

Funding and interest rate strategy

TO	Thames Coromandel District Council
FROM	Karl Dudley - Corporate Services Group Manager
DATE	23 April 2018
SUBJECT	Funding and interest rate strategy

1 Purpose of report

To present the current funding and interest rate strategy prepared by Pricewaterhouse Coopers to Council.

2 Background

The Chief Executive and Corporate Services Group Manager in conjunction with our treasury advisors Pricewaterhouse Coopers set an interest rate risk management strategy on at least a six monthly basis. The strategy is set by monitoring the interest rate markets and evaluating the underlying existing and forecast borrowing amounts, the outlook for rates, the current and forecast yield curve and policy parameters.

An appropriate hedged/floating rate mix is approved by the Chief Executive and reported to Council.

The Interest rate risk management strategy is implemented through using interest rate risk management instruments to convert fixed rate borrowing into floating rate or hedged borrowing; and floating rate borrowing into fixed or hedged borrowing.

The use of interest rate risk management instruments is approved by the Council as part of the Liability Management Policy.

3 Issue

Section 7.4 of our current Liability Management Policy requires management to present 6 monthly reports to the Audit Committee on funding strategies. Since that policy was adopted, the Audit Committee is now the Audit and Risk Committee and there has been a change to the terms of reference for that committee.

The funding and interest rate strategy is a finance strategy developed under the terms of the Liability Management Policy. The Liability Management Policy and its contents is the responsibility of Council under the Local Government Act 2002. The Audit and Risk Committee terms of reference do not include any responsibilities in relation to the Liability Management Policy.

The Liability Management Policy is currently being reviewed and will be presented to Council for adoption in June 2018. The policy will be updated to reflect that Council will receive updates to our funding and interest rate strategy going forward. In anticipation of this change, we are presenting the funding and interest rate strategy to Council.

4 Discussion

The funding and interest rate strategy is attached in Appendix A. The projected interest rate risk position, as at 31 March 2018 is based off the 12-month debt forecast.

Implementation of the strategy will ensure Council achieves policy compliance and extend the term of Council's fixed portfolio to further protect long-term borrowing costs.

Interest rate strategy

In order to ensure that Council's non-compliance with policy limits is not immediately exacerbated by the transaction the recommended swaps, implementation of the strategy will be completed in stages. The \$7.5 million swap maturing 31 March 2028 was transacted 9 March 2018 and the remaining two swaps will be transacted before 30 June 2018.

Funding strategy

The 15 March 2018 maturity of \$12 million Commercial Paper (CP) through Floating Rate Notes (FRN) with the Local Government Funding Agency (LGFA) was refinanced on 15 March 2018 as recommended in the strategy.

Council have \$15 million of FRNs maturing on 15 March 2019 with the LGFA. In order to achieve compliance with funding risk control limits, \$10 million of these FRNs were pre-funded into new FRN's with the LGFA with longer dated borrowing tenors on 15 March 2018. Council placed the proceeds of the above \$10 million of FRNs on bank term deposit at an interest rate of 3.67%. This is set to yield Council approximately \$90,000 net.

Following implementation, Council will achieve compliance across all policy parameters as well as extending the term of funding maturities to further support borrowing cost certainty.

5 Suggested resolution(s)

That the Thames Coromandel District Council:

1. Receives the 'Funding and interest rate strategy report', dated 23 April 2018.

References-Tabled/Agenda Attachments

Attachment A: Thames Coromandel District Council funding and interest rate strategy March 2018

[Attachment A: Thames Coromandel District Council funding and interest ...](#)