

**Chairperson and Committee Members**  
CORPORATE BUSINESS COMMITTEE

16 MAY 2013

Meeting Status: **Public**

Purpose of Report: For Information

**INVESTMENT & BORROWING TO 31 MARCH 2013**

**PURPOSE OF REPORT**

- 1 This report summarises Council’s fiscal investment and debt situation as at 31 March 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

<b>BANK DEPOSITS</b>				
<b>Maturity</b>	<b>Held at</b>	<b>Amount \$</b>	<b>Portfolio %</b>	<b>Interest Rate %</b>
Deposits	Westpac On Call	1,732,630	57%	3.10%
Borrower Notes	Local Government Funding Agency (LGFA) 15/12/2017	640,000	21%	3.28%
Borrower Notes	LGFA 15/3/2019	320,000	11%	3.42%
Borrower Notes	LGFA 15/12/2017	160,000	5%	3.15%
Perpetual	Fonterra	21,000	1%	4.21%
Shares	LGFA	100,000	3%	
Shares	NZGLIC	45,000	1%	
<b>Total General, Separate and Special Fund Investments as at March 2013</b>		<b>\$3,018,630</b>	<b>100%</b>	

## 6 Borrowing:

Total Public Debt as at 01/7/2012	\$88,422,820
Less Debt Repayment	-\$10,214,568
Plus New Loans Raised	\$37,087,830
Gross Public Debt as at 31/03/2013	\$115,296,082
Less Loan Repayment Provision (External Debt)	-\$2,851,655
Net External Public Debt	<b>\$112,444,427</b>

## 7 The total projected net external public debt as at 30 June for 2013 and 2014 compared to the projected net external public debt as per the 2012 Long Term Plan is as follows:

	Projected Net External Public Debt \$m	Net External Public Debt as per 2012 LTP \$m
2012/13	131	135
2013/14	149	149

## Market Commentary:

- 8 The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5% on 24 April 2013 and is likely to remain at that level for the remainder of 2013. The Central Bank Governor is committed to seeing annual CPI inflation not only within the Bank's target range of 2% annual CPI but at the mid-point of that band.
- 9 The drought that occurred throughout most of the country has had a material impact on GDP and future growth of the economy. The strong NZ exchange rate is having an impact on keeping CPI at lower levels.
- 10 General, Separate and Special Fund Investments as at 31 March 2013 were \$3,018,630 (\$6,100,588 as at 31 December 2012). The lower balance of investments as at 31 March 2013 represents the working capital needed to meet the capital expenditure cashflow requirements as at 31 March 2013 as no new borrowings were undertaken during the quarter.
- 11 Gross Public Debt as at 31 March 2013 was \$115,296,082 (\$115,369,069 as at 31 December 2012). Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$2,851,655 was \$112,444,427 (\$107,212,637 as at 31 December 2012). The reason for the increase in Net Public Debt is that \$7 million of the \$9.851 million of loan repayment provisions are being used to repay internal debt, with \$2.852 million available to repay external debt. The net external debt, as at 30 June 2013, is projected to be \$131 million which is lower than the \$135 million budgeted as per the 2012 Long Term Plan
- 12 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 2013, was 5.72% (5.43% as at 31 December 2012). The reason for the increase in the average interest rates is the increase in interest rate margins relating to longer term debt (5 to 7 years) that Council has undertaken to spread its debt maturity profile.

**Interest Rate Risk Management Strategy**

- 13 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:

<b>INTEREST RATE RISK MANAGEMENT STRATEGY</b>						
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%
26 Feb 13	Pay	BNZ	4.00	14 Mar 13	16 Mar 2015	4.91%
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%
4 Apr 11	Pay	BNZ	5.00	20 Oct 11	20 Apr 2016	4.715%
23 June 11	Pay	ANZ	5.00	11 July 11	9 Jan 2017	5.80%
12 Jun 12	Pay	BNZ	3.00	12 Jul 12	12 Jan 2017	5.06%
18 Jan 10	Pay	BNZ	5.00	20 Jan 10	20 Jan 2017	5.65%
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	5.21%
27 May 10	Pay	WBC	5.00	5 Jul 10	5 Jul 2017	5.5%
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%
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	8.425	8 Oct 12	8 Oct 2020	5.15%

- 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 2013 is as follows:

<b>Interest Rate Swap Coverage Profile</b>	<b>Interest Rate coverage of Total Debt</b>	<b>Approved Interest Rate Coverage Range of Total Debt</b>
Fixed Rate %	73%	55-95%
<b>Fixed Rate Maturity Profile Period</b>	<b>Coverage</b>	<b>Approved Range</b>
1 to 3 years	25%	15-60%
3 to 5 years	33%	15-60%
5 to 10 years	41%	10-60%

- 15 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.
- 16 The Council agreed to join the Local Government Funding Agency (LGFA) as a shareholder as part of the 2012 Long Term Plan. The Council became a shareholder on 30 November 2012 at the same time as the other Councils joined the LGFA in the second tranche. Prior to joining, the Council was able to borrow from the LGFA after it had signed all the necessary documentation.
- 17 On 3 October 2012 the Council was a participant in the LGFA Bond tender and secured \$60 million of long term funding to replace the short term funding from banks and also to fund \$10 million of new funding requirements for the current year's capital programme.

The loans were secured on the following basis:

<b>Loan</b>	<b>Interest Margin above Floating Rate</b>	<b>Maturity Date</b>
\$20 million	1.13%	15 March 2019
\$40 million	0.99%	15 December 2017

- 18 The margins achieved were around 0.20% better than the Council could achieve borrowing in the market as a separate entity and the presence of the LGFA is having a positive influence in the market by lowering margins by around 0.10%.
- 19 On the 8 December 2012, the Council secured a further \$10 million as a participant in the LGFA tender to assist with the funding of the 2012/13 capital works programme.

- 20 The loan was secured on the following basis:

<b>Loan</b>	<b>Interest Margin above Floating Rate</b>	<b>Maturity Date</b>
\$10 million	0.91%	15 December 2017

- 21 Overall, the Council is saving \$210,000 per annum by borrowing \$70 million through the LGFA and supporting the LGFA positive influence on the market.

- 22 Since the LGFA has been in the market since February 2012 the margins have decreased by around 0.35% which is partly due to a decline in the interest rate market but also due to the fact that the LGFA is dealing with an increasing proportion of the total Local Government borrowings in competition with the Banks and its presence is having a positive influence on the market.

## Delegation

- 23 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

- 24 That the Corporate Business Committee notes that the General, Separate and Special Fund Investments as at 31 March 2013 were \$3,018,630 (\$6,100,588 as at 31 December 2012).
- 25 That the Corporate Business Committee notes:
- Gross Public Debt as at 31 March 2013 was \$115,296,082 (\$115,369,069 as at 31 December 2012);
  - Net Public Debt after allowing for the accumulation of annual loan repayment provisions of \$2,851,655 was \$112,444,427 (\$107,212,637 as at 31 December 2012); and
  - the reason for the increase in Net Public Debt is that \$7 million of the \$9.851 million of loan repayment provisions are being used to repay internal debt, with \$2.852 million available to repay external debt. The net external debt, as at 30 June 2013, is projected to be \$131 million which is lower than the \$135 million budgeted as per the 2012 Long Term Plan.
- 26 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 March 2013, was 5.72% (5.43% as at 31 December 2012).
  - the reason for the increase in the average interest rates is the increase in interest rate margins relating to longer term debt (5 to 7 years) that Council has undertaken to spread its debt maturity profile.

**Approved for submission by:**

**Warwick Read**  
**Group Manager Finance**