TASMAN DISTRICT COUNCIL

2019 Treasury Risk Management Policy

Including Liability Management and Investment Policies

Council Approved: 30 June 2014
(CN14-06-16)
Amended by Council: 10 September 2015
(CN15-09-13)
Amended by Council: 27July 2017
(CN17-07-10)
Amended by Council: 20 June 2019
(CN19-06-6)

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1.0 Introduction

1.1. Policy purpose

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

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within TDC continue to be well managed. In addition, regular reviews will be conducted to test the existing Policy against the following criteria:

- Industry "best practices" for a Council the size and type of TDC.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Policy and treasury management function to recognise, measure, control, manage and report on TDC's financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operations of a pro-active treasury function in an environment of control and compliance.
- The robustness of the Policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to TDC in achieving strategic objectives relating to ratepayers.

It is intended that the Policy be distributed to all personnel involved in any aspect of the TDC's financial management. In this respect, all staff must be completely familiar with their responsibilities under the Policy at all times.

2.0 Scope and objectives

2.1 Scope

- This document identifies the policy of TDC in respect of treasury management activities.
- The Policy has not been prepared to cover other aspects of TDC's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of TDC cover these matters.

2.2 Treasury management objectives

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

Statutory objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- TDC is governed by the following relevant legislation:
  - Local Government Act 2002, 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 Planning (LTP) process, or resolution of Council before the borrowing is effected.
- All legal documentation in respect to external borrowing and financial instruments will be approved by Council's solicitors 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 Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.
- Council is not allowed to guarantee loans to CCTOs under Section 62 of the Local Government Act. Port companies operating as CCOs are not included within the definition of a CCO under the Local Government Act 2002.
- For the purposes of this Policy, Port companies (covered under the Port Companies Act 1988) are considered to be CCTOs for Treasury Policy purposes.
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
  - The period of indebtedness is less than 91 days (including rollovers); or
  - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of Council.

General objectives

- Minimise Council's costs and risks in the management of its external borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect Council's financial assets and manage costs.

- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this Policy.
- Monitor Council's return on investments.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, credit rating agencies, investors and investment counterparties.

2.3 Policy setting and Management

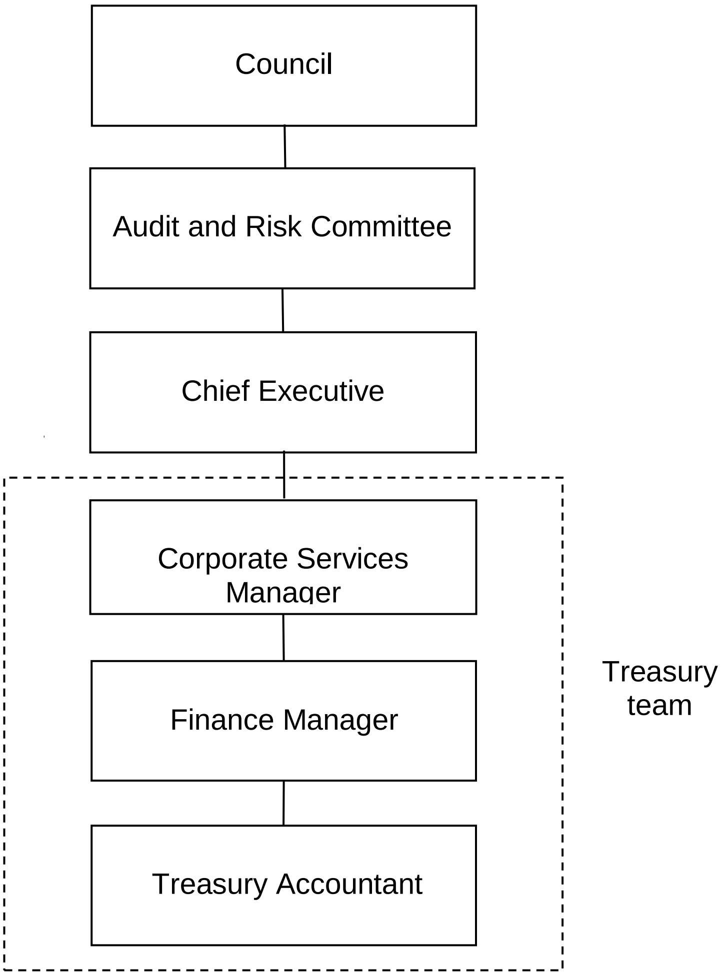
The Council approves Policy parameters in relation to its treasury activities. The Council's Chief Executive has overall financial management responsibility for the Council's borrowing and investments.

The Council exercises ongoing governance over its subsidiary companies (CCO/CCTO), through the process of approving the Constitutions, Statements of (Corporate) Intent, and the appointment of Directors/Trustees of these companies.

3.0 Governance and management responsibilities

3.1 Overview of management structure

The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in the following section:



3.2 Council

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

The Council is responsible for approving the Policy. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of TDC through the Long Term Plan (LTP) and Financial Strategy along with the adopted Annual Plan.
- Approve and adopt the Treasury Risk Management Policy (including Liability Management and Investment Policies).

- Approving the Policy following recommendation by the Audit and Risk Committee, incorporating the following delegated authorities:
  - Borrowing, investment and dealing limits and the respective authority levels delegated to the CE, CSM and other management.
  - Counterparties and credit limits.
  - Risk management methodologies and benchmarks.
  - Guidelines for the use of financial instruments.
  - Receive a triennial review report on the Policy.
- Approval for one-off transactions falling outside Policy.

3.3 Audit and Risk Committee

Under delegation from Council:

- Evaluate and recommend amendments to Policy.
- Delegating authority to the CE and other officers.

3.4 Chief Executive (CE)

While the Council has final responsibility for the Policy governing the management of Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the Chief Executive.

In respect of treasury management activities, the Chief Executive's responsibilities include:

- Ensuring the policies comply with existing and new legislation.
- Approving the register of authorised signatories.
- Approving new counterparties and counterparty limits.
- Approving new external borrowing undertaken in line with Council resolution and approved borrowing strategy.
- In conjunction with the Corporate Services Manager (CSM), approving the opening and closing of bank accounts.
- Receiving advice of non-compliance of Policy and significant treasury events from the CSM.

3.5 Corporate Services Manager (CSM)

The CSM's responsibilities are as follows:

- Management responsibility for all external borrowing and investment activities as delegated by the CE.
- Recommending Policy changes to Council for approval.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- Approving treasury transactions in accordance with delegated authority.

- Authorising the use of approved interest rate management instruments within discretionary authority.
- Recommending authorised signatories and delegated authorities in respect of all treasury activities.
- Proposing new external borrowing requirements to the CE, and if required submission to Council.
- Proposing new external borrowing and on-lending CCO/CCTO funding activity to the CE for Council approval.
- Reviewing and making recommendations on all aspects of the Policy to the CE, including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments.
- Conducting a review, at least triennially, of the Policy, treasury procedures and counterparty limits.
- Managing the long-term financial position of Council as outlined in the LTP.
- Managing relationships with bank lenders, LGFA, trustee and credit rating agency.
- Monitoring and reviewing the performance of the treasury function in terms of achieving the objectives.
- Within delegations, authorising external borrowing, investing, interest rate, cash management transactions with bank counterparties. Approving all amendments to Council records arising from checks to counterparty confirmations.
- Reviewing and approving treasury spreadsheet reconciliation to internal records.
- The CSM has oversight, and approves actions undertaken by the Finance Manager per delegated authority.

3.6 Finance Manager (FM)

The FM's responsibilities are as follows:

- Responsible for overseeing the day to day treasury function as delegated by the CSM.
- Arrange the execution of external borrowing, investment, and interest rate management transactions in accordance with set limits. Investigate financing alternatives to minimise borrowing costs, margins and interest rates, making recommendations to the CSM as appropriate. Responsibilities include execution of on-lending activity to CCO/CCTOs.
- Monitoring treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles, Council's accounting and borrowing and financial policies.
- Ensuring management procedures and policies are implemented in accordance with this Treasury Risk Management Policy.
- Ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards.

3.7 Treasury Accountant (TA)

- Carry out the day to day cash and short term cash management activities.
- Update treasury spreadsheets for all new, re-negotiated and maturing transactions.
- Monitor and update credit ratings of approved counterparties.
- Settlement of external borrowing, investment, cash management, and interest rate management transactions.
- Check all treasury deal confirmations against the treasury spreadsheet and report any irregularities immediately to the CE.
- Review monthly bank reconciliations, as completed by the Revenue Team.
- Complete general ledger reconciliations to treasury spreadsheet.
- Co-ordinate the compilation of cash flow and debt forecasts and day-to-day cash management responsibilities.
- Reconcile monthly summaries of outstanding financial contracts from bank counterparties to internal records.
- Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA documents.
- Monitor all treasury exposures daily.
- Prepare treasury reports.
- Check compliance against limits and prepare report on an exceptions basis.

3.8 Delegation of authority and authority limits

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council.

