TREASURY MANAGEMENT POLICY

QUEENSTOWN LAKES DISTRICT COUNCIL

Adopted 28 June 2018

Changes to the Liability Management Policy

As a result of the significant rise in forecast debt levels in the Ten Year Plan, the Council has recently completed the assessment required to gain a formal credit rating. The international rating agency Fitch Ratings has recently announced that QLDC has attained a rating of AA- with stable outlook. This is a very pleasing result for the Council and represents a clear endorsement in QLDC and the district.

One of the advantages of having a positive rating outcome, is that the Council can now access more favourable borrowing terms. It is expected that most of the forecast debt will be borrowed from the Local Government Funding Agency (LGFA). The LGFA has certain borrowing covenants that must be adhered to. As a result of its new credit rating, QLDC will now be subject to a revised set of covenants which are only available to Councils with a credit rating of A or better. These new covenants are more permissive than those that applied before allowing QLDC to borrow more.

The Liability Management Policy must contain borrowing limits and it is logical to have these limits reflect the LGFA covenants. The existing borrowing limits in the Policy largely reflect the old LGFA covenants and the Council is proposing to update these with the revised LGFA covenants. The proposed changes are highlighted below:

QLDC Borrowing Limits	Current Limit	Proposed Limit	Comment
Interest expense / rates income	<25%	<30%	Per LGFA with credit rating A or better
Interest expense / total revenue	<15%	<20%	Per LGFA with credit rating A or better
Net debt / total revenue	<175%	<250%	Per LGFA with credit rating A or better
Net debt / equity	<20%	N/A	Not a relevant measure

Definitions

1 Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).

2 Net debt is defined as total consolidated debt less liquid financial assets and investments.

3 Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

4 Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.

5 Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002, together with any revenue received from other LGs for services provided and for which the other LGs rate.

a) Liability Management Policy

INTRODUCTION AND APPLICATION

Introduction

This liability management policy has been prepared pursuant to sections 102(4)(b) and 104 of the Local Government Act 2002.

The Council's borrowing programme for any particular year will be approved as part of the Council's annual planning process, which is affected by projections made in the Ten Year Plan.

Generally, borrowing will be identified as a funding mechanism only for capital or long term projects which will provide benefits into the future.

The only borrowing to meet operating costs will be the use of overdraft facilities or other short term facilities to cover temporary fluctuations in cash flow.

GENERAL PROVISIONS

Borrowing Limits

The Council's borrowing limits are:

Limits	Acceptable Range
Interest expense / rates income	<30%
Interest expense / total revenue	<20%
Net debt / total revenue	<250%

For the purpose of calculating the limits above:

1. Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
2. Net debt is defined as total consolidated debt less liquid financial assets and investments.
3. Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.
4. Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
5. Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002, together with any revenue received from other LGs for services provided and for which the other LGs rate.

FORM OF BORROWING

The Council may obtain funding utilising the following methods:

- Bank debt
- Capital market issuance comprising fixed rate bonds, medium term notes and floating rate notes.

Local Government Funding Agency (LGFA)

Despite anything earlier in this Policy, the Council may borrow from the New Zealand LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;
- provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- commit to contributing additional equity (or subordinated debt) to the LGFA if required;

- subscribe for shares and uncalled capital in the LGFA; and
- secure its borrowings from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

Hire Purchase, Deferred Purchase and Trade Credit

These arrangements are not considered to be borrowing under the terms of the Act.

Other

Instruments not specifically referred to in this policy may only be used with specific Council approval.

Security

It is the Council's general policy to offer security for its borrowing by way of negative pledge or a charge over its rates.

In the normal course, the Council's policy is not to offer security over any of the other assets of the Council. However:

- where borrowing is by way of finance lease, or some other form of trade credit under which it is normal practice to provide security over the asset concerned; or
- where the Council considers doing so would help further its community goals and objectives, the Council may decide to offer security over the asset.

POLICIES

Interest Rate Exposure Policy

The Council will manage its borrowing activities prudently in the best interests of the district, its inhabitants and ratepayers. In furtherance of this goal, Council will keep the following objectives firmly in mind:

- Ensure the Council's continued ability to meet its debts in an orderly manner as and when they fall due in both the short and long term, through appropriate liquidity and funding risk management.
- Arrange appropriate funding facilities for the Council, ensuring they are at market related margins utilising bank debt facilities and/or capital markets as appropriate.
- Maintain lender relationships and the Council's general borrowing profile in the local debt and, if applicable, capital markets, so that the Council is able to fund itself appropriately at all times.
- Control the Council's cost of borrowing through the effective management of its interest rate risk, within the interest rate risk management limits established by the LMP.
- Ensure compliance with any financing/borrowing covenants and ratios.
- Maintain adequate internal controls to mitigate operational risks.
- Produce accurate and timely information that can be relied on by senior management and Council for control and exposure monitoring purposes in relation to the debt raising activities of the Council.

Prudent selection of funding instruments and mix should help the Council achieve its low debt servicing costs and risk minimisation objectives.

Debt Repayment Policy

It is the Council's general policy to repay debt as it falls due. This will be repaid from accumulated funds, reserve funds, contributions, land sales or a combination of these methods depending on the project the loan was raised for. If the loan was raised for a period less than a term the Council considers appropriate for the project, part of the balance will be financed with new debt.

The Council may repay debt before maturity in special cases where the circumstances suggest that this would be in the best interest of residents and ratepayers.

Total debt levels are determined through the Ten Year Plan and Annual Plans.

Liquidity Policy

The Council will strive to ensure the timely availability of funds to meet the Council's various expenditure needs, preferably without incurring penalties or holding unnecessary cash reserves. The Council will:

- match revenue requirements with expenditure streams, ensuring any timing differences, if any, are favourable for the Council;
- ensure replacement funds are available no later than the debt repayment date;
- avoid concentration of debt maturity dates no more than $50m or 50% of debt, whichever is the lesser, can be subject to refinancing in any 12 month period;
- the Council must maintain liquidity (committed funding lines and cash on deposit) of not less than 110% of projected core debt.

Core debt is defined as that contained in the Annual Plan or as otherwise determined by the Chief Financial Officer.

Credit Exposure Policy

The Council will only enter incidental arrangements with credit worthy counter parties.

Credit worthy counterparties are selected on the basis of their current Standard and Poors (S&P) rating which must be A- or better or the Moody's or Fitch equivalents.

OTHER MATTERS

Borrowing for Cash Management Purposes

This section applies to what might be described as borrowing to manage day to day fluctuations in cash flow.

The Council will maintain an overdraft facility not exceeding a limit of $500,000 for day to day cash management purposes.

The Council may maintain a standby credit facility for urgent financing in emergencies.

Incidental Arrangements

'Incidental arrangement' is defined to mean:

A. A contract or arrangement for the management, reduction, sharing, limiting, assumption, offset, or hedging of financial risks and liabilities in relation to any investment or investments or any loan or loans or other incidental arrangement, whether or not that contract or arrangement involves:

   I the expenditure, borrowing, or lending of money; or

   II the local authority undertaking to make payments in exchange for another person undertaking to make payments to the local authority; or

   III the creation or acquisition or disposal of any property or right; or

B. A contract or arrangement with any bank, financial institution, or other person providing for any person to act as underwriter, broker, indemnifier, guarantor, accommodation party, manager, dealer, trustee, registrar, or paying, fiscal, or other agent for, or in connection with, any loan or investment.

Hedging

Hedging instruments may be used for risk management purposes, on advice from financial advisors.

The following table details the Fixed Rate Hedging Percentages which shall apply to the projected core debt of the Council:

	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0 - 2 Years	50%	100%
2 - 5 Years	25%	80%
5 - 10 Years	0%	60%

That the following interest rate risk management instruments may be used to manage the core debt of the Council:

A. Interest rate swaps.

B. Swaptions (options on swaps).

C. Interest rate options, including collar type structures but only in a ratio of 1:1.

D. Forward rate agreements.

Options on hedging floating rate debt with an exercise rate greater than 2.00% above the equivalent period interest rate at the time of inception cannot be counted as part of the fixed rate cover percentage calculation. For example a three year cap at 6.00% would only count as a fixed rate hedge if the underlying swap rate was greater than 4.00%.

Agents

The Council may appoint only reputable persons or companies to fulfil the following roles:

> Registrars/paying agents

> Brokers

> Trustees

Other

Other forms of incidental arrangement may only be entered into with a specific resolution of the Council.

b) Investment Policy

GENERAL

Introduction

This investment policy has been prepared pursuant to sections 102(4)(c) and 105 of the Local Government Act 2002. It applies to the management of the Council's financial and equity investments.

Overview

The Council has a variety of investments which at any time may include cash, trust funds, special funds, shares, property held for investment purposes and financial reserves.

These investments are acquired, held and realised by the Council in furtherance of the community goals and objectives which are identified in the Ten Year Plan and each Annual Plan.

In managing its investments the Council is not driven by commercial considerations alone. As a public body the Council is accountable to the community in terms of community health, safety, benefit and well-being and these considerations may lead to the Council making investment decisions which would not have been made on commercial/financial considerations alone.

In managing its investments in accordance with its general policy the Council seeks to:

> achieve the goals and objectives set out in the Ten Year Plan and the Annual Plan.

> balance the protection of its investment with maximising investment return.

> ensure investments are of a type which provide the Council with funds when required.

POLICIES

Mix of Investments

Nature of Investment	Term	Rationale for retention
Cash investments	Short term	To meet cash flow requirements
Shares/equity	Long term	To support the strategic objectives of the Council and the district
Investment property	Variable	To provide a commercial return to the Council

It should be noted that the Council does have some investments that do not currently meet these criteria, particularly some land holdings. The future of these are under review and it will be decided if these will be held to meet future core function requirements or will be disposed when it is considered that it is appropriate.

Acquisitions of New Investments

Call and short term: delegated to the Council staff to invest in approved institutions.

Medium to long term: through the Council, having regard to the goals, objectives and provisions of the Council's long term financial strategy and annual plans.

Use of Revenue from Investments

Revenue from funds which are reserved for particular purposes is added to that fund. Revenue from other investments used to offset general rates.

Revenue from Asset Sales

Revenue from asset sales will be used to repay debt or fund the purchase of new assets. If there are no appropriate uses available at the time of disposal, it will be held in a separate fund until there are appropriate uses for the funds.

OTHER MATTERS

Procedures for Management and Reporting to Council

The Council's procedures for the management of investments and associated reporting to the Council involve reporting results of investment to the Council through the Committee.

Risk Management

In managing its investments the Council always seeks to protect its investments and manage its risk.

When investing the Council will adhere the provisions of the investment matrix (see Appendix 1) which clearly sets out the parameters under which, the Council will manage its financial market investment activities.

The Council also has statutory obligations to properly administer, manage, and account for its funds. In particular the Council must make its investments in accordance with the provisions of the Trustee Act 1956 as they apply to the investment of trust funds. This requires the Council to exercise the care, diligence, and skill that a prudent person of business would exercise in managing the affairs of others. The Council may consider, in making any investment decisions:

- The desirability of diversifying investments.
- The nature of existing investments.
- The risk of capital loss or depreciation.
- The potential for capital appreciation.
- The likely income return.
- The length of the term of the proposed investment.
- The marketability of the proposed investment during, and on the determination of, the term of the proposed investment.
- The effect of the proposed investment in relation to tax liability.
- The likelihood of inflation affecting the value of the proposed investment.

Local Government Funding Agency (LGFA)

Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand LGFA and, may borrow to fund that investment. The Council's objective in making such investment will be to:

- obtain a return on investment; and
- ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Council.

Because of the dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternate investments.

If required in connection with the investment, the Council may subscribe for un-called capital in the LGFA.