
Dunedin City Treasury Limited

Annual Report
2020

Dunedin City Treasury Limited

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Dunedin City Treasury Limited

Directors' report For the year ended 30 June 2020

This report presents Dunedin City Treasury Limited's (the Company's) results for the year ended 30 June 2020.

Principal activities of the Company

		
Cash & liquidity management	Group Bank	Investment management
<ul style="list-style-type: none">• Ensure funds are available to meet obligations• Minimise funding costs• Maximise return on surplus funds within agreed acceptable levels of risk	<ul style="list-style-type: none">• Source debt and on-lends to DCC and CCOs• Manage financial relationships with third parties• Manage financial risk	<ul style="list-style-type: none">• Manage Waipori Fund for DCC

Results for the year ended 30 June 2020

	\$'000
Profit before tax	11
Income tax	-
Net profit for the year	<u>11</u>

Review of operations

The cost of funds for the DCC Group has continued to reduce over the 2019/20 Financial Year. Lowering of the DCC Group's cost of funds by approximately -0.57% to 3.36%, saved the DCC Group \$4.2 million, based on average term borrowings over the past year.

The lower funding cost was assisted by the issuance of three new tranches of Medium Term Notes (MTN's) by the Company. In November 2019 the Company issued \$45 and \$55 million of 3 year and 7 year MTN's at coupons of just 1.51% and 2.09%. The new MTN's were used to refinance the \$50 million 15 November 2019 Floating Rate Note. In April 2020 the Company issued a new tranche of \$75 million of 1 year MTN's at a coupon of 1.25%. The new issue secured necessary funding for the Group at a time of significant uncertainty in financial markets, during the onset of the COVID-19 pandemic.

Dunedin City Treasury Limited

Directors' report **For the year ended 30 June 2020**

DCTL reduced its use of short term funding this year taking advantage of historically low longer term benchmark interest rates. The Company has \$130 million of Promissory Notes on issue as at 30 June 2020, compared to \$160 million as at the same time last year. The average rate achieved was +0.08% above the 3 month benchmark interest rate. The average bid coverage ratio was 1.9 times the Promissory Notes tendered, illustrating strong investor appetite for DCTL paper. Issue margins widened in March and April 2020 but have since reduced to levels resembling those in the pre COVID-19 period.

The Company has also continued to ensure that funding facilities are spread over time, to help manage funding risk. From 30 June 2020, the Company has less than \$250 million of outstanding funding due to mature in any forward one year period.

In response to the onset of the COVID-19 pandemic the Official Cash Rate (OCR) was lowered in March 2020, to just 0.25%, the lowest OCR since the introduction of the OCR in 1999. The yield curve is significantly lower and has flattened over the period.

The Company's activity is governed by the DCC Treasury Risk Management Policy, which is designed to manage risk across a range of areas. The Company maintained compliance with the Policy during the 2020 financial year and continues to manage funds in the best interests of its borrowers.

The Board considers that the Company continues to provide significant benefit to the DCHL Group, DCC and Dunedin ratepayers through its provision of cost-effective funding for the DCC Group. The Company is currently undertaking the necessary steps to add the New Zealand Local Government Funding Agency as a source of funding.

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 2020 included a negative hedge reserve of \$56.2 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.

Outlook

The Company 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.

Dividends

In line with the Company's dividend policy, the Directors recommend that no dividend be paid.

Dunedin City Treasury Limited

Directors' report For the year ended 30 June 2020

Financial statements

The audited financial statements for the year ended 30 June 2020 are attached to this report.

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 \$26,802 (2019: \$25,526).

Directors' interests in contracts

No material contracts involving Directors' interests were entered into during the year ended 30 June 2020 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.

