

Finance and Operational Performance Committee

**Monday, 7 April 2003
Commencing at 9.30 am**

Part IV: Finance

**Item 15: Borrowing and Investment
Report**

Part VI: Subcommittee Reports

**Item 23: Emergency Services Special
Committee**

**SUPPLEMENT TO AGENDA FOR AN ORDINARY MEETING OF THE FINANCE AND
OPERATIONAL PERFORMANCE COMMITTEE TO BE HELD IN THE CIVIC
CENTRE, 6 WAIPAREIRA AVENUE, LINCOLN, WAITAKERE CITY,
ON MONDAY, 7 APRIL 2003 COMMENCING AT 9.30 AM.**

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SUPPLEMENT TO AGENDA FOR AN ORDINARY MEETING OF THE FINANCE AND OPERATIONAL PERFORMANCE COMMITTEE TO BE HELD IN THE CIVIC CENTRE, 6 WAIPAREIRA AVENUE, LINCOLN, WAITAKERE CITY, ON MONDAY, 7 APRIL 2003 COMMENCING AT 9.30 AM.

PART IV - FINANCE

15 BORROWING AND INVESTMENT REPORT

PURPOSE OF THE REPORT

Waitakere City Council enters into treasury related financial contracts in the ordinary course of its business. It is the role of Council's Funds Management section to manage such contracts and the impact that they have on the organisation. All funds management transactions are governed by the Borrowing and Investment Policy prepared in compliance with the Local Government Act 1974. As a requirement of the Borrowing and Investment Policy, this report informs Council on the current and future movements of Council's debt and cash investments and provides a general commentary of financial market conditions.

STRATEGIC CONTEXT

Council's Fund Management function actively manages a large portfolio of various debt and investment instruments. The benefit of borrowing is that it enables Council to carry out the projects identified in the Annual Plan while spreading the costs for those projects over time to recognise the future benefits. Borrowing funds therefore assists Council with its entire loans funded strategic initiatives. The Borrowing and Investment Policy requires that on a regular basis a report detailing the management of the portfolio be presented to the Finance and Operational Performance Committee. The report must include information on the following subjects:

- Cash/Debt position
- Forecasted borrowing profile
- Interest rate profile
- Risk management
- Material transactions
- Market commentary

This report addresses the requirement of the Borrowing and Investment Policy and also from time to time includes other information that is relevant to the Funds Management function.

FINANCIAL IMPLICATIONS

The active management of the treasury portfolio seeks to minimise Council's borrowing costs and maximise investment returns of liquid assets. The Funds Management function is also charged in seeking investors, thus ensuring that there is sufficient liquidity available for the organisation to continue its work programme. New Zealand financial markets are significantly volatile and therefore interest rate management is also a key responsibility of the Funds Management function. Detailed financial information included within this report is intended to give assurance of the prudent management of Council's portfolio.

Council approved a loans funded capital works programme for the 2002/2003 year, including carry forward projects from the 2001/2002 year of \$87.734 million through the 2002/2003 Annual Plan. In the same Annual Plan, interest expense was budgeted to be \$8.647 million.

Council resolved to borrow up to \$123.2 million to cover the loans funded work programme and for the refinancing of maturing loans (2651/2002).

Council has also resolved to obtain a Standard and Poors Credit Rating (2970/2001).

The Finance and Operational Performance Committee has since carried the following resolutions.

- Execute a facility agreement with the ASB Bank for a term loan of \$15 million and offer \$3 million of security for interest rate risk management instruments (2592/2002).
- Renegotiate as required uncommitted bank facilities which are used to cover working capital requirements on a daily basis, currently totalling \$35 million (2591/2002).
- Execute a facility agreement with the Bank of New Zealand for a 364 day committed cash advance facility of \$20 million (2840/2002).
- Renegotiation of the ANZ committed cash advance facility to a value of \$50 million, and a further \$7.5 million in security for interest rate risk management instruments (938/2002).
- Use the \$56,353,589.60 received from the sale of the UnitedNetworks Limited shares to repay debt (3612/2002).

SUMMARY OF BORROWING AND INVESTMENT MOVEMENTS, FEBRUARY 2003

Council's gross term debt position has increased by \$1.586 million since January 2003 with a closing balance at February month end of \$113.287 million. Working capital borrowings of \$9.195 million as at 28 February 2003 have been funded using internal borrowings.

SIGNIFICANT FUNDING TRANSACTIONS ENTERED INTO DURING FEBRUARY 2003

- UnitedNetworks Fund investment of \$3,032,600.55 for 31 days at 5.86%.
- Sinking Fund investment of \$1,536,825.09 for 60 days at 5.84%.
- UnitedNetworks Fund investment of \$2,036,352.87 for 30 days at 5.84%.
- UnitedNetworks Fund investment of \$3,014,523.29 for 30 days at 5.84%.
- UnitedNetworks Fund investment of \$3,301,388.89 for 47 days at 5.84%.
- UnitedNetworks Fund investment of \$5,000,000.00 for 39 days at 5.84%.
- UnitedNetworks Fund investment of \$6,087,800.29 for 30 days at 5.84%.
- UnitedNetworks Fund investment of \$2,029,520.16 for 31 days at 5.82%.

