

SOE Board Talk

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SOE Board Talk is an SOEMU initiative to engage with SOE boards and share important information and developments on SOE reform.

Please feel free to comment and provide feedback on Board Talk and to share your director experiences.

SOEs should now be completing the draft business plans for FY20 – FY22. Once completed it is time to attend to the Statement of Corporate Intent (SCI).

Please contact SOEMU if there are any concerns or clarifications needed.

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Section 611, SOE Act, 2015

- (1) The board of each State-owned enterprise must develop and adopt a statement of corporate intent by the start of each financial year. The statement of corporate intent must cover the financial year and provide indicative financial and operational information in respect of the next 2 financial years.
- (2) A board must not adopt a statement of corporate intent unless:
 - a. It has given the Minister a draft of the statement, no later than 2 months before the start of the financial year to which the statement relates, and
 - b. It has taken into account any comments made by the Minister in relation to the draft statement.

The SCI should be consistent with the Business Plan (Plan) and summarize the key components of the Plan; showing the planned future operation of the SOE. As it will be tabled in the Nitijela¹ and published¹ there is no requirement to provide commercially sensitive information in the SCI.

The SCI should cover the next financial year and the two years thereafter.

The requirements for the SCI are as stipulated under Section 611 (3) which states, the SCI must include the following matters:

- *A description of the principal business of the State-Owned enterprise,*
- *A statement of the commercial objectives of the State-Owned enterprise, demonstrating how those objectives are consistent with the primary objectives,*
- *A description of the nature and scope of the activities that the State-Owned enterprise intends to undertake,*
- *A summary of the strategies that the State-owned enterprise will adopt to achieve its commercial objectives and the primary objective, and*
- *A statement or summary of the targets or benchmarks to be used to measure the State-owned enterprise's performance (including in respect of revenue net*

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profit after tax and return on equity) against its commercial objectives and the primary objective,

- *A statement of any current and anticipated borrowing by the State-Owned enterprise or a subsidiary of the State-owned enterprise,*
- *A statement of the accounting policies to be applied by the State-Owned enterprise in its financial records and reports,*
- *A summary indicative balance sheet and profit and loss statement for the group consisting of the State-Owned enterprise and its subsidiaries, reflecting the directors' expectations for the financial year,*
- *A statement of the proposed dividend and distribution policy of the State-Owned enterprise,*
- *A description of any applicable CSO agreement and the impact of that agreement on the financial returns expected to be achieved by the State-Owned enterprise during the period to which the statement relates,*
- *A description of the kind of information to be provided to the Minister, including under section 6, and*
- *Any other matter that the Minister directs be included in the statement.*

The Template for completion of the SCI, considers all of these matters with sufficient information and detail, so that it is a useful, stand-alone document.

The SCI is a public document that will be tabled in the Nitijela, by the Minister. Clearly, the SCI should be consistent with the Business Plan, and indeed, if the Business Plan is completed fully as guided in this Manual, then completing the SCI should be straightforward and involve very limited additional work. Broadly, the SCI is a summary and subset of the Business Plan, but its inclusions are more specifically defined under the Act.

The SCI follows from the Business Plan. By including section 9 of the Business Plan 'Summary for Statement of Corporate Intent' and focusing on the necessary summaries (*excluding any commercially sensitive information*) relating to Objectives, Strategies, Performance Measures and summary balance sheet and profit and loss, in section 9 of the business plan, these elements of the SCI – that are the most significant in terms of meeting the primary objectives – can be copied from the Plan to the SCI. The other items of the SCI should also simply be extracted from the Plan (*but don't require repeating in the Plan*)

The SCI is a summary document. While the SOE Act does not prescribe a length, it is expected that it would be between 8 to 12 pages long.

Guidelines for completion of the SCI are:

1 INTRODUCTION and PRINCIPLE BUSINESS

This should introduce the reader to the SOE, its principle business and mandate as set out in legislation; SOE constitution (where applicable) and key policy documents (Sec 611(3)(a)).

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2 THE OBJECTIVES of THE GROUP

This section should list the key commercial objectives for the SOE and any subsidiaries covered by the SCI.

It may be appropriate to tabulate the performance measures (KPIs) linked with those objectives. This section should demonstrate how commercial objectives are consistent with the Primary Objectives and will assist SOE attain those Objectives.

3 NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

This section should contain a brief summary of the SOE's main undertakings, the economic sectors within which it operates and the SOE's mission.

4 SUMMARY OF STRATEGIES

This section should set out the strategies the SOE will adopt to achieve its commercial objectives and its primary objective.

The SOE should then list the key goals and activities underlying the strategies that it intends to pursue within the period of the SCI so that it achieves its commercial objectives. It will be important to find a practical balance between providing sufficient information so that the SCI is a useful stand-alone document providing the reader (and of course the Minister) with a good understanding of the SOE's planned commercial objectives, while not disclosing commercially sensitive information.

A high-level discussion on the key strategic issues facing the SOE over the next three years - possibly including a SWOT analysis - should also be included in this section.

5 PERFORMANCE TARGETS AND OTHER MEASURES

The key performance targets and other measures by which the performance of the SOE may be judged in relation to its commercial objectives and primary objective must be disclosed. (Do not need to be repeated if tabulated alongside the objectives in section 2).

6 STATEMENT OF CURRENT AND ANTICIPATED BORROWINGS

This should include any borrowings in subsidiary companies. The statement could include the duration of the borrowings (the term); the source - government, other government entity or commercial bank (it is not necessary to name the commercial bank) - and how secured.

7 THE ACCOUNTING POLICIES

A brief statement of the accounting policies that will be adopted by the SOE should be inserted here. It is sufficient to say that the SOE will be following "named" internationally accepted accounting standards.

8 SUMMARY INDICATIVE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

A summary of the balance sheet and profit and loss is acceptable provided the summary remains meaningful and understandable.

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9 STATEMENT OF THE PROPOSED DIVIDEND AND DISTRIBUTION POLICY

This requirement is quite straightforward but the SOE may provide additional supporting information to explain the key drivers behind the dividend policy. Where an SOE is not paying a dividend, this should also be explained.

10 DESCRIPTION OF ANY CSO AGREEMENT

Note that this provision requires the SOE to list not only Community Service Obligations (CSOs) but also the financial impact that CSO agreement may have on the SOE's financial returns.

11 INFORMATION TO BE PROVIDED TO THE MINISTER

At the very least the SCI should list the information required by the SOE Act and the timeframe in which it is required. The SOE should also list additional information requirements as agreed with the Minister, which could include a board succession plan, the Business Plan and any regular reporting requirements set by SOEMU at the request of the Minister. Details relating to Section 606 vesting of assets and liabilities, or Section 614 status of assets and liabilities, should also be provided.

12 ANY OTHER MATTER AS DIRECTED

Anything else that the Minister directs be included in the SCI. This could change year on year.

Best wishes for this week in the boardroom

SOEMU