



# RESERVES POLICY

APPROVED APRIL 2018

## A. LEGISLATION

- The Meat Board Act 2004 provides that the New Zealand Meat Board (the Board) must:
  - (a) at all times have a reserves policy;
  - (b) consult farmers before setting or changing the reserves policy;
  - (c) consult farmers before allocating funds for industry-good projects;
  - (d) make the policy available to farmers on request;
  - (e) comply with its reserves policy.
- The Board is also required to maintain a prudent level of net assets to avoid jeopardising quota markets and the integrity of the quota management system (section 12(1)). To the extent that the net assets are not fees paid by quota applicants, they are defined as reserves.

## B. PURPOSES

The Board's Reserves Policy provides that its reserves will serve three purposes:

- 1) to satisfy section 12(1) of the Act;
  - 2) to provide a contingency fund to assist the meat industry's response to any major industry crisis (as provided for in section 8(1)(c)(i) of the Act);
  - 3) to provide funding for industry-good projects (as provided for in section 8(1)(c)(iii) of the Act).
- In order to satisfy purposes 1) and 2) above net assets of \$2.5 million and \$55 million respectively are currently retained. This will ensure that there are sufficient funds to cover the cost of the Board's obligations as they fall due and have available an adequate contingency fund. The contingency fund portion has been capped at \$57.5 million since 2008 without any adjustment for inflation.
  - The Board will inflation adjust its reserves on an annual basis.
  - The Board has retained \$2.5 million to meet purpose 1). Relevant to any reassessment will be the Board's views on the likelihood of the need to amend quota administration systems and the extent to which the Board's risks in relation to quota can continue to be mitigated by other means (including insurance).
  - The Board has retained a \$55 million contingency fund. The Board remains of the view that, given the likely costs of responding to a major crisis, where management or recovery might be assisted by a range of measures such as additional research, auditing and promotion, at least \$55 million should be retained.
  - In the event that the retained funds are utilised for the permitted purposes the Board will give consideration to whether the reserves need to be rebuilt to the same level (or a greater or lesser level), and how this might occur.

- It is intended that to the extent reasonably practicable, the Board's quota management systems will be fully funded by applicants for, and users of, quota within the financial year in which the cost arises
- Where, despite the Board's reasonable endeavours, a deficit arises between the fees collected and the actual costs of the system/s in a financial year, that deficit may be met from income earned on the reserves during that financial year.
- If reserves or income from reserves are called upon to meet a deficit in relation to the Board's quota management systems, the Board may, where appropriate and permissible, recover the amount used by way of an increase in fees paid by applicants for quota in subsequent financial years. Any increased fees must be applied to the specific quota(s) whose administration generated the deficit.
- If the contingency fund is ever to be called upon, the mechanism for replenishment may be via an adjustment to the levies (within the range set in the relevant levy order/s) collected by Beef + Lamb New Zealand (B+LNZ) in subsequent years.
- The Board's policy regarding use of reserves as a contingency fund is attached as appendix 1 (and forms part of this reserves policy)
- At 30 September 2017 \$6.7 million of reserves remain that are held pending application from B+LNZ for funding of the Red Meat Profit Partnership, an industry collaboration with the Ministry for Primary Industries.
- The balance of funds retained (\$13 million as at 30 September 2017), together with income generated from them, and from the contingency fund (after inflation adjusting) will be available for industry-good projects.
- In the event that investment income from reserves is in deficit (excluding foreign currency variations) for any year then no industry good funding from income will be available. No industry good funding can be made available in future years until any prior deficits have been recovered.
- After provision for maintenance of the real value of reserves, surplus investment income after industry good funding requirements may be carried forward into future years. This would then be available should future budgeted industry good funding requirements exceed that year's annual investment income. This will be described as the Investment Fluctuation Reserve.
- After provision for maintenance of the real value of reserves, the Board may provide industry-good grant funding from income in excess of investment income in any one year, only where funding from the Investment Fluctuation Reserve is available.

