



Report 03.349
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Committee Policy, Finance and Strategy
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Treasury Management Policy

1. Purpose

To seek approval of the revised Treasury Management Policy (refer to the “Policies Document” which forms part of the LTCCP).

2. Background

On 4 March 2003 the Committee considered and approved, for the purposes of public consultation, the Council’s revised Treasury Management Policy (dated March 2003).

Officers have made some minor changes after completion of the public consultation phase and such changes have been incorporated into the latest version of the policy. None of these changes need to be brought to the attention of the Committee.

However, of more significance is the recent announcement of a credit rating downgrade of the National Bank (refer **Attachment 1**), the Council’s transaction bank and one of its two main relationship banks. This is of significance because it means that as a result of the rating downgrade the Council is currently in breach of its counterparty exposure limits contained in section 6 of the Treasury Management Policy.

3. What should the Council do in response to the breach of policy?

- **Relaxation of counterparty limits in Treasury Management Policy**

Officers have taken independent advice on the matter (refer **Attachment 2**) and are recommending that as part of the finalisation of the Treasury Management Policy the counterparty exposure limits contained in section 6 of the policy be relaxed somewhat.

Currently the counterparty limits are quite restrictive in that they specify the Council can only deal with counterparties with a minimum short term credit rating of A1+ and a minimum long-term credit rating of AA-. The recent downgrade of the National Bank from A1+ to A1, and AA- to A+ (“1 notch”), as a result of Lloyds TSB indicating to the market that it was exploring the possibility of selling its interest in the National Bank, highlights how restrictive the Council’s current policy is in this area. This is in contrast with the other limits in the policy (e.g. external borrowing limits) where the Council has a fair degree of latitude (room to move) between the current position and the limit within the policy.

Council’s independent Treasury advisor (Bancorp) has commented that it would not be imprudent for the Council to reduce its counterparty credit limit (for banks) to a minimum of “A”.

- **Close monitoring of the position with the National Bank**

Officers consider that during the next few months it will be important to closely monitor developments over the potential sale of the National Bank. Any sale could result in a further change in the National Bank’s credit rating (upgrade or downgrade) as could an announcement by Lloyds TSB that it was no longer exploring a potential sale (upgrade).

Depending on developments over the next few months officers may recommend that the Council ceases its banking relationship with the National Bank. However, such action at this stage is not considered necessary and, in fact, would give rise to significant upheaval and cost for the Council.

- **Increase in credit exposure levels from \$10 million to \$15 million**

The potential sale of the National Bank to a competitor bank highlights the risk that there may not be too many banks in future suitable for the Council to deal with.

It is important, therefore, that as the number of banks reduces the counterparty limit for each bank is increased to enable the Council’s Treasury function to continue to operate effectively.

4. So what changes to the Policy are proposed?

Current Policy Limits:

Institution	Minimum S & P Short Term Credit Rating	Minimum S & P Long Term Credit Rating	Total Exposure Limit for each Counterparty
Government	N/A	N/A	Unlimited
Registered Bank			
- On balance sheet exposures	A1+	AA-	\$10 million ⁽¹⁾
- Off balance sheet exposures	A1+	AA-	\$10 million
Corporates, SOEs and Local Authorities (on balance sheet exposures only)	A1+	AA-	\$5 million

(1) \$ 50 million for National Bank of New Zealand given that NBNZ has funded the Council's Stadium Loan (originally \$25 million) and has committed line facilities with the Council of \$24 million (although no legal right of set off exists).

Proposed Policy Limits:

Institution	Minimum S & P Short Term Credit Rating	Minimum S & P Long Term Credit Rating	Total Exposure Limit for each Counterparty
Government	N/A	N/A	Unlimited
Registered Bank			
- On balance sheet exposures	A1	A	\$15 million ⁽¹⁾
- Off balance sheet exposures	A1	A	\$10 million
Corporates, SOEs and Local Authorities (on balance sheet exposures only)	A1+	AA-	\$5 million

(1) \$ 50 million for National Bank of New Zealand given that NBNZ has funded the Council's Stadium Loan (originally \$25 million) and has committed line facilities with the Council of \$24 million (although no legal right of set off exists).

It is important to note that a long term rating of A is still in the "strong capacity to pay" category of the S & P ratings.

5. **Are these changes prudent?**

Officers and Council's independent Treasury advisor consider that the changes proposed to section 6 of the Treasury Management Policy are prudent.

However, to enable the Committee to directly question our independent Treasury advisor, I have invited Peter Cavanaugh (Bancorp) to attend the meeting on 30 June 2003.

6. **Communications**

The changes proposed form part of the new policy to be adopted as part of the LTCCP (refer to report 03.341 on this order paper).

7. **Recommendations**

That the Committee recommend that Council:

- (1) **Receive** the report and note its contents.
- (2) **Approve** the revised Treasury Management Policy contained within the "policies document" which forms part of the LTCCP.

Report prepared by:

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Attachment 1: letter from National Bank dated 18 June 2003

Attachment 2: letter from Bancorp dated 20 June 2003