Dunedin City Treasury Limited

Directors' declarations of interest For the year ended 30 June 2020

Director	Responsibilities	Declarations of Interests
Keith T Cooper 2.02.15 - present (Chair 26.02.19 - present)	Non-Executive Director / Chair	Director & Chair, Dunedin City Holdings Limited Director & Chair, Dunedin City Treasury Limited Director, Dunedin Stadium Property Limited Director, Miller Creative Group Limited Director and Shareholder, Littlebrook Farm Limited
Linda M Robertson 17.10.13 - present	Non-Executive Director	Chair, Audit and Risk Committee, Central Otago District Council Chair, Pacific Radiology Group Limited - ceased November 2019 Chair, Central Lakes Trust Chair, Crown Irrigation Investments Limited Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Dunedin Stadium Property Limited Director, NZ Local Government Funding Agency Director, Central Lakes Direct Limited Director and Shareholder, RML Consulting Limited Board Member, AWS Legal - appointed March 2020 Member, Risk and Audit Committee, The Treasury Member, Capital Markets Advisory Committee, The Treasury
Kathleen E Grant 17.10.13 - present	Non-Executive Director	Chair of Council, Otago Polytechnic - ceased April 2020 Commissioner, Southern District Health Board - ceased December 2019 Consultant, Gallaway Cook Allan - ceased November 2019 Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Dunedin Stadium Property Limited Director, NMIT Limited - appointed April 2020 Director, Weltec Limited - appointed April 2020 Director, Whitireia Limited - appointed April 2020 Council Member, NZ Institute of Skills and Technology - appointed April 2020 Director, Dunedin Symphony Orchestra - ceased December 2019 Trustee of various client trusts
Christopher C Hopkins 25.06.19 - present	Non-Executive Director	Chair, Robotic Technologies Limited - ceased May 2020 Chair, Engineering Dunedin Incorporated Director, Scott Technology Limited including all subsidiaries - ceased December 2019 Director, Scott Technology Euro Limited - ceased June 2020 Director, NS Innovations Pty Limited - ceased June 2020 Director, Rocklabs Automation Canada Limited - ceased June 2020 Director, Oakwood Group Limited Director, Our Planit Limited Director, Spade Work Limited Director, GW Batts Trustee Limited Director, City Forests Limited - ceased July 2019 Director, Dunedin City Holdings Limited Director, Dunedin City Treasury Limited Director, Dunedin Stadium Property Limited Director and Shareholder, Southmed Limited - appointed April 2020

Dunedin City Treasury Limited

Directors' declarations of interest For the year ended 30 June 2020

Director	Responsibilities Declarations of Interests	
Quentin C S Hix 1.01.18 - 29.02.20	Non-Executive Director	<p>Director, Aoraki Investments Limited</p> <p>Director, Aoraki Management Services Limited *</p> <p>Director, Aoraki Trust Management Limited *</p> <p>Director, Dunedin City Holdings Limited *</p> <p>Director, Dunedin City Treasury Limited *</p> <p>Director, Dunedin Stadium Property Limited *</p> <p>Director, Institute of Environmental Science and Research Limited *</p> <p>Director, Ngāi Tahu Holdings Corporation Limited - ceased October 2019</p> <p>Director, One To One Corporate Trustees Limited *</p> <p>Director, One To One Corporate Trustees 2011 Limited *</p> <p>Director, Presbyterian Support South Canterbury Limited *</p> <p>Director, Ngāi Tahu Capital Limited - ceased October 2019</p> <p>Director and Shareholder, Property Planit Limited *</p> <p>Director and Shareholder, Quentin Hix Legal Limited *</p> <p>Board member, Presbyterian Support South Canterbury Inc *</p> <p>Trustee, Hunter Downs Irrigation Trust</p> <p>Trustee of various client trusts *</p> <p>* = ceased February 2020</p>

Dunedin City Treasury Limited

Statement of responsibility For the year ended 30 June 2020

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 2020 fairly reflect the financial position and operations of Dunedin City Treasury Limited.



Chair
29 October 2020



Director
29 October 2020

Dunedin City Treasury Limited

Trend statement

	2020	2019	2018	2017	2016	2015
Financial assets managed by the Company (\$ millions)						
Dunedin City Treasury Limited	733	668	609	566	567	587
Dunedin City Council Waipori Fund	94	93	87	84	82	82
Total financial assets managed	827	761	696	650	649	669

Dunedin City Treasury Limited

Statement of comprehensive income For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Financial income	1	27,248	27,338
Gain on fair value hedge		11	-
Total income		27,259	27,338
Less Expenses:			
Financial expenses	2	26,626	26,673
Operating expenses	3	622	637
Ineffectiveness on fair value hedge		-	18
Total expenditure		27,248	27,328
Profit before tax		11	10
Income tax	4	-	7
Net profit after tax		11	3
Other comprehensive income:			
Gain/(loss) of cash flow hedges taken to equity		(17,827)	(23,063)
Gain/(loss) of cash flow hedges to related parties taken to equity		(3,656)	(2,866)
Total other comprehensive income		(21,483)	(25,929)
Total comprehensive income for the year		(21,472)	(25,926)

Dunedin City Treasury Limited

Statement of changes in equity For the year ended 30 June 2020

	Share Capital \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
Equity as at 1 July 2019	100	(34,734)	260	(34,374)
Total comprehensive income	-	(21,483)	11	(21,472)
Equity as at 30 June 2020	100	(56,217)	271	(55,846)
Equity as at 1 July 2018	100	(8,805)	257	(8,448)
Total comprehensive income	-	(25,929)	3	(25,926)
Equity as at 1 July 2019	100	(34,734)	260	(34,374)

