

Nelson City Council
P (03) 546 0200
PO Box 645, Nelson 7040

Tasman District Council
P (03) 543 8400
Private Bag 4, Richmond 7050

23 December 2022

Infrastructure Holdings Limited
Attn: Sue Sheldon
c/- Port Nelson Ltd
PO Box 844
NELSON 7040

Tēnā koe Sue

INFRASTRUCTURE HOLDINGS LIMITED - STATEMENT OF EXPECTATION

This Letter of Expectation is intended to inform the Infrastructure Holdings Limited Board of the councils' high-level strategic direction and performance expectations in advance of your preparation of the Group Statement of Intent (SOI) 2023/24. In clarifying our expectations early, we expect that the passage through to acceptance by both councils will be more efficient and effective. The shareholders are closely following the transition and implementation of the Infrastructure Holdings Limited (IHL) structure.

Statement of Intent 2023/24

The Tasman District and Nelson City Councils expect that all their Council Controlled Organisations (CCOs) will treat the SOI as more than a strict compliance document and will aim for best practice. This will entail an SOI covering more than the statutory minimum requirements. To be effective, your SOI should tell the performance story of the group, providing a clear and succinct understanding of the group's purpose, the goods and services it delivers and what success looks like. In line with the Local Government Act 2002, the councils are particularly interested in efficiency and effectiveness.

The SOIs must meet the requirements set out in the Local Government Act. The Local Government Act 2002 set out requirements for SOIs differentiating between matters to be covered in all SOIs and those that are specific to trading and non-trading CCOs.

Both councils wish to support IHL in delivering a good SOI. We have assigned a senior manager to each CCO to assist. In your case, the person assigned is Nikki Harrison. Nikki is available to your team to assist throughout the process.

The general expectations for all CCOs are as follows:

- 1.1 SOIs must include a complete set of summary prospective financial statements for at least three years (preferably five years) i.e., Statement of Comprehensive Income, Statement of Financial Position and Cash Flow statement.
- 1.2 SOIs should disclose measures like Earnings before Interest and Tax (EBIT) and Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) and balance sheet ratios where applicable i.e., CCTOs.

- 1.3 SOIs must fully comply with Schedule 8 of the LGA 2002.
- 1.4 In the Public Records Act 2005, a local authority includes a (Council Controlled) (Council-Controlled Trading) Organisation. As such, the requirements of this Act and its related mandatory Information and Records Management Standard - July 2016 applies for the management, retention, and disposal of records.
- 1.5 Compliance with legislation and reporting on Health and Safety matters must be given due emphasis.
- 1.6 Proposed dividends are to be disclosed along with the dividend pay-out policies, where applicable.
- 1.7 Where the councils make a financial contribution to the operational costs of the organisation, the CCO should show how it intends to increase non-council revenue streams.
- 1.8 Capital expenditure and asset management intentions should be included.
- 1.9 CCOs should use the same information for both managing the business and reporting through to the councils/shareholders, i.e., the information used for setting targets and reporting against them for the SOI should overlap and be a subset of the information used for internal reporting.
- 1.10 SOIs and other CCO reports should be in a plain style, concise, relevant, accessible and focused on meeting the needs of the shareholding councils and the public they represent. The use of graphs, tables and charts is expected to convey both financial and non-financial information along with trends (past, current and future numbers).
- 1.11 To be effective the SOI must disclose the performance story for the CCO, providing a clear and succinct understanding of the CCO purpose, the goods and services it delivers and what success looks like. Providing a clear message to the boards on these requirements and other expectations will assist in ongoing improvements in the SOI and reporting.
- 1.12 The main aspects of the SOI performance story are:
- Strategic context
 - Specifying and presentation of the outcome's framework
 - Main measures and targets, outcomes and objectives
 - Linking the strategy outputs performance together.
- 1.13 **Risk management** – Shareholders/the councils would like to see documented in the SOI how the boards are managing risks, including natural hazards and climate change.
- 1.14 **Sustainability** - Shareholders would like to understand what measures and targets are in place to address environmental and climate change concerns, including measures to:
- Support the transition to net zero carbon emissions by 2050;
 - Prepare for the impacts of climate change, including assessing key organisational climate change risks;

