

CORPORATE AND FINANCIAL COMMITTEE 3. 8. 2012

4. CORPORATE FINANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

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 Council with an update on key financial and treasury matters for the period ending 30 June 2012.

TREASURY

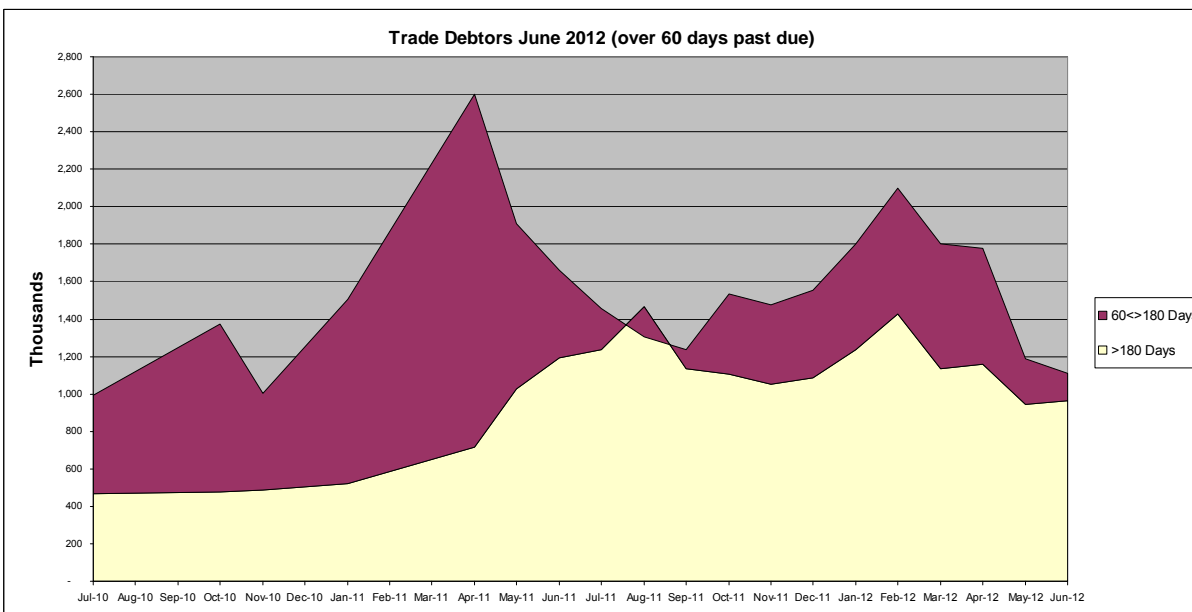
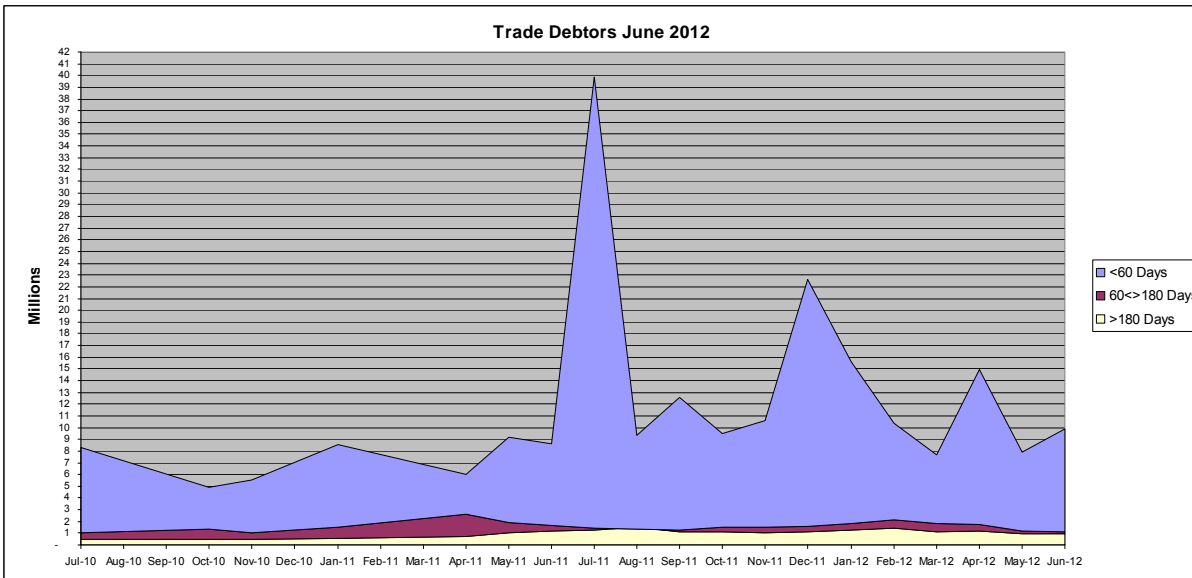
2. Since the meeting of 23 May 2012 we have received \$147 million of insurance monies (Local Authority Protection Programme (LAPP) (Infrastructure)). These funds have been applied to repay the \$50 million which had been drawn against the \$100 million (Commonwealth Bank of Australia (CBA) facility, with the balance being invested in liquid investments. The combination of liquid investments and the \$100 million CBA committed facility provides us with the flexibility that we require until such time as Crown funding arrangements are agreed.
3. No further reimbursement has been received from the New Zealand Transport Authority (NZTA) or the Christchurch Earthquake Recovery Authority (CERA). We are aware that a paper is being prepared to support the payment of some of the costs incurred by the Infrastructure Rebuild Management Office. Total costs incurred were \$56 million, some of which will be the Council's cost.
4. The table attached as **Appendix 1** sets out the key treasury performance measures. We remain outside of the upper and lower guidelines of the Liquidity and Funding Risk Management policy. As previously reported this is because of the short duration negotiated for the last \$250 million of borrowings in the expectation that Central Government would meet their funding obligations. Staff are working with CERA to secure more timely Crown funding so as to minimise the overall cost of borrowing for earthquake response and recovery costs.
