



Office of the Mayor

17 December 2019

Nelmac Limited
Board of Directors
P O Box 9035
Nelson 7044

Attention: Rob Gunn

Dear Rob

LETTER OF EXPECTATION

This Letter of Expectation is intended to inform Nelmac's Board of the shareholders' high level strategic direction and performance expectations in advance of your preparation of the Statement of Intent (SOI) 2020/21. In clarifying our expectations early, we expect that the passage of your SOI through to acceptance by Council will be more efficient and effective.

Statement of Intent 2020/21

Nelson City Council expects 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 a SOI covering more than the statutory minimum requirements. To be effective, your SOI should tell the performance story of the company, providing a clear and succinct understanding of the company's purpose, the goods and services it delivers and what success looks like. As shareholder, the Council is particularly interested in profitability, new investments and growth.

All SOIs must meet the requirements set out in the Local Government Act. Your staff are likely to be familiar with the CCO provisions of these Acts.

Nelson City Council wishes to support the company in delivering a good SOI. We have assigned a senior manager to each CCO. 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 such as 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 Local Government Act.



- 1.4 Compliance with legislation and reporting on Health and Safety matters must be given due emphasis.
- 1.5 Dividends are to be disclosed along with the dividend pay-out policies, where applicable. Where dividends are not increasing over time, then an explanation should be provided e.g. increased capital expenditure; the need to reinvest in the business.
- 1.6 Capital expenditure and asset management intentions should be included.
- 1.7 CCOs should use the same information for both managing the business and reporting through to the shareholders i.e. the information used for setting and reporting against for the SOI should overlap and be a subset of the information used for internal reporting.
- 1.8 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).
- 1.9 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.
- 1.10 The main aspects of the SOI performance story are:
 - Strategic context
 - Specifying and presentation of the outcomes framework
 - Main measures and targets, outcomes and objectives
 - Linking the strategy outputs performance together
- 1.11 Risk management - Shareholders would like to understand better in the SOI how the Board is considering and managing risks, including natural hazards and climate change.
- 1.12 Sustainability – Shareholders would like to understand better in the SOI how the Board is addressing sustainability including carbon emissions and waste minimisation.
- 1.13 Health and Safety - given the Health and Safety at Work Act 2015 (the Act), it is appropriate for the Council to set out its expectations in relation to Health and Safety in the CCOs/CCTOs:
 - 1.13.1 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.
 - 1.13.2 However, as shareholders, it is still appropriate to set out expectations of Health and Safety management in CCOs/CCTOs.

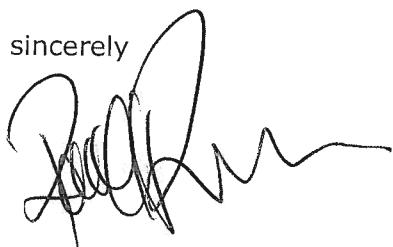
- 1.13.3 Council expects the Board of NELMAC to set appropriate Health and Safety strategy and policy, understand the nature of risks/hazards within the business, monitor performance and activities to ensure risk is being managed and review H&S systems and performance.
- 1.13.4 In addition to this, as a contractor to Council, NELMAC has to also meet our Health and Safety standards.
- 1.14 Governance performance - in order to aid Council when making decisions on Board remuneration and appointments, the Board should undertake regular evaluation of its own performance:
- 1.14.1 Council expects these reviews to be carried out at least once every eighteen months.
- 1.14.2 The Chair of the Board should reference this evaluation when making recommendations on the re-appointment or recruitment of Board members.
- 1.14.3 In addition, Director recruitment must take account of the new requirement in the LGA to ensure that when identifying the skills, knowledge, and experience required of Directors consideration is given to whether knowledge of tikanga Māori may be relevant to the governance of that CCO.
- 1.15 Shareholders require that CCOs, before making a decision that may significantly affect land or a body of water, must take into account the relationship of Māori and their culture and traditions with their ancestral land, water, sites, wāhi tapu, valued flora and fauna, and other taonga. This is a new provision in the LGA.

There are some specific expectations in relation to NELMAC Limited this year, they are as follows:

- Climate Change responsiveness, including risk resilience, mitigation and adaption.
- Improve performance reporting by the inclusion of quantifiable measures and SMART targets, including enhanced measures on Health and Safety.
- Provide for reporting on climate risk and carbon emissions along with progress towards reducing these.

If you have any queries, please contact Nikki Harrison on 03 545 8841 or Nikki.Harrison@ncc.govt.nz in the first instance. A separate letter outlining meeting dates for 2020 will also be sent to you shortly.

Yours sincerely



Rachel Reese, JP
Mayor of Nelson

cc: Jane Sheard, CE NELMAC Ltd

