

# Audit, Risk & Finance Committee

## AGENDA

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### Notice of Meeting:

A meeting of the Audit, Risk & Finance Committee will be held on:

**Date:** Tuesday 4 February 2020  
**Time:** 1.30pm  
**Venue:** Council Chamber  
137 Havelock Street, Ashburton

### Membership

Chairperson	Leen Braam
Deputy Chairperson	John Falloon
Members	Carolyn Cameron Liz McMillan Stuart Wilson Murray Harrington (external appointee) Mayor Neil Brown (ex-officio)

## Audit, Risk & Finance Committee

### Timetable

1.30pm	Meeting commences
2.00pm (approx.)	EA Shareholders Committee (Council appointees) - Chris Robertson, David Ward and Anne Marrett

### ORDER OF BUSINESS

- 1 Apologies**
- 2 Extraordinary Business**
- 3 Declarations of Interest**

### Minutes

- |          |   |          |
|----------|---|----------|
| <b>4</b> | Audit, Risk & Finance Committee – 4/12/19 | <b>3</b> |
|----------|---|----------|

### Reports

- |          |   |                 |
|----------|---|-----------------|
| <b>5</b> | Bancorp Treasury Report – 30/12/20        | <b>5</b>        |
| <b>6</b> | Financial Variance Report – December 2019 | <i>Attached</i> |

### Business transacted with the public excluded

- |           |  |           |
|-----------|--|-----------|
| <b>7</b>  | Minutes – 4/12/19<br>Section 7(2)(h) Commercial activities   | <b>19</b> |
| <b>8</b>  | Electricity Ashburton Shareholders Committee six month report<br>Section 7(2)(h) Commercial activities | <b>20</b> |
| <b>9</b>  | Building Consent<br>Section 7(2)(h) Commercial activities  | <b>33</b> |
| <b>10</b> | PwC Annual Tax Summary<br>Section 7(2)(h) Commercial activities  | <b>43</b> |
| <b>11</b> | Health & Safety<br>Section 7(2)(a) Protection of privacy of natural persons                            | <b>57</b> |

31 January 2020

### **4. Audit, Risk & Finance Committee Minutes – 4/12/19**

Minutes of the Audit, Risk & Finance Committee meeting held on Wednesday 4 December 2019, commencing at 1pm, in the Council Chamber, 137 Havelock Street, Ashburton.

#### **Present**

His Worship the Mayor, Neil Brown; Councillors Leen Braam (Chair), John Falloon, Carolyn Cameron, Liz McMillan and Stuart Wilson; Murray Harrington (external appointee).

#### **Also present:**

Councillors Lynette Lovett, Angus McKay and Diane Rawlinson.

#### **In attendance**

Hamish Riach (Chief Executive), Paul Brake (Group Manager Business Support), Jane Donaldson (Group Manager Environmental Services), Sarah Mosley (Manager People & Capability), Rachel Sparks (Finance Manager), Toni Durham (Strategy and Policy Manager), Ruben Garcia (Communication Manager) and Carol McAtamney (Governance Support Officer)

Two members of the public attended.

#### **1 Apologies**

Nil.

#### **2 Extraordinary Business**

Nil.

#### **3 Declarations of Interest**

Nil.

#### **4 Bancorp Treasury Report**

**That** the September report be received for discussion.

Cameron/Wilson

Carried

#### **5 Financial Variance Report**

**That** the October report be received for discussion.

McMillan/Falloon

Carried

#### **Business transacted with the public excluded – 1.31pm**

That the public be excluded from the following parts of the proceedings of this meeting, namely – the general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

<b>Item No</b>	<b>General subject of each matter to be considered:</b>	<b>In accordance with Section 48(1) of the Act, the reason for passing this resolution in relation to each matter:</b>	
<b>6</b>	<b>Audit Management Letter</b>	Section 7(2)(h)	Commercial activities
<b>7</b>	<b>Debenture Trust Deed Audit</b>	Section 7(2)(h)	Commercial activities
<b>8</b>	<b>Health &amp; Safety Report</b>	Section 7(2)(a)	Protection of privacy of natural persons

Wilson/McMillan

Carried

## 5 Bancorp Treasury Report 30 December 2019

## Summary

- ## Recommendation

- 5

## Background

1. Bancorp Treasury Investment Services Limited is contracted by Ashburton District Council to provide Treasury management advice.
2. As part of this contract, Treasury Investment Services Limited provides the Council with quarterly reports.
3. These reports give a general market overview, report on Council's fixed interest and term deposit portfolios, and Council's debt and hedging profiles.
4. The report shows that as at 31 December Council has:
  - \$2 million of fixed interest investments
  - No terms deposits although there was \$3.2 million on-call (due to timing of deposit maturities Council had \$12 million in its current account at that time)
  - Council's external debt was \$42 million
  - Council has four interest rates swaps, two of which are current and two forward. These swaps totalled \$25 million
  - The council's total weighted average cost of funds was 3.34% (3.59% as at 30 September 2019).

## Legal/policy implications

5. The Bancorp report shows that the Council is compliant with its debt policy as at 31 December 2019.

## Financial implications

6. There are no financial implications as a result of the Council receiving this report.

## Significance and engagement assessment

7. There are no significance and engagement requirements as a result of this report.

Requirement	Explanation
<b>Is the matter considered significant?</b>	No
<b>Level of significance</b>	The report has a low level of significance
<b>Level of engagement selected</b>	There is no engagement required; the report is for information only
<b>Rationale for selecting level of engagement</b>	See above.
<b>Reviewed by Strategy &amp; Policy</b>	Toni Durham; Strategy and Policy Manager

#### Appendix 1– Bancorp treasury report

# TREASURY REPORT

FOR



AS AT 31 DECEMBER 2019



AUCKLAND • WELLINGTON • CHRISTCHURCH



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# 1. MARKET OVERVIEW

## 1.1 GLOBAL MARKETS OVERVIEW (FOR THE DECEMBER 2019 QUARTER)

The main focus for central banks and financial markets over the December 2019 quarter were the US/China trade war and Brexit. A number of central banks, led by the Federal Reserve ("Fed"), People's Bank of China, Reserve Bank of Australia ("RBA") and Reserve the Bank of New Zealand ("RBNZ"), cut their target interest rates over the quarter and called on their respective governments to loosen fiscal policy through increased spending.

By the end of December, the same central banks, along with those of the Eurozone, UK, Japan and Canada, had concluded that global downside risks had abated or been addressed by monetary policy actions and, to quote the Fed, *"the current stance of monetary policy is appropriate"* and it *"will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures."*

Those conclusions came about after the US and China agreed a Phase 1 trade deal and the UK Conservative Party won an election victory that made it a near certainty that Brexit will happen on 31 January 2020. The general consensus among central banks was that the worst was over, although downside risks remain, and that it was appropriate to maintain a watching brief to allow for the time lags between cause and effect of monetary policy.

As if to emphasise this shift by central banks, Sweden's Riksbank, one of the pioneers of negative cash rates after the GFC, raised its target cash (repo) rate by 25 basis points to 0.00% in late December. However, it made it clear that it will not raise its repo rate in 2020, which markets inferred as the Riksbank conceding that negative interest rates are more harmful than helpful in stimulating economic growth, employment and inflation.

The yield on the benchmark US 10 year Treasury bond typified the ebb and flow of sentiment and interest rates over the December quarter. It ended the September quarter at 1.67% and fell to a low of 1.51% in early October amid escalating economic and geopolitical worries. It rose to a peak of 1.97% in early November before falling back to a low of 1.69% in early December as geopolitical and trade worries intensified. However, these worries quickly abated resulting in the yield climbing throughout December to finish the quarter at 1.92%.

The RBA kept its cash rate at 0.75% at its December meeting and repeated that it will be assessing *"the long and variable lags in the transmission of monetary policy,"* also that *"it was reasonable to expect that an extended period of low interest rates will be required in Australia to reach full employment and achieve the inflation target"* and that it *"is prepared to ease monetary policy further if needed."*

## 1.2 NEW ZEALAND MARKET OVERVIEW (FOR THE DECEMBER 2019 QUARTER)

	OCR	90 day	2 years	3 years	5 years	7 years	10 years
30 September 2019	1.00%	1.15%	0.94%	0.91%	0.94%	1.04%	1.21%
31 December 2019	1.00%	1.29%	1.28%	1.32%	1.44%	1.59%	1.78%
Change	Nil	+0.14%	+0.34%	+0.41%	+0.50%	+0.55%	+0.57%

