

Dunedin City Treasury Ltd

INTERIM REPORT

For the six months ended 31 December 2023

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 2023.

Overview of results

	unaudited 6 months to 31 Dec 2023 \$'000	unaudited 6 months to 31 Dec 2022 \$'000	audited full year to 30 Jun 2023 \$'000
Total income	27,878	17,979	39,578
Profit before tax	1,319	(129)	46
Income tax	369	(9)	13
Net profit after tax	950	(120)	33
Total assets	1,268,317	1,073,508	1,163,873

Review of operations

Dunedin City Treasury Ltd ("the Company") experienced an increase in the cost of funds for the DCC Group, with the average cost of funding increasing from 4.19% to 4.51% over the six month period, as wholesale interest remained elevated. The Reserve Bank continues to hold the Official Cash Rate at 5.50% with their Monetary Policy Committee agreeing that interest rates will need to remain at a restrictive level for longer.

The Company successfully arranged two new tranches of term debt over the period. The \$50m 16 October 2023 Medium Term Note maturity was refinanced with a new \$100m Floating Rate Security (FRN) borrowed from the Local Government Funding Agency (LGFA), maturing in May 2031. The new FRN was priced at a margin of 0.92% above the three month floating benchmark interest rate. Secondly, DCTL also arranged a new FRN of \$25 million via LGFA maturing in May 2030. The new FRN was priced at a margin of 0.82% above the three month benchmark interest rate.

The new FRNs arranged via LGFA assisted DCTL to lengthen its maturity profile. DCTL targets having at least 20% of borrowings with maturity dates of greater than five years.

The Company's Promissory Note programme continues to perform strongly, achieving an average rate of +0.021% over the New Zealand 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 \$450 million of funding due to mature in any forward one year period, as required by DCC's Treasury Risk Management Policy. The latest review of the Treasury Risk Management Policy was approved by the Council on 12 December 2023. 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 experienced a significant reduction in equity during the period. Lower New Zealand interest rate swap yields decreased the positive mark to market of the Company's cash flow hedging arrangements, significantly decreasing the positive value of the Company's Hedge Reserve from \$26.4 million as at 30 June 2023 to \$14.9 million as at 31 December 2023.

The Company continues to source borrowings from domestic debt capital markets and the LGFA.

Standard & Poor's reaffirmed the AA/Stable/A-1+ ratings of both Dunedin City Treasury Limited and the Dunedin City Council in December 2023.

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

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

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 2023 and operations for the six months to 31 December 2023 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 2023 and authorises them for issue on 1 February 2024.



Chair



Director

Dunedin City Treasury Limited

Statement of comprehensive income For the six months ending 31 December 2023

	Unaudited 6 months to 31 Dec 2023 \$'000	Unaudited 6 months to 31 Dec 2022 \$'000	Audited full year to 30 Jun 2023 \$'000
Interest on advances & fees from related parties	27,365	17,707	38,925
Interest on other investments	509	272	653
Total financial income	27,874	17,979	39,578
Gain on fair value hedge	4	-	-
Total income	27,878	17,979	39,578
Less expenses:			
Interest to related parties	68	35	74
Interest & fees on term loans	26,130	17,472	38,506
Total financial expenses	26,198	17,507	38,580
Audit fees	7	-	36
Directors remuneration	-	-	-
Management fees to related parties	180	180	360
Other operating expenses	174	324	390
Loss on fair value hedge	-	97	166
Total expenses	26,559	18,108	39,532
Profit before tax	1,319	(129)	46
Income tax	369	(9)	13
Net profit after tax	950	(120)	33
Other comprehensive income:			
Gain (loss) on cash flow hedges taken to equity	(15,977)	19,970	10,681
Gain (loss) on cash flow hedges to related parties taken to equity	-	(20)	(20)
Deferred taxation impact of cash flow hedge movements	4,474	(5,586)	(2,985)
Total other comprehensive income	(11,503)	14,364	7,676
Total comprehensive income/(loss) for the period	(10,554)	14,244	7,709

Dunedin City Treasury Limited

Statement of financial position As at 31 December 2023

	Note	Unaudited 6 months to 31 Dec 2023 \$'000	Unaudited 6 months to 31 Dec 2022 \$'000	Audited full year to 30 Jun 2023 \$'000
Current assets				
Cash and cash equivalents		1,669	948	9,187
Investments	4	8,000	-	-
Derivative financial instruments	6	1,301	1,609	585
Trade and other receivables		10,068	5,640	9,205
Prepayments		401	425	405
Total current assets		21,439	8,622	19,382
Non-current assets				
Investments	4	1,216,591	1,020,435	1,104,770
LGFA Borrower Notes	4	6,250	-	3,125
Derivative financial instruments	6	24,037	44,451	36,596
Total non current assets		1,246,878	1,064,886	1,144,491
Total assets		1,268,317	1,073,508	1,163,873
Current liabilities				
Short term borrowings	5	4,776	2,839	1,802
Trade and other payables		10,536	7,136	11,845
Derivative financial instruments	6	-	2,070	830
Provision for tax		-	(124)	-
Total current liabilities		15,312	11,921	14,477
Non-current liabilities				
Term borrowings	7	1,207,974	982,868	1,083,813
Derivative financial instruments	6	22,608	32,449	28,503
Deferred taxation		6,093	12,851	10,196
Total non-current liabilities		1,236,675	1,028,168	1,122,512
Total liabilities		1,251,987	1,040,089	1,136,989
Equity				
Share capital		100	100	100
Hedge reserve		14,934	33,125	26,437
Retained earnings		1,297	194	347
Total equity		16,330	33,419	26,884
Total liabilities and equity		1,268,317	1,073,508	1,163,873

