



# **AGENDA**

## **Commercial and Strategy Committee Meeting**

**Tuesday, 20 April 2021**

**Date** Tuesday, 20 April 2021

**Time** following the Community Services Committee

**Location** Council Chamber  
Timaru District Council  
King George Place  
Timaru

**File Reference** 1416906

## **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 20 April 2021, at the conclusion of the Community Development Committee meeting.**

### **Commercial and Strategy Committee Members**

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

Ashley Harper

**Acting Group Manager Commercial and Strategy**

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- 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 16 March 2021**

**Author:** Jo Doyle, Governance Advisor

#### **Recommendation**

That the Minutes of the Commercial and Strategy Committee Meeting held on 16 March 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 16 March 2021**



# **MINUTES**

## **Commercial and Strategy Committee Meeting Tuesday, 16 March 2021**

**Ref: 1416906**

**Minutes of Timaru District Council  
Commercial and Strategy Committee Meeting  
Held in the Council Chamber, Timaru District Council, King George Place, Timaru  
on Tuesday, 16 March 2021 at 11.57am**

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

**In Attendance:** Chief Executive (Bede Carran), Group Manager Commercial and Strategy (Donna Cross), Chief Financial Officer (Azoora Ali), Senior Programme Delivery Manager (Ashley Harper), Programme Delivery Manager (Lili Delwaide), Manager of Property Services and Client Representative (Nicole Timney), Governance Officer (Jo Doyle)

**Community Boards:**

Lloyd McMillan – Temuka Community Board

John McDonald – Pleasant Point Community Board

Janene Adams – Geraldine Community Board

**1 Apologies**

**Resolution 2021/11**

Moved: Mayor Nigel Bowen

Seconded: Cr Paddy O'Reilly

That the apology received from Cr Gavin Oliver and Cr Peter Burt be accepted and leave of absence granted.

**Carried**

**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 minor nature matters

**4 Declaration of Conflicts of Interest**

Chairperson Allan Booth noted he is a Director of Venture Timaru for items 7.1 and 7.2.

**5 Chairperson's Report**

There was no Chairperson's report.



**6 Confirmation of Minutes****6.1 Minutes of the Commercial and Strategy Committee Meeting held on 2 February 2021****Resolution 2021/12**

Moved: Cr Steve Wills

Seconded: Cr Barbara Gilchrist

That the Minutes of the Commercial and Strategy Committee Meeting held on 2 February 2021 be confirmed as a true and correct record of that meeting and that the Chairperson's electronic signature be attached.

**Carried**

**7 Reports****7.1 Venture Timaru - Six Month Report to 31 December 2020**

The Venture Timaru (VT) six month report for the period ending 31 December 2020 was presented to the Committee by Chairman Mark Rogers and Chief Executive Nigel Davenport.

The regional apprenticeship initiative has been fully committed as of 2 March 2021, this has provided \$14m of Government support directly into businesses in the wider district.

The unemployment rate is improving quarter on quarter however the Timaru district is still below the national average. The job seeker numbers are back to below pre Covid with a wide variety roles to be filled.

VT have a variety of income streams, the grant from Council and central Government contracts which are administered or driven on behalf.

Housing affordability still sits favourably to the rest of the country calculated by the median household income.

New business opportunities include possible interest at the Timaru airport as a place of interest for Lincoln University for precision farming, the ability to freight time sensitive products out of Timaru faster and a southern airport is also interested in using the Timaru site for providing further freight options.

Events that have been affected by the recent Covid level changes are Bandquet which has now been rescheduled to 9 October. 1,000 tickets were sold for this event ticket holders have been offered a full refund, but only 50-60 have taken that option.

The seasonable employers are struggling to get the fruit off trees and are needing horticultural workers. There are also concerns about chilled storage that are near capacity as well as delays in distributing food and beverage products out to the market.

**Resolution 2021/13**

Moved: Chairperson Allan Booth

Seconded: Cr Steve Wills

That the Venture Timaru report for the period ending 31 December 2020 be received and noted.

**Carried**

## 7.2 Venture Timaru Draft Statement of Intent

The Committee was presented with the Venture Timaru's (VT) draft statement of intent (Sol) for 2021/22 to 2023/24 by Chairman Mark Rogers and Chief Executive Nigel Davenport.

A strategy day was held in February on economic development and the destination management plan. Timaru District Council requested input for sustainability and climate change. The updates are now included in the Sol and the underlying fundamentals remain.

The strategic projects for VT are:

- Enable and promote Timaru as a Central South Island distribution and logistics hub
- Development of an authentic and integrated Timaru District brand and identity
- Encourage a cross sector master plan approach to the development of Caroline Bay

Timaru District Council have requested quantitative measures to monitor and apply improvements, with success to be reported through the quarterly and annual reports.

A request has been made for a support grant as part of the Sol, the rationale is the tourism spend is increasing. As part of the stimulus fund in light of Covid, Council granted funds to attract new events and grow existing events, the need for this continues and there are opportunities for medium to large events to continue to be managed by VT.

The funds received for the economic development fund are currently being used for the CBD strategy. A prior request by Council was to add \$50,000 to the budget to take the annual funding from \$150,000 to \$200,000.

The Caroline Bay master plan as part of the CBD hub was discussed as this should be a collaborative vision. There have been discussions with an entity who would be interested in establishing a visitor attraction facility, however this would need to be considered within the overall vision for the area.

The current distribution of Council's loans and grants should be reviewed, and one clear policy produced with consideration whether VT could potentially be the facilitator of these funds. Concern was expressed if VT have the operational capacity to meet these needs.

A large portion of tourism is events, and could make sense that all funding is held in one place for South Canterbury, and VT have the overview of events.

The grants policies are to be reviewed, and VT are happy to work and co-ordinate to produce a report.

Suggestions for the Sol are the alignment of Council's long term plan and levels of service, and to ensure KPIs are specific and quantified. The impact of the GDP on results should be monitored and tracked results for economic development that are specific to VT.

The year on year measure could be quantified differently with levels of service and percentages.

The feedback is required by 1 May 2021 for the Sol to enable the final version to be presented to Council.

### Resolution 2021/14

Moved: Chairperson Allan Booth

Seconded: Cr Steve Wills

That:

1. The draft Statement of Intent for Venture Timaru Limited was received;
2. The Committee will provide feedback to Venture Timaru via a Letter of Expectation in the required time period for consideration for the final Sol.

**Carried**

### **7.3 Overview of 2020/2021 Capital Work Programme - Dashboard**

The Committee were provided with an update on the delivery status of the 2020/2021 capital work programme.

The forecasts provided were generated as part of the LTP development process, this is a significant increase from last year. Additional expenditure is expected to be completed by the end of year and the dashboard demonstrates how it will be achieved. A large amount of work is underway in the district and will increase over the coming weeks, this will be reflected in the 8 month report.

The highly feasible component of capital programme can at this stage still be delivered. Any exceptions will be reported, the only foreseeable problems considered are procurement, supply chain delays and weather.

#### **Resolution 2021/15**

Moved: Cr Barbara Gilchrist

Seconded: Cr Richard Lyon

That the report was received and noted.

**Carried**

### **7.4 Progress Report: Theatre Royal and Heritage Facility Development and Social Housing Ventilation Compliance projects**

The Committee on the progress of the two key property projects: the Theatre Royal and Heritage Facility Development project and the Social Housing Ventilation Compliance project by the Manager of Property Services and Client Representative .

#### **Social Housing Ventilation Compliance**

Are now 60% completed, the current budget is underspent, there were some over estimations with unknowns. The overall spend is tracking well, some of the remaining funds will be moved to upgrading windows in some units to assist with the ventilation programme.

This has been received well by the tenants, and will be valued heading into winter. The project has been overseen by the Property Maintenance Officer who has met with tenants on site before the contractors arrive, and has ensured the completion of each unit before the contractor moves on to the next.

#### **Theatre Royal and Heritage Facility Development**

Decals have been attached to the front doors which have been received favourably.

The seats are now removed from the theatre, and the Geraldine cinema, theatre groups and schools are seeking to use them.

The fly system is currently being decommissioned and the stage area is now out of bounds.

The demolition work on the army hall, carpark on one side and 2 smaller buildings will be under way between June and August. The RFP process is being led by the project team and there are 3 local operators interested in this work.

