1. Executive summary for Audit, Risk and Assurance Committee

1.1 Group overview

Business as usual activities and functions carried out by the Investment Management Group included:

- Investing surplus funds and contingency funds
- Managing Greater Wellington's debt portfolio and interest rate risk, ensuring adequate cash is available, relationships with bankers, rating agencies
- Monitoring CentrePort and completing the WRC Holdings group Statement of Intent and reporting to its Board
- Managing Greater Wellington's interest rate risk on the Stadium Debt and reviewing their Statement of Intent
- Coordinating Greater Wellington's risk management
- Managing and coordinating Greater Wellington's Insurance programme.

1.2 Key results for the year

1.2.1 Achievements during the year

Prefunded $25 million of 3 year debt early in the year at favourable margins, and rolled over $50 million of maturing debt with the inaugural LGFA debt issue in February.

Retained a favourable credit rating of AA long term and A1+ short term with a stable out look from Standard & Poor's.

Assisted with the formation of the LGFA, which saw a $2 million capital investment in the LGFA, $200,000 of set up costs returned to us. We earned a seat on the shareholder Council and continue to provide input into the running of the LGFA.

The Treasury Risk Management Policy was updated, primarily to reflect changes due to the LGFA. We adopted the financial covenants of the LGFA. As more Councils join the LGFA these covenants will become a sector standard and will enhance the creditworthiness of Local Government.

Our lending documentation was altered to a Debenture Trust Deed from a Negative Pledge Deed, which was a requirement of rating Agencies to give the LGFA a local Standard & Poor's credit rating of AA+long term and A1+ short term.

The debt guarantee with CentrePort Limited (CPL) was renewed. This enables CPL to borrow money substantially cheaper. GW has received a fee of $529,000 in the year ending 30 June 2012.

The accounting methodology for Greater Wellington Rail Limited (GWRL) was changed to a Public Benefit Entity. This has seen a revised Statement of Intent prepared for WRC Holdings Group of Companies incorporating GWRL.

Our $44 million bank facility was extended by one year which acts as support for our Commercial Paper programme in WRC Holdings. This was at a reduced cost of 0.1% or 10 points, which means reduced line fees of $44,000. We also extended both existing $35 million facilities with ANZ and BNZ by one year.

Insurance was placed for the 2012/13 year, and while premiums have increased over 2011/12, they are within our budget estimates, unlike last year. It would appear we are lucky to have the extent of cover given the significant reduction in market capacity for Wellington earthquake insurance.

We entered into a number of interest rate swaps this year, given interest rates were at historical lows and our debt level is forecasted to rise over the next three years. The swaps extend existing cover, reduce overall funding costs, and provide certainty in interest cost for the future.

Our cost of funds including all margins but excluding the $26.5 million 0% Government loans reduced from 5.42% in June 2011 to 4.95%.

1.2.2 Market rates and hedging – Changes during the quarter

The Official Cash Rate (OCR) remained unchanged at 2.50%. The 90 Day rate ranged from 2.55% to 2.77%, currently it is at 2.60%.

The 5 year interest rate swap ranged from 3.71% to 2.87% and is currently at 2.90%. Note this rate was 4.60% in June 2011.

The 10 year swap ranged from 3.48% up to 4.42% and is currently at 3.48%.

The price of Singapore Gas oil (Diesel) in NZ Dollars per barrels was:

31 March 11	$173
30 June 11	$171
30 September 11	$156
31 December 11	$158
31 March 12	$165
30 June 12	$150

The hedging of this exposure, while approved by Council remains complex and is not without risk. The proportion of Diesel in the index, under which we pay the service providers, is approximately 15%, which leave us with a relatively small risk exposure.

The valuation of swaps was $8.45 million ($6.13 million in March) negative in Greater Wellington and about $537,000 ($440,000 in March) negative for WRCH. The negative valuation is due to the 90 day bank bill rate being at 2.63%, compared to our average borrowing swap rate of about 5.18%. This position may change favourably going forward, if interest rates rise.

