

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

15 MAY 2014

Meeting Status: **Public**

Purpose of Report: For Information

INVESTMENT AND BORROWING REPORT TO 31 MARCH 2014

PURPOSE OF REPORT

- 1 This report summarises Council's fiscal investment and debt situation as at 31 March 2014

SIGNIFICANCE OF DECISION

- 2 The Council's Significance Policy is not triggered by this report.

BACKGROUND

- 3 The Treasury Management Policy requires an update on the Council's investments and borrowing to be reported quarterly to the Corporate Business Committee.
- 4 The major trading banks and other financial institutions provide the Council with forecasts and predictions on future interest rates movement.

CONSIDERATIONS

INVESTMENTS

- 5 General, Separate and Special Fund Investments as at 31 March 2014 was \$8,110,976 compared to \$8,699,448 as at 31 December 2013. Council's investments are summarised in the table below.

BANK DEPOSITS				
Maturity	Held at	Amount \$	Portfolio %	Interest Rate %
Deposits	Westpac On Call	5,444,976	67%	2.75%
Deposits	BNZ On Call	900,000	11%	2.75%
Borrower Notes	Local Government Funding Agency (LGFA) 15/12/2017	640,000	8%	3.26%
Borrower Notes	LGFA 15/03/2019	320,000	4%	3.40%
Borrower Notes	LGFA 15/12/2017	160,000	2%	3.13%
Borrower Notes	LGFA 15/12/2017	160,000	2%	2.95%
Borrower Notes	LGFA 15/05/2021	320,000	4%	3.125%
Perpetual	Fonterra	21,000	-	4.21%
Shares	LGFA	100,000	1%	
Shares	NZGLIC	45,000	1%	
Total General, Separate and Special Fund Investments as at 31 March 2014		\$8,110,976	100%	

BORROWINGS

- 6 Council's investment limit of exposure with a single entity is \$7 million. This limit is over 20 years old and is currently under review.
- 7 Public Debt as at 31 March 2014 was \$135,004,136 (\$135,077,123 as at 31 December 2013). Council's public debt reduction of \$72,987 relates to repayments of the Energy Efficiency Conservation Authority (EECA) loans. A summary of Council's Public Debt movements over the nine month period to 31 March 2014 is tabulated below.

Total Public Debt as at 01/7/2013	\$125,223,096
Less: Debt Repayment (EECA Loan)	(\$218,960)
Plus: New Loans Raised (Commercial Paper)	\$10,000,000
Public Debt as at 31 March 2014	\$135,004,136

- 8 A further breakdown of Council's public debt and maturities is tabulated below:

Detail	Loans	Year of Maturity (Range)
EECA Loan	\$0.2 million	2015
Call Facility Drawdowns	\$4.8 million	2014
Commercial Paper	\$10 million	2014
Debentures	\$20 million	2014 to 2016
LGFA Borrowings	\$100 million	2017 to 2021
Total	\$135 million	

- 9 Of the total borrowing from the LGFA, \$70 million was for the replacement of existing short term borrowing facilities from banks. Council does not have a borrowing limit from the LGFA. What is notable is that the margins above floating rate have declined, to the benefit of participating councils.
- 10 The weighted average cost of Council's Public Debt as at 31 March 2014 was 5.67%. (5.62% as at 31 December 2013).
- 11 Market Commentary: The Reserve Bank (RBNZ) raised the Official Cash Rate (OCR) to 2.75% in March 2014. This was again raised by a further 25 basis points (bps) to 3.00% in April due to, amongst other factors, continued domestic inflationary pressures.
- 12 Additional 25bps hikes are expected in June, September and December 2014. Council's interest rate swap portfolio will crystallise benefits to ratepayers by effectively capping Council's finance charges at current rates.
- 13 Council's Treasury Management Policy Limits currently permit Council to access new debt on maturity terms between 3 to 10 years. This needs to be carefully balanced with Council's current debt maturity portfolio and future rates affordability.

