



AGENDA

Commercial and Strategy Committee Meeting

Tuesday, 23 November 2021

Date Tuesday, 23 November 2021

Time following the Community Services Committee

Location Council Chamber
Timaru District Council
King George Place
Timaru

File Reference 1462605

Timaru District Council

Notice is hereby given that a meeting of the Commercial and Strategy Committee will be held in the Council Chamber, Timaru District Council, King George Place, Timaru, on Tuesday 23 November 2021, at the conclusion of the Community Development Committee meeting.

Commercial and Strategy Committee Members

Cr Peter Burt (Chairperson), Cr Allan Booth (Deputy Chairperson), Cr Richard Lyon, Cr Gavin Oliver, Cr Paddy O'Reilly, Cr Barbara Gilchrist, Cr Sally Parker, Cr Stu Piddington, Cr Steve Wills and Mayor Nigel Bowen

Quorum – no less than 2 members

Local Authorities (Members' Interests) Act 1968

Committee members are reminded that if you have a pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the meeting table.

Erik Barnes

Acting Group Manager Commercial and Strategy

Order Of Business

1	Apologies	5
2	Identification of Items of Urgent Business.....	5
3	Identification of Matters of a Minor Nature	5
4	Declaration of Conflicts of Interest	5
5	Chairperson’s Report.....	5
6	Confirmation of Minutes	6
6.1	Minutes of the Commercial and Strategy Committee Meeting held on 12 October 2021.....	6
7	Reports	12
7.1	Council Investments and Borrowing	12
8	Consideration of Urgent Business Items.....	25
9	Consideration of Minor Nature Matters.....	25

- 1 Apologies**
- 2 Identification of Items of Urgent Business**
- 3 Identification of Matters of a Minor Nature**
- 4 Declaration of Conflicts of Interest**
- 5 Chairperson's Report**

6 Confirmation of Minutes

6.1 Minutes of the Commercial and Strategy Committee Meeting held on 12 October 2021

Author: Andrew Feary, Governance Advisor

Recommendation

That the Minutes of the Commercial and Strategy Committee Meeting held on 12 October 2021 be confirmed as a true and correct record of that meeting and that the Chairperson's electronic signature be attached.

Attachments

- 1. Minutes of the Commercial and Strategy Committee Meeting held on 12 October 2021**



MINUTES

Commercial and Strategy Committee Meeting Tuesday, 12 October 2021

Ref: 1462605

**Minutes of Timaru District Council
Commercial and Strategy Committee Meeting
Held in the Council Chamber, Timaru District Council, King George Place, Timaru
on Tuesday, 12 October 2021 following the Community Services Committee**

Present: Cr Peter Burt (Chairperson), Cr Allan Booth (Deputy Chairperson), Cr Richard Lyon, Cr Gavin Oliver, Cr Paddy O'Reilly, Cr Barbara Gilchrist, Cr Sally Parker, Cr Stu Piddington, Cr Steve Wills, Mayor Nigel Bowen

In Attendance: Bede Carran (Chief Executive), Wayne O'Donnell (Chairman of the Geraldine Community Board), Andrew Feary (Governance Advisor), Erik Barnes (Acting Group Manager Commercial & Strategy), Alison Talbot (Temuka Community Board- via Zoom), Hannah Goddard-Coles (Director Engagement & Culture), Symon Leggett (Group Manager Recreational & Cultural Services), Paul Cooper (Group Manager Environmental Services), Mark Low (Strategy & Corporate Planning Manager), Nicole Timney (Manager of Property Services & Client Representative)

1 Apologies

There were no apologies.

2 Identification of Items of Urgent Business

There were no items of urgent business.

3 Identification of Matters of a Minor Nature

There were no matters of a minor nature.

4 Declaration of Conflicts of Interest

There were no declarations of conflicts of interest.

5 Chairperson's Report

Since the last Commercial & Strategy Committee meeting on the 31 August 2021, the chairperson has attended the following events:

- Various council meetings and workshops
- District Licensing Committee
- People & Performance Committee
- Audit & Risk Committee

Motion**Resolution 2021/31**

Moved: Cr Peter Burt
Seconded: Cr Barbara Gilchrist

That the Chairpersons report be received & noted.

Carried

6 Confirmation of Minutes**6.1 Minutes of the Commercial and Strategy Committee Meeting held on 31 August 2021****Resolution 2021/32**

Moved: Cr Steve Wills
Seconded: Cr Richard Lyon

That the Minutes of the Commercial and Strategy Committee Meeting held on 31 August 2021 be confirmed as a true and correct record of that meeting and that the Chairperson's electronic signature be attached.

