Foreign exchange risk management	Spot exchange contracts Forward exchange contracts

Conditions of instrument use:

Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, one side of the collar cannot be closed out by itself, both must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".

Interest rate options with a maturity beyond 12 months that have a strike rate (exercise rate) higher than 2.0% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

Any other financial instrument must be specifically approved by Council on a case-by-case basis, and only applied to the one singular transaction being approved. Credit exposure on these financial instruments is restricted by specified counterparty credit limits. The following types of investment instruments are expressly excluded:

- Structured debt where issuing entities are not a primary borrower/issuer.
- Subordinated debt (other than Borrower Notes subscribed from the LGFA), junior debt, perpetual notes and hybrid notes such as convertibles.

10.0 Counterparty Credit Risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. Prudent credit management can reduce ~~the Council's~~Council's risk of loss from a counterparty failing to meet its obligations. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit exposure for borrowings is relevant for the undrawn portion of any committed~~,~~ standby or bank facility, where the counterparty has a contractual obligation to provide funds to ~~the~~ Council. Where ~~the council~~Council uses these facilities, the ~~counterparty's~~counterparty's minimum credit rating must be ~~A!~~A1 (short term) or A~~-~~ (long term) as rated by S&P Global Ratings ~~(S&P),~~ or equivalent credit ratings from ~~Moody's~~Moody's or Fitch Ratings.

Credit risk will be regularly reviewed by Council. Treasury related instruments will only be entered into with organisations specifically approved by Council.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits:

Counterparty/Issuer	**Instruments**	**Minimum short term credit rating (<12 months)**	**Minimum long term credit rating (>12 months)**	**Maximum exposure per counterparty**
NZ Government	Treasury Bills, NZ government bonds	N/A	N/A	Unlimited
LGFA	LGFA borrower notes, commercial paper	N/A	N/A	$34.0m

NZ registered bank	Bank deposits, interest rate and foreign exchange contracts	A-1	AA- A+	$30.0m $21.0m

The equivalent dollar value for maximum counterparty credit exposures is updated annually based upon the most recent audited financial statements. The percentages used for these calculations are presented below:

- LGFA: 40%.
- NZ registered bank (AA-): 35%.
- NZ registered bank (A+): 25%.

The calculation methodology for Council's exposures is outlined below. For the purposes of these calculations, when replacement cost (marked-to-market) is below zero (i.e. negative) the value used in the calculation will be zero (prescribed factors are displayed in the following table):

- Investments (such as bank deposits) – Replacement Cost + Notional x Prescribed Factor
- Interest rate risk management contracts (such as swaps, FRAs) – Replacement Cost + Notional x Prescribed Factor
- Foreign exchange risk management contracts (such as FECs) – Replacement Cost + Notional x Prescribed Factor

Current term to maturity	**Treasury Investments**	**Interest rate contracts**	**Foreign exchange contracts**
Less than one year	100%	0.0%	10.0%
Between one and five years	100%	0.5%	12.0%
Longer than five years	100%	1.5%	15.0%

11.0 Foreign Exchange Exposures

Council may have foreign exchange exposure through the occasional purchase of foreign exchange denominated assets or foreign currency denominated expenses in order to access particular assets or services. ~~Commitments~~Individual commitments in excess of ~~NZD100~~NZD 100,000 are defined as an exposure. Foreign exchange exposures may be hedged using spot and forward ~~foreign~~ exchange contracts with approved New Zealand ~~registered~~Registered banks ~~with a credit rating of at least A+,~~ once expenditure is approved by the ~~Chief Financial Officer~~CFO and/or Council.

~~BORROWING INTRA-GROUP~~

~~Council's debt is managed on a centralised basis for the parent and its subsidiaries.~~

~~Where~~ 12.0 Operational Risk

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

12.1 Dealing Authorities and Limits

Transactions will only be executed by those persons within limits approved by Council ~~has a~~ .

12.2 Segregation of duties

Adequate segregation of duties among the core borrowing ~~requirement~~and investment functions of deal execution, confirmation, setting and accounting/reporting. When there are a small number of people involved in borrowing and investment activity, the strict segregation of duties is not always achievable.

12.3 Legal risk

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. While legal risks are more relevant for banks, Council may also be exposed to such risks. Council will undertake the following to minimise legal risk:

- The use of standard dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contracts for ~~specific projects or activities,~~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 for any non-standardised transactions.

12.4 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. All ISDA Master Agreements for financial instruments must be signed under seal by Council.

Council's internal ~~cash resources may be utilised first before any funds are borrowed externally~~/appointed legal counsel must sign off on all legal documentation.

~~Council is able to facilitate cost-effective external borrowings if required for Council Controlled Organisations [CCOs] by way of its standing in the marketplace and recognises that there is a financial benefit to CCOs from this. Council can pass funding to CCOs at cost or include a margin to reflect its support as approved by the Council.~~

~~If funds are raised by Council for the specific purpose of funding a CCO, then these funds cannot be provided below cost to Council~~

~~From time to time Council may provide direct financing to CCOs to assist in cash flow management and this would be advanced at the Council's average cost of funds.~~

~~CONTROL PARAMETERS~~

~~BORROWING LIMITS~~

~~Total council borrowings will be managed within the following macro limits in line with LGFA requirements:~~

~~(Covenants are measured on Council only, not consolidated group)~~

~~Ratio~~	~~Limit~~
~~Net Debt/Total Revenue~~	~~<225%~~
~~Net Interest/Total Revenue~~	~~<20%~~
~~Net Interest/Annual Rates Income~~	~~<25%~~
~~Liquidity [a] (external debt + cash or near cash financial investments (including LGFA borrower notes) + unutilised but committed loan facilities, to existing external debt)~~	~~>110%~~

~~When reporting against these macro-limits on a quarterly basis, Treasury will not only measure against current debt levels but also test projected debt levels over the period covered by the current LTP, including sensitivity analysis around income levels and interest rates, and also an assumption that there will be no debt repayments over the cycle (i.e. debt levels projected cannot be lower than those of the previous year.~~

~~No more than $75 million of maturing debt can mature in any rolling 12 month period.~~

~~FIXED/FLOATING INTEREST RATE PROFILE~~

~~The table reflects Council's preference for a reasonable level of certainty over interest costs, over multiple timeframes, given the long term nature of assets being funded The fixed rate amount at any point in time should be within the following maturity bands:~~

~~FIXED RATE HEDGING PROFILE LIMIT~~	
	~~Minimum Fixed Rate Exposure 50%~~
~~Term Of Exposure~~	
~~Year 1~~	

	Maximum Fixed Rate Exposure 100%	
~~Years 2 and 3~~	~~30%~~	~~80%~~
~~Year 4~~	~~15%~~	~~60%~~
~~Year 5 to 12~~	~~0%~~	~~50~~
~~Over 12 years~~	~~Any borrowing must be approved by Council~~	

~~INVESTMENT MANAGEMENT POLICY~~

~~The council's key investment policy objectives are~~

13.0 Performance Measurement

In order to~~:~~

~~prudently manage its financial investments by seeking to maximise investment income within acceptable investment risk parameters. Council, as a public entity, is risk averse and as such will have a primary focus on preservation of capital, despite this meaning a level of return that may be lower than could be achieved by investing in 'speculative riskier' assets~~

~~invest in only those investments that are approved under this policy~~

~~maintain an appropriate level of diversity~~

~~support~~ determine the ~~Council's liquidity requirements~~

~~enable regular reviews of~~success of Council's treasury management function, the following benchmarks and performance ~~(risk and return) of investments~~measures have been prescribed.

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

13.1 Operational Performance

The performance of the borrowing activity will be measured against ~~financial loss, opportunity cost~~pre-determined benchmarks:

- Adherence to Policy and ~~other inefficiencies~~in particular borrowing limits.

~~MIX OF INVESTMENTS~~

- ~~The Council may invest in shares~~Comparison of ~~the LGFA~~actual monthly and ~~may borrow~~year to ~~fund that investment~~date borrowing costs v budget borrowing costs.

~~The~~

~~ACQUISITION OF NEW INVESTMENTS~~

~~INVESTMENT RISKS~~

~~FINANCIAL INVESTMENTS – APPROVED ISSUERS, INSTRUMENTS AND LIMITS~~

~~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. Credit risk will be regularly reviewed by the council. Treasury-related transactions would only be entered into with organisations specifically approved by the Council.~~

~~Counterparties and limits can only be approved on the basis of long term credit ratings being A+ and above or short term rating of A-1 or above from S&P Global Ratings or equivalent credit ratings from Moody's or Fitch.~~

~~Counterparty/Issuer~~	~~Minimum long term/short term credit rating~~	~~Instruments~~	~~Limits (% of total investment portfolio)~~
~~NZ Government~~	~~N/A~~	~~Treasury bills~~	~~100%~~
~~LGFA~~	~~LGFA borrower notes/LGFA bonds~~	~~N/A~~	~~100%~~
~~NZ registered bank~~	~~A+ / A-1~~		

~~Money market call deposits Money market term deposits~~

~~Up to 100% of total portfolio but no more than $20 million with any one registered bank~~

~~POLICY MONITORING~~

~~REPORTING TO COUNCIL~~

- ~~The Chief Financial Officer~~Comparison of actual monthly borrowings amounts with budgeted borrowings amounts.
- Comparison of actual borrowing limit ratios (both Council and LGFA) to budgeted borrowing limit ratios as per the Annual Plan and Long Term Plan.

14.0 Reporting

The CFO has responsibility for ensuring appropriate reporting of the Treasury function is completed for senior management and ~~the council~~Council, to ensure they can meet their oversight requirements as detailed within this ~~policy~~Policy, and to effectively monitor performance. Reporting requirements are agreed or confirmed annually with the ~~Chief Executive~~CEO and Council.

Reporting is expected to include appropriate summaries showing compliance against key policy risk parameters with exception reporting, as soon as one is recognised. Commentary should be limited to that which assists recipients to readily understand the impact of any decisions they are being requested to make.

~~TREASURY MANAGEMENT GROUP~~The following reports are to be produced:

Report Name	**Frequency**	**Prepared by**	**Recipient**
Daily Cash Position Treasury Spread Sheet	Daily	Accountant	~~Business Advisory Manager~~Business Performance Manager
Treasury Exceptions Report	As required	Accountant	Financial Controller
Monthly Treasury Report (signalling significant changes in treasury management strategy)	Monthly	~~Business Advisory Manager~~Business Performance Manager	Chief Financial Officer
Quarterly Treasury Report • Policy limit compliance • Borrowing limits • Funding and interest rate position • Funding facilities • New treasury transactions • Cost of funds v budget	Quarterly	~~Business Advisory Manager~~Business Performance Manager Chief Financial Officer	Council

• Cash flow forecast report • Liquidity risk position • Counterparty credit • Treasury performance • Outstanding guarantees and loan advances			
Half-Yearly Financial Statements	Six monthly		Council
Half Yearly Reporting Certificate	Six monthly		Council
Annual Report	Annual		Council
Annual Reporting Certificate	Annual		Council
Auditors Report	Annual		Council
Insurance Certificate	Annual		Council
Annual Plan/Long Term Plan	Annual/Triennially		Council
Revaluation of Financial Instruments	Quarterly		Council
LGFA Compliance Report	Annual / As required		Council

15.0 Treasury Management Group (TMG)

The TMG exists to ensure the following:

- Compliance with the Treasury Policy.
- Ensure operational controls and procedures protect Council against financial loss and opportunity cost, and ensure other inefficiencies are mitigated or maintained
- Monitor, evaluate and report on treasury performance.

A key responsibility is to evaluate borrowing opportunities. In evaluating borrowings, the TMG will consider the following:

- The overall structure of Council borrowings, having regard to the principle of intergenerational equity.
- The impact of the new debt on borrowing limits taking into account long term debt projections and the potential impact of new debt on Council financial ratios, and the impact of ~~the~~ new debt on the sustainability of overall debt service costs.

~~RELEVANT MARGINS UNDER EACH BORROWING SOURCE~~

~~The debt maturity profile ensuring concentration of debt in a particular year(s) is in compliance with this policy~~

- Relevant margins under each borrowing source.
- Prevailing interest rates relative to the term of borrowing.
- The term of ~~the~~ borrowing.
- Legal compliance and financial covenants.
- Other terms and conditions.

The core members of the TMG are as follows:

- Chief Financial Officer.
- Financial Controller.
- ~~Strategic financial planner~~Business Performance Manager~~Financial Planner~~Business Performance Manager.

The ~~Chief Executive~~CEO is invited to attend all TMG meetings, but is not

a permanent member, as are representatives of ~~the Council's~~Council's independent treasury advisor (if one is appointed).

Other Council officers and ~~Council's~~Council's internal treasury advisors are invited to attend as required.

~~ACCOUNTING TREATMENT OF FINANCIAL INSTRUMENTS AND VALUATIONS~~

16.0 Accounting Treatment of Financial Instruments and Valuations

Council uses financial market instruments for the primary purpose of reducing its exposure to fluctuations in interest rates. The accounting treatment for such financial instruments is to follow New Zealand Generally Accepted Accounting Practice and ~~is~~it detailed in the Accounting Manual.

~~PERFORMANCE MEASUREMENT~~

~~Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective and objective measures. The predominant subjective measure is the overall quality of treasury management information, including development of key performance indicators (KPIs) for the Chief Financial Officer, by agreement with the Chief Executive.~~

~~DELEGATED AUTHORITIES~~

~~Council has the following responsibilities, either directly itself or via the following stated delegated authorities:~~

~~Activity~~	~~Delegated authority~~	~~Limit~~
~~Approving and changing policy~~	~~Council~~	~~Unlimited~~
~~Approving borrowing programme and new debt~~	~~Council~~	~~Unlimited (subject to legislative and other regulatory limitations)~~
~~Approval~~Under NZ IPSAS accounting standards, changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.		~~Unlimited~~
All financial instruments must be revalued (marked-to-market) quarterly for ~~charging physical assets as security over borrowing~~	~~Council~~	~~Unlimited~~
~~Approval for providing security stock as security over borrowing~~	~~Chief Executive or delegate~~	~~Unlimited~~ ~~Re-financing existing debt~~
~~Appoint Debenture Trustee~~	~~Council~~	~~Unlimited~~
~~Re-financing existing debt~~	~~, Chief Executive or delegate~~	~~Per risk control limits~~
~~Approving transactions outside policy~~	~~Council~~	~~Per risk control limits~~
~~Adjust net debt interest rate risk profile~~	~~Chief Executive or delegate~~	~~$30 million~~
~~Managing funding maturities~~	~~Chief Executive or delegate~~	
~~Maximum daily transaction amount (borrowing, interest rate~~ risk management~~) excludes roll-overs on floating rate debt~~ purposes. ~~and interest rate roll-overs on swaps~~	~~Chief Executive or delegate~~	~~Unlimited~~
~~Authorising seal register signatories~~		~~I Unlimited~~
~~Authorising lists of signatories and opening/closing bank accounts~~		
~~Triennial review of policy~~		
~~Ensuring compliance with policy~~		

~~Mayor/Chief Executive or delegate~~

~~Chief Executive or delegate~~

~~Chief Executive or delegate N/A~~

~~Chief Executive or delegate N/A~~

~~POLICY REVIEW~~

~~This Treasury~~17.0 Policy Review

This Policy is to be formally reviewed ~~by Council~~ at least every ~~3~~three years, in conjunction with the Long Term Plan process, or earlier if required.

~~The Chief Financial Officer has the responsibility for preparing a review report to be presented to the Council for consideration and approval.~~

~~DEFINITIONS:~~

~~Unless the context otherwise requires, in this Policy'~~

~~CCOs:~~

~~Council Controlled Organisations in which Council controls 50% or more of the votes or has the right to appoint 50% (or more) of directors or trustees.~~

~~COs:~~

~~an entity with voting rights held by one or more Local Authorities.~~

~~Debt:~~

~~amount of funds borrowed by Council under a specific contractual debt arrangement with provisions covering the repayment terms and payment of interest.~~

~~Debenture Trust Deed:~~

~~all Council's borrowings are secured by a floating charge over the future rate income of the district through the provisions of a denture trust deed.~~

~~Group:~~

~~the business of Council and its subsidiaries.~~

~~Floating rate:~~

~~an interest rate re-pricing within the next 3 months.~~

~~Fixed/Floating rate profile:~~

~~Council manages its interest rate exposures by defining minimum and maximum fixed or floating percentages within various timeframes.~~

~~Fixed Interest Rate:~~

~~an interest rate re-pricing date beyond 3 months forward, on a continuous rolling basis.~~

~~Funding Risk:~~

~~the risk that funding sources may curtail lending and availability of funding at acceptable credit margins.~~

~~Hedging:~~

~~a hedge can be constructed from a range of financial instruments, including forward contract, swaps and other derivative products, in order to offset any potential losses.~~

~~Interest Rate Risk:~~

~~impact that exposure to movements in market interest rates can have on Council's cash flows, Annual Plan and Long-term Plan.~~

~~Interest Rate Swap:~~

~~an interest rate swap allows the variable rate interest payments of a debt facility to be exchanged for a fixed rate or vice versa. This is done notionally without changing the terms of the underlying loan.~~

~~LGFA:~~

~~the LGFA was incorporated on 01 December 2011. It is owned by 30 local authority councils and the~~

~~Crown. Primary purpose is to provide more efficient funding costs and diversified funding sources for NZ local authorities. Council Joined LGFA as a borrower/guarantor in February 2013.~~

~~**Liquidity Risk:**~~

~~the risk that Council may be unable to meet short term financial demands.~~

~~**Long Term:**~~

~~greater than 12 months~~ ~~**Net Debt:**~~

~~total debt less cash or near cash financial investments, including LGFA borrower notes.~~

~~**Net Interest:**~~

~~total interest expenses less interest income, excluding interest income from debt on lending to CCOs.~~

~~**Short Term:**~~ ~~less than 12 months~~

~~**Total Revenue:**~~

~~earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue. Income excludes non-government capital contributions (e.g.~~ The CFO has the responsibility for reviewing a review report to be presented to Council for consideration and approval.

The report should include:

- Recommendations as to changes, deletions and additions to the Policy.
- Overview of how the treasury function has been achieving its stated treasury objectives.

Summary and review of breaches and one off approvals outside Policy to highlight areas of tension. ~~**Trustee:**~~

~~the trustee or trustees for the time being holding office as trustee under the debenture trust deed.~~

~~**Weighted average interest rate:**~~

- ~~takes into account the various loan interest rates, loan value and term to calculate an overall average interest rate.~~