



**Far North
Holdings Limited**

Statement of Intent 2019 - 2022



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Purpose of Statement of Intent

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. This SOI takes Shareholder comments into consideration and represents the objectives, nature and scope of activities and performance targets by which FNH is to be measured as the basis of accountability. It covers the period from 1st July 2019 to 30 June 2022.

Abbreviations

| Abbreviation / Term | Description |
|---------------------|--|
| BOI | Bay of Islands |
| CCO | Council Controlled Organisation |
| CruiseNZ | Cruise New Zealand |
| FNDC | Far North District Council |
| FNH | Far North Holdings Limited |
| LTP | Long Term Plan |
| PGF | Provincial Growth Fund |
| SLT | Far North District Council's Strategic Leadership Team |
| SOI | Statement of Intent |



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About FNH

As Council's commercial vehicle, FNH facilitates and develops commercial and infrastructural assets, and business growth, 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;
- Manage existing assets and bring commercial expertise in property management; and
- Create profits for its Shareholder and improve the Shareholder asset value.

FNH leads the delivery of property and infrastructure assets in its ownership and under its management. These actions contribute to the development of the Far North District.

FNH primary roles are:

- To plan, manage, operate and develop; land, maritime, aviation and public assets within its ownership, or under the terms of any management agreement entered into; and
- To plan, facilitate and secure commercial outcomes in its area of Influence that support the growth of the Far North District.

As a secondary role, FNHL may use its management skills and resources to assist both Council and third parties with consultancy services including; project management, funding and business support/planning, on a commercial basis.

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; and
- Carry out asset management, and may enter into management agreements for defined services on behalf of its Shareholder, or third party; and
- 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, council resolution 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 being:

Developing and enhancing a maritime economy

- Continue with the BOI Marina infrastructure and land-based development;
- Further development of the Waitangi Wharf to cater for the charter boats meeting the cruise ship tenders;
- Further develop the Paihia, Opuia and Russell wharves, maximizing benefits from Provincial Growth Fund (PGF);



- 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; and
- Seek funding sources to further develop or upgrade such maritime assets.

Developing and enhancing property in its ownership including:

- Complete the development of the Bay of Islands Airport Terminal, and thereafter evaluate the opportunity arising from this investment, including reviewing; fire rescue, freight, the runway and associated airside infrastructure;
- To explore the potential to develop an Innovation & Enterprise Park at Ngawha, on the Top Energy Farm, that encourages value add industry to establish here and employment opportunity that aligns with the unemployed of the District; and
- Complete the PGF developments at Te Hononga, Kawakawa, and Manea.

Where agreed with the Shareholder, enter into a management contract for commercial, strategic and non-strategic property assets in order 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; and
- Evaluate any other properties, developments, businesses and investments as to their current and future potential.

FNH Strategic Direction

This SOI sets the strategic framework, activities, and performance measures we have set for the next three years to deliver the outcomes its Shareholder seeks.

At the time of preparation of this SOI FNH has several projects seeking high level funding and approvals. For the moment, this SOI is based on known projects. FNH will liaise with Council on the new projects and update the SOI reflecting any change.

FNH is to be cognisant of and, where appropriate, seeks to align itself with the Far North District Council's vision, mission and principles statement as outlined in the 2018/28 Long Term Plan (LTP).

For community outcomes FNH will be guided by the 2018/28 LTP and Council's Vision. "A District of sustainable prosperity and well-being", its mission "creating great places, supporting our people and its values" and a Statement of Collective Values and Statement of Expectations.

Over the period of the SOI, Far North District Council will provide FNH with any other documents that it should have knowledge of, whether they be in the consultation stage, or have been formally adopted, that reflect any changes to the Council's vision or aspirations that FNH needs to align with.



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 CCO's 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; and
4. Decisions which are not based on a "full arm's length" commercial basis requiring FNDC approval will to be shown in the accounts as such.

