Debt Refinancing Maturing May 2021 Report

Meeting: Kaipara District Council
Date of meeting: 24 February 2021
Reporting officer: Graeme Coleman, Finance & Risk Manager

Purpose/Ngā whāinga

Council has $25 million of loans maturing in May 2021. While the Chief Executive has full delegated authority under the Treasury Policy to undertake the day to day management for the renewal of this debt, management believe it is appropriate to inform Council of the proposed renewal programme due to the significant amount to be refinanced (57% of Council's total external debt).

This report is for information only but sets out the refinancing strategy agreed with Council's treasury advisors PwC, the reasons for course set and the risks the strategy seeks to mitigate.

Executive summary/Whakarāpopototanga

Council undertakes treasury management activities in accordance with its Treasury Management Policy and works closely with PwC, Councils treasury advisors. Since 2016 Council has progressively refinanced and repaid debt but in 2016 Council borrowed two tranches of $15 million and $10 million with maturity date 15 May 2021. With such a large amount maturing at once has meant that Council has been out of policy for its Treasury Policy maturity profile for the last two years. That debt is now nearing maturity so to minimise any risk of not being able to fully refinance in one tender, the risk will be spread across three LGFA tender rounds from March to May 2021. As part of the refinancing programme the maturity dates of the new loans will be set to bring Council back in line with its Treasury Policy maturity profile guidelines.

Recommendation/Ngā tūtohunga

That the Kaipara District Council:

a) Notes the Debt Refinancing Maturing May 2021 Report

Context/Horopaki

Council's current Treasury Policy was adopted in September 2020. Council's specialist Treasury advisors are PwC, since 2011.

Discussion/Ngā kōrerorero

Of Council's total Public Debt of $44m Council has $25m falling due in May 2021. This is an unusually large amount to have maturing at once but is a hangover from past refinancing and has meant that Council has been in breach of debt maturity profile ratios per Council's Treasury Policy. The refinancing of the $25 million will be done in smaller tranches to spread the maturity risk and bring the overall profile back within the policy guidelines. The following table summarises the current and proposed debt maturity position after the refinancing and in relation the Treasury Policy.

	Policy		Current Profile			New Profile		
Period	Minimum Cover	Maximum Cover	$	%	$	$	%	$
0 to 3 years	15%	60%	35,000,000	79.5%	Out of policy	10,000,000	22.7%	In Policy
3 to 7 years	25%	85%	9,000,000	20.5%	Out of policy	28,000,000	63.6%	In Policy
7 years plus	0%	60%	-	0.0%	In policy	6,000,000	13.6%	In policy
			44,000,000	100%		44,000,000	100%	

PwC have recommended:

Council has $25 million of debt maturing in May 2021, which provides Council with the opportunity to pre-fund these debt maturities. Accordingly, we recommend that these maturities are pre-funded over three LGFA tenders (10 March, 15 April, and 12 May 2021) to avoid concentration risk.

We recommend that Council undertake to forward manage refinancing risks associated with existing debt maturities in order to ensure that substantial funding market decisions are not made at singular points in time (i.e. May 2021). The spreading of decisions as to timing to enter new borrowing tranches allows Council to prudently manage the required refinancing and avoid potentially adverse market conditions (i.e. refinance at a time and market condition that is preferred by Council). All new borrowing activity is recommended to be conducted on a floating interest rate basis via Floating Rate Notes (FRNs). This will allow Council to participate in expected declines in floating interest rates over the near term. Council's existing swap hedging portfolio also protects against adverse interest rate movements. As the interest rate environment changes, the floating rate positions of this borrowing activity can be swapped to a fixed rate basis via interest rate swaps (if deemed appropriate at that time).

10 March 2021 tender:

- New $5 million floating rate note (FRN) through the LGFA with a maturity date of 15 April 2027 at an indicative margin of 69bps per annum.

15 April 2021 tender:

- New $5 million floating rate note (FRN) through the LGFA with a maturity date of 15 April 2026 at an indicative margin of 63bps per annum.

12 May 2021 tender:

- New $5 million floating rate note (FRN) through the LGFA with a maturity date of 15 April 2024 at an indicative margin of 57bps per annum.
- New $4 million floating rate note (FRN) through the LGFA with a maturity date of 15 April 2025 at an indicative margin of 62bps per annum.
- New $3 million floating rate note (FRN) through the LGFA with a maturity date of 15 April 2028 at an indicative margin of 72bps per annum.
- New $3 million floating rate note (FRN) through the LGFA with a maturity date of 15 April 2029 at an indicative margin of 75bps per annum

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.

Graeme Coleman, 26 January 2021