Carried

7 Consideration of Urgent Business Items

There were no items of urgent business.

8 Consideration of Minor Nature Matters

There were no matters of minor nature.

9 Exclusion of the Public**Motion**

Moved: Cr Peter Burt
Seconded: Cr Barbara Gilchrist

That the Chairperson of the Geraldine Community Board be permitted to remain for items 10.1 & 10.2 due to his particular knowledge of the issue.

Resolution 2021/33

Moved: Cr Barbara Gilchrist
Seconded: Cr Paddy O'Reilly

That the public be excluded from the following parts of the proceedings of this meeting on the grounds under section 48 of the Local Government Official Information and Meetings Act 1987 as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Plain English Reason
10.1 - Funding Land Purchase - Geraldine Community Medical Centre	<p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities</p>	<p>Commercial sensitivity</p> <p>To enable commercial activities</p>
10.2 - Covenant - 138 Talbot Street Geraldine	<p>s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> <p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p>	<p>To protect a person's privacy</p> <p>Commercial sensitivity</p>

Carried

10 Public Excluded Reports

10.1 Funding Land Purchase - Geraldine Community Medical Centre

10.2 Covenant - 138 Talbot Street Geraldine

11 Readmittance of the Public

Resolution 2021/34

Moved: Cr Peter Burt
Seconded: Cr Gavin Oliver

That the meeting moves out of Closed Meeting into Open Meeting.

Carried

The Meeting closed at 1220.

.....
Peter Burt
Chairperson

7 Reports

7.1 Council Investments and Borrowing

Author: Azoora Ali, Chief Financial Officer
Jason Rivett, Acting Chief Financial Officer

Authoriser: Erik Barnes, Acting Group Manager Commercial and Strategy

Recommendation

That the Committee receive and note the report.

Purpose of Report

- 1 To update the Committee on the status of Council treasury activities at 30 September 2021.

Assessment of Significance

- 2 This matter is assessed to be of low significance under the Council's Significance and Engagement Policy. This is a regular report to the Council on the status of Council's borrowing and investments. Council's Financial Strategy is consulted on as part of each Long Term Plan review cycle.

Background

- 3 Council's treasury management involves holding a range of investments and borrowing to fund long term capital projects and operational expenditure as agreed in the Annual Plan or Long Term Plan.
- 4 Council treasury activities are managed in compliance within the limits of the Council's Treasury Management Policy (TMP).
- 5 Bancorp Treasury Services Limited provide external treasury advice to Council on borrowing and investment decisions.

Discussion

- 6 This report is to be read in conjunction with the attached detailed report titled "Treasury Reporting Dashboard – September 2021".
- 7 Global economic commentary
 - i. Central bankers around the globe adopted a more hawkish stance in September as employment slowly crept back to 2019 levels and several supply shocks continued to push inflation above target ranges. Economists have lowered their forecasts for global and US growth for 2021 and 2022 as the COVID 19 Delta variant continues to create issues and add uncertainty to the already clouded outlook.
 - ii. The US Federal Reserve left its key benchmark interest rate unchanged in the September meeting, but the minutes suggested tapering will start in November or December.
 - iii. Chinese data continues to undershoot expectations, with August's retail sales numbers significantly underperforming expectations.

- iv. The Reserve Bank of Australia left its cash and 3 year yield target rates unchanged in September.

