

# **Dunedin City Treasury Ltd**

## **INTERIM REPORT**

**For the six months ended 31 December 2018**

## **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 2018.

### Overview of results

	unaudited 6 months to 31 Dec 2018 \$'000	unaudited 6 months to 31 Dec 2017 \$'000	audited full year to 30 Jun 2018 \$'000
Total income	14,775	15,198	29,474
Profit before tax	764	237	241
Income tax	214	66	70
Net profit after tax	550	171	171
Total assets	664,321	622,906	632,667

### Review of operations

Dunedin City Treasury Ltd ("the Company") has continued to achieve reductions in the cost of funds for the DCC Group, with average cost of funding reducing from 4.70% to 4.03% over this six month period. This equates to a reduction in interest expense for the DCC Group of \$2.1 million, when applied to average term borrowings between June and December 2018.

A successful refinancing of a \$50 million Medium Term Note (MTN) maturity on 17 July 2018 contributed to the reduced cost of funding. The maturity had a coupon or yield of 6.57%, and was refinanced with a new \$50 million 7 year MTN with a coupon of 3.61%.

The Company refinanced a second MTN maturity, of \$15 million, on 17 December 2018. This was refinanced with shorter term Promissory Note issuance. The Company has increased use of Promissory Note issuance this period (from \$120 million to \$170 million) to take advantage of low short-term funding costs. The Company achieved strong results with the Promissory Note programme, achieving an average rate achieved +0.029% over the 3 month benchmark interest rate, and an average bid coverage 1.9 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 \$200 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 2018. The Company continues to manage funds in the best interests of its borrowers.

The total comprehensive loss for the period is largely due to the revaluation of hedge instruments at their fair market value, which has no impact on cash flows.

Standard & Poor's reaffirmed the AA/A-1+ ratings of both Dunedin City Treasury Limited and the Dunedin City Council in December 2018.

The Board considers that Dunedin City Treasury Limited continues to provide significant benefit to the DCHL Group, DCC and Dunedin ratepayers through its provision of cost effective funding for the DCHL 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 2018 and operations for the six months to 31 December 2018 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 2018 and authorises them for issue on 7 February 2019.



Acting Chair



Director

## Dunedin City Treasury Limited

### Statement of comprehensive income For the six months ending 31 December 2018

	Unaudited 6 months to 31 Dec 2018 \$'000	Unaudited 6 months to 31 Dec 2017 \$'000	Audited full year to 30 Jun 2018 \$'000
Interest on advances & fees from related parties	14,752	15,159	29,394
Interest on other investments	23	39	80
Total financial income	14,775	15,198	29,474
Ineffectiveness on fair value hedge (gain)	-	-	-
Total income	14,775	15,198	29,474
Less expenses:			
Interest to related parties	13	9	21
Interest & fees on term loans	13,593	14,600	28,635
Total financial expenses	13,606	14,609	28,656
Audit fees	-	-	25
Directors remuneration	-	-	-
Management fees to Dunedin City Council	175	150	300
Amortisation	6	5	10
Other operating expenses	205	173	232
Ineffectiveness on fair value hedge (loss)	19	24	10
Total expenses	14,011	14,961	29,233
<b>Profit before tax</b>	764	237	241
Income tax	214	66	70
<b>Net profit after tax</b>	550	171	171
Other comprehensive income:			
Gain (loss) on cash flow hedges taken to equity	(6,469)	(2,380)	(3,159)
Gain (loss) on cash flow hedges to related parties taken to equity	(2,145)	(1,777)	(4,141)
Total other comprehensive income	(8,614)	(4,157)	(7,300)
<b>Total comprehensive income/(loss) for the period</b>	(8,064)	(3,986)	(7,129)