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Council has the following responsibilities, either directly itself, or via the following stated delegated authorities:

Activity	Delegated Authority	Limit
Approving and changing Policy	Council	Unlimited

Approve borrowing for year as set out in the AP/LTP.	Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments other than financial investments	Council	Unlimited
Approval for charging assets as security over borrowing	Council	Unlimited
Approving new and reviewing re-financed bank facilities.	Council	Unlimited
Approving new and refinanced on-lending arrangements with CCO/CCTOs.	Council	Unlimited
Approving transactions outside Policy	Council	Unlimited
Approving of Council guarantees of indebtedness	Council	Unlimited
Overall day-to-day treasury management	CE (delegated by Council) CSM (delegated by CE)	Subject to Policy
Re-financing existing debt	CE (delegated by Council) CSM (delegated by CE)	Subject to Policy
Approve new external borrowing in accordance with Council resolution or through the adoption of the AP/LTP.	CSM (delegated by CE)	Per Council approved AP/LTP.
Negotiate bank facilities	CSM	N/A
Negotiation and ongoing management of on-lending arrangements to CCO / CCTO's	CSM	Per approval / per risk control limits
Manage borrowing and interest rate strategy	CSM	N/A
Adjust interest rate risk profile	CSM	Per risk control limits
Managing funding and investment maturities	CSM	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on debt and interest rate swaps.	Council CE CSM FM	Unlimited $50m $30m $10m
Manage cash/liquidity requirements	Finance Manager	Per risk control limits
Authorising list of signatories	CE	Unlimited
Opening/closing bank accounts	CE	Unlimited
Triennial review of Policy	CSM	N/A

Ensuring compliance with Policy	CSM	N/A

All management delegated limits are authorised by the CE.

4.0 Liability management policy

4.1 Introduction

Council's liabilities comprise of borrowings (internal/external) and various other liabilities. Council maintains external borrowings in order to:

- Raise specific debt associated with projects and capital expenditures.
- Fund the balance sheet as a whole, including working capital requirements.
- Fund assets whose useful lives extend over several generations of ratepayers.
- Raise specific debt for on-lending to CCO/CCTOs

Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the cost are met by those ratepayers benefiting from the investment.

4.2 Borrowing limits

Debt will be managed within the following limits:

Item	Borrowing Limit
Net External Debt / Total Operating Income	<225%
Net External Debt / Equity	<20%
Net Interest on External Debt / Total Operating Income	<15%
Net Interest on external debt / Annual Rates Income	<25%
Liquidity (External, term debt + committed loan facilities + available liquid investments to existing external debt)	>110%

- **Total Operating Income** is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).

  Net External Debt is defined as total external debt less unencumbered liquid financial assets.

  External debt that is specifically borrowed for on-lending to a CCO/CCTO is netted, with the corresponding loan asset for LGFA covenant and Council imposed debt cap amount calculation purposes.

- **Liquidity** is defined as external term debt plus committed bank facilities plus liquid investments divided by current external debt. Liquid investments are unencumbered assets defined as being:

  - Overnight bank cash deposits

- Wholesale / retail bank term deposits no greater than 30-days
- Bank issued RCD's less than 181 days

  External debt funding and associated investment activity relating to prefunding is excluded from the liquidity ratio calculation.

- **Net Interest on External Debt** is defined as the amount equal to all external interest and financing costs less external interest income for the relevant period.
- **Annual Rates Income** is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- Financial covenants are measured on Council only not consolidated group.
- Disaster recovery requirements are to be met through the liquidity ratio and special funds.

4.3 Asset management plans

In approving new debt Council considers the impact on its net external debt limits, any Council imposed debt cap amount, and credit rating, as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP and Financial Strategy.

4.4 Borrowing mechanisms

Council is able to borrow externally through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, LGFA, accessing the short and long-term wholesale/retail debt capital markets directly or indirectly, or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- Available terms from banks, LGFA and debt capital markets.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for LGFA, debt capital markets and bank borrowing.
- The market's outlook on future credit margin and interest rate movements as well as its own.
- Legal documentation and financial covenants together with security and credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at least as equitable with those terms from external borrowing.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to levy rates, maintain a strong financial standing, manage its relationships with its wholesale investors, LGFA, and financial institutions/brokers and maintain a long-term credit rating of at least AA-.

4.5 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 Local Government Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

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

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. project finance).
- Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the security arrangement.
- Any lending to a CCO or CCTO will be on a secured basis and be approved by Council.

4.6 Debt repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

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

Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

4.7 Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to CCOs, 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.

For any outstanding guarantees, Council will ensure that sufficient financial capacity exists relative to LGFA lending covenants. Unless approved by Council, guarantees or financial arrangements given will not exceed NZ$0.5 million in aggregate.

Other financial arrangements include:

- Rural housing loans.
- Tenant contribution flats.

- Rural water supply loans.
- Advances to community organisations and trusts.

Council is not permitted to provide any guarantee of indebtedness in favour of any loans to CCTOs under Section 62 of the Local Government Act. However Council can provide a guarantee to a CCTO that is a port covered by the Port Companies Act 1988.

For any guarantee for indebtedness provided by Council to a CCO or "allowable" CCTO, that borrows directly from the LGFA or bank lender, Council will approve the specific borrowing and guarantee arrangement.

Conditions to financial arrangements, such as loan advances, are specified in section 5.5.6.

4.8 Internal borrowing

Council uses its cash reserves and external borrowing to internally fund both capital expenditure and working capital. The Council approves overall borrowing by resolution during the annual planning and/or LTP process. The finance function is responsible for administering Council's internal loan portfolio.

The primary objective in funding internally is to use cash reserves and external borrowing effectively, by establishing a portfolio that provides funding to internal activity centres. This creates operational efficiencies, as savings are created by eliminating the margin that would be paid through Council separately investing and borrowing externally. In addition to external borrowing mechanisms all reserve accounts are used for internal borrowing purposes.

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

- All internal borrowing activities are consistent with the principles and parameters, outlined throughout this policy.
- Council seeks to firstly utilise cash reserve funds and if insufficient reserves are available, utilises external borrowing mechanisms.
- In determining an activity centre's maximum internal loan amount, any existing depreciation reserve amount or other related amount is firstly allocated to that centre. Any additional funding is provided through internal loans.

Specific operating parameters are:

- Internal loans may be set up as:
  - Interest only
  - A Non-table (reducing balance) loan
  - A Table loan - (Payments are kept the same over the loan period)
- An internal loan is set up for all new capital expenditure and any renewal capital expenditure not covered by accumulated depreciation. The loan is allocated to the activity centre incurring the expenditure.
- Internal Loans may be consolidated where that course of action is not inconsistent with the borrowing principals included within this document.

- Interest is set quarterly on all internal loans at the weighted average cost of external borrowing (including credit margin and other related costs).
- Interest on investment (reserve) balances is set quarterly at the 90 day Bank Bill rate. No adjustment is included for treasury related operational costs.
- Council may determine not to pay interest on specific reserve balances or to pay interest at a reduced rate.
- If required Council has the ability to reset interest rates monthly.
- Interest is charged on the month-end loan balance. Interest may be notionally received and allocated to the specific reserve account providing the funds or through the related cost centres income/expenditure accounts.
- The term of the loan is the lesser of either:
  - the economic life of the asset
  - normally a maximum of 20 years but up to 35 years for long life assets.
- Principal repayment instalments are charged to the cost centre. Instalment amounts are agreed upon commencement of the loan. Instalments are paid monthly.
- Interest is charged/paid on Activity balances based on the balance at the start of the financial year. The interest rate charged on deficit balances is set at the weighted average cost of external borrowing (including credit margin and other related costs). The interest rate paid on surplus balances is the 90 day bank bill rate.

4.9 On-lending to 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 CCOs and CCTOs.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

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

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amounts outstanding on due date
- Impact on Council's credit rating, debt cap amount and 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/CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to CCOs must be documented on a commercial arm's length basis. A term sheet, including matters such as; borrowing costs, interest payment dates, principal payment dates, security, expiry date must be agreed between the parties.
- Accounting and taxation impact of on-lending arrangement

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

4.10 New Zealand Local Government Funding Agency (LGFA) Limited Investment

Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:-

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example borrower notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required.
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

5.0 Investment policy

5.1 Introduction

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

- For strategic purposes consistent with Council's LTP.
- To reduce the current ratepayer burden.
- The retention of vested land.
- Holding short term investments for working capital requirements.
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations.
- Holding assets (such as property) for commercial returns.
- Provide ready cash in the event of a natural disaster or other significant event that disrupts Council income. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

Council recognises that as a responsible public authority all investments held, should be low risk. Council also recognises that low risk investments generally mean lower returns.

Council can internally borrow from reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt.

5.2 Objectives

In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/ return is always applied within the confines of this policy. Accordingly, only approved creditworthy counterparties are acceptable. The Council will act effectively and appropriately to:

- Protect the Council's investments.
- Ensure the investments benefit the Council's ratepayers.
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

5.3 Policy

The Council's general policy on investments is that:

- The Council may hold financial, property, forestry, and equity investments if there are strategic, commercial, economic or other valid reasons (e.g. where it is the most appropriate way to administer a Council function).
- The Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.
- The Council will review its policies on holding investments at least once every three years.

5.4 Acquisition of new investments

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

The Commercial Sub-Committee recommends new commercial investments to Council. The authority to acquire financial investments is delegated to the CSM.

5.5 Investment mix

Council maintains the following mix of investments. Details of investments held are articulated in the Appendix.

5.5.1 Equity investments

Equity investments, including investments held in CCO/CCTO and other shareholdings.

Council maintains equity investments and other minor shareholdings. Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the LTP. Equity investments may be held where Council considers there to be strategic community value.

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

Any purchase or disposition of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring.

In connection with the investment, Council can subscribe for uncalled capital in a CCO or CCTO.

Dividends received from CCO's/CCTO's and unlisted companies are used firstly to repay debt in relation to that investment. Then, unless otherwise directed by Council, used to reduce other Council debt.

Any dividends received, and/or profit or loss arising from the sale of these investments must be recorded in accordance with appropriate accounting standards. Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then utilised to reduce other council debt. Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant Council-committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

5.5.2. New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

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

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

Because of these dual objectives, 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. In connection with the investment, Council subscribes for uncalled capital in the LGFA and is a Guarantor.

5.5.3 Property investments

Council owns property investments for strategic and commercial purposes. Council reviews ownership through assessing the benefits including financial returns, in comparison to other arrangements that could deliver the similar results.

Surpluses generated from commercial and semi commercial property investments are treated as an internal dividend to Council. Other surpluses from property are treated as income in the related Council activity.

Property disposals are managed to ensure compliance with statutory requirements and where appropriate consultation with Community Boards and Committees.

Property purchases are supported by registered valuations and where appropriate a full business case analysis. Council will not purchase properties on a speculative basis.

5.5.4 Forestry investments

Forestry assets are held as long term investments on the basis of net positive discounted cashflows, factoring in projected market prices and annual maintenance and cutting costs.

Any disposition of forestry investments will be used to reduce related borrowings. In the absence of a specific resolution of Council any additional surplus will be utilised to reduce debt.

5.5.5 Financial investments

Objectives

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.3. Credit ratings are monitored and reported quarterly to Council.

Council may invest in approved financial instruments as set out in section 6.1.2. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
- Council may choose to hold specific reserves in cash and direct what happens to that investment income. In effect the income from financial investments will be an interest income stream into the treasury activity. The treasury activity pays interest on special funds and reserves.
- Internal borrowing will be used wherever possible to avoid external borrowing.
- Financial investments do not include shares.

Special funds and reserve funds

Liquid assets are not required to be held against special funds and reserve funds. Instead Council will internally borrow or utilise these funds wherever possible.

Trust funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust. If the Trust's investment policy is not specified then this policy should apply.

5.5.6 Loan Advances

Council may provide advances to CCOs, CCTOs, charitable trusts and community organisations for strategic and commercial purposes. New loan advances are by Council resolution only. Council does not lend money, or provide any other financial accommodation, to a CCO on terms and conditions that are more favourable to the CCO than those that would apply if Council were borrowing the money or obtaining the financial accommodation.

Council does not lend to CCTO's on more favourable terms than what it can achieve itself, without charging any rate or rate revenue as security.

Advances to CCOs, charitable trusts, and community organisations do not have to be on a fully commercial basis. Advances to a CCTO are on a commercial basis.

All advances are made on a fully secured basis and executed under approved legal documentation. Refer to conditions of CCO/CCTOs loans under section 4.9.

Where advances are made to charitable trusts and community organisations at below Councils cost of borrowing. The additional cost is treated as an annual grant to the organisation.

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

5.6 Departures from normal Policy

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

5.7 Investment management and reporting procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long-term cashflow through the annual cashflow forecast. To maintain liquidity, Council's short and long-term investment maturities are matched with Council's known cashflow requirements.

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

6.0 Risk recognition / identification management

The definition and recognition of liquidity, funding, interest rate, counterparty credit, operational and legal risk of Council is detailed below and applies to both the Liability Management Policy and Investment Policy.

6.1. Interest rate risk

6.1.1 Risk recognition

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

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

6.1.2 Interest rate risk control limits

Council's gross external core debt forecasts (as approved by the Corporate Services Manager) must be within the following fixed/floating interest rate risk control limits:

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	Minimum Fixed Rate	Maximum Fixed Rate
Current	50%	95%
Year 1	50%	90%
Year 2	45%	85%
Year 3	40%	80%
Year 4	35%	75%
Year 5	30%	70%
Year 6	20%	65%
Year 7	10%	60%
Year 8	0%	55%
Year 9	0%	50%
Year 10	0%	45%
Year 11	0%	40%
Year 12	0%	35%
Year 13	0%	30%
Year 14	0%	30%
Year 15	0%	30%

- "Fixed rate" is defined as all known interest rate obligations on forecast external debt, including where hedging instruments have converted floating rate obligations into firm commitments.
- "Floating rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.
- Gross forecast external core debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate

cover in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

- A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile that is outside the above limits beyond 90-days requires specific approval by Council.
- The Treasury team (Corporate Services Manager, Finance Manager, Treasury Accountant) in conjunction with Council's treasury advisors set interest rate risk management strategy. The CSM approves the strategy.
- Any fixed rate hedge with a maturity beyond 15 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate and this maturity is beyond 15 years.
- Hedging outside the above risk parameters must be approved by the Mayor or Deputy Mayor of the Council.
- Interest rate options must not be sold outright. However, one for one collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions mature within 12 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate hedge percentage calculation.
- The forward start period on swap/collar strategies to be no more than 36 months, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.

6.1.3 Approved financial instruments

Approved financial instruments (which do not include shares or equities) are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Loan stock /bond issuance ▪ Floating Rate Note (FRN) ▪ Fixed Rate Note (MTN) Commercial paper (CP)/Promissory notes
Investments	Short term bank deposits up to 30-days except for deposits linked to debt pre-funding Bank registered certificates of deposit (RCDs) less than 181 days
Investments (other)	LGFA borrower notes
Interest rate risk management	Forward rate agreements ("FRAs") on: ▪ Bank bills Interest rate swaps including: ▪ Forward start swaps/collars. Start date no more than 36 months, unless linked to existing maturing swaps/collars ▪ Swap extensions and shortenings Interest rate options on: ▪ Bank bills (purchased caps and one for one collars) ▪ Interest rate swaptions (purchased swaptions and one for one collars only)
Carbon price risk management	▪ New Zealand Units (NZUs) and NZ Assigned Amount Units (NZAAUs) or other New Zealand registered units legally allowable

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

All unsecured investment securities must be senior in ranking. The following types of investment instruments are expressly excluded;

- Structured debt where issuing entities are not a primary borrower/ issuer
- Subordinated debt (other than Borrower Notes subscribed from the LGFA), junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

6.2. Liquidity risk/funding risk

6.2.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term 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 to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

The management of Council's funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences its own financial/exposure difficulties resulting in Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.
- Financial market shocks from domestic or global events.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

6.2.2 Liquidity/funding risk control limits

- External term loans and committed debt facilities together with available unencumbered liquid investments must be maintained at an amount of 110% over existing external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings. Debt re-financings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.
- The CSM has the discretionary authority to re-finance existing external debt on more acceptable terms. Such action is to be reported to the CE and the Council at the earliest opportunity.

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

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

- A funding 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.
- To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a Council's borrowings from the LGFA will mature in any 12-month period.

6.3. Counterparty credit risk

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

Credit risk will be regularly reviewed by Council. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term Standard & Poor's, (S&P) credit ratings (or equivalent Fitch or Moody's rating) being A and above and/or short term rating of A-1 or above.

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

The following matrix guide will determine limits:

Counterparty/Issuer	Minimum S&P long term / short term credit rating	Risk management instruments and investments maximum per counterparty ($m)
NZ Government	N/A	Unlimited
Local Government Funding Agency (LGFA)	N/A	Unlimited
NZ Registered Bank	A/ A-1	30.0

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

- Investments (e.g. Bank Deposits) – Transaction Principal × Weighting 100% (unless a legal right of set-off exists).

- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange/Carbon credit – Transactional face value amount x the square root of the Maturity (years) x 15%.

Each transaction should be entered into a treasury spreadsheet and a quarterly report prepared to show assessed counterparty actual exposure versus limits.

Individual counterparty limits are kept in a spreadsheet by management and updated on a day to day basis. Credit ratings should be reviewed by the Treasury Accountant on an ongoing basis and in the event of material credit downgrades should be immediately reported to the CSM and assessed against exposure limits. Counterparties exceeding limits should be reported to Council.

Risk management

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

6.4. Emissions Trading Scheme

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

ETS is risk managed under the following risk control limits. Given the uncertainty of the scheme, it is not considered appropriate to have minimum hedge percentages above 0% at this time (2019).

NZUs and NZAAUs are the only units currently available to participants for surrender under the NZ ETS at this time.

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

*Exposures become committed Jan-Mar (quarter following emission period as Council must report emissions from previous calendar year).

Forward price transactions are limited to NZ registered banks per approved counterparties.

6.5. Foreign currency

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

Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts can be used by TDC.

Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency. Council does not hold investments denominated in foreign currency.

6.6. Operational risk

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

Operational risk is very relevant when dealing with financial instruments given that:

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

Dealing authorities and limits

Transactions will only be executed by those persons and within limits approved by the Council.

Segregation of duties

As there are a small number of people involved in the treasury activities, adequate segregation of duties among the core functions of deal execution, confirmation, settling and accounting/reporting is not strictly achievable. The risk will be minimised by the following process:

- The CSM reports directly to the CE.
- The Finance Manager will report directly to the CSM to control the transactional activities of the Treasury Accountant.
- There is a documented approval and reporting process for borrowing, interest rate and liquidity management activity.

Procedures

All treasury instruments should be recorded and diarised within a treasury spreadsheet, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in an appropriate operations and procedures manual separate to this Policy. Procedures should include:

- Regular management reporting.
- Regular risk assessment, including review of procedures and controls as directed by Council or appropriate Committee or sub-committee of Council.

Organisational, systems, procedural and reconciliation controls to ensure:

- All borrowing, investing, interest rate and cash management activity is bona fide and properly authorised.

- Checks are in place to ensure Council accounts and records are updated promptly, accurately and completely.
- All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity.

Organisational controls

- The CSM has responsibility for establishing appropriate structures, procedures and controls to support borrowing, investing, interest rate and cash management activity.
- All borrowing, investing, cash management and interest rate risk management activity is undertaken in accordance with approved delegations authorised by the Council.

Cheque/electronic banking signatories

- Positions approved by the CE as per register.
- Dual signatures are required for all cheques and electronic transfers.
- Cheques must be in the name of the counterparty crossed "Not Negotiable, Account Payee Only" or "Not Transferable, Account Payee Only", via the Council bank account.

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. This is provided at least annually and when there is a change in Council personnel.

