

6.3 TREASURY MANAGEMENT MONITORING REPORT

File Number: COU1-1408

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Attachments: Nil

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RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

PURPOSE

The purpose of this report is to provide an update on Treasury Management and Policy Compliance.

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as not significant.

BACKGROUND

Council is required under the Local Government Act 2002 to have 3 policies:

- Treasury Management Policy
- Liability Management Policy, and
- Investment Policy

The rationale for the policies is to ensure prudent use of public funds, manage investment returns, borrowing costs, and to minimise the risk of loss of public funds.

In practice Central Hawkes Bay District Council has combined them into a single policy covering all 3 topics.

Council consulted on a revision to its treasury policy as part the 2021-31 Long Term Plan. After considering submissions, Council has recently adopted the revised policy on the 13th May2021.

DISCUSSION

Investments

At the 30th April 2021, Council was holding \$4.8m in funds on call (up \$3.8m from 30 June 2020). Much of this is due to a large NZTA receipt and a GST refund being received just prior to month end.

In addition Council was holding \$12.0m in term deposits (\$11m as at 30 June 2020) spread across 3 maturities and 2 different banks, \$320k in capital notes (\$320k as at 30 June 2020), and \$955k (\$955k as at 30 June 2020) in bank bonds.

These investments are listed below:

Cash and Investment Position

	Maturity Date	Int Rate (Face)	Int Rate (Actual)	Amount 30/06/2020	Amount Now	Movement
<u>ANZ Cheque and Call Accounts</u>				2,527,145	4,750,161	2,223,017
<u>Term Deposits with maturity < 90 days</u>						
BNZ Term Deposit (AA-)	17/07/2020	2.92%	2.92%	4,000,000	-	(4,000,000)
ANZ Term Deposit (AA-)	18/09/2020	2.45%	2.45%	2,000,000	-	(2,000,000)
BNZ Term Deposit (AA-)	19/10/2020	2.55%	2.55%	2,000,000	-	(2,000,000)
BNZ Term Deposit (AA-)	19/11/2020	2.60%	2.60%	1,000,000	-	(1,000,000)
BNZ Term Deposit (AA-)	19/12/2020	2.13%	2.13%	2,000,000	-	(2,000,000)
BNZ Term Deposit (AA-)	17/06/2021	0.45%	0.45%	-	3,000,000	3,000,000
Westpac Term Deposit (AA-)	31/05/2021	1.52%	1.52%	-	4,500,000	4,500,000
BNZ Term Deposit (AA-)	31/05/2021	1.41%	1.41%	-	1,500,000	1,500,000
ANZ Term Deposit (AA-)	19/04/2021	0.22%	0.22%	-	-	0
				11,000,000	9,000,000	(2,000,000)
<u>Bonds, Capital Notes, & Term Deposits with maturity > 90 days</u>						
LGFA Capital Notes	25/08/2025	3.54%	3.54%	32,000	32,000	0
LGFA Capital Notes	15/04/2024	1.79%	1.79%	160,000	160,000	0
LGFA Capital Notes	15/04/2023	1.56%	1.56%	64,000	64,000	0
LGFA Capital Notes	15/04/2027	1.63%	1.63%	64,000	64,000	0
ANZ Bond (AA-)	1/09/2023	3.71%	3.71%	355,000	355,000	0
ASB Bond (AA-)	7/09/2023	3.33%	3.33%	600,000	600,000	0
BNZ Term Deposit (AA-)	19/07/2021	0.55%	0.55%	-	3,000,000	3,000,000
				1,275,000	4,275,000	3,000,000
<u>Total Cash and Investments Held</u>				14,802,145	18,025,161	3,223,017

During the last six months investment returns have fallen further, with the most recent term deposits only achieving returns of 0.5% compared to 2.5% nine months earlier.

Council's maximum exposure with any one bank is only \$7.5m which is compliant with Council's policy (\$10m limit) and the quality of the investments (credit worthiness) is also compliant with policy.


Borrowing

At the 30th April 2021 Council had \$20m of external debt drawn (\$20m 30 June 2020).


Council become a guarantor for LGFA (Local Government Funding Authority) on the 10th February 2021 which will then allow Council to borrow further funds (LGFA limit 175% of its operating revenue, internal limit 150%, currently Council is at 35% to total income, or 59% if you exclude one-off PGF and 3 Waters funding).

