



Meeting of the Hawke's Bay Regional Council

Date: 29 March 2023
Time: 1.30pm
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Attachments Excluded From Agenda

Item	Title	Page
8.	HBRIC Ltd and FoodEast 2023-2024 draft Statements of Intent and Quarterly update	
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FOODEAST LIMITED PARTNERSHIP

Statement of Intent for the Financial Year ending 30 June 2024

6 March 2023 [FIRST DRAFT]

COMPANY DIRECTORY

FOODEAST LIMITED PARTNERSHIP
111 Avenue Rd East, Hastings 4156
06 873 8037
www.foodeast.co.nz

DIRECTORS

Mr. Craig Foss (Chairperson)
Mr. Tony Gray

REGISTERED OFFICE

Willis Legal
64 Dickens Street, Napier 4110

BANKERS

Westpac New Zealand Ltd

AUDITORS

Ernst & Young
100 Willis Street, Wellington 6011

LEGAL STATUS

Foodeast Limited Partnership ("foodeast") was incorporated in New Zealand on 2 July 2021 under the Limited Partnerships Act 2008 (NZBN 9429049450736). As the Limited Partners of foodeast are Hastings District Council (16.64%), Hawke's Bay Regional Council Investment Company (66.72%) and Progressive Meats Limited (16.64%), foodeast is a Council Controlled Organisation as defined in section 6 of the Local Government Act 2002.

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1. PURPOSE OF THE STATEMENT OF INTENT

This Statement of Intent (SOI) is presented by Foodeast Limited Partnership (operating as foodeast haumako) in accordance with Section 64(1) of the Local Government Act 2002.

The SOI specifies for foodeast haumako 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 Limited Partnership and its Limited Partners.

The SOI is reviewed annually by the Limited Partners, being the Hastings District Council, Hawke's Bay Regional Investment Company Ltd (HBRIC) wholly owned by Hawke's Bay Regional Council and Progressive Meats Limited, and covers a three-year period.

[paragraph re impact of covid-19 removed]

2. INTRODUCTION

Foodeast haumako is a council-controlled trading organisation (CCTO) for the purposes of the Local Government Act 2002. It is owned by Hastings District Council (16.64%), Hawke's Bay Regional Council Investment Company (66.72%) and Progressive Meats Limited (16.64%).

The Foodeast Limited Partnership was incorporated with the Companies Office in July 2021. Full operations are expected to coincide with the completion of the construction of the building in 2023.

Once completed, foodeast haumako will be a purpose-built food and beverage innovation facility located in the Tomoana Food Hub of Hawke's Bay. It will take the lead from the Hasting's District Council's brand campaign "*great things grow here*" to bring smart thinkers and innovative companies together under one roof from across New Zealand's food processing value chain.

3. VISION

The vision is that foodeast haumako will construct and operate business-park facility focussed on clustering food, beverage, agritech, horticulture and related activities and engineering services businesses together in a shared real-estate space to build industry capability as well as maximise opportunities for innovation ideas to cross-pollinate between the businesses. The business park facility will be a hub of focus for food innovation in the region.

To achieve this vision foodeast haumako must work in partnership with our Limited Partners, central government, local iwi, private industry, and other regional stakeholders - it cannot be achieved alone.

4. STRATEGIC OBJECTIVES

The principal objectives of foodeast haumako are to achieve:

FOODEAST LIMITED PARTNERSHIP
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- (a) the objectives of the Limited Partners, both commercial and non-commercial as specified from time to time in the Statement of Intent and, in particular, to drive and facilitate the creation and growth of the food and beverage sector in Hawke's Bay and beyond; and
- (b) to exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which the facilities operate and by endeavouring to accommodate or encourage these whenever it is reasonably able to do so.

5. PURPOSE

To construct and operate a food innovation hub to create 500+ jobs and add over NZ\$100 million to the Gross Domestic Product (GDP) of the Hawke's Bay region over 10 years, while making a commercial return consistent with the requirements of the Limited Partners as outlined in Foodeast's Limited Partnership Agreement.

