

# Shareholder Expectations Letters Information Release

## Release Document

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<https://treasury.govt.nz/information-and-services/guidance-state-sector/performance-strategic-intentions/strategic-issues>

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- [1] 9(2)(a) – to protect the privacy of natural persons, including deceased people
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- [6] 9(2)(i) – to enable the Crown to carry out commercial activities without disadvantage or prejudice
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# Office of Rt Hon Winston Peters

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**Deputy Prime Minister**  
Minister of Foreign Affairs  
Minister for State Owned Enterprises  
Minister for Racing



13 FEB 2018

Ms Janine Smith  
Chair  
AsureQuality Ltd  
PO Box 14946  
AUCKLAND 1741

Dear Ms Smith

## **2018/19 SHAREHOLDER EXPECTATIONS OF ASUREQUALITY LTD**

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of AsureQuality Ltd to address in the business planning process for the 2018/19 financial year.

The Coalition Government is committed to resolving key long term challenges facing the country including sustainable economic development, increasing exports, decent jobs paying higher wages, a healthy environment and a fair society and good government.

Ministers expect that the Boards of entities that comprise the Crown's Commercial Portfolio will support the Government to resolve these challenges by continuing to maximise the value of the portfolio through improved financial performance and effective capital management.

This letter contains the following information:

- Ministers' specific expectations for AsureQuality Ltd;
- General expectations for the Crown's Commercial Portfolio; and
- The timetable for the business planning process this year (contained in Annex 1).

### **Entity specific expectations**

#### *Health and Safety*

Ministers expect that the health and safety of AsureQuality's business operations and employees will be a priority for the Board.

### *Disciplined approach to international investment*

Ministers appreciate that due to AsureQuality's position in the domestic market, growth opportunities are more likely to lie in offshore markets. Nevertheless, investment in international markets entails a high level of risk. Ministers expect AsureQuality to take a disciplined approach to international investment. In particular, Ministers expect that AsureQuality will:

- Continue to focus on delivering the business plan for the Dairy Technical Services joint venture with Bureau Veritas;
- Continue to review and take action on underperforming investments; and
- Note that there is a high threshold for shareholder support for new international investment.

Ministers expect that AsureQuality will engage with the Treasury if any new international investment is planned to be undertaken.

### **General expectations for the Crown's Commercial Portfolio**

AsureQuality Ltd is part of the Crown's Commercial Portfolio. We set out general expectations of all entities that comprise the Commercial Portfolio below.

#### *Dividends*

Ministers expect positive business performance to result in dividend payments, and that an appropriate balance is maintained between dividends and reinvestment. Our preference is for dividends over new investment.

A statement of the principles adopted by the Board in determining the annual dividend is required to be disclosed in the Statement of Corporate Intent (SCI).

Shareholding Ministers will be placing a higher level of focus on the principles adopted by the Board to determine the annual dividend; in particular, the relationship between operating cash flow, sustaining capital expenditure, discretionary capital expenditure and dividends paid to shareholders.

#### *Significant capital investment*

Capital investment decisions made by an entity:

- (i) can have a material impact on the future earnings and therefore the value of the entity to its shareholders; and
- (ii) may commit capital that could otherwise be returned to shareholders.

Shareholding Ministers expect that you will seek Shareholder approval for any significant capital investment decision that:

- (i) constitutes a major transaction; or
- (ii) requires contribution of capital from the Crown; or
- (iii) requires a change to the company's dividend policy to fund the capital investment.



Shareholding Ministers also expect that you will consult with Ministers on any other significant capital investment that due to its size, strategic significance, non-recurring nature, it is considered outside of the normal business planning cycle.

The Treasury is currently revising the detailed guidance on the process of consulting with shareholding Ministers on significant capital investment decisions contained in chapter 8 of the Owner's Expectation Manual (the OEM) and will be consulting with Chairs on the revised guidance in the near future. Shareholding Ministers expect the Board to follow the revised guidance when it is issued by the Treasury.

