

# **Dunedin City Treasury Ltd**

## **INTERIM REPORT**

**For the six months ended 31 December 2019**

## **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
Statement of service performance	15
Directory	16

## 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 2019.

### Overview of results

	unaudited 6 months to 31 Dec 2019 \$'000	unaudited 6 months to 31 Dec 2018 \$'000	audited full year to 30 Jun 2019 \$'000
Total income	14,534	14,775	27,338
Profit before tax	850	764	10
Income tax	238	214	7
Net profit after tax	612	550	3
Total assets	756,344	664,321	707,490

### 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 3.93% to 3.66% over this six month period.

A successful refinancing of the \$50 million Floating Rate Note (FRN) maturity on 15 November 2019 contributed to the reduction in the average cost of funding. The maturity was replaced by issuance of two new Medium Term Notes (MTN's). The new MTNs were issued for terms of three and seven years for amounts of \$45 million and \$55 million with coupons of just 1.51% and 2.09% respectively.

The issuance of the seven year tranche 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 by both Aurora Energy Limited and the Council.

The Company continued to achieve strong results with the Promissory Note programme, achieving an average rate of +0.078% over the 3 month benchmark interest rate, and an average bid coverage 1.6 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 August 2019. The Company continues to manage funds in the best interests of its borrowers.

The Company's parent, Dunedin City Holdings Limited is currently progressing towards increasing its Uncalled Capital with the Council to support future debt forecasts across the Dunedin City Council Group. This was approved by Council in December 2019.

Standard & Poor's reaffirmed the AA/A-1+ ratings of both Dunedin City Treasury Limited and the Dunedin City Council in December 2019.

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**

---

### **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; and

In the opinion of the Directors, the interim financial statements fairly reflect the financial position as at 31 December 2019 and operations for the six months to 31 December 2019 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 2019 and authorises them for issue on 5 February 2020.



Chair



Director

## Dunedin City Treasury Limited

### Statement of comprehensive income For the six months ending 31 December 2019

	Unaudited 6 months to 31 Dec 2019 \$'000	Unaudited 6 months to 31 Dec 2018 \$'000	Audited full year to 30 Jun 2019 \$'000
Interest on advances & fees from related parties	14,025	14,752	27,268
Interest on other investments	90	23	70
Total financial income	14,115	14,775	27,338
Ineffectiveness on fair value hedge (gain)	419	-	-
Total income	14,534	14,775	27,338
Less expenses:			
Interest to related parties	12	13	27
Interest & fees on term loans	13,346	13,593	26,646
Total financial expenses	13,358	13,606	26,673
Audit fees	-	-	26
Directors remuneration	-	-	-
Management fees to related parties	167	175	351
Amortisation	6	6	11
Other operating expenses	153	205	249
Ineffectiveness on fair value hedge (loss)	-	19	18
Total expenses	13,684	14,011	27,328
<b>Profit before tax</b>	850	764	10
Income tax	238	214	7
<b>Net profit after tax</b>	612	550	3
Other comprehensive income:			
Gain (loss) on cash flow hedges taken to equity	3,026	(6,469)	(23,063)
Gain (loss) on cash flow hedges to related parties taken to equity	(2,498)	(2,145)	(2,866)
Total other comprehensive income	528	(8,614)	(25,929)
<b>Total comprehensive income/(loss) for the period</b>	1,140	(8,064)	(25,926)

## Dunedin City Treasury Limited

### Statement of changes in equity For the six months ending 31 December 2019

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
<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>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>Audited</b>				
Equity as at 1 July 2018	100	(8,805)	257	(8,448)
Comprehensive income for the period	-	(25,929)	3	(25,926)
Equity as at 30 June 2019	100	(34,734)	260	(34,374)

