Attachment 2 to Report 14.599

Investment Management

Performance Report ended 30 September 2014

1427731

1 EXECUTIVE SUMMARY FOR RISK AND ASSURANCE COMMITTEE

1.1 Group overview

Business as usual activities and functions carried out by the Investment Management Group included:

- Investing surplus funds and contingency funds
- Managing GWRC's debt portfolio and interest rate risk, ensuring adequate cash is available, relationships with bankers and rating agencies
- Monitoring CentrePort and the Stadium Trust and completing the WRC Holdings Group Statement of Intent and reporting to its Board
- Managing the Council's Treasury function, interest rate risk and FX risk
- Co-ordinating the Council’s risk management, and management of the policy on project management
- Managing and coordinating the Council's Insurance programme.

1.2 Key results for the quarter

Investment Management has seen the 90 day interest rate increase by 25 points (0.25%) since the beginning of the financial year. The long term interest rates however declined which has enabled us to add additional long term hedges to our portfolio.

During the quarter we raised $30 million to cover maturing term debt. This was via the LGFA for a term of 8.5 years maturing in April 2023 with a margin of 0.5950%.

The cutting rights to our forests were sold in July and the proceeds of $40.1 million were used to repay debt and to invest around $7 million in the MDBI Property Contingency Insurance Fund.

The 30 June 2014 financial statements for the WRC Holdings group of companies were completed with an unqualified audit opinion and we received a favourable management report from audit.

A number of interest rate hedges were taken out during the quarter. These were to provide a base level of hedging to protect the Council against rising interest rates.

1.3 Achievement/s during the quarter

Market rates and hedging – Changes during the quarter

The Official Cash Rate (OCR) was increased by the Reserve Bank of New Zealand on 24 July 14 by 0.25% to 3.50% and is expected to stay at that level for at least till September 2015. The 90 day rate ranged from 3.63% to 3.74%, currently it is at 3.70%.

The 5 year interest rate swap ranged from 4.15% to 4.66% and is currently at 4.16%.

The 10 year swap ranged from 4.29% to 4.99% and is currently at 4.40%.

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

31 December 12	$151
30 June 13	$155
30 June 14	$139
30 September 14	$140

The price of Diesel in New Zealand dollars remained static over the quarter at around $140 per barrel and is trading presently around $125 per Barrel as we write this report, with the main move coming from a lower fuel price.

The proportion of Diesel in the index, under which we pay the service providers, is approximately 15%, which leaves us with a relatively small risk exposure.

The valuation of swaps was $4.5 million negative (June 2014: $137,000 negative) in the Council and about $15,000 positive (June 2014: $73,000 positive) in WRC Holdings (WRCH).

The negative valuation is due to our contract swap rates being higher than the equivalent actual market rates. Our average borrowing swap rate per end of September is 4.82% for all the Council swaps currently being used. The big movement in the valuation reflects the general downward trend in long term interest rates, during the last quarter.

During the quarter we entered in the following borrower swaps:

$5 million @ 5.0400% from 15.09.15 to 15.09.24 (9.0 years) with CBA

$10 million @ 5.1250% from 15.11.16 to 15.11.24 (8.0 years) with BNZ

$15 million @ 4.9600% from 15.12.16 to 15.12.26 (10.0 years) with ANZ

$10 million @ 4.9750% from 15.02.17 to 15.02.27 (10.0 years) with BNZ

$10 million @ 4.7875% from 15.07.17 to 15.07.27 (10.0 years) with Westpac

$10 million @ 4.8500% from 15.07.17 to 15.07.28 (11.0 years) with Westpac

We continue to look for opportunities to add some additional cover in line with our advisor's recommendations and are in compliance with our new debt interest rate policy targets.

We have now covered $140 million (88%) of the peak $160 million debt requirement. This provides an average base hedge rate for the new Matangi trains of 4.91% for a weighted average period of 7.66 years.

We had previously reported this separately as it was specifically approved by Council being outside Treasury Policy.

The abovementioned hedging since June 14 now forms part of our overall portfolio within our newly approved debt interest rate policy limits. We will no longer report on the Matangi debt which now forms part of our future debt portfolio.

We continue to face a number of challenges; firstly, cash flows are uncertain; secondly, there is a large premium to hedge forward and thirdly, the forecasted peak for the 90 day rate is below the current rates we can hedge at.

