GISBORNE
DISTRICT COUNCIL

10/413

Subject: **May Treasury Report**

Prepared By: M J Drummond (Chief Financial Officer)

Meeting Date: 15 July 2010

Report to FINANCE & MONITORING Committee for noting

SUMMARY

This Treasury report summarises Council's Treasury position at the end of May 2010

RECOMMENDATION

That the Committee

1. receives the report

M J Drummond

M J Drummond
Chief Financial Officer

K D Birt
Corporate Affairs Manager

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TREASURY REPORT MAY 2010

Commentary

1. **Market Conditions** – May has been a month of extreme volatility for NZ short term swaps. The early half of the month was characterised by a sharp increase in rates, following comments by Dr. Bollard on 29th April on the OCR review. A sharp fall in the unemployment rate from 7.3% (Q4 2009) to 6.0% in 1st quarter of 2010, and comments by Reserve Bank on tightening monetary policy sooner rather than later further fuelled the rise in short term rates. Mid May was characterised by sharp falls in short term rates, on concerns around the escalating sovereign debt problems in Europe. However, the short term rates ended the month recouping some of the losses following increasing investor sentiment and positive NZ economic news. In contrast, the long term swap rates were unidirectional and that was downwards with the rate/yield on 10 yr swap ending the month at 5.73%. The dominant theme behind the movement has been risk aversion by investors amid ongoing European sovereign debt crisis, moving to relatively safe assets such as bonds.

2 **Interest rate swaps** – At 31st May the Council had $33.5M of interest rate swaps in place. This translated into 223% cover over existing debt. However, due to the forecast increase in borrowing, the 24 month interest rate cover is a more reasonable 104%. The current over covered position is partly the result of later than expected spending on the wastewater treatment plant.

3 **Interest rates** – The bank loan (90 day) floating rate at 31 May was 2.92% (Apr 2.71%) compared to our weighted average cost of borrowing at 7.18% (Apr 7.24%). Comparing reported base Interest rates to our total cost of borrowing can be misleading due the effect of changes in bank margins and line fees.

4 **External (Public) Debt** – As at 31 May external debt stood at $15M (Apr $19.02M) against a 2009/10 year end budget $37.7M. The forecast debt out 12 months (31/05/11) is $39.65M. Net debt is $13.3M compared to $11.0M at the same time last year. The increase in debt is directly related to the capital expenditure program. External debt will increase in June due to the usual cash outflows for operational costs and the increasing capital expenditure on the Wastewater treatment Plant.

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Detailed Reports

1. Cash and Debt Position 31 May 2010

Cash and Investments	Bank	Rate %	31 May 2010	31 May 2009
Call Accounts	WBC	2.0%	370,960	2,450,940
Current Account	WBC	2.0%	142,104	353,385
Term Deposit	ANZ	5.20%	1,250,000	1,215,000
			1,763,064	4,019,325

External (Public) Debt	31 May 2010 000s	31 May 2009 000s
Opening Balance 01 July	18,150	24,000
Plus: YTD Long Term Loans Raised	-	-
Less: YTD Long Term Loans Repaid	3,150	9,000
Plus: Net Movement in Short Term Loans	-	-
Closing External Debt	$15,000	$15,000

2. Investment Performance Summary

Average Return	%	
Special Funds	5.20	
Cash Management	2.0	
Bench Mark Return (Cash)	2.5	31 May 2010

3. Investment Portfolio Limits

	Amount	%	Limit	Limit Excess
Bank Risk	$1,620,960	100	100%	Within Policy

4. Cash Management (General Funds)

	Rate	S&P Rating	Face Value	Limit	Limit Excess
Registered Banks					
Westpac Bank	2.0%	AA-	$142,104	$5,629,040	Within Policy

5. Treasury Investments (Special Funds)

	S&P Rating	Face Value	Limit	Limit Excess
Registered Banks				
ANZ Bank	AA-	1,250,000	6,000,000	Within Policy
ANZ Bank	AA-	0	6,000,000	Within Policy
Westpac Bank	AA-	370,960	6,000,000	Within Policy
		$1,620,960		

6. Liquidity Pool

Amounts held 'On Call'	370,960
Amounts held 'Current'	142,104
Amounts held 'Money Market Deposit'	0
	$513,064

7. Investment Details

Investments Details As At May 31, 2010

Cash Management(General Funds)

Registered Banks		**Rate**	**Maturity**	**Amount**
Westpac Bank		2.00%	Current	$142,104
	Average Rate			2.0%
Treasury Investments(Special Funds)				
ANZ Bank		5.20%	01/12/2010	1,250,000
ANZ Bank		2.50%	Call	0
Westpac Bank		2.00%	Call	370,960
	Total Treasury Investments			**$1,620,960**
	Weighted Average Month End Rate			**5.20%**

