POLICIES

Treasury ~~Liability~~ Management Policy 2024

Adopted: ~~3 September 2020~~
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Review: ~~1 September 2023~~

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WHAKATĀNE
District Council

1.0 INTRODUCTION

To provide appropriate parameters in which the Council will manage its borrowing activities and external liabilities to ensure compliance with the provisions of the Local Government Act 2002.

Section 102 of the Local Government Act 2002 (the “Act”) requires the Council to adopt a Liability Management Policy and an Investment Policy.

The requirements for each Policy are detailed in Sections 104 and 105 of the Local Government Act 2002:

- The Liability Management Policy must state the Council’s policies on how it will manage its borrowings and other liabilities, including interest rate exposure, liquidity, credit exposure, borrowing limits, giving of security and debt repayment.
- The Investment Policy must set out the Council’s policies on investments including the mix of investments, acquiring new investments, management and reporting procedures, and risk assessment management.

Together these policies make up the framework for the Council’s treasury management activities and define the parameters within which all investment and borrowing activities are carried out. All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging instruments) will meet the requirements of the Local Government Act 2002. This policy should be read in the context of Council’s Financial Strategy.

The Policy is to be consistent with the Long Term Plan (LTP) and Annual Plan. The formalisation of such policies and procedures will enable treasury risks within the Council to be prudently managed.

The Harbour Property Fund is managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. External fund managers will be appointed in the knowledge of and operate the portfolio according to, the investment guidelines outlined in the SIPO.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within the Council continue to be well managed. In addition, regular reviews will be conducted to test the existing Policy against the following criteria:

- Industry “best practices” for a Council the size and type of Whakatane District Council.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Policy and treasury management function to recognise, measure, control, manage and report on the Council’s financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operations of a pro-active treasury function in an environment of control and compliance.
- The robustness of the Policy’s risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to Council in achieving strategic objectives relating to ratepayers.

It is intended that the Policy be distributed to all personnel involved in any aspect of the Council’s financial management. In this respect, all staff must be completely familiar with their responsibilities under the Policy at all times.

2.0 LIABILITY MANAGEMENT POLICY

2.1~~0~~ Treasury Management Objectives

Statutory objectives

All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet the requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.

The Council is governed by the following relevant legislation:

- Local Government Act 2002, in particular Part 6 including sections 101,102, 104, 105 and 113.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- Trusts~~ee~~ Act 2019 (effective 30 January 2021). When acting as a trustee or investing money on behalf of others, the Trusts~~ee~~ Act highlights that trustees have a duty to invest prudently and that they shall exercise care, ~~diligence~~diligence, and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trusts ~~ee~~ Act 2019 Part 4 Investments.
- All projected external borrowings are to be approved by the Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of Council before the borrowing is affected.
- All legal documentation in respect to external borrowing and financial instruments will be approved by the Council's legal counsel prior to the transaction being executed.
- The Council will not enter into any borrowings denominated in a foreign currency.
- The Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by the Council itself.

A resolution of the Council is not required for hire purchase, credit or deferred purchase of goods if:

- The period of indebtedness is less than 91 days (including rollovers); or
- The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of the Council.

General objectives

- Manage the Council's costs and risks in the management of its external borrowings.
- Minimise the Council's exposure to interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect the Council's financial assets and manage costs.
- Arrange and structure external long term funding for the Council at acceptable margins and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements.

- Comply with financial ratios and limits stated within this Policy.
- Monitor the Council's return on investments.
- Maintain appropriate liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.
- Minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect the Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, and Trustees~~, investors and investment counterparties~~.

2.2 General borrowing

The Council's infrastructural and community assets generally have long economic lives and provide long-term benefits for the community. The use of external debt is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers in relation to the Council's assets and investments.

Whakatane District Council will use term external borrowing to fund capital works providing assets where:

- The benefits of such expenditure are received over terms greater than one financial year.
- The term of external borrowing is related to the expected economic life of the assets purchased or created (where assets are deemed to have a life in excess of 25 years, the maximum term of borrowing will be 25 years).

The Council raises external debt for the following primary purposes:

- Specific debt to fund the Council's capital works which are primarily infrastructure assets;
- Short term debt to manage timing differences between cash inflows and outflows and to maintain the Council's liquidity;
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of the Council's business.

2.3 Specific borrowing limits

In managing external core borrowing, the Council adheres to the following limits:

- Net interest expense of all external borrowings not to exceed 15% of total revenue.
- Net interest expense of all external borrowings not to exceed ~~12~~15% of total rates income.
- Net external debt as percentage of total revenue not to exceed ~~150~~175% (see note 1).
- External term debt, ~~available~~ unutilised portion of committed ~~loan~~ debt facilities and liquid funds are maintained at an amount of greater than 110% over existing external debt.
- Revenue is defined as cash earnings from rates, government capital grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total external debt less liquid funds.
- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) less interest income for the relevant period.

- Financial covenants are measured on the Council only not consolidated group.

Liquid funds are defined as:

- Overnight Bank cash deposits at 100% of value
- Wholesale / retail bank term deposits no greater than 30 days at 100% of value
- Bank Registered Certificates of Deposit (RCD's) less than 91 days at 100% market value

The following table summarises the specific borrowing limits that Council adheres to, in conjunction with the LGFA's lending covenants:

Ratio	WDC Policy limits	LGFA lending covenants	LGFA Foundation policy covenants for credit rated Councils
Net external debt as a percentage of total revenue	<~~150~~175%	<175% (see note 1)	<280%
Net Interest on external debt as a percentage of total revenue	<15%	<20%	<20%
Net Interest on external term debt as a percentage of annual rates income	<~~12~~15%	<25%	<30%
Liquidity ratio (Total external term debt plus unutilised ~~available~~ portion of committed ~~bank~~ debt facilities plus liquid funds over external debt)	>110%	>110%	>110%

Note 1: Council has approved the seeking of a credit rating and should a rating outcome of 'A' or above be achieved then the net external debt as a percentage of total revenue limit will increase to 250%.

2.4 Borrowing mechanisms

The Council is able to externally borrow through a variety of market mechanisms including, issuing fixed or floating wholesale and retail ~~loan stock/~~bonds, commercial paper (CP), LGFA, or direct bank borrowing (refer Appendix I). The Council is also able to internally borrow.

Any borrowing through the retail investor market must have the prior approval of the Council.

Alternative funding mechanisms such as leasing are evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

The internal debt portfolio is used as an input into determining the Council's external debt requirements. The Council's internal funding mechanisms are discussed in **Section (e).** In assessing strategies for new external borrowing in relation to source, pricing, size and term, delegated staff take into account the following:

- The impact of new debt on borrowing limits;
- Relevant margins and total cost under each borrowing source;
- The Council's overall debt maturity profile, to avoid concentration of debt at reissue/rollover time;

- Prevailing interest rates and margins relative to term for loan stock issuance, debt capital markets, LGFA, and bank borrowing and the Council's view of future interest rate movements;
- The impact on Council's credit rating (if relevant);
- Available terms from bank, LGFA, and the debt capital markets;
- Legal documentation, financial covenants, security requirements.

The Council is able to use a mixture of short term as well as longer term external funding to achieve an effective borrowing mix, balancing the requirements of liquidity, flexibility and cost.

The Council's ability to readily attract cost effective borrowing is largely driven by its ability to maintain a strong balance sheet, maintain a strong credit rating (if relevant), ~~-~~as well as its ability to rate, manage its image in the market and its relationship with its investors, LGFA, and financial institutions/brokers.

A borrowing strategy is determined on a six monthly basis which is approved by the ~~General Manager Finance and Corporate Services~~Chief Financial Officer & General Manager Business Partnering .

2.5 Liquidity, funding, and credit risk management

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term financial investments, loans and bank facilities.

Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

The management of the Council's funding risks is important to mitigate any adverse movement in borrowing margins, term availability and general flexibility.

