

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

19 FEBRUARY 2015

Meeting Status: **Public**

Purpose of Report: For Decision

INVESTMENT & BORROWING REPORT TO 31 DECEMBER 2014

PURPOSE OF REPORT

- 1 This report provides an overview of the council's treasury activity during the quarter and a summary of the position as at 31 December 2014.

Delegation

- 2 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.*

BACKGROUND

- 3 Quarterly reporting to the Corporate Business Committee is good practice and a requirement of the council's Treasury Management Policy.
- 4 This report reflects some changes in content and presentation, to provide the Committee with improved measurement of treasury performances. Further enhancements are being developed.

CONSIDERATIONS

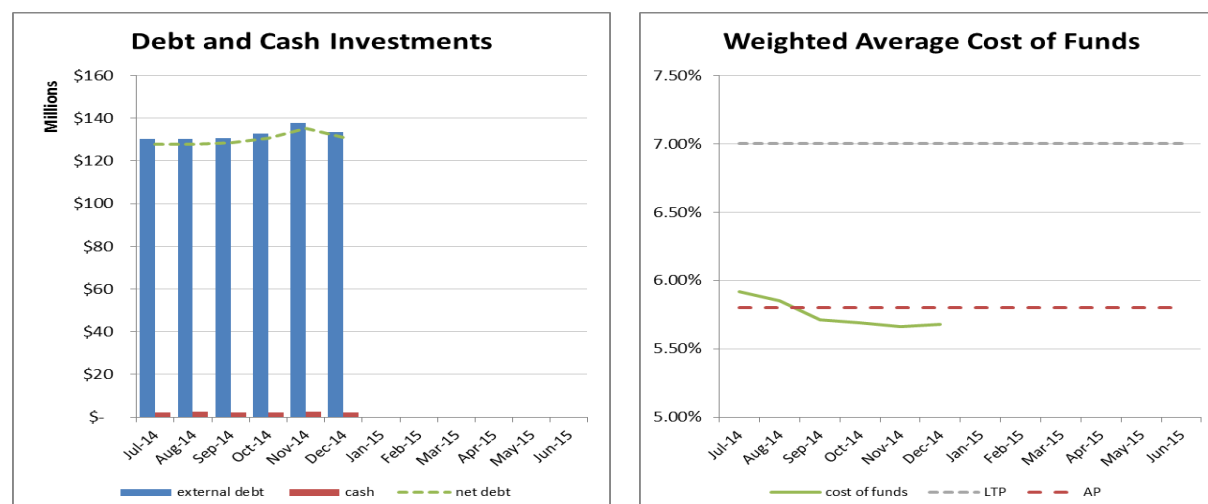
Summary

5. There was very little treasury activity during the December quarter. The only activity was the use of the call facility for day to day transactions. The quarter position is therefore largely unchanged from September. Most activity will occur in the second half of the financial year.

Debt and investments

(\$000)	As at 31-Dec-14	Full Year Forecast	Full Year Budget
External debt	133,304	140,016	138,016
less cash investments	(1,976)	(2,296)	-
Net debt	131,328	137,720	138,016

6. No external debt has been drawn during the first half year. There have not been any debt maturities during this period, meaning the only fluctuations in external debt are a reflection of the draw-downs on the call facility.



7. The cost of funds has held steady during the December quarter.

Finance Costs

(\$000)	YTD Actual 31-Dec-14	YTD Budget 31-Dec-14	var	Full Year Forecast	Full Year Budget	var
External interest expense	3,860	3,950	90	7,715	7,899	184
less interest received	107	304	(197)	150	608	(458)
Net finance costs	3,753	3,646	(107)	7,565	7,291	(274)
Weighted average cost of borrowing	5.75%	5.80%		5.70%	5.80%	

Policy Compliance

Criterion	YTD	Compliant	note
Debt			
Projected debt (12 months)	\$140m		
Current debt	\$130m		
Fixed debt	\$129m		
Fixed portion	55% 95%	92%	☑
Funding maturity	Limit min – max		
0-3 years	15% 60%	69%	☹ 1
3-5 years	15% 60%	11%	☹ 2
5+ years	10% 40%	19%	☑
Fixed rate maturity	Limit min – max		
1-3 years	15% 60%	31%	☑
3-5 years	15% 60%	23%	☑
5+ years	15% 60%*	29%	☑
Liquidity ratio	110%	138%	☑

Comments on policy breaches: notes 1 & 2

8. There is a \$60 million tranche of funding with Local Government Funding Agency (LGFA) that matures in December 2017. This has now moved into the 0-3 year maturity bucket, causing the policy breach. The 0-3 year bucket now exceeds the upper limit, and the 3-5 year bucket is below the lower limit.
9. Debt funding activity over the next six months will see debt return to compliance with the policy by 30 June, and as such this is a temporary state of non-compliance. The Council's policy allows for up to 12 months to phase-in compliance, with the approval of Council.

Market Commentary

10. The New Zealand economy continues to show 'solid' growth, on the back of low inflation – predicted to fall below the 1% minimum target for the Reserve Bank. The main risk is the global environment. Oil prices have plunged, reaching a 5-year low. Dairying returns are weak, but other commodities look to be performing better. The housing market, particularly in Auckland and Christchurch, shows signs of over-heating once more.
11. The New Zealand dollar continues to be strong, but much will depend on overseas events.
12. The Government is now predicting a later return to surplus, which may impact on (delay) its plans for new spending, and tax cuts.
13. All of these factors suggest that interest rates will need to be held for an extended period. Forecasts vary, but suggest that rates are unlikely to move higher during 2015.
14. **Transacted this month**

• Debt maturity/roll-over	No debt matured during the quarter
• New debt	No debt drawn during the quarter
• Swaps closed out/expired	No swaps expired during the quarter
• New swaps	No swaps commenced during the quarter

Looking forward

15. With market conditions looking increasingly favourable from a borrower's perspective, there will be more activity by the Council during the March quarter.
16. While requirements for new debt will be minimal (\$5 million new debt forecast in Q3), there are opportunities to increase the duration of the swaps that the Council has in place.
17. In addition, the annual review of the Treasury Policy is being undertaken, and the results will be reported through to the Council as part of the Long Term Plan process.

Financial Considerations

- 17 Year to date results are tracking close to budget and the full year expenditure result is forecast to remain favourable.

Policy Implications

- 18 The Treasury Management Policy applies to this report. The policy is currently being reviewed and an annual review is one requirement of the policy.

SIGNIFICANCE AND ENGAGEMENT

- 19 The matter has a low level of significance under the Council Policy.

RECOMMENDATIONS

- 20 That the Corporate Business Committee notes the results for investments and borrowing as at 31 December 2014.
- 21 That the Corporate Business Committee approves the non-compliance of the fixed rate maturity profile against the policy limits and notes that this temporary state will be cleared by June 2015.

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