FNH Objective

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

3-Year work plan to deliver on Strategic Objectives

The table below shows the key capital projects and initiatives we plan to undertake in the 2019-22 SOI period to deliver on our strategic objectives.

| Key Project / Initiative | Description | Contribution to Strategic Objectives | Delivery in 2019-22 |
|----------------------------------|---|---|---|
| Capital Projects | | | |
| Marina Infrastructure & Boatyard | Completion of landscaping and associated land-based amenities. | Berths are all now available and generating income. | Planning and design work to be completed June 2019. |
| Waitangi Wharf | Additional pontoon to cater for the charter fleet picking up cruise ship passengers. | This will further improve the infrastructure needed to support the growth in cruise ships numbers, and size, visiting the Bay of Islands, and the economic benefit that retail and tourist businesses benefit from the passengers that travel in this manner. | Delivery September 2019. |
| Russell Wharf Kiosk | To redevelop the kiosk to provide greater public amenity and more user-friendly environment on the Russell Wharf. | To enhance the experience of visitor using the wharf by providing a café and toilets alongside the information centre. | December 2019 completion. |

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| Key Project / Initiative | Description | Contribution to Strategic Objectives | Delivery in 2019-22 |
|---------------------------------------|--|--|--|
| Te Hononga, Kawakawa | To provide a new interpretive Gallery co-governed by Ngati Hine/Hundertwasser Trust, relocate the FNDC library, and provide new workshops for local artists and for business to use. | Redevelopment of the Kawakawa town centre, that will make Kawakawa a destination in its own right, linking; the famous toilets, twin coast cycleway and town square. | March 2020 completion. |
| Bay of Islands Airport Terminal | The development of a new terminal building, and new rental facilities. | Reflecting the investment made by Air NZ in the apron / taxiway to accommodate larger aircraft, and more frequent flights, a new terminal is needed to accommodate the current passenger growth. | Delivery July 2019. |
| Ngawha Innovation and Enterprise Park | 204ha Dairy Farm. | To create commercial business opportunities to grow the economic and employment opportunities in Northland. | On-going with the objective that within 3 years all the necessary planning needed will have been approved and potential tenants will have been identified and secured. |
| Manea | The development of an interactive theatre experience telling the story of Kupe. | The development of a tourist attraction, telling a story of national significance to Maori, will be a major tourism attraction and provide economic benefit to the Hokianga. | Anticipated completion May 2020. |
| Russell Wharf | To develop and repair the Russell Wharf. | To increase and improve the commercial, public and community benefits of the wharf and pontoons. | Anticipated completion October 2019. |
| Opua Wharf | To develop an events pontoon/superyacht berth. | To provide an events facility for Cook's 250 th anniversary being celebrated in 2019. Thereafter, to be used as a superyacht berth. | Anticipated completion October 2019. |
| Paihia Wharf | To develop and repair the Paihia Wharf. | To increase the capacity of the facility to allow continued growth in traffic and charter operators. | Anticipated completion October 2019. |



In addition to the above new capital projects, FNH shall continue to review, maintain and re-invest in existing assets and operations to ensure maximum benefit to the Company, plus review on an ongoing basis other capital investment opportunities as they arise.

As referred above the Company is working with both Council and Central Government on the following projects.

- Manea (Cultural and Arts Centre, Hokianga);
- Te Hononga, Kawakawa (tourism hub);
- Bay of Islands Airport – additional opportunities in addition to the new terminal;
- Paihia Waterfront (additional infrastructure);
- Russell Wharf (additional infrastructure);
- Opuia Wharf – Events/Superyacht Pontoon;
- Ngawha Innovation and Enterprise Park;
- Kaikohe Community / Cultural / Tourism Hub; and
- Ngawha Springs (redevelopment and upgrade of the existing springs).

These projects should all come to fruition in the period 2019/22.

Financials

Operating Profit 3-year Forecast

FNH is forecasting an operating profit after tax for the 2019/20 year to be \$2.143 million, and for the 2020/21 year an after-tax profit of \$2.450 million.

The company foresees a small increase in the after tax profit for the following period 2021/22 with budgets indicating a profit of \$2.550 million.

Consolidated Shareholders' Funds and Total Assets

For the period from July 2019, the Company is forecasting continued growth in total assets and shareholder's funds.

The Company's asset growth will primarily be a result of the PGF developments listed earlier. No allowance has been made for any asset revaluations over the period.

Asset values are forecast to increase to \$108.4 million by June 2020.

