

Interest Rate Risk Control Limits

- The Council debt/borrowings must be within the following fixed/floating interest rate risk control limit:

| Master Fixed/Floating Risk Control Limit | |
|---|--------------------------|
| Minimum Fixed Rate = 55% | Maximum Fixed Rate = 95% |

- “Fixed Rate” is defined as an interest rate repricing date beyond 12-months forward on a continuous rolling basis.
- “Floating Rate” is defined as an interest rate repricing within 12-months.
- The percentages are calculated on the projected net debt levels per the Council’s Annual Plan financial forecasts that are approved by the Council, calculated on the 12-month projected net debt figure. The calculation of interest rate control limits on projected net debt levels can also be applied to 24-month forecast net levels for the purposes of the fixed rate limits, as the result of Capital Expenditure programme impacts approved in a Long Term Plan. The 24-month forecast debt level would be subject to approval by the Chief Executive as being a fair and reasonable forecast. Net debt is the amount of total debt, less absolute matching sinking fund assets and any liquid investments. This allows for pre-hedging in advance of projected physical drawdowns of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the Treasury Management Policy minimums and maximums.
- The fixed rate amount at any point in time must be within the following maturity bands:

| Fixed Rate Maturity Profile Limit | | |
|--|---------------|---------------|
| Period | Minimum Cover | Maximum Cover |
| 1 to 3 years | 15% | 60% |
| 3 to 5 years | 15% | 60% |
| 5 years plus | 15% | 60% * |

*Maximum cover in the five year plus period may be extended up to 70% during periods of historical low long term interest rates subject to approval by the Chief Executive and reported to the Council at the following Council meeting. The definition of ‘historical low long term interest rate’ is where the 10-year swap rate is more than 15% below its rolling ten year average.

- Any interest rate swaps with a maturity beyond 10 years must be approved by Council.
- Floating rate debt may be spread over any maturity up to 12-months. Bank advances may be for a maximum term of 12-months.
- Major control limit – the net notional exposure of all interest rate risk management instruments must not exceed the total 24-months forecast debt level.

Control limits for individual types of interest rate risk management instruments

- Forward Rate Agreements outstanding at any one time must not exceed 75% of the total floating rate debt. Forward Rate Agreements may be “closed out” before maturity date by entering an equal and opposite Forward Rate Agreement to the same maturity date or, alternatively, by purchasing an option on a Forward Rate Agreement for the equal and opposite amount to the same date.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, the purchased side of the collar cannot be closed out by itself, in the event of this occurring both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- Purchased borrower swap options mature within 12-months.
- Interest rate options with a maturity date beyond 12-months that have a strike rate (exercise rate) higher than 2.00% above the relevant swap rate, cannot be counted as part of the fixed rate cover percentage calculation.