



INVERCARGILL CITY HOLDINGS LIMITED

STATEMENT OF INTENT FOR THE FINANCIAL YEAR ENDING 2021

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PREAMBLE

Invercargill City Holdings Limited (ICHL) was established by Invercargill City Council (ICC) in 1996 to monitor and oversee the performance of its subsidiaries and is accountable to ICC against this role.

Section 64 of the Local Government Act 2002 requires ICHL to prepare a statement of intent that:

- States the activities and intentions of ICHL for the year and the objectives to which those activities will contribute;
- Provide an opportunity for ICC to influence the direction of ICHL; and
- Provide a basis for the accountability of the directors of ICHL to ICC for the performance of ICHL.

ICHL and ICC have determined that the investments held by ICHL may be classified as either strategic or commercial and this statement of intent reflects those classifications.

The Directors have prepared this Statement of Intent which consolidates the intentions and objectives of its subsidiaries for the year.

OBJECTIVES

Section 59 of the Local Government Act 2002 sets out the principal objectives of ICHL. ICHL has the following specific objectives:

- To ensure that ICHL and its subsidiaries work together with ICC to form an agreed strategic objective for the group.
- To ensure that ICHL and its subsidiaries activities and strategy are aligned with the strategic objectives agreed with ICC.
- To ensure that the strategic investments of ICHL are managed in a manner that optimises returns to its shareholder while achieving the desired strategic objectives associated with those investments.
- To ensure that the commercial investments of ICHL provide returns to its shareholder ICC that are sustainable and consistent with the agreed objectives and risk appetite of ICHL.
- To ensure that any projects or investments where ICHL has been requested by its shareholder ICC to either undertake or supervise those projects or investments they are undertaken in a commercially prudent manner to achieve the strategic outcomes of those projects or investments agreed with ICC.
- To keep the ICC informed of matters of substance affecting the group on a no surprises basis.
- To monitor the performance of each subsidiary against their stated performance objectives and ensure they have proper governance procedures in place.
- To promote rigorous health and safety management and reporting within the group.

- To ensure that regular reporting of results occurs to Invercargill City Council.
- To act generally as a responsible corporate citizen.

NATURE AND SCOPE OF ACTIVITIES

ICHL will monitor and oversee the performance of its investment. Specific actions that ICHL will take towards performance of this activity include:

- a. Providing input into the Statement of Intent of each of its subsidiaries to ensure that they reflect the strategies and objectives of Invercargill City Council; and,
- b. Monitoring the performance of the individual subsidiary companies against the Statement of Intent.
- c. Providing funding and treasury services to the subsidiary companies.
- d. Regularly, at least every 12 months, reviewing the strategic alignment of the commercial investments held by Invercargill City Holdings Limited against its agreed strategic objectives.
- e. Assisting Invercargill City Council in the management of its commercial investments.

ICHL exercises its monitoring role through a variety of means, including reviewing Statements of Intent provided by subsidiary companies, reviewing periodic financial, strategic and health and safety reporting by the subsidiaries, monitoring business developments, liaising with subsidiary boards at least quarterly, making director appointments following recommendation from Invercargill City Council and dealing with other issues as they arise.

The undertaking by Invercargill City Holdings Limited of any activity of a nature or scope not provided for would be subject to the prior approval of the Invercargill City Council.

In particular the prior approval of the shareholder would be required to the company forming, acquiring or divesting an interest in any subsidiary company and in the case of each subsidiary the Directors of Invercargill City Holdings Limited shall not, without the prior approval of the shareholder approve any investment which is contrary to that subsidiary's Constitution.

Activities of the subsidiary companies are as follows:

ELECTRICITY INVERCARGILL LIMITED (EIL)

EIL owns and operates the electricity network in Invercargill which includes 656km of predominantly underground cables. This is one of the best performing networks in New Zealand in terms of reliability and efficiency and has more than 17,000 connections. Electricity retailers pay EIL for this network delivery service and in turn charge homes and businesses for it.

