

Chairperson and Committee Members  
**CORPORATE BUSINESS COMMITTEE**

**9 DECEMBER 2010**

Meeting Status: Public

Purpose of Report: For Information

**INVESTMENT AND BORROWING REPORT TO 30 SEPTEMBER 2010**

**PURPOSE OF REPORT**

- 1 This report summarises Council's fiscal investment and debt situation as at 30 September 2010. This information is required to comply with Council's Treasury Management Policy.

**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**

Issues

- 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>	<b>Credit Limit</b>
Call	Westpac Banking Corporation	5,300,000	43.84	3.0%	\$7 million
Perpetual	Local Government Insurance Bonds	45,000	<1	Dividends paid rather than interest	
12/11/2010	Kiwibank 150 days	1,000,000	8.27	4.9%	\$7 million
9/11/2010	ANZ/Nat 60 days	2,000,000	16.54	3.7%	\$7 million
9/11/2010	ANZ/Nat 90 days	2,000,000	16.54	4.4%	
<b>Total</b>		<b>\$10,345,000</b>	<b>85.2</b>		

6 **Sinking Fund Investments:**

Maturity	Held at	Amount \$	Portfolio	Interest Rate	Credit Limit
Call	Westpac Banking Corporation	\$1,768,592	14.63	3.0%	\$7 million
Perpetual	Fonterra	\$21,000	<1		
	<b>Total</b>	<b>1,789,592</b>	<b>100%</b>		

7 **Borrowing:**

Total Public Debt as at 01/7/2010	\$71,518,780
Less Debt Repayment	\$(589,995)
Plus New Loans Raised	-
Total Public Debt as at 30/9/2010	\$70,928,785
Less Sinking Funds/Loan Repayment Provision	\$(15,347,049)
Net Public Debt	<b>\$55,581.736</b>

8 **Market Commentary:**

The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 3.0% on 28 October 2010. The Reserve Bank Governor said the medium-term outlook for the New Zealand economy remains broadly in line with that assumed at the time of the September Monetary Policy Statement.

- 9 General, Separate and Special Fund Investments as at 30 September 2010 were \$10,345,000 (\$9,000,000 as at 30 June 2010). The increase relates to an increase in annual rates revenue received prior to the GST increase after 30 September 2010.
- 10 Gross Public Debt as at 30 June 2010 was \$70,928,785 (\$70,988,780 as at 30 June 2010). Net Public Debt after allowing for loan repayment provisions of \$15,347,049 was \$55,581,736.
- 11 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 2010, was 5.78% (5.78% as at 30 June 2010).

12 **Interest Rate Risk Management Strategy**

Under the Council's Treasury Management Policy the Council has delegated the responsibility for managing interest rates to the Group Manager, Finance. Since 1 October 2002 the Council has entered into the following interest rate swaps:

<b>INTEREST RATE RISK MANAGEMENT STRATEGY</b>						
<b>Deal Date</b>	<b>Pay or Receive a SWAP</b>	<b>Bank</b>	<b>Amount \$Million</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>SWAP Rate (if fixed)</b>
16 Sept 04	Pay	NBNZ	5.000	21 Oct 04	21 July 11	5.99%
14 April 05	Pay	ANZ	5.000	13 Apr 06	13 Oct 10	5.480%
30 Aug 05	Pay	WBC	6.000	30 Aug 06	28 Aug 18	6.070%
14 Dec 05	Pay	BNZ	3.000	16 Mar 09	14 Mar 12	6.11%
12 Jan 06	Pay	BNZ	5.000	12 Jan 07	12 Jan 15	6.210%
17 April 08	Pay	ANZ	5.000	2 May 08	2 May 12	6.31%
18 Aug 08	Pay	NBNZ	10.000	9 Apr 09	9 Apr 13	6.775%
5 Sept 08	Pay	BNZ	3.000	4 Sept 09	5 Sept 16	6.780%
25 Nov 08	Pay	BNZ	5.000	18 Nov 08	19 Nov 18	6.060%
25 Nov 08	Pay	BNZ	5.000	12 Jan 09	12 Oct 18	5.875%
4 Mar 09	Pay	BNZ	7.000	16 Mar 09	14 Mar 14	5.810%
17 Nov 09	Pay	WBC	6.000	24 Mar 10	24 Sept 12	3.19%
18 Nov 09	Pay	BNZ	5.000	29 Jan 10	29 Jan 14	2.65%
19 Nov 09	Pay	BNZ	5.000	29 Jan 10	29 Jan 13	3.94%
18 Jan 10	Pay	BNZ	5.000	20 Jan 10	20 Jan 17	5.65%
21 May 10	Pay	BNZ	5.000	24 May 10	25 May 20	5.735%
27 May 10	Pay	WBC	5.000	5 Jul 10	5 Jul 17	5.5%

- 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 30 June 2010 is as follows:

	<b>Coverage</b> (Proportion of total Debt Portfolio)	<b>Approved Range</b> (Proportion of total Debt Portfolio)
Fixed Rate %	92%	55-95%
<b>Fixed Rate Maturity Profile Period</b>	<b>Coverage</b>	<b>Approved Range</b>
1 to 3 years	40%	20%-60%
3 to 5 years	20%	20%-60%
5 to 10 years	40%	10%-60%

### Other Considerations

- 14 There are no further financial, legal, publicity, consultation or other considerations.

### Delegation

- 15 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.”*

### CONCLUSION

- 16 This report shows that Council is in a good financial position as at 30 September 2010 in terms of its investments and also shows the steps taken to reduce the interest costs on its debt through the prudent management of its interest rate swaps.

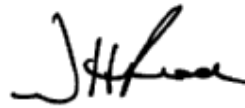
### RECOMMENDATIONS

- 17 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 30 September 2010 were \$10,345,000 (\$9,000,000 as at 30 June 2010). The increase relates to an increase in annual rates revenue received prior to the GST increase after 30 September 2010.

- 18 That the Corporate Business Committee notes that the Gross Public Debt as at 30 June 2010 was \$70,928,785 (\$70,988,780 as at 30 June 2010). Net Public Debt after allowing for loan repayment provisions of \$15,347,049 was \$55,581,736.
- 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 30 September 2010, was 5.78% (5.78% as at 30 June 2010).

**Report prepared by:**

**Approved for submission by:**



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Financial Accountant**

**Warwick Read,  
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