

8. TREASURY POLICY



General Manager responsible:	General Manager Corporate Services
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PURPOSE OF REPORT

1. The purpose of this report is to gain approval for the adoption of the Liability Management and Investment policies (see Appendices 1 and 2) which together make up the Treasury policy.
2. These changes are reflected in the figures and ratios contained within the Financial Overview and form part of the basis of the calculations which determine the operating surplus within the LTCCP.

EXECUTIVE SUMMARY

3. As part of the preparation of the 2006/16 LTCCP, all financial policies have been reviewed along with the assumptions underlying the calculation of the operating surplus and the repayment of debt.
4. As part of this review, recommendations were made to, and accepted by, the Council on extending the maximum allowable debt term from 20 to 30 years.
5. These changes have been incorporated into the Liability Management policy along with other changes on risk management and authorisations.
6. The Investment policy was amended at the same time as the two policies complement each other and together make up the Council's Treasury Policy.

FINANCIAL AND LEGAL CONSIDERATIONS

7. The adoption of a 30 year debt repayment term will increase Council's total interest cost as a result of paying interest over a longer timeframe.

STAFF RECOMMENDATIONS

8. That Council adopt the amended Liability Management and Investment policies.

BACKGROUND ON TREASURY POLICY

9. As part of the preparation of the 2006/16 LTCCP, all financial policies have been reviewed along with the assumptions underlying the calculation of the operating surplus and the repayment of debt.
10. Listed below are the significant changes which have been made to the Liability Management policy:
 - (a) The maximum term for debt has been extended from 20 to 30 years, [clause 4.1.1(h)]; *“where a loan is raised to fund a specific asset its term must not be longer than the economic life of the asset it funds, except in the case of equity investments. In all cases the term of a loan may be up to, but not longer than 30 years”*.
 - (b) In line with the above, the debt repayment provision will be a minimum of 1.4% for a term of 30 years and or higher where the original agreed term is less than 30 years.
 - (c) The quantum of the borrowing considered not to be so significant as to require specific authorisation by the Council has been increased from \$500,000 to \$1,000,000. (This clause relates to Hire Purchase and goods purchased in the normal course of business on terms and conditions generally available to parties of similar credit worthiness and has the effect of excluding such debt from the definition of borrowing.)
 - (d) A new clause, 4.1.1, has been added which builds on the existing risk control limits; “the Council shall maintain, as a minimum, sufficient approved financing facilities to cover at least 120% of the peak cumulative anticipated net debt requirements on a rolling 12 month basis.
11. The credit rating requirements for counterparties have been defined (clause 4.2.3).
12. The key financial management ratios have not been changed (clause 4.1.3) and the debt figures produced for the 06/16 LTCCP are well within the limits.
13. Clause 4.1.3 (a) provides that the total external debt as a percentage of total assets of the Council/CCHL shall be no more than 12%.
14. The following changes have been made to the Investment policy:
 - (a) Equivalent clauses for hedging instruments and counterparties have been added.
 - (b) the total amounts which may be invested with any one issuer for each class of investment have been standardised.
 - (c) a definition has been added of a Standard of Prudence.
 - (d) a lot of specific detail has been removed and will be incorporated into the operating guidelines.
 - (e) CCHL’s role in monitoring CCTOs has been defined.

OPTIONS

15. To retain the existing policies. This is not appropriate as the existing Liability Management policy does not reflect the changes that Council has agreed to.
16. To adopt the amended policies.