New Zealand's CPI rose 0.7% over the September quarter, up from 0.6% in the June quarter and slightly higher than the RBNZ forecasted. Annual CPI fell from 1.7% in June to 1.5% in September. GDP was unexpectedly strong over the September quarter, rising 0.7%, from 0.1% in the June quarter (revised down from 0.5%), aided by a lift in retail spending. Revisions to previous quarters softened the annual rise to 2.3%, up from 2.1% in June. New Zealand's unemployment rate jumped from 3.9% in June to 4.2% in September, a bigger rise than expected. Wages rose 0.8% over the September quarter and 2.4% over the year, from 0.7% and 2.1% respectively in June.

The RBNZ's Monetary Policy Committee ("MPC") kept the Official Cash Rate ("OCR") at 1.00% at its November meeting. The MPC reasoned that *"economic developments since the August Statement do not warrant a change to the already stimulatory monetary setting at this time"* but it warned that *"economic growth continued to slow in mid-2019 reflecting weak business investment and soft household spending."*

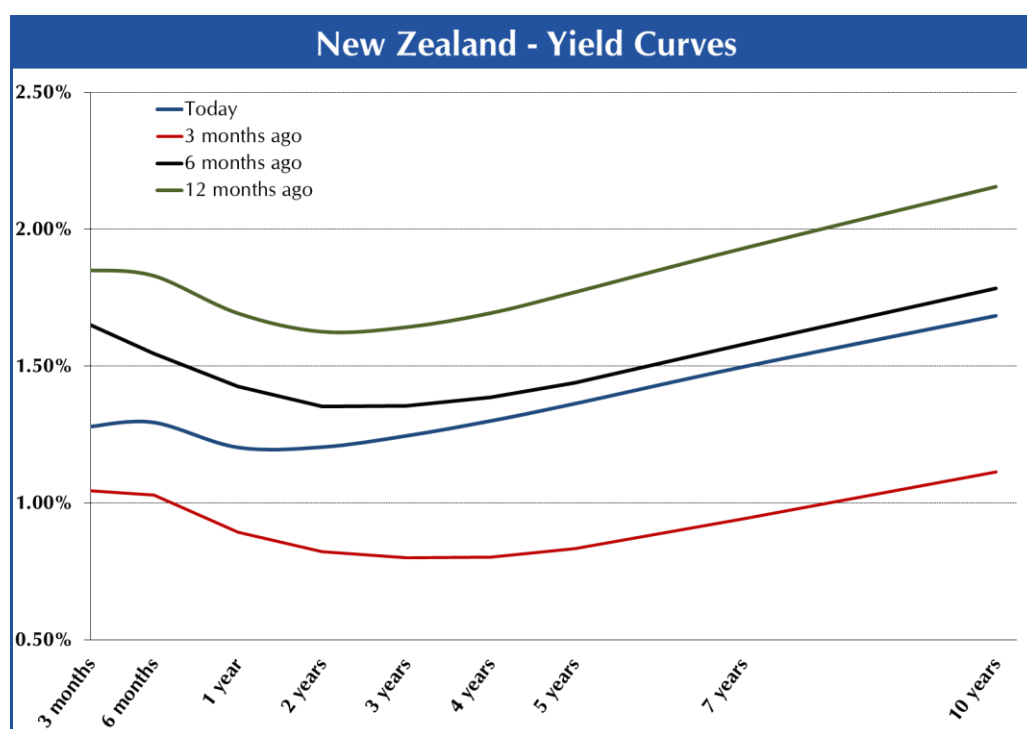
Looking ahead, the MPC considers that *"domestic economic activity is expected to increase during 2020 supported by low interest rates, higher wage growth, and increased government spending and investment"* and, from a monetary policy perspective, *"interest rates will need to remain at low levels for a prolonged period to ensure inflation reaches the mid-point of our target range and employment remains around its maximum sustainable level."*

The MPC's decision to leave the OCR at 1.00% and its implicit neutral forward guidance prompted local markets to adjust their expectations for further OCR cuts. At the end of the September quarter, with the surprise 50 basis points OCR cut in August still fresh, markets fully priced in a 25 basis points OCR cut in February 2020 and a 68% chance of a second in 2020. At the end of the December, market pricing implied only a 36% chance of a single 25 basis points OCR cut in 2020.

