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Dunedin City Treasury Limited

Annual Report  
2022

## **Dunedin City Treasury Limited**

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## Dunedin City Treasury Limited

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### Directors' report For the year ended 30 June 2022

This report presents Dunedin City Treasury Limited's (the Company's) results for the year ended 30 June 2022.

#### Principal activities of the Company

The Company's principal activities are to:

- Source debt and on-lend to DCC and its CCO's, and ensure funds are available to meet obligations.
- Minimise funding costs, and maximise return of surplus funds, within agreed acceptable levels of risk.
- Manage financial markets risk and ensure compliance with DCC's Treasury Risk Management Policy.
- Manage financial relationships with third parties.
- Separately, manage the Waipori Fund on behalf of DCC.

#### Results for the year ended 30 June 2022

	\$'000
Profit before tax	(61)
Income tax	97
Net profit for the year	<u>36</u>

#### Review of operations

The Company has continued to perform well over the 2021/22 Financial Year, in what has been a challenging interest rate environment.

The cost of funds for the Dunedin City Council (DCC) Group increased over the 2021/22 Financial Year. The DCC Group's cost of funds increased by 0.68% to 3.17% as at 30 June 2022.

The Company issued two new tranches of bonds over the 2021/22 Financial Year. In November 2021, the Company issued a new Medium Term Note (MTN) of \$100 million for a term of 7 years at a yield of 3.22% which was a margin to swap of +0.44%. In April 2022, the Company issued a new Floating Rate Note (FRN) of \$50 million priced at the 3-month benchmark interest rate of +0.30%. The new MTN was used to refinance the \$70 million 25 November 2021 MTN maturity. The new FRN was used to increase term funding and was not part of any refinancing strategy.

The Company had \$175 million of Promissory Notes on issue as at 30 June 2022, compared to \$150 million as at the same time in the prior year. The average rate achieved was +0.0165% above the 3-month benchmark interest rate. The average bid coverage ratio was 1.9 times the Promissory Notes tendered, illustrating continued strong investor appetite for DCTL paper. Issue margins increased slightly during the financial year, impacted by the more restrictive monetary policy settings of the Reserve Bank.

## **Dunedin City Treasury Limited**

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### **Directors' report** **For the year ended 30 June 2022**

The Company's higher cost of funds in the 2021/22 Financial Year follows the implementation of an aggressive tightening of monetary policy by the RBNZ. The RBNZ increased the Official Cash Rate (OCR) five times over the Financial Year, taking the OCR from 0.25% to 2.00% on 25 May 2022. The RBNZ departed from increasing the OCR in 0.25% increments and adopted a more hawkish stance in April and May 2022, increasing the OCR in increments of 0.50%. An OCR of approximately 4.25% by early 2023 was priced into the New Zealand yield curve as at 30 June 2022. The Company's portfolio of interest rate hedges softens the impact of higher floating benchmark interest rates.

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 2022 financial year and continues to manage funds in the best interests of its borrowers.

The Company continues to ensure that funding facilities are spread over time, to help manage funding risk. As at 30 June 2022, the Company had less than \$350 million of outstanding funding due to mature in any forward one-year period.

Subsequent to balance date, the Company continued to work towards adding the New Zealand Local Government Funding Agency as a source of funding, which was completed on 3 November 2022.

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.

### **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.

### **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.

### **Financial statements**

The audited financial statements for the year ended 30 June 2022 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 \$29,144 (2021: \$28,142).

## Dunedin City Treasury Limited

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### Directors' report For the year ended 30 June 2022

#### Directors' interests in contracts

No material contracts involving Directors' interests were entered into during the year ended 30 June 2022 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.

#### Directors' remuneration

	For the year ended 30 June 2022	For the year ended 30 June 2021
Keith Cooper (Chair, appointed 2 May 2015)	-	-
Richard Thomson (appointed 1 July 2020)	-	-
Susan Johnstone (appointed 1 March 2021)	-	-
Linda Robertson (17 October 2013 - 17 October 2022)	-	-
Christopher Hopkins (25 June 2019 - 24 June 2022)	-	-
Kathleen Grant (17 October 2013 - 30 June 2021)	-	-
	\$Nil	\$Nil

## Dunedin City Treasury Limited

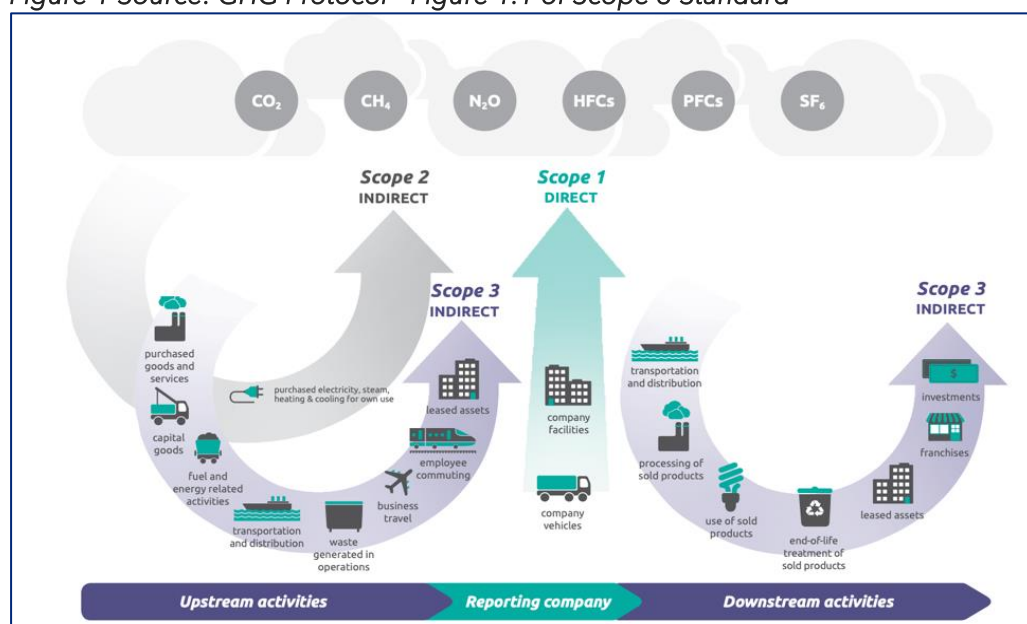
### Greenhouse gas emissions summary For the year ended 30 June 2022