We were not fully compliant with our Treasury Management Policy in September 2014. This due to a breach in the 1–3 year band of the Funding Risk Control Limit. This Funding Risk Control Limit is designed so Council's debt maturities are spread out, which avoids a concentration of refinancing risk at any one time. Any maturing investments are also offset against maturing debt to provide a net position. The Policy requires us to have a net maturity of debt between 15% and 60% for the 1-3 year band. The actual net maturity however is 14%, just below the required minimum. The reason for the high level of short term investments related to the forestry cutting right sale.

The breach in context is not a bad thing. In time as maturing debt moves in to the 1-3 year band and we use up the forestry proceeds the % will rise in this 1-3 year band.

Investments

The $33 million liquid deposits were invested during the quarter on average at about 4.76%.

The contingency funds for the water group and the flood group amount to $25.9 million and are invested with an average rate of 4.75%.

The recently established Material Damage Business Interruption (MDBI) property contingency fund stood at $7.9 million at the end of September and funds were invested at an average rate of 4.79%. A further $221,000 was added to this fund to bringing it to $8.1 million after the final forestry cutting rights receipts in early October.

The MDBI fund was established to cover the Council Insurance excess in case of a seismic event. We had previously increased the Council's excess from $10 million to $20 million saving in the vicinity of $300k per year on insurance premiums.

The MDBI property contingency fund complements an earlier fund set up which banked the above mention insurance premium saving from increasing the excess from $10m to $20m. This fund has merged in with MDBI property contingency fund, with the exception of the water contribution which remains and its balance was $195,000 at 30 September earning 4.55%.

Water continues to add to this fund, but Council has ceased, given the forestry proceeds injection.

Debt

The Gross Debt Level of GWRC including WRC Holding's $44 million stood at $265.3 million at 30 September (June 2014: $245.6 million). After deducting money market and short term investments, as well as $33 million Liquid Financial Deposits, but not the contingency investments and LGFA borrower notes, the Net Debt was $187.3 million (June 2014: $212.6 million). This is a decrease of $25.3 million when compared to 30 June 2014. The decrease is due to the forestry cutting rights receipts, offset by capital expenditure and debt reduction during the quarter.

During the quarter we repaid a $25 million maturing Floating Rate Note (FRN) via issuing a Commercial Paper (CP). This CP in turn with other short term debt was repaid at maturity with $30 million of LGFA debt due April 2023. At the end of September we had $39.5 million of Commercial Paper issued.

The $44 million of WRC Holdings debt was rolled over at a margin of 10 points (0.10%). WRC Holdings received $71.0 million in bids (June 14: $79.5 million) and settled with a weighted average interest cost of 3.877%, which is $220,000 per annum cheaper than direct bank borrowing.

Banking relationships

Our transactional bankers after much deliberation agreed to provide interest revenue on our main operating bank account at the same rate as that offered on the short term money market, essentially the OCR rate.

This has provided us with some operation efficiency meaning we don't have to transfer any excess funds from or operating account to our money market each day.

We continue to pursue the bank to enable us to load our credit line on to our operating account as well.

Local Government Funding Agency (LGFA)

The LGFA has just completed its twenty third debt issuances since its inaugural issuance in February 2012, bringing its total bonds on issue to around $4.25 billion.

The LGFA is moving from a back to back lender with 6 bond maturity dates to a more customer focused institution offering maturities to suit its customers. It is also looking to issue commercial paper to the market, which will provide Councils with further borrowing option.

