

Dunedin City Treasury Limited

Annual Report 2018

Dunedin City Treasury Limited

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Dunedin City Treasury Limited

Directors' report For the year ended 30 June 2018

The Directors of Dunedin City Treasury Limited are pleased to report on the trading results of the Company for the year ended 30 June 2018.

Principal activities of the Company

The role of Dunedin City Treasury Limited is to identify and manage the financial risks and the liquidity of the Dunedin City Council Group so as to ensure that adequate funds are always available to meet on-going obligations in such a way that financing costs are minimised and the return on surplus funds is maximised within acceptable levels of risk.

The funding and treasury management services of Dunedin City Treasury Limited include the following activities:

- managing financial relationships with third parties
- working capital management
- cash management
- funds management
- financial risk management
- interest rate risk management
- treasury services
- investment portfolio management

Results for the year ended 30 June 2018

	\$'000
Profit before tax	241
Income tax	(70)
Net profit for the year	<u>171</u>

State of affairs

The Directors are satisfied with the results achieved by the Company and believe that the state of affairs of the Company is satisfactory.

Retained earnings and reserves as at 30 June 2018 included a negative hedge reserve of \$8,805 million. This reserve reflected the impact of the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred. The negative equity has no long term impact on the Company's viability as all interest costs in a given financial year are passed on to the group companies in the form of interest charged on monies borrowed from the Company.

Dividends

The Directors recommend that no dividend be paid.

Dunedin City Treasury Limited

Directors' report **For the year ended 30 June 2018**

Review of operations

Dunedin City Treasury Ltd has continued to reduce the cost of funding for the DCC Group over the 2017/2018 financial year. The Company achieved a pleasing reduction in funding cost of approximately 0.69%, equating to a saving of \$4.1 million based on average term borrowings over the past year.

Helping to drive the reduced cost of funding were two refinances undertaken by the Company in October 2017. These involved refinancing a \$20 million Floating Rate Note (FRN) and a \$60 million MTN, by issuing a new FRN and MTN of \$45 million and \$35 million, issued for periods of 3 and 7 years respectively. The new MTN maturing 16 October 2024 has a coupon of 3.79% which compares favourably to the coupon of 7.81% for the October 2017 MTN maturity.

DCTL increased its use of short term funding this year, taking advantage of continued low short term funding costs. The Company has \$120 million promissory notes on issue at 30 June 2018, compared with \$60 million for the same date last year. The Company has achieved strong results with this promissory note programme. The average rate achieved was +0.017% basis points over the 3 month benchmark interest rate, and the average bid coverage ratio was 2.4 times the promissory notes tendered. These results indicate strong investor appetite for our paper.

The Company has also continued to ensure that funding facilities are spread over time, to help manage funding risk. Throughout the financial year, the Company has less than \$200 million of funding due to mature in any forward one year period.

Over the past year, the Official Cash Rate (OCR) has remained unchanged at 1.75%, the lowest OCR setting since the introduction of the OCR in 1999. The yield curve has flattened over the year, with lower bond and swap yields reflecting a benign inflationary outlook.

The Board considers the Dunedin City Treasury Ltd continues to provide significant benefit to the DCHL Group, DCC and Dunedin ratepayers through its provision of cost effective funding the DCHL Group.

The Company's activity is governed by the Treasury Risk Management Policy, which is designed to manage risk across a range of areas. The Company maintained compliance with the Policy at all times and continues to manage funds in the best interests of its borrowers.

Financial statements

The audited financial statements for the year ended 30 June 2018 are attached to this report.

Changes in accounting policies

There have been no changes in accounting policies.

Auditors

The Auditor-General has contracted the audit to Audit New Zealand. The total remuneration payable by the Company to the Auditor for the year was \$25,284 (2017 \$24,963).

Dunedin City Treasury Limited

Directors' report For the year ended 30 June 2018

Directors' interests in contracts

No material contracts involving Directors' interests were entered into during the year ended 30 June 2018 or existed at the end of this twelve month period.

Directors' insurance

As allowed by the Company's Constitution, Dunedin City Treasury Limited has arranged policies of Directors' Liability Insurance which, together with a Deed of Indemnity, ensure that the Directors will incur no monetary loss as a result of actions undertaken by them as Directors, provided that they operate within the law.

Directors' benefits

No Director of Dunedin City Treasury Limited has, since the end of the previous financial year, received or become entitled to receive a benefit.

There were no loans from the Company to Directors.

There were no notices from Directors of the Company requesting use of Company information received in their capacity as Directors which would not otherwise have been available to them.

Outlook

Dunedin City Treasury Ltd is soundly based and conservatively managed. The Board believes that the Company will be able to continue to provide a sound treasury function to the Dunedin City Council Group in the coming years.