New Zealand medium to longer term interest rates moved in line with both global trends and developments in the domestic economy over the December quarter. After falling to new record lows in early October, medium and longer term rates moved higher for the rest of the quarter as the trade war worries receded and the RBNZ and the market adjusted to an improving outlook for the New Zealand economy.



The following chart shows the extent to which New Zealand interest rates have moved over the past year, and especially over the December 2019 quarter.

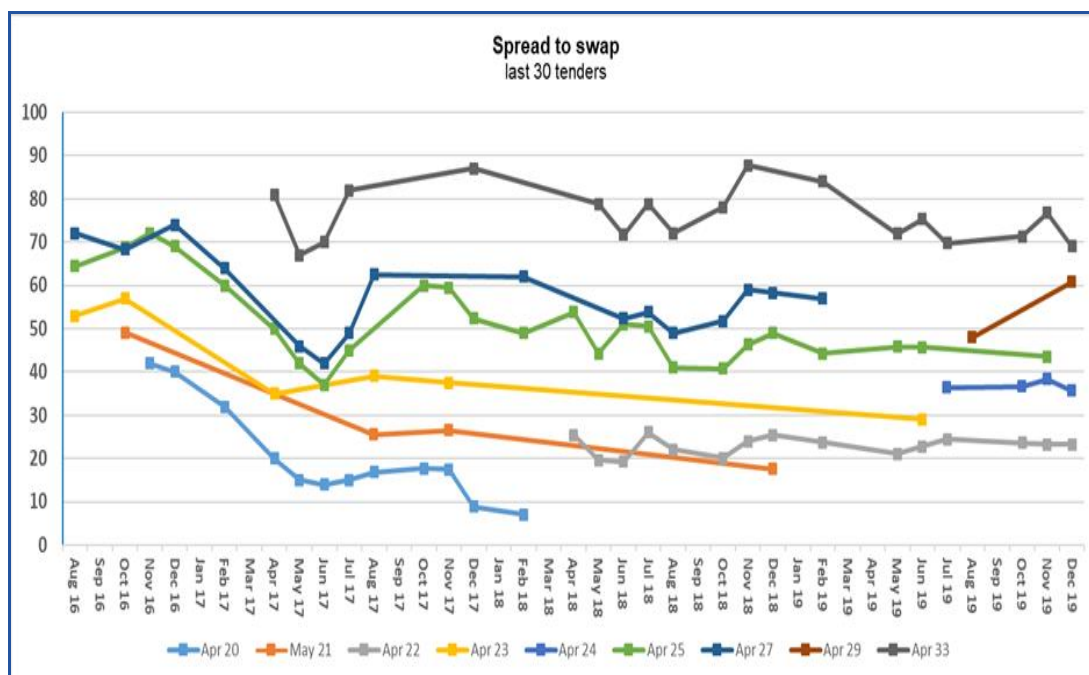


### 1.3 LOCAL AUTHORITY SECTOR

Listed on the following page are the credit spreads and applicable interest rates for Commercial Paper ("CP"), Floating Rate Notes ("FRN") and Fixed Rate Bonds ("FRB"), at which Ashburton District Council ("ADC") could source debt from the Local Government Funding Agency ("LGFA").

Maturity	Credit Spread	FRN (or CP) Rate	Fixed Rate Bond
3 month CP	0.22%	1.42%	N/A
6 month CP	0.22%	1.42%	N/A
April 2020	0.40%	1.60%	1.57%
May 2021	0.51%	1.71%	1.68%
April 2022	0.54%	1.74%	1.78%
April 2023	0.64%	1.84%	1.88%
April 2024	0.70%	1.90%	2.02%
April 2025	0.75%	1.95%	2.15%
April 2027	0.89%	2.09%	2.36%
April 2029	0.90%	2.10%	2.60%
April 2033	1.08%	2.28%	2.89%

The following chart, produced by the LGFA, shows the credit spreads for all LGFA debt going back to mid 2016 and highlights the stability in these spreads over this period.



