Draft
Dunedin City Holdings Limited
Statement of Intent
For the Year Ending 30 June 2016

TABLE OF CONTENTS

1.0 Mission Statement

Mission Statement of Dunedin City Holdings Limited
To monitor the performance of its Subsidiary and Associated Companies so as to ensure each Company provides the maximum advantages in all respects to the ultimate shareholder, Dunedin City Council.

2.0 Nature and Scope of Activities

Dunedin City Holdings Limited as the parent company of the group has a primary role to monitor the operating performance of its subsidiary and associated companies on behalf of the ultimate shareholder, Dunedin City Council. To enable this function to be carried out a reporting regime will be implemented with subsidiaries.

This role involves continual reviews of subsidiaries' financial and non-financial performance, against subsidiaries' performance measures as outlined in their respective Statements of Intent. Particular concern is given to cash generation performance. It also includes the assessment of any major business case brought forward by the subsidiaries. In carrying out these reviews the Board will assess the risks of the activities undertaken by its subsidiaries in the light of the financial 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 operationally 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, ongoing changes in the marketplace[1].

Dunedin City Holdings Limited also has a responsibility to ensure that its subsidiary companies receive the synergistic advantages available from being a group of companies.

3.0 Corporate Governance Statement

Dunedin City Holdings Limited is a Council Controlled Trading Organisation (CCTO). The directors' role is defined in Section 58 of the Local Government Act 2002. This section states that all decisions relating to the operation of the CCTO shall be made pursuant to the authority of the directorate of the CCTO and its Statement of Intent (SI). The board is responsible for the preparation of the SI which requires approval from the company's shareholder the Dunedin City Council. In addition to the obligations of the Local Government Act Dunedin City Holdings Limited is also covered by the Companies Act 1993 and governed by directors who must act in accordance with the law and in the best interests of the company and also in accordance with best governance practice.

[1] 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.

The company's board of directors meets on a regular basis to direct and control the company's activities. Directors are appointed following approval by the Dunedin City Council, using procedures set out by Council as the ultimate shareholder.

The Dunedin City Holdings Limited board accepts that it is responsible for the overall control systems operating within the company. Those control systems reflect the specific risks associated with the business of the company itself.

The shareholder reviews and approves the SI and three-year financial plan. Quarterly and annual reports of financial and operational performance will be provided to the shareholder.

4.0 Corporate Goals

The principal goal of the Dunedin City Holdings Limited is to operate as a successful business, achieving the objectives of its shareholder as specified in this Statement of Intent.

The specific corporate goals of Dunedin City Holdings Limited are as follows: -

General

4.1 To ensure that the Statements of Intent and operating policies for each of the group companies are consistent with the operating policies of the Dunedin City Council.

4.2 To monitor the operating activities of the group companies to ensure that their respective Statements of Intent and operating strategies are adhered to.

4.3 To keep the Dunedin City Council informed of matters of substance affecting the group.

4.4 To perform continual reviews of the operating strategies, financial and non-financial performance and service delivery of the group companies.

4.5 To ensure appropriate communication channels exist for group companies to report performance and operating results to Dunedin City Holdings Limited and for Dunedin City Holdings Limited to report to Dunedin City Council

Financial

4.6 To maximise the financial returns of the Dunedin City Holdings group to Council, as cash returns generated by the group allow.

4.7 To maintain the group's financial strength through sound and innovative financial management.

4.8 To ensure that capital expenditure within the Dunedin City Holdings group, and particularly of each subsidiary, is in accordance with the overall economic policy of the group and is approved by Dunedin City Holdings Limited.

Non-financial

4.9 To ensure personnel policies and practices within the group which promote a non-discriminatory, culturally sensitive, equal opportunity workplace.

4.10 To encourage the maintenance of an operating environment within the group which complies with OSH standards, promotes safe work practices and a harmonious industrial relations climate.

4.11 To encourage each company within the group to act as a socially and environmentally responsible corporate citizen

4.12 To engage with the Shareholder on an annual basis around opportunities for the Company and/or its subsidiaries to contribute to or assist where possible with Council's community outcomes (as listed in the Annual Plan)

4.13 To bring to the attention of the shareholder any strategic or operational matters where there may be a conflict between the Council's community outcomes as listed in the Annual Plan and those of the Company or its subsidiaries and to seek the Shareholder's view on these. The Company will be mindful that the Shareholder is the custodian of the community's interest and accepts that this may create a greater need for consultation with the Shareholder than might be required in a normal commercial situation.

