

Central Hawke's Bay District Council – Report

TO: Council

FROM: Corporate Services Manager

DATE: March 2009

FILE REF: FIN 3 - 100

SUBJECT: FUTURE DEBT RAISING

1.0 SUMMARY

Council's public debt is forecast to rise from \$11m at June 2009 to \$16.4m by 2019. This core debt is made up of a number of shorter term loans to minimise our average borrowing cost.

In total new debt (such as the \$8m waste water upgrade) and the replacement of maturing short term debt will mean that \$23.9m will need to be raised between 2009 – 2019.

Our current practice has been to raise loans through our advisors, First NZ Capital, and our average borrowing costs have effectively been less than the average interest earnings on Council's Special Funds.

The world recession has impacted on the availability of cheap credit – and in spite of drops in the Official Cash Rate – the cost of funds has remained high.

Council has two options –

- Continue to utilise First NZ Capital to raise debt on our behalf
- Approach commercial banks to raise debt.

However – our advisors have recommended that we utilise the Securities (Local Authority Exemption) Amendment Act 2008 and produce an Investment Statement and Trust Deed – which will allow them to source funds more readily which could be beneficial to our borrowing costs.

This would not preclude Council from obtaining competitive quotes from the commercial banking sector – but given the economic uncertainty, having an Investment Statement allows greater flexibility in our borrowing arrangements.

This is of significance to Council because savings of .5% per annum on interest costs on average borrowings of \$13m – is \$65k per annum.

2.0 RECOMMENDATION

THAT

Council approves the preparation of an Investment Statement and Trust Deed and authorises the Mayor and Chief Executive to sign all relevant documentation.

REASON

The Objective of the decision will minimise borrowing costs and contribute to the Community Outcomes:

3.0 BACKGROUND

- Investor Statement option – under the above Act – Council needs a current Investment Statement which in turn is supported by a (Master) Trust Deed (setting out the general terms and condition of the issue of bonds) and a Supplemental Deed (for each new issue of bonds). Perpetual Trust have agreed to act as Trustees (following a short tender) and are responsible for looking after the interests of security holders. Bonds (Loans) are raised based on approved capital expenditure in the Annual Plan/LTCCP and the relevant bonds offered to the public who purchase the Council's bonds from First NZ Capital. Computershare – with whom we have an existing arrangement regarding current bonds – would continue as registry. Compliance costs under the Securities (Local Authority Exemption) Amendment Act 2008 are much reduced following the initial set up of an Investor Statement and Trust Deed, with reliance placed on Council's audited Financial Statements (rather than a separate audited prospectus).

First NZ Capital have recommended this course of action as will make it easier to raise capital and be more cost effective over time

- As an alternative – Council could approach commercial banks for loans. The facilities would be flexible – allowing term loans or annually reviewed credit – with the ability to hedge the base cost of credit and paying a floating margin above this of 2 – 2.5%. Discussions have been held with our own bankers who are prepared to offer advice and credit. There are also other banks willing to look for Council's business.

At time of issue it is possible to compare relative costs between the above options – however the floating cost of the bank margin makes the final cost uncertain over the life of the loan.

In both cases – as is the current position – Council offers as security – the future targeted rates income relating to each particular loan.

4.0 OPTIONS

Option 1

Council approves the preparation of an Investment Statement and Trust Deed and authorises the Mayor and Chief Executive to sign all relevant documentation

Option 2

Council approves the negotiation with commercial bankers to provide funding and authorises the Mayor and Chief Executive to sign all relevant documentation

5.0 STATUTORY IMPLICATIONS

Local Government Act 2002, Securities (Local Authority Exemption) Amendment Act 2008,

6.0 CONSULTATION

6.1 External

First NZ Capital, Chapman Tripp, ANZ Corporate Banking

6.2 Internal

N/A

7.0 FINANCIAL

Draft LTCCP 2009/19

8.0 STRATEGIC LINKS

- Liability Management Policy
- Delegations Register

Kevin Brown
Corporate Services Manager