Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

8 OCTOBER 2015

Meeting Status: **Public**

Purpose of Report: For Information

COUNCIL'S DEBT MATURITY PROFILE

PURPOSE OF REPORT

1. The purpose of this report is to advise the Committee of the proposed approach to rebalance the Council's debt maturity profile.

DELEGATION

2. The Corporate Business Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.

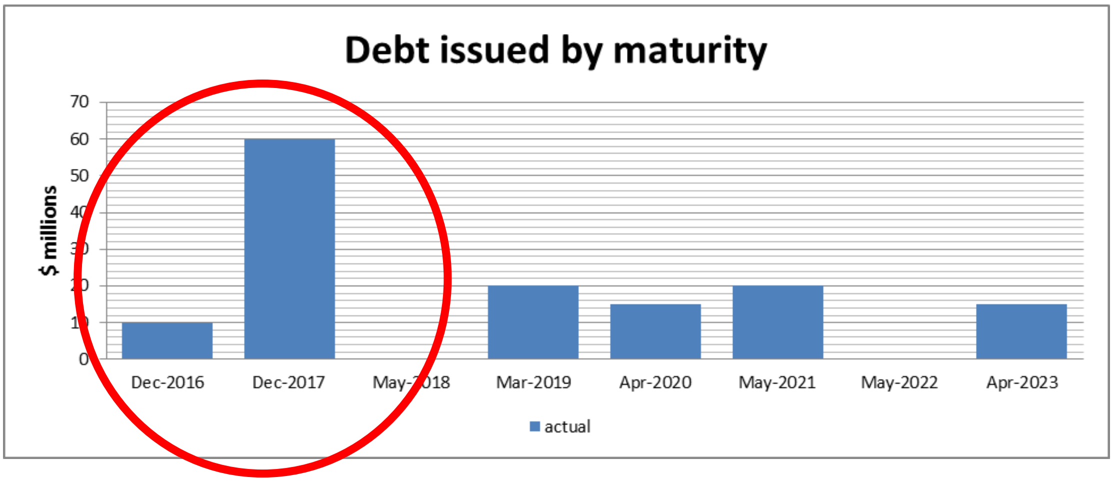
   7. Without limiting the generality of this delegation, the committee has the following functions, duties and powers:

      7.5 Authority to monitor performance of the Council's financial activities, including income, operating and capital expenditure against budgets, remissions, key financial indicators and investment and debt/borrowings management.

3. The Committee does not have the delegated authority to approve the proposed approach to rebalance the risk of the Council's debt maturity profile. The Chief Executive has the discretionary authority to re-package existing debt on more favourable terms. Such action is to be ratified and approved by the Council.

BACKGROUND

4. Reports to the Committee over the past 18 months have discussed the concentration of debt maturities as an area to be reviewed.
5. Council's net borrowing as at 30 June 2015 was $138 million, of which $70 million matures in the next two years. This is shown in the following chart:



6. Officers have been assessing options to positively re-position Council's debt maturity profile.

Issues and Options

Issues

7. Having 50% of the Council's debt maturing in the next two years is not optimal, from a risk perspective. If borrower margins were to increase at the time of the debt maturity, the Council could be exposed to higher borrowing costs.

8. It is prudent to manage the debt on a portfolio basis, and to continue to identify opportunities to reduce this risk. Council should aim to establish a borrowings maturity profile of approximately $25 million per annum.

9. Current market conditions provide the opportunity to act now to rebalance the maturity profile. Borrowing margins have hit a practical lower limit – recent margins for the Local Government Funding Agency (LGFA) bond issues have been the lowest since inception of the LGFA.

Options

10. The options for the Council are to either do nothing; or to proactively move to rebalance Council's debt maturity profile. It is considered that doing nothing carries the most risk for the Council and that instead, it is prudent to rebalance and de-risk Council's exposure now.

11. Officers are considering the following two actions to rebalance the Council's debt maturity risk profile:

    a. Action 1 - Prefund the December 2016 debt maturity of $10 million; and

    b. Action 2 - Exchange some of the $60 million debt maturity in December 2017 for a future dated LGFA bond maturity. This tactic is similar to breaking a fixed term home mortgage and re-fixing for a new term.

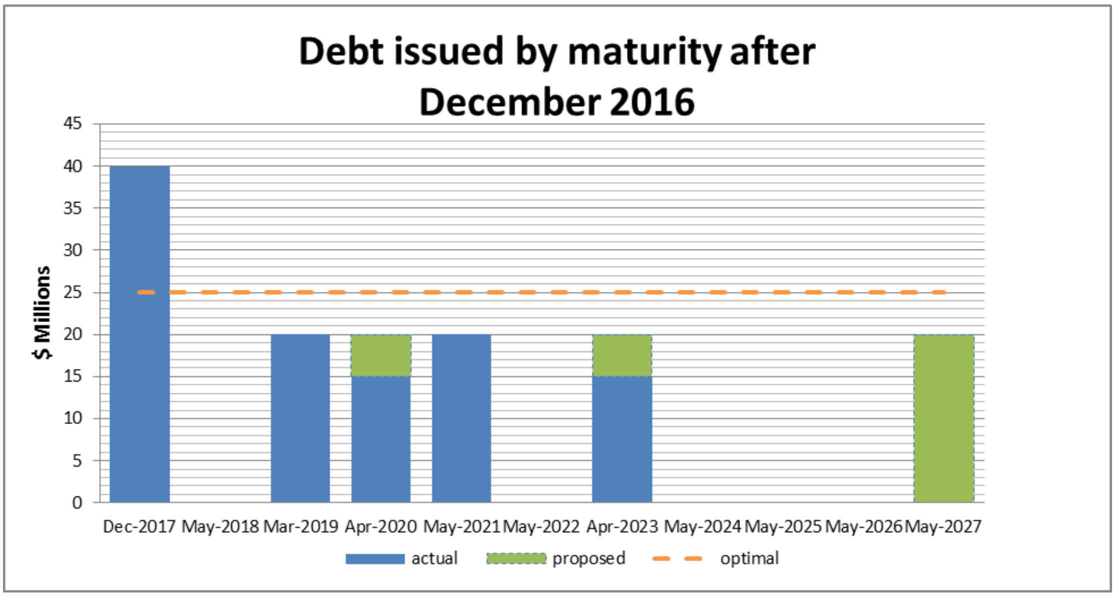
Action 1 – Prefunding $10 million of debt maturing in December 2016.

12. Council is permitted to pre-fund up to 18 months forecast debt maturities.
13. Essentially this entails Council prefunding $10 million of the December 2016 debt maturity by issuing new debt of $10 million. The Council will then invest $10 million on term deposit until December 2016.
14. LGFA borrowing margins are presently lower than fixed term deposit rates offered by the five major institutional banks on the open market. Should this continue, Council could realise a net return on the prefunding.
15. Prefunding is now a commonly used approach, undertaken by many Councils, utility companies and other organisations. By way of example, the LGFA debt matured in April this year did not cause any market pressure, as much of that debt had been prefunded
16. Furthermore, it should be noted prefunding has a nil impact on Council's Treasury Policy limits as they are all dependent on net debt (gross debt, less cash on hand and cash investments).

Action 2 – Exchange some of the $60 million debt maturity in December 2017 with a future dated LGFA bond maturity

17. Essentially, this entails Council settling $20 million of the December 2017 LGFA bond maturity in November 2015 by issuing new debt of $20 million. Similar to home mortgages, an early "break fee" will be applied and included in the borrowing cost of the new debt.
18. This reduces the 2017 concentration risk of $60 million. An ancillary benefit is the improvement to the Council's credit assessment criteria for Standard & Poor's. They have advised Council that tangible evidence of reducing the 2017 concentration risk is a pre-requisite for any potential uplift to Council's credit rating (currently A+ stable outlook) in the future. . In the next nine to 12 months consideration will be given to further rebalancing of the remaining 2017 debt.

19. The following chart reflects the proposed debt maturity profile that would result from executing options 1 and 2.



Considerations

Policy considerations

20. The Committee approved Council's new Treasury Management Policy on 2 April 2015. This policy sets out the framework for the management of borrowings and investments by the Council.

21. While no new policy issues are raised by this report, the proposed approach will be the first instance of implementing change under the policy.

Legal considerations

22. There are no legal matters considerations required by this report.

Financial considerations

23. All financial considerations have been covered as part of this report.

Tāngata whenua considerations

24. There are no tāngata whenua considerations required by this report.

Significance and Engagement

Degree of significance

25. This matter is considered to have a low level of significance under Council policy.

Consultation already undertaken

26. Council's Treasury Advisors, PricewaterhouseCoopers (PwC), and the LGFA support the proposed approach to rebalance the council's debt maturity profile.

Engagement planning

27. An engagement plan is not considered necessary to execute these treasury strategies.

Publicity

28. A public media release is planned following discussion of this report by the Committee at the meeting to be held on the 8 October 2015.

RECOMMENDATIONS

29. That the Corporate Business Committee notes the proposed approach to rebalance the risk of the Council's debt maturity profile.

30. That the Corporate Business Committee notes that PricewaterhouseCoopers and the Local Government Funding Agency support the proposed approach.

Report prepared by	**Approved for submission**	**Approved for submission**
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