TREASURY POLICY

1. Policy objective

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

Treasury activities are:

- Compliance with the Local Government Act 2002
- Develop and maintain professional relationships with the financial markets
- Invest surplus cash in liquid and creditworthy investments
- Raise appropriate finance, in terms of both maturity and interest rate
- Manage the overall cash position of Council's operations

2. General approach

2.1 Council is a risk-averse entity and does not wish to seek risk from its Treasury activities.

2.2 Activity which may be construed as speculative in nature is expressly forbidden.

2.3 Council manages both liabilities and cash investments through an internal Treasury activity. Funds are advanced by the Treasury activity for a specific period. Loans are repaid to the Treasury activity based on standard loan lives, depending on the useful lives of the assets.

2.3.1 Interest for loans is based on Council's weighted cost of funds.

2.3.2 Interest is credited to activities based on investment rates.

3. Liability management policy

3.1 Council approves borrowing by resolution during the Annual Planning process.

3.2 Council raises borrowing for the following primary purposes:

3.2.1 General debt to fund Council's Balance Sheet.

3.2.2 Specific debt associated with "special one-off" projects and capital expenditure.

3.2.3 To fund assets with inter-generational qualities.

3.3 Specific borrowing limits

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

- The net interest expense of all external borrowings will not exceed 20% of total revenues
- The net interest expense of all external borrowings will not exceed 25% of annual rates revenue
- Liquid ratio of ≥ 1:1
- Current ratio ≥ 1.25
- Liquidity ratio (term debt plus committed loan facilities less liquid investments divided by current external debt) to be greater than 110%
- The percentage of net external debt to total revenue to be less than 220%

'Revenue' is defined as earnings from rates, government grants and subsidies, user charges, interest and other revenue.

'Rates' is defined as all income under the Local Government (Rating) Act 2002, excluding rates collected on behalf of the Bay of Plenty Regional Council.

'Total revenue' for the purposes of this policy includes: earnings from rates revenue; grants and subsidies; user charges; interest and other operating revenue (excluding vested assets and financial contributions).

3.4 Liquidity and credit risk management

3.4.1 Council's ability to readily attract cost-effective borrowing is largely driven by its ability to maintain a strong balance sheet, as well as its ability to rate, manage its image in the market and its relationships with bankers. Where possible, Council seeks a diversified pool of stock and bank borrowing and ensures that bank borrowings are only sought from the approved list of registered banks.

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

- no more than 35% of total borrowing is subject to refinancing in any financial year. Total borrowing includes any forecast borrowing

3.4.3 New Zealand Local Government Funding Agency Limited investment

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:

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

(b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;

(c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;

(d) subscribe for shares and uncalled capital in the LGFA; and

(e) secure its borrowing from the LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

3.5 Risk recognition

- Local government risk is priced to a higher fee and margin level
- The Council's own credit standing, or financial strength as a borrower, deteriorates due to financial, regulatory or other reasons
- A large individual lender to the Council experiences its own financial/exposure difficulties, resulting in the 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

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. This is so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and the desired maturity profile is not compromised due to market conditions.

3.6 Liquidity/funding risk control limits (borrowings)

3.6.1 Term debt and committed debt facilities must be maintained at an amount that averages 115% of projected peak net debt levels over the next year (per long term cash and debt forecasts).

3.6.2 Disaster recovery requirements are met through the liquidity ratio.

3.6.3 The maturity profile of the total committed funding in respect to all loans and committed facilities is to be controlled by the following system:

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	40%

A maturity schedule outside these limits requires specific Council approval. A 12-month phase-in, non-compliance period is permitted.

3.7 Interest rate risk management

Council's borrowing gives rise to direct exposure to interest rate movements. Generally, given the long-term nature of Council's assets, projects and inter-generational factors and Council's preference to avoid an adverse impact on rates, there is a general tendency to have a high percentage of long-term fixed rate or hedged borrowing.

3.8 Approved financial instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council. Any other financial instrument must be specifically approved by Council on a case-by-case basis and only be applied to the one singular transaction being approved.

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (term facilities)
Interest rate risk Management	Uncommitted money market facilities Stock/Bonds issuance Forward rate agreements ('FRAs') on: ▶ Bank bills ▶ Government bonds
	Interest rate swaps including: ▶ Forward start swaps (start date <24 months) ▶ Amortising swaps (whereby notional principal amount reduces)
	Interest rate options on: ▶ Bank bills (purchased caps and one for one collars) ▶ Government bonds
	▶ Interest rate swaps (purchased only)

3.9 Interest rate risk control limits

3.9.1 Debt/borrowings

Council debt/borrowings/financial risk management instruments must be within the following fixed/floating interest rate risk control limit:

Master fixed/Floating risk control limit	
Minimum fixed rate	**Maximum fixed rate**
50%	95%

3.9.2 'Fixed Rate' is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

3.9.3 'Floating Rate' is defined as an interest rate repricing within 12 months.

3.9.4 The fixed rate amount at any point in time must be within the following maturity bands:

Fixed rate maturity profile limited		
Period	**Minimum cover**	**Maximum cover**
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

3.9.5 The percentages are calculated on rolling 12-month projected net debt plus percentage of specific projects as approved by the Risk and Assurance Sub Committee.

3.10 Loan payments

External loans are repaid on due date. The lengths of external loans are based on projected internal loans and cash requirements.

4. Investment policy

4.1 Council maintains investments in the following financial assets:

- Equity investments including shareholdings and loan advances to trading and service enterprises, charitable trusts and incorporated societies; for example sporting and community organisations
- Property investments, including land and buildings
- Treasury instruments incorporating longer term and liquidity investments

4.2 Equity investments and loan advances

Investments include shareholdings in trading and service enterprises and loan advances to charitable trusts, incorporated societies, residential and rural housing which are consistent with Council's Long Term Plan. Council operates an internal borrowing system for funding infrastructural improvements as well as funding current accounts. This information is reported to the Risk and Assurance Sub Committee on a quarterly basis.

Advances and loans are only provided to organisations where Council has significant interest. In default, the assets of the organisation may not revert to Council, however personal guarantees are obtained from the principals of the organisation.

4.2(a) New Zealand Local Government Funding Agency Limited Investment:

- 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:
  - (a) obtain a return on the investment; and
  - (b) ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Council.
- Because of this dual objective, 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

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

4.3 Property investments

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

Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results.

However, from time to time Council may own property solely for investment purposes.

4.4 Treasury investments

Council maintains treasury investments for the following primary reasons:

- Provide ready cash in the event of a natural disaster. This cash 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 and restricted reserves, sinking funds and general reserves
- Invest funds allocated for approved future expenditure, to implement strategic initiatives or to support inter-generational allocations
- Invest proceeds from the sale of assets
- Invest surplus cash and working capital funds

4.4.1 Treasury investment objectives

Council's primary objective when investing is the protection of its investment. Accordingly, only creditworthy counterparties are acceptable.

Council also seeks to:

- Maximise investment return
- Ensure investments are liquid
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity

4.4.2 Credit risk is minimised by limiting investments to registered banks, strongly rated State Owned Enterprises (SOE) and corporates within prescribed limits.

4.4.3 Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Where practical, Council maintains $1 million of its investments with a maturity less than one year.

4.5 Interest rate risk management

Council's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its fixed rate investments.

Interest rate risk will be managed by reviewing rolling cashflow forecasts and using risk management instruments to protect investment returns and/or to change interest rate and maturity profile.

4.6 Sinking funds

Under the Local Government Act 2002, Council is not required to use specific borrowing mechanisms and therefore uses its discretion in determining whether a sinking fund mechanism is appropriate. Given that Council will be a net borrower for the remaining life of the existing sinking funds, the sinking funds may, at the Council's discretion, be used for internal borrowing purposes.

4.7 Acquisition and disposal of assets

Any disposal of assets requires the approval of Council except those assets within delegated authority.

4.8 Counterparty credit risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party.

The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Council will regularly review credit risk. Treasury related transactions would only be entered into with organisations specifically approved by Council.

Counterparties and limits can only be approved on the basis of long term credit ratings (Standard and Poor's or Moody's) being A- and above.

Council is not a long-term investor in Treasury investments.

The following matrix guide below will determine limits:

Counterparty	Minimum long term credit rating - stated and possible	Investments maximum per counterparty ($1m)	Interest rate risk management instrument maximum per counterparty ($1m)	Total maximum per counterparty ($1m)
New Zealand Government	A-	Unlimited	None	Unlimited
Local Government Funding Agency Limited	A-	Unlimited	None	Unlimited
State-owned enterprises (SOE)	A-	5.0	None	5.0
New Zealand registered banks	A-	10.0	10.0	15.0
Corporate bonds	A-	2.0	None	2.0
Local Government Stock	A- (if rated) Unrated	2.0 0.5	None None	2.0 0.5

4.9 Security

Generally, Council does not offer assets or deemed rates as security for general borrowing programmes.

In some circumstances, with prior Council approval, security may be offered:

- On borrowings by granting a rates charge under the Council's Debenture Trust Deed
- By providing a charge over one or more of the Council's assets

4.10 Repayment

The Council repays borrowings from the specific sinking fund allocated to that borrowing or from general funds.

4.11 Contingent liabilities

Council from time to time provides financial guarantees to recreation and service organisations. Where possible Council shall obtain cross guarantees. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Should the guarantee be called up, Council will take immediate steps to recover the money.

5. Foreign Exchange Policy

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

Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Council uses both spot and forward foreign exchange contracts. All commitments for foreign exchange over $10,000 are to be hedged.

The use of other foreign exchange risk management products is not permitted.