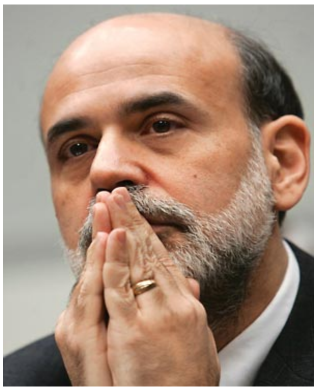
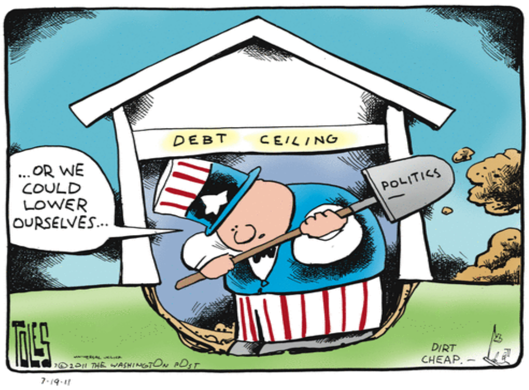
Investment Management
30 June 2011
Quarterly and year end Review





Matthias Zuschlag
Treasury Accountant

Mike Timmer
Treasury Manager

WGN_DOCS-#953202-v1

Greater Wellington
Regional Council
Wellington
P O Box 11646

T 04 384 5708
F 04 385 6960
W www.gw.govt.nz

CONTENTS

1.	**Executive Summary / Key Issues**	**1**
1.1	Summary – What we do	1
1.2	Key Issue - items of particular note this quarter	3
2.	**Group Financial Summary**	**6**
2.1	Financial Performance	6
2.2	Actual full year variances versus Budget	7
2.3	Capital Expenditure	8
3.	**Departmental Financial Summaries and Commentary**	**10**
3.1	Actual full year variances versus Budget	10
4.	**Unbudgeted Expenditure**	**11**
5.	**Business Plan Performance Indicators**	**11**
6.	**Business Continuity**	**11**
7.	**Additional Information for Management only**	**11**
7.1	Staff – Numbers and information	11
7.2	Staff – Long Service Leave	11
7.3	Health and Safety	12
7.4	Other Matters	12

1. Executive Summary / Key Issues

1.1 Summary – What we do

The Investment Management area incorporates Greater Wellington's commercial investments (excluding forestry investments). Its activities include:

Liquid Financial Deposits

- Investing $33 million in Floating Rate Notes with different maturities and counterparties in accordance with the Treasury Risk Management Policy.

- Investing $20.48 million group funds, comprising $16.84 million for Water Supply and $3.64 million for Flood Protection as well as investing $23.4 million of excess liquidity

WRCH Group

- Monitoring CentrePort and its property developments including the level of debt.

- Reviewing and managing the Guarantee of CentrePort's debt and being aware of debt maturities to ensure the Group's including Greater Wellington are not overly exposed to refinancing risk.

- Ongoing monitoring of CentrePort's performance against agreed Statement of Corporate Intent.

- Preparation of the monthly and year end accounts and review of the financial performance of WRC Holding Group (WRCH).

Westpac Regional Stadium

- Financing the Stadium debt.

- Ensuring the debt is extinguished on or before the scheduled date of July 2018.

- Monitoring the interest rate risk on this debt and commenting on their SOI.

Risk Management

- Managing the Council's Quantate risk management reporting.

- Managing and coordinating Greater Wellington's insurance program.

- Monitoring Greater Wellington's exposure to Diesel price movements.

Treasury

- Supporting and managing the relationship with Standard and Poor's Credit Rating Agency. Current long-term rating AA and short term rating of A-1+.
- Managing the relationship with the Local Government Funding Agency (LGFA).
- Managing Greater Wellington's debt requirements.
- Monitoring banking relationships to ensure Greater Wellington pays no more than necessary whilst engendering supportive relationships with its banks.
- Monitoring the hedge portfolio and interest rate risk management.
- Raising and renewing funding lines of credit as required by the business.

1.2 Key Issue - items of particular note this quarter

- The OCR remained unchanged at 2.50%. The 90 Day rate ranged from 2.94% to 2.66%, it currently is at 2.93%

- The 5 year interest rate swap ranged from 4.26% to 4.56% and is currently at 4.50%. The 10 year swap ranged from 5.00% up to 5.32% and is currently at 5.10%.

- The $33 million deposits were invested on average during the quarter at 4.44%.

