

Statement of Intent

For the period 1 July 2014 to 30 June 2018



STATEMENT OF INTENT 2015-2018

Set up in 1873, Public Trust is New Zealand's largest and oldest trustee organisation.

Public Trust provides comprehensive, enduring trustee and estate management services.

Public Trust is required under the Public Trust Act 2001, to have the principal objective of operating as an effective business, and, to this end:

- Be as efficient as comparable businesses that are not owned by the Crown;
- Prudently manage its assets and liabilities;
- Maintain financial viability in the long term;
- Be a good employer; and
- Be an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates.

Public Trust and its principal subsidiary, New Zealand Permanent Trustees Limited, comprise the Public Trust group for the purposes of this SOI. New Zealand Permanent Trustees Limited operates within the legislative framework governing companies, and is required to comply with the New Zealand Permanent Trustees Limited Act 1991.

We present the 2015-2018 Statement of Intent (SOI) for Public Trust.

This SOI meets the requirements of section 139 of the Crown Entities Act 2004. It is for the period 1 July 2014 to 30 June 2018. The SOI sets out the scope of activities and overall operating intentions of Public Trust during this period.

On behalf of the Board of Public Trust:



Sarah Roberts

Board Chair

27 June 2014



Fiona Oliver

Deputy Chair

27 June 2014

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INTRODUCTION

Public Trust's strategy for the period of this Statement of Intent is simple. We must address this business's under-performance. The organisation has endured several years of challenge and change. We are absolutely clear about the actions we need to take to achieve our overarching goal of making Public Trust an effective, streamlined business that delivers quality customer service and is ultimately profitable.

The basis for our strategic objectives was set out in our 2014-2016 Statement of Intent. We remain committed to their intent and have refined them in our 2014-2019 Business Plan. Public Trust will:

- Be a simplified and focused business.
- Be relevant and effective in how we attract and service customers.
- Improve productivity and profitability and be commercially aware.
- Streamline processes to improve efficiencies.
- Invest in IT and systems to de-risk the business and to allow more flexible and efficient service delivery.

Ultimately, we intend to position the business for revenue growth in the outyears.

We have made good progress in setting the groundwork to achieve our goal, including substantively simplifying our service offering (we no longer offer non core services) and streamlining non technological elements of our processes.

A cost reduction programme is in place and our cost base has already reduced significantly. Compared to 2012, Public Trust's operating cost base has reduced by over \$4m, largely through reducing personnel costs while holding other costs flat. We will continue to minimise our cost base for the foreseeable future. However, we will need to invest in revenue raising activity, such as targeted marketing and special growth initiatives.

We are managing and reducing risk. In the last 18 months we have reduced the size of the Common Fund and improved the quality of underlying assets to substantially improve the capital position and de-risk the Common Fund. The execution of Public Trust's Business Improvement Programme (BIP) will address further key risks, particularly the ever-present IT risk. Public Trust's current information systems place unacceptable limitations on the organisation in conducting its business. Our technology inhibits core business operations and impedes efficient and customer-friendly service.

Investment in IT and systems is critical for Public Trust to achieve its goal. Within the BIP, our planning for IT investment has been comprehensive to ensure successful implementation. In March 2014, we submitted a business case to Treasury for the technology investment, in accordance with the Owner's Expectation Manual. In April we achieved a critical milestone in signing the Master Services Agreement for building the systems that will enable Public Trust to achieve its plan and become a profitable business and deliver quality customer service. The IT solution will be self-funded by Public Trust.

The NPV analysis of the BIP is compelling. It shows that the successful implementation of the programme will allow for dividends to be paid to the Crown in the future, beyond the period covered by the Statement of Intent and Statement of Performance Expectations.

Notwithstanding the challenges we face, we are confident that Public Trust is set on a course of action to improve its position and become a modern, profitable and fit-for-purpose business.

NATURE AND SCOPE OF OUR BUSINESS

Public Trust's core business is providing wills and enduring powers of attorney (EPAs), estate management (ongoing and distributable), Protection of Personal and Property Rights Act (PPPR) and personal management services, trusts and investment for fiduciary customers.