Recording of deals

- All deals are recorded on properly formatted deal tickets by the Finance Manager and approved by the CSM. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spreadsheets) are maintained and updated promptly following completion of transaction.

Confirmations

- All inward deal confirmations including LGFA/bank funding and registry confirmations are received and checked by the Treasury Accountant against completed deal tickets and the treasury spreadsheet records to ensure accuracy.
- All deliverable securities are held in the Council's safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) by the Treasury Accountant in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the CSM.

Settlement

- The majority of borrowing, investing, interest rate and cash management transactions are settled by direct debit authority.
- For electronic payments, batches are set up electronically. These batches are checked by the Treasury Accountant to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers or by direct debit as per setup authority by Council.

Reconciliations

- Bank reconciliations are performed monthly by the Treasury Accountant and checked and approved by the Finance Manager. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the CSM.
- A monthly reconciliation of the treasury spreadsheet to the general ledger is carried out by the Treasury Accountant and approved by the CSM.

6.7. Legal risk

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

TDC will seek to minimise this risk by adopting policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

6.6.1 Agreements

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

Council's internal/appointed legal counsel must sign off on all documentation.

6.6.2 Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

7.0 Measuring treasury performance

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

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

7.1. Operational performance

All treasury limits must be complied with including (but not limited to) counterparty credit limits, dealing limits and control limits.

All treasury deadlines are to be met, including reporting deadlines.

7.2. Management of debt and interest rate risk

The actual borrowing cost for Council (taking into consideration costs of entering into interest rate risk management transactions) should be below the budgeted borrowing costs.

8.0 Cash management

The Treasury Accountant has the responsibility to carry out the day-to-day cash and short-term cash management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function.

- The Treasury Accountant will calculate and maintain comprehensive rolling cash flow projections on a daily (two weeks forward), weekly (four weeks forward) and monthly (12 months forward) basis. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment.
- On a daily basis, electronically download all Council bank account information.
- Co-ordinate Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters.
- Undertake short term borrowing functions as required, minimising overdraft costs.
- Ensure efficient cash management through improvement to forecasting.
- Minimise fees and bank charges by optimising bank account/facility structures.
- Monitor Council's usage of overdraft and committed bank facilities. Overdraft facilities are utilised as little as practical. Bank overdraft facilities of not more than $300,000 are maintained.
- Match future cash flows to smooth overall timeline.
- Provide reports detailing actual cash flows during the month compared with those budgeted.
- Maximise the return from available funds by ensuring significant payments are made within the suppliers payment terms, but no earlier than required, unless there is a financial benefit from doing so.
- Interest rate management on cash management balances is not permitted.
- Cash is invested for a term of no more 30 days and in approved instruments and counterparties

9.0 Reporting

When budgeting interest costs, the actual physical position of existing loans and interest rate instruments must be taken into account.

9.1. Treasury reporting

9.1.1 Reporting

The following reports are produced:

Report Name	Frequency	Prepared by	Reviewed by	Recipient
Daily Cash Position Treasury Spreadsheet	Daily	Treasury Accountant	Finance Manager	Finance Manager
Treasury Exceptions Report	Daily	Treasury Accountant	Finance Manager	Finance Manager
Treasury Report ▪ Policy limit compliance ▪ Borrowing limits ▪ Funding and Interest Position ▪ Funding facility ▪ New treasury transactions ▪ Cost of funds vs budget ▪ Cash flow forecast report ▪ Liquidity risk position ▪ Counterparty credit ▪ Treasury performance ▪ Debt maturity profile ▪ Treasury investments ▪ Carbon credit exposure and hedged position ▪ CCO/CCTO loans and guarantees, financial arrangements ▪ Exceptions	Monthly (LT) / Quarterly (Council)	Treasury Accountant	CSM / Finance Manager	LT / Council
Trustee Report	As required by the Trustee	Treasury Accountant	CSM / Finance Manager	Trustee company
Revaluation of financial instruments	Quarterly	Treasury Accountant		Council

			CSM / Finance Manager	

9.2. Accounting treatment of financial instruments

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

Under NZ IPSAS changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

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

The CSM is responsible for advising the CE of any changes to relevant NZ IPSAS which may result in a change to the accounting treatment of any financial derivative product.

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

10.0 Policy review

This Policy is to be formally reviewed on at least a triennial basis.

The CSM has the responsibility to prepare a review report that is presented to the Audit and Risk Committee. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives, including performance trends in actual borrowing cost against budget (multi-year comparisons).
- Summary of breaches of Policy and one-off approvals outside Policy to highlight areas of tension.
- Analysis of bank and lender service provision, share of financial instrument transactions etc.
- Comments and recommendations from Council’s external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury spreadsheets and procedures should be undertaken.

The Audit and Risk Committee receives the report, and recommends changes to Council. Council approves Policy changes and/or rejects recommendations for Policy changes.

11.0 APPENDIX 1

11.1. Equity investments

Port Nelson Limited

Nature of Investment

The Council holds 12,707,702 shares. Council is a 50 percent shareholder in this Company, with Nelson City Council holding the other 50 percent shareholding. The 2017/18 book value of the investment is $91.914m. The 2017/18 net assets of the company were $230.4m.

Rationale for Holding Investment

The Company provides core port services at Nelson along with ancillary services. It also leases out land and buildings not required for core port services.

Council intends to maintain its 50 percent investment in Port Nelson Ltd and aims with Nelson City Council to retain effective local body control of this strategic Asset. This investment provides a commercial return to Council which is used to reduce Council's reliance on rates income.

Revenue

The Company pays an annual dividend as detailed in its Statement of Corporate Intent. The shareholders expectation is that a dividend of not less than 50% of net profit after tax will be returned to shareholders annually. This equates to approximately $5.5m per annum, shared between the two councils.

Risk Management

Port Nelson Ltd is an autonomous entity, with professional directors appointed by the two local authorities. Directors are required to manage the company on behalf of the shareholders. Risks associated with Council's investment in Port Nelson Ltd are limited.

Management/Reporting Procedures

The Councils and the company agree annually to a Statement of Corporate Intent. The purpose of the statement of intent is to:

(a) state publicly the activities and intentions of the company for the year and the objectives to which those activities will contribute; and

(b) provide an opportunity for council to influence the direction of the company; and

(c) provide a basis for the accountability of the directors to their shareholders for the performance of the company.

Six monthly reports are received and reviewed by Council. Election of Directors takes place at the Company's annual meeting.

Nelson Airport Limited

Nature of Investment

The Council holds 1,200,000 shares. Council is a 50 percent shareholder in this Company, with Nelson City Council holding the other 50 percent shareholding. The 2017/18 book value of the investment is $32.643m. The 2017/18 net assets of the company were $86.05m.

Rationale for Holding Investment

The company owns and operates Nelson Airport. The Company provides airport services at Nelson along with related ancillary services. It also leases out land and buildings not required for core airport services.

Council intends to maintain its 50 percent investment in Nelson Airport Ltd and aims with Nelson City Council to retain effective local body control of this strategic investment. This investment provides a commercial return to Council which is used to reduce councils reliance on rates income.

Revenue

The Company pays an annual dividend as detailed in its Statement of Corporate Intent. The Company's dividend policy is to pay an annual dividend of 5 percent of the opening shareholders' funds for that year. This equates to approximately $500,000 per annum, shared between the two council shareholders.

Risk Management

Nelson Airport Ltd is an autonomous entity, with Directors appointed by the two local authorities. Directors are required to manage the Company on behalf of the shareholders. Risks associated with Council's investment in Nelson Airport are limited.

Management/Reporting Procedures

The councils and the company agree annually to a Statement of Intent. The purpose of the statement of intent is to:

(a) state publicly the activities and intentions of the company for the year and the objectives to which those activities will contribute; and

(b) provide an opportunity for council to influence the direction of the company; and

(c) provide a basis for the accountability of the directors to their shareholders for the performance of the company.

Six monthly reports are received and reviewed by Council. Election of Directors takes place at the Company's annual meeting.

New Zealand Local Government Funding Agency Limited - Investment

Nature of Investment

The Council holds 3,731,958 shares (including uncalled capital). Council along with the Crown and 30 other local authorities is a minority shareholder in the Local Government Funding Agency.

The 2017/2018 book value of the investment is $4.473m. The 2017/18 net assets of the company were $45m.

Rationale for Holding Investment

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

(a) obtain a return on the investment; and

(b) ensure that the Local Government Funding Agency has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for Council.

(c) access loan funding at lower rates.

Because of this dual objective, Council may invest in Local Government Funding Agency shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments, where it is to the overall benefit of Council.

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

Revenue

The company dividend policy is to pay a dividend that provides an annual return to shareholders equal to the Local Government Funding Agency cost of funds plus 2 percent. This equated to $103k for 2017/18.

Risk Management

Risks surrounding the Local Government Funding Agency are mitigated through the use of the New Zealand Government debt management office and appropriately qualified professional directors and staff. There are also in place cross guarantees between most shareholder councils.

Management/Reporting Procedures

The Councils and the company agree annually to a Statement of Intent. The purpose of the statement of intent is to:

(a) state publicly the activities and intentions of the company for the year and the objectives to which those activities will contribute; and

(b) provide an opportunity for council to influence the direction of the company; and

(c) provide a basis for the accountability of the directors to their shareholders for the performance of the company.

Quarterly reports are received and reviewed by Council. The Council has a seat on the LGFA Shareholders Council. This group actively monitors the LGFA's performance and reports independently (from the Companies board) to shareholder councils.

Civic Financial Services Ltd – (formally New Zealand Local Government Insurance Corporation Ltd)

Nature of Investment

Council along with other local authorities is a minority shareholder in Civic Financial Services Ltd.

The Council holds 65,584 shares. The 2017/18 book value of the investment is $78,789. The 2017/18 net assets of the company were $13.3m.

Rationale for Holding Investment

The council investment in the Civic Financial Services Ltd is a legacy investment. The original investment was to ensure that the insurance market was competitive and that the local government sector was in a strong position to manage its own risk. With the changes in the insurance regulatory frame work and changes in the insurance market the company no longer provides insurance cover. The company however continues to actively manage the local government Superannuation schemes including the SuperEasy kiwi saver scheme.

Revenue

The company does not envisage paying dividends at this time.

Risk Management

Risks surrounding Civic Financial Services Ltd are mitigated with the use of suitably qualified staff and directors.

Management/Reporting Procedures

Six monthly reports are received and reviewed by Council.

11.2. Asset investments

Forestry

Nature of Investment

Council and its predecessor organisations have been involved in forestry for many years. Council's current forestry policy is that it will operate and maintain up to 3,000 planted hectares.

The 2017/18 book value of the investment is $41.22m.

Rationale for Holding Investment

Forestry is a flexible investment – the resource can be manipulated to suit cash flow requirements and market conditions. This provides a marketing advantage and cost savings in operations.

Revenue

Current statute requires that 10 percent of net forestry revenues derived from Rabbit Island be used for maintenance of Rabbit Island each year. The forestry activity will from time to time pay an internal dividend that contributes to reducing the Council's general rate requirement and/or assists in the repayment of Council debt.

Risk Management

Council's forests are currently managed under contract by consultants P F Olsen & Co Ltd. Forestry activities are reviewed quarterly by Council.

Significant risk management strategies include diversity of forest age classes, insurance against fire, mix of species, geographic spread of forests and controlled access.

Holding forestry assets also provides a natural offset to the Council' exposure under the NZ ETS. Council receives Carbon Credits that may be used to offset regional landfill obligations.

Management/Reporting Procedures

Reports are received and reviewed by Council on a quarterly basis.

Commercial and Semi-Commercial Property Investments

Nature of Investment

Council currently has a range of investment property holdings defined within categories of:

- Ready saleable assets.
- Strategically placed land, precluding the sale of operational properties.
- Assets saleable after a specific process (often subdivision).
- Land with high community value.

Property investments do not include properties for operational purposes.

Rationale for Holding Investment

Council purchases and maintains property investments where:

1. The property has a strategic value for the community; or
2. Council has funds to invest and there are statutory limitations on the use or disposal of these funds; or
3. There is an opportunity to invest funds and provide a return to the Council and/or community that is higher than the cost of the money invested.

Revenue

Council policy requires that surplus funds generated from Council's property activities are utilised as a contribution against general funds.

Revenues are generated both from commercial property sources at negotiated market rentals and internally assessed occupational costs.

Risk Management

Suitably qualified staff manage Council's property activities.

Management/Reporting Procedures

Reports are received and reviewed by Council on a regular basis.

Community Housing

Nature of Investment

Council currently has 101 community houses available for rental, generally to elderly or disabled persons.

These houses are located in:

- Croucher Street, Richmond 10
- Aotea Place, Richmond 24
- Vosper Street, Motueka 27
- Mears Haven, Motueka 18
- Starveall Street, Brightwater 7
- Edward Street, Wakefield 7
- Commercial Street, Takaka 4
- Fairfax Street, Murchison 4

The 2017/18 book value of the investment is $15.7m. Council has no outstanding loans.

Rationale for Holding Investment

Council continues to retain community housing to meet its considered obligation for the provision of rental accommodation, primarily for the elderly or people with disabilities.

Council's philosophies include ensuring that rental charges cover cost and to continue to maintain the housing at its current high standard.

Council's policy is to obtain a small dividend on its investment in community housing, with the contribution rising from the current 9 percent of rentals received to 13 percent for Years 2015 to 2017 and 15 percent for Years 2018 to 2022.

Revenue

Council operates its community housing activity in the nature of a "closed account" whereby revenues generated are utilised for debt repayment on loans outstanding on this asset and for meeting the annual maintenance schedules. A small internal dividend is returned to Council's Community Services annually from this account. The amount of this dividend in 2017/18 was $114,416.

Risk Management

Suitably qualified staff manage Council's community housing activities.

Management/Reporting Procedures

Reports are received and reviewed by Council on a regular basis.

Camping Grounds

Nature of Investment

Council owns four camping grounds within the District (Collingwood, Pohara, Motueka and Murchison). Three are leased to private individuals.

The 2017/18 book value of these investment are $8.7m. Council has outstanding loans of $2.241m.

Rationale for Holding Investment

Council's camping grounds are retained for the enjoyment of visitors to and residents of the District.

Revenue

The net revenue in 2017/18 was $52k, (after paying a dividend of $100k to the Parks & Reserves activity).

Risk Management

Suitably qualified staff manage council's camping activities.

Management/Reporting Procedures

Reports are received and reviewed by Council on a regular basis.

11.3. Associated organisations

Nelson Regional Sewerage Business Unit

Nature of Investment

Tasman District Council and Nelson City Council equally share in ownership of this asset. The NRSBU is not a separate legal entity from Council. Engineering and financial services are provided to the business unit by Nelson City Council.

The 2017/18 book value of the TDC assets utilised by the NRSBU is $32.214m. Council has an outstanding loan for its share of the NRSBU borrowings of $7m.

The business unit has a board which has representation from both Councils. It could have 6 or 7 members in total.

Rationale for Holding Investment

To ensure continuity of wastewater services for the residents and ratepayers of both Tasman District and Nelson City.

Revenue

Council does not receive any direct financial return from this Business Unit in the form of a dividend. The unit is operated to minimise the cost of sewage disposal for both councils. Any surplus is returned to Nelson and Tasman councils by way of an annual payment.

Risk Management

A committee, with representatives from both Councils plus one external representative manages the Business Unit.

Management/Reporting Procedures

Quarterly reports are received and reviewed by Council.

Nelson-Tasman Regional Landfill Business Unit

Nature of Investment

Tasman District Council and Nelson City Council equally share in ownership of this asset. The NTRLBU is not a separate legal entity from Council. The governance structure for this business unit is by a joint committee. The joint committee controls the assets, activities and operations of the landfill.

The joint committee has representation from both Councils, with scope for an iwi advisor, and also one jointly appointed independent member.

Rationale for Holding Investment

To ensure continuity of landfill operations for the residents and ratepayers of both Tasman District and Nelson City.

Revenue

Council does not receive any direct financial return from this Business Unit in the form of a dividend. The unit is operated to minimise the cost of solid waste operations for both councils. Any share of revenue will be returned to Nelson and Tasman councils.

Risk Management

A committee, with representatives from both Councils plus one iwi representative, and one external representative manages the Business Unit.

Management/Reporting Procedures

Minutes of all meetings will be forwarded to both Councils. The Annual Business Plans, and the Activity Management Plans will be forwarded to both councils for approval. The Annual Report will also be provided to both Councils.

Utilise Carbon units from Forestry to settle obligations under the NZ ETS.

Tasman Bays Heritage Trust

Nature of Investment

This Trust is a council controlled organisation. The trust holds and manages heritage items from across the district and runs the regional Museum in Nelson. There is no direct investment in the trust, but 50% of the trust is included in the councils accounts as an associate under the current accounting standards. Council provides a significant interest free loan to the trust along with an annual operating grant.

The 2017/18 net assets of the trust were $9.847m. Council has an outstanding loan to the trust at a nil interest rate of $825k.

Rationale for Holding Investment

The Trust is charged with managing and promoting the history and historic collections of the district. This investment is not held for commercial gain or return.

Revenue

Council does not receive any direct financial return from this trust in the form of a dividend. The Council provides operational funding and an interest free loan to the trust.

Risk Management

The trust is a separate legal entity from Council. Risks surrounding the trust are mitigated with the use of suitably qualified staff and trustees.

Management/Reporting Procedures

The Councils and the trust agree annually to a Statement of Intent. The purpose of the statement of intent is to:

(a) state publicly the activities and intentions of the trust for the year and the objectives to which those activities will contribute; and

(b) provide an opportunity for council to influence the direction of the trust; and

(c) provide a basis for the accountability of the trustees to the beneficiaries for the performance of the trust.

Reports are received and reviewed by Council on a regular basis.

Waimea Dam Investment

Nature of Investment

Council holds 5,109 partly paid ordinary shares (51%) in Waimea Water Ltd. Waimea Irrigators Ltd hold 2,978 ordinary shares and 1,911 non-voting shares that convert to ordinary shares over time (49%). Waimea Water Ltd is a special purpose CCO that is building, and will own and operate the Waimea Community dam. The company is a Joint venture between Council and Waimea Irrigators Ltd. The company also has significant financial support from the Crown through Crown Irrigation Investments Ltd who have provided concessional lending to the company. Council's investment in the project (including the NCC Grant and MfE FIF funding) is $44.5m with the total project currently costed at circa $105.6 million.

Rationale for Holding Investment

The company provides the vehicle for Waimea Community dam Project. The Project will deliver water security to the Waimea Plains and to the Richmond and related reticulated water supplies. In providing that security of supply the project delivers four main benefits:

- Enhanced environmental flows in the river
- Support for the local economy though economic benefits
- Secure water for irrigators and other rural users
- Security for the urban community water supplies

The dam also has sufficient capacity to support expected growth in the district over at least the next 100 years.

Revenue

The company operates on a cost recovery basis and no dividends to shareholders are envisaged.

Risk Management

Waimea Water Ltd is an autonomous entity with a board of professional directors appointed by Waimea Water Ltd, Tasman District Council and Ngati Koata. Council appoints the majority of the directors and own the majority of the shares. The directors are required to manage the company on behalf of the shareholders. The Company is currently in the build stage of the dam project and has appropriate risk management strategies in place. Council has provided credit support to the company of up to $29m as part of securing project funding from the Crown.

