

STAFF REPORT

TO: Chair and Members, Corporate Services Committee
FROM: Murray Staite
DATE: 15 August 2009
SUBJECT: Corporate Services Manager's Report – September 2009

1 Annual Report June 2009

The audit for the June 2009 annual report commences in September 2009. While considerable work has been undertaken at this stage a preliminary view of the June 2009 financial position is not yet available

2 Financials – July 2009

After one month the operating costs of activities as expected are close to budget with no concerns being noted.

3 Summarised Income/Expenditure Statement (Provisional)

At a previous meeting of this committee it was requested that prior year comparatives be included with this report. June 2009 financial information is not yet available so prior year information has not been included. With the completion of the 2009 annual report, the next meeting of this committee can expect to see this information included.

It is important to note that with the June 2009 annual report not yet finalised the July 2009 financials are only provisional.

	<i>Actual: July 2009 (\$000's)</i>	<i>Budget: Full Year June 2010 (\$000's)</i>
Operating revenue	5,864	83,515
Operating expenses	4,709	80,611
Operating surplus (Deficit)	1,155	2,904

Summarised Financial Position – July 2009

Summarised Balance Sheet		
	Actual: July 2009 (\$000s)	Budget: Full Year June 2010 (\$000s)
Current assets	13,992	18,074
Current liabilities	15,231	22,249
Working capital	(1,239)	(4,175)
Non current assets	1,100,524	1,162,951
Non current liabilities	92,460	116,652
Total net assets	1,006,826	1,042,124

Treasury: July 2009

1. Debenture Trust Deed

Staff are currently working through the pros and cons of using a debenture trust deed with a view to bringing a recommendation forward to a future meeting of this committee. A debenture trust deed is much simpler than Council's existing security sharing arrangement deed and allows flexibility of funding from sources other than banks. If council was to avail itself of the centralised debt vehicle being discussed nationally a debenture trust deed is a must.

You will note later in this report that council is outside its treasury limits in regard to the term of available facilities. The use of a debenture trust deed would allow staff to diversify funding sources and extend facilities and achieve compliance with the treasury policy limits.

2. Debt Levels

Council's debt at 31 July 2009 stands at \$102.0 million with an average interest rate of 6.2%. (March 2009 6.7%) As previously mentioned interest rates are now historically very low and have provided Council with a good opportunity to reduce its cost of funds over the long term. On the downside while short term rates remain low long term funding has been steadily increasing with 10 year swaps at 6% plus.

3. New swap transactions




The Corporate Services Manager has delegated authority to enter into interest rate swaps on behalf of Council on the proviso that it is reported back to this Committee. Since the June 2009 report the following swaps were entered into.

Swap Date	Notional value	Interest rate	Term
2 June 2009	5.0	4.99%	4 Years
2 June 2009	5.0	5.16%	4 Years
2 June 2009	6.0	5.30%	4 Years

4. Limits


In setting the 2009-2019 LTCCP certain treasury limits contained within that document came into effect. The next few pages of this report detail councils compliance with those limits.

Fixed rate maturity Profile Limit

	Minimum	Maximum	Actual July 2009	Limit Meet
1 – 3 years	20%	60%	43%	
3 – 5 years	20%	60%	23%	
5 – 10 years	10%	60%	34%	

Further fixed rate swaps have been entered into during the month of August and the 5 to 10 year bucket now sits at 38%.




Master Fixed/Floating Risk Control Limit

Minimum	Maximum	Actual July 2009	Limit Meet
55%	95%	74%	

Facility maturity limit

To minimise the risks of large concentrations of debt maturing or being reissued in periods where credit margins are high for reasons within or beyond councils control, delegated debt maturities are generally spread widely over a band of maturities.

Councils policy states that to exceed the minimum and maximum limits specific council approval is required. In the current financial market it is impossible to obtain facilities greater than three years. This exposes council to risk and has meant an inability to meet this treasury limit. As previously mentioned the use of a debenture trust deed will reduce the reliance on bank facilities and will allow these targets to be met.






	Minimum	Maximum	Actual July 2009	Limit Meet
1 – 3 years	20%	60%	80%	
3 – 5 years	20%	60%	20%	
5 – 10 years	10%	60%	0%	

To ensure compliance with council policy the following recommendation is proposed

Recommendation

That the Corporate Services Manager, subject to regular reporting, be authorised to exceed the maximum and minimum limits for facility maturity.

Treasury management policy limits

Treasury Limits	Actual July 2009	Within Limits
Net Debt not to exceed 20% of equity	10.2%	
Net external debt not to exceed 250% of total operating revenues	140%	
Net interest as a % of total revenues to be less than 20%	9.34%	
Net interest as a % of total annual rates to be less than 25%	14.04%	
Liquidity over the next 12 months to be at least 110%	116%	

5. Investments

Council investments which include disaster funds, self insurance funds and general investments total \$4.573 million dollars with an average interest rate of 4.4 % (previously 4.00%). Interest was budgeted in the 2009-2019 LTCCP at 4%.

Interests Register

Periodically I remind Councillors of the need to ensure that transactions that need to be noted in the interests register are recorded. The interests register is formally adopted annually for inclusion in Council's annual report and we would expect to adopt this register at the October 2009 meeting. To refresh Councillors thinking I have enclosed a section from the February 2007 report on declaring transactions.

"The Local Government Act places restrictions on being involved in contracts with the Council. I remind you that you cannot be a member of the Council, Community Board or a committee of Council, a Community Board or a key staff member of Council, if the total payments made by the Council in respect of a particular contract in which you are concerned or interested, exceeds \$25,000. The prohibition is not restricted to contracts to which you are a party. It extends to contracts between the Council and a company in which you or your spouse have an interest. Once again, there are exceptions to the general rule, but they are limited and if you are in any doubt, I suggest that you raise the matter with either the Chief Executive or myself.

In addition, NZ Reporting Standards require the following transactions with Councillors other than payments of rates or rubbish bags etc to be disclosed in the annual report:

- *The amount of the transaction*
- *The amount of any outstanding balances at reporting date*
- *Any allowance for bad debts*

There is no dollar threshold in regard to this disclosure. As indicated to the Audit Subcommittee it would be preferable if the Interests Register was adopted annually for inclusion in Council's Annual Report.

I would suggest that any Councillor, Community Board Member or key staff member who believes they may be involved in any organisation or transaction that could trigger a need for inclusion of a transaction in Council's Members Interest Register, to contact me personally."

Murray Staite
Corporate Services Manager