Attachment 2 to Report 15.92

Investment Management

Performance Report ended 31 December 2014

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 took out a total of $100 million of swaps. These ranged from 7 to 11 years and extended existing swaps. The rates were around 4.60% with the swaps starting in 2017. These swaps are to provide a base level of protection for Council against rising interest rates in the years to come.

Work has begun on developing our Insurance Strategy. Valuations of assets and Maximum Probable Loss calculations are underway ready for the 2015/16 year.

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 some time. The next move could be either down or up depending on the economic data, as presently it is evenly balanced between low inflation now on one hand and strong economic growth leading to higher inflation on the other. The 90 day rate ranged from 3.65% to 3.70%, currently it is at 3.64%.

The 5 year interest rate swap ranged from 4.03% to 4.31% and is currently at 3.70%.

The 10 year swap ranged from 4.05% to 4.53% and is currently at 3.80% as of mid February.

The valuation of swaps was $14.2 million negative (June 2014: $137,000 negative) in the Council and about $25,000 negative (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 December is 4.80% for all the Council swaps currently being used.

The big movement in the valuation reflects the continued downward trend in long term interest rates, during the last quarter.

The medium and long term interest rates continued to decline significantly to historical lows in January. The main contributors were the large drop in the price of oil, continued issues in both Ukraine and Greece with the EU announcing a Quantitative Easing programme of around US$60 billion per month. This was offset to some extent by a stronger US economy lead by increasing employment and low inflation, which in turn is expected to see a rise in US interest rates by the Federal Reserve this year. US interest rates are a key driver of New Zealand long term rates.

During the quarter with advice from PWC we entered in the following borrower swaps:

$10 million @ 4.7675% from 15.06.17 to 15.06.26 (9.0 years) with BNZ

$10 million @ 4.7650% from 15.06.17 to 15.06.27 (10.0 years) with ANZ

$20 million @ 4.7125% from 15.09.17 to 15.12.25 (7.25 years) with Westpac

$20 million @ 4.4475% from 15.12.17 to 15.06.26 (8.5 years) with ANZ

$20 million @ 4.4950% from 15.03.18 to 15.03.25 (7.0 years) with ANZ

$10 million @ 4.5100% from 15.02.18 to 15.02.29 (11.0 years) with BNZ

$10 million @ 4.4600% from 15.02.18 to 15.02.29 (11.0 years) with BNZ

We continue to look for opportunities to add some additional cover and are in compliance.

In recent weeks the cost of forward starting swaps has decreased significantly. We continue to add new swaps in line with our advisor's recommendations to bring our long term cost of funds down, given the historically low interest rate environment.

We remain fully compliant with our with our debt interest rate parameters as per our Treasury Management Policy.

Investments

The $33 million liquid deposits were invested during the quarter on average at about 4.74%.

The $21.7 million contingency funds for the water group are invested at an average rate of 4.70% and the $4.9 million contingency funds for the flood division are invested at 4.50%.

The recently established Material Damage Business Interruption Contingency fund of the council is now $7.9 million and is invested at an average rate of 4.77% as at 31 December 14.

The Council 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 31 December earning 4.55%.

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

Debt

The Gross Debt Level of GWRC including WRC Holding's $44million stood at $265.3 million at 31 December (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 $192.3 million (June 2014: $212.6 million). This is a decrease of $20.3 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 first half year.

During the quarter were only minor transactions in our debt portfolio which consisted of rolling maturing Commercial Paper.

The $44 million of WRC Holdings debt was rolled over at a margin of 10 points (0.10%). WRC Holdings received $125.0 million in bids (September 14: $71.0 million) and settled with a weighted average interest cost of 3.826%, which is $220,000 per annum cheaper than direct bank borrowing.

We have our $25 million of debt maturing on 15 April which is the sectors first LGFA debt maturity. We are intending to refinance this with the LGFA on this date and at considerably lower credit margins.

Local Government Funding Agency (LGFA)

The LGFA has just completed its twenty fifth debt issuances since its inaugural issuance in February 2012, bringing its total bonds on issue to around $5.55 billion.

Historically the LGFA only offered lending on specified tender dates with a limited number of standard LGFA debt maturities. From 4th February onwards they additionally offer bespoke lending to Councils. This means that Councils can have a choice of the timing of their borrowing from the LGFA and can borrow to their preferred maturity date.

