WAIMAKARIRI DISTRICT COUNCIL

Treasury Policy

QD FIN Policy 001

May 2024

Contents

1. Introduction

Waimakariri District Council (Council) undertakes borrowing and investment activity (in total referred to in this document as treasury activity).

Council's treasury activities are carried out within the requirements of the Local Government Act 2002, its related amendments and other relevant local authority legislation. This treasury policy document provides the policy framework for all of Council's treasury activities and defines key responsibilities and operating parameters within which borrowing, and investment activity is to be carried out. The scope of this policy covers treasury activity at the Council level, and not at the total Group level. This treasury policy document can be amended at any time by Council resolution and will be reviewed at least every three years.

1.1. Borrowing

Council's borrowing activity is largely driven by its capital works programme, mainly related to its infrastructure assets. Council's borrowing policy is discussed in Section 3 of this document.

1.2. Investments

Council manages a portfolio of investments comprising, loan advances, equity investments, forestry, property and financial investments. Council's investment policy is discussed in Section 4 of this document.

1.3. Policy setting and management

Council approves policy parameters in relation to its borrowing and investment activities.

Council's Chief Executive has overall responsibility for the operations of Council. The General Manager Finance and Business Support has financial management responsibility over Council's borrowing and investments.

Council's borrowing, investment and cash management activities are managed centrally through its finance function.

The finance function is broadly charged with the following responsibilities:

- Provide appropriate finance, in terms of both maturity and interest rates and manages Council's borrowing programme to ensure funds are readily available at margins and costs favourable to Council
- Develop and maintain professional relationships with the financial markets in general plus the Local Government Funding Agency (LGFA) and Council's main relationship bank in particular
- Manage Council's investments within its strategic objectives and ensure that surplus cash is invested in liquid and creditworthy instruments
- Manage the impact of market risks such as interest rate risk and liquidity on Council's borrowing and investments
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall interest costs and revenues within budgeted parameters
- Manage the overall cash and liquidity position of Council's operations
- Provide timely and accurate reporting of treasury activity and performance.

1.4. Philosophy

Council acknowledges that there are various financial risks such as interest rate risk, liquidity risk and credit risk arising from its borrowing and investment activities. Council is a risk adverse entity and does not wish to incur additional risk from its treasury activities.

Council's treasury function is a risk management function focused on protecting Council's budgeted interest costs and interest income and stabilising Council's cashflows. Council does not undertake any treasury activity that is unrelated to its underlying cashflows or is purely speculative in nature.

1.5. Questions

Any questions regarding this policy should be directed to the General Manager, Finance and Business Support in the first instance.

1.6. Review Date

7 May 2024.

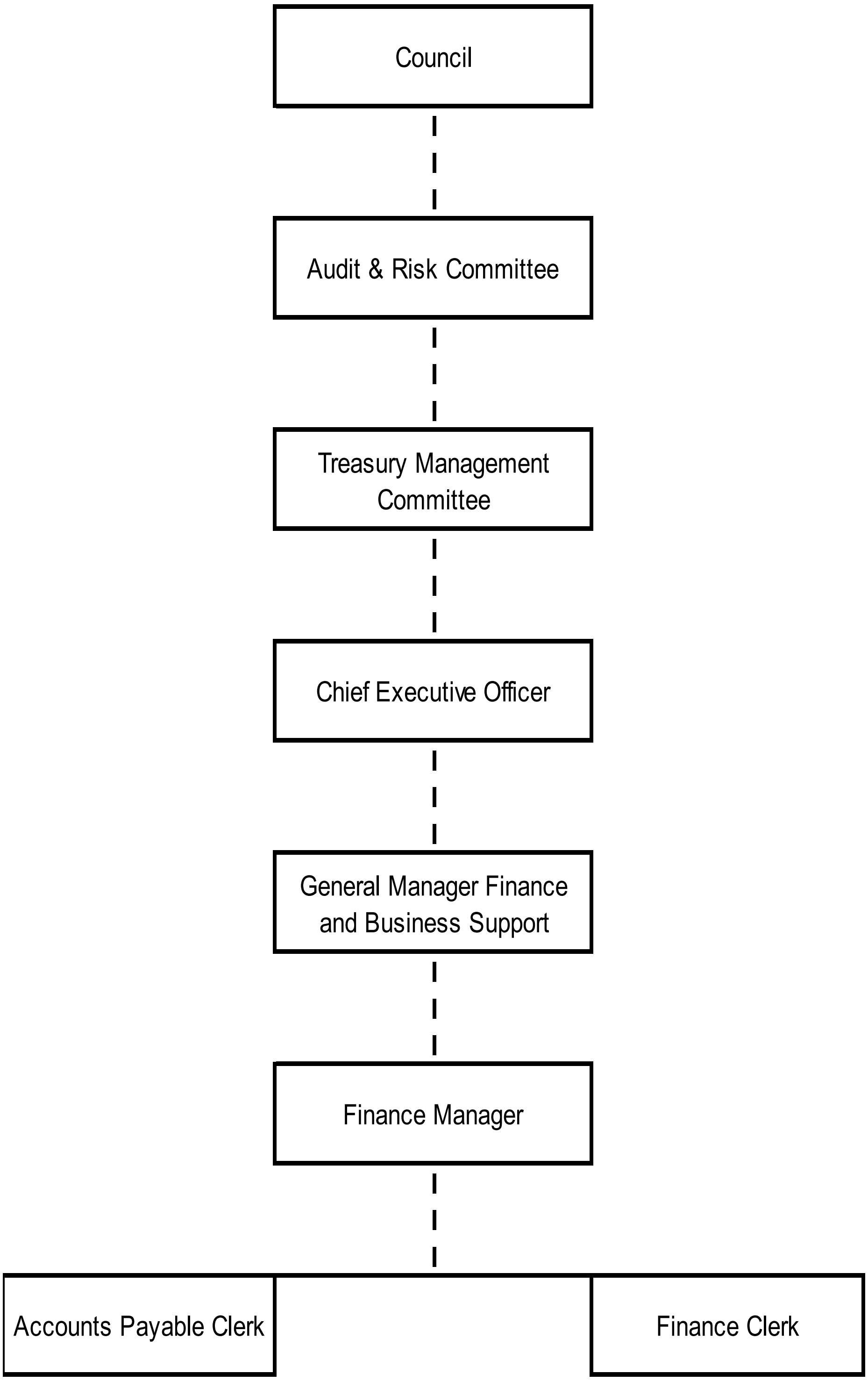
1.7. Approval

Adopted by Waimakariri District Council on 7 May 2024.

2. Structure

2.1. Treasury organisational structure

The organisation chart for treasury activity is as follows:



2.2. Treasury responsibilities

The key responsibilities of the above positions are as follows:

Council

- Council approves the Treasury Policy and all programmes to be funded by borrowing
- Approve overall borrowing limits on an annual basis through the annual plan process.

Audit & Risk Committee

- Recommends to Council Treasury Policy (incorporating borrowing and investment management policy) document
- Approves amendments to Council, various control limits, bank facilities, approved instruments and treasury policy
- Approves use of risk management instruments
- Reviews the borrowing, investment, cash and treasury risk management process through quarterly reporting
- Formally reviews the Treasury Policy document at least every three years.

Treasury Management Committee

- Responsibility for monitoring and reviewing the ongoing treasury risk management performance of the Council, ensuring compliance with treasury policy parameters and approving all risk strategies for execution by the delegated authority
- Recommending to the Audit & Risk Committee of any strategies outside the parameters outlined in the Treasury Policy
- The Treasury Management Committee comprises of:
  - Chief Executive
  - General Manager Finance and Business Support
  - Finance Manager
  - An Independent Treasury Advisor
- A quorum of two members is required for the Treasury Management Committee, with one of them being either the Chief Executive or the General Manager of Finance and Business Support.

Chief Executive

- Overall responsibility for all activities relating to implementation of approved treasury policy
- Approve risk management hedging strategies beyond General Manager Finance and Business Support's discretionary authority.

General Manager Finance and Business Support

- Review of Treasury Policy, borrowing, investment, cash and treasury risk management activities, through monthly reporting
- Recommend amendments to the Treasury Management Committee Treasury policy and procedures for Audit & Risk Committee approval
- Responsible for keeping Chief Executive informed of significant treasury activity and market trends
- Report treasury activities to Audit & Risk Committee
- Review and approve recommended risk management hedging strategies
- Determine most appropriate source of borrowing
- Manage Council's relationship with its bankers, the capital markets and the LGFA
- Liaise with brokers/bankers for issue of debt; co-ordinate tenders if handled in-house

- Negotiate borrowing facilities with bankers, appoint brokers/bankers
- Approve bids and pricing for stock issue, bank borrowing
- Review and approve monthly deal summary
- Back up dealer for treasury activity in Finance Manager's absence
- Responsibility to approve any deal ticket discrepancies
- Approve general ledger journals.

Finance Manager

- Recommend to General Manager Finance and Business Support and the Treasury Management Committee appropriate borrowing, investment and treasury risk management strategies
- Jointly manage Council's relationship with its bankers and brokers
- Execute daily investment, borrowing, cash management and treasury risk management activities
- Complete documentation for borrowing with LGFA
- Produce reports and work papers on investment, borrowing, cash and treasury risk management activity
- Review and approve monthly bank reconciliations.

Accounts Payable Clerk

- Arrange payment and receipt of approved treasury transactions.

Finance Clerk

- Complete bank reconciliation
- Check and reconcile direct debits/credits
- Complete general journal entries.

3. Liability Management Policy

3.1. General policy

Council exercises its flexible and diversified borrowing powers within the Local Government Act 2002. Council approves the borrowing programme by resolution during the Annual Plan and Long-Term Plan process. 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; or
- the goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of Council.

Council raises borrowing for the following primary purposes:

- General debt to fund Council's balance sheet and from time-to-time liquidity requirements
- To fund assets with intergenerational qualities.

Council borrows through a variety of market mechanisms which primarily comprise the issue of stock (bonds) and direct bank borrowing.

Before raising external borrowing, the General Manager Finance and Support Services firstly reviews Council’s ability to make loans internally from existing general funds and separate reserves.

In evaluating any new or renewal external borrowings (in relation to source, term, size and pricing) the General Manager Finance and Support Services takes into account the following:

- The size and the economic life of the project
- The impact of the new debt on the borrowing limits
- Relevant margins and total cost under each borrowing source
- Council’s overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time
- Prevailing interest rates relative to term for both stock issuance and bank borrowing and management’s view of future interest rate movements
- Available term from bank and stock issuance
- Legal documentation and financial covenants.

3.2. New Zealand Local Government Funding Agency Limited (LGFA)

Despite anything earlier in this Liability Management Policy, the Council may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA
- 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
- Subscribe for shares and uncalled capital in the LGFA; and
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council’s rates and rates revenue.

3.3. Borrowing limits

In managing borrowing, Council adheres to the following limits:

- Gross interest shall not exceed 25% of rates revenue
- Net debt as a percentage of operating revenue shall not exceed 250%
- Gross interest paid on term debt will not exceed 15% of gross operating revenue.1
- Net cash inflow from operating activities exceeds gross annual interest expense by two times2
- Net debt as a percentage of total assets will not exceed 15%
- Liquidity ratio of greater than 110%.[3]

[1] Operating revenue includes rates, interest, subsidies, fees and charges, petroleum tax, dividends.

[2] Net cash inflow from operating activities before total interest expense and taxation divided by total interest expense.

[3] Liquidity Ratio: defined as current assets excluding prepayments divided by current liabilities excluding external borrowings and development/financial contributions received in advance.

3.4. Liquidity and funding risk management

Council's ability to readily attract cost effective borrowing is largely driven by its ability to maintain a strong balance sheet as well as its ability to rate, manage its image in the market, its relationship with its banker and membership of the LGFA.

To ensure funds are available on repayment of debt, specific reserve funds for the repayment of debt are maintained in liquid assets and available bank facilities.

To minimise the risk of large concentrations of debt maturing or being reissued in periods where credit margins are high for reasons within or beyond Council's control, Council ensures debt is spread over a band of maturities and ensures that:

- Where practicable, no more than 33% of total borrowing is subject to refinancing in any financial year. Total borrowing includes any forecast borrowing.
- In accordance with LGFA provisions WDC shall maintain access to liquidity sources of at least 110% of anticipated peak borrowing requirements over the ensuing 12 month period.

The Council is able to borrow through a variety of market sources and mechanisms including:

- Commercial Paper
- Local Authority Bonds
- Medium Term Notes
- Floating Rate Notes
- From the Local Government Funding Agency (LGFA)
- From New Zealand Registered Banks
- Funding from internal sources.

Internal borrowing

The finance function is responsible for administering Council's internal loan portfolio. Loans are set up within the portfolio based on planned loan funded capital or asset expenditure as approved by Council resolution as part of the Annual Plan and Long-Term Plan process.

The primary objective in funding debt internally is to use specific reserves effectively by establishing an internal loan portfolio that provides funding to internal activity centres. This creates operational efficiencies as savings are created by eliminating the 'bankers margin' that would be owing through Council simultaneously investing and borrowing with the bank. The Long-Term Fund and other general funds are used for internal borrowing purposes.

The Long-Term Fund consists of proceeds from the sale of the Lyttleton Port investment, proceeds from the Pines Kairaki Freeholding, proceeds from the sale of Ashburton Farms and Southbrook properties and the balance of the proceeds from the sale of Kaiapoi Electricity.

