

Far North Holdings
Limited Board of
Directors
9 Baffin Street
Opuia 0200

Attn: Chairperson Murray McCully CNZM

Dear Murray

LETTER OF EXPECTATIONS

This Letter of Expectations (LOE) is intended to inform Far North Holdings Limited's (FNHL) Board of the Far North District Council (Council), as shareholder, its high level of strategic direction and performance expectations for the finalisation of FNHL's Statement of Intent (SOI) 2024 - 2027.

This LOE outlines Council's **general expectations** of FNHL in relation to matters which are unlikely to change from year to year, such as governance, accountability and transparency principles. General expectations include enduring expectations, which are set out in **Appendix A**.

This LOE also sets out Council's **specific expectations** in relation to matters that are consistent with and important to the shareholder's long term plan, strategies and policies.

In clarifying our expectations early, we expect that the passage of the SOI through to acceptance by Council will be more efficient and effective.

1. General Expectations

1.1 Concise SOI with meaningful performance measures

As a Council Controlled Trading Organisation (CCTO), FNHL is accountable to the Council, which agrees to objectives and targets as well as monitors the performance of the CCTO. The Council, in turn, is accountable to ratepayers and residents for the performance of CCTOs.

Your 2024-2027 SOI must record and enable proper accountability and direction of FNHL.

I expect your SOI to be concise and informative. This will enable the Council and the public to clearly understand your proposed activities, any proposed changes, and the proposed benefit and financial impact of your activities on the district and its ratepayers.

I expect you to work with Council to ensure your SOI includes clear, meaningful performance measures that should provide useful information, measure what matters and be objectively quantifiable wherever possible.

1.2 Be more transparent and accountable

The shareholder Council operates under a philosophy of transparency, disclosure of performance information and no surprises.

I expect FNHL and its subsidiaries of the FNHL Entity group to be similarly transparent in their approach to working with each other, Council and the Far North community.

I expect transparency and disclosure to be achieved by FNHL through a continuous disclosure regime including but not limited to:

- (a) *Draft SOI* – thank you for providing Council with a draft SOI. The draft SOI will be reviewed with feedback provided by 1 May 2024. The SOI is to follow the Office of the Auditor General's guidelines on Statements of Corporate Intent - Statements of corporate intent: Legislative compliance and performance reporting (oag.parliament.nz) and to include strategic issues setting out the key strategic issues facing the CCTO.
- (b) *Continuous Disclosure* - making timely disclosures to Council, in both regular governance meetings with Council or as may be requested from time to time by Council.
- (c) *Foster and maintain frank communication and no surprises policy* – fostering and maintaining an open and candid relationship with Council. The Mayor, Councillors, and the Council's Chief Executive must receive timely, meaningful and candid information about the activities of FNHL, especially any matters that are potentially contentious or of high public interest. This includes frankly identifying options and risks and reporting more granular information for specific items as requested.
- (d) *Sound operational decisions* - making operational decisions that are aligned with the Council's expectations and strategic directions.

Prudent, effective and efficient use of resources - delivering services in a way that displays prudent use of resources and assets and provides value for money for the ratepayers of the district. Follow the procurement principles outlined in the Office of the Auditor General's guidelines on procurement (oag.parliament.nz)

- (e) *Governance* – complying with the Council's Appointment and Remuneration of Directors for Council Organisation policy¹. It is imperative that directors act in the best interests of the CCTO, avoid conflicts of interest and observe Director's duties set out in Part 8 of the *Companies Act* 1983.
- (f) *Local Government Official Information and Meetings Act 1987 (LGOIMA) requests* – advising the Council when requests under the LGOIMA are received and providing Council with a copy of the response².

Council's Chief Executive and/or Te Miromiro – Assurance, Risk and Finance Committee will monitor FNHL and report to Council, on compliance with the above requirements on a quarterly basis. To further foster the connection and collaboration with senior management, key FNHL management team will also attend Council senior leadership team meetings on a quarterly basis coinciding with FNHL quarterly report to shareholder.

¹ Appointment and Remuneration of Directors for Council Organisations policy # 2117 issued 19 June 2003 and updated July 2021.

² Council keeps a central register of all LGOIMA requests and has specialist staff who can assist and advise on such matters.

2. Specific Expectations for 2024-2027

For FNHL's 2024 – 2027 SOI, the Council has the following specific expectations:

1. *Governance structure* – Council intends to conduct a governance review in 2024, of which FNHL input and involvement will be sort.
2. *Board Remuneration* – in consultation with the Council and prior to appointment of any new directors to the Board, FNHL Entity group must review its directors' remuneration. Remuneration set must be fair and reasonable and must reflect the following factors:
 - (a) The need to attract and retain appropriately qualified directors;
 - (b) The levels of remuneration paid to comparable companies in Aotearoa New Zealand;
 - (c) The performance of the CCTO and any changes in the nature of its business;
 - (d) The size and scale of the CCTO (e.g. turnover, value of assets, number of employees);
 - (e) Complexity and scope of operations (e.g. complexity of issues, level of guidance for decision making, relationship management responsibilities);
 - (f) Accountability (e.g. scale of market risk, public interest and profile, potential risk to director reputation, and other key risks);
 - (g) Skills, specifically the type of expertise and specialisation needed; and
 - (h) Any other relevant factors.
3. Where a director sits on multiple boards of the FNHL Group entity, his or her salary should be discussed and consulted on with Council. Furthermore, Council intends to conduct a governance review in 2024 which should provide further guidance in this regard.
4. The final decision on directors' remuneration will be subject to the approval of Council.
5. *Board Succession* – FNHL must develop a succession plan to manage its future needs and to enable the CCTO to refresh its leaders and continue meeting the challenges of a constantly changing business environment. The plan must be submitted to Council for review and approval. This succession plan should be updated with changes in FNHL governance structure.
6. *Regular governance meetings* – FNHL must attend regular meetings with the Council to allow comprehensive oversight by the Council of FNHL's performance and governance³. This is best achieved via quarterly attendance and presentation to Te Miromiro – Assurance, Risk and Finance Committee, and additional meetings held as required (Governance to Governance meetings and Council Workshops).
7. *Business Plan* – FNHL must provide the Council with a three-to-five year business plan that identifies capital projects, capital expenditure and asset management intentions for the period 2024-2027.
8. *Finance and Debt* – FNHL to keep Council informed of financing activities, for refinancing and new debt, which is to be included in the quarterly report to shareholder.

³ Governance meetings will be scheduled by Council's CE's Office. FNHL must provide an agenda to the CE's Office 5 days in advance of any meeting which aligns with the expectations set out in this LOE and where appropriate includes current management accounts, debt, and debt forecast, and an update on all of FNHL's ongoing capital projects.

9. *Asset and Risk management* – FNHL should explain how core assets may feature in or impact financial forecasts, and set out how FNHL is managing risks and what those risks are. Key risks should be reported in the quarterly report to shareholders, with actions, controls and mitigations being noted for how FNHL is managing those key risks. Council should be advised with out delay of new material risks to observe the no surprises principle.
10. *Sustainability* - FNHL must provide a ‘road map’ outlining how it will contribute to a reduction in carbon emissions, improve waste minimisation and climate change impacts by 30 June 2024. The ‘road map’ is to be informed by and be consistent with Council’s Climate Action Policy adopted 11 December 2023. Once established, reporting against this ‘road map’ will form part of FNHL’s Annual Report.

Yours faithfully,

Moko Tepania

Mayor FNDC

Appendix A: Enduring Expectations of FNHL

1. Statement of Intent

FNHL's SOI must:

- include a complete set of high level prospective financial statements for the three-year period 2024-2027 ie. Statement of Comprehensive Income, Statement of Financial Position and Cashflow Statements.
- disclose measures such as ratio of shareholders' funds to total assets, return on investment, growth in shareholder value.
- must fully comply with Schedule 8 of the Local Government Act 2002 (LGA).
- disclose dividends along with the dividend pay-out policies. Where dividends are not being paid in accordance with the Dividend Return performance measure, then an explanation should be provided with details of why this has not been achieved.
- should use the same information for both managing the business and reporting through to the shareholder - i.e. the information used for setting and reporting against them for the SOI should overlap and be a subset of the information used for internal reporting.
- be in a plain style, concise, relevant, accessible and focused on meeting the needs of the Council and the community they represent, as should all reports prepared by FNHL. The use of graphs, tables and charts is expected to convey both financial and non-financial information along with trends (past, current and future numbers).
- must disclose the performance story for FNHL, providing a clear and succinct understanding of the purpose, the goods and services it delivers and what success looks like. The main aspects of the SOI performance story are:
 - Strategic context
 - Specifying and presentation of the investment's objective and relevance to Council's objectives, and the impact on the four aspects of well-being (Social, Economic, Environmental and Cultural) identified in the purpose of local government in LGA 2002.
 - Main measures and targets, outcomes and objectives
 - Linking the strategy outputs and performance measures together to provide a comprehensive view of the Board's vision.

2. Communication

Communication is more than formal reporting. It means two-way dialogue and a commitment to sharing strategic priorities and objectives and ensuring the **'no surprises'** approach is effective.

It also means responding promptly and appropriately on issues raised. Council's expectations around regular reporting include:

- Reporting and governance meetings between FNHL's Board and the Council as set out in Specific Expectations above to allow progress against agreed outcomes to be measured as per the SOI.
- Informal briefings convened every two months, hosted by the Board and attended by elected members to support governance relationships.

- Other engagement at an operational level as required, to support financial and non-financial reporting obligations under the LGA, the Financial Markets Conduct Act 2013 and any other relevant legislation or regulation.

3. Health and Safety

- It is appropriate for the Council to set out its expectations in relation to compliance with Health and Safety by CCTOs. The Health and Safety at Work Act 2015 (the Act) states that under section 44(3) of the Act elected members do not have a duty to exercise due diligence to ensure that any CCO complies with its duties or obligations under the Act unless that member is also an officer of that CCO.

However, as a shareholder it is still appropriate for Council to set out expectations around Health and Safety management. Council expects the FNHL Board to adopt an appropriate Health and Safety policy, understand the nature of risks/hazards within the business, monitor performance and activities to ensure risk is being managed and review health and safety systems and performance.

Council expects FNHL to have an up-to-date Health and Safety management program, which should be reviewed and monitored regularly.

4. Governance Performance

To aid Council when making decisions on Board remuneration and appointments, the FNHL Board should undertake evaluation of its own performance at least once every two years.

- The Chair of the Board should reference this evaluation when making recommendations on the setting of remuneration.

5. Community consultation and engagement

FNHL must consider, accommodate, and encourage positive relationships:

- with Māori, having regard to the culture and traditions with their ancestral land, water, sites of significance, wāhi tapu, valued flora and fauna, and other taonga.
- with the wider community.

All decisions by FNHL must take the interests of Māori and the wider community into consideration and where appropriate undertake consultation and engagement to assist in identifying the nature of those interests⁴.

⁴ Council expects FNHL to develop and publish a formal Community Engagement Policy that outlines when and how FNHL will undertake both formal consultation and other engagement on matters of interest to the community.