5.0 Specific Objectives for the Year Ending 30 June 2016

In pursuit of the company's corporate goals, Dunedin City Holdings Limited has the following objectives for the next twelve months: -

General

5.1 **Dunedin City Council Policies**

To review the Statements of Intent and plans of each of the group companies for consistency with the policies of the Dunedin City Council

5.2 **Operating Activities**

To review the operating activities of each of the group companies for compliance with the goals and objectives stated in their respective Statements of Intent and plans.

5.3 **Matters of Substance**

To report all matters of substance to Dunedin City Council.

Financial

5.5 **Financial Performance**

To monitor financial performance.

5.6 **Financial Strength**

To monitor the capital structure of each group company.

5.7 **Reporting**

To ensure that the reporting requirements of Dunedin City Holdings Limited are met and also that the reporting requirements to the Dunedin City Council are met.

Non-financial

5.8 **Corporate Citizen**

To review the activities undertaken by the group companies for purposes of being a socially and environmentally responsible corporate citizen

6.0 Performance Measures

The objectives set out above will be met on the achievement of the following performance measures: -

General

6.1 **Statement of Intent Review**

A review of the draft Statements of Intent for 2017 to be completed by 31 December 2016.

6.2 **Operating Activities**

Reviews of the operating activities of the subsidiaries are to be performed regularly by the board of Dunedin City Holdings Limited.

6.3 **Matters of Substance concerning any of its Subsidiaries**

Dunedin City Holdings Limited is to report matters of substance to Dunedin City Council within five days of the board becoming aware of them.

Financial

6.4 **Performance Monitoring**

Continual reviews to be performed on a monthly basis in relation to operating initiatives and financial performance of each of the group companies.

6.5 **Reporting**

Monthly reports to be received from each of the group companies within 30 days from the end of the month under review.

Quarterly updates of the consolidated result for the group be provided to Council

An annual review of the performance of the board for each company within the group be undertaken

6.6 **Financial Strength**

The capital structure of the group companies will be reviewed at the half year and full year balance dates.

Non-financial

6.7 **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 completed annually

7.0 Financial Projections

Financial Projections (Parent Company)

	Year Ending 30 June 2016 $'000	*Year Ending 30 June 2017 $'000*	*Year Ending 30 June 2018 $'000*
Operating Surplus before Income Tax	*(45)*	*75*	*75*
Operating Surplus after Income Tax	*(45)*	*75*	*75*
Shareholder's Funds	*21,972*	*22,047*	*22,122*

The projections provided in Sections 7 and 8 of this document have been prepared using a number of realistic assumptions about the future of the current entities that comprise the Dunedin City Holdings group and relate to events and actions which have not yet occurred and may not occur. In deriving these projections judgement has been applied to the uncertain future commercial environment in which the Group's businesses operate.

8.0 Ratio of Shareholder's Funds to Total Assets (Parent Company)

	Year Ending 30 June 2016	*Year Ending 30 June 2017*	*Year Ending 30 June 2018*
Shareholder's Funds to Total Assets	*12.9%*	*12.8%*	*12.8%*

Shareholder's Funds: are represented by 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.

9.0 Dividend Policy

The directors have provided the Dunedin City Council with an estimate of the total cash that they expect to pay from accumulated profits over the next three years. This cash is allocated between interest on the shareholders advance and dividends. The ability to distribute at this level will be dependent on the operational success of the businesses within the Group.

The estimated cash payments from the parent company and its subsidiaries to the Dunedin City Council or as directed by the Dunedin City Council to be paid outside the DCHL group are:

	Year Ending 30 June 2016 $'000	*Year Ending 30 June 2017 $'000*	*Year Ending 30 June 2018 $'000*
Dividend	*0*	*0*	*0*
Interest	*5,902*	*5,902*	*6,052*
Subvention (net cash effect)	*5,250*	*5,250*	*5,250*
Total	*11,152*	*11,152*	*11,152*

10.0 Reporting to the Shareholder

10.1 ANNUAL (Prior to 1 March)

(i) Draft Statement of Intent for Dunedin City Holdings Limited.
(ii) Draft Statements of Intent for the group companies.

10.2 ANNUAL (Prior to 30 June)

(i) Statement of Intent for Dunedin City Holdings Limited.
(ii) Statements of Intent for the group companies.

10.3 HALF YEARLY (prior to the last day of February)

(i) Directors' Report - a review of the company's and the group's performance over the half year.
(ii) Balance Sheet.
(iii) Statement of Movements in Equity.
(iv) Income Statement.
(v) Statement of Cash Flows.
(vi) Notes to the Financial Statements.