## Dunedin City Treasury Limited

### Statement of changes in equity For the six months ending 31 December 2018

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>Unaudited</b>				
Equity as at 1 July 2018	100	(8,805)	257	(8,448)
Comprehensive income for the period	-	(8,614)	550	(8,064)
Equity as at 31 December 2018	100	(17,419)	807	(16,512)
<b>Unaudited</b>				
Equity as at 1 July 2017	100	(1,505)	86	(1,319)
Comprehensive income for the period	-	(4,157)	171	(3,986)
Equity as at 31 December 2017	100	(5,662)	257	(5,305)
<b>Audited</b>				
Equity as at 1 July 2017	100	(1,505)	86	(1,319)
Comprehensive income for the period	-	(7,300)	171	(7,129)
Equity as at 30 June 2018	100	(8,805)	257	(8,448)

## Dunedin City Treasury Limited

### Statement of financial position As at 31 December 2018

	Note	Unaudited 6 months to 31 Dec 2018 \$'000	Unaudited 6 months to 31 Dec 2017 \$'000	Audited full year to 30 Jun 2018 \$'000
<b>Current assets</b>				
Cash and cash equivalents		12,560	14,218	292
Investments	5	13,453	17,448	30,000
Derivative financial instruments	7	355	1,702	786
Trade and other receivables		4,516	5,196	4,940
Prepayments		493	399	384
Total current assets		31,377	38,963	36,402
<b>Non-current assets</b>				
Investments	5	615,962	565,143	579,185
Derivative financial instruments	7	16,965	18,772	17,057
Software	4	17	28	23
Total non current assets		632,944	583,943	596,265
<b>Total assets</b>		<b>664,321</b>	<b>622,906</b>	<b>632,667</b>
<b>Current liabilities</b>				
Short term borrowings	6	1,738	1,742	4,338
Trade and other payables		4,693	5,483	5,477
Derivative financial instruments	7	355	1,702	786
Provision for tax		270	56	55
Total current liabilities		7,056	8,983	10,656
<b>Non-current liabilities</b>				
Term borrowings	8	646,258	599,039	609,570
Derivative financial instruments	7	27,519	20,189	20,889
Total non-current liabilities		673,777	619,228	630,459
<b>Total liabilities</b>		<b>680,833</b>	<b>628,211</b>	<b>641,115</b>
<b>Equity</b>				
Share capital		100	100	100
Hedge reserve		(17,419)	(5,662)	(8,805)
Retained earnings		807	257	257
Total equity		(16,512)	(5,305)	(8,448)
<b>Total liabilities and equity</b>		<b>664,321</b>	<b>622,906</b>	<b>632,667</b>



## Dunedin City Treasury Limited

### Statement of cash flows For the six months ending 31 December 2018

	Note	Unaudited 6 months to 31 Dec 2018 \$'000	Unaudited 6 months to 31 Dec 2017 \$'000	Audited full year to 30 Jun 2018 \$'000
<b>Cash flow from operating activities</b>				
<i>Cash was provided from:</i>				
Receipts from customers		77	109	280
Interest received		15,165	15,431	29,755
		15,242	15,540	30,035
<i>Cash was applied to:</i>				
Payments to suppliers		485	355	615
Interest paid		14,436	15,116	29,096
		14,921	15,471	29,711
Net cash flow from operating activities	3	321	69	324
<b>Cash flow from investing activities</b>				
<i>Cash was provided from:</i>				
Net decrease in investments		-	-	-
		-	-	-
<i>Cash was applied to:</i>				
Purchase of Software		-	9	9
Net increase in investments		20,230	25,096	51,689
		20,230	25,105	51,698
Net cash flow from investing activities		(20,230)	(25,105)	(51,698)
<b>Cash flow from financing activities</b>				
<i>Cash was provided from:</i>				
Net loans raised		32,177	31,140	43,552
		32,177	31,140	43,552
<i>Cash was applied to:</i>				
Net loans repaid		-	-	-
		-	-	-
Net cash flow from financing activities		32,177	31,140	43,552
<b>Net increase/(decrease) in cash and cash equivalents</b>				
		12,268	6,104	(7,822)
Opening cash and cash equivalents		292	8,114	8,114
<b>Closing cash and cash equivalents</b>		<b>12,560</b>	<b>14,218</b>	<b>292</b>

## **Dunedin City Treasury Limited**

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### **Notes to the financial statements (unaudited) For the six months ending 31 December 2018**

#### **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 Trading 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 2018 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 2018.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2018.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2018.

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2018

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

	Unaudited 6 months to 31 Dec 2018 \$'000	Unaudited 6 months to 31 Dec 2017 \$'000	Audited full year to 30 Jun 2018 \$'000
Net profit after tax	550	171	171
<i>Items not involving cash flows</i>			
Fair value change in SWAPs	19	24	10
Amortisation	6	5	10
	575	200	191
<i>Impact of changes in working capital items</i>			
(Increase)/Decrease in receivables	424	318	573
(Increase)/Decrease in prepayments	(109)	17	30
Increase/(Decrease) in trade and other payables	(784)	(522)	(527)
Increase/(Decrease) in provisions	215	56	57
Net cash inflows from operating activities	321	69	324

#### 4 Software

	Unaudited as at 31 Dec 2018 \$'000	Unaudited as at 31 Dec 2017 \$'000	Audited as at 30 Jun 2018 \$'000
Balance at beginning of period	23	24	24
Purchases	-	9	9
Amortisation	(6)	(5)	(10)
Balance at end of period	17	28	23

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2018

#### 5 Investments

	Unaudited as at 31 Dec 2018 \$'000	Unaudited as at 31 Dec 2017 \$'000	Audited as at 30 Jun 2018 \$'000
<b>Current</b>			
Advances to Dunedin City Council	13,453	17,438	30,000
Advances to Dunedin City Holdings Limited Group	-	-	-
Investment at bank	-	-	-
Mortgage recoverable	-	10	-
	13,453	17,448	30,000
<b>Non-current</b>			
Advances to Dunedin City Council	208,500	189,508	170,000
Advances to Dunedin City Holdings Limited Group	407,462	375,635	409,185
	615,962	565,143	579,185
<b>Total investments</b>	629,415	582,591	609,185
A maturity analysis of the company's investments is as follows:			
Maturity within one year	13,453	17,448	30,000
Maturity one to five years	58,456	63,994	57,515
Maturity over five years	557,506	501,149	521,670
	629,415	582,591	609,185

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 2018 \$'000	Unaudited as at 31 Dec 2017 \$'000	Audited as at 30 Jun 2018 \$'000
Due to related parties	1,300	1,350	700
Other short term deposits	438	392	3,638
	1,738	1,742	4,338

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2018

#### 7 Derivative financial instruments

	Unaudited as at 31 Dec 2018 \$'000	Unaudited as at 31 Dec 2017 \$'000	Audited as at 30 Jun 2018 \$'000
<b>Assets</b>			
Interest rate swaps - cash flow hedges - DCHL Group	5,285	6,356	5,773
Interest rate swaps - cash flow hedges - DCC	5,171	8,609	6,828
Interest rate swaps - cash flow hedges - Bank	-	747	270
Interest rate swaps - fair value hedges - Bank	6,864	4,762	4,972
	17,320	20,474	17,843
<i>Current</i>			
Interest rate swaps - cash flow hedges - DCC Group	355	1,702	786
	355	1,702	786
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - DCC Group	10,101	13,263	11,815
Interest rate swaps - cash flow hedges - Bank	-	747	270
Interest rate swaps - fair value hedges - Bank	6,864	4,762	4,972
	16,965	18,772	17,057
Total Assets	17,320	20,474	17,843
<b>Liabilities</b>			
Interest rate swaps - cash flow hedges - Bank	27,874	21,373	21,675
Interest rate swaps - fair value hedges - Bank	-	518	-
	27,874	21,891	21,675
<i>Current</i>			
Interest rate swaps - cash flow hedges - Bank	355	1,702	786
	355	1,702	786
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - Bank	27,519	19,671	20,889
Interest rate swaps - fair value hedges - Bank	-	518	-
	27,519	20,189	20,889
Total Liabilities	27,874	21,891	21,675

