



Report PE05.412
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Committee Policy, Finance and Strategy
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Commercial Paper

1. Purpose

To obtain Council's approval for a Commercial Paper Program.

2. Public Excluded

Grounds for exclusion of the public under section 48 (1) of the Local Government Official Information and Meetings Act 1987 are:

That the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists (i.e. to preserve commercial confidentiality).

3. Significance of the decision

The matters 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.

4. Background

GWRC currently has two committed bank facilities, ANZ National (\$35 million) and Westpac (\$30 million). A committed facility is where the bank is obliged to lend money up to a maximum amount and at a fixed interest margin over an agreed reference rate.

In the past few years GWRC debt has been steadily decreasing. However, due to the proposed expenditure on transport infrastructure, our debt will increase over the next few years, peaking at \$140 million in 2012, a rise of \$85 million over current levels.

Using bank debt for this level of debt while simple, is not the most efficient method of borrowing. An alternative method is using a Commercial Paper program.

5. Commercial Paper (CP)

A CP program involves a borrower (GWRC), an agent (a bank) and a series of lenders (usually financial institutions).

For example, GWRC requires \$10 million for 90 days, and advises its agent on the morning it requires the money. The agent then informs the financial institutions. By a set time the financial institutions offer (if they are interested) to lend the monies (all or part of the \$10 million) at the interest rate they require. The agent collates this and recommends to GWRC which bids to accept, i.e. the lowest.

If there are not sufficient bids, and/or the interest rates offered are unacceptable then GWRC would utilise its committed facility which underwrites the CP program.

The interest rate on CP is substantially less than borrowing from the bank. For example, GWRC borrows money under its ANZ National facility at 15 basis points (100 basis points = 1%) over the bank bill rate. The equivalent CP borrowing currently would be around minus 4 to 0 basis points over the bank bill rate.

For example, if the bank bill rate was 7.0%, then:

	ANZ National	CP
Interest rate %	7.0	7.0
Margin %	0.15	-0.04
Interest Rate paid by GWRC	7.15	6.96

In addition to the saving noted above, the committed line fees (i.e. fees paid to a bank for having them obliged to lend money at a set margin) are 2 to 6 basis points less.

This is due to the shorter period for the committed facility, usually for a 364 day period and the fact that the facility is not expected to be used.

Having a committed facility to support a CP program is a prerequisite for obtaining a Standard & Poor's rating.

The main advantages with a CP program are:

- a) The cost of borrowing is less. For example, borrowing \$10 million (excluding set up costs) using CP would save around \$20,000 to \$25,000 p.a. for GWRC
- b) It widens the group of institutions GWRC can borrow from.

6. The Commercial Paper Market

The CP market is widely used in New Zealand, with monthly issuances in excess of \$1 billion and a total market of around \$4 billion:

A large number of institutions participate in the CP market.

Borrowers include:

Auckland City Council
Christchurch City Holdings Ltd
Dunedin City Treasury Ltd
Hutt City Council
Meridian Energy
Telecom
Ports of Auckland
Fonterra
NZ Post

Lenders include:

AMP
Tower
ACC
State
Public Trust
National Provident

7. Documentation and Set Up Costs

The documentation for a CP program is relatively standard and simple. The legal costs are in the region of \$25,000. It will involve GWRC entering into:

- A Deed Poll, which details the conditions under which the CP is issued
- Registrar and Paying Agent Agreement
- Modification to GWRC existing committed facility with Westpac

8. Size of Programme and Timing

GWRC currently does not have a need for additional debt. However, the financial forecasts over the next few years shows our debt steadily increasing up to \$140 million, an increase of \$85 million over current levels.

It is better to implement a program now when our requirements are small. It gives time for staff to get used to the process, investors to become familiar with GWRC and build up over time the program.

It is proposed that the program have a maximum amount of \$50 million. The level utilised initially will be around \$15 million, steadily rising over the next

one to two years. If the program is successful then this may be increased with Council approval.

9. Preferred Arranger and Agent

GWRC has received proposals from its two main relationship banks, ANZ National and Westpac.

Based on a \$50 million CP program

	ANZ National	Westpac
	\$	\$
Ongoing		
Standby Facility	50,000	20,000
Agent Fees	5,000	3,000
	55,000	23,000
Set Up Costs		
Arrangement Fee	5,000	-
Standby Arrangement Fee	5,000	-
Total	65,000	23,000

On a pure cost basis, Westpac is the preferred bidder. In addition, Westpac is the largest Arranger and Agent for CP in New Zealand. Therefore it is recommended that Westpac are appointed as Arranger and Agent.

10. Credit Rating

The GWRC program will have an A-1+ rating from Standard & Poor's, the highest possible. The higher the rating the cheaper the borrowing.

GWRC will potentially borrow from a variety of borrowers with differing credit ratings (or none at all) GWRC will need to ensure its Treasury Management Policy permit borrowings from unrated/lower rated entities.

11. Communication

No communications are required.

12. Recommendations

That the Committee recommends that Council:

1. *receive the report.*
2. *note the contents of the report.*
3. *approve Westpac being appointed as Arranger and Agent.*
4. *approve entering into a Deed Poll, Paying Agency Agreement, Registrar Agreement in respect of the Council's Commercial Paper Program.*
5. *approve the maximum amount of the Commercial Paper Program to be \$50 million.*
6. *approve any modifications to its Committed Line Facility with Westpac required for the Council's Commercial Paper Program.*
7. *approve entering into other such documents, acts, matters or things as are necessary, appropriate or desirable for the purpose of, or in connection with, or to give effect to, any documents, acts, matters or things in relation to the Council's Commercial Paper Program as detailed in this report.*
8. *authorise the Chief Financial Officer and Council Secretary to sign the necessary documentation to implement the Council's Commercial Paper Program.*

Report prepared by:

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