5. At the May meeting we indicated that the intention was to approach the Local Government Funding Agency (LGFA) for \$140 million of borrowing with a five- to seven-year term and to repay the CBA facility which would have brought us back within the policy guidelines for Liquidity and Funding Risk. The first \$50 million was drawn down and the receipt of LAPP (infrastructure) insurance funds has negated the need, in the short term, for further borrowing. As \$75 million of debt maturing by November 2012 is refinanced through LGFA seven-year debt, the Council will come back within policy guidelines.
6. Also, as shown in Appendix 1, we have also moved outside maturity profile guidelines for interest rate exposure. The sale of Jet Engine Facility Limited (JEFL) and associated repayment of \$12.55 million JEFL-related debt, due to end in October 2013 has caused the Council to drop below the zero to three years maturity profile limit. In addition, interest rate swaps acquired during May to ensure that the Council remains within the Master fixed/floating risk control limit and which take advantage of low long-term interest rates have pushed the Council outside the five year plus limit. If no action is taken this will correct itself in June 2013 as existing maturities progress from the five year plus group into three to five years.
7. Given the forecast growth in debt set out in the Annual Plan, the Treasury Review team considered it prudent to lock in historically low long-term interest rates in advance of borrowing. The weighted average cost of the Council's forward starting interest rate swaps is 4.07 per cent, compared to the 6.30 per cent ten-year average of five year swaps. The Treasury Review team are continuing to monitor the position but have not yet acted to resolve the breach because of the ongoing uncertainty around Crown funding and therefore short-term borrowing requirements. A solution will be recommended in the October Corporate Finance Report.

