

# **Dunedin City Treasury Ltd**

## **INTERIM REPORT**

**For the six months ended 31 December 2020**

## **Dunedin City Treasury Limited**

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## Dunedin City Treasury Limited

### Directors' report

The Directors of Dunedin City Treasury Limited are pleased to present their report on the activities of the Company for the six months ended 31 December 2020.

### Overview of results

	unaudited 6 months to 31 Dec 2020 \$'000	unaudited 6 months to 31 Dec 2019 \$'000	audited full year to 30 Jun 2020 \$'000
Total income	12,634	14,534	27,259
Profit before tax	(75)	850	11
Income tax	(32)	238	-
Net profit after tax	(43)	612	11
Total assets	814,759	756,344	805,232

### Review of operations

Dunedin City Treasury Ltd ("the Company") has continued to experience further reductions in the cost of funds for the DCC Group, with average cost of funding reducing from 3.36% to 2.75% over this six month period as wholesale interest rates have continued to fall.

The Company undertook two successful refinancings during the period. The \$45.0m 16 October 2020 Floating Rate Note (FRN) maturity was refinanced with a new \$50.0m three year Medium Term Note (MTN). The new MTN was priced at a coupon rate of 0.36%. The issue margin was 0.34% and the issue was priced above an extremely favourable benchmark swap yield of only 0.02%. The \$50.0m 16 November 2020 MTN maturity was refinanced with a new \$60.0m six year MTN with a coupon rate of 0.676%. Both issues contributed toward the further reduction in the cost of funds given the favourable market conditions.

The issuance of the six year tranche of MTN's will assist the Company to maintain at least 20% of debt with maturities of greater than five years, as debt is forecast to increase in the near term as the Group continues to fund significant infrastructure expenditure.

The Company's Promissory Note programme continues to perform strongly, achieving an average rate of +0.013% over the 3 month benchmark interest rate, and an average bid coverage 2.5 times the Promissory Notes tendered.

The Company has ensured that funding facilities are spread over time to assist with managing funding risk. Over the period the Company has continued to ensure that there is less than \$250 million of funding due to mature in any forward one year period, as required by DCC's Treasury Risk Management Policy. The Company also maintained compliance with all other aspects of the Treasury Risk Management Policy, an annual review of which was completed in October 2020. The Company continues to manage funds in the best interests of its borrowers.

Standard & Poor's reaffirmed the AA/Stable/A-1+ ratings of both Dunedin City Treasury Limited and the Dunedin City Council in December 2020.

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

### Seasonality

There is no seasonality of earnings within the Company.

## **Dunedin City Treasury Limited**

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### **Directors' report**

#### **Dividends**

No dividends were paid by the Company during the period.

#### **Events after balance sheet date**

There were no significant events after balance date.

#### **Outlook**

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

## **Dunedin City Treasury Limited**

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### **Statement of responsibility**

The Directors accept responsibility for the preparation of the interim financial statements and the judgements used in them.

The Directors 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 Directors, the interim financial statements fairly reflect the financial position as at 31 December 2020 and operations for the six months to 31 December 2020 of Dunedin City Treasury Limited.

The Board of Directors of Dunedin City Treasury Limited have pleasure in presenting the interim financial statements, set out on pages 5 to 15, for the six months ended 31 December 2020 and authorises them for issue on 4 February 2021.



Chair



Director

## Dunedin City Treasury Limited

### Statement of comprehensive income For the six months ending 31 December 2020

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited full year to 30 Jun 2020 \$'000
Interest on advances & fees from related parties	12,546	14,025	27,082
Interest on other investments	48	90	166
Total financial income	12,594	14,115	27,248
Ineffectiveness on fair value hedge (gain)	40	419	11
Total income	12,634	14,534	27,259
Less expenses:			
Interest to related parties	12	12	20
Interest & fees on term loans	12,384	13,346	26,606
Total financial expenses	12,396	13,358	26,626
Audit fees	-	-	27
Directors remuneration	-	-	-
Management fees to related parties	180	167	346
Amortisation	1	6	10
Other operating expenses	132	153	239
Ineffectiveness on fair value hedge (loss)	-	-	-
Total expenses	12,709	13,684	27,248
<b>Profit before tax</b>	(75)	850	11
Income tax	(32)	238	-
<b>Net profit after tax</b>	(43)	612	11
Other comprehensive income:			
Gain (loss) on cash flow hedges taken to equity	(2,549)	3,026	(17,827)
Gain (loss) on cash flow hedges to related parties taken to equity	9,245	(2,498)	(3,656)
Total other comprehensive income	6,696	528	(21,483)
<b>Total comprehensive income/(loss) for the period</b>	6,653	1,140	(21,472)

