

Shareholder Expectations Letters Information Release

Release Document

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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



20 FEB 2018

Ms Traci Houpapa
Chair
Landcorp Farming Ltd
PO Box 5349
WELLINGTON 6145

Dear Ms Houpapa

2018/19 SHAREHOLDER EXPECTATIONS OF LANDCORP FARMING LTD

Further to your meeting with Ministers on 1 February 2018, I am writing to outline the matters that we expect the Board of Landcorp Farming Limited (Landcorp) to address in the business planning process for the 2018/19 financial year.

This letter contains the following information:

- Ministers' specific expectations for Landcorp;
- 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

We set out Ministers' specific expectations for Landcorp below.

Identify ways to contribute to the Government's broader objectives

The Coalition Government is committed to resolving key long term challenges facing the country including sustainable economic development, employment, and a healthy environment. Ministers expect that Landcorp will identify and consider opportunities to advance this objective.

Specifically, we also expect that Landcorp will consider how it can contribute to the Government's goal to plant one billion trees over the next 10 years. This might include identifying land that is suitable for tree plantation within Landcorp's existing land holdings or opportunities within Landcorp's existing forestry plantation.

Sale of Farm Land

We expect Landcorp to cease its current programme of farm sales, other than sales of farm land that are undertaken in conjunction with the Office of Treaty Settlements as part of the settlement of Treaty of Waitangi claims.

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Ministers expect that approval will be sought for any programme of farm sales in the future. In any event, we expect that Landcorp will consult with shareholding Ministers before undertaking any sales of land, whether directly or indirectly, to foreign purchasers.

Farming Operations

Ministers expect that Landcorp will be at the forefront of 'best practice' in agriculture in New Zealand. To this extent Landcorp will:

- Focus on its core farming operations;
- Leverage its scale as best it can to obtain premiums for the sale of its production to processors; and
- Manage its operating and head office costs prudently.

Shareholding Ministers have a low threshold for taking on additional risk. We expect that Landcorp will step back from its proposals for investment outside core farming activities (specifically investment in food processing and agri-technology), unless otherwise approved by shareholding Ministers.

Capital Structure and Dividends

Taking into account the expectations set out above, shareholding Ministers expect Landcorp to apply surplus cash in the first instance to pay down debt, and then for payment of dividends.

General expectations for the Crown's Commercial Portfolio

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

Health and Safety

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

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^[1] , Senior Advisor, on^[1] . Alternatively, please contact Chris Gregory, Manager, Commercial Operations on^[1] .

Yours sincerely



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

cc: Mr Steve Carden, CEO, Landcorp Farming Ltd

Annex 1

Timetable for the Business Planning Process for 2018/19

Table 1: Summary timetable for the Business Planning Process

<i>Due Date</i>	<i>Key Action</i>
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> .