Westland District Council
Treasury management

Presentation by PwC Treasury Advisory
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Introduction

Introduction

Thank you for the opportunity to present

- Independent and impartial treasury adviser to Council.
- We've been providing independent and tailored treasury advice to the sector since 1997.
- We are presently retained by 35 council clients and advise on over $15 billion of local government debt.
- We have been advising council since 2013.

Structure of presentation

This presentation sets out:

- Governance and treasury management policy.
- Financial market update.
- Council’s funding and interest rate management strategy.
- LGFA and local government sector trends.

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Treasury management at Westland District Council

PwC treasury advisory services

The purpose of PwC's role is to provide independent treasury advice to Council and enhance Council's ongoing decision-making in its treasury management activities.

- Treasury Policy design and review
- Stress-testing of interest rate policies
- Sector benchmarking
- Education and training

- Regular management meetings and attendance at Finance and Audit Committees
- On call, fully committed and available
- Provision of treasury worksheet
- PwC View

- Regular market reports
- Local government debt report
- Market insights bank debt pricing

- Proactive design and monitoring of strategies
- Derivative pricing models, access to live market data
- Cost of funding analysis
- Risk position and treasury reporting

Statutory framework

Context is that Council is a prudent financial manager

- Paragraph 14 – Principles relating to local authorities

  "*A local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region, including by planning effectively for the future management of its assets*"

- Paragraph 101 – Financial management

  "A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community"

- Exercise care, diligence and skill in treasury decisions

Treasury objectives

Council is a prudent financial manager and is governed by the Local Government Act and Local Government Funding Agency (LGFA) borrowing limits.

Council must ensure there is access to liquidity as required and can raise long term new and refinanced debt to fund intergenerational assets at acceptable pricing and terms.

Council has a responsibility to prudently invest excess cash or cash reserves in short term deposits.

Minimise the impact on plans from adverse borrowing cost movements through proactive interest rate management.

Liability Management and Investment Policies

Proposed Liability Management and Investment Policy changes

Funding risk control limits - adjustment to the framework to allow for enhanced flexibility and less restrictive time bands. Suggested prefunding time period extend to 18 months.

Interest rate risk management control limits. Revised policy approach provides more discretion and flexibility. Focuses on long term debt forecasts and limits forecast uncertainty.

Enhanced policy framework for lending to Council Controlled Organisations and Council Controlled Trading Organisations. This is in response to LGFA lending policy changes.

Approved financial instruments - committed stand-by facilities available from the LGFA.

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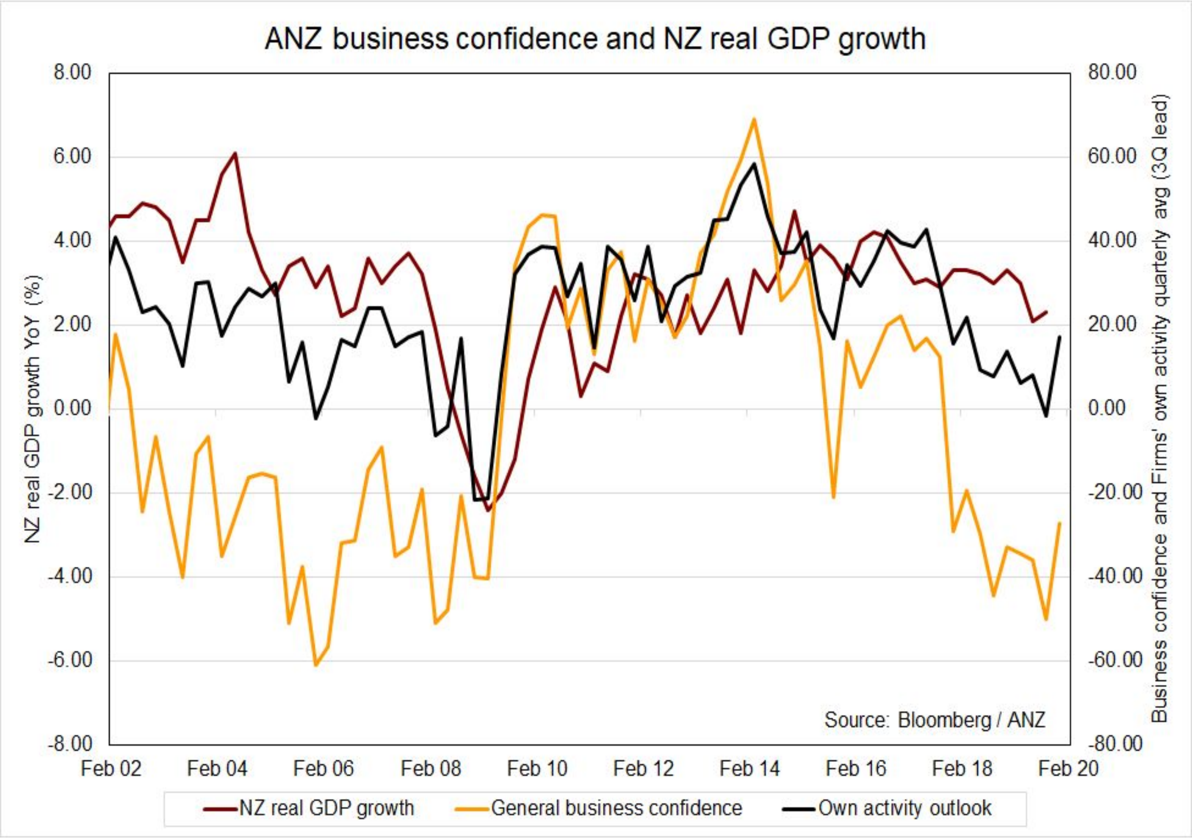
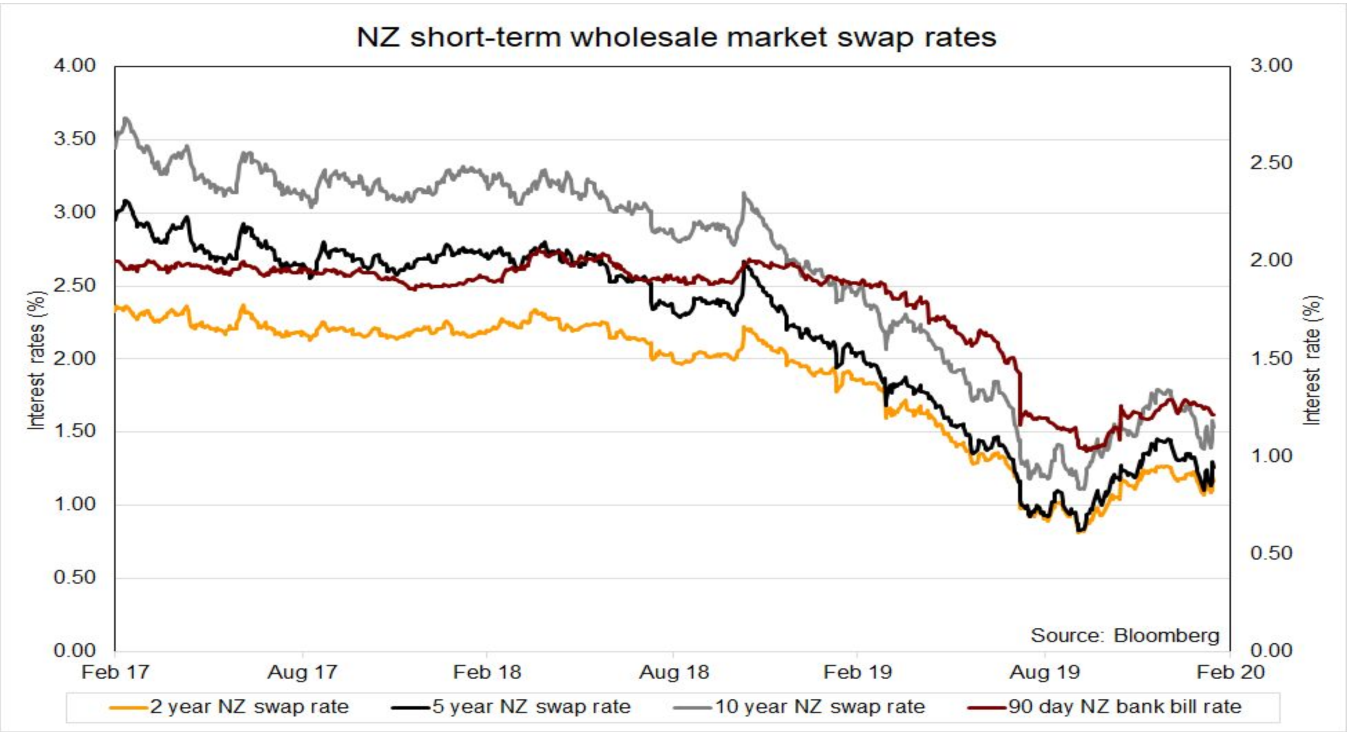
Financial market update

Business Confidence



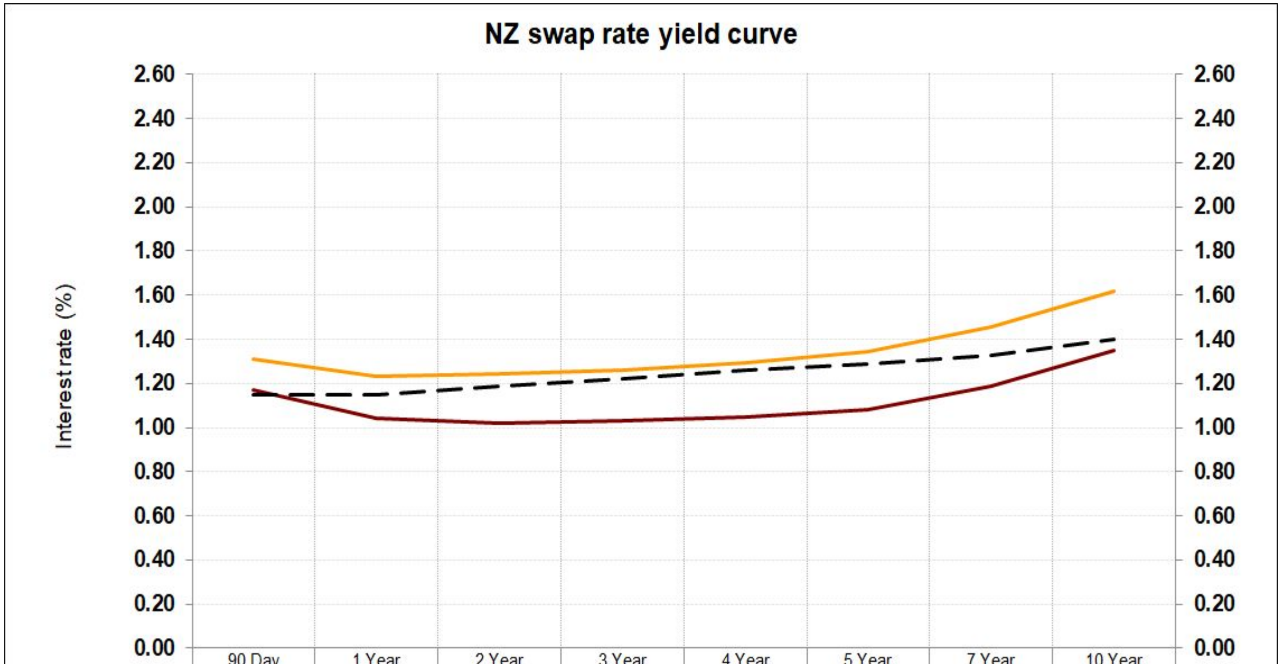
Business confidence remains negative but improved...but Covid-19 impact not yet reflected in survey.

Interest rate trends - New Zealand



Interest rates trended lower as global growth and inflation low. Risk aversion with US trade talks and now Covid-19 uncertainties.

New Zealand wholesale swap curve



	90 Day	1 Year	2 Year	3 Year	4 Year	5 Year	7 Year	10 Year
24-Feb-20	1.17	1.05	1.02	1.03	1.05	1.08	1.19	1.35
3 months ago	1.31	1.23	1.24	1.26	1.30	1.35	1.46	1.62
Change	-0.14	-0.19	-0.22	-0.23	-0.25	-0.26	-0.27	-0.27
PwC F/C (6mth)	1.15	1.15	1.19	1.22	1.26	1.29	1.33	1.4

RBNZ expect growth to improve in 2H2020. Slowing global growth a headwind. Low rates to support inflation and employment near target.

