

Audit, Risk & Finance Committee

AGENDA

Notice of Meeting:

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

Date: Thursday 26 November 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

ORDER OF BUSINESS

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

Minutes

- | | | |
|----------|---|----------|
| 4 | Audit, Risk & Finance Committee – 13/10/20 | 3 |
| 5 | Ashburton Airport Authority Subcommittee – 19/10/20 | 5 |

Reports

- | | | |
|----------|---|-------------------|
| 6 | Financial Variance Reports – October 2020 | <i>Circulated</i> |
| 7 | Bancorp Treasury Report – September 2020 | 7 |

Business transacted with the public excluded

- | | | |
|-----------|---|--------------|
| 8 | Audit, Risk & Finance Committee – 13/10/20
Section 7(2)(h) Commercial activities | PE 1 |
| 9 | Health & Safety
Section 7(2)(a) Protection of privacy of natural persons | PE 2 |
| 10 | 2019-2020 Audit
Section 7(2)(h) Commercial activities | PE 12 |

20 November 2020

4. Audit Risk & Finance Committee Minutes

Minutes of the Audit, Risk & Finance Committee meeting held on Thursday 13 October 2020, commencing at 1.30pm, in the Council Chamber, 137 Havelock Street, Ashburton.

Present

Councillors Leen Braam (Chair), John Falloon, Liz McMillan and Stuart Wilson; Murray Harrington (external appointee).

Also present:

Councillors Rodger Letham, Lynette Lovett and Diane Rawlinson.

In attendance

Hamish Riach (Chief Executive), Paul Brake (GM Business Support), Jane Donaldson (GM Strategy & Compliance), Neil McCann (GM Infrastructure Services), Sarah Mosely (Manager People & Capability), Steve Fabish (GM Community Services), Rachel Sparks (Finance Manager) and Phillipa Clark (Governance Team Leader).

1 Apologies

Mayor Neil Brown and Cr Carolyn Cameron

Sustained

2 Extraordinary Business

Nil.

3 Declarations of Interest

Nil.

4 Confirmation of Minutes 3/09/20

That the minutes of the Audit, Risk & Finance Committee meeting held on 3 September 2020, be taken as read and confirmed.

Harrington/Wilson

Carried

5 Ng King Bros Chinese Market Garden Settlement – additional funding

The Group Manager Business Support advised that receiving \$50,000 from Heritage NZ was a good outcome despite the \$15,000 shortfall that now exists before Council can complete the building restoration work at the Settlement. The Category 1 listing reflects the importance of this site to Heritage NZ.

This will be the last of the funding required to remedy the buildings although there will be additional costs to develop the walkway and install signage.

Recommendation to Council

That Council approves an additional budget of \$15,000 from the property reserve to make up the shortfall in the funds required to complete the restoration of the Ng King Bros Chinese Market Garden Settlement buildings.

McMillan/Falloon

Carried

6 Financial Variance Reports – June 2020

The preliminary financial variance report for the period ended 31 August 2020 was received for discussion.

- Clarification sought on the -\$176,478 shown in the income & expenditure (finance) actuals. It was noted that a reversal has been put through but accruals for interest earned in July and August haven't been.
- District promotion expenditure (76%) reflects the lump sum now paid to ChristchurchNZ. The EMC loan is likely to be written off and this will be the subject of a separate report to the Committee.
- Permanent variances will be shown in the September report (where obvious delays in work, or over/under expenditure is obvious).
- Receivables summary – October report will be changed to show the total rates outstanding for 90 days or more and what action has been taken on collecting those rates. Clarification was also sought on the graphs to distinguish between the 2019 and 2020 debtor amounts.
- Council's Treasury Management Policy requires risk to be spread. The GM Business Support advised that the maximum amount allowable has been reached with Westpac and another bank account is currently being opened.

That the Audit, Risk & Finance Committee receives the Financial Variance Report – August 2020.

