Expectations document in April 2020 (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 wellbeing 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.

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

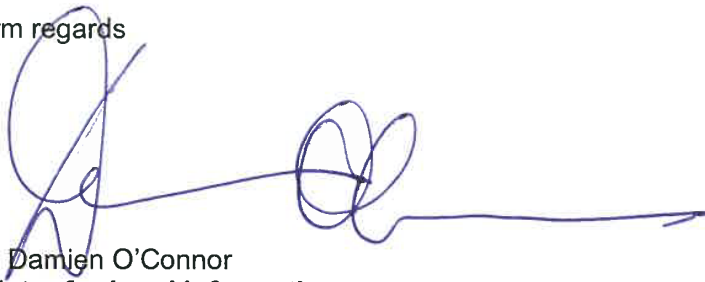
Ministers expect to be informed well in advance of any material or significant events relating to your company, whether positive or negative. The Owner's Expectations document provides some examples of matters that could fall within the 'no surprises' policy.

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 Mark O'Regan (on [35]) or Lisa Wood (on [39]). Alternatively, you can contact Juston Anderson, Manager, Commercial Performance (on [35])

Warm regards

A handwritten signature in blue ink, consisting of a large, stylized 'D' followed by a horizontal line and a circular flourish.

Hon Damien O'Connor
Minister for Land Information
On behalf of shareholding Ministers

cc John Bridgman, CEO, Ōtākaro Limited, [23]

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
26 February	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">• whether special fees are sought for 2021/22;• the professional development spend in 2020/21 and the proposed professional development budget for 2021/22; 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.
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 **26 February 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).