# Treasury Policy

## Purpose

The purpose of this Treasury Policy (Policy) is to outline Bay of Plenty Regional Council's (Council) principles for treasury activity. Where aspects of this policy refer to council and consolidated group it will be referenced as the Council Group. The formalisation of such policies and procedures will enable treasury risks within Council and the Council Group to be prudently managed

## Scope and objectives

### Scope

This document identifies the policies of Council in respect of treasury management activities. The scope includes Council's **Investment Policy** as well as the **Liability Management Policy**, as required under Sections 102, 104 and 105 of the Local Government Act (2002) (LGA).

### Statutory objectives

All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the LGA and incorporate the Investment Policy and Liability Management Policy. Council is governed by the following relevant legislation:

- LGA, in particular Part 6 including sections 101,102, 104 and 105
- Local Government (Financial Reporting and Prudence) Regulations (2014), in particular Schedule 4
- Trustee Act (1956). When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act (1956) Part II Investments

All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long-Term Plan process, or by resolution of Council before the borrowing is undertaken.

All legal documentation in respect of external borrowing and financial instruments will be subject to legal review prior to the transaction being executed.

Council will not enter into any borrowings denominated in a foreign currency.

Council will not transact with any Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by the Council itself.

A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:

- The period of indebtedness is less than 181 days (including rollovers); or
- The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of Council.

### General objectives

The objective of this Policy is to control and manage costs and investment returns that can influence operational budgets, public equity and the setting of debt levels. Specific objectives are as follows:

- Manage the investment framework, allowing optimised returns in the long term whilst balancing risk and return considerations
- Manage debt to optimise the cost of funding for the Council Group within risk management parameters acceptable to Council.
- Prudently manage Council's exposure to interest rate changes
- Approve new and refinanced lending activity with CCO/CCTOs
- Approve Council guarantees or uncalled capital relating to CCO/CCTO indebtedness
- Approve LGFA membership for CCO/CCTOs
- Monitor, evaluate and report on treasury performance
- Borrow funds, invest funds and transact risk management instruments within an environment of control and compliance under this Policy to protect Council and the Council Group's financial assets and costs

- Maintain liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements
- Arrange and structure appropriate funding for Council and the Council Group at the lowest achievable interest margin from debt lenders. Manage the spread of debt maturities within the funding risk limits established by this Policy.
- Maintain equity between the amounts available for distribution to present and future generations of ratepayers
- Any externally managed funds will comply with a formal Statement of Investment Policy and Objectives (SIPO), which is to be read in conjunction with, but is separate from this Policy document
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements
- Monitor Council's return on investments
- Minimise exposure to credit risk by dealing with and investing in creditworthy counterparties only as detailed in the credit risk section of this Policy
- Ensure that all statutory requirements of a financial nature are adhered to
- Ensure adequate internal controls exist to protect the Council and Council Group's financial assets and to prevent unauthorised transactions
- Develop and maintain relationships with financial institutions, the LGFA and investors
- Regular result and control reporting to Council and Chief Executive (CE)

# Council responsibilities

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

Council is responsible for approving this Treasury Policy and any changes required from time to time.

In this respect, Council has responsibility for:

- Approving the long-term financial position, including debt limits and forecasts, of the Council through the Long-Term Plan and Annual Plan
- Approving new debt/funding via resolution
- Approving the Treasury Policy, incorporating the following delegated authorities:
    - borrowing, investing and dealing limits and the respective delegated authority levels
    - counterparties and credit limits
    - risk management methodologies and benchmarks
    - guidelines for the use of financial instruments
- Approving budgets and high-level performance reporting
- Reviewing and approving this Policy at least every three years in conjunction with the Long-Term Plan.

Council will also ensure that:

- It receives appropriate information from management on risk exposure and financial instrument usage in a form that is understood
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the Treasury Function are resolved immediately
- Approval is gained for any transactions falling outside Policy guidelines
- It monitors performance measurement criteria for treasury activity
- It monitors six-monthly performance against benchmarks
- It oversees the implementation of Council's treasury management strategies and monitor and review the effective management of the treasury function.
- The information presented to the Council is timely, accurate and identifies the relevant issues and is represented in a clear and succinct report
- It discusses treasury matters on a six-monthly basis (and informally as required).

