WESTERN BAY OF PLENTY DISTRICT COUNCIL

Treasury Policy

**Incorporating the
Liability Management
and Investment Policies
as required by
sections 104 and 105
of the
Local Government Act 2002**

Audit & Risk Committee Approved: 17 December 2020

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1.0 INTRODUCTION

1.1. Policy purpose

The purpose of the Treasury Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Western Bay of Plenty District Council ("WBOPDC" or "Council"). The formalisation of such policies and procedures will enable treasury risks within WBOPDC to be prudently managed.

As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within WBOPDC continue to be well managed. In addition, regular reviews will be conducted to test the existing policy against the following criteria:

- Industry "best practices" for a Council the size and type of WBOPDC.
- The risk bearing ability and tolerance levels of the underlying planning, revenue and cost drivers.
- The effectiveness and efficiency of the Treasury Policy and treasury management function to recognise, measure, control, manage and report on WBOPDC's financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operation of a proactive treasury function in an environment of control and compliance.
- The robustness of the policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to WBOPDC in achieving strategic objectives relating to ratepayers.

It is intended that the policy be distributed to all personnel involved in any aspect of the WBOPDC's financial management. In this respect, all staff must be completely familiar with their responsibilities under the policy at all times.

2.0 SCOPE AND OBJECTIVES

2.1. Scope

- This document identifies the policies of WBOPDC in respect of treasury management activities.
- The policy has not been prepared to cover other aspects of WBOPDC's operations, particularly, systems of internal control and financial management. Other policies and procedures of WBOPDC cover these matters.
- Planning tools and mechanisms are also outside of the scope of this policy.

2.2. Objectives

The objective of this Treasury Policy is to control and manage costs and investment returns that can influence operational budgets and public equity. Specifically:-

Statutory objectives

- All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and the Investment Policy.
- WBOPDC is governed by the following relevant legislation:
  - Local Government Act 2002, in particular Part 6 including sections 101, 101A, 102, 104, 105 and 113.
  - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
  - Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. All projected external borrowings are to be approved by Council as part of the Annual Plan (AP) or the Long Term Plan (LTP) process, or resolution of Council before the borrowing is affected.
- All projected borrowings are to be approved by Council as part of the AP process or the LTP process or resolution of Council before the borrowing is affected.
- All new legal documentation in respect to borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.
- Council will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
  - The period of indebtedness is less than 91 days (including rollovers); or
  - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate $500,000.
- Other - Instruments not specifically referred to in this policy may only be used with specific Council approval.

General objectives

- To manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Minimise Council's costs and risks in the management of its borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Policy so as to protect Council's financial assets and costs.
- Arrange and structure long term funding for Council at the lowest achievable interest margin from debt lenders but at all times operating within the parameters of the Treasury Policy. Optimise flexibility and spread of debt maturity within the funding risk limits established by this policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.
- Monitor Council's return on investments.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, the Local Government Funding Agency Limited (LGFA), credit rating agencies, investors and investment counterparties.

In meeting the above objectives Council is, above all, a risk averse entity and does not seek risk in its treasury activities. Interest rate risk, liquidity risk, funding risk, default or credit risk, and operational risks are all risks which the Council seeks to manage, not capitalise on. Accordingly activity which may be construed as speculative in nature is expressly forbidden.

2.3. **Policy setting and management**

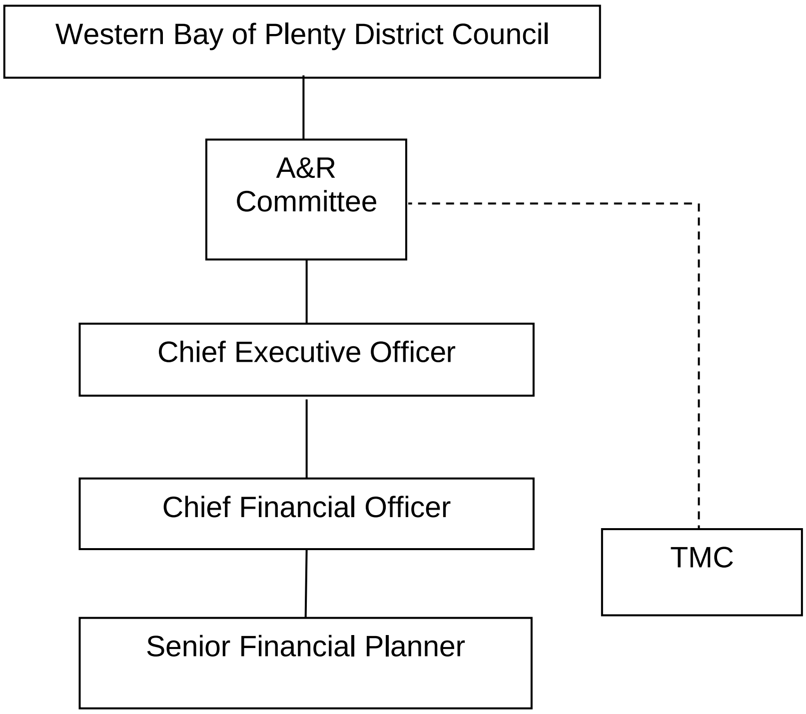
Council approves Policy parameters in relation to its treasury activities. The Chief Executive Officer (CEO) has overall financial management responsibility for the Council's borrowing and investments, and related activities.

The Council exercises ongoing governance over its subsidiary companies (CCO/CCTO), through the process of approving the Constitutions, Statements of Intent, and the appointment of Directors/Trustees of these organisations.

3.0 MANAGEMENT RESPONSIBILITIES

3.1. Overview of management structure

The following diagram illustrates those positions or functions that have treasury responsibilities.



3.2. Council

The Council has ultimate responsibility for ensuring that there is an effective policy for the management of its risks. In this respect the Council decides the level and nature of risks that are acceptable, given the underlying objectives of WBOPDC.

The Council is responsible for approving the Treasury Policy in accordance with public consultation obligations. While the policy can be reviewed and changes recommended by other persons, the authority to make or change policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of WBOPDC through the 10 year LTP and the adopted AP.
- Approving new debt through the adoption of the AP, specific Council resolution and approval of this policy.
- Approving the Treasury Policy incorporating the following delegated authorities:
- Approving budgets and high level performance reporting
- Delegate authority to the Audit & Risk Committee, CEO and other officers.

The Audit & Risk Committee should also ensure that:-

Responsibilities include:

- receives regular information from management on funding and interest rate risk exposures and the utilisation of financial instruments.
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved in a timely manner.
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines.
- Receive and review the monthly treasury report.
- Recommending treasury policy (or changes to existing policy) to the Council.
- Receive recommendations from the CFO and making submissions to the Council on all treasury matters requiring Council approval.
- Approve facilities and instruments as delegated by Council
- The Audit & Risk Committee will take recommendations from the Treasury Management Committee (TMC), which is formed by the CFO, the SFP, and an independent treasury advisor. The TMC will meet monthly and discuss the management of treasury related risks the council faces.

3.3. Council consideration of Treasury matters

Council will consider treasury matters as part of its six weekly meeting cycle (and informally as required).

Structure:

- Full Council
- Chief Financial Officer (CFO) or alternative, Senior Financial Planner (SFP)

The Quorum is 6.

Either one of the CEO or CFO must be present, i.e. the Acting CEO and the alternative for CFO cannot act together).

3.4. Chief Executive Officer

While the Council has final responsibility for the policy governing the management of Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the CEO.

In respect of treasury management activities, the CEO's responsibilities include:-

- Ensuring the Treasury policies comply with existing and new legislation.
- Approving the opening and closing of Council bank accounts.
- Approving the register of cheque and electronic banking signatories.
- Approve new counterparties and counterparty limits.
- Approve new borrowing undertaken in line with Council resolution and approved borrowing strategy.
- Receive advice of breaches of Treasury Policy and significant treasury events from the CFO or Senior Financial Planner.
- Approve treasury transactions in accordance with delegated authority.

- Approve all amendments to Council records arising from checks to counterparty confirmations.
- Delegate treasury operation responsibilities to management through the Treasury Management Operations Schedule.

3.5. CFO

- Management responsibility for borrowing, investment and cash management activities.
- Recommend Policy changes to the Risk and Audit Subcommittee for evaluation.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- Liaise with S&P Global Ratings ("S&P") in regards to obtaining/maintaining the Councils external credit rating.
- Oversee relationships with financial institutions.
- Approve new borrowing undertaken in line with Council resolution and approved borrowing strategy.
- Approve re-financing of existing debt.
- Approve treasury transactions in accordance with policy parameters outside of the Finance Operations Manager's delegated authority.
- Authorise the use of Audit and Risk Committee approved interest rate risk management instruments within discretionary authority.
- Negotiate new and maturing borrowing facilities.
- Approve all amendments to the Council's records arising from checks to counterparty confirmations.
- Authorise all interest rate hedging transactions with bank counterparties to change the fixed: floating mix to re-profile the Council's interest rate risk.
- Propose new funding requirements to the Audit and Risk Committee for consideration and submission to the Council.
- Review and make recommendations on all aspects of the Treasury Policy to the Audit and Risk Committee.
- Oversee the annual review of the Treasury Policy, treasury procedures and all dealing and counterparty limits.
- Ensure that all borrowing and financing covenants to lenders are adhered to.
- Analyse the most cost effective financing options to minimise borrowing costs.
- Negotiate all new or rollover funding facilities.
- Monitor and review the overall performance of the treasury function.
- Monitor treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Approve deal tickets for treasury transactions.
- Review Treasury reports to Audit and Risk Committee.

3.6. Senior Financial Planner

- Provide regular short term and long-term cash flow and debt projections to the CFO.
- Execute treasury transactions in accordance with set limits and CFO authority.

- Manage the operation of all bank accounts and other account features.
- Monitor all treasury exposures daily.
- Manage daily cash management.
- Update treasury spreadsheets for all new, re-negotiated and maturing transactions.
- Monitor borrowing and investment settlements and arrange for approval by authorised signatories.
- Prepare short term cash flow forecasts.
- Reconcile monthly summaries of outstanding financial contracts from banking counterparties to internal records.
- Check compliance against limits and prepare report on an exceptions basis.
- Monitor credit rating of approved counterparties.
- Ensure all financial instruments are valued and accounted for correctly in accordance with current best practice standards.
- Manage all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA swap documents.
- Check all treasury deal confirmations against deal documentation and report any irregularities immediately to the CEO. Account for all treasury transactions in accordance with legislation and generally accepted accounting principles and the Council's accounting policy.
- Review month end variance analysis to ensure reasonableness of borrowing and investment accounts.
- Review and approve borrowing and investment system/spreadsheet reconciliation to general ledger.
- Deliver daily and weekly reports to the CFO covering cash/liquidity, interest rate risk position, transaction activity and performance.

3.7. Delegation of authority and authority limits

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, the following procedures must be complied with:-

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council.

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Council has the following responsibilities, either directly itself, or via the delegated authorities detailed in appendix 1.

4.0 LIABILITY MANAGEMENT POLICY

Council's liabilities comprise borrowings and various other liabilities. Council maintains borrowings in order to:

- Fund the balance sheet as a whole, including working capital requirements.
- Raise specific debt associated with projects and capital expenditures.
- Fund assets whose useful lives extend over several generations of ratepayers.

4.1. Debt ratios and limits

Debt will be managed within the following macro limits.

Ratio	WBOPDC Preferred Policy Limits	WBOPDC Max Policy Limits	LGFA Max Policy Limits
Net Debt as a percentage of Total Revenue	<180%	<200%	<300%
Net Interest as a percentage of Total Revenue	<15%	<20%	<20%
Net Interest as a percentage of Annual Rates Income (debt secured under debenture)	<20%	<25%	<30%
Liquidity (external term debt + committed loan facilities + available liquid short-term financial investments to existing external debt)	>110%	>110%	>110%

- Total Revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net Debt is defined as total debt less liquid short-term financial assets and investments.
- Liquidity is defined as external term debt plus committed loan facilities plus available liquid short-term financial investments divided by existing external debt. Liquid investments are financial assets defined as being:
  - Overnight bank cash deposits
  - Wholesale/retail bank term deposits no greater than 30 days
  - Bank issued RCD's less than 181 days.
  - Wholesale/ retail bank term deposits linked to pre-funding of maturing term debt exposures
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

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

Disaster recovery requirements are to be met through the liquidity ratio.

4.2. Asset management plans

In approving new debt the Council considers the impact on its borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP.

4.3. Borrowing mechanisms

WBOPDC is able to borrow through a variety of market mechanisms including issuing bonds, Commercial Paper (CP) and debentures, direct bank borrowing, accessing the short and long-term wholesale and retail capital markets, and the Local Government Funding Agency Limited directly or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the CFO takes into account the following:-

- Available terms from banks, LGFA, debt capital markets and bond issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for bond issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future credit margin and interest rate movements as well as WBOPDC's own outlook.
- Ensuring that the implied finance terms and conditions within the specific debt (e.g. project finance) are evaluated in terms such as cost/tax/risk limitation compared to the terms and conditions WBOPDC could achieve in its own right.
- Legal documentation and financial covenants together with security and credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at similar terms to those from external borrowing.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

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, LGFA, financial institutions/brokers and maintain a strong credit rating.

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

4.4. Security

Council's 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. The utilisation of special funds and reserve funds and internal borrowing of special funds/reserve funds and other funds will be on an unsecured basis.

Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government (Rating) Act 2002, excluding any rates collected by Council on behalf of any other local authority. The security offered by Council ranks equally or 'Pari Passu' with other lenders.

Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more of Council's assets.

Physical assets will be charged only where:-

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance).
- Council considers a charge over physical assets to be appropriate.

- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

4.5. Debt repayment

The funds from all asset sales and operating surpluses will be applied to the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

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

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

4.6. Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, Trusts, or Business Units, when the purposes of the loan are in line with Council's strategic objectives.

Council is not allowed to guarantee loans to CCTO's under Section 62 of the Local Government Act.

Financial arrangements include advances to community organisations.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed an amount agreed by Council or an appropriate Council Committee in aggregate. The CFO monitors outstanding guarantees and reports to the Council quarterly.

4.7. Internal borrowing

Council uses its reserves to internally fund new capital projects. The CFO is responsible for administering the Council's internal loan portfolio. Loans are set up within the portfolio based on planned loan funded capital projects or operational expenditure as approved by Council resolution as part of the AP and LTP.

The primary objective in funding internally is to use reserves and external borrowing effectively, by establishing a portfolio that provides funding to internal activity centres. This creates operational efficiencies through not paying fees/margins and other costs associated with raising external borrowing.

In addition to external borrowing the following specific reserves are used for internal borrowing purposes:

- Special Fund Reserves
- General Accumulated Reserves

All internal borrowing activities are consistent with the principles and parameters outlined throughout the Liability Management and Investment Policies:

- Council firstly seeks to utilise internal reserve funds and if insufficient reserves are available utilises external borrowing.
- A notional internal loan is set up for all new capital or operational expenditure purposes and allocated in the internal loan portfolio to the activity centre incurring the obligation.
- Interest received is allocated into the general account and offset against general rate requirements.

For operational lending the following specific parameters apply:

- The term of the loan is limited to a maximum of one year with the loan to be fully repaid by the second anniversary of the loan.
- Interest is set based on a margin above the 90-day floating BKBM mid interest rate at the beginning of the calendar quarter. If external debt is used the weighted average cost of external borrowing plus a margin. The margin can include a credit margin and other treasury related costs.
- Interest is paid quarterly in arrears.

For capital lending the following specific parameters apply:

- The Council approves lending for capital purposes through the AP/LTP. These are ratified by the Council subsequent to the Annual Plan being approved.
- Interest on internally-funded loans is charged annually in arrears, on year-end loan balances at the agreed three-year fixed interest rate. Except where a specific rate has been approved for particular circumstances, the three-year rate is set annually at the start of the financial year, based on the three-year swap rate plus the credit margin on three-year bonds and other related treasury costs. The margin is determined by that of the LGFA three-year credit curve for a non-credit rated non-guaranteeing Council borrower.
- If external debt is used the weighted average cost of external borrowing (including credit margin and other related costs).

4.8. New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent 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.
- 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.
- Subscribe for shares and uncalled capital in the LGFA.

5.0 INVESTMENT POLICY AND LIMITS

5.1. Investment policy objectives

Council is currently a net borrower and is likely to remain so for the foreseeable future. Council should internally borrow from special reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt. Investments are maintained to meet specified business reasons.

Such reasons can be:-

- For strategic purposes consistent with Council's LTP.
- To reduce the current ratepayer burden.
- The retention of vested land.
- Holding short term investments for working capital and liquidity requirements.
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations.
- Provide funding through the provision of committed bank facilities in the event of a natural disaster, the use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

Council recognises that as a responsible public authority all investments held should be low risk. Council also recognises that low risk investments generally mean lower returns.

Council should internally borrow from reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt.

In its financial investment activity, Council's primary objective is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy. Accordingly, only approved creditworthy counterparties are acceptable.

5.2. General investment policy

The Council's general policy on investments is that:

- The Council may hold financial, property, forestry, and equity investments if there are strategic, commercial, economic or other valid reasons (e.g. where it is the most appropriate way to administer a Council function).
- The Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.
- The Council will review its policies on holding investments at least once every three years.

5.3. Acquisition of new investments

With the exception of financial investments, acquisition and management of medium to long-term investments are managed in accordance with goals, objectives and provisions of the LTP and AP's. However, the Council may from time to time deem it appropriate, in terms of prudent financial management, to modify its investment mix such a change would be entered into only through specific Council resolution and in compliance with the provisions of the Local

Government Act 2002. The authority to acquire financial investments is delegated to the CFO and reported to Council on a monthly basis.

5.4. Investment mix and related policies

Council may maintain investments in the following assets from time to time:-

- Equity investments, including investments held in CCO (Council Controlled Organisation) /CCTO (Council Controlled Trading Organisation) and other shareholdings.
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development.
- Forestry investments
- Financial investments
- LGFA investments
- Community loans and advances

5.4.1 Equity investments

It may be appropriate to have limited investment(s) in equity (shares) when Council wishes to invest for strategic, economic development or social reasons. Council will approve equity investments on a case-by-case basis, if and when they arise.

Generally such investments will be in (but not limited to) infrastructural companies and/or local government joint ventures (including CCTO's to further District or regional economic development. Council does not invest in overseas companies.

Council reviews performance of these investments as part of the annual planning process to ensure that their stated objectives are being achieved.

Any disposition of these investments if the market value exceeds $50,000 requires approval by Council. For investments equal to or less than $50,000, the decision is made by the CEO. Acquisition of new equity investments requires Council approval. The Council decides on the allocation of proceeds from the disposition of equity investments on a case-by-case basis.

All income, including dividends, from the Council's equity investments is included in general revenues in the Statement of Financial Performance.

Equity investments exclude those investments that are not held for strategic or economic development or social reasons.

Equity investments are reported to Council on a quarterly basis.

5.4.2 Property investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. As a general rule, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output of Council. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows similar assessment criteria in relation to new property investments.

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

All income, including rentals and ground rent from property investments is included in the consolidated revenue account.

5.4.3 Forestry

Forestry assets are held as long term investments on the basis of net positive discounted cashflows, factoring in projected market prices and annual maintenance and cutting costs.

All income from forestry is included in the consolidated revenue account.

Any disposition of these investments requires Council approval. The proceeds from forestry disposition are used firstly to repay related borrowings and then included in the relevant consolidated capital account.

5.4.4 Financial investments

Financial investment objectives

- Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.5. Credit ratings are monitored and reported quarterly to Council.
- Council may invest in approved financial instruments as set out in section 6.4. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.
- Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:
    - Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
    - Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest may be credited to the particular fund.
    - Internal borrowing will be used wherever possible to avoid external borrowing.

Special funds, sinking funds, reserve and endowment funds

Liquid assets are not required to be held against special funds and reserve funds. Instead Council will internally borrow or utilise these funds wherever possible.

Trust funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the trust. If the Trusts investment policy is not specified then this policy should apply.

5.4.5 New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (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.
- Ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Council.

Because of 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. Notwithstanding the Counterparty Credit Risk Limits (set out in Section 6.3 of this policy), Council may invest in financial instruments issued by the LGFA up to a maximum of $15 million (i.e. borrower notes). If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

Proceeds from share sales will go to repay existing debt, unless Council specifically directs that the funds be put to another use.

5.4.6 Loans, Advances and Investments in Community Projects

From time to time, the Council makes loans to other parties. All loans are secured and all loan advances are reviewed as part of the annual planning process to ensure that interest and principal repayments are made in accordance with the loan agreement.

Council does not lend to CCTO's on more favourable terms than what it can achieve itself, without charging any rate or rate revenue as security.

At various times groups within the community request loans, advances or guarantees for projects that will be of benefit to a significant proportion of the community. As these investments are with groups that the Council would not normally invest with Council needs to debate the suitability of any loan application. During this process Councillors pay particular regard to the ability of the applicant to service the debt and repay principal. Council will be responsible for authorising any such loans, advances or guarantees.

Advances to charitable trusts, and community organisations do not have to be on a fully commercial basis. Where advances are made to charitable trusts and community organisations at below Councils cost of borrowing the additional cost is treated as an annual grant to the organisation.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved. The CFO monitors loan advances and reports to Council quarterly.

6.0 RISK MANAGEMENT

The definition and recognition of interest rate, liquidity, funding, investment, counterparty credit, market, operational and legal risk of Council will be as detailed below and applies to both the Liability Management Policy and Investment Policy.

6.1. Interest rate risk

6.1.1 Risk recognition

Interest rate risk is the risk that investment returns or financing costs will materially fall short of or exceed projections included in the LTP and A P due to adverse movements in market interest rates, thus adversely impacting revenue projections, cost control and capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or financing costs. Certainty around financing costs is to be achieved through the active management of underlying interest rate exposures.

6.1.2 Interest rate risk control limits

Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's forecast core external debt should be within the following fixed/floating interest rate risk control limit.

Core external debt is defined as gross external debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

Debt Interest Rate Policy Parameters (calculated on a rolling monthly basis)		
Period	**Minimum Fixed**	**Maximum Fixed**
0 – 2 Years	40%	100%
2 – 5 Years	20%	80%
5 -10 Years	0%	60%

"Fixed Rate" is defined as an interest rate repricing date beyond 3 months forward on a continuous rolling basis.

"Floating Rate" is defined as an interest rate repricing within 3 months.

The percentages are calculated on the rolling projected core debt level calculated by management (signed off by the CFO).

A fixed rate maturity profile that is outside the above limits, however self corrects within 90-days is not in breach of this Policy

- Any interest rate derivatives or fixed interest rate borrowing with a maturity beyond 10 years must be approved by Council..
- Hedging outside the above risk parameters must be approved by Council.
- Interest rate options must not be sold outright. However, one for one 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, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides 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 date beyond 3 months that have a strike rate (exercise rate) higher than 1.00% above the appropriate swap rate, cannot be counted as part of the fixed rate hedge percentage calculation.
- The forward start period on swap/collar strategies is to be no more than 24 months, unless the forward start swap/collar starts on the expiry date of an existing fixed interest rate instrument (i.e. either derivative or fixed rate borrowings) and has a notional amount which is no more than that of the existing fixed interest rate instrument.

6.2. Liquidity and funding risk

6.2.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

The management of Council's funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:-

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences financial/exposure difficulties resulting in Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.
- Financial market shocks from domestic or global events.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

6.2.2 Liquidity and funding risk control limits

- External term loans and committed debt facilities together with available short-term liquid investments must be maintained at an amount exceeding 110% of projected peak debt over the ensuing 12 month period.
- Alternative funding mechanisms such as Public Private Partnerships or leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings. Debt refinancing that have been prefunded, will remain included within the funding maturity profile until their maturity date.
- The CEO has the discretionary authority to re-finance existing debt on more acceptable terms. Such action is to be reported and ratified by the Council at the earliest opportunity.
- Council will not have greater than 40% of total borrowings subject to refinancing within any 12 month period (including forecast borrowings).

6.3. Foreign exchange rate risks

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

All commitments for foreign exchange greater than $100,000 are hedged using foreign exchange contracts, once expenditure is approved. Both spot and forward foreign exchange contracts can be used by WBOPDC.

Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Council does not hold investments denominated in foreign currency.

All foreign currency hedging must be approved by the CFO.

6.4. Approved financial instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council. Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Bond issuance ▪ Floating Rate Note (FRN) ▪ Medium Term Note (MTN) (CP /Bills / Promissory notes Finance Leases
Investments	Term bank deposits Bank certificates of deposit (RCDs) NZ Government, LGFA, Local Authority bonds or State Owned Enterprise (SOE) bonds and FRNs (senior) Corporate bonds (senior) Corporate Floating Rate Notes (senior) Promissory notes/CPaper (senior) Corporate/SOE/Other Local Authority Bonds LGFA Borrower Notes Bank term deposits linked to pre funding maturing debt
Interest rate risk management	Forward rate agreements ("FRAs") on: ▪ Bank bills ▪ Government bonds Interest rate swaps including: ▪ Forward start swaps and collars ▪ Amortising swaps (whereby notional principal amount reduces) ▪ Swap extensions and shortenings Interest rate options on: ▪ Purchased caps and one for one collars Fixed rate bank debt, Capital markets debt including the LGFA.

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

All 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 (other than Borrower Notes subscribed from the LGFA), junior debt, perpetual notes and hybrid notes such as convertibles.

6.5. Counterparty credit risk

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 (Standard & Poor's, Fitch or Moody's) being A and above or short term rating of A-1 or above.

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

Refer to Appendix 2

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

- Investments (e.g. Bank Deposits) – Transaction Notional ´ Weighting 100%. (Unless a legal right of set-off over corresponding borrowings exit whereupon a 0% weighting may apply).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional ´ Maturity (years) ´ 3%.
- Foreign Exchange – Transactional principal amount x the square root of the Maturity (years) x 15%

Each transaction should be entered into a treasury spreadsheet or treasury system and a quarterly report prepared to show assessed counterparty actual exposure versus limits.

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed by the SFP on an on-going basis and in the event of material credit downgrades; this should be immediately reported to the CFO and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Investments are normally held to maturity date. Where investments are liquidated before legal maturity date, approval is obtained from the CEO, who also approves guidelines for a minimum acceptable sale price. The CFO evaluates quotes based on these instructions and proceeds with the transaction.

6.6. 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, WBOPDC may be exposed to such risks with Council unable to enforce its rights due to deficient or inaccurate documentation.

WBOPDC will seek to minimise this risk by adopting policy regarding:-

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for 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.

6.7.1 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council.

Council's internal/appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings and investment structures.

6.7.2 Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

7.0 Reporting

7.1. Quarterly Funding and Debt Profile Report

This report forms the basis for the reporting of the Council's funding and associated interest rate risk management activity and provides the elected members and management with details about the Council's borrowing activities. The report shall contain the following:

- Total debt facility utilisation, including any debt sourced from a bank, the capital markets and the LGFA.
- Interest rate maturity profile against percentage hedging limits.
- New hedging transactions completed - interest rate risk management.
- Weighted average cost of funds.
- Funding profile against the policy limits.
- Liquidity profile against the policy limits.
- Exception reporting as required.
- Summary of any unresolved exception reports.
- Statement of policy compliance.

7.2. Quarterly Investment Report

This report forms the basis for the reporting of the Council's financial market investment activities and provides the elected members and management with details about the Council's financial market investment activities. The report shall contain the following:

- Total nominal value of the investment portfolio.
- Details of individual investments.
- Asset class percentages.
- Credit rating profile.
- Maturity profile.
- Weighted average yield of the portfolio.
- Statement of policy compliance.

7.3. Benchmarking

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

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

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

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

- 30% Average 90 day bill rate for reporting month.
- 10% 2 year swap rate at end of reporting month.
- 10% 2 year swap rate, 2 year ago.
- 10% 5 year swap rate at end of reporting month.
- 10% 5 year swap rate, 5 years ago.
- 15% 10 year swap rate at end of reporting month.
- 15% 10 year swap rate, 10 years ago.

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

8.0 POLICY REVIEW

This Treasury Policy is to be formally reviewed on a triennial basis.

The CEO and CFO has the responsibility to prepare a review report that is presented to the Council or Council sub-committee. The report will include:-

- Recommendation as to changes, deletions and additions to the policy.
- Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
- Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
- Analysis of bank and lender service provision, share of financial instrument transactions etc.
- Comments and recommendations from Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury spreadsheets and procedures should be undertaken.
- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to Council.

The Council receives the report, approves policy changes and/or reject recommendations for policy changes.

Appendix 1 - Delegated Authorities

Activity	Delegated Authority	Limit
Approving and changing Policy	The Council	Unlimited
Borrowing new debt	The Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments other than financial investments	The Council	Unlimited
Approval for charging assets as security over borrowing	The Council	Unlimited
Approving transactions outside policy	The Council	Unlimited
Appoint Debenture Trustee	The Council	N/A
Approving new debt and/or new facilities as set out in Council-approved AP / LTP	CEO (delegated by Council)	Per Council-approved AP / LTP
Arranging new debt as set out in Council-approved AP / LTP	CFO (delegated by CEO)	Per Council-approved AP / LTP
Authorising lists of signatories	CEO (delegated by Council)	Unlimited
Opening/closing bank accounts	CEO (delegated by Council)	Unlimited
Overall day-to-day risk management	CEO (delegated by Council) CFO (delegated by CEO) MF (delegated by CEO)	Overall day-to-day risk management
Re-financing existing debt	CEO (delegated by Council) CFO (delegated by CEO)	Re-financing existing debt
Adjust net debt or net investment interest rate risk profile	CEO (delegated by Council) CFO (delegated by CEO) MF (delegated by CEO)	Per risk control limits
Managing funding and investment maturities in accordance with Council approved risk control limits	CEO (delegated by Council) CFO (delegated by CEO) FM (delegated by CEO)	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on floating rate investments and interest rate roll-overs on swaps	The Council CEO (delegated by Council) CFO (delegated by CEO) FM (delegated by CEO) Finance Accountants Team (delegated by CEO)	Unlimited $25 million $10 million $5 million
Triennial review of policy	CFO FM	N/A
Ensuring compliance with policy	CEO CFO FM	N/A

All management delegated limits are authorised by the CEO.

Appendix 2

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

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