- The Contingency funds for Water and Flood were invested at an average of 4.01%

- The price of Singapore Gas oil (Diesel) in NZ Dollars per barrels was:

30 September 08	$185
30 June 09	$115
31 June 10	$124
31 December 10	$135
31 March 11	$173
30 June 11	$171
1 August 11	$145

- The hedging of this exposure while approved by Council remains complex and is not without risk. The proportion of Diesel in the index under which we pay the service providers has been adjusted from approximately 26% to 14.6%, therefore significantly reducing our exposure to the price movement of Diesel.

- The valuation of swaps was $3.76 million negative in Greater Wellington and about $197,000 negative for WRCH. The negative valuation is due to the 90 day bank bill rate being at 2.66% compared to our average borrowing swap rate of about 5.57%. This position will change going forward as interest rates begin to rise.

- The $44 million of WRCH debt was rolled over at a margin of 7 points (0.07%). WRCH received $108 million in bids and settled with a weighted average interest cost of 2.757%, which is $233,000 p.a. cheaper then direct bank borrowing.

- We raised $13.5 million via issuance of 90 day Commercial Paper to cover the purchase of WRCH shares.

- Greater Wellington’s net debt level decreased by $7.2 million since 30 June 2010. The decrease in net debt is mainly due to receiving reimbursements before the actual payment to the supplier has been made, as well as a slower spend on capital expenditure than budgeted.

- Treasury bases its future fixed rate debt hedging on the future level of debt forecasted. It has become evident over time that the actual debt required by the business for capital expenditure spend is consistently lower than budget. This provides Treasury with a challenge as we have a higher proportion of fixed rate debt than presently desirable at a higher cost. Coupled with this we have significant cash on deposit.

- The Local Government Funding Agency (LGFA) is progressing well with 49 Councils agreeing to be guarantor borrowers, 35 Councils have indicated they want to be shareholders with $31m of potential subscriptions to cover $25m of capital needed. At this stage a Chief Executive is being appointed and legislation is expected to be passed before year end, with the LGFA becoming operational some time in the first quarter of 2011. At this point in time it is uncertain if our $50 million of maturing debt in February 2012 will meet the LGFA timetable. The LGFA establishment Board will shortly be seeking in the vicinity of $100,000 as continuing establishment costs. These funds will form part of our Equity contribution and will bring the amount contributed by Greater Wellington to $200,000.

- The annual insurance renewal for Greater Wellington and Greater Wellington Rail has been completed. It has been a somewhat tortuous process. This year has seen asset values increase (the value going up and amount of assets we have increasing) as well as insurance rates rocketing. This has resulted in our insurance bill increasing from $1.56 million to $4.395 million. We are currently not fully insured for our $488 million of property assets, our current position is:

  Total property assets $488 million:

  40% of total property assets are 100% insured for fire and non earthquake loss, but only 81% of the total (or $390 million of the total) are insured for earthquake loss only.

  60% of total property assets are insured up to $150m for all losses.

  Our initial maximum probably loss (MPL) calculations were based on our assets before the inclusion of $80 million of rail property assets, which at the time was a MPL of $134 million however this has subsequently moved to a MPL to $167 million with their inclusion. We conservatively chose $150m initially but we are currently looking to increase this to $200 million. The premium on this additional $50 million is looking very expensive, a 25% cover share of the additional $50 million has been quoted at $250,000 and $500,000. Aon are currently looking at options to see how we can cover off this risk. We are working with Aon particularly in the Rail rolling stock area as a start, to see how we can reduce our risk and possibly set up a contingency fund.

- Standard & Poor’s visited us in early July. Unfortunately, CentrePort’s $75 million convertible notes did not initially constitute equity for their debt calculations. They gave little indication if our debt would be downgraded due to the increase in the rail package funding. I suspect they will be waiting for our next LTP to see what our long term position will be.

Investment Management – Financial Performance

Investment Management incorporates:

- **Liquid Financial Deposits**
- **WRC Holding Group**
- **Stadium Investment**
- **Administration Properties**
- **Treasury Management – Refer next section for details**

