

## Statement of Intent ("SOI") for Far North Holdings Ltd ("FNH") For the 3 years ending 30 June 2017

### Introduction

This statement of intent [SOI] is presented by Far North Holdings Limited [FNH] in accordance with section 64(1) of the Local Government Act 2002. It represents the objectives, nature and scope of activities and performance targets by which we will be measured. It covers the period from 1st July 2014 to 30 June 2017.

As the Council's commercial vehicle FNH will facilitate and create commercial and infrastructural assets in the Far North District, in doing so it will:

- Operate under good governance
- Seek new business development opportunities
- Identify, collaborative or joint ventures opportunities
- Look after existing assets and bring commercial expertise in property management
- Create profits for its shareholder and improve shareholder asset value.

### Strategic Direction

This SOI sets the strategic framework, activities, and performance measures we have set for the next three years in order to deliver on the Far North District Council's (FNDC) vision.

FNH is to be cognisant of and align itself with the Far North District Council's vision and aspirations. The district's aspirations are contained in three community outcomes. The vision and community outcomes have guided the development of the 2012/2022 Long Term Plan (LTP).

The Council has also developed three values to drive work across its organisation; enabling, enthusiasm, and innovation.

There are four strategic objectives that are the area of focus for the first three years of the long term plan.

In 2012/22 LTP the Council's high level vision, community outcomes, values, outcomes and principles are shown in table below.

<b>Far North District Council's Vision</b>			
Top place where talent wants to live, work and invest			
<ul style="list-style-type: none"> <li>• Attract skills, talent, and investment to the district</li> <li>• Retain the skilled people already here and maintain economic prosperity</li> <li>• Be competitive with other districts</li> </ul>			
<b>Outcomes</b>			
Safe and healthy district	A sustainable and liveable environment	A vibrant thriving economy	
<b>Values</b>			
Enabling	Enthusiasm	Innovation	
<b>Strategic Objectives [focus for 2012/22 LTP]</b>			
Value for ratepayers	Provide economic development for Far North	Investment in new infrastructure as and when affordable	A leaner, more customer focused organisation

Council's strategic direction will change as Council develops the 2015/25 LTP. The strategic objectives are most likely to be:

A capable and innovative Council that actively:

Empowers healthy and engaged communities	Takes advantage of opportunities and innovation to grow sustainably	Builds unity of purpose across our communities	Protects and preserves our precious natural environment	Performs to a high level and models "can do" attitude
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Areas of FNH's alignment shown shaded

### Objective

As the FNDC's commercial vehicle, FNH will facilitate and create commercial and infrastructural assets in the Far North District with the aim of creating profits for its Shareholder and creating Shareholder value.

### Distribution policy

The Shareholder may require FNH to pay a dividend of 50% of its after tax operating profit no later than 28<sup>th</sup> February in the following financial year; however, FNH may from time to time present commercial proposals to the Shareholder for an alternative use of the Shareholder's share of after tax operating profit for its consideration.

## Nature and scope of activity

FNH currently owns and operates commercial and infrastructural assets in the maritime, aviation and property sectors. FNH may:

- Elect to investigate and invest in any other commercial opportunities that may arise including any proposed by its Shareholder.
- Carry out asset management, and may enter into management agreements for defined services on behalf of its Shareholder.

Divest any of the assets held, subject to any restrictions that may apply in specific cases (such as where the Council has the right of first refusal, or where the offer-back requirements of the Public Works Act apply).

FNH will align itself with the shareholder's broader strategic objectives by leveraging off these assets to undertake the following business activities (but not limited to) over the next three years are:

Developing and enhancing a maritime economy;

- Progress Opuia marina Stage II development
- Attract business and investment in the maritime economy
- Ensure all maritime assets owned by FNH are cost effectively maintained through asset management plans that appropriately balance care of asset with expenditure

FNH will enter into a management contract for commercial, strategic and non-strategic property assets assigned to us to;

- Undertake acquisitions of strategic property on behalf of Council
- Undertake disposals or re-development of non-strategic land
- Negotiate third party leases where Council is the tenant
- Undertake management of commercial leases
- Including any other properties, developments, businesses and investments assigned to us;

## Approach to Governance

In undertaking its activities, the Board of FNH will exhibit and ensure:

1. Sound business practice in its commercial undertakings, operating as an efficient and effective business;
2. Ethical and good behaviour in dealing with all parties;
3. An active partnership approach with Maori to promote effective communication where appropriate;
4. To comply with all relevant legislative requirements including those relating to the principles of the Treaty of Waitangi.
5. An open and transparent approach to decision-making with its shareholder, while respecting the need for commercially sensitive information to be protected;
6. Operate according to the best practice statements produced from time to time by the Institute of Directors in New Zealand (Incorporated)
7. That Council's vision and aspirations are considered and that FNH is conscious that it needs to make a contribution to the overall financial performance of Council.
8. FNH is a good employer in accordance with the legislation guidelines set by Government.

