Treasury Management Policy

Purpose

1. The purpose of the Treasury Management Policy is to set out a framework for the management of borrowing and investment.

Scope and Objectives

2. This document identifies the policy of Council in respect of investment and liability management activities. The Policy has not been prepared to cover other aspects of Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures cover these matters.

3. For detailed guidance on treasury management procedures please refer to the Treasury Management Manual.

4. The objective of the Policy is to enable the Council to control and manage borrowing costs, investment returns, liquidity requirements and risks associated with treasury management activity.

5. Council is governed by the following relevant legislation:

   - Local Government Act 2002, in particular Part 6 including sections 101,102, 104 and 105;
   - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4; and
   - Trustee Act 1956.

6. The Council is a risk averse entity, and aims to minimise the risk arising from its treasury management activities. Interest rate risk, liquidity risk, funding risk and credit risk are risks the Council seeks to manage, not capitalise on. Accordingly the Council does not speculate in the financial markets.

Governance

7. The Council has ultimate responsibility for ensuring that there is an effective policy for the management of its treasury risks. In this respect the Council decides the level and nature of risks that are acceptable. The Council is responsible for approving this Treasury Management Policy and any changes to it required from time to time.

8. The authority to make or change the Policy has been delegated to the Corporate Business Committee. The Policy can be reviewed by other persons, and changes recommended but the authority to make or change the policy rests with the Corporate Business Committee.

<u>Delegation of Authority</u>

9. Council may delegate its responsibilities under this Policy to its committees, subcommittees and officers in accordance with its Governance Structure and Delegations.

10. The Council has the following responsibilities, either directly itself, or via the following stated delegated authorities:

Activity	Delegated Authority	*Limit
Approving and changing Treasury Management Policy	Corporate Business Committee	Unlimited
New annual borrowing as set out in the Annual Plan/Long Term Plan	Council	Within the prescribed limits set out in the Financial Strategy
Approval for charging assets as security over borrowing	Council	Subject to the requirements of Debenture Trust Deed
Acquisition and disposition of investments other than financial investments	Council	Unlimited
Approving transactions outside Treasury Management Policy	Council	Unlimited
Re-financing existing debt	Chief Executive	Subject to Policy
Negotiate bank facilities	Chief Executive Group Manager, Corporate Services	Subject to Policy
Manage cash/liquidity requirements	Chief Executive Group Manager, Corporate Services	Per risk control limits
Approving counterparty credit limits	Chief Executive	Within the prescribed limits set out in the Treasury Management Policy
Adjust interest rate risk profile	Chief Executive delegated to the Group Manager, Corporate Services; each adjustment individually signed off by the Chief Executive	Fixed rate debt ratio as per risk control limits Fixed rate maturity profile limit as per risk control limits
Managing funding and investment maturities in accordance with the Council's approved facilities	Chief Executive Group Manager, Corporate Services	Per risk control limits

Activity	Delegated Authority	*Limit
Maximum daily transaction amount (borrowing, investing and interest rate risk management) excludes roll-overs on existing debt and interest rate swaps	Council Chief Executive Group Manager, Corporate Services Financial Controller (delegated)	Unlimited $30 million $15 million -
Authorising lists of signatories	Chief Executive Group Manager, Corporate Services	Unlimited
Opening/closing bank accounts	Chief Executive Group Manager, Corporate Services	Unlimited
At least triennial review of Treasury Management Policy	Group Manager, Corporate Services	N/A
Ensuring compliance with Treasury Management Policy	Group Manager, Corporate Services	N/A

**All activity limits in the above table are subject to the limits contained in the Council approved Long Term Plan / Annual Plan. The Council can approve changes to the limits.*

Liability Management Policy

11. The Liability Management Policy focuses on borrowings as this is the most significant Council liability and exposes Council to the most significant risks.

12. Council maintains borrowings in order to:

    - raise specific debt associated with projects and capital expenditures;
    - fund assets where their useful lives extend over several generations of ratepayers; and
    - fund short-term borrowing for working capital requirements.

13. Any new borrowings or roll-over of existing borrowing needs to be budgeted for as part of Council's approved Long Term Plan or Annual Plan, or be subject to Council approval. Debt will be repaid as it falls due in accordance with the applicable loan agreement.

Debt Ratios and Limits

14. In managing debt, the Council will adhere to the following limits:

Ratio	Limit
Net interest expense over total operating income	< 20%
Net external debt over total operating income	< 240%
Liquidity	> 110%

Security

15. Council's external borrowings and interest rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

16. From time to time, and with Council approval, security may be offered by providing a charge over one or more of Councils assets.

Borrowing Mechanisms

17. The Council is able to borrow through a variety of market mechanisms including issuing stock/debentures and commercial paper, direct bank borrowing, the Local Government Funding Agency (LGFA) or accessing the short and long-term debt capital markets directly or indirectly. In evaluating strategies for new borrowing, consideration should be given to the following:

- available rates and terms from lenders;
- the Council's overall debt maturity profile;
- the outlook on future interest rate movements.

Debt Repayment

18. The Council repays borrowings from refinancing or surplus general funds. Borrowings may be refinanced by further borrowings within a 30 year maximum term.

Guarantees/contingent liabilities and other financial arrangements

19. The Council, from time to time, provides financial guarantees to local organisations, groups or bodies for recreational and community purposes. Council is not allowed to guarantee loans to Council Controlled Trading Organisations under Section 62 of the Local Government Act.

20. 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.

21. Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed.

Internal Borrowing

22. The internal borrowing relates to Council borrowing from its reserves, special funds and equity that the Council would otherwise have in cash. Council has borrowed these funds to fund capital works which would otherwise be funded from external borrowers.

23. Any internal borrowing of reserve and special funds used must be reimbursed for interest revenue lost. Except where a specific rate has been approved for particular circumstances, interest is charged annually in arrears on all internal loans at the midpoint of the Reserve Bank 90 Day rate and 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.

New Zealand Local Government Funding Agency Limited

24. The Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) in accordance with its shareholding agreement with them. In connection with that borrowing, the Council may enter into the following related transactions to the extent that it considers necessary or desirable:

    (a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, for example Borrower Notes;

    (b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;

    (c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;

    (d) subscribe for shares and uncalled capital in the LGFA; and

    (e) 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.

Investment Policy

General Policy

25. Council may hold financial, property and equity investments if there are strategic, economic or other valid reasons for doing so, for example, where it is the most appropriate way to administer a Council function.

26. With the exception of financial investments, the acquisition of a new investment or disposal of an existing investment needs to be budgeted for as part of Council’s approved Long Term Plan or Annual Plan, or be approved through a Council resolution.

27. The authority to acquire and dispose of financial investments is delegated to the Group Manager Corporate Services.

Investment Mix

Equity Investments

28. The Council currently maintains equity investments in New Zealand Local Government Insurance Corporation Limited. These shares were acquired by virtue of the Council insuring its past activities through these companies. They are held as they are not readily transferable, and the amount involved is immaterial, relative to the Council’s total investment holdings.

29. Other than to achieve strategic objectives, it is not Council's intention to undertake new equity investments.

Property Investments

30. Strategic Land Purchase - the Council has adopted a strategy of purchasing land when the opportunity arises, where this has been identified as progressing the community's and Council's vision for the future.

31. Each individual property purchase is subject to consideration and/or approval by the Property Subcommittee and the Corporate Business Committee.

Loan Advances

32. The Council will only advance loans to community organisations in exceptional circumstances. Where loan advances are secured against the assets of the borrower, those assets would revert to the Council in the event of loan default. New loan advances are by Council resolution only.

33. All loan advances are monitored to ensure that interest and principal repayments comply with the terms of the loan agreement. All loans in excess of $25,000 are reported on a quarterly basis to the Corporate Business Committee.

Financial Investments

34. Council's primary objective when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Counterparties and limits can only be approved on the basis of long-term Standard & Poor's, credit ratings (or equivalent Fitch or Moody's rating) being A+ and above and/or short term rating of A-1 or above. Any cash investments must be restricted to a term of no more than 91 days ensuring that future cash flow requirements and capital expenditure projections are met.

35. Special Funds and Funding Reserves - liquid assets will not be required to be held against special funds. Instead the Council will internally utilise these funds.

New Zealand Local Government Funding Agency Limited

36. The Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment. The Council's objective in making any such investment will be to:

    (a) Obtain a return on the investment; and

    (b) Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

37. 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.

Risk Recognition / Identification / Management

Liquidity / Funding Risk

Risk Recognition

38. Cash flow requirements arise from debt funded expenditure and the maturity structure of loans and facilities. Liquidity risk management focuses on the ability to fund the cash flow requirements through borrowing. Funding risk management centres on the ability to re-finance or raise new debt at a future time at favourable pricing (fees and borrowing margins) and maturity terms.

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

Liquidity / Funding Risk Control Limits

40. The following control limits apply to Council's management of liquidity / funding risk:

- External term loans and committed debt facilities together with available cash/cash equivalent investments must be maintained at an amount of 110% over existing external debt;
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings;
- The Chief Executive has the discretionary authority to re-package existing debt on more favourable terms. Such action is to be ratified and approved by the Council at the next scheduled Council meeting;
- At any point in time, the maturity profile of the total committed funding with respect to all external loans/debt and committed facilities, is to be within the following limits:

Period	Minimum	Maximum
0 to 3 years	10%	70%
3 to 5 years	10%	60%
5 years plus	10%	50%

A maturity schedule outside these limits requires specific Council approval.

Interest Rate Risk

41. Interest rate risk is the risk that funding costs (due to movements in market interest rates) will materially exceed adopted Annual Plan and Long Term Plan interest cost projections, so as to adversely impact cost control, capital investment decisions, returns and feasibility.

42. The primary objective of interest rate risk management is to reduce uncertainty of interest rate movements through fixing of wholesale market interest costs. Certainty around interest costs is to be achieved through the active management of underlying interest rate exposures.

43. Dealing in interest rate products must be limited to financial instruments approved by the Council as per an internally updated schedule. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

Approved Financial Instruments

44. Current approved interest rate instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Retail and Wholesale Bond and Floating Rate Note (FRN) issuance Commercial paper (CP)/Promissory Notes NZD denominated Private Placements
Investments	Call and short term bank deposits Bank bills Bank registered certificates of deposit (RCDs) Treasury bills LGFA borrower notes / CP / bills / bonds/ FRNs LGFA Redeemable Preference Shares (RPS)
Interest rate risk management	Forward rate agreements ("FRAs") on: • bank bills Interest rate swaps including: • forward start swaps • amortising swaps (whereby notional principal amount reduces) • swap extensions and shortenings Interest rate options on: • bank bills (purchased caps and one for one collars) • interest rate swaptions (purchased only)
Foreign exchange management	Spot foreign exchange Forward exchange contracts

45. All bank deposits, registered certificates of deposits, treasury bills and commercial paper investments are limited to a term no greater than three months unless linked to a debt pre-funding strategy.

46. 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.

47. All unsecured investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

- structured debt where issuing entities are not a primary borrower/ issuer;
- subordinated debt, junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

Interest Rate Risk Control Limits

48. Hedging of Council's external debt/borrowings must be within the following fixed/floating interest rate risk control limit:

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

The percentages are calculated on the 24-month projected external debt levels in the Council's approved financial statements (Long Term Plan or Annual Plan). The 24-month forecast debt level is subject to approval by the Group Manager, Corporate Services as being a fair and reasonable forecast.

- external net debt is the amount of total debt, less any cash/cash equivalent investments (not including any pre-funding strategy). This allows for pre-hedging in advance of projected physical drawdowns of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the Treasury Management Policy minimums and maximums;
- floating rate debt may be spread over any maturity up to 12-months. Bank advances may be for a maximum term of 12-months;
- major control limit – at any point in time the amount of all interest rate risk management instruments must not exceed the external debt level.
- the fixed rate amount at any point in time must be within the following maturity bands:

Fixed Rate Maturity Profile Limit (% of external debt)		
Period	Minimum Cover	Maximum Cover
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%*

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

- a fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council at the next available meeting;
- any interest rate swaps or fixed rate debt with a maturity beyond 12 years must be approved by the Corporate Business Committee at the following committee meeting;

Control limits for individual types of interest rate risk management instruments

49. Council must adhere to the following control limits at all times:

- forward rate agreements outstanding at any one time must not exceed 75% of the total floating rate debt;
- with the exception of 1:1 collar option structures, interest rate options must not be sold outright because of the speculative nature of doing this;
- borrower swaptions held by Council must mature within 12-months;
- interest rate options with a maturity date beyond 12-months that have a strike rate higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation; and
- the forward start period on swap/collar strategies to be no more than 24 months.

Counterparty Credit Risk

50. Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

51. Counterparties and limits can only be approved on the basis of a minimum long term credit ratings (Standard & Poor's or Moody's Investor Services) being A+ and a minimum short term rating of A-1).

52. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. The approval process to allow the use of individual financial instruments must take into account the liquidity of the market the instrument is traded in and repriced from.

53. The following table shows the gross counterparty limits:

Counterparty /Issuer	Minimum Standard and Poor's long term / short term credit rating	Investments maximum per counterparty ($m)	Risk management instruments maximum per counterparty ($m)	Borrowing maximum per counterparty ($m)
NZ Government	N/A	Unlimited	none	Unlimited
Local Government Funding Agency (LGFA)	AA-/A-1	20.0	None	Unlimited
NZ Registered Bank	A+/ A-1	25.0	80.0	50.0

54. In determining the usage of the above gross limits, the following product weightings will be used:

- Money Market (e.g. Bank Deposits) – Transaction Notional × Weighting 100%;
- Interest Rate Risk Management (e.g. swaps, FRA's) – Transaction Notional × Maturity (years) × 3%;
- Foreign Exchange - Transactional face value amount x the square root of the Maturity (years) x 15%.

Legal Risk

55. Legal and regulatory 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.

56. This risk is minimised by standing dealing and settlement instructions being sent to counterparties, matching of third party confirmations and the immediate follow-up of anomalies.

57. Financial instruments can only be entered into with banks that have in place an executed International Swaps and Derivatives Association (ISDA) Master Agreement with the Council.

Other Risks

Operational Risk

58. This is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Operational risk, particularly relevant to dealing with financial instruments, is minimised through the adoption of this Policy and the detailed requirements of Council's Treasury Management Manual.

Foreign Exchange Risk

59. Council has limited Foreign exchange risk through the occasional purchase of foreign exchange denominated plant and equipment. Larger amounts may be hedged using foreign exchange contracts and smaller payments are converted at the spot exchange rate on the date of payment. The Council does not borrow or enter into incidental arrangements within or outside New Zealand in any foreign currency other than New Zealand dollars.

Carbon Credit risk

60. The Council needs to minimise the financial impact of movements in the carbon credit prices by balancing the need for price stability with the benefit of realising market opportunities to reduce costs as they arise.

Treasury Performance

61. In order to assess the effectiveness of Council's treasury management activities, benchmarks and performance measures have been prescribed to assess operational performance and the management of debt and interest rate risk. The Council receives regular reporting which includes the following four major information/reporting objectives:

- Cash/Debt Position;
- Risk Exposure Position;
- Risk Management Performance;
- Treasury Management Policy Compliance.

62. More detail on this reporting package and other reports provided to the Corporate Business Committee and the Council are outlined in the Treasury Management Manual.

Policy review

63. The Policy is to be formally reviewed on at least a triennial basis by the Senior Leadership Team. The Group Manager, Corporate Services will manage the review process and the final report will be presented by Senior Leadership Team to the Audit and Risk Subcommittee for its consideration.

64. In addition, any Policy changes arising from the annual report to Council provided by the Group Manager, Corporate Services or other sources may be considered by the Audit and Risk Subcommittee as required.

Glossary of terms

65. **Annual rates income**: the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002.

66. **Borrower swaption**: gives the holder of the swaption the right to enter into a swap where they pay interest on a notional loan amount at a fixed rate of interest and receive payments at a floating rate;

67. **Call option**: a financial instrument that gives the buyer the right, but not an obligation, to buy a set quantity of a security at a set strike price at some time on or before expiration.

68. **Closing out**: the cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss if the current market rate differs from the contract rate.

69. **Derivatives**: investment vehicles whose price is dependent on an underlying asset. The most common forms of derivatives include stock options, futures & swaps.

70. **Fixed rate:** an interest rate repricing date beyond 12-months forward on a continuous rolling basis;

71. **Floating rate:** an interest rate repricing within 12-months;

72. **Forward rate agreement**: an agreement between two counterparties locking in an interest rate today, for money that one counterparty intends to borrow in the future. The counterparties agree to pay each other the interest difference between the agreed-upon rate (the "forward rate") and the actual interest rate on the future date (the "floating rate").

73. **Forward start interest rate swap**: a swap agreement created from two separate swaps commencing at a future point in time and with different durations. This provides certainty as to interest rate cost on an agreed principal amount for an agreed period, commencing at a future point in time.

74. **Futures contract**: a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.

75. **In the money options**: options which have intrinsic value of the security built into them. Call options are in the money when the strike price is lower than the price of the underlying stock, allowing one to buy the stock at a price lower than the market price. Put options are in the money when the strike price is higher than the price of the underlying stock, allowing one to sell the stock at a price higher than the market price.

76. **Interest rate cap (ceiling)**: an interest rate derivative contract which has a maximum value (cap) – on a floating rate of interest on a specified notional principal amount for a specific term.

77. **Interest rate collar**: a security which simultaneously combines the purchase of an interest rate cap and the sale of an interest rate floor to specify a range in which an interest rate will fluctuate. The security insulates the buyer against the risk of a significant rise in a floating rate, but limits the benefits of a drop in that floating rate.

78. **Interest rate floor**: an interest rate derivative contract which has a minimum value (floor) – on a floating rate of interest on a specified notional principal amount for a specific term.

79. **Interest rate option**: a specific financial derivative contract whose value is based on interest rates and its value is tied to an underlying interest rate. Interest rate options give buyers the right, but not the obligation, to synthetically pay (in the case of a cap) or receive (in the case of a floor) a predetermined interest rate (the strike price) over an agreed period.
80. **Interest rate swap**: a financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another;
81. **Liquidity**: external term loans plus committed debt facilities plus available cash/cash equivalents divided by external debt.
82. **Net external debt**: total external debt less cash / cash equivalent investments.
83. **Net interest expense**: the amount equal to all interest and financing costs less interest income for the relevant period.
84. **Operating income:** earnings from rates, government grants and subsidies, user charges, interest and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
85. **Options**: contracts that give the holder the right but not the obligation to buy or sell a specific security at a pre-determined price on a pre-determined date. The two kinds of options are call and put options.
86. **Options on a swap (Swaption)**: the option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.
87. **Out of the money options**: have no intrinsic value built into them. Call options are out of the money when the strike price is higher than the price of the underlying stock. Put options are out of the money when the strike price is lower than the price of the underlying stock.
88. **Put option**: a financial instrument that conveys the buyer the right, but not the obligation, to sell a specified quantity of a security at a set strike price on or before an agreed upon expiration date.
89. **Spot price**: the current market price of a product, usually a commodity, currency or rate, for the immediate delivery of said product.
90. **Strike price**: the price at which a derivatives contract can be exercised - the strike price is independent of the spot price and is agreed upon by the parties entering the contract.
91. **Swap**: a derivative in which two counterparties exchange cash flows of one party's financial instrument for those of the other party's financial instrument. The benefits in question depend on the type of financial instruments involved.

Policy adopted:	
Next review date:	