

7. TREASURY MANAGEMENT REPORT FOR PERIOD ENDED 31 DECEMBER 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 Council has adopted a Borrowing Management Policy (now Liability 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 last reviewed by the Council in 2001 with new policies effective from 1 July 2001. The policies establish quarterly reporting requirements to the Strategy and Finance Committee.

The Liability Management Policy and the Investment Policy will be put to the Council as part of the Annual Plan to be adopted July 2003. There are no new substantial changes contemplated.

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). In the meantime the fund is fully invested with a range of banks earning sufficient 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 is necessary specifically related to the Council's investment in Council-controlled organisations and other subsidiaries (CCOs) and to purchase the central city site from Turners and Growers Ltd. Residual Council capital works loans raised before the Loan Repayment Reserve (LRR) was established and maturing within the next two years will be repaid from the DRR and sinking funds.

The borrowing policy approves short term borrowing by bank overdraft up to a limit of \$2,000,000. This was not exercised during the last quarter of 2002 and once during the previous quarter.

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 31 December 2002 Christchurch City Holdings Ltd has provided total loan funds of \$68,395,200 to the 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 \$40,000,000.
 - Floating rate loans to Jade Stadium Ltd amounting to \$1,243,000.
 - Floating rate loans of \$7,400,000 formerly for the Council's loan investment in Travis Finance Ltd to be repaid March 2003.

- 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 first two quarters of the current financial year.
- Details of repayments during the balance of 2002-2003 year and future maturity profile are shown in schedule 1.
- Agreement has been reached with Jade Stadium Ltd to offset their short-term surplus cash against their debt to the Council and also to defer repayment until May 2003 of \$1.5M due in March. This is to fit in with the company's cash flow pattern.

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.

Term	Current Margin	Current Base Rate
Overdraft	Pre arranged rate	9.45% (actual)
30 to 90 days	Bank bill rate plus 0-3 points	Say 5.8-5.9%
1-2 years	2-6 points over swap rates	Swap rate 5.55%-5.6%
3-6 years	6-12 points over swap rates	Swap rate 5.65%-5.9%
Over 6 years	12-20 points over swap rates	Swap rate 5.9%-6.1%

Christchurch City Holdings Ltd charges the Council a margin of three points plus any external borrowing fees for new 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. Longer term rates are principally influenced by overseas bond interest rates. The relatively high interest rates in New Zealand compared to overseas and the appreciating value of its dollar has had the effect of lowering interest rates this financial year as overseas investors participate more in New Zealand's financial markets driving down return yields as investment margins contract. Currently 90 days interest rates are about 4 basis points (0.04%) lower than 30 days interest rates.

The Reserve Bank of New Zealand sets the OCR and reviews this eight times a year. The rate has not changed since the review in July 2002 and currently is 5.75%. The next review will occur late April 2003. The Reserve Bank's current bias is towards lowering interest rates if economic conditions within New Zealand deteriorate. However, the economy is generally performing well although export returns for primary sector are declining.

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		5.75% (actual)
30 to 90 days bank bills	-5-+5 points over OCR	5.70%-5.8%
A-1+ commercial paper	0-2 points over bank bills	
A-1 commercial paper	3-5 points over bank bills	
A-2 commercial paper	6-15 points over bank bills	
Corporate bonds 1-3 years	5-10 points over swap rates	Swap rate 5.45%-5.60%
Corporate bonds 4-7 years	12-18 points over swap rates	Swap rate 5.7%-5.9%

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 less than 1% of the Council's investment portfolio.
 - All loans subject to recovery action for default have been reported to the Council and are quantified in schedule 4.
 - Loans to individuals and community organisations total \$2.441 million as at 31 December 2002.
- Publicly Traded Shares.
 - 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 of the reserve.
 - \$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.