



**Far North
Holdings Limited**

Statement of Intent 2017 - 2020



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Statement of Intent 2017 - 2020

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 2017 to 30 June 2020.

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

- Complete the BOI Marina Stage II Development;
- Further development 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 including:

- Re-develop Kerikeri Airport Terminal, and its associated infrastructure; and
- Evaluate the benefit of property management 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, 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 2017/20 SOI period to deliver on our strategic objectives.

| Key Project / Initiative | Description | Contribution to Strategic Objectives | Delivery in 2017-20 |
|------------------------------------|---|---|---|
| Capital Projects | | | |
| Marina Extension | Provision of berths to incoming International cruisers | New berths will allow visiting international and domestic boats to stay in Opuā and in turn this will support the local marine service industry, create jobs and grow the Far North GDP. | Delivery May 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 2016 (Completed) |
| 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 2016 (Completed) |
| Opuā Retail and Apartment Building | The first building of three approved under the resource consent will see the development of 800 sqm of retail and café facilities to service the Marina, with apartments above. | Provides the services needed for visiting international and domestic boat owners. Allows two existing businesses to expand and improve their level of offering. | Delivery November 2017 |
| Copthorne Hotel, Hokianga | The development of 10 5 star chalets to cater for the growth in tourism in the Far North. | Provides economic investment in the Hokianga which would otherwise not have taken place but is based on strong commercial parameters. | Delivery November 2017 |

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| | | | |
|------------------|--|---|------------------------|
| 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 its operating profit for the 2017/18 year to increase to \$1.516 million. This projected profit is ahead of that forecast last year of \$1.256 million due to better returns from certain business areas and increased trading volumes, plus the company's ability to hold operating costs, especially with the new marina extension.

In the 2018/19 year, the marina extension will provide an increased return and the Company's operating profit for this year is expected to be \$1.775 million, again a substantial increase over previous forecasts of \$1.430 million. This increase reflects the full returns on its new investment properties and increased marina usage. For the 2019/20 year a further increase (13.2%) to \$2.010 million is forecast.

The forecast again has been calculated on the basis of a conservative number of berth sales, and should sales exceed those budgeted additional cash resources 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 nearing completion, total assets will grow significantly over the period under review. Added to this will be the asset value two new investments in the Opuā Marina Retail building, no2 and the Copthorne property development at Omapare. The majority of the investments are 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 \$45.5 million by June 2018, increasing to \$46.54 million by June 19, and increasing to \$47.665 million by June 20.

Assets values are forecast to total \$81.16 million by June 18 increasing further to \$83.9 million by June 19, and to \$85 million by June 20.

The ratio of Shareholders' funds to total assets is expected to remain flat through the period at 55-57%. 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 2016. 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 organization, 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 11 and 12.

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 2017-20 SOI. A comprehensive performance measurement and reporting framework also exists outside of the SOI process.



Performance Measures

| Financial Performance Objectives | | | | SOI Target 2017/18 | SOI Target 2018/19 | SOI Target 2019/20 | |
|--|---|--|---|---|--|--|--|
| Performance Objective Engage in successful commercial transactions | | | | Measure Growth in Shareholder value | Shareholders' funds increase by \$.956m after payment of dividend | Shareholders' funds increase by \$1.0m, after payment of dividend | Shareholders' funds increase by \$1.12m, after payment of dividend |
| Target 2013/14 Achieved | Target 2014/15 Achieved | Target 2015/16 | Comments | | | | |
| Performance Objective Provide a commercial return to FNDC | | | | Measure Dividend return to FNDC | Pay \$758,000 for 2017/18 year | Pay \$887,000 for 2018/19 year | Pay \$1,000,000 for 2019/20 year |
| Target 2013/14 Declared dividend of \$460,000 | Target 2014/15 Proposed Dividend of \$461,870 | Target 2015/16 Dividend paid \$549,00 | Comments Dividend paid February 2017 of \$549,000 for 2016 year end, being net after costs associated with Kaitaia Airport, outside of the management contract. | | | | |
| Performance Objective Effective Financial Management | | | | Measure Annual operating profit to exceed \$500,000 | \$1.516 million | \$1.775 million | \$2.01 million |
| Target 2013/14 Achieved \$923,740 | Target 2014/15 Achieved \$1,076,762 | Target 2015/16 Achieved \$1,222,078 | Comments Achieved | | | | |
| 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 8.24% AV cost of borrowings 5.00% | ROI 8.9% AV cost of borrowings 5.00% | ROI 9.53% AV cost of borrowings 5.00% |
| Target 2013/14 Achieved ROI 5.607% | Target 2014/15 Achieved ROI 6.36% | Target 2015/16 Achieved ROI 5.78% | Comments | | | | |
| Performance Objective Asset growth and development | | | | Measure Capital Expenditure | \$4.43mil | \$3.65mil | \$1.5mil |
| Target 2013/14 Not achieve | Target 2014/15 Achieved | Target 2015/16 Achieved | Comments | | | | |
| 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 |

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| Financial Performance Objectives | | | | SOI Target 2017/18 % | SOI Target 2018/19 % | SOI Target 2019/20 % | |
|--|--|--|--|--|----------------------------|----------------------------|----------------------------|
| 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 2013/14 Achieved | Target 2014/15 Achieved | Target 2015/16 Achieved | Comments Clean CAA Audit achieved February 2017 | | | | |
| Non-Financial Performance Objectives | | | | SOI Target 2017/18 % | SOI Target 2018/19 % | SOI Target 2019/20 % | |
| 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 Kaitiāia Airports | 80% | 85% | 85% |
| Target 2013/14 N/A | Target 2014/15 Not achieved | Target 2015/16 | 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 | 92% | 94% | 95% |
| Target 2013/14 N/A | Target 2014/15 Achieved 88.45% | Target 2015/16 Achieved 80% | Comments Bio Security and MPI Surveys | | | | |
| 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 | Only every second year | 85% or higher satisfaction |
| Target 2013/14 N/A | Target 2014/15 Achieved Cruise line rating of 90.05% | Target 2015/16 N/A | Comments Not due in 2015/16 year | | | | |
| 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 2013/14 Position achieved (3) | Target 2014/15 Position achieved (2) | Target 2015/16 Stats not yet available from CruiseNZ | 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 1st October 2017)
- Ian Walker (term ends 16 April 2017)
- Kevin Baxter (term ends 31 January 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 behaviour 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 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.