

10. TREASURY MANAGEMENT REPORT FOR QUARTER ENDED 31 MARCH 2004

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

BACKGROUND

The Local Government Act 2002 requires publication of a Liability Management Policy and an Investment Policy. These were updated and 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 Strategic Investment, meets on a regular basis. Bancorp Treasury Services Ltd (BTSL) has been appointed as independent treasury advisers in terms of the policies and is represented on the team.

CAPITAL ENDOWMENT FUND

The Director of Strategic Investment is obtaining advice from external consultants on the strategy and investment of Council's Capital Endowment Fund (CEF) which currently stands at \$78.7M. In the meantime the fund has been fully invested with a range of banks, earning income to meet the requirements for project funding and to provide for inflation protection. Because of falling interest rates in the first half of this financial year actual income is approximately \$88,000 behind budget for the year to date. As a result of recent interest rate increases this earnings variance is expected to correct by year end.

A Capital Endowment Fund No 2 of \$5.0M has been established this financial year from unbudgeted dividends from Council Controlled Trading Organisations (CCTOs). The purpose of the CEF No 2 is to invest in venture capital projects that may include Canterbury region ventures. A commitment has been made to invest this fund fully in a joint venture fund with Endeavour i-cap Ltd and others. A total of \$8.0M has been invested by local entities and this has attracted additional Government VIF fund contributions of \$3.0M to the joint venture fund. Currently only \$252,564 has been called by the fund.

LIABILITY MANAGEMENT REPORT

General Overview

The Council is not expected to borrow for its ordinary capital works expenditure until 2005/06. 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 continue to fund Council's investment in its 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 2005/06.

The borrowing policy approves short term borrowing by bank overdraft up to a limit of \$2.0M. This was not exercised during the quarter under review.

The Council currently borrows from Christchurch City Holdings Ltd (CCHL) under a formal loan agreement. The loan facility has sufficient capacity to meet the Council's anticipated medium term borrowing needs. CCHL charges the Council a margin over its external borrowing costs to use the facility.

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	8.70% (actual)
30 to 90 days	Bank bill rate plus -1 to +1 points	Say 5.70% - 5.82%
1-2 years	2-5 points over swap rates	Swap rate 6.00% - 6.20%
3-6 years	6-14 points over swap rates	Swap rate 6.30% - 6.50%
Over 6 years	15-20 points over swap rates	Swap rate 6.50% - 6.70%

Liability Management & Loan Servicing Costs

Refer to schedule 1 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 2003/04, interest rates are expected to trend upwards in line with the Reserve Bank's publicly expressed concerns over inflationary pressures within the New Zealand economy. This pressure had been moderated during the latter half of 2003 and the first quarter of this year by the higher exchange rate. Since the start of 2004 the Official Cash Rate (OCR) was increased twice, first in late January and again in April. The current rate is 5.50%, from 5.00% at the beginning of 2004. The financial markets consider there is a possibility of a further increase over the next three months to 5.75%. Investments have generally been made for terms that take cognisance of the outlook for higher market rates and the Council's short-term and medium term funding requirements. This strategy has BTSL's support.

The OCR is the principal driver for short to medium term interest rates up to two years. Long-term rates are more influenced by overseas bond movements. Long-term bond rates have recently moved higher in tandem with the economic recovery that now shows strong signs of being underway in the USA and the Federal Reserve's signalled intention to raise official US interest rates in 2004.

Interest Rate View

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		5.50% (actual)
30 to 90 days bank bills	+20 to +30 points over OCR	Say 5.70% - 5.80%
A-1+ commercial paper	-3 to +1 points over bank bills	Say 5.81% - 5.82%
A-1 commercial paper	1-2 points over bank bills	Say 5.82% - 5.84%
A-2 commercial paper	3-7 points over bank bills	Say 5.84% - 5.88%
Corporate bonds 1-3 years	3-9 points over swap rates	Swap rate 6.00% - 6.30%
Corporate bonds 4-7 years	10-21 points over swap rates	Swap rate 6.35% - 6.60%

Investments Management and Income

Refer to schedule 2 attached.

Chair's

Recommendation: That the information be received.