



DUNEDIN CITY HOLDINGS LIMITED

Dunedin City Holdings Limited Statement of Intent For the Year Ending 30 June 2017

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1 INTRODUCTION

A Council-controlled organisation (CCO) is an organisation in which the council controls 50 per cent or more of the votes or has the right to appoint 50 per cent (or more) of the directors or trustees.

Council-controlled trading organisation (CCTO) means a council-controlled organisation that operates a trading undertaking for the purpose of making a profit

A CCTO is required by law to produce a Statement of Intent (SOI). A SOI is an annual planning document.

2 PURPOSE OF STATEMENT OF INTENT

The SOI demonstrates the accountability to shareholders and the public by outlining the activities and intentions for the next three financial years. It provides an opportunity for the shareholders to influence the CCTO's direction by commenting on the draft version of the SOI. The SOI provides the basis for the accountability of the directors to their shareholder for the performance of the organisation.

The CCTO is required by law to report in its annual report on its performance targets set in the SOI.

3 OBJECTIVES

As defined in section 58, Principal objective of council-controlled organisation of the Local Government Act (LGA) is:

- a) 'Achieve the objective of its shareholders, both commercial and non-commercial, as specified in the statement of intent; and
- b) Be a good employer as per clause 6 of Schedule 7 LGA);and
- c) 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 insist these when able to do so; and
- d) Conduct its affairs in accordance with sound business practice.

4 CORPORATE GOVERNANCE

a) Local Government Act 2002, Role of Directors

As defined in Section 58 of the LGA:

'The role of a director of a council-controlled organisation is to assist the organisation to meet its objectives and any other requirements in its statement of intent.

This section does not limit or affect the other duties that a director of a council-controlled organisation has.

- b) In addition to the obligations of the LGA, the company is also subject to the requirements of The Companies Act 1993.
- c) And all other applicable legislative requirements that apply.'

5 NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

The principal activity of the Company is to provide leadership and oversight of its subsidiary and associated companies on behalf of the ultimate shareholder, Dunedin City Council.

This involves undertaking on-going oversight of subsidiaries' financial and non-financial performance. In carrying out this function the Board will assess the risks of the activities undertaken by its subsidiaries in the light of the financial sustainability needs of the Dunedin City Council.

Where there is a conflict between maximising the return on investment in each subsidiary and the level of free cash flow required to meet the shareholder's objectives the latter shall prevail while ensuring that the company/group remains financially secure.

As a holding company it is the manager of a portfolio of corporate investments. If it is to maximise benefit to its shareholder, the Dunedin City Council, it may wish from time to time to rebalance the composition of its portfolio by purchases or sales in response to, or in anticipation of, on-going changes in the marketplace.

It is noted that the Board may also from time to time be asked to consider changes to its portfolio in response to changes in the city's strategic direction.

6 FINANCIAL FORECASTS

a. The ratio of Shareholders' Funds to Total Assets and the definition of those terms.

	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Shareholders' Funds to Total Assets	50%	51%	51%

The Company has adopted a target Shareholder Funds to Total Assets ratio (equity ratio) of 50%, but expects this ratio will fluctuate depending on a variety of circumstances including asset renewal and investment cycles. During periods of higher capital expenditure, the equity ratio will likely be lower and, at other times, may exceed the current target.

Shareholders' Funds - are represented by the paid up capital, reserves created by the revaluation of specific assets, and retained earnings.

Total Assets – means the aggregate amount of all current and non-current assets.

b. Estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the shareholders.

	Year ending 30/06/2017 \$'000	Year ending 30/06/2018 \$'000	Year ending 30/06/2019 \$'000
Dividend Distributions	946	1,229	1,397
Interest paid to shareholder	4,956	4,956	5,320
Intergroup Subvention payments	5,250	5,250	5,250

c. Other Financial Forecasts

	Year ending 30/06/2017 \$'000	Year ending 30/06/2018 \$'000	Year ending 30/06/2019 \$'000
EBITDA	9,610	9,136	9,132
Net Profit after Tax	3,223	2,794	2,447
Cash Flow from operations	3,251	2,799	2,467
Capital Expenditure			
Term Loans	31,000	29,500	28,500

The projections provided have been prepared using the most recent Company Budget information and incorporate a number of assumptions about the future metric's of key business profitability drivers. In deriving these projections advice and judgement has been applied to predict the future state of the commercial market environment in which the Company operates.