Dunedin City Treasury Limited

Directors' declarations of interest For the year ended 30 June 2018

Director	Responsibilities	Declarations of Interests
Graham W Crombie Date appointed 17 October 2013	Chair	Chair, Dunedin City Treasury Limited Chair, Dunedin City Holdings Limited Chair, Otago Museum Trust Chair, NZ Genomics Limited Chair, South Island Information Services Service Level Alliance Chair, TANZ eCampus Limited Independent Chair, Action Engineering Limited Deputy Commissioner, Southern District Health Board Director, A G Foley Limited Director, Dunedin Stadium Property Limited Director, Surf Life Saving NZ Director and Shareholder, Innovatio Limited Shareholder, WJ Investments Limited
Kathleen E Grant Date appointed 17 October 2013	Non-Executive Director	Chair of Council, Otago Polytechnic Commissioner, Southern District Health Board Consultant, Gallaway Cook Allan Director, Dunedin City Treasury Limited Director, Dunedin City Holdings Limited Director, Dunedin Symphony Orchestra
Linda M Robertson Date appointed 17 October 2013	Non-Executive Director	Chair, Audit and Risk Committee, Central Otago District Council Chair, Pacific Radiology Group Limited Director, Auckland Council Investments Limited Director, Crown Irrigation Investments Limited Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, NZ Local Government Funding Agency Director, NZPM Group Limited Director and Shareholder, RML Consulting Limited Member, Audit and Risk Committee, Ministry of Social Development Member, Technical Advisory Committee, NZ Export Credit Office Trustee, Central Lakes Trust
Keith T Cooper Date appointed 2 February 2015	Non-Executive Director	Chair, Highlanders Provincial Union Limited Partnership Chair, Otago Rugby Football Union (Inc) Director, Designability Ltd Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Miller Construction (SI) Ltd Director, Miller Creative Group Limited Director and Shareholder, Littlebrook Farm Limited

Dunedin City Treasury Limited

Directors' declarations of interest For the year ended 30 June 2018

Director	Responsibilities	Declarations of Interests
Brian J Wood	Non-Executive Director	Chair, Buller Holdings Limited Chair, Buller Recreation Limited Chair, Canterbury Linen Services Limited Chair, Project Steering Group, Christchurch Learning Centre, Christchurch City Council Chair, Project Steering Group, Christchurch Town Hall Rebuild Chair, Reinstatement of South Island Transport Corridors Oversight Group - Ministry of Transport (appointed) Chair, Westport Harbour Limited Chair, Westreef Services Limited Chair, Delta Utility Services Limited (appointed) Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Harrison Grierson Holdings Limited Director, Lyttelton Port Company Limited Member, Governance Board for Maintenance Contract, West Coast State Highway, Fulton Hogan Chair, Abley Transportation Consultants Ltd (retired) Director, Aurora Energy Limited (appointed and retired) Director, Interpret Geospatial Solutions Ltd (retired)
Date appointed 17 October 2013		
Resigned 31 December 2017		
Quentin C S Hix	Non-Executive Director	Director, Aoraki Investments Limited Director, Aoraki Management Services Limited Director, Aoraki Trust Management Limited Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Institute of Environmental Science and Research Limited Director, Ngai Tahu Holdings Corporation Limited Director, One To One Corporate Trustees Limited Director, One To One Corporate Trustees 2011 Limited Director and Shareholder, Property Planit Limited Director and Shareholder, Quentin Hix Legal Limited Member, Te Rununga O Ngai Tahu's governing board Board member, Presbyterian Support South Canterbury Trustee of various client trusts
Date appointed 1 January 2018		

Dunedin City Treasury Limited

Statement of responsibility For the year ended 30 June 2018

The Board of Dunedin City Treasury Limited accept responsibility for the preparation of the annual financial statements and the judgements used in them;

The Board of Dunedin City Treasury Limited accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Board of Dunedin City Treasury Limited, the annual financial statements for the financial year ended 30 June 2018 fairly reflect the financial position and operations of Dunedin City Treasury Limited.



Chair
Date: 30 August 2018



Director
Date: 30 August 2018

Dunedin City Treasury Limited

Trends statement

	2018	2017	2016	2015	2014	2013
Financial assets managed by the Company (\$ millions)						
Dunedin City Treasury Limited	609	566	567	587	613	620
Dunedin City Council Waipori Fund	87	84	82	82	80	79
Total financial assets managed	696	650	649	669	693	699

Dunedin City Treasury Limited**Statement of comprehensive income**
For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Financial income	1	29,474	31,823
Gain on fair value hedge		-	42
Total income		29,474	31,865
Less Expenses:			
Financial expenses	2	28,656	31,131
Operating expenses	3	567	596
Ineffectiveness on fair value hedge		10	-
Total expenditure		29,233	31,727
Profit before tax		241	138
Income tax	4	70	23
Net profit after tax		171	115
Other comprehensive income:			
Gain/(loss) of cash flow hedges taken to equity		(3,159)	13,213
Gain/(loss) of cash flow hedges to related parties taken to equity		(4,141)	(8,800)
Total other comprehensive income		(7,300)	4,413
Total comprehensive income for the year		(7,129)	4,528

Dunedin City Treasury Limited**Statement of changes in equity**
For the year ended 30 June 2018

	Share Capital \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
Equity as at 30 June 2017	100	(1,505)	86	(1,319)
Total comprehensive income	-	(7,300)	171	(7,129)
Equity as at 30 June 2018	100	(8,805)	257	(8,448)
Equity as at 30 June 2016	100	(5,918)	(29)	(5,847)
Total comprehensive income	-	4,413	115	4,528
Equity as at 30 June 2017	100	(1,505)	86	(1,319)

Dunedin City Treasury Limited**Statement of financial position
As at 30 June 2018**