During the quarter swap rates declined further and based on advice from APRM further fixed cost interest cover was added by executing the following four $5 million swaps.

We entered into two forward starting swaps, which both add to already existing contracts. The first one starts on 15.03.16 and runs for four years at a rate of 4.375%. The second swap starts on 17.02.14 and is for seven years at 3.945%.

We also entered into two new swaps. The first one starts on 15.09.12 with a three year duration at 2.57% and the second swap is from 17.06.13 for nine years at a rate of 3.87%.

Additionally we entered in a $24 million one year Zero Cost Collar for WRC Holdings, with a range of 2.0% to 2.67%, therefore providing us with a base maximum cost of 2.67% for the period. The contract started on 15.06.12.

Our strategy has been to follow the advice of APRM, keep within policy and where possible ensure any new swaps are set under 4%.

The Treasury Risk Management Policy (TRMP) expired on 30 June and a new, slightly amended, Policy started on 1st July as confirmed in the new LTP.

1.2.3 Investments

The $33 million liquidity deposits were invested on average during the quarter at about 4.0%.

The contingency funds for the Water and Flood Groups collectively amounting to $22.0 million were invested at 3.71%, comparing favourably to the 90 day bill rate of around 2.70%.

During the year we had quite high levels of cash, this was due to the prefunding of debt, due to favourable market conditions, and receipt of funds from NZTA in advance of the Matangi payments. Cash on hand at 30 June 2011 was $23.5 million and increased slightly to $25.4 in June this year. This cash will be gone by the second quarter once the final Matangi payments are made.

1.2.4 Debt

The $44 million of WRCH debt was rolled over at a margin of 10 points (0.10%). WRCH received $90 million in bids and settled with a weighted average interest cost of 2.75% which is $220,000 per annum cheaper then direct bank borrowing.

During the quarter $30 million was borrowed via the issuance of Commercial Paper. The funds were placed on deposit with a margin of about 0.85% or 85 basis points. In mid June all Commercial Paper was repaid with maturing investments.

At the end of June we issued $9.5 million Commercial Paper to pay for the investment in WRC Holdings shares, proceeds of which were used to fund the Councils portion of the Matangi.

The Gross Debt Level of GW (incl. WRCH) per 30 June was $180.6 million, which is an $18.1 million increase for the year. When deducting money market and short term investments, as well as $33 million Liquid Financial Deposits, but not contingency investments, the Net Debt is $122.1 million. This is an increase of $16.2 million when compared to 30 June 2011.

This increase in gross debt is composed of $25 million of Bond issued in the first quarter of the year and $9.5 million of Commercial paper to cover the purchase of shares in WRC Holdings to fund part of the cost of the new Matangi trains. These net debt raisings were offset by maturing commercial paper of $13.5 million and $3 million bank debt on hand at 30 June 2011.

