

# **Dunedin City Treasury Limited**

## **Interim Report**

**For the six months ended**

**31 December 2016**

# 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 2016.

### Overview of results

	unaudited 6 months to 31 Dec 2016 \$'000	unaudited 6 months to 31 Dec 2015 \$'000	audited full year to 30 Jun 2016 \$'000
Total income	16,630	20,750	36,545
Profit before tax	220	758	161
Income tax	62	212	122
Net profit after tax	158	546	39
Total assets	579,664	611,345	608,145

### Review of operations

Standard & Poor's reaffirmed the AA/A-1+ ratings for both Dunedin City Treasury Limited and the Dunedin City Council in December 2016.

The six months covered by this report has been a period where the company has achieved a reduction in the cost of funds for the group from 5.79% as at the end of June 2016 to 5.50% currently. This reduction has been partly assisted by the successful refinancing of the \$50.0 million 15 November 2016 Medium Term Note maturity with a new Floating Rate Note for \$50.0 million issued for a term of three years at a margin above the BKBM benchmark rate of +0.50%. This was purchased by seven investors with the volume of bids much greater than the amount of notes offered.

A review of the Treasury Risk Management Policy was conducted during the reporting period. This resulted in funding to be provided to group entities at a pre-determined fixed rate, that is unrelated to existing interest rate hedging arrangements. It provides increased certainty to group entities as their funding cost is known at the outset. In addition to this, the maximum term for interest rate hedging increased from 10 to 15 years.

Additional interest rate hedging was implemented during the period. The majority were added prior to the large rise in global bond and swap yields that has occurred since the U.S. Presidential Election. Interest rate swaps of \$91.0 million were added with an average term to maturity of 7.9 years, lengthening the average term of the company's portfolio of interest rate hedges.

Debt on issue also reduced to \$555.0 million from \$565.0 million over the six months to 31 December 2016. Promissory Notes on issue also reduced to just \$55.0 million in December from \$65.0 million in June.

### Seasonality

There is limited seasonality of earnings within the Company.

## **Dunedin City Treasury Limited**

### **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


### Statement of responsibility

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

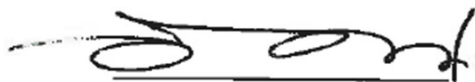
The Directors accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;

In the opinion of the Directors, the interim financial statements fairly reflect the financial position as at 31 December 2016 and operations for the six months to 31 December 2016 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 13, for the six months ended 31 December 2016 and authorises them for issue on 2 February 2017.



Director



Director

## Dunedin City Treasury Limited

### Statement of comprehensive income For the six months ending 31 December 2016

	unaudited 6 months to 31 Dec 2016 \$'000	unaudited 6 months to 31 Dec 2015 \$'000	audited full year to 30 Jun 2016 \$'000
Interest on advances & fees from related parties	16,515	20,560	36,127
Interest on other investments	115	149	321
Total financial income	16,630	20,709	36,448
Subvention receipt	-	-	7
Ineffectiveness on fair value hedge (gain)	-	41	90
Total income	16,630	20,750	36,545
Less expenses:			
Interest to related parties	9	16	16
Interest & fees on term loans	16,085	19,589	35,749
Total financial expenses	16,094	19,605	35,765
Audit fees	-	11	21
Directors remuneration	-	-	-
Management fees to Dunedin City Council	150	150	300
Other operating expenses	155	226	298
Ineffectiveness on fair value hedge (loss)	11	-	-
Total expenses	16,410	19,992	36,384
<b>Profit before tax</b>	220	758	161
Income tax	62	212	122
<b>Net profit after tax</b>	158	546	39
Other comprehensive income:			
Gain (loss) on cash flow hedges taken to equity	15,388	1,329	(9,441)
Gain (loss) on cash flow hedges to related parties taken to equity	(7,833)	(1,224)	2,777
Deferred taxation impact of cash flow hedge movements	-	-	209
Total other comprehensive income	7,555	105	(6,455)
<b>Total comprehensive income for the period</b>	7,713	651	(6,416)

## Dunedin City Treasury Limited

### Statement of changes in equity For the six months ending 31 December 2016

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>unaudited</b>				
Equity as at 1 July 2016	100	(5,918)	(29)	(5,847)
Comprehensive income for the period	-	7,555	158	7,713
<b>Equity as at 31 December 2016</b>	<b>100</b>	<b>1,637</b>	<b>129</b>	<b>1,866</b>
<b>unaudited</b>				
Equity as at 1 July 2015	100	537	(68)	569
Comprehensive income for the period	-	105	546	651
<b>Equity as at 31 December 2015</b>	<b>100</b>	<b>642</b>	<b>478</b>	<b>1,220</b>
<b>audited</b>				
Equity as at 1 July 2015	100	537	(68)	569
Comprehensive income for the period	-	(6,455)	39	(6,416)
<b>Equity as at 30 June 2016</b>	<b>100</b>	<b>(5,918)</b>	<b>(29)</b>	<b>(5,847)</b>

# Dunedin City Treasury Limited

## Statement of financial position As at 31 December 2016

	Note	unaudited 6 months to 31 Dec 2016 \$'000	unaudited 6 months to 31 Dec 2015 \$'000	audited full year to 30 Jun 2016 \$'000
<b>Current assets</b>				
Cash and cash equivalents		9,994	12,016	12,617
Investments	5	12,894	50,129	23,388
Derivative financial instruments	4	694	1,205	272
Trade and other receivables		5,776	6,765	6,315
Prepayments		412	310	483
Total current assets		29,770	70,425	43,075
<b>Non-current assets</b>				
Investments	5	533,156	516,166	531,247
Derivative financial instruments	4	16,738	24,754	33,823
Total non current assets		549,894	540,920	565,070
<b>Total assets</b>		<b>579,664</b>	<b>611,345</b>	<b>608,145</b>
<b>Current liabilities</b>				
Short term borrowings	6	927	811	2,857
Trade and other payables		6,052	6,703	6,246
Derivative financial instruments	4	694	1,205	272
Provision for tax		61	206	17
Total current liabilities		7,734	8,925	9,392
<b>Non-current liabilities</b>				
Term borrowings	7	554,687	580,864	573,413
Derivative financial instruments	4	15,377	20,231	31,187
Deferred taxation		-	105	-
Total non-current liabilities		570,064	601,200	604,600
<b>Total liabilities</b>		<b>577,798</b>	<b>610,125</b>	<b>613,992</b>
<b>Equity</b>				
Share capital		100	100	100
Hedge reserve		1,637	642	(5,918)
Retained earnings		129	478	(29)
<b>Total equity</b>		<b>1,866</b>	<b>1,220</b>	<b>(5,847)</b>
<b>Total liabilities and equity</b>		<b>579,664</b>	<b>611,345</b>	<b>608,145</b>

The accompanying notes form part of these financial statements



## Dunedin City Treasury Limited

### Statement of cash flows For the six months ending 31 December 2016

	Note	unaudited 6 months to 31 Dec 2016 \$'000	unaudited 6 months to 31 Dec 2015 \$'000	audited full year to 30 Jun 2016 \$'000
<b>Cash flow from operating activities</b>				
<i>Cash was provided from:</i>				
Receipts from customers		194	70	156
Interest received		17,078	20,078	36,942
		17,272	20,148	37,098
<i>Cash was applied to:</i>				
Payments to suppliers		351	386	618
Interest paid		16,255	19,573	38,919
		16,606	19,959	39,537
Net cash flow from operating activities	3	666	189	(2,439)
<b>Cash flow from investing activities</b>				
<i>Cash was provided from:</i>				
Net decrease in investments		6,644	7,360	19,020
		6,644	7,360	19,020
<i>Cash was applied to:</i>				
Net increase in investments		-	-	-
		-	-	-
Net cash flow from investing activities		6,644	7,360	19,020
<b>Cash flow from financing activities</b>				
<i>Cash was provided from:</i>				
Net loans raised		-	-	-
		-	-	-
<i>Cash was applied to:</i>				
Net loans repaid		9,933	8,814	17,245
		9,933	8,814	17,245
Net cash flow from financing activities		(9,933)	(8,814)	(17,245)
<b>Net increase/(decrease) in cash and cash equivalents</b>		(2,623)	(1,265)	(664)
Opening cash and cash equivalents		12,617	13,281	13,281
<b>Closing cash and cash equivalents</b>		9,994	12,016	12,617

The accompanying notes form part of these financial statements

# **Dunedin City Treasury Limited**

## **Notes to the financial statements (unaudited) For the six months ending 31 December 2016**

### **1 Reporting entity**

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

Dunedin City Treasury Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company, incorporated in New Zealand under the Companies Act 1993, is 100% owned Dunedin City Holdings Limited which is wholly owned by the ultimate parent of the Group, Dunedin City Council.

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

The financial statements of Dunedin City Treasury Limited are for the six months ended 31 December 2016 and comply with the Financial Reporting Act 1993.

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

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company and group operate.

### **2 Basis of preparation**

The financial statements for the period ended 31 December 2016 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 2016.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2016.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2016.

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2016

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

	unaudited 6 months to 31 Dec 2016 \$'000	unaudited 6 months to 31 Dec 2015 \$'000	audited full year to 30 Jun 2016 \$'000
Net profit after tax	158	651	39
<i>Items not involving cash flows</i>			
Fair value change in SWAPs	11	-	(90)
Deferred tax	-	(146)	105
	169	505	54
<i>Impact of changes in working capital items</i>			
(Increase)/Decrease in receivables	539	(562)	(113)
(Increase)/Decrease in prepayments	71	54	(118)
Increase/(Decrease) in trade and other payables	(157)	(19)	(2,285)
Increase/(Decrease) in provisions	44	212	23
Increase/(Decrease) in non-cash items	-	(1)	
Net cash inflows from operating activities	666	189	(2,439)

#### 4 Derivative financial instruments

	unaudited as at 31 Dec 2016 \$'000	unaudited as at 31 Dec 2015 \$'000	audited as at 30 Jun 2016 \$'000
<b>Assets:</b>			
Interest rate swaps - cash flow hedges - DCHL Group	6,160	3,472	9,734
Interest rate swaps - cash flow hedges - DCC Group	11,549	17,963	15,808
Interest rate swaps - cash flow hedges - Bank	-	852	-
Interest rate swaps - fair value hedges - Bank	(277)	3,672	8,553
	17,432	25,959	34,095
<b>Liabilities:</b>			
Interest rate swaps - cash flow hedges - Bank	16,071	21,436	31,459
	16,071	21,436	31,459

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 2016

#### 5 Investments

	unaudited as at 31 Dec 2016 \$'000	unaudited as at 31 Dec 2015 \$'000	audited as at 30 Jun 2016 \$'000
<b>Current</b>			
Advances to Dunedin City Council	12,874	50,091	17,738
Advances to Dunedin City Holdings Limited Group	-	-	5,275
Investment at bank	-	-	350
Mortgage recoverable	20	38	25
	12,894	50,129	23,388
<b>Non-current</b>			
Advances to Dunedin City Council	210,805	283,194	197,862
Advances to Dunedin City Holdings Limited Group	322,351	232,972	333,385
	533,156	516,166	531,247
<b>Total investments</b>	546,050	566,295	554,635
A maturity analysis of the company's investments is as follows:			
Maturity within one year	12,894	50,129	23,388
Maturity one to five years	54,923	70,450	72,228
Maturity over five years	478,233	445,716	459,019
	546,050	566,295	554,635

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 2016 \$'000	unaudited as at 31 Dec 2015 \$'000	audited as at 30 Jun 2016 \$'000
Due to related parties	650	-	2,000
Other short term deposits	277	811	857
	927	811	2,857

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2016

#### 7 Term borrowings (secured)

The company has an \$850 million multi option debt 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 90 day terms.

	unaudited as at 31 Dec 2016 \$'000	unaudited as at 31 Dec 2015 \$'000	audited as at 30 Jun 2016 \$'000
<b>Term borrowings</b>			
Promissory notes	54,712	81,902	64,619
Floating rate notes 15/4/16	-	90,000	-
Bonds 15/11/16	-	50,000	50,000
Floating rate notes 15/2/17	20,000	20,000	20,000
Bonds 15/10/17	60,000	60,000	60,000
Floating rate notes 7/10/17	20,000	20,000	20,000
Floating rate notes 15/5/18	20,000	20,000	20,000
Bonds 17/7/18	50,000	50,000	50,000
Bonds 17/12/18	15,000	15,000	15,000
Floating rate notes 15/11/19	50,000	-	-
Bonds 16/11/20	50,000	50,000	50,000
Bonds 15/4/21	30,000	-	30,000
Bonds 25/11/21	70,000	70,000	70,000
Floating rate notes 15/10/22	50,000	50,000	50,000
Bonds 15/4/26	65,000	-	65,000
Fair value impact on bonds	(25)	3,962	8,794
	<b>554,687</b>	<b>580,864</b>	<b>573,413</b>
The repayment period on the term borrowings is as follows:			
Repayable less than one year	100,000	140,000	70,000
Repayable between one to five years	339,712	266,902	379,619
Repayable later than five years	114,975	173,962	123,794
	<b>554,687</b>	<b>580,864</b>	<b>573,413</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 of other quoted debt instruments of the counterparties.

Directors estimate the fair value of the company's borrowings as at 31 December 2016 as being \$565,433,435 (December 2015 \$595,139,197).

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2016

#### 8 Contingent liabilities

	unaudited as at 31 Dec 2016 \$'000	unaudited as at 31 Dec 2015 \$'000	audited as at 30 Jun 2016 \$'000
Performance bonds	1,208	886	950

The performance bonds issued are principally 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

## Directory

### Directors

Graham W Crombie (Chair)  
Keith T Cooper  
Kathleen E Grant  
Linda M Robertson  
Brian J Wood

### Registered Office

50 The Octagon  
Dunedin 9016

### Bankers

ANZ  
Dunedin

### Solicitors

Anderson Lloyd  
Dunedin

### Taxation Advisors

Deloitte  
Dunedin

### Auditor

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