USE OF UNITEDNETWORKS LIMITED SHARE SALE PROCEEDS AS AT 31 MARCH 2003

Since the receipt of the share sale proceeds, a significant number of short term investments have been entered into, as well as offsetting of overnight uncommitted borrowings and the full repayment of the committed cash facility. The return on the investment is therefore a combination of actual interest income and interest savings.

As at 31 March 2003 the investment has resulted in the following:

Interest Income received	\$ 854,256.19
Interest Accrued on existing investments	\$ 30,311.98
Interest Saved	\$ 519,814.47
Total benefit for 153 Days to 31 March 2003	\$1,404,382.65
Effective rate of return	5.95%

Interest income from the investment has been reinvested, effectively compounding the investment. The amount of funds invested in interest bearing deposits as at 31 March 2003 is \$23,853,723.17, while the amount offsetting the need to borrow is \$33,354,122.62. Short term investments have been spread amongst banks approved within the Borrowing and Investment Policy. The amount invested with each bank does not exceed the limits adopted within the same policy. Investment durations have been spread amongst different short term maturities in order to maintain a fair level of liquidity. Shorter term deposits do give the advantage of increasing the number of compounding opportunities, however, the risk is that a sudden decrease in short term interest rates will be reflected immediately on maturing deposits. This risk is not hedged.

FINANCIAL MARKET COMMENTARY

Interest Rate Overview

Short term interest rates over the past month have shown some volatility. This has largely been the result of the market's belief of an Official Cash Rate decrease sometime soon, based on the Reserve Bank of New Zealand's easing stance. However, this has largely reversed over the last few weeks as the timing of a decrease has become uncertain based on the strength of the New Zealand currency, growth, and the property market.

Long term interest rates have been the most volatile, with a trading range on ten year swaps as much as 0.50%. Naturally, the main contributor to this has been the market's expectations of a quick conflict in the Middle East. At the date of writing this report, long term rates have begun to fall again, suggesting that the market has become less optimistic of a quick resolution.

Oil prices, which have been trending upward for some months, suddenly showed signs of decreasing due to the same market assumption.

Local confidence, both business and consumer, has deteriorated on the basis that New Zealand is expecting to have less robust economic growth over the coming year. However, the unemployment rate is still relatively low, suggesting the economy is at capacity.

Interest Rate Expectations

Volatility is the most probable direction on interest rates over the coming six months. Expectations of a decrease in the Official Cash Rate are still embedded in market commentaries, however, a 0.25% decrease does not appear to be meaningful. The more likely scenario appears to be either 0% decrease or at least 0.50% decrease, depending on the intended motive. A 0.25% decrease would appear to have little consequence, though a large decrease may lead to further property demand, fuelling increased values.

The Reserve Bank of New Zealand considers a slowing in the economy and a continued strengthening in the New Zealand currency as being key drivers favouring a decrease in the Official Cash Rate. The New Zealand dollar still appears set to continue its appreciation against the US dollar, though a correction of late has seen a small reversal to this trend. Local economic growth is forecasted to soften, which will impact inflation, justifying a decrease. However, a decrease in the Official Cash Rate may not stop the continued strength of the New Zealand dollar moving forward, since local interest rates will remain high against all developed countries.

Long term interest rates will continue to be volatile. The global economy has shown little sign of robust economic growth. Until more favourable economic information becomes constant, we should expect 5 to 10 year interest rates to trade around levels we have seen in the past three months.

Upcoming dates

Official Cash Rate announcement 24 April 2003
Monetary Policy Statement 5 June 2003

CONCLUSION

All transactions covered by this report have complied with the requirements of Council Borrowing and Investment Policy.

RECOMMENDATION

That the information be received.

Report prepared by: Bruce Wilkin, Funds Accountant.



PART VI - SUBCOMMITTEE REPORTS

23 EMERGENCY SERVICES SPECIAL COMMITTEE

THE SPECIAL COMMITTEE SUBMITS THE FOLLOWING REPORT OF ITS ORDINARY MEETING HELD ON TUESDAY, 1 APRIL 2003

MATTERS CONSIDERED

A71 - A72

The Special Committee dealt with a number of items for which it has delegated powers to act and a copy of the minutes of the meeting is attached at pages A71 to A72.

The Special Committee Recommends:

That the Ordinary Meeting report of the Emergency Services Special Committee held on Tuesday, 1 April be received.

