

# The Treasury

## Letters of Expectation Information Release

August 2021

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[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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# Hon Dr David Clark

MP for Dunedin

Minister of Commerce and Consumer Affairs  
Minister for the Digital Economy and Communications  
Minister for State Owned Enterprises  
Minister of Statistics  
Minister Responsible for the Earthquake Commission



Dr Alison Watters  
Chair  
AsureQuality Limited  
[23]

Dear Dr Watters

## **2021/22 OWNER EXPECTATIONS FOR ASUREQUALITY LIMITED**

I am writing to outline the matters that we expect your board to address in the 2021/22 business planning round.

### **Government priorities and the response to COVID-19**

The COVID-19 pandemic brought unexpected challenges for all New Zealanders. The response to COVID-19 will be of central importance in the coming year. The Government has three overarching objectives: continuing our health response to keep New Zealanders safe from the virus, accelerating the economic recovery from COVID-19 and laying the foundations for a more sustainable and equitable future.

Investing in critical infrastructure and public services will be important to our economic recovery, along with a focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality in light of the challenges caused by climate change. The Government will also be focused on supporting small businesses, training and job creation opportunities for workers and businesses and delivering programmes to bolster New Zealand's exports.

Companies and entities that are owned by the Crown will play a role in supporting the response to COVID-19 and social and economic recovery. During 2020, Crown company and entity boards outlined the challenges that they have faced and the strategies that boards have adopted to respond. We expect that you will continue to advise Ministers this year, well in advance of any emerging issues.

The responsible management of Crown-owned company assets and finances, including sound investment and careful control of debt, can also make an important contribution to the COVID-19 recovery ambitions of New Zealanders.

Through the evolving and uncertain COVID-19 environment, we expect that you will continue to focus on your ongoing viability and provision of goods and services. In doing so, we ask that you consider the impact of your decisions on your staff and suppliers.

This letter contains the following information:

- Ministers' specific expectations for AsureQuality Limited;
- general expectations for companies and entities owned by the Crown; and
- timeline for the 2021/22 business planning process and governance information (Annex 1).

## **Entity-specific expectations**

### *Focus on core business*

Ministers acknowledge that the company is required, from time-to-time, to undertake urgent work that is challenging to forecast, such as assisting with the recent efforts to eradicate *Mycoplasma bovis* and fruit fly incursions. We expect that the company will continue to assess how work of this nature can be best undertaken in balance with developing a resilient core business that will deliver growth in shareholder value.

### *Capital expenditure reinvestment*

Ministers understand that for the company to continue growing its value for shareholders, it is important for the company to develop its capabilities and customer perception through reinvestment, including in its laboratories. We expect to be kept informed of, and consulted on, any material capital expenditure projects, including how the company considers reinvestment can occur in a way that minimises changes to its dividend policy.

### *International operations*

Ministers appreciate that growth opportunities likely exist in offshore markets, and that these are being explored, for example, through the company's partnership with Bureau Veritas. Investments in international markets have higher levels of inherent risk, particularly in the COVID-19 environment. We expect the company to take a disciplined approach to international investments, including a clear focus on risks, their mitigation and on acceptable risk tolerance levels. We also expect to be kept informed of, and consulted on, any material international investments.

## **General expectations**

The Treasury released an updated Owner's Expectations document in April 2020 ([www.treasury.govt.nz/publications/guide/owners-expectations](http://www.treasury.govt.nz/publications/guide/owners-expectations)). The document sets out Ministers' expectations on matters such as information-sharing and engagement with the Treasury, board evaluations, thresholds for consultation or approvals for significant investments, and timeframes for reporting and business planning documents. Some key expectations are reiterated in this letter below.

We ask that you circulate this document to all directors on your board so that they are aware of and understand the frameworks and expectations unique to Crown companies and entities.

### *Well-being focus*

Ministers expect all boards to be cognisant of the Government's focus on well-being. The Government's well-being approach is based on a balance of the four capitals in the Treasury Living Standards Framework – Financial, Human, Natural and Social Capital. Boards should consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting. In this respect, some important aspects include

corporate social responsibility and acting as a good employer, particularly if boards need to make decisions to respond to commercial or financial challenges such as the impact of COVID-19.

#### *Capital structure and dividends*

Where appropriate, boards are expected to return any surplus capital to the Crown so that it may be used to fund other government priorities. Boards should consider Ministers' comments during the annual business planning round when setting their dividend policy, desired capital structure, level of future reinvestment, and capital expenditure.

#### *Valuations*

Ministers place significant reliance on the board's estimate of the company's commercial value. We expect these valuations to be robust, and either prepared or reviewed independently, where appropriate. The review should refer to the key assumptions included in the model.

#### *Disclosure of senior management remuneration*

Ministers acknowledge that the board is involved in setting the remuneration for the executive team. We expect that remuneration will be appropriately linked to performance and set at a level sufficient to attract and retain the necessary skills within the executive to enable Crown companies and entities to operate successfully.

At the same time, we expect boards to adopt good practice disclosure when reporting on senior management remuneration and, if required, to be able to justify publicly the remuneration decisions that they have made. Ministers remain focused on executive remuneration being communicated transparently, and we expect to see this reflected in detailed disclosures in your annual report. We intend to give feedback on the disclosures in your 2019/20 annual report soon.

#### *Supporting diversity*

Consistent with the Government's support for diversity and gender balance on boards, boards are encouraged to support diversity and inclusion in the workplace and in leadership teams.

#### *Board performance evaluations*

Performance evaluations help boards to improve performance and contribute to the Treasury's advice to Ministers on board composition. We expect that evaluations will now take place annually and should ideally be conducted by an independent evaluator.

#### *No surprises*

Ministers expect to be informed well in advance of any material or significant events relating to your company, whether positive or negative. The Owner's Expectations document provides some examples of matters that could fall within the 'no surprises' policy.

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

### **Further information**

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 Eva Parker (on [39]). Alternatively, you can contact Juston Anderson, Acting Manager, Commercial Performance (on [39]).

Yours sincerely

A handwritten signature in blue ink, consisting of a large, stylized 'D' and 'C' intertwined.

Hon Dr David Clark  
**Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc: Jeremy Hood, Interim CEO, AsureQuality Limited, [23]

## Annex 1

### *Timetable for the Business Planning Process for 2021/22*

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
26 February	Board sends Strategic Issues letter to Ministers
26 February	Board provides Post Investment Reviews to the Treasury
30 April	Board submits draft Statement of Corporate Intent (SCI) and business plan
28 May	Board provides advice on: <ul style="list-style-type: none"><li>• whether special fees are sought for 2021/22;</li><li>• the professional development spend in 2020/21 and the proposed professional development budget for 2021/22; 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>
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 **26 February 2021** 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 **30 April 2021**.

The final SCI should be delivered to shareholding Ministers on or before **30 June 2021**.

Shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.

Further information is available in the Owner's Expectations document ([www.treasury.govt.nz/publications/guide/owners-expectations](http://www.treasury.govt.nz/publications/guide/owners-expectations)).