Wilson/McMillan

Carried

Business transacted with the public excluded – 2pm

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:

Item No	General subject of each matter to be considered:	In accordance with Section 48(1) of the Act, the reason for passing this resolution in relation to each matter:	
7	Minutes 3/09/20	Sections 7(2)(h) & 7(2)(a)	Commercial activities Protection of privacy of natural persons
8	Health & Safety	Section 7(2)(a)	Protection of privacy of natural persons
9	2020 Interim Audit Progress Report	Sections 7(2)(h)	Commercial activities

Wilson/McMillan

Carried

The Committee resumed in open meeting and concluded at 2.18pm.

5. Airport Authority Subcommittee

Minutes of the Ashburton Airport Authority Subcommittee meeting held on Monday 19 October 2020, commencing at 8.45am, in the Council Chamber, 137 Havelock Street, Ashburton.

Present

Mayor Neil Brown (from 8.49am) and Councillors Leen Braam (Chair), Rodger Letham and Lynette Lovett.

In attendance

Paul Brake (GM Business Support), Colin Windleborn (Commercial Manager), Zane Adam (Property Officer) and Phillipa Clark (Governance Team Leader - minutes).

1 Apologies

Nil.

2 Conflict of Interest

Nil.

3 Notification of Extraordinary Business

Nil.

4 Confirmation of Minutes

That the minutes of the Ashburton Airport Authority Subcommittee meeting, held on 5 March 2020, be taken as read and confirmed.

Lovett/Letham

Carried

5 Airport Activity updates

Officers reported on a number of actions undertaken in the reporting period in an attempt to more proactively manage the Ashburton Airport and reduce the large financial gap between operating income (\$30k) and outgoings (\$150k).

- Lease and rent reviews now complete with all expired lessees having been offered new leases. One tenant (not operating) will have their rent reviewed in two years.
- Unpaid rates charges, as required in leases, have been reintroduced for those tenants with payment to commence in February 2021.
- A container building has been located next to the Aero Club hangar to operate as a temporary base. Asbestos has been found in the current base and quotes are being obtained for removal. This will delay the removal and subsequent relocation of the former i-Site building to the Airport site. It's anticipated that the December deadline to relocate the building won't be achieved. Council's understanding is that CBD retailers have asked for the building to be shifted in early December or later in January to avoid disruption in the holiday and Christmas shopping period, however a delay could impact on the CBD upgrade.

- Fuel installation – plans almost complete to be resubmitted for changes. In future there will be one entry/exit point.
- Operating expense charges – will be introduced over time to allow people to budget for the increases.
- Landing fees – the honesty system is difficult to administer. Currently there is no monitoring system able to identify individual aircraft, however that's being investigated. Signage will be improved and it will be made clear that every aircraft flying in is required to pay landing fees.
- Officers will continue to pursue the possibility of having an additional charge on fuel to meet landing costs. RD Petroleum installed the fuel tanks (Council met the cost of the concrete pad) and the company would be asked to reimburse Council for the landing fee component.
- Development plan – budget provision this year for a development plan to be prepared for the airport, showing what it will look like in 20 years. This may include expansion but the area is restricted with surrounding farmland.
- At the Subcommittee's request, officers will prepare a report on the development plan proposal and will organise focus group discussion with airport users. The timing of this will depend on other Council consultation commitments in the new year.

That the Airport Authority Subcommittee receives the report.

Letham/Lovett

Carried

Business transacted with the public excluded – 9.10am

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:

Item No	General subject of each matter to be considered:	In accordance with Section 48(1) of the Act, the reason for passing this resolution in relation to each matter:	
5	Airport Users Health & Safety Committee	Sections 7(2)(h) & 7(2)(a)	Commercial activities Protection of privacy of natural persons
6	Ashburton Airport Lease Management	Section 7(2)(h)	Commercial activities

Braam/Lovett

Carried

There being no resolutions passed, the subcommittee resumed in open meeting and concluded at 9.20am.

