

16 April 2025

Board of Directors
c/o Far North Holdings Limited
Ngawha Innovation & Enterprise Park
5449A State Highway 12
Kaikohe, 0472

Attn: Chairperson Murray McCully CNZM

Tēnā koe Murray,

LETTER OF EXPECTATIONS

This Letter of Expectations (LOE) is intended to inform the Far North Holdings Limited's (FNHL) Board of the Far North District Council's ("the Council"), as shareholder, high level strategic direction and performance expectations for the finalisation of FNHL's draft 2025 - 2028 Statement of Intent (SOI).

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.

This LOE outlines Council's **general and enduring expectations** of FNHL in relation to strategic direction, governance, accountability and transparency.

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

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

General and Enduring Expectations

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.

Statement of Intent

FNHL's 2025–2028 SOI must record and enable proper accountability and direction of FNHL. We expect the SOI to be **concise, relevant, and informative**, enabling the Council and the public to clearly understand proposed activities, any proposed changes, and the intended benefits and financial impacts on the district. It must:

- Include complete prospective financial statements (Statement of Comprehensive Income, Statement of Financial Position, and Cashflow Statements).

- Disclose financial ratios (e.g., shareholder funds to total assets, return on investment, shareholder value growth).
- Fully comply with Schedule 8 of the Local Government Act 2002 (LGA).
- Clearly state dividend policies, and if targets aren't met, explain reasons clearly.
- Ensure SOI reporting aligns with internal reporting data.
- Communicate information in a concise, clear, and accessible style, using graphs, tables, and charts to clearly present financial and non-financial trends, so it is easily understandable for the intended audience, including Council, stakeholders, and the wider community.
- Present a clear, succinct narrative of FNHL's 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.
- Include year-on-year comparisons with tracked changes for easy Council review.

Communication

Effective communication requires two-way dialogue and commitment to transparency, adhering strictly to the no surprises principle. Specifically, FNHL must:

- Report to and attend governance meetings between FNHL's Board and the Council as set out in Specific Expectations below 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 and community board chairs 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.

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 CCTO complies with its duties or obligations under the Act unless that member is also an officer of that CCTO. Council expects FNHL to have an up-to-date Health, Safety and Wellbeing management program, which should be reviewed and monitored regularly.

Best practice governance

FNHL is expected to maintain high standards of governance, ensuring transparency, accountability, and ethical leadership, including but not limited to adherence to legislative and regulatory requirements, transparency and public accountability and effective board oversight.

Partnership with Māori and Te Tiriti o Waitangi

FNHL must ensure meaningful and ongoing engagement with iwi, hapū, and Māori organisations and uphold partnership, participation, and protection principles in decision-making and operations.

- 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.
- 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 interests¹.

We expect you to work with Council to ensure your SOI includes clear, meaningful performance measures in line with Council's Te Pae o Uta framework that should provide useful information, measure what matters and be objectively quantifiable wherever possible.

Transparency and accountability with a No Surprises Approach

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

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

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

- a) *Continuous Disclosure* - making timely disclosures to Council, in both regular governance meetings with Council, through informal briefings which Councillors and Community Board Chairs can attend or as may be requested from time to time by Council.
- b) *Foster and maintain frank communication and no surprises policy* – fostering and maintaining an open and candid relationship with Council. The Mayor, Councillors, Community Board Chairs 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.
- c) *Sound operational decisions* - making operational decisions that are aligned with the Council's expectations, strategic directions and policies.
- d) *Early engagement on material risks* – FNHL will engage with Council early should it become aware of any material risks that may impact on operations, investment outcomes, dividends or be of concern to the community.
- e) *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)
- f) *Governance* – complying with the Council's Appointment and Remuneration of Directors for Council Organisation policy². 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*.

¹ 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.

² Appointment and Remuneration of Directors for Council Organisations policy # 2117 issued 19 June 2003 and updated July 2021.

- g) *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 response³.

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 the Council.

Specific Expectations for 2025 - 2028

For FNHL's 2025 - 2028 SOI, the Council has the following specific expectations:

Strategic alignment

1. Strategic Alignment – Over the past year, there have been advancements in strategic alignment between FNHL and FNDC, including governance relationships, funding arrangements, and collaboration on key projects. The Council expects FNHL to continue improving this strategic alignment and provide a comprehensive review of its strategy to Council Staff to identify opportunities for further alignment moving forward.
2. Strategic Assets – FNHL must annually confirm with FNDC the assets it considers strategic and requiring approval from Council prior to disposal. Additionally, it must consider the requirements outlined in the Council's Significance and Engagement Policy before consulting on and making changes in asset classification.

Financial management

3. Enhanced Transparency and Reporting – FNHL must continue to improve the transparency of reporting, ensuring financial, risk, and operational disclosures are timely, informative, and aligned with sector best practices. This includes, but is not limited to, separate reporting of strategic and commercial assets.
4. 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 the Council.
5. Capital Model - The Council expects FNHL to review its capital model and propose future-focused solutions to the Council. FNHL should seek diverse funding sources to support housing and development projects, avoiding delays due to limited or traditional funding.
6. Financial compliance – FNHL has transitioned its borrowing facilities to the Local Government Funding Agency (LGFA), which has lower borrowing compliance criteria compared to the previous commercial lending arrangement. FNHL must develop appropriate financial metrics (for example "debt covenants") as a KPI to ensure high commercial credit standards are maintained. These may allow for flexibility where for example, an agreed project funding causes a breach of the financial metrics for an anticipated finite period of time. Exceptions or negative variations to the financial metrics would be subject to agreement from the Council.

Dividend policy

7. FNHL is to review its dividend policy annually for appropriateness, considering timing, calculation of distributable income, and retention amounts. Feedback on the appropriateness of the measure is to be included in the Statement of Intent.

³ Council keeps a central register of all LGOIMA requests and has specialist staff who can assist and advise on such matters.

8. Where dividends are not expected to be paid in accordance with the Dividend Return performance measure, then a detailed explanation to be provided to Council why this will not be achieved.

Governance and the board

9. Governance and Board Effectiveness – FNHL must undertake a biennial board skills assessment and ensure alignment with current and future strategic goals.
10. Board Succession – FNHL must develop and maintain 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.
11. Group Board Appointments – All board appointments for entities within the group must be made by the Council's Appointment Committee and approved by Council.
12. Financial and Asset Management Transparency – FNHL must provide a three-to-five-year Strategic Business Plan that outlines forecast income and expenditure, capital and treasury forecasts, demonstrating prudent resource use.
13. 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.
14. The final decision on directors' remuneration will be subject to the approval of Council.
 - a) 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.
 - b) The Chair of the Board should reference this evaluation when making recommendations on the setting of remuneration.
 - c) Where a director sits on multiple boards of the FNHL Group entity, his or her salary should be discussed and consulted on with Council.

Regular governance meetings – FNHL must attend regular meetings with the Council to allow comprehensive oversight by the Council of FNHL's performance and governance⁴. This is best achieved via quarterly attendance and presentation to Te Miromiro – Assurance, Risk and Finance

⁴ 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 reports, debt, and debt forecast, and an update on all of FNHL's ongoing capital projects.

Committee, and additional meetings held as required (Governance to Governance meetings and Council Workshops).

Executive Appointments & Remuneration

15. FNHL Governance should keep Council abreast of any hiring plans/appointments of Senior Executives and incorporate Council's feedback on any key appointments. Where possible, future anticipated senior staffing levels should be forecast in the Strategic Business Plan
16. FNHL should provide Council with remuneration policy for senior FNHL executives and any changes to those policies as they occur.

Business and operations

17. Alignment with Council Policies – FNHL must integrate Council's policies into its business practices and decision-making, reporting on these initiatives as KPIs, including but not limited to Te Pai o Uta framework, Significance & Engagement policy, Health, Safety and Wellbeing policy and Climate Action policy.
18. Shared services and collaboration – FNHL is expected to work collaboratively with the Council to improve operational efficiency and ensure the prudent use of resources. This includes but is not limited to shared tools and systems, and access to corporate support services. The Council expects FNHL to provide a proposal plan to FNDC at its first quarterly governance to governance meeting with Council.

Nāku iti nei,

A handwritten signature in black ink, appearing to read 'Moko Tepania'.

Moko Tepania

Kahika Te Kaunihera o Te Hiku o te Ika

Mayor Far North District Council