DQ Battersby, JP
CHAIRPERSON



28 February 2003

	TERM DEBT (to fund long term assets)	(\$000's)
<i>Budget year end term debt position per 2002/2003 Annual Plan</i>	Budget term debt	199,824
	Further term debt approved by Council during 2002/2003	7,655
	Budget 2002/2003 year end gross term debt	207,479
	Less funds introduced from UnitedNetwork Share Sale	56,354
	Less duplicated project in Annual Plan	3,279
	Forecast year end Sinking Fund Commissioner assets	5,448
	Anticipated 2002/2003 Year End Net Term Debt	142,398

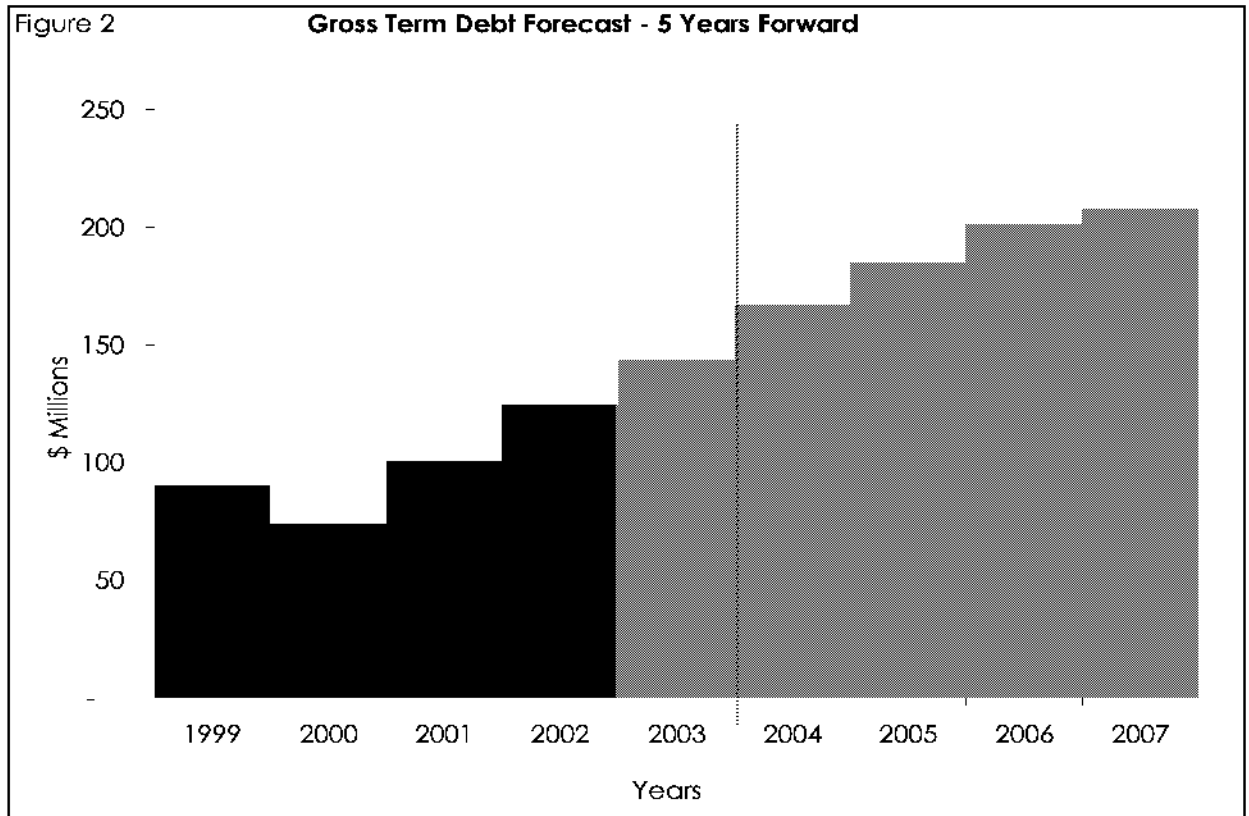
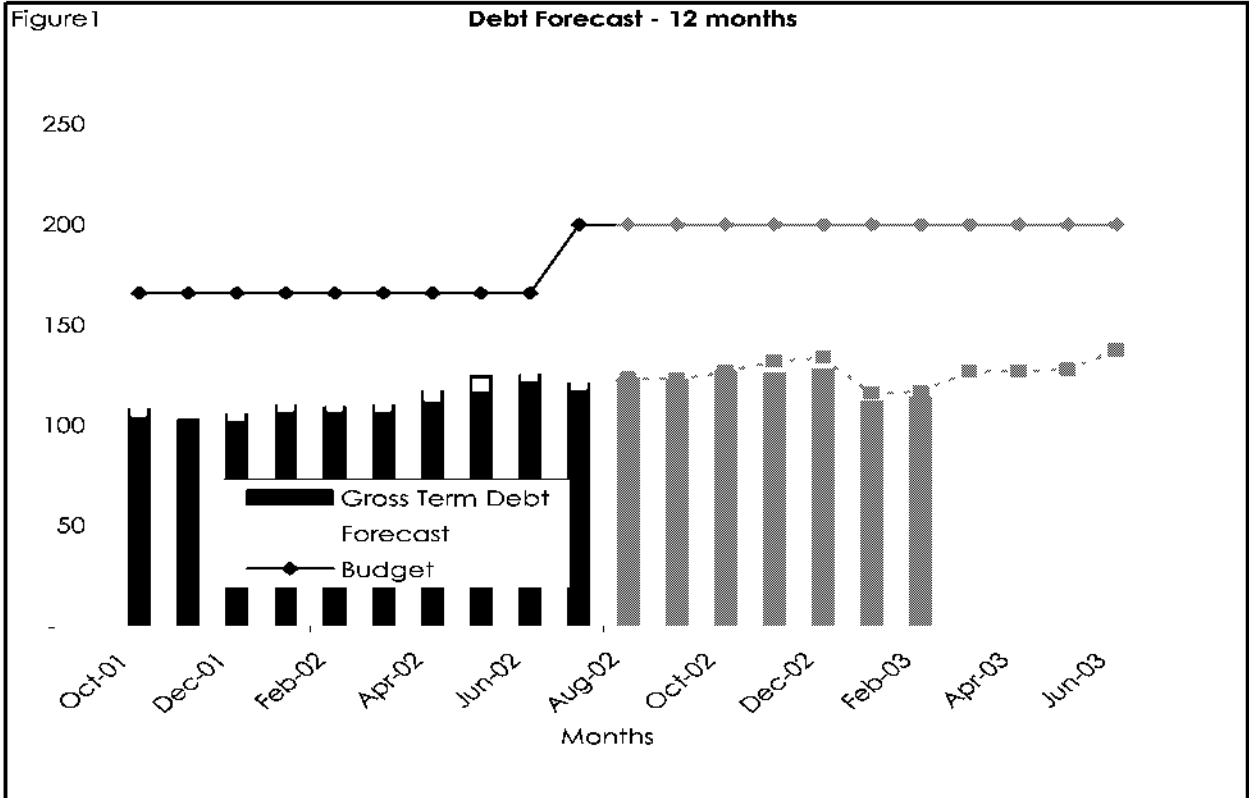
	February 03	January 03	
	(\$000's)	(\$000's)	
<i>Term debt position at 28 February 2003</i>	TERM DEBT PORTFOLIO		
	Term debt borrowed externally	93,821	99,821
	Special funds (used to reduce Council's external borrowing)	19,466	11,880
	Gross term debt	113,287	111,701
	Total Sinking Fund Commissioner assets	4,959	4,936
	Net term debt	108,328	106,764