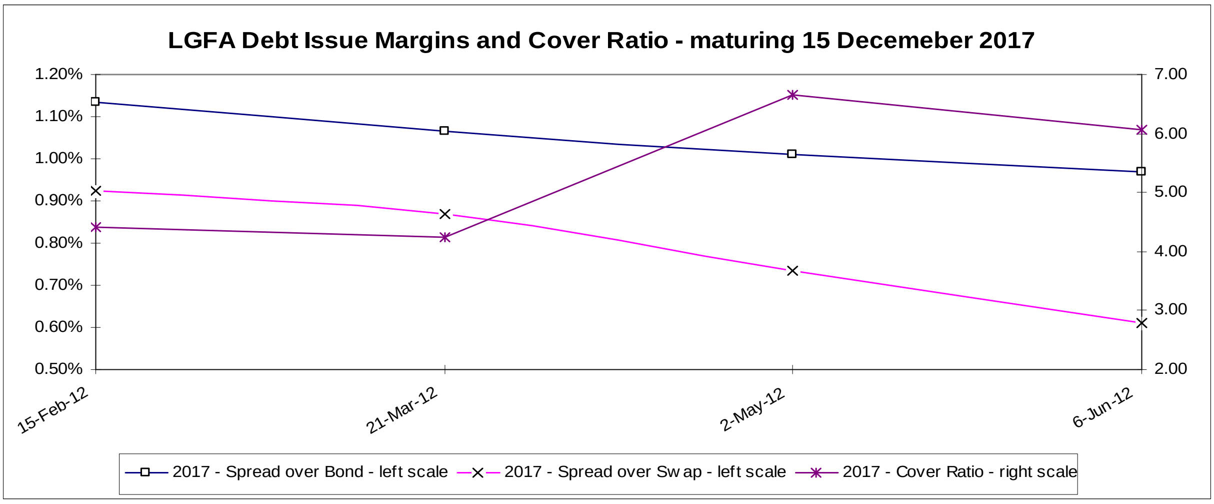
1.2.5 Local Government Funding Agency

The LGFA has had four issuances of debt since its inaugural issuance in December 2011.

The support from the market in terms of bids received remains quite remarkable. Details of the LGFA issuances are tabulated below:

Bond Maturing 15.12.2017

LGFA Issue No	1	2	3	4	5
	Actual	**Actual**	**Actual**	**Actual**	**Actual**
	15/02/2012	**21/03/2012**	**2/05/2012**	**6/06/2012**	**11/07/2012**
2017 - Spread over Bond	1.135%	1.065%	1.010%	0.970%	not issued
2017 - Spread over Swap	0.925%	0.868%	0.735%	0.610%	on 11.07
2017 - Cover Ratio	4.41	4.25	6.65	6.07	



The LFGA is confident that over time this margin will reduce as the volume of bonds on issue, and hence their liquidity, increases. This will also see a wider range of investors and a likely reduction in pricing.

A final SOI has been provided by the LGFA and this will be presented to Council for noting.

1.2.6 Insurance

The Insurance was placed by 30 June after much preliminary work, involving valuers, technical experts and insurance brokers.

The main focus on the coverage was for the trains and our above ground physically created property assets, these account for around 80% of our premium.

Our train insurance came in below budget due to a lower declared replacement cost of the Matangi units $447 million v the initial budgted value of $558 million.

Plus the actual coverage taken out was $50 million compared to the expiring $100m. The current and future implementation of security measures to reduce the chance of loss contributed to a decision to a lower level of cover.

This combined resulted in a premium of $1.43 million compared to last years $1.57 million and a budget of $2.4 million. These budget savings may become the beginning of a self insurance fund.

The above ground assets came in close to budget at $2.33 million compared to last year premium of $1.93 million. Total above ground assets were $452 million and are covered on an average basis up to $258 million. However excesses remain at elevated levels for example if Greater Wellington has a loss of $170 million (this is our determined Maximum Probable Loss assessment), then our self insurance or excess would be $34 million.

The overall premium for the organisation including all covers is $4.96 million, a significant budget item.

1.2.7 Risk Management

The Risk Management Policy has had a review from the Audit Risk and assurance committee and been endorsed by the ELT as Policy.

This follows a period of consultation with the business. Following on from this we will begin training at Group level to enhance what is currently occurring and also ensure a regular monthly routine and process is in place for risk review and assessment. Coupled with this all organisation risks will need to be re-scored with the two additional consequence criteria (Environment and Health & Safety) which should be completed ready for the next risk reporting scheduled for the September quarter.

1.3 Looking ahead

The next quarters will focus on raising additional debt to fund the train assets and our interest risk and treasury strategy. This is likely to see a continuation of the same approach of debt prefunding with excess funds deposited to defray bank facility costs.

The annual accounts for the WRC Holdings Group of companies are currently underway for completion in late September.

Risk management will continue to be reviewed and enhanced as time allows.

2. Group financial summary

2.1 Financial summary

Investment Management is showing a $40.2 million adverse position to budget. The Grant Revenue from Transport, which GW uses to purchase the shares in GWR, is $35.8 million below budget. The timing of the Matangi project is the reason for the lower grant revenue. The fair value movement of assets is $6.8 million unfavourable to budget, due firstly to an adverse fair value of the swap portfolio by $4.4 million and secondly due to an adverse fair value adjustment to the Stadium Advance by $2.4 million, reflecting changes to the expected repayment schedule.

These adverse results are offset by $2.3 million higher Operating surplus which is made up of $921,000 higher income and $1.42 million lower than budgeted operating expenditure.

2.2 Group consolidated financial statements

Investment Management Income Statement 12 months ending 30 June 2012	YTD Actual $000	YTD Budget $000	YTD Variance $000	Last Year YTD Actual $000
Rates & Levies	2,676	2,676	-	2,676
Investment Revenue	7,656	5,047	2,609	5,051
Internal Debt Interest Recovery	11,902	13,591	(1,689)	8,836
Internal Revenue	223	223	0	222
TOTAL INCOME	**22,459**	**21,537**	**921**	**16,784**
less:				
Materials,Supplies & Services	72	85	13	75
Travel & Transport Costs	0	0	(0)	0
Contractor & Consultants	106	216	110	193
Internal Charges	392	392	0	412
Total Direct Expenditure	**570**	**693**	**123**	**679**
External Finance Costs	7,231	8,532	1,301	5,348
Bad Debts	0	0	-	0
Internal Reserve Investment Cost	869	864	(6)	789
Depreciation	25	28	3	26
Total Indirect Expenditure	**8,125**	**9,424**	**1,299**	**6,163**
			-	
TOTAL OPERATING EXPENDITURE	**8,696**	**10,117**	**1,422**	**6,842**
			-	
OPERATING SURPLUS/(DEFICIT)	**13,763**	**11,420**	**2,343**	**9,942**
Unrealised Revaluation Gains / (Loss)	(7,050)	(288)	(6,762)	(2,798)
Grants and Subsidies - Revenue	3,958	39,781	(35,823)	13,341
Surplus / (Deficit) after non operating items	**10,671**	**50,913**	**(40,242)**	**20,484**

Investment Management Funding Statement For the 12 months ending 30 June 2012	YTD Actual $000	 Budget $000	 Variance $000	Last Year YTD Actual $000
Operating Surplus(Deficit)	10,672	50,913	(40,241)	20,484
Add Back Depreciation	25	28	(3)	26
Other Non Cash	7,050	288	6,762	2,798
Net Asset Acquisitions	(496)	(2,424)	1,928	(252)
Net External Investment Movements	(5,156)	(43,081)	37,925	(26,725)
NET FUNDING BEFORE DEBT & RESERVE MOVEMENTS	**12,095**	**5,724**	**6,371**	**(3,669)**
Debt Additions / (decrease)	128,328	(9,705)	138,033	(7,860)
Debt Repaid	(135,866)	17,206	(153,072)	2,817
Net Reserves (Increase) / decrease	1,363	(2,791)	4,154	(151)
NET FUNDING SURPLUS (DEFICIT)	**5,920**	**10,434**	**(4,514)**	**(8,863)**

Investment Management Capital Expenditure Statement For the 12 months ending 30 June 2012	YTD Actual $000	 Budget $000	 Variance $000	Last Year YTD Actual $000
Total Asset Acquisitions	-	-	-	-
Capital Project Expenditure	495	2,424	1,929	252
Asset Disposal Cash Proceeds	-	-	-	-
Net Capital Expenditure	**495**	**2,424**	**1,929**	**252**

2.3 Departmental financial summary and variance analysis

Total income is $921,000 above budget, which is due to $2.61 million higher investment revenue. This is offset by $1.7 million lower interest recovery from internal Debt, which is caused by slower capex spending by the business units. Investment Revenue is $2.61 million above budget, with interest earned from money market investments being $1.72 million above budget and subvention and dividend revenue exceeding budget by $1.0 million as well as $92,000 higher guarantee fee revenue. These positive variances are offset by $217,000 in swap costs.

The $1.72 million interest revenue from money markets is due to the prefunding of $25 million term debt and $30 million Commercial Paper with proceeds matched and invested in short term investments with a positive margin.

The $1.0 million higher dividend and subvention revenue is due to CentrePort paying a special dividend to Port Investments of $538,000 relating to the 2010/11 year, $160,000 more in subvention payments from CentrePort than budgeted and $255,000 more in dividend from WRC Holdings due to lower funding costs than budget on the $44,000,000 loan.

Other interest revenue is $92,000 higher, due to a higher guarantee fee from CentrePort as their debt levels were higher earlier in the year than budgeted.

Total direct expenditure is $123,000 below budget. The unbudgeted refund from the LGFA, of which $100,000 relates to contributions in previous years, is the main reason for the variance.

External finance costs are $1.3 million below budget, reflecting the fact that capex spending and in turn internal debt draw downs are significantly below budget. Slightly lower than budgeted interest rates as well as fewer than budgeted committed lines also contributed to the lower external finance costs.

Capital expenditure relates to the construction of the new Masterton office and is $1.93 million below budget. The construction of the Masterton building has been put on hold pending any change in the Governance structure of the Wellington Region.

3. Key performance indicators

3.1 Key performance indicators as at 30 June 2012

See attachment 2.

Debt-Fixed Rate Maturity profile

By adding two new forward starting $5 million swaps and adding two $5 million swaps onto existing swaps, the interest maturity profile has been increased and adjusted when compared to March. These new swaps have increased the total cover in the following years, and extended the average duration of the swap book.

Net External debt per Capita & Net External Debt/Rates &Levies

Net external debt per capita declined from $139 in March to $113 at the end of June 2012. The $12.68 million decrease in net external debt since March is the driver of this $26 per capita decrease. The net debt decrease is also responsible for the decrease in the "Net External Debt / Rates & Levies" Ratio.

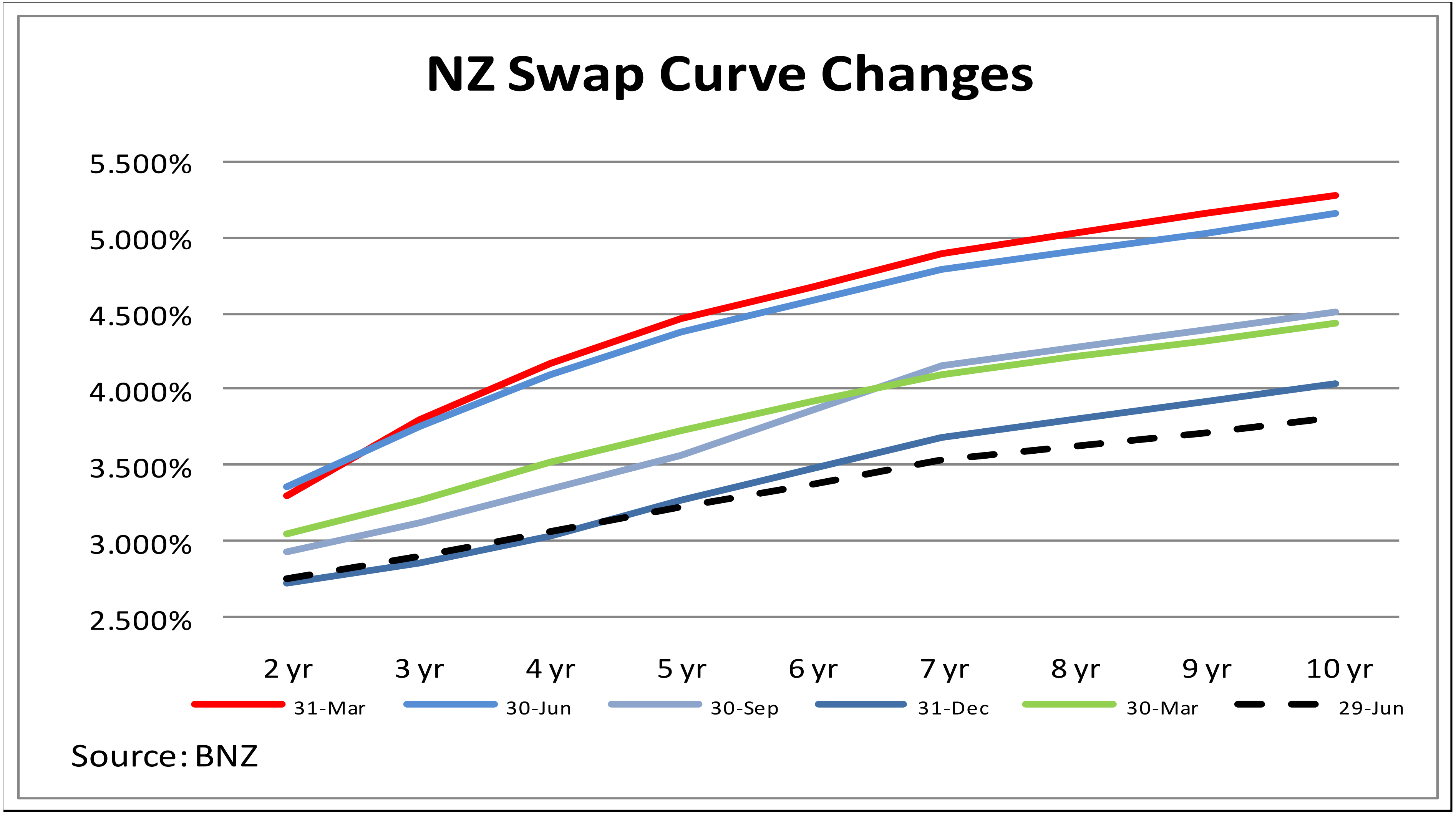
Historical benchmark rate by APRM – no margin