2. Group Financial Summary

Investment Management Financial Performance Statement Year Ending 30 June 2011	**Full Year Actual $000**	**Full Year Budget $000**	**YTD Variance $000**
Rates & Levies	2,676	2,676	-
Investment Revenue	5,077	2,837	2,240F
Internal Debt Interest Recovery	8,835	9,523	688U
Internal Revenue	222	222	-
TOTAL INCOME	**16,810**	**15,258**	**1,553F**
less:			
Materials,Supplies & Services	75	105	31F
Travel & Transport Costs	0	0	-
Contractor & Consultants	193	172	20U
Internal Charges	412	412	-
Total Direct Expenditure	**679**	**689**	**11F**
Finance Costs	5,348	6,838	1,489F
Bad Debts	0	0	-
Reserve Investment Cost	789	734	55U
Depreciation	26	26	-
Total Indirect Expenditure	**6,163**	**7,597**	**1,434F**
TOTAL OPERATING EXPENDITURE	**6,842**	**8,287**	**1,445F**
			-
OPERATING SURPLUS/(DEFICIT)	**9,969**	**6,971**	**2,997F**
			-
Unrealised Revaluation Gains / (Loss)	(2,798)	(306)	2,492U
Grants and Subsidies - Revenue	13,341	14,801	1,460F
Surplus / (Deficit) after non operating items	**20,511**	**21,466**	**955U**

2.1 Financial Performance

The operating surplus for the year ending 30 June was $9.97 million, a favourable variance of $3.0 million when compared with a budget of $6.97 million. Including non operating items the surplus is $20.51 million, which is $955,000 below the budget of $20.47 million. This is primarily due to higher then budgeted unrealised losses on the revaluation of swaps.

2.2 Actual full year variances versus Budget

- **Total income:** Actual year to date income is $16.81 million compared with a budget of $15.26 million, a favourable variance of $1.55 million.

  Investment revenue is $5.077 million, compared to a budget of $2.837 million, giving a favourable variance of $2.240 million. The main reasons are higher interest revenue of $595,000 from money market investments due to pre-funding of debt and an improved working capital position. Interest revenue on the liquid financial deposits is $357,000 above budget due to higher interest margins received. We booked $369,000 of unbudgeted fee revenue for guaranteeing CentrePort debt for 6 months. Additionally it is expected to receive a higher contribution of around $1.061 million from the WRC Holdings Group. This is primarily due to conservative budgeting on CentrePort's dividend payout due to depressed economic conditions when budgets were set and lower interest costs in Port Investments limited.

  The interest recovery for internal loans is $688,000 below budget, which is mainly due to lower then budgeted Capex spending by the organisation.

- **Direct expenditure:** Actual expenditure for the year is $11,000 below budget, which includes an unbudgeted $50,000 contribution to the set up of the Local Government Funding Agency.

- **Indirect expenditure:** Actual expenditure is $6.16 million compared to a budget of $7.6 million, providing a favourable variance $1.44 million. Interest costs are $1.282 million below budget, mainly due to significantly lower borrowing than budget and higher levels of working capital. Swap costs are $207,000 lower below budget due to two receiver swaps switching fixed borrowings into floating providing a greater return than expected. This is offset by a $55,000 higher interest paid to the divisions for their reserves as a result of $2.1 million higher opening reserve balance then budgeted.

- **Grants and subsidies:** The grant from Public Transport to fund the share capital for Greater Wellington Rail (representing 20% of the year to date Matangi project expense) is $1.46 million below the budgeted grant revenue – which was budgeted at 10% of the budgeted project expenditure.

- **Unrealised revaluation gains / (losses):** Unrealised revaluation losses amounted to $2.798 million and were unfavourable to budget by $2.492 million. The breakdown of the revaluations is given below.

	30/06/2010	30/06/2011	Mvmt
Swaps	(1,113,706)	(3,757,028)	(2,643,322)
FX contracts	32,260	(1,423)	(33,683)
Bonds ($33m investments)	33,463,070	33,000,000	(463,070)
Stadium investment	4,270,681	4,612,335	341,654
		Total	**(2,798,421)**

  The revaluation of the swaps, bonds and FX contracts reflects the movement in their value since last year end and also offsets the actual movement in the P&L during the year.

2.3 Capital Expenditure

Investment Management Capital Expenditure Statement Year Ending 30 June 2011	**YTD Actual $000**	**FY Budget $000**	**Variance $000**
Land Acquisitions	-	-	-
Building Acquisitions	-	-	-
Vehicle Acquisitions	-	-	-
Furniture & Fittings Acquisitions	-	-	-
Plant Acquisitions	-	-	-
Computer Equipment Acquisitions	-	-	-
Total Asset Acquisitions	**-**	**-**	**-**
Capital Project Expenditure	252	160	(92)
	0		0
Asset Disposal Cash Proceeds	-	-	-
NET CAPITAL EXPENDITURE	**252**	**160**	**(92)**

The capital expenditure is related to coordinating the project consultant selection process for the new Masterton office project and a new $66,000 un-budgeted emergency generator for the Masterton building.

