



20 December 2019

Port Nelson Ltd
Board of Directors
P O Box 844
Nelson 7040

Attn: Chairperson Phil Lough

Dear Phil

STATEMENT OF EXPECTATION

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

Statement of Corporate Intent 2020/21

The Tasman District and Nelson City Councils expect that all their Council Controlled Trading Organisations (CCTOs) will treat the SOCI as more than a strict compliance document and will aim for best practice. This will entail a SOCI covering more than the statutory minimum requirements. To be effective, your SOCI 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 shareholders, the councils are particularly interested in profitability, new investments and growth.

The SOCI must meet the requirements set out in the Local Government Act and Port Companies Act. Your staff are likely to now be familiar with the CCO provisions of these Acts.

Both councils wish to support the company in delivering a good SOCI. We have assigned a senior manager to each CCTO to assist. In your case the person assigned is Mike Drummond at Tasman District Council. Mike is available to your team throughout the process.

The general expectations for all CCOs are as follows:

- 1.1 The SOCI must include a complete set of summary prospective financial statements for at least 3 years (preferably 5 years) i.e. Statement of Comprehensive Income, Statement of Financial Position and cashflow statement.
- 1.2 The SOCI 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 The SOCI must fully comply with Schedule 8 of the Local Government Act. SOI's must comply with both the related Act e.g. the Port Companies Act and though not a legal requirement, desirably Schedule 8 and other provisions of the Local Government Act. This is to ensure a consistent approach across all CCOs. (Please note there has been changes made to the Local Government Act which includes Section 8, which were not made to the Port Companies 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 payout 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 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. (Not applicable to Port Nelson Ltd).
- 1.7 Capital expenditure and asset management intentions should be included.
- 1.8 CCOs should use the same information for both managing the business and reporting through to the shareholders i.e. the information used for setting targets and reporting against them for the SOCI should overlap and be a subset of the information used for internal reporting.
- 1.9 SOCIs 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).
- 1.10 To be effective the SOCI 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 SOCI and reporting.

- 1.11 The main aspects of the SOCI 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
- 1.12 Risk management - Shareholders would like to understand better in the SOCI how the Board is considering and managing all key risks, including natural hazards and climate change.
- 1.13 Sustainability - Shareholders would like to understand better in the SOCI how the Board is addressing sustainability including carbon emissions, waste minimisation and renewable energy generation.
- 1.14 Health and Safety – Given the requirements of the Health and Safety at Work Act (2015) (the Act), it is appropriate for Council to set out its expectations in relation to Health and Safety in the CCOs/CCTOs.
- 1.14.1 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.
- 1.14.2 However as shareholders it is still appropriate to set out expectations of Health and Safety management in CCOs/CCTOs.
- 1.14.3 Shareholders expect the Boards of the jointly held CCTOs/CCOs 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.
- 1.15 Governance performance - In order to aid Council when making decisions on director/trustee remuneration and appointments, the Board should undertake regular evaluation of its own performance.
- 1.15.1 Council expects these reviews to be carried out at least once every eighteen months.
- 1.15.2 The Chair of the Board should reference this evaluation when making recommendations on the re-appointment or recruitment of Board members.

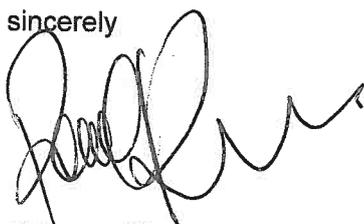
There are a number of additional general expectations in relation to Port Nelson Limited for the 2020/21 period, they are as follows:

- 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 Maori may be relevant to the governance of that CCO.
- 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 Maori and their culture and traditions with their ancestral land, water, sites, wahi tapu, valued flora and fauna, and other taonga. This is a new provision in the LGA.
- Ensure activities on their land have appropriate consents, appropriate leases are in place and the companies will ensure lessees are complying with both their lease and consent conditions; and
- Improve performance reporting by the inclusion of quantifiable measures and SMART targets, including enhanced measures on Health and Safety; and
- Provide for reporting on climate risk and carbon emissions along with progress towards reducing these; and
- Notes that work is currently underway with the Nelson Marlborough DHB around Smokefree Workplaces and asks that Port Nelson Ltd consider the implications when preparing their Statements of Intent.

If you have any queries, please contact Mike Drummond on 03 543 8499 or Mike.Drummond@tasman.govt.nz in the first instance.

Please note that we will send the Important Dates letter for 2020 by separate letter.

Yours sincerely



Rachel Reese JP
Mayor of Nelson



Tim King
Mayor of Tasman

cc: CEO Port Nelson Ltd
CFO Port Nelson Ltd