

HAWKE'S BAY REGIONAL
INVESTMENT COMPANY LTD

**Statement of Intent
For the Year Ending 30 June 2021**

Directory

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Board:

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Cr Rick Barker

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1. Introduction

This Statement of Intent (SoI) is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The SoI specifies for Hawke's Bay Regional Investment Company Limited (HBRIC Ltd) and its subsidiaries the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SoI is a public and legally-required expression of the accountability relationship between the company and its shareholder, the Hawke's Bay Regional Council (Council).

The SoI is reviewed annually with Council and covers a three year period.

HBRIC Ltd is a council-controlled trading organisation (CCTO) for the purposes of the Local Government Act 2002.

2. Mission Statement

HBRIC Ltd's mission is:

To optimise the financial and strategic returns to Council from its allocated investment portfolio to assist Council achieve its vision of "a healthy environment, a vibrant community and a prosperous economy".

3. Objectives

The objectives of HBRIC Ltd are to:

- Actively manage its allocated investment portfolio and any new investments it makes, including its shareholding in Napier Port Holdings Limited (Napier Port), to ensure:
 - growth of shareholder value
 - increased financial and strategic returns
 - investments are secure and sustainable over the long term.

4. Nature and Scope of Activities to be Undertaken

HBRIC Ltd will:

- Own and manage the investment assets and liabilities transferred to it by Council from time to time.
- Encourage and facilitate subsidiary and associated companies to increase shareholder value and regional prosperity through growth, investment and dividend payments.
- Ensure that best practice governance procedures are applied to the key regional infrastructure and financial investments that are under HBRIC Ltd's ownership.
- Monitor the performance of each subsidiary and associated company against their stated economic, environmental and social performance objectives and against relevant benchmarks, ensure that they have proper governance procedures in place, and promote sustainable business practices.
- Advise Council on strategic issues relating to its investments including, but not limited to, ownership structures, capital structures and rates of return.
- Perform financial, custodial and other functions required by Council which may include:
 - Enabling diversification of the Region's income streams for the benefit of ratepayers.
 - Enhancing Council's capability to manage an active investment policy.
- Comply with the LGA provisions requiring a special consultative process, and with Council policies, in regard to any disposal or part-disposal of shares in any Strategic Asset, for example by way of part sales of shares in Napier Port
- Advise Council of any material capital expenditure projects by HBRIC Ltd or via its subsidiaries.
- Only invest in, or dispose of, investments, and use all income derived from these activities for Regional Council purposes and functions consistent with Council's Investment Policy.

Napier Port Holdings Limited (Napier Port)

Napier Port is the leading international port in central New Zealand. Its East Coast location close to New Zealand's main international shipping lane together with excellent road, rail and coastal transport links enables the most efficient pathway to market for an increasing range of exports in an expanded central New Zealand catchment.

HBRIC owns 55% of the shares in Napier Port following a successful public listing (IPO). Council's strategic objective is for HBRIC Ltd to continue to beneficially hold control of Napier Port as a key means of assisting economic development of the region. The investment is expected (via dividends from HBRIC) to be an ongoing source of non-rate revenue for Council and has long-term prospects of growth and development.

HBRIC Ltd and Council will be bound by the provisions of the Port Companies Act 1988 in respect of the shareholding in Napier Port.

Future Investment Funds

Following the Napier Port IPO, all tax free distributable proceeds were passed through to Council. Currently approximately \$60m of funds remain with HBRIC, invested in managed funds with Merecr and Jarden. The investment profile for these funds is set by Council, to match funds invested by Council in its own managed funds.

Income from the managed funds will be distributed to Council or retained by HBRIC, by agreement with Council, subject to the seed capital in the funds remaining in tact and HBRIC's ability to pay.

5. Corporate Governance

This section gives readers an overview of the company's main corporate governance policies, practices and processes adopted or followed by the HBRIC Ltd Board.

Role of the Board of Directors

The Board of Directors is responsible to Council for the direction and control of HBRIC Ltd's activities. The Board is to guide and monitor the business and affairs of HBRIC Ltd in accordance with its mission and objectives as set out in this Statement of Intent.

Management has been delegated responsibility for the day to day management of the company. HBRIC Ltd may make use of external advisers from time to time.

All directors are required to comply with a formal Code of Conduct, which is based on the New Zealand Institute of Directors' Principles of Best Practice.

Following a biennial Board and Director evaluation of skills and competencies required for the Board of HBRIC Ltd, the Chairman will report to Council on the results of each evaluation. With a largely new board this year, an evaluation is scheduled for 2021.

Responsibility to Shareholder

Statement of Intent

In accordance with the Local Government Act 2002, each year by 1 March HBRIC Ltd will submit a draft Statement of Intent for the ensuing year to Council for its consideration. The SoI sets out HBRIC Ltd's overall objectives, intentions and financial and performance targets. Having considered any comments on the SoI by Council, the final operative Statement of Intent is then delivered to Council (as shareholder) for its approval on or before 30 June each year.

Board Composition and Fees

Appointments to the HBRIC Ltd board are made directly by Council.

