

# The Treasury

## Annual Letters of Expectations 2022/23 Information Release

September 2022

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-2022-23-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

[37] 9(2)(i) - to enable the Crown to carry out commercial activities 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](mailto: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



20.12.2021

Dr Warren Parker  
Chair  
Landcorp Farming Limited  
[23]

Dear Dr Parker

## **2022/23 OWNER EXPECTATIONS FOR LANDCORP FARMING LIMITED**

I am writing to outline the matters that we expect the Board of Landcorp Farming Limited (Pāmu) to address in the 2022/23 business planning round and work programme.

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

The Government has three goals for its term: to keep New Zealanders safe from COVID-19, to accelerate the recovery and rebuild; and to tackle foundational challenges.

The response to COVID-19 remains of central importance in the coming year. 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.

Crown-owned companies and entities through their operations play an important role in supporting the response to COVID-19 and the social and economic recovery. Responsible management of assets and finances, including careful control of debt, capex and investments are part of the contribution Pāmu makes to the Government's goals.

We wish you every success with your endeavours in the coming year and thank you for your contribution to laying the foundations for a more sustainable and equitable future.

This letter contains the following information:

- Ministers' specific expectations for Pāmu;
- general governance expectations (**Annex 1**);
- timeline for the 2022/23 business planning process and governance information (**Annex 2**).

### **Entity-specific expectations**

As a State-owned enterprise, we expect Pāmu to prioritise its core on-farm operations to be as profitable and efficient as comparable pastoral farming companies not owned by the Crown, with any adjustments due to environmental or safety standards costed and accounted for. We also expect Pāmu to be a good employer and be socially responsible by having regard to the interests of the community.

### *Carbon reduction and climate change*

Ministers recognise Pāmu's capability to provide industry leadership in improving sustainability and pursuing carbon neutrality in line with Government priorities. In recent years, under the leadership of the Board, Pāmu has shown that it can achieve on-farm performance improvements, such as in its environmental performance metrics, health and safety practices and organic farming.

We ask that Pāmu continue seeking to reduce the environmental impact of its farming practices, in line with best farming practice, and investigate ways to meet the Government's goals of improving water quality and to transition to a low-emissions economy.

We expect Pāmu to focus on climate change and carbon reduction initiatives in managing its operations and in its wider industry contribution, both through industry "spill-over" benefits and specific industry good contributions. You will be aware of the Carbon Neutral Government Programme (**Annex 1**), in which we would be pleased to see Pāmu's participation.

We commend Pāmu on its commitment to its sustainability performance targets, including through the recent Sustainability-Linked Loan, with its discounted costs of finance for achievement of sustainability performance conditions. We also note the steps you have been taking to reduce the use of Intensive Winter Grazing and ask you to continue these efforts, in line with the direction indicated by the Ministry for the Environment.

### *Improving transparency – quarterly reporting and annual on-farm benchmarking*

We understand that staff of Pāmu have worked with Treasury officials to enhance the Board's reporting to us and that future reporting will include:

- commentary about the progress of Key Strategic Initiatives and about any significant issues or events, and the impacts for the achievement of Pāmu's SCI and business plan intentions and targets, including the 2025 and 2030 milestones and objectives; and
- segment reporting with accompanying commentary explaining significant variances/trends/issues for: on-farm (e.g. dairy, livestock, forestry, horticulture); off-farm e.g. Pāmu Foods, Spring Sheep, Melody Dairies, Farm IQ); and corporate segments.

We understand that you are preparing to provide us with Pāmu's on-farm results against the 2021 national dairy and livestock benchmarking data, following discussion with the Treasury. We look forward to receiving Pāmu's benchmark results on an annual basis, along with an indication of how you expect these results to influence your upcoming SCI and business plan.

We appreciate your work to enhance transparency and look forward to receiving updates on your achievements.

### *Current Investment initiatives*

In respect of Pāmu's current investment initiatives:

- We understand that AgResearch will be taking up joint ownership with Pāmu of FarmIQ, which should position FarmIQ for raising capital to enable its expansion as a total farm management software service, including environmental and other regulatory requirements. We welcome this change and look forward to receiving progress updates.
- Although the new partnerships and contracts securing suggests a more positive future for Pāmu Foods, we ask that the Board maintain careful scrutiny of Pāmu Foods' performance before determining on a longer-term pathway or future investment. We are conscious that Pāmu has been investing in Pāmu Foods since 2016 [37]

### *Capital recycling programme and land sales*

In respect of the capital recycling programme, our letter of 17 November 2021 set out expectations that among other things:

- reiterated Ministers' expectations for land sales around iwi and Māori interests and for consultation with Ministers; and
- asked for information about Pāmu's capital recycling programme, noting that we have yet to receive the capital allocation policies sought as part of our feedback on Pāmu's 2022 – 2024 Statement of Corporate Intent; and
- set expectations of consultation about reinvestment of land sale proceeds and reporting on returns and asked that the capital recycling programme is revisited as part of the development of Pāmu's 2025 – 2027 SCI to confirm that higher value returns are being achieved as intended.

