

chairman's report

WHAT WE DO

Dunedin City Treasury Limited provides funding and financial services to other entities in the group. The principal role of the company is to fund the group, including the 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 otherwise possible.

Dunedin City
Treasury Ltd

FINANCIAL HIGHLIGHTS	2011 \$'000	2010 \$'000
Revenue	33,799	32,181
Net surplus for the year	9	7
Shareholder's funds	207	198
Total assets	586,631	511,297

WHAT WE DID THIS YEAR

For yet another year the financial markets have been under pressure as a number of northern hemisphere governments struggle with high levels of debt and the reaction to these struggles impact global markets. Credit is in short supply and banks are finding difficulties meeting new stress tests that are being imposed on them.

In such conditions credit rating, reputation and banking relationships remain crucial.

We have now operated in this volatile environment now for over three years. The DCHL group, however, has never been short of cash or reliant on emergency funding lines. It has continued to operate as "best in class" in the short-term money markets.

The company has been very active in the bond market. One \$90m issue reached maturity in April 2011 and this has been replaced and added to by a further \$60m. All bonds that it has issued into the NZ wholesale market have been at a very sharp price reflecting the respect that the company carries within the market.

Each year Standard & Poor's reviews the financial plans of the combined Dunedin City Council and Dunedin City Treasury Limited. The outcome of the September 2010 review was to revise upwards our AA-(long term)/A1+(short term) rating to a AA(long term)/A1+(short term). This upward revision was

made after a global review of local government credit.

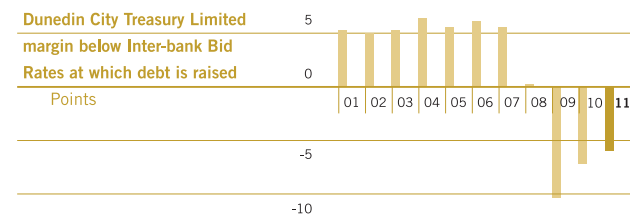
The group's external debt is managed through an appropriate mix of bonds, promissory notes, long-term government forestry debt and interest rate derivatives. As a matter of policy, the proportion of fixed rate debt is higher than variable rate debt. This is because the council strikes its rates well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

An historic benchmark for the company is the relative price at which the company can access funds from the promissory note market on its 90 day borrowing programme. Over the last year it has been a major success to be able to access funds in this way as the size of the market remains quite small and our margins have been better than our peers. During the year the company secured borrowings at an average of 6 percentage points above the 90 day Inter-bank Bid Rate (compared to 7 points above last year). Tenders were oversubscribed by, on average, 2.5 times, compared to 2.9 times last year.

The company also manages the investment of the Dunedin City Council's Waipori Fund. This year a positive return of \$6.2m was achieved compared to a profit of \$4.8m last year. After a \$4.07m payment (\$4.07m last year) into the general funds of the council, the value of the Waipori Portfolio improved to \$69.8m from \$67.6m.

THE PEOPLE

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



- > The foyer of the Dunedin City Council's Municipal Chambers, home of Dunedin City Treasury Limited.
- >> Lake Mahinerangi, part of the Waipori power scheme and the origins of the Dunedin City Council's Waipori Fund.