<i>Term debt - source of funds at 28 February 2003</i>	Debtenture stock - fixed rate (security: Debtenture Trust Deed)	53,796	53,796
	Debtenture stock - floating rate (security: Debtenture Trust Deed)	40,025	40,025
	Secured bank loans (security: Debtenture Trust Deed)	0	0
	Unsecured bank loans	0	6,000
	Finance Leases (security: associated asset)	0	0
	External borrowing	93,821	99,821
	Special funds (used to reduce Council's external borrowing)	19,466	11,880
	Gross term debt requirement	113,287	111,701

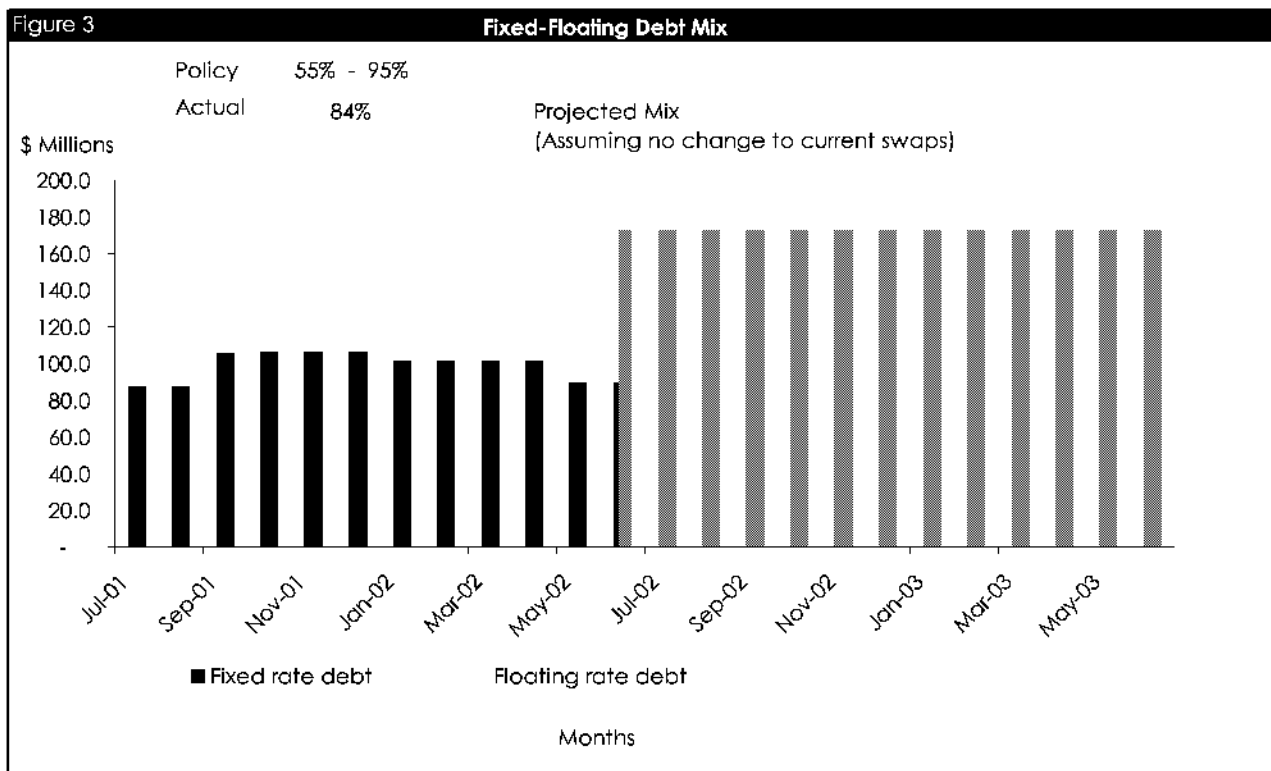
	(\$000's)	(\$000's)	
<i>Working capital borrowing at 28 February 2003</i>	WORKING CAPITAL		
	Unsecured bank loans / (investments)	0	0
	Special funds (used to reduce Council's external borrowing)	9,195	2,017
	UNL Share Fund	0	17,261
	Council working capital borrowing requirement	9,195	19,278

