



**Far North
Holdings Limited**

Statement of Intent 2016 - 2019



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Statement of Intent 2016 - 2019

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 2016 to 30 June 2019.

Abbreviations

Abbreviation / Term	Description
BOI	Bay of Islands
CCO	Council Controlled Organisation
FNDC	Far North District Council
FNH	Far North Holdings Limited
LTP	Long Term Plan
SMT	Far North District Council's Senior Management Team
SOI	Statement of Intent



About FNH

As the Council's commercial vehicle, FNH facilitates and creates 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;
- 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.

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.
- 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 BOI Marina Stage II Development;
- Re-develop Waitangi Wharf to cater for the cruise ship tenders;
- Attract business and investment in the maritime economy ; and
- Ensure all maritime assets owned by FNH are cost effectively maintained through asset management plans that appropriately balance care of asset with expenditure.



Developing and enhancing property in its ownership:

- Review the opportunity to re-develop Kerikeri Airport Terminal; and
- Evaluate the benefit of property as part of a shared services agreement.

FNH will 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.

FNH is to be cognisant of and at all times, where appropriate, seeks to align itself with the Far North District Council's vision, mission and principles statement as outlined in the 2015/25 Long Term Plan (LTP).

For community outcomes FNH will be guided by the 2015/25 LTP and Council's "Our Voices Our District Vision" which has the vision statement "A District of sustainable prosperity and well-being" 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 require 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 2016-19 SOI period to deliver on our strategic objectives.

Key Project / Initiative	Description	Contribution to Strategic Objectives	Delivery in 2016-19
Capital Projects			
Marina Extension	Provision of berths to incoming International cruisers	New berths will allow visiting international and domestic boats to stay in Opuia and in turn this will support the local marine service industry, create jobs and grow the Far North GDP.	Delivery March 2017
Boatyard Facilities	Increase hardstand areas available for storage and maintenance of vessels	To increase service level to vessel owners with more flexibility as to time and level of service.	Delivery November 2017
Waitangi Wharf	Extension of the cruise ship tender berth to allow more than one tender to embark/dis-embark 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 2017
Kerikeri Airport	The development of a new terminal building	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 this passenger growth.	Delivery November 2018

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.



Financials

Operating Profit 3 year Forecast

FNH anticipates a fall in its operating profit for the 2016/17 year to \$1.017 million. This fall in profit from the prior year reflects the initial startup costs and timing effects of the new marina extension. Initial revenue for the first year will be insufficient to cover the immediate operating and investment interest costs, as a result of the berth space only being available to generate income for a small part of the financial year. This fact has been highlighted in previous reports and discussions.

In the 2017/18 year, the marina extension will start to provide a return and the Company's operating profit for this year is expected to be \$1.265 million, an increase of 24.4%. For the 2018/19 year a further increase (13%) to \$1.430 million is forecast.

The forecast for the three years has been calculated on the basis of a conservative number of berth sales, and should sales exceed those budgeted additional cash resources will result and will be used to reduce the marina debt, hence improving the profit performance through reduced interest costs, and greater revenues.

Consolidated Shareholders' Funds and Total Assets

With the marina expansion, total assets will grow significantly over the period under review. The majority of the investment is being funded through borrowings, so whilst assets value will grow, Shareholder's funds will only grow from profits, less any dividends paid. Should there be any assets revaluations effecting capital assets there will be a corresponding increase or decrease to Shareholder's funds. For the purposes of the forecast, we have assumed no financial gains or reductions in the asset revaluations in each of the periods.

Consolidated Shareholder's funds are budget to total \$42.57 million by June 2017, increasing to \$43.23 million by June 18, and increasing to \$44.06 million by June 19.

Assets values are forecast to total \$73.27 million by June 17 increasing further to \$74.70 million by June 18, and to \$75.08 million by June 19.

The ratio of Shareholders' funds to total assets is expected to remain flat through the period at 56-57%. This ratio is well within our banker's minimum requirement of 50%.

Distribution Policy

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; 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.



Accounting Policies

FNH's current Accounting Policies are set out in the notes to its annual financial statements at 30 June 2015. 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.

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 10 and 11.

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 2015/25 LTP.

FNH has worked closely with FNDC to develop a new, improved, streamlined and robust set of performance measures for the 2015/25 LTP and 2016-2019 SOI. The performance measures shown below will replace all previous measures.

A comprehensive performance measurement and reporting framework also exists outside of the SOI process.