	Note	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	11	292	8,114
Trade and other receivables	12	4,940	5,512
Derivative financial instruments	8	786	125
Prepayments		384	416
Provision for tax		-	2
Investments	5	30,000	17,056
Total current assets		36,402	31,225
Non-current assets			
Investments	5	579,185	540,440
Derivative financial instruments	8	17,057	22,578
Software	6	23	24
Total non-current assets		596,265	563,042
Total assets		632,667	594,267
Current liabilities			
Short term borrowings	7	4,338	473
Accruals	13	5,477	6,005
Derivative financial instruments	8	786	125
Provision for tax		55	-
Total current liabilities		10,656	6,603
Non-current liabilities			
Term borrowings	7	609,570	567,378
Derivative financial instruments	8	20,889	21,605
Total non-current liabilities		630,459	588,983
Total liabilities		641,115	595,586
Equity			
Share capital	14	100	100
Retained earnings and reserves	15	(8,548)	(1,419)
Total equity		(8,448)	(1,319)
Total liabilities and equity		632,667	594,267

Dunedin City Treasury Limited**Statement of cash flows**
For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Cash flow from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers		280	176
Interest received		29,755	32,573
		<u>30,035</u>	<u>32,749</u>
<i>Cash was applied to:</i>			
Payments to suppliers and employees		591	586
Interest paid		29,096	31,457
Income tax paid / (received)		24	61
		<u>29,711</u>	<u>32,104</u>
Net cash inflow/(outflow) from operating activities	23	<u>324</u>	<u>645</u>
Cash flow from investing activities			
<i>Cash was provided from:</i>			
Net investments realised		-	-
		<u>-</u>	<u>-</u>
<i>Cash was applied to:</i>			
Purchase of Software		9	28
Net purchase of investments		51,689	2,861
		<u>51,698</u>	<u>2,889</u>
Net cash inflow/(outflow) from investing activities		<u>(51,698)</u>	<u>(2,889)</u>
Cash flow from financing activities			
<i>Cash was provided from:</i>			
Net proceeds from borrowings		43,552	-
		<u>43,552</u>	<u>-</u>
<i>Cash was applied to:</i>			
Net repayment of borrowings		-	2,259
		<u>-</u>	<u>2,259</u>
Net cash outflow from financing activities	24	<u>43,552</u>	<u>(2,259)</u>
Net increase/(decrease) in cash		(7,822)	(4,503)
Opening cash and cash equivalents		8,114	12,617
Closing cash and cash equivalents	11	<u>292</u>	<u>8,114</u>

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Reporting entity

The financial statements presented here are for the reporting entity Dunedin City Treasury Limited (the Company).

Dunedin City Treasury Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company, incorporated in New Zealand under the Companies Act 1993, is a subsidiary of Dunedin City Holdings Ltd which is wholly owned by Dunedin City Council.

The financial statements of Dunedin City Treasury Limited are for the year ended 30 June 2018.

The registered address of the company is 50 The Octagon, Dunedin.

The primary objective of Dunedin City Treasury is to provide funds management, cost effective funding and treasury management services to entities within the Dunedin City Council Group.

Dunedin City Treasury Limited is a profit-oriented entity.

The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and the Companies Act 1993. These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company operates.

Statement of compliance

The financial statements of the Company comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime ("NZ IFRS (RDR)").

The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions.

The financial statements were authorised for issue by the directors on 30 August 2018.

Basis of accounting

The financial statements have been prepared in accordance with general accepted accounting practice in New Zealand (NZ GAAP). For the purposes of complying with the NZ GAAP the entity is a for-profit entity.

The financial statements have been prepared on the historic cost basis, except for derivative financial instruments, financial instruments classified as available for sale and financial instruments held for trading.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. Commitments and contingencies are disclosed exclusive of GST.

Changes in accounting policy

There have been no changes in accounting policy during the financial period. The accounting policies have been applied consistently to all periods in these financial statements.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Critical judgements and estimates in applying accounting policies

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an on-going basis.

The Directors believe that, as at the date of these Financial Statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. However, they do make estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results.

Standards issued but not yet effective

A number of accounting standards have been issued but as they are not yet compulsory they have not been applied to this set of accounts. These standards are to be applied to future financial statements. NZ IFRS 9, Financial Instruments, will eventually replace NZ IAS 39, Financial Instruments, in three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been published in the new financial instrument standard NZ IFRS 9. The new standard is required to be adopted for the year ended 30 June 2019. The impact of the new standard has been assessed as minimal.

1. Financial income

Accounting policy

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

	2018 \$'000	2017 \$'000
Interest on advances to related parties	29,209	31,488
Fees from related parties	185	176
Interest on other investments	80	159
Total financial income	<u>29,474</u>	<u>31,823</u>

2. Financial expenses

Accounting policy

All borrowing costs are recognised in the statement of comprehensive income using the effective interest rate method.

	2018 \$'000	2017 \$'000
Interest and fees - related parties	21	14
Interest and fees - term loans	28,635	31,117
Total financial expenses	<u>28,656</u>	<u>31,131</u>

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

3. Operating expenses

Accounting policy

Operating expenses are disclosed by nature below.

Operating expenses are recognised on an accrual basis in the period to which they relate.

	2018 \$'000	2017 \$'000
Audit fees - for audit of financial statements	25	25
Related party management fees	300	300
Amortisation	10	4
Other expenses	232	267
Total operating expenses	567	596

4. Taxation

Accounting policy

Income tax expense includes components relating to both current and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net surplus as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Income tax	2018 \$'000	2017 \$'000
Net profit before tax	241	138
Tax thereon at 28%	67	39
<i>Plus / (less) the tax effect of differences</i>		
Revenue not liable for taxation	3	(21)
Under / (over) tax provision in prior years	-	5
Tax effect of differences	3	(16)
Tax expense	70	23
The taxation charge is represented by:		
Current tax	70	18
Prior period adjustment	-	5
Tax expense	70	23

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Accounting policy

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

A deferred tax liability has not been recognised in relation to temporary differences of \$8,505,000 (2017: asset, \$1,505,000).

