

The Treasury

Annual Letters of Expectation 2023/24 Information Release

March 2024

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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

[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;

[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



5 December 2022

Hon Steve Maharey
Chair
Accident Compensation Corporation
PO Box 242
WELLINGTON 6410

[23]

Dear Steve

ANNUAL LETTER OF EXPECTATIONS

First, I'd like to thank you, as well as the rest of the Board and Accident Compensation Corporation (ACC) staff, for all of your work in the last year. This letter is intended to set out my expectations for the investments function of ACC, noting that you have also received a Letter of Expectations from the Minister for ACC. Any general expectations contained in that letter should also be applied to the investments function.

I draw your attention to the annex, attached to this letter, which outlines my expectations common to all Crown Financial Institutions (CFIs).

Responsible Investment framework

As the Responsible Investment framework becomes increasingly embedded in your work, I expect that enhanced reporting against it will continue to evolve over the next year. I note that you have recently moved to a low-carbon benchmark and look forward to continuing evolution in this area. I also commend the steps you are taking towards sustainable finance more generally and encourage you to continue in that direction. You should be working towards full reporting against the framework in your 2025 Annual Report.

NZ Income Insurance Scheme

The New Zealand Income Insurance Scheme will better protect workers and incomes, matching skills with businesses that need them, and helping to support communities and industries to transition through economic changes. I expect during the 2023/24 financial year that ACC continues to work towards setting up an investment function for the levies collected for this scheme, and on an investment plan alongside its traditional ACC investments. This new pool of funding will need to be managed in accordance with the new legislative requirements currently in development for the scheme, and in keeping with the responsible investment framework outlined in my Enduing Letter of Expectations for all CFIs.

Work on building a constructive and engaging relationship with Treasury officials

I expect the Board to continue to develop a culture that positively engages with my officials and recognises where a Crown perspective might be useful in the development of certain strategies. The Board will need to bring all stakeholders on the journey where there is a significant change to

investment strategy, policy, or philosophy, erring on the side of openness if in any doubt about how to apply this expectation.

Independent Review 2025

Other Crown Financial Institutions are statutorily required to undertake five yearly reviews, with that in mind I expect ACC to follow suit and begin preparing to undertake their first review in 2025. Undertaking a review will provide important information for your own planning and understanding of the effectiveness of your investment functions. For this review to run smoothly, planning and preparation should commence during calendar year 2024. I expect you and your staff to work collaboratively with Treasury officials in the preparation phase and with the eventual reviewer.

Fit for Purpose

I recognise that the ability of all CFIs to deliver on their legislated purpose means that investment returns may vary from year to year. It is my expectation that the Board, acting as the Crown's agent, will continue to focus on the appropriate balance of risk and return to assure the Fund's investment performance is able to meet its long-term policy objectives and obligations.

Should investment performance impact your institution's ability to meet its intended purpose, I expect to be informed of this in a timely manner, including any remedial action the Board will take. Such information should include a detailed explanation of risks, financial or otherwise, which may have an impact on the Crown's fiscal position or cause a prejudicial impact on New Zealand's reputation.

Crown Risk

The nature of your mandate is to accept risk, but the Crown must have a good understanding of the potential fiscal implications to the Crown's consolidated balance sheet. To better understand such risks and implications, it is my expectation that your organisation will continue to proactively work with the Treasury and collaborate with the other CFIs to build resilience in the New Zealand economy to future economic shocks.

The war in Ukraine and its rippling affects throughout the globe show how interconnected New Zealand is with international markets. It is my expectation that you will reflect on the impact that an uncertain political landscape and the risks associated with it has on your organisation and on New Zealand Inc.

As for all CFIs, you should be mindful of your fiduciary responsibilities and statutory duties. Where derivative instruments or leverage are employed in your organisation, I expect their use to be aligned with your fund's purpose and the appropriate level of knowledge, skill, transparency, and controls to be in place throughout your organisation to ensure that negative financial or reputational outcomes do not impact the Crown.

If you have any questions or require further clarification on any of my expectations, please contact Miranda Birchler, Relationship Manager for ACC, at the Treasury on ^[35] in the first instance.

Yours sincerely

Hon Grant Robertson
Minister of Finance

cc: Megan Main
Chief Executive Officer
Accident Compensation Corporation

ANNEX 1: Expectations for All Crown Financial Institutions

The COVID-19 pandemic has had an extensive impact on households and businesses nationwide, with many social and economic uncertainties remaining. While protecting New Zealand and the lives and livelihoods of New Zealanders has been the urgent and abiding consideration of this Government, it does not limit the ambition for what this Government means to do.

Government priorities

In 2020, the Government set out clear priorities to help secure our recovery and improve the living standards and wellbeing of all New Zealanders. The Government has three overarching objectives:

- To keep New Zealanders safe from COVID-19
- To accelerate our economic recovery
- To lay the foundations for a better future.

Problems that are decades in the making are not easily or quickly solved but this Government is committed to relentlessly pursuing progress. Three of the country's longest standing and hardest issues demand continued and determined action: affordable housing and homelessness, child poverty, and the global climate crisis.

Your core role is to efficiently and effectively deliver fiscal strategies that support New Zealanders' financial wellbeing across generations. However, your funds can have significant impacts on human, social and natural capitals as well. I encourage you to consider where you could partner within the public or private sectors to develop investment strategies that can also drive positive environmental or social impacts while delivering the long-term investment returns that are so crucial to the funds.

Partnership

Your organisation is an important asset on the Crown's balance sheet and the aggregate size of the CFIs will increase over time. For the Crown to be effective there needs to be a collaborative approach across all of Government (including CFIs and other Crown Entities).

Your institution can play a part in delivering positive outcomes for New Zealanders through active and constructive engagement. This type of engagement, led by the Board, should permeate throughout your organisation, with a focus on collective outcomes for New Zealanders.

A successful partnership should be built on openness and trust. I encourage your institution to maintain a policy of transparency in its operations, expenses and communications across all of Government, and to adhere to the 'no surprises' convention when dealing with officials and my office.

Citizenship

This Government is committed to acting as a responsible citizen. You can play an important part by adopting, sharing and promoting investment policies and practices with other areas of Government that are not only consistent with your mandate, but help lift New Zealand's reputational standing as a responsible investor in the international community.

To achieve this, it is my expectation that CFIs maintain robust ethical investment policies, which are reviewed regularly and reflect best practice standards both here in New Zealand and internationally.

It should be the goal of all CFIs in fulfilling their mandates to give consideration to the part they can play in New Zealand's financial market landscape, helping make the economy more productive, sustainable and inclusive for all New Zealanders.

The CFIs have a unique role in the future of New Zealand, particularly as we look to accelerate an economic recovery. I encourage you to consider where domestic investments can align with your long-term investment strategies to support the goals of the Government, while remaining consistent with your overarching purpose.

Further to this wider arc of responsibility, CFIs must be seen as 'good citizens' in their home markets; and be cognisant of second order effects that can promote, and certainly not hinder, the development of deep capital markets in New Zealand.