The following operational parameters apply to the management of Council's internal loan portfolio:

- A notional internal loan is set up for all new capital or asset expenditure (excl. renewals) and allocated in the internal loan portfolio to the activity centre incurring the expenditure
- The term of the loan is limited to a maximum of 25 years and re-priced annually but the term of the loan is no greater than the original purpose of the reserve
- Instalment amounts are agreed on establishment of the loan and determined on a table mortgage basis
- Principal amounts are repaid in instalments monthly
- Interest is charged monthly by finance to each activity centre at an agreed interest rate that is fixed for a 12 month period and reviewed annually
- The interest rate charged is on loan balances is equivalent to the average external cost of raising debt
- Interest charged on credit balances is equivalent to the average interest rate received on external investments interest received
- Interest received from proceeds of the Long-Term Fund are allocated into the general account and offset against the general rate requirement
- Interest received on other internal funds, is allocated back to that source fund generating the internal funding.

Finance uses the internal loan portfolio as an input into determining Council's external debt requirements. Where possible, the Council's cash reserves are used to reduce external debt effectively reducing Council's net interest cost.

All internal borrowing activities are consistent with the principals and parameters outlined throughout Section 3.

3.5. Interest rate risk management

Treasury Management Committee approves the interest rate risk management strategy. The Committee will seek appropriate advice, monitors interest rate markets on a quarterly basis regular and evaluates the outlook for short term rates in comparison to the rates payable on Council's fixed rate borrowing.

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

For the purposes of interest rate hedging, core debt projections should be supported by budgetary analysis contained in the Annual Plan and the Long-Term Plan. Core debt is defined as the level of current and projected future debt as determined by the General Manager Finance and Business Support in conjunction with the Chief Executive.

To provide flexibility in the Council's hedging arrangements interest rates should be fixed as follows:

- Minimum 50% to a Maximum 100% for years 0 – up to 3 years
- Minimum 30% to a Maximum 80% for years 3 – up to 6 years
- Minimum 0% to a Maximum 50% for years 6 – up to 10 years.

Fixed rate hedging in excess of 10 years is permissible provided that it is carried out in conjunction with, or aligns with, an underlying debt instrument.

Management implements interest rate risk management strategy through the use of the following financial market instruments:

- Forward rate agreements
- Interest rate swaps
- Swaptions
- Fixed Rate Bonds
- Interest rate collar type option strategies in a ratio not exceeding 1:1
- Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.
- Fixed rate Term Loans.

The use of interest rate risk management instruments requires Audit & Risk Committee approval. A current list of approved interest rate risk management instruments with appropriate definitions is included in Appendix 1. Additions to and deletions from this list are recommended by the Treasury Management Committee and approved by the Audit & Risk Committee.

3.6. Security

Council generally does not offer assets other than a charge over rates or rate revenue as security for general borrowing programmes.

3.7. Repayment

Council repays borrowings from existing specific sinking fund, specific reserves, available bank facilities or from general funds.

3.8. Contingent liabilities

Council from time to time provides financial guarantees to organisations for recreational and community purposes generally located on Council land. All guarantees are approved by the Council and have a charge secured over the buildings or the constitution of the organisation will vest the improvements in Council on winding up.

Financial statements are received annually. Should the guarantee be called upon, Council will take immediate steps to recover the money.

4. Investment Policy

4.1. Investment mix

Council maintains investments in the following financial assets:

- Loan advances (covered in Section 4.3)
- Equity investments (covered in Section 4.4)
- Property investments (covered in Section 4.5)
- Forestry investments (covered in Section 4.6)
- Financial investments (covered in Section 4.7).

4.2. General policy

Council's philosophy in the management of investments is to optimise returns in the long term while balancing risk and return considerations. Council recognises that as a responsible public authority any investments that it does hold should be low risk, giving preference to conservative investment policies and avoiding speculative investments. It also recognises that lower risk generally means lower returns. Any new investments are approved by the appropriate delegated authority.

Council does not hold financial investments other than those involving general and specific reserves and cash management balances. In its financial investment activity, Council's primary objective when investing is the protection of the investment capital value and to minimise the risk of loss. Accordingly, only creditworthy counterparties are acceptable. Council's policy on managing credit risk is contained in Section 4.7.

Within the credit constraints contained in Section 4.7, Council also seeks to:

- Optimise investment returns
- Ensure investments are liquid and sufficiently flexible
- Diversify the mix of financial investments
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity.

4.3. Loan advances

Nature of investment/rationale for holding

External loan advances include loans to recreational and community organisations which further the Council's community objectives. Where possible all external loan advances are secured by a charge over an organisation's land and/or buildings.

Internal loan advances are made from general funds for separate rating accounts or other capital expenditure projects and subject to applying the following criteria tests:

- Loans are to recreational and community organisation endeavouring to further Council's community objectives
- The activity provides benefits to the District
- The security provided by the organisation will be sustained over the loan term
- The organisation must be able to demonstrate that it can service the loan repayment terms
- The organisation is financially stable and its future prospects, including structure and controls are sound.

All loan advances are approved by Council resolution.

Disposition of revenue

All loan advances are charged at market interest rates and interest received is credited to general funds or where the original source of funds. The market rate is determined by the General Manager Finance and Business Support with reference to the average market rates for borrowing and investing at the time of the borrowing. Any alternative rates are approved by the Audit & Risk Committee.

Risk management

The total of all external loan advances as outlined in this section are not to exceed 10% of total cash balances and investments as at 30 June in any year.

Management reporting and procedures

The Audit & Risk Committee monitors performance of these investments on a regular basis to ensure that interest and principal repayments are being made in accordance with the loan agreement.

Specific policy

Council's policy is that it does not intend to dispose of these investments before maturity unless the entity is able to repay earlier or the organisation circumstances change that increases Council's risk profile from when the loan was advanced.

4.4. Equity investments

Council has equity investments in Civic Assurance Limited (previously known as NZ Local Government Insurance Corporation), Transwaste Canterbury Limited and LGFA.

It also has two trusts which it appoints 50% of the trustees and therefore constitute Council Controlled Organisations. These are Te Kōhaka O Tūhaitara Trust, Enterprise North Canterbury. Other Council Organisations include Waimakariri District Libraries Trust, Waimakariri Public Arts Trust and the Waimakariri Arts Collection Trust.

Civic Assurance Limited
(previously known as NZ Local Government Insurance Corporation Limited)

Nature of investment/rationale for holding

The shares in Civic Assurance and were acquired by virtue of Council being a local authority. The Council holds 38,086 shares. The purpose of the company in which most local authorities are shareholders is to ensure that adequate insurance arrangements are available to local authorities at the lowest possible cost. The shares are not readily transferable.

Disposition of revenue

Revenue earned from the shares is minimal. Any sale requires Council approval. Any disposition will be realised in a managed form and proceeds are taken to general funds.

Risk management

The investment will be managed by reviewing annually the performance, and the consideration of an approval of the Statement of Corporate Intent.

Management reporting and procedures

Annual Reports are received and reviewed by Council. Election of Directors takes place at the AGM held at the Local Government New Zealand annual conference. The Council votes by proxy.

Specific policy

Council will continue to hold its shares in Civic Assurance whilst it continues to do business with this company.

Transwaste (Canterbury) Limited

Nature of investment/rationale for holding

TCL is a company owned jointly by six local authorities and Canterbury Waste Services Limited, to develop and operate a regional landfill site. The Council hold 78 shares or 3.9% of the shares to be issued by TCL. The shares are not readily transferable.

Disposition of revenue

Revenue earned from the shares is currently not quantified. Any sale requires Council approval. Any disposition will be realised in a managed form and proceeds are taken to general funds.

Risk management

The investment will be managed by reviewing annually the performance, and the consideration of an approval of the Statement of Intent.

Management reporting and procedures

Annual Reports are received and reviewed by Council. Election of Directors takes place at the AGM.

Specific policy

Council will continue to hold its shares in TCL whilst the Council/District requires a regional landfill site.

NZ Local Government Funding Agency Limited

Nature of investment/rationale for holding

LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly.

Disposition of revenue

Revenue earned from the shares is currently not quantified. Any sale requires Council approval. Any disposition will be realised in a managed form and proceeds are taken to general funds.

Risk management

The investment will be managed by reviewing performance annually and the consideration of an approval of the Statement of Intent, assisted by the shareholders' council.

Management reporting and procedures

Annual Reports are received and election of Directors takes place at the AGM.

Specific policy

Council will continue to hold its shares in LGFA whilst the Council continues to require to borrow funds.

Te Kōhaka O Tūhaitara Trust

Nature of investment/rationale for holding

The Council appoints 50% of the trustees of the Trust, with the balance appointed by Te Runanga O Ngai Tahu. The Council vested land in the Trust for it to administer. The Trust's objective is to hold and administer reserves in the coastal area of the District, in accordance with a Management Plan.

Disposition of revenue

There are no anticipated revenue streams to the Council from the Trust.

Risk management

The Trust is required to submit a Statement of Intent to the Council annually for its consideration.

Management reporting and procedures

Annual Reports are received and reviewed by Council. Appointment of Trustees takes place in accordance with the Trust Deed. The Council appoints three Trustees to the Trust.

Specific policy

The Council will continue to appoint trustees to the Trust and support to the Trust in meeting its objectives.

Enterprise North Canterbury

Nature of investment/rationale for holding

The Council appoints 50% of the trustees of the Trust, with the balance appointed by the Hurunui District Council. The Trust's objectives include cultivating economic initiatives and foster growth in North Canterbury, and fostering and assisting in the management of best practices and effective use of resources in North Canterbury.

Disposition of revenue

There are no anticipated revenue streams to the Council from the Trust.

Risk management

The Trust is required to submit a Statement of Intent to the Council annually for its consideration.

Management reporting and procedures

Annual Reports are received and reviewed by Council. Appointment of Trustees takes place in accordance with the Trust Deed.

Specific policy

The Council will continue to appoint trustees to the Trust and support to the Trust in meeting its objectives.

Waimakariri Libraries Trust

Nature of investment/rationale for holding

The Council appointed 50% of the initial trustees of the Trust. Subsequent trustees are made by the trustees. The Trust's objectives are to assist the District Librarian in the purchase of additional books and materials for library users.

Disposition of revenue

Any revenue streams from the Trust are applied to purchasing books and material for the libraries.

Risk management

The Trust is required to submit a Statement of Intent to the Council annually for its consideration.

Management reporting and procedures

Annual Reports are received and reviewed by Council. Appointment of Trustees takes place in accordance with the Trust Deed.

Specific policy

The Council will continue to appoint trustees to the Trust and support to the Trust in meeting its objectives.

Waimakariri Arts Collection Trust

Nature of investment/rationale for holding

The Waimakariri Arts Collection Trust was formed to establish and maintain a collection of artwork of merit that has an association with North Canterbury. The Council's ownership is 33%. The Council appoints one third of the Trustees of the Trust. Subsequent trustees are made by the trustees.

Disposition of revenue

Any revenue streams from the Trust are applied to art collections and materials for the Trust.

Risk management

The investment will be managed by reviewing annually the performance.
Management reporting and procedures

Annual Reports are received and reviewed by Council. Appointment of Trustees takes place in accordance with the Trust Deed.

Specific policy

The Council will continue to appoint trustees to the Trust and support to the Trust in meeting its objectives.

Waimakariri Public Arts Trust

Nature of investment/rationale for holding

The Waimakariri Public Arts Trust was formed to develop public art projects in the Waimakariri District that are of enduring quality, are accessible to the public and stimulate public interest. The Council owns 100% and appoints all Trustees to the Trust.

Disposition of revenue

Any revenue streams from the Trust are applied to art collections and materials for the Trust.

Risk management

The investment will be managed by reviewing annually the performance.

Management reporting and procedures

Annual Reports are received and reviewed by Council. Appointment of Trustees takes place in accordance with the Trust Deed.

Specific policy

The Council will continue to appoint trustees to the Trust and support to the Trust in meeting its objectives.

4.5. Property investments

Nature of investment/rationale for holding

Council's primary objective is to only own property (including land and buildings) that is necessary to achieve its strategic objectives as stated within the Long-Term Plan. This definition excludes infrastructural service e.g. reserves and drainage. Council will generally acquire new property if it achieves Council's strategy objectives. Council's

Property assets include a number of properties termed as “Commercial”, including the Oxford Medical Centre, rental accommodation often attached to reserve land, and commercial land in Kaiapoi. The Council also retains Housing for the Elderly accommodation and leases camping grounds at Pines/Kairaki, Oxford (Ashley/Rakahuri), Woodend and Waikuku.

Disposition of revenue

Council seeks to achieve an acceptable commercial rate of return. All income, including rentals and ground rent from property investments is included in general funds or in relation to Reserves to be applied to Reserves under the Reserves Act 1977.

Sale of this property requires Council approval. Proceeds from the disposition of property investments are used firstly in the retirement of related debt and then for capital development purposes.

Risk management

The Council’s investment in properties other than reserves and those required for own occupation and infrastructural services will not exceed 50% of total fixed assets.

Management reporting and procedures

The Audit & Risk Committee reviews the performance of its property investments and ensures that the benefits of continued ownership are consistent with its stated objectives.

Specific policy

Council’s policy is to dispose of any property that does not achieve a commercial return having regard to any restrictions on title or other requirements or needs to achieve Council objectives.

4.6. Forestry

Nature of investment/rationale for holding

The Council holds 524 hectares of commercial grade Forestry, mostly sited on reserve and domain lands. Approximately 210 hectares of production forest is located on land transferred to the Te Kohaka O Tuhaitara. The Forest and the improvements remained in Council ownership. The balance (300 hectares) is “plains” forest; a combination of single reserves, plantation reserves and recreational reserves (e.g. Oxford racecourse). Forestry assets are held as long-term investments on the basis of current establishment and tending costs, factored by age, at a compounding interest rate. Council’s accounting policy is to revalue its production forests annually. Protection forests will be valued at a nominal value recognising that they have no commercial value.

Disposition of revenue

Any disposition requires Council approval. Upon harvest, disposition proceeds will firstly repay related borrowings then fund any establishment costs, with the remainder allocated at Councils discretion.

Risk management

Forestry is operated incidental to the Council’s core functions. Insurance cover is provided for fire and up to 50% for wind damage, and third party liability.

Management reporting and procedures

Council manages the forests and financial performance is monitored annually by the Audit & Risk Committee.

Specific policy

Council's policy is to harvest the production forestry plantation at maturity.

4.7. Financial investments

Council has the following financial investments, namely:

- The Long Term Fund
- Other financial investments
- Financial Institutions.

Long Term Fund

Proceeds held in the Long Term Fund, are invested in long-term investments, managed funds or internally lent to activity centres. Council seeks to maintain the principal value of these funds. Interest from the fund is allocated to the general account. Council allocates funds to those investments that emphasise capital security, maximise revenue and provide regular cash payouts.

Council has set aside a fund for disaster recovery and maintains the fund in investments with a maturity of less than one year. These funds are not permitted to be used for internal borrowing.

Other financial investments

Council maintains financial investments for the following primary reasons:

- Invest proceeds from the sale of assets
- Invest amounts allocated to general and specific reserves e.g. disaster reserve
- Invest funds allocated for approved future expenditure
- Invest surplus cash and working capital funds.

Interest income earned on financial investments relating to separate accounts is allocated to those accounts. Interest income on other balances is taken to general funds and allocated to all accounts other than interest on sinking funds which is taken to the sinking fund account. The Audit & Risk Committee reviews financial investment performance through standard monthly reporting.

Investment objectives

Council's primary objective when investing is the protection of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poors (S&P) rating which must be strong or better as outlined in Section 7.

The General Manager Finance and Business Support approves an investment strategy, as recommended by the Finance Manager, who after seeking appropriate advice, incorporates plans for approved expenditure and strategic initiatives and evaluates the outlook for interest rates and the shape of the yield curve.

- The following principles capture the above objectives and form the key assumptions of the operating parameters: Credit risk is minimised by placing maximum limits for each broad class of non- Government issuer, and by limiting investments to local authorities, registered banks, strongly rated SOE's, and corporates within prescribed issuer and portfolio limits
- Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market.

- Council invests in approved instruments which include:
  - Government investments [1]
  - Registered bank investments [2]
  - Local authority investments [3]
  - SOE and corporate investments [4].

Definitions for approved financial investment instruments are included in Appendix 2.

[1] *Authorised instruments include: treasury bills and government stock.*

[2] *Authorised instruments include: money market call deposits, money market term deposits, negotiable certificates of deposit, registered certificates of deposit, bank bills.*

[3] *Authorised instruments include: local authority stock, bonds and promissory notes, local authority debentures.*

[4] *Authorised instruments include: commercial paper, promissory notes and corporate bonds.*

4.8. Interest rate risk management

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

The General Manager Finance and Support Services approves interest rate risk management strategy as recommended by the Finance Manager, who seeks appropriate advice and monitors the interest rate markets on a semi-annual basis, evaluating the interest rate outlook and determining the interest rate profile to adopt for investments.

The Finance Manager implements the interest rate risk management strategy by using risk management instruments to protect investment returns and to change interest rate and maturity profiles. The use of interest rate risk management instruments requires Audit & Risk Committee approval. A current list of approved interest rate risk management instruments with appropriate definitions is included in Appendix 4. Additions to and deletions from this list are recommended by the Manager Finance and Support Services and approved by the Audit & Risk Committee.

4.9. New Zealand Local Government Funding Agency Limited (LGFA)

Despite anything earlier in this Investment Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited and may borrow to fund that investment. The Council's objective in making any such investment will be to:

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

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

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

5. Foreign Exchange Policy

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated goods and services, and offshore investments.

Generally, all significant goods and service commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Smaller payments are converted at the spot exchange rate on the date of payment. Both spot and forward foreign exchange contracts are used by Council.

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

6. Cash Management

From time to time, Council has daily cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments. Council receives rates revenue 3 monthly in the months of August, November, February and May. All cash inflows and expenses pass through the main bank account controlled by the finance function.

Daily transaction logs and bank statement reconciliation is compiled from the ANZ Direct system by the Finance Clerk. Generally any cash to be invested for longer than 3 months is covered by Section 4 of this policy.

Cash management activities must be undertaken within the following parameters:

- Cash management instruments are limited to:
  - Call deposits with registered banks
  - Registered certificates of deposit and promissory notes with a maturity of up to 3 months
  - Term deposits with registered banks (of up to 3 months). Not recommended if early break penalties are enforced.
- Cash may only be invested with approved counterparties as detailed in Section 7
- If practical, a targeted minimum of $500,000 is invested at call.

Interest rate risk management on cash management balances is not permitted.

7. Counterparty Exposure Limits

Council ensures that all investment, interest rate risk management as well as any foreign exchange activity is undertaken with institutions that are of a high quality credit to ensure amounts owing to Council are paid fully and on the due date. This section of the policy does not include the LGFA.

More specifically, Council minimises its credit exposure by:

- Transacting with entities that have a strong credit rating
- Limiting total exposure to prescribed amounts and portfolio limits
- Timely and rigorous compliance monitoring.

The following table summarises credit requirements and limits:

Institution	Minimum S&P Short Term Credit Rating [1]	Minimum S&P Long Term Credit Rating [2]	Total exposure limit for each counterparty	Portfolio limit (% of total portfolio)
Government	N/A	N/A	Unlimited	100%
Registered Bank - On balance sheet exposures - Off balance sheet exposures	 A-1 A-1	 A A	 $20m $20m	 100%
Strongly Rated Corporates, Local Authorities and SOEs (on balance sheet exposures only)	A-1	A	$2m	40%

[1] Short term refers to securities with a remaining maturity of 12 months or less.

[2] Long term refers to securities with a remaining maturity of more than 12 months.

If any counterparty's credit rating falls below the minimum specified in the above table, then immediate steps are taken to reduce the credit exposure to that counterparty to zero.

Exposures to each counterparty are computed as follows:

- On-balance sheet.

Total amounts invested with that counterparty.

- Off- balance sheet.

Credit exposure on interest rate contracts computed by multiplying the face value of outstanding transactions by an interest rate movement factor of 5%.

Credit exposure on foreign exchange contracts computed by multiplying the face value of outstanding transactions by an exchange rate movement factor of 10% for contracts up to one year maturity, and 20% for contracts greater than a year.

8. Performance Measurement

Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective and objective measures. The predominant subjective measure is the overall quality of treasury management information. The Audit & Risk Committee has prime responsibility for determining this overall quality. Objective measures are as follows:

8.1. Borrowing:

- Adherence to policy and in particular the borrowing limits outlined in Section 3.2
- Unplanned overdraft costs
- Comparison of actual quarterly and year to date interest costs versus budget borrowing costs.

8.2. Equity investments:

- Adherence to policy
- Comparison of financial ratios to budgeted ratios as per the Long-Term Plan.

8.3. Property investments:

- Adherence to policy.

For commercial property investments:

- Comparison of actual gross and net income to budgeted gross and net income
- Comparison of actual rental yield to budgeted rental yield.

8.4. Forestry investments

- Adherence to policy
- Comparison of actual year to date returns to budgeted returns.

8.5. Financial investments:

- Adherence to policy
- Comparison of actual quarterly and year to date interest income vs budget interest income
- Comparison of actual quarterly and year to date accrued returns versus investing the entire treasury portfolio at the weekly average three month bank bill rate for short term investments. For investments of longer maturity compare year to date accrued returns to the weekly average three year Government stock rate or to a recognised fixed interest benchmark index. At budget round, the appropriate weighting of the benchmark portfolio is approved by the Audit & Risk Committee. For the purposes of this section, longer maturity refers to the Long Term Fund referred to in Section 4.7.1.

9. Reporting and Meetings

9.1. Reports

The following reports are produced:

Report name	Frequency	Prepared by	Recipient
Bank Reconciliation	Daily	Finance Clerk	Finance Manager
Limits Report (included within Treasury Report)	Quarterly, reported daily on an exceptions basis	Finance Manager	General Manager Finance and Business Support
Summary Report	Quarterly	Finance Manager	General Manager Finance and Business Support Audit & Risk Committee
Bank Reconciliation	Monthly	Finance Clerk	Finance Manager General Manager Finance and Business Support
Council Summary Operating Statement	Quarterly	Finance Manager	General Manager Finance and Business Support Audit Committee
Strategy Papers Borrowing Investment Interest Rate	Quarterly	Treasury Management Committee Finance Manager	CEO Audit & Risk Committee
Quarterly Cashflow Report	Quarterly	Finance Manager	General Manager Finance and Business Support Audit & Risk Committee
Council Summary Statement of Public Debt	Annually	Finance Manager	Council

9.2. Meetings

The Audit & Risk Committee meets on a quarterly basis to review and approve the Treasury Report and discuss the previous quarter’s treasury activity. The Committee comprises of elected Council members.

9.3. Treasury Management Committee

The Treasury Management Committee meets on a quarterly basis prior to the Audit & Risk Committee meeting and is a group consisting of the Chief Executive, General Manager Finance and Business Support, Finance Manager and an Independent Treasury Advisor.

10. Delegated Authorities and Key Internal Controls

10.1. Delegated authorities

Activity	Responsibility
Alter policy document	Audit & Risk Committee recommends to Council
Authorise bank facilities	Audit & Risk Committee
Open/close bank accounts	Cheque signatories
Cheque and ANZ Direct signatories	As approved by Audit & Risk Committee
Approve annual borrowing programme	Council
Approve borrowing strategy	TMC (as approved by Audit & Risk Committee)
Approve investment strategy	TMC (as approved by Audit & Risk Committee)
Approve risk management strategy	TMC (as approved by Audit & Risk Committee)
Approve use of risk management instruments	Audit & Risk Committee
Approve new investments	Council
Arrange new loans	General Manager Finance and Business Support
Manage financial investments	General Manager Finance and Business Support
Transfers of stock/register new debt issues	Seal register signatories

10.2. Key internal controls

Council's system 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 and accordingly strict segregation of duties is not always achievable. The risk from this is minimised by the following processes:
- A documented approval process for treasury activity
- Regular management reporting
- Organisational, systems, procedural and reconciliation controls to ensure:
  - All treasury activity is bona fide and properly authorised
  - Checks are in place to ensure Council's accounts and records are updated promptly, accurately and completely.

More specifically, key internal controls are as follows:

10.3. General

Organisational controls

The General Manager Finance and Business Support has responsibility for establishing appropriate structures, procedures and controls to support treasury activity. Detailed procedures supporting the key controls contained in this document are contained in Council's Treasury Procedures Manual

All borrowing, investment, cash management and treasury risk management activity is undertaken in accordance with approved delegations authorised by Council.

Electronic banking signatories

Signatories approved by Audit & Risk Committee

Dual signatories are required for electronic banking and access to the electronic banking system is limited and password protected. The banking system requires multi factor authentication.

Authorised personnel

All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

Recording of deals

Documents are saved into the Council's document system for borrowing, investments, interest rate risk management and cash management transactions promptly following completion of the transaction.

Confirmations

Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the General Manager Finance and Business Support.

Reconciliations

Any discrepancies arising during bank statement reconciliation are dealt with by the Finance Clerk and signed off by the Finance Manager

Any discrepancies arising during deal confirmation checks are dealt with by the Finance Clerk and signed off by the General Manager Finance and Business Support.

The Finance Manager reviews monthly reconciliation of the treasury spreadsheet to the general ledger, carried out by the Finance Clerk

Interest income as per the treasury spreadsheet is reconciled by the Finance Clerk to the bank statements to ensure income is received.

10.4. Borrowing

In addition to the controls listed under Section 10.2, the following controls apply to borrowing:

Borrowing activity is undertaken within borrowing limits specified in Section 3 of this policy

All borrowing is undertaken with either the principal banker, by private placement or by using competitive bidding processes. Detailed procedures for issuing securities and bank borrowing are included in the Treasury Procedures Manual.

10.5. Investments

In addition to the controls listed in Section 10.2, the following controls apply to investments:

- Investment activity is undertaken within counterparty limits specified in Section 7 of this policy
- Normally financial investments are held to maturity date. Where investments are liquidated prior to maturity, approval is obtained from the General Manager Finance and Business Support
- All financial investments mature into Council's main current account
- NZ government stock, treasury bills, local authority stock and debentures are registered with the RBNZ. The Council receives notice of the stocks transferred into its name from the RBNZ. This notice is checked to Council's treasury spreadsheet by the Finance Clerk.

10.6. Incidental arrangements

In addition to the controls listed under Section 12.2, the following controls apply to incidental arrangements:

- The use of incidental arrangements is confined to managing the interest rate risk on Council's borrowing and are used within the confines of the parameters and instruments specified in Section 3 of this policy
- The use of incidental arrangements requires formal prior approval of Council
- Standard master agreements for incidental arrangements are completed by Council with its dealing banks.

APPENDICES

Appendix 1 -
Policy Cross-reference to Local Government 2002

Act section reference	Brief description of requirement	Borrowing and investment policy section reference
S101 (1)	Principles of financial management - prudent debt levels	Sections 1, 3
101 (3)	Local authorities not required to use specific funding mechanisms	Section 4.9
75 (h)	Short term borrowing, reserves	Sections 3.1, 3.3, 6
105 (b)	Mix of investments	Section 4.1
105 (c)	Acquisition of new investments	Sections 4.2, 10
103 (2) (d)	Revenue from its investments	Sections 4.3-4.7
103 (2) (f)	Proceeds of sale of assets	Sections 4.3-4.7
105 (d)	Outline of procedures for management and reporting of investments	Sections 4.3-4.7, 9
105 (e)	Management of risks associated with investments	Sections 4.2-4.8, 6, 7, 10
104	Content of borrowing management policy	Section 3
104 (a)	Interest rate exposure policy	Sections 3.5, 4.8
104 (b)	Liquidity policy	Section 3.3
104 (c)	Credit exposure policy	Sections 3.3, 7
104 (d)	Debt repayment policy	Section 3.7
112	General power to borrow	Section 3.1
114	Power to enter into incidental arrangements	Sections 3.5, 4.8, 10.6
113	Prohibition on borrowing in foreign currency	Section 5
75 (h)	Procedure for borrowing money	Section 3.1
115	Security for loans	Section 3.6
299	Provisions relating to sinking funds	Section 4.7
42 (2) (e)	Financial systems	Sections 9, 10

Appendix 2 –
Approved Financial Investment Instruments

Investment instruments available in the market (excluding equities and property) can generally be discussed under four broad categories relating to the issuer of these instruments.

New Zealand Government

Treasury bills are registered securities issued by the Reserve Bank of New Zealand (RBNZ) on behalf of the Government. They are usually available for terms up to a year but generally preferred by investors for 90 day or 180 day terms. They are discounted instruments, and are readily negotiable in the secondary market.

Government stocks are registered securities issued by the RBNZ on behalf of the Government. They are available for terms ranging from one year to 12 year maturities. Government stock have fixed coupon payments payable by the RBNZ every six months. They are quoted on a semi-annual yield basis and are priced on a discounted cashflow basis. They are readily negotiable in the secondary market.

Local Authorities

Local Authority stocks are registered securities issued by a wide range of local government bodies. They are usually available for maturities ranging from one year to 10 years. A fixed coupon payment is made semi-annually to the holder of the security. They are negotiable and can usually be bought and sold in the secondary market.

Registered banks

Call and term deposits are funds accepted by the bank on an overnight basis (on call) or for a fixed term. Interest is usually calculated on a simple interest formula. Term deposits are for a fixed term and are expected to be held to maturity. Term deposits are not negotiable instruments. Termination prior to maturity date can often involve penalty costs

Registered certificates of deposit (RCD) are securities issued by banks for their funding needs or to meet investor demand. They are registered at the RBNZ or held on behalf of by the dealing bank. Details include the name of the investor, face value and maturity date. Ownership can be transferred by electronic transfer only. RCDs are priced on a yield basis and issued at a discount to face value or a grossed up basis. They are generally preferred over term deposits because investors can sell them prior to maturity without suffering penalty interest costs common to term deposits.

Corporates

Corporate bonds are generally issued by companies with good credit ratings. These bonds can be registered securities or bearer instruments. There are two types of bond, the medium term note (MTN) and the floating rate note (FRN). The MTN has a fixed coupon payment that is paid semi-annually to the holder of the security. They are priced on a semi-annual yield basis and are issued at a discount/premium to face value. The interest on the FRN is set on a floating rate basis usually off the 90 day bank bill bid rate. Corporate bonds are negotiable and can be bought and sold in the secondary market.

Commercial Paper (“CP”) is issued by borrowers who usually have a credit rating and standing in the market that is sufficient to enable the notes to be issued without endorsement or acceptance by a bank. CP are usually issued with maturities ranging from 30 days to 180 days. The common maturities are for 30, 60 and 90 days. The face value of the note is repaid in full to the bearer on maturity.

Appendix 3 – Approved Borrowing Instruments

Bank sourced borrowing

Committed bank facilities

Committed Cash Advance Facilities provided by New Zealand Registered Banks can be arranged for varying terms, typically for a local authority up to three years but sometimes for longer tenors. Drawings are normally for terms between one and three months and are based off Bank Bill Bid Rate.

Short term money market lines

Short-term money market loans or cash loans can be committed or uncommitted. A borrower pays for a guarantee of the availability of the funds in a committed loan in the form of a line fee. In an uncommitted loan, funds are provided on a best endeavours basis and no line/commitment fee is payable. In addition to a line fee, a margin may be charged on any line usage.

The minimum amount for a cash loan is $1,000,000. Smaller loans can be arranged, although the interest rate quoted will be a reflection of the size of the loan.

The main use of cash loans is to cover day-to-day shortfalls in funds. The interest rate is governed by the term of the borrowing and the implied or implicit credit rating of the borrower. Cash loans are short term only and are normally drawn for a term of one (overnight) to seven days. Interest collection can be daily.

Capital Markets programmes

Commercial Paper (CP) programmes normally provide for issuance with tenors of between 30 and 180 days. The majority of CP issued in the New Zealand market are for terms of 30, 60, or 90 days.

Corporate bonds commonly in existence in the New Zealand market have essentially the same characteristics as government stock. These are a source of longer-term fixed or variable rate finance that can be sold either in bearer or registered form (normally registered). Bonds are normally issued with coupon interest paid in arrears on a six monthly basis for fixed rate instruments, and three monthly for floating rate instruments. Local authority bonds are issued by a variety of local governments by tender or private placement. The bonds are registered securities. They are repayable on a fixed date, and are generally issued for terms ranging from one to fifteen years.

Local authority bonds are priced on a semi-annual basis and issued at a discount to face value. A fixed coupon payment is made semi-annually to the holder of the security. The pricing formula is the same as government bonds.

The term bond is usually reserved for securities with terms longer than one year, to clearly distinguish between short term (CP) and long term (Bonds, MTNs and FRNs) debt instruments.

CP and Bonds usually constitute unconditional, unsecured and unsubordinated obligations of the issuer, except indebtedness given by preference by operation law.

Structured and project finance

Project and structured financing matches up debt to suit the quantifiable income stream from the project. This type of financing is appropriate for the funding of standalone assets which are able to be ring-fenced and over which security can be taken. The sort of assets to which this usually applies are assets which are transferable, and for which an international equity market exists e.g. infrastructural assets. The owner of the asset usually retains an equity interest in the asset.

Appendix 4 – Approved Interest Rate Risk Management Instruments

Borrowing and interest rate risk management instruments
Investment and interest rate risk management instruments
Definitions.

Borrowing and interest rate risk management instruments

The following borrowing and interest rate risk management instruments are available following approval by the Audit & Risk Committee.

Fixing through physical borrowing instruments e.g. fixed rate bonds including those sourced from the LGFA and bank term loan
Floating through physical borrowing instruments e.g. short-term Floating Rate Notes and bank borrowing
Forward rate agreements and bond forward rate agreements
Interest rate swaps
Swaptions
Purchase of interest rate options products including caps and bond options
Interest rate collar type option strategies.

The interest rate risk management instruments detailed below are not permitted for use:

Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature
Structured or leveraged interest rate option strategies where there is any possibility of the Council's total interest expense increasing in a declining interest rate market or where the Council's total interest cost is increasing faster than the general market rate
Interest rate futures contracts, mainly for administrative ease.

Investment and interest rate risk management instruments

The following interest rate investment and interest rate risk management instruments are available following approval by the Audit & Risk Committee.

Fixing through physical investment instruments e.g. term deposits
Floating through physical investment instruments e.g. call deposits
Forward rate agreements
Commercial Paper
Fixed rate bonds
Medium term notes
Interest rate swaps
Purchase of interest rate options products including floors
Interest rate collar type option strategies
A matrix containing the authorised investment parameters is contained in Appendix 6.

The interest rate risk management instruments detailed below are not permitted for use:

Selling interest rate options for the primary purpose of generating premium income are not permitted because of its speculative nature
Structured or leveraged interest rate option strategies where there is any possibility of Council's total interest income decreasing in an increasing interest rate market or where Council's total interest income is decreasing faster than the general market rate
Interest rate futures contracts, mainly for administrative ease.

Definitions

BKBM

The bank bill mid-market settlement rate as determined at 10.45am each business day on Reuters page BKBM. This is the standard rate for the settlement of interest rate swaps, forward rate agreements and interest rate floors, caps and collars.

Bond options

Council when purchasing a bond option has the right but not the obligation to buy or sell a specified government stock maturity on an agreed date and time and at an agreed rate.

This product is used where either there is some uncertainty in the underlying debt exposure or the outlook for interest rates is favourable but the policy requires some form of protection.

Forward rate agreement

An agreement between Council and a counterparty (usually a bank) protecting Council against a future adverse interest rate movement for a specified period of time. Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). This definition includes the bond forward rate agreement where the benchmark rate is the underlying government bond yield.

This product is particularly useful where the underlying debt exposure is certain and Council's dominant view is that yields will rise above current levels.

Interest rate collar strategy

The combined purchase (sale) of a floor or cap with the sale (purchase) of another floor or cap. This can be a zero premium cost strategy. See the interest rate option for further details.

This product can be used by both an investor and a borrower. From a borrower's perspective, this product is transacted to provide a limited amount of participation in a downward movement in interest rates to an agreed strike rate. If the interest rate continues to move downwards, Council cannot participate in any movement beyond the strike rate. If interest rates move in an unfavourable direction (upwards), then the predetermined strike rate provides certainty through a known worst case rate.

For an investor, the zero cost collar allows some participation in an increase in rates and provides a worst case rate if interest rates decline.

This product outperforms the forward rate agreement if rates fall but underperforms if rates rise. This product would be used by a borrower, for known exposures, where the interest rate is expected to decline moderately from current levels.

Interest rate options

The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right but not the obligation to invest (described as a floor) or borrow (described as a cap) at a future date for a specified period. Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). Interest rate option products include caps, floors, swaptions and bond options.

From a borrower's perspective, these products offer Council maximum flexibility, protecting Council from a rise in rates but allowing full participation in a fall in rates. When used by an investor, this product protects Council from a decline in rates and allows full participation in rising rates.

This product is used where either there is some uncertainty in the underlying debt exposure or the outlook for interest rates is favourable but the policy requires some form of protection.

Interest rate swap

An interest rate swap is an agreement between Council and a counterparty (usually a bank) whereby Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties to the contract agree notional principal, start date of the contract, term of the contract, interest rate and the benchmark rate (usually BKBM).

This product is particularly useful where the underlying debt exposure is certain and Council's dominant view is that interest rates will rise above current levels. As an investor, the swap is used when the dominant view is that rates will fall from current levels.

Swaption

The purchase of a swaption gives Council the right but not the obligation to enter into an interest rate swap, at a future date, at a specific interest rate.

Appendix 5 – Standard settlement instruction letter

Standard settlement instruction letter

{date}

The Manager

Bank

PO Box XX

XXXXX

Dear Sir/Madam,

Management has recently undertaken a review of its treasury operations resulting in the adoption of a new treasury policy. Pursuant to the new policy I wish to advise the following details as standard for dealing with Council:

Council details

Phone:	0800 965 468
Street Address:	215 High Street, Rangiora
Postal Address:	Private Bag 1005, Rangiora 7440

Authorised dealers

Paul Christensen - Finance Manager (primary contact)

Nicole Robinson - General Manager Finance and Business Support (secondary contact)

Confirmations

Confirmations for all transactions are to be addressed to:

Liz Innes - Accounts Officer

Authorised confirmation signatories

Jeff Millward - Chief Executive

Nicole Robinson – General Manager Finance and Business Support

Bank account

All New Zealand Dollars are to be credited to the following account:

Account name:

Bank:

Branch:

Address:

Account no:

This advice will be updated on an annual basis or as any changes necessitate.

Please acknowledge receipt of this advice by signing and returning the enclosed duplicate.

Yours sincerely

Jeff Millward
Chief Executive

Appendix 6 Authorised investment criteria for financial market investment activities

Authorised asset classes	Overall portfolio limit as a percentage of the total portfolio	Approved financial market investment instruments (must be denominated in NZ dollars)	Credit rating criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government	100%	Government Stock Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	Commercial Paper Bonds /MTNs /FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$3.0m $1.0m $2.0m $3.0m $4.0m
Local Authorities where rates are used as security	60%	Commercial Paper Bonds /MTNs /FRNs	Not applicable	$2.0m $2.0m
New Zealand Registered Banks	100%	Call /Deposits /Bank Bills/ Commercial Paper Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA – or better	$20.0m $1.0m $2.0m $3.0m $4.0m

Authorised asset classes	Overall portfolio limit as a percentage of the total portfolio	Approved financial market investment instruments (must be denominated in NZ dollars)	Credit rating criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
State Owned Enterprises	70%	Commercial Paper	Short term S&P rating of A1 or better	$3.0m
		Bonds /MTNs /FRNs	Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$1.0m $2.0m $3.0m $4.0m
Corporates	60%	Commercial Paper	Short term S&P rating of A1 or better	$3.0m
		Bonds /MTNs /FRNs	Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA -or better	$1.0m $2.0m $3.0m $4.0m
Financials	30%	Commercial Paper	Short term S&P rating of A1 or better	$3.0m
		Bonds /MTNs /FRNs	Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$1.0m $2.0m $3.0m $4.0m

The combined holdings of corporates and financials shall not exceed 70% of the portfolio.

The combined holdings of entities rated BBB and/or BBB+ shall not exceed 25% of the portfolio.

This appendix does not include the LGFA.