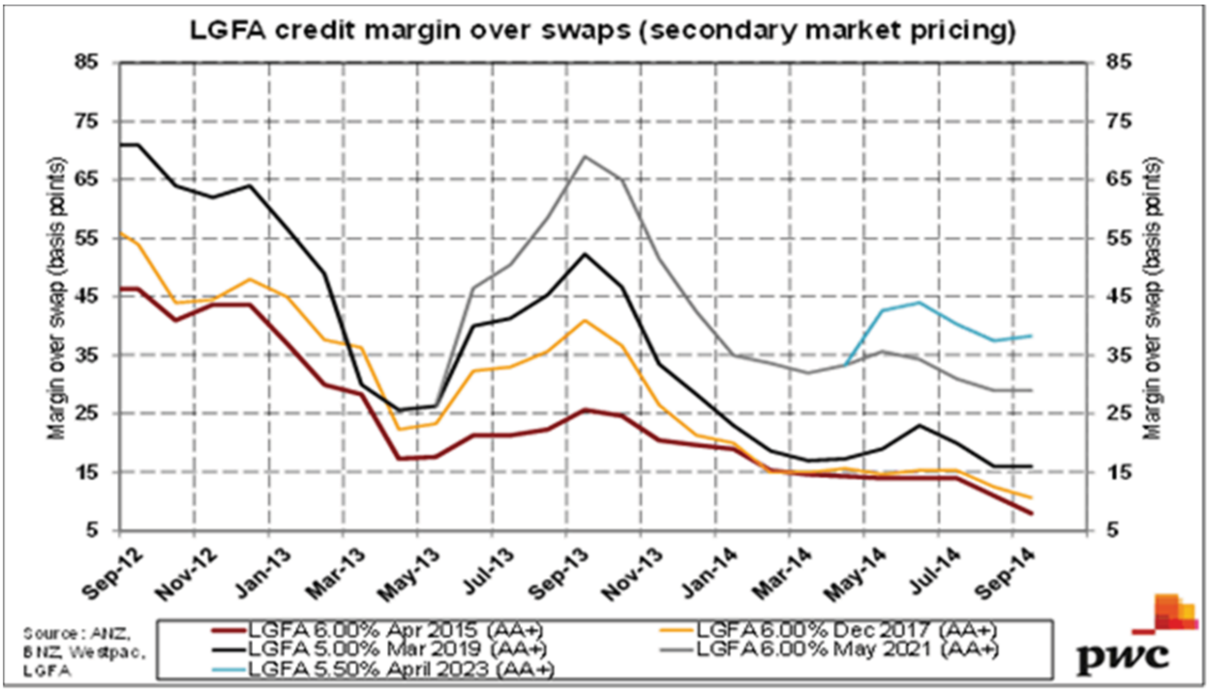
This move was prompted by the Shareholders Council and the work we have been doing to assist borrowers and steer the LGFA.

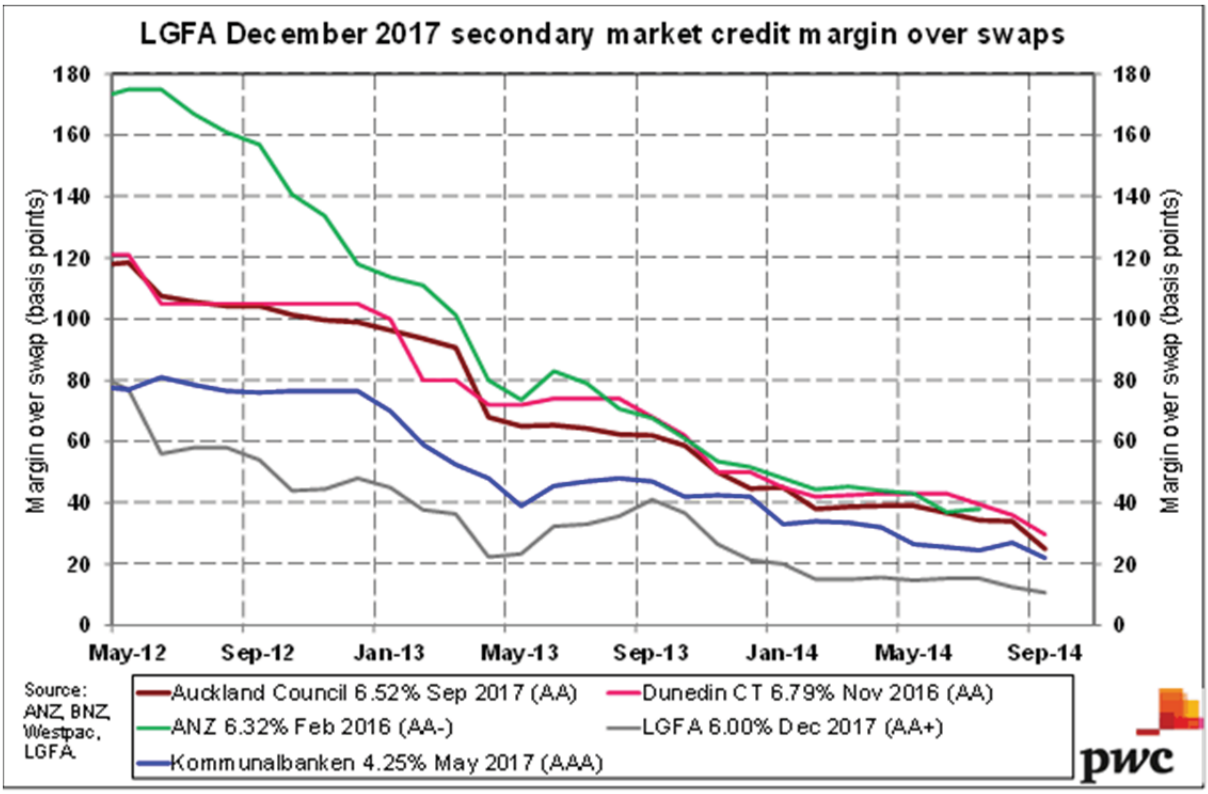
In light of the above changes the LGFA has requested changes to its Treasury Policy which will be voted on at the Annual General Meeting in late November.

