

8. CORPORATE FINANCE REPORT FOR QUARTER ENDED MARCH 2009

General Manager responsible:	General Manager Corporate Services, DDI 941-8528
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish

PURPOSE OF REPORT

1. The purpose of this report is to provide the Audit and Risk Management Subcommittee with an update on key financial and treasury matters for the quarter ending March 2009.

TREASURY

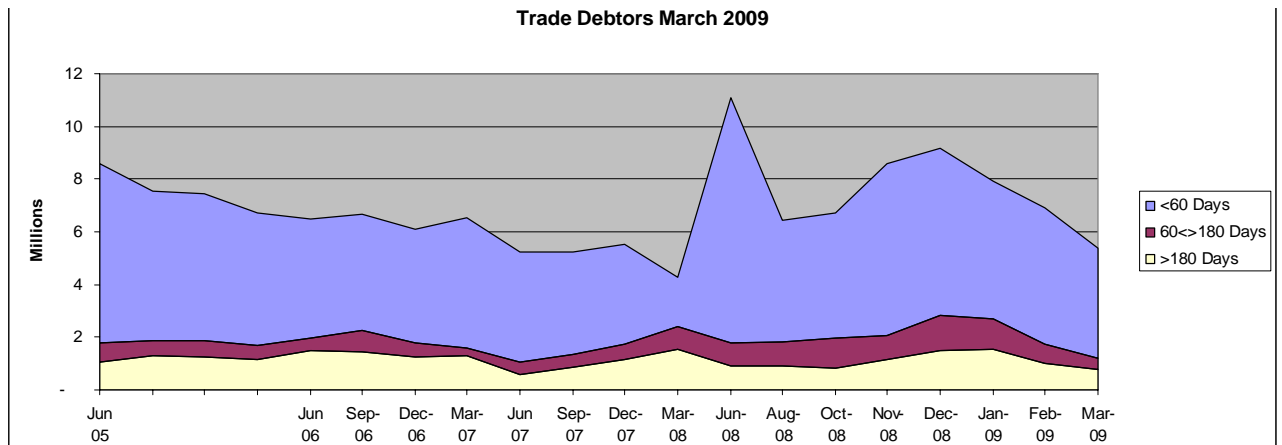
2. The table **attached** as Appendix 1 shows that the Council remained well within its financial ratio policy limits. Council funding requirements remain below the levels predicted in the 2008/09 Annual Plan due to delays in delivering the capital programme. The liquidity ratio stands at 12 per cent against a plan ratio of 3 per cent. This is the result of a decision to fund our borrowing through 90 day debt while interest rates continue to fall.
3. In March we raised \$60 million of five-year Floating Rate Notes at 175bp over the 90 day BKBM. The funds were on-lent to Civic Building Limited and to Vbase.
4. Recent issuances of a similar tenor are:

<u>Issuer</u>	<u>Fix/FI</u>	<u>Amount</u>	<u>Rating</u>	<u>Margin</u>
Wholesale				
Watercare services	FI	\$40m	AA	200
Watercare services	Fix	\$130m	AA	200
Retail				
BNZ	Fix	\$50m	AA	175
Auckland City Council	Fix	\$150m	AA	200
Fonterra	Fix	\$800m	A+	340

5. Standard and Poor's (S&P) have advised that they have revised our foreign currency rating from AA+ stable to AA+ negative watch. This is to reflect a revision of the Crown rating on 13 January 2009, an organisation cannot rank higher than the sovereign. The delay in the revision for Christchurch City Council and CCHL resulted from an accidental oversight by S&P when the government revision took place. This revision is of no consequence to the Council or CCHL as we do not deal in foreign currency. S&P in their release emphasise that our local currency rating remains unchanged.
6. We are in discussion with CCHL regarding their payment of an extraordinary dividend to cover the shortfall in our opening balance. This is the result of the delay in resolving the issues around the charitable trust.

DEBTORS

7. There has been a significant improvement in debt management over the last three months with a \$3.4 million reduction in the overall balance. The main drivers for this are a \$2.4 million reduction in SAP debt and a reclassification of \$2.1 million of invoicing within consents recognising those which are not yet due for payment. This reduction is offset by a \$900,000 increase in building consents resulting from clearing the backlog of applications.



YEAR END AUDIT

8. Audit New Zealand’s Letter of Undertaking and Audit Arrangements Letter have been received. These letters set out Audit’s approach to the year end audit; copies of the letters are attached to the public excluded agenda as Appendix 2. The areas of focus and proposed fees are in line with those of previous years and contain nothing of concern. Staff are working with the auditors to identify ways in which the fees might be reduced without compromising the quality of the audit.

INSURANCE REVIEW

9. As part of the year-end insurance renewal all policies have been reviewed to ensure that cover is still required and that it is adequate. Under our current Fidelity policy our cover is limited to \$1 million. After discussions with the internal auditors we are recommending that cover be increased to \$5 million. The premium for \$1 million is \$15,600 and the incremental cost is expected to be around \$20-25,000 if we retain the excess at \$25,000. (Fidelity Insurance covers theft by an employee.) Other than adjusting the sums insured there are no further changes recommended to the existing cover.
10. The Council's insurance programme consists of:

<u>Policy</u>	<u>Insurer</u>
Material Damage	NZI, QBE
Business Interruption	NZI, QBE
Motor Vehicle	NZI
Fine Arts	Lloyds Syndicate
Combined Professional Indemnity and Public Liability	Riskpool
Fidelity	AIG New Zealand
Personal Accident	ACE Insurance
Corporate Travel	ACE Insurance
Forest and Rural Fires	NZI, QBE
Directors and Officers	QBE
Standing Timber	NZI
Disaster Protection	LAPP

11. Uninsured risks were also reviewed and a schedule of these is attached to the public excluded agenda as Appendix 3. We have requested details of providing machinery breakdown cover for the Biosolids drying plant and the Landfill Gas Treatment Plant. No further change is recommended.

FINANCIAL AND LEGAL CONSIDERATIONS

12. There are no financial or legal implications.

STAFF RECOMMENDATIONS

It is recommended that:

- (i) The report be received.
- (ii) The Audit New Zealand Letters of Undertaking and Audit Arrangement Letter be accepted.