

WESTLAND DISTRICT PROPERTY LIMITED

STATEMENT OF INTENT

FOR ONE YEAR COMMENCING 1 JULY 2014

Final WDPPL SOI

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## 1. Introduction

This Statement of Intent (SOI) is prepared in accordance with Section 64 and Schedule 8 of the Local Government Act 2002.

The SOI for Westland District Property Limited (WDPL) specifies the objectives, the nature and scope of the activities to be undertaken, the performance targets and other measures by which the performance of the Company will 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 Westland District Property Limited and its sole shareholder Westland Holdings Limited, which is 100% owned by the Westland District Council. The SOI is reviewed annually in association with the Holding Company. Following the May 2014 decision to close WDPL this SOI only covers a one year period beginning 1 July 2014.

## 2. Company Mission Statement

The Westland District Property Company's mission is: "to manage the ownership and operation of property activities in a commercial and strategic manner. To maximize the return and to become involved in strategic projects which will benefit the Westland District, as opportunities arise". The Board has adopted a philosophy of being Business friendly and will continue with this philosophy until all WDPL activities have been subsumed back into WDC.

The Board supports the Westland District Council's Vision for Westland which is: "that it will, by 2030, be a world class tourist destination and have industries and business leading through innovation and service".

This will be achieved by:

- Involving the community and stakeholders<sup>1</sup>.
- Having inspirational leadership.
- Having expanded development opportunities.
- Having top class infrastructure for all communities.
- Living the 100% Pure New Zealand Brand.

Westland District Property Ltd contributes to this vision by:

- Involving the community and stakeholders
- Having expanded development opportunities

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<sup>1</sup> In this context a stakeholder is defined as a person, group or enterprise affected by or having an interest in its operations, such as the employees, customers, local community, etc

### **3. The Objectives of the Company**

As required by Section 59 of the Local Government Act 2002, the principal objectives of Westland District Property Limited are to:

- Achieve the objectives of its shareholders, both commercial and non-commercial as specified in the SOI.
- Be a good employer in accordance with Section 36(2) of Schedule 7 of the Local Government Act 2002.
- Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage social and environmental interests when able to do so.
- Conduct its affairs in accordance with sound business practice.

### **4. Governance**

The Directors of Westland District Property Limited are appointed to govern and direct the company's activities. The directors' role includes:

- a. Strategic Governance
- b. Financial Management
- c. Management Performance Review
- d. Relationships with stakeholders and external parties
- e. Being a good employer

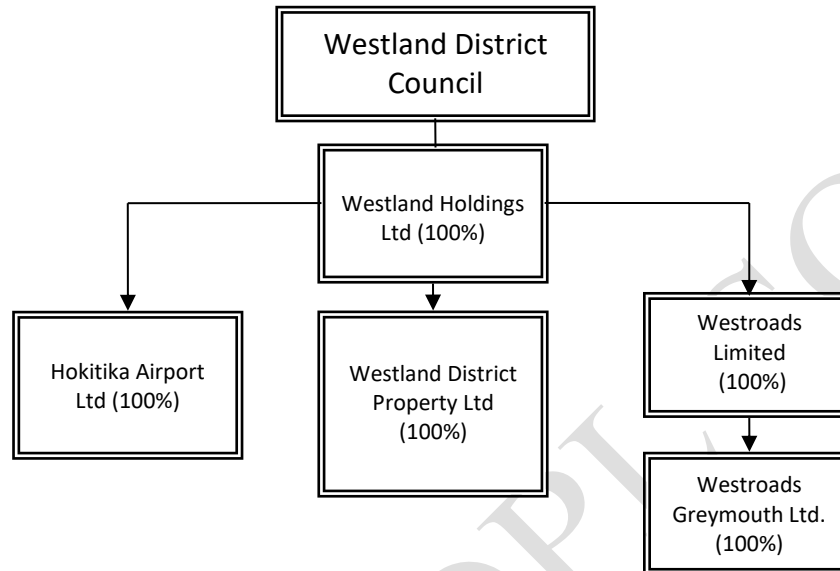
The Company is governed by a three member board of directors:

1. Graeme Purches (Chair)
2. Les Singer
3. Currently vacant

The Board was only appointed for a term of up to one year while Council and Westland Holdings Ltd undertook a strategic review of the group structure. It is assumed that the current Board will be in place until the closure of WDPL has been completed.

