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Report To: Audit and Risk Committee

Meeting Date: 11 August 2026

Subject: **Treasury Management Report for the period ended 30 June 2026**

Type: Information Only

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1. Purpose of Report

1.1 The purpose of this business paper is to provide an update on Council's debt position and compliance with borrowing limits for the period ended 30 June 2026.

2. Suggested Resolutions

2.1 The following are suggested resolutions only and do not represent the Committee's decision until such time as they are adopted by formal resolution.

1 The business paper on Treasury Management Report for the period ended 30 June 2026 be received.

2 The Committee notes the breach of the fixed interest hedging percentages as fixed rate cover is lower than policy requirements for the 0-2 year and 2-4 year bands. No new fixed rate cover was entered into due to the debt settlement from Waikato Waters Ltd on 1 July 2026. The breach was remedied on 1 July 2026.

3. Background

3.1 The total borrowings and net debt position are regularly reviewed, monitored and compared to the Long Term Plan 2024-34 (LTP) and Annual Plan forecasts. This includes monitoring Council's borrowing limits as set out in the Financial Strategy.

3.2 Bancorp Treasury Services Limited, Council's external treasury advisors, have prepared a quarterly Treasury Reporting Dashboard report for the period ended 30 June 2026. A copy is enclosed separately and forms part of this business paper.