8 New Zealand economic commentary

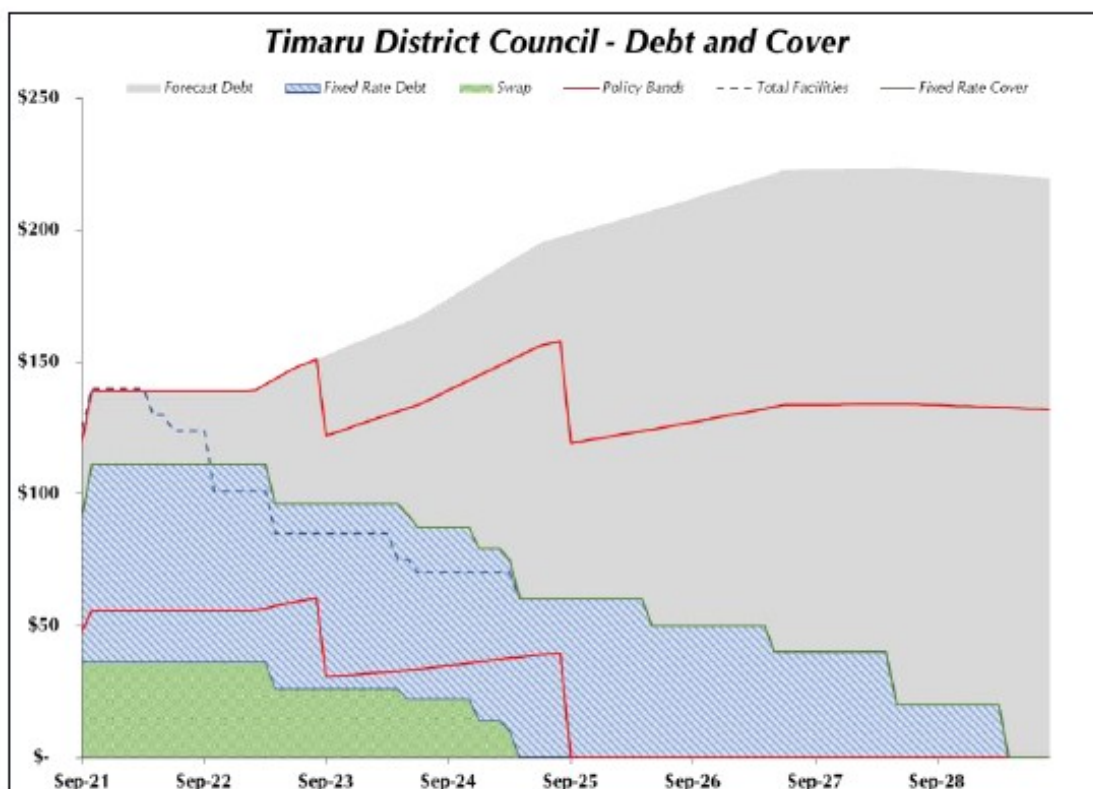
- i. The New Zealand government's decision to lock down the country following the discovery of the COVID 19 Delta strain in the wider community necessitated the Reserve Bank of New Zealand delaying its OCR hiking cycle in August. The RBNZ's own OCR forecasts project the rate to increase to 0.60% by December 2021 with further increases every quarter until December 2022 before the cash rate eventually tops out at 2.10% in March 2024.
- ii. The domestic unemployment rate and participation rate outperformed market expectations in the second quarter. The unemployment rate decreased to 4.7% while the participation rate increased to 70.4% against expectations of 4.9% and 70.2%.

9 Liquidity and Funding

- i. Liquidity and funding refers to total external Council drawn debt and undrawn bank facilities. The funding profiles and sources must agree with policy control limits.
- ii. Timaru District Council has access to three key sources of funding from the Local Government Funding Agency ("LGFA"). These are:
 - a) Commercial Paper ("CP") – unsecured money market instrument issued in the form of a promissory note;
 - b) Floating Rate Notes ("FRN") – debt instruments with variable interest rates; and
 - c) Fixed Rate Bonds ("FRB") – fixed rate throughout the life of the bond.
- iii. Total borrowings as at 30 September 2021 was \$119.8m.
- iv. All Liquidity and Funding limits are compliant with policies.

10 Interest Rate Risk

- i. The Interest rate risk section of the report refers to whether Council's hedging profile is within policy limits as well as the split between Fixed Debt and Floating cover.
- ii. The chart below shows TDC's current hedging profile based off the 75% LTP debt projections scenario which TDC believes is realistic and achievable. This illustrates that TDC is within the policy bands contained in the LTP.
- iii. Current fixed rate hedging is outlined by the blue and green shaded area, while the red lines are the policy bands which are documented in TDC's Treasury Management Policy. The dotted blue line depicts the funding maturity profile.



- iv. All Up Weighted Average Cost of Funds Including Margin is 2.48%
- v. All interest rates are within policy bands.

11 Investment Management

- i. Cash investments are broken down by special and general funds.
- ii. Special Funds are held for specific purposes as set out in the Long Term Plan, Annual Plan and Annual Report. These funds are invested for approved future expenditure, to implement strategic initiatives, support intergenerational allocations, bequests and other reserves.
- iii. General Funds are cash reserves held for day to day operating activities. General Fund balances fluctuate across the quarter depending on operational income and expenditure cash flows. Council has a financial strategy to maintain a minimum of \$10 million general funds for liquidity purposes. The total cash investments of Council as at 30 September 2021 is \$16m.

12 Overall Summary

- i. As at 30 September 2021, all transactions have been transacted in compliance with Council Policies and performance of Council Treasury activities are well managed.