## Dunedin City Treasury Limited

### Statement of financial position As at 31 December 2019

	<i>Note</i>	<b>Unaudited 6 months to 31 Dec 2019 \$'000</b>	<b>Unaudited 6 months to 31 Dec 2018 \$'000</b>	<b>Audited full year to 30 Jun 2019 \$'000</b>
<b>Current assets</b>				
Cash and cash equivalents		40,978	12,560	15,177
Investments	5	-	13,453	-
Derivative financial instruments	7	687	355	956
Trade and other receivables		4,899	4,516	2,706
Prepayments		530	493	489
Total current assets		47,094	31,377	19,328
<b>Non-current assets</b>				
Investments	5	692,800	615,962	668,315
Derivative financial instruments	7	16,444	16,965	19,835
Software	4	6	17	12
Total non current assets		709,250	632,944	688,162
<b>Total assets</b>		<b>756,344</b>	<b>664,321</b>	<b>707,490</b>
<b>Current liabilities</b>				
Short term borrowings	6	3,325	1,738	1,670
Trade and other payables		5,473	4,693	5,122
Derivative financial instruments	7	1,133	355	956
Provision for tax		238	270	8
Total current liabilities		10,169	7,056	7,756
<b>Non-current liabilities</b>				
Term borrowings	8	739,101	646,258	690,596
Derivative financial instruments	7	40,308	27,519	43,512
Total non-current liabilities		779,409	673,777	734,108
<b>Total liabilities</b>		<b>789,578</b>	<b>680,833</b>	<b>741,864</b>
<b>Equity</b>				
Share capital		100	100	100
Hedge reserve		(34,206)	(17,419)	(34,734)
Retained earnings		872	807	260
Total equity		(33,234)	(16,512)	(34,374)
<b>Total liabilities and equity</b>		<b>756,344</b>	<b>664,321</b>	<b>707,490</b>



## Dunedin City Treasury Limited

### Statement of cash flows For the six months ending 31 December 2019

	Note	Unaudited 6 months to 31 Dec 2019 \$'000	Unaudited 6 months to 31 Dec 2018 \$'000	Audited full year to 30 Jun 2019 \$'000
<b>Cash flow from operating activities</b>				
<i>Cash was provided from:</i>				
Receipts from customers		10	77	171
Interest received		11,922	15,165	29,410
		11,932	15,242	29,581
<i>Cash was applied to:</i>				
Payments to suppliers		371	485	731
Interest paid		13,007	14,436	27,028
Subvention paid/(received)		8	-	63
		13,386	14,921	27,822
Net cash flow from operating activities	3	(1,454)	321	1,759
<b>Cash flow from investing activities</b>				
<i>Cash was provided from:</i>				
Net decrease in investments		98,147	-	-
		98,147	-	-
<i>Cash was applied to:</i>				
Purchase of Software		-	-	-
Net increase in investments		121,052	20,230	65,232
		121,052	20,230	65,232
Net cash flow from investing activities		(22,905)	(20,230)	(65,232)
<b>Cash flow from financing activities</b>				
<i>Cash was provided from:</i>				
Net loans raised		50,160	32,177	78,358
		50,160	32,177	78,358
<i>Cash was applied to:</i>				
Net loans repaid		-	-	-
		-	-	-
Net cash flow from financing activities		50,160	32,177	78,358
<b>Net increase/(decrease) in cash and cash equivalents</b>		25,801	12,268	14,885
Opening cash and cash equivalents		15,177	292	292
<b>Closing cash and cash equivalents</b>		40,978	12,560	15,177

## **Dunedin City Treasury Limited**

---

### **Notes to the financial statements (unaudited) For the six months ending 31 December 2019**

#### **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 2019 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 2019.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2019.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2019.

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2019

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

	Unaudited 6 months to 31 Dec 2019 \$'000	Unaudited 6 months to 31 Dec 2018 \$'000	Audited full year to 30 Jun 2019 \$'000
Net profit after tax	612	550	3
<i>Items not involving cash flows</i>			
Fair value change in SWAPs	(419)	19	18
Amortisation	6	6	11
	199	575	32
<i>Impact of changes in working capital items</i>			
(Increase)/Decrease in receivables	(2,193)	424	2,235
(Increase)/Decrease in prepayments	(41)	(109)	(106)
Increase/(Decrease) in trade and other payables	351	(784)	(355)
Increase/(Decrease) in provisions	230	215	(47)
Net cash inflows from operating activities	(1,454)	321	1,759

#### 4 Software

	Unaudited as at 31 Dec 2019 \$'000	Unaudited as at 31 Dec 2018 \$'000	Audited as at 30 Jun 2019 \$'000
Balance at beginning of period	12	23	23
Purchases	-	-	-
Amortisation	(6)	(6)	(11)
Balance at end of period	6	17	12