Impact of COVID-19 virus remains uncertain

- The NZ economy growth outlook improving (monetary stimulus, improving housing market, fiscal stimulus, but potential impacts of the COVID-19 outbreak means cautious outlook
- Immediate impacts on New Zealand:
  - a decline in tourist arrivals
  - foreign students impacting the education sector
  - difficulty delivering exports to China ports, causing bottleneck
  - supply chain disruptions both importing and exporting
  - potential shortages of consumer goods imported from China should the disruptions persist.
- The RBNZ assume the overall economic impact first half of 2020. GDP growth is 0.3 percentage points lower than otherwise in the March 2020 quarter
- Duration and severity of impacts still uncertain. Risk is that the RBNZ may need to cut interest rates.

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Debt and interest rate strategy

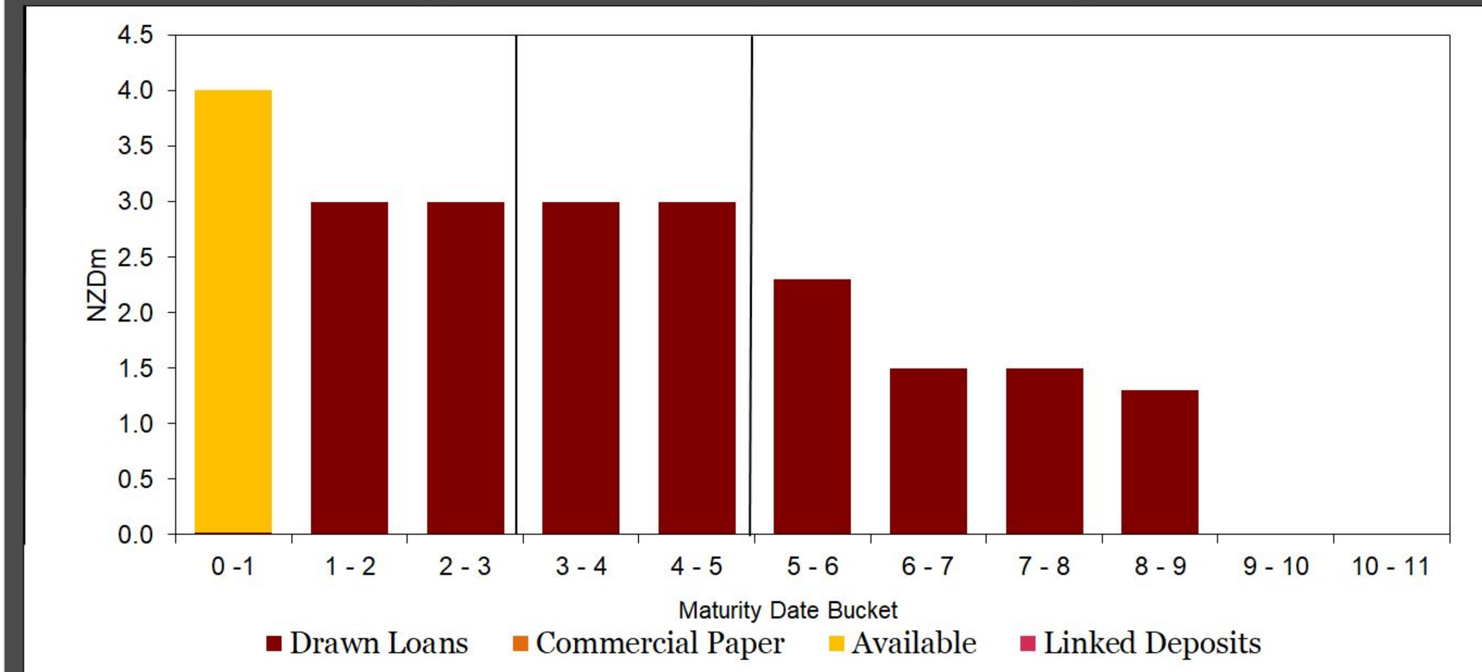
Funding and liquidity position

31-Jan-20 **Westland District Council**

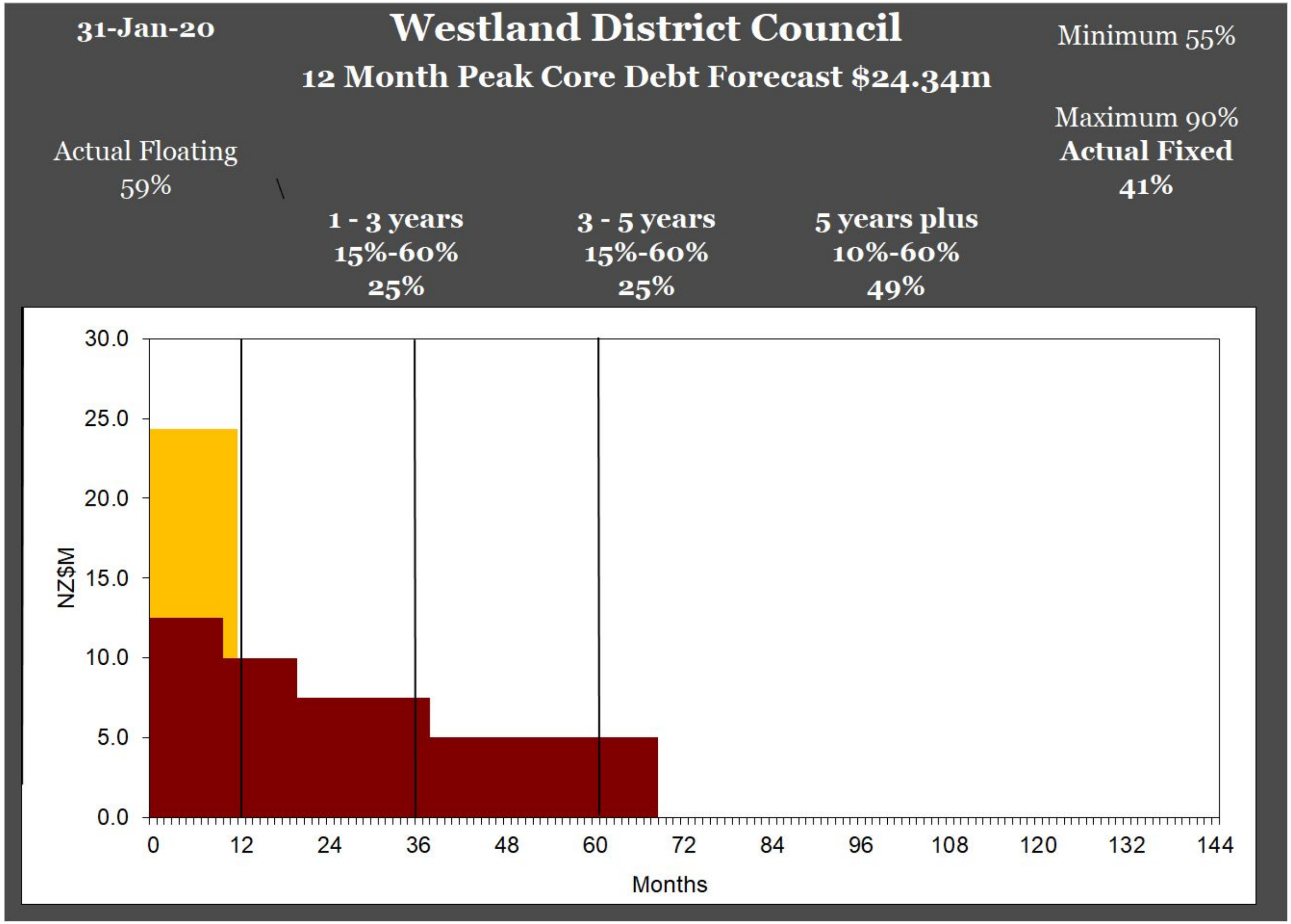
Committed Loan/Stock/Facilities/Investments $22.6m
Current External Debt $18.62m
Current Net Debt (ex pre-funding) $16.4m

Policy Liquidity Ratio >=110%
Current Liquidity Ratio 134%

0 - 3 years	3 - 5 years	5 years plus
15%-60%	15%-60%	10%-50%
44%	27%	29%



Interest rate risk position



Liquidity, debt and interest rate strategies

Liquidity - Roll over Westpac facility, now maturing within six months.

Funding strategy for discussion - No pre-funding activity required at present. Funding strategy will centre around need for new funding, ensuring a spread of maturities.

Interest rate strategy - Temporary policy non-compliance approved by Council. Any strategy would be consistent with both the existing and new policies. Recommending either fixed rate borrowing and/or interest rate swaps.