Dunedin City Treasury Limited

Statement of financial position As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents	11	46,666	15,177
Trade and other receivables	12	3,791	2,706
Derivative financial instruments	8	1,193	956
Prepayments		444	489
Investments	5	-	-
Total current assets		52,094	19,328
Non-current assets			
Investments	5	733,205	668,315
Derivative financial instruments	8	19,931	19,835
Software	6	2	12
Total non-current assets		753,138	688,162
Total assets		805,232	707,490
Current liabilities			
Short term borrowings	7	3,194	1,670
Accruals	13	5,453	5,122
Derivative financial instruments	8	2,612	956
Provision for tax		-	8
Total current liabilities		11,259	7,756
Non-current liabilities			
Term borrowings	7	790,136	690,596
Derivative financial instruments	8	59,683	43,512
Total non-current liabilities		849,819	734,108
Total liabilities		861,078	741,864
Equity			
Share capital	14	100	100
Retained earnings and reserves	15	(55,946)	(34,474)
Total equity		(55,846)	(34,374)
Total liabilities and equity		805,232	707,490

Dunedin City Treasury Limited

Statement of cash flows For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flow from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers		323	171
Interest received		25,848	29,410
		<u>26,171</u>	<u>29,581</u>
<i>Cash was applied to:</i>			
Payments to suppliers and employees		575	731
Interest paid		26,295	27,028
Subvention paid / (received)		8	63
		<u>26,878</u>	<u>27,822</u>
Net cash inflow/(outflow) from operating activities	23	<u>(707)</u>	<u>1,759</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		-	-
Net purchase of investments		68,868	65,232
		<u>68,868</u>	<u>65,232</u>
Net cash inflow/(outflow) from investing activities		<u>(68,868)</u>	<u>(65,232)</u>
Cash flow from financing activities			
<i>Cash was provided from:</i>			
Net proceeds from borrowings		101,064	78,358
		<u>101,064</u>	<u>78,358</u>
<i>Cash was applied to:</i>			
Net repayment of borrowings		-	-
		<u>-</u>	<u>-</u>
Net cash outflow from financing activities	24	<u>101,064</u>	<u>78,358</u>
Net increase/(decrease) in cash		<u>31,489</u>	<u>14,885</u>
Opening cash and cash equivalents		15,177	292
Closing cash and cash equivalents	11	<u>46,666</u>	<u>15,177</u>

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2020

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 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 2020.

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 29 October 2020.

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.

Notes to the financial statements For the year ended 30 June 2020

Changes in accounting policy

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

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. The impact of the new standards 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.

	2020 \$'000	2019 \$'000
Interest on advances to related parties	26,853	27,088
Fees from related parties	229	180
Interest on other investments	166	70
Total financial income	27,248	27,338

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2020

2. Financial expenses

Accounting policy

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

	2020 \$'000	2019 \$'000
Interest and fees - related parties	20	27
Interest and fees - term loans	26,606	26,646
Total financial expenses	26,626	26,673

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.

	2020 \$'000	2019 \$'000
Audit fees - for audit of financial statements	27	26
Related party management fees	346	351
Amortisation	10	11
Other expenses	239	249
Total operating expenses	622	637

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	2020 \$'000	2019 \$'000
Net profit before tax	11	10
Tax thereon at 28%	3	3
<i>Plus / (less) the tax effect of differences</i>		
(Revenue)/expenditure not liable for taxation	(3)	5
Under / (over) tax provision in prior years	-	(1)
Tax effect of differences	(3)	4
Tax expense	0	7

Notes to the financial statements For the year ended 30 June 2020

The taxation charge is represented by:

Current tax	-	8
Prior period adjustment	-	(1)
Tax expense	-	7

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 asset has not been recognised in relation to temporary differences of \$56,432,000 (with a tax effect of \$15,801,000) (2019: a temporary difference of \$34,961,000, with a tax effect of \$9,789,000).

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.