7 ACCOUNTING POLICIES

a) General Accounting Policies

The accounting policies recognised by the Chartered Accountants Australia New Zealand for the measurement and reporting of financial performance and financial position have been applied on a basis consistent with those used in previous years.

b) Particular Accounting Policies

The particular accounting policies, which materially affect the measurement and reporting of financial performance and financial position, are consistent across the DCHL group and are fully listed in the Company's annual report.

8 PERFORMANCE TARGETS AND OTHER MEASURES

Business Objectives		
Goals	Objectives	Performance Measures
Review the Statements of Intent and plans of each of the group companies for consistency with the strategic direction of the Dunedin City Council.	Ensure that the Statement of Intent and operating policies for each of the group companies are consistent with the strategic direction of the Dunedin City Council and Dunedin City Holdings Limited.	A review of the draft Statements of Intent to be completed by 31 December 2016.
Review the operating activities of each of the group companies along with Dunedin City Holdings Limited for compliance with the goals and objectives stated in the Statement of Intent.	Monitor the group companies to ensure that their respective Statements of Intent are adhered to along with that of Dunedin City Holdings Limited.	Reviews of the operating activities are to be performed annually or as required by the Board of Dunedin City Holdings Limited.
Financial		
Goals	Objectives	Performance Measures
Monitor financial performance of each of the group companies.	Maximise in the long term the financial returns of the Dunedin City Holdings group to Council, as cash returns generated by the group allow.	Continual reviews to be performed on a monthly basis in relation to operating initiatives and financial performance of each of the group of companies, excluding Dunedin International Airport Limited which reports on a quarterly basis.
Monitor the capital structure of each group company.	Maintain the group's financial strength through sound financial management.	The capital structure of the group of companies will be reviewed at the half year and full year balance dates.
Review the capital expenditure of each of the group of companies for compliance and approval as required by Dunedin City Holding Limited.	Ensure that capital expenditure within the Dunedin City Holdings group, and particularly of each subsidiary, is in accordance with the capital expenditure budget of the group and is approved by Dunedin City Holdings Limited.	Continual reviews on a monthly basis of capital expenditure, excluding Dunedin International Airport Limited which reports on a quarterly basis.

Statement of Intent 2016

Shareholders		
Goals	Objectives	Performance Measures
Engage with the shareholder annually on opportunities for the company and/or its subsidiaries to contribute, or assist where possible, with Council's community outcomes (as listed in the annual plan).	Consult with shareholder on matters to be included in the company's Statement of Intent.	In the annual company's Statement of Intent having given consideration to the shareholder's expectations.
Bring to the attention of the shareholder any strategic or operational matters where there may be conflict between the Council's community outcomes and those of the company and seek the shareholder's view on these.	Consult with the shareholder at the earliest possible time on matters where conflict may or could result.	Number of matters that have been escalated to the shareholder.
Keep the shareholders informed of all substantive matters.	On a 'no surprises' basis advise the shareholder promptly of any substantive matter that has the potential to impact negatively on shareholders and the company with a particular focus on the media.	Number of substantive matters that have been reported to the shareholder within 5 days of the Dunedin City Holdings Limited board becoming aware of them.
Encourage each company within the group to act as a socially and environmentally responsible corporate citizen.	Review the activities undertaken by the group companies for purposes of being a socially and environmentally responsible corporate citizen.	A review of the activities undertaken by the group companies for purposes of being a socially and environmentally responsible corporate citizen will be undertaken annually.