TREASURY REPORT

FOR



AS AT 30 SEPTEMBER 2020



AUCKLAND • WELLINGTON • CHRISTCHURCH

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1. MARKET OVERVIEW

1.1 GLOBAL MARKETS OVERVIEW (FOR THE SEPTEMBER 2020 QUARTER)

September was packed with action as US equities reached record highs (driven by the surge in the tech sector) early in the month before sentiment flipped as a result of the potential threats of second COVID-19 waves and lockdowns, the political ramifications of appointing a replacement for Supreme Court Justice, Ruth Ginsburg, the continuing failure by Congress to pass a new fiscal stimulus package, a looming US election, and continuing US-China tensions saw a large sell off in risky assets. Headline US equity indices such as the NASDAQ and S&P500 were down 11.8% and 9.6% respectively at one point, but by quarter end had recovered some of the lost ground. The sell-off also translated into other asset classes, with gold falling and the USD strengthening.

Adding to the risk off sentiment over the latter part of September was the renewed surge in COVID-19 cases outside of the US, with the UK and the several other European countries registering resurging daily cases as the second wave gathered pace. By the end of September, a grim milestone had been reached with 1 million COVID-19 deaths and 33 million cases recorded worldwide, with the latter increasing by around 2 million cases per week.

The US Federal Reserve ("Fed") left its Federal Funds target range unchanged at 0%-0.25% signalling it would stay there through to 2023, or possibly longer. There was also a subtle change in the statement with the inclusion that the Committee *"will aim to achieve inflation moderately above 2.0% for some time, so that inflation averages 2.0%."*

The US 10 Year Treasury bond yield consolidated between 0.60% and 0.77% over the last six weeks of the quarter as the markets appeared to have found some equilibrium. Yields were kept low in response to the massive amount of Quantitative Easing from the Fed this year, but markets were also mindful of possible inflation pressures emerging as a result of the amount of stimulus pumped into the US economy. The 10 year yield ended September at 0.68%.

European bond yields continue to be anchored in negative territory with the German 10 year bund closing September at minus 0.52%, having reached a 'high' of minus 0.26% in early June. The UK 10 year gilt has managed to avoid negative territory, falling to a low of 0.08% in early August, but finished September at 0.20%. What transpires with Brexit, which is looking increasingly fraught, will have a huge influence in the near term direction of UK gilt yields.

In the UK, the outlook looks decidedly pessimistic given the triple threat of a second COVID-19 wave with enhanced lockdowns, Brexit, and the acknowledgement that negative rates are a distinct possibility after the BoE revealed that voting members had been briefed on the Bank's plans to explore how a negative bank rate could be implemented.

1.2 NEW ZEALAND MARKET OVERVIEW (FOR THE SEPTEMBER 2020 QUARTER)

	OCR	90 day	2 years	3 years	5 years	7 years	10 years
30 June 2020	0.25%	0.31%	0.21%	0.23%	0.35%	0.51%	0.74%
30 Sept 2020	0.25%	0.31%	0.05%	0.05%	0.13%	0.28%	0.51%
Change	0 bps	0bps	-16 bps	-18 bps	-22 bps	-23 bps	-23 bps

The Reserve Bank of New Zealand (“RBNZ”) announced in the August *Monetary Policy Statement* that “the Monetary Policy Committee (“MPC”) agreed to expand the Large Scale Asset Purchase (“LSAP”) programme up to \$100 billion, and the Official Cash Rate (“OCR”) is being held at 0.25 percent in accordance with the guidance issued on 16 March.”

In the RBNZ’s September *Monetary Policy Review* (“MPR”) the MPC agreed to maintain their LSAP programme of up to \$100 billion in order to “further lower household and business borrowing rates in order to achieve the Committee’s inflation and employment remit.” As far as further monetary stimulus is concerned, the Committee again noted the possible use of a Funding for Lending Programme which would be ready before the end of 2020, and a negative OCR.

