

### 13. TREASURY MANAGEMENT REPORT FOR PERIOD ENDED 30 JUNE 2003

<b>Officer responsible</b> Director of Finance	<b>Author</b> Paul Baldwin, Funds Manager, DDI 941-8853
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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 2002 requires publication of a Liability Management Policy and an Investment Policy and these have been included as part of the Financial Plan and Programme adopted in July 2003.

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.

#### BORROWING MANAGEMENT REPORT

##### 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 Council's investment in Council Controlled Trading Organisations and other subsidiaries (CCTOs). The DRR together with accumulated balances in sinking funds and the Loan Repayment Reserve (LRR) will provide sufficient funds to repay Council works loans until 2004/05.

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 June 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 the Council's borrowing needs. CCHL charges the Council a margin plus its external borrowing fees for loans from the company.

##### 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	8.7% (actual)
30 to 90 days	Bank bill rate plus -1 to +2 points	Say 5.12% - 5.16%
1-2 years	1-5 points over swap rates	Swap rate 5.41% - 5.82%
3-6 years	5-10 points over swap rates	Swap rate 5.99% - 6.27%
Over 6 years	10-20 points over swap rates	Swap rate 6.33% - 6.52%

#### Borrowing Management & Debt Servicing

Refer to schedules 1 and 2 attached.

#### INVESTMENTS REPORT

##### General Overview

All cash investments are made within the terms of the Investment Policy and the management procedures that have been adopted by the Treasury Review Team.

Over 2002/03 interest rates have trended down with the Official Cash Rate (OCR) moving from 5.75% to 5.0% currently. Investments have generally been made for terms that take cognisance of current market rates and the Council's short-term and medium term funding requirements. This strategy has Bancorp's support.

### **Capital Endowment Fund**

The Director of Finance is obtaining advice from external consultants on the strategy and investment of Council's \$79,000,000 Capital Endowment Fund (CEF). In the meantime the fund has been fully invested with a range of banks earning income to meet the budgeted requirements for project funding and to provide for inflation protection.

### **Interest Rate View**

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>Current Margin</b>	<b>Current Base Rate</b>
Official Cash Rate		5.0% (actual)
30 to 90 days bank bills	+10 to +12 points over OCR	Say 5.1% - 5.12%
A-1+ commercial paper	-3 to +2 points over bank bills	Say 5.12% - 5.17%
A-1 commercial paper	1-3 points over bank bills	Say 5.16% - 5.19%
A-2 commercial paper	4-7 points over bank bills	Say 5.18% - 5.22%
Corporate bonds 1-3 years	2-9 points over swap rates	Swap rate 5.38% - 5.94%
Corporate bonds 4-7 years	10-20 points over swap rates	Swap rate 6.05% - 6.31%

### **Investment Management and Income**

Refer to schedules 1 and 2 attached.

### **Chair's**

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