

The Treasury

Annual Letters of Expectation 2023/24 Information Release

March 2024

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[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 James Shaw

Minister of Climate Change

Associate Minister for the Environment (Biodiversity)



Ms Cecilia Tarrant
Chair
New Zealand Green Investment Finance Limited
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[23]

Dear Cecilia

ANNUAL LETTER OF EXPECTATIONS

Firstly, I'd like to thank you, as well as the rest of the Board and your staff, for all your work in the last year. In particular, regarding your contributions to the recently commenced first Cabinet Mandated Independent Review (Independent Review) of the New Zealand Green Investment Finance Limited (NZGIF). Going forward, I have outlined in this letter the matters that shareholding Ministers expect your board and NZGIF to address in the 2023/24 business planning round and work programme.

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

This Government is committed to building an inclusive, sustainable, and productive New Zealand economy with trade, investment, and innovation at its heart. This Government views tackling climate change as not just an opportunity to help save the planet, but also an opportunity to create jobs and help our economic recovery.

To support you and your Board to set challenging expectations of NZGIF, I have asked the Treasury to engage more closely with NZGIF on how they are delivering value for money and performing.

Role of NZGIF

NZGIF represents an important objective, to unlock private finance to deliver the necessary investments to achieve our carbon zero obligations. I recognise that experience to date has required significant prioritisation of investments, as you optimised a limited capital base. I expect that the Independent Review will be used to support any future ambitions of NZGIF, as well as providing you with advice on any improvements, where required. I ask that NZGIF continue to work with officials to play a constructive role in the climate funding and financing work programme to ensure that your market experience and green investment capability can be leveraged.

Capital deployment

I consider that consistent deal flow is essential if NZGIF is to successfully accelerate low emissions investment. To this end, I expect that NZGIF will continue to look for opportunities to ensure the remaining capital base is fully deployed at pace. I expect NZGIF to grow its presence in the market and work with the investment community and all market participants across government and the private sector. This will help it to actively seek to develop transparent pipelines of investible opportunities and enable financial products that can 'crowd in' additional private sector co-investment.

While NZGIF should operate with an objective of financial sustainability, your primary purpose is not profit maximisation. NZGIF will differ from private sector financial institutions in that it has a public policy purpose, where considerable value is to be placed on the externalities associated with its financing activities.

Governance

While acting as an independent decision-making body, NZGIF should operate within the parameters set for it by the Government and be transparent and accountable for its decisions. The Board should draw on relevant guidance, and incorporate the principles of best practice corporate governance, in providing oversight and direction to NZGIF's activities.

NZGIF should ensure that operational decisions enable it to achieve its mission in a cost-effective manner, including by exploring opportunities to collaborate and partner with relevant agencies.

General expectations for the Crown's Commercial Portfolio are contained in the Owner's Expectations Manual (OEM). The OEM, and updates, can be found on the Treasury's website <https://treasury.govt.nz/publications/guide/owners-expectations-manual>.

Ministers expect that directors and the management of the companies are familiar with the OEM to ensure shareholder expectations are being met.

Diversity and engagement

Consistent with Government support for increased diversity and gender balance on Boards, I expect you to support diversity and inclusion in the workplace and in leadership.

Government engagement

I expect NZGIF to effectively engage with relevant Government agencies proactively and as requested on important matters, especially in areas prioritised by each agency. This includes:

- providing the Treasury with regular information as per the Owner's Expectation Manual;
- continuing to proactively provide updates on NZGIF's pipeline of investment opportunities, NZGIF's financial viability, and sustainability; and
- engaging with the Treasury as it progresses any work which comes about through the Independent Review.

Furthermore, I expect NZGIF to engage with relevant agencies to inform them of any material impacts of NZGIF's investment activities that may affect the sector in which the agencies operate. NZGIF plays an important role in progressing climate opportunities to market, and I expect that you will strengthen your collaboration and coordination. It is only when we work together that we will be able to deliver such a far reaching and challenging mandate.

Fit for Purpose

I recognise that investment returns may vary from year to year, which can impact the ability of CFIs to deliver on their legislated purpose. 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 ensure that investment performance is able to meet long-term policy objectives and obligations.

Should investment performance impact NZGIF'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 geo-political landscape and the investment risks associated with it have on NZGIF and on New Zealand Inc.

If you have any questions or require further clarification on any of my expectations, please contact Emily Howe at the Treasury on ^[35] in the first instance.

Yours sincerely

Hon James Shaw
Minister of Climate Change

For and on behalf of shareholding Ministers

cc: Craig Weise
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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; and
- 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.