

**Title:** Treasury Report to 31 August 2018  
**Section:** Finance & Affordability  
**Prepared by:** Prabath Jayawardana (Financial Services Team Leader)  
**Meeting Date:** 11 October 2018

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Legal     Financial     Significance = low

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## Report to FINANCE & AUDIT Committee for information

### SUMMARY

This report covers Council's interest rate exposure, debt and cash position as at 31 August 2018 compared to forecasts and policy limits.

Council was in compliance with its Treasury Policy as at 31 August 2018.

At 31 August, Council's net external debt borrowings were \$47.9m (\$53.7m in July) which is higher than the budget of \$45.5m due to timing of cash inflows and outflows.

Interest rate cover is \$29.5m for both August and for the 12 month forecast. This is in line with Council's Treasury Strategy to keep within our minimum fixed/floating interest rate cover. At the end of August our fixed rate cover was 59% of 12 month forecast debt (Council policy is 55-90%). Council has 17% of fixed interest rates maturing in 1-3 years, 29% in 3-5 years and 54% in 5 years plus.

Currently Council has 52% of its debt facilities maturing in 0-3 years (Council policy is 15-60%), 33% in 3-5 years (Council policy is 15-60%), and 15% in 5 years plus (Council policy is 10-40%).

The decisions or matters in this report are considered to be of **low** significance in accordance with Council's Significance and Engagement Policy.

### RECOMMENDATIONS

**That the Finance & Audit Committee:**

- 1. Notes the contents of this report.**

Authorised by:



Pauline Foreman  
**Chief Financial Officer**

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**Keywords:** Treasury, borrowings, interest rate, investments, debt, liquidity

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## TREASURY REPORT 31 AUGUST 2018

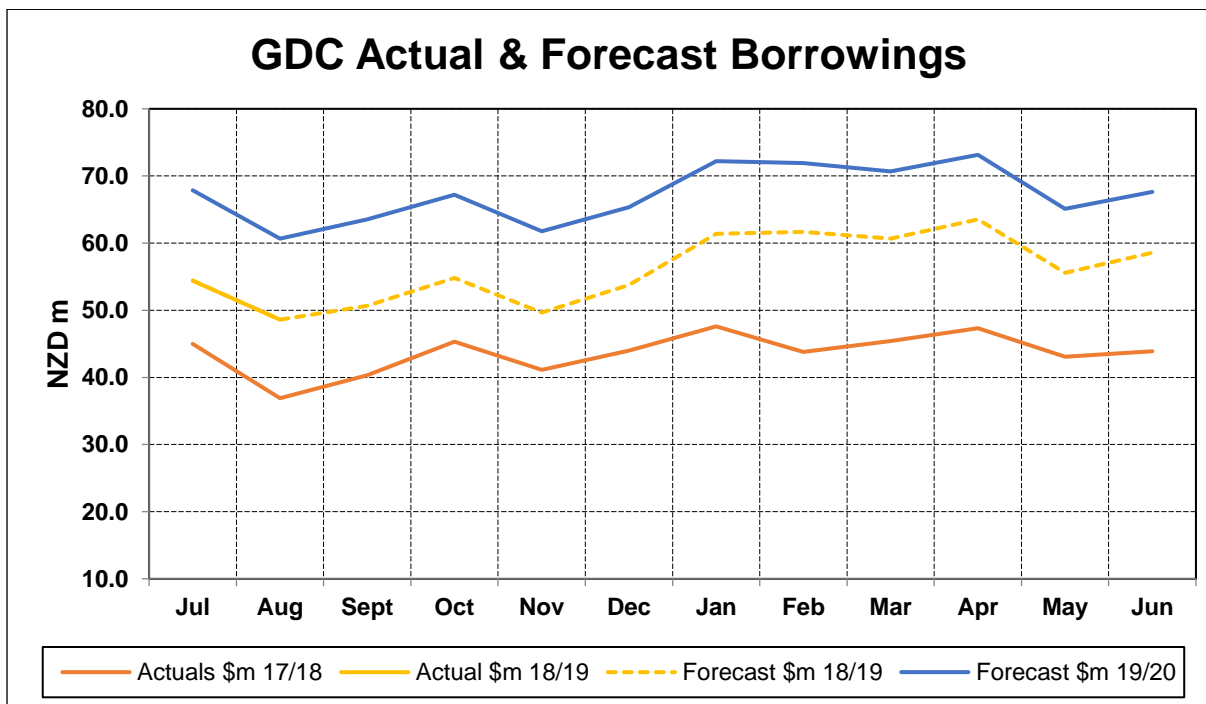
### Detailed Reports

Cash Management (General Funds)				
Deposit/Loan	Rate	S&P Rating	Maturity	Amount
Westpac Bank Balance	1.25%	AA-	Current	\$ 387,826
Money Market Deposit	1.75%	AA-	Current	\$1,280,000

