

Treasury management report

Meeting: Audit, Risk and Finance Committee
Date of meeting: 10 June 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 also works 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 monthly.

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.

In May 2021 Council successfully completed the refinancing of the \$25 million that was due for repayment on 15 May 2021. The refinancing was done over multiple LGFA bond issues to reset Council's overall debt maturity profile and to get it back with the Treasury Policy guidelines. That was successfully achieved at an overall interest rate of 0.944%

As at 30 April 2021 Council's total drawn down debt was \$54 million, of which \$10 million was on short term deposit for the refinancing of \$25 million due for repayment in May 2021.

Recommendation/Ngā tūtohunga

That the Audit, Risk and Finance Committee:

- a) Notes the treasury management report for April 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 134%.
- Committed loans are \$63m.
- Current Net Debt is \$53m.

	Minimum cover to Maximum cover	Actual %	Compliance
0 to 3 years	15% to 60%	56%	Yes
3 to 7 years	25% to 85%	26%	Yes
7 years plus	0% to 60%	18%	Yes

The liquidity risk position is within the Council treasury policy. **Attachment A.**

Current position (30 April 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%	62% Fixed	Yes
37 - 60 months	35% to 75%	34% Fixed	Yes
60 - 84 months	0% to 60%	18% Fixed	Yes
Greater than 84 months	0% to 50%	4% 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 30 April 2021	Compliance
Net debt as a percentage of total revenue	<170%	<175%	108%	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%	134%	Yes

Council is well within its policy limits as at 30 April 2021.

Refinancing of the \$25 million loan maturing May 2021: During the period from March to May Council has participated in the Local Government Funding Authority's bond issues in accordance with the programme shared with Council at its February 2021 meeting. The refinancing programme was completed in May 2021 and the overall results are set out in the table below. One of the main objectives was split the across multiple maturity dates to make future refinancing more manageable. The results show that was achieved at very favourable interest rates.

Drawdown		Term (in			Interest		
Date	Maturity	Yrs)	Base Rate	Margin	Rate	Amount	
15-Mar-21	15-Apr-27	6.1	0.2600%	0.7550%	1.0150%	\$5,000,000	
15-Apr-21	15-Apr-26	5.0	0.3296%	0.6150%	0.9446%	\$5,000,000	
17-May-21	15-Apr-24	2.9	0.3078%	0.5080%	0.8158%	\$5,000,000	
17-May-21	15-Apr-25	3.9	0.3078%	0.5680%	0.8758%	\$4,000,000	
17-May-21	15-Apr-28	6.9	0.3487%	0.7020%	1.0507%	\$3,000,000	
17-May-21	20-Apr-29	7.9	0.3138%	0.7100%	1.0238%	\$3,000,000	
Overall Average Interest Rate					0.9441%	<u>\$25,000,000</u>	

Back in policy:

As a result of the refinancing Council is now back in policy with its Treasury Policy debt maturity profile. The following table summarises the debt maturity profile before the refinancing was completed and the new debt maturity profile in relation to the Treasury Policy.

Period	Policy		Old Profile			New Profile		
	Minimum Cover	Maximum Cover	\$	%	\$	\$	%	\$
0 to 3 years	15%	60%	37,000,000	84.1%	Out of policy	17,000,000	38.6%	In Policy
3 to 7 years	25%	85%	7,000,000	15.9%	Out of policy	24,000,000	54.5%	In Policy
7 years plus	0%	60%	-	0.0%	In policy	3,000,000	6.8%	In policy
			44,000,000	100%		44,000,000	100%	

Hedging Instruments: The following table sets out the current interest rate swaps that Council has in place. Two of the higher rate swaps mature in the next financial year, the first being in July 2021.

Counterparty	Notional	Start Date	Maturity Date	Interest Rate
ANZ	5,000,000	15 April 2012	15 July 2021	4.47%
BNZ	5,000,000	15 April 2012	17 January 2022	4.49%
BNZ	5,000,000	15 October 2015	15 October 2023	4.91%
BNZ	1,000,000	15 July 2017	15 April 2024	4.07%
BNZ	2,000,000	15 October 2014	15 April 2024	4.75%
ANZ	5,000,000	15 July 2020	15 July 2024	4.64%
BNZ	5,000,000	15 October 2017	15 July 2024	4.85%
BNZ	5,000,000	20 February 2015	20 November 2024	4.69%
ANZ	5,000,000	16 April 2015	15 January 2025	4.29%
BNZ	5,000,000	20 November 2024	20 November 2026	3.97%
BNZ	2,000,000	15 April 2024	18 April 2028	3.95%
BNZ	5,000,000	15 July 2024	16 July 2029	4.02%

Surplus Funds: Where Council has funds on hand in advance of operational spend or capital projects these funds are transferred to a BNZ on call account or place on term deposit. The rate of return on call account is currently 0.05% pa and the short term deposit rates range from 0.15% to 0.35% depending on the term.

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 30 April 2021
B	Interest rate risk position at 30 April 2021