5. Financial assets

Investments

Accounting policy

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

	2018 \$'000	2017 \$'000
<i>Current</i>		
Advances to DCC	30,000	17,041
Mortgage recoverable	-	15
Total current investments	30,000	17,056
<i>Non-current</i>		
Advances to DCC	170,000	184,905
Advances to DCHL Group	409,185	355,535
Total non-current investments	579,185	540,440
Total investments	609,185	557,496

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Maturity analysis of investments

	2018 \$'000	2017 \$'000
The following is a maturity analysis of the company's investments.		
Maturity within one year	30,000	17,056
Effective interest rate	5.27%	6.27%
Maturity one to five years	57,515	57,515
Effective interest rate	5.27%	6.27%
Maturity over five years	521,670	482,925
Effective interest rate	4.51%	5.31%
Total Investments	609,185	557,496
Effective interest rate	4.62%	5.43%

The carrying amount of investments approximate their fair value. There have been no indications of impairment of any investment.

6. Software

Accounting policy

Software is recognised at cost and amortised on a straight line basis at a rate of 30% per annum.

	2018 \$'000	2017 \$'000
<i>Cost</i>		
Balance at beginning of year	28	-
Purchases	9	28
Balance at end of year	37	28
	2018 \$'000	2017 \$'000
<i>Accumulated amortisation</i>		
Balance at beginning of year	4	-
Amortisation	10	4
Balance at end of year	14	4
Total Software	23	24

7. Financial Liabilities

Borrowings

Accounting policy

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Statement of Comprehensive Income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

	2018 \$'000	2017 \$'000
<i>Current</i>		
Short term borrowing	4,338	473
Related parties	-	-
Total current borrowing	4,338	473
<i>Non-current</i>		
Promissory notes issued	119,389	59,702
Bonds issued	490,181	507,676
Total term borrowing	609,570	567,378
Total borrowings	613,908	567,851

The Company has an \$850 million Multi Option Debt Issuance Facility which is secured against certain assets and undertakings of the Dunedin City Council Group. Debt is raised by issuing long dated bonds, floating rate notes or by the issue of promissory notes usually issued for three month terms.

Three independent banks have provided committed facilities to the amount of \$125.0 million (2017 \$125 million).

The amount of unamortised premium or (discount) on bonds on issue at 30 June 2018 is nil (2017 nil).

The tender of promissory notes under the multi-option facility generally raises debt for a term of three months before being re-tendered. In addition to this, the issue of floating rate notes under the multi-option facility also raises floating rate debt. This type of borrowing is executed at the floating rate at the date of borrowing drawdown or at the start of the floating rate reset and exposes the group to cash flow interest rate risk. Interest rate derivatives are taken out to manage that risk. Floating rate debt is also created by converting fixed rate bond issuance from fixed to floating using interest rate swaps. The credit risk from each derivative is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Term borrowings		2018 \$'000	2017 \$'000
	Interest Rate		
Promissory notes		119,389	59,702
Bonds 15/10/17	Coupon rate 7.81%	-	60,000
Floating rate notes 7/10/17	38bp over BKBM	-	20,000
Floating rate notes 15/5/18	43bp over BKBM	-	20,000
Bonds 17/7/18	Coupon rate 6.57%	50,000	50,000
Bonds 17/12/18	Coupon rate 6.85%	15,000	15,000
Floating rate notes 15/11/19	50bp over BKBM	50,000	50,000
Floating rate notes 16/10/20	43bp over BKBM	45,000	-
Bonds 16/11/20	Coupon rate 5.56%	50,000	50,000
Bonds 15/4/21	Coupon rate 3.15%	30,000	30,000
Bonds 25/11/21	Coupon rate 4.88%	70,000	70,000
Floating rate notes 15/10/22	56bp over BKBM	50,000	50,000
Floating rate notes 15/02/24	65bp over BKBM	25,000	25,000
Bonds 16/10/24	Coupon rate 3.79%	35,000	-
Bonds 15/4/26	Coupon rate 3.98%	65,000	65,000
Fair value impact on bonds		5,181	2,676
		609,570	567,378

Contractual maturity analysis of term borrowings

The following is a maturity analysis of the Company's term borrowings:

Less than one year	65,000	100,000
Effective interest rate	6.63%	5.64%
Later than one year but not more than five	414,389	324,702
Effective interest rate	3.20%	4.28%
Later than five years	130,181	142,676
Effective interest rate	3.66%	3.22%
	609,570	567,378

While these are the contractual maturities of the Company's term borrowings, the Company expects and has the discretion to refinance term borrowings under the multi-option debt issuance facility. As per the face of the accounts, the Company has therefore determined that all term borrowings are non-current as per the provisions of NZ IAS1.

Fair value of borrowings

Accounting policy

Debt instruments are fair valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

Directors estimate the fair value of the company's borrowings at year end to be as follows:

	2018 \$'000	2017 \$'000
Total borrowings	615,686	577,561

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

8. Derivative financial instruments and hedge accounting

Accounting policy

The company's activities expose it primarily to the financial risks of changes in interest rates. The company uses interest rate swap contracts to hedge these exposures.

Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves.