### Debt Position

External (Public) Debt	31 Aug 2018 \$000s	30 Jun 2018 \$000s
Opening Balance	54,430	43,100
Plus: Long Term Loans Raised	-	-
Less: Long Term Loans Repaid	-	-
<b>Plus/(less): Movement in Short Term Loans</b>	(5,830)	780
Total External Debt	48,600	43,880

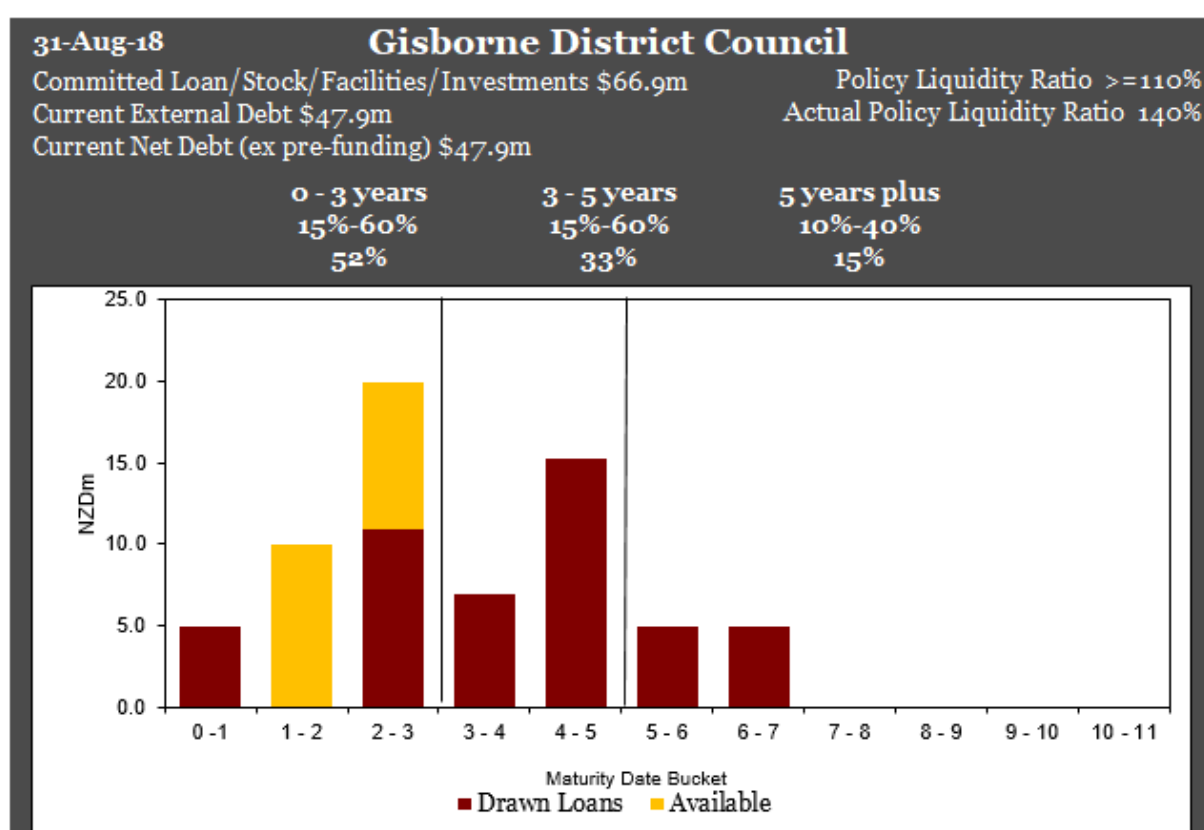
Aug 2018	Jul 2018	2018/19 YE Annual Plan	2017/18 YE Actual
\$48.6m	\$54.4m	\$53.5m	\$43.9m



1. As at 31 August 2018, external debt stood at \$48.6m (\$54.4m in July). Borrower notes of \$0.7m offset this debt balance which result in net debt level of \$47.9m.

#### Loan Funding Facilities as at 31 August 2018

Bank		This Month \$m	Limit \$m	Unutilised Facility \$m
ANZ (Bank Facility)		-	9.0	9.0
WPB (Bank Facility)		-	10.0	10.0
Commercial Papers		6.0	6.0	0.0
LGFA (Debenture Stock)		42.6	42.6	0.0
LGFA Borrower Notes		(0.7)	(0.7)	0.0
		47.9	66.9	19.0



2. This graph shows Council's current debt maturity profile:

Maturity Profile	Borrowing \$m	Borrowing	Facilities \$m	Facilities	Policy	Compliance
0 - 3 years	15.8	33%	34.9	52%	15-60%	✓
3 - 5 years	22.2	46%	22.2	33%	15-60%	✓
5+ years	9.9	21%	9.8	15%	10-40%	✓
Total	47.9	100%	66.9	100%		

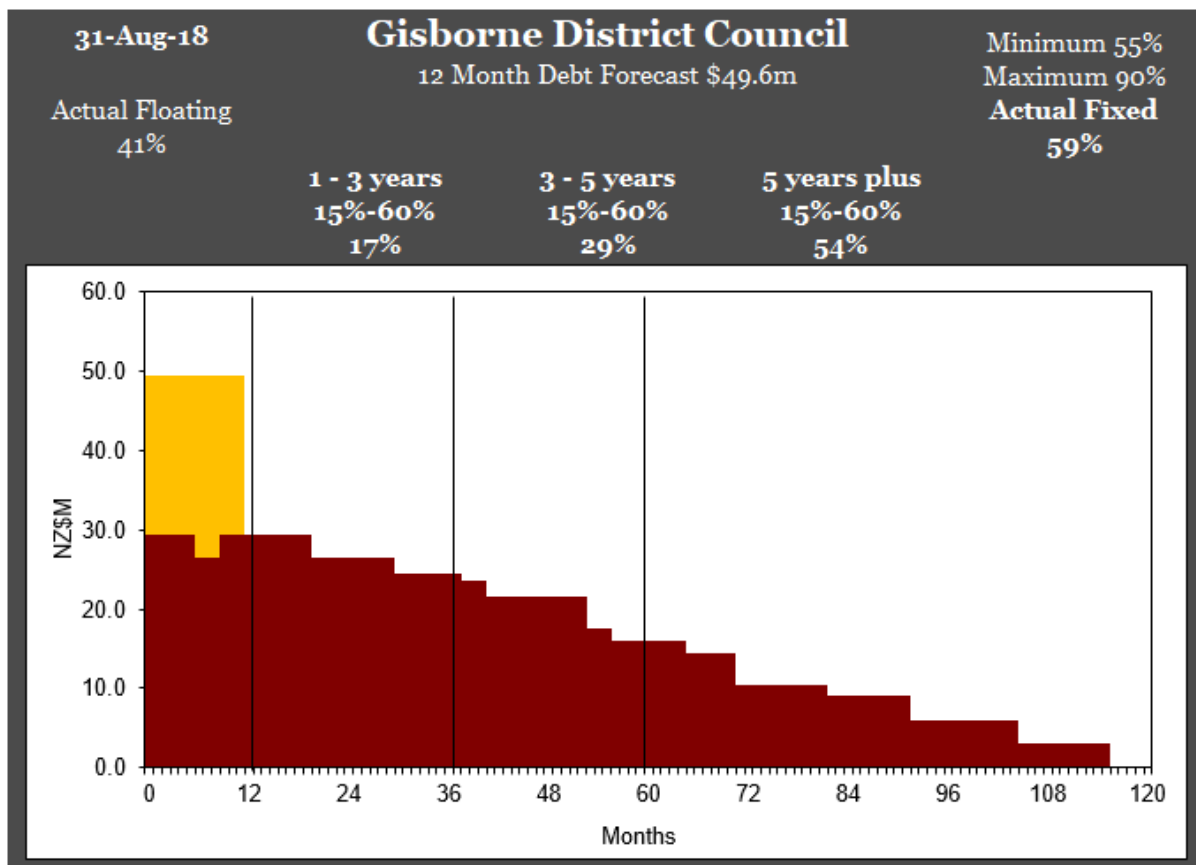
### Interest Rate Management – Fixed: Floating Debt Mix

Current:

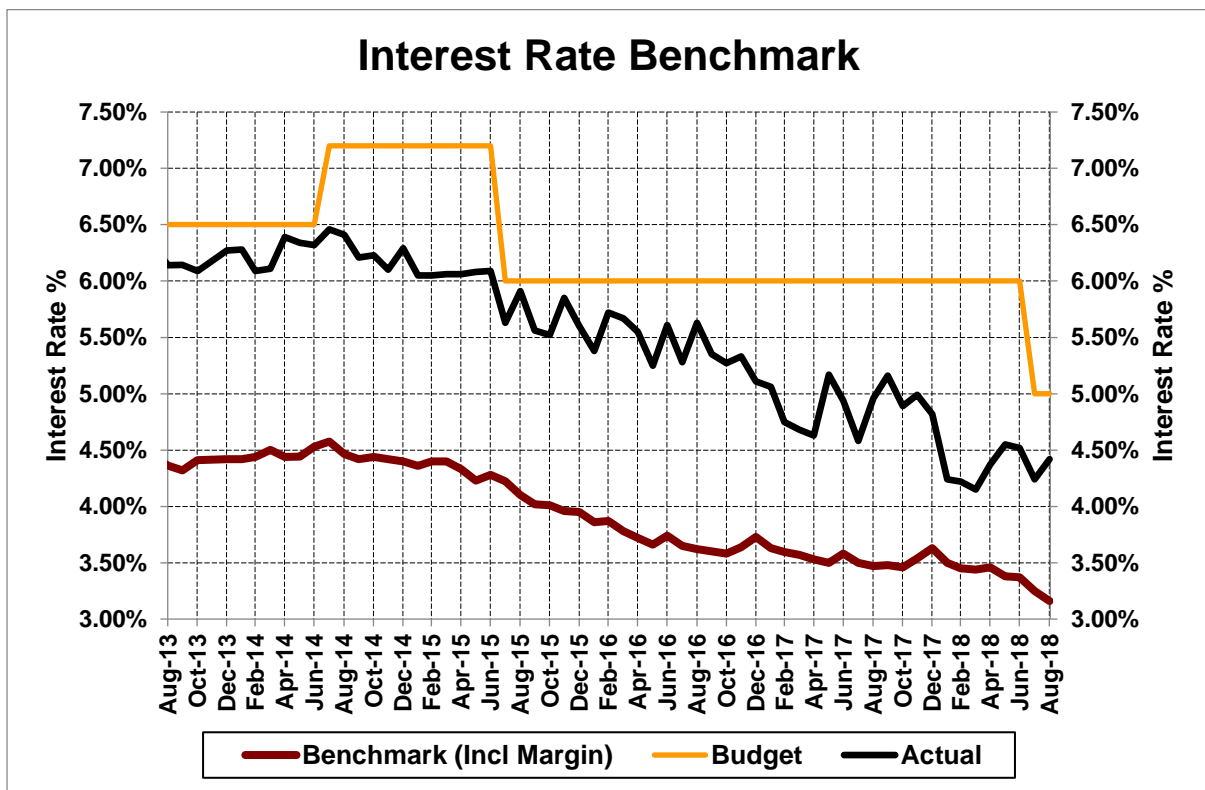
Aug 18	Last Month Jul 18	Fixed: Floating Policy Limit	Compliance
62%	55%	55-90%	Yes

12 Month Forecast:

From Sep 18	Last Month From Aug 18	Fixed: Floating Policy Limit	Compliance
59%	61%	55-90%	Yes



- Council currently has \$32.5m of interest rate cover in place including a forward start swap of \$3m. Council will continue to look for opportunities to blend and extend existing swaps or enter into forward start swaps to further reduce our cost of debt.



- The graph shows the actual weighted average cost of funds for August is 4.42%, which is higher than the 3.16% benchmark rate, but below the budget rate of 5%. We used an interest rate of 5% throughout the 2018–2028 Long Term Plan (LTP). Discussion with PWC has begun over positioning swaps for peak debt amounts in 2023 which is year 5 of the LTP where we have the greatest amount of interest rate risk.
- The Budget line (yellow line) is the interest rate that was used in the 2018/19 budget based on a set of assumptions around debt levels, capital spend, income and expected OCR changes.
- The Benchmark line (red line) refers to a basket of interest rate swaps, which Council uses to benchmark against assuming that no interest management was in place.
- The Actual line (black line) is the weighted average cost of Council's debt including bank margins, interest rate swaps and line fees. The actual line will fluctuate based on the debt levels and short term cash requirements. At the end of August, Council had used all of its available cover with 41% being exposed to floating market interest rates.

**Interest Costs**

	YTD Actual Aug 2018 \$000	YE Budget Jun 2019 \$000	YTD Actual Jun 2018 \$000
Interest Cost	215	2,971	1,968
Fair Value of Swaps	(2,782)		(2,595)

8. The fair value of swaps is the bank's current market pricing as at 31 August 2018 of the difference between the 90 day swap rates and the fixed rate of the swap for the duration of the swap. The bracketed amount means this is the estimated paper value liability for New Zealand accounting rules. No actual cash is paid by Council for the change in fair value of its swaps.

#### Counterparty Credit Risk

9. Policy Credit Limit (NZ\$) per New Zealand Registered bank for interest rate risk management instruments only. All counterparty banks are Standard & Poor's AA-rated.

Bank	Notional \$m	Credit Exposure \$m	Compliance
ANZ	34.5	4.62	Within Policy
WBC	6.0	0.29	Within Policy

#### Borrowing Limit Compliance as at 31 August 2018

Ratio/Covenant	Policy Compliance	Current Position
Net debt as a % of income = <100%	✓	55%
Net interest as a % of income <10%	✓	3%
Total debt per capita <\$2,500	✓	\$1,113
Net external debt per rateable unit <\$4,700	✓	\$2,175
Net interest as a % of rates income <15%	✓	4%
Liquidity over existing external debt >=110%	✓	140%