New Plymouth District Council

Treasury Management Policy

(Incorporating the Liability Management Policy and the Investment Policy as required by Section 102 of the Local Government Act 2002)

As adopted by Council on 2 June 2020
(ECM 8280048)

Contents

1. PHILOSOPHY

Council's broad financial philosophy is based on compliance with the obligations imposed on local authorities in terms of the Local Government Act 2002 and in particular Part 6 (sections 101, 102, 104, 105 and 113). The key financial management responsibilities incorporated in the Act that have a direct bearing on Council's treasury management activities are as follows:

- To ensure prudent stewardship and the efficient and effective use of resources in the interests of its district (Section 14 (g)).
- That all revenue, expenses, assets, liabilities, and investments and general financial dealings are managed prudently, in a manner that promotes the current and future interests of the community (Section 101(1)).
- That adequate and effective provision is made for the expenditure needs of the local authority, as identified in the Long-Term Plan (LTP) and Annual Plan (AP) (Section 101(2)).
- That any commercial transactions be undertaken in accordance with sound business practice (Section 14 (f)).
- The funding needs are met from those sources Council determines to be appropriate based on the specified considerations (Section 101(3)).
- That in order to provide predictability and certainty about sources and levels of funding, Council adopt a Liability Management Policy and an Investment Policy (Section 102(1)).
- The financial strategy must specify Council's policy on the giving of securities for its borrowing, and also its objectives for holding and managing financial investments and equity securities and its quantified targets for returns on those investments and equity securities (Section 101A).
- 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, 5.0 per cent of Council's consolidated annual operating budget for the year (as determined by Council's Significance Policy).

Council is further to adhere to Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.

The Trustee Act 1956 is relevant for a Council that invests. 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.
Council's overriding obligation is to manage its affairs prudently and in the interests of its community.

Accordingly Council's philosophy on the conduct of its treasury activities is to ensure that the risks associated with such activity are properly identified, quantified and managed to ensure it meets the above obligations and that there is minimal negative impact on Council. Council is risk averse, and does not wish to take on risk from its treasury activities. Accordingly activity that may be construed as speculative in nature is expressly forbidden.

This Treasury Management Policy (TMP) document sets out Council's objectives, policies, strategies and monitoring procedures to ensure that its responsibilities in terms of the Liability Management Policy and Investment Policy are carried out in accordance with its statutory obligations.

2. SCOPE AND OBJECTIVES

Scope

1. This document specifies Council's policy for its treasury management activities and does not include the activities of the New Plymouth PIF Guardians Limited (PIF). The policy relating to the PIF are included in a separate Statement of Investment Policy and Objectives (SIPO).

Objectives

2. To prudently, effectively and efficiently manage all risks associated with treasury activity and comply with Council's statutory obligations set out in Section 1.
3. To ensure that appropriate funding is in place to meet current and ongoing commitments of Council.
4. To ensure that Council receives and maintains the highest possible credit rating appropriate to its financial strength and nature of its operations.
5. To develop and maintain professional relationships with financial institutions, Local Government Funding Agency (LGFA), investors and rating agencies.
6. To manage investments within Council's strategic objectives; invest surplus cash in liquid and creditworthy investments.
7. To arrange and structure external long term funding at the lowest achievable funding margins while also optimising flexibility and spread of debt maturities.
8. To monitor, evaluate and report treasury performance, including the monitoring and reporting on borrowing covenants under lending arrangements and those stated within this policy.

3. DELEGATED AUTHORITIES

Pursuant to clause 32 (2), schedule 7, of the Local Government Act 2002, Council may make delegations to officers of Council to allow for efficient conduct of business. Clause 32 (3), schedule 7 of this Act allows officers to delegate those powers to other officers.

Notwithstanding clause 32 (1) (c), schedule 7 the power to borrow money, or purchase or dispose of assets, other than in accordance with the LTP remains the sole responsibility of Council. This responsibility cannot be delegated.