### **C. INDUSTRY-GOOD PROJECTS**

Reserves that are surplus to the requirements of purposes 1) and 2) above (including income not required to "inflation-proof" the contingency fund) will be available for purpose 3); the funding of industry-good projects ("Projects"). These Projects will be carried out by B+LNZ, and applications for funding will be considered against this policy, and the provisions of the Meat Board Act 2004.

The guidelines for considering Projects for reserve funding are as follows:

#### **1. Project Criteria**

Projects will:

- be expected to have the potential to lead to a significant shift in the overall positioning/profitability of the sheepmeat and beef industry (the Industry); and
- because of their nature and/or scale fall outside the activities that can be funded, or fully funded, by B+LNZ's levies; and
- be for the collective good of the Industry.

## 2. **Capital versus Income funded Projects**

- Capital funded Projects will be those that result in the level of reserves held by the Board at the end of a financial year being less in real terms than the level of reserves held at the end of the previous financial year. Conversely income funded Projects will be those funded from the income derived from reserves, and do not reduce the amount of reserves held by the Board from year to year (after any adjustments for inflation).
- Capital funded projects will span more than 2 financial years, and will be aimed at improving the long-term returns for livestock farmers within the Industry.
- These projects can include projects partly funded by levies, where reserves are used to supplement that funding.

## 3. **Standard evaluation criteria.**

- All Projects will have to undergo a predictive cost benefit analysis. Only projects with an expected positive return, to the Industry as a whole, that warrants the level of investment, after taking into account the prospects of the project being successful, will be considered.
- Where benefits to the industry are likely to be taken, at the initial stages, by participants outside the farm gate, such participants will be required to make cash or in-kind contributions.
- A similar project must not be being undertaken concurrently by B+LNZ or by other participants in the industry.
- Projects should only be considered to the extent that they are "industry-good", in that they would be unlikely to occur without Board funding. Where a Project only requires seed capital to become a commercial proposition, B+LNZ will be required to have a short-term review and exit strategy.
- While Projects should be industry wide in ultimate impact, this does not preclude funding of partnerships with individual industry participants.

## 4. **Standard process of review of Projects**

Funding for all Projects will be on the basis of at least six-monthly milestones. Where milestones are not met, the Board may cease funding of that Project; therefore, B+LNZ will be required to have an exit strategy for all Projects.

## 5. **Benefit to Stakeholders**

All applications for funding will identify how the benefits of the project are to accrue to stakeholders in the industry. In recognition of the fact that the Board's reserves stem from income received on behalf of beef and sheepmeat producers, the primary benefit from a project should be to beef and sheepmeat producers.

## 6. **Exceptional circumstances**

If in the Board's opinion, exceptional circumstances exist in relation to an application for funding of a project that is outside of the criteria set out above, approval may be given provided the project is consistent with the object of the Board, the potential return on the investment justifies the investment and that the rationale for such an approach is documented.

## 7. Consultation

The Meat Board Act 2004 prevents the Board from funding Projects unless it has first consulted livestock farmers. While the Board may choose to consult independently, B+LNZ will provide the Board with the opportunity to consult livestock farmers in B+LNZ’s annual consultation.

The Board will ensure that farmers have the opportunity to participate in consultation, including by providing appropriate notice of the means of consultation and information regarding the proposed projects for funding.

The Board will need to seek assurance from B+LNZ that, for any funding application made that is of sufficient value to trigger “*Significant Transaction*” or “*Major Transaction*” provisions of the B+LNZ Ltd Constitution and the Companies Act 1993, the required approvals have been obtained by B+LNZ.