We also reiterate our FY2020 expectations:

- of prudent operations and corporate office costs. We look forward to seeing Pāmu's report back on the continued effort to optimise corporate activity and overheads, by 31 March 2022; and
- that the Board will take careful interest to ensure the profitability and efficiency of Pāmu's investment initiatives. As noted in our feedback on your 2022 – 24 SCI, we also encourage you to further consider the targets and ratios that underpin your policies to further increase transparency over capital allocation decisions.

### **General expectations**

We regard strong board governance as critical to the performance and success of the Crown's companies and entities. The [Owner's Expectations](#) sets out Ministers' expectations on matters for board oversight such as information-sharing and engagement with the Treasury, board evaluations, thresholds for consultation or approvals for significant investments, commercial valuations, capital structure and dividends, and timeframes for reporting and business planning documents.

Further general expectations you are asked to consider are set out in **Annex 1**.

## 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 Amanda Wilson ([39]). Alternatively, you can contact Maureena van der Lem, Manager, Commercial Performance ([39]).

Yours sincerely

A handwritten signature in blue ink, appearing to be 'David Clark', written in a cursive style.

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

cc Mr Andrew Sliper, Acting CEO, Landcorp Farming Limited, [23]

## Annex 1

### **General Governance Expectations**

#### *Enduring letter of expectations*

Ministers expect all boards to be cognisant of the Government's 2019 [Enduring letter of expectations](#) to all statutory Crown entities, which asks that boards and their agencies

- Support a unified value-based government for all New Zealanders;
- Support future-focussed Māori Crown relations; and
- Contribute to improving wellbeing.

#### *Work force Policy Statement and Public Service Pay Gap Action Plan*

The [Government Workforce Policy Statement](#) (Workforce Policy) sets out the Government's expectations about public sector agencies management of employment relations, including of statutory entities and Crown entity companies. This policy also emphasises the importance of pay restraint in the COVID-19 environment and the fiscal context of the Government.

Consistent with the Government's support for diversity, gender balance and wider ethnicity on boards, boards are encouraged to support diversity and inclusion in the workplace and in leadership teams. On 15 November 2021, the Government launched The [Public Service Pay Gap Action Plan](#) (Action Plan), which aims to help close pay gaps and create fairer workplaces for all employees.

You and your board are encouraged to consider the relevance of the Workforce Policy and the *Public Service Pay Gap Action Plan* for Pāmu.

#### *Wellbeing approach and Carbon Neutral Government Programme*

The Government's wellbeing approach is based on the [Treasury's Living Standards Framework](#), which considers a broad range of impacts over 12 domains for our individual and collective wellbeing, our institutions and governance, and the wealth of Aotearoa New Zealand, now and into the future. Boards should consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting.

In pursuit of our carbon reduction ambitions, the Carbon Neutral Government Programme (CNGP) has been set up to accelerate the reduction of emissions within the public sector. We encourage Pāmu to support the Government by joining with businesses and communities already leading the way to reducing their emissions.

#### *Board evaluations and strengthening the director pipeline*

Board evaluations help boards to improve performance and should take place annually (subject to the exceptions in the [Owner's Expectations](#)) and ideally be conducted by an independent evaluator.

Along with skills matrices, evaluations contribute to the Treasury's advice to Ministers on board composition and so should be shared with the Treasury.

In addition, we have a general expectation that you will engage a 'Future Director' as an observer of the board, where possible, to grow the pipeline of new and diverse director talent.

### *Senior Executive Remuneration*

Within the overall context of public sector pay restraint, Ministers expect that boards will ensure that senior management remuneration is 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.

Boards of SOEs, and Schedule 4A and Crown entity companies have separately received Ministers' April 2021 expectation that disclosure in annual reports meets the NZX Corporate Governance Code, most notably recommendation 5.3. If disclosure to this standard is not possible, the annual report is expected to explain why this is the case.

## Annex 2

### **Timetable for the Business Planning Process for 2022/23**

Table 1: Summary timetable for the Business Planning Process

<b>Due by</b>	<b>Key Action</b>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
28 February	Board sends Strategic Issues letter to Ministers
25 February	Board provides Post Investment Reviews to the Treasury ( <i>if required</i> )
29 April	Board submits draft Statement of Corporate Intent (SCI) and business plan
27 May	Board provides advice on: <ul style="list-style-type: none"><li>• whether special fees are sought for 2022/23;</li><li>• the professional development spends in 2021/22 and the proposed professional development budget for 2022/23; 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 **28 February 2022** 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 **29 April 2022**.

The final SCI should be delivered to shareholding Ministers on or before **30 June 2022**.

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](#).