



DUNEDIN CITY HOLDINGS LIMITED

STATEMENT OF INTENT

For the Year Ending 30 June 2022

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1. INTRODUCTION

Dunedin City Holdings Limited (DCHL) is a Council-Controlled Organisation (CCO) owned by Dunedin City Council (the Council).

DCHL oversees eight subsidiary and associate companies that own and manage key city infrastructure and provide benefit to the city. 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.



This Statement of Intent (SoI) sets out DCHL's planned activities, objectives and financial forecasts for the next three years. It includes performance measures and targets which will be reported against in DCHL's 2022 Annual Report.

2. OBJECTIVES

DCHL's purpose is to achieve for Dunedin the best from its investments. This purpose is supported by more specific strategic objectives and activities, as shown in the company's strategic framework:

To achieve the best for Dunedin from its investments.

STRATEGIC OBJECTIVES

Enhance the value of Council's assets and investment for future generations	Sustainably grow the value of 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
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ACTIVITIES

Monitor performance of DCHL Group companies, and the portfolio as a whole, to ensure performance (financial and other) is optimised	Provide input on DCHL Group companies' medium to long term strategies	Appoint Directors to DCHL Group companies; appoint Chairs of subsidiary companies	Set expectations through annual Letters of Expectation to DCHL Group companies	Review and approve DCHL Group Statements of Intent (Sols)	Seek opportunities to create synergies, leverage experience or expertise across DCHL Group, where appropriate
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VALUES

LEADERSHIP	INTEGRITY	STEWARDSHIP	TRANSPARENCY	PRO-ACTIVE
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In 2021/2022, DCHL intends to focus on active management of its portfolio, and further development of its long-term strategy to build shareholder value.

DCHL's objectives and targets for the year, as set out on the following page, support this focus.

As a Dunedin City Council Group company, DCHL aims to contribute to the Dunedin City Council's strategic framework and achievement of city objectives.

As a CCO, DCHL also has the following objectives, as defined in the Local Government Act 2002:

- 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; 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 encourage these when able to do so.

DCHL conducts its affairs in accordance with sound business practice.

3. APPROACH TO GOVERNANCE

DCHL is governed by a board of independent directors appointed by the company's shareholder. Directors meet regularly to direct and control DCHL's proceedings.

The role of a Director of a CCO is defined in the Local Government Act 2002 as "to assist the organisation to meet its objectives and any other requirements in its Statement of Intent."

The DCHL board operates in accordance with accepted best practice.

DCHL holds responsibility for appointing directors to the boards of Aurora Energy Ltd, City Forests Ltd, Delta Utility Services Ltd, Dunedin Railways Ltd¹ and Dunedin Venues Management Ltd. DCHL is also responsible for appointing two of the four directors of Dunedin International Airport Ltd, and for appointing the Chair of Dunedin Stadium Property Ltd.

DCHL makes all appointments in accordance with its procedures. This includes giving consideration to a range of factors, including demographic diversity, location, succession planning, stakeholder and community relationships, whether knowledge of tikanga Māori may be relevant, potential actual or perceived conflicts of interest of candidates, and DCHL's objectives for the relevant board.

DCHL are supportive of equal employment opportunities at all levels within the Dunedin City Holdings Ltd Group.

4. NATURE AND SCOPE OF ACTIVITIES

DCHL is responsible for setting the strategic direction of Dunedin City Council's companies as a group, monitoring their operational performance, appointing directors to their boards, providing input to annual planning documents, and providing or withholding approval for transactions where approval is required. These activities are reflected in the company's strategic framework above.

The undertaking by DCHL of any activity of a nature or scope outside of this would be subject to the prior approval of the shareholder.

¹ As at 1 July 2020, Dunedin City Council has appointed DCHL directors to the Board of Dunedin Railways Ltd as an interim arrangement. Longer term governance decisions will be made once Council has made further decisions about Dunedin Railways Ltd's future.