The debt margins have been grinding lower for some time now as can be seen from the two attached charts. We are looking to take advantage of this and will be refinancing (potentially prefunding) our April 2015 from them soon.

Overseas investors have been specifically targeted by the LGFA which is assisting with the LGFA margin reduction. Overseas investors now make up around 20% of their lenders.

As the volume of LGFA bonds increase the more attractive they become to these investors, as the liquidity in the bonds increases making it easier for Investors to move large volumes of bond without significant pricing movement.





Insurance

Local Government New Zealand is progressing work with a sector approach to potentially buy insurance collectively and dealing with related issues such as Government support, and risk management strategies around a seismic response.

The Treasurer and Acting CFO is providing input into the Insurance Market Working Group which has met three times since its establishment. It has heard from a number of presenters including Transpower, BOP Insurance Collective, Waimakariri DC, General Manager LAPP, and Risk Pool Chair.

Recent work has focused on risk management in the sector and how this might be improved and progressed as improving on this will lessen the need for Insurance and or reduce the cost of insurance.

Our Council has been doing this to some extent e.g. by identifying the earthquake prone buildings and bringing them up to code. We also have a risk management frame work in place which identifies risks, which in turn requires controls to mitigate them.

The final balance that we applied to the MDBI Contingency fund from the forestry proceeds ended up at $7.756 million. This balance form part of our contingency funds to meet our $20 million insurance excess on our property in the case of an earthquake.

Over the next two quarters we will be seeking a Maximum Probable Loss (MPL) calculation assessment for our above ground assets from the private sector and will progress with developing an Insurance Strategy.

Risk Management

In the 2nd quarter we will update the Risk and Assurance Committee on the Council's risks with a detailed presentation from the Transport Group on their risks and the strategies they adopt to mitigate them.

Project Management

The findings from recently completed post project reviews were received by ELT and summaries subsequently sent out to project managers and ELT for distribution. These were received as good learning tools, such that project managers can learn from the findings other project managers have experienced.

The Project Management policy will be updated once the new Health and Safety legislation is finalised with a section also being added in relation to potential engagement with the community in relation to projects undertaken.

Subsidiary companies

The financial statements for the year ended 30 June 2014 whose preparation formed a large part of the quarters work were completed on time and we received an unqualified audit opinion and a favourable management report with no adverse comments.

Rating Agency- Standard & Poor's

A presentation was provided to Standard & Poor's in late August, and feedback from them was positive in terms of what we had provided. There was no indication from them that our rating would be adjusted and remains at a strong AA/ A-1+. The only area of risk remains our steeply projected increasing debt profile.

2 GROUP FINANCIAL SUMMARY

2.1 Financial summary to date

Investment Management delivered a $2.3 million surplus, which is $121,000 unfavourable to budget.

Total income is $92,000 unfavourable to budget, mainly due to $472,000 lower interest revenue from internal loans which is offset by $380,000 higher investment revenue.

Total direct expenditure is $8,000 above budget which is mainly due to some late costs relating to the moving of the generator from Pringle House to Shed39.

Total indirect expenditure is $21,000 above budget due to having paid more interest on reserves which are at a higher balance then budgeted.

The above consolidate in an operating surplus which is $121,000 below budget.