	2020 \$'000	2019 \$'000
<i>Current</i>		
Advances to DCC	-	-
Total current investments	-	-
<i>Non-current</i>		
Advances to DCC	243,500	218,500
Advances to DCHL Group	489,705	449,815
Total non-current investments	733,205	668,315
Total investments	733,205	668,315

Notes to the financial statements For the year ended 30 June 2020

Maturity analysis of investments

	2020 \$'000	2019 \$'000
The following is a maturity analysis of the Company's investments.		
Maturity within one year	-	-
Effective interest rate	-	-
Maturity one to five years	-	-
Effective interest rate	-	-
Maturity over five years	733,205	668,315
Effective interest rate	3.15%	4.38%
Total Investments	733,205	668,315
Effective interest rate	3.15%	4.38%

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.

	2020 \$'000	2019 \$'000
<i>Cost</i>		
Balance at beginning of year	37	37
Purchases	-	-
Balance at end of year	37	37
	2020 \$'000	2019 \$'000
<i>Accumulated amortisation</i>		
Balance at beginning of year	25	14
Amortisation	10	11
Balance at end of year	35	25
Total Software	2	12

**Notes to the financial statements
For the year ended 30 June 2020****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.

	2020 \$'000	2019 \$'000
<i>Current</i>		
Short term borrowing	1,194	620
Related parties	2,000	1,050
Total current borrowing	3,194	1,670
<i>Non-current</i>		
Promissory notes issued	129,875	159,313
Bonds issued	660,261	531,283
Total term borrowing	790,136	690,596
Total borrowings	793,330	692,266

The Company has a \$975 million multi option instrument 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 \$195.0 million (2019: \$170 million).

The amount of unamortised premium or (discount) on bonds on issue at 30 June 2020 is nil (2019: 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 2020

Term borrowings		2020 \$'000	2019 \$'000
	Interest Rate		
Promissory notes		129,875	159,313
Floating rate notes 15/11/19	50bp over BKBM	-	50,000
Floating rate notes 16/10/20	43bp over BKBM	45,000	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 15/4/21	Coupon rate 1.25%	75,000	-
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
Bonds 15/11/22	Coupon rate 1.51%	45,000	-
Floating rate notes 15/02/24	65bp over BKBM	25,000	25,000
Bonds 16/10/24	Coupon rate 3.79%	35,000	35,000
Bonds 17/7/25	Coupon rate 3.61%	50,000	50,000
Bonds 15/4/26	Coupon rate 3.98%	65,000	65,000
Bonds 15/3/26	Coupon rate 2.90%	50,000	50,000
Bonds 15/11/26	Coupon rate 2.09%	55,000	-
Fair value impact on bonds		15,261	11,283
		790,136	690,596

Contractual maturity analysis of term borrowings

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

Less than one year	330,399	209,313
Effective interest rate	1.68%	1.83%
Later than one year but not more than five	230,057	275,623
Effective interest rate	2.77%	3.70%
Later than five years	229,680	205,660
Effective interest rate	3.21%	3.60%
	790,136	690,596

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 instrument 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:

	2020 \$'000	2019 \$'000
Total borrowings	809,163	703,578

Notes to the financial statements For the year ended 30 June 2020

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.

Notes to the financial statements For the year ended 30 June 2020

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.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

In accordance with NZ IFRS 9's transitional provisions for hedge accounting, the Company has applied the NZ IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 July 2018. The Company's qualifying hedging relationships in place as at 1 July 2018 also qualify for hedge accounting in accordance with NZ IFRS 9 and were therefore regarded as continuing hedge relationships. No rebalancing of any of the hedging relationships was necessary on 1 July 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under NZ IFRS 9's effectiveness assessment requirements. The Company has also not designated any hedging relationships under NZ IFRS 9 that would not have met the qualifying hedge accounting criteria under NZ IAS 39.

Derivative financial instruments

	2020 \$'000	2019 \$'000
Assets:		
Interest rate swaps- cash flow hedges - DCHL Group	4,031	5,478
Interest rate swaps- cash flow hedges - DCC	2,049	4,257
Interest rate swaps- cash flow hedges - Bank	-	-
Interest rate swaps- fair value hedges - Bank	15,044	11,056
	<u>21,124</u>	<u>20,791</u>
Liabilities:		
Interest rate swaps- cash flow hedges - Bank	62,295	44,467
Interest rate swaps- fair value hedges - Bank	-	-
	<u>62,295</u>	<u>44,467</u>

The effective portion recognised in the Statement of Comprehensive Income that arises from fair value hedges amounts to a gain of \$11 thousand (2019: loss of \$18 thousand). This represents the current year net movement in the value of the fair value hedge swaps of \$3.988 million (gain) and fair value hedge adjustment to debt of \$3.977 million (loss).

