

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

13 NOVEMBER 2014

Meeting Status: **Public**

Purpose of Report: For Information

INVESTMENT AND BORROWING REPORT TO 30 SEPTEMBER 2014

PURPOSE OF REPORT

- 1 This report summarises Council's fiscal investment and debt situation as at 30 September 2014.

SIGNIFICANCE OF DECISION

- 2 A matter is deemed to be significant where an issue, proposal, decision, asset or other matter involves:
 - incurring operational expenditure exceeding 5% (or \$3.5 million) of its annual budget for that year or;
 - incurring capital expenditure exceeding 1% (or \$15 million) of the total value of the Council's assets or where spent on a strategic asset that exceeds 25% of that assets value.
- 3 This report does not trigger Council's Significance Policy.

BACKGROUND

- 4 The Treasury Management Policy requires an update on the Council's investments and borrowing to be reported quarterly to the Corporate Business Committee.
- 5 The major trading banks and other financial institutions provide the Council with forecasts and predictions on future interest rates movement.

CONSIDERATIONS

INVESTMENTS

- 6 General, Separate and Special Fund Investments as at 30 September 2014 were \$2.8 million. This compares to \$8.8 million as at 30 June 2014. Council's investments are summarised in the following table.

General, Separate and Special Fund Investments				
Maturity	Held at	Amount \$	Portfolio %	Interest Rate %
Deposit	BNZ	450,000	16%	3.50%
Deposit	Westpac	252,008	9%	3.40%
Total Cash Deposits as at 30 September 2014		702,008	25%	
Borrower Notes	Local Government Funding Agency (LGFA)	1,840,000	70%	3.90%-4.35%
	Interest Accrued	137,880		
Perpetual	Fonterra	21,000	1%	5.44%
Shares	LGFA	100,000	4%	
Shares	NZGLIC	15,000	1%	
Total General, Separate and Special Fund Investments as at 30 September 2014		2,815,888	100%	

BORROWINGS

- 7 Public Debt as at 30 September 2014 was \$130.1 million, unchanged from 30 June 2014.
- 8 A summary of Council's Public Debt movements over the three month period to 30 September 2014 is tabulated below.

Total Public Debt as at 01/07/2014	\$130,146,595
Less: Debt Repayment (EECA Loan)	(\$23,186)
Public Debt as at 30 September 2014	\$130,123,409

- 9 A further breakdown of Council's public debt and maturities is tabulated below:

Detail	Loans	Year of Maturity (Range)
EECA Loan	\$0.1 million	2015
Debentures	\$15 million	2015 to 2016
LGFA Borrowings	\$115 million	2017 to 2021
Total	\$130.1 million	

- 10 The Council has entered into 28 interest rate swaps for a total fixed cover of \$126.3 million, at a weighted average of 4.93%.
- 11 The weighted average cost of Council's Public Debt as at 30 September 2014 was 5.61%. (5.67% as at 30 June 2014).

- 12 The Council debt is fully compliant with its policy limits as the following table shows.

Interest Rate Position			
12 month forecast core debt:	\$152m	01-Jul-14	
Policy Limits	55%-95%		
Overall Fixed:Floating Mix	83%		
Policy Compliance	Y		
Liquidity Ratio:	110%		
Actual	140%		
Policy Compliance	Y		
Fixed Rate Maturity Profile:			
Years	1 - 3 years	3 - 5 years	5 years plus
Policy Limits	15%-60%	15%-60%	15%-60%
Actual Hedging	17%	35%	48%
Policy Compliance	Y	Y	Y
Funding Maturity Profile:			
Years	0 - 3 years	3 - 5 years	5 years plus
Policy Limits	15%-60%	15%-60%	10%-40%
Actual Position	34%	46%	20%
Policy Compliance	Y	Y	Y

- 13 During the quarter, the Council has entered into one new forward start swap transaction with a start date in 2015. This swap has no cost to Council at this stage, but will lengthen the profile at sub-5% cover.

MARKET COMMENTARY

- 14 The Reserve Bank (RBNZ) raised the Official Cash Rate (OCR) to 3.50% in July 2014 due to, amongst other factors, continued domestic inflationary pressures.
- 15 The RBNZ continues to signal that further OCR increases are now unlikely, through to mid 2015.

CURRENT STRATEGY AND FUTURE CONSIDERATIONS

- 16 The Council is moving towards maximums for the 5+ years sublimits for hedging, to lock in cover below 5%.
- 17 As the following table shows, rates across the curve have reduced providing some options for further reducing our borrowing costs.

