

The Treasury

Letters of Expectations Information Release

September 2020

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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

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Office of Hon Shane Jones

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



15 NOV 2019

Mr Gregory Fortuin
Chair
Quotable Value Ltd
PO Box 39818
WELLINGTON 5045

Dear Mr Fortuin

2020/21 SHAREHOLDER EXPECTATIONS FOR QUOTABLE VALUE LTD

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Quotable Value Ltd (QV) 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 QV;
- general expectations for the Crown's Commercial Portfolio; and
- timeline for the 2020/21 business planning process and governance information (Annex 1).

Specific expectations for QV

Performance challenges

We have noted QV's progress in addressing challenges over the past year. In terms of financial performance, we note that QV has absorbed its subsidiary, Darroch, upgraded its financial systems and controls, and hired a new, full-time Chief Financial Officer.

However, there are still performance challenges that Ministers expect the Board to address. We understand that the recent strategic review prepared by James Morrison Consulting has produced findings largely consistent with Ministers' existing concerns. We expect that, in its Strategic Issues letter, the Board will outline how it intends to address various outstanding issues and challenges emphasised in the review, including but not limited to the following.

- Ministers expect the value of shareholder investment to be protected and enhanced and expect the Board to develop its strategy consistent with the core strengths of the company. Further, that the strategy be supported by timely and measurable milestones in the company's Statement of Corporate Intent (SCI).
- Ministers expect the Board to develop a plan to address QV's declining profitability and to continue to make improvements to its finance function.
- Ministers expect QV to address [25]
[25]
- Ministers expect the Board to actively consider its future plans for [25]
[25]

Public disclosure

Ministers recognise the improvement made to date regarding transparency expectations in QV's public accountability documents. We expect that QV will continue to follow best practice in its disclosure to key stakeholders and the public on its performance against financial and non-financial objectives and the performance targets set out in its SCI. Any disclosures should contain information necessary to enable readers to make an informed assessment of the nature and scope of QV's business operations. This includes disclosures in QV's annual reports, interim reports, the SCI, as well as timely and considered responses to any information requests made under the Official Information Act 1982.

Disciplined and targeted capital investment

Ministers are focused on maximising returns from invested capital and have a preference for dividends over new investment. We recognise the need for investment to maintain current activities and systems and ensure an appropriate level of resilience. However, we also expect capital investments:

- will tightly align with QV's core strategy;
- encompass a level of risk consistent with the Board's (and Crown's) risk tolerance;
- for the expected returns to match the risk involved; and
- for the Board to respond swiftly to any non-performing investments.

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 Expectation 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 directors and management of 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 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:

- a appropriate for the entity; and
- b 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. As previously communicated, shareholding Ministers will be focused on the transparency of executive remuneration, and we expect to see this reflected in your entity's half-year report (if applicable) and your annual report.

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 ^[35] (on ^[39]) or Madeleine Lock (on ^[39]). Alternatively, you may wish to contact Commercial Performance Manager, Shelley Hollingsworth (on ^[39]).

Yours sincerely



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

cc: Jacquie Barker CEO, Quotable Value

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">• 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.