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2019

#### 5 Investments

	Unaudited as at 31 Dec 2019 \$'000	Unaudited as at 31 Dec 2018 \$'000	Audited as at 30 Jun 2019 \$'000
<b>Current</b>			
Advances to Dunedin City Council	-	13,453	-
Advances to Dunedin City Holdings Limited Group	-	-	-
Investment at bank	-	-	-
	-	13,453	-
<b>Non-current</b>			
Advances to Dunedin City Council	230,500	208,500	218,500
Advances to Dunedin City Holdings Limited Group	462,300	407,462	449,815
	692,800	615,962	668,315
<b>Total investments</b>	692,800	629,415	668,315
A maturity analysis of the company's investments is as follows:			
Maturity within one year	-	13,453	-
Maturity one to five years	-	58,456	-
Maturity over five years	692,800	557,506	668,315
	692,800	629,415	668,315

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 2019 \$'000	Unaudited as at 31 Dec 2018 \$'000	Audited as at 30 Jun 2019 \$'000
Due to related parties	2,200	1,300	1,050
Other short term deposits	1,125	438	620
	3,325	1,738	1,670

## Dunedin City Treasury Limited

### Notes to the financial statements (unaudited) For the six months ending 31 December 2019

#### 7 Derivative financial instruments

	Unaudited as at 31 Dec 2019 \$'000	Unaudited as at 31 Dec 2018 \$'000	Audited as at 30 Jun 2019 \$'000
<b>Assets</b>			
Interest rate swaps - cash flow hedges - DCHL Group	4,381	5,285	5,478
Interest rate swaps - cash flow hedges - DCC	2,856	5,171	4,257
Interest rate swaps - cash flow hedges - Bank	-	-	-
Interest rate swaps - fair value hedges - Bank	9,894	6,864	11,056
	17,131	17,320	20,791
<i>Current</i>			
Interest rate swaps - cash flow hedges - DCC Group	687	355	956
	687	355	956
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - DCC Group	6,550	10,101	8,779
Interest rate swaps - cash flow hedges - Bank	-	-	-
Interest rate swaps - fair value hedges - Bank	9,894	6,864	11,056
	16,444	16,965	19,835
Total Assets	17,131	17,320	20,791
<b>Liabilities</b>			
Interest rate swaps - cash flow hedges - Bank	41,441	27,874	44,468
Interest rate swaps - fair value hedges - Bank	-	-	-
	41,441	27,874	44,468
<i>Current</i>			
Interest rate swaps - cash flow hedges - Bank	1,133	355	956
	1,133	355	956
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - Bank	40,308	27,519	43,512
Interest rate swaps - fair value hedges - Bank	-	-	-
	40,308	27,519	43,512
Total Liabilities	41,441	27,874	44,468

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 2019

#### 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 2019 \$'000	Unaudited as at 31 Dec 2018 \$'000	Audited as at 30 Jun 2019 \$'000
<b>Term borrowings</b>			
Promissory notes	159,399	169,165	159,313
Floating rate notes 15/11/19	-	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 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
Bonds 15/11/22	45,000	-	-
Bonds 15/11/26	55,000	-	-
Fair value impact on bonds	9,702	7,093	11,283
	<b>739,101</b>	<b>646,258</b>	<b>690,596</b>
The repayment period on the term borrowings is as follows:			
Repayable less than one year	-	50,000	209,313
Repayable between one to five years	474,101	481,258	275,623
Repayable later than five years	265,000	115,000	205,660
	<b>739,101</b>	<b>646,258</b>	<b>690,596</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 2019 as being \$750,328,356 (December 2018 \$653,220,372).

## **Dunedin City Treasury Limited**

---

### **Notes to the financial statements (unaudited) For the six months ending 31 December 2019**

#### **9 Contingent liabilities**

	<b>Unaudited as at 31 Dec 2019 \$'000</b>	<b>Unaudited as at 31 Dec 2018 \$'000</b>	<b>Audited as at 30 Jun 2019 \$'000</b>
Performance bonds	1,142	990	968

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**

---

### **Statement of Service Performance For the six months ending 31 December 2019**

<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 ANZ, BNZ and Westpac.	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' 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>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.

### **Financial forecasts**

Financial forecasts are set in the Statement of Intent for the year ending 30 June 2020. The Company is on track to meet the financial forecasts set.



## **Dunedin City Treasury Limited**

---

### **Directory**

#### **Directors**

Keith T Cooper (Chair)  
Kathleen E Grant  
Linda M Robertson  
Quentin Hix  
Christopher Hopkins

#### **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