

6 December 2023

The Board of Directors
Dunedin City Holdings Ltd
PO Box 5045
Dunedin 9054

Dear Directors

LETTER OF EXPECTATION FOR THE YEAR ENDING 30 JUNE 2025

1. This Letter of Expectation (the Letter) outlines the matters the Dunedin City Council (DCC) expects the board of Dunedin City Holdings Ltd (DCHL) to address in the business planning process for the 2024/2025 financial year.
2. The Letter is intended to create an opportunity for DCHL and DCC to have strategic alignment through enhanced communication and engagement.

DCHL purpose

3. DCHL oversees eight subsidiary and associate companies. DCHL's portfolio comprises 100% shareholdings in Aurora Energy Ltd, City Forests Ltd, Delta Utility Services Ltd, Dunedin City Treasury Ltd, Dunedin Railways Ltd, Dunedin Stadium Property Ltd and Dunedin Venues Management Ltd. It also owns 50% of Dunedin International Airport Ltd.
4. DCHL's purpose is to achieve for Dunedin the best from its investments and provide leadership and oversight of its subsidiary and associated companies on behalf of the ultimate Shareholder, the Dunedin City Council. It is imperative that DCHL provides a commercial return relative to the value of the investments owned.
5. DCHL is responsible for setting the strategic direction of Dunedin City Council's CCOs as a group, monitoring their operational performance, appointing directors to their boards, providing input into annual planning documents, and providing or withholding approval for transactions where approval is required.
6. DCHL's Statement of Intent lists its current objectives as:
 - Enhance the value of Council's assets and investments for future generations
 - Sustainably grow the value of the Council's investment portfolio
 - Provide a sustainable dividend to Council
 - Contribute to Council's goals for the city
 - Ensure independence between council and companies' operations

Focus for the 2024/25 financial year

7. In the 2024/25 financial year, we expect DCHL to continue with its purpose of achieving for Dunedin the best from its investments. We specifically expect DCHL to:
- Continue to work with the DCC on the possible transition of some Council Controlled Organisations from DCHL to direct DCC investments.
 - Continue to work with the DCC on what the future outlook is for DCHL (including subsidiaries) and provide a high level forecast of the financial returns and dividends to the DCC for the next 1-5 years to assist with informing a DCHL dividend policy.
 - Provide the DCC with strategic options (including the future composition and direction of the portfolio) that allows the DCC to consider the implications for the DCC as shareholder, with a particular focus on dividends/return on investment from DCHL. This should also include an assessment of historic performance to relevant benchmarks and what this means for expected future performance.
 - Continue to ensure each company measures and reports its carbon footprint, maintains emission reduction targets, and implements emissions reduction plans, to contribute to Council's goal (as set out in the Carbon Zero Plan 2030) of reducing Dunedin's carbon emissions to net zero (excluding biogenic methane) by 2030, with a focus on gross emissions reduction consistent with 1.5°-aligned pathways.
 - Ensure each company sets, measures, and reports on progress towards waste minimisation goals, and implements waste reduction plans. As set out in the Waste Minimisation Management Plan, Council's waste minimisation goals are to reduce Dunedin's solid waste to less than 638kg per person per annum, and reduce solid waste disposed to landfill to less than 47,264 tonnes per annum.
 - Work with each company to develop measures and targets for inclusion in their Statements of Intent that are relevant, measurable, clear, and fit for purpose. In DCHL's Statement of Intent, include performance objectives for the group as required by the Local Government Act 2002.
 - Develop a sponsorship policy for all companies, that aligns with the Council's strategic framework.
 - Reinstate the internship programme.
 - Continue to align with DCC living wage policies.

Climate Change

8. The Council is committed to addressing climate change with a focus on gross emissions reduction consistent with 1.5°-aligned pathways.
9. The Council is taking a leadership role on this matter and is asking all members of its wider group to also adopt the target to be net zero carbon by 2030, with the focus being on reducing greenhouse gas emissions and then offsetting any residual amount.
10. The Council notes that DCHL is committed to this but asks the DCHL group to continue to review its activities from an emissions reduction perspective and advise Council how the DCHL group will contribute to the Council's Zero Carbon work programme.
11. The DCC acknowledges the work to date baselining emissions for each company, and to set targets and goals focused on gross emissions reduction. The Council acknowledges some of

DCHL's subsidiaries face challenges that are not easily addressed, at least in the short term. The Council supports the approach that DCHL is taking to become net carbon zero as a group initially. However, DCHL must not lose sight of the goal of each company achieving the 2030 target; this is what the Council will report progress against publicly.

12. We would like DCHL to continue to provide ongoing reporting including the extent to which the DCHL group itself may be able to reduce emissions, the challenges to which solutions are not readily apparent or available and the potential cost of offsetting residual emissions.

General expectations of DCHL

13. We require DCHL and subsidiary and associate companies to:
 - Manage operations in accordance with company constitutions, Statements of Intent and relevant legislation
 - Be cognisant of the political context in which they operate, and recognise that Council is accountable to the community for DCHL group companies' performance
 - Observe the practice of "no surprises"
 - Ensure best practice governance for all companies
 - Be transparent and accountable, including compliance with Local Government Official Information and Meetings Act 1987 (LGOIMA) and information disclosure policies
 - Ensure health and safety is a top priority across the group, and that appropriate policies and structures are in place to support this
 - Ensure appropriate risk management structures are in place
 - Act within investment and divestment approval thresholds defined in Statements of Intent
 - Obtain all debt funding from Dunedin City Treasury Ltd (DCTL)
 - Use the group insurance broker and tax advisor appointed by Council
 - Comply with group-wide considerations in DCC's Procedure for the Appointment and Remuneration of Directors of DCHL
 - Take diversity into account when appointing directors to DCHL and subsidiary companies
 - Seek opportunities for companies to contribute to Council's Strategic Framework
 - Ensure group wide policies are put in place where appropriate and that policies are aligned with those of Council and related guidelines established by the Office of the Auditor-General (OAG).

Dividends and debt

14. DCHL's current dividend policy is to pay a minimum 60% of the DCHL parent company's after-tax profit, subject to the Directors' obligations to act in accordance with their statutory duties and in the best interest of DCHL.
15. The dividend policy between Council and DCHL needs to achieve a greater level of certainty and transparency when it comes to dividend payments and retentions.
16. Council acknowledges that the group needs to retain cash for reinvestment in their various businesses as well as for debt servicing and repayment. Consistent with 7 above, the Council however wishes to have a Group wide view of where debt and debt servicing is best placed.

Council wants to work proactively with DCHL to ensure the capital needs of the group, debt financing and repayment obligations and distributions available to the Council are mutually acceptable and effective for all. This work will be informed by the forecast short-medium terms results and will take into account the results of the subsidiary companies.

17. The outcome from this would be a clear statement of dividend policy of DCHL as parent and the subsidiary companies in each Statement of Intent.
18. The DCC requests a dividend from the DCHL trading companies of \$11.0 million for the 2024/25 financial year. This dividend along with the \$5.90 million interest payment will make a total annual distribution of \$16.9 million.

Group Investment Plan

19. Council has nearly completed the development of an investment plan that will oversee how Council manages its investment, including the DCHL trading companies, the Waipori Fund and the Council's investment property portfolio. This plan will establish a framework for future dividends. The expectation for the DCHL trading companies will be for a higher distribution than that requested above.
20. DCHL's input into this process is expected as the investment plan is adopted and implemented.

Reports

21. Council requests that the DCHL Group continues to standardise financial reporting from each company, including content and presentation of financial information in the Statements of Intent.

Working with DCC

22. We expect DCHL to keep Council informed of the companies' financial performance and progress towards achieving the goals set in the Statements of Intent.
23. We expect DCHL to provide input into the development of the investment plan.
24. We expect DCHL to work on what the future outlook is for DCHL (including subsidiaries) and to provide a high level forecast of the financial returns and dividends to shareholders for the next 1-5 years.
25. We expect DCHL to provide the DCC with strategic options (including the future composition and direction of the portfolio) that allows the DCC to consider the implications for the DCC as shareholder with a particular focus on dividends/return on investment from DCHL.
26. We require DCHL to provide:
 - Quarterly updates to the Finance and Council Controlled Organisations Committee
 - Half-yearly and Annual Reports in accordance with the Local Government Act 2002
 - A two-monthly update to DCC's Audit and Risk Subcommittee on DCHL/DCTL Audit and Risk Activity
 - Briefings for Councillors on matters of significance as required.
27. We also expect DCHL to invite the Mayor, Deputy Mayor, Chair and Deputy Chair of the

Finance and Council Controlled Organisations Committee, DCC Chief Executive and Chief Financial Officer to a session with the DCHL board meeting each quarter, to review the achievement of financial targets and other performance measures identified in the Statements of Intent.

Next steps

28. The Letter of Expectation forms the basis for the development of your Statement of Intent for the year ending 30 June 2025.
29. Draft Statements of Intent of DCHL Group companies are due to be delivered to Council on or before 1 March 2024. Your Statements of Intent should reflect the Letter of Expectation and comply with the requirements of the Local Government Act (see s64 and Schedule 8).
30. We look forward to working with you in the coming financial year. Please contact me if you have any queries relating to this letter or Council's expectations of DCHL.

Yours sincerely



Jules Radich
Mayor of Dunedin