4. Commentary

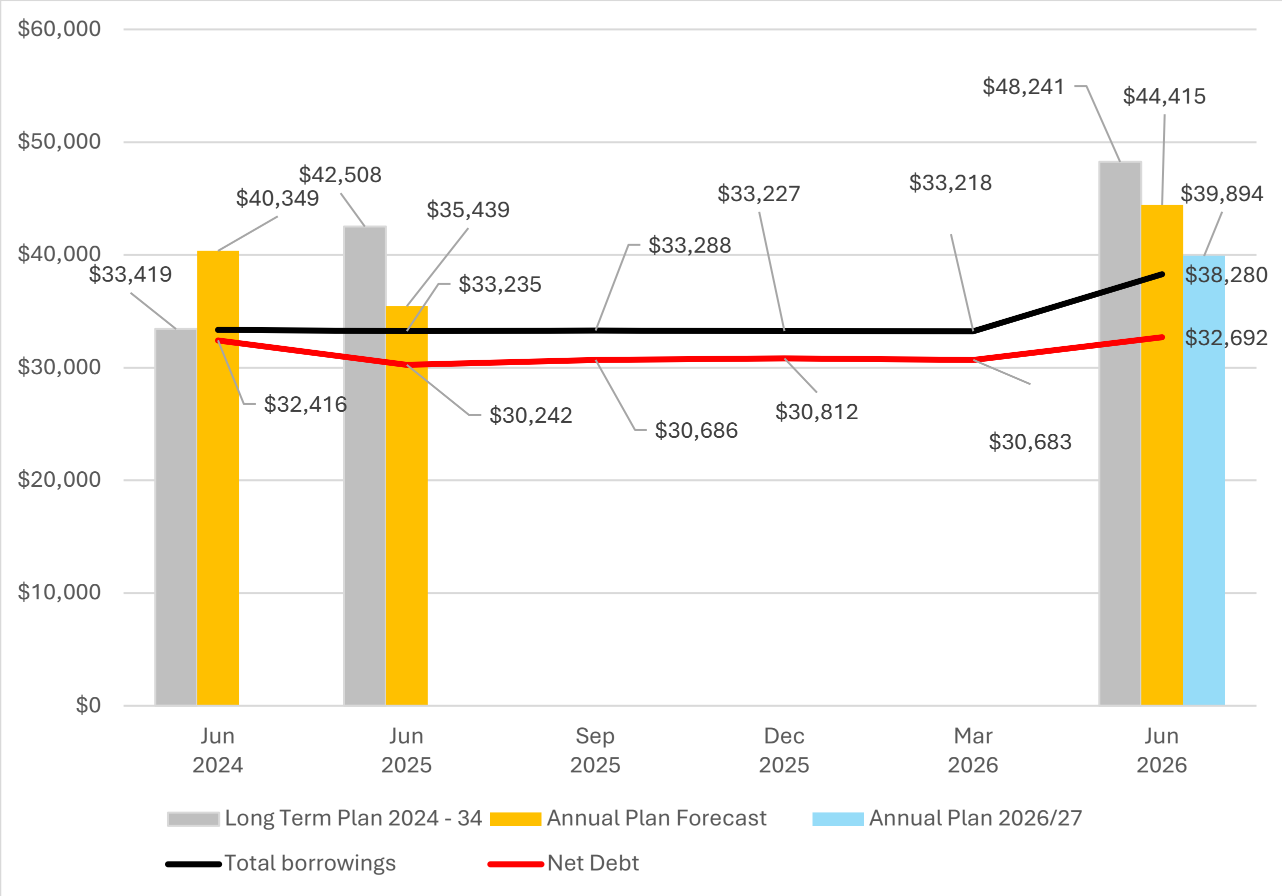
PUBLIC DEBT

4.1 At 30 June 2026 public debt was **$38.3 million** and net debt[1] was $32.7 million. Core debt increased by $5 million since the March quarter for new borrowings to fund construction of the Te Kuiti water resilience project.

4.2 On 1 July 2026 the debt position reduced significantly, with the transfer of waters related debt to Waikato Waters limited (WWL). The remaining debt is now $6 million.

[1] Net debt is total public debt less NZLGFA Borrower notes and unrestricted cash.

4.3 The following graph shows the total borrowings and net debt position compared to forecast debt from the LTP and relevant Annual Plan.



4.4 Actual public debt on 30 June 2026 was lower than forecast in Annual Plan 2025/26 due mostly to the timing of two large capital projects (Te Kuiti Water Resilience Project and Te Kuiti stormwater improvements) and the landfill cell development not proceeding as forecast.

4.5 Cash proceeds from property sales over the last two years and dividend revenue received last year also contributed to the lower actual debt balance.

DEBT SETTLEMENT WITH WWL

4.6 On 1 July the debt settlement received from WWL was $32.7 million, with the amount largely based on the projected internal loan and reserve balances for wastewater and water supply at 30 June 2026. The cash received was used to repay $32 million of external debt, including the closeout of associated interest rate swaps and early repayment break costs. WDC also received the LGFA borrower notes and interest from notes refunded when the associated debt was repaid.

INTEREST EXPENSE

4.7 Total interest expense for the year was $1,414,000, which was $131,000 less than budget of $1,545,000 for the same period.

4.8 The assumed interest rate adopted in the Annual Plan for the 2025/26 year was 4.33%. The weighted average interest rate at 30 June 2026 was 3.92% (March 26: 4.09%), and including the Westpac call advance credit facility fee is **3.98%** (March 26: 4.16%) as presented in the Bancorp Treasury Reporting Dashboard.

4.9 Of the total borrowings of $38.3 million, the floating interest rate debt totals $18 million. The remaining $20 million of public debt is on a fixed interest rate exposure.

4.10 The repayment of debt on 1 July included repayment of Commercial Paper which was on lower interest rates. Subsequent to the debt settlement, the overall weighted interest rate on the remaining debt is estimated at 5.03%.

BORROWING LIMITS

4.11 The borrowing limits set in the Financial Strategy are:

- The ratio of net debt to total revenue will not exceed 165%.
- Net interest will not exceed 20% of annual rates.

4.12 Council is currently well below these limits so has adequate borrowing capacity should this be required.

	Limit	Actual June 2025	Actual June 2026 (Interim)
Net debt to total revenue	<165%	62%	65%
Net interest to annual rates	<20%	6%	5%

4.13 A standby credit facility with Westpac bank with a credit limit of $6 million is in place of which none was drawn at 30 June 2026. The facility is used for short-term cash requirements (over a matter of days) and may be used more frequently prior to raising core debt, as set out in the annual plan.