Wills and EPAs	Writing a will and setting up enduring powers of attorney are the initial steps in the estate planning process. Wills set out the wishes of our customers for how their affairs are to be managed after they are gone, while EPAs set out who can take care of their personal or financial matters if they can't. We are the single largest provider of wills in New Zealand.
Estate management	We administer and manage both immediately distributable and ongoing estates, carrying out the wishes of our customers as they have set out in their wills. We make sure that their assets are transferred to beneficiaries as smoothly and efficiently as possible. We administer more estates than any other organisation in New Zealand with around 2,000 new estates each year.
PPPR and personal management services	The Protection of Personal and Property Rights Act 1988 is designed to assist and protect adults who, because of incapacity, are unable to make or communicate decisions or manage their own affairs and do not have an EPA in place. Public Trust has the expertise to provide assistance to these people. Our personal management services are tailored to help people manage their financial and property matters including paying bills, managing bank accounts, buying or selling assets, arranging home repairs and applying for pensions.
Trusts	We work with retail, business and corporate customers, including charitable trusts and ongoing estates, to manage their funds. We safeguard student fees on behalf of private training establishments through our 'Fee Protect' offering. We also have trustee oversight of 26 farms across 17,000 hectares, including the trust administering Smedley Station, New Zealand's largest training farm.
CTS	Through CTS (Corporate Trustee Services) we provide premier trustee services and leading prudential independent supervisory oversight to the New Zealand corporate market.
Investment for fiduciary customers	We provide investment management services for a range of customers and ensure our customers can access effective and appropriate investment services. Our Common Fund is government guaranteed, subject to strict investment guidelines, and integral to the operation of our business. It comprises trust accounts for fiduciary customers and term deposits which we pool and invest directly.
Social good	Under various statutes, Public Trust has specific responsibilities in relation to providing protective fiduciary services to New Zealanders. This includes PPPR (see above) and some estate management services, for which we receive funding from the Ministry of Justice through a service agreement. In addition, in some instances Public Trust may be required to act as Trustee of Last Resort to provide fiduciary services when there is no other provider, or other providers are deemed not to be appropriate.

OUR STRATEGIC OBJECTIVES

Public Trust's business is not sustainable in its current form. Our 2013-2018 and 2014-2019 Business Plans are unequivocal about the state of the organisation, which is facing large challenges in meeting its mandate to operate as an effective business. With the exception of CTS, the organisation is under-performing and revenue continues to decline. Public Trust needs a quantum shift in business performance in the core retail business, and to leverage the corporate trustee business. The organisation must be supported by a suitable technology platform.

Public Trust's 2013-2018 Business Plan outlined our strategy to address the challenges – simplify the business to reduce cost significantly, increase productivity and reduce operating risk. This was based upon considerable analysis and detailed projections.

Our 2014-2019 Business Plan carries this strategy through. We intend to convert Public Trust from a labour-intensive and inefficient organisation to a sharply focused, efficient and lean one. This future, streamlined Public Trust has high competency levels, tight operations, excellent customer service and efficient processes supported by modern technology.

We want to provide efficient, customer friendly service that is available to all New Zealanders through our own end services and to provide wholesale services to lawyers and private executors. We want to ensure we provide a robust corporate trustee and custodial service to the financial markets and to grow this part of the business. This will give Public Trust the foundation to realise appropriate revenue growth opportunities.

Public Trust's principal objective under its legislation is to *operate as an effective business*. Our strategic objectives, which are outlined below, will enable us to meet that objective and to effectively address our responsibilities in relation to prudent management, financial viability, good employer and social responsibility under the Public Trust Act. (Please refer to page 2.)

Be a simplified and focused business

Public Trust acknowledges that it must focus on its role as stated in the Public Trust Act 2001. We have – and are continuing to – substantively simplify our business. We no longer offer non core services. Over the past year, we sold our insurance book, ceased all new mortgage lending and ceased all external conveyancing. By June 2014 we will have simplified our investment offering. Please refer to Nature and Scope of Public Trust's Business, page 5, for a description of our services.

