

## **STATEMENT OF INTENT**

*FOR THE YEAR TO 30 JUNE 2012*

Taranaki Investment Management Limited (the Company) is a council controlled organisation established pursuant to the Local Government Act 2002. Control in the Company is vested in the New Plymouth District Council (the Council).

The Statement of Intent sets out the overall intentions and objectives of Taranaki Investment Management Limited for the period 1 July 2011 to 30 June 2012 and the two succeeding years.

### **OBJECTIVES**

The Company operates with the intention of:

- 1 Managing the Council's Perpetual Investment Fund in terms of an agreement entered into with the Council originally on 14 December 2004 and subsequently revised on 1 March 2011 (hereinafter referred to as "the Agreement"), and within Investment and Treasury Policy guidelines as revised from time to time by TIML and approved by Council
- 2 Providing the Council with quality and timely advice when requested on the Council's other equity and risk-based investments, including its investments in joint venture forestry enterprises and the joint venture New Plymouth Airport.

In respect of the Council's investments the Company's objectives are:

- To meet its obligations in respect of the management of the Perpetual Investment Fund as set out in the Agreement;
- To act for or assist the Council in its role as a diligent, constructive and enquiring shareholder/investor;
- To protect and enhance the income streams from and the value of the investments.

## **CONTRIBUTION TO COMMUNITY PRIORITIES AND WELL-BEING**

The Company's activities enhance the Council's investment activities thereby providing greater value and financial return to the Council to enable further growth and/or reduce the financial burden on ratepayers.

## **GOVERNANCE & MANAGEMENT**

The Board of Directors is appointed by the shareholders to govern the Company in the interests of the shareholder and in accordance with the Company's constitution. The Board has adopted the principles set out in the Agreement.

The present Board comprises four independent Directors.

The management team comprises of a Chief Executive and full-time staff who manage the Perpetual Investment Fund within company policy and the parameters in the Agreement. The Company pays the Council in respect of shared staff and services where that is the most efficient option.

The Chief Executive reports to the Board of Directors of the Company.

## **NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN**

The Agreement sets out the nature of the relationship between the Company and its shareholder, including each party's responsibilities.

The company will, to the extent considered necessary by the shareholder:

- Through its Investment and Treasury Policies manage the Council's Perpetual Investment Fund in accordance with the founding principles set by the Council for the Fund;
- Provide qualitative reports to the Council through the Investment Sub-Committee on at least a quarterly basis meeting the requirements identified in the Agreement.
- Review on an as requested basis the Council's other investments.
- Identify and seek further ways of growing/optimising the value of the Council's investments and the associated income streams. This will require the Company to keep the relevant growth strategies and profitability under continual review.

## **RATIO OF CAPITAL TO TOTAL ASSETS**

The capital ratio of the Company (shareholders funds to total assets) is expected to be over 80% for the next three years. "Capital" is defined as the contributed capital and all reserves. "Total assets" is the gross carrying value of the assets as recorded in the Company's records as at annual balance date.

## **ACCOUNTING POLICIES**

The accounting policies for the year ended 30 June 2012 are expected to be as documented in the Appendix hereto, and are consistent with:

- The Financial Reporting Act 1993.
- Generally accepted accounting principles.
- The Institute of Chartered Accountants of New Zealand's Statements of Standard Accounting Practice.
- Accounting Standards Review Board pronouncements.

## **PERFORMANCE TARGETS**

The performance of Taranaki Investment Management Limited will be judged against the Agreement terms, the Statement of Intent, industry benchmarks, and the terms of company policy objectives.

### **Quarterly Reporting:**

To provide on at least a quarterly basis a report to the shareholder covering activities undertaken by the Company, and the performance of and significant issues relating to the Perpetual Investment Fund and where required in respect of the other investments and the industries in which they operate. The report will provide the information outlined in the Agreement.

### **Timely Response:**

To provide timely advice to the shareholder on any significant developments that may have an impact on either the income stream to the Council or the value of the Council's investments.

### **Review of the Council's Other Investments:**

To review the Council's other investments when requested and advise the Council on its position with regards to hold/growth/divestment strategies.

### **Advice to the Council and Proper Enquiry of Investment Entities:**

The Company will provide advice to the shareholder and make proper enquiry of the investment entities in respect to:

- Improvement of performance.
- Protection/enhancement of the income stream.
- Consideration of the debt/equity and growth strategies with a view to improving the income stream from and value of the Council's investments.

## Financial Performance:

Year Ended 30 June	2012	2013	2014
Revenue \$	1,597,335	1,645,255	1,694,613
Net Profit \$	0	0	0
Net Profit after tax to average Shareholder's funds	0.0%	0.0%	0.0%

### Notes:

1. *The projections are inflation adjusted.*
2. *The above costs exclude costs relating to transactions investigated by TIML which may or may not ultimately proceed. Such costs may be material. They will be capitalised against the relevant investment if the investment proceeds and in the event that the transaction does not, will be expensed against the PIF. Such treatment is normal for an actively-managed fund, and represents best practice. Such expenses are disclosed as part of the regular performance reporting of the Fund.*
3. *The above costs equate to an investment management fee of approximately 0.6% of the value of the Perpetual Investment Fund. This compares very favourably to industry norms of 1-1.25% for similar funds.*

## DIVIDEND POLICY

As the Company is anticipating operating at a break-even position, it is unlikely that any dividends will be paid.