TRANSACTIONS DURING THE LAST QUARTER

4.14 The $5 million Commercial Paper (CP) was raised on 14 May with a maturity date of 1 July 2026 with credit margin of 0.20%, and total applicable interest rate of 2.754%. The maturity date aligned with the debt settlement from WWL and the CP was subsequently repaid on 1 July 2026.

DEBT AND COVER PROFILE

4.15 Council's projected debt and interest rate exposure is shown on page 4 of the Treasury Reporting Dashboard. The forecast debt profile is based on the forecast debt position at 30 June 2027 of $8.8 million and assumes that level of debt for the remaining nine years in the absence of a new Long Term Plan forecast.

4.16 There is a breach of the fixed rate hedging percentages (0-2 years and 2-4 years bands) at June 2026. With the settlement of waters debt by WWL on 1 July, no further hedging of debt was undertaken prior to 30 June 2026. The breach was remedied on 1 July when debt reduced to $6 million. With debt below $10 million, the application of the fixed rate hedging percentages is optional under the Treasury Policy.

TREASURY ACTIVITY EXPECTED IN THE NEXT QUARTER

4.17 WDC's standby credit facility with Westpac was renewed by 30 June 2026 to ensure that WDC retains sufficient standby cover.

4.18 Included elsewhere in the agenda, is a separate business paper for consideration of new standby credit facility with LGFA which is more cost effective and recommended to replace the existing wholesale advance facility.

4.19 In August, a $2 million Floating Rate Note will mature. This loan will be rolled for a further year to mature on the same date as its associated interest rate swap.

INTEREST RATE SWAP VALUATIONS

4.20 Included in the balance sheet is the valuation of the interest rates swaps that are in place at balance date for both current and forward starting swaps. These are included as "Derivative Financial Instruments" and recognised at market value at balance date.

4.21 As at 30 June 2026 the valuation was $434,000 liability, an improvement from prior year when the value was a $502,000 liability.

4.22 As part of the debt settlement with WWL the interest rate swaps relating to treasury management were closed out on the 1 July 2026 at a cost of $343,000, of which WWL reimbursed WDC $75,000 as part of the initial debt settlement agreement, with the difference to be reimbursed as part of the final washup calculation with WWL.

4.23 Included in the valuation at 30 June 2026 are two interest rate swaps which will remain in place after the debt settlement on 1 July. The valuation of these two swaps liability was $97,000.

5. Attachment

Attachment:

1 Bancorp Treasury Reporting Dashboard as at 30 June 2026 (Doc # 997250)

Waitomo
District Council

Treasury Reporting Dashboard

As at 30 June 2026

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Economic Commentary

Global

Global economic activity in June quarter was dominated by the ongoing Middle East conflict, particularly disruptions around the Strait of Hormuz, which triggered a sharp energy price shock. The conflict, involving Iran and responses from the US and Israel, led to effective closure or severe restrictions on the Strait of Hormuz starting around late February/early March 2026. This chokepoint normally carries about 20% of the global oil and LNG supply. The resulting supply disruptions drove oil prices sharply higher (Brent crude peaking well above $100/bbl in parts of Q2 before easing on ceasefire hopes), as well as pushing up inflation expectations, squeezing real incomes, and weighing on growth—especially in energy-importing economies.

Major institutions revised down their 2026 global growth forecasts in response. The World Bank projected global GDP growth to slow to 2.5% for the year (the weakest outside an outright recession in ~20 years). The International Monetary Fund's April World Economic Outlook's assumed a limited conflict and projected 3.1% global growth for 2026 (down from prior steadier ~3.3% paths), with inflation ticking up before declining. The OECD and others similarly highlighted downside risks from prolonged energy shocks, geopolitical fragmentation, and eroded policy buffers.

The key US market showed relative resilience. March 2026 quarter real GDP grew at an annualised rate of 2.0%, supported by solid consumer spending (though softening), strong AI-related non-residential investment/equipment, and a partial recovery in government spending. Q2 faced headwinds from higher energy prices acting as a 'consumer tax,' potentially slowing momentum. Labour markets remained stable with AI productivity gains, but inflation pressures rose. The Fed stayed cautious and held the Fed Funds rate steady amid uncertainty.