## Dunedin City Treasury Limited

### Statement of changes in equity For the six months ending 31 December 2020

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>Unaudited</b>				
Equity as at 1 July 2020	100	(56,217)	271	(55,846)
Comprehensive income for the period	-	6,696	(43)	6,653
Equity as at 31 December 2020	100	(49,521)	228	(49,193)
<b>Unaudited</b>				
Equity as at 1 July 2019	100	(34,734)	260	(34,374)
Comprehensive income for the period	-	528	612	1,140
Equity as at 31 December 2019	100	(34,206)	872	(33,234)
<b>Audited</b>				
Equity as at 1 July 2019	100	(34,734)	260	(34,374)
Comprehensive income for the period	-	(21,483)	11	(21,472)
Equity as at 30 June 2020	100	(56,217)	271	(55,846)

## Dunedin City Treasury Limited

### Statement of financial position As at 31 December 2020

	Note	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited full year to 30 Jun 2020 \$'000
<b>Current assets</b>				
Cash and cash equivalents		38,500	40,978	46,666
Investments	5	-	-	-
Derivative financial instruments	7	5,170	687	1,193
Trade and other receivables		4,591	4,899	3,791
Prepayments		524	530	444
Total current assets		48,785	47,094	52,094
<b>Non-current assets</b>				
Investments	5	756,050	692,800	733,205
Derivative financial instruments	7	9,923	16,444	19,931
Software	4	1	6	2
Total non current assets		765,974	709,250	753,138
<b>Total assets</b>		<b>814,759</b>	<b>756,344</b>	<b>805,232</b>
<b>Current liabilities</b>				
Short term borrowings	6	4,413	3,325	3,194
Trade and other payables		4,868	5,473	5,453
Derivative financial instruments	7	3,772	1,133	2,612
Provision for tax		(32)	238	-
Total current liabilities		13,021	10,169	11,259
<b>Non-current liabilities</b>				
Term borrowings	8	801,186	739,101	790,136
Derivative financial instruments	7	49,745	40,308	59,683
Total non-current liabilities		850,931	779,409	849,819
<b>Total liabilities</b>		<b>863,952</b>	<b>789,578</b>	<b>861,078</b>
<b>Equity</b>				
Share capital		100	100	100
Hedge reserve		(49,521)	(34,206)	(56,217)
Retained earnings		228	872	271
Total equity		(49,193)	(33,234)	(55,846)
<b>Total liabilities and equity</b>		<b>814,759</b>	<b>756,344</b>	<b>805,232</b>



## Dunedin City Treasury Limited

### Statement of cash flows For the six months ending 31 December 2020

	Note	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited full year to 30 Jun 2020 \$'000
<b>Cash flow from operating activities</b>				
<i>Cash was provided from:</i>				
Receipts from customers		142	10	323
Interest received		11,647	11,922	25,848
		11,789	11,932	26,171
<i>Cash was applied to:</i>				
Payments to suppliers		392	371	575
Interest paid		12,976	13,007	26,295
Subvention paid/(received)		-	8	8
		13,368	13,386	26,878
Net cash flow from operating activities	3	(1,579)	(1,454)	(707)
<b>Cash flow from investing activities</b>				
<i>Cash was provided from:</i>				
Net decrease in investments		99,663	98,147	-
		99,663	98,147	-
<i>Cash was applied to:</i>				
Purchase of Software		-	-	-
Net increase in investments		118,519	121,052	68,868
		118,519	121,052	68,868
Net cash flow from investing activities		(18,856)	(22,905)	(68,868)
<b>Cash flow from financing activities</b>				
<i>Cash was provided from:</i>				
Net loans raised		60,000	50,160	101,064
		60,000	50,160	101,064
<i>Cash was applied to:</i>				
Net loans repaid		47,731	-	-
		47,731	-	-
Net cash flow from financing activities		12,269	50,160	101,064
<b>Net increase/(decrease) in cash and cash equivalents</b>		(8,166)	25,801	31,489
Opening cash and cash equivalents		46,666	15,177	15,177
<b>Closing cash and cash equivalents</b>		38,500	40,978	46,666

## **Dunedin City Treasury Limited**

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### **Notes to the financial statements (unaudited) For the six months ending 31 December 2020**

#### **1 Reporting entity**

The financial statements presented here are for the company Dunedin City Treasury Limited.

Dunedin City Treasury Limited (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 100% owned by Dunedin City Holdings Limited which is wholly owned by the Dunedin City Council.

The registered address of the Company is 50 The Octagon, Dunedin 9016.

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

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the Company operates.

#### **2 Basis of preparation**

The financial statements for the six month period ended 31 December 2020 are unaudited.