Dunedin City Treasury Limited

Statement of changes in equity For the six months ending 31 December 2023

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited				
Equity as at 1 July 2023	100	26,437	347	26,884
Comprehensive income for the period	-	(11,503)	950	(10,554)
Equity as at 31 December 2023	100	14,934	1,297	16,330
Unaudited				
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
Audited				
Equity as at 1 July 2022	100	18,761	314	19,175
Comprehensive income for the period	-	7,676	33	7,709
Equity as at 30 June 2023	100	26,437	347	26,884

Dunedin City Treasury Limited

Statement of cash flows For the six months ending 31 December 2023

		Unaudited 6 months to 31 Dec 2023 \$'000	Unaudited 6 months to 31 Dec 2022 \$'000	Audited full year to 30 Jun 2023 \$'000
	<i>Note</i>			
Cash flow from operating activities				
<i>Cash was provided from:</i>				
Receipts from customers		101	70	245
Interest received		26,911	17,309	35,183
		27,012	17,379	35,428
<i>Cash was applied to:</i>				
Payments to suppliers		357	207	789
Interest paid		27,507	15,798	31,858
Subvention paid/(received)		-	49	-
		27,864	16,054	32,647
Net cash flow from operating activities	3	(852)	1,325	2,781
Cash flow from investing activities				
<i>Cash was provided from:</i>				
Net decrease in investments		-	6,674	-
		-	6,674	-
<i>Cash was applied to:</i>				
Purchase of Software		-	-	-
Net increase in investments		122,916	109,942	197,305
		122,916	109,942	197,305
Net cash flow from investing activities		(122,916)	(103,268)	(197,305)
Cash flow from financing activities				
<i>Cash was provided from:</i>				
Net loans raised		152,421	135,000	196,830
		152,421	135,000	196,830
<i>Cash was applied to:</i>				
Net loans repaid		36,171	44,268	5,278
		36,171	44,268	5,278
Net cash flow from financing activities		116,250	90,732	191,552
Net increase/(decrease) in cash and cash equivalents		(7,518)	(11,211)	(2,972)
Opening cash and cash equivalents		9,187	12,159	12,159
Closing cash and cash equivalents		1,669	948	9,187

Notes to the financial statements (unaudited) For the six months ending 31 December 2023

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 2023 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 2023.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2023.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2023.

Dunedin City Treasury Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2023

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

	Unaudited 6 months to 31 Dec 2023 \$'000	Unaudited 6 months to 31 Dec 2022 \$'000	Audited full year to 30 Jun 2023 \$'000
Net profit after tax	950	(120)	33
<i>Items not involving cash flows</i>			
Fair value change in SWAPs	(4)	97	166
Deferred tax	369	66	13
Amortisation	-	-	-
	1,315	43	212
<i>Impact of changes in working capital items</i>			
(Increase)/Decrease in receivables	(863)	(611)	(4,177)
(Increase)/Decrease in prepayments	4	130	150
Increase/(Decrease) in trade and other payables	(1,308)	1,887	6,596
Increase/(Decrease) in provisions	-	(124)	-
Net cash inflows from operating activities	(852)	1,325	2,781

Dunedin City Treasury Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2023

4 Investments

	Unaudited as at 31 Dec 2023 \$'000	Unaudited as at 31 Dec 2022 \$'000	Audited as at 30 Jun 2023 \$'000
Current			
Advances to Dunedin City Council	-	-	-
Advances to Dunedin City Holdings Limited Group	-	-	-
Investment at bank	8,000	-	-
	8,000	-	-
Non-current			
Advances to Dunedin City Council	547,000	409,800	459,800
Advances to Dunedin City Holdings Limited Group	669,591	610,635	644,970
LGFA Borrower Notes	6,250	-	3,125
	1,222,841	1,020,435	1,107,895
Total investments	1,230,841	1,020,435	1,107,895
A maturity analysis of the company's investments is as follows:			
Maturity within one year	8,000	-	-
Maturity one to five years	-	-	-
Maturity over five years	1,222,841	1,020,435	1,107,895
	1,230,841	1,020,435	1,107,895

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 2023 \$'000	Unaudited as at 31 Dec 2022 \$'000	Audited as at 30 Jun 2023 \$'000
Due to related parties	3,250	1,200	300
Other short term deposits	1,526	1,639	1,502
	4,776	2,839	1,802