During the year we have assessed and measured our Greenhouse Gas (GHG) emissions.

We completed this process in accordance with the requirements of the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) and ISO 14064-1:2006 Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals.

We have at this stage focussed on measuring our Scope 1 and 2 emissions and an agreed selection of Scope 3 (indirect, or value chain) emissions.

Figure 1 Source: GHG Protocol - Figure 1.1 of Scope 3 Standard



**Scope 1 emissions** are direct emissions that are operationally controlled by DCTL, including:

- Stationary combustion emissions related to LPG heating at DCTL's office.
- Fugitive emissions from refrigerant use within HVAC air conditioning systems at DCTL's office.

**Scope 2 emissions** are indirect GHG emissions from imported energy, including:

- Purchased electricity that is consumed at DCTL's office.

The Scope 3 emissions: to provide alignment across the Dunedin City Holdings Limited (DCHL) group of companies, a consistent set of Scope 3 emission categories have been applied, which are waste, travel and freight.

Our **Scope 3 emissions** include the following:

- Waste generated at DCTL's office.
- Business travel.

At this stage we have not captured emissions relating to our suppliers and contractors. We will review which Scope 3 emissions are relevant and appropriate on an ongoing basis, as we continue to measure and report our carbon footprint.

## Dunedin City Treasury Limited

### Results

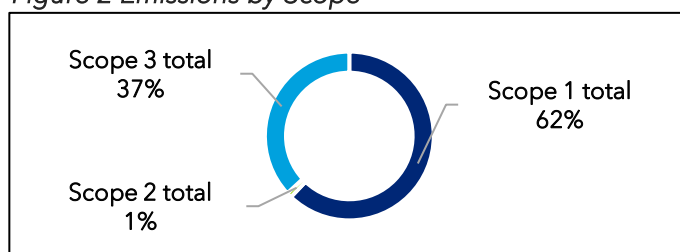
Emissions are reported as tonnes (t) of Carbon Dioxide (CO<sub>2</sub>) equivalent (e); or tCO<sub>2</sub>-e. "Carbon dioxide equivalent" is a standard unit for counting greenhouse gas emissions regardless of whether they are from carbon dioxide or another greenhouse gas.

DCTL's measured GHG emissions for the year end 30 June 2022 are 1.52 tCO<sub>2</sub>-e.

Table 1 Emissions by Scope

Scope	tCO <sub>2</sub> -e	% of total
Scope 1	0.95	62%
Scope 2	0.02	1%
Scope 3	0.56	37%
Total	1.52	100%

Figure 2 Emissions by Scope



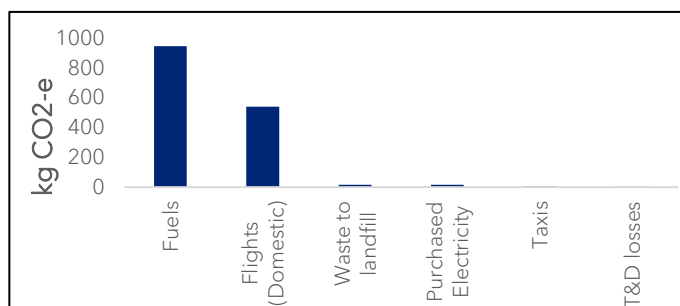
### Emissions by Activity

Our top emissions sources are summarised below.

Table 2 Emissions by activity

Category emission source	tCO <sub>2</sub> -e
Fuels	0.95
Flights (domestic)	0.54
Waste *	0.02
Purchased electricity	0.02
Taxis	0.00
Electricity transmission losses	0.00
Total	1.52

Figure 3 Emissions by activity



### Next Steps

During the year the Company developed a strategy and targets for reducing our GHG emissions and waste. Our emissions targets have been informed by best practice guidance, including:

- The most globally recognised standard for emissions reduction target setting, the Science Based Targets Initiative (SBTI), which aligns reduction targets with the Paris Agreement objective of limiting global warming to no more than 1.5C by 2030
- Focussing first and foremost on reducing Direct (Scope 1 and 2) emissions as opposed to Indirect (Scope 3) emissions
- Capturing significant Scope 3 emissions and identifying opportunities to reduce these in future.

The Company has adopted a target to be net zero carbon by 2030, as a contribution to Dunedin City Council's goal of achieving net carbon neutrality city-wide by 2030. Over the 2023 financial year we will be building on our existing work to develop a roadmap to 2030. We will engage with our shareholders DCHL and Dunedin City Council regarding non-controllable emissions and the potential cost of offsetting residual emissions. We will also work with Council to identify alternative or complementary opportunities to contribute to the Dunedin City Council's city-wide net zero carbon goal.

\* Waste to landfill is based on the total waste generated during a week in February 2020, extrapolated over the entire year. This data has not been collected since; therefore, data related to the 2022 financial year is not available.

## Dunedin City Treasury Limited

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### Directors' declarations of interest For the year ended 30 June 2022

Director	Responsibilities	Declarations of Interests
Keith T Cooper 02.02.15 - present (Chair 26.02.19 - present)	Non-Executive Director / Chair	Director & Chair, Dunedin City Holdings Limited Director & Chair, Dunedin City Treasury Limited Director & Chair, Dunedin Railways Limited - appointed 1 July 2020 Director, Dunedin Stadium Property Limited Director, Miller Creative Group Limited Owner/Director, Littlebrook Farm Limited
Linda M Robertson 17.10.13 - 17.10.22	Non-Executive Director	Chair, Audit and Risk Committee, Central Otago District Council 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, Dunedin Railways Limited - appointed 1 July 2020 Director, NZ Local Government Funding Agency Director, Alpine Energy Limited - appointed 27 August 2020 Director, Central Lakes Direct Limited Director and Shareholder, RML Consulting Limited Member, Risk and Audit Committee, The Treasury Member, Capital Markets Advisory Committee, The Treasury Kiwi Wealth companies comprising of: Kiwi Wealth Management Ltd, Kiwi Wealth Investments General Partnership Ltd, Kiwi Investment Management Ltd, Kiwi Wealth Ltd, Portfolio Custodial Nominees Ltd - appointed July 2021 Member, Audit and Risk Committee, Office of the Auditor-General and Audit New Zealand - effective January 2022
Christopher C Hopkins 25.06.19 - 24.06.22	Non-Executive Director	Chair, Health Central Limited - appointed 21 September 2020 Director, Oakwood Group Limited Director, Our Planit Limited Director, Spade Work Limited Director, GW Batts Trustee Limited Director, Dunedin City Holdings Limited - ceased 24 June 2022 Director, Dunedin City Treasury Limited - ceased 24 June 2022 Director, Dunedin Stadium Property Limited - ceased 24 June 2022 Director, Dunedin Railways Limited - appointed 1 July 2020, ceased 24 June 2022 Director, Bletsoe Securities Limited - appointed 1 April 2021 Director, Veritide Limited - appointed 1 August 2021 Director, Farra Engineering Limited - appointed 1 October 2021 Director, J B Frame & Son Ltd - appointed 5 March 2021 Director and Shareholder, Southmed Limited - appointed April 2020 Director and Shareholder, INMR Measure Limited - appointed 30 September 2020 Director and Shareholder, Mimeo Industrial Limited - appointed 18 February 2021 Director and Shareholder, CompanyHQ Limited - Appointed 3 September 2021



## Dunedin City Treasury Limited

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### Directors' declarations of interest For the year ended 30 June 2022

Director	Responsibilities	Declarations of Interests
Richard J Thomson 1.07.20 - present	Non-Executive Director	<p>Director, Dunedin City Holdings Limited - appointed 1 July 2020</p> <p>Director, Dunedin City Treasury Limited - appointed 1 July 2020</p> <p>Director, Dunedin Stadium Property Limited - appointed 1 July 2020</p> <p>Director, Dunedin Railways Limited - appointed 1 July 2020</p> <p>Director and Shareholder, Thomson &amp; Cessford Ltd (T/A Acquisitions)</p> <p>Chair, Hawksbury Community Living Trust (and subsidiary entities)</p> <p>Trustee, Healthcare Otago Charitable Trust</p> <p>Director, Central Otago Health Services Limited - appointed 6 December 2021</p>
Susie J Johnstone 1.03.21 - present	Non-Executive Director	<p>Director, Dunedin City Holdings Limited - appointed 1 March 2021</p> <p>Director, Dunedin City Treasury Limited - appointed 1 March 2021</p> <p>Director, Dunedin Stadium Property Limited - appointed 1 March 2021</p> <p>Director, Dunedin Railways Limited - appointed 1 March 2021</p> <p>Director &amp; Shareholder, Shand Thomson Chartered Accountants</p> <p>Member, Office of the Auditor General Audit &amp; Risk Committee - ceased December 2021</p> <p>Director &amp; Shareholder, Johnstone Afforestation</p> <p>Trustee, Dunedin Diocese Trust Board</p> <p>Trustee, Clutha Community Foundation</p> <p>Trustee of various client trusts through Shand Thomson &amp; Abacus</p> <p>Nominee Companies</p>

## **Dunedin City Treasury Limited**

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### **Statement of responsibility For the year ended 30 June 2022**

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 2022 fairly reflect the financial position and operations of Dunedin City Treasury Limited.



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Chair  
24 November 2022



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Director  
24 November 2022

## Dunedin City Treasury Limited

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### Trend statement

	2022	2021	2020	2019	2018	2017
Financial assets managed by the Company (\$ millions)						
Dunedin City Treasury Limited	911	802	733	668	609	566
Dunedin City Council Waipori Fund	95	100	94	93	87	84
Total financial assets managed	1,006	902	827	761	696	650

## Dunedin City Treasury Limited

### Statement of comprehensive income For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Financial income	1	23,690	23,784
Gain on fair value hedge		326	-
Total income		24,016	23,784
Less Expenses:			
Financial expenses	2	23,376	23,089
Operating expenses	3	701	590
Ineffectiveness on fair value hedge		-	71
Total expenditure		24,077	23,750
Profit / (loss) before tax		(61)	34
Income tax	4	(97)	27
Net profit after tax		36	7
Other comprehensive income:			
Gain/(loss) on cash flow hedges taken to equity		58,820	29,515
Gain/(loss) on cash flow hedges to related parties taken to equity		(1,459)	(4,601)
Deferred taxation impact of cash flow hedge gains		(7,297)	-
Total other comprehensive income, net of tax		50,064	24,914
Total comprehensive income for the year		50,100	24,921

The accompanying notes and accounting policies form an integral part of these financial statements.