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DEBTORS

8. At 30 June 2012 the debtors' balance stood at \$9.8 million, \$25.7 million below that reported in April. The change is mainly due to payment by CERA of the \$24 million invoice.
9. Overdue debtors have reduced by \$700,000 to \$1.1 million, but because of the drop in total debt the percentage has increased from 5.0 per cent to 11.1 per cent of total debt.
10. \$339,581 has been written off for the year-to-date compared to \$214,695 for the same time last year. Further detail is provided in **Appendix 2** (attached). As for previous reports the main reason for the write-off in each area is that debtors cannot be located. The process around non-paying housing tenants was tightened up some time ago and tenants are first approached, then if necessary taken to a mediation and, if necessary, a Tenancy Tribunal Hearing.



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FINANCIAL AND LEGAL CONSIDERATIONS

11. There are no financial or legal implications.

STAFF RECOMMENDATION

That the Committee recommend to the Council that it receive the Corporate Finance Report for the period ended 30 June 2012.

APPENDIX 1:

Christchurch City Council Treasury Management Report for period to

30 June 2012

Key Performance Measures			
	Policy Limits	Actual 2011/12 period ended 30 June 2012	
INVESTMENT POLICY			
Counterpart Credit Risk Limits (see attachment for split per bank)			
Max Investment per counterparty			
NZ Govt	unlimited		
NZD Registered Supernationals	\$70 m		
SOEs	\$20 m		
NZ Registered Bank (A- / A2)	\$100 m		
NZ Registered Bank (Govt guaranteed)	Up to guarantee maximum		Within Limits [see (a) & (c)]
Corp Bonds/CP	\$10 m		
Local Govt Stock/Bonds/FRN/CP	\$40 m A-/A2 rated \$25 m unrated		
Interest rate risk mgmt instrument max per counterparty			
Counterparty Credit Risk Limits			
NZ Registered Bank (per bank) - Min long-term/short-term credit rating	A-/A2		Within Limits [see (b) & (c)]
- Interest rate risk mgmt instrument max	\$150m		
LIABILITY MANAGEMENT POLICY			
Liquidity & funding risk management			
0-3 years ^{1 & 2}	10 - 60%	63%	Outside limits
3-5 years	20 - 60%	22%	Within limits
5 years plus ²	15 - 60%	15%	Within limits
¹ CBA \$100m facility is a two year facility but draw downs roll every 60 to 90 days.			
² Short term debt facilities have been established to accommodate timing differences between payment of response and recovery costs and receipt of funding from the Crown. The refinancing of \$75m existing debt in September and November will bring Council back within these limits.			
Borrowing mechanisms & limits			
Net debt as a percentage of equity	<20%	4.6%	Within limits
Net debt as a percentage of total revenue ³	<100%	27.0%	Within limits
Net interest as a percentage of total revenue ³	<10%	1.3%	Within limits
Net interest as a percentage of annual rates income (debt secured debenture)	<15%	4.8%	Within limits
Liquidity (term debt+committed loan facilities+liquid investments to current external debt)	>120%	147.7%	Within limits
³ excludes non-govt capital contributions			
When 24-month forecast net debt exceeds \$25 million:			
Interest rate exposure			
Master fixed/floating risk control limit	50 - 95%	62.0%	Within limits
Fixed maturity profile limit			
0-3 years ⁴	15 - 60%	13.6%	Outside Limits
3-5 years	15 - 60%	17.3%	Within limits
5 years plus ⁵	10 - 60%	69.1%	Outside Limits
⁴ The sale of JEFL and associated repayment of \$12.550m JEFL related debt, due to end in Oct 13 has caused Council to drop below the 0-3 years maturity profile limits.			
⁵ Swaps acquired during May to ensure that Council remains within the Master fixed/floating risk control limit and which take advantage of low long term interest rates have pushed Council outside the 5 year plus limit.. This will correct itself during 2012/13 as existing maturities progress from the 5 years plus group into 3-5 years.			

APPENDIX 1 TO CLAUSE 4 CORPORATE AND FINANCIAL COMMITTEE 3.8.2012

(a) Counterparty Credit Risk Limits

Counterparty	Min Long Term/Short Term credit rating	Max Investment per counterparty	Interest rate risk mgmt instrument max per counterparty **	Total max per counterparty (c)
NZ Govt	A- / A2	unlimited	none	unlimited
NZD Registered Supernationals	AAA	70m	none	70m
SOEs	A- / A2	20m	none	20m
NZ Registered Bank	A- / A2	100m	150m	150m
NZ Registered Bank Corp Bonds/CP	Govt guaranteed A- / A2	Up to guarantee maximum 10m	none none	Up to guarantee maximum 10m
Local Govt Stock/Bonds/FRN/CP	A- / A2 (if rated) unrated	40	25	none 40m 25m

** To determine the counterparty amount for Interest Rate Risk Management, the formula notional principal x maturity (years) x 3% is used. (Per LTCCP 2009-19)

Max investment per Counterparty	Actual \$m	Max allowed \$m	Credit rating
ANZ	5.0	100.0	AA-
ASB Bank	58.3	100.0	AA-
Auckland International Airport	4.5	10.0	A-
Bank of New Zealand	29.2	100.0	AA-
Canty Museum Trust Board	2.6	25.0	Unrated
Far North District Council	2.0	25.0	Unrated
Fonterra Co-op Group	3.0	10.0	A+
Horowhenua DC	3.0	25.0	Unrated
HSBC	11.8	100.0	AA-
Interstar NZ Millennium	0.1	10.0	AA-
Kiwibank	45.0	100.0	AA-
LGFA	30.0	40.0	AA+
Manukau City Council	5.0	25.0	Unrated
Masterton District Council	3.0	25.0	Unrated
New Plymouth District Council	2.0	40.0	AA+
Rabobank	0.0	100.0	AA
Rotorua District Council	5.0	25.0	Unrated
Selwyn DC	5.0	25.0	Unrated
Tauranga City Council	5.0	50.0	A+
TCNZ Finance Ltd	2.0	10.0	A-
Westpac Inst. Bank	36.0	100.0	AA-
Whangarei District Council	10.0	25.0	Unrated