The options for design and costings will be shown to the reference group next week, the feedback from which will go to work on actual designs.

The back of house will no longer need to be fully replaced, the results of the expected earthquake strengthening required for the high brick walls at the back of the theatre is proving positive and this is positive in terms of the budget.

Concern was raised that no concept plan has been seen by Council and that the budget evolves from this plan. These plans were expected in February.

It was requested that an invitation be extended to all Councillors to attend and receive the concept plans as soon as delivered.

#### **Resolution 2021/16**

Moved: Chairperson Allan Booth

Seconded: Mayor Nigel Bowen

That this report was received and noted

**Carried**

### **7.5 Financial Report to end of January 2021**

The Committee was provided with progress against Council's 2020/21 Annual Plan financial results.

It was noted this will be a regular report to each Commercial and Strategy Committee, the systems are being improved to provide updates of capex and other variances and to ensure the core results are more aligned.

The LTP forecast is higher than originally expected, the operating costs have increased through personnel, operating costs and depreciation.

The financing costs have altered due to interest rates.

A change to the Community Support Capital Expense line was noted to be \$2.16Mil YTD forecast (from \$2.99Mil) and \$1.76Mil (from \$2.59Mil) variance. This change was due to Social Housing change \$546,329 YTD spend (from \$1,379,728).

The total Council YTD Capital Expenditure forecast is therefore \$35Mil and a variance of \$15.83Mil.

The democracy line has shown the result of the stimulus funding grants, these have apportioned to the activity the expenditure was attributed to.

#### **Resolution 2021/17**

Moved: Chairperson Allan Booth

Seconded: Mayor Nigel Bowen

That the summary financial results to 31 January 2021 were received and noted.

**Carried**

## **7.6 TDHL Loan Facility Agreement**

The Committee considered amending the terms of the Timaru District Holdings Limited (TDHL) cash advance facility.

The amount advanced is currently payable on a period of notice or on demand, the auditors then deem this as a current liability for TDHL, by changing the requirements to repayment in 366 days will mean the debt can be moved to a non-current liability.

It was discussed whether the arrangement should be reviewed, there are possibly more cost effective options for both parties, e.g. borrowing through LGFA which TDHL are able to do. This is a long standing arrangement that assisted with the establishment of TDHL providing capital. The loan facility is currently for \$22m with a draw down limit of \$45m.

The committee agreed to approving the concept of 366 days on current level of debt only (approx. \$22m) and for the Chief Executive to agree to amend contact details and references to the start date, legislative references.

### **Resolution 2021/18**

Moved: Mayor Nigel Bowen

Seconded: Cr Stu Piddington

That the Committee amend the terms of the Timaru District Holdings Limited cash advance facility as proposed, in relation to the current level of debt, and support Timaru District Council and TDHL undertaking a review of the future requirement for the loan.

**Carried**

## **7.7 Timaru District Holdings Ltd six month report to December 2020**

The Timaru District Holdings Limited (TDHL) six month report for the period ending 31 December 2020 was presented to the Committee.

The improved dividend flow from Alpine Energy Limited has occurred because a conservative budget of zero was included but overall \$2m is projected as noted in strategic workshops

### **Resolution 2021/19**

Moved: Mayor Nigel Bowen

Seconded: Cr Paddy O'Reilly

That the Timaru District Holdings Limited quarterly report be received and noted.

**Carried**

## **7.8 Timaru District Holdings Ltd draft Statement of Intent**

The Committee was presented with a copy of Timaru District Holdings Limited (TDHL) draft statement of intent for 2021/22 to 2023/24, to determine the feedback to be provided to TDHL.

Strategic workshops have been held, and there is a proposal to continue with the same SOI, then undertake a mid-term review.

Discussion was held around the \$1m dividend payment and whether there was any movement on this.

In terms of property development, what is captured within the Sol states that the shareholder will be informed, however consideration could be given to whether any significant transactions should be provided for approval.

### **Resolution 2021/20**

Moved: Cr Steve Wills

Seconded: Cr Stu Piddington

That:

- (a) the draft statement of intent for Timaru District Holdings Limited be received;
- (b) the Committee thank TDHL for the Sol and reinforce the strategic workshop findings and that a further review of the Sol occurs following those strategic workshops. An enquiry should be made as to the current outlook for Alpine Energy Limited and if the Alpine dividend projection is likely to change.

**Carried**

## **7.9 Aorangi Stadium Trust Half Year Report 31 December 2020**

The Committee was provided with an update of the Financial Performance of the Aorangi Stadium Trust.

No significant issues have been identified, the forecast position is in line with expectations.

### **Resolution 2021/21**

Moved: Cr Steve Wills

Seconded: Cr Barbara Gilchrist

That the Committee receive and note the report.

**Carried**

## **7.10 Aorangi Stadium Trust 2021/22 Draft Statement of Intent**

The Committee was provided with the Aorangi Stadium Trust draft statement of intent for 2021/22.

The trust has suggested that a review of the ownership and funding of the building be undertaken during the first 3 years of the Long Term Plan. The asset is considered a benefit to the community, and the appropriate ownership and mechanisms behind the running of this asset are to be reviewed.

This is a significant change from the previous statement of intent, the trustees support this review and a report back to Council is requested.

### **Resolution 2021/22**

Moved: Chairperson Allan Booth

Seconded: Cr Stu Piddington

That the draft statement of intent for Aorangi Stadium Trust was received and feedback be provided.

**Carried**

## **8 Consideration of Urgent Business Items**

There were no items of urgent business.

## **9 Consideration of Minor Nature Matters**

There were no minor nature matters.

## **10 Exclusion of the Public**

### **Resolution 2021/23**

Moved: Cr Barbara Gilchrist

Seconded: Mayor Nigel Bowen

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:

<b>General subject of each matter to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Plain English Reason</b>
<b>11.1 - Public Excluded Minutes of the Commercial and Strategy Committee Meeting held on 2 February 2021</b>	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons  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	To protect a person's privacy  To enable commercial activities
<b>11.2 - Hospice South Canterbury - Consideration to amendment of Financial Support</b>	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	To protect a person's privacy

**Carried**

**Resolution 2021/24**

Moved: Mayor Nigel Bowen

Seconded: Cr Sally Parker

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

**Carried**

**11 Public Excluded Reports**

**11.1 Public Excluded Minutes of the Commercial and Strategy Committee Meeting held on 2 February 2021**

**11.2 Hospice South Canterbury - Consideration to amendment of Financial Support**

**12 Readmittance of the Public**

**The Meeting closed at 1.26pm.**

.....  
**Cr Allan Booth**  
**Chairperson**



## 7 Reports

### 7.1 Investments and Borrowing Treasury Report for Quarter Ending 31 March 2021

**Author:** Azoora Ali, Chief Financial Officer

**Authoriser:** Ashley Harper, 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 31 March 2021.

#### Assessment of Significance

- 2 The assessment of significance is low.

#### Discussion

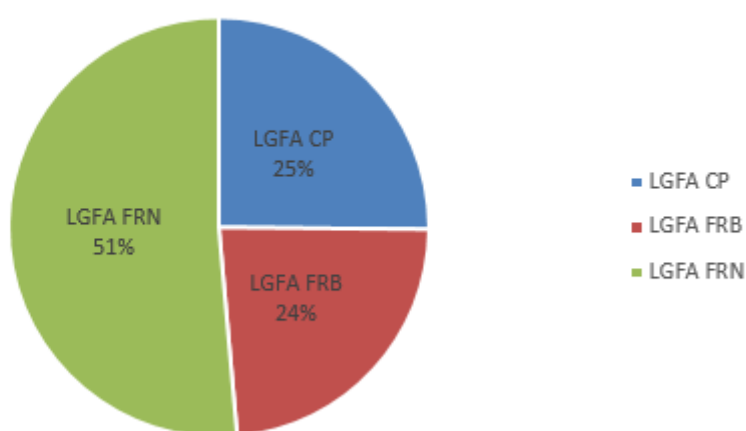
- 3 This report is to be read in conjunction with the attached detailed report titled “Quarterly Treasury Report for March 2021”.
- 4 Interest rates have been the centre of attention for much of the March quarter as the successful vaccine rollout in the US has re-focused attention on economic re-openings, enhanced growth and an increase in inflationary expectations. This drove international interest rates back to pre-COVID-19 levels, and steepened bond and interest rate curves.
- 5 In March, the Federal Reserve (“Fed”) sharply ramped up its expectations for economic growth stating, *“following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently,”* although they maintained there will be no change in rates until 2024 as per Fed Chairman, Jerome Powell’s, statement that *“inflation may rise this year on base effects/demand, but the impact on inflation won’t be very large or persistent.”* With US GDP expected to grow 6.0-8.0% in 2021.
- 6 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.
- 7 Council treasury activities are managed in compliance within the limits of the Council’s Investment and Liability Policy.
- 8 Bancorp Treasury Services Limited provide external treasury advice to Council on borrowing and investment decisions.