Be relevant and effective in how we attract and service customers

Public Trust needs to be more relevant to customers in the 21st century. The key elements here are our technological platform and our people.

Public Trust is absolutely clear that it must offer customers wider and more relevant choices in how they access our services, such as reliable mobile and online services. This is critical to sustain a continued and credible presence in the market. With its current technology platform, Public Trust cannot offer customers the choices and channels they expect today; we need a scalable platform with expanded distribution channels and services that will provide a repeatable, quality customer experience. The BIP incorporates technology solutions that support the necessary changes in this respect.

We need to embed significant culture change in our customer servicing and ensure our people are enabled to take accountability for customer outcomes. We know we have marked service delivery gaps in some areas and most notably for estate beneficiaries. We have identified the competencies and attributes that we want to encourage – plus those that are lacking across our workforce. Through changes in structure and leadership in our retail business we will ensure that the desired competencies are modelled and supported. We will recruit for attributes of customer and performance focus, and we are building stronger business development capabilities.

Improve productivity and profitability and be commercially aware

Public Trust remains very focused on reducing its cost base and maintaining a lower cost structure. We are also intent on improving our efficiency and stepping up productivity. This involves supporting staff to account for how their time is spent, including social good effort (see page 5). However, we need to view social good effort in a commercial context. We also need to ensure that our processes and culture foster a more productive workforce.

It is important to recognise that, to ensure funding will be available to fund technology investment, significant cost reductions have already been undertaken in the form of FTE reductions.

Implementing our proposed technology solution will allow the business to operate effectively and productively at these reduced FTE levels.

The business ultimately requires revenue growth to be profitable and will need to invest in revenue raising activity, such as targeted marketing and special growth initiatives. Two specific areas being pursued relate to estate management and corporate trustee services.

Streamline processes to improve efficiencies

In a comprehensive analysis of our business processes, we identified that many of them were not centred on customer needs and contained waste, such as multiple and ineffective hand-offs. In November 2012, we commenced a project to improve our processes for the business – and for our customers. Work has progressed on streamlining processes so that they are customer centred and provide better measurements across timing, volume and quality. These process improvements were not dependent on technology to support them. However, the next stage in this work – and a quantum shift in improvement – relies on the business having a stable and reliable technological platform and the support to enable our staff.

Invest in IT and systems to de-risk the business and to allow more flexible and efficient service delivery.

Public Trust has a considerable risk associated with outdated and unsupported technology. There is an elevated risk of failure of our core systems.

The proposed technology solution will address this risk and help the organisation to become an effective business and be more efficient and relevant to customers. It will enable Public Trust to realise identified financial and non financial benefits, which include improved customer satisfaction, mitigation of IT risk, ensuring a sustainable business, ensuring an engaged and capable workforce, reduced operating costs and increased efficiency and productivity.

Over the past 18 months, Public Trust has invested in the groundwork for its technology solution. In April this year we signed the Master Services Agreement for building the systems that will enable Public Trust to achieve its plan. We have defined required outputs and desired outcomes, taking a pragmatic approach. The intention is to simplify the business, and purchase standard systems and implement these as generically as possible.

FUNCTIONS AND OPERATIONS – meeting our strategic objectives

To achieve the transformation of Public Trust and ensure it operates as an effective business as required under our Act, the organisation needs to work together as a whole. Although the BIP is the main vehicle for change, the change programme is fully integrated into the organisation. All areas of the business are clear about their roles in achieving and supporting change to achieve our objectives. To support the business change, we have implemented an overall governance and performance reporting structure that gives firm and regular management oversight. In addition, Public Trust’s Board has full oversight of progress through comprehensive monthly reporting on performance. Our BIP governance framework provides for an Independent Quality Assurance (IQA) process to provide independent assurance of the project processes and benefits realisation.