Where possible the Council seeks a diversified pool of borrowing and ensures that bank borrowings are only sought from approved strongly rated New Zealand registered banks. Strongly credit rated banks have a short-term and long-term credit rating from Standard & Poor's (or equivalent) of at least A-1 and A respectively.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time, so that the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

The Council minimises its liquidity risk by:

- Matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour;
- Maintaining its financial investments in liquid funds;
- Ensuring where debt redemption reserves are maintained to repay borrowing, that these investments are held for maturities not exceeding the borrowing repayment date (see Section (h) of this Policy);
- Avoiding concentration of debt maturity dates (refer below).

To ensure funds are available when needed, the Council maintains sufficient available operating cash flow and committed debt~~bank~~ facilities and/or liquid funds to meet cash flow requirements between rates instalments as determined by the Finance Department. Investments have a maturity of no more than three months unless they are linked to pre-funding activity undertaken by Council. The Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings. Debt re-financings that have been pre-funded will remain included within the funding maturity profile until their maturity date. The liquidity ratio excludes cash held and associated debt raised under the pre-funding strategy.

To minimise the risk of large concentrations of external debt maturing or being reissued in periods where credit margins are high for reasons within or beyond the Council's control, delegated staff ensure external debt maturities are generally spread widely over a band of maturities.

Specifically, total committed funding in respect to all external debt/loans and committed facilities is controlled by the following system:

PERIOD	MINIMUM	MAXIMUM
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	60%

A funding maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, a maturity schedule outside these limits requires specific Council approval.

Once debt has been refinanced with a contracted term deposit (pre-funded), the term deposit amount will net off the maturing debt amount from the funding maturity profile percentage calculation.

The LGFA require that no more than the greater of NZD 100 million or 33% of a council's borrowings from the LGFA will mature in any 12-month period.

The Chief Executive has the discretionary authority to re-finance, rollover and re-negotiate existing debt on more favourable terms. Such action is reported to the Council at the earliest opportunity.

2.6 Internal borrowing

The Council uses its reserves to internally fund new capital projects. The Finance department is responsible for administering the Council's internal loan portfolio. Loans are set up within the portfolio based on planned loan funded capital projects as approved by Council resolution as part of the Annual Plan and the LTP.

The primary objective in funding internally is to use reserves and external borrowing effectively, by establishing a portfolio that provides funding to internal activity centres. This creates operational efficiencies through not paying fees/margins and other costs associated with raising funds from financial institutions.

In addition to external borrowing the following specific reserves may be used for internal borrowing purposes:

- Special Fund Reserves
- Harbour Property Fund
- Debt Redemption Reserves
- Rate Account surpluses

Interest is charged annually in arrears on all internal loans at the weighted average cost of external borrowing (including credit margin and other related costs). The Council has the ability to reset interest rates monthly if required.

2.7 Interest rate risk management

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the LTP or Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions/returns/feasibilities.

Generally, given the long-term nature of the Council's assets, intergenerational factors and the desire to avoid an adverse impact on rates, the approach is to have at least a minimum percentage of external core debt at a fixed interest rate.

The primary objective of interest rate risk management is to reduce uncertainty due to interest rate movements through fixing of funding costs. Both objectives are to be achieved through the active management of underlying interest rate exposures.

The ~~General Manager Finance and Corporate Services~~Chief Financial Officer & General Manager Business Partnering can consider alternative debt forecast scenarios that make assumptions around such matters as, the delivery and timing of the capital expenditure programme when designing the interest rate strategy.

The Council's gross forecast external debt should be within the following fixed/floating interest rate risk control limits:

Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	**Minimum Fixed Rate %**	**Maximum Fixed Rate %**
Current	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	50%
Year 9	0%	50%
Year 10	0%	50%
Year 11+	0%	25%

"Fixed Rate" is defined as all known interest rate obligations on gross forecast external debt, including where hedging instruments have fixed movements in the applicable reset rate.

"Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.

Gross forecast external debt is the amount of total external debt for a given period, excluding pre-funded debt amounts. This allows for pre-hedging in advance of projected physical drawdown of new and re-financed debt. When approved forecasts are changed (signed off by the ~~General Manager Finance and Corporate Services~~Chief Financial Officer & General Manager Business Partnering), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the policy minimum and maximum limits.

Interest rate swap maturity is limited by the maximum offered LGFA bond maturity, beyond this approval is required by Council.

Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average gross forecast external debt amounts for the given period (as defined in the table above).

A fixed rate maturity profile that is outside the above limits, but self corrects in less than 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by the Council.

The use of incidental hedge arrangements and counter-party exposure limits are outlined in Appendix II in respect of interest rate risk management instruments.

2.8 Security

The Council generally does not offer assets other than a charge over rates or rates revenue as security for general borrowing programmes and interest rate risk management instruments. Security is offered through the Debenture Trust Deed over the Council's rates and rates revenue. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Powers Act. The security offered by Council ranks equally or pari passu with other lenders.

From time to time, with prior Council approval, security may be offered by providing a charge over one or more of the Council's specific assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance);
- The Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the security arrangement.

2.9 Debt repayment

The Council repays borrowing from general funds, specific debt redemption reserves and renewal loans allocated to that borrowing, unless the Council specifically directs that the funds will be put to another use. The Council ensures that sufficient funds are available for repayment of debt and other obligations at the time of maturity. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate. Disaster recovery requirements are to be met through the liquidity ratio amount.

Where a loan is raised for a specific purpose and the funds are no longer required, the funds may be held in a special fund until the funds can be applied against a future borrowing.

The Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

2.10 Contingent liabilities

The Council, from time to time, provides financial guarantees to local organisations, groups or bodies for recreational and community purposes.

The Council cannot guarantee loans to Council Controlled Trading Organisations under Section 62 of the Local Government Act.

In determining whether a guarantee is to be approved, the Council considers the social benefits provided to the community and the following:

- The potential for loss of capital;
- where the Council assumes the asset in the case of default, the ongoing operating costs or completion costs of the asset;
- The nature of the organisation including its management, financial stability, cash flow forecasts and membership.

The total value of guarantees at any one time will not exceed 3% of the total annual rates, levied during that year. Total loan guarantees held at any time shall be taken into account when calculating the Council's maximum borrowing limit.

The Finance Department monitors the total value of guarantees provided, reporting quarterly to Council, when guarantees are provided.

As a condition of the guarantee, the guarantor's annual financial statements are to be promptly given to Council. Should the guarantee be called upon, the Council will take immediate steps to recover the money.

2.11 On-lending to Council Controlled Organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any on-lending arrangement (whether from Council or directly from the LGFA) to a CCO or CCTO must be approved by Council. Council must have approved the LGFA membership of the CCO/CCTO.

In recommending an arrangement for approval the Chief Financial Officer & General Manager Business Partnering ~~GMFCS~~ considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- Impact on Council's credit standing, debt cap amount (where applied), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

All on-lending arrangements must be executed under legal documentation that is reviewed and approved by Council's independent legal counsel.

2.12 Foreign exchange

The Council's policy is to identify, define, recognise and record these risks by their respective types or category and then to manage each risk under predetermined and separately defined policies/risk control limits for each risk category.

It is prudent practice to pre-hedge potential adverse foreign exchange rate movements on capital imports from the time the Capex budget is approved by Council. There is a risk that the net NZD cost could increase substantially from Capex budget time to the actual placement of the purchase order. It would be expected that the exact payment currency/amount, and payments schedule are known at the time of the purchase order and sale/purchases contract signed with the equipment supplier.

Capital and Operational Expenditure: Imported Items/services. The Council is exposed to foreign exchange risk on imported capital expenditure and operational expensed items/ services:

Contingent risk - this applies from the time the annual capital expenditure (Capex) and operational expenditure (Opex) budget is approved to the time specific Capex and Opex items are approved during the course of the year. This also includes the time from specific approvals to the time contracts are finalised.

