

Shareholder Expectations Letters Information Release

Release Document

April 2018

<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



Deputy Prime Minister

Minister of Foreign Affairs

Minister for State Owned Enterprises

Minister for Racing

13 FEB 2018

Mr Tony Porter
Chair
Hawke's Bay Airport Ltd
PO Box 721
NAPIER 4140

Dear Mr Porter

2018/19 SHAREHOLDER EXPECTATIONS OF HAWKE'S BAY AIRPORT LTD

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Hawke's Bay Airport Ltd (HBAL) 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 HBAL;
- 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

We expect that a key priority for the business remains the health and safety and efficient operation of both aeronautical and other commercial divisions of the airport.

Generation of a Commercial return

Consistent with section 4(3) of the Airports Authorities Act 1966, airports "operated or managed by an airport authority must be operated or managed as a commercial undertaking". We therefore expect that:

- HBAL's business plan (and pricing) includes a commercial return on the equity shareholders have invested in the airport i.e. the airport returns its cost of equity, and
- an appropriate proportion of that return is paid to shareholders as a dividend.

Redevelopment of terminal building

I understand that HBAL has let the contract for the terminal redevelopment. We expect that information to be provided in HBAL's quarterly report on how the development is progressing. In addition, please ensure that any material developments or announcements continue to be conveyed to the Treasury ahead of being announced publicly.

Business Park

We request updates be provided in each quarterly report to shareholders on the progress of the business park development, including outlining any progress in attracting new tenants to the park.

Process for transfer of Crown ownership to Ahuriri Hapū

A right to purchase the Crown's shareholding in HBAL was given to Ahuriri Hapū as part of the Crown's recent settlement of historic claims. Ministers encourage HBAL to engage with Ahuriri Hapū in regard to the potential purchase of the Crown's shareholding.

General expectations for the Crown's Commercial Portfolio

HBAL 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 Intent (SOI).

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.

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

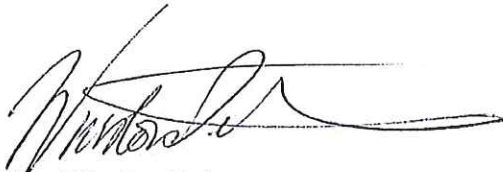
Post-investment reviews

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.

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^[1] (on^[1]) Alternatively, please contact Dan Marshall (Acting Manager, Commercial Advice on^[1]).

Yours sincerely



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

cc: Ms Sandra Hazlehurst, Mayor of Hastings District Council, Private Bag 9002,
Hastings 4156

Mr Bill Dalton, Mayor of Napier City Council, Private Bag 6010, Napier 4142

Annex 1

Timetable for the Business Planning Process for 2018/19

<i>Due Date</i>	<i>Key Action</i>
Friday, 2 March	Board sends Strategic Issues letter to Ministers
Friday, 2 March	Board submits draft SOI and business plan
Friday, 29 June	Board delivers final SOI to shareholding Ministers

HBAL is 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.

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

The final SOI 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/commerHBAL/publications/guidance/owners-expectations-manual>.