

The Treasury

Shareholder Expectations Letters Information Release

Release Document

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Rt Hon Winston Peters

Deputy Prime Minister

Minister of Foreign Affairs

Minister for Disarmament and Arms Control

Minister for State Owned Enterprises

Minister for Racing



Mr Tony Porter
Chair
Hawke's Bay Airport Ltd
PO Box 721
NAPIER 4140

Dear Mr Porter

2019/20 SHAREHOLDER EXPECTATIONS OF HAWKE'S BAY AIRPORT LTD

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Hawke's Bay Airport Ltd (HBAL) 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 HBAL, 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 HBAL is carrying out the Terminal Expansion Project (TEP). We expect officials to be informed on the progress and any significant deviations from the forecast cost, expected deliverables outlined in the TEP and completion date prior to any material changes and announcements being made public.

Statement of Intent

In order to improve accountability and performance measurement and pursuant to section 1(c) and section 9(1) of the Schedule 8 to the Local Government Act 2002, in drafting the Statement of Intent (SOI) we expect HBAL to:

- include measurable aeronautical key performance targets and other measures, such as plane movements, by which the performance of the entity may be judged in relation to its objectives,
- include measurable performance targets for other non-aeronautical commercial operations,
- include a three-year forecast of measurable key performance targets for core business and other commercial operations, and
- evaluate and disclose the results of the performance targets set in the previous years' SOI when drafting the current years' SOI.

We expect that the level of disclosure in the SOI should be such that the performance of aeronautical and various non-aeronautical operations are transparent to the public.

Business Park

We request updates be provided in each quarterly report to shareholders on the progress of the business park development, including outlining any progress in attracting new tenants to the park.

General expectations for the Crown's Commercial Portfolio

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.

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

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.

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.

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 Aaron Gill on [61 _____] or Maruta Kanepa on [61 _____].

Yours sincerely



Rt Hon Winston Peters

Minister for State Owned Enterprises

on behalf of shareholding Ministers

cc: Ms Sandra Hazlehurst, Mayor of Hastings District Council, Private Bag 9002,
Hastings 4156

Mr Bill Dalton, Mayor of Napier City Council, Private Bag 6010, Napier 4142

Annex 1

Timetable for the Business Planning Process for 2019/20

Table 1: Summary timetable for the Business Planning Process

<i>Due by</i>	<i>Key Action</i>
January	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 and draft 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 and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Friday, 1 March 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.