Rate Table	90 Day	2 Yr	5 Yr	10 Yr
28 Oct	3.69%	3.92%	4.22%	4.45%
29 Sep	3.73%	4.08%	4.36%	4.58%
31 Aug	3.71%	4.08%	4.36%	4.57%
28 Jul	3.69%	4.11%	4.50%	4.76%
30 Jun	3.64%	4.20%	4.60%	4.90%

RECOMMENDATIONS

- 17 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 30 September 2014 were \$2,815,888 (\$8,754,554 as at 30 June 2014).
- 18 That the Corporate Business Committee notes that Gross Public Debt as at 30 September 2014 was \$130,123,409 (\$130,146,595 as at 30 June 2014).
- 19 That the Corporate Business Committee notes 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 2014, was 5.61% (5.67% as at 30 June 2014).

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Appendix 1 – Schedule of Swaps

APPENDIX 1: SCHEDULE OF SWAPS

Interest Rate Risk Management Strategy						
Deal Date	Pay or Receive a SWAP	Bank	Amount \$Million	Start Date	Maturity Date	Fixed Rate %
10-May-12	Pay	BNZ	3.00	16-Jun-12	16-Jun-15	4.2200
4-Apr-11	Pay	BNZ	5.00	20-Oct-11	20-Jul-15	4.5050
4-Apr-11	Pay	BNZ	5.00	20-Oct-11	20-Jan-16	4.6550
18-Jun-13	Pay	BNZ	4.00	16-Sep-13	14-Mar-16	4.5200
4-Apr-11	Pay	BNZ	5.00	20-Oct-11	20-Apr-16	4.7150
12-Jun-12	Pay	BNZ	3.00	12-Jul-12	12-Jan-17	5.0600
26-Feb-13	Pay	BNZ	3.00	14-Mar-13	14-Mar-17	4.4600
17-Apr-08	Pay	ANZ	5.00	2-Nov-10	2-May-17	4.5800
17-Apr-08	Pay	WPAC	5.00	5-Jul-10	5-Jul-17	5.5000
12-Apr-12	Pay	ANZ	5.00	17-Jun-13	15-Dec-17	4.0300
26-Feb-13	Pay	BNZ	2.00	12-Apr-13	12-Jan-18	4.8600
27-Mar-12	Pay	BNZ	5.00	15-Mar-13	15-Mar-18	4.2800
30-Aug-05	Pay	WPAC	6.00	28-Nov-08	28-Aug-18	6.0700
25-Nov-08	Pay	BNZ	5.00	12-Jan-09	12-Oct-18	5.8750
17-Nov-08	Pay	BNZ	5.00	18-Nov-08	19-Nov-18	6.0600
9-Jul-13	Pay	ANZ	5.00	9-Oct-13	9-Jan-19	5.3100
18-Jun-13	Pay	BNZ	5.00	22-Jul-13	22-Jan-19	5.3200
27-Mar-12	Pay	BNZ	5.00	15-Mar-13	17-Jun-19	4.5000
26-Feb-13	Pay	BNZ	3.00	4-Mar-13	4-Sep-19	5.8200
12-Apr-12	Pay	ANZ	5.00	15-Mar-13	15-Dec-19	4.2850
23-Aug-10	Pay	ANZ	5.00	11-Oct-10	9-Apr-20	5.7500
21-May-10	Pay	BNZ	5.00	24-May-10	25-May-20	5.7350
8-Oct-10	Pay	BNZ	1.00	8-Apr-11	8-Oct-20	4.9900
8-Oct-10	Pay	BNZ	3.40	8-Apr-12	8-Oct-20	5.1650
8-Oct-10	Pay	BNZ	7.74	8-Oct-12	8-Oct-20	5.1500
7-Jun-13	Pay	ANZ	5.00	11-Jun-13	11-Jun-22	3.9800
20-Jun-13	Pay	ANZ	5.00	24-Jun-13	24-Jun-22	4.2900
18-Jun-13	Pay	BNZ	5.00	20-Jun-13	20-Dec-22	4.1650
		Total	126.14			
Forward Starts						
21-May-14	Pay	BNZ	5.00	15-Sep-17	15-Sep-20	4.8900
21-May-14	Pay	BNZ	5.00	15-Jan-16	15-Jan-21	4.7775
24-Jun-14	Pay	WPAC	3.00	12-Jan-17	12-Jul-22	5.0450
21-May-14	Pay	BNZ	5.00	15-Jul-15	15-Jul-22	4.8050
21-May-14	Pay	BNZ	3.00	16-Jun-15	16-Jun-23	4.8375
24-Jun-14	Pay	WPAC	4.00	14-Mar-16	14-Sep-23	5.0350
24-Jun-14	Pay	WPAC	5.00	20-Apr-16	20-Oct-23	5.0450
2-Sep-14	Pay	WPAC	7.00	15-Sep-15	15-Sep-25	4.6300