The Board will adopt the following approach to its fiduciary responsibilities to ensure good governance:

- It will prepare a 3 year Statement of Intent (“SOI”) setting out its strategic goals and obtain the Shareholder’s agreement to this statement;
- It will define its organisation structure and individual accountabilities by ensuring management have clearly defined job descriptions;
- It will set corporate budgets for earnings and cash flow;
- Delegate both responsibility and authority to its Chief Executive;
- To hold regular board meetings to monitor progress towards the Company’s goals and objectives; and
- Prepare Quarterly and Annual reports to its shareholders as required and in accordance with current business plan.

### **Decision for which prior Council approval is required**

The following criteria are used to guide and demonstrate what types of decisions require shareholder approval:

1. Decisions which will affect the CCOs ability to meet any statutory responsibility.
2. Decisions which will impact on any intended service levels for a CCO activity (except if the impact is minor or has been agreed by the council through the SOI process)
3. Decisions which will commit the council to future provision of funding
4. Decisions which are not based on a “full arm’s length” commercial basis require FNDC approval and is to be shown in the accounts as such.

### **Engagement with the Shareholder**

To ensure the implementation of good governance within FNH and within the Shareholder, both parties agree to maintain a high level of communication between each other.

The Chief Executives will use their best endeavours to communicate in a timely manner and ensure that matters are raised so there will be ‘no surprises’.

FNH’s relationship with the governing body of Council will generally be for the purposes of developing strategic direction, agreeing statements of intent, service agreements and levels of funding, and performance monitoring and reporting.

The Board believes that regular communication with the Shareholder is essential to the good governance of the business and therefore FNH will, in addition, seek to meet informally with FNDC as required by either FNH or its shareholder, to deal with any other matter of mutual interest.

Processes will be established for ongoing and regular contact with senior management [SMT] to share information, provide a commercial dimension when required and to ensure alignment with Council’s strategic direction.

FNH will attend Iwi Forums, where invited, and attend Community Board meetings where appropriate or invited to if agenda items warrant their presence.

## **Consolidated Shareholders' Funds and Total Assets**

Consolidated shareholder's funds are budgeted to be \$39.0 million at 30 June 2015, after the 2015 dividend has been paid. Total assets are budgeted to be \$52.9 million. The ratio of FNH's consolidated shareholder's funds to total assets is forecast to be 73%.

FNH is to operate the Company, without further equity injection from the Shareholder.

## **Accounting Policies**

FNH's current accounting policies are set out in the notes to its annual financial statements at 30 June 2013. There is no material change in accounting policies envisaged over the period covered by this SOI.

## **Operating Profit**

FNH's operating profit is expected to be \$1.018 million in the 12 month period ending 30th June 2015, a 7% increase on the forecast outlined in the last SOI.

## **Performance Targets**

A schedule of the detailed non-financial and financial Performance Indicators for the 3 years of the SOI is attached as Appendix A.

## **Reporting to Shareholders**

FNH will provide quarterly reports to its Shareholder in November, February, May and an annual report in August. FNH will provide details of its forecasts of earnings, cash flow and balance sheet structure, if requested by its shareholder.

## **Transactions with Far North District Council**

In transactions with FNDC for the provision of goods and / or services, FNH will seek trading terms and conditions applicable to external customers.

## **Acquisition of Shares**

If FNH wishes to acquire shares in another company or organisation, it will notify its shareholder at least 30 days in advance.

## **3 Year Forecast**

The forecast has been prepared on the basis of the present company operations without any inclusion of the possible effects from the Opuia Marina Stage 2 development. We continue to work towards obtaining consent approval and making a final construction decisions before incorporating this.

FNH anticipates an 11% growth in operating profit in the subsequent period, resulting in a profit in the order of \$1.138 million in the 12 month period ending 30th June 2016, and a further 12% growth in operating profit increasing the return to \$1.275 million, in the 12 month period ending 30th June 2017.