The APRM benchmark rate declined significantly from 4.77% to 4.56% during the quarter, a decline of 0.21%. During the same period Greater Wellington's cost of funds increased by 0.20% to 4.95%, mainly as a result of a reduction in gross debt levels, due to a $20 million reduction in low cost commercial paper funding.

A decline in current and historic swap rates is the main reason for the drop in the APRM Benchmark rate.

3.2 Historic key performance indicators

See attachment 2.


NZ Swap Curve Changes
5.500%
5.000%
4.500%
4.000%
3.500%
3.000%
2.500%
2 yr
3 yr
4 yr
5 yr
6 yr
7 yr
8 yr
9 yr
10 yr
31-Mar
30-Jun
30-Sep
31-Dec
30-Mar
29-Jun
Source: BNZ

Key Performance Indicators
As at 30 June 2012

	Benchmark/ Limits Per TMP.	Actual Jun-12	Actual May-12	Actual Apr-12	Actual Mar-12	Actual Feb-12	Actual Jan-12	Actual Dec-11	Actual Nov-11	Actual Oct-11	Actual Sep-11	Actual Jun-11	Actual Mar-11	Actual Dec-10	Actual Sep-10	Actual Jun-10	Actual Dec-09	Actual Jun-09
Debt - Interest Rate Risk Control limits																		
Fixed net interest rate debt and swaps to the total forecasted debt in 12 month time	**40% - 95%**	76%	77%	67%	65%	67%	68%	69%	68%	68%	68%	69%	69%	91%	83%	83%	97%	102%
Debt - Fixed Rate Maturity Profile Limits																		
1 - 3 years	**15 - 60%**	20%	33%	25%	25%	25%	25%	25%	33%	33%	33%	19%	15%	15%	16%	16%	20%	26%
3 - 5 years	**15 - 60%**	44%	21%	28%	28%	32%	25%	25%	15%	15%	15%	27%	29%	26%	25%	25%	21%	4%
> 5 years	**10 - 60%**	36%	46%	47%	47%	43%	51%	51%	52%	52%	52%	54%	56%	60%	59%	59%	59%	70%
Funding and Liquidity risk																		
0 - 3 years	**10 - 60%**	30%	31%	35%	22%	15%	40%	38%	40%	40%	38%	38%	56%	54%	36%	28%	77%	86%
3 - 5 years	**20 - 60%**	32%	15%	15%	28%	31%	17%	18%	17%	17%	18%	18%	21%	22%	42%	50%	1%	0%
> 5 years	**15 - 60%**	37%	53%	51%	49%	54%	43%	44%	43%	43%	45%	44%	23%	24%	22%	22%	22%	14%
Investing - Repricing liquid financial investments																		
0 - 1 years	**40 - 100%**	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	87%	35%
1 - 3 years	**0 - 60%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	13%	65%