**Notes to the financial statements
For the year ended 30 June 2020****9. Interest rate swaps**

	2020 \$'000	2019 \$'000
The notional principal outstanding with regard to the interest rate swaps is:		
Counterparties outside the group:		
Maturing in less than one year	160,000	30,000
Maturing in between one and five years	495,000	530,000
Maturing after five years	360,000	365,000
	1,015,000	925,000
Counterparties within the Dunedin City Council group:		
Maturing in less than one year	45,000	30,000
Maturing in between one and five years	63,000	108,000
Maturing after five years	-	-
	108,000	138,000

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.

Under NZ IFRS 9, all the financial assets and liabilities are measured at amortised cost, fair value through profit or loss, or fair value through OCI on the basis of the Company's business model for managing the financial instrument and the contractual cash flow characteristics of the financial instrument.

The Company enters into derivative financial instruments to manage its exposure to interest rate risks. There was no change of classification in relation to derivatives, these continue to be measured at fair value through profit or loss.

The Company's investments (advances to DCC and DCHL Group) are measured at amortised cost in accordance with IFRS 9.

The Company's other financial assets and liabilities including cash and cash equivalents, trade and other receivables, trade and other payables, accruals, short term borrowings, and term borrowings are measured at amortised cost as they meet the conditions under IFRS 9.

Under NZ IFRS 9, the impairment model requires the recognition of impairment provisions based on expected credit losses. It applies to financial assets classified at amortised cost. The introduction of the new impairment model has had no impact on the Company's financial assets classified at amortised cost. For trade and other receivables, the Company applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component. Based on the assessment undertaken, no adjustment was required on transition.

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2020

The carrying amount of financial assets and liabilities in each of the NZ IFRS 9 categories is as follows:

	2020 \$'000	2019 \$'000
Financial assets measured at amortised cost:		
Cash and cash equivalents (note 11)	46,666	15,177
Trade and other receivables (note 12)	3,791	2,706
Investments (note 5)	733,205	668,315
Financial assets measured at amortised cost	783,662	686,198
Financial assets at fair value through profit and loss:		
Derivative financial instruments assets (note 8)	21,124	20,791
Financial liabilities measured at amortised cost:		
Accruals (note 13)	5,453	5,122
Borrowings (note 7)	793,330	692,266
Total financial liabilities measure at amortised cost	798,783	697,388
Financial liabilities at fair value through profit and loss:		
Derivative financial instrument liabilities (note 8)	62,295	44,468

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 2020

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 2020					
Cash and cash equivalents	46,666	46,666	-	46,666	-
Trade and other receivables	3,791	3,791	-	-	3,791
Investments	733,205	733,205	-	733,205	-
Derivative financial assets	21,124	21,124	-	21,124	-
Accruals	5,453	5,453	-	-	5,453
Borrowings	793,330	793,330	-	793,330	-
Derivative financial liabilities	62,295	62,295	-	62,295	-
01 July 2019					
Cash and cash equivalents	15,177	15,177	-	15,177	-
Trade and other receivables	2,706	2,706	-	-	2,706
Investments	668,315	668,315	-	668,315	-
Derivative financial assets	20,791	20,791	-	20,791	-
Accruals	5,122	5,122	-	-	5,122
Borrowings	692,266	692,266	-	692,266	-
Derivative financial liabilities	44,468	44,468	-	44,468	-

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.

	2020 \$'000	2019 \$'000
Cash at Bank	816	177
Short term deposits	45,850	15,000
	<u>46,666</u>	<u>15,177</u>

The carrying amount of these assets approximates their fair value.

The weighted average effective interest rate for cash at bank is 0.52% (2019: 0.91%).

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2020

12. Trade and other receivables

Accounting policy

Trade and other receivables are financial instruments that are measured at amortised cost using the effective interest method.

	2020 \$'000	2019 \$'000
Interest due from related parties - DCHL Group	1,566	1,056
Interest due from related parties - DCC	1,440	1,265
Other current receivables	785	385
	<u>3,791</u>	<u>2,706</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.

	2020 \$'000	2019 \$'000
Due to related parties	-	-
Accruals	5,453	5,122
	<u>5,453</u>	<u>5,122</u>

The Directors consider that the carrying amount of accruals approximates their fair value.

14. Equity - share capital

	2020 \$'000	2019 \$'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 2020

15. Retained earnings and reserves

	2020 \$'000	2019 \$'000
Retained earnings at the beginning of the year	260	257
Net profit after tax for the year	11	3
Balance at the end of the year	271	260
Hedge reserve at the beginning of the year	(34,734)	(8,805)
Gain / (loss) of cash flow hedges taken to equity	(17,827)	(23,063)
Gain / (loss) of cash flow hedges to related parties taken to equity	(3,656)	(2,866)
Balance at the end of the year	(56,217)	(34,734)
Total retained earnings & reserves	(55,946)	(34,474)

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 is risk averse and seeks to minimise exposure from its treasury activities. Dunedin City Council has established a Treasury Risk Management Policy covering both investment and borrowing policies, that the Company is required to apply. This policy does not allow any transactions to be entered into that are speculative in nature.

