

## 12. TREASURY MANAGEMENT REPORT FOR PERIOD ENDED 30 JUNE 2002

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The purpose of this report is to advise the current position relating to Council borrowing and investments.

### BACKGROUND

In compliance with the requirements of the Local Government Act introduced by the Local Government Act (No. 3) 1996 the Council has adopted a Borrowing Management Policy and an Investment Policy setting out management procedures and policies to be applied in respect of loan borrowing to fund capital expenditure and investing Council funds. The policies were reviewed by the Council in 2001 with new policies effective from 1 July 2001

### TREASURY REVIEW TEAM

To provide ongoing review the Treasury Review Team, which is chaired by the Director of Finance, meets on a regular basis. Bancorp Treasury Services Ltd have been appointed as independent treasury advisers in terms of the policies and is represented on the team.

### CAPITAL ENDOWMENT FUND

The Director of Finance is obtaining advice from Frank Russell Company (NZ) Ltd (consultants) on the strategy and investment of the Council's \$75,000,000 Capital Endowment Fund (CEF). A seminar and report will be presented to a seminar meeting of the Strategy and Finance Committee in the near future.

In the meantime the funds are invested with a range of banks to maximise income.

### BORROWING MANAGEMENT REPORT (Attached schedules 1 and 2 refer)

#### General Overview

The Council is not expected to borrow for its ordinary capital works expenditure for approximately two years. Capital expenditure is being met from the Council's Debt Repayment Reserve in the meantime. However, some external borrowing is necessary specifically related to the Council's investment in Council owned LATEs and to complete redevelopment of Jade Stadium by loans to Jade Stadium Ltd. A special purpose loan of \$630,000 from Christchurch Polytechnic Foundation has been arranged towards the purchase price of land bought by the Council from Turners and Growers Ltd. There are also residual loans raised before the Debt Repayment Reserve was established which will be repaid from the DRR on maturity.

The borrowing policy approves short term borrowing by bank overdraft up to a limit of \$2,000,000.

The Council currently borrows loan funds from Christchurch City Holdings Ltd under a separate agreement with the company.

#### Particular Issues

- As at 30 June 2002 Christchurch City Holdings Ltd has provided total loan funds of \$68,395,200 to Council at both floating and fixed rates.
  - Fixed rate loans until March 2004 for the purpose of funding equity investment in Council LATEs and the Belfast Pipeline Loan amounting to \$19,752,200.
  - Fixed rate loans until March 2005 for the purpose of funding loans to Jade Stadium Ltd amounting to \$40,000,000.
  - Floating rate loans for equity investment in Council LATEs and loans to Jade Stadium Ltd amounting to \$8,643,000.
- No short term borrowing in excess of the Borrowing Management Policy has occurred including no specific exceptional approvals by the Council.
- No derivative or hedging contracts were entered into by the Council during the previous 12 months.
- Details of repayments during the 2001-2002 year and maturity profile are disclosed in schedule 1.

### *Interest Rate View*

Based on the present market conditions and the Council's current Standard and Poor's long-term credit rating of AA+ the Council could expect to pay the following margins for any borrowing.

<b>Term</b>	<b>Margin</b>	<b>Current Base Rate</b>
Overdraft	Pre arranged rate	9.45% (actual)
30 to 90 days	Bank bill rate plus 0-3 points	Say 5.85-5.95%
1-2 years	5-10 points over swap rates	Say 6.0%-6.3%
3-6 years	10-15 points over swap rates	Say 6.4%-6.75%
Over 6 years	15-25 points over swap rates	Say 6.75%-7.05%

Since November 2001 Christchurch City Holdings Ltd has charged the Council a margin of three points plus any external borrowing fees for new loans from the company.

### **INVESTMENTS REPORT** (Attached schedule 3 refers)

#### **General Overview**

- All external investments are made within the terms of the Investment Policy.
- The procedures for management were in compliance with the Investment Policy.

#### **Particular Issues**

##### *Interest Rates*

The Official Cash Rate (OCR) is the driver for overnight cash deposits rates and other short to medium term interest rates. Long term rates are principally influenced by overseas bond interest rates.

The Reserve Bank of New Zealand sets the Official Cash Rate (OCR) and reviews this eight times each year. Following a review on 3 July 2002 the rate was increased by 25 basis points to 5.75%. No change occurred at review on 14 August and the next review is due on 2 October this year.

The Council could expect to receive the following margins for bank deposits, commercial paper and corporate bond investments complying with policy.

<b>Term</b>	<b>Margin</b>	<b>Current Range</b>
Official Cash Rate		5.75% (actual)
90 days bank bills	10-15 points over OCR	5.85%-5.9%
A-1+ commercial paper	0-5 points over bank bills	
A-1 commercial paper	5-10 points over bank bills	
A-2 commercial paper	15-25 points over bank bills	
Corporate bonds 1-3 years	5-10 points over swap rates	Say 6.0%-6.45%
Corporate bonds 4-7 years	12-18 points over swap rates	Say 6.55%-6.9%

##### *Short and Medium Term Investments*

The objective under the policy is to maximise long term investments for income generation having regard to liquidity requirements, available funds and suitable investments. Current market conditions have limited the availability of good term investments within the Council's investment and liquidity profile time frames (typically less than two years). The level of short and medium term investments generally reflect the current market conditions with a flatter short end on the yield curve.

Bancorp Treasury Services Ltd advises that the Council's current position is reasonable in the prevailing economic and market conditions. The mix of short and medium term investments is regularly reviewed to achieve optimum returns within the context of the Council's short and medium terms cashflow requirements and market conditions.

##### *Other Term Investments*

- Loans to individuals and community organisations.
  - Comprise 1% of the Council's investment portfolio.
  - All loans subject to recovery action for default have been reported to the Council.
  - Loans to individuals and community organisations total \$2.236 millions as at 28 June 2002.

- Publicly Traded Shares.
  - No shares currently held.
  - During the last financial year the shares in publicly listed companies that the Council had received by way of bequest were liquidated. The bequest was specific to the new Art Gallery and proceeds were applied to that purpose.
  
- Council Housing Loans.
  - Council housing loans that have had tranches mature before full expiry of the original loans terms have been internally refinanced from Debt Repayment Reserve funds. Use of available Debt Repayment Reserve funds gives a net saving on loan servicing costs while principal instalments are recovered from housing revenues to ensure eventual full replenishment of the reserve.
  - \$8.898 million has been internally refinanced at an average rate of 6.85% pa with reviews every three years.
  - Internally financed housing loans comprise 3% of the Council's investment portfolio.
  - Housing operations are required to provide a return on the funds utilised.

**Chair's**

**Recommendation:** That the information be received.