2.2 Group consolidated financial statements

Investment Management Income Statement For the year ended 30 June 2014	30 September 2014 Actual $000	 Budget $000	 Variance $000	Full Year Forecast $000	 Budget $000	 Variance $000	Last Year YTD Actual $000	 FY Actual $000
Rates & Levies	669	669	-	2,676	2,676	-	669	2,676
Investment Revenue	1,189	810	380	5,911	5,295	617	779	6,059
Internal Debt Interest Recovery	3,348	3,820	(472)	15,268	15,278	(10)	3,345	14,141
Internal Revenue	152	152	(0)	608	608	-	152	607
TOTAL INCOME	**5,358**	**5,450**	**(92)**	**24,464**	**23,857**	**606**	**4,945**	**23,483**
Materials,Supplies & Services	36	41	6	(85)	(85)	-	19	(231)
Travel & Transport Costs	0	0	-	0	0	-	0	0
Contractor & Consultants	60	46	(13)	205	205	-	77	401
Internal Charges	104	104	-	416	416	-	101	406
Total Direct Expenditure	**199**	**192**	**(8)**	**536**	**536**	0	**198**	**576**
External Finance Costs	2,545	2,542	(2)	10,719	10,724	5	2,203	9,419
Bad Debts	0	0	-	0	0	-	0	0
Internal Reserve Investment Cost	242	222	(21)	966	886	(80)	229	943
Depreciation	81	83	2	333	333	-	6	21
Loss(Gain) on Assets / Investments	0	0	-	0	0	-	0	0
Total Indirect Expenditure	**2,868**	**2,847**	**(21)**	**12,018**	**11,943**	(75)	**2,438**	**10,382**
TOTAL OPERATING EXPENDITURE	**3,068**	**3,039**	**(29)**	**12,555**	**12,480**	(75)	**2,636**	**10,958**
OPERATING SURPLUS/(DEFICIT)	**2,291**	**2,412**	**(121)**	**11,909**	**11,378**	**531**	**2,309**	**12,524**
Unrealised Revaluation Gains / (Loss)	0	0	-	159	159	-	0	3,868
Grants and Subsidies - Revenue	0	0	-	0	0	-	0	0
Surplus / (Deficit) after non operating items	**2,291**	**2,412**	**(121)**	**12,068**	**11,537**	**531**	**2,309**	**16,392**

Investment Management Capital Expenditure Statement For the 3 months ending 30 September 2014	YTD as at 30 June 2014 Actual $000	 Budget $000	 Variance $000	Full Year Forecast $000	 Budget $000	 Variance $000	Last Year YTD Actual $000	 FY Actual $000
Total Asset Acquisitions	13	-	(13)	-	-	-	-	-
Total Capex (AUC movement)	-	-	-	-	-	-		-
Asset Disposal Cash Proceeds	-	-	-	-	-	-	-	-
Net Capital Expenditure	**13**	**-**	**(13)**	**-**	**-**	**-**	**54**	**2,328**

2.3 Departmental financial summary and variance analysis

Total income is $92,000 unfavourable to budget, which is mainly due to $472,000 lower interest revenue from internal loans, due to a large portion of the Capex spending taking place in the later months of the year. From a consolidated Council perspective the internal interest revenue variance eliminates as it is offset by an equal and opposite variance in the Groups.

Investment Revenue is running $380,000 favourable to budget and this is mainly due to interest received on prefunded debt. The rates achieved on existing investments particularly the forestry proceeds were at higher rates than budget as some banks continue to pay well above their benchmarks.

Total direct expenditure is $8,000 unfavourable to budget, mainly due to some late costs relating to the moving of the generator from Pringle House to Shed39.

Total indirect expenditure is $21,000 unfavourable to budget. This is mainly due to interest costs for internal reserves being above budget. The reserve opening balance is higher than budgeted and this is creating a higher interest expense.

The total cost for our external debt is on budget, with the timing of capital expenditure offsetting the prefunding of debt.

As a result of the above variances the operating surplus before non-operating items is $121,000 below the budgeted amount of $2.41 million.

Capital expenditure is $13,000 for the year and mainly relates to a final invoice for the fitout of Shed 39.

2.4 Forecast

The forecast is for a year end surplus of $12.07 million, which is $531,000 above the $11.54 million budgeted profit.

Total Income is forecasted to be $606,000 higher, mainly due to $617,000 higher interest revenue from short term investments stemming from the prefunding of debt. This is offset by slightly lower revenue from internal loans.

Total Indirect Expenditure is forecasted to be $75,000 above budget, which is due to interest paid on the businesses Reserves being $80,000 more than budget due to higher opening balances. Finance costs would be lower than budget had we not prefunded debt.

