

# **Dunedin City Treasury Ltd**

## **INTERIM REPORT**

**For the six months ended 31 December 2022**

## **Dunedin City Treasury Limited**

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<b>Contents</b>	<b>Page</b>
Directors' report	2
Statement of responsibility	4
Statement of comprehensive income	5
Statement of changes in equity	6
Statement of financial position	7
Statement of cash flows	8
Notes to the financial statements	9
Statement of service performance	15
Directory	17

## 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 2022.

### Overview of results

	unaudited 6 months to 31 Dec 2022 \$'000	unaudited 6 months to 31 Dec 2021 \$'000	audited full year to 30 Jun 2022 \$'000
Total income	17,979	11,414	24,016
Profit before tax	(129)	45	(61)
Income tax	(9)	(2)	(97)
Net profit after tax	(120)	47	36
Total assets	1,073,508	878,803	954,978

### Review of operations

Dunedin City Treasury Ltd ("the Company") experienced an increase in the cost of funds for the DCC Group, with average cost of funding increasing from 3.17% to 3.53% over the six month period, as wholesale interest rates increased significantly over the period. The Reserve Bank increased the Official Cash Rate from 2.00% to 4.25% and the 3 month benchmark interest rate moved from 2.86% to 4.65%.

The Company undertook two successful refinancings during the period. The \$50.0m 15 October 2022 Floating Rate Note (FRN) maturity was refinanced with a new \$75.0m three year FRN. The new FRN was priced at a margin of 0.47% above the three month floating benchmark interest rate. Secondly, the \$45.0m 15 November 2022 MTN was refinanced with a new six year MTN of \$60.0m. The new MTN was priced at a margin of 0.70% above the underlying interest swap yield with a coupon of 5.55%.

The issuance of the new six year MTN 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 +0.014% over the relevant floating 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. The Company continues to ensure that there is less than \$350 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. The Company continues to manage funds in the best interests of its borrowers.

The Company continued to experience a significant increase in equity during the period. Higher New Zealand interest rate swap yields increased the positive mark to market of the Company's cash flow hedging arrangements, significantly increasing the positive value of the Company's Hedge Reserve from 18.8 million as at 30 June 2022 to 33.4 million as at 31 December 2022.

The Company has now successfully added the Local Government Funding Agency to its borrowing programme which will provide increased diversity of funding sources for the Group.

Standard & Poor's reaffirmed the AA/Stable/A-1+ ratings of both Dunedin City Treasury Limited and the Dunedin City Council in December 2022.

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.

## **Dunedin City Treasury Limited**

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### **Directors' report**

#### **Seasonality**

There is no seasonality of earnings within the Company.

#### **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 2022 and operations for the six months to 31 December 2022 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 16, for the six months ended 31 December 2022 and authorises them for issue on 2 February 2023.



Chair



Director

## Dunedin City Treasury Limited

### Statement of comprehensive income For the six months ending 31 December 2022

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited full year to 30 Jun 2022 \$'000
Interest on advances & fees from related parties	17,707	11,342	23,582
Interest on other investments	272	21	108
Total financial income	17,979	11,363	23,690
Gain on fair value hedge	-	51	326
Total income	17,979	11,414	24,016
Less expenses:			
Interest to related parties	35	6	22
Interest & fees on term loans	17,472	11,019	23,354
Total financial expenses	17,507	11,025	23,376
Audit fees	-	-	29
Directors remuneration	-	-	-
Management fees to related parties	180	180	360
Amortisation	-	-	-
Other operating expenses	324	164	312
Loss on fair value hedge	97	-	-
Total expenses	18,108	11,369	24,077
<b>Profit before tax</b>	(129)	45	(61)
Income tax	(9)	(2)	(97)
<b>Net profit after tax</b>	(120)	47	36
Other comprehensive income:			
Gain (loss) on cash flow hedges taken to equity	19,970	23,114	58,820
Gain (loss) on cash flow hedges to related parties taken to equity	(20)	(1,170)	(1,459)
Deferred taxation impact of cash flow hedge movements	(5,586)	-	(7,297)
Total other comprehensive income	14,364	21,944	50,064
<b>Total comprehensive income/(loss) for the period</b>	14,244	21,991	50,100

## Dunedin City Treasury Limited

### Statement of changes in equity For the six months ending 31 December 2022

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>Unaudited</b>				
Equity as at 1 July 2022	100	18,761	314	19,175
Comprehensive income for the period	-	14,364	(120)	14,244
Equity as at 31 December 2022	100	33,125	194	33,419
<b>Unaudited</b>				
Equity as at 1 July 2021	100	(31,303)	278	(30,925)
Comprehensive income for the period	-	21,944	47	21,991
Equity as at 31 December 2021	100	(9,359)	325	(8,934)
<b>Audited</b>				
Equity as at 1 July 2021	100	(31,303)	278	(30,925)
Comprehensive income for the period	-	50,064	36	50,100
Equity as at 30 June 2022	100	18,761	314	19,175

