

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

16 AUGUST 2012

Meeting Status: **Public**

Purpose of Report: For Decision

INVESTMENT AND BORROWING REPORT TO 30 JUNE 2012

PURPOSE OF REPORT

- 1 This report summarises Council’s fiscal investment and debt situation as at 30 June 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	2,509,425	97.4%	3.10
Perpetual	Local Government Insurance Bonds	45,000	1.8%	Dividends paid rather than interest
Perpetual	Fonterra shares	21,000	0.8%	
Total Council Fund Investment		\$2,575,425	100%	

6 **Borrowing:**

Total Public Debt as at 01/7/2011	\$66,547,200
Less Debt Repayment	-\$1,124,380
Plus New Loans Raised	23,000,000
Total Public Debt as at 30/06/2012	\$88,422,820
Less Loan Repayment Provision	-\$11,781,841
Net Public Debt	\$76,640,979

Market Commentary:

- 7 The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5% on 26 July 2012. The Reserve Bank Governor sighted “New Zealand’s trading-partner outlook remains poor, with several euro-area economies in recession”. The Bank also maintained its view of ongoing domestic recovery and progression, supported by the outlook for construction.
- 8 General, Separate and Special Fund Investments as at 30 June 2012 were \$2,575,425 (\$66,000 as at 31 March 2012). The higher balance of investments as at 30 June 2012 represents the working capital needed to meet the capital expenditure cashflow requirements as at 30 June 2012.
- 9 Gross Public Debt as at 30 June 2012 was \$88,422,820 (\$76,341,415 as at 31 March 2012 and \$66,482,200 as at 30 June 2011). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$11,781,841 was \$76,640,979 (\$61,849,848 as at 30 June 2011). 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 30 June 2012, was 5.35% (5.52% as at 31 March 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 06	Pay	BNZ	5.00	12 Jan 07	12 Jul 2012	6.21%
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 June 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	20%	20-60%
3 to 5 years	27%	20-60%
5 to 10 years	53%	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 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 mid to late August 2012 as currently proposed.
- 15 The LGFA has borrowed five tranches of funds for the establishment shareholders over the period March to July 2012. All bond tenders were heavily oversubscribed around 3 to 4 times the amount required. The margins achieved are in line with expectations and have continued to improve as the bonds have a greater presence in the financial markets.

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 30 June 2012 were \$2,575,425 (\$66,000 as at 31 March 2012).

- 18 That the Corporate Business Committee notes that Gross Public Debt as at 30 June 2012 was \$88,422,820 (\$76,341,415 as at 31 March 2012 and \$66,482,200 as at 30 June 2011). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$11,781,841 was \$76,640,979 (\$61,849,848 as at 30 June 2011).
- 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 June 2012, was 5.35% (5.52% as at 31 March 2012).

Report prepared by:

Approved for submission by:

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