Report 13.680
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Committee Council
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Treasury Matters

1. Purpose

The purpose of this paper is to seek further delegation to hedge the interest rate risk on funds borrowed for the next set of Matangi trains.

2. The decision-making process and significance

Officers recognise that the matters referenced in this report may have a high degree of importance to affected or interested parties.

The matters requiring decision in this report have been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act). Part 6 sets out the obligations of local authorities in relation to the making of decisions.

2.1 Significance of the decision

Part 6 requires Greater Wellington Regional Council to consider the significance of the decision. The term ‘significance’ has a statutory definition set out in the Act.

Officers have considered the significance of the matter, taking the Council's significance policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

3. Background – Hedging of Interest rate risk

The GWRC Treasury Policy allows the hedging of the interest rate exposure on our forecasted debt up to one year out. The forecasted debt levels for Council until 2015/16 are as follows:

2012/13	$161 million
2013/14	$213 million – Present hedging based on this limit (per policy)
2014/15	$271 million (of which $64m is Matangi 2)
2015/16	$384 million (of which $160m Matangi 2)

The large increase is driven predominately by the $170 million forecast for purchase of the new Matangi Trains.

A paper was put to Council earlier in the year requesting that up to 50% of this exposure be hedged.

Since that time market conditions have changed with some commentators saying the Federal Reserve in the USA may be looking to end the Quantitative Easing programme sooner than later. This will almost certainly see long term interest rates rise in the USA.

New Zealand long term rates are directly correlated with the USA and given this and the above comment we would like the ability to hedge more of this risk as market conditions dictate.

4. Proposal

To this end officers are proposing that Council delegate to the CEO the authority to enter into interest rate hedging transactions to fix the interest rate on up to 95% of the forecasted net debt attributed to the new Matangi trains, with a term not exceeding 15 years from the date the hedge is initiated.

It is proposed that this hedging is done in consultation with, and the support of our advisors Pricewaterhousecoopers (formally Asia Pacific Risk Management Limited).

Officers have completed a detailed cash flow forecast of the proposed payments for the project and are mindful of potential delays that might result.

Officers have factored in the repayments for the loans which will be received via rates and from NZTA and conclude the peak loan requirement will be $160 million for the $170 million project.

As noted in the last paper this hedging is outside policy (i.e. it's too far into the future).

Our Treasury Policy master limit for fixed rate debt allows fixed rate hedging and debt to be in the range 40% to 95%. Thus we will remain with in this limit for this project.

5. Recommendations

That the Council:

1. ***Receives** the report.*

2. ***Notes** the content of the report.*

3. ***Authorises** the Chief Executive to hedge the interest rate risk exposure related to 95% of the debt associated with the new Matangi trains for a period of up to 15 years, and notes that this is outside policy.*

Report prepared by:	Report approved by:
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