TARARUA DISTRICT COUNCIL

Treasury Risk Management Policy

Including Liability Management and Investment Policies

Effective: 27 May 2020

Approved by : Chief Executive

Next review date : 30 June 2023

CONTENTS

1.0 INTRODUCTION

1.1. Policy purpose

The purpose of the Treasury Risk Management Policy ("Policy") is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Tararua District Council ("Council"). The formalisation of such policies and procedures will enable Council's treasury risks to be prudently managed.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within Council 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 similar sized Council.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Policy and treasury management function to recognise, measure, control, manage and report on Council's financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operations of a pro-active 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.
- Enable Council to achieve its strategic objectives in the LTP.

It is intended that the Policy be distributed to all personnel involved in any aspect of the Council'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 policy and objectives of Council in respect of treasury management activities.
- The Policy has not been prepared to cover other aspects of Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of Council cover these matters.

2.2 Treasury management objectives

The objective of this Policy is to control and manage costs and investment returns that can influence operational budgets, public equity and set debt levels.

All external borrowing, investments, incidental financial arrangements (e.g. use of interest rate hedging financial instruments) and treasury management will meet requirements of:

- Local Government Act 2002, in particular Part 6 including sections 101,102,104, 105 and 112.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.

- Trustee Act 2019 (effective 30 January 2021). Details of relevant sections can be found in the Trustee Act 2019 Part 4 Investments.
- The Liability Management Policy and the Investment Policy as outlined within this document.

2.3 General Policy Objectives

Objective	Applicable Policy Statements
To prudently manage Council's liability management and/investment policies (Treasury Risk Management Policy), and all identified treasury risks within policy limits and parameters	4.0/5.0/6.0
Minimise costs and risks in the management of Council's borrowing through flexibility and spread of debt maturities	6.2
Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements	6.2/8.0
Develop and maintain relationships with financial institutions, the LGFA, brokers and investors	4.0/5.0
Ensure adequate internal controls exist to protect Councils financial assets, mitigate against financial loss, opportunity cost and other inefficiencies	3.0/6.5
Ensure compliance with all risk control limits, financial ratios, and external lender requirements	4.2/6.0/6.6
Monitor and report on treasury performance, financial ratios, covenants, and security arrangements within the Policy	7.0/9.0

3.0 GOVERNANCE AND MANAGEMENT RESPONSIBILITIES

3.1 Overview of management structure

Policy statements

Council will ensure effective controls over treasury management and segregation of duties controls are in place.

Council may, by way of a resolution, depart from the Treasury policy where it considers that the departure would advance the broader well-being of the district or other policy objectives.

Detailed management positional responsibilities are outlined within the treasury procedures manual.

All management delegated limits are authorised by the CEO.

4.0 LIABILITY MANAGEMENT POLICY

4.1 Introduction

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

- Raise specific debt associated with projects and capital expenditures.
- Raise finance leases for fixed asset purchases.
- Fund assets whose useful lives extend over several generations of ratepayers.

4.2 Borrowing Limits

Policy statement

Council will manage its debt in accordance to Council's borrowing limits and external lender covenants.

Debt will be managed within the following limits:

Item	Council Borrowing Limit	LGFA Covenants
Net external debt as a percentage of total revenue	<150%	<175%
Net Interest on external debt as a percentage of total revenue	<7%	<20%
Net Interest on external debt as a percentage of annual rates income (debt secured under debenture)	<10%	<30%
Liquidity (External debt + available committed bank facilities + cash and cash equivalents to existing external debt)	>110%	>110%

- Total Revenue is defined as cash earnings from rates, government capital 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 external debt is defined as total external debt less cash investments.
- Liquidity is defined as external debt plus available committed bank facilities plus cash and cash equivalent divided by current external debt. The liquidity ratio excludes encumbered cash investments, such as cash held within trust funds. It also excludes cash held for the prefunding for upcoming debt maturities. For liquidity purposes, cash/cash equivalents are defined as being:
  - Overnight bank cash deposits
  - Wholesale/retail bank term deposits no greater than 30 days
  - Bank issued RCDs less than 181 days.

- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) 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 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- Financial covenants are measured on Council only not consolidated group. Council borrows from creditworthy banks that have a long-term credit rating by S&P (or equivalent) of A or better.
- Disaster recovery requirements are to be met through the liquidity ratio.

In approving new external debt, 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 and Financial Strategy.

4.3 Borrowing mechanisms

Policy statement

New external borrowings and refinancing existing external debt should be evaluated for cost effectiveness and compliance with policies.

Council is able to externally borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, the LGFA, accessing the short and long-term wholesale/retail debt capital markets directly or internal borrowing of reserve and special funds.

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, and financial institutions/brokers.

4.4 Security

Policy statement

Council offers a Debenture Trust Deed on the security arrangement for its external borrowing and investment activities.

Council assets may be pledged as security where it is advantageous and cost effective to do so.

Council's external borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, 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.

From time to time, and with Council approval, security may be offered by providing a charge over one or more of Councils 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 Deed of Charge.

4.5 Debt repayment

Policy statement

Debt will be repaid as it falls due in accordance with the applicable loan agreement.

Subject to the debt limits in section 4.2, a loan may be rolled over or re-negotiated as and when appropriate.

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

Policy statement

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 Council Controlled Trading Organisations under Section 62 of the Local Government Act.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed NZ$1 million in aggregate.

Guarantees provided will have to be approved by Council and reported on quarterly.

4.7 Internal borrowing of special and general reserve funds

Policy statement

Council may authorise use of special funds to reduce the requirement for external debt where there is financial benefit to borrow internally.

Council may authorise the funding of capital expenditure with existing special and general reserve funds. Accordingly Council will maintain its funds in short term maturities emphasising counterparty credit worthiness and liquidity. Any internal borrowing of special funds used must be reimbursed for interest revenue lost. Interest on internally-funded loans is charged annually in arrears, on year-end loan balances.

4.8 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/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 amount outstanding on due date.
- Impact on Council's credit standing, debt cap amount (where applied), 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 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.

4.9 Capital works funding and debt period

Policy statement

> **Capital works will be funded through raising new debt or by utilising depreciation reserves when such reserves exist for the classes of assets.**
>
> **The use of long-term loan funds will be restricted to capital items only.**

Capital works will be funded through raising new debt or by utilising depreciation reserves where such exist for the classes of assets.

Term debt greater than one year will not be used to fund annual operational expenditure.

4.10 New Zealand Local Government Funding Agency Limited

Despite anything earlier in the Liability Management 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:

(a) Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA in the form of Borrower Notes;

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

(c) Commit to contribution 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 the other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

4.11 Departures from Policy

The Council may, in its discretion, depart from the Liability Management Policy where is considers that the departure would advance its broader social or other policy objectives. Any resolution authorising an external debt instrument under this provision shall note that it departs from the Council's ordinary policy and the reasons justifying that departure.

5.0 INVESTMENT POLICY AND LIMITS

Policy statements

> **The Council may hold financial, property, forestry, and equity investments if there are strategic, economic or other valid reasons.**
>
> **The Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.**

5.1. Introduction

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and regularly reported to Council.

Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's Long Term Plan and Annual Plans;
- To reduce the current ratepayer burden;
- The retention of vested land;
- Holding short term investments for working capital requirements;
- Provide ready cash in the event of a natural disaster. Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves;
- Invest proceeds from the sale of assets.

5.2. Objectives

In its financial investment activity, Council's primary objective when investing 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 credit worthy counterparties are acceptable. The Council will act effectively and appropriately to:

- Protect the Council's investments and ensure they are risk averse and secure.
- Ensure the investments benefit the Council's ratepayers.
- Maintain a prudent level of liquidity and flexibility to meet both planned and reasonably unforeseen cash requirements.

5.3. Acquisition of new investments

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

The authority to acquire financial investments is delegated to the CFO.

5.4. Investment mix

Council maintains the following mix of investments:

5.4.1 Equity investments

Equity investments includes investments held in CCO/CCTO and other shareholdings.

Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the LTP.

Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment.

Any purchase or disposition of equity investments requires Council approval.

Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment.

Council recognises that there are risks associated with holding equity investments and to minimise these risks, Council monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

5.4.1.1 New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Investment Policy, the Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

The Council's objective in making any such investment will be to:

(a) Obtain a return on the investment; and

(b) Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for 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.

5.4.2 Property investments

Property investments includes all land and buildings.

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 the performance of its property investments on a regular basis. Properties for sale are to be marketed in accordance with statutory requirement.

5.4.3 Forestry investments

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.

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 reserves.

5.4.4 Financial investments

Objectives

Council may invest in approved financial instruments as set out in section 6.1.2. These investments are aligned with Council's objective of investing in high credit quality (as covered in section 6.3) 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.

Special funds and reserve funds

Council holds special and reserve funds for specific Council objectives. Liquid cash investments are required to be held against special funds and reserve funds unless otherwise approved by Council for internal borrowing.

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, therefore these funds are excluded from Council's liquidity ratio. If the Trusts investment policy is not specified then this policy should apply.

5.5 Loan Advances

Council may provide advances to CCOs, CCTOs, charitable trusts and community organisations for strategic purposes only. New loan advances are by Council resolution only.

Council does not lend money, or provide any other financial accommodation, to a CCO or CCTO on terms and conditions that are more favourable to the CCO or CCTO than those that would apply if Council were borrowing the money or obtaining the financial accommodation. Further Council will not transact with a CCTO on terms more favourable than that of Council if Council, was not providing rates as security.

Council will assess risk, and reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

5.6. Investment management and reporting procedures

To maintain liquidity, Council's short and long-term investment maturities are matched with Council's known cash flow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed.

5.7. Departures from Policy

The Council may, in its discretion, depart from the Investment Policy where is considers that the departure would advance its broader social or other policy objectives. Any resolution authorising an investment under this provision shall note that it departs from the Council's policy and the reasons justifying that departure.

6.0 RISK RECOGNITION/IDENTIFICATION/MANAGEMENT

Policy statements j

Total amount of debt should be spread across a range of maturity dates.

Variable rate debt compared to fixed rate debt is managed over the long term debt forecast within prescribed minimum and maximum fixed rate limits.

Hedging instruments can be used in the management of wholesale market interest rate exposure, but should not increase Council's overall risk.

Council's portfolio shall be arranged to provide, at all times, sufficient funds for planned expenditure and to allow for payment of its obligations as they fall due.

The risk of default in respect to any individual investment will be minimised by the selection of creditworthy investments.

The definition and recognition of liquidity, funding, investment, interest rate, counterparty credit, operational and legal risk of Council is 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 on borrowing, is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed projections included in the LTP and Annual Plan, so as to adversely impact cost control and capital investment decisions/returns/feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of wholesale interest costs. Certainty around funding costs is to be achieved through the active management of underlying interest rate exposures.

6.1.2 Approved financial instruments

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 Retail and Wholesale Bond and Floating Rate Note (FRN) issuance Committed standby facilities offered by the LGFA Commercial paper (CP)/Promissory notes Bank term deposits linked to pre-funding maturing debt up to 18 months
Investments	Call and short term bank deposits Bank registered certificates of deposit (RCDs) LGFA borrower notes/CP/bills

Interest rate risk management	Forward rate agreements (“FRAs”) on: ▪ Bank bills Interest rate swaps/collars including: ▪ Forward start swaps/collars (start date <36 months, unless linked to existing maturing swaps/collars) ▪ Swap extensions and shortenings Interest rate options on: ▪ Bank bills (purchased caps and one for one collars) ▪ Interest rate swaptions (purchased swaptions and one for one collars only)
Foreign exchange management	▪ Spot foreign exchange ▪ Forward exchange contracts
Liquidity management	▪ Wholesale/retail bank call and term deposits no greater than 30 days ▪ Bank registered certificates of deposit (RCDs) maturing less than 181 days ▪ Committed bank funding facilities

Any other financial instrument must be specifically approved by the Council on a case-by-case basis.

The following investment securities 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 debt/equity hybrid notes such as convertibles.

6.1.3 Interest rate risk control limits

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

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	**Minimum Fixed Rate**	**Maximum Fixed Rate**
Current	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	50%
Year 9	0%	50%
Year 10	0%	50%
Year 11+	0%	25%

"Fixed Rate" is defined as all known interest rate obligations on gross forecast external debt, including 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. Gross forecast external debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the Chief Financial Officer), 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 based on the average amount of fixed interest rate obligations relative to the average gross forecast external debt amounts for the given period (as defined in the table above).

A fixed rate maturity profile that is outside the above limits, but self corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile that is outside the above limits greater than 90 days requires specific approval by Council.

- Interest rate swap maturity is limited by the maximum offered LGFA bond maturity, beyond this approval is required by Council.
- The forward start period on swaps and collar strategies to be no more than 36 months unless linked to the expiry date of an existing instrument and has a notional amount which is no greater than that of the existing instrument.
- Interest rate options must not be sold outright. However, 1:1 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, the sold option can be closed out by itself (i.e. repurchased). The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions mature within 12 months.
- 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 (i.e. an ineffective hedge).

6.1.4 Financial investment risk

Council manages short-term cash investment risk ensuring availability and access to financial investments held.

6.2. Liquidity risk/funding risk

6.2.1 Risk recognition

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

6.2.2 Liquidity/funding risk control limits

- External debt plus available committed bank facilities plus cash and cash equivalents must be maintained at an amount of 110% over external debt.
- Term deposits linked to prefunding activity are excluded from the liquidity ratio.

- Council can pre-fund up to 18 months forecast debt requirements including new and re-financed debt. Re-financings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.
- The maturity profile of the total committed funding in respect to all external debt and committed bank facilities, is to be controlled by the following system.

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 with 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval from Council.
- To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a councils LGFA borrowings will mature in a 12 month period.

6.3. 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 Standard & Poor's, (S&P) credit ratings (or equivalent Fitch or Moody's rating) being A and above and/or short term rating of A-1 or above.

The following matrix guide will determine limits for financial instruments:

Counterparty/Issuer	Minimum S&P long term / short term credit rating	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	N/A	Unlimited	none	Unlimited
Local Government Funding Agency (LGFA)	AA-/A-1	10.0	none	10.0
NZ Registered Bank	A/ A-1	10.0	10.0	20.0

Risk management

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. Maturities should be well spread. The approval process must take into account the liquidity of the market and prevailing market conditions the instrument is traded in and repriced from.

6.4. Foreign currency

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

Generally, all individual amounts of NZD100,000 or greater for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved and the currency amount, and timing are known. Both spot and forward foreign exchange contracts can be used by Council.

Council will not hold investments denominated in foreign currency.

6.5. Operational risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Operational risk is very relevant when dealing with financial instruments given that:

- Financial instruments may not be fully understood.
- Too much reliance is often placed on the specialised skills of one or two people.
- Most treasury instruments are executed over the phone.
- Operational risk is minimised through the adoption of all requirements of this Policy.

Council's systems of internal controls over treasury activity include adequate segregation of duties among the core treasury functions of deal execution, confirmation, settling and accounting/reporting.

There are a small number of people involved in treasury activity. Accordingly strict segregation of duties is not always achievable.

Detailed operational processes are outlined within the treasury procedures manual.

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, 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.

6.6.1 Agreements

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

Council's legal counsel must sign off on all documentation for new loan borrowings, re-financings and investments.

6.6.2 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 MEASURING TREASURY PERFORMANCE

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to Council or an appropriate sub-committee of Council on a quarterly basis

Management	Performance
Operational performance	• All policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits. • All treasury deadlines are to be met, including reporting deadlines.
Management of debt and interest rate risk (borrowing costs)	• The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual borrowing cost amount. • Actual wholesale interest costs must be benchmarked to market interest rates. The applicable market interest rate is determined by finding the mid-point policy benchmark rate.

8.0 CASH MANAGEMENT

Cash management is the process used for managing cash effectively and efficiently, using Council's short term cash and liquidity resources to sustain its ongoing activities, mobilise funds and optimise liquidity. The most important elements are:-

- The systematic planning, monitoring, and management of Council's cash receipts, payments and bank accounts.
- The gathering and management of information to use available funds effectively and identify funding gaps.
- Optimal usage of transactional banking services to streamline efficiencies of cash payments and receipts.

9.0 REPORTING

Council and management reporting on treasury activities is based on comprehensive and regular communication of the following areas to ensure high standards of governance and control:-

- Policy compliance
- Risk/exposure position
- Performance

Council ensures reporting of the Liability and Investment Management Policies is consistent with the requirements of the LGA 2002.

10.0 POLICY REVIEW

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

The CFO has the responsibility to prepare the annual review report that is presented to the 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.

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

Policy Owner :	Chief Financial Officer
Original date :	27 May 2020
Approved by :	Chief Executive
Effective date :	27 May 2020
Next Revision date :	30 June 2023
Last revision date :	29 November 2017