

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

12 MAY 2011

Meeting Status: Public

Purpose of Report: For Information

INVESTMENT AND BORROWING REPORT TO 31 MARCH 2011

PURPOSE OF REPORT

- 1 This report summarises Council's fiscal investment and debt situation as at 31 March 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 %	Credit Limit
Call	Westpac Banking Corporation	4,400,000	22.1	3.0	\$7 million
Call	ANZ	2,000,000	28.8	3.0	\$7 million
Perpetual	Local Government Insurance Bonds	45,000	<1	Dividends paid rather than interest	
4/4/2011	Westpac Banking Corporation	2,600,000	48.7	4.45	\$7 million
Total Council Fund Investment		\$9,045,000	100%		

6 **Sinking Fund Investments:**

Maturity	Held at	Amount \$	Portfolio	Interest Rate %	Credit Limit
Call	Westpac Banking Corporation	\$2,023,520	99.0	3.0	\$7 million
Perpetual	Fonterra	\$21,000	1.0		
Total Sinking Fund Investment		2,044,520	100%		

7 **Borrowing:**

Total Public Debt as at 01/7/2010	\$71,518,780
Less Debt Repayment	-\$5,709,985
Plus New Loans Raised	\$7,172,000
Total Public Debt as at 31/3/2011	<u>\$72,980,795</u>
Less Sinking Funds/Loan Repayment Provision	<u>-\$16,492,787</u>
Net Public Debt	\$56,488,008

Market Commentary:

- 8 The Reserve Bank (RBNZ) reduced the Official Cash Rate (OCR) by 0.5% to 2.5% on 10 March 2011. The Reserve Bank Governor noted that “even before the (Christchurch) earthquake, GDP growth was much weaker than expected through the second half of 2010.” Consumer retail spending and residential investment continue to decline.
- 9 General, Separate and Special Fund Investments as at 31 March 2011 were \$9,045,000 (\$10,395,000 as at 31 December 2010).
- 10 Gross Public Debt as at 31 March 2011 was \$72,980,795 (\$70,868,790 as at 31 December 2011). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$16,492,787 was \$56,488,008. The accumulated loan repayment provisions are used to contribute to repayment of loans as they fall due for repayment.
- 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 March 2011, was 5.74% (5.73% as at 31 December 2010).

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. Since 1 October 2002 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)
16 Sept 04	Pay	NBNZ	5.000	21 Oct 04	21 July 2011	5.99%
30 Aug 05	Pay	WBC	6.000	30 Aug 06	28 Aug 2018	6.07%
14 Dec 05	Pay	BNZ	3.000	16 Mar 09	16 Dec 2013	5.20%
12 Jan 06	Pay	BNZ	5.000	12 Jan 07	12 Jan 2015	6.21%
17 April 08	Pay	ANZ	5.000	2 May 08	2 May 2018	5.27%
18 Aug 08	Pay	NBNZ	5.000	9 Apr 09	9 Jan 2014	6.35%
5 Sept 08	Pay	BNZ	3.000	4 Sept 09	5 Sept 2016	6.78%
25 Nov 08	Pay	BNZ	5.000	18 Nov 08	19 Nov 2018	6.06%
25 Nov 08	Pay	BNZ	5.000	12 Jan 09	12 Oct 2018	5.875%
4 Mar 09	Pay	BNZ	7.000	16 Mar 09	14 Mar 2014	5.81%
17 Nov 09	Pay	WBC	6.000	24 Mar 10	24 Sept 2012	3.19%
18 Nov 09	Pay	BNZ	5.000	29 Jan 10	29 Jan 2014	2.65%
19 Nov 09	Pay	BNZ	5.000	29 Jan 10	29 Jan 2013	3.94%
18 Jan 10	Pay	BNZ	5.000	20 Jan 10	20 Jan 2017	5.65%
21 May 10	Pay	BNZ	5.000	24 May 10	25 May 2020	5.735%
27 May 10	Pay	WBC	5.000	5 Jul 10	5 Jul 2017	5.5%
23 Aug 10	Pay	ANZ	5.000	9 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%

- 13 The last three swaps entered into were specifically targeting the funding required for the Aquatic Centre to fix the debt servicing costs out 18 months to 2 years in advance of when the funds are projected to be required.

- 14 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 March 2011 is as follows:

	Coverage (Proportion of total Debt Portfolio)	Approved Range (Proportion of total Debt Portfolio)
Fixed Rate %	81%	55-95%
Fixed Rate Maturity Profile Period	Coverage	Approved Range
1 to 3 years	34%	20-60%
3 to 5 years	7%	20-60%
5 to 10 years	59%	10-60%

- 15 As at 31 March 2011 the fixed rate maturity profile for the 3-5 year debt at 7% was below the approved range of 20%-60%. This was only a temporary situation while moves were being made to sort out the long term strategy for fixing interest rate swaps for the 2011/12 debt programme. On 4 April 2011 interest rate swaps were secured in the 3-5 year period which brought the coverage back into line with the policy. These swaps were secured at interest rates in the range 4.51%-4.7% for periods between 4-5 years for \$15 million of future debt.

- 16 The profile of Council's debt portfolio following the above transactions as at 4 April 2011 was as follows:

	Coverage (Proportion of total Debt Portfolio)	Approved Range (Proportion of total Debt Portfolio)
Fixed Rate %	86%	55-95%
Fixed Rate Maturity Profile Period	Coverage	Approved Range
1 to 3 years	29%	20-60%
3 to 5 years	20%	20-60%
5 to 10 years	51%	10-60%

Delegation

- 17 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

- 18 This report shows that Council is in a good financial position as at 31 March 2011 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

- 19 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 31 March 2011 were \$9,045,000 (\$10,395,000 as at 31 December 2010).
- 20 That the Corporate Business Committee notes that the Gross Public Debt as at 31 March 2011 was \$72,980,795 (\$70,868,790 as at 31 December 2010). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$16,492,787 was \$56,488,008.
- 21 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 March 2011, was 5.74% (5.73% as at 31 December 2010).

Report prepared by:

Approved for submission by:

**Murray Baxter,
Financial Accountant**

**Warwick Read,
Group Manager, Finance**