

9. TREASURY MANAGEMENT REPORT FOR YEAR ENDED 30 JUNE 2005



General Manager responsible:	Director Strategic Investment
Officer responsible:	Funds Accountant
Author:	Paul Baldwin, DDI 941-8853

PURPOSE OF REPORT

1. The purpose of this report is to report on the management of Council borrowing and investments during the 2004-2005 financial year and advise the respective financial positions of Council loan debt and funds investments as at 30 June 2005.

EXECUTIVE SUMMARY

2. The Local Government Act 2002 requires publication of a Liability Management Policy and an Investment Policy. These are included as part of the Long Term Council Community Plan (LTCCP) adopted in July 2004.
3. The Council's policies require periodic reporting to the Council.
4. To provide a regular and ongoing review, a Treasury Review Team chaired by the Director Strategic Investment overviews this function. Bancorp Treasury Services Ltd provides independent treasury advice.
5. The attached schedules summarise the results of management of the Council's loan debt and investment of general and special funds including the capital endowment fund. In general terms the operation results for the year were satisfactory with investment income being \$6.55M more than budget. The capital endowment fund, with a budgeted return of 5.5% for the year, achieved 6.82%. The average return on Council cash investments was 6.65% for the year.
6. Interest expense was \$0.57M under budget due to new borrowings for the jet engine facility at Christchurch airport being delayed in line with actual construction timings. Borrowing of \$11.42M was required for loan advances to Jet Engine Facility Ltd and for Council equity investment in Christchurch City Facilities Ltd, principally for funding the jet engine facility. All borrowings were from Christchurch City Holdings Ltd. No borrowing was required during the year for the Council's capital works programme, funding for which was fully met as planned from available reserves. Loans of \$0.55M were repaid.
7. When originally established it was envisaged that part of the Capital Endowment Fund could be invested in equities subject to Council approval and this has been under review by the Treasury Review Team. The Team has now concluded that in view of the volatility of returns and the high level of fees payable to external fund managers that a more certain level of return will be achieved by continuing with fixed interest investments managed in house.
8. The Council has recently appointed an Audit and Risk Management Subcommittee to oversee financial responsibilities. The present Subcommittee is to be augmented by two external appointees from chartered accountancy firms to assist with carrying out its functions. An annual report and reports throughout the year on management of treasury operations and results would sit well within the responsibilities of the Audit and Risk Management Subcommittee. The Council's two policies for treasury management are currently under review as part of the LTCCP process and could be amended to provide for the Audit and Risk Management Subcommittee to consider these reports in future.

STAFF RECOMMENDATIONS

It is recommended that the Council:

- (a) Receive the Treasury Management Report for the year ended 30 June 2005.
- (b) Approve changes being made to the investment policy and liability management policy as part of the LTCCP process amending the reporting requirements to require the Audit and Risk Management Subcommittee to submit an annual report and regular progress reports to the Council on the management of treasury operations and results.