

# The Treasury

## Shareholder Expectations Letters Information Release

### Release Document

**April 2019**

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# Rt Hon Winston Peters

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## Deputy Prime Minister

Minister of Foreign Affairs

Minister for Disarmament and Arms Control

Minister for State Owned Enterprises

Minister for Racing



Ms Catherine Drayton  
Chair  
Christchurch International Airport Ltd  
PO Box 14001  
CHRISTCHURCH 8544

Dear Ms Drayton

## **2019/20 SHAREHOLDER EXPECTATIONS OF CHRISTCHURCH INTERNATIONAL AIRPORT LTD**

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Christchurch International Airport Ltd (CIAL) to address in the business planning process for the 2019/20 financial year.

The Government remains committed to resolving key long term challenges facing the country including sustainable economic development, increasing exports, decent jobs paying higher wages, a healthy environment and a fair society and good government.

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 CIAL, and
- General expectations for the Crown's Commercial Portfolio

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, and updates, can be found on the Treasury's website <https://treasury.govt.nz/publications/guide/owners-expectations-manual>

Ministers expect that directors and the management of the companies will be familiar with the OEM to ensure shareholder expectations are being met. Attached to this letter is the timeline for the 2019/20 business planning process.

## **Entity specific expectations**

### *Property Development*

We note that CIAL is investing in significant capital projects, including the expansion of business parks and office development. We expect officials to be informed on the progress and any significant deviations from:

- the forecast cost
- expected deliverables outlined, and
- completion date of the investments on the capital expenditure program.

In addition we expect officials to be informed prior to any material changes and announcements being made public.

### *Engagement with Business Plan*

CIAL currently provides its draft Statement of Intent (SOI) by 1 March, as required by the Local Government Act 2002. CIAL has advised that the Business Planning process is conducted only after the first draft SOI is provided. We note that the final SOI delivered by the 30 June is updated and aligned with the Business Plan.

In order for shareholders to be able to provide meaningful feedback on CIAL's SOI and Business Plan we expect that a revised SOI and the Business Plan is provided by the end of May i.e. an SOI reflecting the latest Business Plan. We also expect that CIAL will consider comments on the draft documents before the final SOI is delivered to shareholders on or before 30 June.

### *Sustainability Goals*

We endorse your goal of protecting the environment, minimising the use of all natural resources and improving the quality of life for our community through the goals set in your Sustainability Strategy. We expect to be informed on your progress in reaching these goals.

## **General expectations**

Expectations for *Significant Capital Investment* and *Board Evaluations*, which were previously included in this letter, have now been included in the OEM update, July 2018.

### *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 SOI.

Shareholding Ministers will be placing a higher level of focus 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.



### *Commercial 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 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.

### *Capital structure*

Ministers expect that the Board will periodically review the capital structure of the entity to ensure that it is:

- (i) appropriate for the entity; and
- (ii) any borrowing is maintained at a prudent level.

Should you undertake any borrowing, ensure that all lenders are specifically made aware that the borrowing does not represent Crown debt, and accordingly is not guaranteed by the Crown.

Entities are expected to return any surplus capital to shareholders so that it may be used to fund other shareholder priorities.

### *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.

### **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 Maruta Kanepa on [6] \_\_\_\_\_ } or Aaron Gill on [6] \_\_\_\_\_.

Yours sincerely



Rt Hon Winston Peters  
**Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc: Mr Malcolm Johns, CEO, Christchurch International Airport Limited  
Mr Paul Munro, CEO, Christchurch City Holdings Ltd, PO Box 237, Christchurch 8140

## Annex 1

### *Timetable for the Business Planning Process for 2019/20*

**Table 1: Summary timetable for the Business Planning Process**

<i><b>Due by</b></i>	<i><b>Key Action</b></i>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
Thursday, 28 February	Board sends Strategic Issues letter to Ministers
Friday, 1 March	Board submits draft SOI
Friday, 31 May	Board submits draft revised SOI and business plan
Friday, 28 June	Board delivers final SOI to shareholding Ministers

Provide shareholding Ministers with a **Strategic Issues letter**, by **Thursday, 28 February 2019** 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.

Provide shareholding Ministers with a draft SOI by no later than **Friday, 1 March 2019** (consistent with Local Government Act 2002). Provide a revised draft SOI (reflecting current Business Plan financials if they were not included in the 1 March submission) and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Friday, 31 May 2019**.

The final SOI should be delivered to shareholding Ministers on or before **Friday, 28 June 2019**.

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.