- Minimise waste and support the shift to a circular economy, and
 - Work towards Climate Related Disclosure reporting, by 2024.
- 1.15 **Health and safety** - Given the requirements of the Health and Safety at Work Act 2015 (the Act), it is appropriate for the councils to set out their expectations in relation to Health and Safety in the CCOs/CCTOs.
- 1.15.1 Under Section 44 (3) of the Act elected members do not have a duty to exercise due diligence to ensure that any Council Controlled Organisation complies with its duties or obligations under the Act unless that member is also an officer of that Council Controlled Organisation.
- 1.15.2 However, as shareholders being a key funder, it is still appropriate to set out expectations of Health and Safety management in CCOs/CCTOs.
- 1.15.3 The councils/shareholders expect the boards of the jointly held CCOs/CCTOs to set appropriate Health and Safety strategies and policy, understand the nature of risks/hazards within the business, monitor performance and activities to ensure risk is being managed and review Health and Safety systems and performance.
- 1.16 **Relationships** - Specify how the organisation intends to conduct its relationships with;
- 1.16.1 its shareholding local authorities; and
- 1.16.2 its subsidiary companies (if applicable); and
- 1.16.3 the Tasman and Nelson communities, including parties considered as stakeholders within those communities; and
- 1.16.4 Iwi, hapū, and other Māori organisations.
- 1.17 Shareholders/the councils require that CCOs/CCTOs, before making a decision that may significantly affect land or a body of water, must consider the relationship of Māori and their culture and traditions with their ancestral land, water, sites, wāhi tapu, valued flora and fauna, and other taonga.
- 1.18 **Governance performance** - in order to aid the councils when making decisions on director/trustee remuneration and appointments, the boards should undertake a regular evaluation of their performance.
- 1.18.1 The councils expect these reviews to be carried out at least once every eighteen months.
- 1.18.2 The chairs of the boards should reference this evaluation when making recommendations on the re-appointment or recruitment of board members.
- 1.19 **No surprises** -The Boards should ensure that there is 'no surprises' communication with the shareholder councils on matters which are in the public interest and are not highly commercially sensitive.
- 1.20 **General expectations** related to the effects or mitigation of COVID-19 have been removed as the pandemic effects are expected to lessen over the coming year, most government mandates have been removed, and COVID-19 management will become business as usual.

Any ongoing impacts on dividend streams should be addressed in the relevant sections of the SOI.

1.21 **Specific expectations** in relation to Infrastructure Holdings Limited to be included in the SOI 2023/24:

1.21.1 Inclusion of key financial covenants, aligned with the lender's covenants, which allow the shareholder councils to proactively monitor the performance of the group and exposure of the shareholders to the uncalled capital.

1.21.2 Inclusion of projected capital programs and debt for the Group for up to 10 years;

1.21.3 Inclusion of the Pitt and Moore table laying out responsibilities and structuring of the three boards as part of the Statement of Intent.

1.22 **Specific expectations** in relation to Port Nelson Limited and Nelson Airport Limited

1.22.1 In addition to the general expectations in relation to climate change, shareholders expect that Climate Resilience Plans are developed and implemented for the Port and Airport.

Important Dates 2023

Nikki Harrison will notify you of the committee meeting dates for 2023 to assist you with your planning.

If you have any queries, please contact Nikki on (0274) 492 312 / nikki.harrison@ncc.govt.nz in the first instance.

Ngā mihi



Nick Smith
Mayor of Nelson
Te Koromatua o Whakatū



Tim King
Mayor of Tasman
Te Koromatua o te tai o Aorere

CC:

Quinton Hall	Chair, Nelson Airport Ltd
Mark Thompson	CE, Nelson Airport Ltd
Simon Orr	Corporate Services Manager, Nelson Airport Ltd
Darren Mark	Chair Audit & Risk, Nelson Airport Ltd

Paul Zealand	Chair, Port Nelson Ltd
Hugh Morrison	CEO, Port Nelson Ltd
Daryl Wehner	CFO, Port Nelson Ltd
Gerrard Wilson	Board member, Port Nelson Ltd