

STAFF REPORT

TO: Chair & Members, Corporate Services Committee
FROM: Murray Staite
DATE: 17 November 2009
SUBJECT: Debenture Trust Deed

Purpose

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

Background

At the Corporate Services Committee meeting of 15 October 2009 a report on a proposed debenture trust deed was presented. After discussion the following resolution was passed.

**Moved Crs Edgar/Bryant
FN09/10/17**

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

Discussion

The staff report attached to the decision of 17 October 2009 noted some concerns from Council Solicitors Fletcher Vautier and Moore around trustee costs and the management of interest rate risk should Council establish a debenture trust deed. This report discusses each of the points raised.

Trustee Costs

Information received from Simpson Grierson indicates annual trustee costs in the four to five thousand dollar range. There are also registrar costs of approximately three thousand dollars. These costs are relatively small compared to the costs incurred each time the existing security sharing deed is amended.

Management of Interest rate risk

Information from Asia Pacific Risk Management notes that borrowing costs are managed within the current Liability Management Policy control limits and the policy allows loan stock issuance as an acceptable borrowing mechanism. Both city and district councils regularly issue loan stock under a debenture trust deed and investors are very familiar and indeed ask whether any stock issuance is under the Simpson

Grierson Debenture Trust Deed. This standardisation will assist Council in having its loan stock readily accepted by the wholesale investor market ensuring pricing/terms are favourable. Borrowing costs are managed within the funding and interest rate control limits, and these exposures arising from loan stock issuance are considered in the same way as bank funding is now considered. The ongoing monitoring, managing and reporting of these exposures will be included within the total funding and interest rate hedge portfolio.

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 exposes 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 to the establishment of a debenture trust deed to replace the existing security sharing deed and authorises the Chief Executive Officer and the Corporate Service Manager to sign the necessary documentation on behalf of Council.

Murray Staite
Corporate Services Manager