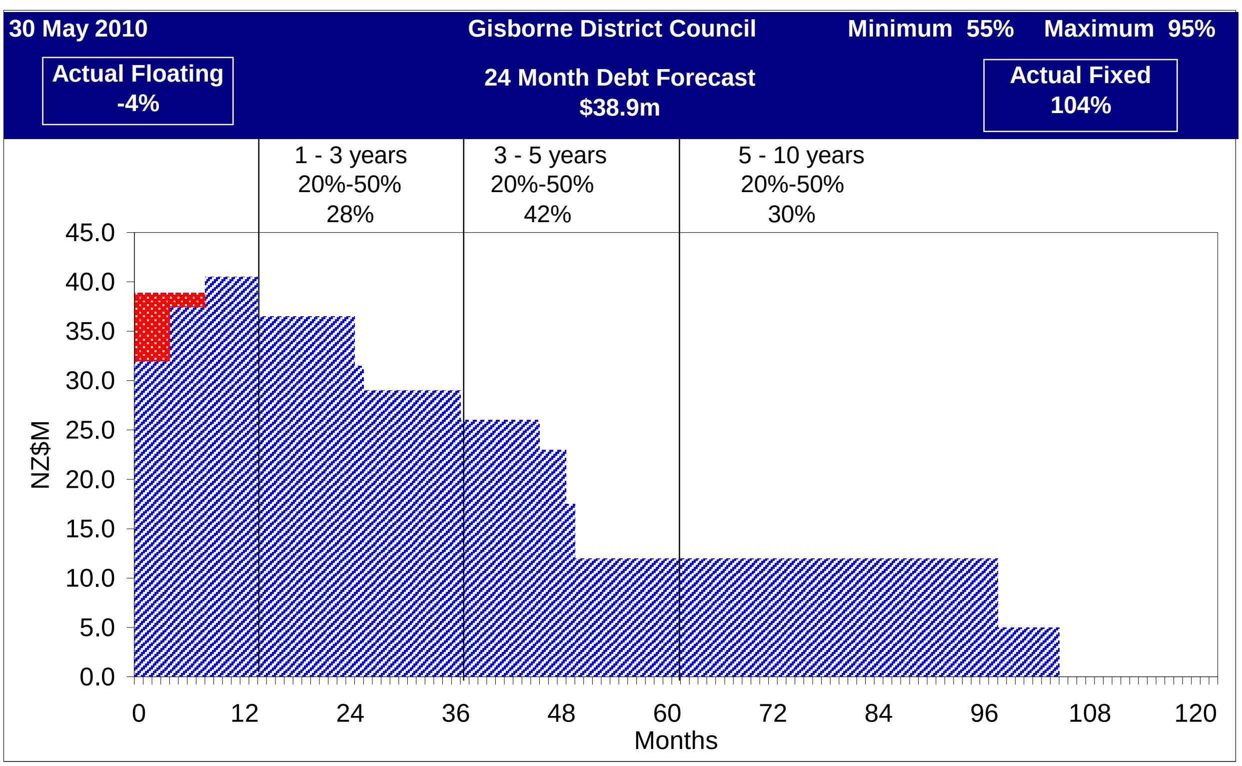
8. Public (External) Debt

This Month	**Last Month**	**30/06/2010 Forecast**	**09/10 YE Annual Plan**	**YE 08/09**
$15.0M	$19.02M	$35.05M	$37.7M	$18.15M