## Dunedin City Treasury Limited

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### Statement of changes in equity For the year ended 30 June 2022

	Share Capital \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
Equity as at 30 June 2021	100	(31,303)	278	(30,925)
Total comprehensive income	-	50,064	36	50,100
Equity as at 30 June 2022	100	18,761	314	19,175
Equity as at 30 June 2020	100	(56,217)	271	(55,846)
Total comprehensive income	-	24,914	7	24,921
Equity as at 30 June 2021	100	(31,303)	278	(30,925)

The accompanying notes and accounting policies form an integral part of these financial statements.

## Dunedin City Treasury Limited

### Statement of financial position As at 30 June 2022

	Note	2022 \$'000	2021 \$'000
<b>Current assets</b>			
Cash and cash equivalents	10	12,159	19,757
Trade and other receivables	11	5,029	3,143
Derivative financial instruments	7	560	1,954
Prepayments		555	589
Total current assets		18,303	25,443
<b>Non-current assets</b>			
Investments	5	910,590	801,820
Derivative financial instruments	7	26,085	7,961
Software		-	-
Total non-current assets		936,675	809,781
<b>Total assets</b>		<b>954,978</b>	<b>835,224</b>
<b>Current liabilities</b>			
Short term borrowings	6	3,797	4,782
Accruals	12	5,249	4,977
Derivative financial instruments	7	663	1,165
Provision for tax		-	29
Total current liabilities		9,709	10,953
<b>Non-current liabilities</b>			
Term borrowings	6	891,178	818,992
Derivative financial instruments	7	27,717	36,204
Deferred taxation	4	7,199	-
Total non-current liabilities		926,094	855,196
<b>Total liabilities</b>		<b>935,803</b>	<b>866,149</b>
<b>Equity</b>			
Share capital	13	100	100
Retained earnings and reserves	14	19,075	(31,025)
<b>Total equity</b>		<b>19,175</b>	<b>(30,925)</b>
<b>Total liabilities and equity</b>		<b>954,978</b>	<b>835,224</b>

The accompanying notes and accounting policies form an integral part of these financial statements.

## Dunedin City Treasury Limited

### Statement of cash flows For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
<b>Cash flow from operating activities</b>			
<i>Cash was provided from:</i>			
Receipts from customers		95	247
Interest received		21,709	24,180
		<u>21,804</u>	<u>24,427</u>
<i>Cash was applied to:</i>			
Payments to suppliers and employees		721	728
Interest paid		23,050	23,565
Subvention paid / (received)		30	(2)
		<u>23,801</u>	<u>24,291</u>
Net cash inflow/(outflow) from operating activities	21	<u>(1,997)</u>	<u>136</u>
<b>Cash flow from investing activities</b>			
<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		108,770	68,615
		<u>108,770</u>	<u>68,615</u>
Net cash inflow/(outflow) from investing activities		<u>(108,770)</u>	<u>(68,615)</u>
<b>Cash flow from financing activities</b>			
<i>Cash was provided from:</i>			
Proceeds from borrowings		174,154	241,570
		<u>174,154</u>	<u>241,570</u>
<i>Cash was applied to:</i>			
Repayment of borrowings		70,985	200,000
		<u>70,985</u>	<u>200,000</u>
Net cash inflow/(outflow) from financing activities	22	<u>103,169</u>	<u>41,570</u>
<b>Net increase/(decrease) in cash</b>		<u>(7,598)</u>	<u>(26,909)</u>
Opening cash and cash equivalents		19,757	46,666
<b>Closing cash and cash equivalents</b>	10	<u>12,159</u>	<u>19,757</u>

The accompanying notes and accounting policies form an integral part of these financial statements.

# Dunedin City Treasury Limited

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## Notes to the financial statements For the year ended 30 June 2022

### Reporting entity

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

The Company 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 primary objective of the Company is to manage the funding of the Dunedin City Council and its Council Controlled Organisations.

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

The financial statements of the Company are for the year ended 30 June 2022.

The Company 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 24 November 2022.

### Basis of accounting

The financial statements have been prepared in accordance with Generally 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 the revaluation of derivative financial instruments, financial instruments classified as available for sale and financial instruments held for trading.

The cash flows arising from advances held to Dunedin City Council and other Dunedin City Holdings Limited Group entities are presented on a net basis, as either net investments realised or net purchase of investments in the cash flow statement.

### 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 2022

#### 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year include: the carrying value of the deferred tax liability (note 4), and the valuation of derivative financial instruments (note 7).

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.

## Dunedin City Treasury Limited

### Notes to the financial statements For the year ended 30 June 2022

#### 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.

	2022 \$'000	2021 \$'000
Interest on advances to related parties	23,379	23,514
Fees from related parties	203	201
Interest on other investments	108	69
Total financial income	23,690	23,784

#### 2. Financial expenses

##### Accounting policy

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

	2022 \$'000	2021 \$'000
Interest and fees - related parties	22	7
Interest and fees - term loans	23,354	23,082
Total financial expenses	23,376	23,089

#### 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.

	2022 \$'000	2021 \$'000
Audit fees - for audit of financial statements	29	28
Related party management fees	360	360
Amortisation	-	2
Other expenses	312	200
Total operating expenses	701	590

**Notes to the financial statements  
For the year ended 30 June 2022****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.

