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Report to the Policy, Finance and Strategy Committee
from Greg Schollum, Chief Financial Officer

Borrowing Approval

1. Purpose

To seek approval in relation to Council's current and future uncommitted money market facilities and to reconfirm Council's internal borrowing arrangements.

2. Background

2.1 Liquidity and Debt Management

The Council has both core borrowing facilities and uncommitted money market facilities. Council's external liquidity and debt position is regularly monitored by Council's Treasury Management Group (a group of Council officers chaired by the Chief Financial Officer).

2.2 Core Borrowing Facilities

Core borrowing facilities include existing Local Authority stock, Forestry encouragement loans, the Stadium loan and committed borrowing facilities from banks. Generally Council's core external debt has been trending down, meaning that the Council's existing borrowing facilities have been sufficient to cover Council's needs.

From time to time I have sought approval from the Council to enter into new core borrowing facilities with Council's bankers. The latest projections of Council debt indicate that new or extended borrowing facilities will not be required for at least 12 months. However, this will depend on what eventuates in respect of Tranz Metro (Wellington).

This report is not seeking any change to the Council's core borrowing facilities at this time.

2.3 **Uncommitted Money Market Facilities**

In addition to Council's core borrowing, the Council's Treasury function utilises uncommitted money market facilities with major banks to help manage Council's short term cashflow. These uncommitted facilities have been used for many years and have largely been relatively informal in their arrangements. The facilities have enabled Council to borrow or invest cash on an overnight basis, rather than constantly adjusting the Council's core borrowing facilities.

In our discussions recently with one of Council's banks the bank has sought evidence of Council approval of the uncommitted money market facility. Such uncommitted facilities have never been formally approved by the Council in the past, although indirectly they have been through the Council's adoption of the Treasury Management Policy. For completeness, this report is seeking approval of the use of Council's uncommitted money market facilities and also seeking approval for the entry into appropriate uncommitted money market facilities in the future.

2.4 **Internal Borrowing**

For the past 10 years or so the Council has operated an internal Treasury function, whereby Treasury acts as an internal banker to the rest of the Council.

The Council's Treasury Management activity is carried out centrally to maximise the Council's ability to negotiate with financial institutions and to ensure that there is one point of contact with Council funders.

The Treasury function provides borrowing facilities to those areas of the Council that require debt finance, which allows the true cost of debt funding to be reflected in the appropriate areas.

All interest rate and other risk management activity is carried out by the Treasury function on behalf of all internal customers.

The Local Government (Rating) Act 2002 which was recently passed includes an amendment to the Local Government Act in relation to internal borrowing. This amendment was a response to some concern within the sector that the widespread practice of internal borrowing needed to be specifically provided for within the Local Government Act.

Given the recent law change, I felt it would be prudent if Council formally resolved to reconfirm the internal borrowing arrangements which have been in place for many years.

3. **Core External Debt**

As noted above, no changes are being sought at this time to Council's external borrowing facilities.

4. **Uncommitted Money Market Facilities**

Approval is sought to continue with the Council's current uncommitted money market facilities with up to five banks with no more than \$10 million borrowed from any one bank.

Given the nature of the facilities in question (i.e. uncommitted) the banks prefer that we do not make public the breakdown of the facility amounts.

In the past the Council has tended to be a net investor under these facilities. However, the Council's cashflow does fluctuate significantly during the year and at certain stages of the year Council will need these uncommitted facilities for short term borrowing purposes. These facilities are not intended in any way to be a substitute for appropriate committed facilities for core borrowing.

Approval is also sought to enter into other uncommitted money market facilities from time to time in the future as the Chief Financial Officer may consider appropriate.

5. **Internal Borrowing**

Legal advice has been sought from Chapman Tripp in relation to the nature of the resolutions required to cover internal borrowing. (refer to section 7 of this report).

Section 122ZAA of the Local Government Act 1974 makes it clear that a local authority can apply funds held by it for a particular purpose to any other purpose. (In other words, to borrow internally.)

The resolutions reflect the fact that the Council wishes to authorise the making, from time to time, of unsecured internal loans by the Council of funds held by it (regardless of the purpose for which funds were raised) to any of its departments for the purpose of financing any of the matters set out in its most recent Annual Plan/LTFS update.

6. **Communications**

Not required.

7. **Recommendations**

That the Committee recommend that the Council:

- (1) *receive the report and note its contents.*
- (2) *authorise and ratify the use of such uncommitted money market facilities with such financial institutions as the Chief Financial Officer may in his sole discretion determine to be necessary or desirable, including but not limited to approving and ratifying the Council's entry into the existing facilities in each case being on terms and conditions to be determined by the Chief Financial Officer, pursuant to, and in accordance with, section 122ZD(3) of the Local Government Act 1974 (the Act).*

- (3) *note that, pursuant to section 122ZD(2) of the Act the borrowing authorised pursuant to Resolution 2:*
- *shall be for general working capital and cash management purposes of the Council;*
 - *will be unsecured, supported by Council's Negative Pledge Deed dated 19 May 1998;*
 - *will be for the benefit of the Council and will not give rise to any unreasonable risks for the Council; and*
 - *is in accordance with the Treasury Management Policy.*
- (4) *authorise the Chief Financial Officer, in accordance with the Treasury Management Policy, to negotiate, approve and agree precise terms and conditions of the uncommitted funding facilities referred to in Resolution 2 with such lenders and on such terms and conditions as considered appropriate and to execute all documentation giving effect to the uncommitted funding facilities on behalf of the Council, or to cause such documentation to be executed by the Council under its common seal.*
- (5) *agree that Council's Treasury function may, from time to time, make internal loans to any department of the Council for the purpose of financing any of the matters set out in its most recent Annual Plan/LTFS update.*
- (6) *note that it has considered the risks and benefits of the internal loans referred to in Resolution 5 and is satisfied that the general terms and conditions of the internal loans will be in accordance with the borrowing management policy adopted by the Council under section 122R of the Act (the Treasury Management Policy).*
- (7) *agree that the internal loans referred to in Resolution 5 are to be in such form and on such terms as the Chief Financial Officer may determine.*

GREG SCHOLLUM
Chief Financial Officer