

- > The grand Dunedin Town Hall, opened in 1929



WHAT WE DO

Dunedin City Treasury Limited was established to provide funding and financial services to other entities in the group. The principal role of the company is to fund the group, inclusive of Dunedin City Council, and to identify and manage financial risks. The use of a single, centralised treasury function has maximised financial efficiency and effectiveness. Through the accumulation of group funds, interest rates are being achieved which might not have been possible otherwise.

Dunedin City Treasury Ltd

FINANCIAL HIGHLIGHTS	2008 \$'000	2007 \$'000
Revenue	20,588	16,785
Net surplus for the year	15	16
Shareholder's funds	180	165
Total assets	312,741	253,712

WHAT WE DID THIS YEAR

Everything the company has achieved this year has been done in a financial market under severe pressure both here in New Zealand and offshore. The markets have certainly been more difficult than in any time since the early 1990s and many would say for much longer than that. At times the small New Zealand debt market has been under acute stress and banks, here and abroad, have been extremely cautious of lending between themselves.

In this environment the company has performed extremely well although on viewing some of the performance measures against last year that is not immediately apparent. What is clear is that interest rates have climbed markedly and from time to time cash has been in very short supply, even for those with strong credit ratings. Also clear is that through all the market turmoil the DCHL group has never been short of cash nor reliant on emergency funding lines. It has continued to operate as "best in class" in the short-term money markets.

Each year Standard & Poor's reviews the financial plans of the combined Dunedin City Council and Dunedin City Treasury Limited. The outcome of the August 2008 review was to confirm our solid rating of AA-/A1+.

The group's external debt is managed through an appropriate mix of bonds, promissory notes, long-term government forestry debt and interest rate derivatives. As a matter of policy, the proportion of fixed rate debt is higher than variable rate debt. This is because Council strikes its rates well in advance and then acts to protect its budget for the services that have been pledged for the following year.

As commented on above Dunedin City Treasury Limited's promissory notes continue to be popular on the New Zealand money market. Actual interest rates achieved have risen with the market as the Reserve Bank has sought to execute a level of control over inflation. Further, they have risen as the general cost of credit, in a credit short market, has increased in price. We do notice, however, that the increased interest cost to the company has been less than for others on similar credit ratings.

During the year, the company secured borrowings at an average of 0.13 percentage points below the 90 day Inter-bank Bid Rate (compared to 5.6 points below last year), but in the market that has existed this can definitely be called a success. Tenders were oversubscribed by, on average, 2.3 times, compared to 3.4 times last year reflecting the significantly lower amount of cash available to lenders. The featured graph detailing the average margin at which funding has been achieved below the Inter-bank Bid Rate, shows that the company continues to perform at a very high level despite the credit market disruption this year.

The company also manages the investment of the Dunedin City Council's Waipori Fund. This year the managers achieved a positive return of 0.6% (7% last year), despite substantial turmoil and losses in international equity markets. After a \$3.75m payment into the general funds of Council, the value of the Waipori Portfolio fell from \$76.1m to \$72.7m.

THE PEOPLE

Directors	R D Liddell (Chair)
	A J Stephens
	G Dodson
	S M Wilson
	B R N Dodds
Chief Executive	M J Knight