The figure below summarises the core business areas, along with required outcomes and related activity. These areas map to organisational functions, and accountabilities for each have been established.

Figure 1: Public Trust goals

PUBLIC TRUST			
OVERALL GOAL	Public Trust is a relevant and profitable business, delivering quality customer service		
BUSINESS GOALS	Goal	Activity	
	Customer Experience	Improve the quality of customer service delivery	Solve process and structure inefficiencies, enabling staff to be more accountable
	Culture	Build and support a customer-centred, performance-focused and commercially aware culture	Develop a culture change programme supported by communication and performance reporting; Develop talent management programme
	Revenue	Ensure a stable revenue base for core profitability	Grow revenue through increasing market share and targeting profitable segments, improving awareness, and neutralising declining fees
	Costs	Reduce the cost base and maintain a lower cost structure	Reduce and contain costs through improved efficiency and productivity; Implement premises and FTE plans
	Corporate Trustee Services	Implement a growth and retention strategy to maximise opportunities	Pursue growth opportunities; Continue to retain and increase market share; Address revenue risks
	Business Improvement Programme	Re-engineer the core business	Implement the Target Operating Model and build platform to profitably scale the business

Customer experience

The quality of our customer service delivery is paramount to the success of our business. The improvements we need to make in this area will resolve inefficiencies in structure and processes and improve perceived and actual quality of customer service delivery

Staff will be enabled through proactive management and accountability for customer outcomes. This will be supported by end-to-end delivery and a revised policy for handling issues and complaints. Customer satisfaction will be measured and the findings will provide us with the opportunity to respond to feedback and improve our service.

Contributes to objective: Be relevant and effective in how we attract and service customers.

Culture

Public Trust is intent on building and supporting a customer-centred, performance-focused and commercially aware culture. We will define accountability for customer outcomes and implement training and support programmes for our staff to enhance customer delivery. Where recruitment is required, we will have defined critical competencies to target.

Our organisation objectives will be clarified through a comprehensive internal communication strategy and individual performance goals will be aligned to these objectives. A revised framework of key performance measures and indicators will be implemented to effectively link performance and productivity.

Activities will be simplified wherever possible to eliminate waste.

Our people are a vital asset to our business and in recognition of this targeted recruitment will be undertaken. We will embed talent management and ensure retention plans are in place for key staff.

Contributes to objectives: Improve productivity and profitability and be commercially aware; Streamline processes to improve efficiencies.

Revenue

We aim to grow revenue through increasing market share and targeting profitable segments, improving awareness, and neutralising declining investment fees.

Activities in this area help ensure that Public Trust has the reliable revenue base required for core profitability. This will create the platform from which we can look to expand our service offers to support future growth.

We will also grow revenue by refining and implementing the market share strategy and developing and launching appropriate products that align with our core business. We will reactivate and renew promotion activity to improve awareness and sales. We will look to increase our business development capability and capacity, and improve revenue potential through developing pricing and bundling strategies and growing our Direct Asset Service (investments).

Contributes to objectives: Improve productivity and profitability and be commercially aware; Be a simplified and focused business; Be relevant and effective in how we attract and service customers.

Costs

We will continue to reduce our cost base and maintain a lower cost structure. The ongoing implementation of our FTE and Premises Plans are important contributors in this regard. We will continue to scrutinise all costs and ensure we realise opportunities to reduce our cost base. We will step up focus on productivity with incisive productivity measurement and reporting. Effective cost management will also monitor the cost of providing our social good effort, and ensure our delivery in this regard aligns with the Crown's expectations of Public Trust as an effective business.

Contributes to objectives: Improve productivity and profitability and be commercially aware; Be a simplified and focused business.

Corporate Trustee Services

We will implement a strategy to maximise CTS growth opportunities and enhance customer retention. The strategy will ensure that CTS is effectively positioned with the right IT infrastructure and people to stimulate business development, increase client service capability and increase capacity in custodial services. We will develop strategic relationships with business partners to further extend custodial services.