Attachments

1. Treasury Reporting Dashboard - September 2021 [↓](#) 



Treasury Reporting Dashboard

September 2021

STRICTLY PRIVATE AND CONFIDENTIAL



Economic Commentary

2

Global

- › Central bankers around the globe adopted a more hawkish stance in September as employment slowly crept back to 2019 levels and several supply shocks continued to push inflation above target ranges. Economists have lowered their forecasts for global and US growth for 2021 and 2022 as the COVID-19 Delta variant continues to create issues and add uncertainty to the already clouded outlook. Meanwhile, material weakness in recent Chinese data, the new 'common prosperity' approach, along with the Evergrande drama has the market thinking there could be some serious issues going forward for the world's second largest economy.
- › The US Federal Reserve ("Fed") left its key benchmark interest rate unchanged in the September meeting, but the minutes suggested tapering will start in November or December stating "If progress continues broadly as expected the Committee judges that a moderation in the pace of asset purchases may soon be warranted. While no decisions were made, participants generally viewed that as long as the recovery remains on track, a gradual tapering process that concludes around the middle of next year is likely to be appropriate." The Fed's 'dot plots' also signaled that interest rate increases may follow more quickly than expected, with 9 out of 18 policymakers projecting interest rates will rise in 2022. Members now see the US economy growing at 5.9% in 2021, 3.8% in 2022, and 2.5% in 2023.
- › The US 10 year Treasury bond yield started and finished the quarter at 1.46%. However, it reached a low of 1.18% in July, before shooting up to 1.53% in September after the Fed meeting confirmed market expectations of the tapering process beginning this year.
- › Chinese data continues to undershoot expectations, with August's retail sales numbers significantly underperforming expectations and manufacturing PMIs on the cusp of turning contractionary. Authorities also provided more information on their 'Common Prosperity' drive which consists of "two core priorities: achieving high-quality growth and sharing wealth." Beyond that, "narrowing the income gap" and "equalising access to basic public services and narrowing the urban-rural gap" are the objectives. Meanwhile, China's 1 year onshore swap rate surged to its highest level in almost 4 years, signaling market worries over liquidity shortages on the inevitable default of local property developer Evergrande.
- › In an entirely predictable move, the Reserve Bank of Australia ("RBA") left its cash and 3-year yield target rates unchanged in September. RBA Governor, Philip Lowe, also announced "the Delta outbreak has delayed, but not derailed the economic recovery" while reiterating "the cash rate is unlikely to rise before 2024 given sluggish wage growth." The RBA has explicitly said it will not increase the cash rate until actual inflation is sustainably within the 2.0%-3.0% target range, and that it won't be enough for inflation to just sneak across the 2.0% line for a quarter or two.

Economic Commentary

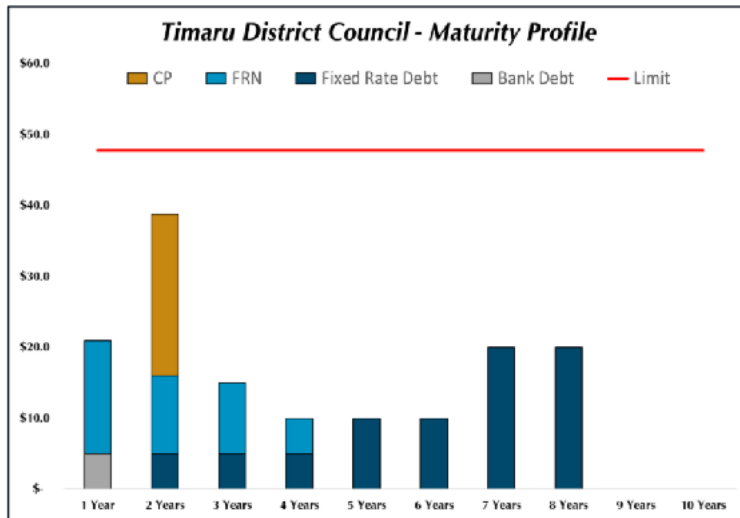
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New Zealand