Treasury Management – Financial Performance

Treasury Management incorporates:

- **Treasury admin (excl staff costs)**
- **Money Market investments**
- **External Debt**
- **Internal Debt**
- **Reserves**
- **Subsidiary Current accounts (interest)**
- **Derivatives**

3. Departmental Financial Summaries and Commentary

Treasury Management Financial Performance Statement Year Ending 30 June 2011	Full Year Actual $000	Full Year Budget $000	Full Year Variance $000
Revenue			
Bank Account Interest Revenue	4	-	4F
Money Market Interest	594	-	594F
Interest Revenue Subs Current Account	19	-	19F
Swap Interest Revenue	(166)	-	166U
Dividends Received	1	11	10U
Internal Debt Interest Recovery	9,748	10,436	688U
TOTAL REVENUE	**10,200**	**10,447**	**246U**
Direct Expenses			
Materials, Supplies & Services	16	16	0U
External Contractors	134	120	14U
Internal Contractors	358	358	-
Total Direct Expenses	**508**	**494**	**15U**
Indirect Expenses			
Financial Costs - Bank OD	-	10	10F
Financial Costs - Money Market	66	-	66U
Financial Costs - Subs Current Acc	101	111	10F
Financial Costs - Committed Line	34	1,176	1,143F
Financial Costs - Bond	4,504	4,504	-
Financial Costs - Other	3	-	3U
Financial Costs - Derivatives	383	590	207F
Financial Costs - Bank Fees & Charges	12	20	8F
Financial Costs - Committed Line Fees	245	426	181F
Reserve Interest (Paid to Departments)	789	734	55U
Total Indirect Expenses	**6,137**	**7,571**	**1,434F**
TOTAL EXPENDITURE	**6,645**	**8,065**	**1,419F**
OPERATING SURPLUS/(DEFICIT)	**3,555**	**2,382**	**1,173F**
Derivatives - Fair value movement	(2,677)	590	3,267U
Loans - Fair value movement	-	(1,238)	1,238F
Unrealised Revaluation Gains / (Loss)	**(2,677)**	**(648)**	**2,029U**
Surplus after non operating items	**878**	**1,734**	**856U**

3.1 Actual full year variances versus Budget

The operating surplus for the year ending 30 June was $3.55 million, a favourable variance of $1.17 million when compared with a budget of $2.38 million. Including non operating items the surplus is $878,000, which is $856,000 below the budget of $1.73 million. This is primarily due to higher then budgeted unrealised losses on the revaluation of swaps

- **Revenue** is $246,000 unfavourable to budget, which is mainly due to $688,000 lower interest revenue on internal loans and $166,000 expense for an investor swap which relates to the $10 million investment in an ANZ 5 year bond which has been swapped into floating rate in anticipation of increasing 90 day rates. These unfavourable variances are offset by $594,000 higher then budgeted interest revenue from money market investments due to pre-funding of debt and improved working capital.

- **Actual direct** expense is $15,000 unfavourable. This is mainly due to a $50,000 contribution to the set up costs of the Local Government Funding Agency (LGFA).

- **Actual indirect expense** is $6.14 million, which is $1.43 million better than the budget of $7.57 million.

  The variance is mainly due to lower than the budgeted interest expense of $1.283 million due to lower borrowing levels and lower costs for interest swaps of $207,000. This is offset by a $55,000 higher interest paid to the divisions for their reserves as a result of $2.1 million higher opening reserve balance then budgeted

4. Unbudgeted Expenditure

The Masterton building now has an emergency power back up generator at a cost of $66,000.

5. Business Plan Performance Indicators

There are no specific performance indicators. Investment management activities are covered by Greater Wellington’s Treasury Management Policy and monitored by the Treasury Management Group. The separate quarterly Treasury Management Review forms part of that monitoring.

6. Business Continuity

Any Business Continuity issues are dealt with in the Finance and Support Group’s management review.

7. Additional Information for Management only

7.1 Staff – Numbers and information

The Investment Management department employs no staff. Any issues are dealt with in the Finance and Support Group’s management review.

7.2 Staff – Long Service Leave

The Investment Management department employs no staff. Any issues are dealt with in the Finance and Support Group’s management review.

7.3 Health and Safety

The Investment Management department employs no staff. Any issues are dealt with in the Finance and Support Group’s management review.

7.4 Other Matters

Risk management is reported in the Finance and Support Group’s quarterly review. A section devoted to Quantate and the identified risks the division faces is discussed.