EIL also has partial ownership of PowerNet, the network management company and other energy related entities including OtagoNet, an electricity distribution entity in Otago and Central Otago, and Roaring Forties which owns generation assets including wind and hydro.

EIL continues to make a commitment to reduce the overall age of the network and continuously improve the assets to ensure safety, capacity and reliability. EIL is exploring ways in which it can diversify its income away from lines due to the regulatory risk associated with this reliance.

INVERCARGILL AIRPORT LIMITED (IAL)

IAL provides all airport related services for Invercargill and is the gateway to the city and the wider Southland region, hosting over 321,000 passengers in the 2019 year.

IAL is 97.2% owned by Invercargill City Holdings Limited and the other 2.8% shareholders are the four local Runanga.

IAL has installed infrastructure to enable the acceptance of jet services that commenced in August 2019. IAL has a number of other projects under consideration which amount to a diversification of its income sources.

Invercargill City Council has agreed that IAL is a strategic asset. ICHL will work with IAL to ensure that its activities ensure the continued development of this essential service.

INVERCARGILL CITY FORESTS LTD (ICFL)

At this stage it is anticipated that ICFL will be sold in the 2020-2021 financial year. As a result only figures for the 2020-2021 financial year have been included.

INVERCARGILL CITY PROPERTY LTD (ICPL)

ICPL has been the vehicle by which Invercargill City Council has invested in and lent money to HWCP Management Limited. HWCP Management Limited will hold the balance of land acquired by it and not utilised for the development of the inner city block. ICPL continues to work with ICHL and Invercargill City Council around the management of that investment.

INVERCARGILL CENTRAL LIMITED (ICL)

ICHL has become a shareholder in ICL at the request of ICC. ICL is carrying out the development of stages 1-3 of the inner city.

ICL is a strategic asset and ICHL will continue to monitor the performance of ICL in meeting the objectives of the investment by ICC in that company.

PERFORMANCE TARGETS

The following targets relate to the ICHL group unless separately identified.

Invercargill Airport Limited, Invercargill Central Limited and Invercargill City Property Limited are strategic investments and will not be included in any commercial return requirements for ICHL.

ICL is currently undertaking the development and at this stage there is no commercial return target allocated.

Return on Commercial Investments (ICHL EIL and ICFL)

ICHL is currently reviewing the manner in which its returns are reported to Invercargill City Council. In the interim ICHL will report, for its commercial investments rates of return on equity:

% After Tax

2020/21	6.13%
2021/22	3.88%
2022/23	5.34%

Other performance measures

In addition to the above financial performance measures, the Invercargill City Holdings Limited board will use the following measures to assess its performance:

The *Local Government Act 2002* provides the starting point for ICHL's expectations of its subsidiary and associate companies. Section 59 of the Act states the principal objectives of Council Controlled Trading Organisations (CCTOs) are to:

- a. Achieve the objectives of its shareholders, both commercial and non-commercial, as specified in the statement of intent; and
- b. Be a good employer; and
- c. Exhibit a sense of social environmental responsibility by having regard to the interest of the community in which it operates and be endeavouring to accommodate or encourage these when able to do so; and
- d. Conduct its affairs in accordance with sound business practice.

Corporate Governance

1. ICHL will clearly delineate the respective roles of ICHL, ICC and the subsidiary boards.
2. ICHL will ensure that its board is of an appropriate size and collectively has the skills, commitment and knowledge of ICHL and its subsidiaries to enable it to discharge its duties effectively and to add value.
3. ICHL will instil and continually reinforce a culture of acting lawfully, ethically and responsibly.
4. ICHL will have appropriate processes, including a risk and audit committee, to verify the integrity of its corporate reports.
5. ICHL will make timely and balanced disclosure to ICC of all matters concerning it that a reasonable shareholder would expect to be made aware.
6. ICHL will provide ICC with appropriate information and opportunities to allow ICC to exercise its rights as shareholder.
7. ICHL will have in place a risk management framework and will periodically review the effectiveness of that framework.
8. ICHL will work with ICC to ensure that its directors and staff are remunerated in a manner that attracts and retains high quality candidates and aligns their interest with the creation of value for ICC and ICHL's values and risk appetite.

