

The Treasury

Letters of Expectation Information Release

August 2021

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- [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
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [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 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



02 MAR 2021

Rodger Finlay
Chair
New Zealand Post Limited

[23]

Dear Mr Finlay

2021/22 OWNER EXPECTATIONS FOR NEW ZEALAND POST LIMITED (NZ POST)

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 NZ Post;
- general expectations for the Crown's commercial portfolio; and
- the timeline for the 2021/22 business planning process and governance information (**Annex 1**).

Entity-specific expectations

Parcel operations and associated investment

Thank you for consulting with us on the revised business case that the NZ Post board (the Board) has approved for a package of investment in NZ Post's parcel network. We recognise that while the investment is not a major transaction (per the Companies Act 2003 definition) requiring shareholder approval, it signals a substantial investment towards NZ Post's strategic future focused in the parcels and logistics industry.

Ministers note that the business case for investment has been approved by the Board,

[25]

We note however,

that the success of the investment is reliant on [25]

Given the significant investment being made, and the assumptions underpinning the net present value of the investment, Ministers expect that NZ Post will:

- a provide updates in its regular reporting to the Treasury regarding the progress of the investment (over the four to five year investment period),
- b signal any significant risks to the success of the investment at an early stage including risks presented by significant competitors entering the market, particularly those with novel strategies or ones which have elsewhere proven their potential for market disruption. In signalling any risks we expect you will include active assessments of risks to the assumed growth in parcel volume and planned responses to manage those risks, and
- c conduct a post-investment review and provide it to Ministers and the Treasury in the 2024/25 business planning round (alongside the draft 2024/25 Statement of Corporate Intent and Business Plan), or the following year, should the completion of the investment be delayed for any reason.

[25]

Mail operations

Ministers acknowledge the timing imperative to find a sustainable solution for mail services once the \$130m of funding under the current Government procurement contract is exhausted. As part of the advice leading up to the transitional mail funding, Ministers agreed

to commission a cross-agency group to undertake work to investigate viable long-term solutions for mail. [33]

As part of this work, the Government will require a reasonable cost estimate of the provision of services to assess whether the current procurement and funding arrangement should be extended (i.e. whether the assessed social benefits outweigh those costs). Ministers therefore expect that NZ Post will:

- a consider how it can reduce the net costs of mail services to assist the Government in canvassing options for a more sustainable mail service, including a consideration of [25] and
- b provide a reasonable representation of mail costs in reporting and forecasts provided to shareholding Ministers, with clear assumptions stated.

Retail Network

Ministers understand that the majority of NZ Post's corporate-owned branches have now been transitioned to agency outlets with partner businesses, with one remaining store to be transitioned during 2021.

Ministers understand that, while services provided by those retail outlets are valued in many communities, the provision of some of those ancillary services may now be a net cost to NZ Post, as the use of some of these services declines.

Ministers therefore expect that NZ Post will:

- a manage the quality of postal services provided by third-party agency businesses across its retail network, and
- b [25]

Information sharing

We expect that the Board recognises the unique settings and frameworks pertaining to State Owned Enterprises (SOEs) that differ from the private sector. Under those unique settings, a transparent relationship between the Board and the Treasury (as the advisor to shareholding Ministers) is vital for the Treasury to be able to effectively advise, and to accurately communicate, the company's position, key challenges and opportunities to, shareholding Ministers. We expect that the Board continues to develop its relationship with the Treasury and provide relevant information to enable effective decision-making by Ministers at a time of continued transformation within NZ Post.

Repayment of surplus capital

Shareholding Ministers provided support to NZ Post through the appropriation of \$150 million of capital funding. This was based on the Board's request for support, as it expected the impacts of COVID-19 to comprise NZ Post's ability to effectively operate.

Given the uncertainty around the negative impacts on the business and the funding needs Ministers expressed an expectation at that time that any surplus capital from the equity

injection will be returned to the Government. Any surplus equity could be put to other uses by the Crown given the magnitude of alternative demands for Crown funding.

It is pleasing to see that the business has performed much better than expected through COVID-19 than NZ Post had anticipated, [25]

While we recognise the future cash outgoings of the parcel investment and potential uncertainty around attaining a sustainable solution for mail, Ministers expect that the Board will consider the ability for NZ Post to return capital to the Crown.

Kiwi Group Holdings (KGH)

Ministers acknowledge the statements made regarding KGH in your letter to the Minister for State Owned Enterprises of 6 November 2020.

[25] and [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 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.

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

Yours sincerely

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

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

cc: *David Walsh, Chief Executive, New Zealand Post,* ^[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
26 February	Board sends Strategic Issues letter to Ministers
26 February	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 February 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).