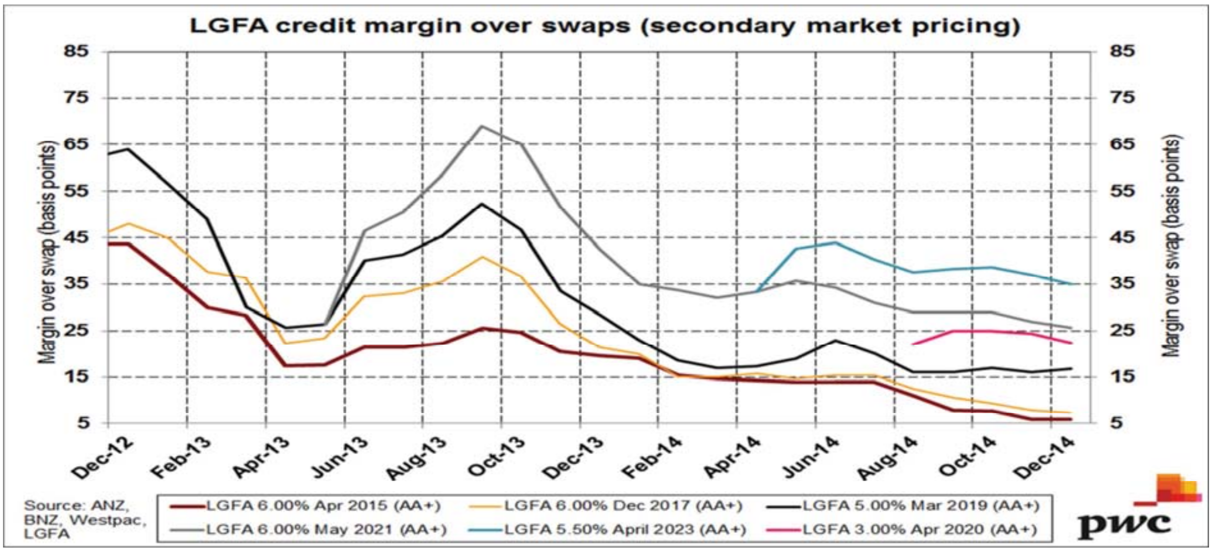
The LGFA is also looking to issue commercial paper to the market, which will provide Councils with further borrowing option. Operationally the LGFA is in the process of implementing a new Treasury Management and Settlements Systems, as the DMO as their current provider will stop supporting the current system.

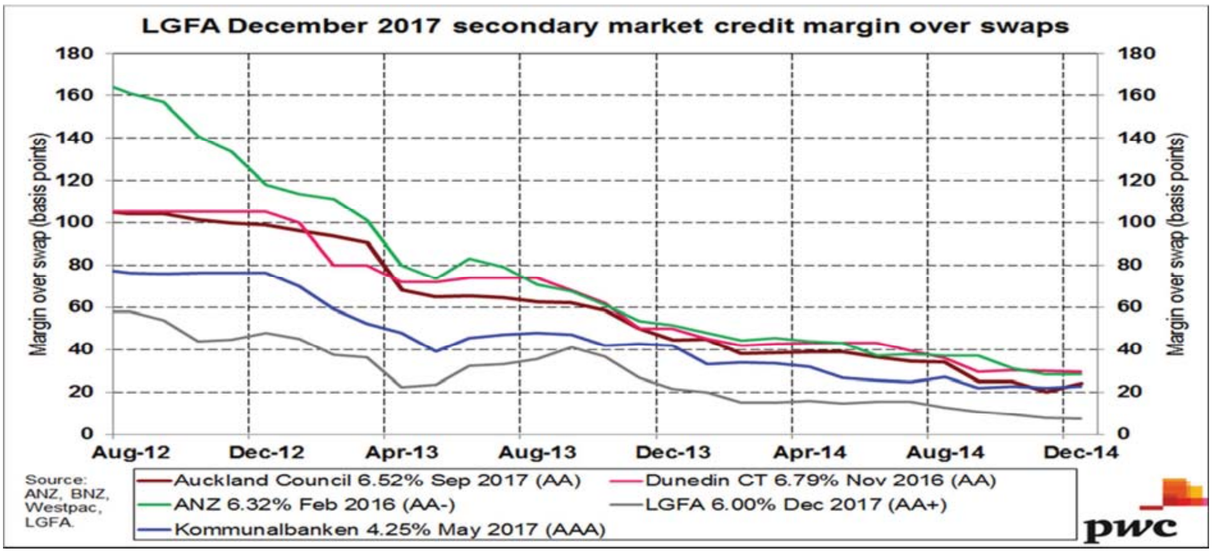
These changes were in response to the Shareholders Council and the work we have been doing to assist borrowers and steer the LGFA. The Shareholders Council will receive the SOI 2015/16 from the LGFA in the latter part of February.

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 our April 2015 Debt maturity from the LGFA.

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 increases, the more attractive they become to these investors, as the liquidity in the bonds increases. This in turn is making it easier for Investors to move large volumes of bonds without significant price 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 four 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.