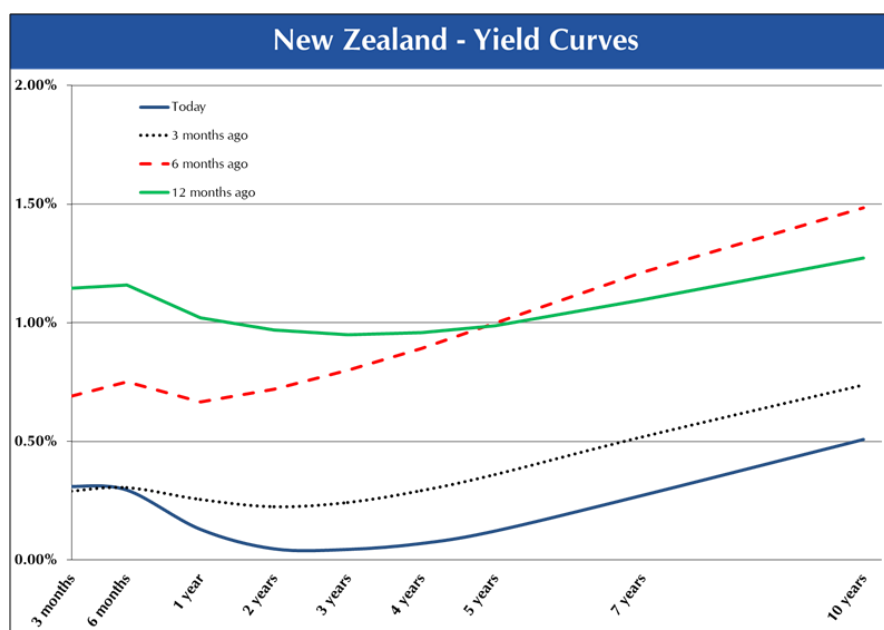
In what was obviously a dovish MPR the RBNZ noted that ‘In line with the weak underlying international and domestic economic conditions, the Committee expects a rise in unemployment and an increase in firm closures, as resource reallocation continues. Members agreed that monetary policy will need to provide significant economic support for a long time to come to meet the inflation and employment remit and promote financial stability.’

The strict lockdown that started in March to eliminate the spread of COVID-19 resulted in the worst economic slump since the Great Depression. While the March quarter GDP rate was revised up to -1.4%, the June quarter print headlined at a record -12.2% contraction. The only good news was that it was better than the 16.0% drop the Treasury had forecast the day before.

With the RBNZ openly discussing the possibility of negative interest rates, short term pricing expectations indicate a 100% probability that the OCR will be at zero by May 2021 with a 76% probability that it will be at minus 0.25% by October 2021. Additionally, three of the ‘big four’ banks are projecting the OCR to fall to minus 0.50%, with the outstanding bank forecasting a bottom of minus 0.25%.

In September some Government bond yields and swap rates dipped below 0.00% for the first time. Interest rate swaps briefly fell below zero in the inter-bank market, however they did not trade in negative territory for ‘corporates’ after adjustments for credit value, funding value and trader execution pushed the rates above zero. The 10 year swap rate finished September at 0.46%, having been as high as 0.80% in early July. The chart on the following page shows

the changes in the shape of the yield curve over the past year and highlights the sharp fall in outright levels over this period of time.



1.3 LOCAL AUTHORITY SECTOR

Listed below are the following page are the credit spreads and applicable interest rates as at 30 September 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	0.20%	0.51%	N/A
6 month CP	0.20%	0.49%	N/A
May 2021	0.30%	0.61%	0.52%
April 2022	0.39%	0.70%	0.44%
April 2023	0.40%	0.71%	0.43%
April 2024	0.44%	0.75%	0.47%
April 2025	0.48%	0.79%	0.54%
April 2026	0.53%	0.84%	0.65%
April 2027	0.61%	0.92%	0.74%
April 2029	0.67%	0.98%	1.02%
April 2033	0.87%	1.18%	1.36%
April 2037	0.95%	1.26%	1.70%

Margins for LGFA debt have contracted slightly over the past three months as conditions in the credit markets have eased with the government's ongoing commitment to the LSAP programme, which includes \$3 billion of LGFA bonds. However, the big move has been in the yields for FRBs, which have fallen sharply as a result of the fall in swap rates. At the time of the last report at the end of June, the April 2025 FRB was trading at 0.97%, compared to its current level of 0.54%.

