

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

16 FEBRUARY 2012

Meeting Status: **Public**

Purpose of Report: For Decision

**INVESTMENT AND BORROWING REPORT
TO 31 DECEMBER 2011**

PURPOSE OF REPORT

- 1 This report summarises Council’s fiscal investment and debt situation as at 31 December 2011.

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**

BANK DEPOSITS				
Maturity	Held at	Amount \$	Portfolio %	Interest Rate %
Perpetual	Local Government Insurance Bonds	45,000	68.2%	Dividends paid rather than interest
Perpetual	Fonterra shares	21,000	31.8%	
Total Council Fund Investment		\$66,000	100%	

6 **Borrowing:**

Total Public Debt as at 01/7/2011	\$66,547,200
Less Debt Repayment	-\$137,190
Plus New Loans Raised	10,000,000
Total Public Debt as at 31/12/2011	<u>\$76,410,010</u>
Less Sinking Funds/Loan Repayment Provision	<u>-\$7,939,252</u>
Net Public Debt	\$68,470,758

Market Commentary:

- 7 The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5% on 26 January 2012. The Reserve Bank Governor noted that “ongoing uncertainty around global conditions and the moderate pace of domestic demand, it remains prudent to keep the OCR on hold at 2.5%”.
- 8 General, Separate and Special Fund Investments as at 31 December 2011 were \$66,000 (\$3,463,215 as at 30 September 2011). The decrease in investments relates to the level of capital expenditure as at 31 December which is still to be funded from long term debt.
- 9 Gross Public Debt as at 31 December 2011 was \$76,410,010 (\$76,487,205 as at 30 September 2011). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$7,939,252 was \$68,470,758. The accumulated loan repayment provisions are used to contribute to repayment of loans as they fall due for repayment.
- 10 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 2011, was 5.59% (5.59% as at 30 September 2011).

Interest Rate Risk Management Strategy

- 11 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:

INTEREST RATE RISK MANAGEMENT STRATEGY						
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	30 Aug 06	28 Aug 2018	6.07%
14 Dec 05	Pay	BNZ	3.00	16 Mar 09	16 Dec 2013	5.20%
12 Jan 06	Pay	BNZ	5.00	12 Jan 07	12 Jan 2015	6.21%
17 April 08	Pay	ANZ	5.00	2 May 08	2 May 2015	5.21%
5 Sept 08	Pay	BNZ	3.00	4 Sept 09	5 Sept 2016	6.78%
25 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%
4 Mar 09	Pay	BNZ	7.00	16 Mar 09	14 Mar 2014	5.81%
17 Nov 09	Pay	WBC	6.00	24 Mar 10	24 Sept 2012	3.19%
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 April 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	8.7	9 Oct 12	8 Oct 2020	5.15%
4 April 11	Pay	BNZ	5.00	20 Oct 11	20 April 2016	4.715%
4 April 11	Pay	BNZ	5.00	20 Oct 11	20 Jul 2015	4.505%
4 April 11	Pay	BNZ	5.00	20 Oct 11	20 Jan 2016	4.655%
23 June 11	Pay	NBNZ	5.000	9 Apr 09	9 Jan 2017	5.80%

- 12 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 2011 is as follows:

	Coverage (Proportion of total Debt Portfolio)	Approved Range (Proportion of total Debt Portfolio)
Fixed Rate %	89%	55-95%
Fixed Rate Maturity Profile Period	Coverage	Approved Range
1 to 3 years	21%	20-60%
3 to 5 years	29%	20-60%
5 to 10 years	51%	10-60%

- 13 With the trend towards higher interest rates over the next few years, it is important that the Council has a high level of interest rate swap cover, locking in the current lower interest rates out as long as possible. As part of this strategy the interest rate swap coverage in the 5 to 10 year range at 51% is being maintained closer to the maximum level of 60% while low interest rates for long term swaps are still able to be achieved.
- 14 Council is currently covering some of its debt using short term Bank Commercial Paper until it joins the Local Government Funding Agency (LGFA) as a shareholder in July 2012 as currently proposed.
- 15 The LGFA is borrowing its first tranche of funds for the establishment shareholders in mid-February 2012. The Committee will be kept informed on the LGFA’s performance compared to its budgeted levels and also compared to the market.

Delegation

- 16 The Corporate Business Committee has delegated authority to consider the Investment and Borrowing Report.

Reference Section B.3.7 of the Governance Structure which reads:

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 December 2011 were \$66,000 (\$3,463,215 as at 30 September 2011). The decrease in investments relates to the level of capital expenditure as at 31 December which is still to be funded from long term debt.
- 18 That the Corporate Business Committee notes that the Gross Public Debt as at 31 December 2011 was \$76,410,010 (\$76,487,205 as at 30 September 2011). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$7,939,252 was \$68,470,758.
- 19 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 2011, was 5.59% (5.59% as at 30 September 2011).

Report prepared by:

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