### Sources of Borrowings

- 9 Timaru District Council has access to sourcing funds from three key sources of funding from Local Government Funding Agency ("LGFA"). These are Commercial Paper ("CP"), Floating Rate Notes ("FRN") and Fixed Rate Bonds ("FRB").
- 10 The total borrowings as at 31 March 2021 are as follows:

Borrowings Instrument	Amount \$(Mil)
LGFA CP	22.5
LGFA FRB	21
LGFA FRN	46
<b>Grand Total</b>	<b>89.5</b>

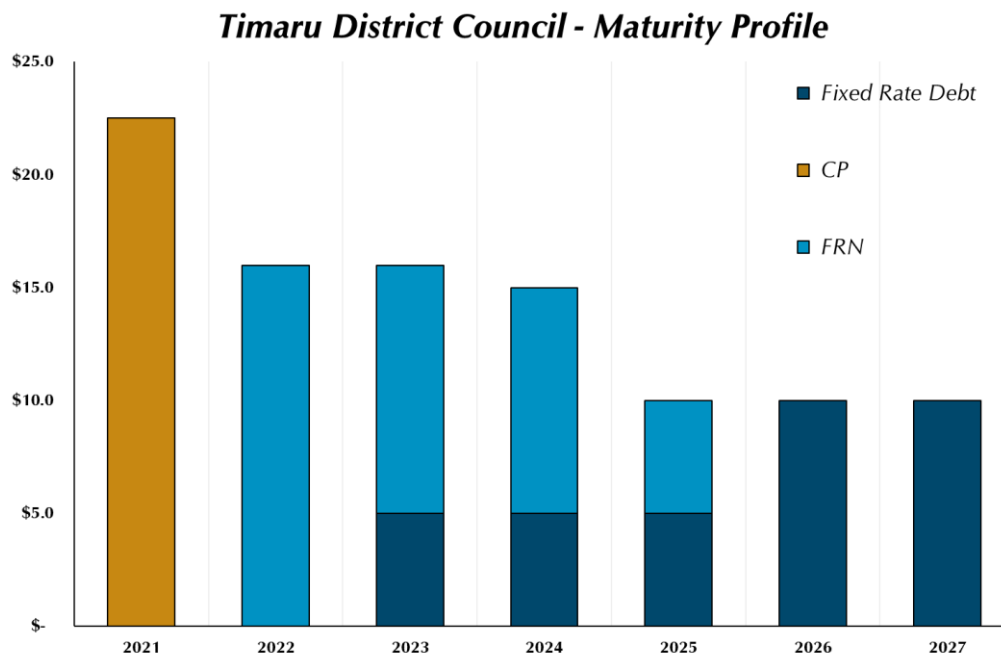
Sources of borrowings as at 31 March 2021



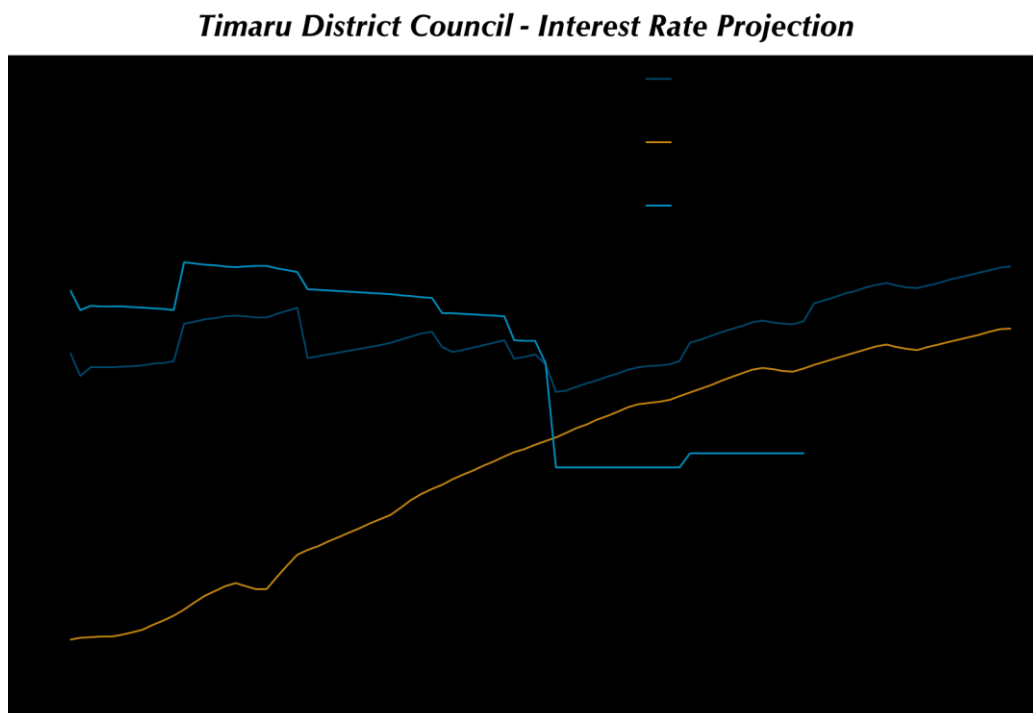
- 11 As at 31 March, TDC was not conforming with the guideline in Section 5 of the Liability Management Policy which states that Council shall aim, "where practical, to have no more than 33% of its outstanding borrowings subject to refinancing in any rolling twelve month period". TDC has 47.49% of its debt maturing in the 0-1 year timeframe so is outside of the guideline, but as it is not a strict policy requirement it does not constitute a policy breach. The concentration of maturities in the 0-1 year timeframe will be alleviated after 15 May 2021 when LGFA debt matures and is refinanced into several longer dated maturities.
- 12 The following table shows the indicative rates and amounts of debt refinancing that Council will be taking over the next quarter as debt matures and to meet current financing requirements:

Borrowings Instrument	Amount \$(Mil)	Indicative Rate	Start Date	Maturity
LGFA CP	22.5	0.54%	Apr-21	Oct-21
LGFA FRN	5	0.76%	Apr-21	Apr-24
LGFA FRB	10	1.61%	May-21	Apr-26
LGFA FRB	10	1.84%	May-21	Apr-27
LGFA FRN	5	0.81%	May-21	Apr-25
<b>Grand Total</b>	<b>52.5</b>			

- 13 The above refinancing will result in a more distributed debt profile as below:



- 14 The projected cost of funds resulting from our new profile is shown below:

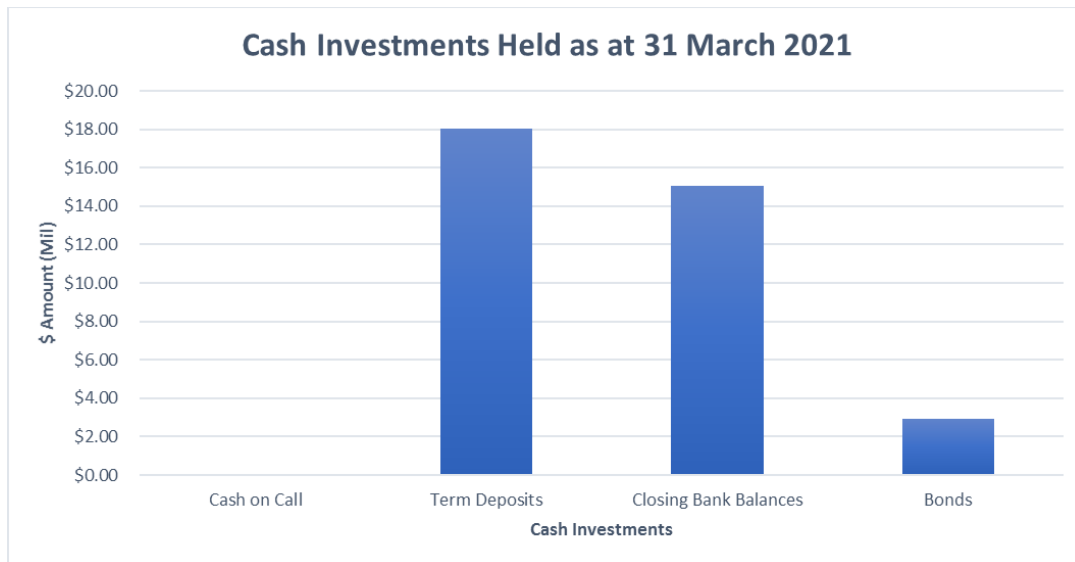


- 15 The above table includes two new loans amounting to a total of \$10M including \$5M for Downlands Water.

## Cash Investments

- 16 The total cash investments of Council as at 31<sup>st</sup> March 2021 are as follows:

Cash Investments ▾	Amount \$(Mil)
Bonds	2.92
Cash on Call	0.03
Closing Bank Balances	15.05
Term Deposits	18.03
<b>Grand Total</b>	<b>36.02</b>



- 17 Cash investments are broken down by special and general funds.
- 18 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.
- 19 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. The above balances sometimes drop to cover operational cashflow shortfalls and timing of general fund term deposits maturing.
- 20 Council investments are held with a range of highly rated institutions (as set out in the attached schedules) to ensure the capital sums invested are protected against default.
- 21 The yields available for term deposits continue to be higher than those available for bonds of a similar term. This is reflected in the proportion of Term Deposits to Bonds held. This is not expected to change in the short term.

## Attachments

1. **Quarterly Treasury Report for March 2021** [↓](#) 

# QUARTERLY TREASURY REPORT

FOR



*For the quarter ended 31 March 2021*

**PREPARED BY BANCORP TREASURY SERVICES LIMITED**



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## 1. FINANCIAL MARKETS OVERVIEW

### 1.1 GLOBAL MARKETS OVERVIEW (AS AT 31 MARCH 2021)

Interest rates have been the centre of attention for much of the March quarter as the successful vaccine rollout in the US has re-focused attention on economic re-openings, enhanced growth and an increase in inflationary expectations. This drove international interest rates back to pre-COVID-19 levels, and steepened bond and interest rate curves, as market participants attempted to front-run the data. Meanwhile, the Dow Jones and the S&P500 equity indexes reached record highs yet again at the end of the quarter. The Nasdaq even closed the month in positive territory as fund managers re-balanced portfolios away from tech and towards those stocks that will ultimately benefit from a re-opening of the US economy.

In March, the Federal Reserve ("Fed") sharply ramped up its expectations for economic growth stating, *"following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently,"* although they maintained there will be no change in rates until 2024 as per Fed Chairman, Jerome Powell's, statement that *"inflation may rise this year on base effects/demand, but the impact on inflation won't be very large or persistent."* With US GDP expected to grow 6.0-8.0% in 2021, it will be interesting to see if the Fed maintains this narrative.

The Fed, the Reserve Bank of Australia ("RBA"), and the Reserve Bank of New Zealand ("RBNZ"), essentially all sung the same tune. Simply put, all three central banks highlighted the risks to their respective recoveries and, as such, they retained all of their stimulatory options. They all emphasised that they are prepared to let inflation overshoot for an extended period of time, although they do not anticipate hitting their inflation and employment targets until 2024.

With the successful implementation of the US vaccine roll-out heightening the expectations of reopening of the US economy, bond markets have spent 2021 solely focusing their attention on the reflation trade. This has seen the US curve become the lead driver for interest rate curves globally, forcing yields higher and curves steeper, regardless of the likelihood of central bank hikes. The 10 year US bond yield finished the March quarter at 1.72%, up sharply from the December quarter closing level of 0.93%.

In China, the National People's Congress announced an annual GDP growth target of *"above 6.0%,"* and pledged to keep the unemployment rate below 5.5%, while the Chinese Premier, Li Keqiang, reiterated that *"we need to seek a balance between growth, income, and employment, and we cannot pursue economic growth based on high energy consumption and heavy pollution."* Interestingly, the World Bank predicted that China would outperform the USA again this year with its forecast suggesting the Chinese economy will expand by 8.1% in 2021, which fits in with the PBoC's forecast that China will grow between 5.0% and 5.7% over the next 5-years.



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## 1.2 NEW ZEALAND MARKET OVERVIEW (AS AT 31 MARCH 2021)

	OCR	90 day	2 years	3 years	5 years	7 years	10 years
31 Dec 2020	0.25%	0.27%	0.28%	0.36%	0.54%	0.74%	0.99%
31 Mar 2021	0.25%	0.35%	0.48%	0.66%	1.10%	1.54%	1.91%
Change	0 bps	+8bps	+20bps	+30bps	+56bps	+80bps	+92bps

The RBNZ's February *Monetary Policy Statement* ("MPS") was broadly in line with market expectations, but not dovish enough to reverse the trends we have seen in interest rate and FX markets. The RBNZ expects a short term unsustainable period of rising inflation before the stimulatory sugar rush wears off in 2021, with inflation underperforming until 2024. Therefore, the positive numbers we have seen in the employment and inflation space recently have been 'looked through' by the RBNZ, and it will wait for sustainable levels in its mandate before changing its stance on interest rates.

The February MPS implied that short term rates are not going anywhere until sustainable levels of inflation and employment are reached, which is, based off the RBNZ forecasts, sometime in 2024. However, the long end of the yield curve is at the mercy of international bond market and has continued its strong upwards rally as the 10 year swap rate reached 2.19%, a level not seen since June 2019.

Ultimately, central banks are not playing into the markets hands and are happy to let the market, in our opinion, get carried away. At some stage, central banks will start to upgrade their CPI and interest rate expectations, or bond markets will have to self-correct. It is interesting to note that, while the Fed, RBA and RBNZ are expecting an uplift in inflation in the coming months, all of them are expecting a correction later in the year. From the RBNZ's perspective, even at its most aggressive, it only anticipates inflation reaching 2.5%, which is hardly overshooting its 1.0%-3.0% band.

The December quarter GDP showed a surprising 1.0% drop in economic activity during the quarter to give an annual fall of 0.9%. At the industry level, seven out of sixteen industries declined. The two largest contributors to the drop were construction, retail trade and accommodation. Both industries saw strong September 2020 quarter results. Falls in construction services, commercial building, and infrastructure were partially offset by continued growth in residential building activity.

Markets were ignited when the Government announced a series of measures aimed at diluting the housing market squeeze by targeting investors. These included the extension of the Bright-line test from 5 to 10 years, and the 4-year phase out of interest deductibility on investment properties. However, while investors are just one contributing factor, the domestic

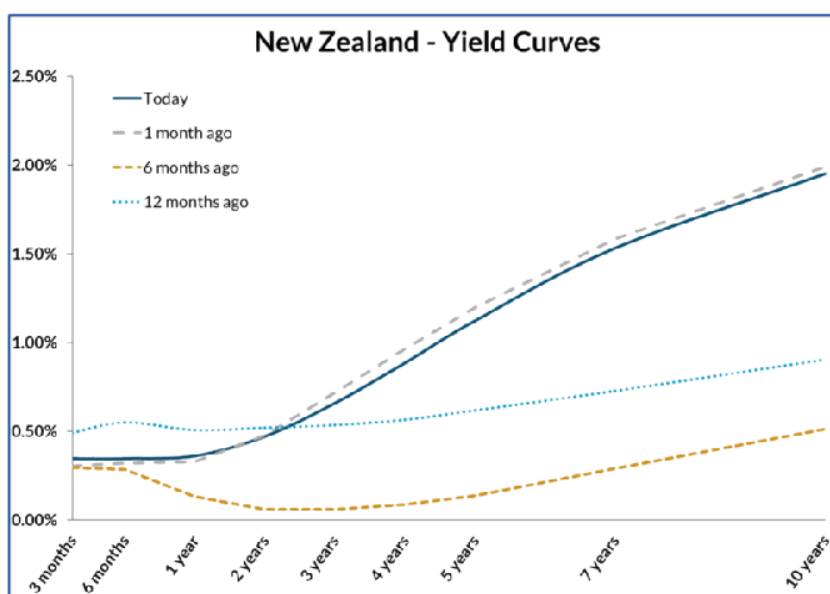




market remains short on 80,000 houses, and this is the issue that will ultimately need to be resolved.