6. NATURE AND SCOPE OF ACTIVITIES UNDERTAKEN

The physical facilities of foodeast haumako will consist of a food innovation centre modelled on the existing Waikato Innovation Park and supported with sector-specific soft services focussed on Māori economic development, and commercialisation services.

The food innovation hub will promote more cost-effective food and beverage product innovation, and a centre of excellence in food processing education and engineering services.

It will provide a base for clustering food technology firms and improve cooperation and bring scientific and technical expertise. In time, it is also expected to expand its centre of excellence role to integrating research activity around waste product, and co-ordination of regional effort on sustainable packaging and resource allocation.

7. CORPORATE STRUCTURE AND GOVERNANCE

The Board of up to six (currently two) Directors is responsible for the strategic direction and control of foodeast haumako's activities.

The Board of Directors guides and monitors the business and affairs of foodeast haumako, in accordance with the Companies Act 1993, the Local Government Act 2002, the Company's Constitution and this Statement of Intent.

The Board of Directors' approach to governance is to adopt "good practice" with respect to:

- the operation and performance of the Board
- managing relationships
- being accountable to all Limited Partners and reporting to them on a quarterly basis.

8. PERFORMANCE MEASURES AND TARGETS

FoodEast haumako's performance measure framework identifies quantifiable measures of our programmes and activities aligned to our key strategic outcomes. These form the basis of our accountability and will be reported on every three (3) months. The prime focus of 2023/24 will be on the construction of the food innovation hub. *[Last SOI stated this would be prime focus of 2022/2023]*

Table 1. Summary Performance Targets, FY2024 to FY2026 inclusive.

Service Level Statement	Performance Measure	Status
Conclude re-design, consenting and pre-construction activities	Within third quarter FY2023	Completed
Construction of the food innovation hub.	Construction of the facility commences by the third quarter FY2023 Construction complete and first tenants in place by third quarter FY2024.	Completed On track
Operate as a successful business delivering sustainable profitability and growth in net asset value.	See Table 2 – Financial Performance Targets	On track
Board with Industry experience in place	In place by the fourth quarter of FY2023	In progress
Appropriate resources in place to deliver the business plan	CEO / GM in place by first quarter of FY2024	On track
Achieve long term commercial returns (including capital gains) of at least 6%	Commercial returns realised	On track

[The 4th statement above is new, the other statements are unchanged but with status included now.]

9. FINANCIAL PERFORMANCE TARGETS

Financial performance indicators below are indicative, and will be finalised following completion of the budget process.

Table 2. Summary of Financial Performance Indicators, FY2024 to FY2026 inclusive.

Measure	2023/24*	2024/25*	2025/26*
EBITDA	(622,955)	(413,769)	(315,392)
Last SOI	(588,848)	(394,990)	n/a

10. RATIO OF NET ASSETS TO TOTAL ASSETS

The forecast capital structure and ratio of net assets to total assets for the next three (3) financial years are illustrated in the following table.

Table 3. Net Assets to Total Assets, FY2024 to FY2026 inclusive.

Measure	2023/24*	2024/25*	2025/26*
Total Assets	4,332,264	5,381,143	6,567,438
Last SOI	2,068,432	5,116,139	n/a
Total Net Assets	4,257,806	5,291,562	6,476,706
Last SOI	2,038,531	5,069,856	n/a
Ratio	98%	98%	99%
Last SOI	99%	99%	n/a

* Movement of net assets from 2023/24 to 2024/25 is reflective of revaluation of assets to assumed market value.

11. ACQUISITIONS & DIVESTMENTS POLICY

The acquisition of any interest in a company or organisation will only be considered when it is consistent with the long-term social and commercial objectives of foodeast haumako.

Any material acquisition or divestment will be the subject of consultation with Limited Partners.

Major transactions as defined by the Companies Act 1993 will require limited partner approval.

12. LIMITED PARTNER REQUIREMENTS

12.1. Letter of Expectations

At the beginning of each new calendar year the Limited Partners will deliver to foodeast haumako a Letter of Expectations. The Letter of Expectations provides direction on issues that are important to the Limited Partners, and to assist in the development of foodeast haumako's next SOI. We have not received any letters of expectations from the Limited Partners this calendar year.

12.2. Statement of Intent

By 1 March in each year foodeast haumako will deliver to Limited Partners its draft SOI for the following year in the form required by Clause 9(1) of Schedule 8 and Section 64(1) of the Local Government Act 2002.

Having considered any comments received from its Limited Partners received by 30 April, the Board will deliver the completed SOI to its Limited Partners on or before 15 June each year.

12.3. Half Yearly Report

By the end of February each year, foodeast haumako will provide to Limited Partners its Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Director's commentary on operations for the relevant six-month period

- Un-audited half-yearly Financial Statements incorporating a Statement of Financial Performance, Statement of Financial Position, Statement of Changes in Equity and Statement of Cashflows.
- Comparison of foodeast haumako's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.

12.4. Annual Report

By 30 September each year, foodeast haumako will provide to its Limited Partners an Annual Report complying with Sections 67, 68 and 69 of the Local Government Act 2002 and the Companies Act.

The Annual Report will contain the information necessary to enable an informed assessment of the operations of the company, and will include the following information:

- Directors' Report
- Financial Statements incorporating a Statement of Financial Performance, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts
- Comparison of foodeast haumako's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances
- Auditor's Report on the financial statements and the performance targets
- Any other information that the directors consider appropriate

12.5. Limited Partner Meetings

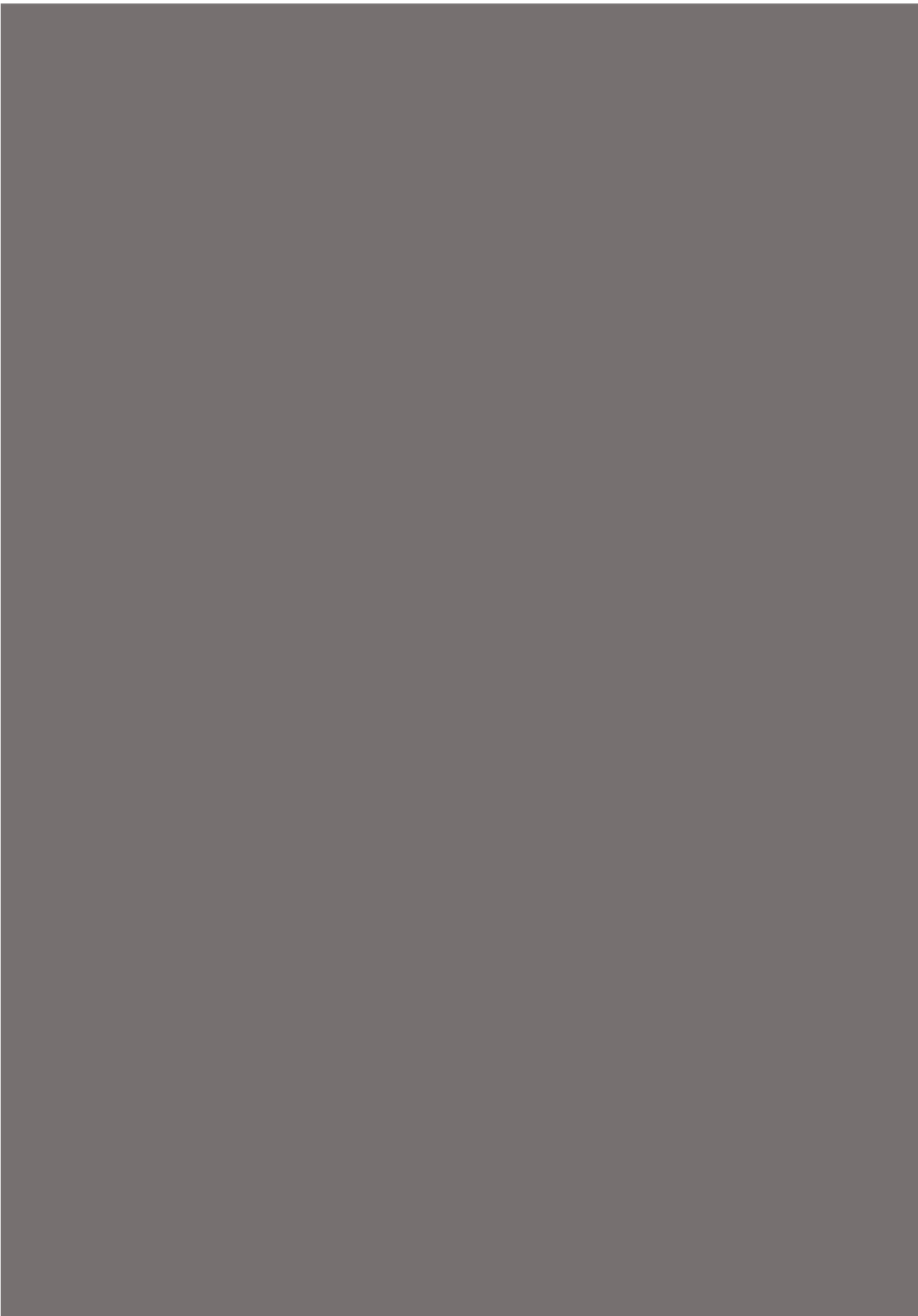
Foodeast haumako will hold an Annual General Meeting (AGM) between 30 September and 30 November each year to present the Annual Report to all Limited Partners unless it is agreed between foodeast haumako and the Limited Partners that the business of the AGM will be done by resolution in writing.

13. ESTIMATE OF COMMERCIAL VALUE

The value of Limited Partners' investment in the company as of 31 May 2023 is \$XXX. **31 March 2022**
\$2,579,291.

Foodeast haumako will undertake a revaluation approach to its assets on a regular cycle or when there has been significant change in the market.

Craig Foss
Chairman
Foodeast General Partnership
6 March 2023



ACCOUNTING POLICY & NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Foodeast Limited Partnership ("foodeast") was established and commenced operations in New Zealand on 2 July 2021 under the Limited Partnerships Act 2008 (NZBN 9429049450736). As the Limited Partners of foodeast are Hastings District Council (16.64%), and Hawke's Bay Regional Council Investment Company (66.72%), foodeast is a council-controlled organisation as defined in section 6 of the Local Government Act 2002.

Foodeast has designated itself as a public benefit entity (PBE) for financial reporting purposes.

2. Statement of Accounting Policies Basis of Preparation

The financial statements are prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period, unless otherwise stated.

Statement of Compliance

The financial statements of foodeast have been prepared in accordance with the requirements of the Local Government Act 2002, the Limited Partnerships Act 2008, and the Financial Reporting Act 2013. This includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements comply with Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) Reduced Disclosure Regime (RDR). Foodeast is eligible and has elected to report in accordance with Tier 2 PBE standards RDR on the basis the entity has no public accountability and has expenses > \$2m and < \$30m.

Presentation Currency

The financial statements are presented in New Zealand dollars (NZ\$) and all values are rounded to the nearest New Zealand dollar (NZ\$), except when otherwise indicated.

Historical Cost

These financial statements have been prepared on a historical cost basis.

Changes in Accounting Policies

There have been no changes in accounting policies. Policies have been applied on a consistent basis with those of the previous reporting period.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, excluding goods and services tax rebates and discounts, to the extent it is probable that the economic benefits will flow to the entity and revenue can be reliably measured. Specific accounting policies for significant revenue items are explained below:

- Sales of goods are recognised when the goods are sold to the customer.
- Sales of services are recognised in the period by reference to the stage of completion of the services delivered at balance date as a percentage of the total services to be provided.

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- Lease revenue is recognised on a straight-line basis over the life of the lease.
- Interest received is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest method.
- Grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.
- Donated assets. Where a physical asset is gifted to or acquired by foodeast for nil consideration or at a subsidised cost, the asset is recognised at fair value. The difference between the consideration provided and fair value of the asset is recognised as revenue. The fair value of donated assets is determined as follows:
 - For new assets, fair value is usually determined by reference to the retail price of the same or similar assets at the time the asset was received.
 - For used assets, fair value is usually determined by reference to market information for assets of a similar type, condition, and age.

Inventories

Inventories held for use in the provision of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus (deficit) in the period of the write-down.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less any accumulated depreciation and impairment losses. Historical cost includes expenditure directly attributable to the acquisition of assets and includes the cost of replacements that are eligible for capitalisation when these are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Depreciation

Account	Method	Rate
Leasehold Improvements	Diminishing Value	10%- 40%
Office Furniture & Equipment	Diminishing Value	0% -67%
Office Furniture & Equipment	Straight Line	10.5%
Plant & Equipment	Diminishing Value	10%-20%
Vehicles	Diminishing Value	30%
Websites	Straight Line	40%

From 1 July 2018 all Office Furniture and Equipment purchases (excluding computer/IT equipment) has been depreciated using the straight-line method of depreciation to better represent the reduction of the value of these assets over their useful life. This change will apply to all purchases of Office Equipment and Furniture (excluding Computer equipment) in future accounting periods.

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As this change is a change in accounting estimates, no changes have been made to previously purchased assets in prior financial years, or the depreciate method on these assets in the current or future years.

Income Tax

Income tax expense includes components relating to current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit.

Current tax and deferred tax are measured using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Receivables

Receivables are recorded at their face value, less any provision for impairment.

Impairment of financial assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

Impairment is established when there is evidence foodeast will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter-in bankruptcy, receivership, or liquidation and default in payments are indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectable, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits or bonds are recognised directly against the instrument's carrying amount.

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Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition, they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Payables

Short-term creditors and other payables are recorded at their face value.

Equity

Equity is the Limited Partners' interest in foodeast and is measured as the difference between total assets and total liabilities.

Good and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as operating cash flow in the statement of cashflows.

Commitments and contingencies are disclosed exclusive of GST.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs.'



FOODEAST LIMITED PARTNERSHIP
111 Avenue Rd East, Hastings 4156
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HAWKE'S BAY REGIONAL
INVESTMENT COMPANY LTD

DRAFT Statement of Intent
For the Year Ending 30 June 2024

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1 Introduction

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

The Sol 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 Sol is a public and legally required expression of the accountability relationship between the company and its shareholder, the Hawke's Bay Regional Council (Council or HBRC).

The Sol 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. It is 100% owned by Hawke's Bay Regional Council.

HBRIC Ltd currently owns 55% of shares in Napier Port Holdings Limited (NPHL), an NZX listed entity. As NPHL is a NZX listed entity there is no requirement to produce an Sol.

HBRIC Ltd currently owns 66.72% of shares in FoodEast GP Limited.

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, and a resilient and prosperous community".

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 long term:
 - growth of shareholder value
 - increased financial and strategic returns
 - security and sustainability of investments
- Explore partnership with Tangata Whenua where possible

HBRIC Ltd currently has assets valued at approximately \$376m.

By 2030, the company has an ambition to grow this to exceed \$600m through continued growth in value of existing assets and acquisition and development of new assets.

4 Nature and Scope of Activities to be Undertaken

HBRIC Ltd will:

- Grow assets to broaden its asset base, with a strong preference for productive investments in Hawke's Bay, with the intention of providing a diversified and growing income stream for HBRIC Ltd and in turn Council.
- 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.
- Invest in equity investments providing long term commercial returns and where possible also provide a regional benefit.
- Invest in real assets providing long term commercial returns and where possible also provide a regional benefit.
- 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.
- Advise Council of any material capital expenditure projects by HBRIC Ltd or via its subsidiaries.
- Currently HBRIC Ltd's assets consist of:
 - A 55% share in Napier Port Holdings Limited.
 - Managed funds (partial proceeds from the IPO of Napier Port).
 - A loan to HBRIC in recognition of managed funds sold by HBRIC Ltd to HBRIC (valued at \$16.7m at 31 December 2022).
 - A 66.72% share in Foodeast GP Limited.
- Currently HBRIC Ltd has no debt. Through prudent leveraging (not exceeding 25% debt: debt + equity), the company expects debt to grow to \$100-\$150m over the next decade, with debt supporting continued investment in quality assets which support Council's and HBRIC Ltd's objectives.
- For any borrowing to finance new investments, HBRIC Ltd will where possible seek unsecured debt over secured debt and ensure that any individual investment will not be greater than 10% of total assets. This will support risk diversification and take into consideration that the majority ownership of Napier Port and funds released from the IPO and now held in managed funds are listed strategic assets for Council.

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.

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 Sol sets out HBRIC Ltd's overall objectives, intentions, and financial and performance targets. Having considered any comments on the Sol 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 affect 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 or those where HBRIC Ltd owns less than 50%) 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 other reports as are necessary to perform its monitoring function. HBRIC Ltd however, 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 consultation with Council. Director appointments of Napier Port are done in accordance with NZX guidelines.

Financial results

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

Commented [JB1]: CHANGE from twice annually for 30 June and half year to 31 December. Due to variations in subsidiary balance dates, twice a year is not feasible. Suggest leaving at formal reporting to annually only.

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

Parent Company	21/22	22/23	23/24
Shareholder's funds/total assets	>75%	>75%	>75%
Net debt (\$m)	Up to \$15m	Up to \$20m	Up to \$20m
Shareholders' funds (\$000) *	420,000	450,000	460,000

Commented [JB2]: DISCUSSION POINT
These should be changed to exclude Port Asset values

Commented [JB3]: RECOMMENDATION
Recommend re-assessment post Investment Strategy review and look to adjust to exclude Napier Port values from ratios.

The estimated figures above reflect the 30 June positions of their respective years and take into account changes to asset values due to revaluations. HBRIC Ltd will keep council informed of performance against targets on a timely basis.

¹Shareholders' 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.

7 Performance Targets and Measures

Performance targets relate to the year represented by this Statement of Intent.

Napier Port Portfolio

Objective	Measure
Maintain a majority ownership of the Port of Napier Limited.	Ordinary share holdings of greater than 51%
portfolio sufficient to protect and grow the capital base and contribute towards funding Council's operating costs.	Minimum cash yield >= 2% per annum

Commented [JB4]: RECOMMENDATION
Recommend re-assessment post Investment Strategy review.

Private Equity Investments

Objective	Measure
Invest in structures providing long term commercial returns and where possible provide a regional benefit.	Regular evaluation by the board on the performance of the private equity investments.

Real Asset Portfolio

Objective	Measure
Invest in real assets providing long term commercial returns and where possible provide a regional benefit.	Regular evaluation by the board on the performance of the real asset investments.

Governance

Objective	Measure
1 HBRIC Ltd maintains a strategic direction that aligns with Council's objectives and investment strategy.	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.
2 HBRIC Ltd keeps Council informed of all significant matters relating to HBRIC Ltd and its subsidiaries, within the constraints of commercial sensitivity.	HBRIC Ltd submits 4 x quarterly written reports to Council in the financial year. Major matters of urgency are reported to Council at the earliest opportunity. No transactions of a material nature went unreported to the shareholder during the reporting period.

Commented [JB5]: AUDIT REPORT NOTE
Measure should specify how many reports per year and what is considered a matter of urgency.

Commented [JB6]: WORDING SUGGESTION
'No transactions of a material nature went unreported to the shareholder during the reporting period'

Objective	Measure
3 Corporate governance procedures are appropriate, documented and reflect best practice.	The company's policies will be developed and reviewed annually, 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. including the LTP requirement for appropriate training and performance review of HBRIC Directors.
4 HBRIC Ltd.'s process for the selection and appointment of directors to the boards of subsidiary and monitored companies is rigorous and impartial.	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.
5 Subsidiary companies complete (as appropriate), on a timely basis, Statements of Intent that meet best practice standards.	HBRIC Ltd will engage with applicable subsidiary companies prior to the Sol round in each year regarding the structure and content of their Sol's. In each year, subsidiary companies (as appropriate) submit draft Statements of Intent to HBRIC Ltd in sufficient time for HBRIC Ltd to submit a Final Sol by 30 June. 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.
6 Subsidiary companies that are CCTOs comply with the Local Government Act's requirements that their principal objectives be: <ul style="list-style-type: none"> • achieving the objectives of its shareholders as set out in the Sol. • being a good employer. • exhibiting a sense of social and environmental responsibility; and • conducting their affairs in accordance with sound business practice. 	HBRIC Ltd will review the companies' performance in the context of these statutorily required objectives.

Commented [JB7]: AUDIT REPORT NOTE
Updated wording per audit recommendation (to include 'annually' for all policies reviewed (as that is what we currently do))

Commented [JB8]: AUDIT RECOMMENDATION
Director training and performance review process and having 'specific' measures for this. Came from audit recommendation and CCO Performance measures report (LTP CCO measures).

RECOMMENDATION: to re-assess this post investment strategy review and new director appointment process.

Group Strategic, Financial and Sustainability Objectives

Objective	Measure
1 Subsidiary companies adopt strategies that are compatible with the strategic direction of HBRIC Ltd and Council.	HBRIC Ltd will engage with subsidiary companies prior to the Sol round regarding key shareholder strategies and subsequently review their Sol's for compatibility with those strategies. There are currently no applicable subsidiaries.
2 Subsidiary companies adopt strategies that contribute to regional growth.	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.

Parent company financial objectives

Objective	Measure
1 HBRIC Ltd financial and distribution performance meets the shareholder's expectations.	HBRIC Ltd pays a dividend for the financial year that meets or exceeds the forecast dividend and achieves the other budgeted key performance measures set out in section 7.
2 HBRIC Ltd's investments provide an appropriate return in relation to their business risk, and against external benchmarks.	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.

Distributions to Shareholder

Financial Year	2024	2025	2026
Distribution (\$'000's)	\$8 -11m	\$8 -11m	\$8 -11m

Commented [JB9]: RECOMMENDATION
To review post Investment Strategy Review

HBRIC Ltd will pay dividends to the shareholder after taking into account its profitability, future investment, and cash management requirements. 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.

8 HBRIC Ltd to be Periodically Valued

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 the management of capital, debt, 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.

HBRIC Ltd will provide a half yearly report to the shareholder within two months after the end of the first half of each financial year. The report will provide among other things, an update on the financial performance and investing activities of the company.

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 timely 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 (LTP) 2021-31 (or any successive LTP's) 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 material divestment or major restructuring of a subsidiary company.

11 Activities for Which Compensation is Sought from Any Local Authority

HBRIC Ltd has lent Hawke's Bay Regional Council funds to support the purchase of managed funds from HBRIC Ltd. The loan is interest bearing with Council making scheduled payments to HBRIC Ltd.

12 Commercial Value of Shareholder's Investment

The value of Council's investment in HBRIC Ltd as at 31 December 2022 is \$376 million.

HBRIC Ltd will undertake a revaluation of its assets, including subsidiaries and associates regularly, in line with its accounting policies.

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.

Directory

Postal Address:

Private Bag 6006, Napier 4142

Registered Address:

159 Dalton Street, Napier South, Napier 4110

Board:

Mr Dan Druzianic (Chair)

Cr Will Foley

Cr Neil Kirton

Contact:

Email – comms@hbric.nz