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 2018

#### 8 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 three month terms.

	Unaudited as at 31 Dec 2018 \$'000	Unaudited as at 31 Dec 2017 \$'000	Audited as at 30 Jun 2018 \$'000
<b>Term borrowings</b>			
Promissory notes	169,165	89,571	119,389
Floating rate notes 15/5/18	-	20,000	-
Bonds 17/7/18	-	50,000	50,000
Bonds 17/12/18	-	15,000	15,000
Floating rate notes 15/11/19	50,000	50,000	50,000
Floating rate notes 16/10/20	45,000	45,000	45,000
Bonds 16/11/20	50,000	50,000	50,000
Bonds 15/4/21	30,000	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
Floating rate notes 15/02/24	25,000	25,000	25,000
Bonds 16/10/24	35,000	35,000	35,000
Bonds 15/4/26	65,000	65,000	65,000
Bonds 17/7/25	50,000	-	-
Fair value impact on bonds	7,093	4,468	5,181
	<b>646,258</b>	<b>599,039</b>	<b>609,570</b>
The repayment period on the term borrowings is as follows:			
Repayable less than one year	50,000	85,000	65,000
Repayable between one to five years	481,258	339,039	414,389
Repayable later than five years	115,000	175,000	130,181
	<b>646,258</b>	<b>599,039</b>	<b>609,570</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 2018 as being \$653,220,372 (December 2017 \$607,131,551).

## **Dunedin City Treasury Limited**

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### **Notes to the financial statements (unaudited) For the six months ending 31 December 2018**

#### **9 Contingent liabilities**

	<b>Unaudited as at 31 Dec 2018 \$'000</b>	<b>Unaudited as at 31 Dec 2017 \$'000</b>	<b>Audited as at 30 Jun 2018 \$'000</b>
Performance bonds	990	1,111	1,269

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 2018**

#### **Performance targets**

#### **Performance targets achieved**

- |   |  |
|---|--|
| <b>1</b> Zero breaches of the policies pertaining to Dunedin City Treasury Limited.   | Achieved. There were no breaches of the policies pertaining to Dunedin City Treasury Limited.  |
| <b>2</b> A variety of funding sources are used for the level of funds required by the DCC Group and complying with the DCC policies on the maturity profile of borrowing. | Achieved. There were no breaches of the DCC policies regarding the maturity profile of borrowing.<br>The Local Government Funding Agency (LGFA) is progressing lending directly to CCO's which will enable Dunedin City Treasury Limited to add the LGFA as a source of funding. |
| <b>3</b> All funds invested outside the DCC Group have satisfied DCC policies.  | Achieved. All funds invested outside the DCC Group have satisfied DCC policies.  |
| <b>4</b> Continued maintenance to an interest rate risk profile in accordance with DCC policies.  | Achieved. There were no breaches of the DCC policies regarding the interest rate risk profile.   |
| <b>5</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>6</b> Manage the 'Waipori Fund' fully as set by Council and meet performance benchmarks.   | Achieved. Managed the 'Waipori Fund' and meet performance benchmarks. On track to meet annual performance targets.   |
| <b>7</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>8</b> Advise shareholder within 24 hours of any substantive matter.  | Achieved. There are no matters of substance to report to the shareholder.  |

#### **Financial forecasts**

Financial forecasts are set in the Statement of Intent for the year ending 30 June 2019. The Company is on track to meet the financial forecasts set.



## **Dunedin City Treasury Limited**

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### **Directory**

#### **Directors**

Graham W Crombie (Chair)  
Keith T Cooper  
Kathleen E Grant  
Linda M Robertson  
Quentin Hix

#### **Registered Office**

50 The Octagon  
Dunedin 9016

#### **Bankers**

Westpac Banking Corporation  
ANZ Bank New Zealand Limited

#### **Solicitors**

Anderson Lloyd

#### **Taxation Advisors**

Deloitte

#### **Auditor**

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