Contributes to objectives: Improve productivity and profitability and be commercially aware; Be relevant and effective in how we attract and service customers.

Business Improvement Programme

The BIP was developed to address Public Trust's underperformance. The programme works across and with the business to drive significant operating improvements. It re-engineers Public Trust's core business and involves organisational change to modernise the business, invest in developing people to support a shift in skill sets, and put in place efficient business processes and new enabling technology (for example, for mobile and online access for customers).

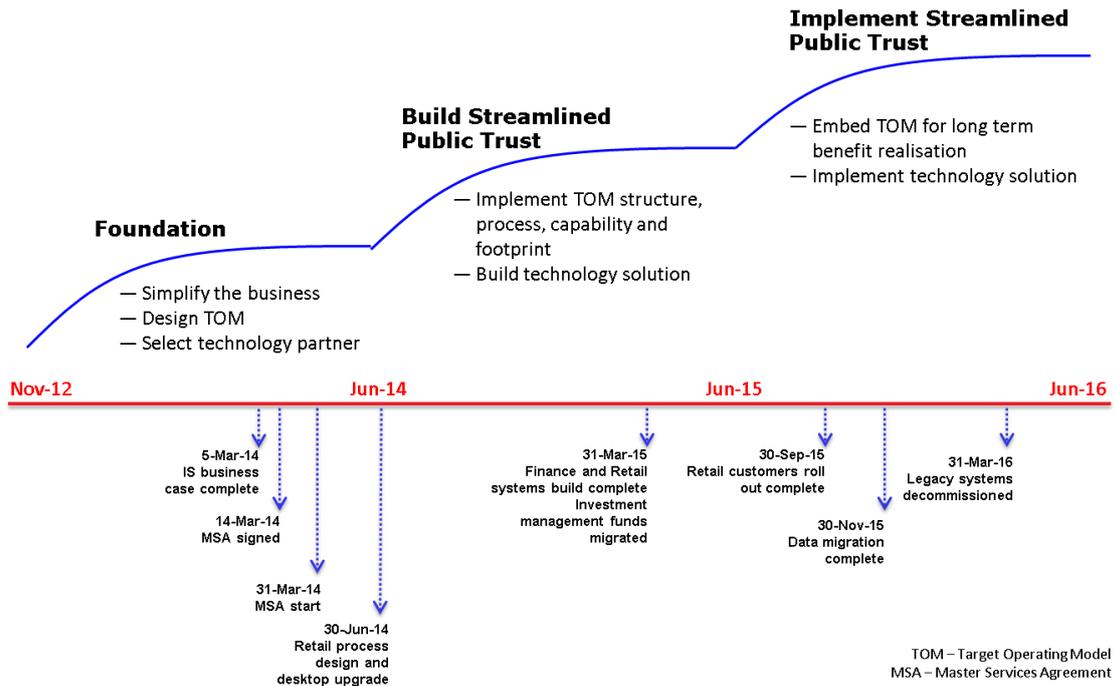
Public Trust has invested in the groundwork for its technology solution. The intention is to simplify the business, and to purchase standard systems and implement these as generically as possible. In March 2014, we submitted a business case to Treasury for the technology investment, in accordance with the Owner's Expectation Manual. In April we signed the Master Services Agreement for building the systems that will enable Public Trust to achieve its plan.

Funding for the programme, and for the technology investment in particular, is governed by stage gates to ensure that progress is satisfactory and milestones met before further expenditure is committed.

The BIP commenced in November 2012 and has another two years to run, completing in 2015/16. Phasing is shown in figure 2, below.

Contributes to objective: Be a simplified and focused business; Be relevant and effective in how we attract and service customers; Improve productivity and profitability and be commercially aware; Streamline processes to improve efficiencies; Invest in IT and systems to de-risk the business and to allow more flexible and efficient service delivery.