- › The New Zealand government's decision to lock down the country following the discovery of the COVID-19 Delta strain in the wider community necessitated the Reserve Bank of New Zealand ("RBNZ") delaying its ("Official Cash Rate") OCR hiking cycle in August. The RBNZ's own OCR forecasts project the rate to increase to 0.60% by December 2021, with further increases every quarter until December 2022, before the cash rate eventually tops out at 2.10% in March 2024. The RBNZ expects these hikes to slow the economy as it also pared back its GDP growth forecasts.
- › Post the meeting, a speech by RBNZ Assistant Governor, Christian Hawkesby, stated that "the August MPS noted that we had more confidence that employment was at its maximum sustainable level and that pressures on capacity would feed through into more persistent inflation pressures over the medium-term." Following this speech, market pricing is now assigning a 88% probability of a 25 basis point hike in the OCR to 0.50% in October and has a 92% probability that it will be at 0.75% by the end of November. By the end of 2022, market pricing and RBNZ projections for the OCR are closely aligned around 1.50%.
- › While there may be some potholes in the road ahead for the New Zealand economy, the June quarter GDP print looked at how the country was doing before the Delta intrusion and, by all accounts it was doing very nicely. June quarter GDP grew by 2.8%, expanding at a pace more than twice the rate anticipated by economists, who were forecasting a modest 1.1% gain. And while there will be the inevitable slowdown in the September quarter given the lockdowns, the June quarter GDP print will essentially 'force' the RBNZ Governor to act on 6 October.
- › The domestic unemployment rate and participation rate outperformed market expectations in the second quarter. The unemployment rate decreased to 4.7% while the participation rate increased to 70.4%, against expectations of 4.9% and 70.2%. Private sector wages also had a small win as they were up 0.4% for the quarter.
- › The local yield curve flattened over the quarter, with the market indicator spread between the 2 and 10 year swap rates narrowing from 143 basis points at the end of June to 110 basis points by the end of September. The short end of the curve was driven up by the rate hikes priced in by the market, while the 10 year swap rate climbed in September due to rising long term yields in the US. BKBM has also increased to 0.65% in anticipation of October's 25bp rate hike.

Liquidity and Funding

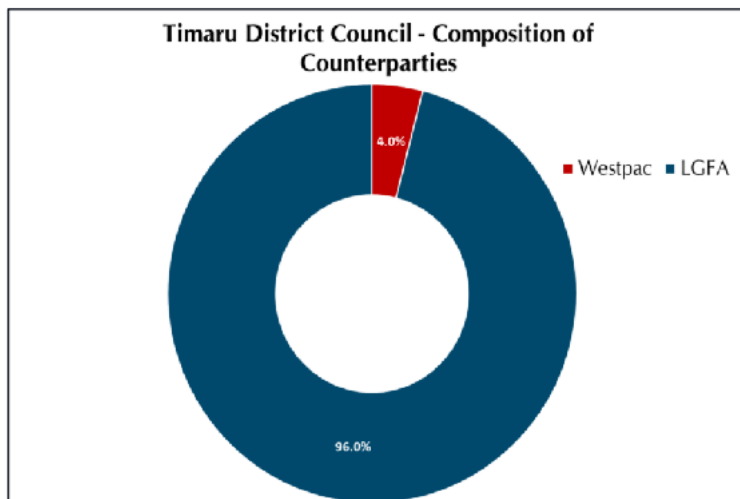
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Funding KPIs	Minimum %	Maximum %	Actual	Compliant?
Liquidity	110%	N/A	TBA	Yes
Funding Maturity Profile				Yes

Debt
\$119.8m
 Total External Council Drawn Debt

LGFA
\$119.8m
 Funds Drawn from LGFA



Headroom
\$5.0m
 Undrawn Bank Facilities

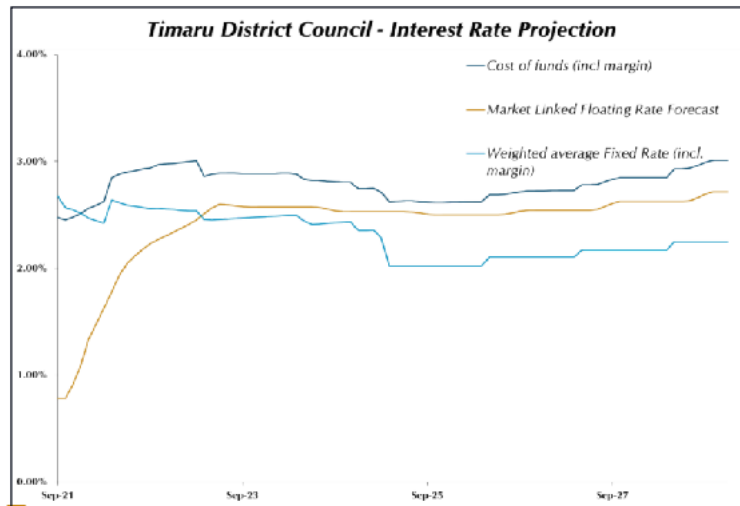
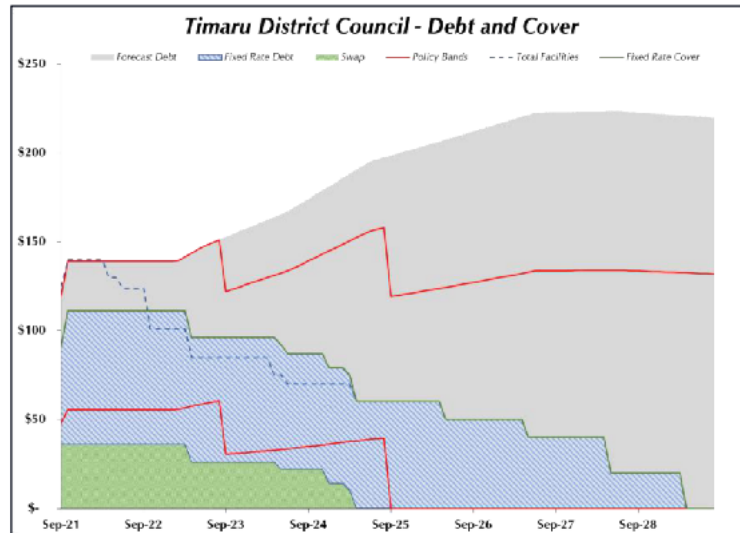
Liquidity Ratio
TBA
 Definition: (Cash Reserves + Lines of Credit + Drawn Debt)/Drawn Debt