#### *Board evaluations*

Board evaluations are an important means for the Treasury to provide advice to shareholding Ministers on both:

- (i) the performance of the Board; and
- (ii) the Board's capability needs as part of appointment and reappointment decisions made by shareholding Ministers.

Shareholding Ministers expect Boards to undertake an independent board evaluation at least once in every three year period and to share a summary of the findings with the Treasury.

The Treasury is also revising the guidance on Board evaluations contained in the OEM. Shareholding Ministers expect the Board to follow the revised guidance when it is issued by the Treasury.

#### *Capital structure*

Ministers expect that the Board will periodically review the capital structure of the entity to ensure that it is:

- (i) appropriate for the entity; and
- (ii) any borrowing is maintained at a prudent level.

Should you undertake any borrowing, ensure that all lenders are specifically made aware that the borrowing does not represent Crown debt, and accordingly is not guaranteed by the Crown.

Entities are expected to return any surplus capital to the Crown so that it may be used to fund other Crown priorities.

#### *Post-investment reviews*

Ministers expect entities to undertake post investment reviews of all significant capital investments. These reviews should be useful in enabling Boards to better assess whether the benefits expected to be obtained from capital expenditure and/or new investments were realised in practice. Financial thresholds have been established, over which a post-investment review is required to be sent to the Treasury (refer to section 5.7.3 of the OEM). Consistent with prior years, we request copies of any post-investment reviews over the defined threshold.

### *Strategic reviews*

Ministers are focused on maximising the value of the Crown's investment in the entities that comprise the Commercial Portfolio. As such, the programme of strategic reviews of commercial entities is continuing. Strategic reviews are intended to provide closer alignment on strategy between the Board, management and the shareholder. We request that you work closely with the Treasury, if your entity is subject to a strategic review.

### *Commercial valuations*

Section 14(3) of the SOE Act requires the SCI to disclose the Board's estimate of the SOE's commercial value. Ministers place significant reliance on the Board's estimate of the SOE's commercial value. We therefore expect these valuations to be robust, and either prepared or reviewed independently, where appropriate.

Specific guidance on the preparation and disclosure of the Board's estimate of the SOE's commercial value is provided in Annex 2 of the OEM. Entities are encouraged to contact the Treasury for further guidance on the approach to determine the Board's estimate of the SOE's commercial value.

### *Public Meetings*

Ministers encourage the company to hold a public meeting each year to provide an opportunity for the New Zealand public to scrutinise the performance of the company. Please inform the Ministers offices and the Treasury of the date of the public meeting. Further guidance on this expectation is provided in section 5.7.7 of the Owners Expectation Manual.

### **Engagement**

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions please contact<sup>[1]</sup> on<sup>[1]</sup>. Alternatively, please contact Chris Gregory, Manager, Commercial Operations, on<sup>[1]</sup>.

Yours sincerely



Rt Hon Winston Peters  
**Deputy Prime Minister**  
**Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc: Mr John McKay, CEO, AsureQuality Ltd

## Annex 1

### *Timetable for the Business Planning Process for 2018/19*

**Table 1: Summary timetable for the Business Planning Process**

<b><i>Due Date</i></b>	<b><i>Key Action</i></b>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
Friday, 2 March	Board sends Strategic Issues letter to Ministers
Friday, 2 March	Board provides Post Investment Reviews to the Treasury
Friday, 27 April	Board submits draft SCI and business plan
Friday, 29 June	Board delivers final SCI to shareholding Ministers
Within 12 days of receipt of the final SCI	Minister to present SCI to the House of Representatives

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **Friday, 2 March 2018** in response to the Letter of Expectations. Should your company wish to engage with shareholding Ministers to seek clarification around their expectations, we would ask that you advise the Treasury as early as possible of such intentions.

All SOEs are expected to provide shareholding Ministers with a draft SCI and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Friday, 27 April 2018**.

The final SCI should be delivered to shareholding Ministers on or before **Friday, 29 June 2018**.

Shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.

Further guidance on the timetable is contained in section 5.6.4 of the OEM. The OEM is available from the Treasury's website at:  
<http://www.treasury.govt.nz/commercial/publications/guidance/owners-expectations-manual>.