Council may delegate all or any of the treasury responsibilities to a Council specified committee or the CE.

# Investment policy

## Purpose

The purpose of the investment policy is to present Council's policy for investments including:

- Its investment objectives
- The mix of investments
- The acquisition of new investments
- An outline of how investments are managed and reported to Council
- An outline of how risks associated with investments are assessed and managed

## General policy and objectives

Council recognises that as a responsible public authority all investments held should be have an appropriate balance between the capital risk accepted and the return received. Council recognises that this approach generally means lower potential returns.

In its financial investment activity, Council's primary objective is protecting its investments. This means only creditworthy counterparties are acceptable. Within the credit constraints applicable, Council also seeks to:

- Optimise investment returns over the long term
- Ensure investments are balanced with liquidity requirements
- Manage potential capital losses due to interest rate movements, if investments need to be liquidated before maturity
- Hold certain investments for strategic benefits as well as for the financial benefits to the region

Council's mix of investments will take into account working capital needs, including the divestiture of different assets if/when Council transitions to be a net borrower.

Council is accountable to its stakeholders to take care of the environment, meet community needs and deliver acceptable financial results. All potential investment opportunities must be evaluated against these high-level objectives considering well-being outcomes and governance considerations.

## Responsible investments

Council will only make investments where the primary activity does not prevent Council from achieving the purpose of Local Government.

**Socially responsible investments**

Responsible investment, including environmental, social and governance considerations (ESG), is considered in the investment policies and procedures.

Responsible investing does not require ruling out opportunities, but it does require decision makers to incorporate ESG information into investment and borrowing decisions to identify and consider activities known to be socially, culturally and environmentally detrimental.

ESG factors are numerous and continually changing. Environmental factors include climate change, greenhouse gas emissions, resource depletion, waste and pollution, and deforestation. Social factors include working conditions, local communities, conflict, health and safety, and employee relations. Governance factors include executive pay, bribery and corruption, board diversity and structure, and tax strategy. Council will incorporate ESG information in its investment decision making process to ensure that all relevant factors are accounted for when assessing risk and return.

Our investment managers and advisors must screen potential investments from an ethical perspective to ensure they meet the following criteria as an important part of our due diligence process.

We will look to avoid investing in companies whose principal business activity is:

- the manufacture and sale of armaments, the manufacture and sale of tobacco and the promotion of gambling.

Where an investment is made into a managed fund, exchange traded fund or collective investment vehicle, the exclusion test shall be applied against the fund and any constituents representing greater than 5% of that fund.

## Mix of investments

Council maintains investments in financial assets including:

- Treasury investments; incorporating cash, infrastructure advances, long term and liquid investments including bond funds hedged into NZ dollars that have a minimum average credit rating of A+ and equity managed funds hedged into NZ dollars. Bond and equity managed funds must be evaluated by Council's treasury advisor and approved by Council before investing.
- Property investments including land and buildings
- Significant equity investments via Quayside Holdings Limited (Quayside), a 100% owned Council Controlled Organisation (CCO). Quayside investments include:
    - A majority stake in the publicly listed Port of Tauranga Limited, Port of Tauranga Limited's subsidiaries and associate companies as it may from time to time incorporate
    - Investments in various commercial enterprises in the Bay of Plenty region
    - Equity and treasury investments

Council's policy is to maintain an investment mix that:

- Meets its current expenditure requirements
- Falls within Council's risk parameters including consideration of the term of the investment.

- Is consistent with Council's strategic direction of maintaining 100% ownership of Quayside and through Quayside, the majority shareholding in Port of Tauranga Limited
- Is consistent with Council's strategic direction of supporting the region by maintaining a shareholding of the Local Government Funding Agency (LGFA)

## Equity investments

Council and Council Group maintain equity investments and other minor shareholdings, which fulfil various strategic, economic development and financial objectives as outlined in the Long-Term Plan.

Council and Council Group seek to optimise the rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

Council's long-term view of its equity investments ensures asset protection and growth and enables the use of the proceeds for present and future generations.

## Regional Fund

The Regional Fund is created through the replenishment of advances made to regional infrastructure projects. These funds are invested until required for Council's projects.

