

# The Treasury

## Shareholder Expectations Letters Information Release

### Release Document

April 2019

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# Hon Shane Jones

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Minister of Forestry

Associate Minister of Finance

Minister for Infrastructure

Associate Minister for State Owned Enterprises

Minister for Regional Economic Development

Associate Minister of Transport



Ms Jackie Lloyd  
Acting Chair  
New Zealand Post Limited  
PO Box 39990  
WELLINGTON 5045

Dear Ms Lloyd

## 2019/20 SHAREHOLDER EXPECTATIONS OF NEW ZEALAND POST LTD

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of New Zealand Post (NZ Post) to address in the business planning process for the 2019/20 financial year.

The Government remains 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 NZ Post;
- General expectations for the Crown's Commercial Portfolio (Annex 1); and
- A timetable for the 2019/20 Business Planning Process (Annex 2).

While some general expectations are highlighted in this letter, full expectations for the Crown's Commercial Portfolio companies are contained in the Owner's Expectations Manual (OEM). The OEM, and updates, can be found on the Treasury's website (<https://treasury.govt.nz/publications/guide/owners-expectations-manual>). Ministers expect that directors and the management of the companies will be familiar with the OEM to ensure shareholder expectations are being met.

## **Entity specific expectations**

### *Mail Operations*

Ministers expect NZ Post to continue to manage the decline in mail volumes and the impact on its business, while delivering to standards outlined in the Deed of Understanding with the Crown (“the Deed”).

Ministers appreciate the challenges NZ Post has in bringing the mail business to a commercially viable position under the current service standards set out in the Deed. However, we expect NZ Post to carry out the obligations set out in the Deed as efficiently as possible in the current environment.

Ministers expect that NZ Post will work with the Treasury and the Ministry of Business, Innovation and Employment (“MBIE”) to provide options for enabling the delivery of mail services, while providing for NZ Post’s mail business to return to a commercial position.

### *Parcel Operations*

Ministers expect NZ Post to:

- Operate its parcels operation as a commercial business and to benchmark performance against comparative industry operators;
- Invest in its parcel operations to better position the business for changes in technology, increasing parcel volumes, consumer demands, and competition (with investment plans supported by a business case and funding strategy); and
- Ensure value for money investments are carefully considered and executed to ensure NZ Post can remain a financially sustainable business for the foreseeable future.

### *Retail Network*

Ministers recognise the changes NZ Post is making to its retail network, in particular, its movement towards an agency-based network. We expect that while NZ Post continues to optimise its operations and business model in anticipation of future customer demands, it will continue to manage any impacts on employees, consumers, and communities.

Ministers expect that where joint NZ Post and Kiwibank branches close, NZ Post will ensure that an appropriate alternative location for postal services is set up in a nearby location before the branch is closed.

### *Kiwi Group Holdings (KGH)*

Ministers expect that NZ Post will preserve the Crown’s effective majority control of KGH, and appropriately and actively monitor its remaining ownership interest in KGH to maximise the value of the Crown’s investment.

Ministers expect NZ Post will engage with KGH's other shareholders and its Board in an effective manner to agree Kiwibank's future strategy and business plan and to resolve matters among shareholders.

Regarding the Kiwibank retail network, Ministers expect that NZ Post will work alongside Kiwibank to continue to adequately communicate with and mitigate any impacts on employees, consumers, and communities where retail network changes are planned.

### **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 Madeleine Lock (on [6] \_\_\_\_\_) or [3] \_\_\_\_\_ (on [6] \_\_\_\_\_ [6] \_\_\_\_\_). Alternatively, please contact Shelley Hollingsworth (Manager, Commercial Performance on [6] \_\_\_\_\_).

Yours sincerely



Hon Shane Jones  
**Associate Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc: Mr David Walsh, CEO, New Zealand Post Ltd

## Annex 1

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

Expectations for *Significant Capital Investment* and *Board Evaluations*, which were previously included in this letter, have now been included in the OEM update, July 2018.

#### *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.

#### *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.

#### *Commercial valuations*

Ministers place significant reliance on the Board's estimate of the SOE's commercial value. We expect these valuations to be robust, and either prepared or reviewed independently, where appropriate. The review should include the reviewer's view of key assumptions included in the model. Guidance on the commercial preparation and disclosure is provided in Annex 2 of the OEM.

#### *Diversity*

Consistent with government support for increased diversity and gender balance on Boards, entities are encouraged to support diversity and inclusion in the workplace and in leadership.

## Annex 2

### *Timetable for the Business Planning Process for 2019/20*

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

<i>Due by</i>	<i>Key Action</i>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
Thursday, 28 February	Board sends Strategic Issues letter to Ministers
Thursday, 28 February	Board provides Post Investment Reviews to the Treasury
Tuesday, 30 April	Board submits draft SCI and business plan
Friday, 28 June	Board delivers final SCI to shareholding Ministers
As soon as practicable after delivery of the final SCI to Ministers	Company to publish SCI on its website

All entities are to provide shareholding Ministers with a **Strategic Issues letter**, by **Thursday, 28 February 2019** 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.

Entities are expected to provide shareholding Ministers with a draft SCI (if required), and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Tuesday, 30 April 2019**.

The final SCI should be delivered to shareholding Ministers on or before **Friday, 28 June 2019**.

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.