

The Treasury

Letters of Expectation Information Release

August 2021

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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

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

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Hon Dr David Clark

MP for Dunedin

Minister of Commerce and Consumer Affairs
Minister for the Digital Economy and Communications
Minister for State Owned Enterprises
Minister of Statistics
Minister Responsible for the Earthquake Commission



31 MAR 2021

Mr Brian Corban
Chair
KiwiRail Holdings Ltd
[23]

Dear Mr Corban

2021/22 OWNER EXPECTATIONS FOR KIWIRAIL HOLDINGS 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 KiwiRail Holdings Limited (KiwiRail);
- general expectations for companies and entities owned by the Crown; and
- timeline for the 2021/22 business planning process and governance information (Annex 1)

Entity-specific expectations

Recovering from the COVID-19 pandemic

Shareholding Ministers acknowledge that the COVID-19 pandemic has disrupted several of KiwiRail's business lines, and that the Board and management have needed to operate in a situation of heightened uncertainty. As KiwiRail looks to recover from this disruption, shareholding Ministers expect that KiwiRail will utilise its assets, resources and investment appropriately. Noting that certain business lines, such as scenic tourism, may be more adversely affected than others, we encourage KiwiRail to consider where resources can be best applied to ensure KiwiRail's strategy, and shareholding Ministers' expectations of KiwiRail, are delivered on.

Acquiring and maintaining assets

As part of KiwiRail's overall strategy, we expect KiwiRail to further articulate the level of investment required to achieve the 'reliable and resilient' outcomes referenced in the Future of Rail review. In particular, we encourage KiwiRail to ensure that assets are acquired and maintained at the appropriate level of quality and quantity.

We expect KiwiRail to continue its focus on proactively identifying and remediating assets where required, particularly in light of the recent rolling contact fatigue work programme on the Auckland Metro network. We expect KiwiRail to continue to keep shareholding Ministers fully informed of material developments to its network.

Domestic wagon assembly

We reiterate our expectation that KiwiRail will look to further develop its domestic wagon assembly capability, particularly at Hillside. We note that this is not a purely commercial approach to wagon procurement, as it carries a cost premium over offshore sources, but it has broader benefits to the economy and society. We further encourage KiwiRail to consider partnerships related to this work.

Effective delivery of projects

We expect KiwiRail to deliver its capital expenditure projects on time, on budget, and to meet the project's specifications in a manner that maximises the delivery of anticipated benefits, both financial and non-financial. In this, we expect KiwiRail to engage effectively with the relevant stakeholders for all projects.

Consultation regarding iRex

As shareholding Ministers reiterated in a letter to you in October 2020, we expect KiwiRail to consult ourselves and the Minister of Transport prior to KiwiRail signing an agreement with any prospective shipyard or for any significant portside infrastructure development. We also expect that KiwiRail will provide the same Ministers with detailed progress against the programme, including a full breakdown of financial performance, additional debt that KiwiRail may be taking on and KiwiRail's ability to service that debt.

Transparent reporting and accountability

Shareholding Ministers expect that KiwiRail will continue to enhance the standard of its reporting, and will continue to work with the Treasury, as our monitoring agents, in this regard. Strong, detailed reporting is a key indicator of how KiwiRail's underlying performance is tracking against planned objectives, particularly in regard to investments from shareholders.

As indicated in the most recent Letter of Expectations and in response to KiwiRail's draft Statement of Corporate Intent 2021-2023, we expect KiwiRail to continue to work with

the Treasury and move towards providing segmented financial reporting for above and below rail activities as soon as practicable.

We expect KiwiRail to clearly report against the benefits that have been realised from projects and previous shareholder investments, and to articulate how further investment will build on this previous investment as part of KiwiRail's overall strategy. In line with this, we expect KiwiRail to regularly update the Treasury on KiwiRail's 'pathway to profit' initiative, to ensure that shareholding Ministers remain fully apprised of developments and can seek independent advice from the Treasury as required.

Health and safety

Shareholding Ministers endorse KiwiRail's objectives to promote a high standard of safety and improved workplace injury prevention metrics. We expect KiwiRail to always adopt best practices in this regard, and for KiwiRail to seek to continuously improve its health and safety record.

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.

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.

Valuations

Ministers place significant reliance on the board's estimate of the company's commercial value. We expect these valuations to be robust, and either prepared or reviewed independently, where appropriate. The review should refer to the key assumptions included in the model.

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 Michael Moore (on ^[39]) Alternatively, you can contact Juston Anderson, Acting Manager, Commercial Performance (on ^[39])

Yours sincerely

A handwritten signature in blue ink, appearing to be 'D Clark', written over a circular scribble.

Hon Dr David Clark
Minister for State Owned Enterprises
on behalf of shareholding Ministers

cc: Greg Miller, Group Chief Executive, KiwiRail Holdings 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>
March	The Treasury to discuss the Letter of Expectations with the Chair
26 March	Board sends Strategic Issues letter to Ministers
26 March	Board provides Post Investment Reviews to the Treasury
30 April	Board submits draft Statement of Corporate Intent (SCI) 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 SCI to shareholding Ministers
As soon as practicable after delivery of the final SCI to Ministers	Company to publish SCI on its website

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **26 March 2021** 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 SCI and Business Plan, consistent with the expectations as detailed in this letter, by no later than **30 April 2021**.

The final SCI 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).