The company is aware that there may be accounting treatments around the PGF funding, and how that is to be accounted for in the company's books has yet to be determined, so may see these numbers change. For the moment the numbers above assume that the assets in FNHL books, for which PGF funding has been received, will be valued at costs less the PGF funding received for that asset.

Consolidated Shareholders' funds are budgeted to total \$56.2 million by June 2019, increasing to \$57.4 million for June 2020 and \$58.0 million by June 2021. During this period, the Company is also budgeting to pay dividends of \$3.8 million to Council.



Distribution Policy

Dividends

The Shareholder may require FNH to pay a dividend of 50% of its after tax operating profit no later than 28th February in the following financial year; for the following years the company will endeavor to pay the following minimum amounts:

| | |
|------------------------|-------------|
| 2019/20 Financial year | \$1,215,000 |
| 2020/21 Financial year | \$1,340,000 |

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.

Share Redemption

In the event that the company has not within a period of two years been able to develop the Kaikohe farm site to its potential as an innovation and enterprise park, and thus not led to the establishment of businesses or industry thereon, the company will look to dispose of the farm, and from those proceeds or other resources, will look to repay to its shareholder, over a period no longer than 4 years, the sum of \$5.0 million by means of share redemption.

Accounting Policies

FNH's current Accounting Policies are set out in the notes to its annual financial statements at 30 June 2018. The treatment of PGF funds received by the company is still to be finalised, as mentioned earlier, otherwise there is no material change in accounting policies envisaged over the period covered by this SOI.

Reporting to Shareholders

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

In addition, representatives from FNHL will attend Community Board meetings at least once a quarter to update them on current projects and plans that affect their ward, and will include regular communication with the relevant board when physical works are to commence in the ward.

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.

Performance Targets

A schedule of the detailed non-financial and financial performance indicators for the 3 years of the SOI can be seen on pages 8 and 9.

Performance Outlook

FNH has an agreed set of performance measures and targets which form the basis for accountability to delivering on Council's strategic direction, priorities and targets. These are reported on a quarterly basis, in accordance with the CCO Governance Manual. These include measures agreed as part of the 2018/28 LTP.

FNH has worked closely with FNDC to develop a new, improved, streamlined and robust set of performance measures for the 2018/28 LTP and 2019-22 SOI. A comprehensive performance measurement and reporting framework also exists outside of the SOI process.

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| Financial Performance Objectives | | | | SOI Target 2019/20 | SOI Target 2020/21 | SOI Target 2021/22 | |
|--|---|---|--|--|--|---|---|
| Performance Objective Engage in successful commercial transactions | | | | Measure Growth in Shareholder value | Shareholders' funds increase by \$1.12m, after payment of dividend | Shareholders' funds increase by \$1.15m after payment of dividend | Shareholders' funds increase by \$1.125m, after payment of dividend |
| Target 2016/17 Achieved | Target 2017/18 Achieved | Target 2018/19 SHF inc by \$1.0m | Comments | | | | |
| Performance Objective Provide a commercial return to FNDC | | | | Measure Dividend return to FNDC | Pay minimum \$1.215 million for 2019/20 | Pay minimum \$1.340 million for the 2020/21 | Pay minimum \$1.300 million for the 2021/22 |
| Target 2016/17 \$719,500 paid in Feb 18 | Target 2017/18 Dividend to be paid of \$843,810 in Feb 19 | Target 2018/19 Forecast dividend of \$887,000 to be paid Feb 20 | Comments This forecast dividend is \$200,000 greater than prior SOI forecasts | | | | |
| Performance Objective Effective Financial Management | | | | Measure Annual operating profit after tax to exceed \$500,000 | \$2.143 million | \$2.450 million | \$2.550 million |
| Target 2016/17 Achieved \$1,438,110 | Target 2017/18 Achieved \$1,687,621 | Target 2018/19 Operating profit \$1,985,000 | Comments Going forward the company has budgeted a taxation liability as its tax losses available in previous years come to an end. The extent of the effects is still being determined but a realistic allowance has been made in the forecasts. | | | | |
| Performance Objective To achieve a return on funds invested | | | | Measure Return on Investment (ROI) is higher than the average cost of borrowing on its commercial assets | ROI 8.79% AV cost of borrowings 4.83% | ROI 9.18% AV cost of borrowings 4.85% | ROI 8.75% Av cost of borrowings 4.85% |
| Target 2016/17 Achieved ROI 6.90% | Target 2017/18 Achieved ROI 8.63% | Target 2018/19 ROI 9.7% | Comments These returns going forward are calculated on an after tax basis. | | | | |

