

# **Finance and Operational Performance Committee**

**Monday, 6 October 2003  
Commencing at 9.30 am**

**Part III: Finance**

**Item 8: Borrowing and Investment  
Report**

**SUPPLEMENT TO AGENDA FOR AN ORDINARY MEETING OF THE FINANCE AND OPERATIONAL PERFORMANCE COMMITTEE TO BE HELD IN THE CIVIC CENTRE, 6 WAIPAREIRA AVENUE, LINCOLN, WAITAKERE CITY, ON MONDAY, 6 OCTOBER 2003 COMMENCING AT 9.30 AM.**

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**PART III - FINANCE**

**8 BORROWING AND INVESTMENT REPORT**

**PURPOSE OF THE REPORT**

Waitakere City Council enters into treasury related financial contracts in the ordinary course of its business. It is the role of Council's Funds Management section to manage such contracts and the impact that they have on the organisation. All funds management transactions are governed by the Liability Management and Investment Policy prepared in compliance with the Local Government Act 2002. As a requirement of that Policy this report informs Council on the current and future movements of Council's debt and cash investments and provides a general commentary of financial market conditions.

**STRATEGIC CONTEXT**

Council's Fund Management function actively manages a large portfolio of various debt and investment instruments. The benefit of borrowing is that it enables Council to carry out the projects identified in the Annual Plan and Long Term Council Community Plan, while spreading the costs for those projects over time to recognise the future benefits. Borrowing funds therefore assists Council with its entire loans funded strategic initiatives. The Liability Management and Investment Policy requires that a report detailing the management of the portfolio be presented to the Finance and Operational Performance Committee on a regular basis. The report must include information on the following subjects:

- Cash/Debt position;
- Forecasted borrowing profile;
- Interest rate profile;
- Risk management;
- Material transactions;
- Market commentary.

This report addresses the requirement of the Policy and also, from time to time, includes other information that is relevant to the Funds Management function.

**FINANCIAL IMPLICATIONS**

The active management of the treasury portfolio seeks to minimise Council's borrowing costs and maximise investment returns of liquid assets. The Funds Management function is also charged in seeking investors, thus ensuring that there is sufficient liquidity available for the organisation to continue its work programme. New Zealand financial markets are significantly volatile and therefore interest rate management is also a key responsibility of the Funds Management function. Detailed financial information included within this report is intended to give assurance of the prudent management of Council's portfolio.

Council approved a new loans funded capital works programme for the 2003/2004 year, including carry forward projects from the 2002/2003 year, through the Long Term Council Community Plan of \$101.912 million. Interest expense is budgeted to be \$8.946 million.

Council approved through the Long Term Council Community Plan to borrow up to \$131.692 million to cover the loans funded work programme and for the refinancing of maturing loans.

Council has also resolved to obtain a Standard and Poors Credit Rating:

*"1. That approval is given to obtain a credit rating for Waitakere City Council."*

2970/2001

The Finance and Operational Performance Committee has since resolved to:

- execute a facility agreement with the ASB Bank for a term loan of \$15 million and offer \$3 million of security for interest rate risk management instruments completed March 2003;

*"3. That authority is given to execute under seal the standard International Swap Dealers Association agreement with ASB Bank Limited, and the proposed facility agreement for the \$15m term loan subject to the Corporate Solicitor's approval as to the form of the facility agreement."*

2592/2002

- renegotiate, as required, uncommitted bank facilities which are used to cover working capital requirements on a daily basis, currently totalling \$35 million;

*"1. That the information be received.*

*2. That the Director: Finance is delegated authority to act as Council's authorised representative for the purposes of negotiating cash facilities agreements on the basis outlined in the agenda report.*

*3. That authority is given to execute under seal any facilities agreement which may be required by the parties scheduled, or any other registered bank, to continue these cash facilities or in relation to any such new facility, subject to the Corporate Solicitor's approval as to form in each instance."*

2591/2002

- execute a facility agreement with the Bank of New Zealand for a 364 day committed cash advance facility of \$20 million, now completed but not drawn;

*"1. That the information be received.*

*2. That the Director: Finance is delegated authority to complete negotiations forming part of the said facilities documentation with the BNZ Bank.*

*3. That authority is given to execute under seal the proposed facility agreement for \$20 million with the BNZ, subject to the satisfactory review by Council's external Solicitors."*

2840/2002

- renegotiate the ANZ committed cash advance facility to a value of \$50 million, and a further \$7.5 million in security for interest rate risk management instruments;

1. *That the information be received.*
2. *That the continuation of the existing facilities and facility limits as outlined in the agenda report to the meeting be approved.*
3. *That the terms and conditions applicable to the ANZ Banking Group (New Zealand) Limited facilities agreement be accepted to a limit of \$50 million term debt draw down and a limit of \$7.5 million risk management instruments for interest rate hedging and the common seal of Waitakere City Council be authorised to be affixed to that document.*
4. *That the Chief Executive and the Director: Finance be delegated authority to act as Councils authorised representatives for the purposes of the 'General Conditions' forming part of the said facilities agreement with the ANZ Banking Group (New Zealand) Limited."*

938/2002

- use the \$56,353,589.60 received from the sale of the UnitedNetworks Limited shares to repay debt.

*"That the \$56,353,589.60 received from the sale of the UnitedNetworks Limited shares be applied in accordance with the Borrowing and Investment Policy to repay debt."*

3612/2002

### **ESTIMATED SUMMARY OF BORROWING AND INVESTMENT MOVEMENTS, AUGUST 2003**

Council's estimated gross term debt position has decreased by \$5 million since July 2003 with an estimated closing balance at August month end of \$86.821 million. Estimated working capital borrowings of \$16.7 million as at 31 August 2003 have been funded using internal funds.

### **SIGNIFICANT FUNDING TRANSACTIONS ENTERED INTO DURING AUGUST 2003**

- Sinking Fund investment of \$1,580,445.21 for 60 days at 5.11%;
- Sinking Fund investment of \$1,756,546.25 for 60 days at 5.11%;
- UnitedNetwork Funds investment of \$1,520,392.67 for 30 days at 5.12%;
- UnitedNetworks Funds investment of \$5,221,070.67 for 30 days at 5.14%;
- Sinking Fund investment of \$2,182,718.49 for 61 days at 5.13%;
- ARST Funds investment of \$1,158,828.83 for 61 days at 5.11%;
- UnitedNetworks Funds investment of \$5,000,000 for 25 days at 5.13%.

### **FINANCIAL MARKET COMMENTARY**

A commentary will be offered at the Finance and Operational Performance meeting.

### **Upcoming Dates**

Official Cash Rate Announcement 23 October 2003

**CONCLUSION**

All transactions covered by this report have complied with the requirements of Council's Liability Management and Investment Policy.

**RECOMMENDATION**

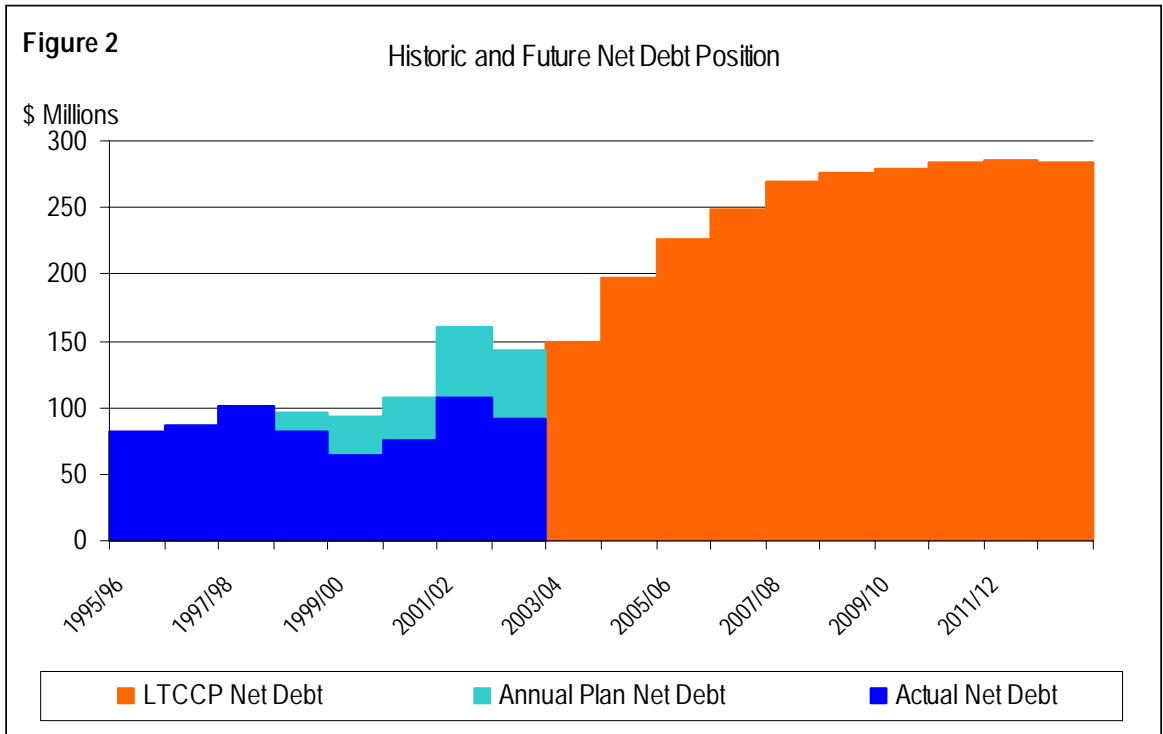
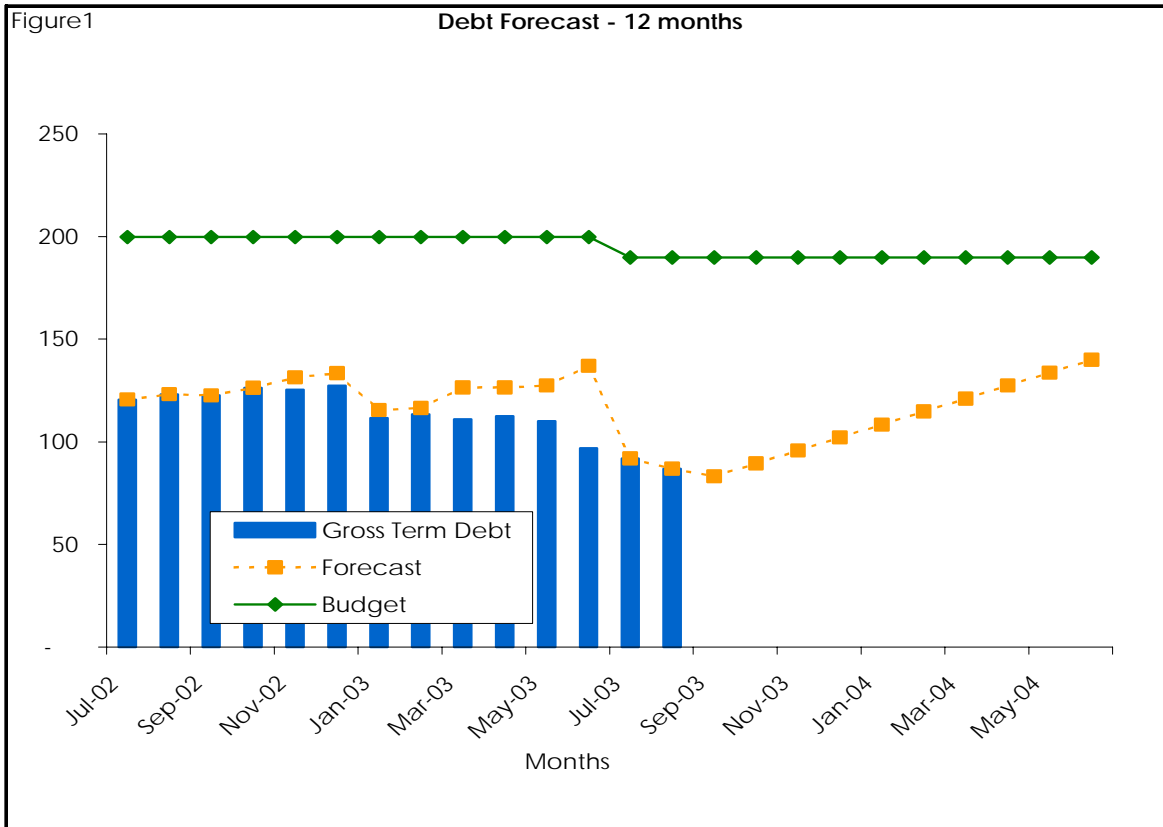
That the information be received.

