

The Treasury

Letters of Expectations Information Release

September 2020

This document has been proactively released by the Treasury on the Treasury website at <https://treasury.govt.nz/publications/information-release/letters-of-expectations-september-2020>

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

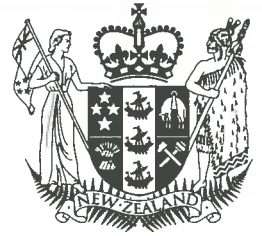
Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.



09 DEC 2019

Dr Warren Parker
Chair
Landcorp Farming Limited
[23]

Dear Dr Parker

2020/21 SHAREHOLDER EXPECTATIONS FOR LANDCORP FARMING LIMITED

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Landcorp Farming Limited (Landcorp) to address in the business planning process for the 2020/21 financial year.

The Government remains committed to resolving key long term challenges facing the country including sustainable and inclusive economic development, supporting thriving and sustainable regions, preserving our natural capital, particularly in view of climate change, leveraging technology to boost productivity and a fair society for all New Zealanders.

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 Landcorp;
- general expectations for the Crown's Commercial Portfolio.

Entity specific expectations

Ministers expect Landcorp, as a state owned enterprise, to be as profitable and efficient as comparable businesses not owned by the Crown.

We also expect Landcorp to be a good employer and be socially responsible in which it demonstrates farming best practice and innovation, and that it assists with "industry good" initiatives.

We have three primary expectations.

On-farm Activities

We consider Landcorp's primary objective is to be a successful pastoral farming company and so we expect Landcorp to prioritise its core, on-farm operations both in terms of best financial returns and efficiency.

With this in mind, Ministers expect Landcorp to investigate ways to lift productivity and profitability at a farm level, review its capital expenditure plans and endeavour to manage/reduce risks and volatility of its earnings.

Landcorp should also seek to reduce the environmental impact of its farming practices, in line with best farming practices, and investigate ways to meet the Government's goals of improving water quality and the transition to a low-emissions economy.

Ministers also encourage Landcorp to continue to investigate and research:

- the highest value use of each land parcel and where appropriate plans to migrate land parcels to higher-value uses, and
- farm systems that have a lower input and less intensive farming systems.

We continue to expect you to investigate opportunities to rationalise and improve the overall quality of Landcorp's current farming portfolio and appreciate the work you have done in this space to date. We also expect that Landcorp will consult with shareholding Ministers before undertaking any sales of land.

Ministers expect Landcorp to continue to support the Government's goal to plant one billion trees over the next 10 years.

Off-farm Activities

[34]

We expect Landcorp will not enter into any new off-farm value-add activities without our written consent and that you prioritise your current off-farm activities that will deliver proven profitability.

We remain supportive of the recent strategic review of Pāmu Foods and expect that a similar lens be taken to other off-farm activities in the future to ensure profitability and efficiency.

We also expect Landcorp to manage its operating and head office costs prudently.

Transparency and engagement

We expect Landcorp to provide a high level of detail and transparency around its strategy and operational and financial performance both on farm and off farm. This includes providing information on the risks, capital structure (including debt funding), and the company's capital investment programme.

We expect you to continue regular engagement with the Treasury, as our lead advisors, and provide them oversight of your operational and financial performance.

General expectations

Although some of the general expectations are highlighted below, the full expectations for the Crown's Commercial Portfolio companies are contained in the Owner's Expectations Manual (OEM). The OEM, including updates, can be found on the Treasury's website: <https://treasury.govt.nz/publications/guide/owners-expectations-manual>.

Ministers expect that both directors and management of the Crown companies will be familiar with the OEM to ensure shareholder expectations are being met. Attached to this letter (Annex 1), is the timeline for the 2020/21 business planning process and key milestones.

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 highly focused 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:

- appropriate for the entity; and
- 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.

Commercial valuations

Ministers place significant reliance on the Board's estimate of the entity'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.

Wellbeing focus

Ministers expect entities to be cognisant of the government's focus on wellbeing. We are supportive of the reporting frameworks being adopted, to varying degrees, across the Crown's commercial entities (such as Integrated Reporting), which are increasingly being used by companies internationally.

Executive pay

Ministers acknowledge that it is the Board's role to set the executive team's remuneration. We expect that the remuneration will be appropriately linked to performance, and set at a level sufficient to attract and retain the necessary skills to enable Crown owned companies to operate as successful businesses and to be as profitable and efficient as comparable businesses that are not owned by the Crown.

Ministers are, however, also mindful of the government's focus on raising pay levels for those on low and middle incomes. To this end, we expect Boards to take a conservative approach with respect to executive remuneration and to have robust processes in place to support, and publicly justify, the decisions made.

Shareholding Ministers are focused on the transparency of executive remuneration, and we expect to see this reflected in your entity's upcoming half-year report, and then in your annual report thereafter. Further disclosure in subsequent half-year reports is not required. If you have not already, you will shortly receive a letter outlining these expectations.

Support 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.

Governance – Board evaluations

Board evaluations help Boards improve performance and contribute to advice to shareholding Ministers on Board composition. A full, independent Board evaluation is expected to be undertaken at least every three years, with a more limited interim evaluation between those times. Information should also be provided on investment in director development.

No surprises

Ministers expect to be informed well in advance of any material or significant events relating to the entity, whether positive or negative. Examples of matters that could fall within the 'no surprises' policy could include, but are not limited to: any risk to financial forecasts, imminent media coverage of any activities that could attract critical media comment or on which shareholding Ministers could be asked to express a view.

In particular, companies should inform Ministers' offices before the announcement of all financial results, and before companies appear in front of select committees.

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 David Blue (on ^[39]). Alternatively you can contact Maureena van der Lem, Manager Commercial Performance, (on ^[39]).

Yours sincerely



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

cc: Mr Steve Carden, CEO, Landcorp Farming Limited, ^[39]

Annex 1

Timetable for the Business Planning Process for 2020/21

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
Friday, 28 February	Board sends Strategic Issues letter to Ministers
Friday, 28 February	Board provides Post Investment Reviews to the Treasury
Thursday, 30 April	Board submits draft SCI and business plan
Friday, 29 May	Board provides advice on: <ul style="list-style-type: none">• whether special fees are sought for 2020/21;• the professional development spend in 2019/20 and the proposed professional development budget for 2020/21; and• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.
Tuesday, 30 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 expected to provide shareholding Ministers with a **Strategic Issues letter**, by **Friday, 28 February 2020** 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 and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Thursday, 30 April 2020**.

The final SCI should be delivered to shareholding Ministers on or before **Tuesday, 30 June 2020**.

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.