5. PERFORMANCE TARGETS

Strategic Objective	Activity	Target
To encourage and facilitate increased shareholder value of DCHL Group companies	Monitor performance of DCHL Group companies to ensure returns (financial and other) are optimised	- DCHL Board perform a monthly review of DCHL Group companies' operating activities, including financial performance against budget (DIAL quarterly) - DCHL Board monitor DCHL Group companies' progress against their SoI targets quarterly
	Seek opportunities to create synergies, leverage experience or expertise across DCHL Group, where appropriate	Synergies have been made across the DCHL Group
To take a long term and strategic view of the portfolio, and make proposals to Council on strategic issues	Monitor performance of DCHL portfolio as a whole to ensure returns (financial and other) are optimised	- DCHL Board review consolidated DCHL Group financial performance against budget (monthly) - DCHL Board review of DCHL Group companies' rates of return (quarterly) - DCHL Board provide a quarterly update to Council on the DCHL Group's performance (financial and other)
	Consider strategic issues	- DCHL Board review the ownership and capital structures of the DCHL Group companies (at least annually) - Consider capital expenditure proposals and business cases in accordance with company constitutions and SoIs
	Provide input on DCHL Group companies' medium to long term strategies	- DCHL Board engage with each group company at least annually on strategy - DCHL Board meet with full group of Chairs twice annually
To promote and support DCHL Group companies' contribution to Council's Strategic Framework and Climate Change and Carbon Neutrality initiatives	Review and approve DCHL Group Statements of Intent for consistency with Council's strategic direction	- Review draft SoIs by 1 March 2022 - Approve SoIs by 30 June 2022
	Set expectations through annual Letters of Expectation to DCHL Group companies	Send Letters of Expectation to subsidiary and associate companies by 20 December 2021
	Support progress across the DCHL group in moving towards measuring, reporting and reducing carbon emissions and waste	- Co-ordinate DCHL Group companies (including DCHL) to disclose their carbon footprint in their Annual Report - DCHL Board review subsidiary and associate companies' carbon emissions reduction strategies and associated targets, and set a strategy and targets for DCHL. - DCHL Board review subsidiary and associate companies' waste reduction strategies and associated targets, and set a strategy and targets for DCHL.
To ensure DCHL Group companies have best practice governance, are good employers, and operate in an environmentally and socially responsible way	Appoint Directors to DCHL Group companies; appoint Chairs to subsidiary companies	Appointments and re-appointments are all completed on time, and in compliance with DCHL and Council policy
	Ensure companies are good employers, and operate in an environmentally and socially responsible way. DCHL expects Group companies to maintain ongoing focus on health and safety as a top priority.	- Ensure DCHL Group companies have appropriate policies and procedures in place - Co-ordinate with companies on additional ESG disclosures in 2022 Annual Reports, including CEO remuneration and board and senior management gender diversity

Strategic Objective	Activity	Target
Communicate with the shareholder on a 'no surprises' basis.	Consult with the shareholder in a timely manner on DCHL Group strategic or operational matters which could compromise the Council's community outcomes.	All such matters escalated to the shareholder in a timely manner.
	Report to the shareholder within 24 hours of the Board becoming aware of any substantive matter, including any matter likely to generate media coverage.	All such matters reported to the shareholder within 24 hours.

6. FINANCIAL FORECASTS

This section sets out DCHL Group's financial forecasts for the next three financial years.

The ratio of Shareholder's Funds to Total Assets and the definition of those terms.

	Year ending 30/06/2022	Year ending 30/06/2023	Year ending 30/06/2024
Shareholder's funds to total assets	23%	22%	22%

"Shareholder's 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.

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

	Year ending 30/06/2022 \$'000	Year ending 30/06/2023 \$'000	Year ending 30/06/2024 \$'000
Interest paid to shareholder	5,902	5,902	5,902
Dividend distributions	0	0	0

Other Financial Forecasts

	Year ending 30/06/2022 \$'000	Year ending 30/06/2023 \$'000	Year ending 30/06/2024 \$'000
Net profit after tax	10,091	21,862	23,761
Cash flow from operations	39,943	53,506	65,781
Capital expenditure	94,726	97,710	99,694
Contributions of equity	2,550	2,550	2,550
Term loans – parent	22,544	20,634	18,874
- group	956,180	1,063,841	1,146,184

Contributions of equity of \$2,550,000 are injected as capital into the DCHL parent, as recommended in the 2015 Stadium Review. It is then injected into Dunedin Stadium Property Limited and Dunedin Venues Management Limited to assist with the operational, capital and debt financing requirements of these companies.

Financial forecasts are based on forecasts from subsidiary and associate companies. The projections provided have been prepared using the best information available at the time of preparation.