Policy Compliance	Compliant	Flag
Have all transactions been transacted in compliance with policy?	Yes	Green
Is fixed interest rate cover within policy control limits?	Yes	Green
Is the funding maturity profile within policy control limits?	Yes	Green
Is liquidity within policy control limits?	Yes	Green
Are all counterparty exposures within policy control limits?	Yes	Green



Interest Rate Risk

5



Current % of Debt Fixed	76.0%
Current % of Debt Floating	24.0%
Value of Fixed Rate (m)	\$91.0
Weighted Average Cost of Fixed Rate Instruments	2.85%
Weighted Average Cost of Fixed Rate Instruments (incl margin)	2.67%
Value of Forward Starting Cover	\$30.0
Weighted Average Cost of Forward Starting Cover	2.74%
Value of Floating Rate (m)	\$28.8
Current Floating Rate	0.79%
Current Floating Rate (incl margin)	1.18%
All Up Weighted Average Cost of Funds Including Margin	2.48%
Total Facilities In Place	\$124.8
Core Debt	\$119.8

Policy Bands			
	Minimum	Maximum	
0 - 2 years	40%	100%	Compliant
2 - 4 years	20%	80%	Compliant
4 - 8 years	0%	60%	Compliant



Investment Management

6

Portfolio Summary

- › Below is a summary of the performance of TDC's Special Funds Portfolio ("SFP") and the benchmark portfolio for the quarter ended 30 September.
 - › The SFP outperformed the benchmark index, decreasing in value by increasing in value by 0.29% compared to the benchmark portfolio's decrease of 0.72%.

TDC portfolio value at 30 June 2021	\$2,572,460
TDC portfolio value at 30 September 2021	\$3,541,812
Add coupon payments	\$23,095
Purchases/sales/maturities	-\$1,000,000
Total	\$2,564,907
Percentage change in effective cash value	-0.29%

Benchmark portfolio value at 30 June 2021	\$11,546,068
Benchmark portfolio value at 30 September 2021	\$11,310,265
Add coupon payments	\$153,050
Total	\$11,463,315
Percentage change in effective cash value	-0.72%

Investment Management

7

Portfolio Activity

- › During the September quarter, the SFP, which had a duration of 2.36 years, outperformed the benchmark index, which had a duration of 2.10 years
 - › The weighted average purchase yield of the SFP as at 30 September was 3.75%
 - › There were no bond maturities in the SFP during the September quarter.
 - › In addition to the SFP, there was \$16.0 million invested in bank Term Deposits ("TD") at the end of September
- › The outperformance by the SFP was achieved over a period of sharply rising interest rates, while normally a portfolio with a shorter duration will outperform a portfolio with a longer duration. Despite this the SFP (which had the longer duration than the benchmark) was able to achieve a superior performance due to its specific composition at a micro or individual asset selection basis, where similar duration bonds in the SFP had a superior performance during the quarter
- › The S&P/NZX Investment Grade Corporate Bond Index (which most closely replicates the SFP) declined by 1.19% during the September quarter compared to the SFP's decline of 0.29%. For the year ending 30 September the S&P/NZX Investment Grade Corporate Bond Index declined by 3.75% compared to the SFP's decline of 0.25%, while the benchmark index fell by 1.34% for the same period

