

Mayor and Councillors
CORPORATE BUSINESS COMMITTEE

20 FEBRUARY 2014

Meeting Status: **Public**

Purpose of Report: For Information

INVESTMENT AND BORROWING REPORT TO 31 DECEMBER 2013

PURPOSE OF REPORT

- 1 This report summarises Council's fiscal investment and debt situation as at 31 December 2013.

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 %
Deposits	Westpac On Call	2,224,873	26%	2.60%
Deposits	BNZ On Call	4,708,575	54%	2.50%
Borrower Notes	Local Government Funding Agency (LGFA) 15/12/2017	640,000	7%	3.26%
Borrower Notes	LGFA 15/03/2019	320,000	4%	3.40%
Borrower Notes	LGFA 15/12/2017	160,000	2%	3.13%
Borrower Notes	LGFA 15/12/2017	160,000	2%	2.95%
Borrower Notes	LGFA 15/05/2021	320,000	4%	3.125%
Perpetual	Fonterra	21,000		4.21%
Shares	LGFA	100,000	1%	
Shares	NZGLIC	45,000		
Total General, Separate and Special Fund Investments as at 31 December 2013		\$8,699,448	100%	

- 6 General, Separate and Special Fund Investments as at 31 December 2013 were \$8,699,448 compared to \$7,385,831 as at 30 September 2013. The higher balance of investments as at 31 December 2013 reflects the cashflow requirements leading into the third quarter.
- 7 Borrowing:
- | | |
|-----------------------------------------------|---------------|
| Total Public Debt as at 01/7/2013 | \$125,223,096 |
| Less Debt Repayment | -\$145,973 |
| Plus New Loans Raised | \$10,000,000 |
| Gross Public Debt as at 31/12/2013 | \$135,077,123 |
| Less Loan Repayment Provision (External Debt) | -\$7,686,164 |
| Net External Public Debt | \$127,390,959 |
- 8 Gross Public Debt as at 31 December 2013 was \$135,077,123 (\$130,150,110 as at 30 September 2013). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$7,686,164 was \$127,390,959 (\$124,381,604 as at 30 September 2013). The reason for the increase in Net Public Debt is to fund the capital works programme that was completed by 30 September 2013.
- 9 The effective average interest rate of the Council's Public Debt, after taking into account the interest rate swaps and margins as at 31 December 2013 was 5.62% (5.62% as at 30 September 2013).
- 10 Market Commentary: The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5%. The Central Bank Governor now believes increases to the OCR will be largely dependent on movements in the exchange rate, changes in commodity prices, and the degree to which momentum in the housing market and construction activity spills over into broader cost and price pressures. The Bank will increase the OCR as needed in order to keep future average inflation near the 2 percent target midpoint.

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 Acting Group Manager Finance as at 31 December 2013. 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)
18 Nov 09	Pay	BNZ	5.00	29 Jan 10	29 Jan 2014	2.65%
10 May 12	Pay	BNZ	3.00	16 Jun 12	16 Jun 2015	4.22%
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%
18 Jun 13	Pay	BNZ	4.00	16 Sep 13	14 Mar 2016	4.52%
4 Apr 11	Pay	BNZ	5.00	20 Oct 11	20 Apr 2016	4.715%