Figure 2: BIP phasing



ASSESSING OUR PERFORMANCE

Our principle objective, as set out by the Public Trust Act 2001, is to operate as an effective business. We must ensure that our business is run efficiently and assets and liabilities are managed prudently in order to maintain financial viability. We must also be a good employer and exhibit a sense of social responsibility in our community. The performance measures we use must allow us to monitor our progress towards achieving these objectives and also encourage behaviour and activity that will deliver our business goals.

Effective Business (Public Trust Act 2001) measures

Table 1 – Key Performance Indicators

	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Ownership perspective							
Profit (Loss) after Tax for the year	\$7.1m	\$7.8m	\$1.2m	\$0.2m	\$1.5m	\$4.6m	\$5.1m
Return on Equity ¹	27.9%	23.4%	3.2%	0.6%	3.7%	10.7%	10.6%
Capital Ratio ²	5.9%	8.0%	>11%	>11%	>11%	>11%	>11%
Efficiency and effectiveness perspective							
Cost to Income Ratio ³	98%	98%	94%	93%	91%	92%	92%
Capability perspective							
Employee Engagement ⁴	38%	Deferred	30%	35%	45%	55%	57%
Customer perspective							
Customer Satisfaction ⁵	6.8	8.0	8.0	8.2	8.4	8.5	8.5
Notes:							
1. Return on Equity is surplus / (deficit) (including investment gains / (losses) after tax divided by the average of opening and closing equity. This ratio includes the benefit of tax losses.							
2. Capital Ratio is calculated in accordance with the Non-Bank Deposit Takers' Regulations.							
3. Total Expenses (including mortgage losses and excluding strategic change costs) / Revenue (excluding investment gains/losses).							
4. Independent annual survey of employee engagement completed by Kenexa (2012 New Zealand benchmark = 72.2%).							
5. Independently conducted survey of customer satisfaction (1 = poor; 10 = excellent), measured by AC Nielsen, with an average of 1,000 respondents.							

Business Transformation measures

The strategic objectives we have adopted and the Business Goals that support them (see figure 1, page 8) represent where we must focus to transform Public Trust and address its critical risks.

Customer experience

Goal	Measure
Improve the quality of customer service delivery	Customer satisfaction, measured through independent survey – refer to table 1 Reduction in number and level of complaints, as measured by GM Retail complaints log ¹

Culture

Goal	Measure
Build and support a customer-centred, performance-focused and commercially aware culture	Employee engagement – refer to table 1 Level of turnover of high potential employees, as measured through People and Culture reports to the Board ² Decrease in the total recordable injury rate, monitored through monthly reporting to the Executive ³

Revenue

Goal	Measure
Ensure a stable revenue base for core profitability	Profit (Loss) for the year – refer to table 1 Return on equity – refer to table 1 Capital ratio – refer to table 1 Cost to income ratio – refer to table 1 Satisfactory progress towards achieving milestones and targets in Product Development projects, as reported to the Board

¹ The complaints log is being redeveloped to more comprehensively capture complaints lodged and measure resolution effectiveness and timeliness. The revised log will be in place by 30 September 2014, and baselines will be developed subsequently.

² Acceptable level for unplanned turnover has been set at 15%.

³ Total recordable injury frequency rate is calculated by adding all personal harm incidents requiring medical treatment and dividing this by the total number of hours worked by staff and then multiplying this by a million to provide a frequency rate. This is a new performance measure for Public Trust and will be based on a 12 month rolling average to make it statistically meaningful.

Costs

Goal	Measure
Reduce the cost base and maintain a lower cost structure	Profit (Loss) for the year – refer to table 1
	Return on equity – refer to table 1
	Capital ratio – refer to table 1
	Cost to income ratio – refer to table 1
	Satisfactory progress towards achieving milestones and targets in FTE and Premises Plans, as measured in progress reports to the Board

CTS

Goal	Measure
Implement a growth and retention strategy to maximise opportunities	Profit (Loss) for the year – refer to table 1
	Return on equity – refer to table 1
	Capital ratio – refer to table 1
	Cost to income ratio – refer to table 1
	Satisfactory progress towards achieving milestones in implementing the CTS Growth and Retention strategy, as measured in progress reports to the Board

Business Improvement Programme

Goal	Measure
Re-engineer the core business	Satisfactory progress towards achieving milestones in: <ul style="list-style-type: none"> ▪ Processes workstream ▪ Technology workstream, including funding stage gates ▪ Target Operating Model workstream (includes capability and footprint) as measured through BIP progress reports to the Board.
	Board satisfaction in level of reporting and quality of governance of BIP. This will include independent review of BIP programme management.