The financial statements have been prepared in accordance with New Zealand Equivalents to International Reporting Standards 34, Interim Financial Reporting, and should be read in conjunction with the audited financial statements for the year ended 30 June 2020.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2020.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2020.

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2020

#### 3 Reconciliation of operating surplus to net cash flows from operating activities

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited full year to 30 Jun 2020 \$'000
Net profit after tax	(43)	612	11
<i>Items not involving cash flows</i>			
Fair value change in SWAPs	(40)	(419)	(11)
Amortisation	1	6	10
	(82)	199	10
<i>Impact of changes in working capital items</i>			
(Increase)/Decrease in receivables	(800)	(2,193)	(1,085)
(Increase)/Decrease in prepayments	(80)	(41)	45
Increase/(Decrease) in trade and other payables	(585)	351	331
Increase/(Decrease) in provisions	(32)	230	(8)
Net cash inflows from operating activities	(1,579)	(1,454)	(707)

#### 4 Software

	Unaudited as at 31 Dec 2020 \$'000	Unaudited as at 31 Dec 2019 \$'000	Audited as at 30 Jun 2020 \$'000
Balance at beginning of period	2	12	12
Purchases	-	-	-
Amortisation	(1)	(6)	(10)
Balance at end of period	1	6	2

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2020

#### 5 Investments

	Unaudited as at 31 Dec 2020 \$'000	Unaudited as at 31 Dec 2019 \$'000	Audited as at 30 Jun 2020 \$'000
<b>Current</b>			
Advances to Dunedin City Council	-	-	-
Advances to Dunedin City Holdings Limited Group	-	-	-
Investment at bank	-	-	-
	-	-	-
<b>Non-current</b>			
Advances to Dunedin City Council	251,500	230,500	243,500
Advances to Dunedin City Holdings Limited Group	504,550	462,300	489,705
	756,050	692,800	733,205
<b>Total investments</b>	756,050	692,800	733,205
A maturity analysis of the company's investments is as follows:			
Maturity within one year	-	-	-
Maturity one to five years	-	-	-
Maturity over five years	756,050	692,800	733,205
	756,050	692,800	733,205

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

#### 6 Short term borrowings

	Unaudited as at 31 Dec 2020 \$'000	Unaudited as at 31 Dec 2019 \$'000	Audited as at 30 Jun 2020 \$'000
Due to related parties	2,600	2,200	2,000
Other short term deposits	1,813	1,125	1,194
	4,413	3,325	3,194

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2020

#### 7 Derivative financial instruments

	Unaudited as at 31 Dec 2020 \$'000	Unaudited as at 31 Dec 2019 \$'000	Audited as at 30 Jun 2020 \$'000
<b>Assets</b>			
Interest rate swaps - cash flow hedges - DCHL Group	2,275	4,381	4,031
Interest rate swaps - cash flow hedges - DCC	1,256	2,856	2,049
Interest rate swaps - cash flow hedges - Bank	-	-	-
Interest rate swaps - fair value hedges - Bank	11,562	9,894	15,044
	15,093	17,131	21,124
<i>Current</i>			
Interest rate swaps - cash flow hedges - DCC Group	2,387	687	1,193
Interest rate swaps - fair value hedges - Bank	2,783	-	-
	5,170	687	1,193
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - DCC Group	1,144	7,237	6,080
Interest rate swaps - cash flow hedges - Bank	-	-	-
Interest rate swaps - fair value hedges - Bank	8,779	9,894	15,044
	9,923	17,131	21,124
Total Assets	15,093	17,818	22,317
<b>Liabilities</b>			
Interest rate swaps - cash flow hedges - Bank	53,050	41,441	62,295
Interest rate swaps - fair value hedges - Bank	467	-	-
	53,517	41,441	62,295
<i>Current</i>			
Interest rate swaps - cash flow hedges - Bank	3,772	1,133	2,612
	3,772	1,133	2,612
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - Bank	49,278	40,308	59,683
Interest rate swaps - fair value hedges - Bank	467	-	-
	49,745	40,308	59,683
Total Liabilities	53,517	41,441	62,295

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

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2020

#### 8 Term borrowings (secured)

The Company has an \$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.