<b>Income tax</b>	<b>2022 \$'000</b>	<b>2021 \$'000</b>
Net profit / (loss) before tax	(61)	34
Tax thereon at 28%	(17)	10
<i>Plus / (less) the tax effect of differences</i>		
(Revenue)/expenditure not liable for taxation	-	20
Deferred tax adjustment	(81)	-
Under / (over) tax provision in prior years	1	(3)
Tax effect of differences	(80)	17
Tax expense	(97)	27
The taxation charge is represented by:		
Current tax	-	29
Prior period adjustment - current tax	1	(3)
Prior period adjustment - deferred tax	(81)	-
Deferred tax	(17)	-
Tax expense	(97)	27

**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.

## Dunedin City Treasury Limited

### Notes to the financial statements For the year ended 30 June 2022

Deferred tax liability	Derivatives \$'000	Tax losses \$'000	Total \$'000
Balance as at 30 June 2021	-	-	-
Deferred tax asset not previously recognised	(81)	-	(81)
Deferred tax asset not previously recognised - OCI	(8,764)	-	(8,764)
Charge to surplus / (loss)	91	(108)	(17)
Charge to other comprehensive income	16,061	-	16,061
Balance as at 30 June 2022	7,307	(108)	7,199

A deferred tax asset was not recognised in the prior year, in relation to a temporary difference of \$31,588,000, with a tax effect of \$8,845,000.

## 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.

	2022 \$'000	2021 \$'000
<i>Current</i>		
Advances to DCC	-	-
Total current investments	-	-
<i>Non-current</i>		
Advances to DCC	333,800	271,500
Advances to DCHL Group	576,790	530,320
Total non-current investments	910,590	801,820
Total investments	910,590	801,820

#### Maturity analysis of investments

	2022 \$'000	2021 \$'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	910,590	801,820
Effective interest rate	2.71%	2.73%
Total Investments	910,590	801,820
Effective interest rate	2.71%	2.73%

The investments are evergreen and the carrying amount approximates their fair value. There have been no indications of impairment of any investment.

**Notes to the financial statements  
For the year ended 30 June 2022****6. 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.

	<b>2022</b> <b>\$'000</b>	<b>2021</b> <b>\$'000</b>
<i>Current</i>		
Short term borrowing	1,497	1,482
Related parties	2,300	3,300
Total current borrowing	3,797	4,782
<i>Non-current</i>		
Promissory notes issued	174,013	149,858
Medium term notes issued	717,165	669,134
Total term borrowing	891,178	818,992
Total borrowings	894,975	823,774

As at 30 June 2022, the Company had a \$975 million multi option instrument issuance facility (subsequently increased to \$1,200 million effective 15 August 2022) which is secured against certain assets and undertakings of the Dunedin City Council Group. Debt is raised by issuing medium term notes, floating rate notes or by the issue of promissory notes.

Three independent banks have provided committed facilities to the amount of \$200.0 million (2021: \$200 million).

The amount of unamortised premium or (discount) on medium term notes on issue at 30 June 2022 is nil (2021: 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 2022

Term borrowings		2022 \$'000	2021 \$'000
	Interest Rate		
Promissory notes		174,013	149,858
Medium term notes 25/11/21	Coupon rate 4.88%	-	70,000
Floating rate notes 15/10/22	56bp over BKBM	50,000	50,000
Medium term notes 15/11/22	Coupon rate 1.51%	45,000	45,000
Medium term notes 16/10/23	Coupon rate 0.36%	50,000	50,000
Floating rate notes 15/02/24	65bp over BKBM	25,000	25,000
Medium term notes 16/10/24	Coupon rate 3.79%	35,000	35,000
Floating rate notes 01/04/25	30bp over BKBM	50,000	-
Medium term notes 17/7/25	Coupon rate 3.61%	50,000	50,000
Medium term notes 15/4/26	Coupon rate 3.98%	65,000	65,000
Medium term notes 15/3/26	Coupon rate 2.90%	50,000	50,000
Medium term notes 15/11/26	Coupon rate 2.09%	55,000	55,000
Medium term notes 16/11/26	Coupon rate 0.676%	60,000	60,000
Medium term notes 18/04/28	Coupon rate 1.93%	110,000	110,000
Medium term notes 27/11/28	Coupon rate 3.22%	100,000	-
Fair value impact on medium term notes		(27,835)	4,134
		<b>891,178</b>	<b>818,992</b>

#### Contractual maturity analysis of term borrowings

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

Less than one year	268,667	220,994
Effective interest rate	2.18%	1.68%
Later than one year but not more than five	434,433	374,216
Effective interest rate	2.46%	2.77%
Later than five years	188,078	223,782
Effective interest rate	3.11%	3.21%
	<b>891,178</b>	<b>818,992</b>

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:

	2022 \$'000	2021 \$'000
Total borrowings	874,498	829,066

**Notes to the financial statements**  
**For the year ended 30 June 2022**

**7. 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, would be 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 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 accounting 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 2022

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	2022 \$'000	2021 \$'000
Assets:		
Interest rate swaps- cash flow hedges - DCHL Group	-	823
Interest rate swaps- cash flow hedges - DCC	20	656
Interest rate swaps- cash flow hedges - Bank	26,625	2,261
Interest rate swaps- fair value hedges - Bank	-	6,175
	<u>26,645</u>	<u>9,915</u>
Liabilities:		
Interest rate swaps- cash flow hedges - Bank	584	35,040
Interest rate swaps- fair value hedges - Bank	27,796	2,329
	<u>28,380</u>	<u>37,369</u>

The ineffective portion recognised in the statement of comprehensive income that arises from fair value hedges amounts to a gain of \$326 thousand (2021: loss of \$71 thousand). This represents the current year net movement in the value of the fair value hedge swaps of \$31.643 million (loss) and fair value hedge adjustment to debt of \$31.969 million (gain).