The company does not use derivative financial instruments for speculative purposes. However, any derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments with fair value gains/losses being taken directly to the statement of comprehensive income.

Derivative financial instruments are recognised at fair value on the date the derivative is entered into and are subsequently re-measured to their fair value. The fair value on initial recognition is the transaction price. Subsequent fair values are based on independent bid prices quoted in active markets as provided to us from Thomson Reuters data.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The fair value of interest rate swaps is calculated based on pricing using Thomson Reuters data. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

The gain or loss from re-measuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the surplus or loss. Fair value hedge account is applied only for hedging fixed interest risk on borrowings.

If the hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the surplus or loss over the period to maturity.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity with any ineffective portion recognised immediately in the statement of comprehensive income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the statement of comprehensive income in the same period in which the hedged item affects net surplus or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of comprehensive income as they arise. Derivatives not designated into an effective hedge relationship are classified as current assets or liabilities.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Derivative financial instruments

	2018 \$'000	2017 \$'000
Assets:		
Interest rate swaps- cash flow hedges - DCHL Group	5,773	6,580
Interest rate swaps- cash flow hedges - DCC	6,828	10,162
Interest rate swaps- cash flow hedges - Bank	270	1,408
Interest rate swaps- fair value hedges - Bank	4,972	4,553
	<u>17,843</u>	<u>22,703</u>
Liabilities:		
Interest rate swaps- cash flow hedges - Bank	21,675	19,654
Interest rate swaps- fair value hedges - Bank	-	2,076
	<u>21,675</u>	<u>21,730</u>

The effective portion recognised in the Statement of Comprehensive Income that arises from fair value hedges amounts to a loss of \$9,811 (2017: profit of \$41,998). This represents the current year net movement in the value of the fair value hedge swaps of \$2.495 million (gain) and fair value hedge adjustment to debt of \$2.505 million (loss).

9. Interest rate swaps

	2018 \$'000	2017 \$'000
The notional principal outstanding with regard to the interest rate swaps is:		
Counterparties outside the group:		
Maturing in less than one year	42,500	32,500
Maturing in between one and five years	437,500	350,000
Maturing after five years	382,500	407,500
	<u>862,500</u>	<u>790,000</u>
	2018 \$'000	2017 \$'000
Counterparties within the Dunedin City Council group:		
Maturing in less than one year	42,500	32,500
Maturing in between one and five years	138,000	170,500
Maturing after five years	-	10,000
	<u>180,500</u>	<u>213,000</u>

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

10. Categories of financial assets and liabilities

Accounting policy

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

The carrying amount of financial assets and liabilities in each of the NZ IAS39 categories is as follows:

	2018 \$'000	2017 \$'000
Loans and receivables:		
Cash and cash equivalents (note 11)	292	8,114
Trade and other receivables (note 12)	4,940	5,512
Investments (note 5)	609,185	557,496
Total loans and receivables	614,417	571,122
Financial assets at fair value through equity:		
Derivative financial instruments assets (note 8)	17,843	22,703
Financial liabilities measured at amortised cost:		
Trade and other payables (note 13)	5,477	6,005
Borrowings (note 7)	613,908	567,851
Total financial liabilities measure at amortised cost	619,385	573,856
Financial liabilities at fair value through equity:		
Derivative financial instrument liabilities (note 8)	21,675	21,730

Fair Value Hierarchy Disclosures

Accounting policy

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) - Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) - Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) - Financial instruments valued using models where one or more significant inputs are not observable.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

	Carrying Value	Fair Value	Valuation Technique		
			Quoted market price	Observable inputs	Significant non- observable inputs
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2018					
Cash and cash equivalents	292	292	-	292	-
Trade and other receivables	4,940	4,940	-	-	4,940
Investments	609,185	609,185	-	609,185	-
Financial assets-derivatives	17,843	17,843	-	17,843	-
Trade & other payables	5,477	5,477	-	-	5,477
Borrowings	613,908	613,908	-	613,908	-
Financial liabilities-derivatives	21,675	21,675	-	21,675	-
30 June 2017					
Cash and cash equivalents	8,114	8,114	-	8,114	-
Trade and other receivables	5,512	5,512	-	-	5,512
Investments	557,496	557,496	-	557,496	-
Financial assets-derivatives	22,703	22,703	-	22,703	-
Trade & other payables	6,005	6,005	-	-	6,005
Borrowings	567,851	567,851	-	567,851	-
Financial liabilities-derivatives	21,730	21,730	-	21,730	-

11 Cash and cash equivalents

Accounting policy

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

	2018 \$'000	2017 \$'000
Cash at Bank	292	414
Short term deposits	-	7,700
	<u>292</u>	<u>8,114</u>

The carrying amount of these assets approximates their fair value.

The weighted average effective interest rate for cash at bank is 0.88% (2017 1.75%).

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

12. Trade and other receivables

Accounting policy

Loans and other receivables are financial instruments that are measured at amortised cost using the effective interest method. This type of financial instrument includes deposits, term deposits, intercompany loans and mortgages.

	2018 \$'000	2017 \$'000
Interest due from related parties - DCHL Group	2,768	2,949
Interest due from related parties - DCC	1,874	2,238
Other current receivables	298	325
	<u>4,940</u>	<u>5,512</u>

The directors consider that the carrying amount of the trade and other receivables approximates their fair value. There have been no indicators of impairment.

No accounts receivable at balance date are past due.

13. Accruals

Accounting policy

Accruals are stated at cost.