These changes knocked the fixed income and currency markets, with the perception that a reduction in investor activity in the housing market will ultimately reduce the need for the RBNZ to lift interest rates. This saw the futures market reduce the pricing of a 25 bps hike in July 2022 from 100% to 60%, while the belly of the swaps curve, the 4 and 5 year rates, immediately fell 8 points. The 10-year swap rate, which topped out at 2.19% at the end of February, fell to a low of 1.72%, but has since climbed and finished the quarter at 1.91%. In amongst this, with long-end yields starting to grind higher, and the domestic financial system awash with cash, it has been a little surprising to see 3-month BKBM firm to 0.35%.

The following chart shows the changes in the shape of the yield curve over the past year, with the change most pronounced over the last six months.



### 1.3 LOCAL AUTHORITY SECTOR

Listed below are the credit spreads and applicable interest rates as at 31 March for Commercial Paper ("CP"), Floating Rate Notes ("FRN") and Fixed Rate Bonds ("FRB"), at which the Timaru District Council ("TDC") could source debt from the Local Government Funding Agency ("LGFA").

Maturity	Margin	FRN (or CP) Rate	FRB
3 month CP	0.20%	0.55%	N/A
6 month CP	0.20%	0.55%	N/A
May 2021	0.27%	0.62%	0.58%
April 2022	0.33%	0.68%	0.68%
April 2023	0.35%	0.70%	0.79%
April 2024	0.41%	0.76%	1.04%
April 2025	0.46%	0.81%	1.31%
April 2026	0.51%	0.86%	1.61%
April 2027	0.59%	0.94%	1.84%
April 2029	0.60%	0.95%	2.30%
April 2033	0.75%	1.10%	2.81%
April 2037	0.79%	1.14%	3.20%

Margins for LGFA debt decreased over the March quarter with markets awash with cash. The decrease in floating rate debt has been offset by an increase in the 3 month BKBM rate to 0.35%. However, there have been sharp increases in the yields for fixed rate bonds, especially at the longer end of the curve with the 2029 yield up from 1.54% to 2.30%, the 2033 up from 1.97% to 2.81% and the 2037 up from 2.40% to 3.20%.

## 2. DEBT MANAGEMENT

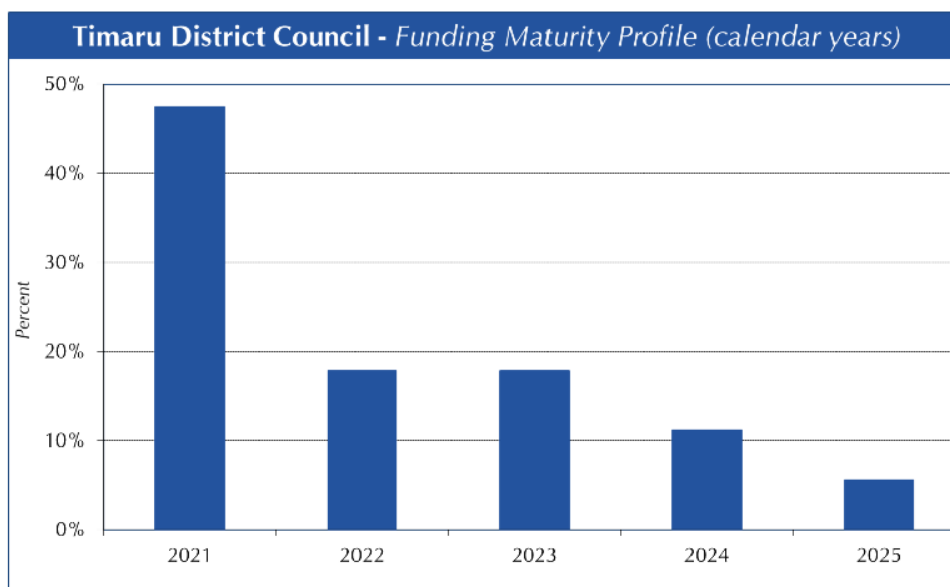
### 2.1 FUNDING POSITION

As at 31 March 2021, TDC had \$89.5 million of debt, all sourced from the LGFA using a combination of CP, FRNs, and FRBs. Details of the debt are as follows:

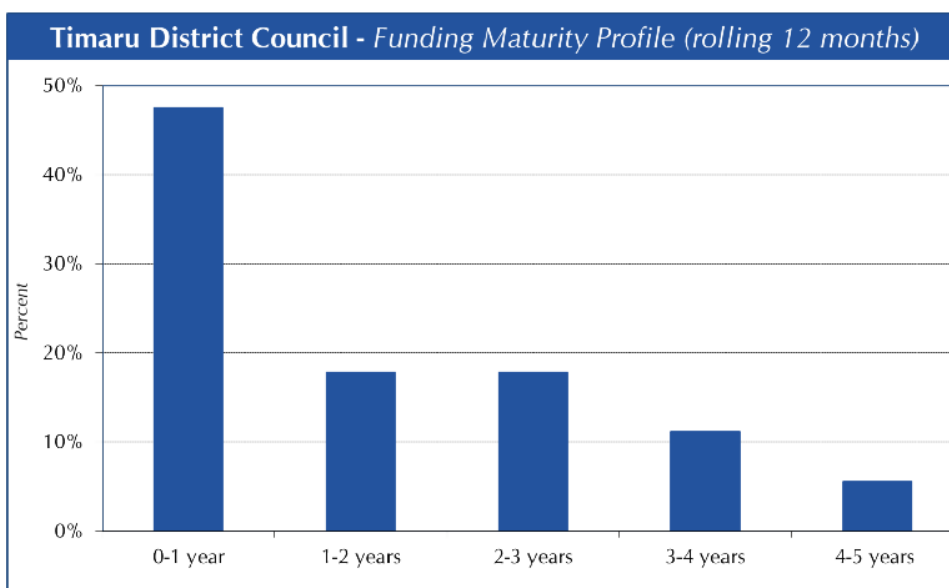
Instrument	Maturity	Rate	Margin	Amount
LGFA CP	Apr-21	0.45%	20 bps	\$22,500,000
LGFA FRN	May-21	1.1425%	84.25 bps	\$10,000,000
LGFA FRN	May-21	1.4225%	112.25 bps	\$4,000,000
LGFA FRB	May-21	5.60%	74 bps	\$5,000,000
LGFA FRB	May-21	5.98%	112 bps	\$1,000,000
LGFA FRN	Apr-22	0.63%	35.5 bps	\$5,000,000
LGFA FRN	Apr-22	0.65%	37.5 bps	\$5,000,000
LGFA FRN	Jun-22	0.755%	43.75 bps	\$6,000,000
LGFA FRN	Apr-23	1.1025%	82.25 bps	\$6,000,000
LGFA FRB	Apr-23	5.83%	83 bps	\$5,000,000
LGFA FRN	Apr-23	0.755%	47.5 bps	\$5,000,000
LGFA FRN	Apr-24	0.772%	49.2 bps	\$5,000,000
LGFA FRB	Jun-24	3.40%	58 bps	\$5,000,000
LGFA FRB	Apr-25	3.87%	63 bps	\$5,000,000
			<b>TOTAL</b>	<b>\$89,500,000</b>

### 2.2 MATURITY PROFILE

The following chart depicts TDC's funding maturity profile as at 31 March based on calendar years.



The following chart depicts TDC's funding maturity profile as at 31 March based on a rolling 12 month basis.



