

**DRAFT**

**Dunedin City Treasury Ltd**

**Statement of Intent**

**For the Year Ending 30 June 2016**

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## 1.0 Mission Statement

Mission Statement of Dunedin City Treasury Ltd
<i>To provide funds management, cost effective funding and treasury management services to entities within the Dunedin City Council Group and financial and treasury management services to other entities.</i>

## 2.0 Nature and Scope of Activities

Dunedin City Treasury Ltd will provide treasury management services to the Dunedin City Council Group. Its role is to identify and manage financial risks and to manage the liquidity of the Dunedin City Council Group so as to ensure that adequate funds are available to meet ongoing obligations in such a way that financing costs are minimised and the return on surplus funds is maximised within acceptable levels of risk.

The functions of Dunedin City Treasury Ltd are set out below:

- managing financial relationships with third parties
- working capital management
- cash management
- funds management
- financial risk management
- interest rate risk management
- provide guarantees and performance bonds on behalf of the Group Companies
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### 3.0 *Corporate Governance Statement*

Dunedin City Treasury Limited is a Council Controlled Trading Organisation (CCTO). The directors' role is defined in Section 58 of the Local Government Act 2002. This section states that all decisions relating to the operation of the CCTO shall be made pursuant to the authority of the directorate of the CCTO and its Statement of Intent (SI). The board is responsible for the preparation of the SI which is approved by the Company's shareholder Dunedin City Holdings Ltd. In addition to the obligations of the Local Government Act, Dunedin City Treasury Ltd is also covered by the Companies Act 1993 and governed by directors by law and best practice.

The board of directors meet on a regular basis to direct and control the company's activities and accepts responsibility for the overall control systems operating within the company but recognises that no cost effective internal control systems will permanently preclude all errors or irregularities. The control systems operating within the company reflect the specific risks associated with the business of the company. The Directors have also instigated a regular internal audit review of the company's practices and procedures by an external audit firm.

The shareholder reviews and approves the SI and the three-year financial plan. Monthly and annual reports of financial and operational performance are provided to the shareholder.

### 4.0 *Corporate Goals*

The principal goal of Dunedin City Treasury Ltd is to operate as a successful business.

The specific corporate goals of Dunedin City Treasury Ltd are as follows:-

#### ***Economic***

- 4.1 To manage the liquidity risk of the Dunedin City Council Group and ensure required funds are available at all times.
- 4.2 To provide funding at the most economic rates available to entities within the Dunedin City Council Group.
- 4.3 To securely invest surplus cash available from within the Dunedin City Council Group.
- 4.4 To manage interest rate risk for the entities within the Dunedin City Council Group and provide appropriate customer service.
- 4.5 To maximise the cost effective utilisation of financial products.

- 4.6 To promote the treasury management services of Dunedin City Treasury Ltd.
- 4.7 To manage special purpose funds such as the 'Waipori Fund' for Dunedin City Council Group.

***Social & Environmental***

- 4.8 To act as a socially responsible and environmentally aware corporate citizen.

## 5.0 *Specific Objectives for the Year Ending 30 June 2015*

In pursuit of the Company's corporate goals, Dunedin City Treasury Ltd has the following objectives for the next twelve months:-

***Economic***

- 5.1 **Liquidity Risk**  
To use a variety of funding sources to achieve appropriate levels of funds as required by the Dunedin City Council Group.
- 5.2 **Economic Borrowings**  
To enhance the Company's reputation and presence in the money market and the successful raising of funds for the Dunedin City Council Group during the next twelve months.
- 5.3 **Investment of Surplus Funds**  
To ensure surplus funds deposited outside the Dunedin City Council Group have satisfied the investment criteria approved by the Board; and at least 80% of investments of surplus funds are placed with organisations with a Standard and Poors credit rating of investment grade or better.
- 5.4 **Management of Interest Rate Risk**  
To manage Dunedin City Council Group interest rate sensitive funding in accordance with the policies adopted by each member of the Group.
- 5.5 **Utilisation of Financial Products**  
To maintain a benchmarking system to measure the Company's performance.
- 5.6 **Promote Company Services**  
To prepare and circulate a monthly newsletter on future interest rate trends and economic and political factors likely to affect future rates.

5.7 **‘Waipori Fund’**

To maximise the return from a diversified balanced portfolio with a reasonable risk profile for the benefit of the Dunedin City Council.

*Social & Environmental*

5.8 **Corporate Citizen**

To undertake an annual review of the Company's operations to identify any social or environmental issues.

## 6.0 *Performance Measures*

The objectives set out above will be met on the achievement of the following performance measures:-

*Economic*

6.1 **Liquidity Risk**

Completion of the issue of range of debt instruments at rates which are consistent with, or better than organisations with similar credit ratings.

6.2 **Economic Borrowings**

Through the successful utilization of facilities available, maintain the required level of liquidity for the Dunedin City Council Group at margins in line with market movements.

6.3 **Investment of Surplus Funds**

All surplus funds deposited outside the Dunedin City Council Group have satisfied the investment criteria approved by the Board; and at least 80% of investments of surplus funds are placed with organisations with a Standard and Poors credit rating of investment grade or better.

6.4 **Management of Interest Rate Risk**

Derivatives to protect Dunedin City Council Group debt in accordance with the policies adopted by each member of the Group will be put in place within 90 days of any change in policy requiring additional cover to be established.

6.5 **Utilisation of Financial Products**

Preparation of a report for every quarter assessing the Company's achievement against the benchmark, and achieve an improvement in the actual portfolio performance against the benchmark.

6.6 **Promote Company Services**

To have produced and circulated at least 10 monthly interest rate newsletters during the year.

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6.7 **‘Waipori Fund’**

To manage the fund fully in accordance with the Statement of Policy and Objectives set by Council.

***Social & Environmental***

6.8 **Good Employer**

There will be "nil" instances of non-compliance with the Company's EEO policy.

6.9 **Corporate Citizen**

To have completed a review of the Company's operations for any potential social or environmental issues by 30 June 2015.

## 7.0 *Financial Projections*

	<i>Year Ending 30 June 2016 \$'000</i>	<i>Year Ending 30 June 2017 \$'000</i>	<i>Year Ending 30 June 2018 \$'000</i>
<i>Operating Surplus before Income Tax</i>	<i>12</i>	<i>12</i>	<i>12</i>
<i>Operating Surplus after Income Tax</i>	<i>9</i>	<i>9</i>	<i>9</i>
<i>Shareholder's Equity</i>	<i>233</i>	<i>242</i>	<i>250</i>
<i>Operating Cash Flow</i>	<i>50</i>	<i>50</i>	<i>50</i>
<i>Capital Expenditure</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Total Debt</i>	<i>Dependent on requirements of the group</i>		

*The above Financial Projections were made prior to the introduction of the new Treasury Policy that was approved on 15 December 2014. Once the implementation plan for the new Treasury Policy is finalised the Financial Projections will be updated.*

## 8.0 *Ratio of Consolidated Shareholder's Equity to Total Assets*

	<i>Year Ending 30 June 2016</i>	<i>Year Ending 30 June 2017</i>	<i>Year Ending 30 June 2018</i>
<i>Shareholder's Equity to Total Assets</i>	<i>0.04%</i>	<i>0.04%</i>	<i>0.04%</i>

*The above Ratio of Consolidated Shareholders Equity to Total Assets forecasts were made prior to the introduction of the new Treasury Policy that was approved on 15 December 2014. Once the implementation plan for the new Treasury Policy is finalised the Financial Projections will be updated.*

Shareholder's Equity: is represented by paid up capital, reserves created by the revaluation of specific assets and retained earnings.

Total Assets: means the aggregate amount of all current and non-current assets.

## 9.0 *Purpose for Which Company Established*

The company has been established with the primary purpose of providing security of funding for the Dunedin City Council Group at the lowest possible interest rate.

An interim interest rate is payable on this funding. This interim rate is set having regard to an estimate of the net cost to the Company of providing this funding. No later than 20 December and 20 June in each year, the actual cost of providing the funding for the preceding 6 month period is determined and the interim interest rate is adjusted.

## 10.0 *Dividend Policy*

The Company operates to provide funding to the Dunedin City Council Group at the lowest possible interest rate. There will not be any significant surplus available.

Accordingly the Company will not pay any dividends.

## 11.0 *Reporting to the Shareholder*

### 11.1 ANNUAL (Prior to 31 December)

- (i) Draft Statement of Intent.

**11.2 ANNUAL (Prior to 31 May)**

- (i) Statement of Intent.
- (ii) Summarised Capital Expenditure Budget for the year in question and Forecasts for the following two years.
- (iii) Updated Strategic Plan with summarised Financial Projections including a Statement of Financial Performance and a Statement of Financial Position (minimum five years).

**11.3 ANNUAL (Prior to 31 July)**

- (i) Report on the achievement or otherwise of the Specific Objectives of the current year Statement of Intent.

**11.4 MONTHLY (Within 30 days of the End of Each Month)**

- (i) Activity Report - giving commentary on matters relating to the performance of the Company.
- (ii) Summarised Statement of Financial Performance, including a comparison of actual performance with budget.

**11.5 HALF YEARLY (Within Six Weeks of the End of the Six Month Period)**

- (i) Directors' Report - giving a review of the Company's performance over the half year.
- (ii) Statement of Financial Performance.
- (iii) Statement of Movements in Equity.
- (iv) Statement of Financial Position.
- (v) Statement of Cashflows.
- (vi) Notes to the Financial Statements.
- (vii) DCHL Half Year Reporting Package.

