

Dunedin City Treasury Limited

Interim Report

For the six months ended

31 December 2017

## **Dunedin City Treasury Limited**

---

### **Contents**

### **Page**

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
Directory	15

## 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 2017.

### Overview of results

	unaudited 6 months to 31 Dec 2017 \$'000	unaudited 6 months to 31 Dec 2016 \$'000	audited full year to 30 Jun 2017 \$'000
Total income	15,198	16,630	31,865
Profit before tax	237	220	138
Income tax	66	62	23
Net profit after tax	171	158	115
Total assets	622,906	585,967	594,267

### 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 2017.

The company has continued to achieve further reductions in the cost of funds over the period from 5.39% as at the end of June 2017 to 4.72% currently. The continued reduction in the cost of funds was assisted by the successful refinancing of the \$20.0 million 9 October 2017 Floating Rate Note and the \$60.0 million Medium Term Note. The maturities were refinanced with new Floating Rate and Medium Term Notes of \$45.0 million and \$35.0 million issued for periods of 3 and 7 years respectively. The new issues assisted the company in lengthening the average term of debt from 3 years to 3.6 years following the refinancing.

The annual review of the Treasury Risk Management Policy was conducted during the reporting period. This resulted in the Minimum and Maximum Cover ratios for interest rate hedging being adjusted to provide the company with greater capacity to issue longer dated debt securities on a fixed rate basis. This will assist the company to continue to maintain an appropriate average term of debt in line the intergenerational assets that are being funded.

Additional interest rate hedging of \$45.0 million was implemented during the period. Further interest rate protection was provided from the \$35.0 million of 7 year Medium Term Notes that were issued in October which remain on a fixed rate basis and not swapped to floating.

Debt on issue increased to \$595.0 million from \$565.0 million over the six months to 31 December 2017. Promissory Notes on issue increased to \$90.0 million in December from \$60.0 million in June.

### Seasonality

There is no 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**

---

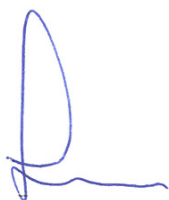
### **Statement of responsibility**

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 2017 and operations for the six months to 31 December 2017 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 2017 and authorises them for issue on 8 February 2018.



Chair



Director

## Dunedin City Treasury Limited

### Statement of comprehensive income For the six months ending 31 December 2017

	unaudited 6 months to 31 Dec 2017 \$'000	unaudited 6 months to 31 Dec 2016 \$'000	audited full year to 30 Jun 2017 \$'000
Interest on advances & fees from related parties	15,159	16,515	31,664
Interest on other investments	39	115	159
Total financial income	15,198	16,630	31,823
Ineffectiveness on fair value hedge (gain)	-	-	42
Total income	15,198	16,630	31,865
Less expenses:			
Interest to related parties	9	9	14
Interest & fees on term loans	14,600	16,085	31,117
Total financial expenses	14,609	16,094	31,131
Audit fees	-	-	25
Directors remuneration	-	-	-
Management fees to Dunedin City Council	150	150	300
Amortisation	5	-	4
Other operating expenses	173	155	267
Ineffectiveness on fair value hedge (loss)	24	11	-
Total expenses	14,961	16,410	31,727
Profit before tax	237	220	138
Income tax	66	62	23
Net profit after tax	171	158	115
Other comprehensive income:			
Gain (loss) on cash flow hedges taken to equity	(2,380)	15,388	13,213
Gain (loss) on cash flow hedges to related parties taken to equity	(1,777)	(7,833)	(8,800)
Total other comprehensive income	(4,157)	7,555	4,413
Total comprehensive income/(loss) for the period	(3,986)	7,713	4,528

## Dunedin City Treasury Limited

### Statement of changes in equity For the six months ending 31 December 2017

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
<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)
<b>Equity as at 31 December 2017</b>	<b>100</b>	<b>(5,662)</b>	<b>257</b>	<b>(5,305)</b>
<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>audited</b>				
Equity as at 1 July 2016	100	(5,918)	(29)	(5,847)
Comprehensive income for the period	-	4,413	115	4,528
<b>Equity as at 30 June 2017</b>	<b>100</b>	<b>(1,505)</b>	<b>86</b>	<b>(1,319)</b>

