

The Treasury

Annual Letters of Expectation 2023/24 Information Release

November 2023

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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

[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

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

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Hon Grant Robertson

MP for Wellington Central

Deputy Prime Minister

Minister of Finance

Minister for Infrastructure

Minister for Sport and Recreation



David McLean
Chair
Kiwi Group Capital Limited
[23]

Dear David

OWNER EXPECTATIONS FOR KIWI GROUP CAPITAL LIMITED

Shareholding Ministers are pleased to provide you and the board of Kiwi Group Capital Limited (KGC) with our inaugural Letter of Expectations. This letter outlines the matters we expect you to address during both the establishment phase of KGC up to 30 June 2023, and for the 2023/24 financial year and beyond. We would like to thank you for taking up the opportunity to be the inaugural directors and establish the holding company arrangements for the Crown's investment in Kiwi Group Holdings Limited (KGH).

Government priorities and objectives for KGC

The Government has three overarching objectives for its term: to keep New Zealanders safe from COVID-19, to accelerate our economic recovery, and to lay the foundations for a better future. Following the removal of the COVID-19 Protection Framework, we are looking to the Crown's companies and entities to increase their contribution to the Government's other overarching objectives.

The post-COVID-19 operating environment and the economic outlook are challenging and uncertain. However, this makes your focus on delivering value even more important. We encourage you to be bold and demanding in your expectations of KGC and make investments that create future impact and long-term value.

The acquisition of KGH and its operating subsidiaries Kiwibank Limited (Kiwibank) and The New Zealand Home Loan Company Limited (NZHL) represent a unique opportunity to contribute to Government objectives.

Our strategic objectives for Kiwibank are for it to remain wholly New Zealand-owned and majority Crown-owned, challenge the status quo, grow on a commercially sustainable basis and offer a competitive alternative for New Zealanders.

Expectations for establishment phase of KGC up to 30 June 2023

Transaction settlement

A priority for the Board will be to complete the establishment process. We expect KGC to issue share capital to the Crown sufficient to enable KGC to acquire and hold 100% ownership of KGH, and to take any other actions required in connection with that acquisition.

Commercial Focus

We expect that the Board will work to ensure the ongoing commercial success of KGC and its subsidiaries and to generate value for shareholders.

The Board should develop a strategy, capital structure, and dividend policy that positions KGC to generate commercial value and creates benefits for customers. We expect you to work with the Treasury to develop an agreement between the Board and Ministers on KGC's finances (which includes the manner in which KGC will fund its activities and processes to support operating subsidiary growth), any capital requirements, and principles for distributions to shareholders.

Governance

As a new Board, we expect that you will establish systems and processes for KGC so that it operates effectively as the holding company for the Crown's ownership interest in the KGH group of companies, including reporting to the Crown.

[25]

The establishment of KGC as a company listed on Schedule 4A of the Public Finance Act 1989 will enable it to act as an independent decision-making body, while still operating within the parameters set for it by the Government and being transparent and accountable for its decisions. The framework for this is enabled by the Public Finance Act 1989 and the Crown Entities Act 2004, and the Board should familiarise itself with the relevant provisions. In the period before the listing of KGC on Schedule 4A formally comes into effect, we expect that KGC will act as if it were a Schedule 4A company already.

Under section 97 of the Crown Entities Act 2004, KGC must ensure, to the extent that it is reasonably able to do so, that each of its subsidiaries (among other things) does not do anything that the parent itself does not have the power to do, and exercises its powers only for the purpose of performing, or assisting the parent to perform, the parent's functions. We acknowledge that KGC is not reasonably able to take action affecting Kiwibank's status as a registered bank or any subsidiary's compliance with its regulatory obligations.

We do not expect to be directly involved in the appointment of directors to subsidiaries of KGC. Fees for directors of the subsidiary companies should be on a commercial basis appropriate to the role, and do not require Ministerial approval.

Preparation of accountability documentation

The Crown Entities Act 2004 requires new entities to develop a Statement of Intent (SOI) that relates to the forthcoming financial year and the following three years as soon as practical after its establishment.

During its first seven months of operation the Board of KGC will have significant establishment matters to consider. We expect you to give these matters early consideration and ensure they align with KGC's constitution. As the Board's decisions on these matters may change the content and scope of your SOI, we consider the first practical time for delivery of a high quality SOI will be as part of the 2023/24 business planning process. Annex 1 sets out the business planning timeframe and your inaugural SOI will be due on 28 April 2023.