2. FIXED INTEREST AND TERM DEPOSIT PORTFOLIOS

2.1 FIXED INTEREST PORTFOLIO

As at 30 September, ADC's Fixed Interest Portfolio ("FIP") had a nominal value of \$2,000,000 and a market value of \$2,153,237. The FIP consisted of two separate FRBs, each with a nominal value of \$1,000,000.

During the September quarter, there were no maturities in the FIP. The makeup of the FIP as at 30 September, including its valuation, is shown in the following table.

Ashburton District Council				30-Sep-20		
Security	Rating	Maturity Date	Coupon (%)	Nominal	Yield (%)	Value
ASB	AA-	26-May-21	4.25	\$1,000,000	0.33	\$1,040,286
BNZ	AA-	15-Jun-23	4.10	\$1,000,000	0.35	\$1,112,951
				<u>\$2,000,000</u>		<u>\$2,153,237</u>

2.2 TERM DEPOSITS

As at 30 September, ADC had one Term Deposit for \$15.0 million for 269 days maturing on 17 May 2021 at a rate of 1.46%. This TD relates to the pre-funding of the \$15.0 million of LGFA May 2021 debt. The funding and associated investing transactions will produce a gain of approximately \$59,000.

The table below details the yields as at 30 September 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.

Security	Maturity	Coupon	Rating	Yield
ANZ	22-Mar-21	4.00%	AA-	0.34%
Wellington Airport	15-May-21	6.25%	BBB+	2.03%
Spark Finance	25-Mar-22	4.50%	A-	0.55%
Bank of China (NZ)	17-Oct-22	4.09%	A	0.88%
Fonterra	07-Mar-23	4.42%	A-	0.89%
Genesis Energy	08-Mar-23	5.81%	BBB+	0.95%
Chch City Holdings	27-Nov-24	3.58%	A+	0.80%
Auckland Council	24-Mar-25	4.18%	AA	0.50%
Fonterra	14-Nov-25	4.13%	A-	1.10%
Housing NZ	05-Oct-26	2.25%	AA+	0.52%

At the end of the September quarter, TD rates for terms of 240 days were trading around 1.20% to 1.30%. The yield of 2.03% for the Wellington Airport bond is the only one which exceeds these TD rates. However, given the uncertainty in the aviation industry due to COVID-19, we do not regard Wellington Airport as an appropriate investment for ADC.