**11.6 ANNUAL (Within Eight Weeks of the End of the Financial Year)**

- (i) Directors' Report - a review of the Company's performance over the full year, including a comparison of performance against objectives and key performance measures.
- (ii) Statement of Financial Performance.
- (iii) Statement of Movements in Equity.
- (iv) Statement of Financial Position.
- (v) Statement of Cashflows.
- (vi) Notes to the Financial Statements.
- (vii) Auditors Report on the above Financial Statements.
- (vii) DCHL Full Year Reporting Package.

## 12.0 *Accounting Policies*

### 12.1 **General Accounting Policies**

The accounting policies recognised by the Institute of Chartered Accountants of NZ for the measurement and reporting of financial performance and financial position will be adopted by Dunedin City Treasury Ltd.

### 12.2 **Particular Accounting Policies**

The particular accounting policies which materially affect the measurement and reporting of financial performance and financial position for DCTL are fully listed in the Company's Annual Report. This is available from the Company.

## 13.0 *Acquisition of Shares in Any Company or Organisation*

Apart from the activities of Dunedin City Treasury Limited as Manager for the Dunedin City Council 'Waipori Fund', Dunedin City Treasury Ltd will only invest in the shares of another company or organisation if the shares are considered to be likely to produce added value to the business of Dunedin City Treasury Ltd.

If the Directors intend that Dunedin City Treasury Ltd should subscribe for or otherwise acquire issued capital or assets of any company or organisation, they will obtain the prior approval of the shareholder.

## 14.0 *Transactions with Related Parties*

### **Dunedin City Council**

The Dunedin City Council is the sole shareholder in Dunedin City Holdings Ltd. Dunedin City Holdings Ltd is the sole shareholder in Dunedin City Treasury Ltd. Transactions between Dunedin City Treasury Ltd, Dunedin City Council and other Dunedin City Council controlled entities will be on a wholly commercial basis.

Charges from Dunedin City Council and its other entities and charges to Dunedin City Council and its other entities will be made for services provided as part of the normal trading activities of Dunedin City Treasury Ltd.

<i>Related Party</i>	<i>Transaction Type</i>
Dunedin City Council	Office support services. Computer support services. Specific treasury functions. Financial and management consulting services.

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<i>Related Party</i>	<i>Transaction Type</i>
Dunedin City Holdings Ltd	Functions appropriate between parent company and subsidiary. Specific treasury functions.
Other entities in the Dunedin City Council Group	Specific treasury functions.

## 15.0 *Group Facility Use*

### 15.1 **Group Purchasing**

Dunedin City Treasury Ltd undertakes to operate "group" purchasing of goods and services unless it is demonstrated conclusively to the shareholder that the total combined cost to the Group and to Dunedin City Council of such group purchasing is greater than the total combined cost to the Group and to Dunedin City Council of ceasing to purchase such goods and services as a Group, including the cost to the Group and to Dunedin City Council of ceasing any such group purchasing.

### 15.2 **Electronic Data Processing**

Dunedin City Treasury Ltd undertakes to continue to use the Dunedin City Council's Central Electronic Data Processing facilities or its successor, in the event of corporatisation, for the next 12 months unless :-

- a) Dunedin City Council determines that it can not or does not wish to continue with the services and gives reasonable notice of its determination in that regard.
- b) It is demonstrated conclusively to Dunedin City Council that the total combined cost to the Group and to Dunedin City Council of using the service is greater than the total combined cost to the Group and to Dunedin City Council of utilising alternative facilities of a similar standard and performance, including the cost to the Group and to Dunedin City Council of ceasing to use the existing Central Electronic Data Processing facilities of Dunedin City Council.

## 16.0 *Other Matters Agreed as between the Directorate and the Shareholder*

- 16.1 The undertaking by Dunedin City Treasury Ltd of any activity of a nature or scope not provided for in the Company's mission or goals would be subject to the prior approval of the shareholder.

- 16.2 The approval of the shareholder is also required before Dunedin City Treasury Ltd could dispose of any segment of its business or shares in a subsidiary or associate company.
- 16.3 Dunedin City Treasury Ltd has entered into a Deed of Understanding between itself, the Dunedin City Council, Dunedin City Holdings Ltd and members of the Group, imposing upon the Company certain restrictions, requirements and obligations as set out in the Deed.

### *17.0 Estimate of Commercial Value of Investment*

The commercial value of the shareholder's investment in Dunedin City Treasury Ltd is considered by the Directors to equate with the shareholder's funds of the Company as disclosed in the latest balance sheet.

### *18.0 Use of Otago Manufactured Goods and Services*

Dunedin City Treasury Ltd will endeavour to use Otago manufactured goods and services subject to price, quality and strategic considerations being met.

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