Full risk - at the time the expenditure is approved and legal commitments are made.

Foreign Exchange Risk Control Limits

Capital and Operational Expenditure: Imported items/services – All individual items/ services greater than NZD100,000 must be hedged at all times in accordance with the following risk control limits:-

CAPITAL AND OPERATIONAL EXPENDITURE – FOREIGN EXCHANGE RISK CONTROL LIMITS		
TIME-POINT	**EXPOSURE COVERED BY FORWARD EXCHANGE CONTRACTS/COLLARS**	**EXPOSURE COVERED BY PURCHASED FOREIGN EXCHANGE OPTIONS**
1. Budget approved by Council (Medium Probability)		Up to a maximum 50%
2. Specific item approved (High probability)		Up to a maximum 100%
3. C~~c~~ontract confirmed (Legal commitment)	Minimum 100%	

The use of foreign exchange risk management instruments are approved by Council.

The Council does not borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

2.13 New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Liability Management Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (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 in the form of Borrower Notes;
- 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 borrowing 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.

3.0 INVESTMENT POLICY

Council recognises its fiduciary responsibility as a public authority and any investments that it holds should be at an appropriate level of risk, giving preference to conservative investment policies and avoiding speculative investments. The Council is a risk averse entity and does not wish to incur additional risk from its treasury activities.

The Council recognises its custodial responsibility and reviews the performance and purpose of all investments on an annual basis. The ~~General Manager Finance and Corporate Services~~Chief Financial Officer & General Manager Business Partnering reports on all investments quarterly at the Risk and Assurance Committee meeting.

In its investment activities the Council is guided by the Trusts~~ee~~ Act of 2019 (effective 30 January 2021). When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

3.1 Investment Mix

An investment asset is an asset owned by the Council for the delivery of Council services and includes and is not limited to land, buildings and infrastructure. A non-operational asset is owned by the Council that is not an investment asset. From time to time, the Council holds the following investment assets:

- Equities
- Property
- Forestry
- Internal loans
- Treasury financial instruments

Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.

The Council will review its policies on holding investments at least once every three years.

3.2 Use of Sale Proceeds on Disposition of Operational Assets

Net proceeds from the sale of an Operational Asset are returned to the relevant operational account and utilised as follows:

- If there was debt attributable to the asset, payment of that debt is the first call upon any proceeds of sale (that is the cash value less any costs relating to the sale).

The proceeds of sale (that is the cash value less any costs relating to the sale) following the retirement of any debt will be used for the purposes of:

- The retirement of debt in relation to assets; or
- The funding of the purchase of new assets (as scheduled within a relevant Asset Management Plan); or
- The purchase of strategic assets; or
- Transferred to an appropriate reserve; or
- The funding of one off operational expenses.

The proceeds will not be used to fund general operational expenditure.

3.3 Equity investments

Equity Investments are held for various strategic, economic development and financial objectives as outlined in the LTP.

Council holds equity investments in Civic Financial Services Ltd (formerly the NZ Local Government Insurance Corporation),,Bay of Plenty Local Authority Shared Services Ltd

(BOPLASS) and NZ Local Government Funding Agency (LGFA) as part of the Council's membership. Council may also invest in other equity investments, including investments held in CCO/CCTO and other shareholdings.

Council also has a 50:50 joint equity venture with the Crown (Ministry of Transport – Air Transport division) in the ownership of the Whakatane Airport. This investment is held for the strategic purpose of providing public access to emergency and scheduled air services to the Eastern Bay of Plenty. The Council controls the operation of the airport and the results of operations are consolidated by equity method into the Council's financial accounts. The Whakatane Airport Annual report is reviewed and adopted by the Council prior to 30 September.

Income from the Council's equity investments, including dividends, is included within general income. Dividends received from investments not controlled by Council are used firstly to repay debt in relation to that investment, then unless otherwise directed by Council, used to reduce other Council debt. Refer to section 1.2 on use of sale proceeds on disposition of operational assets.

The Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

The sale or purchase of all equity investments requires the prior approval of the Council.

3.4 Property investments

The Council owns harbour endowment land that is currently leased to commercial tenants. Historically there were strategic and commercial reasons for holding this land, but the Council is now considering the option of selling a number of sites to leaseholders. Where appropriate the Council will consult with Iwi on property disposal and acquisitions.

The Council owns a number of other properties. Each year, the Council reviews the performance of all its property investments to ensure that the benefits of continued ownership are consistent with stated objectives.

All rental income received from the harbour endowment land is recorded in the Harbour Activity Account. Other property income is recorded as general funds or credited to the appropriate reserve account.

Council approval is required for the sale and purchases of all property investments and are managed to ensure compliance with statutory requirements.

Property purchases are supported by registered valuations and where appropriate a full business case analysis. Council will not purchase properties on a speculative basis.

3.5 Forestry investments

The Council owns forestry assets. These assets are held as a long-term commercial investment to assist in maximising the return on the land. Income is included in general revenue. Any sale or purchase of forestry assets requires the prior approval of the Council. Refer to section ~~1~~3.2 on use of sale proceeds on disposition of operational assets.

3.6 Treasury financial investments

In investing in treasury financial instruments Council's primary objective is the protection of its investment capital.

For the foreseeable future the Council will be in a net borrowing position although the Council holds funds from time to time as its cash flows dictate as well as those derived from its reserves and other funds. Investments are therefore made for the following primary reasons:

- to invest surplus cash and working capital funds.
- to invest monies allocated to general and specific reserves, and debt redemption reserves.
- to invest Harbour Property Fund sale proceeds (refer Section 1.4 of this policy).

General, specific, and debt redemption reserves, and the Harbour Property Fund are invested in liquid, short term investments or internally lent to fund activity centre infrastructure projects. The Council allocates funds between those investments that emphasise capital protection, are liquid and have regular interest payments. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties are covered in Section 3~~1~~.13. Credit ratings are monitored and reported annually to Council.

Council may invest in approved financial instruments as set out below. These investments are aligned with Council's objective of investing in high credit quality and liquid assets.

Treasury financial investments are held to maturity date. In the unusual circumstance where investments are liquidated prior to maturity, approval is obtained from the Chief Financial Officer & General Manager Business Partnering . Proceeds from the redemption of treasury financial investments are used in accordance with the terms of the original purpose of the reserve or fund, or in accordance with a resolution of the Council.

Interest income from treasury financial investments is credited to general funds, except for income from investments for specific reserves, debt redemption reserves, and the Harbour Property Fund, where interest is credited to the particular reserve or fund.

Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

(a) Financial investment objectives

The Council's primary objective is to preserve the capital value of investments. Accordingly, investment is restricted to creditworthy institutions (counter parties) that must have a minimum short-term credit rating of A-1 and a long-term credit rating of A from Standard & Poors (or equivalent recognised agency) (see the Counterparty Exposure Limits Section).

Within its credit constraints contained above the Council seeks to:

- Ensure investments are liquid
- Diversify the mix of financial investments
- Optimise investment return within Policy parameters.
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity

The following principles capture the objectives outlined above and form the key assumptions of the operating parameters contained in Counterparty Exposure Limits:

- Credit risk is minimised by placing maximum limits for each broad class of non-government issuer and by limiting investments to the LGFA and registered banks within prescribed limits.
- Liquidity risk is minimised by managing maturity terms to future expenditure requirements and ensuring that all investments are capable of being liquidated.
- Treasury financial investments are restricted to a term of no more than three months (unless linked to pre-funding debt management activity).
- The Council's treasury financial investments are structured to provide sufficient funds to meet Council's cash flow and capital expenditure obligations as they fall due.

(b) Approved treasury financial investment instruments

Within the constraints of the Counterparty Exposure Limits, the Council invests in the following instruments:

- Government securities.
- LGFA securities and borrower notes.

- Registered bank securities and deposits.

A full list of approved instruments and their definitions are contained within Appendix III.

(c) Interest rate risk management

The Council's treasury financial investments give rise to a direct exposure to a change in interest rates, impacting upon the financial return and potentially the capital value of its investments.

A key part in the management of treasury financial investments is the formulation of an interest rate strategy. An interest rate strategy is approved by the Chief Financial Officer & General Manager Business Partnering .

Once approved the interest rate risk management strategy is implemented by:

- Using risk management instruments to protect investment returns and to change the interest rate profile.

The use of interest rate risk management instruments requires the approval of the Council. Approved risk management instruments are outlined in Appendix II.

3.7 Harbour property fund (HPF)

The Council holds the net proceeds from the sale of harbour property land in a separate fund for the long-term benefit, management and development of the District's Ports and associated lands. The fund is considered separately from other financial investments discussed in Section 3~~1~~.6 of the Policy.

The Harbour Property Fund (HPF) is managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. External fund managers may be appointed in the knowledge of and operate the portfolio according to, the investment guidelines outlined in the SIPO.

The Council will be responsible for the following:

- Setting the Fund's Investment Strategy, including the level of risk and investment performance objectives, and investment policies.
- Determining the appropriate number of investment managers, and selecting and changing those managers as appropriate after having taken advice from the Investment Consultant.
- Reviewing the SIPO on a tri~~bi~~ennial basis, including the Investment Strategy, policies and manager configuration, and instructions to the Investment Consultant.
- Ensuring that the level of redemptions from the Fund is consistent with the Fund's objective to maintain equity, in terms of amounts available for distribution, between present and future generations.
- Providing cash flow information to the Investment Consultant with respect to future deposits and redemptions.
- Appointing the Investment Consultant.

Financial instruments and credit restrictions for funds under management in the HPF are separate to that within the Investment Policy as per the Council approved SIPO.

The Fund's investment objectives are to:

- Preserve the capital value of the fund.
- Maintain the real capital value of the fund with regard to inflation.
- Invest in instruments that provide a constant income stream.

Specific investment policies relating to this Fund are:

- That the inflation adjusted capital value of the fund will not be withdrawn.

- That the funds may be invested to offset the Councils internal borrowing.

3.8 New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Investment Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

The Council's objective in making any such investment will be to:

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

Because of these dual objectives, 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 alternative investments.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

3.9 Acquisition of new investments

With the exception of treasury financial investments, new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, the Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment. The authority to acquire financial investments is delegated to the Chief Financial Officer & General Manager Business Partnering .

3.10 Investment management and reporting procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long-term cashflow through the annual Rolling Cashflow Forecast. To maintain liquidity, Council's investment maturities are matched with Council's known cash flow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed through regular reporting.

3.11 Debt redemption reserves

The Council no longer sets up sinking funds for new loans but may establish specific Debt Redemption Reserves for each new borrowing. As Council is a net borrower for the expected life of the reserve, the funds are utilised for internal loan purposes and managed within the internal borrowing policy.

3.12 Foreign exchange

The Council does not invest or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

3.13 Counter party exposure limits

The Council ensures that all investment and interest rate risk management activity is undertaken with institutions that have a strong credit rating. -This is to ensure that the amounts owing to the Council are paid fully and on due date. -Default or credit risk is minimised through a combination of portfolio diversification.

More specifically, the Council minimises its credit exposure by:

- Transacting with entities that have a short-term and long-term credit rating from Standard & Poors (or equivalent recognised agency) of at least A-1 and A respectively
- Limiting total exposure to prescribed amounts
- Ensuring investments are liquid
- Monthly monitoring of compliance against set limits

The following table summarises credit requirements and limits:

COUNTERPARTY	MINIMUM S&P SHORT/LONG TERM CREDIT RATING	TOTAL EXPOSURE LIMIT (INVESTMENTS AND ~~DERIVATIVES~~RISK MANAGEMENT INSTRUMENTS) FOR EACH COUNTER PARTY
NZ Government	N/A	Unlimited
Local Government Funding Agency	A-1 / AA-	Unlimited
NZ Registered Bank	A-1 / A	$40 million

Approval is required from the Council for any alterations to these limits.

If any counter party's credit rating falls below the minimum specified in the above table, all practical steps are taken to reduce the credit exposure to that counter party to zero as soon as possible. Counterparties exceeding limits are reported to the Council.

In determining the usage of the above gross limits, the following product weightings will be used;

(a) On balance sheet

Total amounts invested with that counterparty, i.e. transaction principal * weighting 100%.

(b) Interest rate and foreign exchange rate risk management instruments:-

- Credit exposure on interest rate contracts is computed by multiplying the face value of outstanding transactions by an interest rate movement factor of 3% per annum i.e. notional amount x maturity (years) x 3%.
- Credit exposure on foreign exchange is computed by multiplying the face value amount by the (square root of the maturity (years) x 15%)

4.0 DELEGATED AUTHORITIES AND LIMITS

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind the Council.

Whenever a person with delegated authority on any account or facility leaves the Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Delegated responsibilities and authority limits are captured within Council's delegation register.

5.0 CASH MANAGEMENT

From time to time, the Council has daily cash flow surpluses and borrowing requirements, due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the Finance Department.

The Council maintains a daily cash position report, and an annual rolling cashflow projection is prepared during the Annual Planning process and reviewed monthly. These reports determine the Council's borrowing requirements and surpluses for investment for the year.

Detail captured within the Treasury Procedures Manual should include:

- Positional responsibilities, including related entity requirements.
- Daily, weekly, annual rolling cash and cash flow forecasting reports.
- Overnight liquidity buffer requirements.
- Mechanisms for an efficient and effective cash management function

6.0 OPERATIONAL RISK

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.

Operational risk is minimised through the adoption of all requirements of this Policy and detailed within the Council's Treasury Procedures Manual.

Segregation of duties will be maintained in line with the identified treasury roles and responsibilities as provided for in Appendix IV, and in accordance with the organisations Delegations Policies.

7.0 LEGAL RISK

Legal risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, the Council may be exposed to such risks.

The Council will seek to minimise this risk by adopting policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. The Council's internal/appointed legal counsel must sign off on all documentation.

Financial covenants and other obligations

The Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. The Council must comply with all obligations and reporting requirements under existing funding arrangements and legislative requirements.

8.0 TREASURY PERFORMANCE

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

- Operational performance; compliance to Policy and treasury deadlines.
- Management of debt and interest rate risk (borrowing costs); actual borrowing costs to budget rates ~~and market benchmarks~~.

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to Council or an appropriate sub-committee of Council on a six weekly basis.

9.0 REPORTING

Treasury reporting is conducted on a monthly, quarterly, and as required basis reporting on the Council's borrowing and investment position to Council, and where relevant external parties. Such reports detail month end position to risk control limits (borrowing limits, funding, interest rate, and liquidity), debt management position, and compliance.

Accounting treatment of financial instruments

The Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to actively manage the Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's annual accounts.

The ~~General Manager Finance and Corporate Services~~Chief Financial Officer & General Manager Business Partnering is responsible for advising the Chief Executive of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least every six months for risk management purposes.

The following reports will also be produced and any exceptions are reported to Council:

Daily

- Cashflow monitoring

Monthly Executive reported via CFO and or Executive Leadership team reviews (reported quarterly via Finance and Performance Committee)

- Gross and Net Debt Position including forecasts
- Current Fixed Debt Levels
- Interest Revenue & Expenditure
- Borrowing Limit Compliance
- Performance against benchmarks

Quarterly Treasury Strategy Update – reported via Risk and Assurance Committee

- Debt maturity profile
- Performance against benchmarks and budgets
- Fixed & Floating Debt profile

- Liquidity Risk

LGFA - Total debt and WDC debt

10.0 POLICY REVIEW

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes.

The ~~General Manager Finance and Corporate Services~~Chief Financial Officer & General Manager Business Partnering has the responsibility to prepare the annual review report that is presented to the Council. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

The Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes.

APPENDIX I - APPROVED BORROWING MECHANISMS

1.0 BANK BORROWING

1.1 Overdraft

Overdraft facilities are calculated on a simple interest basis with interest calculated daily and paid in arrears. Overdraft facilities are usually for a term of up to one year and are priced off the bank's indicator rate. Most organisations use these facilities to borrow on an overnight basis.

The lending bank sets the indicator rate (which includes a liquidity and credit margin) at the time of negotiating the facility along with a line fee (expressed in basis points or percentage points per annum). This rate is usually set for the term of the facility.

1.2 Committed and Uncommitted Bank Facilities

Committed bank facilities are calculated on a simple interest basis with interest paid in arrears (at the end of the borrowing period). Committed bank facilities are usually for a term of up to three years but may be for as long as five years. Most facilities allow for the borrower to draw up to the facility limit in various short term tranches, 90 day tranches is typically the drawdown period. Council is able to borrow, repay and redraw over the term of the facility.

The lending bank sets the bank bill bid market settlement (BKBM Bid) rate at the time of lending along with the line fee (expressed in basis points or percentage per annum) and credit margin. The BKBM Bid rate generally re-prices on a 90 day basis. The line fee and margin are generally fixed for the term of the facility.

2.0 Local Authority Stock/Bonds

Local authority stock is registered and issued via tender or private placement to a range of investors. It can be issued into the wholesale or retail investor market. Stock is usually issued for maturities ranging from 90 days (CP)~~-~~ and one to ten years (stock). Normally a fixed coupon payment, determined at the outset, is made ~~semi annually~~semi-annually to the holder of the security. A 90 day floating interest rate may also be determined. The stock is registered with the Council appointed registrar. The paper can be unrated or credit rated by a rating agency like Standard & Poor's.

Private placement generally provides better rates for the Council as the relationship bank approaches their investor base for interest and both the Council and the investor are assured of anonymity. The relationship bank completes the documentation required. With a tender situation the issuing Council must provide an invitation to tender, an information memorandum, bid forms and a covering letter to all participants. The tender is widely advertised and market bids are obtained.

3.0 NZ Local Government Funding Agency

The NZ Local Government Funding Agency (LGFA) has been developed as a centralised Local Authority debt vehicle to generate significant benefits in respect of lower credit margins for the sector. The LGFA raises funds that are then lent on to Local Authorities at lower interest margins than those achievable through other sources. The LGFA achieves this through; economies of scale, credit rating arbitrage, and regulatory arbitrage. The LGFA also diversifies the sector's funding sources and improves the sectors access to liquidity and funding terms.

For LGFA placements, the Council can borrow at scheduled tender dates or via bespoke borrowing whereby Council provides two ~~days notice~~day's notice of requirements. Ahead of these dates, Council informs the LGFA of its required funding amount and term. The LGFA tenders, and raises funds on behalf of Council.

When the Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

APPENDIX II –APPROVED INTEREST AND FOREIGN EXCHANGE RATE RISK MANAGEMENT INSTRUMENTS

1.0~~(N)~~ INTEREST RATE RISK MANAGEMENT INSTRUMENTS

The use of interest rate risk management instruments is approved by Council as part of this policy.

Interest rate risk management instruments approved for use, consistent with the policy contained in Section 2.7~~(f)~~ are:

- Fixing through physical borrowing instruments – e.g. loan stock, debentures, bank term loan
- Floating rate bank debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Forward Rate Agreements (FRA) on bank bills and government bonds. ~~(o)~~ Interest rate swaps including:
  - Forward start swaps/collars (start date less than 36 months unless linked to existing maturing fixed rate instruments);
  - Amortising and accreting swaps;
  - Swap restructurings
  - Purchase of interest rate options products on:
  - Swaptions.
    - Bank bills (purchased caps and one for one collars)
    - Government bonds.

- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.
- Interest rate collar type option strategies. 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, only the sold side of the collar can be closed out in isolation (i.e. repurchased) otherwise both sides must be closed out simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- The forward start date of the collar strategy is to be no more than 36 months, and the underlying cap, swap commences within this period, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.
- Purchased borrower swaptions only that mature within 18 months.
- Additions to and deletions from this list are recommended by the General Manager Finance and approved by the Council.
- A glossary of terms for interest rate risk management mechanisms are set out in Appendix IV~~II~~.

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. Credit exposure on these financial instruments is restricted by specified counter party credit limits (refer Investment Policy).

The following interest rate risk management instruments are NOT permitted for use:

- Interest rate options must not be sold outright.
- Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.

- Structured interest rate option strategies where there is any possibility of the Council's total interest expense increasing in a declining interest rate market or where the Council's total interest cost is increasing faster than the general market rate.
- Interest rate futures contracts, mainly for administrative ease.
- Interest rate risk management instruments in foreign currency (see s113 of the Act).

2.0~~(P)~~ FOREIGN EXCHANGE RATE RISK MANAGEMENT INSTRUMENTS

The use of foreign exchange rate risk management instruments is approved by the Council as part of this Policy.

Foreign exchange rate risk management instruments approved for use, consistent with the Policy contained in Section (~~j~~2.12) are:

- Foreign currency deposits
- Purchased currency options
- Forward foreign exchange contracts
- One for one collars
  - Foreign exchange options cannot be sold outright.
  - The purchase price paid for an option (premium) is to be amortised (spread) over the period of cover and added to the actual average exchange rate achieved by the Council.

Financial instruments other than those stipulated in Appendix II above require one-off Council approval prior to transacting.

APPENDIX III - APPROVED FINANCIAL INSTRUMENTS

1.0 NEW ZEALAND GOVERNMENT

1.1 Treasury Bills

Treasury bills are registered securities issued by the Debt Management Office (DMO) on behalf of the government. They are usually available for terms of up to a year, with 90 or 180 day terms generally preferred by investors. They are discounted instruments held primarily for bank balance sheet liquidity management purposes.

1.2 Government bonds

Government bonds are registered securities issued by the DMO on behalf of the government. They are available for terms ranging from one to twelve year maturities. Government bonds have fixed coupon (interest) payments every six months. It is quoted on a semi annual yield basis and is priced on a discounted cashflow basis. It is readily negotiable in a secondary market.

2.0 NZ LOCAL GOVERNMENT FUNDING AGENCY

2.1 Commercial Paper (also known as Promissory Notes)

Commercial paper (CP) is issued by borrowers who usually have a credit rating and standing in the market that is sufficient to enable the CP to be issued without endorsement or acceptance by a bank. In this instance the LGFA being highly credit rated. Commercial paper is issued with maturities ranging from 7 days to over one year. The common maturities are for 30 and 90 days. Council is restricted to investing in CP with maturities of no more than 90 days. CP is generally preferred over term deposits because investors can sell them prior to maturity without suffering the penalty interest costs common to term deposits.

2.2 Borrower Notes

On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

2.3 Bonds

With a medium term note (MTN) a fixed coupon payment is made semi-annually to the holder of the security. They are priced on a semi-annual yield basis and are issued at a par/premium or discount to face value. Floating rate notes (FRN) are bonds where interest is paid quarterly at a margin over the bank bill bid rate. LGFA bonds are negotiable and can be bought and sold in the secondary market.

3.0 NEW ZEALAND REGISTERED BANKS

3.1 Call and Term deposits

Call and term deposits are funds accepted by the bank on an overnight basis (call) or for a fixed term. Interest is usually calculated on a simple interest basis. Term deposits are for a fixed term that is held to maturity. Term deposits are not negotiable instruments and termination prior to maturity date is only achievable with 31 days notice.

3.2 Registered Certificates of Deposit (RCD)

RCDs are securities issued by banks for their funding needs or to meet investor demand. They are registered at the RBNZ or held 'on behalf of' by the dealing bank. Details of registration include the name of the investor, face value and maturity date. Ownership can only be transferred by electronic transfer. RCDs are priced on a yield basis and issued at a discount to face value or on a grossed up basis. They are generally preferred over term deposits because investors can sell them prior to maturity.

APPENDIX IV – ROLES AND RESPONSIBILITIES

- Full Council (of elected members)
- Risk and Assurance Committee (RAC)
- Executive (Chief Executive (“CE”) and / or CFO and General Manager of Business Partnering (“CFO”))
- Chief Financial Officer and General Manager of Business Partnering (“CFO”)
- Manager Financial Accounting
- Financial Accountant
- Financial Planning and Reporting Manager or Senior Management Accountant

The respective responsibilities of those personnel involved in the treasury function are detailed below.

Council – or approved committee of council

- Approves the treasury policy in line with Long Term Plan adoption.
- Approves any amendments to the policy as recommended by the executive.
- Approves total borrowing through the borrowing resolution within Long Term Plan adoption
- Approves any risk management strategies proposed from time to time outside the delegated authorities outlined in this policy
- Approves any new borrowing or financing arrangements outside normal general borrowing as approved under the borrowing resolution including allowable financial instruments.
- Approves amendments to existing LGFA agreements

Risk and Assurance Committee (RAC)

- The council committee in charge of risk monitoring considers on a quarterly basis the implementation of the Council’s treasury management strategies.
- Monitors and reviews the management of the treasury function to ensure that it is effective and Council’s strategic objectives are being met.
- Recommending the Treasury Policy (or changes to existing policy) to the Council.
- Receiving recommendations from the CFO and GM of Business Partnering/Manager Financial Accounting and making submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for all treasury activities.
- Monitoring quarterly performance against benchmarks.
- Recommend to Council new financial instruments.

Executive (CE or CFO)

- Approves any amendments to the Treasury Policy recommended by the Manager Financial Accounting
- Approves funding from bank facilities and the capital markets including the Local Government Funding Agency (“LGFA”).
- Recommends the borrowing resolution to council based on relevant approved annual plan and Long Term Plan

Manager Financial Accounting

- Organises all new or amended borrowing facilities which shall then be submitted to the CE for approval or GM as appropriate per delegation
- Undertake borrowing and investment consistent with Treasury Policy
- Undertake interest rate risk management in accordance with the Treasury Policy
- Reports quarterly to the Risk and Assurance Committee on treasury risk management activities.
- Manages the funding and liquidity activities of the Council.
- Maintains lender relationships with the banks and the capital markets including the LGFA.
- Monitors and reviews the ongoing treasury risk management performance of the Council to ensure compliance with the policy parameters.
- Responsible for preparation of all treasury reports

- Determines in consultation with the Financial Planning and Reporting Manager (or Senior Management Accountant) the level of future core debt to be used for interest rate risk management purposes.

Financial Accountant (or Manager Financial Accounting subject to segregation of duties)

- Undertakes all treasury transactions which will include but not be limited to the following:
  - Funding from bank facilities and the capital markets including the LGFA.
  - Interest rate derivative transactions relating to the hedging of the Council's debt.
  - Placing of deposits in the short term money market or fixed interest market.
  - Investing in bonds in the fixed interest market.
  - Interest rate derivative transactions relating to the hedging of the Council's debt.
  - Undertakes short term borrowing transactions with the bank or from the LGFA.
  - Invests surplus cash for terms generally not exceeding 90 days.
  - Checks external counterparty advices on treasury transactions to records generated internally by other staff.

Financial Planning and Reporting Manager (or Senior Management Accountant)

- Provides support and review to Treasury function
- Ensures borrowing resolution and Treasury activities consistent with annual plan and or Long Term Plan and current business issues and operations
- Monitors and reviews the ongoing treasury risk management performance to ensure compliance with the policy parameters.

APPENDIX V - DELEGATIONS

Activity	Delegated to:	Limit
Approve policy document	Council (or appropriate Committee)	Unlimited
Alter policy document	Council (or appropriate Committee)	Unlimited
Acquisition and disposition of investments other than financial investments	Council (or appropriate Committee)	Unlimited
Approving new and reviewing re-financed bank facilities.	Chief Financial Officer or CE	Subject to Policy
Approval of borrowing programme for the year	Council (or appropriate Committee)	Unlimited (subject to legislative and other regulatory limitations)
Approval for charging assets as security over borrowing	Council (or appropriate Committee)	Unlimited
Approve interest rate, foreign currency and electricity price risk management instruments	Council (or appropriate Committee) (outside policy as otherwise delegated to Manager Financial Accounting through this policy	Subject to Policy
Open/close bank accounts	Chief Financial Officer in conjunction with other authorised signatories of which two including CFO are required	Unlimited
Loan and legal derivative documentation	Chief Financial Officer	N/A
Approve authorised cheque/electronic signatories	Manager Financial Accounting or other authorised signatories two required	Unlimited
Maximum daily transaction amount (borrowing, investing, interest rate, foreign currency, electricity price risk management and cash management) excludes roll-overs on existing debt and interest rate swaps.	Council (or appropriate committee) Chief Executive Officer or as subdelegated to Chief Financial Officer	Unlimited Per delegations policy
Approve Treasury Strategy	Council (or appropriate committee)	N/A
Amend counterparty limit exposures	Council (or appropriate committee)	Unlimited
Implement Policy	Chief Executive and sub delegated to Chief Financial Officer	Per policy risk control limits
Ensuring compliance with Policy	Chief Financial Officer	N/A
Approving transactions outside Policy	Council (or appropriate committee)	Unlimited
Triennial review of Policy	Chief Financial Officer	N/A

APPENDIX VI~~II~~ - GLOSSARY OF TERMS FOR TREASURY MANAGEMENT

Term	Definition
Amortising Swap	An interest rate swap contract that has a reducing principal or notional amount over the term of the contract period. The appropriate market swap rate from which to price an amortising swap is the weighted average maturity, not the final maturity date.
Accreting Swap	An interest rate swap contract that has an increasing principal or notional amount over the term of the contract period. The appropriate market swap rate from which to price an accreting swap is the weighted average maturity, not the final maturity date.
Bank Bill	A "bill of exchange" security document issued by a corporate borrower, but guaranteed by a bank, who then in turn sells the security into the bank/investor market to re-liquefy itself with cash. Normally for terms of 30, 60, 90 or 180 days.
Base rate	Normally a lending bank's cost of funds/interest rate for a particular funding period. The base or "prime" rate will be changed by the bank from time to time, but not every day like market rates.
Basis Point(s)	In financial markets it is normal market practice to quote interest rates to two decimal places e.g. 4.25% - one basis point is the change from 4.25% to 4.26%, one hundred basis points is the change from 4.25% to 5.25%.
Basis Risk	The risk that the interest rate difference between the current physical debt instrument (say, a bank bill) market interest rate and the interest rate quoted for that debt instrument's future price (say, a bank bill futures price) changes over the period to the date of the future price.
Benchmark	An agreed market related yardstick that investor returns, funding costs or average exchange rate achieved are compared against for performance measurement purposes.
Bid–Offer Spread	The exchange points (FX) or basis points (interest rates) difference between the bid and offer rate when quoted by a bank is known as the "bid-offer spread". Banks make their profits from dealing at their own bid and offer prices, thus earning the spread.
Bid Rate	Exchange rates and interest rate securities/instruments that are traded between banks are always quoted as a two-way price. One rate is where the quoting bank will buy – the bid rate, the second rate or price where the bank will sell at – the offer rate.
Bond	The security instrument that is issued by a borrower whereby they promise to repay the principal and interest on the due dates. A bond's interest rate is always fixed.
Bond FRA	A tailored contract to buy or sell a bond (Government or Corporate) at a fixed interest rate at some specified future date. The Bond FRA contract rate will differ from the current physical market bond yield, depending on the slope of the interest rate yield curve.
Bond Option	The right, but not the obligation by the owner/holder of the option to buy or sell bonds (Government or Corporate) at a predetermined interest rate at a

specified future date. The buyer pays a "premium" in cash up-front to reduce risk and have insurance-type protection, the seller or grantor of the bond option receiving the premium for assuming the risk.

Call Option	The owner or buyer of a call option has the right, but not the obligation, to buy the underlying debt security/currency/commodity at the price stated in the option "contract.
Cap	A series or string of bought interest rate put options whereby a borrower can have protection against rising short term interest rates, but participate in the lower rates if market rates remain below the "capped rate." A cap is normally for more than one 90-day funding period.
Caplet	A series of call options (caplets) which exist for each period the cap agreement is in existence.
Certificate of Deposit "CD"	A debt instrument (normally short term) issued by a bank to borrow funds from other banks/investors.
Closing-Out	The cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss as the current market rate differs from the contract rate.
Collar	Two option contracts linked together into the one transaction or contract. A borrower's collar is normally a bought "cap" above current market rates and a sold "floor" below current rates. Over the term of the collar contract, if rates go above the cap the borrower is protected and pays an interest cost no more than the cap rate. Likewise, if market rates fall below the floor, the borrower pays the floor rate and does not participate in the lower market rates. Also called a "cylinder".
Collateral	A legal term means "security".
Commercial Paper	The debt security instrument issued by a prime (and normally credit-rated) borrower to raise short-term funds (30, 60, 90 or 180 days). Also called "one-name paper" and "promissory notes" issued by competitive public tender to investors or by private treaty to one investor.
Commoditised	When a financial market or instrument becomes so popular and "plain vanilla" that there is no longer any difference in the prices quoted by participants in the market.
Convexity	A measure of the degree of curve or slope in an interest rate yield curve.
Convertible Bonds	A debt instrument issued to investors by a borrower that has a fixed interest rate for a period and then converts (under a strict pricing formula) to shares in the issuing company.
Coupon	The interest rate and amount that will be paid on the interest due dates of a bond. The coupon will normally differ from the purchase or issue yield/interest rate on a bond instrument.
Counter party	The contracting party to a financial transaction or financial instrument.
Covenants	Special conditions and financial ratios required to be met or maintained by a borrower for a lender under the legal security documents.

Cover	A term used to describe any action of entering financial instruments that reduces risk or puts protection in place against adverse future price movements.
Credit Default Swap	A credit default swap (CDS) is a credit derivative between two counterparties, whereby one makes periodic payments to the other and receives the promise of a payoff if a third party defaults. The former party receives credit protection and is said to be the "buyer" while the other party provides credit protection and is said to be the "seller". The third party is known as the "reference entity". CDS resemble an insurance policy, as they can be used by debt owners to hedge, or insure against credit events such as a default on a debt obligation. However, because there is no requirement to actually hold any asset or suffer a loss, credit default swaps can also be used for speculative purposes.
Counterparty Credit Risk or Exposure	The risk that the other party to a financial transaction (bank deposit, interest rate swap contract) will default on or before the maturity date and not be able to fulfil their contractual obligations.
Credit Spread	The interest rate difference (expressed as basis points) between two types of debt securities. The credit spread being a reflection of the difference in credit quality, size, and liquidity between the two securities e.g. five year corporate bonds may be at a credit spread of 200 basis points above Government bonds.
Current Ratio	A liquidity measure to determine how quickly the Council can generate cash. Current assets are divided by current liabilities.
Debenture	A debt instrument similar to a bond whereby a borrower (normally a finance company) borrows for a longer term at a fixed rate. Also a legal instrument provided as security to a lender.
Delta	"Greek" letter that measures how the price of an option (premium) changes given a movement in the price of the underlying asset/instrument.
Derivative(s)	A "paper" contract whose value depends on the value of some "underlying" referenced asset e.g. share market stocks, bank bills, bonds or foreign currency. Also called a "synthetic." The value of the assets will change as its market price changes; the derivative instrument will correspondingly change its value.
Digital Option	An option contract that provides a predetermined payout based on an agreed and contracted market price path.
Discount	A bond or bank bill is discounted when the interest rate is applied to the face value of the security and the net proceeds after deducting the interest is paid out to the borrower. Investors pay for the discounted (NPV) value at the commencement of the investment and receive the interest coupon payments along the way and the full face value at the maturity date.
Duration	Not the simple average maturity term of a debt or investment portfolio, but a measure of the interest rate risk in a portfolio at a particular point in time. The duration of a portfolio is the term (measured in years and months) if the total portfolio of bonds/fixed interest investments was revalued at market rates and expressed as one single bond. The profit/loss on revaluation of a one basis point movement being the same in both cases.

Embedded Option	An option arrangement that may be exercised by a borrower at a future date, but the determining conditionsare buried or "embedded" in a separate debt or financial instrument.
Eurodollar	The borrowing and depositing of a currency outside its domestic financial markets.
Event Risk	The risk of a major/unforeseen catastrophe e.g. earthquake, year 2000, political elections, adversely affecting a Council's financial position or performance.
Exchange - Traded	A currency, debt or financial instrument that is quoted and traded on a formal exchange with standardised terms, amounts and dates.
Exercise Date/Price	The day and fixed price that an option contract is enforced/actioned or "exercised" because it is in the interests of one of the parties to the contract to do so.
Fair Value	The current market value of an off-balance sheet financial instrument should it be sold or closed-out on the market rates ruling at the balance date.
Federal Reserve	The US Government's central bank and/or monetary authority.
Fixed Rate	The interest rate on a debt of financial instrument is fixed and does not change from the commencement date to the maturity date.
Floating Rate	The interest rate on a loan or debt instrument is re-set at the reference market interest rates on the maturity date of the stipulated funding period (usually 90-days).
Floor	The opposite of a "cap." An investor will buy a floor, or a series/string of call options (the right to buy) to protect against falling interest rates, but be able to invest at higher interest rates if rates move upwards. A borrower may sell a floor as part of a collar structure to generate premium to pay for the "linked" bought cap.
Floorlet	A series or string of floor options which exist for each period the floor agreement is in existence.
Forward Rate Agreement	A contract ("FRA") whereby a borrower or investor in Bank Bills or Government Bonds agrees to borrow or I invest for an agreed term (normally 90-days) at a fixed rate at some specified future date. A FRA is an "over-the-counter" contract as the amount and maturity date is tailored by the bank to the specific requirements of the borrower/investor.
Forward Start Swap	An interest rate swap contract that commences at a future specified date. The rate for the forward starting swap will differ from the current market rate for swaps by the shape and slope of the yield curve.
Funding Risk	The risk that a borrower cannot re-finance its debt at equal or better terms at some date in the future, in terms of lending margin, bank fees and funding time commitment. Funding risk may increase due to the Council's own credit worthiness, industry trends or banking market conditions.
Futures	Exchange-traded financial and commodity markets which provide forward prices for the underlying asset, instrument or commodity. Futures contracts are standardised in amount, term and specifications. Futures markets are

	cash-based, transacting parties do not take any counter party credit risk on each other. Deposits and margin-calls are critical requirements of all futures markets.
Gamma	"Greek" letter used in option pricing that measures how rapidly the delta of an option changes given a change in the price of the underlying asset/instrument.
Hedging	The action of entering forward and derivative contracts that neutralise the price risk on underlying financial exposures or risks. The gain or loss due to future price movements on the underlying exposure is offset by the equal and opposite loss and gain on the hedge instrument.
High-Yield Bonds	Corporate bonds issued by borrowing companies that are non-prime i.e. have a low or no credit rating. The margin or credit spread above Government bond yields is high (>300 basis points) to compensate the investor into the bond for the higher credit and liquidity risk.
Implied Volatility	Used in option pricing. To estimate the future volatility of the underlying asset or instrument, the option pricing models use historical volatility (expressed as percentage) as a key variable to calculate the option premium amount. The movement in option prices is therefore a good indicator of future market volatility, as volatility is "implied" in the option price.
Index Linked Bonds	Debt instruments that pay an interest coupon or return that is wholly or partially governed by the performance of another separate index e.g. a share market index, or the gold price.
ISDA	International Swaps and Derivatives Association: a governing body that determines legal documentation/standards for over-the-counter swaps/options/FRAs and other derivative instruments for interest rates, currencies, commodities etc. Corporate users of such instruments sign an ISDA Master Agreement with banking counter parties that covers all transactions.
Incidental Arrangements	The term used in the Local Government Act for interest rate risk management instruments or derivatives.
Interest Rate Swaps	A binding, paper contract where one party exchanges, or swaps, its interest payment obligations from fixed to floating basis, or floating to fixed basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.
"In-the-Money" Option	An option contract that has a strike price/rate that is more favourable or valuable than the current market spot or forward rate for the underlying currency/instrument.
Inverse Yield Curve	The slope of the interest rate yield curve (90-days to years) is "inverse" when the short-term rates are higher than the long-term rates. The opposite, when short-term rates are lower than long-term interest rates is a normal curve or "upward sloping." In theory, a normal curve reflects the fact that there is more time, therefore more time for risk to occur in long term rates; hence they are higher to build in this extra risk premium.
Liability Management	The policy, strategy and process of pro-actively managing the treasury exposures arising from a portfolio of debt.

LIBOR	London Inter-bank Offered Rate, the average of five to six banks quote for Eurodollar deposits in London at 11:00am each day. The accepted interest rate-fixing benchmark for most offshore loans.
Limit(s)	The maximum or minimum amount or percentage a price or exposure may move to before some action or limitation is instigated. Also called "risk control limits".
Liquidity Risk	The risk that the Council cannot obtain cash/funds from liquid resources or bank facilities to meet foreseen and unforeseen cash requirements. The management of liquidity risk involves working capital management and external bank/credit facilities.
Loan Stock	See definition Appendix I
"Long" Position	Holding an asset or purchased financial instrument in anticipation that the price will increase to sell later at a profit.
Look-back Option	An option structure where the strike price is selected and the premium paid at the end of the option period.
Marked-to-Market	Financial instruments and forward contracts are revalued at current market rates, producing an unrealised gain or loss compared to the book or carrying value.
Margin	The lending bank or institution's interest margin added to the market base rate, normally expressed as a number of basis points.
Medium Term Notes	A continuous program whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.
Moody's	A rating agency similar to Standard & Poor's.
Netting	Method of subtracting currency receivables from currency payables (and vice versa) over the same time period to arrive at a net exposure position.
Open Position	Where a Council has purchased or sold an asset, currency, financial security or instrument unrelated to any physical exposure, and adverse/favourable future price movements will cause direct financial loss/gain.
Option Premium	The value of an option, normally paid in cash at the commencement of the option contract, similar to an insurance premium.
Order	The placement of an instruction to a bank to buy or sell a currency or financial instrument at a preset and pre-determined level and to transact the deal if and when the market rates reach this level. Orders are normally placed for a specific time period, or "good till cancelled." The bank must deal at the first price available to them once the market level is reached. Some banks will only take orders above a minimum dollar amount.
"Out-of-the-Money"	An option contract which has a strike price/rate that is unfavourable or has less value than the underlying current spot market rate for the instrument.
Over-the-Counter	Financial and derivative instruments that are tailored and packaged by the bank to meet the very specific needs of the corporate client in terms of amount, term, price and structure. Such financial products are non-standard and not traded on official exchanges.

Perpetual Issue — A loan or bond that has no final maturity date.

Pre-hedging — Entering forward or option contracts in advance of an exposure being officially recognised or booked in the records of the Council.

Primary Market — The market for new issues of bonds or MTNs.

Proxy Hedge — Where there is no forward or derivative market to hedge the price risk of a particular currency, instrument or commodity. A proxy instrument or currency is selected and used as the hedging method as a surrogate. There needs to be a high correlation of price movements between the two underlying prices to justify using a proxy hedge.

Put Option — The right, but not the obligation to sell a debt security/currency/commodity at the contract price in the option agreement.

Revaluation — The re-stating of financial instruments and option/forward contracts at current market values, different from historical book or carrying values. If the contracts were sold/ bought back (closed-out) with the counter party at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.

Repurchase Agreement (Repo) A sale and repurchase agreement has a borrower sell securities for cash to a lender and agrees to repurchase those securities at a later date for more cash. The repo rate is the difference between borrowed and paid back cash expressed as a percentage. For example, the RBNZ in open market operations buys securities from financial institutions who agree to buy them back at a cost of OCR plus margin.

Reverse Repo — The same repurchase agreement from the buyers' perspective, i.e. the seller executing the transaction would describe it as a 'repo', while the buyer in the same transaction would describe it as a 'reverse repo'

Roll-over — The maturity date for a funding period, where a new interest rate is reset and the debt re-advanced for another funding period.

Secondary Market — The market for securities or financial instruments that develops after the period of the new issue.

"Short" Position — Selling of an asset or financial instrument in anticipation that the price will decrease or fall in value to buy later at a profit.

Spot Rate — The current market rate for currencies, interest rates for immediate delivery/settlement, and normally two business days after the transaction is agreed.

Standard & Poor's — A credit rating agency that measures the ability of an organisation to repay its financial obligations.

Stop Loss — Bank traders use a "stop-loss order" placed in the market to automatically closeout an open position at a pre-determined maximum loss.

Strike Price — The rate or price that is selected and agreed as the rate at which an option is exercised.

Strip — A series of short-term interest rate FRAs for a one or two year period, normally expressed as one average rate.

Structured Options	An option instrument where the relationship/profile to the underlying referenced asset or liability is not linear i.e.1:1
Swap Spread	The interest rate margin (in basis points) that interest rate swap rates trade above Government bond yields.
Swaption	An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.
Swaption Collar	The simultaneous position of entering into 2 option contracts on 2 interest rate swaps linked together into one transaction. A swaption collar performs similarly to a ‘collar’ where from a borrower’s perspective a top-side position above current market rates and a bottom-side position below current market rates are entered into. On maturity of the options and depending on current interest rates relative to the strike levels on the swaps will determine if either swap is transacted.
Station	An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.
Time Value	Option contracts taken for longer-term periods may still have some time value left even though the market rate is a long way from the strike rate of the option and the option is unlikely to be exercised.
Tranches	A loan may be borrowed in a series of partial drawdowns from the facility, each part borrowing is called a tranche.
Treasury	Generic term to describe the activities of the financial function within the Council that is responsible for managing the cash resources, financial investments, debt, and interest rate risk.
Treasury Bill	A short term (<12 months) financing instrument/security issued by a Government as part of its debt funding program.
Vega	Another “Greek” letter that is the name given to the measure of the sensitivity of the change in option prices to small changes in the implied volatility of the underlying asset or instrument price.
Volatility	The degree of movement or fluctuation (expressed as a percentage) of an asset, currency, commodity or financial instrument price over time. The percentage is calculated using mean and standard deviation mathematical techniques.
Yield	Read-interest rate, always expressed as a percentage.
Yield Curve	The plotting of market interest rate levels from short term (90-days) to long term on a graph i.e. the difference in market interest rates from one term (maturity) to another.
Zero Coupon Bond	A bond that is issued with the coupon interest rate being zero i.e. no cash payments of interest made during the term of the bond, all interest paid on the final maturity date. In effect the borrower accrues interest on interest during the term, increasing the total interest cost compared to a normal bond of paying interest quarterly, half-yearly or annually.