## D. REVIEW

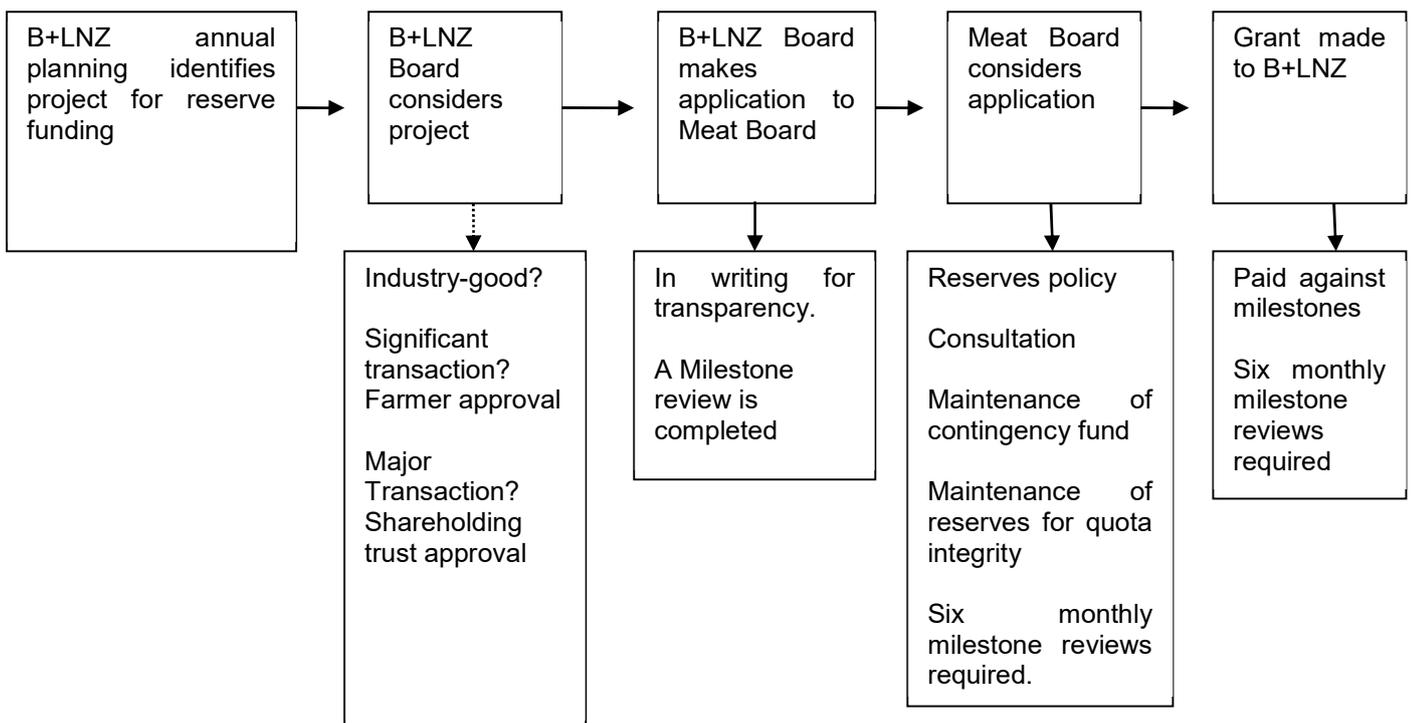
Review periods are scheduled as follows:

- This Reserves Policy will be reviewed three-yearly following this review or earlier at the Board’s discretion.
- The specific reserve for quota jeopardy will be reviewed three-yearly, the next being due in 2020, and
- The Contingency Fund Policy will be reviewed five-yearly the next review being due in 2019.

Livestock farmers will be consulted before any changes are approved.

## E. PROCESS

The process by which B+LNZ will apply for reserve funding (both capital and income) from the Board is set out in the following diagram.





## POLICY FOR MANAGEMENT OF THE CONTINGENCY FUND

One of the purposes for which the Board may use reserves is to provide a contingency fund to assist the red meat sector's response to a major crisis. That use is governed by the following criteria.