9 INFORMATION TO BE PROVIDED TO THE SHAREHOLDERS IN THE FINANCIAL REPORTS

	Monthly	Quarterly	Half Yearly	Annual
Statement of Financial Performance	X	X	X	X
Statement of Financial Position	X	X	X	X
Statement of Cash Flows	X	X	X	X
Statement of Service Performance against SOI targets		X	X	X
Statement of Movement in Equity			X	X
Notes to the Financial Statements			X	X
Directors' Report			X	X
Auditors Report				X
Statement of Intent (Draft)				Prior to 28th February
Statement of Intent (Final)				Prior to 30 th June

10 DIVIDEND POLICY

The Company wishes to maintain an appropriate capital structure and will every three years (as part of Council's long term plan) review that structure to determine whether additional capital can be released and whether changes need to be made to the dividend policy. The Company notes the Shareholder's desire to receive dividends and will use its best endeavours to accommodate that desire within the constraints imposed by the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company Distributions at that level. Dividends will be paid in two instalments 31 December and 30 June.

11 ACQUISITION/DIVESTMENT OF SHARES OR ASSETS IN ANY COMPANY OR ORGANISATION

The Company will only invest in the shares of another company or invest in an entity if the investment is considered to be likely to produce added value to the Company. In order to maximise benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, on-going changes in the marketplace.

If the Directors intend that the Company or its subsidiaries should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$10 million.

If the Directors intend that the Company or its subsidiaries should subscribe for or otherwise acquire issued capital or an interest in any company or organisation (other than minimum holdings in listed companies in related industries) exceeding a total investment of \$10 million they will obtain prior approval of the Shareholder.

The approval of the Shareholder is required before disposal by the Company of any segment of its business or shares in a subsidiary or associate company where the value of the asset to be disposed of exceeds the investment delegated authority of \$10 million.

12 COMPENSATION SOUGHT

At the request of the Shareholder, the Company may undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities. At present, the Company does not have any activities in respect of which its Board wishes to seek compensation from any local authority.

13 COMMERCIAL VALUE OF SHAREHOLDERS' INVESTMENT

The commercial value of the Shareholder's investment in the Company is considered by the Directors to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

14 OTHER MATTERS AS AGREED BY THE SHAREHOLDERS AND THE BOARD

- a) The undertaking by the Company of any activity of a nature or scope not provided for in the Company's mission or goals would be subject to the prior approval of the Shareholder.
- b) The approval of the Shareholder is also required before the Company could dispose of any segment of its business or shares in a subsidiary or associated company where the value of the asset to be disposed of exceeds the investment delegated authority set out in Section 11 above.
- c) The Company has entered into a Deed of Understanding between the Dunedin City Council, and members of the Group, imposing upon the Company certain restrictions, requirements and obligations as set out in the Deed.

15 TRANSACTIONS WITH RELATED PARTIES

Dunedin City Council is the sole Shareholder in Dunedin City Holdings Limited, Dunedin City Holdings Limited is the sole Shareholder in Aurora Energy Limited, City Forests Limited, Delta Utility Service Limited, Dunedin City Treasury Limited, Dunedin Venues Management Limited and Dunedin Venues Limited.

Dunedin City Holdings Limited owns 72.03% of Taieri Gorge Railway and 50% of Dunedin International Airport Limited.

Transactions between the Companies, Dunedin City Council and other Dunedin City Council controlled enterprises will be on a wholly commercial basis.

Charges from Dunedin City Council and its other entities and charges to Dunedin City Council and its other entities will be made for goods and services provided as part of the normal trading activities of each Company.

Related Party Transactions

Dunedin City Council	Council rates for properties owned by the Companies
	Administration and office services
	Interest on Shareholder advance
	Provision of financial services
Dunedin City Treasury Limited	Specific Treasury functions and interest on term borrowings
Group Companies	Functions appropriate between Parent company and subsidiaries
	Subvention and dividend transactions
	Management Services

16 GROUP FACILITY USE

The Company will undertake to use the group's purchasing power of goods and services for the benefit of the whole group.

APPENDIX 1: DUNEDIN CITY COUNCIL VISION: DUNEDIN IS ONE OF THE WORLD'S GREAT SMALL CITIES

The vision of the Dunedin City Council Long Term Plan is to make Dunedin an attractive place to work, live, study and visit.

This is achieved by the following Strategic Framework.



