TREASURY MANAGEMENT POLICY

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Introduction

1. The Kāpiti Coast District Council's Treasury Management Policy comprises a L~~l~~iability M~~m~~anagement P~~p~~olicy and an I~~i~~nvestment P~~p~~olicy, ~~,~~ as required by the Local Government Act 2002 (the Act).

2. Part 6, section 104 of the Act states that the L~~l~~iability policy must state the local authority's policies in respect of the management of both borrowing and other liabilities, including interest rate exposure, liquidity, credit exposure and debt repayment.

3. Part 6, section 105 of the Act states that the investment policy must state the local authority's policies in respect of investments, including the mix of investments, the acquisition of new investments, procedures for managing and reporting investments and assessment and management of risks.

Purpose

4. The Treasury Management Policy provides the framework for all of the Council's treasury management activities and defines key responsibilities and the operating parameters within which treasury activity is to be carried out.

General Policy Objectives

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

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

7. The Council is governed by the following relevant legislation:

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

8. The Council is a risk averse entity and wishes to minimise risk from its treasury management activities. Interest rate risk, liquidity risk, funding risk and credit risk are risks the Council seeks to manage, not capitalise on. Accordingly, any activity that may be construed as speculative in nature is expressly forbidden.

Governance

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

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

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

12. The full list of delegated authorities as they relate to the Treasury Management Policy is attached as Appendix 2.

13. Treasury risk is minimised for the treasury activities by ensuring that there is adequate segregation of duties among the core functions of deal execution, confirmation, settling and accounting / reporting.

Liability Management Policy

Objectives

14. The Council's liability management objectives in relation to borrowings are to:

- minimise borrowing costs within approved risk parameters;
- prudently manage the Council's exposure to interest rate changes;
- ensure sufficient levels of liquidity to meet planned and unforeseen cash requirements;
- ensure that funding risks are managed by maintaining an appropriate spread of maturities
- prudently manage the Council's credit exposures;
- monitor and report on the risk and the performance of debt portfolios against predetermined limits and benchmarks;
- maintain a credit rating of at least A- from S&P Global Ratings (S&P) or the Moody's Investors Service (Moody's) or Fitch Ratings (Fitch) equivalents. ~~tandard & Poor's.~~
- General Policy

15. The Council's liabilities comprise borrowings (internal / external) and various other liabilities. The Council raises borrowings for the following primary purposes:

- General debt to fund the Council's balance sheet, including working capital requirements;
- Specific debt associated with 'one-off' projects and capital expenditure;
- To fund assets where their useful lives extend over several generations of ratepayers;
- To invest in the Kāpiti Resilience Fund and the Kāpiti Growth Fund.

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

17. Any debt with a maturity beyond 12 years must be reported to the Strategy and Operations Committee at its next meeting.

Specific Borrowing Limits

18. In managing debt, the Council will adhere to the following targets and limits:

Item[1]	Borrowing Target	Borrowing Limit
Net interest expense over total operating income	< 10%	< 20%
Net external debt over total operating income	< 285~~0~~% for FY 2025 and 280% thereafter	*see para 26*
Liquidity	> 110%	> 110%

Security

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

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

Borrowing Mechanisms

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

- available rates and terms from lenders;
- the Council's overall debt maturity profile;
- the outlook on future interest rate movements;
- consideration of counterparty credit risk by spreading borrowings across a number of counterparties to avoid concentrations of credit exposure.

22. The Council's ability to readily attract cost-effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with its investors, the LGFA and financial institutions / brokers.

Debt Repayment

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

[1] ~~Definitions of these and other terms are given in the glossary of terms attached as Appendix 1~~.

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

The LGFA

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

- contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, for example Borrower Notes[2];
- provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- 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; and
- subscribe for shares and uncalled capital in the LGFA.

26. In 2020, the LGFA made a number of changes to its borrowing documents, and these are now reflected in the updated Treasury Management Policy as follows:

a) As a local authority, the Council may now apply to the LGFA to be tested at the group level rather than at the parent level for compliance with LGFA covenants.

b) Council-controlled organisations (CCOs) can borrow directly through the LGFA borrowing programme (on the basis of a guarantee from and / or sufficient uncalled share capital issued to the parent local authority).

c) In response to the uncertainty arising from the Covid-19 pandemic, the LGFA shareholders approved changes to increase the foundation policy financial covenant net debt / total revenue from the current 250% to 280% for local authorities with a long-term credit rating of ‘A’ equivalent or higher.

d) Until 2025/26, local authorities with a long-term credit rating of ‘A’ equivalent or higher must comply with the “Alternative Net Debt / total Revenue covenant” as below

Alternative Net Debt / Total Revenue Covenant	
Financial Year (Test Date)	**Net Debt / Total Revenue**
30 June 2021	<300%
30 June 2022	<300%
30 June 2023	<295%
30 June 2024	<290%
30 June 2025	<285%

[2] Note that the rate for Borrowers Notes increased from 1.6% to 2.5% with effect from June 2020

27. The amended foundation policy financial covenant of 285~~0~~% will apply in the 2025~~/26~~ financial year and 280% annually thereafter.

Internal Borrowing

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

29. Any internal borrowing of reserve and special funds used must be reimbursed for interest revenue lost. Except where a specific rate has been approved for particular circumstances, interest is charged annually in arrears on all internal loans using the Council's current cost of borrowings.

Guarantees / contingent liabilities and other financial arrangements

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

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

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

Investment Policy

General Policy

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

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

35. The authority to acquire and dispose of financial investments is delegated to the Group Manager Corporate Services in consultation with the CEO.

Investment Mix

Equity Investments

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

37. New equity investments may be acquired if an opportunity arises and approval is given by the Council, based on advice and recommendations from Council officers. Before approving any new investment, the Council gives due consideration to the contribution the investment will make in fulfilling the Council's strategic objectives and the financial risks of owning the investment.

Property Investments

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

39. Each individual property purchase is subject to consideration and / or approval by the ~~Strategy and Operations Committee~~ full Council or a delegated Committee. .

Loan Advances

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

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

Development and Financial Contributions

42. In order to make it easier for developers to finance large-scale developments, the Council may allow payment of development and financial contributions on some

~~42.~~43. residential developments to be deferred for a period. Payment arrangements, for example, bank bonds can be used as security against the assets of the developer so that those assets would revert to the Council in the event of default of the payment of development / financial contributions.

Financial Investments

~~43.~~44. The Council's primary objective when investing is the protection of its investment capital. Accordingly, the Council may only invest in approved creditworthy counterparties. Counterparties and limits can only be approved on the basis of long-term S&P~~tandard & Poor's~~, credit ratings (or equivalent Fitch or Moody's rating) being A+ and above and / or short term rating of A-1 or above.

~~44.~~45. With the exception of cash investments that are sourced from pre-funding, all other cash investments must be restricted to a term of no more than 181 days to ensure that future cash flow requirements and capital expenditure projections are met. Cash investments from pre-funding can be invested for up to a maximum of 18 months.

~~45.~~46. Special Funds and Funding Reserves - liquid assets will not be required to be held against special funds. Instead the Council will internally utilise these funds.

Managed funds

~~46.~~47. The Council may invest in shares and other financial instruments and may borrow to fund that investment.

Kāpiti Resilience Fund

~~47.~~48. The main objective in establishing the Kāpiti Resilience Fund is to achieve a minimum return over the medium to long-term, net of all fees and charges attributable to the fund that is at least the equivalent to the Council's net borrowing costs plus the rate of inflation, over the same period.

~~48.~~49. The surpluses will be used to fund a contribution towards resilience-focussed projects, for example increased insurance costs and Civil Defence costs.

~~49.~~50. The following additional requirements for the Kāpiti Resilience Fund portfolio are specified:

a) An appropriate level of investment risk for the fund is determined and accepted by the Council.

b) The fund will be managed in a way that balances optimal returns with safeguarding the Council's capital.

c) The fund performance will be regularly monitored.

d) The fund risks will be managed in a prudent manner.

e) All aspects of the investment process and functions will be reviewed regularly.

Kāpiti Growth Fund

~~50.~~51. The main objective in establishing the Kāpiti Growth Fund is to achieve a minimum return over the medium to long-term, net of all fees and charges attributable to the fund that is at least the equivalent to the Council's net borrowing costs plus the rate of inflation, over the same period.

~~51.~~52. A key requirement of the Kāpiti Growth Fund will be the ability to withdraw capital from it in order to fund strategic purchases.

~~52.~~53. The surpluses will be used to contribute towards specific growth-focussed projects that encourage / incentivise businesses and recreational / visitor attractions to establish an operating presence in the Kāpiti District.

~~53.~~54. The following additional requirements for the Kāpiti Growth Fund are specified:

a) An appropriate level of investment risk for the fund is determined and accepted by the Council.

b) The fund will be managed in a way that balances optimal returns with safeguarding the Council's capital.

c) The fund performance will be regularly monitored.

d) The fund risks will be managed in a prudent manner.

e) All aspects of the investment process and functions will be reviewed regularly.

The LGFA

~~54.~~55. The Council may invest in shares and other financial instruments of the LGFA and may borrow to fund that investment. The Council's objective in making any such investment will be to:

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

~~55.~~56. Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

~~56.~~57. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

Treasury Risk Management

~~57.~~58. Borrowing exposes the Council to three principal risks:

Liquidity / Funding Risk

~~58.~~59. Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level may lead to council being unable to meet its day to day obligations. Liquidity risk management has the objective of ensuring that adequate liquid assets and funding sources are available at all times to meet both the short and long term commitments of Council as and when they arise, in an orderly manner.~~the Council does not have the ability to access committed funding at a future time as required.~~

Funding risk centres on the ability to re-finance or raise new debt at acceptable pricing and maturity terms.

Interest Rate Risk

~~59.~~60. Interest rate risk is the risk that the Council will be exposed to changes in market conditions, particularly wholesale interest rates, prevailing at any time. It is important to consider this on a forward looking basis when issuing new debt and refinancing existing debt on an on-going basis. It may impact on the maturity profile of issued debt and the process of re-financing.

Credit Risk

~~60.~~61. Credit risk is the risk that a party to a transaction, such as a counterparty or a financial intermediary / institution, may not settle or provide committed funding as and when required. This risk is applicable where the Council is both a borrower and an investor, with the more significant risk arising when the Council is an investor.

~~61.~~62. Other risks include legal risk, operational risk, foreign exchange risk, concentration risk, volatility risk and carbon credit risk.

Liquidity / Funding Risk

~~62.~~63. A key factor in the management of ~~liquidity~~ funding risk is to spread and control the risk to reduce the concentration of risk at any point so that the overall borrowing cost is not increased unnecessarily and / or the desired maturity profile compromised due to market conditions.

~~63.~~64. The following control limits apply to the Council's management of liquidity risk:

a. The Council will ensure that it has sufficient funds available to:

- fund all new and roll-over debt, and
- pay all financing costs.

b. To manage liquidity risk the Council will ensure that e~~E~~xternal debt plus committed loan facilities together with available liquid investments[3] will~~must~~ be maintained at an amount of 110% of~~over~~ projected ~~existing~~ external debt over the ensuing 12 month period.

~~[3] liquid investments specifically exclude the Kāpiti Resilience Fund and the Kāpiti Growth Fund.~~

~~63.~~65.

~~c. The Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings.~~

~~d.~~a. The Chief Executive has delegated to the Group Manager Corporate Services the discretionary authority to re-package existing debt on more favourable terms. Such action is to be ratified and approved by the Strategy and Operations Committee at its next scheduled meeting.

~~e.~~b. The Council can borrow for a maximum term of 30 years. Any debt issued for longer than 10 years will be reported to the Strategy and Operations Committee at the next quarterly reporting period.

~~f.~~c. The maturity profile of the total committed funding with respect to all external loans / debt and committed facilities, calculated monthly on a rolling basis is to be within the following limits:

Funding ~~Liquidity~~ control limits

~~Period~~	~~Minimum~~	~~Maximum~~
~~0 to 3 years~~	~~10%~~	~~70%~~
~~3 to 5 years~~	~~10%~~	~~60%~~
~~5 to 10 years~~	~~10%~~	~~50%~~
~~10 years plus~~	~~0%~~	~~20%~~

No more than 40% of debt shall be subject to refinancing in any rolling 12 month period.

A maturity schedule that is outside the above limits but self-corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile outside the above limits for a period beyond 90 days requires specific approval by the Strategy and Operations Committee at its next meeting.

The council has the ability to forecast debt requirements including its refinancing's.

Interest Rate Risk

~~64.~~66. Interest rate risk is the risk that funding costs (due to movements in market interest rates) will materially exceed adopted Annual Plan and Long Term Plan interest cost projections, so as to adversely impact cost control, capital investment decisions, returns and feasibility.

~~65.~~67. The primary objective of interest rate risk management is to reduce uncertainty of interest rate movements through fixing of wholesale market interest costs. Certainty around interest costs is to be achieved through the active management of underlying interest rate exposures.

~~66.~~68. Dealing in interest rate products must be limited to financial instruments approved by the Council as per an internally updated schedule. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

~~67.~~69. A list of the current approved interest rate instruments is attached as Appendix 3.

~~68.~~70. All bank deposits, registered certificates of deposits, treasury bills and commercial paper investments are limited to a term no greater than 181 days unless linked to a pre-funding strategy.

~~69.~~71. All unsecured investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

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

~~70.~~72. Any other financial instrument not on the approved list must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

Interest Rate Risk Control Limits

~~71.~~73. Major control limit – at any point in time the amount of all current interest rate risk management instruments must not exceed the total amount of gross debt.

~~72.~~74. Hedging of the Council's external debt / borrowings must be within the following fixed / floating interest rate risk control limit:

Risk control limits – exposure to interest rate risk is managed and mitigated through the risk control limits below.

Fixed/Floating Interest Rate Risk Control Limits		
	Minimum Fixed Rate	**Maximum Fixed Rate**
0 – 2 years	40%	100%
2 – 4 years	20%	80%
4 – 10 years	0%	60%

Any hedging beyond these limits needs the approval of the full Council.

~~**Master Fixed / Floating Risk Control Limit**~~	
~~Minimum Fixed Rate = 55%~~	~~Maximum Fixed Rate = 100%~~

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

a. External debt is the total amount of gross debt. This allows for pre-hedging in advance of projected physical drawdowns of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the Treasury Management Policy minimums and maximums.

~~b. Floating rate debt may be spread over any maturity up to 12 months. Bank advances may be for a maximum term of 12 months.~~

~~c. The Council can hedge up to 15 years; any hedge longer than 10 years will be reported to the Strategy and Operations Committee at the next quarterly reporting period.~~

~~uuu.~~b. ~~The fixed rate amount at any point in time must be within the following maturity bands~~:

~~Swaps Maturity Profile~~

~~Fixed Rate Maturity Profile Limit (% of External debt)~~		
~~Period~~	~~Minimum Cover~~	~~Maximum Cover~~
~~1 to 3 years~~	~~15%~~	~~60%~~
~~3 to 5 years~~	~~15%~~	~~60%~~
~~5 to 10 years~~	~~15%~~	~~60%*~~
~~10 years plus~~	~~0%~~	~~20%**~~

~~*Maximum cover in the five to ten year period may be extended up to 70% during periods of historical low long term interest rates subject to approval by the Chief Executive and reported to the Strategy and Operations Committee at its next meeting.~~

~~**Maximum cover in the over ten year period may be extended up to 30% during periods of historical low long term interest rates subject to approval by the Chief Executive and reported to the Strategy and Operations Committee at its next meeting. The definition of 'historical low long term interest rate' is where the 10-year swap rate is more than 15% below its rolling ten year average.~~

a. A fixed rate maturity profile that is outside the above limits but self-corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile outside the above limits beyond 90 days requires specific approval by the Strategy and Operations Committee at the next available meeting.

~~b. Any interest rate swaps with a maturity beyond 12 years must be approved by the Strategy and Operations Committee at its next meeting.~~

~~vvv.~~ **Authorised Risk Management Instruments –** Council is able to use the following financial market instruments to manage interest rate risk~~For individual types of interest rate risk management instruments the Council must adhere to the following control limits at all times:~~

~~a.~~ Interest rate swaps.~~Forward rate agreements outstanding at any one time must not exceed 75% of the total floating rate debt.~~

b. Interest rate options including ~~With the exception of 1:1~~ collar option structures,but in a ratio which does not exceed 1;1. The outright selling of interest rate options is not permitted. ~~interest rate options must not be sold outright because of the speculative nature of doing this.~~ Options on hedging floating rate debt with an exercise rate greater than 2.00% above the equivalent period interest rate at the time of inception cannot be counted as part of the fixed rate cover percentage calculation.

c. Borrower swaptions. ~~held by the Council must mature within 12 months.~~

d. Fixed rate bonds.

~~c.~~e. Fixed rate term loans

~~d. Interest rate options with a maturity date beyond 12 months that have a strike rate higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.~~

~~e. The forward start period on swap / collar strategies to be no more than 24 months.~~

Counterparty Credit Risk for Derivatives

75. 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.

76. Counterparties and limits can only be approved on the basis of a minimum long term credit rating (S&P Global Ratings or the Moody's of Fitch equivalents ~~tandard & Poor's or Moody's Investor Services) being~~of A+ and a minimum short term rating of A-1.

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

78. The maximum exposure for any one counterparty is {$10 million} Exposures are calculated as follows:

Interest rate swaps/swaptions and interest option caps = MTM + 1% of FV per annum calculated on the average duration of the derivatives portfolio. For example if the derivatives portfolio that KCDC had with a particular bank totalled $40.0 million, with had an average duration of 3 years and was $3.5 million in the money, the total exposure that KCDC would have to the bank would be $4.7 million.

MTM is defined as positive if the position is 'in the money' for KCDC and nil if it is 'out of the money' for Council.

~~78.~~79. The following table shows the gross counterparty limit~~s~~ for borrowing:

Counterparty/ Issuer	Borrowing maximum per counterparty
NZ Government	Unlimited
LGFA	Unlimited
NZ Registered Bank minimum credit rating of A+	$50m

~~79.~~80. A counterparty profile that is outside the above limits but self-corrects within 90-days is not in breach of this Policy. Any departures from the above limits will be reported to the Strategy and Operations Committee at its next meeting.

Legal Risk

~~80.~~81. 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.

~~81.~~82. This risk is minimised by standing dealing and settlement instructions being sent to counterparties, matching of third party confirmations and the immediate follow-up of anomalies.

~~82.~~83. Derivative f~~F~~inancial instruments can only be entered into with banks that have in place an executed International Swaps and Derivatives Association (ISDA) Master Agreement with the Council.

Operational Risk

~~83.~~84. This is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Operational risk, particularly relevant to dealing with financial instruments, is minimised through appropriate segregation of duties, recording and reporting procedures and system controls.

Foreign Exchange Risk

~~84.~~85. The Council has limited f~~F~~oreign exchange risk through the occasional purchase of foreign exchange denominated plant and equipment. All foreign exchange exposures greater than NZD100,000 must be hedged using forward exchange contracts. ~~Larger amounts may be hedged using foreign exchange contracts and smaller payments are converted at the spot exchange rate on the date of payment.~~ The Council does not borrow or enter into incidental arrangements within or outside New Zealand in any foreign currency other than New Zealand dollars.

Concentration Risk

~~85.~~86. This is the risk of a loss arising as a result of a heavily lopsided exposure to one or more counterparties. The risk is managed through adherence to the gross counterparty limits.

Volatility Risk

~~86.~~87. This is the risk of a change of price of a portfolio as a result of changes in the volatility of a risk factor. The risk is managed through ensuring that the asset allocation is continuously reviewed to ensure that it stays diversified over the long term.

Carbon Credit Risk

~~87.~~88. The Council needs to minimise the financial impact of movements in the carbon credit prices by balancing the need for price stability with the benefit of realising market opportunities to reduce costs as they arise.

Treasury Performance

~~88.~~89. In order to assess the effectiveness of the Council's treasury management activities, benchmarks and performance measures have been prescribed to assess operational performance and the management of debt and interest rate risk. The Council undertakes regular reporting which includes the following four major information/ reporting objectives:

a. Cash / Debt Position.

b. Risk Exposure Position.

~~b.~~c. Treasury management Policy Compliance

d. Interest Rate Risk Management Performance The Finance Team has Council discretion to manage debt and interest rate risk within policy control limits. Thus the actual funding rate achieved must be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within the current fixed to floating policy parameters. In this respect, a risk neutral position is always precisely at the mid-point of the minimum and maximum control limits specified in the policy.

Given the Fixed/Floating Interest Rate Risk Control Limits of this policy, the market benchmark (composite) indicator rate will be calculated as follows:

30% Average 90 day bill rate for reporting month.

15% 2 year swap rate at end of reporting month.

15% 2 year swap rate, 2 year ago.

10% 4 year swap rate at end of reporting month.

10% 4 year swap rate, 4 years ago.

10% 8 year swap rate at end of reporting month.

10% 8 year swap rate, 8 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.

~~c.~~e. ~~.~~

~~d.~~f. ~~Treasury Management Policy Compliance.~~

~~89.~~90. The table below summarises the key reporting outputs in relation to treasury management:

Report type	Audience	Frequency	Format
Management	Senior Leadership Team	Quarterly	Report compliance with all limits and thresholds
Governance	Audit and Risk Subcommittee	Quarterly	Overview of quarterly performance
Annual Report	Strategy and Operations Committee	Annually	Review of Annual performance and of the Policy and policy limits to ensure they are fit for purpose

Policy review

~~90.~~91. The Policy is to be formally reviewed on at least a triennial basis by the Strategy and Operations Committee. The Group Manager Corporate Services will manage the review process and the final report will be presented by to the Strategy and Operations Committee for its consideration.

~~91.~~92. In addition, any Policy changes arising from the annual report to the Strategy and Operations Committee provided by the Group Manager Corporate Services or other sources may be considered by the Audit and Risk Subcommittee as required but the delegation rests with the Strategy and Operations Committee.

~~Appendix 1: Glossary of terms~~

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

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

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

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

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

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

~~**Floating rate:** an interest rate repricing within 12 months;~~

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

~~**Forward start interest rate swap:** a fixed-for-floating interest rate swap whereby the swap coupon is set at the contract date but the swap doesn't start on that date, that is it is delayed to some future date. This provides certainty as to interest rate cost on an agreed principal amount for an agreed period, commencing at a future point in time.~~

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

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

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

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

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

~~**Interest rate option:** a specific financial derivative contract whose value is based on interest rates and its value is tied to an underlying interest rate. Interest rate options give buyers the right, but not the obligation, to synthetically pay (in the case of a cap) or receive (in the case of a floor) a predetermined interest rate (the strike price) over an agreed period.~~

~~**Interest rate swap:** a financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another.~~

~~**Liquidity:** external debt plus committed loan facilities plus liquid investments divided by external debt~~

~~**Net external debt:** total external debt less cash / cash equivalent investments.~~

~~**Net interest expense:** the amount equal to all interest and financing costs less interest income for the relevant period.~~

~~**Operating income:** earnings from rates, government grants and subsidies, user charges, interest and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).~~

~~**Options:** contracts that give the holder the right but not the obligation to buy or sell a specific security at a pre-determined price on a pre-determined date. The two kinds of options are call and put options.~~

~~**Options on a swap (Swaption):** the option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.~~

~~**Out of the money options:** have no intrinsic value built into them. Call options are out of the money when the strike price is higher than the price of the underlying stock. Put options are out of the money when the strike price is lower than the price of the underlying stock.~~

~~**Put option:** a financial instrument that conveys the buyer the right, but not the obligation, to sell a specified quantity of a security at a set strike price on or before an agreed upon expiration date.~~

~~**Spot price:** the current market price of a product, usually a commodity, currency or rate, for the immediate delivery of said product.~~

~~**Strike price:** the price at which a derivatives contract can be exercised - the strike price is independent of the spot price and is agreed upon by the parties entering the contract.~~

~~**Swap:** a derivative in which two counterparties exchange cash flows of one party's financial instrument for those of the other party's financial instrument. The benefits in question depend on the type of financial instruments involved.~~

Appendix 1~~2~~: Delegated Authorities

	Activity	Delegated Authority	*Limit
1	Approving and changing Treasury Management Policy	Strategy and Operations Committee	Unlimited
2	New annual borrowing as set out in the Annual Plan/Long Term Plan	Strategy and Operations Committee	Within the prescribed limits set out in the Financial Strategy
3	Approval for charging assets as security over borrowing	Strategy and Operations Committee	Subject to the requirements of Debenture Trust Deed
4	Acquisition and disposition of investments other than financial investments	Council	Unlimited
5	Approving transactions outside Treasury Management Policy	Council	Unlimited
6	Re-financing existing debt	Chief Executive	Subject to Policy
7	Negotiate bank facilities	Chief Executive (or) Group Manager Corporate Services	Subject to Policy
8	Manage cash / liquidity requirements	Chief Executive (or) Group Manager Corporate Services	Per risk control limits
9	Approving counterparty credit limits	Chief Executive	Within the prescribed limits set out in the Treasury Management Policy
10	Adjust interest rate risk profile	Chief Executive delegated to the Group Manager Corporate Services; each adjustment individually signed off by the Chief Executive	Fixed rate debt ratio as per risk control limits; Fixed rate maturity profile limit as per risk control limits
11	Managing funding and investment maturities in accordance with the Council's approved facilities	Chief Executive Group Manager Corporate Services	Per risk control limits
12	Maximum daily transaction amount (borrowing, investing and interest rate risk management) excludes roll-overs on existing debt and interest rate swaps	Council Chief Executive Group Manager Corporate Services CFO (delegated)	Unlimited $30 million $15 million $5 million

	Activity	Delegated Authority	*Limit
13	Authorising lists of signatories	Chief Executive Group Manager Corporate Services	Unlimited
14	Opening/closing bank accounts	Chief Executive Group Manager Corporate Services	Unlimited
15	At least triennial review of Treasury Management Policy	Group Manager Corporate Services	N/A
16	Ensuring compliance with Treasury Management Policy	Group Manager Corporate Services	N/A

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

Appendix ~~2~~3: Current approved interest rate instruments

Category	Instrument
Cash management and borrowing	1. Bank overdraft 2. Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) 3. Uncommitted money market facilities 4. Retail and Wholesale Bond and Floating Rate Note (FRN) issuance 5. Commercial paper (CP) / Promissory Notes 6. NZD denominated Private Placements
~~Investments~~	~~1. Call and short term bank deposits~~ ~~2. Bank bills~~ ~~3. Bank registered certificates of deposit (RCDs)~~ ~~4. Treasury bills~~ ~~5. LGFA borrower notes / CP / bills / bonds/ FRNs~~ ~~6.~~1. ~~LGFA Redeemable Preference Shares (RPS)~~
~~Interest rate risk management~~	~~1. Forward rate agreements ("FRAs") on:~~ • ~~bank bills~~ ~~2. Interest rate swaps including:~~ • ~~forward start swaps~~ • ~~amortising swaps (whereby notional principal amount reduces)~~ • ~~swap extensions and shortenings~~ ~~3. Interest rate options on:~~ • ~~bank bills (purchased caps and one for one collars)~~ • ~~interest rate swaptions (purchased only)~~
Foreign exchange management	1. Spot foreign exchange 2. Forward exchange contracts

Appendix 3: Authorised Financial Market Investment Parameters

Authorised Asset Classes	Maximum limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – S&P (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government or Government Guaranteed	100%	Government Bonds Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	50%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'A'- or A S&P ST rating of 'A-1+' or LT 'A+ or better	$4 million $8 million
Unrated local authorities where rates are used as security	25%	Bonds/MTNs/FRNs	Not applicable	$4 million
New Zealand Registered Banks	100%	Call/Term Deposits Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+'or better	$6 million $30 million
State Owned Enterprises	33%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+' or better	$4 million $8 million
Corporates	25%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+' or better	$2 million $4 million
Financials	25%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+' or better	$2 million $4 million