COUNCIL POLICY

POLICY TITLE:	**TREASURY**
Minute Ref:	**A11599216**
Date Adopted:	**Xx xxx 2020**

1. POLICY OBJECTIVES

To ensure investments and liabilities are managed in a prudent, effective and efficient manner that supports the social, economic, environmental and cultural well-being of the Tauranga community. As a net borrower, within the stated statutory and general objectives, to achieve the lowest possible net interest costs obtainable within the policy parameters by proactively managing funding and interest rate exposures.

1.1 Statutory Objectives

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

1.2 General Objectives

– Minimise Council's costs and risks in the management of its external borrowings.

– Minimise Council's exposure to adverse 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 Council's financial assets and manage costs.

– Recognise that investment decisions should be consistent with financial strategy and support the purpose of local government to promote the social, economic, environmental, and cultural well-being of communities.

– Arrange and structure external long term funding for Council at an acceptable margin 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 Council's lending/security arrangements.

– Comply with financial ratios and limits stated within this Policy.

– Monitor Council's return on investments.

- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.

- Ensure that all statutory requirements of a financial nature are adhered to.

2. PRINCIPLES

Council's management of treasury activities is primarily a risk management function focused on managing financial risks, protecting the Council's budgeted interest costs and stabilising the Council's cash flows.

Council's management of treasury activities will also ensure that Council's investment decisions have regard to Council's role in promoting the social, economic, environmental, and cultural well-being of the Tauranga community.

3. BACKGROUND

This policy provides the policy framework for all of the Council's treasury activities and defines the operating framework within which borrowing, investment and risk management activities are to be carried out.

It specifically covers financial risks such as funding, interest rate, liquidity risk and credit risk arising from investment and liability management activities. All other relevant operating procedures and associated internal controls are included in the Treasury Procedures document.

4. RESPONSIBILITIES

An effective policy requires a clear understanding and definition of the structure of the treasury function and the responsibilities of all personnel involved in treasury management.

Appendix 2 details the staff roles primarily responsible for the management of the treasury activities of the Council.

5. POLICY STATEMENT

5.1 Liability Management (Section 104 LGA 2002)

Council has a large number of infrastructural assets which have a long economic life and long term benefits. Council also has a significant strategic investment holding.

Council sees the use of debt as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers by aligning long-term assets with long-term funding sources (in relation to Council's assets and liabilities) to ensure that the costs are met by those future ratepayers benefiting from the investment.

5.1.1 Interest Rate Exposure (Section 104 (a))

Council is exposed to interest rate fluctuations on existing and future borrowings.

Council will minimise interest rate risk by managing its floating and fixed interest rate exposures as per the following control limits:

Fixed Interest Rate Hedging Profile Limits

Period	Minimum Fixed Rate	Maximum Fixed Rate
0 to 2 years	40%	100%
2 to 5 years	20%	80%
5 to 8 years	0%	60%
8 to 12 years	0%	40%

Approved interest rate risk management instruments are detailed in Appendix 1.

5.1.2 Liquidity (Section 104 (b))

Liquidity risk arises when there are insufficient funds to meet obligations in an orderly manner when they fall due resulting from differences in the timing of cash receipts and disbursements. Liquidity risk increases when unanticipated obligations arise and when anticipated receipts do not eventuate.

Cash management (cash receipts and disbursements) activities will be undertaken to ensure that:

- Net cash surpluses will be invested to:
  - Achieve a targeted optimal daily balance of zero for Council net bank balance (group net) to achieve interest revenue as appropriate; and
  - Ensure Council's overdraft is only utilised in exceptional circumstances.

Debt management activities are undertaken to ensure that:

- External term debt plus committed bank debt facilities and cash or cash equivalent investments must be maintained at an amount of 100% above 12-month peak forecast net external debt.
- Council has the ability to pre-fund up to 12 months ahead of forecast debt requirements including re-financings.
- No more than 33% of debt shall be subject to refinancing in any rolling 12 month period.
- A debt maturity schedule outside these limits requires specific Council approval.
- Disaster recovery requirements will be met through the liquidity ratio and debt headroom (i.e relative Treasury Policy covenants).

5.1.3 Credit Exposure (Sections 104 (c))

Council will manage its credit exposure to borrowing margins by ensuring that a Strong Issuer Credit Rating is maintained. Council is also exposed to counterparty credit risk which is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party.

Credit exposure will be managed by:

- Compliance with the borrowing limits outlined in 5.1.5 of this policy.