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| Financial Performance Objectives | | | | SOI Target 2019/20 | SOI Target 2020/21 | SOI Target 2021/22 |
|--|-----------------------------------|---|---|--|--|--|
| Performance Objective Asset growth and development | | | Measure Capital Expenditure | \$7.086 million | \$2.015 million | \$1.000 million |
| Target 2016/17 Achieved | Target 2017/18 Achieved | Target 2018/19 \$9.30 million | Comments The expenditure in the 2019/20 year reflects the work around PGF projects and the balance of that into 20/21. | | | |
| Performance Objective Effective Governance and Financial Control | | | Measure 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 | To achieve To be held To achieve To perform To be held | To achieve To be held To achieve To perform To be held | To achieve To be held To achieve To perform To be held |
| Council Controlled Organisation Initiatives Ensure that the Bay of Islands Airport operates within regulatory requirements | | | Measure CAA Certification | To achieve | To achieve | To achieve |
| Target 2016/17 Achieved | Target 2017/18 Achieved | Target 2018/19 To achieve | Comments Current certification valid till December 2019 | | | |

| Non-Financial Performance Objectives | | | | SOI Target 2019/20 | SOI Target 2020/21 | SOI Target 2021/22 |
|--|--|---|---|--------------------|--------------------|--------------------|
| | | | | % | % | % |
| Performance Objective Enhancing the Far North as a visitor destination | | | Measure Each year complete at least one customer and airline industry survey that demonstrates satisfaction levels with facilities and services at either Kerikeri or Kaitia Airports | 85% | 85% | 85% |
| Target 2016/17 Not achieved | Target 2017/18 Not achieved | Target 2018/19 No survey proposed | Comments FNH working with Air New Zealand on construction of new terminal | | | |
| Performance Objective Enhancing and developing a maritime economy | | | Measure Each year complete at least one marina user or maritime services customer satisfaction survey that demonstrates satisfaction levels with facilities and services available | 95% | 95% | 95% |
| Target 2016/17 Achieved 80% | Target 2017/18 No survey undertaken, Marina under construction | Target 2018/19 Survey being undertaken Target is 95% satisfaction rating | Comments Bio Security and MPI Surveys | | | |



| Non-Financial Objectives | | Performance | SOI Target 2019/20 % | SOI Target 2020/21 % | SOI Target 2021/22 % |
|--|------------------------------|---|---|------------------------|----------------------------|
| Performance Objective Enhancing the Far North as a destination | | Measure Complete bi-annual customer satisfaction surveys with Cruise Ship industry that demonstrates satisfaction levels with FNH as security authority and provider of disembarking infrastructure | 85% or higher satisfaction | Only every second year | 85% or higher satisfaction |
| Target 2016/17 Achieved Cruise line rating of 86% | Target 2017/18 N/A | Target 2018/19 Target to achieve an 85% or better rating | Comments Survey to be complete with one operator with two brands. | | |

Board's Approach to Governance

Current Board Membership

- Bill Birnie CNZM (Chairman - term ends 30 October 2019)
- Sarah Petersen (Chair Audit & Risk – Term ends 28 February 2021)
- Kevin Baxter (term ends 30 June 2020)
- Hon Murray McCully CNZM (term ends 28 February 2021)
- Ross Blackman (term ends 30 September 2019)

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 behavior in dealing with all parties;
3. An active partnership approach with Maori, and all other people in business throughout the Far North, promoting 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 contribute to the overall financial performance of Council; and
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:

- Prepare a 3-year SOI setting out its strategic goals and obtain the Shareholder's agreement to this statement;
- Define its organisation structure and individual accountabilities by ensuring management have clearly defined job descriptions;
- 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 Shareholder as required and in accordance with current business plan.

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 endeavors 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 on-going and regular contact with senior management (SLT) 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.