Risk	Exposure arising from	Monitoring	Management
Market/Interest Rate 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 Management reporting on maturity profile	Regular cash flow forecasting Ensuring sufficient size of underwriting facilities No more than \$250,000,000 to mature in any single year. Spreading of underwriting facilities, floating rate and fixed rate note issues

Notes to the financial statements For the year ended 30 June 2020

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 exposure to interest rate risk. The Company maintains the Fixed Rate Maturity Profile outlined in the Dunedin City Council Treasury Risk Management Policy.

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 utilises 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 2020

Sensitivity Analysis

As at 30 June 2020 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 that have approved and satisfactory credit ratings, and in accordance with dollar limits set 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:

	2020	2019
	\$'000	\$'000
Cash & cash equivalents	46,666	15,177
Trade and other receivables	3,791	2,706
Related party loans	733,205	668,315
Derivative financial assets	21,124	20,791
Total credit risk	804,786	706,989

Notes to the financial statements For the year ended 30 June 2020

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 2020			
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		46,666	
Trade & other receivables – related parties AA	1,440		
Trade & other receivables AA-		785	
Derivative financial instruments			
– related parties AA	2,049		
Derivative financial instruments AA-		15,044	
Investments – loans to related parties AA	243,500		
<i>Counterparties without credit ratings</i>			
Trade & other receivables - related parties			1,566
Investments – loans to related parties			489,705
Derivative financial instruments - related parties			4,031
Last year 30 June 2019			
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		15,177	
Trade & other receivables – related parties AA	1,265		
Trade & other receivables AA-		386	
Derivative financial instruments			
– related parties AA	4,257		
Derivative financial instruments AA-		11,056	
Investments – loans to related parties AA	218,500		
<i>Counterparties without credit ratings</i>			
Trade & other receivables - related parties			1,055
Investments – loans to related parties			449,815
Derivative financial instruments - related parties			5,478

There have been no defaults during the year from counter parties without credit rating (2019: 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 \$195 million (2019: \$170 million).

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2020

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 2020 was 0.30% (2019: 2.00%).

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	No maturity \$000's
2020 year							
Cash & cash equivalents	46,666	46,666	46,666	-	-	-	-
Trade & other receivables	3,791	3,791	3,791	-	-	-	-
Derivative financial assets	21,124	29,150	12,288	6,320	8,348	2,194	-
Investments	733,205	740,497	50,438	54,822	10,032	-	625,205
Total	804,786	820,104	113,183	61,142	18,380	2,194	625,205
2019 year							
Cash & cash equivalents	15,177	15,177	15,177	-	-	-	-
Trade & other receivables	2,706	2,706	2,706	-	-	-	-
Derivative financial assets	20,791	41,739	13,828	11,525	11,766	4,620	-
Investments	668,315	680,837	28,197	60,472	61,853	-	530,315
Total	706,989	740,459	59,908	71,997	73,619	4,620	530,315

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	No maturity \$000's
2020 year							
Accruals	5,453	5,453	5,453	-	-	-	-
Derivative financial liabilities	62,295	98,619	20,125	15,873	36,193	26,428	-
Borrowings	793,330	857,616	366,729	82,936	181,287	226,664	-
Total	861,078	961,688	392,307	98,809	217,480	253,092	-
2019 year							
Accruals	5,122	5,122	5,122	-	-	-	-
Derivative financial liabilities	44,468	118,011	20,733	19,336	41,239	36,703	-
Borrowings	692,266	761,153	230,203	141,749	179,515	209,686	-
Total	741,856	884,286	256,058	161,085	220,754	246,389	-

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 2020

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

	2020 \$'000	2019 \$'000
Imputation credits available for use in subsequent periods	103	111

18. Contingent liabilities

	2020 \$'000	2019 \$'000
Performance bonds	1,092	968

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 (2019: nil).

20. Commitments

The Company has no capital expenditure commitments (2019: nil).

The Company has no non-cancellable operating leases (2019: nil).