	(\$000's)	(\$000's)	
<i>Cash investments held 28 February 2003</i>	CASH INVESTMENTS		
	UNL Share Fund	23,854	26,493
	Debt repayment fund	-	-
	ARST fund (excluding fund allocations)	1,130	1,125
	Total cash investments	24,984	27,618
	ARST Invested for 90 days - Current investment interest rate	5.92%	5.92%
Weighted Average Interest Rate	%	%	
	Gross Weighted Average Interest Rate	7.70%	7.76%

Debt Forecast



Fixed-Floating Debt Mix



Net Interest Rate Repricing Risk Profile

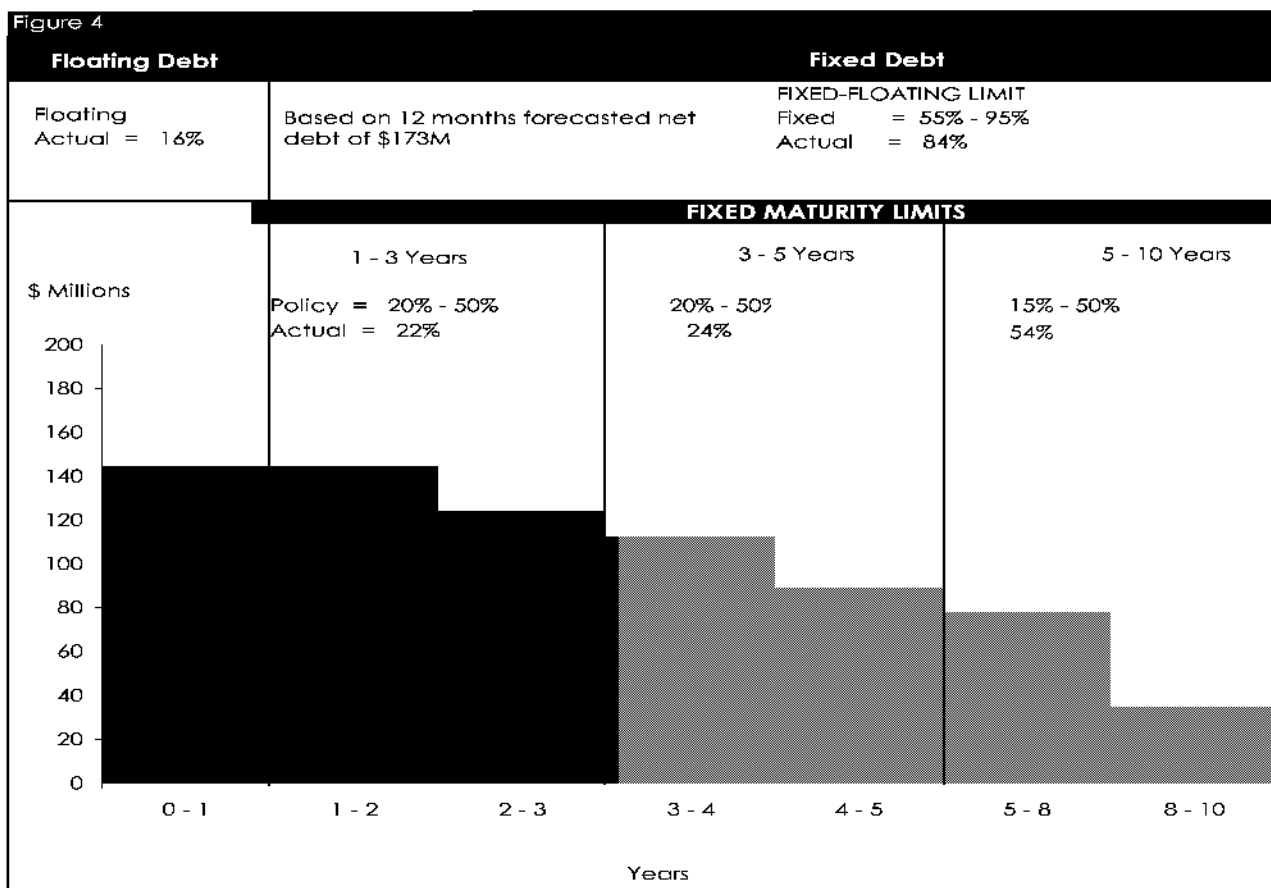
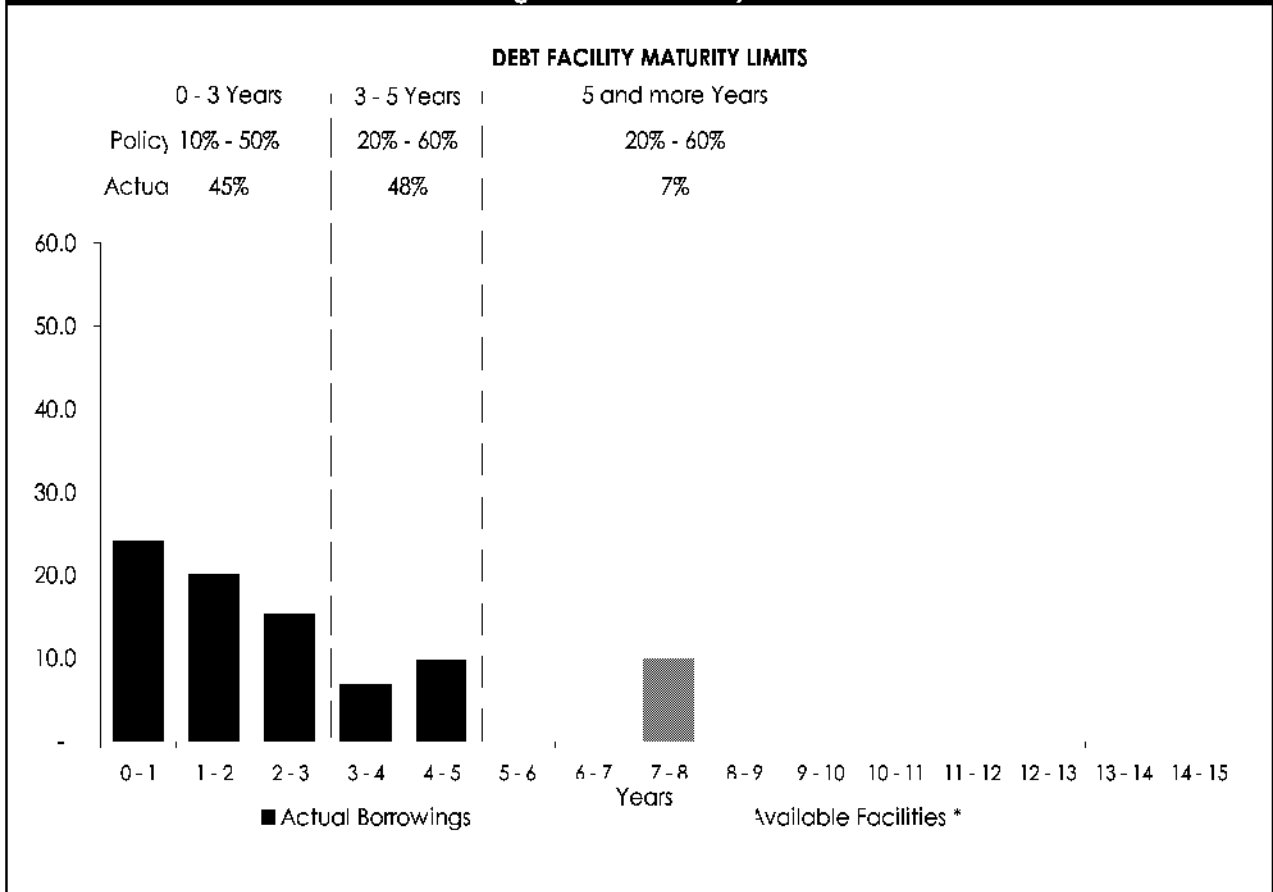