## Dunedin City Treasury Limited

### Statement of financial position As at 31 December 2017

	Note	unaudited 6 months to 31 Dec 2017 \$'000	unaudited 6 months to 31 Dec 2016 \$'000	audited full year to 30 Jun 2017 \$'000
<b>Current assets</b>				
Cash and cash equivalents		14,218	9,994	8,114
Investments	5	17,448	12,894	17,056
Derivative financial instruments	7	1,702	694	125
Trade and other receivables		5,196	5,776	5,514
Prepayments		399	412	416
Total current assets		38,963	29,770	31,225
<b>Non-current assets</b>				
Investments	5	565,143	533,156	540,440
Derivative financial instruments	7	18,772	23,041	22,578
Software	4	28	-	24
Total non current assets		583,943	556,197	563,042
<b>Total assets</b>		<b>622,906</b>	<b>585,967</b>	<b>594,267</b>
<b>Current liabilities</b>				
Short term borrowings	6	1,742	927	473
Trade and other payables		5,483	6,052	6,005
Derivative financial instruments	7	1,702	694	125
Provision for tax		56	61	-
Total current liabilities		8,983	7,734	6,603
<b>Non-current liabilities</b>				
Term borrowings	8	599,039	554,687	567,378
Derivative financial instruments	7	20,189	21,680	21,605
Total non-current liabilities		619,228	576,367	588,983
<b>Total liabilities</b>		<b>628,211</b>	<b>584,101</b>	<b>595,586</b>
<b>Equity</b>				
Share capital		100	100	100
Hedge reserve		(5,662)	1,637	(1,505)
Retained earnings		257	129	86
<b>Total equity</b>		<b>(5,305)</b>	<b>1,866</b>	<b>(1,319)</b>
<b>Total liabilities and equity</b>		<b>622,906</b>	<b>585,967</b>	<b>594,267</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 2017

	Note	unaudited 6 months to 31 Dec 2017 \$'000	unaudited 6 months to 31 Dec 2016 \$'000	audited full year to 30 Jun 2017 \$'000
<b>Cash flow from operating activities</b>				
<i>Cash was provided from:</i>				
Receipts from customers		109	194	176
Interest received		15,431	17,078	32,573
		15,540	17,272	32,749
<i>Cash was applied to:</i>				
Payments to suppliers		355	351	647
Interest paid		15,116	16,255	31,457
		15,471	16,606	32,104
Net cash flow from operating activities	3	69	666	645
<b>Cash flow from investing activities</b>				
<i>Cash was provided from:</i>				
Net decrease in investments		-	6,644	-
		-	6,644	-
<i>Cash was applied to:</i>				
Purchase of Software		9	-	28
Net increase in investments		25,096	-	2,861
		25,105	-	2,889
Net cash flow from investing activities		(25,105)	6,644	(2,889)
<b>Cash flow from financing activities</b>				
<i>Cash was provided from:</i>				
Net loans raised		31,140	-	-
		31,140	-	-
<i>Cash was applied to:</i>				
Net loans repaid		-	9,933	2,259
		-	9,933	2,259
Net cash flow from financing activities		31,140	(9,933)	(2,259)
<b>Net increase/(decrease) in cash and cash equivalents</b>		6,104	(2,623)	(4,503)
Opening cash and cash equivalents		8,114	12,617	12,617
<b>Closing cash and cash equivalents</b>		14,218	9,994	8,114

The accompanying notes form part of these financial statements

## **Dunedin City Treasury Limited**

---

### **Notes to the financial statements For the six months ending 31 December 2017**

#### **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 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 financial statements of Dunedin City Treasury Limited are for the six months ended 31 December 2017 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 operates.

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

The financial statements for the period ended 31 December 2017 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 2017.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2017.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2017.

## Dunedin City Treasury Limited

### Notes to the financial statements For the six months ending 31 December 2017

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

	unaudited 6 months to 31 Dec 2017 \$'000	unaudited 6 months to 31 Dec 2016 \$'000	audited full year to 30 Jun 2017 \$'000
Net profit after tax	171	158	115
<i>Items not involving cash flows</i>			
Fair value change in SWAPs	24	11	(42)
Amortisation	5	-	4
	200	169	77
<i>Impact of changes in working capital items</i>			
(Increase)/Decrease in receivables	318	539	803
(Increase)/Decrease in prepayments	17	71	67
Increase/(Decrease) in trade and other payables	(522)	(157)	(283)
Increase/(Decrease) in provisions	56	44	(19)
Net cash inflows from operating activities	69	666	645

#### 4 Software

	unaudited as at 31 Dec 2017 \$'000	unaudited as at 31 Dec 2016 \$'000	audited as at 30 Jun 2017 \$'000
Balance at beginning of period	24	-	-
Purchases	9	-	28
Amortisation	(5)	-	(4)
Balance at end of period	28	-	24

## Dunedin City Treasury Limited

### Notes to the financial statements For the six months ending 31 December 2017

#### 5 Investments

	unaudited as at 31 Dec 2017 \$'000	unaudited as at 31 Dec 2016 \$'000	audited as at 30 Jun 2017 \$'000
<b>Current</b>			
Advances to Dunedin City Council	17,438	12,874	17,041
Advances to Dunedin City Holdings Limited Group	-	-	-
Investment at bank	-	-	-
Mortgage recoverable	10	20	15
	17,448	12,894	17,056
<b>Non-current</b>			
Advances to Dunedin City Council	189,508	210,805	184,905
Advances to Dunedin City Holdings Limited Group	375,635	322,351	355,535
	565,143	533,156	540,440
<b>Total investments</b>	582,591	546,050	557,496
A maturity analysis of the company's investments is as follows:			
Maturity within one year	17,448	12,894	17,056
Maturity one to five years	63,994	54,923	57,515
Maturity over five years	501,149	478,233	482,925
	582,591	546,050	557,496

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 2017 \$'000	unaudited as at 31 Dec 2016 \$'000	audited as at 30 Jun 2017 \$'000
Due to related parties	1,350	650	-
Other short term deposits	392	277	473
	1,742	927	473

## Dunedin City Treasury Limited

### Notes to the financial statements For the six months ending 31 December 2017

#### 7 Derivative financial instruments

	unaudited as at 31 Dec 2017 \$'000	unaudited as at 31 Dec 2016 \$'000	audited as at 30 Jun 2017 \$'000
<b>Assets</b>			
Interest rate swaps - cash flow hedges - DCHL Group	6,356	6,160	6,580
Interest rate swaps - cash flow hedges - DCC	8,609	11,549	10,162
Interest rate swaps - cash flow hedges - Bank	747	2,207	1,408
Interest rate swaps - fair value hedges - Bank	4,762	3,819	4,553
	<b>20,474</b>	<b>23,735</b>	<b>22,703</b>
<i>Current</i>			
Interest rate swaps - cash flow hedges - DCHL Group	424	30	17
Interest rate swaps - cash flow hedges - DCC	1,278	664	108
	<b>1,702</b>	<b>694</b>	<b>125</b>
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - DCHL Group	5,932	6,130	6,563
Interest rate swaps - cash flow hedges - DCC	7,331	10,885	10,054
Interest rate swaps - cash flow hedges - Bank	747	2,207	1,408
Interest rate swaps - fair value hedges - Bank	4,762	3,819	4,553
	<b>18,772</b>	<b>23,041</b>	<b>22,578</b>
Total Assets	<b>20,474</b>	<b>23,735</b>	<b>22,703</b>
<b>Liabilities</b>			
Interest rate swaps - cash flow hedges - Bank	21,373	18,278	19,654
Interest rate swaps - fair value hedges - Bank	518	4,096	2,076
	<b>21,891</b>	<b>22,374</b>	<b>21,730</b>
<i>Current</i>			
Interest rate swaps - cash flow hedges - Bank	1,702	694	125
	<b>1,702</b>	<b>694</b>	<b>125</b>
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - Bank	19,671	17,584	19,529
Interest rate swaps - fair value hedges - Bank	518	4,096	2,076
	<b>20,189</b>	<b>21,680</b>	<b>21,605</b>
Total Liabilities	<b>21,891</b>	<b>22,374</b>	<b>21,730</b>

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

## Dunedin City Treasury Limited

### Notes to the financial statements For the six months ending 31 December 2017

#### 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 2017 \$'000	unaudited as at 31 Dec 2016 \$'000	audited as at 30 Jun 2017 \$'000
<b>Term borrowings</b>			
Promissory notes	89,571	54,712	59,702
Floating rate notes 15/2/17	-	20,000	-
Bonds 15/10/17	-	60,000	60,000
Floating rate notes 7/10/17	-	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	50,000	50,000
Floating rate notes 16/10/20	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
Bonds 16/10/24	35,000	-	-
Bonds 15/4/26	65,000	65,000	65,000
Fair value impact on bonds	4,468	(25)	2,676
	<b>599,039</b>	<b>554,687</b>	<b>567,378</b>
The repayment period on the term borrowings is as follows:			
Repayable less than one year	85,000	100,000	100,000
Repayable between one to five years	339,039	339,712	324,702
Repayable later than five years	175,000	114,975	142,676
	<b>599,039</b>	<b>554,687</b>	<b>567,378</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 2017 as being \$607,131,551 (December 2016 \$565,433,435).

## **Dunedin City Treasury Limited**

---

### **Notes to the financial statements For the six months ending 31 December 2017**

#### **9 Contingent liabilities**

	<b>unaudited as at 31 Dec 2017 \$'000</b>	<b>unaudited as at 31 Dec 2016 \$'000</b>	<b>audited as at 30 Jun 2017 \$'000</b>
Performance bonds	1,111	1,208	1,208

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

---

### Directory

#### Directors

Graham W Crombie (Chair)  
Keith T Cooper  
Kathleen E Grant  
Linda M Robertson  
Quentin Hix (appointed 1 January 2018)  
Brian J Wood (retired 31 December 2017)

#### 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