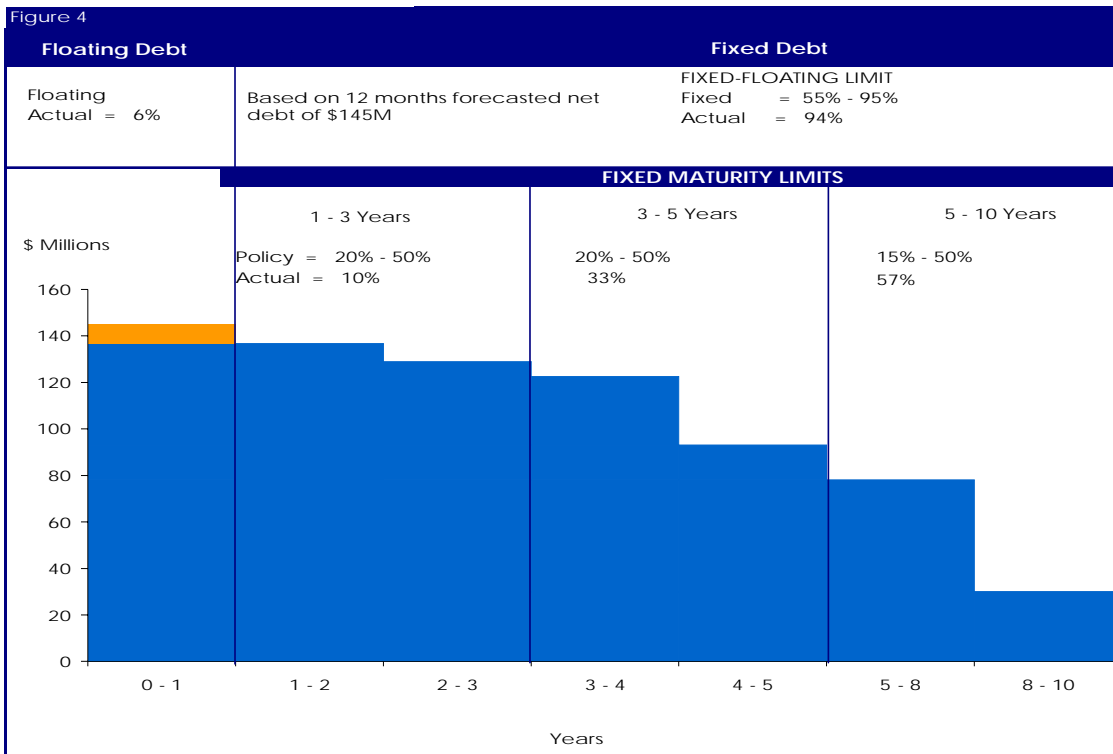
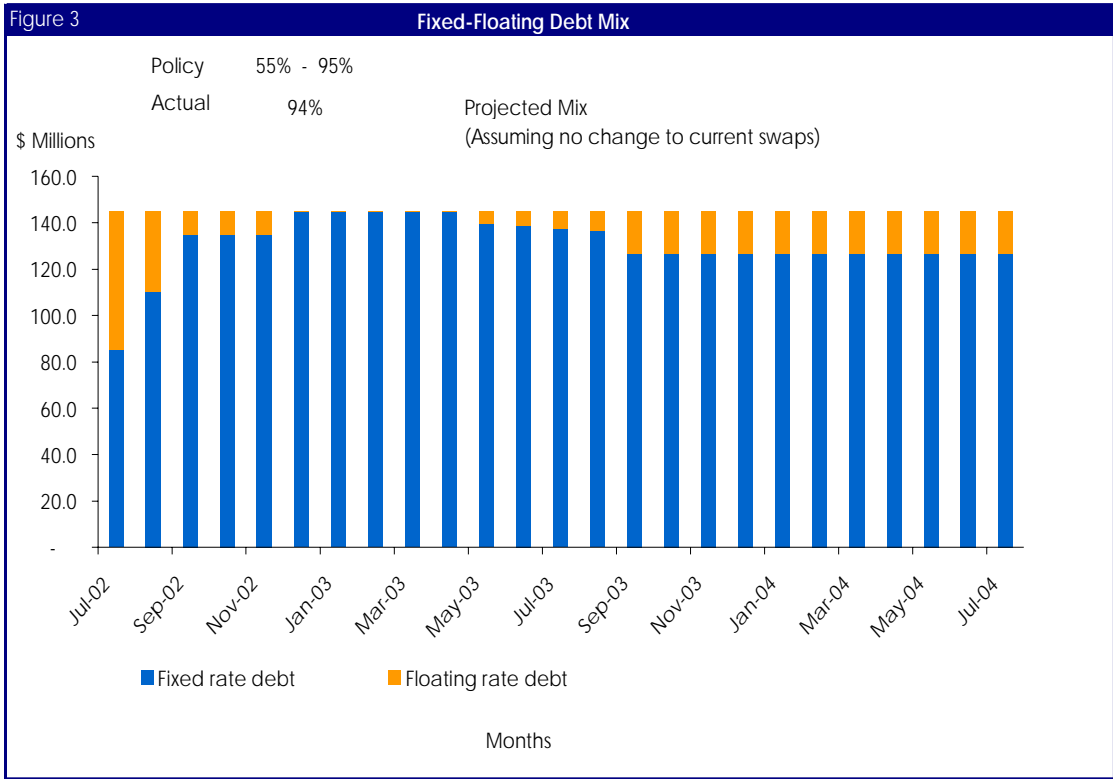
Report prepared by: Bruce Wilkin, Funds Accountant.