## 5. Nature and Scope of Activities

The group structure is:



The primary nature and scope of activities for the Company are to:

1. Maintain a strategic and commercial focus while managing the property portfolio.
2. Be actively involved in the provision of aged care accommodation and to support the Council's commitment to assist with the provision of housing for the elderly in the district.
3. Make every endeavor to minimize operational costs and recognising that some owned or managed assets are community assets i.e. swimming pools and pensioner housing, make appropriate and commercially acceptable financial returns.
4. Identify strategic development opportunities and to help facilitate and pursue these opportunities where considered appropriate.
5. In line with Council Policy manage the activities on unformed legal road, where a commercial return is possible. Carry out management of baches, continue to negotiate commercial returns on mining licenses, these include, but are not limited to: gold mining, forestry and water.
6. Obtain the approval of Westland District Council and Westland Holdings Limited for any changes of use, status or ownership, including the development or disposal of any property or those assets identified as strategic assets. To keep Council, through Westland Holdings Limited, informed of matters consistent with the communications policy. Ensure that there is regular and informative reporting of the financial and non-financial performance. To enhance the value of the shareholder investment.

7. Meet any prior obligations made by Westland District Council to the community. To facilitate the bringing together of commercial and community groups to share and celebrate their expertise and success in growing Westland in line with Council's 2030 vision. To be involved in fostering and supporting appropriate strategic development and investment throughout the District.
8. Negotiate with WDC a new Management Contract to be effective from 1 July 2014. Contract to include:
  - a. How the management of WDC assets will be undertaken and the treatment of both income and expenditure for each asset.
9. Develop a plan to sell the land at the 3 mile site (either as sections or as a whole).
10. In partnership with Westroads develop a strategy for the development and sale of sections at Kaniere Road known as Kaniere Estate.

## 6. Performance Targets

### Financial (as per 2012 – 2022 LTCCP)

The Company will report annually to shareholders on the following performance indicators:

- (a) The ratio of net profit before taxation and revaluations (before extraordinary items) to average shareholder funds within a range of 1% and 6% for the year commencing 2014/2015.
- (b) The ratio of net profit before taxation and revaluations to average total assets (including any revaluation) of 1% for the year commencing 2014/2015.
- (c) Compliance with statutory and regulatory requirements enabling Westland District Property Limited, Westland Holdings Limited and Westland District Council to comply with the Local Government Act 2002, Health & Safety & Employment Act 1992 (with amendments), the Companies Act 1993 (with amendments) and the Financial Reporting Act 1993 (with amendments).

### Non-Financial

#### Service performance measures:

- (a) Aged Care occupancy:  
**Target:** annual percentage occupancy to be no less than 95%.
- (b) Swimming pool:  
**Target:** annual total admissions to be +/- 5% those of the previous year.  
Note: 2012/13 admissions = 17,725.
- (c) Baches on Road Reserve:  
**Target:** annual number of licenses to occupy to be greater than 70.
- (d) Jacksons Bay Wharf:  
**Target:** annual percentage of commercial fishing vessels who use the wharf with Licenses to occupy = 100%
- (e) Leasehold properties:  
**Target:** annual percentage of leasehold properties fully leased = 80%

- (f) Investment property development/sales – conducted in accordance with WDPL’s SOI and WDC policy
- (g) Tenant satisfaction:  
**Target:** Tenant satisfaction with the provision of the company’s aged care rental housing greater than or equal to 90%.
- (h) Time loss through injury  
**Target:** Loss Time Injuries will be 0

## 7. Shareholders’ Funds to Total Assets

- The ratio of shareholder funds to total assets shall be greater than 60 percent.
- Shareholder funds are defined as the paid up capital, plus any tax paid profits earned, and less any dividends distributed to shareholders. They include undistributed profits which have been accumulated in accounts known as Revenue or Capital Reserves.
- Total assets are defined as the sum of all current assets, fixed assets, intangible assets and investments of the Company.

## 8. Distribution Policy

Distributions will be paid, either by way of dividends to Westland Holdings Limited or subvention payment to Westland District Council, as agreed with Westland Holdings Limited.

The degree of profit retention/distribution will be agreed annually with Westland Holdings Limited, and included in the annual Statement of Intent, subject to the following criteria:

A subvention payment is defined as a payment based on a dollar for a dollar of tax loss.

