

## Cost allocation

The Rotorua District Council has derived the cost of service for each significant activity of council using the cost allocation system outlined below.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs, which cannot be identified in an economically feasible manner, with a specific significant activity.

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities using appropriate cost drivers such as actual usage, staff numbers and floor area.

## Critical accounting estimates and assumptions

In preparing these financial statements council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### Provisions

Note 15 discloses an analysis of the exposure of the Council in relation to the estimates and uncertainties surrounding the landfill aftercare provision and the rates refund provision.

### Infrastructural assets

There are a number of assumptions and estimates used when performing DRC valuations for infrastructural assets. These include:

- the physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- estimating any obsolescence or surplus capacity of an asset; and
- estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then the Council could be over or under estimating the annual depreciation charge recognised as

an expense in the statement of financial performance. To minimise this risk the Council's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the Council's asset management planning activities, which gives the Council further assurance over its useful life estimates.

Experienced independent valuers certify the infrastructural asset revaluations performed by the Council's engineers.

Apart from these all other critical accounting estimates and assumptions are the same as those listed in Council's Ten Year Plan 2006-2016

## Critical judgements in applying council's accounting policies

Management has exercised the following critical judgements in applying the Council's accounting policies for the period ended 30 June 2009:

### Classification of property

The Council owns a number of properties, which are maintained primarily to provide housing to pensioners. The receipt of discounted market-based rental from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of the Council's social housing policy. These properties are accounted for as property, plant and equipment.

The Council has land in its ownership which is classified as property, plant and equipment and currently leased for farm grazing. This land has been identified by the Council as a potential site for the development of a new cemetery. The final decision as to the suitability of the site as a cemetery is still dependent on the outcomes of community consultation and resource consent processes. If the site is not suitable for a cemetery, then the Council will reassess the best use of the land, which could include commercial leases or disposal.

# Funding



# FUNDING IMPACT STATEMENT

*The Funding Impact Statement is required to include the information set out in clause 10 of Part 1 of Schedule 10 of the Local Government Act 2002 and sections 13 to 19 of the Local Government (Rating) Act.*

## Revenue and Financing Mechanisms

Council has decided to use the following revenue and financing mechanisms to cover the estimated expenses for each financial year covered by the plan. In relation to each year covered by the plan, there is an indication of the level or amount of funds to be produced by each mechanism.

	Annual Plan 2007/08 \$000's	Ten Year Plan 2008/09 \$000's	Annual Plan 2008/09 \$000's	Variance
Rates	32,842	33,574	34,872	1,298
Uniform Annual General Charge	10,667	10,891	10,898	7
Less RDE Rates	(803)	(814)	(820)	(5)
Water Rates	3,032	3,516	3,320	(197)
Sewerage Rates	8,962	10,117	9,888	(229)
Sewerage Capital Rates	69	1,093	51	(1,042)
Refuse Rates	1,705	1,780	1,780	0
Water by Meter	2,947	3,529	3,388	(141)
Water by Meter Penalty	8	8	8	0
Lakes Enhancements Rate	398	416	386	(30)
Urban Sewerage Development Rate	114	-	117	117
Lakes Community Board Rate	50	-	50	50
Less Water By Meter	(173)	(168)	(172)	(3)
<b>Total from Rating Mechanisms</b>	<b>59,817</b>	<b>63,943</b>	<b>63,766</b>	<b>(177)</b>
Dev. Contributions	621	852	852	-
Resource Management Contributions	612	624	624	-
Subsidies & Grants	17,608	22,639	14,779	(7,860)
Investment Revenue	512	134	518	384
Fees & Charges	5,208	4,741	5,164	423
Trading revenue	13,971	15,820	14,983	(837)
Profit on Disposal	1	1	1	-
Non Operating Revenue	1,740	1,790	1,790	-
Other Revenue Sources	40,272	46,601	38,711	(7,890)
<b>Total Revenue Funding Mechanisms</b>	<b>100,089</b>	<b>110,544</b>	<b>102,477</b>	<b>(8,067)</b>
<b>Finance Mechanisms</b>				
Debt (Net Funding)	38,495	20,175	51,203	31,028
Sale of Assets	929	3,870	1,302	(2,568)
Net Council Reserves	(10)	(651)	(292)	359
Collection of Advances	(826)	(21)	-	21
Working Capital Funding	380	670	-	(670)
<b>Total Funding from Financing Mechanisms</b>	<b>38,968</b>	<b>24,043</b>	<b>52,213</b>	<b>28,170</b>
<b>Total Revenue and Financing Mechanisms</b>	<b>139,057</b>	<b>134,587</b>	<b>154,690</b>	<b>20,103</b>