## 2. FIXED INTEREST AND TERM DEPOSIT PORTFOLIOS

### 2.1 FIXED INTEREST PORTFOLIO

As at 31 December 2019, ADC's Fixed Interest Portfolio ("FIP") had a nominal value of \$2,000,000 and a market value of \$2,110,751. The FIP consisted of two separate FRBs, each with a nominal value of \$1,000,000.

The makeup of the FIP as at 31 December, including its valuation, is shown in the following table.

Ashburton District Council				31-Dec-19		
Security	Rating	Maturity Date	Coupon (%)	Nominal	Yield (%)	Value
ASB	AA-	26-May-21	4.25	\$1,000,000	1.39	\$1,039,865
BNZ	AA-	15-Jun-23	4.10	\$1,000,000	1.65	\$1,070,886
				<u>\$2,000,000</u>		<u>\$2,110,751</u>

During the December quarter, there were no maturities in the FIP.

### 2.2 TERM DEPOSITS

As at 31 December, ADC had no funds invested in bank Term Deposits ("TD"), although it did have funds on call.

For reference purposes, in the situation where ADC may have funds to invest in the forthcoming quarter (either in corporate bonds or in TDs), we note that TD rates are still considerably higher than corporate bond yields. Detailed in the following table are the yields as at 31 December for various corporate bonds rated 'BBB+' or better by S&P Global Ratings, in which ADC would be able to invest under its existing Investment Policy (the yields in brackets are as at 30 September).

Security	Maturity	Coupon	Rating	Yield
BNZ	18-Jun-20	4.42%	AA-	1.45% (1.22%)
Transpower	10-Jun-20	6.95%	AA-	1.44% (1.27%)
ANZ	22-Mar-21	4.00%	AA-	1.66% (1.39%)
Wellington Airport	15-May-21	6.25%	BBB +	2.12% (1.85%)
Spark Finance	25-Mar-22	4.50%	A-	2.01% (1.66%)
Fonterra	07-Mar-23	4.42%	A-	2.35% (1.99%)
Genesis Energy	08-Mar-23	5.81%	BBB +	2.49% (2.10%)
Chch City Holdings	27-Nov-24	3.58%	A +	2.11% (1.72%)
Auckland Council	24-Mar-25	4.18%	AA	1.99% (1.48%)
Fonterra	14-Nov-25	4.13%	A-	2.81% (2.31%)
Housing NZ	05-Oct-26	2.25%	AA +	2.00% (1.41%)

As at 31 December, TDs for terms around 6-7 months were yielding around 2.80%. As can be seen from the preceding table, this is significantly higher than the yields for all of the corporate bonds detailed in the preceding table except for the Fonterra November 2025 bond. However, the Fonterra bond has a duration of six years and holding it would have exposed ADC to a significant revaluation loss during the December quarter as its yield rose from 2.31% to 2.81%.