## Dunedin City Treasury Limited

### Statement of financial position As at 31 December 2022

	<i>Note</i>	<b>Unaudited 6 months to 31 Dec 2022 \$'000</b>	<b>Unaudited 6 months to 31 Dec 2021 \$'000</b>	<b>Audited full year to 30 Jun 2022 \$'000</b>
<b>Current assets</b>				
Cash and cash equivalents		948	22,257	12,159
Investments	4	-	-	-
Derivative financial instruments	6	1,609	13	560
Trade and other receivables		5,640	4,259	5,029
Prepayments		425	514	555
Total current assets		8,622	27,043	18,303
<b>Non-current assets</b>				
Investments	4	1,020,435	842,610	910,590
Derivative financial instruments	6	44,451	9,150	26,085
Total non current assets		1,064,886	851,760	936,675
<b>Total assets</b>		<b>1,073,508</b>	<b>878,803</b>	<b>954,978</b>
<b>Current liabilities</b>				
Short term borrowings	5	2,839	4,397	3,797
Trade and other payables		7,136	5,083	5,249
Derivative financial instruments	6	2,070	2,095	663
Provision for tax		(124)	27	-
Total current liabilities		11,921	11,602	9,709
<b>Non-current liabilities</b>				
Term borrowings	7	982,868	852,002	891,178
Derivative financial instruments	6	32,449	24,133	27,717
Deferred taxation		12,851	-	7,199
Total non-current liabilities		1,028,168	876,135	926,094
<b>Total liabilities</b>		<b>1,040,089</b>	<b>887,737</b>	<b>935,803</b>
<b>Equity</b>				
Share capital		100	100	100
Hedge reserve		33,125	(9,359)	18,761
Retained earnings		194	325	314
Total equity		33,419	(8,934)	19,175
<b>Total liabilities and equity</b>		<b>1,073,508</b>	<b>878,803</b>	<b>954,978</b>



## Dunedin City Treasury Limited

### Statement of cash flows For the six months ending 31 December 2022

	Note	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited full year to 30 Jun 2022 \$'000
<b>Cash flow from operating activities</b>				
<i>Cash was provided from:</i>				
Receipts from customers		70	101	95
Interest received		17,309	10,146	21,709
		17,379	10,247	21,804
<i>Cash was applied to:</i>				
Payments to suppliers		207	269	721
Interest paid		15,798	10,919	23,050
Subvention paid/(received)		49	-	30
		16,054	11,188	23,801
Net cash flow from operating activities	3	1,325	(941)	(1,997)
<b>Cash flow from investing activities</b>				
<i>Cash was provided from:</i>				
Net decrease in investments		6,674	11,554	-
		6,674	11,554	-
<i>Cash was applied to:</i>				
Purchase of Software		-	-	-
Net increase in investments		109,942	40,738	108,770
		109,942	40,738	108,770
Net cash flow from investing activities		(103,268)	(29,184)	(108,770)
<b>Cash flow from financing activities</b>				
<i>Cash was provided from:</i>				
Net loans raised		135,000	110,000	174,154
		135,000	110,000	174,154
<i>Cash was applied to:</i>				
Net loans repaid		44,268	77,375	70,985
		44,268	77,375	70,985
Net cash flow from financing activities		90,732	32,625	103,169
<b>Net increase/(decrease) in cash and cash equivalents</b>		(11,211)	2,500	(7,598)
Opening cash and cash equivalents		12,159	19,757	19,757
<b>Closing cash and cash equivalents</b>		948	22,257	12,159

## **Dunedin City Treasury Limited**

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### **Notes to the financial statements (unaudited) For the six months ending 31 December 2022**

#### **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 2022 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 2022.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2022.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2022.

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2022

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

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited full year to 30 Jun 2022 \$'000
Net profit after tax	(120)	47	36
<i>Items not involving cash flows</i>			
Fair value change in SWAPs	97	(51)	(326)
Deferred tax	66	-	(98)
Amortisation	-	-	-
	43	(4)	(388)
<i>Impact of changes in working capital items</i>			
(Increase)/Decrease in receivables	(611)	(1,116)	(1,886)
(Increase)/Decrease in prepayments	130	75	34
Increase/(Decrease) in trade and other payables	1,887	106	272
Increase/(Decrease) in provisions	(124)	(2)	(29)
Net cash inflows from operating activities	1,325	(941)	(1,997)

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2022

#### 4 Investments

	Unaudited as at 31 Dec 2022 \$'000	Unaudited as at 31 Dec 2021 \$'000	Audited as at 30 Jun 2022 \$'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	409,800	303,300	333,800
Advances to Dunedin City Holdings Limited Group	610,635	539,310	576,790
	1,020,435	842,610	910,590
<b>Total investments</b>	1,020,435	842,610	910,590
A maturity analysis of the company's investments is as follows:			
Maturity within one year	-	-	-
Maturity one to five years	-	-	-
Maturity over five years	1,020,435	842,610	910,590
	1,020,435	842,610	910,590

The carrying amount of investments approximate their fair value.

There have been no indications of impairment of any investment.

