

**Chairperson and Committee Members**  
CORPORATE BUSINESS COMMITTEE

14 FEBRUARY 2013

Meeting Status: **Public**

Purpose of Report: For Decision

## **INVESTMENT & BORROWING TO 31 DECEMBER 2012**

### **PURPOSE OF REPORT**

- 1 This report summarises Council's fiscal investment and debt situation as at 31 December 2012.

### **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**

- 5 General, Separate, Loan and Special Fund Investments

<b>BANK DEPOSITS</b>				
<b>Maturity</b>	<b>Held at</b>	<b>Amount \$</b>	<b>Portfolio %</b>	<b>Interest Rate %</b>
Deposits	Westpac On Call	4,814,588	79%	3.10%
Borrower Notes	Local Government Funding Agency (LGFA) 15/12/2017	640,000	10%	3.28%
Borrower Notes	LGFA 15/3/2019	320,000	5%	3.42%
Borrower Notes	LGFA 15/12/2017	160,000	3%	3.15%
Perpetual	Fonterra	21,000		4.21%
Shares	LGFA	100,000	2%	
Shares	NZGLIC	45,000	1%	
<b>Total General, Separate and Special Fund Investments as at December 2012</b>		<b>\$6,100,588</b>	<b>100%</b>	

6 Borrowing:

Total Public Debt as at 01/7/2012	\$88,422,820
Less Debt Repayment	-\$10,141,581
Plus New Loans Raised	\$37,087,830
Gross Public Debt as at 31/12/2012	<u>\$115,369,069</u>
Less Loan Repayment Provision	-\$8,156,432
Net Public Debt	<u><b>\$107,212,637</b></u>

Market Commentary:

- 7 The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5% on 6 December 2012. The Central Bank Governor is committed to seeing annual CPI inflation not only within the Bank's target range of 2% annual CPI but at the mid-point of that band.
- 8 While the Bank did not make any mention of the possibility of lower interest rates it did acknowledge that "because of lower bank funding costs and increased competition among banks, this projection implies a lower forecast for retail interest rates than was the case in the September statement". So, in effect the domestic economy has been delivered further stimulus without the need for a lower OCR.
- 9 General, Separate and Special Fund Investments as at 31 December 2012 were \$6,100,588 (\$83,040 as at 30 September 2012). The higher balance of investments as at 31 December 2012 represents the working capital needed to meet the capital expenditure cashflow requirements (Aquatic Centre/Civic Building) as at 31 December 2012.
- 10 Gross Public Debt as at 31 December 2012 was \$115,369,069 (\$101,842,055 as at 30 September 2012). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$8,156,432 was \$107,212,637 (\$95,967,711 as at 30 September 2012). The increase in debt levels is as a result of borrowing required to fund the 2012/13 capital works programme.
- 11 The effective average interest rate of the Council's Public Debt, after taking into account the interest rate swaps and margins as at 31 December 2012, was 5.43% (5.35% as at 30 September 2012). The reason for the slight increase in interest rates is that a low interest rate swap at 3.19% matured in the last quarter which resulted in the average interest rate of the interest rate swap portfolio increasing marginally.

**Interest Rate Risk Management Strategy**

- 12 Under the Council's Treasury Management Policy the Council has delegated the responsibility for managing interest rates to the Group Manager, Finance. The Council has entered into the following interest rate swaps:

<b>INTEREST RATE RISK MANAGEMENT STRATEGY</b>						
Deal Date	Pay or Receive a SWAP	Bank	Amount \$Million	Start Date	Maturity Date	SWAP Rate (if fixed)
30 Aug 05	Pay	WBC	6.00	28 Nov 08	28 Aug 2018	6.07%
10 May 12	Pay	BNZ	3.00	16 Jun 12	16 Jun 2015	4.22%
12 Jun 12	Pay	BNZ	2.00	12 Jul 12	12 Jan 2015	6.21%
12 Jun 12	Pay	BNZ	3.00	12 Jul 12	12 Jan 2017	5.06%
17 Apr 08	Pay	ANZ	5.00	2 May 10	2 May 2015	5.21%
5 Sept 08	Pay	BNZ	3.00	4 Sept 09	5 Sept 2016	6.78%
17 Nov 08	Pay	BNZ	5.00	18 Nov 08	19 Nov 2018	6.06%
25 Nov 08	Pay	BNZ	5.00	12 Jan 09	12 Oct 2018	5.875%
10 May 12	Pay	BNZ	7.00	14 June 12	16 Mar 2015	4.91%
18 Nov 09	Pay	BNZ	5.00	29 Jan 10	29 Jan 2014	2.65%
19 Nov 09	Pay	BNZ	5.00	29 Jan 10	29 Jan 2013	3.94%
18 Jan 10	Pay	BNZ	5.00	20 Jan 10	20 Jan 2017	5.65%
21 May 10	Pay	BNZ	5.00	24 May 10	25 May 2020	5.735%
27 May 10	Pay	WBC	5.00	5 Jul 10	5 Jul 2017	5.5%
23 Aug 10	Pay	ANZ	5.00	11 Oct 10	9 Apr 2020	5.75%
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	8.70	8 Oct 12	8 Oct 2020	5.15%
4 Apr 11	Pay	BNZ	5.00	20 Oct 11	20 Apr 2016	4.715%
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%
23 June 11	Pay	ANZ	5.00	11 June 11	9 Jan 2017	5.80%
27 Mar 12	Pay	BNZ	5.00	15 Mar 13	15 Mar 2018	4.28%
27 Mar 12	Pay	BNZ	5.00	15 Mar 13	17 Jun 2019	4.50%
12 Apr 12	Pay	ANZ	5.00	15 Mar 13	15 Dec 2019	4.285%
12 Apr 12	Pay	ANZ	5.00	17 Jun 13	15 Dec 2017	4.03%

- 13 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 December 2012 is as follows:

	Coverage (Proportion of total Debt Portfolio)	Approved Range (Proportion of total Debt Portfolio)
Fixed Rate %	79%	55-95%
Fixed Rate Maturity Profile Period	Coverage	Approved Range
1 to 3 years	24%	15-60%
3 to 5 years	32%	15-60%
5 to 10 years	44%	10-60%

- 14 While the long term interest rates are currently at historical lows, Council will continue to take opportunities in the market to lower the overall interest rates of existing debt by extending interest rate swaps at lower interest rates.
- 15 The Council agreed to join the Local Government Funding Agency (LGFA) as a shareholder as part of the 2012 Long Term Plan. The Council became a shareholder on 30 November 2012 at the same time as the other Councils joined the LGFA in the second tranche. Prior to joining, the Council was able to borrow from the LGFA after it had signed all the necessary documentation.
- 16 On 3 October 2012 the Council was a participant in the LGFA Bond tender and secured \$60 million of long term funding to replace the short term funding from banks and also to fund \$10 million of new funding requirements for the current year's capital programme.

The loans were secured on the following basis:

Loan		Interest Margin above	Maturity Date
\$20 million	Floating Rate Note	1.13%	15 March 2019
\$40 million	Floating Rate Note	0.99%	15 December 2017

- 17 The margins achieved were around 0.20% better than the Council could achieve borrowing in the market as a separate entity and the presence of the LGFA is having a positive influence in the market by lowering margins by around 0.10%.
- 18 On the 8 December 2012, the Council secured a further \$10 million as a participant in the LGFA tender to assist with the funding of the 2012/13 capital works programme.

- 19 The loan was secured on the following basis:

Loan	Interest Margin Above	Maturity Date
\$10 million	0.91%	15 December 2017

- 20 Overall, the Council is saving \$210,000 per annum by borrowing \$70 million through the LGFA and supporting the LGFA positive influence on the market.

- 21 Since the LGFA has been in the market since February 2012 the margins have decreased by around 0.35% which is partly due to a decline in the interest rate market but also due to the fact that the LGFA is dealing with an increasing proportion of the total Local Government borrowings in competition with the Banks and its presence is having a positive influence on the market.

### **Delegation**

- 22 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**

- 23 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 31 December 2012 were \$6,100,588 (\$83,040 as at 30 September 2012).
- 24 That the Corporate Business Committee notes
- that Gross Public Debt as at 31 December 2012 was \$115,369,069 (\$101,842,055 as at 30 September 2012);
  - Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$8,156,432 was \$107,212,637 at 31 December 2012 (\$95,967,711 as at 30 September 2012); and
  - the increase in debt levels is as a result of borrowing required to fund the 2012/13 capital works programme.
- 25 That the Corporate Business Committee notes that the effective average interest rate of the Council's Public Debt, after taking into account the interest rate swaps and margins as at 31 December 2012, was 5.43% (5.35% as at 30 September 2012).

**Approved for submission by:**

**Warwick Read**  
**Group Manager Finance**