Social Good measures

Public Trust has one reportable output under section 149E(1)(a) of the Crown Entity Act. This contributes to the achievement of Ministry of Justice outcomes, and is also presented in Public Trust's Statement of Performance Expectations.

The Justice sector has an outcome of “*ensuring that the justice system is accessible to all who require it*”. Many of the services Public Trust provides contribute to this outcome. In this regard we:

- provide access to quality justice services
- explain and define the rights of individuals
- ensure that the rights of represented individuals are protected and acted upon.

Public Trust and the Crown (acting through the Minister of Justice) have a Services Agreement under which the Crown purchases a range of non-commercial protective fiduciary services. Under the Agreement, certain non-commercial services are paid for by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs.

We provide services to people who are not well placed to look after their own affairs and to people who, because they have limited financial means, are unlikely to have their needs met by private sector trustee organisations.

Measuring our performance

The Service Agreement specifies the *volume and value* of the services we provide and this is monitored through regular reporting to the Ministry of Justice.

The *quality and impact* of the services we provide and their contribution to Justice sector outcomes are measured as below.

Outcome	Measure
Access to quality justice services	<p>Customer satisfaction, measured through independent survey – refer to table 1</p> <p>Satisfactory progress towards achieving milestones in Processes workstream of BIP, measured through BIP progress reports to Board</p> <p>Satisfactory progress towards achieving milestones in Technology workstream of BIP, measured through BIP progress reports to Board</p> <p>Reduction in number and level of complaints, as measured by GM Retail complaints log</p>
Individuals' rights are explained and defined	<p>The policies, systems and processes we have in place support the delivery of high quality and consistent advice, as measured through internal quality assurance processes and internal audit.</p> <p>The number of enquiries we receive from organisations and other professionals show that we are recognised as being an authoritative source of advice, as measured through productivity reporting on social good.</p>
The rights of represented individuals are protected and acted upon	<p>The number of people whose rights we actively protect and by the number of people we help to protect indirectly through PPPR manager audits, as measured through management revenue reporting.</p> <p>Involvement in cases that help to clarify the law relating to the protection of peoples' rights and the development of case studies as and when appropriate, measured on a case by case basis.</p>

ORGANISATIONAL HEALTH AND CAPABILITY

People

Through our programmes and practices, we are committed to ensuring our employees are valued and are given the opportunity to pursue career development opportunities.

For further information about the people and cultural changes taking place to support Public Trust's transformation, please see page 12.

Good employer

Public Trust operates human resource policies that contain provisions generally accepted as integral to the fair and proper treatment of employees in all aspects of their employment. These policies cover:

- The provision of good and safe working conditions
- Impartial and transparent recruitment and selection practices
- Opportunities for the enhancement of individual employees' abilities and succession planning
- Alignment of the organisation's structure to the future direction of a customer centric enterprise
- An equal employment opportunities programme
- Recognition of the aims, employment requirements and involvement of Maori
- Recognition of the aims, employment requirements and involvement of ethnic or minority groups
- The employment requirements of an ageing workforce and people with disabilities.

As part of its Annual Report, Public Trust will continue to report its achievement against the outcomes relating to the fair and proper treatment of its employees.

Organisational Health and Capability

We are committed to providing a safe and healthy place of work that keeps our employees, customers, visitors and contractors safe. As part of this commitment we are improving our performance in these areas through leader-led health, safety and wellness initiatives across the enterprise.

Our health and safety programme has been independently reviewed and aligned with legislation to prepare us for the upcoming changes brought about by the health and safety reforms.