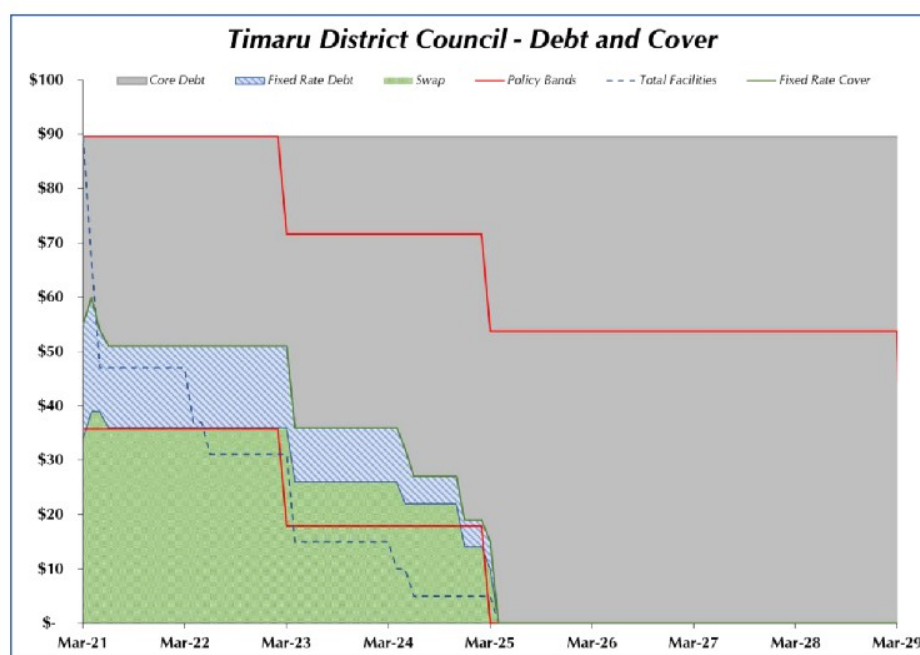
As at 31 March, TDC was not conforming with the guideline in Section 5 of the Liability Management Policy which states that Council shall aim, "where practical, to have no more than 33% of its outstanding borrowings subject to refinancing in any rolling twelve month period". TDC has 47.49% of its debt maturing in the 0-1 year timeframe so is outside of the guideline, but as it is not a strict policy requirement it does not constitute a policy breach. The concentration of maturities in the 0-1 year timeframe will be alleviated after the 15 May 2021 LGFA debt matures and is refinanced into several longer dated maturities.

### 2.3 DEBT AND COVER PROFILE

TDC's fixed rate hedging parameters used for the management of its debt are contained in the Liability Management Policy and are reproduced in the following table.

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
Less than 2 years	40%	100%
2 – 4 years	20%	80%
4 – 8 years	0%	60%

The debt (\$89.5 million) and cover profile using these parameters and incorporating the fixed rate debt (which is achieved by using interest rate swaps and FRBs) is depicted in the graph on the following page. The graph indicates that, as at 31 March TDC was policy compliant.



#### 2.4 COST OF FUNDS

Based on information supplied by TDC, the weighted average cost of funds (excluding margins) as at 31 March was 2.34%, compared to TDC's benchmark rate of 1.49% (which also excludes margins). The weighted average cost of funds inclusive of the margins is 2.88%.

### 3. INVESTMENT MANAGEMENT

#### 3.1 PORTFOLIO SUMMARY

Below is a summary of the performance of TDC's Special Funds Portfolio ("SFP") and the benchmark portfolio for the quarter ended 31 March.

- The SFP outperformed the benchmark index, increasing in value by 0.01% compared to the benchmark portfolio's decrease of 0.20%.
- The weighted average purchase yield of the SFP as at 31 March was 3.83%.
- The nominal value of the SFP remained unchanged at \$2.92 million during the March quarter.
- In addition to the SFP, there was \$18.0 million invested in bank Term Deposits ("TD") at the end of March.

TDC portfolio value at 31 December 2020	\$3,128,803
TDC portfolio value at 31 March 2021	\$3,104,160
Add coupon payments	\$24,875
Purchases/sales/maturities	Nil
<b>Total</b>	<b>\$3,129,035</b>
Percentage change in effective cash value	+ 0.01%

Benchmark portfolio value at 31 December 2020	\$11,796,343
Benchmark portfolio value at 31 March 2021	\$11,635,039
Add coupon payments	\$138,050
<b>Total</b>	<b>\$11,773,089</b>
Percentage change in effective cash value	-0.20%

#### 3.2 PORTFOLIO ACTIVITY

During the March quarter, the SFP, which had a duration of 2.35 years, outperformed the benchmark index, which had a duration of 2.08 years.

Normally, over a period of rising interest rates (as occurred during the March quarter), a portfolio with a shorter duration will outperform one with a longer duration. However, this did not occur during the March quarter. The result can be explained by the specific makeup of the SPF and individual asset selection where, at a micro level, similar duration bonds in the SPF had a superior performance during the quarter.

Looking at the performance in comparison to the S&P/NZX Investment Grade Corporate Bond Index (which most closely replicates the SPF), this declined by 1.95% during the March quarter due to its longer duration (3.71 years).

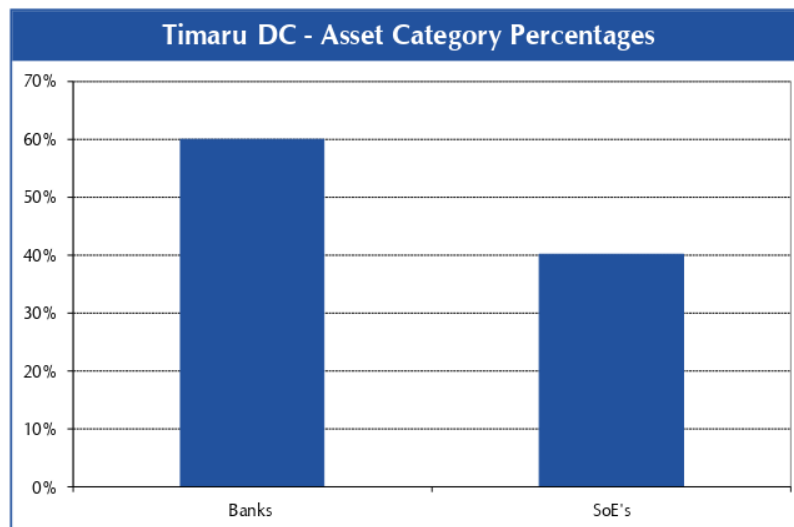
There were no bond maturities in the SFP during the March quarter.

In addition to the investments in corporate bonds at the end of the March quarter, TDC had TDs with a total nominal value of \$18.0 million at yields ranging from 0.35% to 1.04%, and a weighted average of 0.83%. Details of the TDs are as follows:

Bank	Amount	Term	Maturity	Rate
ANZ	\$3,000,000	91 days	12-Apr-21	0.35%
ANZ	\$5,000,000	180 days	5-Jul-21	0.90%
BNZ	\$2,000,000	181 days	6-Jul-21	0.87%
ANZ	\$3,000,000	210 days	14-Sep-21	0.80%
Westpac	\$5,000,000	185 days	01-Oct-21	1.04%
<b>Total</b>	<b>\$18,000,000</b>			

### 3.3 POLICY ADHERENCE

- As at 31 March, TDC was compliant with the credit rating criteria in its Investment Policy.
- The duration of the SFP, at 2.35 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 March quarter. We are confident that the SFP could be sold at short notice if required.
- As at 31 March, 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 59.93%
  - State Owned Enterprises 40.07%





#### 4. INVESTMENT STRATEGY

Since 2014, TDC has been investing in TDs on most occasions rather than in corporate bonds due to the yield advantage that TDs provided. This strategy of investing in TDs is continually monitored to ensure that TDs provide a yield advantage over similar duration corporate bonds.

Detailed in the table below are the yields as at 31 March for various corporate bonds rated 'BBB' or better by S&P Global Ratings, in which TDC would be able to invest under its existing Investment Policy.