## Notes to the financial statements For the year ended 30 June 2022

### 8. Interest rate swaps

	2022 \$'000	2021 \$'000
The notional principal outstanding with regard to the interest rate swaps is:		
Counterparties outside the group:		
Maturing in less than one year	315,000	182,500
Maturing in between one and five years	412,500	442,500
Maturing after five years	640,000	455,000
	<u>1,367,500</u>	<u>1,080,000</u>
	2022 \$'000	2021 \$'000
Counterparties within the Dunedin City Council group:		
Maturing in less than one year	10,000	53,000
Maturing in between one and five years	-	10,000
Maturing after five years	-	-
	<u>10,000</u>	<u>63,000</u>

### 9. 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 Other Comprehensive Income 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. 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 transition adjustment was required.

## Dunedin City Treasury Limited

### Notes to the financial statements For the year ended 30 June 2022

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

	2022 \$'000	2021 \$'000
Financial assets measured at amortised cost:		
Cash and cash equivalents (note 10)	12,159	19,757
Trade and other receivables (note 11)	5,029	3,143
Investments (note 5)	910,590	801,820
Total financial assets measured at amortised cost	927,778	824,720
Financial assets at fair value through profit and loss:		
Derivative financial instruments assets (note 8)	26,645	9,915
Financial liabilities measured at amortised cost:		
Accruals (note 12)	5,249	4,977
Borrowings (note 6)	894,975	823,774
Total financial liabilities measured at amortised cost	900,224	828,751
Financial liabilities at fair value through profit and loss:		
Derivative financial instrument liabilities (note 8)	28,380	37,369

### 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 2022

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	Non- observable inputs
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2022					
Cash and cash equivalents	12,159	12,159	-	12,159	-
Trade and other receivables	5,029	5,029	-	-	5,029
Investments	910,590	910,590	-	910,590	-
Derivative financial assets	26,645	26,645	-	26,645	-
Accruals	5,249	5,249	-	-	5,249
Borrowings	894,975	874,498	-	874,498	-
Derivative financial liabilities	28,380	28,380	-	28,380	-
30 June 2021					
Cash and cash equivalents	19,757	19,757	-	19,757	-
Trade and other receivables	3,143	3,143	-	-	3,143
Investments	801,820	801,820	-	801,820	-
Derivative financial assets	9,915	9,915	-	9,915	-
Accruals	4,977	4,977	-	-	4,977
Borrowings	823,774	829,066	-	829,066	-
Derivative financial liabilities	37,369	37,369	-	37,369	-

### 10. 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.

	2022	2021
	\$'000	\$'000
Cash at Bank	2,159	757
Short term deposits	10,000	19,000
	<u>12,159</u>	<u>19,757</u>

The carrying amount of these assets approximates their fair value.

The weighted average effective interest rate for cash at bank is 1.59% (2021: 0.21%).

## Dunedin City Treasury Limited

### Notes to the financial statements For the year ended 30 June 2022

#### 11. Trade and other receivables

##### Accounting policy

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

	2022 \$'000	2021 \$'000
Interest due from related parties - DCHL Group	2,510	1,094
Interest and fees due from related parties - DCC	2,358	1,178
Other current receivables	161	872
	<u>5,029</u>	<u>3,143</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.

#### 12. 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.

	2022 \$'000	2021 \$'000
Due to related parties	-	-
Accruals	5,249	4,977
	<u>5,249</u>	<u>4,977</u>

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

#### 13. Equity - share capital

	2022 \$'000	2021 \$'000
Issued 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 2022

#### 14. Retained earnings and reserves

	2022 \$'000	2021 \$'000
Retained earnings at the beginning of the year	278	271
Net profit after tax for the year	36	7
Balance at the end of the year	314	278
Hedge reserve at the beginning of the year	(31,303)	(56,217)
Gain / (loss) of cash flow hedges taken to equity	58,820	29,515
Gain / (loss) of cash flow hedges to related parties taken to equity	(1,459)	(4,601)
Deferred taxation impact of cash flow hedge gains	(7,297)	-
Balance at the end of the year	18,761	(31,303)
Total retained earnings & reserves	19,075	(31,025)

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.

#### 15. 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 comply with. 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 of the instrument
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 \$350,000,000 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 2022

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 6.

##### *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.

### Notes to the financial statements For the year ended 30 June 2022

#### *Sensitivity Analysis*

As at 30 June 2022 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 10), investments (note 5) and trade receivables (note 11). 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 no security held over cash equivalents, trade receivables and related party loans.