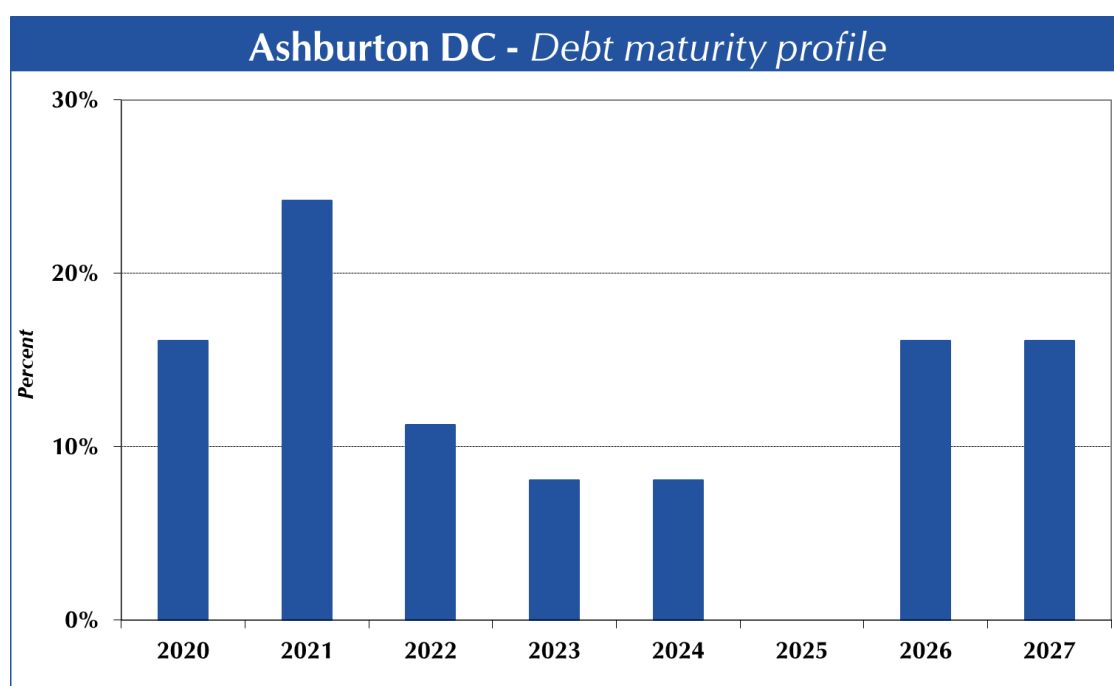
3. DEBT AND HEDGING PROFILES

As at 30 September, ADC had total external debt of \$62.0 million. The debt all of which was sourced from the LGFA, is detailed below with the tranches highlighted in bold being transacted during the quarter.

Instrument	Maturity	Rate	Margin	Amount
LGFA CP	19-Nov-20	0.5583%	53 bps	\$10,000,000
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	0.82%	52 bps	\$2,000,000
LGFA FRN	14-Apr-22	0.90%	59 bps	\$5,000,000
LGFA FRN	15-Apr-23	0.95%	64 bps	\$5,000,000
LGFA FRN	15-Apr-24	0.86%	55 bps	\$5,000,000
LGFA FRN	15-Apr-26	0.90%	63 bps	\$10,000,000
LGFA FRB	15-Apr-27	1.23%	76 bps	\$5,000,000
LGFA FRB	15-Apr-27	0.97%	69 bps	\$5,000,000
			TOTAL	\$62,000,000

ADC has a committed bank facility from Westpac Bank ("Westpac") for \$2.0 million, with a line fee of 0.30%, a margin of 1.15% and a maturity of 30 June 2021. As at 30 September, ADC had no drawings under the Westpac facility.

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 2024. ADC's funding maturity profile 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."



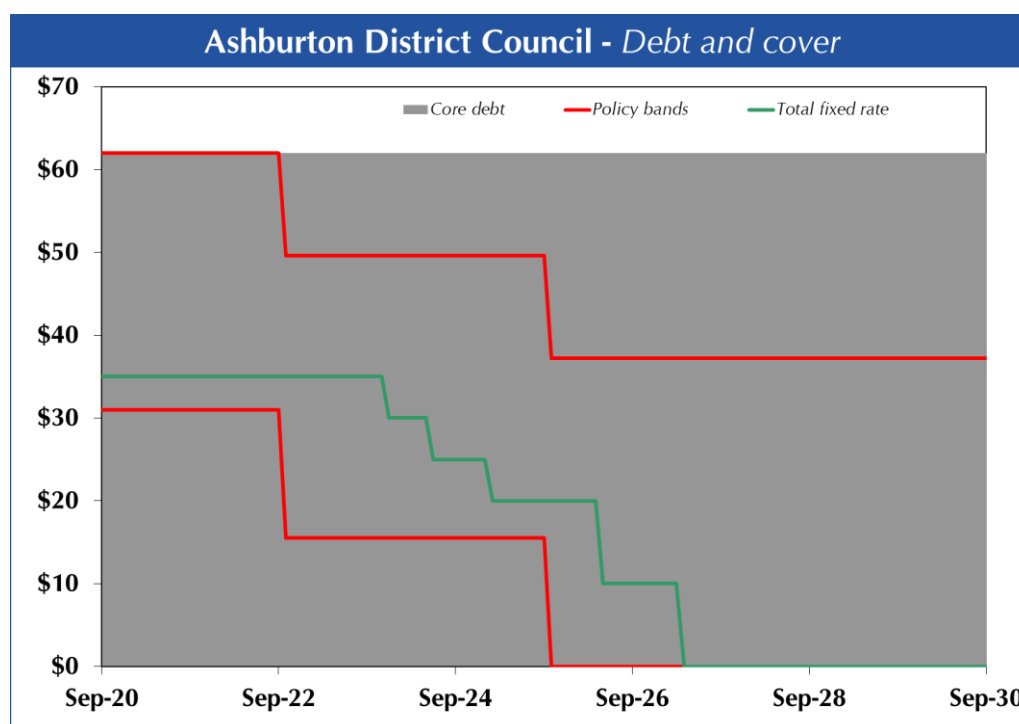
As at 30 September, ADC had four interest rate swaps, two of which are current and two forward starting, details as follows:

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
		TOTAL	\$25,000,000

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%

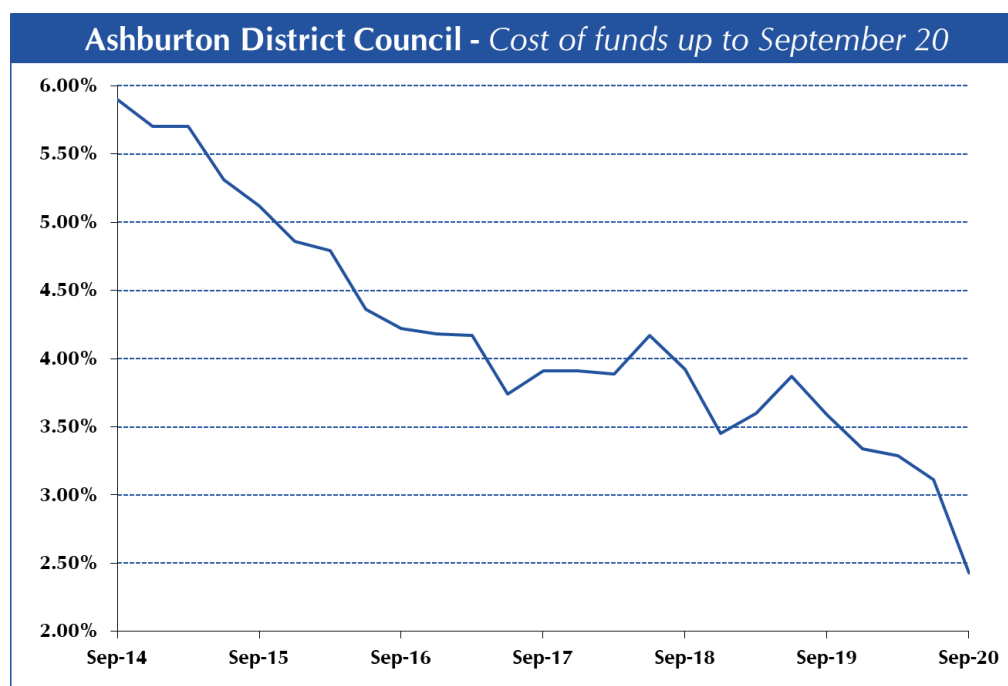
ADC's hedging profile as at 30 September, incorporating the swaps and the FRBs on issue, is in the following graph.



The graph shows that as at 30 September ADC was policy compliant.

As at 30 September, ADC's weighted average cost of funds, including the line fee on the \$2.0 million Westpac facility, was 2.43%, down from 3.11% as at 30 June. The reason for the sharp fall in the cost of funds was the acquisition during the quarter of \$20.0 million of new debt at a weighted average of 1.08%.

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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