7. ACCOUNTING POLICIES

General Accounting Policies

The accounting policies recognised by the External Reporting Board (XRB) for the measurement and reporting of financial performance and financial position have been applied on a basis consistent with those used in previous years.

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 DCHL's annual report.

8. DIVIDEND POLICY

DCHL's 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. The actual level of dividend will be determined by the Directors each year in light of the circumstances that exist at the time.

In arriving at a dividend recommendation, Directors will consider:

- a) DCHL's financial performance, in particular, the cash flows from operations;
- b) The ratio of DCHL's shareholders funds to total assets (equity ratio);
- c) DCHL's future investment plans and profitability thereof;
- d) DCHL's ability to raise loans and the terms thereof;
- e) DCHL's current cost of borrowings; and
- f) The objective to provide a consistent dividend flow to the shareholder.

Any dividend will be paid by 30 June.

The Directors anticipate no dividend will be paid for the next three financial years.

9. COMMERCIAL VALUE OF THE SHAREHOLDER'S INVESTMENT

The commercial value of the Shareholder's investment in DCHL 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.

This will be considered annually when the Statement of Intent is completed.

10. TRANSACTIONS WITH RELATED PARTIES

Dunedin City Council is the sole Shareholder of DCHL.

DCHL is the sole Shareholder of Aurora Energy Limited, City Forests Limited, Delta Utility Services Limited, Dunedin City Treasury Limited, Dunedin Railways Ltd, Dunedin Venues Management Limited and Dunedin Stadium Property Limited.

DCHL owns 50% of Dunedin International Airport Limited.

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

Charges from DCC and its other entities and charges to DCC 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	Provision of administrative and financial services to DCHL
	Interest on shareholder advance and dividends to DCC
Dunedin City Treasury Limited	Provision of debt funding to DCHL generating interest payments to DCTL
	Provision of management services to DCHL
Group Companies	Subvention and dividends to DCHL

DCHL and its subsidiaries will undertake to obtain all debt funding from DCTL, with exceptions as agreed with the Board of DCHL.

11. OTHER MATTERS AS AGREED BY THE SHAREHOLDER AND THE BOARD

Information to be provided to the shareholder

Information	Quarterly	Half Yearly	Annual
Key financial performance indicators	✓	✓	✓
Statement of Financial Performance		✓	✓
Statement of Financial Position		✓	✓
Statement of Cash Flows		✓	✓
Statement of Movement in Equity		✓	✓
Notes to the Financial Statements		✓	✓
Statement of Service Performance against SoI targets	✓	✓	✓
Directors' Report		✓	✓
Auditors' Report			✓
Draft Statement of Intent			Prior to 1 Mar
Final Statement of Intent			Prior to 30 Jun

Working with the shareholder

DCHL will undertake to keep the shareholder informed of all substantive matters, as set out in the performance targets above. DCHL will work to build a culture of accountability and constructive working practices between DCHL, its subsidiaries and the shareholder. It is expected that any conflicts that may arise will be resolved directly between the shareholder and DCHL, in accordance with appropriate governance practices.

Acquisition / divestment of assets or shares in any company or organisation

DCHL 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 DCHL. 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 DCHL or its subsidiaries should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5 million. For the purpose of this section, "asset(s)" includes a group of assets similar in type, cost and useful life that are purchased together and can be identified and maintained as one asset or group of assets following purchase.

If the Directors intend that DCHL 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 \$5 million they will obtain prior approval of the Shareholder.

The approval of the Shareholder is required before disposal by DCHL 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 \$5 million.

Compensation sought

At the request of the Shareholder, DCHL 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.

Dunedin City Council has indicated that it will direct DCHL to fund the costs of operating Dunedin Railways Ltd over FY2022, up to \$2.119 million, without compensation.

At present, DCHL does not have any other activities in respect of which its Board wishes to seek compensation from any local authority.

Group Facility Use

DCHL will undertake "Group" purchasing of goods and services, unless it is demonstrated conclusively to the Shareholder that the total combined cost of such Group purchasing to the Group and Dunedin City Council (including the costs of ceasing any such Group purchasing), is greater than any alternative identified.

Other agreements

DCHL will not accept sponsorship or give naming rights to companies involved in activities deemed to be inconsistent with Dunedin City Council's ethical position.

DCHL will disclose in its Annual Report the proportion of DCHL Group staff receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit).