

Treasury management report

Meeting: Audit, Risk and Finance Committee
Date of meeting: 11 March 2021
Reporting officer: Graeme Coleman, Financial & Risk 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—B.

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 28 February 2021 a total of \$44 million was drawn.

Recommendation/Ngā tūtohunga

That the Audit, Risk and Finance Committee:

- a) Notes the treasury management report for February 2021.

Context/Horopaki

Council's current Treasury Management Policy was adopted in September 2020. 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:

- Actual liquidity ratio is 123%.
- Committed loans are \$53.3m.
- Current Net Debt is \$43.3m.

	Minimum cover to Maximum cover	Actual %	Compliance
0 to 3 years	15% to 60%	83%	No
3 to 7 years	25% to 85%	17%	No
7 years plus	0% to 60%	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 (28 February 2021): Indicates whether or not Council is within Treasury Policy parameters and its current funding and liquidity risk position, **Attachment B**:

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

Period	Minimum to Maximum Fixed	Actual %	Compliance
0 – 36 months	40% to 90%	80% Fixed	Yes
37 - 60 months	35% to 75%	51% Fixed	Yes
60 - 84 months	0% to 60%	19% Fixed	Yes
Greater than 84 months	0% to 50%	10% Fixed	Yes

There is no breach of the policy parameters.

Debt Interest rate policy parameters:

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 28 February 2021.

Refinancing of the \$25 million loan maturing May 2021: To ensure that Council is able to meet its debt repayment obligations and have sufficient funding available on 15 May 2021 Council will participate in the LGFA borrowing rounds in March and April for \$5 million each. This will leave \$15 million to be borrowed in May. Obtaining the funding early will cost approximately \$12,000 in additional interest but and is the trade-off for the risk reduction of not being able to renew the whole \$25 million in May.

Taking some funding early will also assist in realigning the maturity profile. The surplus funds will be placed into Council's on call account until required. Arranging finance within LTP debt levels is within staff delegation.

The following table summarises the current and proposed debt maturity position after the refinancing and in relation the Treasury Policy.

Period	Policy		Current Profile			New Profile		
	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%	

Surplus Funds: Where Council has received funds in advance of operational spend or capital projects these funds are transferred to a BNZ on call account. The rate of return on that account is currently 0.05%pa. Before any funds are put on term deposit further work needs to be undertaken to ensure that there is a high level of confidence of the cashflow requirements for the projects those funds are tagged for.

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 28 February 2021
B	Debt interest rate policy parameters at 28 February 2021