Council's primary objective when investing this fund is to protect its investment. This means only creditworthy counterparties are acceptable as detailed in this policy or within a Statement of Investment Policy and Objectives (SIPO) if the funds are externally managed.

Within the above credit constraints, Council seeks to:

- Optimise investment returns
- Ensure that at all times Council has access to sufficient cash resources to meet financial obligations as they fall due

Where Regional Funds are managed internally, the Investment Parameters, Approved Financial Instruments and Counterparty Credit Limit sections of this Policy apply. Where funds are externally managed, the specific parameters contained within the SIPO agreed with the external investment manager apply.

## Toi Moana Fund

Council seeks to optimise annual cash returns to Council and maintain at least the principal investment through the longer term.

Where Toi Moana Funds are managed internally, the Investment Parameters, Approved Financial Instruments and Counterparty Credit Limit sections of this Policy apply.

Where funds are externally managed, the specific parameters contained within the SIPO agreed with the external investment manager apply.

Quayside would be considered an external manager if specific Council funds, such as the Toi Moana Fund, were managed and all external manager controls and requirements would apply.

## Property investments

Council's overall aim is to only own property that is essential to achieving its strategic objectives. Generally, Council will not have a property investment where it is not essential to service delivery or does not relate to a primary output of Council. Property ownership is reviewed based on a cost analysis and ownership benefits versus achieving the same results through other arrangements. Council uses similar assessment criteria for new property investments.

## Reserves and scheme ratepayer's funds

Council establishes reserves for specific purposes – usually on behalf of limited ratepayer groups – and are primarily from the proceeds of separate scheme rates. These reserves are used to reduce borrowings and avoid a negative spread of interest rates between borrowed and invested money. Interest is paid or charged internally on reserve balances at an annually fixed interest rate based on the Council's average cost of funds.

## Externally managed funds

Council may choose to invest funds to be managed externally by a suitably qualified investment manager. This includes existing external bond funds (domestic or 100% hedged back in NZ dollars), existing external equity funds, and also bespoke investment management arrangements. Council approval is required before any investment and must include advice from Council's Treasury Advisor that includes consideration of:

- The source of the funds to be invested (e.g. which reserve funds are being allocated).
- The appropriate investment strategy considering the term of investment, ability to liquidate the investment, and the balance between capital protection, cash-flow, and investment return/risk.
- The overall balance of the portfolio of investment for Council and Quayside.
- Market outlook and other potential investments.
- For existing managed funds, the Council's Treasure Advisor must undertake a review of their current Product Disclosure Statement, SIPO and other relevant documents and prepare a recommendation to their appropriateness. These documents and the recommendation must be provided to Council when the investment approval is requested.
- For bespoke funds a SIPO must be developed by the investment manager to meet the agreed investment strategy, reviewed by the Council's Treasury Advisor, and provided to Council when the investment approval is requested

Any proposed changes to the SIPO for a bespoke fund must be approved by Council, and any changes to the investment approach for an existing managed fund must be reviewed by Council's Treasury Advisor to determine whether the fund still meets the overall investment strategy.

Financial instruments and credit restrictions for funds under management in externally managed funds, or by Council Controlled Organisations, are separate to those detailed in this Policy.

## Risk management

Council seeks to protect its investments and manage its risk. This means Council has determined it will apply the 'prudent person' principle for managing risk and return on its investments. For cash, the Council seeks to minimise its risk by:

- Investing only in institutions that have a high degree of security and/or an investment grade credit rating from S&P Global Ratings, Moody's or Fitch
- Limit maximum exposures through control features detailed in this policy

Council and Council Group's investments can have a direct exposure to interest rate changes that can impact on the return and capital value of its fixed-rate investments.

For long term investments, including bond and equity funds, Council seeks to manage its risk by seeking independent investment advice on the appropriate investment strategy considering the term of investment and the balance of capital protection and risk/return.

The CFO and other delegated authorities execute Council's interest rate risk management strategy by regularly monitoring interest rate markets, taking appropriate advice, evaluating the outlook and deciding the interest rate profile to adopt for investments.

## NZ LGFA Limited investments

Despite anything earlier in this Investment Policy, Council may invest in shares and financial instruments issued by 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 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.

## Investment parameters

Treasury Investments and PPS Investment Funds are covered by the Investment Parameters detailed below.

Council and the Council Group's financial investment activity will be conscious of:

- Ensuring investment maturities coincide with meeting future cash flow projections
- Forecast debt requirements associated with future capital expenditure programs as outlined within the LTP
- Capital protection for short term investments
- Balancing capital protection and investment return/risk for long term investments

No Council investments can be made for more than seven years without Council approval.

Council must only invest in acceptable financial instruments and with counterparties, as covered in the Approved Financial Instruments and Counterparty Credit Limits sections of this Policy.

# Liability management policy

## Purpose

This Policy covers Council's management of all borrowing as defined in Section 112 of the LGA and the Local Government Borrowing Act 2011 (LGBA),as well as management of other liabilities. Section 113 of the LGA prohibits Council from borrowing or entering into incidental arrangements in denominations other than New Zealand currency. Section 11 of the LGBA provides an exemption for LGFA transactions.

## General policy

As required under the Act, Council may borrow in New Zealand dollars as it considers appropriate and exercises flexible and diversified funding power. Council approves the long-term borrowing requirement for each financial year as part of the annual planning process. Arrangements for precise terms and conditions of borrowing are delegated to the CE (refer to the Treasury Procedures Manual for delegations made by the CE).

Council may raise debt, up to its approved debt limit, for the following primary purposes:

- Fund capital expenditure requirements
- Scheme debt to fund river and drainage scheme renewals expenditure and capital expenditure requirements
- Manage timing differences between cash inflows and outflows and to maintain Council's liquidity and, if necessary, to fund emergency expenditure
- Investment purposes which may include providing advances to CCO/CCTOs for strategic and commercial purposes
- On-lend to CCO/CCTOs to fund their operations

Council considers the impact on borrowing limits, the size and the economic life of the asset that is being funded, and its consistency with the current Annual and Long-Term plans before approving new debt.

Council is able to borrow through a variety of market mechanisms. These include issuing stock and debentures, commercial paper (CP), direct bank borrowing or loans with private placement investors, internal reserves or special funds or accessing the short term and long-term capital markets directly.

In evaluating strategy for new borrowing (in relation to source, term, size and pricing), Council considers:

- Available terms from banks, capital markets and loan stock issuance (including LGFA)
- Prevailing interest rates and margins relative to markets comparative to term for loan stock issuance, capital markets and bank borrowing
- The liquidity, funding and interest rate risk-management parameters as detailed in this policy
- Legal documents and financial covenants, together with credit rating considerations
- An assessment of the outlook for credit margins and interest rate movements

Council's ability to readily attract cost-effective borrowing from a wide range of sources is largely driven by its ability to rate meaning Councils effectively sit just below Central Government in relation to the credit characteristics assumed by investors and financial institutions.

Council can use short-term and long-term funding to achieve an appropriate borrowing mix and to balance the requirements of liquidity and funding risk management.

## NZ LGFA Limited

Despite anything earlier in the Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited 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 or borrower's note 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
- 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

## Liquidity and funding limits

Cash flow deficits in various future periods, based on long-term financial forecasts, are reliant on the maturity structure of cash, financial investments, loans, and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps.

Funding risk management centres on the ability of Council to re-finance or raise new debt at a future time and the ability at that time to achieve the same or more favourable pricing (fees and borrowing margins) and terms compared to existing facilities/debt. Because of the high level of creditworthiness of Council given its ability to rate the key funding risk faced relates to pricing risk rather than the ability to access funds in the future.

Liquid funds (including cash and cash equivalents) and committed funding (capital markets, bank debt) must be maintained as detailed in to the following section – Debt Ratios and Limits

Council may choose to pre-fund up to 18-24 months of forecast debt requirements including refinancing. Debt refinancing that have been pre-funded, will remain included within the funding maturity profile until their maturity date.

Existing debt may be refinanced on more favourable terms within Treasury Delegation transaction limits.

Liquid funds (including cash and cash equivalents) and committed funding (capital markets, bank debt) must be maintained as detailed in the following section.

## Debt ratios and limits

Total external debt levels in place will be managed within the limits detailed in the following table.

| Ratio | |
|---|---|
| Net interest / Total revenue | <20% |
| Net / Total revenue | <300-280% (1) |
| Net interest / Annual rates and levies (debt secured under debenture) | <30% |
| Liquidity (external debt + available committed loan facilities + liquid investments to total external debt) | >110% |

1. For the financial years ending 30 June 2021 and 2022, 300% will apply and for each of the next four financial years, a decrease of 5% until 280% will apply for and from the financial year ending June 2026

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

Revenue excludes non-government capital contributions (e.g. developer contributions and vested assets).

Net debt is defined as total external debt less liquid financial deposits/investments and on-lending to CCO's. Liquid funds are cash and cash equivalents defined as being:

- Overnight bank cash deposits
- Wholesale/retail bank term deposits no greater than 30 days
- Bonds or floating rate notes that have a long-term credit rating of at least 'A-' and mature within 12 months. Wholesale/ retail bank term deposits linked to pre-funding of maturing term debt exposures.

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

LGFA financial covenants can either be measured on a Council only or a consolidated group basis, but both approaches must be reported on.

Disaster recovery requirements will be met through the liquidity ratio and contingency reserves.

## Interest rate risk management

The following risk control limits will only be activated once forecast core external debt exceeds $100 million. Until this level any interest rate hedging or adherence to the funding profile requirements is at the discretion of the CFO.

Exposure to interest rate risk is managed and mitigated through the controls below where:

- **"Core debt"** is all core external debt (existing and forecast) at the respective debt-ending periods less actual fixed rate and cash investments and any inter-group loans that are back to back with an external lender.
- **"Fixed Rate Debt"** is all debt or fixed interest rate derivatives with an interest rate repricing beyond 6 months. Any debt or fixed interest rate derivatives with an interest rate repricing within 6 months is defined as floating rate debt
- **"Floating Rate Debt"** is defined as an interest rate re-pricing within 6 months. This includes any Floating Rate Note (FRN) with a maturity date beyond 6 months that is not swapped to a fixed rate

Fixed rate debt must be within the following interest rate repricing bands:

| Fixed Rate Maturity Profile [1] | | |
|---|---|---|
| **Period** | **Minimum Fixed** | **Maximum Fixed** |
| Less than 3 years | 30% | 100% |
| 3 - 5 years | 15% | 80% |
| 5 - 12 years | 0% | 60% |
| Greater than 12 years | Council approval | Council approval |

1. *Delegated authorities to position the interest rate risk portfolio within the above ranges out to a maximum period of 12 years are detailed in the Treasury Delegations Manual.*

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 beyond 90-days requires specific approval by Council.

## Security

Council's external borrowings and interest rate 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 all lenders. A Debenture Trust Deed is required to borrow funds through the LGFA.

Security may be offered over specific assets, but only with the Council's prior approval.

## Repayment

Council repays borrowings from rates, 'decline in relative service potential' funds, surplus funds, and proceeds from investment and asset sales. It is Council's policy to repay debts as they fall due, using one or more of:

- Surplus operating funds
- Rating revenues established for that purpose
- Surplus proceeds from investment or asset sales
- Regular instalments of principal and interest, especially within internal scheme capital works loans
- Re-financing with new debt

For internal purposes, the loan should be repaid in a timeframe appropriate to the asset for which the loan was raised, with a maximum term of 30 years. Surplus loan monies are to be repaid as soon as it is economically beneficial to do so.

## Guarantees/contingent liabilities and other financial arrangements

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

## Borrowing mechanisms of Council Controlled Organisations and Council Controlled Trading 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 under Section 62 of the LGA, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any lending arrangement (direct or indirect) 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 and rating, 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.
- Accounting and taxation impact of on-lending arrangement.

Lending arrangements to the CCO or CCTO must be legally document. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is to be legally reviewed and agreed between the parties in accordance with Treasury Delegations.

# Approved financial instruments

Approved interest rate instruments are as follows:

| Category | Instrument |
|---|---|
| Cash management and external borrowings | Bank overdraft<br>Committed bank loans (short term and long-term loan facilities)<br>Uncommitted money market facilities<br>Loan stock/private placement<br>Fixed Rate Note (Medium Term Note/Bond) and FRN issuance<br>Commercial paper (CP)<br>Committed standby facilities where offered by the LGFA |

| Category | Instrument |
|---|---|
| Treasury Investments | Term deposits<br>Stock, bonds, FRNs with approved counterparties. Commercial paper from approved counterparties.<br>LGFA borrower notes<br>Bank bills<br>Bank registered certificates of deposit<br>Redeemable Preference Shares (RPS) |
| Interest rate risk management | Interest rate swaps including:<br>•Forward start swaps (start date <12 months, unless linked to existing maturing swap/collar with notional amount amounts not exceeding maturing swap/collar)<br>•Amortising swaps (whereby notional principal amount reduces)<br>•Swap extensions, deferrals and shortenings<br>Interest rate options on:<br>•Bank bill rate (BKBM) (purchased caps and one for one collars)<br>•Interest rate swaptions (purchased swaptions and one for one collars with matching notionals only) |
| Foreign exchange management | Spot foreign exchange<br>Forward exchange contracts<br>Purchased currency options |

# Counterparty credit limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Treasury related transactions would only be entered into with organisations specifically approved by Council within this policy or with specific Council approval before the transaction is completed.

Counterparties and limits can only be approved on the basis of long-term credit ratings (Standard & Poor's or Moody's) being BBB and above or short term rating of A2 or above; with the exception of New Zealand Local Authorities, who may be unrated.

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

The following table details the credit limits for investments and derivative transactions.

| **Limits for Approved Investment Instruments** | | | |
|---|---|---|---|
| **Counterparty** | **Rating - S&P or Moody's or Fitch equivalent** | **Individual Counterparty Limit** | **Category Limit % of Portfolio** |
| NZ Govt Guaranteed | N/A | $500M | 100% |
| LGFA | N/A | $100M | 50% |
| Local Authorities | A+ or better | $50M | 50% |
| | A or below/Unrated | $25M | |
| NZ Registered Banks | AA- or better | $100M | 100% |
| NZ Registered Banks | A to A+ | $50M | |
| Subordinated Debt (NZ Reg Banks) | BBB or better | $20M | 10% |
| Corporates | AA- or better | $50M | 30% |
| Corporates | BBB or better | $10M | 30% |
| SOE's | BBB or better | $10M | 30% |
| Bond and equity funds | Review by Council's Treasury Advisor | As approved by Council | As approved by Council |

| **Limits for Approved Derivative Instruments** | | | |
|---|---|---|---|
| **Counterparty** | **Rating - S&P or Moody's or Fitch equivalent** | **Individual Counterparty Limit** | **Category Limit % of Portfolio** |
| NZ Registered Banks | AA- or better | $50M | deducted from senior limit |
| NZ Registered Banks | A to A+ | $10M | deducted from senior limit |

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

- Investments (such as Bank Deposits) – 100% of Face Value including accrued interest
- Derivatives - Marked to Market ("MTM") value plus Potential Credit Exposure (PCE)

**Potential Credit Exposure**

- Interest Rate Risk Management – (e.g. swaps/swaptions) MTM + (FV * remaining tenure * 2%)
- Foreign Exchange instruments* (e.g. Forward Exchange Contracts/Options) – MTM + (FV * square root [remaining tenure (y)] * 5%)

MTM is defined as positive if the position is "in the money" for Council and negative if it is "out of the money" for Council. For each instrument, if MTM + PCE is negative, a nil value is assigned.

# Foreign currency risk management

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

All individual amounts in excess of NZD$500,000 equivalent for foreign exchange must hedged using foreign exchange contracts or options, once the expenditure has been approved and the foreign currency amount and timing of payment are known. Investments in international bond and equity funds must be hedged into New Zealand dollars.

Council cannot borrow within or outside New Zealand, in a currency other than the New Zealand dollar.

# Measuring treasury performance

In order to determine the success of Council's treasury management function, benchmarks and performance measures are detailed in the Treasury Procedures Manual.

# Review of policy

In line with the LGA, section 102(5) there are no mandatory consultation requirements to amend Council's Liability Management Policy or Investment Policy.

It must be reviewed on a no less than three-yearly basis as part of preparing the Long Term by an appropriate independent external party although amendments can be made through Council resolution any time within the three-yearly period.

# Other relevant documents

1. Financial Strategy
2. Significance and Engagement Policy
3. Financial Policies
4. Treasury Strategy
5. Statement(s) of Investment Policy and Objectives *(where available)*