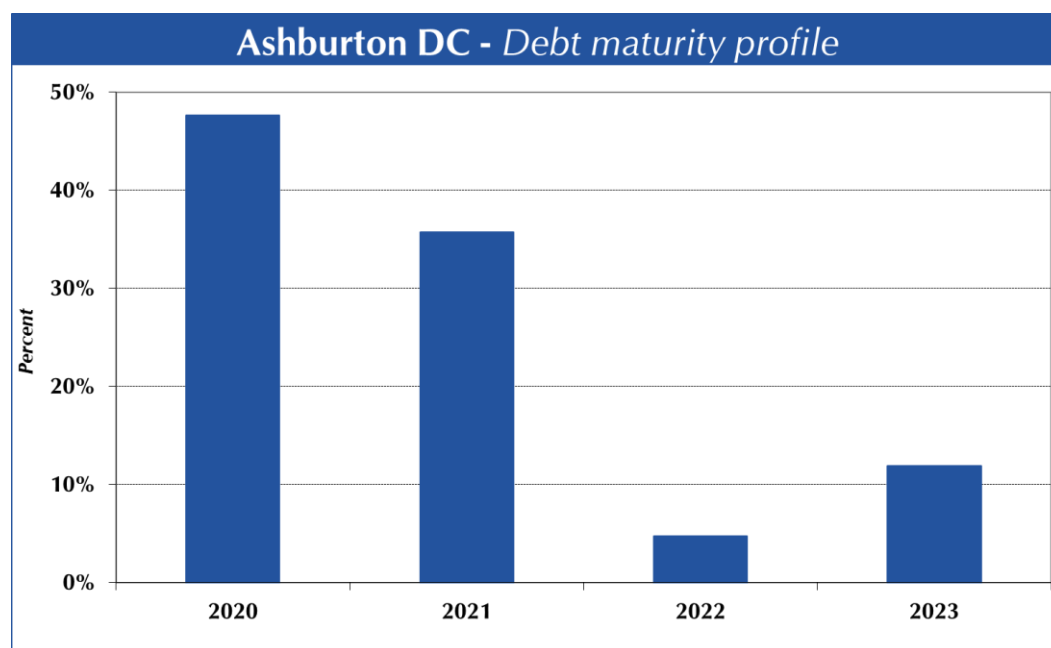
### 3. DEBT AND HEDGING PROFILES

As at 31 December, ADC had total external debt of \$42.0 million. The debt comprised one tranche of CP, three FRNs and two FRBs, all sourced from the LGFA, details as follows:

Instrument	Maturity	Rate	Margin	Amount
LGFA CP	24-Feb-20	1.2468	22 bps	\$15,000,000
LGFA FRN	15-Apr-20	1.50%	46 bps	\$5,000,000
LGFA FRB	15-May-21	4.56%	78 bps	\$10,000,000
LGFA FRB	15-May-21	5.60%	75 bps	\$5,000,000
LGFA FRN	17-Jan-22	1.57%	53 bps	\$2,000,000
LGFA FRN	15Apr-23	1.68%	64 bps	\$5,000,000
			<b>TOTAL</b>	<b>\$42,000,000</b>

ADC has a committed bank facility from Westpac Bank ("Westpac") for \$2.0 million, with a line fee of 0.25%, a margin of 0.95% and a maturity of 31 March 2020.

ADC's debt maturity profile incorporating all its debt (excluding the bank facility) is depicted in the following graph. The graph shows a spread of maturities between 2020 and 2023 and, as such, complies with the guideline in the Liability Management Policy ("LMP") that states *"To avoid a concentration of debt maturity dates, where practicable no more than 50% of total debt can be refinanced in any rolling 12 month period."*



As at 31 December, ADC had no drawings under the Westpac facility.



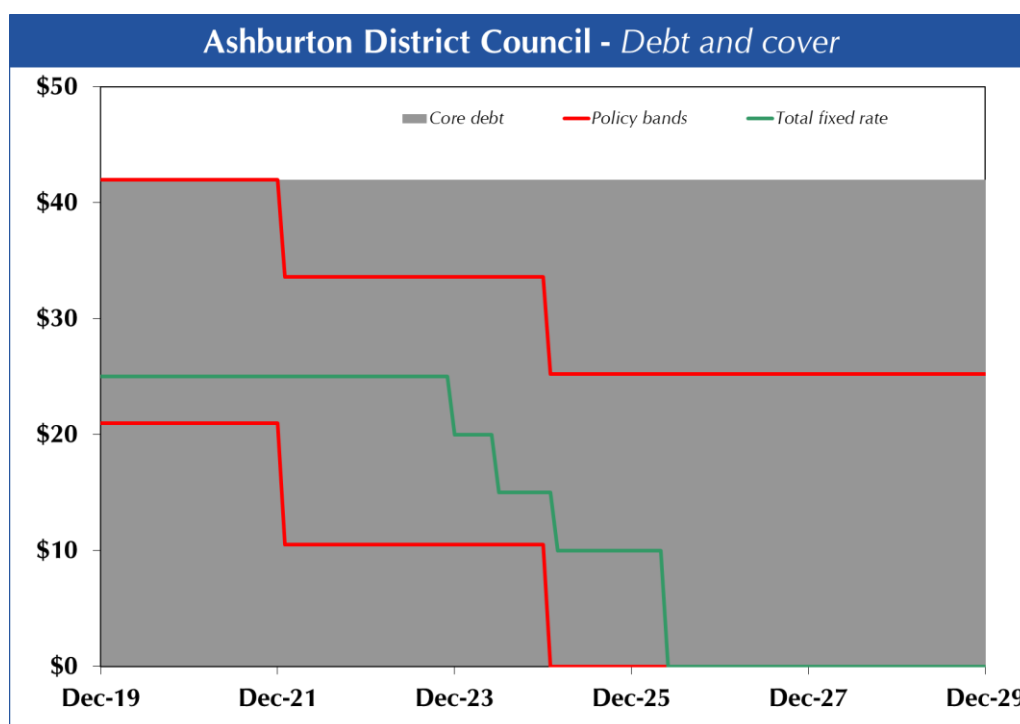
As at 31 December, ADC had four interest rate swaps, two of which are current and two forward starting, details as follows:

Start Date	Maturity Date	Rate	Amount
28-Jun-16	28-Dec-23	3.495%	\$5,000,000
30-Jun-15	28-Jun-24	4.305%	\$5,000,000
17-May-21	15-Feb-25	3.83%	\$5,000,000
17-May-21	15-May-26	2.85%	\$10,000,000
		<b>TOTAL</b>	<b>\$25,000,000</b>

To manage its interest rate exposures, ADC's LMP incorporates fixed rate hedging percentages that specify the minimum and maximum amount of fixed rate cover to which ADC shall adhere. These parameters are as follows:

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
0–2 years	50%	100%
2–5 years	30%	80%
5–10 years	0%	50%

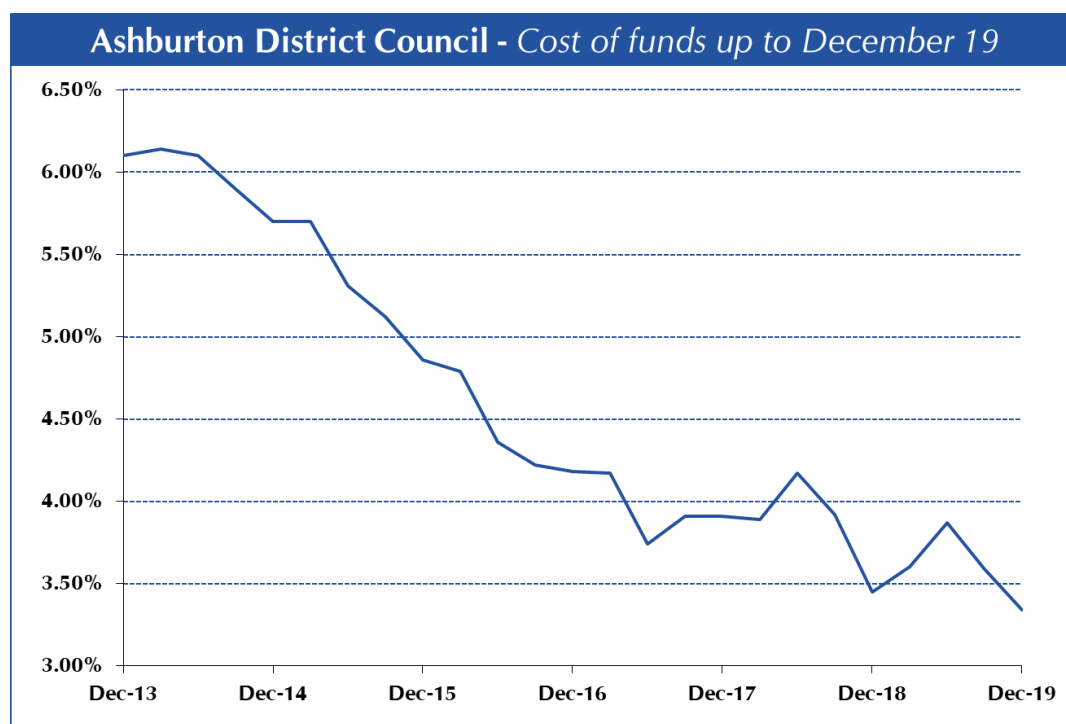
ADC's hedging profile as at 31 December, incorporating the swaps and the FRBs on issue, is depicted in the following graph.



The graph shows that ADC was policy compliant as at 31 December.

As at 31 December, ADC's weighted average cost of funds, including the line fee on the \$2.0 million Westpac facility, was 3.34%, down from 3.59% as at 30 September. The decrease in the weighted average cost of funds was due to a fall in floating interest rates over the December quarter.

ADC's cost of funds remains lower than many of its peers in the local government sector, which indicates the success of its funding and interest rate risk management programme over the last several years. The cost of funds is depicted in the following graph.



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