

20. TREASURY MANAGEMENT REPORT FOR PERIOD ENDED 30 APRIL 2003

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

BACKGROUND

The Local Government Act requires publication of a Liability Management Policy and Investment Policy and these have been included as part of the draft Annual Plan to be adopted in July 2003. There are no new substantial changes proposed from the existing policies.

The Council's policies establish quarterly reporting requirements to the Strategy and Finance Committee.

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 Council's \$75,000,000 Capital Endowment Fund (CEF). In the meantime the fund is fully invested with a range of banks earning income to meet the budgeted requirements for project funding and to provide for inflation protection.

BORROWING MANAGEMENT REPORT (See also attached schedules 1 and 2)

General Overview

The Council is not expected to borrow for its ordinary capital works expenditure until 2004/05. Capital expenditure is being met from Council's Debt Repayment Reserve (DRR) in the meantime. However, some external borrowing during this period will be necessary to fund the Council's investment in Council-Controlled Organisations and other subsidiaries (CCOs). The DRR together with accumulated balances in sinking funds and the Loan Repayment Reserve (LRR) will provide sufficient funds to repay Council works loans maturing within the next two years.

The borrowing policy approves short term borrowing by bank overdraft up to a limit of \$2,000,000. This was not exercised during the quarter to 31 March 2003, nor since.

The Council currently borrows loan funds from Christchurch City Holdings Ltd under a loan agreement with the company. CCHL has a loan facility in place sufficient for Council's borrowing needs.

Particular Issues

- As at 30 April 2003 Christchurch City Holdings Ltd has provided total loan funds of \$59,945,200 to Council at both floating and fixed rates.
 - Fixed rate loans until March 2004 for the purpose of funding equity investment in CCOs 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 \$38,500,000.
 - Floating rate loans to Jade Stadium Ltd amounting to \$1,243,000.
- No short term borrowing in excess of the Borrowing Management Policy has occurred including no specific exceptional approvals by Council.
- No derivative or hedging contracts entered into by Council during the last quarter. Recently Christchurch City Holdings has entered into forward interest rate agreements, at favourable rates, on Council's behalf following a request from Jade Stadium Ltd in respect of JSL's loan maturing in 2005.
- Jade Stadium Ltd has met all debt payment obligations within agreed timeframes. During the last quarter \$1,500,000 principal was repaid by the company.

Interest Rate View

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

Term	Current Margin	Current Base Rate
Overdraft	Pre arranged rate	9.2% (actual)
30 to 90 days	Bank bill rate plus 0-3 points	Say 5.35-5.2%
1-2 years	2-6 points over swap rates	Swap rate 5.08%-5.16%
3-6 years	6-12 points over swap rates	Swap rate 5.28%-5.55%
Over 6 years	12-20 points over swap rates	Swap rate 5.55%-5.8%

Christchurch City Holdings Ltd charges Council a margin plus its external borrowing fees for loans from the company.

INVESTMENTS REPORT (Attached schedules 3 and 4 refer)

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 deposit rates and other short to medium term interest rates up to two years. Long-term rates are principally influenced by overseas bond interest rates. With an expectation of a reduction in the OCR from the current level of 5.5% towards 5.0%, financial markets have been pricing in reductions in short-term interest rates and this part of the interest rate curve is now inverse. Overseas economic data point to uncertainties about growth prospects, principally in the USA, that has led to medium and long-term rates being driven down to historical lows. There is little opportunity for Council to increase investment yields in the current environment.

The Reserve Bank of New Zealand sets the OCR and reviews this eight times a year.

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

Term	Current Margin	Current Base Rate
Official Cash Rate		5.5% (actual)
30 to 90 days bank bills	-5+5 points over OCR	Say 5.35-5.2%
A-1+ commercial paper	0-1 points over bank bills	
A-1 commercial paper	2-5 points over bank bills	
A-2 commercial paper	6-12 points over bank bills	
Corporate bonds 1-3 years	5-10 points over swap rates	Swap rate 4.98%-5.23%
Corporate bonds 4-7 years	12-21 points over swap rates	Swap rate 5.33%-5.56%

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 Council's investment and liquidity profile time frames (typically less than two years). The Council's holdings in short and medium term investments generally reflect the prevailing market conditions.

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

Other Term Investments

- Loans to individuals and community organisations.
 - Comprise less than 1% of Council's investment portfolio.
 - All loans subject to recovery action for default have been reported to Council and are quantified in schedule 4.
 - Loans to individuals and community organisations totalled \$2.506 million at 30 April 2003.

- Publicly Listed Shareholdings.
 - No shares currently held.

- 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 to the reserve of the funds utilised.
 - \$8.663 million has been internally refinanced at an average rate of 6.85% pa with reviews every three years.
 - Housing operations are required to provide a return on the funds utilised.

Chair's

Recommendation: That the information be received.