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

	2018 \$'000	2017 \$'000
Due to related parties - DCC	-	-
Accruals	5,477	6,005
	<u>5,477</u>	<u>6,005</u>

The directors consider that the carrying amount of trade payables approximates their fair value.

14. Equity - share capital

	2018 \$'000	2017 \$'000
Issues capital - 100,000 ordinary shares	100	100

On incorporation, Dunedin City Treasury Limited issued 100,000 ordinary shares in favour of the Dunedin City Holdings Limited.

All shares have a par value of \$1.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

15. Retained earnings and reserves

	2018 \$'000	2017 \$'000
Retained earnings at the beginning of the year	86	(29)
Surplus for the year	171	115
Balance at the end of the year	257	86
Hedge reserve at the beginning of the year	(1,505)	(5,918)
Gain / (loss) of cash flow hedges taken to equity	(3,159)	13,213
Gain / (loss) of cash flow hedges to related parties taken to equity	(4,141)	(8,800)
Balance at the end of the year	(8,805)	(1,505)
Total retained earnings & reserves	(8,548)	(1,419)

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.

16. Financial instrument risks

Accounting policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In the normal course of business the company is exposed to a variety of financial risks. The Company has policies to manage these risks and the Company is risk averse and seeks to minimise exposure from its treasury activities. The Company has established a Treasury Management Policy covering both investment and borrowing policies. These policies do not allow any transactions to be entered into that are speculative in nature.

Risk	Exposure arising from	Monitoring	Management
Market/Interest risk	Interest bearing liabilities at floating rates	Cash flow forecasting	Interest rate derivatives to achieve specific fixed rate maturity profile
Credit risk	Loss that could accrue from the non-settlement of financial transactions	Regular external credit limit reviews	Individual and maximum counterparty credit limits. Specific limit calculations for individual financial instruments recognising potential changes in fair value
Liquidity risk	Unforeseen events that may curtail cash flows	Cash flow forecasting	Regular cash flow forecasting Ensuring sufficient size of Underwriting facilities
		Management reporting on maturity profile	No more than \$200,000,000 to mature in any single year. Spreading of underwriting facilities, floating rate and fixed rate note issues

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Risk	Exposure arising from	Monitoring	Management
Liquidity risk (cont'd)		Management reporting on percentage of funding beyond specific term	More than 20% of debt must mature greater than five years

Market Risk

The interest rates on the Company's investments are disclosed in note 5 and on the Company's borrowings in note 7.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to fair value interest rate risk is limited to its borrowings and short-term bank deposits, at fixed interest rates and derivatives at fixed interest rates.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to cash flow interest rate risk. The Company manages the interest rate risk by using derivatives to convert floating interest to fixed interest.

Interest Rate Risk

Nature of the risk

Interest rate risk is the risk that fluctuations in interest rates impact the Company's financial performance or the fair value of its holding of financial instruments.

Risk Management

The Company has little exposure to interest rate risk. Previously borrowings were generally matched to advances to group companies or the Dunedin City Council. As part of the Dunedin City Council Treasury Risk Management Policy, all interest rate hedges are entered into by the Company with external counterparties. To maintain the Fixed Rate Maturity Profile outlined in the Policy the Company will be required to enter into more hedges externally that are not matched to advances of group companies or the Dunedin City Council. This will occur as existing arrangements unwind or mature over time.

Exposure

Each company with material debt within the Dunedin City Council group previously had its own interest rate risk management policy approved by its own board or Council.

Under the Dunedin City Council Treasury Risk Management Policy, the Company will utilise a portfolio approach to manage interest rate risk for the group. Other group companies and the Council are precluded from entering into financial transactions with external counterparties.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Sensitivity Analysis

As at the 30 June 2018 if interest rates moved by plus or minus 1% across the yield curve the impact on the profit and loss would be nil and the movement in equity would also be nil. This is because the impact of any interest rate movements from third parties is reflected in the interest rates charges to members of the Dunedin City Council Group.

Credit Risk

Nature of the risk

Credit risk is the risk that a third party will default on its obligation to the Company, causing the Company to incur a loss.

Risk Management

The Company has processes in place to review the credit quality of borrowers prior to the granting of credit. The Company also has processes in place to review the credit quality of counterparty banks to ensure they maintain an investment grade rating.

Exposure

The Company's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash equivalents (note 11), investments (note 5) and trade receivables (note 12). The credit risk on liquid funds and derivative financial instruments is limited because counterparties are banks with high credit ratings assigned by international credit rating agencies.

Exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions undertaken is spread among the approved counterparties.

Contracts have been entered into with various counterparties having approved and satisfactory credit ratings and in accordance with dollar limits as set forth in the Dunedin City Council Treasury Risk Management Policy.

Industry and product concentrations are determined by the activities within the Dunedin City Council Group.

There is security held over the investments but there is no security held over cash equivalents and trade receivables.

Maximum exposure to credit risk

The Company's maximum credit risk exposure for each class of financial instrument is as follows:

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	292	8,114
Debtors and other receivables	4,940	5,512
Related party loans	609,185	557,481
Loans - other	-	15
Derivative financial instrument assets	17,843	22,703
Total credit risk	<u>632,260</u>	<u>593,825</u>

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings.