#### Maximum exposure to credit risk

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

	2022 \$'000	2021 \$'000
Cash & cash equivalents	12,159	19,757
Trade and other receivables	5,029	3,143
Related party loans	910,590	801,820
Derivative financial assets	26,645	9,915
Total credit risk	954,423	834,635

## Dunedin City Treasury Limited

### Notes to the financial statements For the year ended 30 June 2022

#### 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 2022			
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		12,159	
Trade & other receivables – related parties AA	2,358		
Trade & other receivables AA-		161	
Derivative financial instruments			
– related parties AA	20		
Derivative financial instruments AA-		26,625	
Investments – loans to related parties AA	333,800		
<i>Counterparties without credit ratings</i>			
Trade & other receivables - related parties			2,510
Investments – loans to related parties			576,790
Derivative financial instruments - related parties			-
Last year 30 June 2021			
<i>Counterparties with credit ratings</i>			
Cash and cash equivalents AA-		19,757	
Trade & other receivables – related parties AA	1,178		
Trade & other receivables AA-		872	
Derivative financial instruments			
– related parties AA	656		
Derivative financial instruments AA-		8,436	
Investments – loans to related parties AA	271,500		
<i>Counterparties without credit ratings</i>			
Trade & other receivables - related parties			1,093
Investments – loans to related parties			530,320
Derivative financial instruments - related parties			823

There have been no defaults during the year from counterparties without credit rating (2021: 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 \$200 million (2021: \$200 million).



## Dunedin City Treasury Limited

### Notes to the financial statements For the year ended 30 June 2022

#### 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 2022 was 2.86% (2021: 0.35%).

#### Contractual maturity analysis of financial assets

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	No maturity
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
2022 year							
Cash & cash equivalents	12,159	12,159	12,159	-	-	-	-
Trade & other receivables	5,029	5,029	5,029	-	-	-	-
Derivative financial assets	26,645	(35,130)	(3,320)	(5,097)	(12,344)	(14,369)	-
Investments	910,590	910,622	10,032	-	-	-	900,590
Total	954,423	892,680	23,900	(5,097)	(12,344)	(14,369)	900,590
2021 year							
Cash & cash equivalents	19,757	19,757	19,757	-	-	-	-
Trade & other receivables	3,143	3,143	3,143	-	-	-	-
Derivative financial assets	9,915	9,035	5,456	2,031	3,275	(1,727)	-
Investments	801,820	803,674	54,822	10,032	-	-	738,820
Total	834,635	835,609	83,178	12,063	3,275	(1,727)	738,820

#### Contractual maturity analysis of financial liabilities

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	No maturity
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
2022 year							
Accruals	5,249	5,249	5,249	-	-	-	-
Derivative financial liabilities	28,380	24,003	4,910	5,348	9,365	4,379	-
Borrowings	894,975	995,039	290,416	90,573	397,097	216,953	-
Total	928,604	1,024,291	300,575	95,921	406,462	221,332	-
2021 year							
Accruals	4,977	4,977	4,977	-	-	-	-
Derivative financial liabilities	37,369	39,848	9,056	9,891	16,004	4,897	-
Borrowings	823,774	837,344	244,560	107,550	255,210	230,024	-
Total	866,120	882,169	258,593	117,441	271,214	234,921	-

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed in notes 5 and 6 respectively.

## Dunedin City Treasury Limited

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### Notes to the financial statements For the year ended 30 June 2022

#### Currency 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.

#### 16. Imputation credit account

	2022 \$'000	2021 \$'000
Imputation credits available for use in subsequent periods	103	103

#### 17. Contingent liabilities

	2022 \$'000	2021 \$'000
Performance bonds	377	991

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.

#### 18. Contingent assets

The Company has no contingent assets (2021: nil).

#### 19. Commitments

The Company has no capital expenditure commitments (2021: nil).

The Company has no non-cancellable operating leases (2021: nil).

The level of committed facilities undrawn at 30 June 2022 amounts to \$200.0 million (2021: \$200.0 million).

#### 20. 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 2022

	2022 \$'000	2021 \$'000
Sales of services to the Group:		
Interest income - DCC	8,553	8,005
Interest income - DCHL	586	652
Interest income - Aurora Energy Ltd	11,167	10,896
Interest income - City Forests Ltd	434	467
Interest income - Delta Utility Services Ltd	365	532
Interest income - Dunedin Stadium Property Ltd	2,275	2,974
Financial services - DCC	203	189
Subvention receipt - DCHL Group entities	-	-
	<u>23,582</u>	<u>23,715</u>
Purchases of services from the Group:		
Interest - DRL	2	-
Interest - DVML	20	7
Administration and office services - DCHL	360	360
Subvention payment - DCHL Group entities	30	3
	<u>412</u>	<u>370</u>
Advances provided to the Group:		
Opening balance	801,820	733,205
Plus additional advances	314,615	527,646
Less repayments	(205,845)	(459,031)
Balance at end of year (see entity breakdown below)	<u>910,590</u>	<u>801,820</u>
Deposits held on behalf of DVML:		
Opening balance	3,300	2,000
Plus additional advances	3,800	2,900
Less repayments	(4,800)	(1,600)
Balance at end of year	<u>2,300</u>	<u>3,300</u>

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

	2022 \$'000	2021 \$'000
Dunedin City Council	336,177	273,334
Dunedin City Holdings Limited	20,358	21,785
Aurora Energy Limited	439,932	391,138
Delta Utility Services Limited	13,034	16,519
City Forests Limited	20,641	16,092
Dunedin Stadium Property Limited	85,336	86,702
Dunedin Railways Limited	-	-

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

Dunedin Venues Management Limited	2,300	3,300
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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.

