

From: Sharon Bodeker
To: [REDACTED]
Subject: FW: DCHL: Financial Train Wreck Ahead
Date: Thursday, 28 March 2019 10:59:00 a.m.

Dear [REDACTED]

Your request has been passed on to the LGOIMA team for a response. Please find set out below our answers to your questions below.

Kind regards

Sharon Bodeker
Team Leader Civic
Dunedin City Council

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From: [REDACTED]
Date: 24 February 2019 at 10:23:54 PM NZDT
To: [REDACTED]
Subject: DCHL: Financial Train Wreck Ahead

To: [REDACTED]
From: [REDACTED]

Sunday 24/2/19

Hello [REDACTED]. The DCHL Statements Of Intent (SOI) are now available and they show a very concerning decline in the financial performance of the DCHL group for the next few years. Zero profit was expected for the next ten years, but now your financial team are forecasting big losses for 2020 and 2021 which total \$16.1 million. In addition, the loss from the current financial year (as yet, undisclosed) could bring this up to \$20.0 million.

This loss could have bad implications for the DCC Annual Plan, the ability of DCHL to pay interest to the DCC, the DCC's credit rating and some other things. It looks like you need to do some communicating, and I have decided to help you with this. Please answer the following questions:

1. What is the cause of the DCHL forecast losses in the 2020 and 2021 financial years?

The DCHL forecast losses in the 2020 and 2021 financial years are primarily driven by re-investment in Aurora Energy's electricity

network, which means that Aurora Energy will not be able to pay dividends over those financial years.

2. **What size of loss is expected for the current financial year (2019)?**

The DCHL Group does not expect to record a loss in the current financial year.

3. **You have failed to provide a financial forecast for DVML, is this your way of giving us a clue as to which DCHL subsidiary company is causing the problem? If it isn't DVML, which company/companies are responsible for the bad forecasts for the DCHL group of companies?**

DVML's draft 2019/2020 Statement of Intent (Sol) does not include financial forecasts simply because of timing of their budgeting cycle. The cover report that accompanied the draft Sol's at the Council meeting on 26 February asked Councillors to note that due to compliance time frames and the length of time between preparation of draft and final Sols, financial projections contained in draft Sols are likely to be at a variance with those presented on or before 30 June 2019. DVML's budgets and financial forecasts will be updated before the Sol is finalised, and DCHL and Council, as shareholders, will have the opportunity to consider these.

As noted above, the forecast losses are primarily driven by re-investment in Aurora Energy's electricity network, which means that Aurora Energy will not be able to pay dividends over those financial years.

4. **Has the DCHL management officially informed the DCC staff of this problem – and have the Councillors been informed of this? When was this done and who did it?**

DCHL provide a regular update to Councillors and keep them up to date on all matters of relevance as the shareholder such as the forecast losses.

5. **Have the Councillors been asked to keep quiet about this? And what did your department intend to do about this?**

Councillors have not been asked to keep quiet about the forecast losses.

6. **For 2020 & 2021 do you expect DCHL to default on its DCC interest payments (\$5.9m per year)?**

DCHL do not forecast any risk of defaulting on its DCC interest payments.

7. **Will the DCHL parent company be able to continue to reduce the debt resulting from the debt-for-dividend fraud (2008 to 2012)?**

As set out in its Sol, DCHL intends to continue reducing the parent company debt over the coming three financial years.

8. **What other things are likely to be affected by this unexpected shortfall?**

We do not consider the SOI forecasts represent an unexpected shortfall. As set out in the draft DCHL Sols, forecast cash flow remains strong in financial years 2020-2022 inclusive. The Group will be able to meet its obligations.

9. **Has this been discussed by the ELT and what decisions were made?
When was the meeting?**

This has not been discussed by ELT.

I appreciate your help with this.

regards