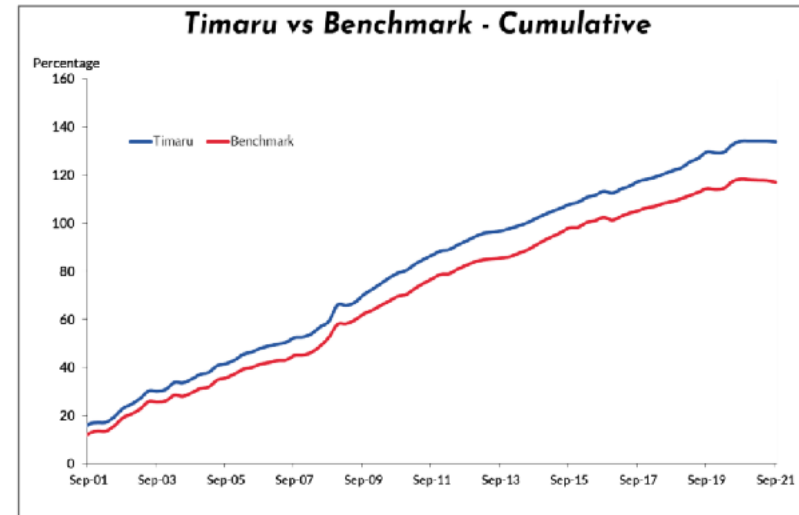
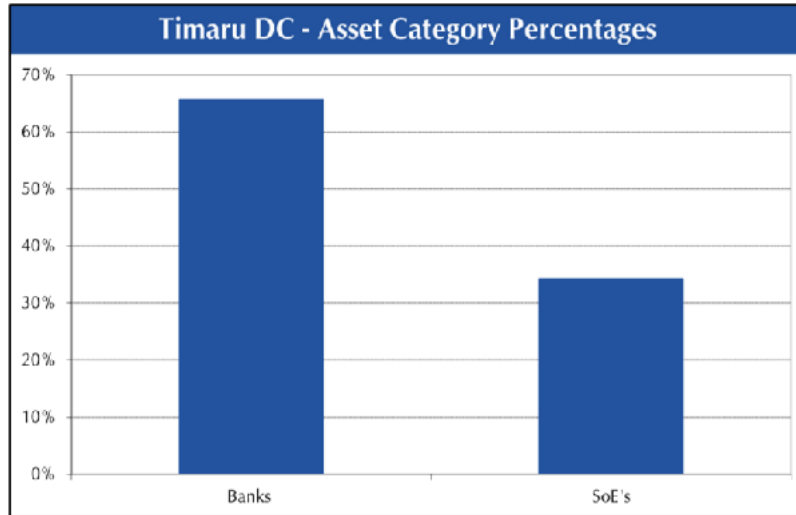
Policy Adherence

- › As at 30 September, TDC was compliant with the credit rating criteria in its Investment Policy
- › The duration of the SFP, at 2.36 years, is compliant with the duration requirement contained in the Investment Policy. Please note that TDC's Investment Policy states that compliance with the duration control limit is not required if the nominal value of the SFP is less than \$5.0 million. In terms of liquidity, all the bonds in the SFP traded regularly on the secondary market during the September quarter. We are confident that the SFP could be sold at short notice if required
- › As at 30 September, the asset category percentages of the SFP complied with the Investment Policy. These are detailed below and illustrated in the chart on the following page. Note that these percentages exclude the TDs
 - › Banks 65.79%
 - › State Owned Enterprises 34.21%



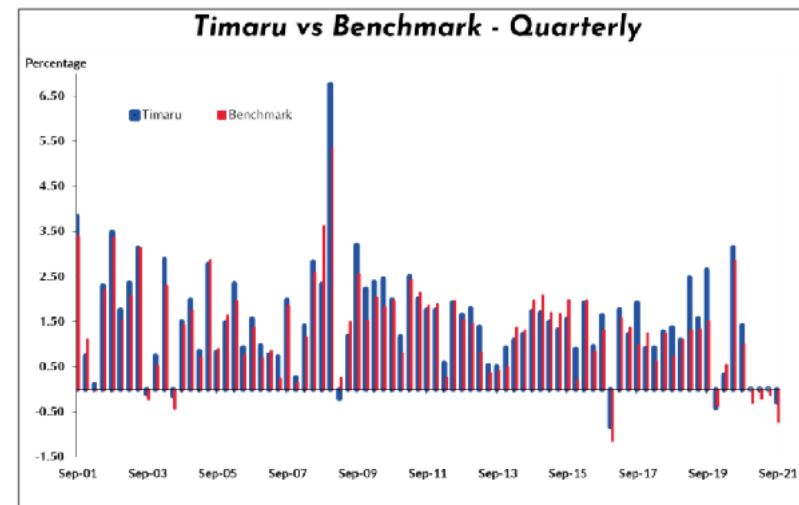
Investment Management

8



Current term deposits

Bank	Amount	Term	Maturity	Rate
Westpac	\$5,000,000	185 days	01-Oct-21	1.04%
ASB	\$3,000,000	181 days	04-Oct-21	0.95%
ASB	\$3,000,000	195 days	15-Nov-21	0.95%
Westpac	\$3,000,000	122 days	06-Dec-21	1.05%
ASB	\$2,000,000	175 days	28-Jan-22	1.05%
Total	\$16,000,000			