## INFORMATION TO BE PROVIDED

The following information will be made available:

- A draft Statement of Intent, including an annual budget, for inclusion in the Council's Annual Plan process (by 1 March each year).
- A Statement of Intent, including an annual budget prior to the commencement of each financial year.
- A six monthly report on operations including a comparison against the Statement of Intent and the budget within two months after the end of that six monthly reporting period.
- An Annual Report for the year which will also be made available to the public within two months after the end of each financial year.

## **PROCEDURES FOR SHARE ACQUISITIONS**

The Council will be consulted prior to the acquisition of shares by the company for the Fund in any other company where the value of the shares concerned will constitute a major transaction as defined in Section 129(2) of the Companies Act 1993.

## **ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT**

There are no current activities for which specific compensation is sought from the shareholder. TIML currently provides a wide range of investment management services defined in the Agreement, on a full cost reimbursement basis from the Perpetual Investment Fund as noted above.

## **DIRECTORS ESTIMATE OF VALUE**

The Directors anticipate the nominal par value of the Council's investment in the Company to be \$1,000, being the net equity invested at historical cost. This estimate will be re-assessed in the same manner on an annual basis.

## **CAPITAL EXPENDITURE FORECASTS**

There are no anticipated capital expenditure projects over the next three years, apart from those resulting from any occupancy changes, replacement of office furniture and equipment and computer systems as required from time to time.

# APPENDIX

## STATEMENT OF ACCOUNTING POLICIES

For the Year Ended 30 June 2012

### REPORTING ENTITY

Taranaki Investment Management Limited (the Company) is controlled by the New Plymouth District Council and is a Council Controlled Organisation as defined in section 6 of the Local Government Act 2002. The Company is incorporated and domiciled in New Zealand.

Rather than making a financial return, the primary objective of Taranaki Investment Management Limited is to provide advisory services to the New Plymouth District Council, in relation to the Council's Perpetual Investment Fund (PIF) and other equity investments, when requested. Accordingly, the Company is classified as a Public Benefit Entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the company are for the year ended 30 June 2012. The financial statements will be authorised for issue by the Board of Directors on completion of accounts during September 2012.

### BASIS OF PREPARATION

#### Statement of compliance

The financial statements of the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

#### Measurement base

The financial statements have been prepared on a historical costs basis.

#### Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the Company is New Zealand dollars.

### SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies, adopted by the Company, in the preparation of these financial statements.

#### Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised in the period which the Company provides the related services.

## **Leases**

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Under an operating lease, lease payments are recognised as an expense in the Statement of Comprehensive Income.

## **Goods and Services Tax**

The financial statements have been prepared exclusive of Goods and Services Tax (GST), with the exception of receivables and payables, which are stated inclusive of GST.

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

The net amount of GST, paid to or received from the IRD, is classified as an operating cash flow, in the statement of cash flows.

## **Income Tax**

Income tax expense is the aggregate of current period movements, in relation to current and deferred tax. Current tax is the amount of income tax payable, based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years.

The current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods, in relation to 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 surplus.

## **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand and deposits held at call with banks.

## **Debtors and other receivables**

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method, after allowing for the impairment of receivables.

## **Creditors and other payables**

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

## **Loans**

Loans are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

### **Employee entitlements**

Employee benefits expected to be settled within 12 months of balance date are measured at nominal values, based on accrued entitlements, at current rates of pay.

These include salaries and wages accrued up to balance date, bonuses payable at balance date, sickness leave and annual leave earned to, but not yet taken at balance date.

### **Financial instruments**

The revenue and expenditure relating to financial instruments is recognised in the statement of comprehensive income. All financial instruments are recognised in the statement of financial position.

### **Budget figures**

The budget figures are those approved by the Directors at the beginning of the year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

### **Critical accounting estimates and assumptions**

In preparing these financial statements, the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the actual results.

Estimates and assumptions are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There have been no estimates and/or assumptions that have a significant risk of causing a material adjustment to the value of assets and liabilities, with the next financial year.

### **Changes in accounting policies**

The accounting policies of Taranaki Investment Management Limited have been applied consistently, to all periods presented in these financial statements.

## **TIML Budget for 2011/2012**

<b>Budget Items</b>	<b>\$</b>
Full-time Staff	695,000
NPDC Shared Support Services	97,000
Audit Fees	14,000
Director Fees and Expenses	375,000
Professional Advice	70,000
General Operating Expenses	236,000
Custodial and Reporting Costs (est.)	110,000
<b>Total TIML Costs (including Custodial)</b>	<b>1,597,000</b>