INTEREST RATE RISK MANAGEMENT STRATEGY

- 14 The Council has entered into the following interest rate swaps (sorted by maturity date):

INTEREST RATE RISK MANAGEMENT STRATEGY						
Deal Date	Pay or Receive a SWAP	Bank	Amount \$Million	Start Date	Maturity Date	Fixed Swap Rate
10 May 12	Pay	BNZ	3.00	16 Jun 12	16 Jun 2015	4.22%
4 Apr 11	Pay	BNZ	5.00	20 Oct 11	20 Jul 2015	4.505%
4 Apr 11	Pay	BNZ	5.00	20 Oct 11	20 Jan 2016	4.655%
18 Jun 13	Pay	BNZ	4.00	16 Sep 13	14 Mar 2016	4.52%
4 Apr 11	Pay	BNZ	5.00	20 Oct 11	20 Apr 2016	4.715%
12 Jun 12	Pay	BNZ	3.00	12 Jul 12	12 Jan 2017	5.06%
26 Feb 13	Pay	BNZ	3.00	14 Mar 13	14 Mar 2017	4.46%
17 Apr 08	Pay	ANZ	5.00	2 Nov 10	2 May 2017	4.58%
27 May 10	Pay	WBC	5.00	5 Jul 10	5 Jul 2017	5.50%
12 Apr 12	Pay	ANZ	5.00	17 Jun 13	15 Dec 2017	4.03%
26 Feb 13	Pay	BNZ	2.00	12 Apr 13	12 Jan 2018	4.86%
27 Mar 12	Pay	BNZ	5.00	15 Mar 13	15 Mar 2018	4.28%
30 Aug 05	Pay	WBC	6.00	28 Nov 08	28 Aug 2018	6.07%
25 Nov 08	Pay	BNZ	5.00	12 Jan 09	12 Oct 2018	5.875%
17 Nov 08	Pay	BNZ	5.00	18 Nov 08	19 Nov 2018	6.06%
9 Jul 13	Pay	ANZ	5.00	9 Oct 13	9 Jan 2019	5.31%
18 Jun 13	Pay	BNZ	5.00	22 Jul 13	22 Jan 2019	5.32%
27 Mar 12	Pay	BNZ	5.00	15 Mar 13	17 Jun 2019	4.50%
26 Feb 13	Pay	BNZ	3.00	4 Mar 13	4 Sep 2019	5.82%
12 Apr 12	Pay	ANZ	5.00	15 Mar 13	15 Dec 2019	4.285%
23 Aug 10	Pay	ANZ	5.00	11 Oct 10	9 Apr 2020	5.75%
21 May 10	Pay	BNZ	5.00	24 May 10	25 May 2020	5.735%
8 Oct 10	Pay	BNZ	1.00	8 Apr 11	8 Oct 2020	4.99%
8 Oct 10	Pay	BNZ	3.40	8 Apr 12	8 Oct 2020	5.165%
8 Oct 10	Pay	BNZ	7.88	8 Oct 12	8 Oct 2020	5.15%
7 Jun 13	Pay	ANZ	5.00	11 Jun 13	11 Jun 2022	3.98%
20 Jun 13	Pay	ANZ	5.00	24 Jun 13	24 Jun 2022	4.29%
18 Jun 13	Pay	BNZ	5.00	20 Jun 13	20 Dec 2022	4.165%
Total			126.28			

- 15 The result of these interest rate swaps is that the effective interest rate re-pricing profile of the Council's debt portfolio as at 31 March 2014 is as follows:

Interest Rate Swap Coverage Profile		Interest Rate coverage of Total Debt	Approved Interest Rate Coverage Range of Total Debt
Fixed Rate %		95%	55-95%
Fixed Rate Maturity Profile Period		Coverage	Approved Range
1 to 3 years	\$34.10m	27%	15-60%
3 to 5 years	\$49.10m	39%	15-60%
5 to 10 years	\$43.08m	34%	10-60%

Delegation

- 16 The Corporate Business Committee has delegated authority to consider this Report under Section B.3.7 of the Governance Structure.

Without limiting the generality of this delegation, the committee has the following functions, duties and powers.

Financial and Asset Management

- 7.5 Authority to monitor performance of the Council's financial activities, including income, operating and capital expenditure against budgets, remissions, key financial indicators and investment and debt/borrowings management.*

RECOMMENDATIONS

- 17 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 31 March 2014 were \$8,110,976 (\$8,699,448 as at 31 December 2013).
- 18 That the Corporate Business Committee notes that Gross Public Debt as at 31 March 2014 was \$135,004,136 (\$135,077,123 as at 31 December 2013).
- 19 That the Corporate Business Committee notes the effective average interest rate of the Council's Public Debt, after taking into account the interest rate swaps and margins as at 31 March 2014, was 5.67% (5.62% as at 31 December 2013).

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