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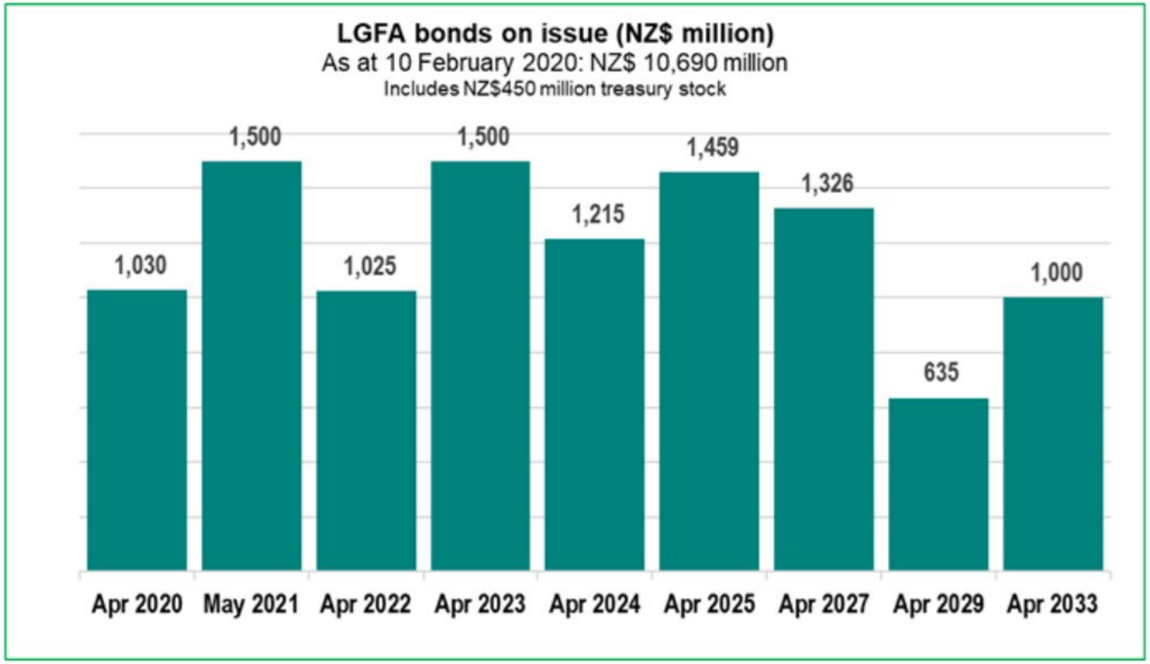
LGFA update and sector trends