- The amount of any distribution takes into account Westland District Property Limited’s ability to fund future capital expenditure requirements, to maintain and expand its operations, or to address matters related to the debt structure of the Company.
- Total liabilities do not exceed 30% of the total assets without the approval of Westland Holdings Ltd.

## 9. Capital Expenditure

Capital expenditure will generally be related to the development of existing land and property but will also be considered from time to time in relation to strategic developments or acquisitions for the benefit of Westland District and the Company.

The approval of Westland Holdings Limited must be obtained for any significant purchases or developments, including the funding mechanism for the purchase or

development, in excess of \$500,000. This figure is to be calculated based on the complete cost of a particular project, even if the expenditure is spread over more than one year and comprises multiple transactions.

## **10. Acquisition of Other Interests**

The Company will not subscribe for, purchase, or otherwise acquire shares in any company or other organization without first being authorized to do so by a special resolution of shareholders.

## **11. Commercial Value of Shareholders Investment**

The Directors estimate that the commercial value of the shareholders' investment in Westland District Property Limited will be represented by the opening balance of shareholders' funds. The Directors will advise the shareholders on an annual basis if they believe the value to differ materially from this amount

The value of the investment will be reassessed every three years by evaluating movement in asset values. In particular changes to land and improvements as recorded on the tri-annual government valuations.

The Directors may elect to revalue land improvements and investments on an annual basis in line with current Audit New Zealand policy.

## **12. Risk Management**

The Company shall complete and document a risk management analysis together with strategies for mitigation of these risks.

The Company shall adopt and regularly review a communications policy. (Adopted 12 June 2013.)

The Company shall work with WDC to agree on formal communication protocols to improve communication with Council's elected representatives, relevant staff and stakeholders.

A formal Fraud Policy will be documented and all Directors and staff are to be aware of this policy. (Adopted 10 September 2013.)

## **13. Reporting to Shareholders**

The following information will be available to shareholders based on an annual balance date of 30 June:

### **13.1 Draft Statement of Intent**



On or before the 14<sup>th</sup> February of each year, the Directors shall deliver to the shareholders a Draft Statement of Intent, with tracked changes, in accordance with the requirements of Clause 9 Schedule 8 of the Local Government Act 2002.

### **13.2 Completed Statement of Intent**

On or before the 15<sup>th</sup> of June each year, the Directors shall deliver to the shareholders a Final Statement of Intent in accordance with Clause 9 Schedule 8 of the Local Government Act 2002.

### **13.3 Half Yearly Financial Report**

Within two months after the end of the first half of each financial year, i.e. 28 February, the Directors shall deliver to the shareholders an unaudited report containing the following information:

- a) A Revenue Statement disclosing actual and budgeted revenue and expenditure and comparative figures for the same period in the previous year.
- b) A Statement of Financial Position at the end of the half year i.e. 31 December.
- c) A Statement of cash flows.
- d) A commentary on the results for the six months together with a report on the outlook for the second six months with reference to any significant factors that is likely to have an effect on the Company's performance. This commentary is to also include an estimate of the financial result for the year under review.
- e) A copy of the Audit New Zealand management report for the previous year.
- f) A non-financial performance report.

### **13.4 Quarterly Report**

Between the annual report and half yearly report WDPL will:

- a) Deliver to WHL a quarterly copy of the management accounts.

### **13.5 Annual Report**

By 30 September each year, the Directors shall deliver to the shareholders an annual report and audited financial statements in respect of the financial year ending on the preceding 30 June, containing the following information as a minimum:

- a) A Directors' report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend.
- b) A revenue statement disclosing actual and budgeted revenue and expenditure, and comparative figures in second and subsequent annual reports.
- c) A statement of financial position at the end of the year.

- d) A statement of cash flows.
- e) An auditor's report on the above statements and the measurement of performance in relation to objectives.
- f) A non-financial performance report.

### 13.6 **Annual Budget**

An annual budget shall be provided in particular terms for the coming financial year and in general terms for the following two years, at such a time to enable it to be included within the Draft Annual Plan for the Westland District Council. This budget shall accompany the half yearly financial report.

## **14. Accounting Policies**

The financial statements of Westland District Property Limited will be prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting policies to the extent that is practicable without disclosing commercially sensitive information that, in the view of the Directors, would be of value to competitors. (See Appendix for Accounting Policy details.)