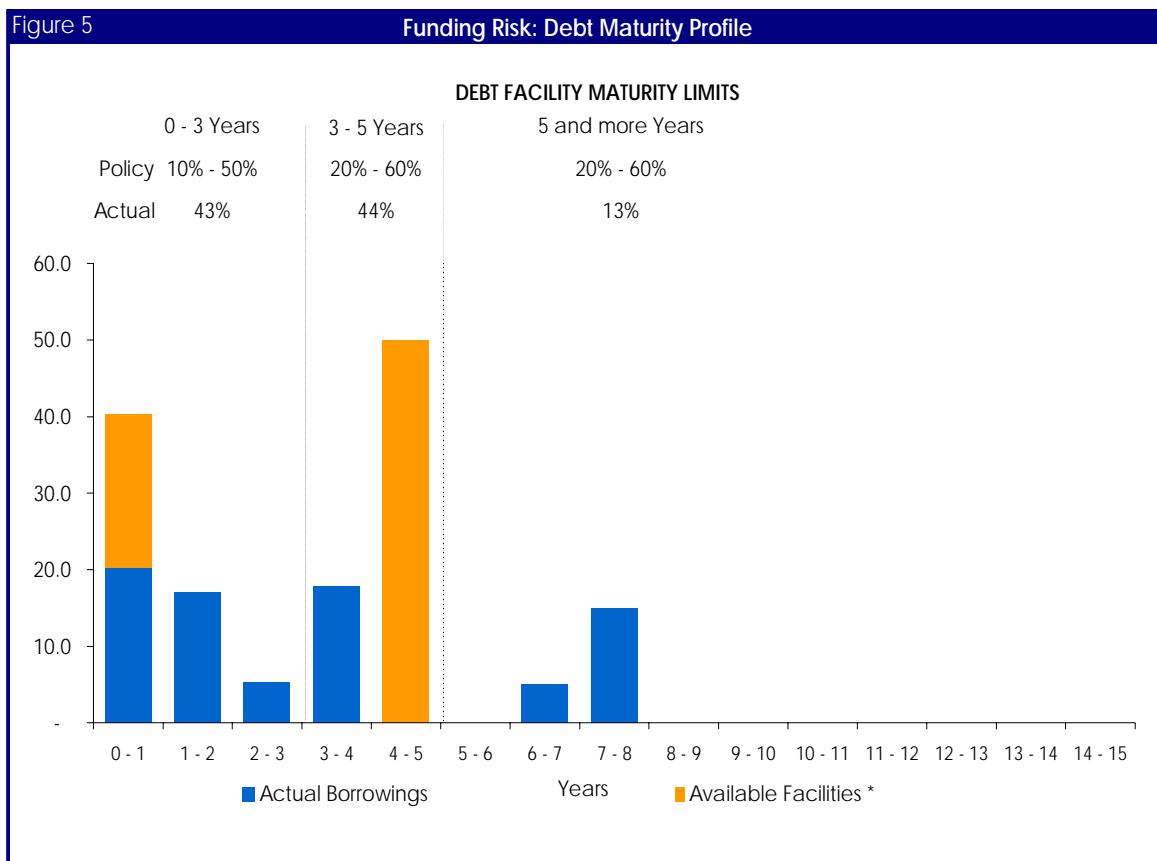




Debt Forecast







(1) Council is in the unique position of having a \$50 million committed funding facility. The nature of this facility may, depending on the utilisation, result in a breach of the funding maturity limits. As this facility is very much in Council's favour this is an acceptable breach of policy.