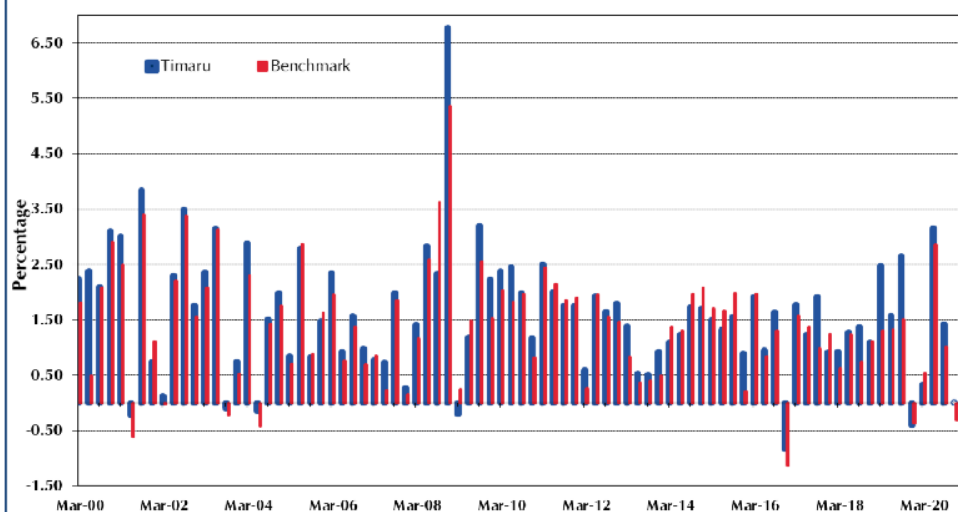
The lowest yielding TD invested during the quarter was with ANZ for 91 days at 0.35%. This yield was exceeded by all of the bonds in the table below (although the ANZ TD at 0.35% was invested for a relatively short term). However, investing in bonds during the quarter would have exposed TDC to revaluation losses. This is evidenced by the (negative) performance of the S&P/NZX Investment Grade Corporate Bond Index which returned minus 1.95% for the quarter.

Security	Maturity	Coupon	Rating	Yield
Chch Airport	04-Oct-21	6.25%	BBB	0.95%
Spark Finance	25-Mar-22	4.50%	A-	0.64%
Bank of China (NZ)	17-Oct-22	4.09%	A	0.91%
Genesis	08/-Mar-23	5.81%	BBB +	1.09%
BNZ	16-Nov-23	3.65%	AA-	0.85%
Chch City Holdings	27-Nov-24	3.58%	AA-	1.26%
Auckland Council	24-Mar-25	4.18%	AA	1.19%
Fonterra	14-Nov-25	4.13%	A-	1.75%
Housing NZ	05-Oct-26	2.25%	AA+	1.50%

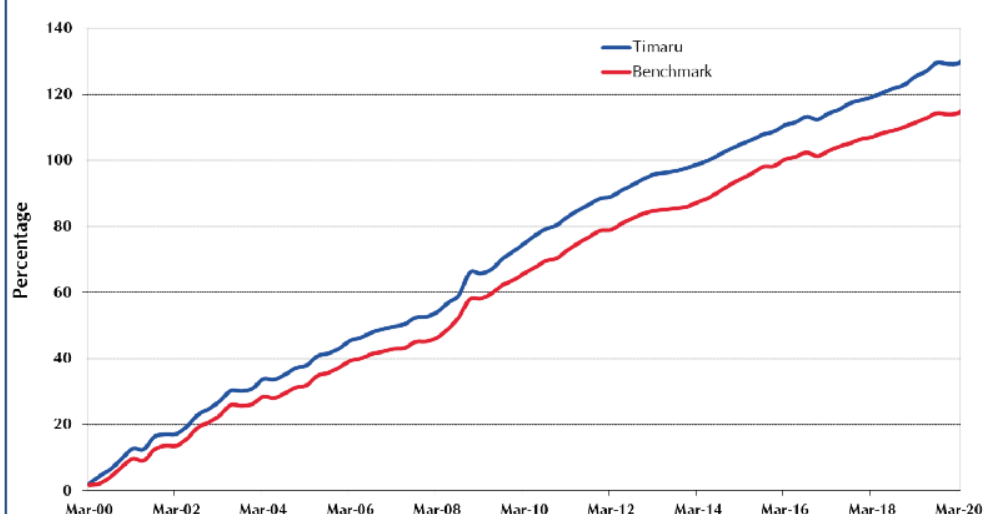
Bancorp Treasury will only recommend that TDC purchases bonds if such a purchase will meet TDC's requirements - to maintain an acceptable running yield, yet at the same time not expose TDC to excessive longer term revaluation risk.

Benchmark											
Security	Maturity Date	Coupon	31-Dec-20 Nominal \$	Yield	Value \$	31-Mar-21 Nominal \$	Coupons 01/01 to 31/03 \$	Yield	Value \$	Effective cash 31/03/2021 \$	
90 Day Bank Bill	30-Jun-21		1,000,000	0.27	999,335	1,000,000		0.35	999,128	999,128	
Dunedin CT	25-Nov-21	4.88	1,000,000	0.46	1,044,525	1,000,000		0.50	1,045,452	1,045,452	
Fonterra	25-Feb-22	5.90	1,000,000	0.77	1,079,242	1,000,000	\$29,500	0.73	1,052,138	1,081,638	
ANZ/National Bank	1-Sep-22	3.75	1,000,000	0.41	1,067,920	1,000,000	\$18,750	0.53	1,048,497	1,042,550	
Auck Int Airport	9-Nov-22	4.28	1,000,000	1.05	1,065,324	1,000,000		1.02	1,068,633	1,033,368	
Transpower	15-Mar-23	5.44	1,000,000	0.57	1,122,603	1,000,000	\$22,200	0.68	1,094,719	1,102,817	
Westpac	23-Mar-23	3.72	1,000,000	0.49	1,081,607	1,000,000	\$18,600	0.74	1,059,223	1,050,376	
Auckland Council	25-Mar-24	5.81	1,000,000	0.65	1,180,187	1,000,000	\$29,050	0.90	1,145,057	1,174,382	
ASB Bank	19-Aug-24	1.83	1,000,000	0.74	1,045,692	1,000,000	\$9,150	1.10	1,026,240	986,659	
BNZ	29-Jan-25	2.16	1,000,000	0.81	1,063,152	1,000,000	\$10,800	1.24	1,037,954	1,048,754	
LGFA	15-Apr-26	1.50	1,000,000	0.66	1,046,756	1,000,000		0.66	1,057,996	1,057,996	
			<u>\$11,000,000</u>		<u>\$11,796,343</u>	<u>\$11,000,000</u>	<u>\$138,050</u>		<u>\$11,635,039</u>	<u>\$11,623,120</u>	
Value as at 31/12/20					\$11,796,343			31/03/2021		11,635,039	
								Coupons		138,050	
								Total		11,773,089	
								Effective change in cash		-\$23,254	
								% change		-0.20%	
								Duration-years		2.08	
Timaru District Council											
Security	Rating	Maturity Date	Coupon	31-Dec-20 \$	Yield	Value \$	31-Mar-21 \$	Coupons 01/01 to 31/03 \$	Yield	Value \$	Effective Cash 31/03/2021 \$
Genesis	BBB+	18-Mar-22	4.14	500,000	0.76	526,304	500,000	10,350	0.71	517,189	527,539
Genesis	BBB+	8-Mar-23	5.81	500,000	0.98	561,223	500,000	14,525	1.09	546,935	561,460
BNZ	AA-	15-Jun-23	4.10	500,000	0.54	544,271	500,000		0.76	542,475	542,475
CCB	A	23-Jun-23	4.00	750,000	1.03	805,019	750,000		1.10	805,866	805,866
Meridian	BBB+	27-Jun-25	4.21	170,000	1.31	191,503	170,000		1.67	189,456	189,456
BNZ (qtrly)	BBB+	17-Dec-25	2.73	500,000	2.73	500,483	500,000		2.65	502,240	502,240
				\$2,920,000		\$3,128,803	\$2,920,000	\$24,875		\$3,104,160	\$3,129,035
Value 31/12/20						\$3,128,803			Value 31/03/21		3,104,160
									Coupons		24,875
									Adjustments		Nil
											<u>3,129,035</u>
									Effective change in cash		\$232
							Duration-Years	2.35	% change		0.01%

### Timaru vs Benchmark - Quarterly



### Timaru vs Benchmark - Cumulative



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## 7.2 Overview of 2020/2021 Capital Work Programme - Dashboard

**Author:** Lili Delwaide, Programme Delivery Manager

**Authoriser:** Ashley Harper, Acting Group Manager Commercial and Strategy

### Recommendation

1. That this report be received and noted.

### Purpose of Report

- 1 The purpose of this report is to provide the Committee with an update on the delivery status of the 2020/2021 capital work programme.