APPENDIX 2: STRATEGIC FRAMEWORK

Strategy	Priority	Explanation
Social Wellbeing Strategy (2013)	Connected people	Making people feel connected and involved in community and city affairs.
	Vibrant and cohesive communities	Building better communities both at a local/geographic level and communities of interest.
	Healthy and safe people	Promoting good health and ensuring people feel safe, and are safe.
	Standard of living	Promoting a good work/ life balance and full employment.
	Affordable and healthy homes	People are living in warm and healthy homes and affordable housing options are available to all.
Economic Development Strategy (2012)	Business vitality	Improving the ease of doing business. Growing the value of exports.
	Alliances for innovation	Improving linkages between industry and research. Increasing scale in innovative and tradable sectors.
	A hub for skills and talent	Increasing the retention of graduates. Building the skills base. Growing migrant numbers.
	Linkages beyond our borders	Increasing international investment. Establishing strategic projects with other cities.
	A compelling destination	Marketing Dunedin and exporting education uplift.
Te Ao Tūroa - Environment Strategy (early draft themes)	Connecting people with the environment	Dunedin's community enjoys and is connected with the natural environment.
	Guardianship of the environment	Dunedin's community actively works together to understand, enhance and celebrate the values of the natural environment.
	Protecting and enhancing the environment	Dunedin protects, restores and enhances its natural heritage, biodiversity, landscapes and ecosystems.
	Responding to environmental changes	Dunedin limits its impact on, and adapts to, environmental changes, including climate change.
	Sustainable resource use	Dunedin reduces reliance on non-renewable resources, minimises waste and uses water responsibly
Ara Toi – Arts & Culture Strategy	Identity Pride	Building unity and community pride by celebrating the city's character, diversity and individuality through arts and culture.
	Access and inclusion	Enabling self-expression and sharing of ideas to connect diverse people.
	Creative economy	Capitalising on the economic growth of the arts and culture sector.
	Inspired connections	Utilising existing networks and fostering new connections to facilitate creativity.
Spatial Plan (2012)	A liveable city	A healthy and safe environment; quality air and water; a connected community; recreation, leisure & learning, opportunities; healthcare, and warm housing.
	An environmentally sustainable and resilient city	Resilient ecosystems and communities; actively responding to climate change; reducing dependence on non-renewable resources; seismic-strengthened heritage buildings.
	A memorable and distinctive city	Protecting significant landscapes; quality architecture and urban design; memorable and engaging public art; celebrating Tangata Whenua and European heritage; actively re-using built heritage.
	A city that enables a prosperous and diverse economy	Maintaining and growing our rural economy, industrial base and world class communications; attracting and retaining internationally-focused people; supporting and benefiting from the tertiary education sector.
	An accessible and connected city	An urban form that supports accessibility from a range of modes and sustainable transport choices; a safe and efficient road network; affordable and convenient public transport; it is safe and pleasant to walk and cycle.
	A vibrant and exciting city	A successful arts and culture scene, vibrant central city and local centres.
Parks & Recreation Strategy (early draft themes)	Well-connected open spaces	Managing green and open spaces to provide for social interaction and physical health and wellbeing.
	Accessible recreational facilities	Making recreational open spaces and facilities accessible to all.
	Collaborate to provide and protect	Working collaboratively to improve recreation and environmental outcomes.
Integrated Transport Strategy (2013)	Safety	Prioritising safety improvements according to risk.
	Travel choices	Prioritising investment and space to improve the provision of active modes and public transport.
	Connectivity of centres	Improving connections within and between centres and the central city for public transport and active modes.
	Freight	Efficiently and effectively moving freight.
	Resilient network	Integrating land use and transport to reduce demand for vehicle travel and increasing the resilience of the transport network.
Three Waters Strategy (2010)	Meeting water needs	Meeting the safe and quality water needs of the city for the next 50 years from existing water sources.
	Adaptable supply	Being able to adapt our water supply to a variety of future climate change and population scenarios.
	Environmental protection	Improving the quality of our discharges to minimise the impact on the environment.
	Maintaining service levels	Ensuring that, as a minimum, key service levels are maintained into the future.
	Kaitiakitaka	Adopting an integrated approach to management of the three waters and embrace the concept of kaitiakitaka.