9. Debt Management – Fixed:Floating Debt Mix

This Month	**Last Month**	**Policy Limit**	**Compliance**
223%	134%	55-95%	No

10. Interest Rate Exposure

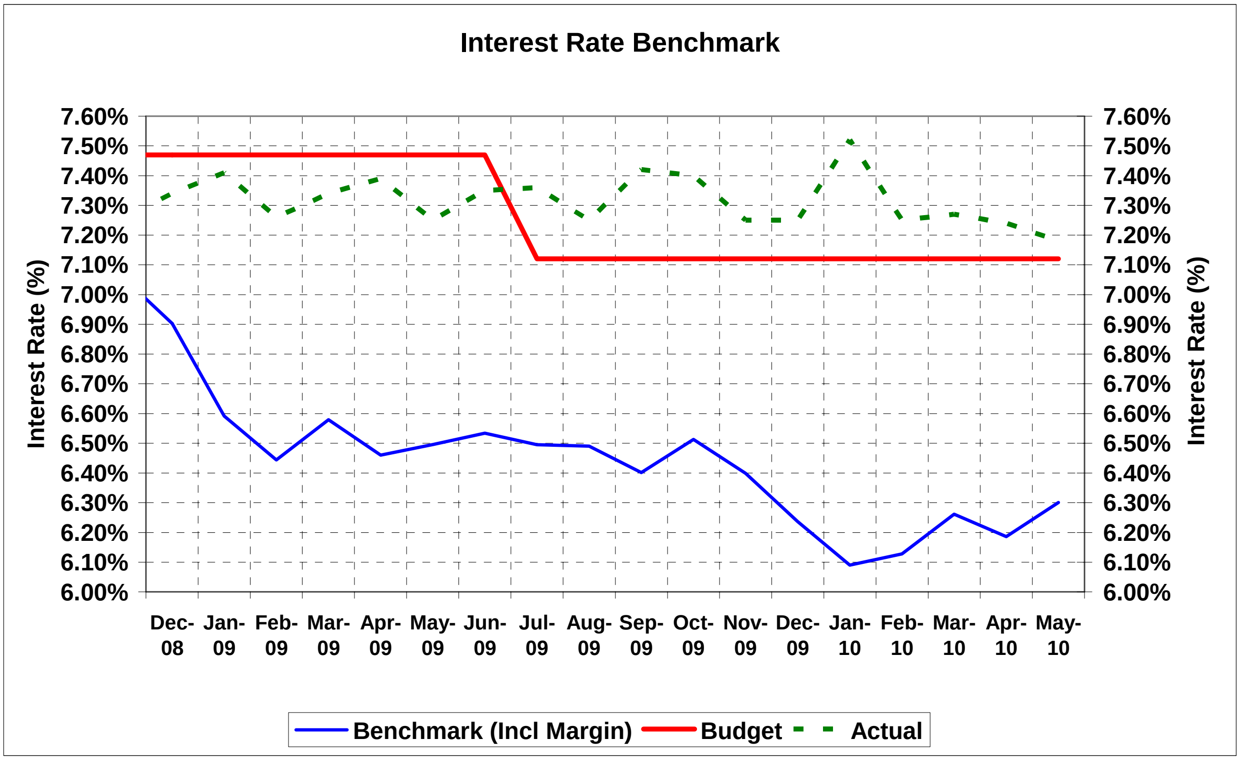


This graph illustrates that as at 31 May 2010, the Council had interest rate management swaps in place to cover 104% of its 24 month forecast debt of $38.9M.

11. Interest Rate Transactions

Type	Deal Date	Notional Amount	Interest Rate	Start Date	Maturity Date	Term
No transactions during May						

12. Cost of Funds



Composite Benchmark Indicator Rate	
Weighting	**Rate**
20%	Average 90-day bank bill bid-rate for the reporting month
16%	5 year interest rate swap bid-rate, end of reporting month
16%	5 year interest rate swap bid-rate, 1 year ago
16%	5 year interest rate swap bid-rate, 2 years ago
16%	5 year interest rate swap bid-rate, 3 years ago
16%	5 year interest rate swap bid-rate, 4 years ago
100%	

This graph shows at 31 May 2010 Council's cost of funds of 7.18% higher than the benchmark rate of 6.30% and higher than budgeted interest rate of 7.16%.

Average interest rate	**This Month**	**Last Month**	
Floating	2.92%	2.71%	
Fixed	7.16%	7.16%	
GDC monthly weighted average cost of funds	7.18%	7.27%	
Monthly weighted benchmark per APRM (incl margin of bp)	6.30%	6.26%	
Interest Expense (000s)	**YTD Actual Apr-10**	**YE Budget Jun-10**	**YE Jun-09**
Interest Cost	1,602	2,238	1,513

Comments:

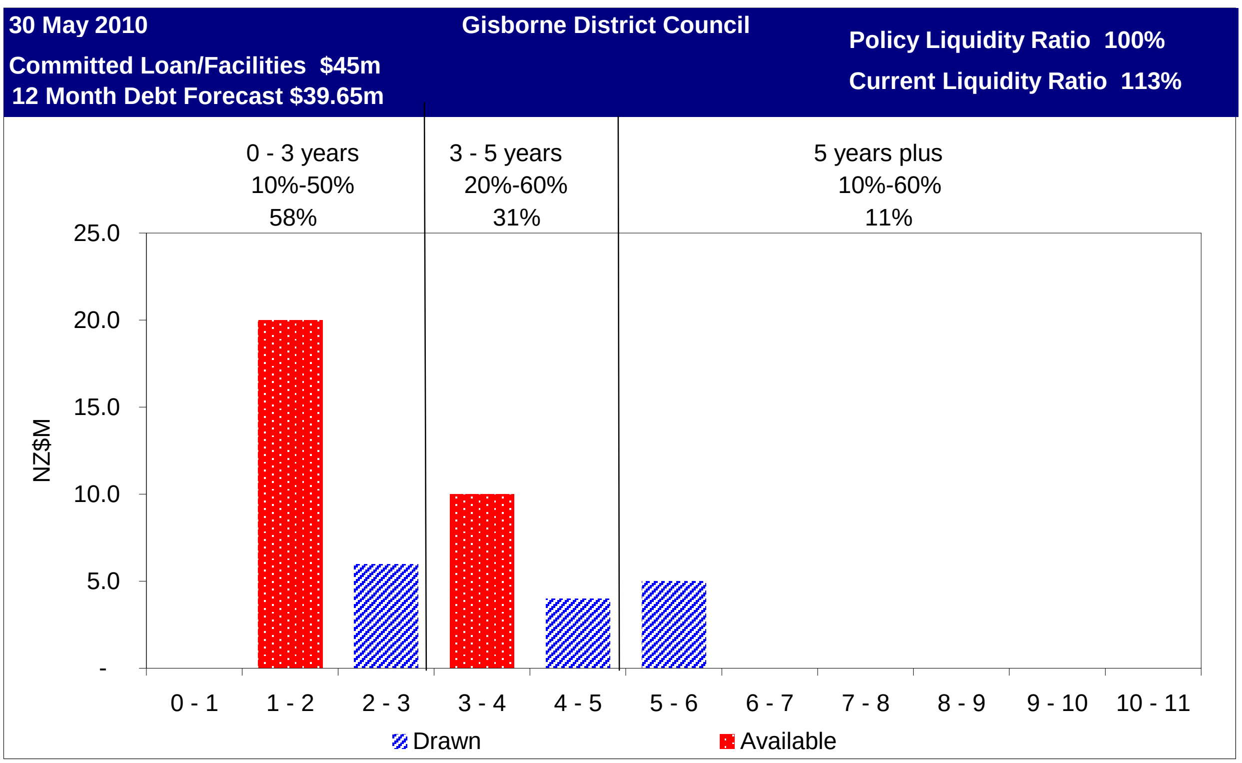
Fair value of Swaps & Options (000s)	**YTD Actual**	**YE**
(updated quarterly)	**Mar-10**	**Jun-09**
	(2,120)	(1,899)

14. Funding Facilities

Bank	**This Month $M**	**Limit $M**	**Un-utilised Facility**
ANZ (Debenture Stock)	5.00	5.0	0.00
ANZ(Bank Facility)	0.00	20.0	20.00
ANZ (FRN)	10.00	10.0	0.00
Westpac (Bank Facility)	0.00	10.0	10.00
	15.00	**45.0**	**30.00**

15. Funding and Liquidity Risk Report

This graph shows Council's current debt maturity profile



Maturity Profile	**Borrowing $M**	**Borrowing**	**Facilities $M**	**Facilities**	**Policy**	**Compliance**
0-2 years	0.00	0%	20.0	44%	10-50%	✓
2 -3 years	6.00	40%	6.0	14%	20-60%	×
4+ years	9.00	60%	19.0	42%	10-60%	✓
Total	$15.00	100%	$45.0	100%		

Council has a $20M bank loan facility with ANZ and as at 31 May none of it was used. An additional $10M bank loan facility has been negotiated with Westpac Bank to meet the funding requirements for the waste water treatment plant. As at 31 May this was also unused.

Council uses the ANZ and WBC loan facilities to fund short term operating cash flow and authorized capital expenditure. Council repays loans when it receives rates income and other cash receipts. The loan facilities are reviewed annually.

Council's treasury policy states that between 0-2 years Council will have between 10-50% of debt facilities requiring to be refinanced in any one year. Council is within this policy having recently extended its ANZ facility for twelve months. The $20M ANZ bank loan facility (31 March 2012), will now expire within the next 2 years.

Council has $6M of debenture notes (31 July 2012) maturing within 2-3 years. This represents 14% of Council's total debt facility of $45M. Council is outside of its treasury policy, which is between 20% and 60% of Council debt maturing within 2-3 years.

Council has $4M of debenture notes (31 July 2014) and $10M Westpac Bank loan facility (28 Feb 2014), all maturing within 3-5 years. Council has $5M of debenture notes maturing within 5-6 years (22 Aug 2015). The combined total of these facilities is $19M is 42% of total debt facility of $45m. This is within Council's treasury policy limit of 10-60% of total debt.

16. Loan stock Funding Transactions – There have been no transactions since the last report.

17. Counterparty Credit Risk

Policy Credit Limit (NZ$) per NZ Registered bank for interest rate risk management instruments only. All counterparty banks are Standard & Poor's AA- rated.

Bank	Notional $M	Credit Exposure $M	Compliance
ANZ	45.0	5.3	Within Policy
WPB	8.5	0.8	Within Policy

18. Borrowing Limit Compliance as at 30 April 2010

Ratio/Covenant	Current Position	Policy Compliance
Net debt as a % of equity <10%	1.0%	✓
*Net debt as a % of income <70%	23.9%	✓
*Net interest as a % of income <10%	3.6%	✓
Total debt per capita <$1,700	$435	✓