We will measure success by the decrease in total recordable injury frequency rate and will monitor progress through a monthly status report to the Executive Team. Please also see page 12.

Capital investment

Investment in IT and systems is critical for Public Trust to achieve its goal. Our planning for IT investment has been comprehensive to ensure successful implementation. This investment in technology is a core enabler for the business and a principal component of our BIP. In March 2014, we submitted a business case to Treasury for the technology investment, in accordance with the Owner's Expectation Manual. In April we signed the Master Services Agreement for building the systems that will enable Public Trust to achieve its plan. The IT solution will be funded by Public Trust and the NPV analysis is compelling. It shows that the successful implementation of the investment programme will allow for dividends to be paid to the Crown in the future, beyond the period covered by this SOI.

COMMERCIAL VALUATION

The Board's estimate of the current commercial value of the Crown's investment in Public Trust is \$33.6m. The valuation was calculated on a value in use basis, prepared on 21 May 2014 with a valuation date of 30 June 2014. The value in use basis does not necessarily represent what a 'willing buyer' would pay, since a buyer would need to consider a number of matters including current Business Plan objectives, capital requirements and any implications relating to the availability of the Government Guarantee on the Common Fund.

The discounted cash flow methodology was used to calculate a net present value of the Public Trust Group, including all subsidiaries, on an after-tax basis.

The methodology is based on the nominal future cash flows for separate business units as set out in Public Trust's five-year Business Plan, with forward projections made for Years 6 through 10. A terminal value is calculated after normalising the cash flow in the final year of the projection period for tax and depreciation and a growth rate of 1.5% is then applied.

The Cost of Capital components have been updated and the overall discount rate for this year was calculated at 11.23% (the previous valuation in 2012 used 11.01%). The valuation was prepared internally by Public Trust's Finance group and the methodology and calculations were externally peer-reviewed, prior to approval by the Board. The valuation includes the benefit to the Crown of Public Trust's cumulative tax losses.

The commercial valuation and comparative for the previous valuation are summarised in Table 2.

Table 2 – Commercial Valuation

Commercial Value – 2014 compared to 2012	2014	2012
Discount rate	11.23%	11.01%
Commercial valuation	\$33.6m	\$31.3m
Adjustment for change in discount rate/methodology	\$0.0m	\$0.8m
Comparative commercial value	\$33.6m	\$32.1m

Notes:

1. A commercial valuation was not prepared for the 2013 SOI so the 2012 commercial valuation is the latest valuation for comparative purposes.
2. The following points should be noted in relation to this commercial valuation.
 - Cash flows used for valuation purposes assume the crown statutory guarantee on the Common Fund.
 - The valuation includes the benefit to the Crown of Public Trust's cumulative tax losses (it is unlikely that these could be utilised by a purchaser).

MANAGING RISK

Risk management and mitigation is a core focus for Public Trust. We have a comprehensive financial risk management framework in place that covers credit, liquidity, market and operational risk.

Key performance indicators are employed to provide signs of potential business risks and issues. Strategies and processes are in place to identify and promptly act upon any potential performance issues. An internal governance group monitors enterprise risk management activity and reports regularly to the Board's Risk, Audit and Assurance Committee.

Public Trust faces two key risks:

- If the business remains in its current form then it is not sustainable (see Strategic Objectives, page 6)
- If the business continues with its outdated and unsupported technology, there is an elevated and considerable risk of failure of the core systems.

Numerous iterations of analysis have indicated that the best resolution of these key business risks is to implement the 2013-2018 Business Plan with urgency. This involves implementing the Business Improvement Programme (BIP) to transform the organisation, including replacing the IT systems (see page 9).

We have undertaken considerable analysis of the key risks relating to the BIP transformation programme. Risks are identified and reported against in business planning sessions and enterprise risk management sessions. Management and the Board are kept completely and regularly apprised of progress, risks and issues, and Public Trust has also undertaken to ensure that Treasury is also fully aware of progress.