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 2022

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

	2022 \$'000	2021 \$'000
Net profit for the year after tax	36	7
<i>Items not involving cash flows</i>		
Fair value change in derivatives	(326)	71
Amortisation	-	2
Deferred tax	(98)	-
	<u>(388)</u>	<u>80</u>
<i>Impact of changes in working capital items</i>		
(Increase) / decrease in receivables	(1,886)	648
(Increase) / decrease in prepayments	34	(145)
Increase / (decrease) in accruals	272	(476)
Increase / (decrease) in provisions	(29)	29
Net cash inflow/(outflow) from operating activities	<u>(1,997)</u>	<u>136</u>

#### 22. Reconciliation of liabilities from financing activities

			<u>Non-cash changes</u>		
	2021 \$'000's	Cash flows \$'000's	Foreign exchange movement \$'000's	Fair value changes \$'000's	2022 \$'000's
2022 year					
Long term borrowings	818,992	104,154	-	(31,968)	891,178
Short term borrowings	4,782	(985)	-	-	3,797
Derivative financial instruments	36,204	-	-	(8,487)	27,717
Short term derivative financial instruments	1,165	-	-	(502)	663
Assets held to hedge					
Long term borrowings	(9,915)	-	-	(16,730)	(26,645)
Total liabilities from financing activities	<u>851,228</u>	<u>103,169</u>	<u>-</u>	<u>(57,687)</u>	<u>896,710</u>

			<u>Non-cash changes</u>		
	2020 \$'000's	Cash flows \$'000's	Foreign exchange movement \$'000's	Fair value changes \$'000's	2021 \$'000's
2021 year					
Long term borrowings	790,136	39,982	-	(11,126)	818,992
Short term borrowings	3,194	1,588	-	-	4,782
Derivative financial instruments	59,683	-	-	(23,479)	36,204
Short term derivative financial instruments	2,612	-	-	(1,447)	1,165
Assets held to hedge					
Long term borrowings	(21,124)	-	-	11,209	(9,915)
Total liabilities from financing activities	<u>834,501</u>	<u>41,570</u>	<u>-</u>	<u>(24,843)</u>	<u>851,228</u>

### **Notes to the financial statements For the year ended 30 June 2022**

#### **23. COVID-19**

The pandemic has not had a significant direct effect on the Company. As lender to the Dunedin City Council Group, the Company remains in constant communication with the Group entities regarding their borrowing needs and ensuring appropriate levels of cash reserves are maintained.

There is no perceived increased risk of default by borrowers in the Group.

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.

#### **24. Events after balance date**

The value of interest rate swaps designated as cashflow hedges has increased in value by 56.6% since reporting date, based on valuations as at 31 October 2022.

The Company continued to work towards adding the New Zealand Local Government Funding Agency as a source of funding, which was completed on 3 November 2022.

There are no other significant events after balance date.

## Dunedin City Treasury Limited

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### Statement of service performance For the year ended 30 June 2022

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.
- 11 Escalate DCTL strategic or operational matters which could compromise the Council's community outcomes, to the shareholder in a timely manner.

#### 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.
- Not achieved. The fund did not meet the investment objective to grow the fund's base value, due to current market conditions. The fund recorded a return for the year of -4.5%.
- 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.
- Achieved. There were no matters requiring escalation to the shareholder.

## Dunedin City Treasury Limited

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- |    |   |   |
|----|---|---|
| 12 | 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.  |
| 13 | Establish systems for measuring and publicly reporting carbon emissions. Develop an emissions reduction strategy and associated targets for inclusion in the 2022/2023 Statement of Intent. | Achieved. Systems for measuring and publicly reporting carbon emissions have been established. An emissions reduction strategy and associated targets were developed during the year. |
| 14 | Develop a waste reduction strategy and associated targets for inclusion in the 2022/2023 Statement of Intent.   | Achieved. A waste reduction strategy and associated targets were developed during the year.   |
| 15 | Obtain a credit rating equal to that of Dunedin City Council.   | Achieved. Obtained a credit rating of AA/Stable/A-1+; equal to that of Dunedin City Council.  |

Financial forecasts	\$'000	Achievement	\$'000
Net profit after tax	11	Net profit after tax	36
Cash flow from operations	(1,984)	Cash flow from operations	(1,997)
Capital expenditure	-	Capital expenditure	-
Term loans	956,180	Term loans	891,178
Shareholder's funds to total assets	-3.0%	Shareholder's funds to total assets	2.0%

## **Dunedin City Treasury Limited**

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### **Directory As at 30 June 2022**

#### **Directors**

Keith T Cooper  
Linda M Robertson  
Richard J Thomson  
Susie J Johnstone

#### **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 2022

The Auditor-General is the auditor of Dunedin City Treasury Limited (the company). The Auditor-General has appointed me, Rudie Tomlinson, 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 11 to 36, that comprise the statement of financial position as at 30 June 2022, 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 pages 37 to 38.

In our opinion:

- the financial statements of the company on pages 11 to 36:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2022; 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 37 to 38 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 2022.

Our audit was completed on 28 November 2022. 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 financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is 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 financial statements and 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 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 1 to 10 and page 39 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: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

A Board member of the company was a member of the Auditor-General's Audit and Risk Committee until December 2021. Since March 2022, another Board member of the company became a member of the Auditor-General's Audit and Risk Committee. The Auditor-General's Audit and Risk Committee is regulated by a Charter that specifies that it should not assume any management functions. There are appropriate safeguards to reduce any threat to auditor independence, as the members of the Auditor-General's Audit and Risk Committee have no involvement in, or influence over, the audit of the company.

Other than the audit, and the relationship with the Auditor-General's Audit and Risk Committee, we have no relationship with or interests in the company.



Rudie Tomlinson  
Audit New Zealand  
On behalf of the Auditor-General  
Dunedin, New Zealand