

The Treasury

Letters of Expectation Information Release

August 2021

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Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

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



15 DEC 2020

Alister James
Chair
Southern Response Earthquake Services Limited
PO Box 9052
Tower Junction
CHRISTCHURCH 8149

Dear Alister

2021/22 OWNER EXPECTATIONS FOR SOUTHERN RESPONSE EARTHQUAKE SERVICES LTD

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.

In managing the evolving and uncertain COVID-19 environment, we ask that you consider the impact of your decisions on your staff and customers' well-being.

This letter contains the following information:

- Ministers' specific expectations for Southern Response Earthquake Services (Southern Response);
- general expectations for companies and entities owned by the Crown; and
- the timeline for the 2021/22 business planning process and governance information (Annex 1).

Southern Response specific expectations

Settle the remaining over-cap and out of scope claims of AMI policyholders with claims resulting from the Canterbury Earthquake Sequence

It is our expectation that Southern Response will support its agent, the Earthquake Commission (EQC), in the identification, assessment and preparation for settlement of valid unresolved AMI policyholder claims. Through its agent EQC, Southern Response will:

- achieve the timely resolution of all remaining valid customer claims;
- settle customers' claims fairly and consistently in accordance with insurance policy obligations while communicating openly and effectively with customers;
- use efficient and cost-effective processes to manage those claims; and
- continue to look for flexible solutions and work proactively to reduce disputes with customers to deliver outcomes consistent with its obligations.

Customer-centric approach to settling outstanding claims

While EQC is Southern Response's agent for processing the remaining outstanding claims of AMI policyholders, we expect Southern Response to retain ultimate responsibility for ensuring that those claims are settled and that the customer is at the centre of processes, communications and systems of claim settlement. We consider that the Southern Response board needs to be confident that systems and processes are in place (regardless of whether these are within the company or its agent) to:

- actively facilitate alternate approaches to support and assist customers to reach resolutions;
- be transparent by providing customers access to technical information the company holds and providing updates on the claims management pathway;
- meet with customers face-to-face and have collaborative discussions on the progression and resolution of claims issues subject to there not being safety concerns or undue risk to employees; and
- actively engage with external agencies which may be able to support customers through their settlement decisions.

Implement pre-October 2014 payment package

Cabinet has provided its approval for the implementation of a settlement package for certain policyholders who cash settled with Southern Response before 1 October 2014 (the Package). Cabinet has agreed that the principle underpinning the Package is:

Putting policyholders who cash settled with Southern Response before 1 October 2014 in a similar position to those who cash settled with the company after that date, through providing additional amounts where these have not already been paid, plus interest on that sum.

We expect you to give effect to this principle, when implementing the Package.

Engagement with policyholders

We expect that as you implement the Cabinet-approved Package, you do so in a timely and efficient manner enabling customers to move forward with their lives. Customers should continue to be at the heart of everything the board does and the implementation should seek to reduce the stresses and challenges customers have previously experienced.

Engagement with the Independent Oversight Committee

We expect that you will engage with the Independent Oversight Committee in an open and transparent manner to allow it to carry out its role in overseeing the implementation and delivery of the Cabinet-approved Package. This entails liaising with the Independent Oversight Committee Chair on any public communications about the Package and making available on the company's website, any jointly approved statements, reports or information.

Provide robust monthly reporting on the Package

As the Crown will provide funding to implement the Package, we expect that you will provide any information deemed necessary for the Crown's financial reporting and monitoring purposes. Given that the Package will be by application, we would expect monthly reporting to the Treasury in line with the requirements in Annex 2.

In addition we expect that when undertaking its quarterly assessment of outstanding claim liabilities, Southern Response will seek from its independent actuary, and make available to the Crown separate estimates of the outstanding claims obligations arising under the Package and those for other claims.

Ensure ongoing governance, finance and legal obligations are met

We expect Southern Response to comply with its contractual obligations and arrangements, including those between the company and the Crown. We also expect the company to comply with its legislative requirements as a Schedule 4A company.

Southern Response is expected to manage its remaining legal obligations and handle any disputes that may arise.

Efficiently and effectively manage Southern Response through its final phase

Southern Response's purpose is as a run-off insurer to settle the outstanding claims of AMI policyholders arising from the Canterbury earthquake sequence. As the claims settlement process nears (and then reaches) completion, the company will need to wind-down and close its operations.

We expect Southern Response to manage its final phase in an effective and efficient way and that it will fully discharge its obligations including building warranties and resolution of any legal disputes and/or proceedings. In working on legacy planning, it is expected that the company will identify any physical and intangible assets (including intellectual property), residual rights, obligations and liabilities, and data holdings that might be transferred to other Crown agencies and (as and when appropriate) engage with those agencies to ensure an effective transfer process.

Provide valued engagement and share information as appropriate

We expect Southern Response to work proactively, openly and cooperatively with key stakeholders as appropriate, including: the Independent Oversight Committee, Ministry of Business, Innovation and Employment, Greater Christchurch Claims Resolution Service (GCCRS), and Crown Law.

Be financially responsible

Shareholding Ministers expect that Southern Response will operate in a financially responsible manner, and in accordance with the financial responsibility provisions of the Crown Entities Act. It is our expectation that Southern Response will:

- set tight but realistic operating budgets and manage within those budgets;
- manage liquidity in accordance with the investment management policy including reporting actual and forecast shortfalls in a timely manner as required by the Crown support arrangements;
- be open and collaborative with the Treasury, who will advise shareholding Ministers on the company's commercial and financial performance; and
- achieve a positive audit report for its management, financial and service performance, information systems and controls.

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.

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, David Stanley on [39] or Lisa Wood on [39]. Alternatively, you can contact Shelley Hollingsworth (Manager, Commercial Performance) on [39] at the Treasury.

Yours sincerely



Hon Dr David Clark
Minister Responsible for the Earthquake Commission
On behalf of shareholding Ministers

cc: Casey Hurren, General Manager, Southern Response Earthquake Services 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 |
| 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).

Annex 2

Monthly Reporting Requirements for the Package

Southern Response will provide monthly reporting on the following:

- number of new applications received (for the month and in aggregate),
- total number and value of Settlement Agreements signed (for the month and in aggregate),
- the total number and value of applications received which Southern Response has yet to process which are more than 90 days old,
- the number of formal complaints or disputes lodged and resolved (for the month and in aggregate),
- the latest month and cumulative average days from application receipt to signing of Settlement Agreement,
- the number of people (and their full-time equivalent availability) for undertaking the Package implementation work, and
- details on any issues which might be emerging or other matters which Ministers might need to be aware of (as required under the no surprises convention).