## **15. Commercial Value of Shareholders Investment**

The commercial value of the shareholders, being Westland Holdings Limited, investment in Westland District Property Limited is estimated at \$2,575,000 and this value will be verified by way of external valuation.

## **16. Sale of Goods/Services to Local Authority**

It is not considered likely that Westland District Property Limited will carry out any activities for which the Board will seek compensation from Westland District Council, Westland Holdings Limited or its subsidiaries, other than that related to the sale, rental or leasing of property owned or managed by the Company. Any compensation received and details of the undertaking will be reported in the annual report of Westland Holdings Limited as well as the annual report of Westland District Council.

Any commercial activities carried out for and or by Westland District Property Limited in relation to Westland District Council, Westland Holdings Limited or its subsidiaries will be at market rates and will be reported in the annual report of Westland Holdings Limited as well as the annual reports of Westland District Council and/or its subsidiaries.

## 17. Financial Forecasts

### Assumptions:

- 1) That the transfer of ownership of further assets as originally intended will **not** be completed and as a consequence there will be result in no increase in capital. This assumption means that the company is not in a position to make meaningful returns, as it was set up and as a consequence incurred overheads that were in anticipation of a larger asset base
- 2) WDPL will continue to operate in a 'business as usual' mode until advised otherwise by either WHL or WDC.

	Budget
	<b>2014/2015</b>
Gross Revenue	920,000
Cash Operating Expenditure	1,082,000
Depreciation	20,000
Trading Profit/(Loss) before Taxation	(182,000)
Subvention Payment	
Net Profit/Loss before Taxation	(182,000)
Taxation	(50,960)
Dividend	
Earnings Retained	(131,040)
Shareholder Funds	2,706,200
Retained Earnings	(131,040)
Closing Shareholder Funds	2,575,160
Pre-tax Return on Shareholder Funds	6.89%

### Notes to financial forecast:

- Expenditure exceeds income for the three WDC strategic assets managed by WDPL (Jackson Bay Wharf, Aged Care and Hokitika Swimming Pool).
- WDPL pay insurance and rates charges on WDC Managed properties that earn 'nil' income
- WDPL pay insurance and rates charges on owned property (purchased from WDC) that earn 'nil' income

## Appendix

### Accounting Policy Details

#### **Basis of Preparation**

**a. Statement of compliance**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). They comply with New Zealand equivalents to International Financial Reporting Standards (“NZIFRS”) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

**b. Measurement base**

The financial statements have been prepared on a historical cost basis except for the revaluation of investment property.

**c. Functional and presentation currency**

These financial statements are presented in New Zealand dollars (\$), which is the Company’s functional currency. All financial information presented has been rounded to the nearest thousand.

**d. Use of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The only material judgment or estimate applied in these financial statements is that the company expects to recover the cost of its investment in development land.

#### **Significant Accounting Policies**

Accounting policies set out below are to be applied consistently to all periods presented in the financial statements. The following particular accounting policies which materially affect the measurement of financial results and financial position are to be applied:

**a. Investment Property**

Properties leased to third parties under operating leases are classified as investment property.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, all investment property is measured at fair value as determined annually by an independent valuer. Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

## **b. Property, Plant & Equipment**

### **i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

### **ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

### **iii) Depreciation**

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

## **c. Impairment**

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the profit or loss.

### **i) Impairment of receivables**

The recoverable amount of the Company's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

#### **ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, being property plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### **d. Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories include development properties that are being developed for sale. These properties are measured at the lower of cost and net realisable value and the cost includes development costs to date.

**e. Financial instruments**

The Company categorises its financial assets as loans and receivables, and its financial liabilities as being at amortised cost (trade and other payables).

**i) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The company's loans and receivables comprise: cash and cash equivalents, and trade and other receivables.

Loans and receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

**ii) Trade and other payables**

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

**iii) Cash & cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

**iv) Trade & other receivables**

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

**v) Borrowings**

Borrowings are initially recognised at their fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest method.

**f. Goods and services tax (GST)**

All items in the financial statements are exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense.

**g. Leased assets**

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Company's balance sheet.

## **h. Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## **i. Revenue**

### **i) Leases**

Lease income from property is recognised in the profit or loss on a straight-line basis over the term of the lease.

### **ii) Services**

Revenue from services rendered is recognised in the profit or loss in proportion to the stage of completion of the transaction at the reporting date.

## **j. Lease payments**

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease.

## **k. Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.