The level of committed facilities undrawn at 30 June 2020 amounts to \$195.0 million (2019: \$170.0 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 undertakes transactions with Dunedin City Holdings Limited Group and Dunedin City Council. The Company provided services to the Group in respect of the following transactions:

Dunedin City Treasury Limited

Notes to the financial statements For the year ended 30 June 2020

	2020 \$'000	2019 \$'000
Sales of services to the Group:		
Interest income - DCC	9,824	10,321
Interest income - DCHL	664	893
Interest income - other DCHL Group entities	16,369	15,874
Financial services - DCC	199	178
Financial services - DCHL	-	2
Financial services - other DCHL Group entities	-	-
Subvention receipt - other DCHL Group entities	-	-
	<u>27,056</u>	<u>27,268</u>
Purchases of services from the Group:		
Interest - DCC	-	-
Interest - DCHL	-	-
Interest - other DCHL Group entities	-	27
Administration and office services - DCC	100	301
Administration and office services - DCHL	246	50
Tax loss offset - other DCHL Group entities	-	-
Subvention payment - other DCHL Group entities	-	8
	<u>346</u>	<u>386</u>
Advances provided to the Group:		
Opening balance	668,315	609,185
Plus additional advances	252,103	229,880
Less repayments	(187,213)	(170,750)
Balance at end of year (see entity breakdown below)	<u>733,205</u>	<u>668,315</u>
Deposits held on behalf of DVML:		
Opening balance	1,050	700
Plus additional advances	4,250	7,600
Less repayments	(3,300)	(7,250)
Balance at end of year	<u>2,000</u>	<u>1,050</u>

At year end, the following amounts were receivable from related parties in the Group:

	2020 \$'000	2019 \$'000
Dunedin City Council	246,988	224,022
Dunedin City Holdings Limited	24,555	19,824
Aurora Energy Limited	343,355	305,279
Delta Utility Services Limited	22,609	25,384
City Forests Limited	17,222	13,843
Dunedin Stadium Property Limited	87,566	90,131
Dunedin Railways Limited	(5)	1,888

At year end, the following amounts were payable to related parties in the Group:

Dunedin Venues Management Limited	2,000	1,050
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Compensation of key management personnel

A management agreement is in place between the Dunedin City Council and Dunedin City Holdings Limited to provide management resources to Dunedin City Treasury Limited. The necessary governance is provided by the Directors of Dunedin City Treasury Limited. 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 2020

23. Reconciliation of net profit for the year to cash flows from operating activities

	2020 \$'000	2019 \$'000
Net profit for the year after tax	11	3
<i>Items not involving cash flows</i>		
Fair value change in derivatives	(11)	18
Amortisation	10	11
Deferred tax	-	-
	10	32
<i>Impact of changes in working capital items</i>		
(Increase) / decrease in receivables	(1,085)	2,235
(Increase) / decrease in prepayments	45	(106)
Increase / (decrease) in accruals	331	(355)
Increase / (decrease) in provisions	(8)	(47)
Net cash inflow/(outflow) from operating activities	(707)	1,759

24. Reconciliation of liabilities from financing activities

	2019 \$000's	Cash flows \$000's	Non-cash changes Foreign exchange movement \$000's	Fair value changes \$000's	2020 \$000's
2020 year					
Long term borrowings	690,596	95,562	-	3,978	790,136
Short term borrowings	1,670	1,524	-	-	3,194
Derivative financial instruments	43,512	-	-	16,171	59,683
Short term derivative financial instruments	956	-	-	1,656	2,612
Assets held to hedge					
Long term borrowings	(20,791)	-	-	(333)	(21,124)
Total liabilities from financing activities	715,943	97,086	-	21,472	834,501

	2018 \$000's	Cash flows \$000's	Non-cash changes Foreign exchange movement \$000's	Fair value changes \$000's	2019 \$000's
2019 year					
Long term borrowings	609,570	72,615	-	8,411	690,596
Short term borrowings	4,338	(2,668)	-	-	1,670
Derivative financial instruments	20,889	-	-	22,623	43,512
Short term derivative financial instruments	786	-	-	170	956
Assets held to hedge					
Long term borrowings	(17,843)	-	-	(2,948)	(20,791)
Total liabilities from financing activities	617,740	69,947	-	28,256	715,943

Notes to the financial statements For the year ended 30 June 2020

25. COVID-19

On 11 March 2020 the World Health Organisation declared the outbreak of COVID-19 (a novel Coronavirus), a pandemic. Two weeks later, on 26 March, New Zealand increased its COVID-19 alert to level 4 and a nationwide lockdown commenced. The country moved to level 3 on 27 April, level 2 on 13 May, and eventually returned to level 1 on 8 June 2020.

