

The Treasury

Letters of Expectation Information Release

August 2021

This document has been proactively released by the Treasury on the Treasury website at

<https://www.treasury.govt.nz/publications/information-release/shareholder-expectations-letters-2021-22-information-release>

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
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [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.

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



Mr Gregory Fortuin
Chair
Quotable Value Ltd
[23]

Dear Mr Fortuin

2021/22 OWNER EXPECTATIONS FOR QUOTABLE VALUE LIMITED (QV)

I am writing to outline the matters that we expect the Board of QV 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 entity and company 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 QV,
- general expectations for the Crown's commercial portfolio, and

- a timeline for the 2021/22 business planning process and governance information (**Annex 1**).

Entity-specific expectations

Continuing on a pathway of operating and strategic improvements

We acknowledge QV's progress in addressing operating challenges and we are pleased that you have taken into consideration many of the recommendations made as a result of the 2019 strategic review. We expect the Board to continue its focus on strengthening QV's operating environment including by:

- furthering improvements relating to the company's financial function and controls,^[25]
and
- ^[25] and ^[34]

We recognise the progress that QV has made in the past year to align strategy with the core strengths of the company and also in respect of its improvements to reporting and transparency. We encourage QV to continue on its pathway of progression regarding strategic alignment and clarity as well as operational and reporting best practice.

Targeted capital expenditure

Ministers expect that Crown-owned company boards will focus on maximising value for money from invested capital. We recognise the need for investment to maintain and enhance current activities and systems and ensure an appropriate level of resilience. To this end, we expect that any capital investments made by QV will:

- tightly align with QV's stated core strategy,
- encompass a level of risk consistent with the Board's and the Crown's respective risk tolerance, and
- comprise expected returns to match the risk involved.

We further expect that the Board will continue to assess QV's investments and to respond swiftly to any non-performing investments.

General expectations

The Treasury released an updated Owner's Expectations document in April 2020 (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. Shareholding 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 Madeleine Lock (on [39]) or Catalina De Mendoza (on [39]). Alternatively, you can contact Shelley Hollingsworth, Manager, Commercial Performance (on [39]).

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized, cursive 'D' followed by a horizontal line and a loop.

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

cc Jacquie Barker, Chief Executive, Quotable Value 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
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">• whether special fees are sought for 2021/22;• the professional development spend in 2020/21 and the proposed professional development budget for 2021/22; 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.
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 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 **30 April 2020**.

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

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).