

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

14 AUGUST 2014

Meeting Status: **Public**

Purpose of Report: For Information

INVESTMENT AND BORROWING REPORT TO 30 JUNE 2014

PURPOSE OF REPORT

- 1 This report summarises Council's fiscal investment and debt situation as at 30 June 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% (\$3.33 million in the 2013/14 year) of its annual budget for that year or;
 - incurring expenditure exceeding 1% (\$9.51 million in the 2013/14 year) of the total value of the Council's assets or where spent on a strategic asset exceeds 25% of that assets value. A strategic asset is any asset or group of assets that Council needs to retain if Council is to maintain its capacity to achieve or promote any outcome they determine important to the current or future well-being of the community.
- 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. This report will also be provided monthly to the Senior Leadership Team.
- 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 June 2014 were \$8.8 million. This compares to \$8.1 million as at 31 March 2014, and a budgeted \$2.2 million in the Annual Plan. Council's investments are summarised in the following table.

General, Separate and Special Fund Investments				
Maturity	Held at	Amount \$	Portfolio %	Interest Rate %
Deposit	BNZ	4,650,414	53%	3.25%
Deposit	Westpac	2,016,140	23%	3.00%
Total Cash Deposits as at 30 June 2014		6,666,554	76%	
Borrower Notes	Local Government Funding Agency (LGFA)	1,840,000	22%	2.95%-3.79%
	Interest Accrued	82,000		
Perpetual	Fonterra	21,000	0%	4.21%
Shares	LGFA	100,000	1%	
Shares	NZGLIC	45,000	1%	
Total General, Separate and Special Fund Investments as at 30 June 2014		8,754,554	100%	

- 7 Council's investment limit of exposure with a single entity is \$7 million. This limit is currently under review.

BORROWINGS

- 8 Public Debt as at 30 June 2014 was \$130.1 million. This compares to \$135.0 million in March, and the budget per the Annual Plan of \$149.2 million. The reduction is due to two main factors: the reduced capital programme during the year, and the payment from NZTA for the expressway land.
- 9 A summary of Council's Public Debt movements over the twelve month period to 30 June 2014 is tabulated below.

Total Public Debt as at 01/07/2013	\$125,223,096
Plus: New Loans Raised (Commercial Paper)	\$10,000,000
Plus: New Loans Raised (LGFA)	\$15,000,000
Less: Debt Repayment (Westpac Facility)	(\$4,785,000)
Less: Debt Repayment (Commercial Paper)	(\$10,000,000)
Less: Debt Repayment (EECA Loan)	(\$291,501)
Less: Debt Repayment (Debenture)	(\$5,000,000)
Public Debt as at 30 June 2014	\$130,146,595

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

Detail	Loans	Year of Maturity (Range)
EECA Loan	\$0.2 million	2015
Debentures	\$15.0 million	2015 to 2016
LGFA Borrowings	\$115.0 million	2017 to 2021
Total	\$130.1 million	

- 11 Of the total borrowing from the LGFA, \$70 million was for the replacement of existing short term borrowing facilities from banks. Council does not have a borrowing limit from the LGFA. What is notable is that the margins above floating rate have declined, to the benefit of participating councils. The Council has an average margin of 0.83%, which is for a range of maturities: between 3 and 9 years.
- 12 During the fourth quarter the Council expected to draw \$20 million of new borrowings to replace maturing debt in May and June 2014. Council participated in the May 2014 LGFA bond tender, securing \$15 million of debt on 2023 tenor (maturity).
- 13 Further funding was not required due to \$7.2 million being received before 30 June 2014 from NZTA for final settlement of the Western Link Road properties. Council reduced debt by \$5.0 million from these sale proceeds.
- 14 The Council has entered into 28 interest rate swaps for a total fixed cover of \$126.3 million, at an average rate of 4.84%.
- 15 The weighted average cost of Council's Public Debt as at 30 June 2014 was 5.67%. (5.67% as at 31 March 2014).
- 16 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

- 17 During the quarter, the Council has entered into new forward start swap transactions with start dates in 2015, 2016 and 2017. These swaps have no cost to Council at this stage, but will lengthen the profile at sub-5% cover.

MARKET COMMENTARY

- 18 The Reserve Bank (RBNZ) raised the Official Cash Rate (OCR) to 2.75% in March 2014. This was followed by further 25 basis point increases in April, June and then again in July to finish at 3.50% due to, amongst other factors, continued domestic inflationary pressures.
- 19 Economic data for the quarter has been mixed, with 1.0% growth in the economy, but a historically high NZ dollar, and falling dairy prices.
- 20 The RBNZ has signalled that further OCR increases are now unlikely through to December.

CURRENT STRATEGY AND FUTURE CONSIDERATIONS

- 21 The Council is moving towards maximums for the 5+ years sublimits for hedging, to lock in cover below 5%. The yield curve has continued to rise, but opportunities at below 5% have been seen during the quarter. Generally the short-term sublimit (1-3 years) is being moved towards policy minimums.

RECOMMENDATIONS

- 22 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 30 June 2014 were \$8,754,554 (\$8,110,976 as at 31 March 2014).
- 23 That the Corporate Business Committee notes that Gross Public Debt as at 30 June 2014 was \$130,146,595 (\$135,004,136 as at 31 March 2014).
- 24 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 June 2014, was 5.67% (5.67% as at 31 March 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	7.88	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	126.28			
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