Dunedin City Treasury Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2023

6 Derivative financial instruments

	Unaudited as at 31 Dec 2023 \$'000	Unaudited as at 31 Dec 2022 \$'000	Audited as at 30 Jun 2023 \$'000
Assets			
Interest rate swaps - cash flow hedges - Bank	23,384	46,011	36,722
Interest rate swaps - fair value hedges - Bank	1,954	49	459
	25,338	46,060	37,181
<i>Current</i>			
Interest rate swaps - cash flow hedges - Bank	1,301	1,609	585
Interest rate swaps - fair value hedges - Bank	-	-	-
	1,301	1,609	585
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - Bank	22,083	44,402	36,137
Interest rate swaps - fair value hedges - Bank	1,954	49	459
	24,037	44,451	36,596
Total Assets	25,338	46,060	37,181
Liabilities			
Interest rate swaps - cash flow hedges - Bank	2,640	-	-
Interest rate swaps - fair value hedges - Bank	19,968	34,519	29,333
	22,608	34,519	29,333
<i>Current</i>			
Interest rate swaps - cash flow hedges - Bank	-	-	-
Interest rate swaps - fair value hedges - Bank	-	2,070	830
	-	2,070	830
<i>Non-current</i>			
Interest rate swaps - cash flow hedges - Bank	2,640	-	-
Interest rate swaps - fair value hedges - Bank	19,968	32,449	28,503
	22,608	32,449	28,503
Total Liabilities	22,608	34,519	29,333

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 2023

7 Term borrowings (secured)

The Company has a \$1,600 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 2023 \$'000	Unaudited as at 31 Dec 2022 \$'000	Audited as at 30 Jun 2023 \$'000
Term borrowings			
Promissory notes	240,864	232,279	202,558
Medium term notes 16/10/23*	-	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	50,000
Floating rate notes 15/10/25	75,000	75,000	75,000
Medium term notes 17/7/25	50,000	50,000	50,000
Medium term notes 15/3/26	50,000	50,000	50,000
Medium term notes 15/4/26*	65,000	65,000	65,000
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	60,000	60,000
Medium term notes 27/11/28*	100,000	100,000	100,000
Floating rate notes 09/02/30	75,000	-	75,000
Floating rate notes 09/02/30	25,000	-	25,000
Floating rate notes 09/02/30	25,000	-	-
Floating rate notes 15/05/31	25,000	-	25,000
Floating rate notes 15/05/31	100,000	-	-
Fair value impact on bonds (*)	(17,890)	(34,411)	(28,745)
	1,207,974	982,868	1,083,813
The repayment period on the term borrowings is as follows:			
Repayable less than one year	300,864	280,211	276,728
Repayable between one to five years	657,110	460,170	530,444
Repayable later than five years	250,000	242,487	276,641
	1,207,974	982,868	1,083,813

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 2023 as being \$1,194,916,832 (December 2022 \$967,113,932).

Dunedin City Treasury Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2023

8 Contingent liabilities

	Unaudited as at 31 Dec 2023 \$'000	Unaudited as at 31 Dec 2022 \$'000	Audited as at 30 Jun 2023 \$'000
Performance bonds	761	377	402

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.

Statement of Service Performance For the six months ending 31 December 2023

Performance targets	Performance targets achieved
1 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.
2 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.
3 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.
4 Successfully fill any issues brought to the market during the year.	Achieved. All debt issuance arranged during the period has been filled successfully.
5 Maintain funding lines with preferred financial providers.	Achieved. Funding lines have been maintained with ANZ, BNZ and Westpac.
6 Regular reporting of the Company's achievement against defined benchmarks.	Achieved. Reporting achievement against defined benchmarks are provided to the Board monthly and quarterly.
7 Management of the fund and meeting the investment objectives set by Council in the Statement of Investment Policy and Objectives.	Not achieved. The fund did not meet the investment objective to grow the fund's base value, due to current market conditions.
8 Quarterly review by the Board, of the DCTL Risk Register Dashboard.	Achieved. The DCTL Risk Register Dashboard was reviewed by the Board quarterly.
9 Regular reporting to the shareholder of DCTL's top 5 current risks.	Achieved. DCTL's top 5 current risks were reported to the shareholder quarterly.
10 No breaches of policy. Where breaches have occurred, there are no breaches that have not been reported to the Chief Financial Officer within 1 business day and as per requirements of the policy.	Achieved. There were no breaches of policy that were required to be reported to the shareholder.
11 Matters have been escalated to the Shareholder in a timely manner.	Achieved. There were no matters requiring escalation to the shareholder.
12 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.
13 Implement the Company's carbon emissions reduction strategy and achieve targets set.	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 2023

- | | | |
|-----------|--|--|
| 14 | Implement the Company's waste reduction strategy and achieve targets set. | In progress. The Company has implemented its strategy and is on track to meet the targets set. |
| 15 | 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 reported this in its Annual Report |
| 16 | Ensure that all direct employees are paid at living wage or above. | Achieved. The Company has no direct employees. |
| 17 | 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 2024. The Company is on track to meet the financial forecasts set.

Directory

Directors

Keith T Cooper (Chair)
Richard J Thomson
Susie J Johnstone
Timothy DR Loan
Greg Anderson
Christopher Milne

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