

## 8. TREASURY MANAGEMENT REPORT FOR QUARTERS ENDED 30 SEPTEMBER AND 31 DECEMBER 2003

**Officer responsible**  
Director of Strategic Investment

**Author**  
Paul Baldwin, Funds Accountant, DDI 941-8853

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 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 Strategic Investment, meets on a regular basis. Bancorp Treasury Services Ltd 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 \$79.0M 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.

A Capital Endowment Fund No 2 of \$5.0M has been established this financial year from unbudgeted dividends from Council Controlled Trading Organisations (CCTOs) for the purpose of investing in venture capital projects that may include Canterbury region ventures. A commitment has been made to invest this fund fully in a joint venture 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 fund.

### BORROWING MANAGEMENT REPORT

#### General Overview

The Council is not expected to borrow for its ordinary capital works expenditure for approximately 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 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 quarters under review, nor since.

The Council currently borrows loan funds from Christchurch City Holdings Ltd (CCHL) under a loan agreement with CCHL. CCHL has a loan facility with the Council sufficient for Council's borrowing needs and under which CCHL charges Council a margin plus its external borrowing fees.

#### Interest Rate View

Based on the present market conditions and Council's current Standard and Poor's long-term credit rating of AA+, Council could expect to pay the following margins for any borrowing.

<b>Term</b>	<b>Current Margin</b>	<b>Current Base Rate</b>
Overdraft	Pre arranged rate	8.7% (actual)
30 to 90 days	Bank bill rate plus –1 to +1 points	Say 5.51% - 5.63%
1-2 years	2-5 points over swap rates	Swap rate 5.41% - 5.82%
3–6 years	6-14 points over swap rates	Swap rate 5.99% - 6.27%
Over 6 years	15-20 points over swap rates	Swap rate 6.33% - 6.52%

### **Borrowing 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 with the Reserve Bank signalling concerns over inflationary pressures within the New Zealand economy that are currently moderated by the exchange rate. The Official Cash Rate (OCR) was increased in late January from 5.0% to 5.25% currently. The financial markets are pricing in an upward movement over the next three months to 5.5%, possibly as early as 11 March. 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.

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 are expected to move in tandem with the economic recovery or otherwise in the USA.

### **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		5.25% (actual)
30 to 90 days bank bills	+25 to +35 points over OCR	Say 5.50% - 5.60%
A-1+ commercial paper	-3 to +1 points over bank bills	Say 5.60% - 5.64%
A-1 commercial paper	1-3 points over bank bills	Say 5.64% - 5.66%
A-2 commercial paper	4-8 points over bank bills	Say 5.67% - 5.71%
Corporate bonds 1–3 years	2-9 points over swap rates	Swap rate 5.82% - 6.0%
Corporate bonds 4–7 years	10-21 points over swap rates	Swap rate 6.15% - 6.38%

### **Investment Management and Income**

Refer to schedule 2 attached.

### **Chair's**

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