### CRITERIA FOR USE OF THE FUND:

#### 1. Scope and coverage

- To all categories of beef and sheep meat products.
- To a crisis or crises considered likely to significantly affect the good standing of New Zealand products in all markets and/or where access to a major market or markets is significantly affected.
- Where the category of meat may be downgraded in the mind of consumers, thus reducing demand, even where the issue poses no genuine product quality or safety issue, for example atypical BSE, or where it has arisen in product from a country other than New Zealand, e.g. residues in grass fed beef from Australia.
- Only to developments affecting the good standing of New Zealand product that are regarded as impacting on a national basis (this would include fraudulent actions and other misdemeanours committed by processor/exporters if it is considered that the image of NZ industry/product is affected and the impact would be on the majority of New Zealand product from any single species or multiple species from which meat products are produced).
- Not to be made available to meet any charges imposed by New Zealand government or local authorities for activities undertaken to manage a risk or to avoid a risk situation occurring.
- Only to activities undertaken for the good of the industry as a whole, rather than a single or limited group of industry participants. For example management of a whole of sector response to foot and mouth disease or generic promotion of the benefits of New Zealand red meat (or a type of red meat) following a residues issue.
- The fund may be utilised on activities including, but not limited to, the following:
  - Coordination of crisis activities and communications
  - Provision of specialist advice and support to levy payers and agencies leading any response to a sector crisis
  - Advocacy on behalf of the red meat sector during a crisis
  - Market research/public relations.
  - Trade and Consumer promotion including advertising.
  - Establishment and audit of quality control/food safety programmes.
  - Sponsored travel to New Zealand by overseas customers/media to view mitigation systems put in place.
  - Research to gain understanding of the nature of the event in order to provide factual information aimed at restoring customer confidence, or research to defend New Zealand's market access position, e.g. by opposing a safeguard action implemented by an overseas authority which results in loss, reduction or restriction of access to a market.
  - Legal expenses incurred in defending the interests of the sector where seriously defamed by a third party

## 2. Guidelines to be taken into consideration in determining the level of funding for any event

Given the relatively limited ability to replenish the Contingency fund in between Referenda (undertaken either six-yearly or through holding a special referendum if considered justified) a number of guidelines have been established in relation to the level of funding that the Board may draw upon for any event. These are:

- A "fundamental crisis" would rank highest, and would justify drawing heavily upon the fund. A fundamental crisis would currently include FMD and BSE outbreaks (including detection of atypical BSE). These are considered the two most likely events that could result in the loss of access in major markets and affect consumer confidence for food safety reasons or impact on future demand, because of substitution with other products during the time access is banned. These events are likely to require a high level of expenditure to restore consumer confidence. The Board may declare other events as being a "fundamental crisis" from time to time. These may include loss of access to a major market or markets through, for example, an anti-dumping or safeguard action being taken against New Zealand meat imports by a foreign Government, or other regulatory action by a foreign Government which causes a major disruption in trade. Again, an effective response to the impact of these circumstances may require a high level of expenditure.
- In general, other major crises not at the level of a fundamental crisis would justify spending at a level that still leaves a reasonable balance in the fund in the event of a subsequent fundamental crisis occurring. Possible events could be:
  - the introduction of scrapie,
  - severe impacts associated with virulent *Escherichia coli*
  - a failure of essential systems such as NAIT to pass external audit
  - major residue contamination.
- Additionally, the threat of either a major or fundamental crisis occurring may, of itself, be a major crisis warranting use of the fund.
- Events that only directly impact on public/consumer confidence in the domestic New Zealand market may none-the-less constitute major crises and warrant use of the fund, particularly where it is necessary to mitigate negative international publicity, that may spill over.

## 3. Management

- In considering a major industry crisis, the Board will be guided by B+LNZ, which will initially determine if a developing crisis situation might warrant a response involving use of the contingency fund. In that event, B+LNZ shall immediately appraise the Board of the circumstances, its assessment of the risks, and the steps being taken to manage the situation. If B+LNZ determines that the use of the contingency fund is warranted, it will prepare recommendations outlining a plan of action to respond to the crisis by, for example, managing recovery of customer, consumer, and legislator confidence in New Zealand meat, fighting a loss of market access situation and/or developing alternate markets (Crisis Response Plan). The nature of the situation is likely to require a prompt decision on the recommendations; therefore, the Board Chairman will call a special Board meeting.
- B+LNZ will, as part of its crisis management planning, lead the preparation and maintenance of a Crisis Management Strategy, which will be submitted to the Board for approval (current Board approved version attached as **Schedule A**). Any major sector crisis subsequently occurring will be managed in terms of the Crisis Management Strategy and require the development of a Crisis Response Plan (this has been previously developed on contingency for FMD: *Beef + Lamb New Zealand Response Plan for FMD*)
- If a major sector crisis requires funds to be spent, the Board will provide those funds to B+LNZ, to carry out activities in accordance with the Crisis Response Plan approved by the Board.
- The Board may approve B+LNZ committing up to \$100,000 of Contingency fund monies for R&D and/or market research/consultancy to enable initial scoping of a crisis situation in order to assist in developing a Crisis Response Plan.