Figure 5

Funding Risk: Debt Maturity Profile



(1) Council is in the unique position of having a \$50 million committed funding facility at zero cost for the non utilised portion of the facility. The nature of this facility may, depending on the utilisation, result in a breach of the funding maturity limits. As this facility is very much in Council's favour this is an acceptable breach of policy.

Summary of Debt Sources

Council Approved Debt Sources	\$ Millions		
	Committed Funding Sources	Usage	Available
Bank Loans			
Short Term (uncommitted)	\$0.0	\$0.0	\$0.0
Long Term (committed)	\$50.0	\$0.0	\$50.0
Commercial Paper			
Bank Overdraft	\$1.0	\$0.0	\$1.0
Senior Bonds			
Retail	\$15.7	\$15.7	\$0.0
Wholesale	\$78.2	\$78.2	\$0.0
Other	\$0.0	\$0.0	\$0.0
TOTAL	\$144.8	\$93.8	\$51.0

Notes:

Working capital borrowing is necessary due to fluctuations in the timing of operating revenue and expenditure. The working capital borrowing requirement also includes internal deficits relating to prior years. External working capital borrowing is reduced by the use of internal special funds with any surplus requirement funded by way of unsecured bank loans.

Gross Term debt is the borrowing relating to long term loan funded capital works projects. External borrowing to fund term debt is reduced by the use of internal special funds with the surplus requirement funded by way of secured or unsecured short term bank loans, fixed or floating medium or long term bonds and finance leases.

The managed debt portfolio refers to the portion of Council's total debt portfolio that is managed to reduce interest rate risk, liquidity/funding risk, counterparty risk and operational and legal risk as defined in the Borrowing and Investment Policy. The portfolio is managed on the external net term debt requirement excluding finance leases. I.e. it is net of the special funds that have been used to reduce the external term debt requirement and the sinking fund balance. Working capital is not included in the managed debt portfolio.

Special Funds are cash funds either collected through rates or vested to Council that have been 'set aside' for specific future spending. The funds are used in the interim to reduce Council's requirement to borrow externally. The fund is managed via accounting entries and a monthly interest allocation is made to the funds based on the Council's weighted average cost of borrowing for that period.

Description of Graphs:

Figure 1

Gross term debt (blue) is the actual gross term debt position of Council as defined in the notes above. The Forecast (orange) is the projected gross term debt level per month in the current financial year, the figures are obtained from capital works timing forecasts (provided by budget managers on a monthly basis) and the current debt maturity profile. The Budget (green) line represents the gross public debt as approved in the 2002/2003 Annual Plan.

Figure 2

The prior year gross term debt figures (blue section) are obtained directly from the 'Term Liabilities' disclosure in published Annual Reports. The orange section is the projected gross term debt as forecast in the Annual and Strategic Plan 2000/2001 - 2009/2010.

Figure 3

The fixed (blue) and floating (orange) interest rate mix, both historic and projected, based on the 12 month rolling forecast net debt requirement. The Borrowing and Investment Policy minimum is 55% fixed and maximum 95% fixed. The positioning of the portfolio between policy minimum and policy maximum is dependent on the current and forecast financial market outlook.

Figure 4

Interest rate risk profile. Figure 4 shows, given the current fixed/floating rate mix and the debt forecast (assuming no changes to current swaps), the percentage of current fixed rate debt that will mature in future years. This enables Council to recognise and reduce significant concentrations of interest rate risk that may arise in future years. As debt forecasts change the amount of fixed cover in place may have to be adjusted to comply with the policy limits.

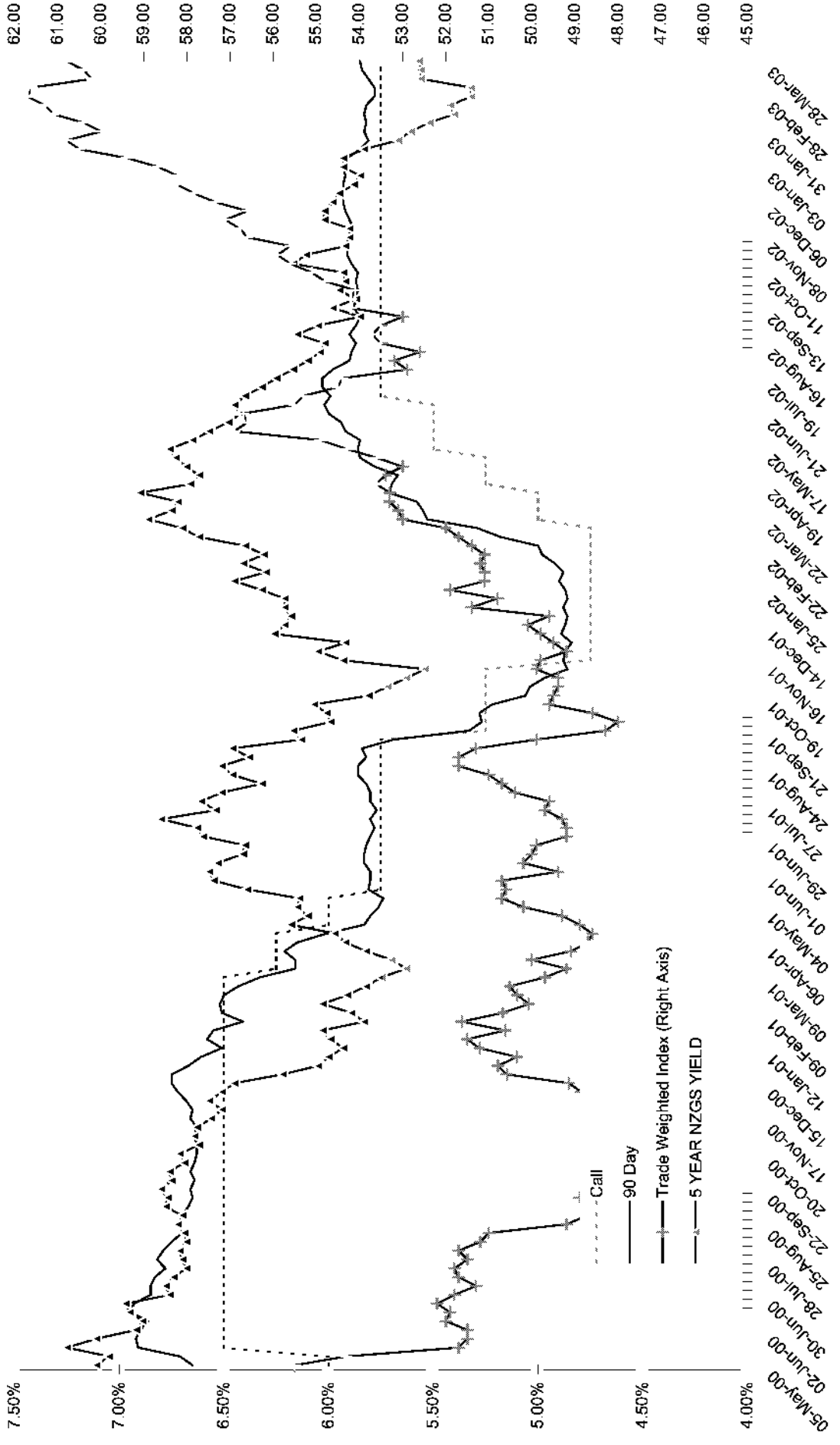
Figure 5

Funding and liquidity risk. Figure 5 varies from figure 4 in that it shows the actual maturity profile of current debt on issue as opposed to the profile of Council's exposure to interest rate risk arising when debt either reprices (in the case of floating rate debt or hedges) or matures. The debt maturity profile enables Council to identify significant concentrations of maturing debt and debt facilities. Where there are significant concentrations of debt maturing Council is at risk of not being able to re-borrow from the market at favourable rates.

Figure 6

In order to ensure Council has the ability to borrow from the market when funding is required committed funding facilities are arranged with approved debt sources. Figure 6 shows Council's committed funding sources and the current usage of these funds. In addition to the committed sources Council also uses uncommitted lines of funding as seen in short term bank loans and bonds, uncommitted funding is at times less expensive than committed funding however its availability is not guaranteed.

Wholesale Market Interest Rates and the Trade Weighted Index



**MINUTES OF AN ORDINARY MEETING OF THE EMERGENCY SERVICES SPECIAL
COMMITTEE HELD IN THE CIVIL DEFENCE HEADQUARTERS, 7 ELCOAT
AVENUE, HENDERSON, WAITAKERE CITY, ON TUESDAY, 1 APRIL 2003
COMMENCING AT 9.37 AM.**

PRESENT: Councillors DQ Battersby, JP (Chairperson)
VS Neeson, JP (Deputy Chairperson)
RP Dallow, QPM, JP
GW Russell

IN ATTENDANCE: Director: Corporate and Civic Services
Manager Emergency Management
Principal Rural Fire Officer
Committee Secretary: S Simiona

1 APOLOGIES

310/2003

MOVED by Cr Neeson, seconded Cr Dallow:

That an apology from Cr Fenton for absence be received and sustained.

CARRIED

2 URGENT BUSINESS

There was no Urgent Business.

3 CONFIRMATION OF MINUTES

311/2003

MOVED by Cr Dallow, seconded Cr Neeson:

That the minutes of the Ordinary Meeting of the Emergency Services Special Committee held on Tuesday, 3 December 2002 and the Special Meeting of the Emergency Services Special Committee held on Tuesday, 4 March 2003, as circulated, are taken as read and now confirmed.

CARRIED

**4 AUCKLAND REGION CIVIL DEFENCE EMERGENCY MANAGEMENT GROUP -
UPDATE ON FUNDING AND ADMINISTRATIVE ARRANGEMENTS 2003/2004**

312/2003

MOVED by Cr Dallow, seconded Cr Russell:

That the information be received.

CARRIED

5 CIVIL DEFENCE EMERGENCY MANAGEMENT UPDATE

313/2003

MOVED by Cr Neeson, seconded Cr Russell:

That the information be received.

CARRIED

6 CHANGES TO THE HEALTH AND SAFETY IN EMPLOYMENT AMENDMENT ACT 2002

314/2003

MOVED by Cr Russell, seconded Cr Dallow:

1. That the information be received.
2. That the approach to meeting the requirements to provide the level of clothing and training required for the Waitakere Fire Districts Rural Fire units in order that they are able to fully meet the new legislative requirements, together with the allocation of sufficient financial resources be accorded priority in the 2003/2004 Budget and that the issue of providing Breathing Apparatus equipment and training to the Rural Fire Units be brought back to the Committee for consideration in the 2004/2005 Annual Budget.
3. That the principle of ensuring adequate training is received by all volunteers to NZQA standards as required in order to carry out their specific functions be endorsed.
4. That the Chief Executive be authorised to advocate and make submissions to Government and other appropriate authorities in order to obtain desirable legislative and regulatory amendments consequent on the changes arising out of the Health and Safety Employment Act.

CARRIED

10.30 am

The Chairperson thanked members for their attendance and attention to business and declared the meeting closed.

CONFIRMED AT AN ORDINARY MEETING OF
THE EMERGENCY SERVICES SPECIAL
COMMITTEE HELD ON

DATE:.....

CHAIRPERSON:.....

**MINUTES OF AN ORDINARY MEETING OF THE EMERGENCY SERVICES SPECIAL
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CARRIED

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MOVED by Cr Dallow, seconded Cr Russell:

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CARRIED

5 CIVIL DEFENCE EMERGENCY MANAGEMENT UPDATE

313/2003

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CARRIED

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COMMITTEE HELD ON

DATE:.....

CHAIRPERSON:.....