

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

15 NOVEMBER 2012

Meeting Status: **Public**

Purpose of Report: For Decision

INVESTMENT & BORROWING TO 30 SEPTEMBER 2012

PURPOSE OF REPORT

- 1 This report summarises Council’s fiscal investment and debt situation as at 30 September 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**

BANK DEPOSITS				
Maturity	Held at	Amount \$	Portfolio %	Interest Rate %
On call	Westpac	17,040	20.5%	3.10
Perpetual	Local Government Insurance Bonds	45,000	54.2%	Dividends paid rather than interest
Perpetual	Fonterra shares	21,000	25.3%	
Total Council Fund Investment		\$83,040	100%	

6 **Borrowing:**

Total Public Debt as at 01/7/2012	\$88,422,820
Less Debt Repayment	-\$5,068,595
Plus New Loans Raised	18,487,830
Gross Public Debt as at 30/09/2012	\$101,842,055
Less Loan Repayment Provision	-\$5,874,344
Net Public Debt	\$95,967,711

Market Commentary:

- 7 The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5% on 25 October 2012. The Governor said the global economy remains fragile, but market sentiment had improved. The Domestic economy continues to expand driven by the housing market in Canterbury. However, fiscal consolidation is constraining growth, with the high NZD undermining export earnings.
- 8 General, Separate and Special Fund Investments as at 30 September 2012 were \$83,040 (\$2,575,425 as at 30 June 2012). The reduced balance of investments as at 30 September 2012 represents the working capital used to meet the capital expenditure cashflow requirements as at 30 September 2012.
- 9 Gross Public Debt as at 30 September 2012 was \$101,842,055 (\$88,422,820 as at 30 June 2012). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$5,874,344 was \$95,967,711 (\$76,640,979 as at 30 June 2012). The increase in debt levels is as a result of borrowing required to fund the 2012/13 capital works programme.
- 10 The effective average interest rate of the Council's Public Debt, after taking into account the interest rate swaps and margins as at 30 September 2012, was 5.35% (5.35% as at 30 June 2012).

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	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	NBNZ	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%
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 May 12	16 Mar 2015	4.91%
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	NBNZ	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	NBNZ	5.00	9 Apr 09	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	NBNZ	5.00	15 Mar 13	15 Dec 2019	4.285%
12 Apr 12	Pay	NBNZ	5.00	17 Jun 13	15 Dec 2017	4.03%

- 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 30 September 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	28%	15-60%
5 to 10 years	48%	10-60%

- 13 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.
- 14 The Council agreed to join the Local Government Funding Agency (LGFA) as a shareholder as part of the 2012 Long Term Plan. The Council will officially be a shareholder on 30 November 2012 at the same time as the other Councils are joining the LGFA in the second tranche. In the meantime, Council was able to borrow from the LGFA once it had signed all of the necessary documentation.
- 15 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

- 16 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%.
- 17 Overall, the Council is saving \$180,000 per annum by borrowing the \$60 million through the LGFA and supporting the LGFA positive influence on the market.
- 18 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

- 19 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

- 20 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 30 September 2012 were \$83,040 (\$2,575,425 as at 30 June 2012).
- 21 That the Corporate Business Committee notes
- that Gross Public Debt as at 30 September 2012 was \$101,842,055 (\$88,422,820 as at 30 June 2012);
 - Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$5,874,344 was \$95,967,711 (\$76,640,979 as at 30 June 2012); and
 - the increase in debt levels is as a result of borrowing required to fund the 2012/13 capital works programme.
- 22 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 30 September 2012, was 5.35% (5.35% as at 30 June 2012).

Report prepared by:

Approved for submission by:

Murray Baxter
Financial Accountant

Warwick Read
Group Manager Finance