10.4 ANNUAL (prior to 30 September)

(i) Directors' Report - a review of the company's and the group's performance over the full year, including a comparison of performance against objectives and key performance measures.
(ii) Income Statement.
(iii) Statement of Movements in Equity.
(iv) Balance Sheet.

(v) Statement of Cash Flows.
(vi) Notes to the Financial Statements.
(vi) Auditors Report on the above Financial Statements.

10.5 FIRST QUARTER and THIRD QUARTER

(i) Directors' Report – a review of the company's and the group's performance over the preceding quarter.

11.0 Accounting Policies

11.1 General Accounting Policies

The accounting policies recognised by the New Zealand Institute of Chartered Accountants complying with the NZ International Financial Reporting Standards will be adopted by Dunedin City Holdings Limited.

11.2 Particular Accounting Policies

The particular accounting policies which materially affect the measurement and reporting of financial performance and financial position for the DCHL are fully listed in the company annual report. This is available from the company and on www.dunedin.govt.nz.

12.0 Acquisition of Shares in Any Company or Organisation

Dunedin City Holdings Limited and group companies will only invest in the shares or assets of another company or organisation if the shares or assets are considered to be likely to produce added value to the DCHL group.

If the directors of DCHL intend that the company or any of its subsidiaries should acquire new assets they will obtain prior approval of the Council where the total investment exceeds $10m.

If the directors of DCHL intend that the company subscribe to issued capital in any additional company or organisation they will obtain prior approval of the Council.

13.0 Transactions with Related Parties

Dunedin City Council

The Dunedin City Council is the sole shareholder in Dunedin City Holdings Limited. Dunedin City Holdings Limited is the sole shareholder in the following group companies:-

- City Forests Limited
- Dunedin City Treasury Limited
- Aurora Energy Limited
- DELTA Utility Services Limited

Dunedin City Holdings Limited also has a 72% shareholding in Taieri Gorge Railway Limited, a 50% shareholding in Dunedin International Airport Limited.

Transactions between the group companies, Dunedin City Holdings Limited, Dunedin City Council and other Dunedin City Council controlled entities 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 services provided as part of the normal trading activities of Dunedin City Holdings Limited.

Related Party	*Transaction Type*
Dunedin City Council	Office support services. Computer support services. Management consulting services. Interest on Shareholders advance Tax subvention transactions.
Group Companies	Management services.

14.0 Group Facility Use

14.1 Group Purchasing

Dunedin City Holdings Limited undertakes to operate "group" purchasing of goods and services unless it is demonstrated conclusively to the shareholder that the total combined cost to the group and to Dunedin City Council of such group purchasing is greater than the total combined cost to the group and to Dunedin City Council of ceasing to purchase such goods and services as a group, including the cost to the group and to Dunedin City Council of ceasing any such group purchasing.

14.2 Electronic Data Processing

Dunedin City Holdings Limited undertakes to continue to use the Dunedin City Council's Central Electronic Data Processing facilities for the next 12 months unless: -

a) Dunedin City Council determines that it cannot or does not wish to continue with the services and gives reasonable notice of its determination in that regard.

b) It is demonstrated conclusively to Dunedin City Council that the total combined cost to the group and to Dunedin City Council of using the service is greater than the total combined cost to the group and to Dunedin City Council of utilising alternative facilities of a similar standard and performance, including the cost to the group and to Dunedin City Council of ceasing to use the existing Central Electronic Data Processing facilities of Dunedin City Council.

15.0 Other Matters Agreed as between the Directorate and the Shareholder

15.1 The undertaking by Dunedin City Holdings Limited of any activity of a nature or scope not provided for in the company's mission or goals will be subject to the prior approval of the shareholder.

15.2 The approval of the shareholder is also required before Dunedin City Holdings Limited can dispose of any segment of its business or shares in a subsidiary or associate company.

15.3 Dunedin City Holdings Limited has entered into a Deed of Understanding between itself, the Dunedin City Council and members of the group, imposing upon the company certain restrictions, requirements and obligations as set out in the Deed.

16.0 Estimate of Commercial Value of Investment

The commercial value of the shareholder's investment in Dunedin City Holdings Limited is considered by the directors to be not less than the shareholder's funds of the company as disclosed in last published balance sheet.

17.0 Use of Otago Manufactured Goods and Services

Dunedin City Holdings Limited will endeavour in its activities to use Otago manufactured goods and services, subject to price, quality and other strategic considerations being met.

18.0 Compensation Sought

Dunedin City Holdings Limited does not have any activities in respect of which its board wishes to seek compensation from any local authority.

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