Over the last three months, the US 10-year Treasury yield traded in a relatively contained range around 4.50%, ending the period virtually unchanged. The curve dynamics showed some flattening, with the 10-year relatively stable compared to shorter maturities, but overall modestly higher amid volatility driven by the Middle East energy shock, inflation concerns, and shifting Fed expectations.

New Zealand

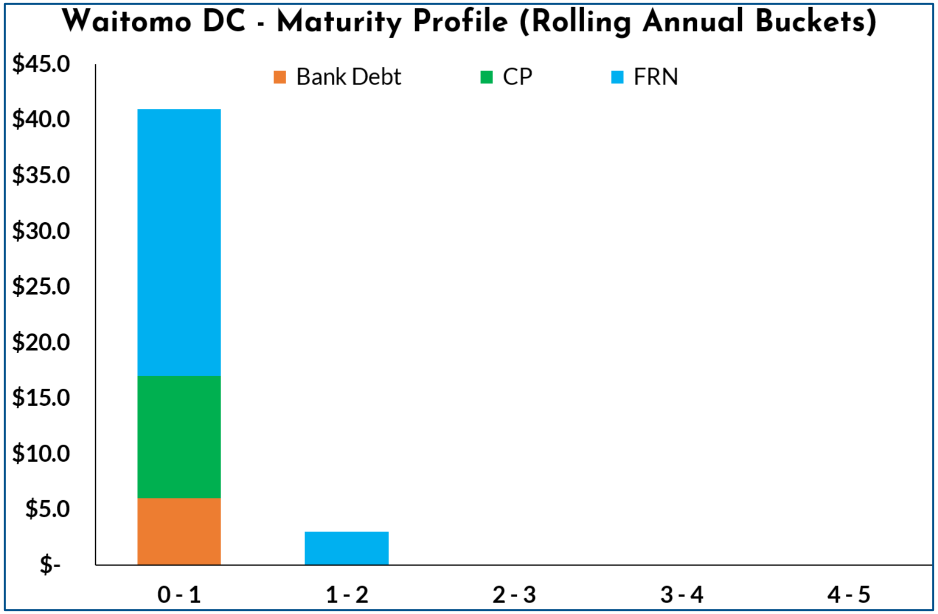
	OCR	90 day	1 year swap	2 year swap	3 year swap	5 year swap	10 year swap
31-Mar	2.25%	2.54%	2.92%	3.43%	3.69%	3.96%	4.32%
30-Jun	2.25%	2.75%	3.10%	3.35%	3.48%	3.69%	4.06%
Change	Nil	+0.21%	+0.18%	-0.08%	-0.21%	-0.27%	-0.26%

In the June quarter New Zealand's economy showed tentative signs of recovery from prior weakness, but the global conflict in the Middle East and the associated energy price shock posed significant headwinds, delaying momentum and pushing up near-term inflation. The March 2026 Q2 GDP (data released in June) grew 0.8% and 1.5% annually. During the three months ending 30 June economic indicators pointed to softer or flat-to-negative economic growth amid higher fuel costs squeezing real incomes and confidence, plus global uncertainty. However, early resolution signals for the Iran-related disruptions (Strait of Hormuz) by late June improved the outlook. Private forecasters revised up 2026 full-year GDP growth ~2.0%, though still below pre-conflict expectations.

CPI inflation stood at an annualised 3.1% for the 12 months ending 31 March 2026. The Middle East conflict drove fuel and related costs higher, with the RBNZ projecting CPI to reach 4.2% in the June 2026 quarter and peaking around 4.3% in the third quarter. Forecasters noted potential for a June-quarter peak around 4.0–4.4%, with an easing later in the year if oil prices normalised. Underlying pressures were contained by spare capacity in the economy,

The New Zealand swap curve flattened significantly during the quarter with short-term swaps higher and longer-term swap rates down around 25 basis points. The OCR finished June unchanged at 2.25%, but with financial markets pricing in a 68% probability that the RBNZ would increase it to 2.50% on the 8th July review date, which it duly did. At quarter end markets were projecting the OCR to reach 2.75% by the end of 2026, 3.00% by March 2027 and 3.25% by September 2027. Individual bank economists projections for the OCR varied between an increase to just 3.00% in the current cycle (ANZ), 3.25% (ASB) and 4.00% (BNZ and Westpac).