	AA \$'000	AA- \$'000	No rating \$'000
Current year 30 June 2018			
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		292	
Debtors – related parties AA	1,874		
Debtors AA-		298	
Derivative financial instruments			
– related parties AA	6,828		
Derivative financial instruments AA-		5,242	
Loans – related parties AA	200,000		
<i>Counterparties without credit ratings</i>			
Debtors - related parties			2,768
Loans - related parties			409,185
Derivative financial instruments - related parties			5,773
Loans - other			-
Last year 30 June 2017			
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		8,114	
Debtors – related parties AA	2,238		
Debtors AA-		325	
Derivative financial instruments			
– related parties AA	10,162		
Derivative financial instruments AA-		5,961	
Loans – related parties AA	201,946		
<i>Counterparties without credit ratings</i>			
Debtors - related parties			2,949
Loans - related parties			355,535
Derivative financial instruments - related parties			6,580
Loans - other			15

Counter parties without credit rating, there have been no defaults during the year (2017 nil).

Liquidity Risk

Nature of the risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due.

Risk Management

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Company has committed bank lines available that can be drawn of \$125 million (2017 \$125 million).

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Exposure

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows and includes interest receipts.

Where the amount payable is not fixed, the amount disclosed in the analysis below is determined by reference to the conditions existing at balance date. The swap settlement rate as at 30 June 2018 was 2.00% (2017 1.98%).

Contractual maturity analysis of financial assets

	Carrying amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
2018 year						
Cash and cash equivalents	292	292	292	-	-	-
Debtors and other receivables	4,940	4,940	4,940	-	-	-
Derivative financial instruments	17,843	26,800	9,594	7,395	8,236	1,574
Investments	609,185	692,925	43,227	43,813	605,886	-
Total	632,260	724,958	58,053	51,208	614,122	1,574

2017 year						
Cash and cash equivalents	8,114	8,114	8,114	-	-	-
Debtors and other receivables	5,512	5,512	5,512	-	-	-
Derivative financial instruments	22,703	28,950	10,785	7,845	8,607	1,713
Investments	557,496	644,091	44,376	44,846	554,869	-
Total	593,825	686,667	68,787	52,691	563,476	1,713

Contractual maturity analysis of financial liabilities

	Carrying amount \$000's	Contractual cash flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
2018 year						
Creditors and other payables	5,477	5,477	5,477	-	-	-
Derivative financial instruments	21,675	36,039	11,343	9,192	12,803	2,701
Borrowings	613,908	679,630	206,871	64,801	273,624	134,335
Total	641,060	721,146	223,691	73,993	286,426	137,035

2017 year						
Creditors and other payables	6,005	6,005	6,005	-	-	-
Derivative financial instruments	21,730	30,127	11,432	8,745	10,246	(296)
Borrowings	567,851	650,502	180,573	80,050	228,935	160,944
Total	595,586	686,634	198,010	88,795	239,181	160,648

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed in notes 5 and 7 respectively.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Current Market Risk

The Company has no currency market risk. The Company does not invest or borrow in foreign currencies.

Capital Management

The Company's capital is its equity, which comprises issued-capital and retained surpluses. Equity is represented by net assets.

The Company's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

17. Imputation credit account	2018 \$'000	2017 \$'000
Imputation credits available for use in subsequent periods	101	86

18. Contingent liabilities	2018 \$'000	2017 \$'000
Performance bonds	1,269	1,208

The performance bonds issued are in favour of South Island Local Authorities, including the Dunedin City Council, for contract work by Delta Utility Services Limited. There is no indication that any of the above contingent liabilities will crystallise in the foreseeable future.

19. Contingent assets

The company has no contingent assets (2017 nil).

20. Capital expenditure commitments

The company has no capital expenditure commitments (2017 nil).

21. Commitments

(i) Non-Cancellable Operating Lease Commitments

The company has no non-cancellable operating leases (2017 nil).

(ii) Undrawn Facilities

The level of committed facilities undrawn at 30 June 2018 amounts to \$125.0 million (2017 \$125.0 million).

22. Related party transactions

Dunedin City Treasury Ltd is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

Dunedin City Treasury Limited undertakes transactions with Dunedin City Holdings Limited Group and Dunedin City Council on an arms-length commercial basis. The company provided services to the Group in respect of the following transactions:

	2018 \$'000	2017 \$'000
Sales of services to the Group:		
Interest income DCHL Group	17,312	17,788
Interest income DCC	11,896	13,700
Financial services DCHL Group	4	4
Financial services DCC	176	172
Subvention receipt	-	-
	29,389	31,664
Purchases of services from the Group:		
Interest - DCHL Group	21	14
Interest - DCC	-	-
Administration and office services	300	306
	321	320
Advances:		
Opening balance	557,481	554,260
Plus additional advances	300,876	169,524
Less repayments	(249,172)	(166,303)
Balance at end of year	609,185	557,481
Deposits:		
Opening balance	-	2,000
Plus additional advances	9,910	3,715
Less repayments	(9,210)	(5,715)
Balance at end of year	700	-

At year end, the following amounts were owed to and from related parties in the Dunedin City Council Group (including DCHL Group).

	2018 \$'000	2017 \$'000
Receivable from related parties in the Dunedin City Council Group (including DCHL Group)	626,428	579,411
Payable to related parties in the Dunedin City Council Group (including DCHL Group)	717	-

At year end, the following amounts were owed to and from Dunedin City Holdings Limited.