	Unaudited as at 31 Dec 2020 \$'000	Unaudited as at 31 Dec 2019 \$'000	Audited as at 30 Jun 2020 \$'000
<b>Term borrowings</b>			
Promissory notes	129,915	159,399	129,875
Floating rate notes 16/10/20	-	45,000	45,000
Bonds 16/11/20	-	50,000	50,000
Bonds 15/4/21*	30,000	30,000	30,000
Bonds 15/4/21	75,000	-	75,000
Bonds 25/11/21*	70,000	70,000	70,000
Floating rate notes 15/10/22	50,000	50,000	50,000
Bonds 15/11/22*	45,000	45,000	45,000
Bonds 16/10/23*	50,000	-	-
Floating rate notes 15/02/24	25,000	25,000	25,000
Bonds 16/10/24	35,000	35,000	35,000
Bonds 17/7/25	50,000	50,000	50,000
Bonds 15/4/26*	65,000	65,000	65,000
Bonds 15/3/26	50,000	50,000	50,000
Bonds 15/11/26*	55,000	55,000	55,000
Bonds 16/11/26	60,000	-	-
Fair value impact on bonds (*)	11,271	9,702	15,261
	<b>801,186</b>	<b>739,101</b>	<b>790,136</b>
The repayment period on the term borrowings is as follows:			
Repayable less than one year	307,712	254,399	330,399
Repayable between one to five years	263,474	259,353	230,057
Repayable later than five years	230,000	225,349	229,680
	<b>801,186</b>	<b>739,101</b>	<b>790,136</b>

#### Fair value of borrowings

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

Directors estimate the fair value of the Company's borrowings as at 31 December 2020 as being \$895,621,657 (December 2019 \$750,328,356).

## **Dunedin City Treasury Limited**

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### **Notes to the financial statements (unaudited) For the six months ending 31 December 2020**

#### **9 Contingent liabilities**

	<b>Unaudited as at 31 Dec 2020 \$'000</b>	<b>Unaudited as at 31 Dec 2019 \$'000</b>	<b>Audited as at 30 Jun 2020 \$'000</b>
Performance bonds	1,006	1,142	1,092

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.

## **Dunedin City Treasury Limited**

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### **Statement of Service Performance For the six months ending 31 December 2020**

<b>Performance targets</b>	<b>Performance targets achieved</b>
<b>1</b> Zero breaches of DCC Treasury Risk Management Policy's borrowing maturity profile.	Achieved. There were no breaches of the DCC Treasury Risk Management Policy's borrowing maturity profile.
<b>2</b> Zero breaches of DCC Treasury Risk Management Policy's interest rate risk policy.	Achieved. There were no breaches of the DCC Treasury Risk Management Policy's interest rate risk policy.
<b>3</b> Zero breaches of DCC Treasury Risk Management Policy's investment management policy.	Achieved. There were no breaches of the DCC Treasury Risk Management Policy's investment management policy.
<b>4</b> Successfully fill any issues brought to the market during the year.	Achieved. All debt issuance arranged during the period has been filled successfully.
<b>5</b> Maintain funding lines with preferred financial providers.	Achieved. Funding lines have been maintained with ANZ, BNZ and Westpac.
<b>6</b> Regular reporting of the Company's achievement against defined benchmarks.	Achieved. Reporting achievement against defined benchmarks are provided to the Board monthly and quarterly.
<b>7</b> Manage the 'Waipori Fund' and meet investment objectives set by Council.	Achieved. Managed the 'Waipori Fund' and meet investment objectives. On track to meet annual investment objectives.
<b>8</b> Review the Risk Register Dashboard quarterly and report DCTL's top 5 current risks regularly to the Shareholder.	Achieved. The Risk Register Dashboard has been reviewed quarterly and the top 5 current risks were reported to the Shareholder monthly.
<b>9</b> Advise shareholder within 1 business day of any breaches of policy.	Achieved. There were no breaches of policy that were required to be reported to the shareholder.
<b>10</b> Matters have been escalated to the Shareholder in a timely manner.	Achieved. There were no matters requiring escalation to the shareholder.
<b>11</b> To report matters of substance to the Shareholder within 24 hours of the board becoming aware.	Achieved. There are no matters of substance to report to the shareholder.
<b>12</b> Establish systems for measuring and publicly reporting carbon emissions by end of FY2021.	Achieved. Systems for measuring and publicly reporting carbon emissions have been established.
<b>13</b> Maintain a credit rating equal to that of Dunedin City Council.	Achieved. The Company received a credit rating of AA/Stable/A-1+; equal to that of Dunedin City Council.

### **Financial forecasts**

Financial forecasts are set in the Statement of Intent for the year ending 30 June 2021. The Company is on track to meet the financial forecasts set.



## **Dunedin City Treasury Limited**

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### **Directory**

#### **Directors**

Keith T Cooper (Chair)  
Kathleen E Grant  
Linda M Robertson  
Christopher Hopkins  
Richard Thomson

#### **Registered Office**

50 The Octagon  
Dunedin 9016

#### **Bankers**

Westpac Banking Corporation

#### **Solicitors**

Anderson Lloyd

#### **Taxation Advisors**

Deloitte

#### **Auditor**

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