STAFF REPORT

TO:	Chair & Members, Corporate Services Committee
FROM:	Murray Staite
DATE:	6 October 2009
SUBJECT:	Debenture Trust Deed - Report prepared for Corporate Services Committee meeting 15 October 2009

Purpose

To consider the use of a debenture trust deed to secure Council's debt.

Background

Council currently uses a deed of charge to obtain funds from four banks namely ASB, BNZ, National/ ANZ and Westpac. This type of arrangement is well accepted as a means of security.

Council's current treasury management policy requires Council to spread its facility risk over one to ten years. Such a spread reduces Council's exposure to re-pricing risk. Banks traditionally provide funding facilities from two to five years with the current economic climate limiting these facilities to three years. This three year limit means that Council is in breach of its treasury management policy and exposed to the risk noted above.

Discussion

Many councils have moved to a new form of security document called a debenture trust deed. This deed alters how security is given for debt and allows Council to borrow either from banks or from the public as a private or public placement. This removes the current reliance on funds from the banking fraternity. This diversification of funding also allows for facility maturities to be extended out beyond five years which would enable compliance with Council's treasury management policy and reduce pricing risk. Pricing risk occurs where a facility is renegotiated and the lending margin is increased. To provide some context, on a lending margin increase, an increase of 1% or 100 basis points on $100 million of debt would require additional rates of $1 million dollars.

The current security sharing deed is time consuming to amend as each time a facility is renewed all four banks are required to agree in writing. Experience has shown that this exercise takes a considerable amount of time and proves to be expensive.

I have recently received advice from Adam Jackson of Simpson Grierson which is attached for your reference. In that advice Mr Jackson lays out the benefits of a debenture trust deed.

To balance the views of Simpson Grierson I also sought advice from Council's Solicitor, Stuart Ritchie from Fletcher Vautier Moore. Mr Ritchie has reviewed the advice from Simpson Grierson and his comments are attached. Summarising the advice from Mr Ritchie indicates that if diversified funding is required then a debenture trust deed could be advantageous. He does however caution that the costs of the trustee fees could be high and is of the view that advice should be sought from Asia Pacific Risk management (APRM),Council's treasury advisors on how interest rates are managed under a debenture trust deed.

Options

Option 1

Remain with the current deed of charge. This option enables Council to borrow to meet its borrowing programme as contained in the 2009-2019 LTCCP but will mean that short term facilities will need to be used which does expose Council to re-pricing risk.

Option 2

Move Council's funding to a debenture trust deed. This option allows for bank facilities to remain but in addition allows Council to take advantage of public or private placements if the rates and terms were advantageous. Pricing risk is able to be significantly negated.

Recommendation

That Council agrees in principle to the establishment of a debenture trust deed subject to receiving additional advice from Asia Pacific Risk Management regarding trustee costs and the management of interest rate risk.

Murray Staite
Corporate Services Manager