

Treasury management report

Meeting: Audit, Risk and Finance Committee
Date of meeting: 27 November 2020
Reporting officer: Violeta Kayryakova, Financial Services Manager

Purpose/Ngā whāinga

To provide the Audit, Risk and Finance Committee (the Committee) with detailed treasury management information and to provide an opportunity to discuss strategic directions.

Executive summary/Whakarāpopototanga

Council undertakes treasury management activities in accordance with its Treasury Management Policy and Treasury Operations Schedule. Council is working closely with PwC treasury advisors.

Council management provides the Committee with detailed operational treasury reporting

Attachments A—C.

Tools and techniques that are used to manage debt and funding are:

- Daily cash flow forecasting, undertaken in-house
- A treasury model, managed jointly by Council and PwC to monitor Council's funding and interest rate risk management position at a given point
- PwC treasury advisors provide in-depth advice on a monthly basis.

Council primarily borrows from the Local Government Funding Agency (LGFA) who provides the cheapest debt financing and longest maturity terms for debt financing available. Since 2016 Council has progressively refinanced and repaid debt.

Council borrowed two tranches of \$15 million and \$10 million with maturity date 15 May 2021, this existing funding maturity is now due within the period of 0 to 3 years, breaching Council's funding and liquidity position. Council is working together with PwC to refinance the borrowings ahead of 15 May 2021.

At 31 October 2020 a total of \$44 million was drawn.

Recommendation/Ngā tūtohunga

That the Audit, Risk and Finance Committee:

- a) Notes the treasury management report for October 2020.

Context/Horopaki

Council's current Treasury Management Policy was adopted in February 2018. Council's specialist Treasury advisors are PwC, since 2011.

Discussion/Ngā kōrerorero

Council management conducts treasury operations in conjunction with Council's advisors, PwC.

Tools and techniques that are used to manage debt are:

- Daily cash flow forecasting - projecting timing of cash movements over the course of the year
- A treasury model - managed jointly by Council and PwC to monitor Council's debt management position at a given point. This tool records loans and swaps that have been entered into and monitors the position against policy limits. It reflects on the current positions and projects future positions.

Council's funding and liquidity risk position (note that this position assumes existing funding maturities are repaid as they fall due).

Council's maturity profile showing its funding and liquidity risk position:

	Minimum cover to Maximum cover	Actual %	Compliance
0 to 3 years	15% to 60%	83.0%	No
3 to 5 years	15% to 60%	9.0%	No
5 years plus	10% to 60%	7.0%	No

The liquidity risk position is outside of the policy and once it does not comply with policy for 90 days then Council has to officially accept that there will be a breach. This will continue to be breached in the future with a large amount of debt (\$25 million) coming due at 15 May 2021, **Attachment A**.

Current position (31 October 2020): Indicates whether or not Council is within Treasury Policy parameters and its current funding and liquidity risk position, **Attachment C**:

- Actual liquidity ratio is 123%.

Council's borrowing should be within the following fixed/floating interest rate risk control limit.

Period	Minimum to Maximum Fixed	Actual %	Compliance
Less than 12 months	50% to 95%	70% Fixed	Yes
12-36 months	40% to 90%	55% Fixed	Yes
37 to 60 months	30% to 80%	38% Fixed	Yes
Greater than 60 months	Nil to 50%	30% Fixed	Yes

There is no breach of the policy parameters.

Projected positions: Indicates whether or not Council is within Treasury Policy parameters and its interest rate risk position, **Attachment B**:

- 63% of the portfolio is fixed (based on a debt forecast level of \$52.21 million).

Debt Interest rate policy parameters: Attachment C.

Debt ratios and limits:

Ratio	KDC Policy	LGFA Covenants	KDC as at 31 October 2020	Compliance
Net debt as a percentage of total revenue	<170%	<175%	81%	Yes
Net interest as a percentage of total revenue	<15%	<20%	3%	Yes
Net interest as a percentage of annual rates income	<20%	<25%	5%	Yes
Liquidity	>110%	>110%	123%	Yes

Council is well within its policy limits as at 31 October 2020.

Refinancing of the \$25 million loan maturing May 2021: As Council will be aware PwC were of the opinion that Council should borrow and place on term deposit smaller tranches ahead of the May maturity. That window of opportunity to borrow and put those funds on term deposit at a rate at least as good as the lending rate has now passed. Management and PwC will reassess market conditions early in the new year and then put a recommendation to the Council in March on the least risk and low-cost course of action for refinancing the \$25 million falling due. While PwC are

confident Council should be able to obtain all funding in May 2021 there is still a risk the LGFA may not be able to fully the \$25 million in one go. Consideration will be given to recommending taking some funding ahead of May 2021 but this will be based on market conditions and refinancing risks at that time.

Significance and engagement/Hirahira me ngā whakapāpā

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda on the website.

Next steps/E whaiake nei

This report is for information only and does not trigger legal or delegation implications.

Attachments/Ngā tapiritanga

A	Funding and liquidity risk position at 31 October 2020
B	Interest rate risk position at 31 October 2020
C	Debt Interest rate policy parameters at 31 October 2020