It is anticipated that over this period Consolidated Shareholders' Funds, after the dividend payment, will increase to be \$39.58 million at 30 June 2016, whilst total assets are estimated to be \$53.3 million. The ratio of FNH's consolidated shareholder's funds to total assets is estimated to be 74%.

Consolidated Shareholder funds will further increase to be \$40.2 million at 30 June 2017, (after the 2017 dividend has been paid) whilst total assets are estimated to be \$53.7 million. The ratio of FNH's consolidated shareholder's funds to total assets is estimated to be 75%.

## APPENDIX A to the Statement of Intent for the 3 years ending June 2017

<b>Financial Performance Objectives</b>			
<b>Performance Objective</b> Engage in successful commercial transactions			<b>Measure</b> Growth in Shareholder value
<b>Target 2014/15</b> Shareholders' funds increase by \$.509m, after payment of the dividend.	<b>Target 2015/16</b> Shareholders' funds increase by \$.569m, after payment of dividend.	<b>Target 2016/17</b> Shareholders' funds increase by \$.637m, after payment of the dividend.	<b>Achieved - Comments:</b>
<b>Performance Objective</b> Provide a commercial return to FNDC.			<b>Measure</b> Dividend return to FNDC
<b>Target 2014/15</b> Dividend of \$509,000	<b>Target 2015/16</b> Dividend of \$569,000	<b>Target 2016/17</b> Dividend of \$637,000	<b>Achieved - Comments:</b>
<b>Performance Objective</b> Effective Financial Management			<b>Measure</b> Annual operating Profit to exceed \$500,000
<b>Target 2014/15</b> \$1.018 million	<b>Target 2015/16</b> \$1.138 million	<b>Target 2016/17</b> \$1.275 million	<b>Achieved - Comments:</b>
<b>Performance Objective</b> To achieve a return on funds invested			<b>Measure</b> Return on Investment (ROI) is higher than the average cost of borrowing on its commercial assets. <i>Average cost of borrowings</i>
<b>Target 2014/15</b> ROI 5.29% AV cost of borrowings 5.5%	<b>Target 2015/16</b> ROI 5.91% AV cost of borrowings 6.0%	<b>Result 2016/17</b> ROI 6.61% AV cost of borrowings 6.5%	<b>Achieved - Comments:</b>
<b>Performance Objective</b> Asset growth and development			<b>Measure</b> Capital Expenditure
<b>Target 2014/15</b> \$800,000	<b>Target 2015/16</b> \$750,000	<b>Result 2016/17</b> \$650,000	<b>Achieved - Comments:</b>
<b>Performance Objective</b> Effective Governance and Financial Control			<b>Measure</b> Clean audit sign off each year from Audit NZ. Annual Board Review with appointed Audit NZ representative. To remain within Banking covenants. Quarterly audit review by BDO Board Audit and Finance committee meetings to be conducted semi-annually.
<b>Council Controlled Organisation Initiatives</b> Ensure that the Bay of Islands Airport operates within regulatory requirements.			<b>Measure</b> CAA Certification
<b>Target 2014/15</b> To achieve	<b>Target 2015/16</b> To achieve	<b>Target 2016/17</b> To achieve	<b>Achieved - Comments</b>

<b>Non-Financial Performance Objectives</b>			
<b>Performance Objective</b> Enhancing the Far North as a destination			<b>Measure</b> Each Year complete at least one customer and airline industry survey that demonstrates satisfaction levels with facilities and services at either Kerikeri or Kaitaia airports.
<b>Target 2014/15</b> 80%	<b>Target 2015/16</b> 80%	<b>Target 2016/17</b> 80%	<b>Achieved - Comments</b>
<b>Performance Objective</b> Enhancing and developing a maritime economy			<b>Measure</b> Each year complete at least one marina user or maritime services customer satisfaction survey that demonstrates satisfaction levels with facilities and services available.
<b>Target 2014/15</b> 80%	<b>Target 2015/16</b> 80%	<b>Target 2016/17</b> 80%	<b>Achieved - Comments</b>
<b>Performance Objective</b> Enhancing the Far North as a destination			<b>Measure</b> Complete bi-annual customer satisfaction survey's with Cruise Ship industry that demonstrates satisfaction levels with Far North Holdings as security authority and provider of disembarking infrastructure
<b>Target 2014/15</b> 80%	<b>Target 2015/16</b> 80%	<b>Target 2016/17</b> 80%	<b>Achieved - Comments</b>