Fees for the HBRIC Ltd Board will be set triennially in accordance with Council policy. HBRIC Ltd will effect an appropriate directors' and officers' liability insurance cover at the expense of HBRIC Ltd.

The Board meets regularly as required.

Expense Reimbursement

HBRIC Ltd will reimburse Council for the ongoing cost of management, accounting and administrative services incurred by Council in providing these services to HBRIC Ltd. HBRIC Ltd will also reimburse Council for specialist advisory, technical and management services it provides to HBRIC Ltd for particular investments. Other services will be contracted between Council and HBRIC Ltd for other investment management and operation as required.

Subsidiary Companies

All subsidiary companies (not including Napier Port Holdings) are required to submit an annual Statement of Intent to HBRIC Ltd, which will evaluate them and suggest changes as considered necessary, before finalisation by the company concerned. In the event of a new subsidiary company being established the first statement of Intent of the subsidiary company will be referred to the Council for comment. Subsequently, if any material changes are proposed by subsidiaries, HBRIC Ltd will consult with Council on such changes.

Representatives of the subsidiary board and management will meet with HBRIC Ltd at least twice each year, to discuss the company's strategic direction and any significant issues that arise. The Board also receives such other reports as are necessary to perform its monitoring function. However, HBRIC Ltd does not involve itself in the operational management of the subsidiary companies.

Board appointments

All directors of subsidiary companies (and associate companies, if any) are selected through an open, professionally managed process, for their appropriate relevant expertise and aptitude in accordance with Council's Appointments Policy, and approved by Council. A different process applies for Napier Port in accordance with NZX guidelines.

Financial results

Directors receive and review HBRIC parent company financial and other reports regularly, and provide formal group and parent company financial statements to the shareholder twice annually – for the half year to 31 December and for the year ended 30 June.

Joint Ventures

Joint ventures not established as company entities will adhere to the reporting requirements specified for subsidiary companies above.

6. Ratio of Shareholders' Funds to Total Assets¹

The forecast ratio of shareholders' funds to total assets, and capital structure for the next three years is:

Table 1

Parent Company	Opening 19/20	20/21	21/22	22/23
Shareholder's funds/total assets	>90%	>90%	>90%	>90%
Net debt (\$000)	Nil	Nil	Nil	Nil
Shareholders' funds (\$000)*	347,000	347,000	347,000	347,000

7. Performance Targets and Measures

Financial

The key performance targets of HBRIC Ltd are to achieve or better the financial results set out in the tables below.

Table 2

HBRIC Ltd Parent			
PERFORMANCE TARGETS			
Performance Indicator	2020-21 Target	2021-22 Target	2022-23 Target
Net debt to net debt plus Equity	<10%	<10%	<10%
Interest cover (EBIT/Interest Paid)	>3x	>3x	>3x
EBITDA/Total Assets	>3%	>3%	>3%
Return on Shareholders' Funds	>3%	>3%	>3%
Ordinary Dividends	\$6-9m	\$6-9m	\$6-9m
Notes: EBIT = Earnings Before Interest and Tax EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation TBA - to be advised			

¹ Shareholders' funds are defined as the sum of paid up capital, capital reserves and revenue reserves of the parent company. Total assets are defined as the total book value of all assets of the parent company as disclosed in the statement of financial position.

Table 3

Consolidated			
PERFORMANCE TARGETS			
Performance Indicator	2019-20	2020-21	2021-22
	Target	Target	Target
Net debt to net debt plus Equity	<40%	<40%	<40%
Interest cover (EBIT/Interest Paid)	>3x	>3x	>3x
EBITDA/Total Assets	9%	9%	9%
Return on Shareholders' Funds	5%	5%	5%
Notes: EBIT = Earnings Before Interest and Tax EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation			

Distributions to Shareholder

HBRIC Ltd will pay dividends to the shareholder after taking into account its profitability, future investment and cash management requirements. The dividends payable to the shareholder will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993. Dividends are forecast to be paid in two instalments in December and June of each financial year.

In addition, HBRIC Ltd may make distributions of capital reserves and/or repurchase its shares from Council, as agreed between Council and HBRIC Ltd from time to time.

Other Performance Measures

In addition to the financial performance measures, the HBRIC Ltd Board will use the following measures to assess its performance over the 2020-21 financial year.

Governance

Objective	Performance target
1. HBRIC Ltd maintains a strategic direction that is consistent with that of 100% shareholder Hawke's Bay Regional Council (Council).	HBRIC Ltd develops and maintains appropriate communication lines with Council to ensure HBRIC Ltd remains aware of Council's strategic priorities. By 1 March each year (unless otherwise agreed), HBRIC Ltd will submit a draft SoI for the forthcoming year for review and approval by Council.