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Performance Measures

Financial Performance Objectives			SOI Target 2016/17	SOI Target 2017/18	SOI Target 2018/19	
Performance Objective Engage in successful commercial transactions			Measure Growth in Shareholder value	Shareholders' funds increase by \$.518m after payment of dividend	Shareholders' funds increase by \$.659m, after payment of dividend	Shareholders' funds increase by \$.830m, after payment of dividend
Target 2012/13 Achieved	Target 2013/14 Achieved	Target 2014/15 Achieved	Comments			
Performance Objective Provide a commercial return to FNDC			Measure Dividend return to FNDC	Pay \$500,000 for 2016/17 year	Pay \$600,000 for 2017/18 year	Pay \$600,000 for 2018/19 year
Target 2012/13 Dividend paid \$409,258	Target 2013/14 Declared dividend of \$460,000	Target 2014/15 Proposed Dividend of \$461,870	Comments Dividend paid February 2016 \$240,204 for 2015, balance off-set against the construction of Mangonui Wharf Jetty.			
Performance Objective Effective Financial Management			Measure Annual operating profit to exceed \$500,000	\$1.017 million	\$1.265 million	\$1.430 million
Target 2012/13 Achieved \$818,516	Target 2013/14 Achieved \$923,740	Target 2014/15 Achieved \$1,076,762	Comments			
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 4.80% AV cost of borrowings 4.05%	ROI 6.21% AV cost of borrowings 5.06%	ROI 6.43% AV cost of borrowings 5.06%
Target 2012/13 Achieved ROI 5.473%	Target 2013/14 Achieved ROI 5.607%	Target 2014/15 Achieved ROI 6.36%	Comments			
Performance Objective Asset growth and development			Measure Capital Expenditure	\$840,000	\$1,775,000	\$825,000
Target 2012/13 N/A	Target 2013/14 Not achieved	Target 2014/15 Achieved	Comments			
Performance Objective Effective Governance and Financial Control			Measure Clean audit sign off each year from Audit NZ	To achieve	To achieve	To achieve
			Annual Board Review with appointed Audit NZ representative	To be held	To be held	To be held
			To remain within Banking covenants	To achieve	To achieve	To achieve
			Quarterly audit review by BDO	To perform	To perform	To perform
			Board Audit and Finance committee meetings to be conducted semi-annually	To be held	To be held	To be held

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Financial Performance Objectives				SOI Target 2016/17 %	SOI Target 2017/18 %	SOI Target 2018/19 %	
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 2012/13 Achieved	Target 2013/14 Achieved	Target 2014/15 Achieved	Comments				
Non-Financial Performance Objectives				SOI Target 2016/17 %	SOI Target 2017/18 %	SOI Target 2018/19 %	
Performance Objective Enhancing the Far North as a visitor destination				Measure Each year complete at least on customer and airline industry survey that demonstrates satisfaction levels with facilities and services at either Kerikeri or Kaitiaki Airports	76%	80%	85%
Target 2012/13 N/A	Target 2013/14 N/A	Target 2014/15 Not achieved	Comments Survey not undertaken for 2014/15 year due to disruption caused by apron & taxiway work				
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	90%	92%	94%
Target 2012/13 N/A	Target 2013/14 N/A	Target 2014/15 Achieved 88.45%	Comments				
Performance Objective Enhancing the Far North as a destination				Measure Complete bi-annual customer satisfaction survey's with Cruise Ship industry that demonstrates satisfaction levels with FNH as security authority and provider of disembarking infrastructure	85% or higher satisfaction	85% or higher satisfaction	85% or higher satisfaction
Target 2012/13 N/A	Target 2013/14 N/A	Target 2014/15 Achieved Cruise line rating of 90.05%	Comments				
Performance Objective Position Rating of Cruise Ship destinations within New Zealand				Measure As per relevant measures and information from Cruise NZ	Maintain position in top 3	Maintain position in top 3	Maintain position in top 3
Target 2012/13 Position achieved (5)	Target 2013/14 Position achieved (3)	Target 2014/15 Position achieved (2)	Comments Milford Sound and Auckland hold the other two positions in the top three for port destinations in the Cruise Ship Industry.				



Board's Approach to Governance

Current Board Membership

- Ross Blackman (Chair – term ends 16 April 2018)
- Bill Birnie (Chair Audit & Risk – term ends 16 April 2017)
- Ian Walker (term ends 16 April 2016)
- Kevin Baxter (term ends 31 January 2016)

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; 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:

- It will prepare a 3 year 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 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 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 on-going 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.