Funding, Liquidity and Hedging Bands



Policy Compliance	Compliant
Have all transactions been transacted in compliance with policy?	Yes
Is fixed interest rate cover within policy control limits?	No
Is liquidity within LGFA control limits?	Yes
Are swaps transacted with approved counterparties?	Yes

The non compliance with the Fixed Rate Hedging Bands is a result of the debt declining to $6.0 million on 1 July 2026 when the water debt is transferred to Waikato Waters and forecast at 30 June 2027 is $8.8 million. Compliance with the hedging bands is not required if debt is less than $10 million.

Total WDC Debt

$38.0m

External Council Drawn Debt (LGFA + Bank)

Core WDC Debt (all drawn from the LGFA)

$38.0m

Headroom = undrawn bank facility + cash in bank

$11.7m

Liquidity Ratio (must be ›110%)

130.79%

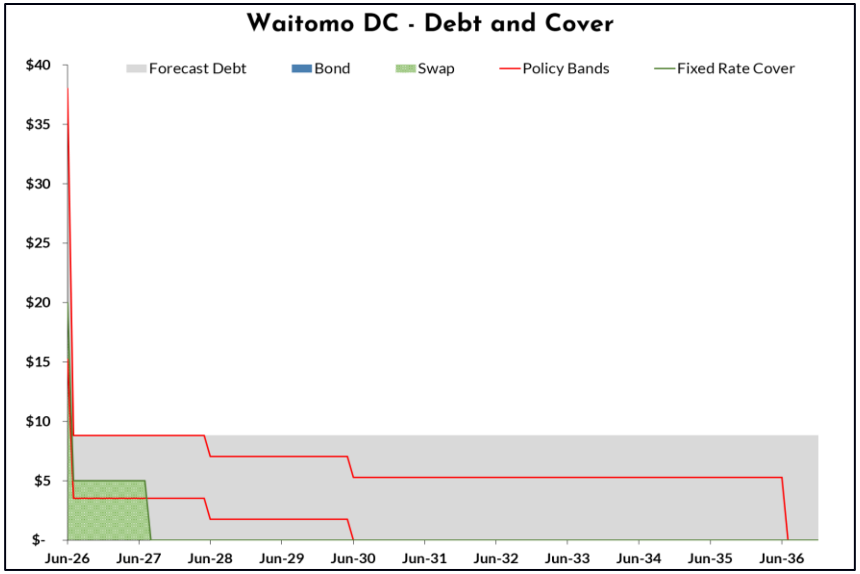
Definition: Includes Cash Reserves + Undrawn lines of Credit + Drawn Debt)/Drawn Debt (excludes Borrower Notes)