3 - 5 years	**0 - 40%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
5 - 10 years	**0 - 20%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net External Debt per Capita	**$400**	$113	$106	$125	$139	$128	$129	$135	$86	$86	$106	$85	$81	$81	$89	$104	$82	$88
Net External Debt / Rates & Levies	**210%**	50%	47%	56%	62%	57%	57%	60%	38%	38%	47%	39%	37%	37%	41%	48%	38%	41.4%
Net Interest Expense / Rates & Levies	**25%**	3%	3%	3%	3%	3%	3%	2%	2%	2%	2%	1%	1%	1%	1%	0.7%	0.6%	0.8%
Liquidity Ratio	**> 110%**	152%	151%	151%	147%	161%	145%	139%	154%	154%	151%	162%	146%	144%	145%	139%	144%	163%
Historical benchmark Rate by APRM - no margin		4.56%			4.77%	4.63%	4.60%	4.78%	4.95%	5.16%	5.06%	5.35%	5.37%	5.50%	5.61%	5.82%	5.74%	6.05%
Cost of Funds (GW) - no margin, excl Govt loans		4.31%			4.15%	n/a	n/a	4.05%	n/a	n/a	4.18%	4.74%	4.96%	4.61%	4.71%	4.46%	4.07%	3.97%
Cost of Funds (GW) - incl margin, excl Govt loans		4.95%			4.75%	4.77%	4.79%	4.77%	4.98%	4.96%	4.88%	5.42%	5.71%	5.36%	5.46%	5.26%	4.72%	4.65%
Variance to Benchmark (Unfavourable)		0.25%			0.62%			0.73%			0.88%	0.61%	0.41%	0.89%	0.90%	1.36%	1.67%	2.08%

*There was a phase in period of one year for compliance with the Treasury Risk Management Policy. Full compliance was required from 01.07.10 onwards.

Attachment 2

History of Key Performance Indicators

	Benchmark/ Limits Per TMP.	Jun-12	Actual Mar-12	Actual Dec-11	Actual Sep-11	Actual Jun-11	Actual Dec-10	Actual Jun-10	Actual Jun-09	Actual Dec-08	Actual Jun-08	Actual Jun-07	Actual Jun-06	Actual Jun-05	Actual Jun 04	Actual June 03	Actual June 02	Actual June 01	Actual June 00
Core Council																			
Net External Debt per Capita	**$400**	$113	$139	$135	$106	$85	$81	$104	$88	$81	$55	$48	$11	$4	$11	$24	$49	$66	$83
Net External Debt / Rates & Levies	**210%**	50%	62%	60%	47%	39%	37%	48%	41%	38%	27%	26%	5.8%	2.0%	6.5%	13.9%	28.5%	38.8%	56.5%
Net Interest Expense / Rates & Levies	**25%**	2.6%	2.6%	2.4%	2%	1%	1%	0.7%	0.8%	0.6%	0.2%	1.1%	0.3%	0.8%	2.4%	3.6%	5.1%	4.9%	7.4%
Average Interest Rate on Debt (WACD) (includes Crown Loans)		4.2%	4.1%	4.2%	4.2%	4.5%	4.4%	4.4%	4.6%	5.2%	6.0%	7.1%	7.5%	7.5%	7.2%	7.3%	7.7%	7.8%	7.8%

Attachment 3