Objective	Performance target
<p>2. HBRIC Ltd keeps Council informed of all significant matters relating to HBRIC Ltd and its subsidiaries, within the constraints of commercial sensitivity.</p>	<p>HBRIC Ltd submits quarterly written reports to Council in the financial year and presents seminars to Councillors when appropriate (minimum twice per annum).</p> <p>Major matters of urgency are reported to Council at the earliest opportunity.</p>
<p>3. Corporate governance procedures are appropriate, documented and reflect best practice.</p>	<p>The company's policies will be developed and reviewed in accordance with a schedule approved by the Board, and the company will work with and assist Council to ensure that there is alignment between Council and company policies.</p>
<p>4. Directors make an effective contribution to the HBRIC Ltd board, and their conduct is in accordance with generally accepted standards.</p>	<p>The Board will conduct a formal biennial performance evaluation for each HBRIC Ltd director.</p> <p>The Board will review the training needs of individual HBRIC Ltd directors, and ensure training is provided where required.</p>
<p>5. HBRIC Ltd's process for the selection and appointment of directors to the boards of subsidiary and monitored companies is rigorous and impartial.</p>	<p>The process followed for each appointment to a subsidiary or monitored company board is transparent, fully documented and in line with Council's approved policies and procedures.</p>
<p>6. Subsidiary companies complete, on a timely basis, Statements of Intent that meet best practice standards.</p>	<p>HBRIC Ltd will engage with applicable subsidiary companies prior to the SoI round in each year regarding the structure and content of their SoIs.</p> <p>In each year, subsidiary companies submit draft Statements of Intent to HBRIC Ltd in sufficient time for HBRIC Ltd to submit a Final SOI by 30 June</p> <p>HBRIC Ltd will review Statements of Intent and respond to the subsidiaries and make recommendations to Council, including on any material changes that are proposed, within six weeks of receipt.</p>

Objective	Performance target
<p>7. Subsidiary companies that are CCTOs comply with the Local Government Act's requirements that their principal objectives be:</p> <ul style="list-style-type: none"> • achieving the objectives of its shareholders as set out in the SoI; • being a good employer; • exhibiting a sense of social and environmental responsibility; and • conducting their affairs in accordance with sound business practice. 	<p>HBRIC Ltd will review the companies' performance in the context of these statutorily required objectives.</p>

Group strategic, financial and sustainability objectives

Objective	Performance target
<p>1. Subsidiary companies adopt strategies that are compatible with the strategic direction of HBRIC Ltd and Council.</p>	<p>HBRIC Ltd will engage with subsidiary companies prior to the 2020/21 SoI round regarding key shareholder strategies and, subsequently, review their SoI's for compatibility with those strategies. There are currently no applicable subsidiaries.</p>
<p>2. Subsidiary companies adopt strategies that contribute to regional growth.</p>	<p>HBRIC Ltd will encourage subsidiary companies to seek opportunities that are both commercially sound and are capable of enhancing regional growth, and actively engage them with regard to specific opportunities that may arise.</p>

Parent company financial objectives

Objective	Performance target
<p>1. HBRIC Ltd financial and distribution performance meets the shareholder's expectations.</p>	<p>HBRIC Ltd pays a dividend for the 2020 financial year that meets or exceeds the forecast dividend, and achieves the other budgeted key performance measures set out in section 7.</p>
<p>2. HBRIC Ltd's investments provide an appropriate return in relation to their business risk, and against external benchmarks.</p>	<p>HBRIC Ltd will periodically review the performance of subsidiary companies and other investments against external benchmarks, and assess the value of the investment in the individual company in relation to its inherent business risk and community benefits.</p>

8. HBRIC Ltd to be Periodically Valued

Council and HBRIC Ltd undertook an independent assessment of the market value of the HBRIC Ltd group as at 30 June 2019, valuations will be done thereafter on 30 June at three yearly intervals.

HBRIC Ltd will monitor its own market value at 30 June in each financial year by undertaking an internal assessment of its ongoing capital value (including valuation of subsidiaries and associates). This will be used to assist management of capital, debt and revenue and expenditure streams to achieve the returns set out in Section 7 of this Statement of Intent.

9. Reporting and Information to be Provided by HBRIC Ltd

Statutory information requirements

The company will provide an annual Statement of Intent in accordance with Section 64(1) of the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholder.

HBRIC Ltd will submit an annual report to the shareholder. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period, and to comply with the requirements of the Companies Act and Financial Reporting Act.

The company will also prepare unaudited interim group and parent company financial statements to 31 December, and a review of the period, that comply with NZ IAS 34 "Interim Financial Reporting" by 28 February in each financial year.

Other information to meet the needs of Council

The company will provide regular reports to Council on its activities and the results of its subsidiary companies. It will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the fullest extent possible in the context of commercial sensitivity and confidentiality agreements.

10. Acquisition/Divestment Policy

HBRIC Ltd will comply with Council's Investment Policy as set out in the Long Term Plan 2018-28 for acquisitions and divestments.

HBRIC Ltd will periodically review its investments to ensure that continued ownership represents the best option for HBRIC Ltd and Council, and will consult with Council prior to any divestment or major restructuring of a subsidiary company.

11. Activities for Which Compensation is Sought From Any Local Authority

Currently there are no activities for which compensation will be sought from any local authority.

12. Commercial Value of Shareholder's Investment

The Council's investment in HBRIC Ltd as at 30 June 2019 was independently valued at \$340 million.

13. Accounting Policies

HBRIC Ltd will adopt accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Hawke's Bay Regional Council group.