Management/Reporting Procedures

The Council and Waimea Irrigators Ltd agree annually with the Company a Statement of Intent. The Purpose of the Statement of Intent is to:

a) State publically the activities and intentions of the company for the year along with conformation of their objectives and the activity that will contribute ; and
b) Provide an opportunity for shareholders including Council to influence the direction of the company; and
c) Provide a basis for the accountability of the directors to their shareholders for the overall performance of the company.
   Six monthly reports are received and reviewed by Council. Election of directors takes place at the Company's annual meeting. Director appointments by shareholders and Ngati Koata are subject to approval by the other shareholder(s).

12.0 APPENDIX 2

12.1. Borrowing Instruments Definitions

1 Bank Sourced Borrowing

1.1 Bank Bill Facilities

Commercial Bills cover all types of bills of exchange which are defined under the Bills of Exchange Act 1908 as:

“An unconditional order in writing, addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at fixed or determinable future time, a sum certain in money to, or to the order of a specified person, or to bearer.”

Bank bill facilities are normally for a term of up to three years, but may be for as long as five years. Bank Bills are bills of exchange, drawn or issued usually by the original borrower and accepted or endorsed by a bank.

For a Bank Accepted Bill, the bank makes the payment of the face value of the bill on maturity. Most bank bills traded in the New Zealand market are Bank Accepted Bills.

Bank Endorsed Bills have been endorsed by a bank with another party as acceptor. In the event of default of the original acceptor, payment can be sought through the chain of endorsers to the bill.

An investor in bank bills can sell the bills prior to maturity date and receive the cash. Bank bills are a longer term borrowing instrument than cash loans. Bills are normally drawn for terms of 30, 60 or 90 days, with a few being drawn for 180 days. The 90 day bank bill is the underlying traded bench mark instrument for the short end of the market.

Costs
The principal costs to the borrower are the discounting bank’s yield at which it discounts the bill at the time of draw down, an arrangement fee, and acceptance fee and line fee (expressed in basis points or percentage per annum) and margin. Acceptance fees, arranger fees, line fees and margins in aggregate normally range between 35-300 basis points (i.e. 0.35%-3.00%), depending on the credit worthiness of the borrower.

1.2 Revolving Credit Facilities

(Variable Amount Term Loans)
Revolving credit facilities are similar from a borrower’s perspective, except interest is paid in arrears rather than upfront as in the case of bank bills. Revolving credit facilities are usually for a term of up to three years but may be for as long as five years and like bank bills, drawings under the facility are

priced off the bank bill buy rate. Most facilities allow for the borrower to draw up to the facility amount in various tranches of debt and for various terms out to a maximum term of the maturity date of the facility. Like bank bills, most borrowers use these facilities to borrow on a 90 day basis.

Costs
The principal costs are the same as with bank bills the lending banks yield which sets the base rate at the time of lending, an arrangement fee, an acceptance fee and a line fee (expressed in basis points or percentage per annum) and the margin. Acceptance fees, arranger fees, lines fees and margins in aggregate normally range between 35-300 basis points (i.e. 0.35%-3.00%), depending on the credit worthiness of the borrower.

1.3 Short-term Money Market Lines

Short-term money market loans or cash loans can be Committed or Uncommitted. A customer pays for a guarantee of the availability of the funds in a Committed Loan. 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 main usage 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.

13.0 APPENDIX 3

13.1. The Risk Management Tool Kit

1 Approved Interest Rate Risk Management Instruments

a) Interest rate risk management instruments approved for use, consistent with the policy contained in Section 3.5 are:
- Fixing through physical borrowing instruments – loan stock, debentures, medium term notes, bank term loan.
- Floating through physical borrowing instruments – short-term revolving stock, bank borrowing, promissory note programme.

b) The following interest rate risk management instruments are available for interest rate risk management activity, but are to be specifically approved by the Council (refer to glossary of terms):

Forward rate agreements ("FRAs") ON:
- Bank bills
- Government bonds

Interest rate swaps including:
- Forward start swaps
- Amortising swaps (whereby notional principal amount reduces)
- Swap extensions and shortenings

Interest rate options on:
- Bank bills (purchased caps and one for one collars)
- Interest rate swaps (purchased swaptions and one for one collars)
- Government bonds

Any other financial instrument must be specifically approved by Council on a case-by-case basis and only be applied to the one singular transaction being approved.

Credit exposure on these financial instruments is restricted by specified counterparty credit limits:
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable where the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, the sold option can be closed out by itself (i.e. repurchased). The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions mature within 18 months.
- Forward start period on swaps and collar strategies to be no more than 24 months, and the underlying cap or swap starts within this period.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 1.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.
- Buying and selling of financial futures is not permitted, primarily due to the administrative burden and the ready availability of other more tailored risk

management products.

- 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.

14.0 APPENDIX 4

14.1. Glossary of Terms

- ***Amortising Swap***: An interest rate swap contract that has a reducing principal or notional amount over the term of the contract period. The appropriate market swap rate from which to price an amortising swap is the weighted average maturity, not the final maturity date.

- ***Accreting Swap***: An interest rate swap contract that has an increasing principal or notional amount over the term of the contract period. The appropriate market swap rate from which to price an accreting swap is the weighted average maturity, not the final maturity date.

- ***Bank Bill***: A “bill of exchange” security document issued by a corporate borrower, but guaranteed by a bank, who then in turn sells the security into the bank/investor market to re-liquefy itself with cash. Normally for terms of 30, 60, 90 or 180 days.

- ***Bank Bill Benchmark Rate (BKBM):*** The accepted interest rate-fixing benchmark for New Zealand loans and other instruments (including interest rate swaps). Administered by the New Zealand Financial Markets Authority (NZFMA).

- ***Base Rate***: Normally a lending bank’s cost of funds/interest rate for a particular funding period. The base or “prime” rate will be changed by the bank from time to time, but not every day like market rates.

- ***Basis Point(s)***: In financial markets it is normal market practice to quote interest rates to two decimal places, e.g. 6.25% - one basis point is the change from 6.25% to 6.26%, one hundred basis points is the change from 6.25% to 7.25%.

- ***Basis Risk***: The risk that there is not a perfect relationship between the exposure being managed and the instrument being used to manage the risk.

- ***Benchmark***: An agreed market related yardstick that investor returns, funding costs or average exchange rate achieved are compared against for performance measurement purposes.

- ***Bid-Offer Spread***: The exchange points (FX) or basis points (interest rates) difference between the bid and offer rate when quoted by a bank is known as the “bid-offer spread”. Banks make their profits from dealing at their own bid and offer prices, thus earning the spread.

- ***Bid Rate***: Exchange rates and interest rate securities/instruments that are traded between banks are always quoted as a two-way price. One rate is where the quoting bank will buy – the bid rate, the second rate or price where the bank will sell at – the offer rate.

- ***Bond***: The security instrument that is issued by a borrower whereby they promise to repay the principal and interest on the due dates. A bond’s interest rate is always fixed.

- ***Bond FRA***: A tailored contract to buy or sell a bond (government or corporate) at a fixed interest rate at some specified future date. The Bond FRA contract rate will differ from the current physical market bond yield, depending on the slope of the interest rate yield curve.

- ***Bond Option***: The right, but not the obligation by the owner/holder of the option to buy or sell bonds (government or corporate) at a predetermined interest rate at a specified future date. The buyer pays a "premium" in cash up-front to reduce risk and have insurance-type protection, the seller or grantor of the bond option receiving the premium for assuming the risk.

- ***Call Option***: The owner or buyer of a call option has the right, but not the obligation, to buy the underlying debt security/currency/commodity at the price stated in the option "contract".

- ***Cap***: A series or string of bought interest rate put options whereby a borrower can have protection against rising short-term interest rates, but participate in the lower rates if market rates remain below the "capped rate". A cap is normally for more than one 90-day funding period.

- ***Certificate of Deposit "CD"***: A debt instrument (normally short-term) issued by a bank to borrow funds from other banks/investors.

- ***Closing-Out***: The cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss as the current market rate differs from the contract rate.

- ***Collar Two***: Option contracts linked together into the one transaction or contract. A borrower's collar is normally a bought "cap" above current market rates and a sold "floor" below current rates. Over the term of the collar contract, if rates go above the cap the borrower is protected and pays an interest cost no more than the cap rate. Likewise, if market rates fall below the floor, the borrower pays the floor rate and does not participate in the lower market rates. Also called a "cylinder".

- ***Collateral / Credit support***: A legal term means "security".

- ***Commercial Paper***: The debt security
instrument issued by a prime (and normally credit-rated) borrower to raise short-term funds (30, 60, 90 or 180 days). Also called "one-name paper" and "promissory notes" issued by competitive public tender to investors or by private treaty to one investor.

- ***Commoditised***: When a financial market or instrument becomes so popular and "plain vanilla" that there is no longer any difference in the prices quoted by participants in the market.

- ***Convexity***: A measure of the degree of curve or slope in an interest rate yield curve.

- ***Coupon***: The interest rate and amount that will be paid on the interest due dates of a bond. The coupon will normally differ from the purchase or issue yield/interest rate on a bond instrument.

- ***Counterparty***: The contracting party to a financial transaction or financial instrument.

- ***Covenants***: Special conditions and financial ratios required to be met or maintained by a borrower for a lender under the legal security documents.

- ***Cover***: A term used to describe any action of entering financial instruments that reduces risk or puts protection in place against adverse future price movements.

- ***Credit Risk or Exposure***: The risk that the other party to a financial transaction (bank deposit, interest rate swap contract) will default on or before the maturity date and not be able to fulfil their contractual obligations.

- ***Credit Spread***: The interest rate difference (expressed as basis points) between two types of debt securities. The credit spread being a reflection of the difference in credit quality, size, and liquidity between the two securities e.g. five year corporate bonds may be at a credit spread of 200 basis points above Government bonds.

- ***CSFB NZGS Index***: Credit Suisse First Boston NZ Government Stock Index.

- ***Current Ratio***: A liquidity measure to determine how quickly Council can generate cash. Current assets are divided by current liabilities.

- ***Debenture***: A debt instrument similar to a bond whereby a borrower (normally a finance company) borrows for a longer term at a fixed rate. Also a legal instrument provided as security to a lender.

- ***Delta***: “Greek” letter that measures how the price of an option (premium) changes given a movement in the price of the underlying asset/instrument.

- ***Derivative(s)***: A “paper” contract whose value depends on the value of some “underlying” referenced asset e.g. share market stocks, bank bills, bonds or foreign currency. Also called a “synthetic”. The value of the assets will change as its market price changes; the derivative instrument will correspondingly change its value.

- ***Digital Option***: An option contract that provides a predetermined pay-out based on an agreed and contracted market price path.

- ***Discount***: A bond or bank bill is discounted when the interest rate is applied to the face value of the security and the net proceeds after deducting the interest is paid out to the borrower. Investors pay for the discounted (NPV) value at the commencement of the investment and receive the interest coupon payments along the way and the full face value at the maturity date.

- ***Duration***: Not the simple average maturity term of a debt or investment portfolio, but a measure of the interest rate risk in a portfolio at a particular point in time. The duration of a portfolio is the term (measured in years and months) if the total portfolio of bonds/fixed interest investments was revalued at market rates and expressed as one single bond. The profit/loss on revaluation of a one basis point movement being the same in both cases.

- ***Embedded Option***: An option arrangement that may be exercised by a borrower at a future date, but the determining conditions are buried or "embedded" in a separate debt or financial instrument.

- ***Eurodollar***: The borrowing and depositing of a currency outside its domestic financial markets.

- ***Event Risk***: The risk of a major/unforeseen catastrophe e.g. earthquake, year 2000, political elections adversely affecting a Council's financial position or performance.

- ***Exchange Traded***: A currency, debt or financial instrument that is quoted and traded on a formal exchange with standardised terms, amounts and dates.

- ***Exercise Date/Price***: The day and fixed price that an option contract is enforced/actioned or "exercised" because it is in the interests of one of the parties to the contract to do so.

- ***Fair Value***: The current market value of an off-balance sheet financial instrument should it be sold or closed-out on the market rates ruling at the balance date.

- ***Federal Reserve***: The US Government's central bank and/or monetary authority.

- ***Fixed Rate***: The interest rate on a debt of financial instrument is fixed and does not change from the commencement date to the maturity date. Fixed is defined as an interest rate that does not change in the next 12 months.

- ***Floating Rate***: The interest rate on a loan or debt instrument is re-set at the ruling market interest rates on the maturity date of the stipulated funding period (usually 90-days). Floating is defined as an interest rate that changes in the next 12 months.

- ***Floor***: The opposite of a "cap: An investor will buy a floor, or a series/string of call options (the right to buy) to protect against falling interest rates, but be able to invest at higher interest rates if rates move upwards. A borrower may sell a floor as part of a collar structure to generate premium to pay for the "linked" bought cap.

- ***Forward Rate Agreement***: A contract ("FRA") whereby a borrower or investor in Bank Bills or Government Bonds agrees to borrow or invest for an agreed term (normally 90-days) at a fixed rate at some specified future date. A FRA is an "over-the-counter" contract as the amount and maturity date is tailored by the bank to the specific requirements of the borrower/investor.

- ***Forward Start Swap***: An interest rate swap contract that commences at a future specified date. The rate for the forward starting swap will differ from the current market rate for swaps by the shape and slope of the yield curve.

- ***Funding Risk***: The risk that a borrower cannot re-finance its debt at equal or better terms at some date in the future, in terms of lending margin, bank fees and funding time commitment. Funding risk may increase due to the Council's own credit worthiness, industry trends or banking market conditions.

- ***Futures***: Exchange-traded financial and commodity markets which provide forward prices for the underlying asset, instrument or commodity. Futures contracts are standardised in amount, term and specifications. Futures markets are cash-based, transacting parties do not take any counter party credit risk on each other. Deposits and margin-calls are critical requirements of all futures markets.

- ***Gamma***: "Greek" letter used in option pricing that measures how rapidly the delta of an option changes given a change in the price of the underlying asset/instrument.

- ***Guarantee***: a legal undertaking whereby the financial indebtedness of an entity is legally assumed by another entity upon certain pre-agreed non-payment events (i.e. non-payment of interest amounts on due date).

- ***Hedging***: The action of reducing the likelihood of financial loss by entering forward and derivative contracts that neutralise the price risk on underlying financial exposures or risks. The gain or loss due to future price movements on the underlying exposure is offset by the equal and opposite loss and gain on the hedge instrument.

- ***High-Yield Bonds***: Corporate bonds issued by borrowing companies that are non-prime i.e. have a low or no credit rating. The margin or credit spread above Government bonds yields is high (>300 basis points) to compensate the investor into the bond for the higher credit and liquidity risk.

- ***Implied Volatility***: Used in option pricing. To estimate the future volatility of the underlying asset or instrument, the option pricing models use historical volatility (expressed as percentage) as a key variable to calculate the option premium amount. The movement in option prices is therefore a good indicator of future market volatility, as volatility is "implied" in the option price.

- ***Index Linked Bonds***: Debt instruments that pay an interest coupon or return that is wholly or partially governed by the performance of another separate index e.g. a share market index, or the gold price.

- ***ISDA International Security Dealers Association***: A governing body that determines legal documentation/standards for over-the-counter swaps/options/FRAs and other derivative instruments for interest rates, currencies, commodities etc. Corporate users of such instruments sign an ISDA Master Agreement with banking counterparties that covers all transactions.

- ***Incidental Arrangements***: The term used in the Local Government Act for interest rate risk management instruments or derivatives.

- ***Interest Rate Swaps***: A binding paper contract where one party exchanges, or swaps, its interest payment obligations from fixed to floating basis, or floating to fixed basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.

- ***"In-the-Money" Option***: An option contract that has a strike price/rate that is more favourable or valuable than the current market spot or forward rate for the underlying currency/instrument.

- ***Inverse Yield Curve***: The slope of the interest rate yield curve (90-days to 10+ years) is "inverse" when the short-term rates are higher than the long-term rates. The opposite, when short-term rates are lower than long-term interest rates is a normal curve or "upward sloping". In theory, a normal curve reflects the fact that there is more time, therefore more time for risk to occur in long-term rates; hence they are higher to build in this extra risk premium.

- ***Liability Management***: The policy, strategy and process of proactively managing the treasury exposures arising from a portfolio of debt.

- ***LIBOR***: London Inter-bank Offered Rate, the average of five to six banks quote for Eurodollar deposits in London at 11.00 am each day. The accepted interest rate-fixing benchmark for most offshore loans.

- ***Limit(s)***: The maximum or minimum amount or percentage a price or exposure may move to before some action or limitation is instigated. Also called "risk control limits".

- ***Liquidity Risk***: The risk that Council cannot obtain cash/funds from liquid sources or bank facilities to meet foreseen and unforeseen cash requirements. The management of liquidity risk involves working capital management and external bank/credit facilities.

- ***"Long" Position***: Holding an asset or purchased financial instrument in anticipation that the price will increase to sell later at a profit.

- ***Look-back Option***: An option structure where the strike price is selected and the premium paid at the end of the option period.

- ***Marked-to-Market***: Financial instruments and forward contracts are revalued at current market rates, producing an unrealised gain or loss compared to the book or carrying value.

- ***Margin***: The lending bank or institution's interest margin added to the market base rate, normally expressed as a number of basis points.

- ***Medium Term Notes***: A continuous programme whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.

- ***Moody's***: A rating agency similar to Standard & Poor's.

- ***Net External Debt***: Total external debt less liquid assets.

- ***Netting***: Method of subtracting currency receivables from currency payables (and vice versa) over the same time period to arrive at a net exposure position.

- ***Open Position***: Where a Council has purchased or sold an asset, currency, financial security or instrument unrelated to any physical exposure, and adverse/favourable future price movements will cause direct financial loss/gain.

- ***Option Premium***: The value of an option, normally paid in cash at the commencement of the option contract, similar to an insurance premium.

- ***Order***: The placement of an instruction to a bank to buy or sell a currency or financial instrument at a preset and pre-determined level and to transact the deal if and when the market rates reach this level. Orders are normally placed for a specific time period, or "good till cancelled". The bank must deal at the first price available to them once the market level is reached. Some banks will only take orders above a minimum dollar amount.

- ***"Out-of-the-Money":*** An option contract which has a strike price/rate that is unfavourable or has less value than the underlying current spot market rate for the instrument.

- ***Over-the-Counter***: Financial and derivative instruments that are tailored and packaged by the bank to meet the very specific needs of the corporate client in terms of amount, term, price and structure. Such financial products are non-standard and not traded on official exchanges.

- ***Perpetual Issue***: A loan or bond that has no final maturity date.

- ***Pre-hedging***: Entering forward or option contracts in advance of an exposure being officially recognised or booked in the records of the Council.

- ***Primary Market***: The market for new issues of bonds or MTNs.

- ***Proxy Hedge***: Where there is no forward or derivative market to hedge the price risk of a particular currency, instrument or commodity. A proxy instrument or currency is selected and used as the hedging method as a surrogate. There needs to be a high correlation of price movements between the two underlying prices to justify using a proxy hedge.

- ***Put Option***: The right, but not the obligation to sell a debt security/currency/commodity at the contract price in the option agreement.

- ***Revaluation***: The re-stating of financial instruments and option/forward contracts at current market values, different from historical book or carrying values. If the contracts were sold/bought back (closed-out) with the counter party at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.

- ***Roll-over***: The maturity date for a funding period, where a new interest rate is reset and the debt re-advanced for another funding period.

- ***Secondary Market***: The market for securities or financial instruments that develops after the period of the new issue.

- "***Short" Position***: Selling of an asset or financial instrument in anticipation that the price will decrease or fall in value to buy later at a profit.

- ***Spot Rate***: The current market rate for currencies, interest rates for immediate delivery/settlement, and normally two business days after the transaction is agreed.

- ***Standard & Poor's***: A credit rating agency that measures the ability of an organisation to repay its financial obligations.

- ***Stop Loss***: Bank traders use a "stop-loss order" placed in the market to automatically closeout an open position at a pre-determined maximum loss.

- ***Strike Price***: The rate or price that is selected and agreed as the rate at which an option is exercised.

- ***Strip***: A series of short-term interest rate FRAs for a one or two year period, normally expressed as one average rate.

- ***Structured Options***: An option instrument where the relationship/profile to the underlying referenced asset or liability is not linear, i.e. 1:1.

- ***Swap Spread***: The interest rate margin (in basis points) that interest rate swap rates trade above Government bond yields.

- ***Swaption*** - An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.

- ***Swaption Collar*** – The simultaneous position of entering into 2 option contracts on 2 interest rate swaps linked together into one transaction. A swaption collar performs similarly to a 'collar' where from a borrower's perspective a top-side position above current market rates and a bottom-side position below current market rates are entered into. On maturity of the options and depending on current interest rates relative to the strike levels on the swaps will determine if either swap is transacted.
-
- ***Time Value***: Option contracts taken for longer-term periods may still have some time value left even though the market rate is a long way from the strike rate of the option and the option is unlikely to be exercised.

- ***Tranches***: A loan may be borrowed in a series of partial drawdowns from the facility, each part is called a tranche.

- ***Treasury***: Generic term to describe the activities of the financial function within Council that is responsible for managing the cash resources, financial investments, debt, and interest rate risk.

- ***Treasury Bill***: A short-term (<12 months) financing instrument/security issued by a government as part of its debt funding programme.

- ***Uncalled Capital***: Capital, usually in the form of shares, that have been issued but have not yet been called for payment.

- ***Vega***: Another "Greek" letter that is the name given to the measure of the sensitivity of the change in option prices to small changes in the implied volatility of the underlying asset or instrument price.

- ***Volatility***: The degree of movement or fluctuation (expressed as a percentage) of an asset, currency, commodity or financial instrument price over time. The percentage is calculated using mean and standard deviation mathematical techniques.

- ***Yield***: Read-interest rate, always expressed as a percentage.

- ***Yield Curve***: The plotting of market interest rate levels from short-term (90-days) to long-term on a graph i.e. the difference in market interest rates from one term (maturity) to another.

- ***Zero Coupon Bond***: A bond that is issued with the coupon interest rate being zero i.e. no cash payments of interest made during the term of the bond, all interest paid on the final maturity date. In effect the borrower accrues interest on interest during the term, increasing the total interest cost compared to a normal bond of paying interest quarterly, half-yearly or annually.

15.0 APPENDIX 5

15.1. List of Council approved Financial Institutions and their date of registration

		Standard & Poor's		Moody's		Fitch	
Registered Banks	Date of RBNZ registration	Short	Long	Short	Long	Short	Long
ANZ Banking Group (NZ) Ltd	1 April 1987	A-1+	AA-	P-1	Aa3	F1+	AA-
ASB Bank Ltd	11 May 1989	A-1+	AA-	P-1	Aa3	F1+	AA-
Bank of New Zealand	1 April 1987	A-1+	AA-	P-1	Aa3	F1+	AA-
Rabobank New Zealand	7 July 1999	A-1+	A	P-1	Aa3	F1+	AA-
KiwiBank	29 November 2001	A-1+	A	-	-	-	-
TSB Bank Ltd	8 June 1989			-	-	F2	A-
Westpac Banking Corporation	1 April 1987	A-1+	AA-	P-1	Aa3	F1+	AA-

16.0 APPENDIX 6

16.1. 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.

1 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 stock is 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 has fixed coupon payments payable by the RBNZ every six months. They are priced on a semi-annual yield basis and are issued at a discount to face value. They are readily negotiable in the secondary market.

2 Local Authorities

Local Authority stock are registered securities issued by a wide range of local government bodies. They are usually available for maturities ranging from one to 10 years. A fixed or floating coupon payment is made semi-annually and quarterly respectively to the holder of the security. They are negotiable and usually can be bought and sold in the secondary market, but liquidity can be patchy. Both credit rated and unrated local authorities also issue commercial paper similar to that described in the corporate section below.

3 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.

Certificates of deposits are securities issued by banks for their borrowing needs or to meet investor demand. Registered certificates of deposit (RCDs) are non-bearer securities in that the name of the investor, face value and maturity date are recorded at the Reserve Bank and settled through Austraclear. They are paperless securities and are able to be transferred by registered transfer only. RCDs are priced on a yield rate basis and issued at a discount to face value. They are generally preferred over term deposits because investors can sell them prior to maturity.

Bank bills are bills of exchange drawn or issued, usually by a corporate borrower and accepted or endorsed by a bank. The investor is exposed to bank credit risk when investing in such instruments. Bank bills are readily available for any maturity up to 180 days, although 30 to 90 day terms are more common. They are priced on yield basis and issued at a discount to face value. Investors in bank bills can sell the bills prior to maturity date.

4 Corporate

Corporate bonds are generally issued by companies with good credit ratings. These bonds can be registered securities or bearer instruments. A fixed coupon payment is made semi-annually to the holder of the security (MTN). They are priced on a semi-annual yield basis and are issued at a discount to face value. Corporate bonds are negotiable and can be bought and sold in the secondary market.

Promissory notes or commercial paper are 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. The notes are usually underwritten by financial institutions to ensure that the borrower obtains the desired amount of funds. Promissory notes are issued with maturities ranging from seven days to over one year. The common maturities are for 30 and 90 days. The face value of the note is repaid in full to the bearer on maturity.

5 LGFA Borrower Notes

In borrowing from the LGFA, the Council agrees to the issue of borrower notes to the value of 1.6% of the total amount borrowed. These will be held by the LGFA while the borrowing is outstanding and may in certain situations convert to shares in the LGFA. Also, as a Guaranteeing Local Authority the Council is required to commit to subscribe for redeemable shares in the LGFA in certain circumstances. As the LGFA is a Council Controlled Organisation, the Council has undertaken specific consultation to satisfy the requirements of section 56 of the Local Government Act 2002.

17.0 APPENDIX 7

17.1. S & P Ratings

S & P Australian Ratings Rating Code
AAA rated corporations, financial institutions, governments or asset-backed financing structures (entities) have an extremely strong capacity to pay interest and repay principal in a timely manner.

AA rated entities have a very strong capacity to pay interest and repay principal in a timely manner and differ from the highest rated entities only in a small degree.

A rated entities have a strong capacity to pay interest and repay principal in a timely manner, although they may be somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than those in higher rating categories.

BBB rated entities have a satisfactory or adequate capacity to pay interest and repay principal in a timely manner. Protection levels are more likely to be weakened by adverse changes in circumstances and economic conditions than for borrowers in higher rating categories.

BB rated entities face ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to a less adequate capacity to meet timely debt service commitments.

B rated entities are more vulnerable to adverse business, financial or economic conditions than entities in higher rating categories. This vulnerability is likely to impair the borrower’s capacity or willingness to meet timely debt service commitments.

CCC rated entities have a currently identifiable vulnerability to default and are dependent upon favourable business, financial and economic conditions to meet timely debt service commitments. In the event of adverse business, financial or economic conditions, they are not likely to have the capacity to pay interest and repay principal.

CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied “CCC” rating.

C rated entities have high risk of default or are reliant on arrangements with third parties to prevent defaults.

D rated entities are in default. The rating is assigned when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired. The “D” rating is also used upon the filing of insolvency petition or a request to appoint a receiver if debt service payments are jeopardised.

Entities rated “BB”, “B”, “CC” and “C” are regarded as having predominately speculative characteristics with respect to the capacity to pay interest and repay principal. “BB” indicates the least degree of speculation and “C” the highest. While such entities will likely to have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

The ratings from “AA” to “CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Credit Watch highlights an emerging situation which may materially affect the profile of a rated corporation.

Short-term Ratings Including Commercial paper (up to 12 months).

A1 rated entities possess a strong degree of safety regarding timely payment. Those entities determined to possess extremely strong safety characteristics are denoted with an “A1+” designation.

A2 rated entities have a satisfactory capacity for timely payment. However the relative degree of safety is not as high as for those rated “A1”.

A3 rated entities have an adequate capacity for timely repayment. They are more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.

Entities receiving a “B” rating have only a speculative capacity for timely payment. Those with “B1” have a greater capacity to meet obligations and are somewhat less likely to be weakened by adverse changes in the environment and economic conditions than those rated “B2”.

C1 rated entities possess a doubtful capacity for payment.

D1 rated entities are in default.

18.0 APPENDIX 8

18.1. Tasman District Council Bank Accounts

- ASB Bank Current Accounts
- ASB Commercial Call Accounts
- ASB Bank Money Market Account
- ANZ Bank Money Market Account
- Westpac Bank Money Market Account
- Westpac Bank Current Account