



# **INVERCARGILL CITY HOLDINGS LIMITED**

## **STATEMENT OF INTENT FOR THE FINANCIAL YEAR ENDING 2025**

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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;
  - activities and strategy are aligned with the strategic objectives agreed with ICC;
  - manage investments in a manner that optimises returns to its shareholder while achieving the desired strategic objectives.
- To ensure that the commercial investments of ICHL provide returns to its shareholder ICC that are sustainable and consistent with the agreed risk appetite of ICHL.
- To ensure that any projects or investments 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 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 investments. 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.

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 for Invercargill City Holdings Limited 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 663km 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 17,500 connections.

EIL has partial ownership of PowerNet Limited, the network management company. The continued ownership of PowerNet Limited is under review.

The Group intends to divest of its interest in:

- Roaring Forties Energy Limited Partnership which owns generation assets including wind and hydro;
- OtagoNet and Lakeland Network, which operate electricity distribution networks in Otago and Central Otago; and
- Is considering its investment in PowerNet Limited during the 2023/24 and 24/25 year.

The proceeds received by Invercargill City Holdings from this restructure will be utilised to reduce debt and reinvest to seek returns that satisfy the strategic and commercial requirements of the Group. At this time, a final decision has not been made on that future investment. ICHL will work with Invercargill City Council to ensure that any investment is aligned with the commercial and strategic objectives agreed.

The electricity industry is moving towards the next default price-quality path in November 2024. Finalisation of this will have an impact on the returns of EIL and the group.

EIL continues to make a commitment to improve the assets to ensure safety, capacity and reliability.

## **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 375,000 passengers in the 2023 year.

IAL is 97.47% owned by Invercargill City Holdings Limited and the other 2.53% shareholders are the four local Rūnanga.

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 PROPERTY LTD (ICPL)**

ICPL will be amalgamated into parent company, Invercargill City Holdings Limited on 01 July 2024. ICPL has been the vehicle by which Invercargill City Council has invested in and lent money to HWCP Management Limited. HWCP Management Limited holds the balance of land acquired by it and not utilised for the development of the inner city block. ICHL continues to work with Invercargill City Council around the management of that investment.

## **INVERCARGILL CENTRAL LIMITED (ICL) JOINT VENTURE**

ICHL has become a shareholder in ICL at the request of ICC. ICHL has invested \$62.37 million in ICL and holds 47.78% of the shares.

ICL has completed construction of the development and is operational as a shopping centre.

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 ICL.

## **PERFORMANCE TARGETS**

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

### **Financial**

The consolidated financial forecasts are based on information provided by the subsidiary companies and Invercargill City Holdings Limited own forecasts. The financial forecasts have been prepared using the best information available at the time of preparation.

<b>Group – Year Ending 30 June</b>	<b>2025 (\$'000)</b>	<b>2026 (\$'000)</b>	<b>2027 (\$'000)</b>
Group Net Profit/(Loss) after tax	14.843	9.622	9.113
Dividend to Invercargill City Council	9.456	9.576	9.705

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

At this stage there is no commercial return target allocated to ICL.

## Return on Commercial Investments (ICHL and EIL)

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: As noted above the new price reset for EIL will have an impact on the future years return.

ICHL and EIL – Year Ending 30 June	2025	2026	2027
Return on equity (after tax)	5.51%	3.14%	3.30%

## Non-financial performance targets – ICHL Parent

### Corporate Governance

Objective	Performance Target
The ICHL Group will adopt strategies that are compatible with the strategic direction of its shareholder.	ICHL will actively engage with its subsidiaries and its shareholder to ensure strategic alignment with the Council's strategic priorities.
ICHL maintains contact with subsidiary company boards and remains aware of their strategic and business issues.	ICHL receives regular reports detailing financial and performance updates.  ICHL meets with subsidiary boards regularly to review current performance and strategic focus areas.
ICHL keeps ICC informed of matters of substance affecting the group on a no surprises basis.	ICHL will make timely and balanced disclosure to ICC of all matters concerning it that a reasonable shareholder would expect to be made aware.  This includes quarterly reporting and bi-annual presentations.

### Sustainability

Objective	Performance Target
ICHL will promote and support ICHL Group companies' contribution to ICC's climate change initiatives.	ICHL will support progress across the group in moving towards measuring, report and reducing carbon emissions.

### Dividends

Objective	Performance Target
ICHL expects a long term sustainable dividend flow to the shareholder, while maintaining an appropriate balance between dividends and reinvestment.	ICHL will require 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

Objective	Performance Target
ICHL will work with its subsidiaries to ensure that they are mindful of the public scrutiny that comes with being a Council Controlled Organisation.	<p>ICHL will require its subsidiaries to 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.</p> <p>Ensure each subsidiary is fiscally disciplined with expenditure.</p>

ICHL acknowledges that EIL, IAL and ICL 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.