**Figure 6** \$ Millions

Council Approved Debt Sources	Total		
	Committed Funding Sources	Usage	Available
Bank Loans			
Short Term (uncommitted)	\$0.0	\$0.0	\$0.0
Long Term (committed)	\$85.0	\$15.0	\$70.0
Commercial Paper			
Bank Overdraft	\$1.0	\$0.0	\$1.0
Senior Bonds			
Retail	\$15.7	\$15.7	\$0.0
Wholesale	\$56.2	\$56.2	\$0.0
Other	\$0.0	\$0.0	\$0.0
<b>TOTAL</b>	<b>\$157.8</b>	<b>\$86.8</b>	<b>\$71.0</b>

#### Notes:

Working capital borrowing is necessary due to fluctuations in the timing of operating revenue and expenditure. The working capital borrowing requirement also includes internal deficits relating to prior years. External working capital borrowing is reduced by the use of internal special funds with any surplus requirement funded by way of unsecured bank loans.

Gross Term debt is the borrowing relating to long term loan funded capital works projects. External borrowing to fund term debt is reduced by the use of internal special funds with the surplus requirement funded by way of secured or unsecured short term bank loans, fixed or floating medium or long term bonds and finance leases.

The managed debt portfolio refers to the portion of Council's total debt portfolio that is managed to reduce interest rate risk, liquidity/funding risk, counterparty risk and operational and legal risk as defined in the Liability Management and Investment Policy. The portfolio is managed on the external net term debt requirement excluding finance leases. i.e. it is net of the special funds that have been used to reduce the external term debt requirement and the sinking fund balance. Working capital is not included in the managed debt portfolio.

Special Funds are cash funds either collected through rates or vested to Council that have been 'set aside' for specific future spending. The funds are used in the interim to reduce Council's requirement to borrow externally. The fund is managed via accounting entries and a monthly interest allocation is made to the funds based on the Council's weighted average cost of borrowing for that period.

#### Description of Graphs:

##### Figure 1

Gross term debt (blue) is the actual gross term debt position of Council as defined in the notes above. The Forecast (orange) is the projected gross term debt level per month in the current financial year, the figures are obtained from capital works timing forecasts (provided by budget managers on a monthly basis) and the current debt maturity profile. The Budget (green) line represents the gross public debt as approved in the 2003/2004 Long Term Council Community Plan.

##### Figure 2

The prior year net term debt figures (dark blue section) are obtained directly from the published Annual Reports. The Annual Plan net term debt figures (light blue section) are obtained from that years published Annual Plan. The orange section is the Long Term Council Community Plan net term debt as published for 2003/2004 - 2012/2013.

##### Figure 3

The fixed (blue) and floating (orange) interest rate mix, both historic and projected, based on the 12 month rolling forecast net debt requirement. The Liability Management and Investment Policy minimum is 55% fixed and maximum 95% fixed. The positioning of the portfolio between policy minimum and policy maximum is dependent on the current and forecast financial market outlook.

##### Figure 4

Interest rate risk profile. Figure 4 shows, given the current fixed/floating rate mix and the debt forecast (assuming no changes to current swaps), the percentage of current fixed rate debt that will mature in future years. This enables Council to recognise and reduce significant concentrations of interest rate risk that may arise in future years. As debt forecasts change the amount of fixed cover in place may have to be adjusted to comply with the policy limits.

##### Figure 5

Funding and liquidity risk. Figure 5 varies from figure 4 in that it shows the actual maturity profile of current debt on issue as opposed to the profile of Council's exposure to interest rate risk arising when debt either reprices (in the case of floating rate debt or hedges) or matures. The debt maturity profile enables Council to identify significant concentrations of maturing debt and debt facilities. Where there are significant concentrations of debt maturing Council is at risk of not being able to re-borrow from the market at favourable rates.

##### Figure 6

In order to ensure Council has the ability to borrow from the market when funding is required committed funding facilities are arranged with approved debt sources. Figure 6 shows Council's committed funding sources and the current usage of these funds. In addition to the committed sources Council also uses uncommitted lines of funding as seen in short term bank loans and bonds, uncommitted funding is at times less expensive than committed funding however its availability is not guaranteed.

### Wholesale Market Interest Rates and the Trade Weighted Index