### Assessment of Significance

- 2 This matter is not significant according to the Significance and Engagement policy.

### Discussion

- 3 The attached dashboard provides an overview of the status of the 2020/2021 capital work programme for Timaru District Council, including the capital expenditure planned on behalf of the Downlands Water Supply Joint Standing Committee (included in the dashboard at 100%).
- 4 Council's annual plan for 2020/21 comprises a capital expenditure programme valued at \$58.9m for Timaru District Council. Additionally, Timaru District Council is also undertaking a \$25.3m of capital work on behalf of the Downlands Water Supply Joint Standing Committee. The combined total is \$84.2m.
- 5 In August 2020, Timaru District Council signed a Memorandum of Understanding with the Department of Internal Affairs, which resulted in a 3Waters Stimulus Package of \$6.86m being granted to TDC. This includes both operational and capital projects and is currently underway with most of the expenditure planned for 2021/22.
- 6 The attached dashboard includes graph showing the distribution of capital expenditure over a 12-month period for TDC per year since 2016. As highlighted in the graph, significant expenditure have occurred this year. The results for March 2021 are provisional as the last invoices for the month are currently being processed and paid at the time of writing this report.
- 7 The dashboard also includes an overview of ongoing construction works across the district. This highlights the amount of ongoing work in what is the busy construction season for the year. In addition, contracts recently awarded or currently being evaluated are listed on the dashboard. Many of these projects are scheduled to carry-over in the 2021/22 year.
- 8 The next issue of the dashboard will be presented to the Commercial and Strategy Standing Committee meeting on June 8, 2021.

### Attachments

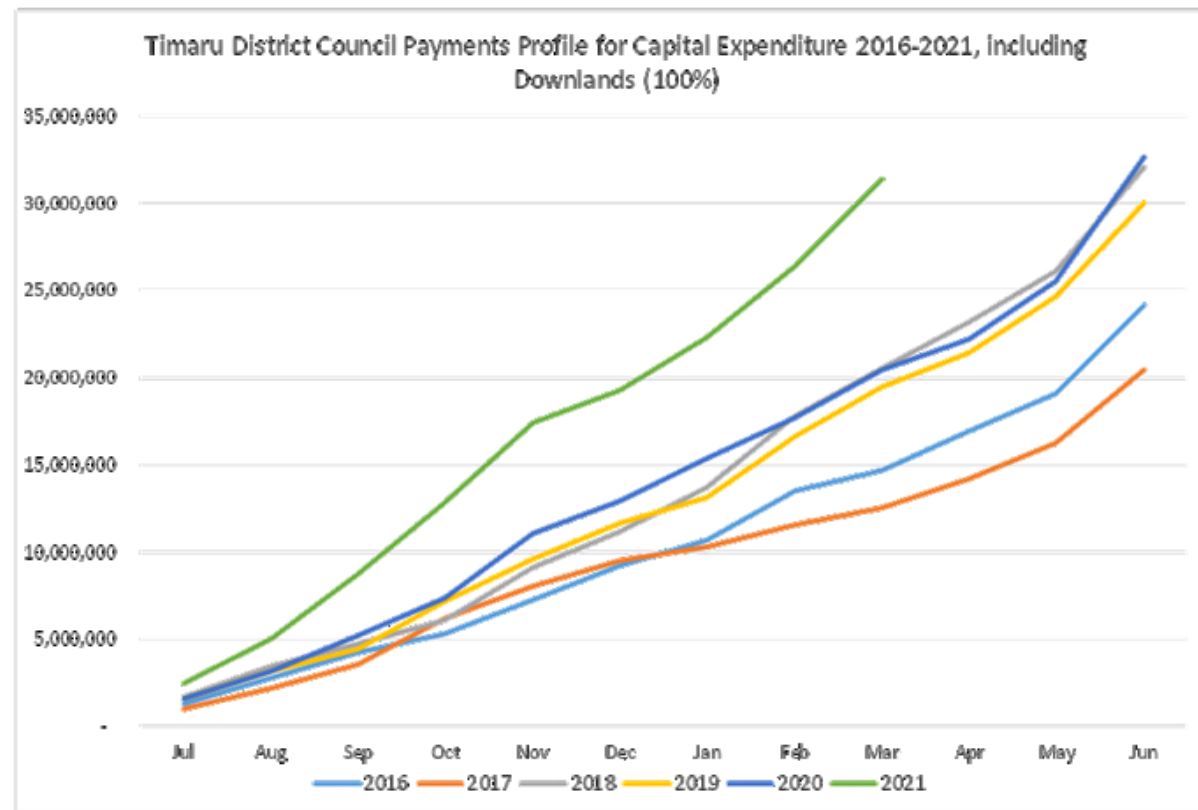
1. **Status of the 2020/21 Capital Work Programme - Dashboard April 2021**  

## Timaru District Council 2020/2021 Capital Work Programme 20 April 2021

Number of Projects: 140

Total Value\*: \$84.23m Incl. \$58.9m TDC + \$25.3m for Downlands

### Financial Update as of end of March 2021 (provisional)



Temuka Domain  
Sewermain



Te Ana Wai Raw Water  
Reservoir



Pareora Water Pipeline Section  
1

\* Does not include carry-forwards and 3 Waters Stimulus Package

### Ongoing Construction Works across the District (9<sup>th</sup> April 2021)

Contract	Project	Value	% Completion
2419	Road resurfacing	3,000,000	95
2184	Road Maintenance - renewals	2,300,000	70
2485	Te Ana Wai River Intake Works (out-of-river works)	689,626	50
2444	Orbell Street Watermain and Sewermain Renewal	553,953	40
2338	Te Ana Wai Stage 1 Pipeline + Variation	2,967,086	40
2462	Social Housing Ventilation Compliance	Est. 500,000	65
2303	Saltwater Creek Sewer Renewal	462,273	90
2447	Talbot St Sewer Renewal	666,132	95
2468	Pareora Pipeline Section 1	5,695,381	20
2459	Orari Back Road Seal extension	983,674	50
2456	Fraser Street Stormwater Main Upgrade	74,815	90
2376	Richard Pearse Drive Watermain Renewal	620,002	50
2479	Geraldine / Winchester Roundabout	1,352,374	85
2431	Te Ana Wai Raw Water Reservoir	1,270,872	66
2415	Temuka Treated Water Reservoir	1,043,199	90
2184	Parks – Renewal of RDA bridge	137,606	40
2488	Temuka Golf Course and Domain Sewermain Upgrade	736,835	60
2480	Selwyn Street Watermain Renewal	530,576	20

### Contracts recently awarded or being evaluated

Contract	Project	Value	Contractor
2469	Pareora Pipeline Section 2	4,808,114	Hadlee and Brunton
2482	Cannington Water Network Extension	904,918	Hadlee and Brunton
2403	Washdyke Water Network Improvement Section 1	2,227,728	Rooney Earthmoving Limited
2514	Central South Island Cycle Trails, Washdyke to Pleasant Point	679,179	Paul Smith Earthmoving Limited
2488	Variation Order 08 and 09 Peel Street and Beverley Hill Sewermain Renewals	451,315	Rooney Earthmoving Limited
2494	Roading Maintenance Contract	Tender currently being evaluated	
2502	Hewling and Darby Street Watermain Upgrade	Tender currently being evaluated	

- 8      Consideration of Urgent Business Items**
- 9      Consideration of Minor Nature Matters**

## 10 Exclusion of the Public

### Recommendation

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
<b>11.1 - Public Excluded Minutes of the Commercial and Strategy Committee Meeting held on 16 March 2021</b>	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	To protect a person's privacy
<b>11.2 - Property Matter</b>	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons  s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	To protect a person's privacy  To enable commercial or industrial negotiations

**11 Public Excluded Reports**

**11.1 Public Excluded Minutes of the Commercial and Strategy Committee Meeting held on 16 March 2021**

**11.2 Property Matter**



## **12      Readmittance of the Public**