INTEREST RATE RISK MANAGEMENT STRATEGY						
Deal Date	Pay or Receive a SWAP	Bank	Amount \$Million	Start Date	Maturity Date	SWAP Rate (if fixed)
12 Jun 12	Pay	BNZ	3.00	12 Jul 12	12 Jan 2017	5.06%
26 Feb 13	Pay	BNZ	3.00	14 Mar 13	14 Mar 2017	4.46%
17 Apr 08	Pay	ANZ	5.00	2 Nov 10	2 May 2017	4.58%
27 May 10	Pay	WBC	5.00	5 Jul 10	5 Jul 2017	5.50%
12 Apr 12	Pay	ANZ	5.00	17 Jun 13	15 Dec 2017	4.03%
26 Feb 13	Pay	BNZ	2.00	12 Apr 13	12 Jan 2018	4.86%
27 Mar 12	Pay	BNZ	5.00	15 Mar 13	15 Mar 2018	4.28%
30 Aug 05	Pay	WBC	6.00	28 Nov 08	28 Aug 2018	6.07%
25 Nov 08	Pay	BNZ	5.00	12 Jan 09	12 Oct 2018	5.875%
17 Nov 08	Pay	BNZ	5.00	18 Nov 08	19 Nov 2018	6.06%
9 Jul 13	Pay	ANZ	5.00	9 Oct 13	9 Jan 2019	5.31%
18 Jun 13	Pay	BNZ	5.00	22 Jul 13	22 Jan 2019	5.32%
27 Mar 12	Pay	BNZ	5.00	15 Mar 13	17 Jun 2019	4.50%
26 Feb 13	Pay	BNZ	3.00	4 Mar 13	4 Sep 2019	5.82%
12 Apr 12	Pay	ANZ	5.00	15 Mar 13	15 Dec 2019	4.285%
23 Aug 10	Pay	ANZ	5.00	11 Oct 10	9 Apr 2020	5.75%
21 May 10	Pay	BNZ	5.00	24 May 10	25 May 2020	5.735%
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	8.01	8 Oct 12	8 Oct 2020	5.15%
7 Jun 13	Pay	ANZ	5.00	11 Jun 13	11 Jun 2022	3.98%
20 Jun 13	Pay	ANZ	5.00	24 Jun 13	24 Jun 2022	4.29%
18 Jun 13	Pay	BNZ	5.00	20 Jun 13	20 Dec 2022	4.165%

- 12 The result of these interest rate swaps is that the effective interest rate repricing profile of the Council's debt portfolio as at 31 December 2013 is as follows:

Interest Rate Swap Coverage Profile		Interest Rate coverage of Total Debt	Approved Interest Rate Coverage Range of Total Debt
Fixed Rate %		85%	55-95%
Fixed Rate Maturity Profile Period		Coverage	Approved Range
1 to 3 years	\$28.65m	22%	15-60%
3 to 5 years	\$45.10m	34%	15-60%
5 to 10 years	\$57.66m	44%	10-60%

- 13 While the long term interest rates have been at historical lows, Council has continued to take opportunities in the market to lower the overall interest rates for existing debt by extending interest rate swaps at lower fixed interest rates.
- 14 The Council has secured the following funding from the LGFA:

Date	Loan	Interest Margin above Floating Rate	Maturity Date
3 Oct 12	\$20 million	1.13%	15 March 2019
3 Oct 12	\$40 million	0.99%	15 December 2017
8 Dec 12	\$10 million	0.91%	15 December 2017
20 May 13	\$10 million	0.68%	15 December 2017
24 June 13	\$20 million	0.785%	15 May 2021

- 15 Of the total borrowing from the LGFA, \$70 million was for the replacement of existing short term borrowing facilities from banks.
- 16 The LGFA has been in the market since February 2012 in which time margins have decreased by around 0.35%. This is partly due to a decline in the interest rate market but also because the LGFA is dealing with an increasing proportion of the total Local Government borrowings. Effectively this creates competition with the Banks meaning lower interest rates in the market.

Delegation

- 17 The Corporate Business Committee has delegated authority to consider this Report under Section B.3.7 of the Governance Structure.
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

- 18 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 31 December 2013 were \$8,699,448 (\$7,385,831 as at 30 September 2013).
- 19 That the Corporate Business Committee notes:
- Gross Public Debt as at 31 December 2013 was \$135,077,123 (130,150,110 as at 30 September 2013); and
 - Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$7,686,164 was \$127,390,959 (\$124,381,604 as at 30 September 2013).

- 20 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 31 December 2013, was 5.62% (5.62% as at 30 September 2013).

Approved for submission by:

Wayne Maxwell
Group Manager Corporate Services