In the absence of an SOI we expect you to set out your strategic intentions, nature and scope of operations and process for assessing performance in your Strategic Issues letter which should be sent to shareholding Ministers by 28 February 2023.

As a Schedule 4A company you are also required to develop a Statement of Performance Expectations (SPE) as soon as practicable after establishment. We would appreciate the Board providing Treasury with a draft SPE for the financial year to June 2023 by 28 February 2023. Taking into account that KGC is a holding company, we encourage the Board to keep this document as straightforward as possible.

You will also need to submit a SPE for 2023/24 when you submit your SOI by 28 April 2023.

Business planning and reporting

We expect KGC to provide information to and engage proactively with the Treasury in order to enable the Treasury to most effectively advise shareholding Ministers in its role as monitor of KGC and its consolidated group, including Kiwibank. We understand that you are working through the details of the business planning, financial and non-financial reporting requirements, and business valuation and these will be finalised in due course.

In general reports are provided to Treasury a quarterly basis. We are comfortable receiving monthly financial reports 20 working days after each month and quarterly non-financial progress updates one month after the end of each quarter.

Expectations for 2023/24

Strategic guidance and oversight of subsidiaries

With respect to KGC's operating subsidiaries, we expect the KGC Board to provide strategic guidance and oversight for the following four focus areas:

- understanding their business with a view to establishing an optimal oversight model that supports improvement in the value of the Crown's investment in KGC and its subsidiaries
- [25]
-
-

Other matters

Conflicts of Interest

The Government expects all Crown entity boards to operate with a high standard of integrity and to have procedures in place to appropriately manage conflicts of interest, should any arise. Your early attention to putting such procedures in place will be appreciated.

No Surprises

As you will be aware, the Government has a “no surprises” policy. No surprises means that the Government expects a board to:

- be aware of any possible implication of the decision and actions for wider government policy issues.
- advise the shareholding Ministers of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible, and
- inform the Minister/s of any significant emerging strategic issues.

Enduring and general governance expectations

We regard strong board governance as critical to the performance and success of the Crown’s companies and entities. The [Owner’s Expectations Manual](#) sets out our expectations on key matters. It is expected that this document will be revised in due course to recognise specific matters associated with newly monitored entities.

In the meantime, Ministers expect that directors and management of all entities in the Crown portfolio will be familiar with this document, and will ensure that shareholding Ministers’ general expectations are met, to the extent that they are relevant to KGC and except as noted above in respect of fees for subsidiary companies’ directors fees being on a commercial basis appropriate to the role.

Further information

Your relationship managers at the Treasury will be in contact shortly after you receive this letter to discuss our expectations in more detail. If you have any questions, please contact Olivia Paterson, Acting Relationship Manager on [39] or Alex Ng, Co-Relationship Manager, on [39]. Alternatively, you can contact David Stanley, Acting Manager, Commercial and Institutional Performance on [39].

Yours sincerely



Hon Grant Roberson
Minister of Finance
on behalf of shareholding Ministers

Annex 1: Timetable for the 2023/24 business planning process

<i>Due by</i>	<i>Key action</i>
January / February	The Treasury to discuss shareholding Ministers' Letter of Expectations with the Chair
28 February 2023	Board sends its draft 2022/23 Statement of Performance Expectations (SPE) and Strategic Issues Letter to shareholding Ministers
31 March 2023	Board sends its final 2022/23 SPE to shareholding Ministers for tabling
28 April 2023	Board submits its draft Statement of Intent (SOI), 2023/24 SPE and Business Plan
31 May 2023	Board provides advice on: <ul style="list-style-type: none">• whether special fees are sought for 2023/24;• the professional development spend in 2022/23 and the proposed professional development budget for 2023/24; 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 2023	Board delivers its final SOI and 2023/24 SPE to shareholding Ministers
As soon as practicable after delivery of the final SPE and SOI to shareholding Ministers	Entity to publish SOI and 2023/24 SPE on its website

Ministers and the Treasury should be alerted as soon as possible if any of these deadlines cannot be met or if clarification around their expectations is sought.

Further information is available in the [Owner's Expectations Manual](#).