

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

15 AUGUST 2013

Meeting Status: **Public**

Purpose of Report: For Decision

BORROWING PROGRAMME FOR 2013/14 YEAR

PURPOSE OF REPORT

- 1 To consider the borrowing programme as included in the Annual Plan for the 2013/14 year and make a recommendation to Council.

SIGNIFICANCE OF DECISION

- 2 This report does not trigger the Council's significance policy. The 2013/14 Borrowing Programme is included in the 2013/14 Annual Plan adopted by the Council on 28 June 2013 following a special consultative process on the Draft Annual Plan.

BACKGROUND

- 3 Now that the Annual Plan has been adopted the Council needs to resolve to borrow the funds required to finance the capital works programme for the 2013/14 year as required under the Local Government Act 2002.
- 4 The Council may resolve to borrow the sum or sums as specified in the Annual Plan and should delegate the responsibility to determine the terms and conditions of any loans raised to the officers of the Council.

CONSIDERATIONS

Issues

- 5 The total borrowing requirement in the Annual Plan for the 2013/14 year is as follows:

	\$m
2013/14 Capital Works – Loan Funded (as per attached schedule – Appendix 1)	32.369

The Borrowing Programme

- 6 In authorising the borrowing programme the Council must be satisfied that they have considered the risks and benefits associated with the programme and that the proposed borrowing programme complies with the Council's Treasury Management Policy.
- 7 The loan servicing costs for all new loans to be raised as per the borrowing programme have been included in the Annual Plan for the 2013/14 year on the following basis:
 - Loan interest is calculated on average for only six months of the first financial year as the loans are not generally required until half way through the financial year.

- The Loan interest rate on new loans for the 2013/14 year was estimated at 6%.
- 8 The latest market interest rate for 10 year swaps is 4.5% and after allowing for an interest rate margin from funding of 1.3%, the total interest rate for 10 year funding is 5.8%. The market is predicting long term interest rates to increase as the global economy recovers.
 - 9 Due to the level of debt raising required in the 2013/14 year it is important to manage interest rate risk effectively. The Council needs to have certainty for the majority of its debt servicing costs. This is being managed through using interest rate risk management instruments, as allowed for in the Treasury Management Policy. This policy places strict control limits as specified in the Section on Interest Rate Control Limits of the Policy attached as Appendix 3.
 11. It is important at this stage for the Council to approve its borrowing programme for the 2013/14 year now so that the Council can take advantage of any opportunities in the interest rate market as they arise.
 - 10 Projected Debt as the end of 30 June 2014 is as follows

	<u>\$m</u>	
Debt as at 30 June 2013	125	
New debt to be raised		
relating to 2012/13 Capex programme	6	(Work completed by June 2013 to be paid out in July/August 2013).
New debt relating to 2013/14 Capex Programme	32	
Less Sale of Land – Ngahina Offer Back NZTA and Western Link properties	-5	
Less Debt Repayment 2013/14	<u>-9</u>	
Total Projected Debt 30 June 2014	149	
 12. The Council has good interest rate protection for \$132 million of debt through its interest rate swap portfolio which provides interest rate protection at an average of 4.75%.
 13. There is an interest rate margin for funding which is added to this interest rate to give an overall cost of funds. Funding arrangements for some existing debt has been secured at very attractive funding margins averaging 0.4% but some of these arrangements are expiring over the next 12 months. New funding arrangements are at much higher margins with Bank facilities costing up to 1.45%.
 14. Through the Local Government Funding Agency interest rate margins are currently being achieved at the level of 0.8% to 0.9%, for 5 to 8 year funding to Councils with credit ratings.
 15. Further interest rate swaps will be taken out as the market opportunity arises to ensure that the Council's debt servicing costs for new borrowings do not exceed the budget. Security may be required on future interest rate swaps taken out with the banks in relation to the borrowing programme.

16. The long term and short term interest rates are expected to rise as the New Zealand economy and global economy moves out of recession.
17. The Council has also carried out internal borrowing by using its investments to meet its funding needs. The activities which require the funding to meet capital works requirements have been charged interest at the average cost of debt and the interest has been credited to the activities that would have normally received interest on investment funds.
18. Capital expenditure is budgeted to be funded from the following sources:
- | | \$,000 | \$,000 |
|--|---------------|---------------|
| Capital Expenditure 2013/14 | | 39,581 |
| Funded from: | | |
| Plant Purchase and Renewal Funds | 630 | |
| Depreciation reserves | 4,249 | |
| Development Contributions/Reserves Funds | 1,299 | |
| Aquatic Centre Trust | 125 | |
| Rates (Library Books funded from rates) | 254 | |
| ECCA Loans | 655 | <u>7,362</u> |
| New Loans | | 32,369 |
19. The depreciation reserves will accumulate as the rates are levied for each instalment during the year. Development contributions have accumulated from prior subdivisions and dwellings and will be utilised to assist with the funding of capital works projects identified in the Development Contribution Policy within the Annual Plan. New development contributions for the 2013/14 year have been budgeted to accumulate at a conservative rate compared to the long term average. Some of the sources of funds as budgeted will not be fully available until the end of the financial year so matching cashflows for both revenue and capital expenditure will be important.
20. The loan raising programme for the 2013/14 year will generally match the capital expenditure timing but could vary where the Council is able to take advantage of lower interest rates during lows in the interest rate cycle. The interest rate market is monitored on a daily basis to ensure that the Council is aware of any changes or trends in interest rate movements and that interest rate risk is managed.
21. In order to have the maximum number of sources of loan funds available to it, the Council should have the ability to borrow by way of bank facilities and also to borrow through the Local Government Funding Agency at more attractive margins than from the financial markets.
22. Reports on Council's Investment and Borrowing status are provided every three months to the Corporate Business Committee.

Financial Considerations

23. If the Borrowing Programme is fully uplifted, the interest rate costs (based on the current interest rate swap market) are expected to remain within the budgets for the 2013/14 year.

Legal Considerations

24. The Council needs to consider and approve the borrowing programme to fund the capital works and renewal loans as adopted in the Annual Plan for the 2013/14 year.
25. The Council needs to delegate responsibility to an officer of the Council to negotiate the particular terms and conditions of any loans and issue certificates certifying compliance in accordance with Section 118 of the Local Government Act, 2002 (Section 118 attached as Appendix 2).
26. The Council needs to have considered the risks and benefits associated with the proposed borrowing programme and be satisfied that the general terms and conditions of the proposed borrowing comply with the Council's Treasury Management Policy (see Appendix 3).

Delegation

27. Only Council can approve the borrowing programme and delegations so resolutions are a recommendation to the Council.

Consultation

28. There are no consultation issues to be considered.

Policy Implications

29. There are no policy implications from this report.

Tāngata Whenua Considerations

30. There are no tāngata whenua considerations.

Publicity Considerations

31. There are no publicity issues at this stage. The Borrowing Programme has been included in the 2013/14 Annual Plan.

RECOMMENDATIONS

32. That the Corporate Business Committee recommend to the Council that:
 - a. The Council borrows \$32.369 million at a fixed or floating rate of interest (or any combination thereof that complies with the Council's Treasury Management Policy), for a term not exceeding 10 years secured against rates of the Kāpiti Coast District for the purpose of allowing the new capital works identified in the Council's Annual Plan for the 2013/14 year to proceed.

- b. The Council's interest rates applicable to the debt be managed both through the terms of the relevant loans, and through interest rate swaps, and the Council's obligations in respect of any such interest rate swaps be secured against rates of the Kāpiti Coast District.
- c. That the Council notes that in authorising the Borrowing Programme, the Council has considered the risks and benefits associated with it and is satisfied that the general terms and conditions of the Borrowing Programme comply with the Council's Treasury Management Policy.
- d. The Chief Executive and Group Manager Finance be authorised to give one or more certificates, including for the purposes of section 118 of the Local Government Act 2002 in respect of any borrowing, interest rate swaps, or security required.
- e. The Council delegates to the Chief Executive and the Group Manager Finance the authority to determine:
 - The timing, amount, types and sources of borrowing (including funding facilities);
 - The nature and amounts of the interest rates for the borrowing;
 - The frequency of interest payments;
 - The maturity date of the borrowing provided that the term of any borrowing shall not exceed 10 years;
 - Any other terms and conditions consistent with the Council's Treasury Management Policy necessary for the borrowing and for compliance with the Local Government Act, 2002, any other applicable Act; and
 - To raise or borrow such amounts as are sufficient to yield the sums required and to arrange for the common seal of the Kāpiti Coast District Council to be affixed to all loan and security documents to give effect to the Borrowing Programme.

Report prepared by:

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APPENDICES

- Appendix 1: Loan Requirements from Annual Plan for 2013/14
Appendix 2: Section 118 of the Local Government Act 2002
Appendix 3: Treasury Management Policy: Interest Rate Risk Control Limits.