John Sloan of Sloan Risk Management has been appointed to assist us with the development of an Insurance strategy. This work is presently underway and includes a brief review of our insurance policies.

We have appointed Aon assisted by Tonkin&Taylor to provide a Maximum Probable Loss calculation for above ground assets including water treatment plants, buildings and structures.

We have also appointed Aon to provide a Maximum Probable Loss for of Flood Protection assets i.e. stop banks and the like. This will assist us with determining the level of funds we should retain in case of a major event.

An insurance valuation is presently underway on our above ground assets to inform our Insurance value for our Material Damage Insurance premium.

Risk Management

During the quarter we updated the Risk and Assurance Committee on the Council's risks with a detailed presentation from the Flood Protection Group on their risks and the strategies they adopt to mitigate them.

Subsidiary companies

A Draft Statement of Corporate Intend (SOI) for the WRCH Group of companies is currently been prepared for the WRCH Board. This will also inform the LTP.

2 GROUP FINANCIAL SUMMARY

2.1 Financial summary to date

Investment Management delivered a $4.75 million surplus, which is $68,000 favourable to budget.

Total income is $22,000 unfavourable to budget, mainly due to $874,000 lower interest revenue from internal loans which is offset by $852,000 higher investment revenue.

Total direct expenditure is $2,000 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 $93,000 below budget due to having borrowed less debt than budgeted resulting in lower finance costs.

The above consolidate in an operating surplus which is $68,000 above budget.

2.2 Group consolidated financial statements

Investment Management	YTD as at 31 December 2014			Full Year			Last Year	
Income Statement	Actual	Budget	Variance	Forecast	Budget	Variance	YTD Actual	FY Actual
For the 6 months ending 31 December 2014	$000	$000	$000	$000	$000	$000	$000	$000
Rates & Levies	1,338	1,338	-	2,676	2,676	-	1,338	2,676
Investment Revenue	2,507	1,655	852	6,477	5,295	1,183	4,173	6,059
Internal Debt Interest Recovery	6,766	7,639	(874)	14,392	15,278	(887)	6,844	14,141
Internal Revenue	304	304	(0)	608	608	-	303	607
TOTAL INCOME	**10,915**	**10,937**	**(22)**	**24,153**	**23,857**	**296**	**12,658**	**23,483**
Materials,Supplies & Services	54	82	28	(75)	(85)	(10)	42	(231)
Travel & Transport Costs	0	0	-	0	0	-	0	0
Contractor & Consultants	123	93	(31)	254	205	(49)	171	401
Internal Charges	208	208	-	416	416	-	203	406
Total Direct Expenditure	**385**	**383**	**(2)**	**595**	**536**	**(59)**	**416**	**576**
External Finance Costs	5,133	5,263	130	10,647	10,724	77	4,751	9,419
Bad Debts	0	0	-	0	0	-	0	0
Internal Reserve Investment Cost	485	443	(41)	886	886	0	459	943
Depreciation	162	166	5	333	333	-	11	21
Loss(Gain) on Assets / Investments	0	0	-	0	0	-	0	0
Total Indirect Expenditure	**5,780**	**5,872**	**93**	**11,866**	**11,943**	**77**	**5,221**	**10,382**
TOTAL OPERATING EXPENDITURE	**6,165**	**6,256**	**90**	**12,461**	**12,480**	18	**5,637**	**10,958**
OPERATING SURPLUS/(DEFICIT)	**4,750**	**4,681**	**68**	**11,692**	**11,378**	**314**	**7,021**	**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	**4,750**	**4,681**	**68**	**11,851**	**11,537**	**314**	**7,021**	**16,392**

Investment Management Capital Expenditure Statement For the 6 months ending 31 December 2014	YTD as at 31 December 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	2,427	-	(2,427)	-	-	-	-	-
Capital Project Expenditure	11	-	(11)	-	-	-	1,759	2,328
Asset Disposal Cash Proceeds	-	-	-	-	-	-	-	-
Net Capital Expenditure	**2,438**	**-**	**(2,438)**	**-**	**-**	**-**	**1,759**	**2,328**

2.3 Departmental financial summary and variance analysis

Total income is $22,000 unfavourable to budget, which is mainly due to $874,000 lower interest revenue from internal loans, due to a large portion of the Capex spending expected to take 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 $852,000 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 $2,000 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 $93,000 favourable to budget. This is mainly due to external finance costs being $130,000 below budget, offset by $41,000 higher interest costs for internal reserves. The lower external debt borrowing is the main reason for the lower finance costs.

As a result of the above variances the operating surplus before non-operating items is $68,000 above the budgeted amount of $4.681 million.