Interest rate risk mgmt instrument max per counterparty	Actual \$m	Max allowed \$m	Credit rating
ANZ	40.9	150.0	AA-
BNZ	14.8	150.0	AA-
Westpac	29.6	150.0	AA-

(b) Counterparty Credit Risk Limits

	Actual \$m	Max allowed \$m	Credit rating
ANZ	45.9	150.0	AA-
Bank of New Zealand	44.0	150.0	AA-
Westpac Inst. Bank	65.6	150.0	AA-

(c) Total max per counterparty

	Actual	Max allowed	Credit rating
ANZ	45.9	150.0	AA-
ASB Bank	58.3	100.0	AA-
Auckland International Airport	4.5	10.0	A-
Bank of New Zealand	44.0	150.0	AA-
Canty Museum Trust Board	2.6	25.0	Unrated
Far North District Council	2.0	25.0	Unrated
Fonterra Co-op Group	3.0	10.0	A+
Horowhenua DC	3.0	25.0	Unrated
HSBC	11.8	100.0	AA-
Interstar NZ Millennium	0.1	10.0	AA-
Kiwibank	45.0	100.0	AA-
LGFA	30.0	40.0	AA+
Manukau City Council	5.0	25.0	Unrated
Masterton District Council	3.0	25.0	Unrated
New Plymouth District Council	2.0	40.0	AA+
Rabobank	0.0	100.0	AA
Rotorua District Council	5.0	25.0	Unrated
Selwyn DC	5.0	25.0	Unrated
Tauranga City Council	5.0	50.0	A+
TCNZ Finance Ltd	2.0	10.0	A-
Westpac Inst. Bank	65.6	150.0	AA-
Whangarei District Council	10.0	25.0	Unrated

APPENDIX 2**Debt written off - summary report for the year ended 30 June 2012**

	July	August	September	October	November	December	January	February	March	April	May	June	YTD Total	%
Write Offs < \$2000.00	25,700.95	34,220.36	3,807.56	9,060.34	3,026.55	4,020.10	15,581.96	47,552.62	51,017.43	31,231.24	13,306.06	14,038.63	252,563.80	74.4%
Write Offs => \$2000.00	17,409.99	3,811.57	8,159.36	9,767.70			6,706.01	7,181.70	10,545.73		20,292.53	3,143.48	87,018.07	25.6%
Total to approve	43,110.94	38,031.93	11,966.92	18,828.04	3,026.55	4,020.10	22,287.97	54,734.32	61,563.16	31,231.24	33,598.59	17,182.11	339,581.87	
<i>Breakdown:</i>														
Parking	448.45	528.35	243.00	102.40	70.00		355.97						1,748.17	0.5%
Residential Rents	18,718.26	11,527.91	1,070.89	11,435.95			6,083.50	3,577.70	20,220.17		3,653.85	3,940.86	80,229.09	23.6%
Regulatory	436.72	830.97	3,805.12	1,113.49	122.15		5,638.56	238.85	7,371.84	2,155.82	12,365.42	3,382.58	37,461.52	11.0%
Library (ex SAP)													-	0.0%
Library - Unicorn Only	8,761.38	21,407.32	620.65		2,834.40	4,020.10	9,859.19	13,587.03	31,459.77	7,710.25	5,765.77	6,644.80	112,670.66	33.2%
Sundry	14,746.13	3,737.38	6,227.26	6,176.20			350.75	37,330.74	2,511.38	21,365.17	11,813.55	3,213.87	107,472.43	31.6%
Abandoned Vehicle													-	0.0%
Street Pole													-	0.0%
Commercial													-	0.0%
Total 2011-2012	43,110.94	38,031.93	11,966.92	18,828.04	3,026.55	4,020.10	22,287.97	54,734.32	61,563.16	31,231.24	33,598.59	17,182.11	339,581.87	
Total 2010-2011	32,333.68	5,321.06	47,952.25	13,637.54	14,756.63	10,772.44	11,645.35	33,116.02		10,758.96	10,228.69	24,172.62	214,695.24	
<i>Variance to Last Year</i>	<i>10,777.26</i>	<i>32,710.87</i>	<i>- 35,985.33</i>	<i>5,190.50</i>	<i>- 11,730.08</i>	<i>- 6,752.34</i>	<i>10,642.62</i>	<i>21,618.30</i>	<i>61,563.16</i>	<i>20,472.28</i>	<i>23,369.90</i>	<i>- 6,990.51</i>	124,886.63	