#### 5 Short term borrowings

	Unaudited as at 31 Dec 2022 \$'000	Unaudited as at 31 Dec 2021 \$'000	Audited as at 30 Jun 2022 \$'000
Due to related parties	1,200	2,900	2,300
Other short term deposits	1,639	1,497	1,497
	2,839	4,397	3,797

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2022

#### 6 Derivative financial instruments

	Unaudited as at 31 Dec 2022 \$'000	Unaudited as at 31 Dec 2021 \$'000	Audited as at 30 Jun 2022 \$'000
<b>Assets</b>			
Interest rate swaps - cash flow hedges - DCHL Group	-	13	-
Interest rate swaps - cash flow hedges - DCC	-	296	20
Interest rate swaps - cash flow hedges - Bank	46,011	6,777	26,625
Interest rate swaps - fair value hedges - Bank	49	2,077	-
	46,060	9,163	26,645
<i>Current</i>			
Interest rate swaps - cash flow hedges - DCC	-	13	20
Interest rate swaps - cash flow hedges - Bank	1,609	-	540
	1,609	13	560
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - DCC	-	296	-
Interest rate swaps - cash flow hedges - Bank	44,402	6,777	26,085
Interest rate swaps - fair value hedges - Bank	49	2,077	-
	44,451	9,150	26,085
Total Assets	46,060	9,163	26,645
<b>Liabilities</b>			
Interest rate swaps - cash flow hedges - Bank	-	16,443	584
Interest rate swaps - fair value hedges - Bank	34,519	9,785	27,796
	34,519	26,228	28,380
<i>Current</i>			
Interest rate swaps - cash flow hedges - Bank	-	1,884	342
Interest rate swaps - fair value hedges - Bank	2,070	211	321
	2,070	2,095	663
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - Bank	-	14,559	242
Interest rate swaps - fair value hedges - Bank	32,449	9,574	27,475
	32,449	24,133	27,717
Total Liabilities	34,519	26,228	28,380

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 2022

#### 7 Term borrowings (secured)

The Company has a \$1,200 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 2022 \$'000	Unaudited as at 31 Dec 2021 \$'000	Audited as at 30 Jun 2022 \$'000
<b>Term borrowings</b>			
Promissory notes	232,279	164,474	174,013
Floating rate notes 15/10/22	-	50,000	50,000
Medium term notes 15/11/22*	-	45,000	45,000
Medium term notes 16/10/23*	50,000	50,000	50,000
Floating rate notes 15/02/24	25,000	25,000	25,000
Medium term notes 16/10/24	35,000	35,000	35,000
Floating rate notes 01/04/25	50,000	-	50,000
Floating rate notes 15/10/25	75,000	-	-
Medium term notes 17/7/25	50,000	50,000	50,000
Medium term notes 15/4/26*	65,000	65,000	65,000
Medium term notes 15/3/26	50,000	50,000	50,000
Medium term notes 15/11/26*	55,000	55,000	55,000
Medium term notes 16/11/26	60,000	60,000	60,000
Medium term notes 18/04/28*	110,000	110,000	110,000
Medium term notes 15/11/28*	60,000	-	-
Medium term notes 27/11/28*	100,000	100,000	100,000
Fair value impact on bonds (*)	(34,411)	(7,472)	(27,835)
	<b>982,868</b>	<b>852,002</b>	<b>891,178</b>
The repayment period on the term borrowings is as follows:			
Repayable less than one year	280,211	259,272	268,667
Repayable between one to five years	460,170	381,581	434,433
Repayable later than five years	242,487	211,149	188,078
	<b>982,868</b>	<b>852,002</b>	<b>891,178</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 2022 as being \$967,113,932 (December 2021 \$849,735,616).

## **Dunedin City Treasury Limited**

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### **Notes to the financial statements (unaudited) For the six months ending 31 December 2022**

#### **8 Contingent liabilities**

	<b>Unaudited as at 31 Dec 2022 \$'000</b>	<b>Unaudited as at 31 Dec 2021 \$'000</b>	<b>Audited as at 30 Jun 2022 \$'000</b>
Performance bonds	377	585	377

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 2022**

<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.	Not achieved. The fund did not meet the investment objective to grow the fund's base value, due to current market conditions.
<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> Implement the Company's carbon emissions reduction strategy and achieve targets set for FY2023.	In progress. The Company has implemented its strategy and is on track to meet the targets set.
<b>13</b> Implement the Company's waste reduction strategy and achieve targets set for FY2023.	In progress. The Company has implemented its strategy and is on track to meet the targets set.



### **Statement of Service Performance For the six months ending 31 December 2022**

- |  |   |
|--|---|
| <b>14</b> Measure and publicly report the Company's Greenhouse Gas (GHG) emissions, and progress towards the Company's emissions and waste reduction strategies and targets, in the Annual Report. | In progress. The Company will publicly report its GHG emissions and progress towards its emissions and waste reduction strategies in the Annual Report at year end. |
| <b>15</b> Ensure that all direct employees are paid at living wage or above.   | Achieved. The Company has no direct employees. Dunedin City Council employees that perform functions for the Company are paid at living wage or above.              |
| <b>16</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 2022. 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)  
Richard J Thomson  
Susie J Johnstone  
Timothy DR Loan

#### **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