

7.2. Port Otago Letter of Expectation

Prepared for: Council
Report No. CS2412
Activity: Governance Report
Author: Nick Donnelly, General Manager Corporate Services and CFO
Endorsed by: Richard Saunders, Chief Executive
Date: 27 March 2024

PURPOSE

- [1] To consider and approve a letter of expectation being sent to Port Otago Limited (Port Otago) regarding Otago Regional Council's (Council) expectations for inclusion in Port Otago's Statement of Corporate Intent for the years ended 30 June 2025 to 30 June 2027.

EXECUTIVE SUMMARY

- [2] Port Otago is required to complete a Statement of Corporate Intent (SCI) under the Port Companies Act 1988. The SCI is required to be delivered to Port Otago's shareholders and to be made available to the public.
- [3] Council is the sole shareholder in Port Otago Limited.
- [4] Council is initiating use of a letter of expectation (LOE) to outline Council's priorities and expectations to assist Port Otago in the development of its draft SCI.
- [5] A draft LOE is attached to this report for the consideration and approval of Council.

RECOMMENDATION

That the Council:

- 1) **Notes** this report.
- 2) **Approves** the Port Otago Letter of Expectations 2025-2027, subject to any minor editorial adjustments and the sending of that letter to Port Otago Limited.

CONSIDERATIONS

Strategic Framework and Policy Considerations

- [6] The LOE is intended to ensure Port Otago's SCI aligns with Council's strategic directions and prioritises Council's focus areas.

Financial Considerations

- [7] Financial considerations are included in the LOE to ensure the SCI aligns with the assumptions included in the Long-Term Plan 2024-34.

Significance and Engagement Considerations

[8] There are no significance and engagement considerations.

Legislative and Risk Considerations

[9] There are no legislative or risk considerations.

Climate Change Considerations

[10] Climate change has been considered in the draft LOE.

Communications Considerations

[11] There are no communications considerations.

NEXT STEPS

[12] The LOE will be finalised, signed by the Chair of Council and forwarded to Port Otago Limited.

[13] The steps that follow are outlined in the draft LOE.

ATTACHMENTS

1. Port Otago Letter of Expectations 2025 2027 [**7.2.1** - 2 pages]

Our Reference: *If applicable otherwise remove*

21 March 2024

Tim Gibson
Chair
Port Otago Limited
By Email: tim@tuhana.co.nz

Dear Tim

Letter of Expectations – Port Otago Limited

This Letter of Expectations (LOE) sets out the Otago Regional Council's (Council) priorities and expectations to inform the development of Port Otago Limited's (Port Otago) draft Statement of Corporate Intent (SCI) for the years ended 30 June 2025 to 30 June 2027.

Context

Port Otago Limited is a port company as defined in the Port Companies Act 1988. The principal objective of every port company is to operate as a successful business.

Port Otago is defined as a strategic asset for Council which recognises the significant benefit the Port brings Council and the entire Otago region. Council is the sole shareholder of Port Otago and dividends derived from this shareholding are used annually to offset Council's general rate requirement ensuring all ratepayers enjoy a direct benefit from ownership of the Port.

Over the years Port Otago has continued to make a vital contribution to the Otago community through its dividend which helps fund Council's services to the Otago environment and people, and also through its direct investment in the regional economy. Council thanks Port Otago for its contribution and its ongoing commitment to regular collaboration and information sharing with Council staff and elected members.

As part of developing its Long-Term Plan 2024-34, Council has updated its strategic directions and identified its priorities for the next three years. Council wants to place emphasis on working with its partners, stakeholders and communities to identify opportunities to collaborate and deliver on the key focus areas identified in its strategic directions.

As sole shareholder, Council sees Port Otago's SCI as a key mechanism to ensure both entities are aligned in their strategic objectives. Council would like to acknowledge the significant changes the Port Otago's Board has made to the SCI over recent years especially the increased focus on materiality and sustainability. This has included Port Otago establishing a Sustainability Committee which Council is very supportive of.

Council, through this letter of expectation, largely affirms the direction Port Otago has outlined in its existing SCI and wishes to take the opportunity to highlight the key areas Council would like Port Otago to focus on in development of the 2025-2027 SCI.

As this is the first time Council has formally used a letter of expectation ahead of receiving the draft SCI a timetable for completion of this process is also outlined in this letter.

Financial

Council endorses Port Otago intention to pay dividends within the range of 50-70% of the group's normalised operating surplus after tax and to maintain an equity ratio of 70-85%.

In preparing its draft Long-Term Plan 2024-34, Council has included that it expects to receive dividends over of the 2025-2027 SCI period of \$18 million in 2024/25, \$20 million in 2025/26 and \$20 million in 2026/27.

Council has also assumed that the \$350,000 donation it makes to the Otago Rescue Helicopter Trust will come from Port Otago in 2024/25 and subsequent years.

Decarbonisation

Council acknowledges the significant focus Port Otago has on reducing its carbon emissions and progress it has made to date. Council endorses this remaining a priority for Port Otago and would like to see Port Otago complete the development of the decarbonisation roadmap it has commenced with an expectation that can be reported back to Council and the wider community.

Environment

Port Otago operates a diverse range of business activities and Council wants to ensure Port Otago's commitment to ongoing environmental stewardship and the environmental impact of their business is adequately considered in the SCI. Council notes this is an area already covered in Port Otago's current SCI and integrated annual report and endorses the continued focus on understanding and mitigating the wider environmental impact of all Port Otago's activities.

Process to Develop the Statement of Corporate Intent

This inaugural letter of expectation is being completed in March for the 2025-2027 SCI. Going forward Council will aim to consider their position earlier than this and intends to approve future letters of expectation in the first Council meeting of each calendar year. As you outlined in your half year presentation to Council, that allows the Board of Port Otago adequate time to consider those matters and develop a draft SCI by June. Council looks forward to receiving that draft in July and is also happy to meet prior to discuss any items further if required.

In closing, Council looks forward to working with Port Otago to reflect the expectations in this letter in developing Port Otago's SCI for the 2025-2027 years.

Yours sincerely

Councillor Gretchen Robertson
Chairperson, Otago Regional Council

cc: xxxxx