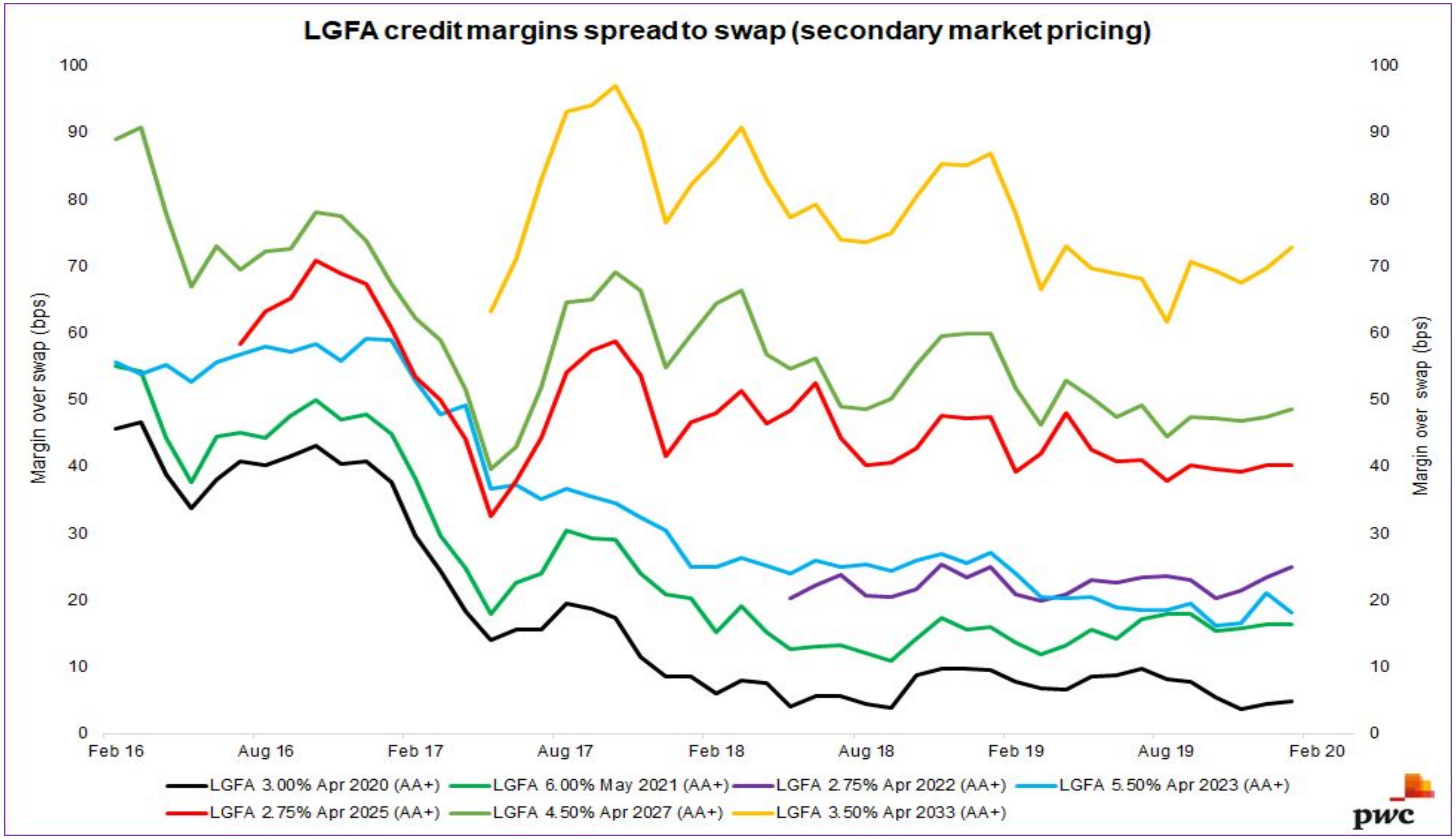
LGFA lending activity update



Source: LGFA

- $10.7 billion of debt issued on behalf of the sector as of 10 February 2020.
- 30 council shareholders, 66 member borrower councils.
- Credit rating AA+ reaffirmed (stable outlook), same rating as NZ government.
- Direct lending to CCO/CCTO.
- Stand-by facilities - now on offer.
- Green, sustainable and social bonds.

LGFA rates



LGFA credit margins spread to swap (secondary market pricing)
Margin over swap (bps)
100
90
80
70
60
50
40
30
20
10
0
Feb 16
Aug 16
Feb 17
Aug 17
Feb 18
Aug 18
Feb 19
Aug 19
Feb 20
LGFA 3.00% Apr 2020 (AA+)
LGFA 6.00% May 2021 (AA+)
LGFA 2.75% Apr 2022 (AA+)
LGFA 5.50% Apr 2023 (AA+)
LGFA 2.75% Apr 2025 (AA+)
LGFA 4.50% Apr 2027 (AA+)
LGFA 3.50% Apr 2033 (AA+)
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Recent trends and observations in local government

- Credit rating agency methodology driving change in the sector. Greater focus on liquidity. Obtaining firm liquidity commitments to fund CAPEX and forward manage core debt maturities.
- Fitch and S&P credit rating considerations given debt increase
  - Different methodologies and approach.

- CAPEX mis-hits continue to occur, owing to capacity constraints and delivery issues.
  - Councils applying 'haircuts' (from 20%) on forecast debt levels
  - Increased resourcing around project management
  - Collaboration between finance and asset managers
- Internal borrowing
  - Questioning meeting inter-generational objectives
  - Diversification/real returns.
- IFF - off balance sheet infrastructure funding structure

Summary

Long-term intergenerational planning framework

Statutory and ratepayer stakeholders mean adherence to policies

Certainty of liquidity and term funding

Flexibility to adjust to issues and challenges

Accuracy and timeliness of capital expenditure information and forecasts important

Treasury practices are consistent with sector best practice

Questions?