- B+LNZ shall be required to regularly report to the Board on outcomes against the approved Crisis Response Plan. The frequency of reports will be provided for in the plan.
- B+LNZ may at any time make further recommendations to the Board to modify or amend the Crisis Response Plan.
- The Board shall determine, on the basis of advice received from B+LNZ, when implementation of the Crisis Response Plan has been completed, and funding from the Contingency Fund is no longer required.
- B+LNZ shall be required to evaluate the effectiveness of the Crisis Response Plan and its implementation, and report the outcome to the Board.
- The Board recognizes that other organisations, including Government agencies and those directly affected, may have primary responsibility in responding to a major industry crisis.
- The last review of the industry crisis plan was completed in 2014 and this will be next reviewed in the 2018-19 financial year.

#### **4. Management of Foreign Currency Exposure**

The foreign currency exposure for the Contingency fund should be incorporated in the Statement of Investment Policies and Objectives as well as in the Crisis Management Strategy.

#### **5. Checklist for the Criteria**

1. Has there been an appropriate level of consultation undertaken with stakeholders including meat processors and exporters, Federated Farmers and government organisations such as MFAT and MPI in determining whether a crisis situation warrants use of the contingency fund, bearing in mind the provenance of the fund, the urgency of the situation, and the need to act quickly where appropriate.
2. Has a fundamental or major crisis occurred, is one developing, or threatening to develop?
  - a. Is the crisis likely to significantly affect the good standing of New Zealand product in all markets or in major markets?
  - b. Is the crisis likely to significantly affect market access?
  - c. Is the crisis likely to result in negative impacts on customer or consumer preferences for categories of NZ origin red meat?
  - d. Is the crisis likely to impact on a national basis?
  - e. Over what term is the impact likely to be felt?
  - f. What is the potential cost to the industry of the crisis?
3. Who will bear most of this cost? Were they responsible? Can or should they pay?
4. Is any remedial action undertaken likely to have significant impact on the likely financial loss?
5. Does sufficient information and skills exist within B+LNZ to scope the crisis situation or are additional resources needed e.g. policy, advocacy, market research, legal, analytical, promotional and PR consultancy skills?
6. Can such additional resources be funded by B+LNZ through savings in its budgeted activities, e.g. planned promotion that might be irrelevant in the event of a crisis?
7. Is additional funding to provide for scoping the crisis required?
8. What level of funds is available at the time a crisis arises: how long is it before there will be an opportunity to seek levy payer approval to replenish the fund?
9. Where appropriate, has there been consultation with other organisations who have undertaken programmes in response to crisis situations.

10. Is it possible to leverage additional funds to assist in responding to the crisis, e.g. meat companies, government?

## **Schedule A**

### **B+LNZ CRISIS MANAGEMENT STRATEGY (B+LNZ BOARD APPROVED 2014)**

1. The B+LNZ response to crises will be determined by the nature of the event or events experienced and the resources available to the organisation at the time.
2. B+LNZ intends to base its response to crises affecting B+LNZ's physical, human and information assets on the established B+LNZ/NZMB *BUSINESS CONTINUITY AND CRISIS MANAGEMENT PLAN*.
3. For crises affecting the red meat sector, within B+LNZ's sphere of influence, B+LNZ will seek to base its response on the B+LNZ FMD RESPONSE PLAN.
4. For each of these two classes of crisis, it is anticipated that the appropriate plan will require tailoring to suit the demands of the crisis that is faced.
5. In responding to crises, B+LNZ will endeavour to collaborate with other pastoral industry organisations and relevant regulatory agencies to achieve the best outcomes for levy payers.