	2018 \$'000	2017 \$'000
Receivable from Dunedin City Holdings Limited	23,404	30,636
Payable to Dunedin City Holdings Limited	-	-

Compensation of key management personnel

A management agreement is in place with the Dunedin City Council to provide management resources to Dunedin City Treasury Limited. The necessary governance is provided by the Directors of Dunedin City Treasury Limited and as the Directors are also the Directors of Dunedin City Holdings Limited, there are no directors fees for Dunedin City Treasury Limited.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2018

23. Reconciliation of net profit for the year to cash flows from operating activities	2018 \$'000	2017 \$'000
Net profit for the year after tax	171	115
<i>Items not involving cash flows</i>		
Fair value change in SWAPS	10	(42)
Amortisation	10	4
Deferred tax	-	-
	<u>191</u>	<u>77</u>
<i>Impact of changes in working capital items</i>		
(Increase) / decrease in receivables	573	803
(Increase) / decrease in prepayments	30	67
Increase / (decrease) in accruals	(527)	(283)
Increase / (decrease) in provisions	57	(19)
Net cash inflow/(outflow) from operating activities	<u>324</u>	<u>645</u>

24. Reconciliation of liabilities from financing activities

			Non-cash changes		
	2017 \$000's	Cash flows \$000's	Foreign exchange movement \$000's	Fair value changes \$000's	2018 \$000's
2018 year					
Long term borrowings	567,378	39,687	-	2,505	609,570
Short term borrowings	473	3,865	-	-	4,338
Derivative financial instruments	21,605	-	-	(716)	20,889
Short term derivative financial instruments	125	-	-	661	786
Assets held to hedge					
Long term borrowings	(22,703)	-	-	4,860	(17,843)
Total liabilities from financing activities	<u>566,878</u>	<u>43,552</u>	<u>-</u>	<u>7,310</u>	<u>617,740</u>

			Non-cash changes		
	2016 \$000's	Cash flows \$000's	Foreign exchange movement \$000's	Fair value changes \$000's	2017 \$000's
2017 year					
Long term borrowings	573,413	125	-	(6,160)	567,378
Short term borrowings	2,857	(2,384)	-	-	473
Derivative financial instruments	31,187	-	-	(9,582)	21,605
Short term derivative financial instruments	272	-	-	(147)	125
Assets held to hedge					
Long term borrowings	(34,095)	-	-	11,392	(22,703)
Total liabilities from financing activities	<u>573,634</u>	<u>(2,259)</u>	<u>-</u>	<u>(4,497)</u>	<u>566,878</u>

25. Events after balance date

There are no significant events after balance date.

Dunedin City Treasury Limited

Statement of service performance For the year ended 30 June 2018

The Company's primary output function is to provide treasury management services to entities within the Dunedin City Council Group.

Performance targets

1. Zero breaches of the policies pertaining to Dunedin City Treasury Limited.
2. A variety of funding sources are used for the level of funds required by the DCC Group and complying with the DCC policies on the maturity profile of borrowing.
3. All funds invested outside the DCC Group have satisfied DCC policies.
4. Continued maintenance to an interest rate reset profile in accordance with DCC policies.
5. Regular reporting of the Company's achievement against defined benchmarks.
6. Manage the 'Waipori Fund' fully as set by Council and meet performance benchmarks.
7. Advise shareholder within 1 business day of any breaches of policy.
7. Advise shareholder within 24 hours of any substantive matter.

Performance targets achieved

- Achieved. There were no breaches of policies pertaining to Dunedin City Treasury Limited.
- Achieved. During the year the Company successfully issued:
- 16 tranches of promissory notes
 - 1 tranche of Floating rate notes
 - 1 bond
- at rates which were consistent or better than organisations with similar ratings.
- Achieved. All funds invested outside the DCC Group have satisfied DCC policies.
- Achieved.
- Achieved. Reporting achievements against defined benchmarks are provided to the Board monthly and quarterly.
- Achieved - The 'Waipori Fund' recorded a return for the year of \$6,554,078 which is a return of 7.8%. After deduction of inflation of 1.1%, the 'real' return is 6.7%.
- Achieved. There were no breaches of policy that were required to be reported to the shareholder.
- Achieved. There were no substantive matters to be reported to the shareholder.

Financial forecasts

\$'000

1a.	Net profit after tax	1
1c.	Cash flow from operations	5
1d.	Capital expenditure	-
1e.	Term loans	624,900
2.	Shareholder's funds to total assets	0.4%

Achievement

\$'000

Net profit after tax	171
Cash flow from operations	324
Capital expenditure	9
Term loans	609,570
Shareholder's funds to total assets	-1.3%

Dunedin City Treasury Limited

Directory As at 30 June 2018

Directors

Graham W Crombie
Keith T Cooper
Kathy E Grant
Quentin CS Hix (appointed 1 January 2018)
Linda M Robertson

Registered Office

50 The Octagon
Dunedin 9016

Bankers

ANZ Bank New Zealand Limited
Westpac Banking Corporation

Solicitors

Anderson Lloyd

Taxation advisers

Deloitte

Auditor

Audit New Zealand on behalf of the Controller and Auditor-General

Independent Auditor's Report

To the readers of Dunedin City Treasury Limited's financial statements and statement of service performance for the year ended 30 June 2018

The Auditor-General is the auditor of Dunedin City Treasury Limited (the company). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the statement of service performance of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 9 to 32, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on page 33.

In our opinion:

- the financial statements of the company on pages 9 to 32:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards; and
- the statement of service performance of the company on page 33 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2018.

Our audit was completed on 30 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the company for preparing the financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of service performance for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare the financial statements and the statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the statement of service performance.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 8 and 34, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.



Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand