

Auckland Regional Holdings Statement of Intent

**For the period from
1 July 2005 to 30 June 2008**

- **Approved by the ARH Board 21 June 2005**
- **With changes adopted by the ARC on 26 September 2005**

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1. Introduction

This Statement of Intent (SOI) is the second for Auckland Regional Holdings (ARH). It has been prepared within the terms of the Local Government Act 2002 (the principal Act), as amended by the Local Government (Auckland) Amendment Act 2004 (the Act), and the rules established for ARH. It signals how ARH is directly accountable to and ARH will work together to achieve the overall objectives of the ARC group in the best interests of the Auckland region. In terms of the statutory requirement for ARH to take a sustainable development approach, ARH will manage its assets, including its investment in subsidiaries, to extract the optimum commercial value except where this is inconsistent with the ARH statutory framework, regional strategic direction and the policy of the ARC.

The SOI specifies, among other things, the objectives of ARH, the Board's approach to governance of the organisation, the nature and scope of the activities to be undertaken, the performance targets and other measures by which the performance of the organisation may be judged in relation to its objectives, and the financial and other information to be provided to the ARC. This SOI should be read in conjunction with Schedule 8 of the Local Government Act 2002.

All decisions relating to the operation of ARH must be made by, or under the authority of, the Board of ARH in accordance with its SOI, its rules and relevant legislation.

The ARC has the right to vary the SOI by resolution, after consulting the ARH Board and the ARC must provide its reasons for proposing any modification.

This SOI is a public document.

2. Purpose of Statement of Intent

The purpose of this SOI is to:

- (a) State publicly the activities and intentions of ARH and the objectives to which those activities will contribute; and
- (b) Provide a basis for the accountability of the directors of ARH to the ARC for the performance of the organisation and its subsidiaries.

The Local Government Act 2002 requires that the ARC include in its Long Term Council Community Plan the performance targets and other measures by which ARH's performance will be judged. This SOI provides the basis for these targets and measures for the 2005/6 Long Term Council Community Plan. The Annual Reports of ARH and the ARC will also report on ARH's performance against this SOI.

3. Background

Auckland Regional Holdings was established under the Local Government (Auckland) Amendment Act 2004, which came into force on 1 July 2004, as a statutory council controlled organisation accountable to the ARC.

ARH is charged with managing its assets and liabilities prudently and co-operating with the ARC and ARTA to achieve the overall objectives of the ARC, ensuring prudent stewardship and the efficient and effective use of resources, undertaking its commercial activities in accordance with sound business practise and concurrently exhibiting a sustainable development approach in its decision making.

4. Objectives of ARH

Clause 19 (1) of the Act provides that:

1. *The objective of ARH is to -*
 - (a) Act in the long term interests and for the benefit of the Auckland Region;**
 - and**
 - (b) Without limiting paragraph a), manage its assets prudently.**

Clause 19(2) of the Act covers the guiding principles:

- (a) ARH should collaborate and co-operate with ARC and ARTA to achieve the overall objectives of ARC; and
- (b) ARH should undertake any commercial activities in accordance with sound business practice; and
- (c) ARH should ensure prudent stewardship and the efficient and effective use of resources; and
- (d) ARH should exhibit a sustainable development approach in its decision-making by taking into account—
 - (i) the social, economic, and cultural well-being of people and communities; and
 - (ii) the need to maintain and enhance the quality of the environment; and
 - (iii) the reasonably foreseeable needs of future generations; and
- (e) ARH should have clear accountability for the way that it contributes to an integrated, safe, responsive, and sustainable land transport system for the Auckland Region; and
- (f) ARH should be a good employer within the meaning of clause 36 of Schedule 7 of the principal Act; and
- (g) ARH should operate in a financially responsible manner and, for this purpose, ---
 - (i) endeavour to maintain its long-term financial viability; and
 - (ii) prudently manage its assets and liabilities.

Clause 20 of the Act covers the functions of ARH

The functions of ARH are to

- a) own, directly or indirectly, and manage assets (including funds) in the long-term interests of the Auckland Region;*
- b) provide funds to ARC in accordance with ARH's long-term funding plan; prepared under section 21;and*
- c) make land transport assets available to assist Auckland Regional Transport Authority ("ARTA") to achieve ARTA's objective; and*
- d) undertake other functions as are given to it by the Act or any other Act, or are authorised by its statement of intent.*

5. ARH Vision and Mission

ARH's vision is:

“The Auckland Region is internationally recognised for its high-quality living and natural environments and its vibrant and strong communities. The quality of life in the Auckland region is enhanced by sound and sustainable management of key assets and infrastructure.”

This aligns with the ARC vision.

ARH Mission Statement is:

“By bringing the best available expertise to bear upon management of its assets, ARH will contribute to the resources with which the ARC can address regional infrastructure needs. ARH will do so by owning and managing selected regional assets and investments in accordance with sound business practice and sustainable development principles. It will provide funds to the ARC while protecting those assets under its stewardship.”

6. Strategic Issues

The ARH’s current strategic priorities are:

- Prudent management of investments and provision of funds to the ARC in accordance with the Long Term Funding Plan;
- To ensure prudent stewardship of its equity investments and play an appropriate role in assisting with a world class waterfront development, in collaboration with the ARC;
- Maintaining for the medium term land currently owned by ACVL as a facility suitable for America’s cup bases;
- Determining, with the ARC and ARTA , the terms and conditions upon which ARH will make available Regional Passenger Transport (PT) assets to assist ARTA to achieve its purpose; and
- Investigating innovative funding options to assist the ARC Group.

ARH will continue to work closely with the ARC to address these strategic priorities.

7. Statement of the ARH Board’s approach to the Governance of the Group

(a) Introduction

ARH is a statutory entity, being a council controlled organisation accountable to the ARC. It was established to assist the ARC to fulfil its responsibilities and must act in the long-term interests of the Auckland region. This makes ARH a unique organisation with broader objectives than a commercial corporate, and special governance requirements.

The Board of ARH is committed to the highest standards of governance and business behaviour. In developing this statement it has taken into account a range of guiding documents¹. The Board will continue to monitor developments in corporate and public sector governance to ensure ARH implements the highest standards of governance at all times.

In undertaking its current and future activities ARH will exhibit and ensure:

- Sound business practice in its commercial undertakings;

¹ These include the Local Government (Auckland) Amendment Act 2004; Local Government Act 2002; ARH rules; Corporate Governance Best Practice Code issued by the New Zealand Exchange, the Owner’s Expectation Manual issued by the Crown Company Monitoring Unit and Best Practice Statements issued by the New Zealand Institute of Directors. Also other best practice guidelines provided by the Office of the Auditor General, State Services Commission, OECD Directorate for Financial Fiscal and Enterprise Affairs, Public Sector Governance Group, World Bank, and the Institute of Public Administration.

- Sustainable business practice;
- Ethical and good behaviour in dealing with all parties;
- An active partnership approach with ARC and ARTA and key ARC Group stakeholders.

(b) No Surprises Approach

ARH will adopt a 'no surprises' approach in its dealings with the ARC, and will ensure the ARC and ARTA are informed well in advance of anything considered potentially contentious in the public arena, whether the issue is inside or outside issues outlined in the SOI, ARH Rules and the relevant legislation. ARH will allow sufficient time for the ARC to comment before implementing strategic initiatives such as:

- major new investments
- material changes in the capital structure of ARH or any subsidiary; and
- a significant restructure in response to a major change in the business environment.

The ARH Board will keep in mind that the ARC has interests wider than those of ordinary shareholders in private companies, and will be sensitive to the demand for accountability placed on the ARC from citizens, ratepayers, and other bodies who hold the ARC directly accountable for ARH, irrespective of the legal definition of the roles of the respective parties.

(c) Role of the Board

All decisions relating to the operation of ARH will be made by, or under the authority of, the Board of ARH in accordance with its SOI, rules and relevant legislation.

The Board is accountable to the ARC to ensure that ARH:

- Achieves its objective;
- Performs its functions;
- Acts in accordance with relevant legislation and ARH rules; and
- Achieves the objectives, performance targets and other measures set out in this SOI.

The Board will:

- Obtain full and timely information necessary to discharge its obligations fully and effectively;
- Actively review and direct the overall strategy of ARH;
- Actively review its Policies and Delegations;
- Negotiate the SOI with the ARC;
- Monitor the external and internal environment and identify, evaluate and mitigate controllable risk factors;
- Ensure ARH remains, a small, focused organisation, retaining core competencies and appropriate systems necessary to carry out its functions; and
- Undertake appropriate training to ensure Directors remain current on how best to perform their duties as directors;
- Manage and monitor the performance of the chief operating officer and senior management;
- Provide leadership in relationships with key stakeholders;

(d) Board Committees

When establishing any Committee the Board will:

- Produce written terms of reference that describes its authority, duties, responsibilities and relationship with the Board; and

- Review regularly the performance of the Committee having regard to those terms of reference.

The Board has established the following committee:

Assurance and Risk

The principal function of the assurance and risk committee will be to assist the Board in producing accurate financial statements in compliance with all applicable legal requirements and accounting standards.

The role of the Assurance and Risk Committee is to be responsible for overseeing the financial accounting and audit activities of Auckland Regional Holdings, including:

- compliance with all applicable legal requirements and accounting standards;
- reviewing the adequacy and effectiveness of internal controls;
- ensuring that the ability and independence of the external auditors to carry out their statutory audit role is not impaired in any way;
- determining what services, if any, may be provided by the external auditors in addition to their statutory audit role;
- communicating, meeting with and reviewing the performance of the external auditors; and
- reviewing and making recommendations to Auckland Regional Holdings.

To review and monitor the procedural implementation of Auckland Regional Holdings' policy in relation to the Local Authorities Members Interest Act, including:

- monitoring compliance; and
- making recommendations and reporting to Auckland Regional Holdings on compliance and implementation matters.

(e) Role of Management

The Chief Operating Officer of ARH is responsible for the overall management of ARH, including:

- Ensuring that the Board receives complete and timely information necessary to discharge its obligations fully and effectively;
- Providing advice to the Board;
- Support the Board by the timely development of appropriate strategies, objectives and risk mitigation for the organisation and associated controls in effecting these;
- Implementing the decisions of the Board;
- Ensuring that all responsibilities, duties, and powers delegated to him or her or to any employee of ARH, or imposed or conferred by any law, are properly performed or exercised;
- Ensuring the objectives and performance measures in the SOI are achieved;
- Ensuring the effective and efficient management of the activities of ARH;
- Maintaining positive relationships with key stakeholders;
- Maintaining systems to enable effective planning and accurate reporting of the financial and service performance of ARH; and
- Employing, and providing leadership for, the staff of ARH.

(e) Alignment with ARC Objectives

In performing its functions ARH will:

- Work with ARC and ARTA to help achieve the overall objectives of ARC; and
- Provide ARC with information concerning the activities of the Group in a timely and open manner.

ARH's policies will be consistent with the vision, values and overall objectives of ARC as outlined in the ARC's regional strategies, plans and policy documents.

(f) Relationship with Subsidiaries

ARH will hold shares in a number of subsidiary companies. All decisions relating to the operation of each of those companies must be taken by, or under the authority of, the Board of that company, in accordance with its SOI (if any) and constitution. The constitutions of ARH subsidiaries will be consistent with ARH's rules.

ARH will:

- Act as a diligent, constructive and inquiring shareholder;
- Actively monitor strategic issues affecting its subsidiaries;
- Ensure the Board of the subsidiary addresses those issues in a timely manner; and
- Ensure that its subsidiaries are operated on a basis that is consistent with, and contributes to, ARH's SOI and ARC's strategic objectives.

ARH has adopted a policy that sets out an objective and transparent process for:

- The identification and consideration of the skills, knowledge, and experience required of directors of each of its subsidiaries;
- The appointment of those directors; and
- The remuneration of those directors.

The costs of the governance of ARH subsidiaries will reflect the statutory objective of ARH being to act in the long-term interest and for the benefit of the Auckland region. ARH policy will not be inconsistent with ARC's policy on appointment and remuneration of directors, which is required under the Local Government Act 2002; and Local Government (Auckland) Amendment Act 2004.

ARH will appoint a person to be a director of a subsidiary only if the person has, in the opinion of the Board of ARH, the skills, knowledge, or experience to:

- Guide the subsidiary, given the nature and scope of its activities; and
- Contribute to the achievement of the objectives of the subsidiary.

ARH will elect directors to the Board of the Ports of Auckland Ltd consistent with the Ports Companies Act and NZX Listing Rules.

ARH will ensure it has a robust and transparent policy and process for:

- Establishing performance targets and measures for each of its subsidiaries; and
- Monitoring the performance of the directors of each of its subsidiaries on a regular basis.

8. Ratio of Consolidated Funds

ARH will ensure the ratio of consolidated ARH equity to total assets is greater than 50% at all times when determining its investment and borrowing policies for its Long Term Funding Plan.

9. Distributions to the ARC

The estimate of the distribution of funds that is intended to be distributed to the ARC is recorded in the financial statements in the Long Term Funding Plan.

10. Nature and Scope of Activities

ARH will (directly or via an ARH controlled organisation) hold the following:

- 84,803,976 shares in Ports of Auckland Limited (“Ports”), equivalent to 80% of the issued share capital of Ports;
- 64,400,000 shares in America’s Cup Village Limited (“ACVL”), equivalent to 100% of the issued share capital of ACVL;
- 16,000,000 shares in Northern Disposal Systems Limited (“NDSL”), equivalent to 100% of the issued share capital of NDSL; and
- And other financial investments.

ARH will hold land transport assets indirectly or directly on behalf of the ARC Group, and make these available to assist ARTA to achieve its objectives. ARH will ensure the long term sustainability of these assets² to deliver required services. ARH will work with the ARC and ARTA to resolve how depreciation and renewals will be funded, and the terms and conditions upon which passenger transport assets will be made available to ARTA.

ARH will provide a minimum of 14 days notice and obtain the prior written approval of the ARC before it enters into any transaction or series of linked transactions which constitutes:

- The acquisition or disposal of any strategic asset or any other asset having a value exceeding 5% of the market value of ARH’s tangible assets;
- The effect of ARH acquiring rights or interests or incurring obligations or liabilities having a value exceeding 5% of the market value of ARH’s tangible assets; and
- A change in the essential nature or scope of the activities of ARH or any ARH company.

except for any transaction authorised under ARH’s long term funding plan or undertaken by the Ports of Auckland Limited.

To the extent that any acquisition or disposition of an asset by Ports of Auckland Limited (or any subsidiary of Ports of Auckland Limited) requires the approval of ARH, in its capacity as a shareholder, under the Companies Act 1993, the NZX Listing Rules or the constitution of Ports of Auckland Limited, the Board will ensure that ARH gives or does not give any such approval (as the case may be) in accordance with any direction of the ARC regarding that matter received by the Board prior to giving or not giving (as the case may be) such approval.

ARH will manage its assets, and take all appropriate action to fulfil the functions and objectives described in paragraph 4, in the long-term interests of the Auckland region in accordance with the principles set out in section 19(2) of the Act.

² This does not preclude opportunities for effective and efficient use of resources by ARH or its subsidiaries

11. Performance targets and other measures by which the performance of ARH may be judged in relation to its objectives relating to Governance.

Objectives relating to Governance

Objective	Supporting Activity	Performance Measure	Target
I. Co-operate with ARC and ARTA	Consult with ARC (and ARTA when appropriate) before adopting any key policy, including long-term funding plan, subsidiary SOI or constitution, or policies resulting in a change to risk profile	Records demonstrate relevant consultation has taken place at appropriate intervals Copies of all policies provided to ARC on adoption by ARH	ARH policies consistent with ARC's vision, values and objectives
	ARH/ARC Liaison Group	Meetings held monthly or as required.	
	ARH will co-operate with the ARC to achieve public good elements on matters arising from ARH assets	Records demonstrate participation in joint meetings at appropriate intervals	Achievement of agreed positions on waterfront and passenger transport assets
II. Define for ARH its role in acting in the Long Term interests of the Auckland Region, within the context of the ARC Group.	Agree with ARC on definition	Outcome documented	Documented by December 2005.
III. Provide information to the ARC	Reports	Makes available reports or information requested within 7 days or such other period as agreed	ARH and the Council are satisfied with the process and with the information provided
	A minimum of two Board Representatives (including the chair or deputy chair) attend ARC Council/or Finance Committee meetings at least quarterly ³ to present financial statements, performance against SOI and report on all strategic and commercial issues associated with ARH assets	Representation as required and adequate information provided.	

³ At times to be mutually agreed

Objective	Supporting Activity	Performance Measure	Target
	Public statements	Comply with agreed communication protocols	All copies of statements provided before release
Provide information on ARH subsidiary companies	Meet with ARC to discuss subsidiary company issues prior to completing their SOIs	ARH makes available to the ARC objectives and strategic issues relating to ARH subsidiary companies, at a minimum in quarterly, half-yearly, and annual reports	ARH and ARC are satisfied with the information provided
Assist in the process of establishing a co-ordinated Waterfront development	Meet regularly with the ARC to assist in developing an agreed 20 year plan for the Auckland Waterfront including ARH subsidiary company land holdings	The Board keeps the ARC fully briefed on plans and data relating to proposals for the development of ARH subsidiary company land holdings and proposals are consistent with ARC goals and objectives as communicated to, ARH.	ARH and ARC are satisfied with the information provided
Advise on major changes to existing or new investments including major changes to capital structure	The Board will keep the ARC advised of any proposed major changes to existing investments or of any new investments	The Board provides the Council on a confidential basis information relating to any proposed major changes to existing investments or new investments	ARC is satisfied with the level and timeliness of the advice
Establish meaningful financial and other performance measures	Meet with ARC officers to agree on specific measures	The ARC and ARH agree on specific performance measures	Performance measures agreed and approved by the ARC and ARH, by 30 November 2005
	Develop sustainable development performance measures for the group	Performance measures developed	Performance measures included in draft 2006-9 SOI
IV. Sound Governance of Subsidiaries	Apply adopted policies.	Review all directors of subsidiaries completed	30 June 2006

Economic, Financial, Social and Environmental Objectives

Objective	Supporting Activity	Performance Measure	Target
I. Manage assets in long term interests of region in terms of: <ul style="list-style-type: none"> • Prudent stewardship • Efficient and effective use of resources • Financially responsible 	Maintain the capacity of ARH assets to achieve the overall objectives of the ARC Group	Ensure subsidiary SOI's and plans are consistent with ARH SOI and LTFP	Compliance ARH SOI and LTFP
	Sound business practice within an acceptable level of risk for all commercial activities	Quarterly report on investment strategy, return, and risk profile	Overall investment portfolio achieves returns assumed in LTFP
	Develop short and long term risk profiles	Risk profile volatility, and accountability determined	Risk profile measures included in LTFP and no breach
II. Provide funds to ARC according to Long Term Funding Plan that has regard to the ARC's Long Term Council Community Plan	Development of Long Term Funding Plans	Approve and publish in amended LTFP: <ul style="list-style-type: none"> • Investment and treasury management policy; and • Liability management policy and risk profile Legislative and ARC requirements reflected in Long Term Funding Plan	LTFP amended by 30 November 2005 Long Term Funding Plans provided to ARC by 31 January annually 100% compliance with policies
	Distribution to ARC	ARH meets all payments provided for in approved LTFP where called upon by ARC	100% compliance in accordance with agreed process
III. Make land transport assets held by ARH available to the ARC group	Agreement reached with ARC and ARTA on the terms and conditions upon which ARH will make passenger transport assets available to assist ARTA	Agreement reached and signed by 31 March 2006	Assets received by agreed date
IV. Administration costs within budget approved by ARC	Management of costs Work with the ARC to establish appropriate benchmarks for the administration budget	Budget Benchmarks established by 31 March 2006	No breach
VI. Notification of ARC funding requirements	Work with ARC to develop process for notification to ARH of ARC funding requirements	Notification process developed	Process developed by 30 September 2005

Objective	Supporting Activity	Performance Measure	Target
VII. Develop innovative funding options to assist the ARC Group	Develop initiatives with the ARC Group	Initiatives developed and approved	Process documentation
	Offer for the remaining shares of POAL	100% ownership of POAL	Completion on terms and conditions agreed with ARC as at 30 June 2005

12. Accounting Policies

Accounting Policies

ARH will comply with the accounting and disclosure practices set out in all the relevant Financial Reporting Standards (FRS) issued by the Institute of Chartered Accountants of New Zealand as periodically updated and as required by the Financial Reporting Act 1993, and will be in a position to adopt NZ IFRS effective 1 July 2006.

13. Information to be provided to ARC by ARH

(a) Annual Statement of Intent

ARH will provide the ARC with a draft and completed SOI for each financial year in accordance with Schedule 8 of the principal Act.

(b) Long Term Funding Plan

ARH will provide a long term funding plan by 31 January each year that covers a ten-year period, and includes:

- Forecasts of funds, required by ARC from ARH;
- Forecasts of funds, both capital and income, that will be available for distribution by ARH to the ARC;
- Forecasts of funds, both capital and income, that ARH intends to reinvest in existing or new activities;
- The proposed source of those funds;
- Estimated cash flow projections for the period of the plan;
- Estimated changes in the net worth of ARH for the period of the plan;
- Such other financial and non-financial information as is necessary for a proper understanding of these forecasts;
- An investment and treasury management policy; and
- A liability management policy.

ARH's long term funding plan will have regard to the ARC's current Long Term Council Community Plan.

(c) Annual Report

Within six weeks from the end of each financial year, ARH will provide to the ARC an executive summary of ARH (parent) performance against the SOI, and the unaudited annual financial statements of the ARH parent. With best endeavours, subject to POAL listed company obligations, ARH will provide to ARC no later than ten weeks after the end of each financial year its audited consolidated financial statements, and by mid September a full Annual Report. This will comply with section 68 of the Act and include the following:

- Directors Report
- Statement of Financial Performance
- Statement of Financial Position

- Statement of Cash Flows
- Statements of Movements in Equity
- Notes to the Financial Statements
- Auditors Report in terms of section 69 of the Act on:
 - The above Financial Statements; and
 - The performance targets and other measures by which ARH was judged in relation to its objectives as per the SOI
- Sustainable Development Report

(d) Half Yearly Report

Within six weeks after the end of the first six months of each year, ARH will provide to the ARC a report of ARH performance against the SOI, commercial and strategic issues associated with its assets, and the unaudited financial statements of the ARH parent. No later than ten weeks after the end of the first six months of each year, ARH will provide to the ARC an unaudited consolidated Half Yearly Report that includes:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash Flows
- Statements of Movements in Equity
- Notes to the Financial Statements

(e) Quarterly Report

Within five weeks after the end of the September and March quarters of the financial year ARH will provide to the ARC an unaudited quarterly:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash Flows
- Report on performance against the SOI
- Report on all commercial and strategic issues associated with its assets (subject to confidentiality agreements)

(f) Additional Information

ARH will provide additional information to the ARC on a confidential basis as permitted by other agreements so as to ensure that the ARC is informed in a timely manner of significant events which relate to ARH and which may affect the ARC.

(g) Sustainable Development Reporting

ARH will adopt sustainable development reporting for its Annual Report and Annual Business Plan.

14. The procedures to be followed before ARH acquires or disposes of assets

ARH will not make any decision to acquire or dispose of any assets having a value exceeding 5% of the net market value of ARH's tangible assets; without the prior written approval of the ARC.

15. Any activities for which the board seeks compensation from any local authority (whether or not the local authority has agreed to provide the compensation);

There are currently no activities for which the directors seek compensation from any local authority.

16. The board's estimate of the commercial value of the ARH group assets and the manner in which, and the times at which, that value is to be reassessed

The Board's estimated commercial value of ARH as of 31st December 2004 is \$1,041 million. This assessment is based on the Accounting Policies and methods of valuation set out in the un-audited interim financial statements for the six months ended 31 December 2004.

17. Any other matters that are agreed by the ARC and the ARH Board

No matters to hand.

18. Disputes Procedure

If ARH or ARC identifies any matters of disagreement both parties will endeavour to discuss and consult on these matters at the earliest opportunity, and seek resolution between themselves.