Strategic Planning

ICHL will work with all subsidiary and associate companies to develop and implement a strategic plan for the company, in consultation with ICHL, which reflects the policies and objectives of the shareholder for the business.

As part of strategic planning, ICHL will encourage all subsidiary and associate companies to seek out opportunities for innovation and growth that are relevant for the strategic

objectives of the investment. ICHL will encourage its subsidiaries to share investment or growth opportunities and ideas with it at an early stage for feedback.

Dividends

ICHL expects a long term sustainable dividend flow to the shareholder, while maintaining an appropriate balance between dividends and reinvestment. ICHL will require all its subsidiaries to provide projections of at least 10 years of capital requirements for at least asset replacement to enable it to monitor the balance between these competing demands.

ICHL will work with its subsidiaries to achieve the most efficient use of staff resources, capital assets and working capital through innovative management and sound business practices.

Public Expectations

ICHL will work with its subsidiaries to ensure that they are mindful of the public scrutiny that comes with being a Council Controlled Organisation. Specifically, ICHL and ICC expect that ICHL Group companies:

- a. Build an accountability and constructive working practices between their company, shareholder and ultimate shareholder.
- b. Commit to transparency and accountability to the public. This includes fulfilling the planning, reporting and disclosure requirements of the *Local Government Act 2002* as it applies to CCOs, and the requirements of the *Local Government Official Information and Meetings Act 1987* as it applies to CCOs, and any other company specific legislation.
- c. Ensure their company is fiscally disciplined with expenditure.
- d. Embrace the ICC's Strategic priorities as set out in its long Term Plan 2018-2028 and any other relevant documents.

ICHL acknowledges the EIL and IAL are not CCTO's as defined in the *Local Government Act 2002* but will work with the boards of those entities to ensure that the spirit of the above requirements are met.

FINANCIAL FORECASTS

These consolidated financial forecasts are based on information provided by the subsidiary companies and Invercargill City Holdings Limited own forecasts:

	<i>Year Ending</i> <i>30 June 2021</i> <i>(\$'000)</i>	<i>Year Ending</i> <i>30 June 2022</i> <i>(\$'000)</i>	<i>Year Ending</i> <i>30 June 2023</i> <i>(\$'000)</i>
Gross Revenue	16,896	16,528	17,836
Expenditure	<u>12,350</u>	<u>11,096</u>	<u>10,965</u>
Net Profit (Loss)	4,546	5,432	6,871
Tax	<u>345</u>	<u>247</u>	<u>567</u>
Group Net Profit/(Loss) after tax	4,201	5,185	6,304
Dividend – Invercargill City Council	<u>4,886</u>	<u>4,989</u>	<u>5,104</u>
	(685)	196	1,200

The projected equity of the consolidated company at 30 June is estimated to be as follows:

	Year Ending 30 June 2021 (\$'000)	Year Ending 30 June 2022 (\$'000)	Year Ending 30 June 2023 (\$'000)
Equity	101,479	101,572	102,595

RATIO OF CONSOLIDATED SHAREHOLDER FUNDS TO TOTAL ASSETS

The forecasted ratio of shareholder funds as a percentage of total assets as at 30 June are as follows:

Year	%
2021	40
2022	40
2023	40

For the purpose of this ratio shareholder funds are defined as the paid-up capital plus any retained tax paid profits. They include undistributed profits which have been accumulated in accounts known as either "Revenue Reserves" or "Capital Reserves" and shareholder advances. It is anticipated that the Invercargill City Council shareholder advance (if any) will be subordinated, that is, subject to certain restrictions by the lender.