On the following page are a list of Council's debt ratios as per the existing policy and the proposed policy:

Treasury Compliance with PolicyLiquidity (Liquid Assets + Debt / Debt)**Existing**

	Limit	Policy Limit	Actual
	>115%	>115%	131%


Finance Costs / Total Revenue**Existing**

	Limit	Policy Limit	Actual
	<20%	<20%	0.8%

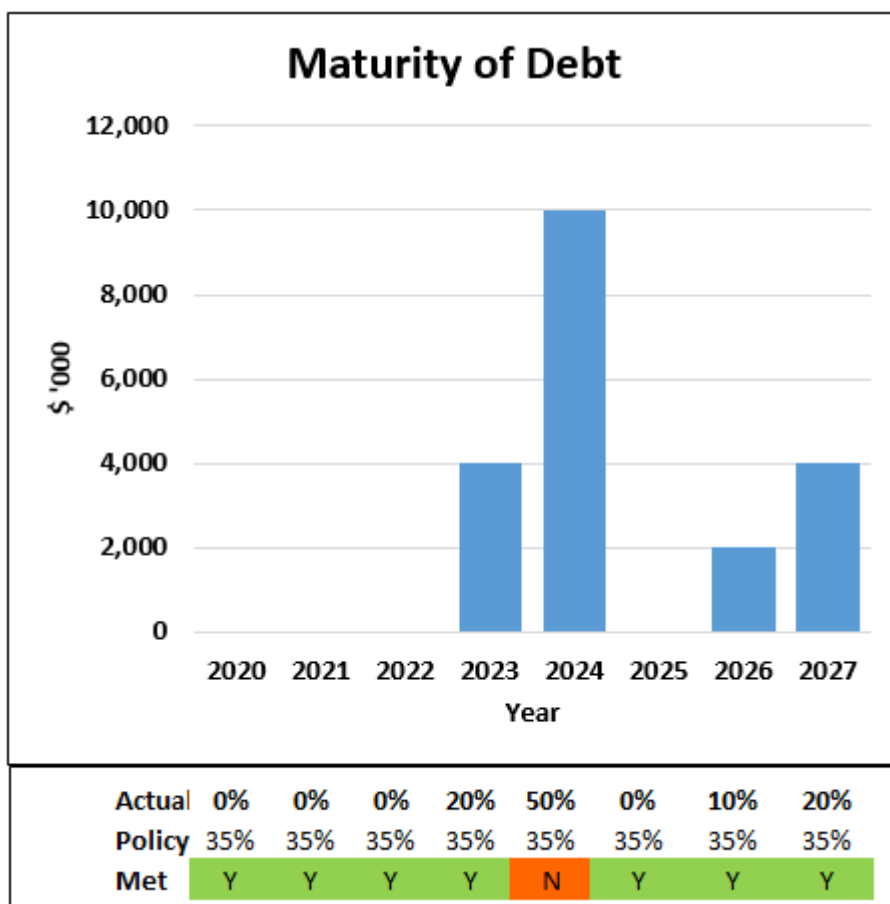
Finance Costs / Total Rates Revenue**Existing**

	Limit	Policy Limit	Actual
	<25%	<25%	1.7%

Debt to Operating Revenue**Existing**

	Limit	Policy Limit	Actual
	<150%	<150%	34.8%

As at 30th April 2021, Council is holding sufficient funds to meet its financial obligations (liquidity ratio), it is within its debt ceiling (debt per head of population and debt to operating revenue ratios), and it is within its financial costs ratios.



Council’s policy states that “no more than the greater of \$10m, or 35% of Council’s total debt can mature in any 12 month rolling period”. As at 30th April 2021 the only 12 month period that exceeds 35% of all debt maturing in a 12 month period is 2024 where \$10m matures, which is still inside the proposed policy.

The table below shows the details of Council’s current debt portfolio:

Debt Position	Draw Date	Maturity Date	Interest Rate	Amount		Movement
				30/06/2020	Amount Now	
LGFA - Fixed Rate	28/08/2017	25/08/2025	3.85%	2,000,000	2,000,000	-
LGFA - Fixed Rate	22/07/2019	15/04/2024	2.19%	10,000,000	10,000,000	-
LGFA - Fixed Rate	16/12/2019	15/04/2023	1.96%	4,000,000	4,000,000	-
LGFA - Fixed Rate	16/03/2020	15/04/2027	2.03%	4,000,000	4,000,000	-
ANZ Seasonal Facility (\$1,500,000)				-	-	-
Total Debt			2.28%	20,000,000	20,000,000	-

Expected Funding / Refinancing Requirements

Over the next six months, Council has two rates revenue due dates occurring (May and August), the remaining 3 Waters reform monies due (further \$5.5m), and \$12m of term deposits maturing.

On the flip side the first LGFA debt maturity doesn’t occur until April 2023.

Therefore it is not expected that Council will to need seek any further LGFA debt funding during this period.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

NEXT STEPS

Officers will continue to provide quarterly updates on Treasury Management.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.