3 KEY PERFORMANCE INDICATORS

3.1 Key performance indicators as at 30 September 2014

The financial covenants of the LGFA and those in our Treasury Management Policy are as follows:

- Net Interest Expense / Total Revenue < 20%
- Net Debt / Total Revenue < 250%
- Net interest / Annual Rates and Levies < 30%
- Liquidity > 110%

As at 30 September we were fully compliant in all three ratios, with ample head room.

See attachment 1.

Debt Interest Rate Policy Parameters

During the quarter we entered into six forward starting long dated swaps with a total volume of $60 million. This increased our hedge profile and we are now compliant in each year.

Debt Interest Rate Policy Parameters

	Debt Period Ending	Forecasted Debt Amount	Minimum fixed Debt	Maximum fixed Debt	Actual	Compliant (Y/N)
30/09/14	Current	222	50%	95%	72.9%	Yes
30/09/15	Year 1	281	45%	95%	62.9%	Yes
30/09/16	Year 2	387	40%	90%	67.1%	Yes
30/09/17	Year 3	437	35%	85%	60.6%	Yes
30/09/18	Year 4	518	30%	80%	46.3%	Yes
30/09/19	Year 5	569	25%	75%	34.2%	Yes
30/09/20	Year 6	591	15%	70%	27.1%	Yes
30/09/21	Year 7	606	5%	65%	19.8%	Yes
30/09/22	Year 8	611	0%	60%	18.8%	Yes
30/09/23	Year 9	613	0%	55%	14.7%	Yes
30/09/24	Year 10	619	0%	50%	12.9%	Yes
30/09/25	Year 11	610	0%	25%	9.0%	Yes
30/09/26	Year 12	603	0%	25%	1.7%	Yes
30/09/27	Year 13	591	0%	25%	0.0%	Yes
30/09/28	Year 14	588	0%	25%	0.0%	Yes

Net External debt per Capita

Although not required under the Treasury Management Policy, we continued to calculate this ratio. The net external debt per capita is $217, which is $67 lower than in June 14.

Historical benchmark rate by APRM – no margin

Due to changes to the abovementioned Debt Interest Rate Policy Parameters approved by Council in June our Treasury Advisors subsequently updated our Treasury funding benchmark calculation.

The new interest rate benchmark is calculated as the average 7 year swap rate. During the past 7 years this rates computes at 5.07% as at 30 September 14. The Council can hedge out to 15 years under the revised Treasury Policy hence the logic of having the benchmark at 7 years. The Council's cost of funds declined slightly from 4.35% to 4.33%, which is 0.74% below the new benchmark.

3.2 Historic key performance indicators

See attachment 2.

3.3 Project Report

There are no projects to report in Treasury.