Total assets are defined as the sum of all current, fixed and investment assets of the group.

COMMERCIAL VALUE OF THE SHAREHOLDER'S INVESTMENT

The commercial value of the Shareholder's investment in the Company is considered by the Directors to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

REPORTING TO THE SHAREHOLDER

The following information will be available to the shareholder based on an annual balance date of 30 June.

DRAFT STATEMENT OF INTENT

On or before 1 March each year, the Directors will deliver to the shareholder a Draft Statement of Intent that fulfils the requirements of Section 64 of the Local Government Act 2002.

COMPLETED STATEMENT OF INTENT

On or before 30 June each year the Directors shall deliver to the shareholder a completed Statement of Intent which fulfils the requirements of Section 64 of the Local Government Act 2002.

HALF YEARLY REPORT

Within two months after the end of the first half of each financial year, the Directors shall deliver to the shareholder an unaudited report containing the following information as a minimum in respect of the half-year under review:

- A revenue statement disclosing actual revenue and expenditure, with comparative figures from the previous half yearly report.
- A statement of financial position at the end of the half year.
- A statement of cash flows.
- A commentary on the results for the first six months together with a report on the outlook for the second six months with reference to any significant factors that are likely to have an effect on Invercargill City Holdings Limited's performance, including an estimate of the financial result for the year based on that outlook.

ANNUAL REPORT

Within three months after the end of each financial year, the Directors shall deliver to the shareholder an annual report and audited financial statements in respect of that financial year, containing the following information as a minimum:

- a. A Director report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend.
- b. A revenue statement disclosing actual revenue and expenditure, and comparative figures.
- c. A statement of financial position at the end of the year.
- d. A statement of cash flows.
- e. An Auditor's report on the above statements and on the measurement of performance in relation to objectives.

DISTRIBUTION POLICY

The Directors have agreed that it is prudent to retain a portion of the Company's earnings as a hedge against movements in interest rates and/or income stream. It is anticipated a dividend will be paid by Invercargill City Holdings Limited to the Invercargill City Council of \$4,886,000 in 2020/2021 and \$4,989,000 in 2021/2022 and \$5,104,000 in 2022/2023.

ICHL and its subsidiaries may make further payments to ICC including subvention payments.

Any surplus from the Group operation will be used to repay the Invercargill City Holdings Limited debt.

PROCEDURES FOR ACQUISITION OF OTHER INTERESTS

The Company will only invest in the shares of another company or organisation in accordance with the Constitution of the company following consultation with ICC on a no surprises basis.

COMPENSATION FROM LOCAL AUTHORITIES

The Directors do not envisage any circumstances arising that would give rise to any claim from any Local Authority during the year.

OTHER MATTERS AGREED AS BETWEEN THE DIRECTORATE AND ITS SHAREHOLDER

The Company has entered into Deeds of Understanding with its subsidiaries imposing upon the companies certain restrictions, requirements and obligations as set out in the Deed.

Invercargill City Holdings Limited has a written agreement with all subsidiaries to fund each company's operating costs, by way of interest bearing loan, on a monthly basis, subject to the provision of annual budgets.

GOVERNANCE

- The Directors of Invercargill City Holdings Limited are appointed by Invercargill City Council to oversee the governance of the company and its subsidiaries and will act in accordance with the guidelines set by the Shareholder.
- The Directors acknowledge their fiduciary responsibilities however the day to day management of the company is delegated to the management team and the external Treasury Manager.
- The Directors hold regular board meetings at which management reports are received and discussed.
- The Board monitors the performance of the subsidiary companies to ensure performance and capability and to identify any areas for improvement.

ACCOUNTING POLICIES

Invercargill City Holdings Limited's accounting policies are consistent with the accounting policies recognised by the External Reporting Board ('XRB').

The accounting policies which materially affect the measurement and reporting of financial performance and financial position have been applied on a basis consistent with those used in previous years.

The accounting policies are listed in full in in our most recent annual report.