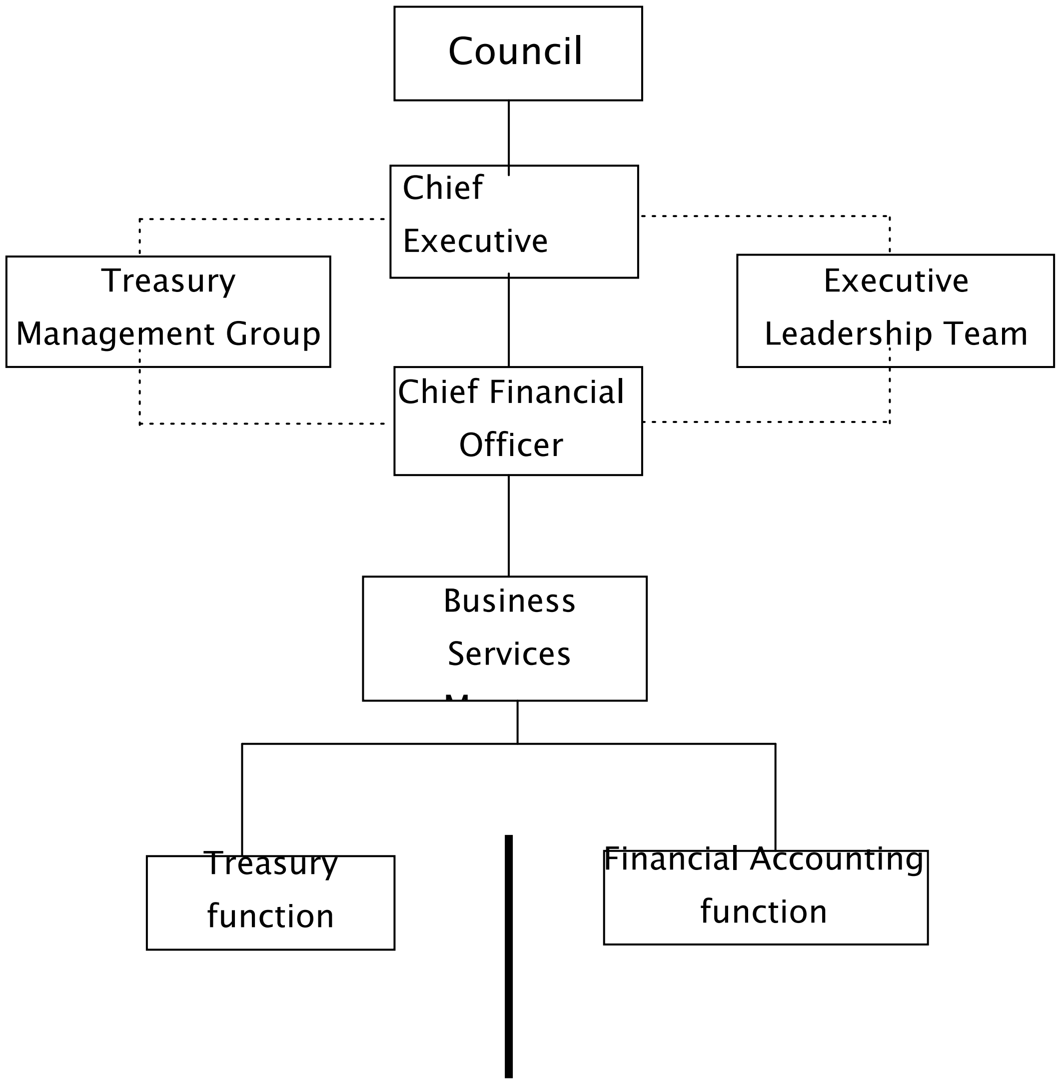
Approved delegations to Officers are approved by Council to the Chief Executive Officer and this policy is contained within the Delegations Register.

The Treasury Policy related delegations are outlined below.

Activity	Delegated Authority and limit
Approve policy document	Council
Alter policy document	Council
Approval of external borrowing programme for the year as set out in the AP / LTP	Council
Approval for charging assets as security over borrowing	Council
Approving new and re-financed lending activity with CCO / CCTOs	Council
Arrange new loans, borrowing facilities in accordance with the Council general resolution	CEO – Annual borrowing programme CFO - $30m BSM - $10m
Refinancing of existing debt	Chief Executive – Within policy limits CFO
Negotiation and ongoing management of lending arrangements to CCO / CCTOs	CFO
Make treasury investments	CEO – Within policy limits CFO - $10m BSM - $5m
Maximum daily derivative contracts (borrowing and investments) excludes roll-overs on existing debt and interest rate swaps.	Council – unlimited CEO - $50m CFO - $30m BSM - $10m
Approving borrowing and interest rate transactions outside policy	Council
Open/close bank accounts	Chief Executive
Approve authorised cheque/electronic signatory positions	Chief Executive
Transfers of stock/register new debt issues	Seal register signatories
Borrowing management activity	Chief Executive – Within policy limits CFO

Interest rate risk management activity	Chief Executive – Within policy limits CFO
Approving allowable risk management instruments	Council
Adjust borrowing interest rate risk profile	Chief Executive – Within policy limits CFO
Managing funding maturities	Chief Executive – Within policy limits CFO
Ensuring compliance with policy	Chief Executive CFO
Triennial review of policy	Chief Executive CFO

Organisation chart showing separation of roles



4. LIABILITY MANAGEMENT POLICY

The Liability Management Policy must state Council's policies for management of both borrowing and other liabilities, including:

- Specific borrowing limits and the giving of securities;
- Liquidity risk;
- Interest rate risk;
- Credit risk;
- Debt repayment.

In accordance with best practice, the policy also includes coverage of funding risk, foreign exchange risk and operational risk.

4.1 Philosophy

Council's policies on liability management are based on the following key elements:

- Liabilities must be maintained at a 'prudent' level
- Borrowings provide a basis to achieve intergenerational equity
- Borrowings must be undertaken efficiently and in accordance with Council's Liability Management Policy

Council approves external borrowing in general terms during the LTP and annual planning processes. Projected debt levels are ascertained from cash flow forecasts prepared during the LTP and annual planning process.

Council delegates its borrowing powers to the Chief Executive as set out in the "Delegated Authorities", contained within Section 3.

4.1.1 Basis for borrowing

Council borrows to help achieve a degree of intergenerational equity. To achieve this Council generally borrows for assets which are expected to last more than ten years such as new infrastructure assets for growth or service level improvement.

4.1.2 Investment to drive efficiency

Where there are opportunities to make long term sustainable savings from either capital or operating projects Council may use short term borrowing to initially fund the project.

All project borrowing must be within Council's borrowing limits. Projects up to a value of $500k can be authorised by the CEO. Projects over $500k must be approved by Council.

4.2 Limits on borrowing and giving of security

Council's borrowings shall be managed within the following limits:

Net debt[2] not to exceed	135 % of total revenue[1]
Net interest[3] expense on external debt (debt secured under debenture) as a percentage of total revenue to be less than	10 %
Net interest[3] expense on external debt as a percentage of total annual rates income[4] (debt secured under debenture) to be less than	20 %
Liquidity (external debt + committed loan facilities + liquid funds[5]) over existing external debt[6] to be greater than	110 %

- [1]Total revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets). For the purposes of the limits above total revenues do not include realised or unrealised gains/losses arising from the PIF, as the revenue flow to Council from that Fund is managed through a Release Rule that smooths the revenue impact of such value-based variations over time, therefore making such variations less relevant to the ratios being measured. The revenue released to Council under the Release Rule is included in total revenues.
- [2] Net debt is defined as total debt less liquid funds. When calculating net debt, the LGFA allows the deduction of:
  - a cash, term deposits and any investments held within investment portfolios (whether these are ring fenced or not). Investment portfolios might include listed equities, fixed interest securities, listed property securities or units in managed funds
  - b LGFA borrower notes can be deducted
  - c any council lending to a Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO) can also be deducted but only where the CCO or CCTO is a going concern and not dependent upon council financial support.
- [3] Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
  - a Gross interest is calculated by adding together the value of all Council's financing costs including interest costs on debt, costs of derivatives (but not any unrealised mark to market movements) and any costs on committed bank facilities. The finance component of a lease payment may also be part of a council's interest cost.
  - b Interest Council earned on cash, term deposits, fixed interest and dividends on non-core listed equities is deducted to provide the net interest amount. Council cannot deduct any foreign exchange gains or unrealised gains on investments.

- [4] 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). Council can add any revenue received from income for which Council rates (e.g. volumetric water charges).
- [5] Liquid funds are assets defined as:
  - a Overnight bank cash deposits
  - b Wholesale or retail bank term deposits no greater than 30-days
  - c Bank issued registered certificates of deposits less than 181 days
  - d Approved fixed interest securities
  - e Listed, non-core equity investments
  - f Any loans to CCO or CCTO (that are a going concern) that mature within 12 months.
- [6] External debt is the aggregate of bank drawdown amounts, issued commercial paper, term debt, capitalised finance leases and financial guarantees provided to third parties.
- To minimise concentration risk the LGFA will require that no more than the greater of NZD 100 million or 33% of Council's borrowings from the LGFA will mature in any 12-month period.

Borrowing limits are measured on Council only, not the consolidated group.

4.2.1 Security for lenders

Council's external borrowings and interest rate management instruments are secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

If Council considers that security should be given by mortgaging or otherwise charging a physical asset instead of rates, it may do so (with the exception of Council's water assets, per Section 130(3)(a) of the Local Government Act). Independent advice will be sought if considered necessary.

Where security is considered to be offered over specific assets, prior Council approval and the following are required:

- A direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. 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 security arrangement.
- Any lending to a CCO / CCTO will be on a secured basis and be approved by Council.

4.2.2 Sustainable debt policy

Total Borrowings are to be reviewed and recalibrated annually, based on new assets built and borrowings repaid. Borrowings are to be repaid on a straight line basis between 20 to 30 years.

4.2.3 Types of borrowing

Council has a variety of borrowing sources available, and will utilise the most appropriate and cost effective source from time to time, as determined by management.

These sources include:

- Short term, and medium term committed funding facilities from the banking sector
- Leasing, and hire-purchase of certain assets (including sale and leaseback where appropriate and cost effective)
- Issue of fixed and floating rate Local Authority stock or bonds to both the wholesale or retail market
- Issue of commercial paper
- Issue of ordinary shares, redeemable preference shares and other hybrid equity instruments by CCO's
- The LGFA

Other sources of financing will from time to time be offered to Council. Management is authorised to assess, and utilise such financing sources as it so determines, but within the general constraints laid down in this TMP.

4.2.4 Credit rating

Council has a formal Standard and Poor's (S&P) credit rating (or equivalent), to facilitate access to the bank, LGFA and wholesale and retail investor markets. A formal credit rating provides Council with several advantages:

- It broadens Council's sources of financing. Having a credit rating allows Council to more efficiently access the New Zealand debt capital market. As such it serves to support Council's liquidity and funding risk management objectives, and enhance its cost of financing.
- Has established Council as a highly rated entity, which will facilitate its contractual dealings with third parties, potentially placing it in a stronger negotiating position. The current very strong rating reinforces this advantage.
- Has exposed Council's financial management disciplines and performance to the scrutiny of the credit rating agency and the wider debt capital markets. As such it provides a very useful 'monitoring' service to supplement Council's own internal due diligence and reporting.

4.2.5 Guarantees and underwriting

Council may from time to time provide financial guarantees to third parties. Management must ensure 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 must take immediate action to recover the money.

Any such amounts guaranteed if material are to be included in the definition of 'External Debt' for the purpose of determining compliance with the borrowing limits set out above.

For any guarantee for indebtedness provided, Council will approve the guarantee arrangement. Any guarantee provided to community organisations or clubs for loans or incidental arrangements, the purpose of the arrangement must be consistent with Council's strategic objectives.

For any outstanding guarantees, Council ensures that sufficient financial capacity exists relative to LGFA lending covenants. Unless approved by Council, guarantees or financial arrangements given will not exceed any amount agreed by Council.

As set out in Section 62 of the Act, Council does not give any guarantee, indemnity or security in respect of the performance of any obligation by a CCTO.

4.2.6 Centralised borrowing and capital charge

All borrowing for activities funded from general rates is centralised for the purpose of internal accounting. Interest and principal repayment costs incurred at the corporate level will be charged to each activity on the basis of the proportion of long term assets held by that operating unit, to the total long term assets of such activities.

Borrowing for activities funded from targeted rates will be "ring-fenced" to each activity based on the actual capital expenditure involved and the chosen debt/rate funding required for each activity.

Council uses a capital charge mechanism to reflect the cost of long term capital employed within affected activities. The charge reflects both the interest costs and the provision for the repayment of principal.

4.2.7 Internal borrowing

As Council manages all funding and liquidity as a centralised function to ensure cash and borrowing resources are used in an optimal manner. There is an element of funding per activity which at times, is effectively internally borrowed as excess reserve funds are sometimes used instead of borrowing externally. The capital charge mechanism is applied to activities in the same manner for both internal and external borrowings.

4.2.8 New Zealand Local Government Funding Agency Limited (LGFA)

Council may borrow from the LGFA and 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 Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

4.2.9 On-lending to Council Controlled Organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO or CCTOs. Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any on-lending arrangement to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the CFO considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amounts outstanding on due date.
- Impact on Council's credit standing, credit rating, debt burden (particularly in relation to S&P credit assessment), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

All on-lending arrangements must be executed under legal documentation (e.g. loan, guarantee) reviewed and approved by Council's independent legal counsel.

4.3 Liquidity risk

Liquidity risk is the risk that Council will not be in a position to meet its day to day commitments, including debt maturities, due to unforeseen events or circumstances, resulting in a loss of reputation, and/ or an actual financial loss arising from the need to liquidate assets at a net cost to Council.

4.3.1 Objective

Council's objective is to always be in a position to meet its day-to-day commitments, to maintain its reputation and prevent any financial loss occurring, whilst ensuring that the minimum possible cash balances are held in interest earning accounts.

Council maintains multiple access to committed bank funding and short term treasury investments ensuring minimal impact arising from either any systemic deterioration in the markets, or lack of access to a particular part or sector of the market.

4.3.2 Strategy

To manage liquidity risk, Council undertakes the following:

- To have in place at all times comprehensive insurance cover for all assets and aspects of Council's activities as outlined in Councils insurance strategy.
- Council to have committed bank facilities and cash and term deposits (with a term of less than 60 days) totalling $24 million. This is equivalent to approximately two months of Councils payment commitments.

Council's Treasury Investments should only be made with the institutions detailed in the Investment policy as outlined in section 5.6.

4.3.3 Measure

Compliance with each one of the above criteria. Any breaches are noted in the Quarterly Performance Report.

4.4 Interest rate risk

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the LTP or Annual Plan so as to adversely impact financial projections, cost control and capital investment decisions, returns and feasibilities.

4.4.1 Objective

The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements through the fixing of wholesale market interest rates, thereby protecting investment returns and funding costs. Both objectives are to be achieved through the proactive management of underlying interest rate exposures.

The interest rate management objectives and approach of the PIF are consistent with the founding principle of the fund and are outlined in the SIPO.

4.4.2 Interest rate risk management

Exposure to interest rate risk as it impacts debt funding costs is managed and mitigated through the risk control limits below. Council's interest rate risk on projected gross external debt should be managed within the following limits.

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Rolling Period	**Minimum Fixed**	**Maximum Fixed**
0 – 1 Year	40%	90%
1 - 2 Years	35%	90%
2 - 3 Years	30%	90%
3 - 4 Years	20%	85%
4 - 5 Years	10%	80%
5 - 6 Years	0%	75%
6 - 7 Years	0%	70%
7 - 8 Years	0%	65%
8 - 9 Years	0%	60%
9 - 10 Years	0%	55%
10 - 11 Years	0%	50%
11 - 12 Years	0%	45%
12 - 13 Years	0%	40%
13 - 14 Years	0%	35%
14 - 15 Years	0%	30%

"Fixed Rate" is defined as all known interest rate obligations on forecast gross external debt, including where debt is borrowed on a fixed interest rate basis and where hedging instruments have fixed movements in the applicable reset rate.

"Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.

Forecast gross external debt is the amount of total external debt for a given 12 month period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (and approved by the CFO), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the policy minimum and maximum limits.

Fixed interest rate percentages are calculated monthly by the Business Services Manager based on the average amount of fixed interest rate obligations relative to the average forecast gross external debt amounts for the given period (as defined in the table above).

Forecast gross external debt is to be reviewed by the TMG as part of the ongoing strategic risk management process, and the specific levels of core debt deemed to be that which is not seasonal or working capital related.

A fixed interest 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 beyond 90-days requires specific approval by Council.

Any interest rate fixing with a maturity beyond 15 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate or an interest rate swap is linked to floating rate LGFA debt and this is maturing beyond 15 years.

The CFO has ultimate discretion with regard to hedging percentages within the above limits. Council approval will be sought if the TMG believe that hedging outside of these limits is warranted.

4.4.3 Measure

Compliance with the policy guidelines set out above.

4.5 Credit risk

Credit risk arises in the following circumstances:

- A deterioration of the credit rating of the entity with which Council places its investments.
- A deterioration in the credit rating of a counterparty with whom Council may conclude financial derivative contracts.

In the circumstances described above it is possible that the credit deterioration of a counterparty could lead to a default, and ultimately loss by Council in respect of anticipated interest payments, repayment of principal, and non-payment of contracted financial obligations.

4.5.1 Objective

Council seeks to limit its risk in the above areas and the extent of any financial loss that could occur.

4.5.2 Strategy

The following standards and procedures are to be followed at all times:

- Investments are only to be placed with those entities/issuers as outlined in section 5.4.
- Financial derivative contracts are only to be concluded with registered banks with a minimum credit rating of ‘A’ (S&P or equivalent). The maximum exposure to any one counterparty is set out in Appendix I.

4.5.3 Measure

Compliance by Council of the procedures set out above.

4.6 Funding risk

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 (for fees and borrowing margins) and maturity terms of existing facilities and loans.

Managing Council's funding risk is important as risk factors can arise causing 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 their own financial or 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.

4.6.1 Objective

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 access to and overall borrowing cost and desired maturity profile is unnecessarily compromised due to market conditions.

4.6.2 Strategy

Council will manage its funding risk on the following basis:

- Council's primary sources of debt funding are; the LGFA, banking sector and wholesale or retail investors in the local authority stock market. Council diversifies its funding sources by having a mix of bank, LGFA and capital market sourced debt.
- Council has committed bank cash advance facilities with multiple banks, ensuring a spread of bank funding relationships.
- Investments previously earmarked for certain special funds are now utilised to meet maturing debt commitments, or to avoid raising additional debt. Only those investments that have been received by Council as a result of a bequest, or Trust, or where there is a clearly identified obligation to a third party will be retained in a separately identified investment account for that purpose.
- Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings of existing debt.
- Council's funding facilities should have a spread of maturity dates to mitigate the risk that Council is not able to raise required funding at acceptable credit margins due to a change in specific conditions relating to Council or a generalised change in market credit conditions.

The following parameters have been formulated taking into account Council's goal of maintaining a suitable S&P rating. If Council's credit rating falls below AA- then these parameters must be formally reviewed by the TMG and any changes recommended to Council. The parameters are as follows:

The maturity profile of the total committed funding in respect to all loans and committed bank facilities is to be controlled as follows:

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	60%

A funding maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. A maturity schedule outside these limits for a period greater than 90 days requires specific Council approval.

With regard to calculating the funding maturity profile, total committed bank facility amounts are recognised as maturing at the facility's legal expiry date.

4.6.3 Approved financial instruments

Approved financial instruments are as follows:

Category	Instrument
Cash and liquidity management and borrowing	• Bank overdraft • Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) • Committed standby facilities (where offered) from the LGFA • Uncommitted money market facilities • Retail and Wholesale Bond, both Fixed Rate (MTN) and Floating Rate Note (FRN) issuance (including forward start from the LGFA) • Commercial paper
Interest rate risk management	Forward rate agreements ("FRAs") on: • Bank bills Interest rate swaps including: • Forward start swaps • Swap extensions and shortenings Interest rate options on: • Bank bills (purchased caps and one for one collars) • Interest rate swaps (purchased swaptions and one for one collars) Refer conditions of instrument use below.

Investments (term <180 days)	• Call and short term bank deposits (less than 30 days unless linked to prefunding strategy) • Bank registered certificates of deposit (RCDs) • Treasury bills
Investments (excluding the PIF)	• LGFA borrower notes / commercial paper / bills / bonds 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 or issuer • Subordinated debt (other than borrower notes subscribed from the LGFA), junior debt, perpetual notes and debt or equity hybrid notes such as convertibles.

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.

4.6.4 Use of interest rate instruments

- Interest rate options must not be sold outright. However, one to 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 in isolation (i.e. repurchased) otherwise both sides must be closed out simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- Purchased borrower swaptions mature within 18 months.
- The forward start period on swap/collar strategies to be no more than 36 months, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

4.7 Foreign exchange and commodity price risk

Foreign exchange risk arises when the NZD cost of a product, service, material or equipment sourced offshore increases as a result of a deterioration in the foreign exchange rate, between the time of the commitment and the time payment is made.

Commodity price risk arises where certain areas of Council’s operations are subject to the impact of commodity price fluctuations. The most significant activities affected are those involved in construction within the Community Assets Group. In particular roading is affected due to the fluctuation of the Bitumen price which is driven by oil prices and the movement in the NZD.

4.7.1 Objectives

Foreign Exchange:
Council's objective is to ensure that there are no material unhedged foreign exchange risks either;

- From the time a tender is accepted (which includes a foreign exchange exposure for Council, either directly, or in terms of the ability of the contractor to vary NZD prices should exchange rates vary), or
- From the time an approved purchase order is placed on an overseas supplier (collectively, "foreign exchange commitments").

Exposures are hedged, within two days of the commitment being recognised once the expenditure is approved, and the currency amount and timing are known.

Commodity Prices:
Where appropriate and to provide certainty of commodity prices Council may hedge commodities using recognised hedging instruments. Commodity hedges should match budgeted expenditure or specific contracts.

4.7.2 Risk management

Foreign Exchange
All recognised foreign exchange commitments in excess of the equivalent of NZD100,000 that entail the purchase of foreign currency will be hedged using the following approved financial instruments;

- Foreign currency deposits
- Spot foreign exchange
- Forward foreign exchange contracts
- Purchased currency options and collars (one to one only)

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

Commodity Prices:
Where commodity price hedging is available and where the applicable commodity component exceeds NZD100,000, the use of hedging may be considered. Approved commodity hedge instruments include:

- Bitumen Price Index (BPI) Swaps
- Other indices that apply to affected commodities

4.7.3 Use of foreign exchange and commodity instruments

- Financial instruments other than those stipulated in section 4.7.2 require one-off Council approval prior to transacting.
- Foreign exchange options cannot be sold outright.
- Commodity swaps can be entered into by the applicable General Manager provided they are reported in the next quarterly Performance Report. Other hedging instruments must also be approved by the Chief Executive.

4.7.4 Measure

All risks to be matched by foreign exchange contracts of the same currency, equal value and term. (Record of any foreign exchange commitments to be maintained, together with a record of forward exchange contracts undertaken to hedge the risks concerned).

4.7.5 Emissions Trading Scheme (ETS)

The objective of the ETS carbon credit policy is to minimise the financial impact of movements in the carbon credit prices on Council. The objective requires balancing Council's need for price stability with the benefit of realising market opportunities to reduce costs as they arise.

ETS risk is managed under the following control limits based on Council's gross liability exposure amount. Given the uncertainty of the scheme, it is not considered appropriate to have minimum hedge percentages for forecast exposures above zero per cent at this time.

Period	Minimum	Maximum
Committed*	80%	100%
Forecast		
0-1 years	0%	80%
1-2 years	0%	50%
2-3 years	0%	30%

*Exposures become committed January to March (the quarter following the emission period as Council must report emissions from previous calendar year). Forward price transactions are limited to NZ registered banks as per approved counterparties.

Approved carbon hedge instruments include:

- New Zealand Unit (NZU), spot and forward contracts
- New Zealand Assigned Amount Unit (NZ-AAU), forwards / spot
- Units that are accepted by the Crown to settle obligations under the New Zealand Emissions Trading Scheme.

4.8 Operational Risk

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

4.8.1 Objective

Council's objective is to minimise losses arising from mistakes, errors and lack of adherence to policies.

4.8.2 Strategy

There are five fundamental aspects to Council's operational risk management:

- Appropriate and clear cut delegation of authority to specified individuals within the organisation.
- Adequate segregation of duties across deal execution, confirmation, settling, accounting and reporting. There are a small number of people involved in treasury activity and accordingly strict segregation of duties is not always achievable.
- Appropriate and sound reporting systems and procedures. This enables management and senior executive to identify, manage and monitor risk. Actual transactions are concluded, transactions are bona fide and properly authorised, checks are in place to ensure systems are robust enough for reports to be complete, timely and accurate. (See Section 8)
- Triennial reviews of the TMP, coupled with an annual internal audit of Treasury operations.
- The TMG is responsible for preparing a set of operating guidelines and reviewing these on a regular basis, in any case at least annually.

4.8.3 Measure

Compliance with the relevant operating guidelines prepared by the TMG, and monitoring of any errors or losses arising from Treasury activities.

5. INVESTMENT POLICY

The investment policy must state Council's policies on investments, including:

- The mix of investments;
- The acquisition of new investments;
- An outline of the procedures by which investments are managed and reported on to Council;
- An outline of how risks associated with investments are assessed and managed.

5.1 Mix of investments

Council categorises its investments into four relatively distinct areas, the first three being long term in nature and the fourth more short term:

i *Perpetual Investment Fund,* (PIF) a long term pure commercial investment fund set up by Council and containing the proceeds of sale of Council's former shareholding in Powerco Limited. The PIF's investment policy and objectives are outlined in the separate, Council approved SIPO.

ii *Other pure commercial investments,* made and/or held in the context of Council's general strategic objectives purely for the commercial return received from them. Council's investments in the three Joint Forestry Ventures and surplus property holdings fall within this category. Such investments may be subjected to a broader range of active commercial reviews e.g. regular hold/sell reviews, portfolio analysis, comprehensive monitoring.

iii *Semi-commercial investments*, where the pure commercial return rationale is modified by other strategic objectives or broader community outcomes. The Airport, Council's forestry estates and other miscellaneous properties and equities (LGFA and Civic Assurance) fall into this category. Such investments are subjected to a narrower range of active commercial reviews given their infrastructural or financial relationships e.g. business monitoring and long term planning appropriate to the scale and complexity of each business.

iv *Treasury investments,* made from short term general surplus funds, liquidity and pre-funding available to Council from time to time, restricted funds and bequests. Typically made in the form of financial instruments issued by approved counterparties.

All investments will be made strictly in accordance with the policies and parameters approved by Council from time to time, and as set out in this document. These policies and parameters are set below.

5.2 Other pure commercial and semi-commercial investments

Objectives

1. To manage the investments, and enhancing the returns and the value of the investments over the long term.
2. To identify, quantify and manage the risks associated with the investments.
3. To regularly review the investments, and determine whether the value of any investment has been maximised, or could potentially reduce, and if appropriate, to dispose of the investment in the most cost effective and efficient manner.

For the semi-commercial investments to modify the pure commercial rationale with broader community outcomes (if applicable) that could be contributed to by holding the investment in question.

5.2.1 Acquisition, addition, disposal of other pure commercial investments and semi - commercial investments

All new investments of these types, additions to existing investments, and/or disposals of existing investments must be approved by Council.

Council can make new investments, and/or retain existing investments if all the following criteria are met:

- The investment has clear long term benefits for the community of New Plymouth District.
- The risks associated with the investment can be managed within acceptable levels.

- Making or retaining the investment would not result in a breach of the borrowing limitations embodied in the liability management policy of Council.

The current policy positions of Council with respect to its other pure or semi-commercial investments are as follows:

- Joint venture forestry: Harvest at maturity and not renew any joint venture agreements, or sell its interest if the joint venture partner or other party wishes to purchase at a commercial price.
- Council forestry: Retain the investment and continue to harvest on a rotational basis where commercially feasible (the land is generally retained for other Council purposes unless it is classified as surplus to those purposes. It would then be classified as a pure investment for eventual disposal along with other surplus property).
- New Plymouth Airport: To be managed in a commercial manner to ensure it is able to achieve all of its operational objectives.
- Surplus properties: Council has an existing process for declaring properties surplus to operational or future requirements and a review process for properties listed on the surplus list but not yet disposed of.

These policy positions are reviewable by Council outside of this policy document.

5.2.2 Management of other pure commercial investments and semi - commercial investments

Council will manage these investments in a manner which is dependent upon the size and nature of the investment.

Council has delegated authority to the Strategy and Operations Committee to manage its commercial investments where there is urgency required. This committee monitors the performance of the investments and receives advice on its future position from the appropriate experts. On major decisions such as the holding or selling of such investments, the Strategy and Operations Committee would normally make recommendations to Council.

5.3 Treatment of surplus funds

From time to time Council may generate surplus funds. Such surpluses could be generated from a number of circumstances including the following:

1. From operating surpluses which could arise due to a reduction in expenses or an increase in revenue against the planned budget.
2. From the sale of Council assets
3. Other one-off sources e.g. a bequest.

Where there is no specific planned or approved purpose for the use of surplus funds, such surpluses should be applied to repaying debt, or applied against rates requirements for any one or all of the first three financial years of the LTP.

5.4 Treasury investments

Treasury investments comprise short term surplus general funds, debt pre-funded amounts that are held by Council from time to time, and moneys held as restricted funds and bequests where Council has resolved to maintain a separate fund for the benefit of the specific parties or activity covered by the funds in question.

5.4.1 Policy

The investment of treasury instruments shall only be made in NZD denominated treasury instruments.

The guidelines for treasury investments, restricted funds and bequests are outlined in Appendix I.

Short term surplus general funds and other funds, are invested in approved treasury investments included in section 4.6. Investments are held in strongly credit rated banks (S&P (or equivalent)) of no worse than short-term A-1 / long-term A, and for terms of up to six months, unless linked to a debt pre-funding strategy.

To diversify counterparty credit risk investments are spread amongst Council's relationship banks as per the limits in Appendix I.

5.4.2 Levels of authority

Authorisation of new investments or the sale of any treasury investments ahead of the stipulated maturity date shall only be made by those individuals stipulated in the "powers to invest - in treasury investments" schedule approved by Council, and outlined within Section 3; delegated authorities.

5.4.3 Reporting

A quarterly report on all treasury investments will be submitted to Council in the format determined by the TMG.

5.4.4 Loan advances

Council may provide advances to CCOs, CCTOs, charitable trusts and community organisations for strategic purposes only and never to individuals. New loan advances are by Council resolution only.

As outlined in Section 63 of the Act, Council does not lend money, or provide any other financial accommodation, to a CCTO on terms and conditions that are more favourable to the CCTO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

Interest income from loan advances is included in the consolidated rating account or special activity account.

Council reviews performance of these loans on a regular basis to ensure strategic and economic objectives are being achieved. Council ensures that interest and principal repayments are being made in accordance with the loan agreement.

The Business Services Manager reports on loan advances to Council on a quarterly basis.

5.4.5 New Zealand Local Government Funding Agency Limited (LGFA)

Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

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 remain viable, meaning that it continues as a source of debt funding for Council.

Because of these dual objectives, 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, Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

6. CASH MANAGEMENT

From time to time, Council has daily cash flow surpluses and borrowing requirements, due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the Finance Department.

Council maintains a daily cash position report, and a yearly cash flow projection is prepared during the Annual Planning process. These reports determine Council's borrowing requirements and surpluses for investment for the year.

Cash management activities must be undertaken within the following parameters:

- Cash management instruments are limited to:
  - Money market call deposits with New Zealand registered banks.
  - Negotiable instruments such as registered certificates of deposit (RCDs) with a maturity no more than six months.
  - Term deposits with registered banks. Maturities are staggered to provide day-to-day cash flow requirements and to avoid early break penalties with a maturity no more than three months.
- Overdraft facilities are utilised as little as practical.
- Interest rate risk management activity on cash management balances is not permitted.
- Cash may be invested only with approved counterparties as detailed in Appendix I.

7. PERFORMANCE MEASUREMENT

The performance of the PIF and other pure and semi-commercial investments is principally measured through the following means:

- The PIF meeting the requirements of its contract with Council, its Statement of Intent, SIPO and appropriate benchmarks for fund performance;
- Other investments – statements of intent and appropriate benchmarks for investment performance.

Measuring the effectiveness of Council's other treasury activities is achieved through a mixture of subjective and objective measures. The predominant subjective measures are:

- Adherence to the TMP guidelines.
- The overall quality of treasury management information.
- The quality of relationships with the banking sector, and key participants in the debt capital markets.

The PIF will report on a quarterly basis to the Council Controlled Organisation Committee. Other pure commercial and semi-commercial investments, will report through the Strategy and Operations Committee as required. Further reports for other treasury activities are outlined in the Treasury Manual.

8. INTERNAL CONTROLS

Sound treasury procedures with appropriate controls are required to minimise risks Council may experience through unauthorised treasury activity or unintentional error. A set of operating guidelines is prepared by the TMG and reviewed at least annually, incorporating relevant internal controls.

Legal risk

Legal risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, Council may be exposed to such risks.

Council 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.

Agreements

Financial instruments can only be entered into with banks that have in place an executed International Swaps and Derivatives Association (ISDA) master agreement with Council. All ISDA Master Agreements for financial instruments and carbon units must be approved by Council.

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.

9. ACCOUNTING TREATMENT OF FINANCIAL INSTRUMENTS

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to actively manage Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's annual accounts.

The Business Services Manager is responsible for advising the CEO of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least every six months for risk management purposes.

10. POLICY REVIEW

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes.

The Business Services Manager has the responsibility to prepare the annual review report that is presented to Council. The report will include:

- Recommendation as to changes, deletions and additions to the policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of policy and one-off approvals outside policy.

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

11. Appendix I

Counterparty credit exposure limits including derivative contracts, treasury investments, restricted funds and bequests prudential guidelines

(refer Section 4 – Credit risk and 5.4 – Investment policy)

Credit risk will be regularly reviewed by Council. Treasury related transactions will only be entered into with counterparties specifically approved by Council. Counterparty risks within externally managed investment funds (e.g. PIF) are managed within the parameters of the SIPO.

Counterparty/Issuers	Minimum S&P short term/long term credit rating	Maximum Exposure per Counterparty	Maximum % of Counterparty Exposure
Banks registered with the Reserve Bank of NZ*	A-1+/AA-	$35 million	100%
Banks registered with the Reserve Bank of NZ*	A-1/A	$20 million	100%
New Zealand Government	N/A	Unlimited	100%
Local Government Funding Agency (LGFA)	A-1/A+	$35 million	100%

At no point in time, no more than 50 per cent of the treasury investment portfolio will be invested with one bank counterparty.

** Note: An approved exception to the above is other treasury investments made with TSB Bank Limited, currently with a A- rating with Fitch. Such investments shall be limited to a term of 12 months or less, and be for not more than $15 million in aggregate, and never more than 5% of TSB Bank's shareholders funds.*

Financial instrument	Calculation of deemed exposure
Treasury investments (e.g. Bank call and term deposits)	Transaction principal x weighting 100% (unless a legal right of set-off exists).
Interest rate swaps, Forward rate agreements, Collars, Interest rate options (purchased options)	Notional principal x interest rate movement factor of 3% p.a. for each year of unexpired portion of contract, or part thereof.
Foreign exchange contracts – Forwards and options (*bought*) / carbon units	Credit exposure on foreign exchange/carbon units is computed by multiplying the face value amount by the (square root of the maturity (years) × 15%)
Commodity contracts – swaps	Credit exposure on commodity swaps is computed by multiplying the face value amount by the (square root of the maturity (years) × 30%)