- Compliance with the limits and matrix guide in Appendix 6 of this policy.

- Limits and exposures being spread amongst a number of counterparties to avoid concentrations of credit exposure.

5.1.4 Debt Repayment (Sections 104 (d))

Council will repay borrowings from general funds, proceeds from the sale of investments and assets unless the Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

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

5.1.5 Borrowing Limits (Sections 101A(3)(b)(1))

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

- Net interest expense (after interest rate risk management costs/benefits) on external debt as a percentage of annual operating revenue will not exceed 20%; and

- Net interest expense (after interest rate risk management costs/benefits) on external debt as a percentage of annual rates revenue will not exceed 25%; and

- Net external debt as a percentage of annual operating revenue (including Bay Venues Limited):

  - for the financial year ending 30 June 2020 no more than 250%
  - for the financial years ending 30 June 2021 and 2022 no more than 300%; and
  - for each of the next four years financial years, a decrease of 5% until a limit of 280% will apply for and from the financial year ending 30 June 2026.

5.1.6 Security (Sections 101A(3)(c))

Council will generally offer security for its general borrowing and interest rate risk management activities by way of a floating charge over rates revenue. Council recognises that utilising rates revenue as security lowers the risk involved for lenders and, therefore, will lower the cost of borrowing to the Council.

Council offers security through a Debenture Trust Deed which allows Council to provide security over rates revenue from time to time made by Council under the Local Government (Rating) Act 2002.

There may be occasions where the Council will borrow without offering security.

In the normal course, Council will not offer security over any assets other than rates revenue. However, where doing so would help further the Council's community goals and objectives, Council may offer such security on a case by case basis.

Council may offer security for both long and short term borrowing and for appropriate incidental arrangements (including approved interest rate risk management instruments).

5.1.7 Guarantees

Specific council decision would be required for Council to act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, Trusts, or Business Unit. This should only occur when the purposes of the loan are in line with Council's strategic objectives and prudence requirements are satisfied.

Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council or an appropriate Council Committee in aggregate.

Guarantees provided to the Local Government Funding Agency Limited ("LGFA") are expressly excluded from the maximum guarantee limit above.

Guarantees are reported on a quarterly basis.

5.1.8 Internal borrowing

Council uses its reserves and external borrowing to internally fund both operating and capital expenditure. The Council approves overall borrowing by resolution during the annual planning and/or LTP process.

The following operational parameters apply in relation to the management of Council's internal loan portfolio:

- All internal borrowing activities are consistent with the principles and parameters, outlined throughout this policy.
- Council seeks to firstly utilise reserve funds and if insufficient reserves are available, utilises external borrowing.
- Interest is charged on the month-end loan balances and interest is also allocated to the specific reserve accounts for funds provided.
- Interest rates are set annually as part of the annual planning and/or LTP process.
- Internal loan repayment amounts are undertaken on the following basis:
  - Rate Funded Activities:
    i. general loan repayment percentages range from 2.00% to 20.00% taking into account each activity's fixed assets portfolio and expected asset lives;
    ii. generally loan repayments are funded from the Depreciation Reserves; and
    iii. any specific loan repayments rates are approved by Council.
  - Self Funded Activities:
    i. general loan repayment percentages range from 4.00% to 20.00% depending on each activity's fixed assets portfolio and expected asset lives;
    ii. generally loan repayments are funded from the Depreciation Reserves;
    iii. apply any surplus/deficit against the loan balance on an annual basis; and
    iv. any specific loan repayments rates are approved by Council.
  - Loans Funding Growth:

i. Apply both Development Contributions and Financial Contributions revenue to repay loans.

5.1.9 NZ Local Government Funding Agency Limited

Council may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;

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.

5.2 Investment (Section 105)

5.2.1 Objectives (Section 101A(3)(d))

Council will seek to:

- Protect the capital amounts invested;
- Optimise returns in the long-term while balancing risk and return considerations;
- Ensure investments are liquid;
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity.
- Make investment decisions that support the purpose of local government to promote the social, economic, environmental, and cultural well-being of communities.

Council recognises that:

- As a responsible public authority any investment that it holds should be low risk;
- Lower risk generally means lower returns.

5.2.2 Investment Mix and Associated Specific Objectives (Section 105 (b))

Council has a significant portfolio of investments including:

Property:

- Council's overall objective is only to own property that is necessary to achieve its strategic objectives and where it relates to a primary output of Council.
- Investment property may be retained to achieve diversification of investments and to provide flexibility to manage strategic property initiatives.

Forestry:

– Forestry assets are held to protect water catchment areas. These are regarded as long term investments for the benefit of the Water Activity.

Financial:

– The primary objective of financial investing is the protection of its investment. Council maintains financial investments primarily to allow:

  - investment of surplus cash; and

  - investment of amounts allocated to special funds and trust funds.

Council may also hold small investments of other types from time to time for the short or medium term, where such investments are convenient for the achievement of Council's other goals (e.g. holdings of co-operative company shares while Council owns land temporarily supporting an activity which requires the holding of such shares).

Council will not hold financial investments other than those involving special funds, trust funds and cash management balances.

Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in Appendix 6.

5.2.3 Acquisition of New Investments (Section 105 (c))

All acquisitions and disposals of property and forestry assets are as per the Annual Plan / Long Term Plan and or approved by Council on a case by case basis. All property activities are managed by the council team designated with strategic property investment.

All financial investments and interest rate risk management instruments are to be undertaken with institutions that are of high quality credit to ensure amounts owing to the Council are paid in full and on due date.

All new financial investment acquisitions are:

– Required to comply with counterparty exposure and credit rating requirements criteria outlined Appendix 6.
– Council may only invest in financial instruments as details in Appendix 3.

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.

5.2.4 NZ Local Government Funding Agency Limited (LGFA)

Council may invest in shares of the LGFA and may borrow to fund that investment.

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 become and remain viable, meaning that it continues as a source of debt funding for the Council.

Because of this dual objective, 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 with the investment, Council may also subscribe for uncalled capital in the LGFA.

5.2.5 Management and Reporting Procedure for Investments and Borrowing (Section 105 (d))

Reporting on property and forestry assets generally on a quarterly or on a case by case basis as appropriate.

Council will, on a quarterly basis, discuss the activity for the previous quarter together with likely activity for the coming months. Council is responsible for approving investment and liability management strategies on at least a semi-annual basis.

5.3 Assessment and Management of risks associated with Financial Investments (Section 105 (e))

Assessment and management of risks associated with property and forestry assets will be reported to Council as required and will be monitored through the Risk Register reported to FARC

Council's primary objective when making financial investments is the protection of its investment. Accordingly, only credit worthy counterparties are selected on the basis of their current long term S&P credit rating ratings (or equivalent Fitch or Moody's rating) being A- and above and/or short term rating of A-1 or above. A table detailing exposure limits can be found in Appendix 6.

Council will minimise its credit exposure by:

- Ensuring all investments, cash management, interest rate risk management and any foreign exchange transactions are undertaken with entities that comply to the credit ratings below;
- Limiting total exposure by spreading investments and limiting to prescribed amounts; and
- Regular monitoring of compliance against set limits.

Note electricity hedging contracts may be with parties rated lower than this level on approval of the GM Corporate Services.

Exposures to each counterparty are computed and reported as follows:

– On-balance sheet:

  - Total amounts invested with that counterparty (i.e. the principal or face value).

– Off- balance sheet:

  - Interest rate contracts - determined by adding 3% of the notional 'face' value of the contract to its mark-to-market valuation. If this sum is negative (i.e. the instrument is substantially 'out of the money'), there is no counterparty credit exposure on the contract.

  - Foreign exchange contracts - determined by multiplying the notional value of outstanding transactions by 10%.

  - Electricity price hedging contracts - determined by multiplying the notional value of outstanding transactions by 15%.;

Credit ratings are reviewed quarterly although they may be reviewed more frequently especially if the Council becomes aware of a change to a counterparty's credit rating. If any counterparty's credit rating falls below the minimum specified level in the above table then all practical steps will be taken to reduce the credit exposure to that counterparty to zero as soon as possible.

Counterparty exposures exceeding limits will be reported to Council and approved as a policy exception.

5.4 Foreign Exchange (Section 112)

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

Any confirmed commitments for foreign exchange above $250,000 is to be hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts can be used by Council.

Council does not borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency. Council will not engage in speculative foreign currency transactions.

Council does not hold investments denominated in foreign currency.

5.5 Electricity hedging

Council is exposed to price volatility of the electricity spot market through its electricity supply contracts. Council manages this risk through transacting electricity hedge contracts and Contracts For Differences (CFD) with the following conditions:

– An electricity hedge contract will be in place for at least the term of any spot physical supply agreement.

– The price exposure can be hedged via an over the counter electricity swaps contract, a contract for difference.

– The face value of the hedge contract will be in New Zealand dollars.

– The hedge contract will be for a maximum term of no more than three years, and will be signed no earlier than 6 months prior to contract commencement.

– For any given reporting year, the volume will be hedged to a fixed price for at least 90 percent of forecast volume consumption. The hedge ratio will be monitored and reported quarterly.

The credit rating of the hedge counterparty for electricity hedging will be at least investment grade from S&P (or equivalent) at the time of entering into the contract (i.e., a long-term rating of not less than BBB). In the event of the rating falling below the minimum credit rating Council would be advised on a recommended course of action for approval.

If the preferred hedge counterparty does not have an external credit rating, or that rating is below BBB, then the Chief Financial Officer must independently review the financial and credit position of the counterparty and provide a recommendation for approval by the Chief Executive.

6. REPORTING

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

Report Name
Cashflow Report
Treasury Report
Policy and Borrowing Limit Compliance
Treasury Review
Limits Exceptions Report
Interest Rate Position
Liquidity Position
Debt Maturity Profile
Statement of Public Debt
Treasury Benchmark
Guarantees

7. MEASURING TREASURY PERFORMANCE

In order to determine the success of Council's treasury management function, performance benchmark measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are used

In order to determine the success of the Council's treasury management function, the following benchmark has been prescribed.

The actual funding cost for the Council taking into consideration the entering into of interest rate risk management transactions should be below the budgeted interest cost. When budgeting forecast interest costs, the actual physical position of existing loans and swaps must be incorporated together with all fees.

Management is granted discretion by the Council to manage debt and interest rate risk within specified limits of this policy, the actual funding rate achieved must be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within existing policy. In this respect, a risk neutral position is always precisely at the mid-point of the minimum and maximum percentage control limits specified within the policy.

Given current fixed/floating risk control limits and fixed rate maturity profile limits as defined in this policy, the market benchmark (composite) indicator rate will be calculated as follows:

- 30% Average 90 day bill rate for reporting month.
- 10% 2 year swap rate at end of reporting month.
- 10% 2 year swap rate, 2 year ago.
- 10% 5 year swap rate at end of reporting month.
- 10% 5 year swap rate, 5 years ago.
- 5% 7 year swap rate at end of reporting month.
- 5% 7 year swap rate, 7 years ago.
- 10% 10 year swap rate at end of reporting month.
- 10% 10 year swap rate, 10 years ago.

The actual reporting benchmark is the 12 month rolling average of the monthly calculated benchmarks using the above parameters. This is compared to actual cost of funds, excluding all credit margins and fees.

8. POLICY REVIEW

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

The CFO 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.

9. REFERENCES AND 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.

Trustee Act 1956. 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. Details of relevant sections can be found in the Trustee Act 1956 Part II Investments.

Revenue and Financing Policy.

APPENDIX 1 - INSTRUMENTS

The following interest rate risk management instruments may be utilised to protect interest costs and to change the interest rate profile:

– Fixing through physical borrowing instruments - loan stock, LGFA bonds, debentures, medium term notes, bank term loan.

– Floating through physical borrowing instruments - short term revolving stock, LGFA bonds, bank borrowing, and short-term borrowing programme. Floating rate 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.

– Interest rate swaps and fixed rate debt. Any interest rate swap or fixed rate debt with a maturity beyond 15 years must be approved by Council.

– Forward start swaps and collar options (start date no more than 24 months unless it extends the maturity of an existing hedge and has a notional amount which is no more than that of the existing swap/collar).

– Purchase of interest rate option products including caps, floors, bond options and swaptions. Interest rate options will not be sold outright. Purchased borrower swaptions mature within 12 months.

– Interest rate options with a maturity date beyond 12 months, that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, will not be counted as part of the fixed rate cover percentage calculation.

– Interest rate collar type option strategies. 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, the sold side of the collar may be closed out by itself, effectively leaving the bought side of the collar. The sold option leg of the collar structure must not have a strike rate "in-the-money" (i.e. the strike rate cannot be more favourable to the Council than the relevant forward rate)

– Any other financial instrument will be separately approved by Council on a case-by-case basis.

APPENDIX 2

- Full Council (of elected members).
- Financial and risk monitoring committee of council (FARC)
- Chief Executive (“CE”) or General Manager (“GM”) corporate services
- Chief Financial Officer (“CFO”)
- Treasurer
- Finance Manager (“FM”)
- Treasury Support Staff
- Treasury Management Committee (“TMC”)

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

Council – or approved committee of council

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

FARC

- The council committee in charge of financial and risk monitoring (currently Finance Audit and Risk Committee) considers on a semi-annual 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.
- Quarterly financial reporting to committee also includes Core Treasury management indicators.

Responsibilities include:

- Recommending the Treasury Policy (or changes to existing policy) to the Council.
- Receiving recommendations from the GM Corporate Services/Treasurer/ and making submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for all treasury activity.
- Monitoring semi-annually performance against benchmarks.
- Recommend to Council new financial instruments.

Executive (CE and GM Corp services)

- Approves any amendments to the Treasury Policy recommended by the treasurer/ finance manager (or TMC if one is in place)
- 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 LTP.

Treasurer

- 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
- Reviews the LMP and the IP on an annual basis which shall then be submitted to the CE for approval and then to the full Council for final approval. What is this?
- Undertake interest rate risk management in accordance with the Treasury Policy.
- Reports quarterly and semi annually to the FARC on n treasury risk management activity.
- 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 Finance Manager the level of future core debt to be used for interest rate risk management purposes.

Treasurer –supported by treasury support Team

- 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.

Finance Manager

- Provides support and review to Treasury function
- Ensures borrowing resolution and Treasury activities consistent with annual plan/LTP and current business issues and operations
- Maintains lender relationships with the banks and the capital markets including the LGFA.
- Monitors and reviews the ongoing treasury risk management performance to ensure compliance with the policy parameters.
- Reviews performance of Treasury function and overall strategy

APPENDIX 3

The Council's financial investment acquisitions are restricted to the following instruments:

- Government Issued or Government Guaranteed Investments;
- Registered Bank Investments;
- LGFA issued borrower notes and commercial paper;
- Local authority issued commercial paper;

Approved investment instruments:

- Call bank deposits;
- Short term bank deposits;
- Bank registered certificates of deposit;
- Treasury bills;
- Government bonds;
- Commercial paper.

APPENDIX 4 – RELEVANT 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 Treasurer through this policy*	*Subject to Policy*
Open/close bank accounts	*Chief Financial Officer*	*Unlimited*
Loan and legal derivative documentation	*Chief Financial Officer*	*N/A*
Approve authorised cheque/electronic signatories	*Treasurer/ Finance Manager 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* *Chief Financial Officer*	*Unlimited* *$70 million* *$50 million*
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 5 - DEFINITIONS

Annual Operating Revenue includes earnings from rates revenue, government grants and subsidies, user charges, interest, dividends, financial and other revenue (excluding vested assets and development contributions).

Net External Debt is defined as total external debt less available liquid financial assets/investments (i.e. Cash and Cash Equivalents).

Commercial Paper, is issued by borrowers who usually have a credit rating and standing in the market that is sufficient to enable the paper to be issued without endorsement or acceptance by a bank. The paper is usually supported by financial institutions to ensure that the borrower obtains the desired amount of funds. CP is generally issued with maturities of around 90 days. The face value of the paper is repaid in full to the holder on maturity. CP is negotiable and can be bought and sold in the secondary market.

Bond Options is an agreement between two counterparties whereby the buyer (Call) has the right but not the obligation to buy a specified government bond maturity on an agreed date and time and at an agreed rate.

Cap A series or string of 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.

Collars Two option contracts linked together into the one transaction or contract. A borrower's collar is always a **"cap"** above current market rates and a **"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.

Counterparty. The contracting party to a financial transaction or financial instrument.

Credit Risk is the risk that an organisation will suffer a financial loss due to the unwillingness or inability of a counterparty to meet its obligations as they fall due.

Fixed Rate Debt is defined as debt with interest rate repricing beyond 3 months forward on a continuous rolling basis.

Floating Rate Debt is defined as debt with interest rate repricing within 3 months.

Floating Rate The interest rate on a loan, debt or investment instrument is re-set at the ruling market interest rates on the maturity date of the stipulated funding period (usually 90-days).

Floor means Interest Rate 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. The buyer pays a fee (premium) for the arrangement.

Foreign Exchange Contracts is an agreement to buy or sell one currency for another for specified future delivery at a specified rate.

Foreign Exchange Risk (also referred to as Currency Risk) is a risk that an organisation may suffer financial loss due to a movement in foreign exchange rates relative to its functional currency (New Zealand dollar for Council).

Forward Rate Agreements ("FRA") is an obligation to buy or sell a given asset on a specified date at a price agreed at the time of transaction. Generally, the buyer of a FRA is attempting to protect against a rise in interest rates and the seller is protecting against a fall in rates.

Interest Rate Options is an interest rate option (i.e. cap or floor) where the buyer has the right, but not the obligation, to either borrow or invest an amount at an agreed interest rate.

Interest Rate Risk is the risk that profitability in current or future periods can be adversely affected by interest rate movements.

Interest Rate Swaps is an agreement between two counterparties to exchange interest rate obligations from a fixed or floating rate basis. The interest payments and receipts under the interest rate swap contract offset the underlying physical debt to generate the desired final fixed or floating rate position.

Investment is money or capital that Council has committed to achieve an expected return or further the needs of the community.

Liquidity is the ability to access funds at short notice.

Liquidity Risk is the risk that a business will find itself short of funds and unable to meet obligations in an orderly manner when they fall due, resulting from differences in the timing of cash receipts and disbursements. Liquidity risk increases when unanticipated obligations arise and when anticipated receipts do not eventuate.

Stock and Debentures are the debt issued to third parties by an organisation.

Strong Issuer Credit Rating is credit rating issued by S&P Global Ratings (S&P) of:

- Short-term A-1 or better.
- Long-term A+ or better.

Swaption is an agreement between two counterparties whereby the buyer has the right, but not the obligation to enter into a predetermined interest rate swap. The buyer pays a premium amount for the contract.

Yield, interest rate, always expressed as a percentage.

Yield Curve is the plotting of market interest rate levels from short term (90-days) to long term 10 year rates on a graph i.e. the difference in market interest rates from one term (maturity) to another.

APPENDIX 6

Institution	***Minimum S&P Long Term / Short Term Credit Rating***	***Investments Maximum Per Counterparty ($m)***	***Electricity Price Risk Management Instrument (CFD) Maximum Per Counterparty ($m)***	***Interest Rate Risk Management Instrument Maximum Per Counterparty ($m)***	***Total Exposure Limit for each counterparty***
Government	*N/A*	*Unlimited*	*N/A*	*None*	*Unlimited*
Local Government Funding Agency (LGFA) (on balance sheet exposures only)	*AA-/A-1*	*$50 million*	*N/A*	*None*	*$50 million*
NZ Registered Bank - *On balance sheet exposures* - *Off balance sheet exposures*	*A+ / A-1** *A+ / A-1**	*$70 million*	*$10 million*	*$50 million*	*Total $130 million*
Local authority	*A+/A-1*	*$10 million*	*N/A*	*None*	*$10 million*
Electricity generators e.g. MRP	*BBB/A-2*	*N/A*	*$5 million*	*N/A*	*$5 million*

Authorised Asset Classes	Overall Portfolio Limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer
New Zealand Government	100%	Government Stock/ Treasury Bills	Not Applicable	Unlimited
Supranationals	50%	Bonds/MTNs/FRNs	AAA	Maximum of $10 million
New Zealand Registered Banks	100%	Call/Deposits/Bank Bills/Commercial Paper Bonds/MTNs/FRNs	Short term S&P rating of A-1+ Short term S&P rating of A-1 Long term rating of A+ or better	Maximum of $70 million Maximum of $20 million Maximum of $20 million
Rated Local Authorities ("RLA")	50%	Commercial Paper/ Bonds/MTNs/FRNs	Minimum short term S&P rating of A-1 or minimum long term S&P rating of A+	Maximum of $10 million
State Owned Enterprises ("SoE")	50%	Commercial Paper/ Bonds/MTNs/FRNs	Short term S&P rating of A-1+ or long term rating of A+ or better Short term S&P rating of A-1 or long term rating of BBB to A	Maximum of $10 million Maximum of $5 million
Corporates	30%	Commercial Paper/ Bonds/MTNs/FRNs	Short term S&P rating of A-1+ or long term rating of A+ or better Short term S&P rating of A-1 or long term rating of BBB to A	Maximum of $7 million Maximum of $3 million
Financials	30%	Commercial Paper/ Bonds/MTNs/FRNs	Short term S&P rating of A-1+ or long term rating of A+ or better Short term S&P rating of A-1 or long term rating of BBB to A	Maximum of $5 million Maximum of $2 million

The combined holdings of entities rated BBB to A shall not exceed $10 million
The combined holdings of corporates and financials shall not exceed $10 million