

# The Treasury

## Letters of Expectations Information Release

September 2020

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- [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

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09 DEC 2019

Mr Ant Howard  
Chair  
Meteorological Services of New Zealand  
[23]

Dear Mr Howard

## **2020/21 SHAREHOLDER EXPECTATIONS FOR METEOROLOGICAL SERVICE OF NEW ZEALAND LIMITED (METSERVICE)**

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of MetService 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 MetService;
- general expectations for the Crown's commercial portfolio.

### **Entity specific expectations**

#### *Managing debt levels*

Ministers recognise that MetService has achieved its target gearing of <sup>[37]</sup> earlier than anticipated. Ministers expect MetService to maintain the Board's target gearing ratio <sup>[37]</sup>

. We request that MetService continues to keep the Treasury regularly updated on its level of debt and to flag any risks at an early stage.

### *Revenue streams from the Marine segment*

Ministers expect MetService to continue to integrate the MetOcean business and work to deliver on the Board-approved business case (of July 2017) for its full acquisition. We note the target revenue has been achieved through a mix of commercial revenue and research contracts. We expect work undertaken in research contracts will ultimately benefit the company's commercial offering, and we encourage the Board to continue exploring a transition path to commercial revenues.

### *Open access to weather data*

Ministers encourage MetService to apply the New Zealand Data and Information Management Principles in relation to observational weather data as much as appropriate, without compromising its commercial mandate as a State-owned Enterprise or compromising the value of the company to the Crown.

Ministers expect MetService to collaborate with the current Commerce Commission investigation, which relates to the pricing of weather data and the terms on which competitors can access data. We encourage MetService to continue to keep the Treasury regularly updated on the investigation and to flag any risks at an early stage.

### *Response to market changes*

Ministers understand that competition in the weather forecasting market is evolving. We expect MetService to respond effectively to any changes in the weather forecasting market. We encourage MetService to continue looking for efficiencies and innovations, develop quality products, and maintain a good relationships with stakeholders in the face of an evolving market.

### **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 Alice Courtney (on <sup>[39]</sup> ) or <sup>[35]</sup> (on <sup>[39]</sup> ). Alternatively you can contact Shelley Hollingsworth, Manager Commercial Performance, (on <sup>[39]</sup> ).

Yours sincerely



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

cc: Mr Peter Lennox, CEO, MetService, <sup>[39]</sup>

## 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   |
| Thursday, 30 April  | Board submits draft SCI and business plan  |
| Friday, 29 May  | Board provides advice on: <ul style="list-style-type: none"><li>• whether special fees are sought for 2020/21;</li><li>• the professional development spend in 2019/20 and the proposed professional development budget for 2020/21; and</li><li>• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.</li></ul> |
| 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.