## Non-financial performance targets – ICHL Group

The significant non-financial performance measures for each of our significant subsidiaries as set out in their SOI's are as follows:

### Electricity Invercargill Limited

Objective	Performance Target																								
Network reliability	<p>System Average Interruption Duration Index (SAIDI) The average total time in minutes each customer connected to the network is without supply:</p> <table border="1"> <thead> <tr> <th>SAIDI</th> <th>2025</th> <th>2026</th> <th>2027</th> </tr> </thead> <tbody> <tr> <td>Planned</td> <td>16.00</td> <td>16.00</td> <td>16.00</td> </tr> <tr> <td>Unplanned</td> <td>13.70</td> <td>13.60</td> <td>13.60</td> </tr> </tbody> </table> <p>System Average Interruption Frequency Index (SAIFI) The average number of times each customer connected to the network is without supply:</p> <table border="1"> <thead> <tr> <th>SAIFI</th> <th>2025</th> <th>2026</th> <th>2027</th> </tr> </thead> <tbody> <tr> <td>Planned</td> <td>0.08</td> <td>0.08</td> <td>0.08</td> </tr> <tr> <td>Unplanned</td> <td>0.29</td> <td>0.29</td> <td>0.29</td> </tr> </tbody> </table>	SAIDI	2025	2026	2027	Planned	16.00	16.00	16.00	Unplanned	13.70	13.60	13.60	SAIFI	2025	2026	2027	Planned	0.08	0.08	0.08	Unplanned	0.29	0.29	0.29
SAIDI	2025	2026	2027																						
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Planned	0.08	0.08	0.08																						
Unplanned	0.29	0.29	0.29																						
Health and safety	<p>PowerNet is contracted to EIL to manage operations. EIL as a joint PCBU with PowerNet will monitor the PowerNet Health and Safety Performance targets.</p> <p>Total Recordable Injury Frequency Rate Contractor Targets (TRIFR)</p> <table border="1"> <thead> <tr> <th>2025</th> <th>2026</th> <th>2027</th> </tr> </thead> <tbody> <tr> <td>3.1</td> <td>3.1</td> <td>3.1</td> </tr> </tbody> </table>	2025	2026	2027	3.1	3.1	3.1																		
2025	2026	2027																							
3.1	3.1	3.1																							

### Invercargill Airport Limited

Objective	Performance Target						
Safety	Zero lost time injuries for staff. Priority 1 (P1) safety and health actions are completed within the agreed time periods.						
Passenger numbers	<table border="1"> <thead> <tr> <th>Budget 2025</th> <th>Budget 2026</th> <th>Budget 2027</th> </tr> </thead> <tbody> <tr> <td>369,410</td> <td>384,761</td> <td>392,178</td> </tr> </tbody> </table>	Budget 2025	Budget 2026	Budget 2027	369,410	384,761	392,178
Budget 2025	Budget 2026	Budget 2027					
369,410	384,761	392,178					
Operations	Retain aerodrome certification via assessment from the Civil Aviation Authority.						
Infrastructure	No significant disruption to airport operations due to infrastructure failure.						
Sustainability	Work with our advisors to establish actions required in order for IAL to reach ACERT Level 2 under the Airport Carbon Accreditation Scheme.						
Environmental	No notifiable environmental incidents on airport managed property.						

### Invercargill Central Limited (Joint Venture)

Objective	Performance Target
Operational budget costs	Operating costs within 10% of budget.
Tenancy	90% leased

## RATIO OF CONSOLIDATED SHAREHOLDER FUNDS TO TOTAL ASSETS

The forecast ratio of shareholder funds to total assets as at 30 June is:

	2025	2026	2027
Shareholder's funds/total assets	88.34%	85.18%	81.87

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 Invercargill City Holdings Limited 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.

### **STATEMENT OF INTENT**

On or before 1 March each year, the Directors will deliver to the shareholder a 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 Invercargill City Holdings Limited'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 \$9,456,787 in 2024/2025 and \$9,576,836 in 2025/2026 and \$9,705,103 in 2026/2027. This reflects the previously agreed dividend plus, at the request of Invercargill City Council an additional \$4,000,000 per annum for 10 years following the sale of the investments held by Electricity Invercargill Limited. As at the date this Statement of Intent was approved by the Directors, there are a number of factors that remain outstanding that will impact how this additional dividend is funded. These factors include:

- The potential sale of OtagoNet Limited, Lakelands Network Limited and PowerNet Limited; and
- Finalisation of the current price reset for Electricity Invercargill Limited.

Invercargill City Holdings Limited will be in a position to consider new investments following the completion of these investment sales and it has yet to agree the risk profile and potential returns from those investments with Invercargill City Council. It is intended that Invercargill City Holdings Limited will have a further discussion and/or provide a further Statement of Intent to Council when these matters have been finalised.

Invercargill City Holdings and its subsidiaries may make further payments to Invercargill City Council in the form of subvention payments.

Invercargill City Holdings Limited acts as bank for the group. Invercargill City Holdings Limited will, as far as practical ensure that any debt reduction by subsidiaries is matched by a debt reduction by Invercargill City Holdings Limited. Surplus from the Group operation will be used to repay the Invercargill City Holdings Limited debt.

## **PROCEDURES FOR ACQUISITION OF OTHER INTERESTS**

ICHL will only invest in the shares of another company or organisation in accordance with the Constitution of ICHL 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**

Invercargill City Holdings Limited 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 Invercargill City Holdings Limited 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 Invercargill City Holdings Limited is delegated to the management team with advice from an 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.
- Subject to approval by Invercargill City Council, the Board recommends the appointment of Directors to the Group's subsidiary companies.

## **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.