The pandemic did not have a significant direct effect on the Company. As banker to the Dunedin City Council Group, the Company remained in constant communication with the Group entities, regarding their borrowing needs and ensuring appropriate levels of cash reserves were maintained.

There was no perceived increased risk of default by borrowers in the Group, given the larger borrowers provided essential services during the lockdown period.

Throughout the period the Company maintained compliance with all Treasury Risk Management Policy requirements and there was no change in the Company's credit rating.

While there was an impact on debt issuance margins, which widened the cost of borrowing at the beginning of the lockdown period, this was only temporary and did not noticeably impact the Company's 30 June 2020 results.

26. 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 2020

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

Performance targets

- 1 Zero breaches of DCC Treasury Risk Management Policy's borrowing maturity profile.
- 2 Zero breaches of DCC Treasury Risk Management Policy's interest rate risk policy.
- 3 Zero breaches of DCC Treasury Risk Management Policy's investment management policy.
- 4 Successfully fill any issues brought to the market during the year.
- 5 Maintain funding lines with ANZ, BNZ and Westpac.
- 6 Regular reporting of the Company's achievement against defined benchmarks.
- 7 Manage the Waipori fund and meet the investment objectives set by Council in the Statement of Investment Policy and Objectives.
- 8 Quarterly review by the Board, of the DCTL Risk Register Dashboard.
- 9 Regular reporting to the shareholder of DCTL's top 5 current risks.
- 10 No breaches of policy. Where breaches have occurred, there are no breaches that have not been reported to the GM Finance and Commercial within 1 business day and as per requirements of the policy.

Performance targets achieved

- Achieved. There were no breaches of DCC Treasury Risk Management Policy's borrowing maturity profile.
- Achieved. There were no breaches of DCC Treasury Risk Management Policy's interest rate risk policy.
- Achieved. There were no breaches of DCC Treasury Risk Management Policy's investment management policy.
- Achieved. Filled all issues brought to the market during the year.
- Achieved. Funding lines with ANZ, BNZ and Westpac have been maintained during the year.
- Achieved. Reporting achievements against defined benchmarks are provided to the Board monthly and quarterly.
- Achieved. There were no breaches of the Statement of Investment Policy and Objectives. The 'Waipori Fund' recorded a return for the year of \$4,948,272 which is a return of 5.3%.
- Achieved. The DCTL Risk Register Dashboard was reviewed by the Board quarterly.
- Achieved. DCTL's top 5 current risks were reported to the shareholder quarterly.
- Achieved. There were no breaches of policy that were required to be reported to the shareholder.

Dunedin City Treasury Limited

- | | | |
|----|---|---|
| 11 | Report the proportion of the Company's workforce receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit). | Achieved. The Company does not employ any staff directly. Employees of Dunedin City Council involved in the operation of the Company under a Service Level Agreement, are paid the living wage. |
| 12 | Escalate DCTL strategic or operational matters which could compromise the Council's community outcomes, to the shareholder in a timely manner. | Achieved. There were no matters requiring escalation to the shareholder. |
| 13 | To report matters of substance to the shareholder within 24 hours of the board becoming aware. | Achieved. There were no matters of substance to report to the shareholder. |

Financial forecasts	\$'000	Achievement	\$'000
Net profit after tax	31	Net profit after tax	11
Cash flow from operations	(2,946)	Cash flow from operations	(707)
Capital expenditure	-	Capital expenditure	-
Term loans	791,800	Term loans	790,136
Shareholder's funds to total assets	-3.2%	Shareholder's funds to total assets	-6.9%

Dunedin City Treasury Limited

Directory As at 30 June 2020

Directors

Keith T Cooper
Kathleen E Grant
Linda M Robertson
Christopher C Hopkins

Registered Office

50 The Octagon
Dunedin 9016

Bankers

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 2020

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 statement of service performance of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 9 to 34, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income 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 pages 35 and 36.

In our opinion:

- the financial statements of the company on pages 9 to 34:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; 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 Reduced Disclosure Regime; and
- the statement of service performance of the company on pages 35 and 36 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 2020.

Our audit was completed on 30 October 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of the Covid-19 pandemic on the company. 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.

Emphasis of matter – Impact of the Covid-19 pandemic

Without modifying our opinion, we draw attention to the disclosures in note 25 on page 34 of the financial statements about the impact of the Covid-19 pandemic on the company.

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 service performance within the company's framework for reporting its service 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 performance information 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 performance information, including the disclosures, and whether the financial statements and the performance information 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 page 37, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information 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 performance information, 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 performance information 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: International 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