Investment Management

9

Benchmark										
Security	Maturity Date	Coupon	30-Jun-21 Nominal \$	Yield	Value \$	30-Sep-21 Nominal \$	Coupons 01/07 to 30/09 \$	Yield	Value \$	Effective cash 30/09/2021 \$
90 Day Bank Bill	31-Dec-21		1,000,000	0.71	999,169	1,000,000		0.60	998,490	998,490
Fonterra	25-Feb-22	5.90	1,000,000	0.66	1,054,067	1,000,000	\$39,500	0.90	1,025,787	1,065,287
ANZ/National Bank	1-Sep-22	3.75	1,000,000	0.61	1,048,913	1,000,000	\$18,750	1.08	1,027,371	1,042,550
Auck Int Airport	9-Nov-22	4.28	1,000,000	1.02	1,049,914	1,000,000		1.49	1,047,300	1,033,368
Transpower	15-Mar-23	5.44	1,000,000	0.83	1,093,883	1,000,000	\$27,200	1.39	1,060,524	1,102,817
Westpac	23-Mar-23	3.72	1,000,000	0.87	1,058,855	1,000,000	\$18,600	1.43	1,034,149	1,050,376
Auckland Council	25-Mar-24	5.81	1,000,000	1.13	1,140,931	1,000,000	\$29,050	1.69	1,100,598	1,174,382
ASB Bank	19-Aug-24	1.83	1,000,000	1.33	1,021,934	1,000,000	\$9,150	1.86	1,001,242	986,659
BNZ	29-Jan-25	2.16	1,000,000	1.43	1,034,453	1,000,000	\$10,800	1.96	1,010,101	1,020,901
LGFA	15-Apr-26	1.50	1,000,000	1.46	1,004,953	1,000,000		1.99	985,708	985,708
Housing NZ	5 Oct 26	2.25	1,000,000	1.58	1,038,996	1,000,000		2.08	1,018,995	1,018,995
			<u>\$11,000,000</u>		<u>\$11,546,068</u>	<u>\$11,000,000</u>	<u>\$153,050</u>		<u>\$11,310,265</u>	<u>\$11,479,533</u>
Value as at 30/06/21					\$11,546,068					
								30/09/2021		11,310,265
								Coupons		153,050
								Total		11,463,315
								Effective change in cash		-582,753
								% change		-0.72%
								Duration-years		2.10

Timaru District Council											
Security	Rating	Maturity Date	Coupon	30-Jun-21 \$	Yield	Value \$	30-Sep-21 \$	Coupons 01/07 to 30/09 \$	Yield	Value \$	Effective Cash 30/09/2021 \$
Genesis	BBB+	18-Mar-22	4.14	500,000	0.72	518,059	500,000	8,570	0.99	508,002	516,572
Genesis	BBB+	8-Mar-23	5.81	500,000	1.23	547,179	500,000	14,525	1.75	530,486	545,011
BNZ	AA-	15-Jun-23	4.10	500,000	0.95	531,336	500,000		1.49	527,907	527,907
CCB	A	23-Jun-23	4.00	750,000	1.30	790,046	750,000		1.79	786,202	786,202
Meridian	BBB+	27-Jun-25	4.21	170,000	1.79	185,840	170,000		2.28	183,552	183,552
ANZ	A	17-Sep-26	3.00				1,000,000		2.90	1,005,663	1,005,663
				<u>\$2,470,000</u>		<u>\$2,572,460</u>	<u>\$3,470,000</u>	<u>\$23,095</u>		<u>\$3,541,812</u>	<u>\$3,564,907</u>
Value 30/06/2021						\$2,572,460					
										Value 30/09/2021	3,541,812
										Coupons	23,095
										Adjustments	1,000,000
											<u>2,564,907</u>
										Effective change in cash	\$7,553
										Duration-Years	2.36
										% change	-0.29%





8 Consideration of Urgent Business Items

9 Consideration of Minor Nature Matters