Capital expenditure is $13,000 for the year and mainly relates to a final invoice for the fit out of Shed 39. The $2.4 million (budgeted capex in 2013/14) asset acquisition is the result of transferring last year’s Capex being work under construction then for shed 39 to asset acquisitions this financial year.

2.4 Forecast

The forecast is for a year end surplus of $11.85 million, which is $314,000 above the $11.54 million budgeted profit.

Total Income is forecasted to be $296,000 higher, mainly due to $1.18 million higher interest revenue from short term investments stemming from the prefunding of debt. This is offset by $887,000 lower revenue from internal loans.

Total Direct Expenditure is forecasted to be $59,000 above budget, mainly due to expenditure for contractors in relation to the relocation of the generator from the RCC to shed 39.

Finance costs are forecasted to be $77,000 lower then budget and would be significantly lower had we not prefunded debt.

3 KEY PERFORMANCE INDICATORS

3.1 Key performance indicators as at 31 December 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 31 December 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 seven forward starting long dated swaps with a total volume of $100 million. This increased our hedge profile and we are 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)
31/12/14	Current	231	50%	95%	70.1%	Yes
31/12/15	Year 1	317	45%	95%	55.7%	Yes
31/12/16	Year 2	396	40%	90%	67.0%	Yes
31/12/17	Year 3	427	35%	85%	70.2%	Yes
31/12/18	Year 4	472	30%	80%	67.7%	Yes
31/12/19	Year 5	508	25%	75%	54.2%	Yes
31/12/20	Year 6	538	15%	70%	44.6%	Yes
31/12/21	Year 7	559	5%	65%	35.8%	Yes
31/12/22	Year 8	562	0%	60%	32.9%	Yes
31/12/23	Year 9	559	0%	55%	28.6%	Yes
31/12/24	Year 10	561	0%	50%	17.8%	Yes
31/12/25	Year 11	551	0%	25%	10.9%	Yes
31/12/26	Year 12	545	0%	25%	5.5%	Yes
31/12/27	Year 13	537	0%	25%	3.7%	Yes
31/12/28	Year 14	540	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 $226, which is $58 lower than in June 14. This is due to a net debt reduction stemming from the forestry cutting rights.

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 4.89% as at 31 December 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 (excluding margins) increased slightly from 4.33% to 4.34%, which is 0.55% 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 31 December 2014

	Benchmark/ Limits Per TMP.	Actual Dec-14	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																
Funding and Liquidity risk																
0 - 3 years	**15 - 60%**	37%	14%	41%	25%	23%	40%	44%	47%	50%	41%	**10 - 60%**	30%	38%	28%	86%
3 - 5 years	**15 - 60%**	24%	48%	38%	53%	43%	28%	32%	36%	35%	27%	**20 - 60%**	32%	18%	50%	0%
> 5 years	**10 - 60%**	39%	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%	100%	**40 - 100%**	100%	100%	100%	35%
1 - 3 years	**0 - 60%**	0%	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%	**0 - 40%**	0%	0%	0%	0%
5 - 10 years	**0 - 20%**	0%	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%	2%	3%	3%	2%	2%	2%	2%	1%	**n / a**	1%	1%		
Net Debt / Total Revenue	< 250%	51%	49%	58%	57%	55%	60%	55%	47%	47%	33%	**n / a**	18%	14%		
Net interest / Annual rates and levies	< 30%	4%	4%	5%	5%	5%	4%	4%	3%	3%	3%	**n / a**	3%	3%		
Liquidity Ratio	**> 110%**	131%	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**	$226	$217	$284	$254	$243	$268	$243	$215	$216	$152	**$400**	$113	$85	$104	$88
Net External Debt / Rates & Levies	**210%**	90%	87%	118%	105%	102%	113%	104%	92%	93%	65%	**210%**	50%	39%	48%	41.4%
Net Interest Expense / Rates & Levies	**25%**	4%	4%	5%	5%	5%	4%	4%	3%	3%	3%	**25%**	3%	1%	0.7%	0.8%
Historical benchmark Rate by PWC - no margin 1)		4.89%	5.07%	5.19%	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		4.34%	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%	4.88%	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)		0.55%	0.74%	0.83%	-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.

Attachment 2

History of Key Performance Indicators

	Benchmark/ Limits Per old TMP	Actual Dec-14	Actual Sep-14	Actual Jun-14	Actual Dec-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**	$226	$217	$284	$243	$243	$216	$113	$85	$104	$88	$55	$48	$11	$4	$11	$24	$49	$66	$83
Net External Debt / Rates & Levies	**210%**	90%	87%	118%	102%	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%	3.5%	5.0%	4.8%	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)		4.5%	4.5%	4.5%	4.0%	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%
(includes Crown Loans)																				

greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao