

Report 08.876
Date 12 November 2008
File G/16/06/01

Committee Council
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Future financing requirements

1. Purpose

To seek approval from the Council to borrow from investors on terms not covered by our existing commercial paper programme.

2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council, or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

In August of 2005 the Council approved a \$50 million commercial paper programme. This was subsequently increased to \$90 million in June 2007 when the Westpac Stadium loan was refinanced using our commercial paper programme.

The commercial paper market has provided a very cost competitive source of funds. However, recent events in the credit markets have seen some corporates, not Councils, unable to borrow funds using their commercial paper programme in this market.

The maximum length of time that investors will lend Greater Wellington funds under its commercial paper programme is 364 days. Banks have been reluctant to lend longer-term debt due to the current crisis and it is considered good practice to have a mix of debt maturities.

Currently, Greater Wellington's main debt facilities mature in May 2010. An additional facility will need to be in place by the end of this financial year to fund our capital expenditure programme.

Various options have been considered to give us longer dated debt. One option is to issue bonds (i.e. debt) directly to the institutional investor market for terms longer than 364 days.

Greater Wellington has been approached by financial institutions (non banks) in the past for us to borrow from them. Having the ability to do this can be very attractive, both in terms of flexibility and term pricing.

The current market pricing for these types of bonds is below the level at which the banks will lend money to Greater Wellington. For example, Hutt City Council recently raised funds with a 3 year term using a private placement to institutions at 0.90% over the relevant 3 year swap rate. Tauranga City Council raised funds with a public issue for a 5 year term at 0.75% over the relevant 5 year swap rate.

These examples are more competitive than the banks' current offering of 1.20% over the relevant interest rate for a 3 year facility.

In addition, it would also provide an additional source of funding for Greater Wellington.

4. Documentation and current approvals

The current documentation, which enables Greater Wellington to borrow under its commercial paper programme, also allows us to borrow with a term of longer than 364 days. However, under the terms of the approvals given by Council in August 2005 and June 2007 in respect of the commercial paper programme, additional approval had to be obtained from Council to issue debt or bonds in excess of 364 days.

The Council may have to prepare an Offering Memorandum for the institutional investors. It is a standard document to prepare, containing information about the organisation, terms under which the bonds are issued etc.

In the case of a public issue an Investor Statement would need to be prepared in accordance with the new Securities Act legislation.

Our solicitors, Chapman Tripp, who prepared the original documentation, have reviewed the recommendations of this report and confirmed that they are in order.

5. Term, amount and interest rate

It is proposed to issue debt securities having a maximum term of 5 years and a total outstanding amount of \$50 million. This amount would cover the additional debt that Greater Wellington requires to June 2010. The interest rate will depend on the term of the debt securities, whether the securities are fixed or floating and general market conditions at the time the debt securities are issued.

6. Communication

No communications are necessary.

7. Recommendations

That the Council:

1. **Receives** the report.
2. **Notes** the content of the report.
3. **Approves** Greater Wellington issuing bonds to either institutional investors or to the public or both for a maximum amount of \$50 million and for a term not exceeding 5 years.
4. **Notes** that any issue to the public will require an Investor Statement to be prepared and approved by Council and signed off by two Councillors.
5. **Authorises** the Chief Financial Officer to enter into such documents and to do such acts, matters or things as are necessary, appropriate or desirable for the purpose of, or in connection with, or to give effect to, any document, act or acts, matters or things in relation to the bonds issued by the Council.

Report prepared by:

Report approved by:

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Barry Turfrey
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