Attachment 1

Key Performance Indicators
As at 30 September 2014

	Benchmark/ Limits Per TMP.	Actual Sep-14	Actual Jun-14	Actual Mar-14	Actual Dec-13	Actual Sep-13	Actual Jun-13	Actual Mar-13	Actual Dec-12	Actual Sep-12	Benchmark/ Limits Per TMP up to 30.06.12	Actual Jun-12	Actual Jun-11	Actual Jun-10	Actual Jun-09
Debt - Interest Rate Risk Control limits															
Fixed net interest rate debt and swaps to the total forecasted debt in 12 month time	**40% - 95%**	n/a	123%	94%	90%	95%	85%	84%	69%	74%	**40% - 95%**	76%	69%	83%	102%
Debt - Fixed Rate Maturity Profile Limits															
1 - 3 years	**15 - 60%**	n/a	23%	18%	15%	11%	13%	15%	20%	23%	**15 - 60%**	20%	19%	16%	26%
3 - 5 years	**15 - 60%**	n/a	24%	32%	40%	43%	41%	49%	37%	41%	**15 - 60%**	44%	27%	25%	4%
> 5 years	**0 - 60%**	n/a	52%	50%	44%	46%	46%	36%	43%	36%	**10 - 60%**	36%	54%	59%	70%
Funding and Liquidity risk															
0 - 3 years	**15 - 60%**	14%	41%	25%	23%	40%	44%	47%	50%	41%	**10 - 60%**	30%	38%	28%	86%
3 - 5 years	**15 - 60%**	48%	38%	53%	43%	28%	32%	36%	35%	27%	**20 - 60%**	32%	18%	50%	0%
> 5 years	**10 - 60%**	38%	21%	23%	35%	32%	24%	17%	16%	32%	**15 - 60%**	37%	44%	22%	14%
Investing - Repricing liquid financial investments															
0 - 1 years	**40 - 100%**	100%	100%	100%	100%	100%	100%	100%	100%	100%	**40 - 100%**	100%	100%	100%	35%
1 - 3 years	**0 - 60%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0 - 60%**	0%	0%	0%	65%
3 - 5 years	**0 - 40%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0 - 40%**	0%	0%	0%	0%
5 - 10 years	**0 - 20%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0 - 20%**	0%	0%	0%	0%
Borrowing Limit compliance under new treasury policy - starting 01.07.14															
Net Interest Expense / Total Revenue	< 20%	2%	2%	3%	3%	2%	2%	2%	2%	1%	**n / a**	1%	1%		
Net Debt / Total Revenue	< 250%	49%	58%	57%	55%	60%	55%	47%	47%	33%	**n / a**	18%	14%		
Net interest / Annual rates and levies	< 30%	4%	5%	5%	5%	4%	4%	3%	3%	3%	**n / a**	3%	3%		
Liquidity Ratio	**> 110%**	131%	133%	132%	134%	135%	135%	139%	143%	149%	**> 110%**	152%	162%	139%	163%
Debt ratios under expired treasury policy															
Net External Debt per Capita	**$400**	$217	$284	$254	$243	$268	$243	$215	$216	$152	**$400**	$113	$85	$104	$88
Net External Debt / Rates & Levies	**210%**	87%	118%	105%	102%	113%	104%	92%	93%	65%	**210%**	50%	39%	48%	41.4%
Net Interest Expense / Rates & Levies	**25%**	4%	5%	5%	5%	4%	4%	3%	3%	3%	**25%**	3%	1%	0.7%	0.8%
Historical benchmark Rate by PWC - no margin 1)		5.07%	4.06%	4.06%	3.99%	3.89%	4.00%	4.05%	3.96%	4.26%		4.56%	5.35%	5.82%	6.05%
Cost of Funds (GW) - no margin, excl Govt loans		4.33%	4.36%	4.13%	3.90%	3.72%	4.04%	3.91%	3.93%	4.01%		4.31%	4.74%	4.46%	3.97%
Cost of Funds (GW) - incl margin, excl Govt loans		4.88%	4.88%	4.68%	4.47%	4.29%	4.65%	4.45%	4.44%	4.57%		4.95%	5.42%	5.26%	4.65%
Variance to Benchmark (Unfavourable)		0.74%	-0.30%	-0.06%	0.09%	0.17%	-0.04%	0.14%	0.03%	0.25%		0.25%	0.61%	1.36%	2.08%

1) Due to the changes to the Treasury Policy in June 14, the benchmark calculation was updated and from September 14 onwards is calculated as the average 7 year swap rate during the past 7 years.

History of Key Performance Indicators

	Benchmark/ Limits Per old TMF	Actual Sep-14	Actual Jun-14	Actual Mar-14	Actual Dec-13	Actual Sep-13	Actual Jun-13	Actual Dec-12	Actual Jun-12	Actual Jun-11	Actual Jun-10	Actual Jun-09	Actual Jun-08	Actual Jun-07	Actual Jun-06	Actual Jun-05	Actual Jun 04	Actual June 03	Actual June 02	Actual June 01	Actual June 00
Core Council																					
Net External Debt per Capita	**$400**	$217	$284	$254	$243	$268	$243	$216	$113	$85	$104	$88	$55	$48	$11	$4	$11	$24	$49	$66	$83
Net External Debt / Rates & Levies	**210%**	87%	118%	105%	102%	113%	104%	93%	50%	39%	48%	41%	27%	26%	5.8%	2.0%	6.5%	13.9%	28.5%	38.8%	56.5%
Net Interest Expense / Rates & Levies	**25%**	3.5%	5.0%	4.7%	4.8%	4.0%	3.5%	3.1%	2.6%	1.0%	0.7%	0.8%	0.2%	1.1%	0.3%	0.8%	2.4%	3.6%	5.1%	4.9%	7.4%
Average Interest Rate on Debt (WACD) (includes Crown Loans)		4.5%	4.5%	4.3%	4.0%	4.1%	4.3%	4.1%	4.5%	4.8%	4.6%	4.6%	6.0%	7.1%	7.5%	7.5%	7.2%	7.3%	7.7%	7.8%	7.8%

greater WELLINGTON

REGIONAL COUNCIL

Te Pane Matua Taiao