Cost of Funds as at 30 June 2026

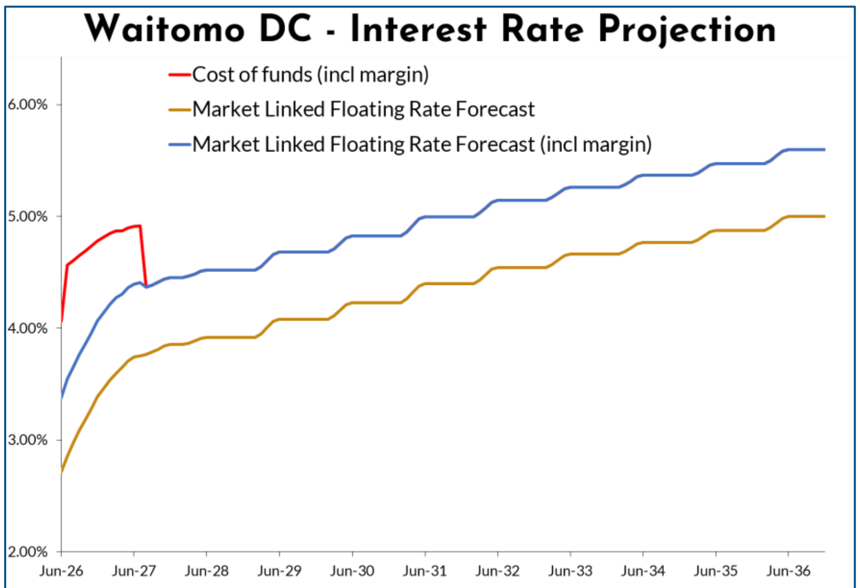
3.98%

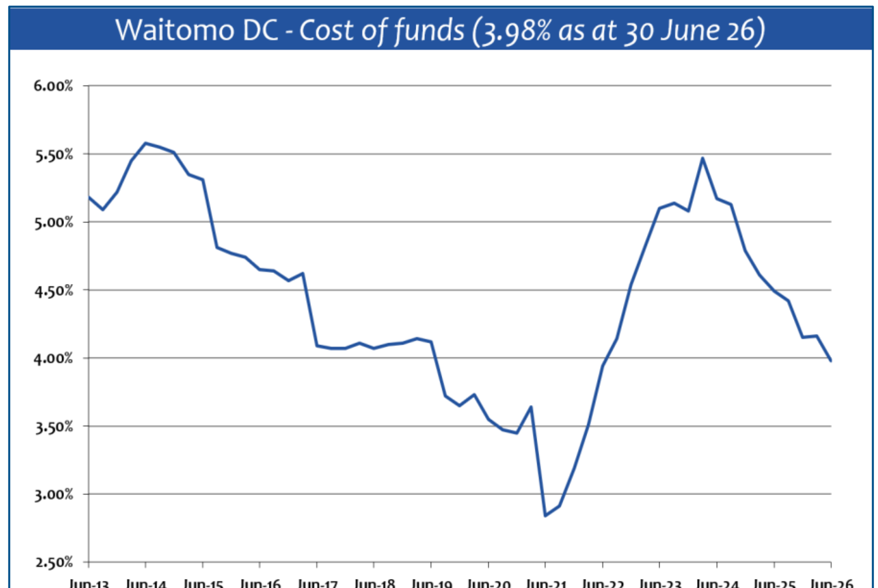
Fixed Rate Hedging Bands			
	Minimum	Maximum	Policy
0 - 2 years	40%	100%	Non compliant
2 - 4 years	20%	80%	Non compliant
4 - 10 years	0%	60%	Compliant

Interest Rate Risk Management



Current % of Debt Fixed	52.6%
Current % of Debt Floating	47.4%
Value of Fixed Rate (m)	$20.0
Value of Forward Starting Cover	$16.0
Value of Floating Rate (m)	$18.0
Current Floating Rate	2.72%
Current Floating Rate (incl margin)	3.38%
All Up Weighted Average Cost of Funds Including Margin	3.98%
Total Facilities In Place	$44.0





WDC - LGFA Borrowings

As at 30 June 2026, WDC had $38.0 million of core debt, all of which is sourced from the LGFA using Commercial Paper and FRNs. WDC also has a bank facility with Westpac Bank for $6.0 million that matures on 1 July 2027, which has a margin of 100 basis points and a line fee of 40 basis points. Details of WDC's debt as at 30 June is as follows:

The shaded FRNs are loans that fund the Council's investment in Inframax Construction Limited. These loans are kept separate for income tax purposes for the Council and Group.