## Significant Variations to Revenue and Financing Mechanisms for 2008/09

- New Lakes Community Board targeted rate was established in 2007/08 to fund the cost of the community board.
- New Urban Sewerage Development targeted rate was established in 2007/08 to help fund the cost of the new sewerage lakes schemes.
- Less sewerage capital rates for 2008/09 because of construction delays. These rates will instead be charged in 2009/10.
- Subsidies and Grants are approximately 50% higher for 2008/09 than indicated, principally because of additional subsidy being available for new sewerage schemes and increased capital expenditure for subsidised roading.

## Rates set for 2008/2009

Council has set the following rates, pursuant to the Local Government (Rating) Act 2002, for the 2008/2009 rating year:

- a) A uniform annual general charge;
- b) A differential general rate;
- c) Targeted rate for lakes enhancement;
- d) Targeted rates for water supply;
- e) Targeted rates for sewage disposal;
- f) Targeted rates for capital costs of sewerage schemes;
- g) Targeted rate for urban sewerage development;
- h) Targeted rates for refuse collection.

### Uniform Annual General Charge

Council sets a uniform annual general charge for each rating unit (GST inclusive).

The amount to be collected is \$12,260,587.

The uniform annual general charge has been set at a fixed amount per rating unit approximately 70% of the maximum allowed, excluding metered water from the calculation.

2008/2009	\$450.00
2007/2008	\$430.00

### Targeted Rate for Lakes Enhancement

Council sets a lakes enhancement rate by way of a uniform amount for each rating unit that pays a UAGC (GST inclusive).

The amount to be collected is \$433,708.

The lakes enhancement rate is set at:

2008/2009	\$16.00
2007/2008	\$16.00

### General Rates

Council sets a general rate on land value on a differential basis (GST inclusive).

The amount to be collected is \$39,211,500.

The general rate will be collected from eleven differential rating categories (four differential rating groups).

The General Rates definitions for these categories are in the Rating Policy.

		Rate per \$ of land value	
		2008/09	2007/08
Residential rating group			
1	Residential - General - Urban	0.00681	0.00648
2	Residential - General - Rural	0.00477	0.00453
3	Residential - Vacant - Urban	0.00613	0.00583
4	Residential - Vacant - Rural	0.00443	0.00421
5	Residential - Two Unit - Urban	0.00749	0.00712
6	Residential - Multi Unit	0.02895	0.02753
Farming rating group			
7	Farming - General	0.00443	0.00421
Business rating group			
8	Business - Inside CBD	0.02861	0.02720
9	Business - Urban Outside CBD	0.02861	0.02720
10	Business - Rural	0.01771	0.01684
Council rating group			
11	Council property	0.02861	0.02720

### Targeted Rates for Water Supply

Council has set targeted rates for water supply to properties within the respective service areas (refer to the Wastewater and Water activities in part B) on a differential basis.

For these purposes:

A "rating unit connected" is one to which water is supplied from a Council water supply service.

A "serviceable rating unit" is one to which water is not connected, but the whole, or some part of which is within 100 meters of a Council water supply area.

A "separately used or inhabited part" is any part of a rating unit that is or is able to be used or inhabited by the ratepayer or by any other person or body having a right to use or inhabit that part by virtue of tenancy, lease, licence or other agreement.

The Targeted Rates for water supply are as follows (GST inclusive):

Urban (Plan number 11015 Sheet 1)	Charging unit	2008/2009	2007/2008
The amount to be collected is \$6,650,936 (GST inclusive) (Metered water \$2,818,836; General water rate \$3,722,100)			
A differential targeted rate of:			
• A fixed amount on each separately used or inhabited part of a rating unit connected (and not metered)	Annual for rating units connected	\$190.00	\$172.80
• A fixed amount on each serviceable rating unit capable of connection.	Annual for rating units capable of connection	\$95.00	\$86.40
• A fixed amount on each separately used or inhabited part of a rating unit connected (and metered)	Annual for rating units connected and metered	\$190.00	\$172.80
A targeted rate on each metered separately used or inhabited part of a rating unit of a fixed amount per cubic metre supplied in excess of 56 cubic metres per quarter.	Per cubic metre	\$0.85	\$0.78
<b>Mamaku (Plan number 11015 Sheet 4)</b>			
The amount to be collected is \$81,979 (GST inclusive)			
A targeted rate of a fixed amount per connection on each rating unit connected.	Annual for rating units connected	\$176.68	\$140.60
A targeted rate on each metered rating unit of a fixed charge per cubic metre supplied to the rating unit.	Per cubic metre	\$0.52	\$0.47
<b>Rotoiti (Plan number 11015 Sheet 5)</b>			
The amount to be collected is \$82,824 (GST inclusive)			
A differential targeted rate:			
• A fixed amount per connection on each rating unit connected.	Annual for rating units connected	\$134.40	\$112.40
• A fixed amount on each serviceable rating unit capable of connection.	Annual for rating units capable of connection	\$67.20	\$56.20
A targeted rate on each metered rating unit of a fixed amount per cubic meter supplied to the rating unit.	Per cubic metre	\$0.47	\$0.42
<b>Rotoma (Plan number 11015 Sheet 6)</b>			
The amount to be collected is \$54,389.25 (GST inclusive)			
A differential targeted rate:			
• A fixed amount per connection on each rating unit connected.	Annual for rating units connected	\$271.28	\$252.40
• A fixed amount on each serviceable rating unit capable of connection	Annual for rating units capable of connection	\$135.64	\$126.20
A targeted rate on each metered rating unit of a fixed amount per cubic metre supplied to the rating unit.	Per cubic metre	\$0.96	\$0.91
<b>Kaharoa (Plan number 11015 Sheet 7)</b>			
The amount to be collected is \$204,457 (GST inclusive)			
A targeted rate of a fixed amount per connection on each rating unit connected.	Annual for rating units connected	\$297.88	\$273.00
A targeted rate on each metered rating unit of a fixed amount per cubic metre supplied to the rating unit.	Per cubic metre	\$0.30	\$0.29

Reporoa (Plan number 11015 Sheet 8)	Charging unit	2008/2009	2007/2008
The amount to be collected is \$482,083 (GST inclusive)			
A differential targeted rate:			
• A fixed amount per connection on each Domestic/Non-Farming rating unit connected	Annual for rating units connected	\$130.00	\$130.00
• A fixed amount per connection on each Farming/Dairy-Factory rating unit connected.	Annual for rating units connected	\$198.00	\$198.00
A differential targeted rate:			
• A fixed amount on each metered Domestic/Non-Farming rating unit per cubic metre supplied in excess of the 83 cubic metres per quarter.	Per cubic metre	\$0.39	\$0.39
• A fixed amount on each metered Farming/Dairy-Factory rating unit per cubic metre supplied in excess of 206 cubic metres per quarter.	Per cubic metre	\$0.24	\$0.24
Hamurana (Plan number 11015 Sheet 9)	Charging unit	2008/2009	2007/2008
The amount to be collected is \$72,105 (GST inclusive)			
A differential targeted rate:			
• A fixed amount per connection on each rating unit connected	Annual for rating units connected	\$114.00	\$105.00
• A fixed amount on each serviceable rating unit. capable of connection	Annual for rating units capable of connection	\$57.00	\$52.50
A targeted rate on each metered rating unit of a fixed amount per cubic metre supplied.	Per cubic metre	\$0.34	\$0.32
Okareka (Plan number 11015 Sheet 10)	Charging unit	2008/2009	2007/2008
The amount to be collected is \$36,572 (GST inclusive)			
A differential targeted rate:			
• A fixed amount per connection on each rating unit connected	Annual for rating units connected	\$76.00	\$71.80
• A fixed amount (being 50% of the above amount) on each serviceable rating unit.	Annual for rating units capable of connection	\$38.00	\$35.90
A targeted rate on each metered rating unit of a fixed amount per cubic metre supplied.	Per cubic metre	\$0.28	\$0.28

## Targeted Rates for Sewage Disposal

Council sets the following targeted rate on a differential basis all rating units from which sewage is collected or are serviceable rating units. For these purposes:

- A "rating unit connected" means a rating unit from which sewage is collected either directly or by private drain to a public sewerage system.
- A "serviceable rating unit" means a rating unit from which sewage is not collected but the rating unit (part) is within 30 metres of Council's sewerage system and could be effectively connected to the sewerage scheme.

Council sets the following targeted rates (GST inclusive):

Urban (Plan number 11163 Sheet 2) and Eastern (Mourea, Okawa Bay, Marama Point and Duxton Hotel areas) (Plan number 11163 Sheets 4, 5 and 14)	Charging Unit	2008/2009	2007/2008
The amount to be collected is \$11,123,963 (GST inclusive)			
<b>1. Residential Property</b>			
A targeted rate on each rating unit connected.	Annual for rating units connected	\$359.00	\$326.20
<b>2. Commercial/Industrial Property as follows:</b>			
Category 1	Uniform charge for each toilet	\$359.00	\$326.20
- means the rating units with 1 to 4 toilets (water closets or urinals)			
Category 2	Uniform charge for each toilet	\$305.15	\$277.27
- means the rating units with 5 to 10 toilets (water closets or urinals)			
Category 3	Uniform charge for each toilet	\$287.20	\$260.96
- means the rating units with 11 or more toilets (water closets or urinals)			
<b>3. Availability</b>			
- means the rating units which are serviceable rating units.	Annual for rating units capable of connection	\$179.50	\$163.10

## Targeted Rates for Urban Sewerage Development

Council sets an urban sewerage development rate by way of a uniform amount for each rating unit in the "Urban Sector" that pays a UAGC (GST inclusive).

The amount to be collected is \$131,693.

The urban sewerage development rate is set at:

2008/2009	\$6.10
2007/2008 was	\$6.10

## Targeted Rates for Capital Cost of Sewerage Schemes

Council sets the following targeted rates on a differential basis for sewerage schemes in the Mourea, Marama Point, Okawa Bay and Duxton Hotel areas (GST inclusive).

<b>Okawa Bay (Plan number 11163, Sheet 5)</b>	<b>Charging Unit</b>	<b>2008/2009</b>	<b>2007/2008</b>
The amount to be collected is \$13,016 (GST incl)			
A fixed amount on each household unit equivalent (HUE)	Per HUE Annually	\$519.82	\$519.82
<b>Mourea (Plan number 11163, Sheet 4)</b>	<b>Charging Unit</b>	<b>2008/2009</b>	<b>2007/2008</b>
The amount to be collected is \$31,564 (GST incl)			
A fixed amount on each household unit equivalent (HUE)	Per HUE Annually	\$335.79	\$335.79
<b>Marama Point (Plan Number 11163, Sheet 14)</b>	<b>Charging Unit</b>	<b>2008/2009</b>	<b>2007/2008</b>
The amount to be collected is \$10,738 (GST incl)			
A fixed amount on each household unit equivalent (HUE)	Per HUE Annually	\$268.44	\$268.44
<b>Duxton (Plan number 11163, Sheet 5)</b>	<b>Charging Unit</b>	<b>2008/2009</b>	<b>2007/2008</b>
The amount to be collected is \$14,102 (GST incl)			
A fixed amount	Annually	\$14,102.14	\$14,102.14

## Targeted Rates for Refuse Collection

(Plan number 10196, Sheets 1 and 2)

A “separately used or inhabited part” is any part of a rating unit that is or is able to be used or inhabited by the ratepayer or by any other person or body having a right to use or inhabit that part by virtue of tenancy, lease, licence or other agreement.

Council set targeted rates for refuse collection from each separately used or inhabited part of a rating unit within the respective service areas on a differential basis for refuse collection in urban and rural areas respectively, where the service is provided, as follows (GST inclusive):

Refuse Collection (Plan numbers 10196-002 [urban] and 10196-001 [rural])	Charging Unit	2008/2009	2007/2008
The total amount to be collected is \$2,002,500 (GST inclusive)			
Urban (weekly collection)	Annual	\$70.10	\$67.60
Urban (CBD twice-weekly collection)	Annual	\$140.20	\$135.20
Rural (weekly collection)	Annual	\$72.60	\$70.10

## Targeted Rates for Lakes Community Board

Council sets a lakes community board rate by way of a uniform amount for each rating unit that is wholly or partially within the area defined by the 2006 decision of the Local Government Commission, comprising the area delineated on SO Plan No.379278.

The amount to be collected is \$56,250 (GST inclusive).

The lakes community board rate is set at:

2008/2009	\$21.00
2007/2008 was	\$21.90

## Rates Postponement

To cover costs, the following fees and charges are set for the 2008/2009 rating year. All fees and charges for this will be added as either a one-off or annual charge as the case may be, to the approved applicants rate account.

Initial Charges - One-Off (GST Inclusive)	Charging Unit	2008/2009
Application Fee	One-Off	\$100.00
Contribution to Counselling	One-Off	\$300.00
<b>Half Year Interest Charges</b>		
Interest calculated on Councils marginal borrowing rate 6 monthly on all amounts outstanding		
<b>Annual Charges (GST inclusive)</b>		
Annual Account Fee	Annual	\$50.00
Administration Fee	Annual	1.00%
Reserve Fund Fee	Annual	0.25%
Property Insurance *	Annual	TBA

\* Property Insurance: A ratepayer must submit a current insurance certificate annually. If the ratepayer cannot afford separate cover Council will arrange cover.

## Due dates for payment of rates

All rates excluding targeted rates for metered water supply charged quarterly) will be payable in four instalments by the due dates, as follows:

Instalment	Due Date
Instalment Number 1	25 August 2008
Instalment Number 2	25 November 2008
Instalment Number 3	25 February 2009
Instalment Number 4	25 May 2009

Targeted rates for metered water supply charged quarterly (separately) will be payable within 30 days of invoice.



## Discount for Prompt Payment

A discount, at a rate set annually, is allowed to any ratepayer who pays the total rates, charges, and levies as specified on the rates assessment, (excluding targeted rates for water supply charged quarterly), by the due date for the first instalment. The discount for 2008/2009 is 2.00%.

## Penalties on unpaid rates

- **Current overdue rates instalments:**  
A penalty will be added to any part of an instalment that remains unpaid after the due date for payment of the instalment. The penalty will be 10% of the unpaid instalment.
- **Arrears of rates (including past instalments):**
  - A further penalty of 10% will be added on rates assessed in any previous financial year and which remain unpaid on 12 July 2008.
  - A further penalty of 10% will be added on rates assessed in any previous financial year, plus any previous further penalty, and which remain unpaid on 12 January 2009.
- **Postponed rates:**  
Penalties will not be applied to any postponed rates

## Penalties on unpaid water invoices

- **Current overdue invoices for water supply charged quarterly:**  
A penalty will be added to any part of an invoice that remains unpaid after the due date for payment of the invoice. The penalty will be 10% of the unpaid invoice.
- **Arrears of water rates (including past instalments):**  
A further penalty will be added to unpaid water invoices (including penalties) at the beginning of the next financial year. The penalty will be 10% of the unpaid amount. A further penalty will be added on water invoices still owing 6 months after the above further penalty was added. The penalty will be 10% of the unpaid amount.



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# TREASURY POLICY

## Introduction

Council has made a minor change to its Treasury Policy to ensure borrowing limits are realistic in the current and anticipated future financial climate. It is important that Council's policy ensures intergenerational equity and enables prudent financial management for ratepayers of the district.

This will enable major investment in infrastructural assets, particularly in the Wastewater activity, and facilitate the transfer of the Rotorua Regional Airport assets to Council.

## Philosophy

Council has treasury risks arising from debt raising, investments and associated interest rate management activity.

Council carries out its borrowing and investment (in total referred to in this document as treasury activity) within its finance function. Council's broad objectives in relation to treasury activity are as follows:

- to comply with the Local Government Act 2002, amendments, and other relevant local authority legislation
- to develop and maintain professional relationships with the financial markets
- to manage all of Council's investments within its strategic objectives; invest surplus cash in liquid and credit worthy investments
- to raise appropriate finance, in terms of both maturity and interest rate
- to manage the overall cash position of Council's operations

Council's treasury policy is managed by the Treasury Management Group (TMG), being officers of Council with delegated authority.

## Liability Management Policy

### Borrowing Policy

Council borrows as it considers appropriate. Council exercises its flexible and diversified borrowing powers within the Local Government Act 2002. Council approves borrowing by resolution arising from the Annual Planning processes. Projected debt levels are ascertained from cashflow forecasts prepared during the Long Term Council Community Plan and Annual planning processes.

Council raises borrowing for the following primary purposes:

- General debt to fund Council's Balance Sheet, including borrowing to fund Council-Controlled Organisations (CCOs).

- Specific debt associated with "special one-off" projects and capital expenditure.
- To fund assets with intergenerational qualities.

Council is able to borrow through a variety of market mechanisms including the issue of stock and debentures and direct bank borrowing or by accessing the capital markets directly.

In evaluating new borrowings (in relation to source, term, size and pricing) the TMG will take into account the following:

- The size and the economic life of the project as appropriate.
- The impact of the new debt on borrowing limits.
- Relevant margins under each borrowing source.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates relative to term for both stock issuance and bank borrowing, and management's view of future interest rate movements.
- Available term from bank and stock issuance.
- Implied finance terms within any specific debt (e.g. project finance) to ensure these are at least as favourable as Council could achieve in its own right.
- Legal documentation and financial covenants.

### Borrowing Limits, Liquidity and Credit Risk Management

In managing borrowing, Council determines appropriate control limits based on the following covenants:

- The gross interest expense of all borrowings will not exceed a specified percentage of total annual rates revenue. (The specified percent for 2008/09 is 15% of total rates).
- Net cashflows from operating activities are to exceed gross annual interest expense by a specified multiple. (The specified multiple for 2008/09 is 2.5).

The applicable control limits will be set by the full Council and reviewed on an annual basis.

To minimise the risk of large concentrations of debt maturing or being reissued in periods where credit margins are high for reasons within or beyond Council's control, Council ensures debt maturity is spread over a band of maturities. Council manages this specifically by ensuring that:

- No more than \$40 million or 50% of existing external borrowing (whichever is the greater) is subject to refinancing in any financial year.

### Interest Rate Risk Management

Council's borrowing gives rise to direct exposure to interest rate movements. Table 1 outlines the maximum unhedged or floating rate exposure requirements allocated into various time

bands. The actual percentage will be determined and reviewed on a regular basis, by the TMG:

**Table 1: Percentage of Fixed Rate Borrowing**

These hedging percentages relate to total existing and forecast debt identified as "Core" debt by the TMG after reference to the current LTCCP and Annual Plans. The level of Core Debt used in determining policy compliance will be reviewed as appropriate, but at least on an annual basis.

Term of Exposure	Minimum Fixed Rate Exposure	Maximum Fixed Rate Exposure
0 - 1 year	60%	100%
1 - 2 years	40%	90%
3 - 5 years	30%	70%
5 - 10 years	0%	60%
10 years and over	Any hedging must be approved by Council	

The TMG sets interest rate risk management strategy by monitoring the interest rate markets on a regular basis, evaluating the outlook for short term rates in comparison to the rates payable on its fixed rate borrowing, and managing these risks using approved risk management instruments.

### Security

In general Council will secure its borrowings against its rate revenue. In unusual circumstances, with prior Council approval, a charge over one or more of the Council's assets may be offered.

### Contingent Liabilities

Council from time to time provides financial guarantees to recreation and service organisations pursuant to Council policy for such guarantees.

## Investment Policy

Council maintains investments in the following financial assets:

- Equity investments, including shareholdings and loan advances, to trading and service enterprises, charitable trusts, and incorporated societies (e.g. sporting and community organisations), and for residential and rural housing purposes, which are consistent with Council's normal course of business.
- Investments in land and buildings (property) and from time to time commercial mortgages and deferred payment licenses.
- Treasury instruments for cash flow management.

### Equity Investments and Loan Advances

Investments may include shareholdings in and advances to CCOs, charitable trusts, incorporated societies, residential and rural housing, and other long term investments which are

consistent with Council's strategic plan and subject to legislation requirements.

### Property Investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives.

Council reviews the performance of its property investments on a regular basis.

### Treasury Investments

Council maintains treasury investments:

- to invest amounts allocated to special funds, sinking funds and reserves
- for short term investment of proceeds from the sale of assets
- To invest surplus cash, and working capital funds

### Liquidity Management

The TMG sets overall investment strategy, but in general terms Council will use surplus funds to decrease its overall level of borrowings by proactive management of its bank facilities.

- Liquidity risk management is implemented by ensuring that cash investments are capable of being liquidated and in any case are for a term of less than twelve months. Committed bank facilities are also held to assist in the management of short term funding requirements as well as contributing to the funding of core debt.

### Interest Rate Risk Management

The TMG sets interest rate risk management strategy by monitoring the interest rate markets on a regular basis, evaluating the outlook, and determining the interest rate profile to adopt for investments.

### Sinking Funds

A statement of sinking funds is prepared annually by the sinking fund commissioners and reported to Council.

## Foreign Exchange Policy

Council may have foreign exchange exposure through the occasional purchase of foreign exchange denominated plant and equipment.

Significant commitments in excess of NZD50,000 are defined as an exposure. Foreign exchange dealings are hedged using foreign exchange contracts, once expenditure is approved by management and/or Council.