Instrument	Maturity	Yield	Margin	Amount
LGFA CP	1-Jul-26	2.75%	0.20%	$6,000,000
LGFA CP	1-Jul-26	2.75%	0.20%	$5,000,000
LGFA FRN	24-Jul-26	3.25%	0.66%	$5,000,000
LGFA FRN	30-Aug-26	3.28%	0.66%	$2,000,000
LGFA FRN	11-Sept-26	3.38%	0.70%	$2,000,000
LGFA FRN	11-Mar-27	3.45%	0.77%	$3,000,000
LGFA FRN	18-Apr-27	3.32%	0.78%	$3,000,000
LGFA FRN	19-Apr-27	3.35%	0.81%	$1,000,000
LGFA FRN	22-Jul-27	3.43%	0.85%	$5,000,000
LGFA FRN	30-Aug-27	3.38%	0.76%	$3,000,000
LGFA FRN	22-Apr-28	3.43%	0.85%	$3,000,000
				$38,000,000

Swap details and valuation

As at 30 June 2026, WDC had nine interest rate swaps, five of which were current and four forward starting, which convert a portion of the floating interest rate exposures into a fixed rate. Details of the swaps are contained in the following table.

The two interest rate swaps shaded are associated with the loans that fund the Council's investment in Inframax Construction Limited.

Waitomo District Council - Swap Valuations

Swap Valuations as at 31 March 2025

Bank Ref	Derivative Product	Currency	Notional Amount at Inception	Inception Date	Effective Date	Maturity Date	Fixed Rate	Clean Value	+	Accrued Interest	=	Total Swap Value
INTEREST RATE SWAPS												
WPAC 10370267	IR Swap	NZD	5,000,000	20-Apr-23	22-Apr-25	22-Jul-26	3.96%	(4,149)		(13,091)		**(17,240)**
WPAC 7189464	IR Swap	NZD	5,000,000	13-Dec-18	11-Sept-20	11-Sept-26	2.89%	(2,086)		(547)		**(2,632)**
WPAC 11271805	IR Swap	NZD	3,000,000	26-Jun-24	27-Jun-24	30-Aug-27	4.65%	(52,867)		(5,339)		**(58,206)**
WPAC 11271834	IR Swap	NZD	2,000,000	26-Jun-24	27-Jun-24	30-Aug-27	4.65%	(35,245)		(3,559)		**(38,804)**
WPAC 11271848	IR Swap	NZD	5,000,000	26-Jun-24	27-Jun-24	24-Apr-28	4.55%	(112,607)		(17,989)		**(130,596)**
WPAC 11361626	IR Swap	NZD	3,000,000	2-Aug-24	22-Jul-26	23-Jul-29	3.57%	(8,967)		0		**(8,967)**
WPAC 10968070	IR Swap	NZD	5,000,000	2-Feb-24	11-Sept-26	11-Sept-29	3.96%	(62,632)		0		**(62,632)**
WPAC 11271761	IR Swap	NZD	5,000,000	26-Jun-24	22-Jul-26	22-Jul-30	4.105%	(101,730)		0		**(101,730)**
WPAC 11361569	IR Swap	NZD	3,000,000	2-Aug-24	18-Jul-26	18-Jul-31	3.74%	(13,075)		0		**(13,075)**
Totals		***NZD***	***36,000,000***					***(393,358)***		***(40,525)***		***(433,883)***

LGFA Borrowing Rates

Listed below are the credit spreads and applicable interest rates for Commercial Paper (“CP”), Floating Rate Notes (“FRN”), and Fixed Rate Bonds (“FRB”), at which Waitomo DC could source debt from the Local Government Funding Agency (“LGFA”) as at 30 June 2026.

Maturity	Margin	FRN (or CP Rate)	FRB
3 month CP	0.20%	2.89%	N/A
6 month CP	0.20%	3.14%	N/A
April 2027	0.52%	3.21%	3.49%
May 2028	0.61%	3.30%	3.91%
April 2029	0.66%	3.35%	4.11%
May 2030	0.74%	3.43%	4.31%
May 2031	0.81%	3.50%	4.47%
May-2032	0.87%	3.56%	4.62%
April 2033	0.92%	3.61%	4.74%
May 2034	0.95%	3.64%	4.85%
May 2035	1.06%	3.75%	5.02%
April 2037	1.17%	3.86%	5.25%

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