Absolutely Positively **Wellington** City Council
Me Heke Ki Pōneke

ORDINARY MEETING

OF

FINANCE, AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

AGENDA

Time:	**2:00 pm**
Date:	**Thursday, 7 December 2017**
Venue:	**Committee Room 1** **Ground Floor, Council Offices** **101 Wakefield Street** **Wellington**

MEMBERSHIP

Mayor Lester
Councillor Calvert
Councillor Foster (Chair)
Peter Harris (External)
Phillippa Smith (External)
Roy Tiffin (External)
Councillor Young

Have your say!
You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 803-8334, emailing public.participation@wcc.govt.nz or writing to Democratic Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number and the issue you would like to talk about.

AREA OF FOCUS

The Finance, Audit and Risk Management Subcommittee provides objective advice and recommendations regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the council's financial processes, risk management, control and governance frameworks and processes. It is also responsible for exercising active oversight of all areas of the Council's control and accountability in an integrated and systematic way.

The Finance, Audit and Risk Management Subcommittee has responsibility for assisting the Council to discharge its responsibilities for:

- the robustness of the internal control framework and financial management practices;
- the integraity and appropriateness of internal and external reporting and accountability arrangements;
- the robustness of risk management systems, processes and practices;
- the independence and adequacy of internal and external audit functions;
- compliance with applicable laws, regulations, standards and best practice guidelines; and
- the establishment, maintenance and effectiveness of controls to safeguard the Council's financial and non-financial assets.

In fulfilling their role on the Finance, Audit and Risk Management Subcommittee, members shall be impartial and independent at all times.

Quorum: 3 members (at least one external member must be present for a quorum to exist).

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Me Heke Ki Pōneke

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Business **Page No.**

1 Meeting Conduct

1. 1 Apologies
The Chairperson invites notice from members of apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

1. 2 Conflict of Interest Declarations
Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

1. 3 Confirmation of Minutes
The minutes of the meeting held on 20 September 2017 will be put to the Finance, Audit and Risk Management Subcommittee for confirmation.

1. 4 Public Participation
A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.

1. 5 Items not on the Agenda
The Chairperson will give notice of items not on the agenda as follows:

Matters Requiring Urgent Attention as Determined by Resolution of the Finance, Audit and Risk Management Subcommittee.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

Minor Matters relating to the General Business of the Finance, Audit and Risk Management Subcommittee.

No resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Finance, Audit and Risk Management Subcommittee for further discussion.

2. General Business

CHANGES TO TREASURY MANAGEMENT POLICY & GUIDELINES

Purpose

1. The purpose of this report is to present the changes to the Council's Treasury Management Policy, Investment Policy and Liability Management Policy to the Subcommittee. This report outlines the changes and the reasons for their adoption.
2. Finance, Audit and Risk Management Subcommittee, has the delegation, as part of the review of Internal Control Framework, to "review whether management has in place relevant policies and procedures and how these are reviewed and monitored".

Summary

Recommendation/s

That the Finance, Audit and Risk Management Subcommittee:

1. Receive the information.
2. Note the changes to the Treasury Management Policy, Investment Policy and Liability Management Policy.

Background

3. The Local Government Act 2002 (LGA) requires councils to have an Investment Policy and Liability Management Policy, which set the broad parameters of how a council will manage its investments and borrowings and related financial risks. These policies set out the general policy objectives, borrowing maturities, interest rate profiles, liquidity and security of a Council.
4. The purpose of the Treasury Management Policy and its supporting guidelines is to underpin the Investment and Liability Management Policies. It outlines the approved operating policies and procedures in respect of all treasury activity to be undertaken by the Council. The Treasury Management Policy is delegated to be set by Treasury Management Committee which includes an independent consultant and senior officers.
5. To ensure the Council's investments, borrowings and related financial risks are prudently managed, the Treasury Management Policy is reviewed annually. Identified changes are then applied to the Investement Policy and Liability Management Policy.
6. During a review undertaken by the Treasury Management Committee, a small number of changes have been identified and implemented.

Discussion

7. A number of new minor changes have resulted from the latest review and are discussed below.

8. **Counterparty Limits for Deposits**

The Council borrows from, and deposits with, approved institutions with satisfactory credit ratings. Council's Treasury Management Policy sets the limits applied for different types of counterparties (e.g. LGFA, NZ Registered Bank, NZ Government etc.) to ensure the risk associated with the each is minimised. Limits should be spread amongst a number of counterparties to avoid concentration of risk exposure.

With a reduction in credit rating for Kiwi Bank, an issue arose which affected the Council counterparty limits of deposits. We have adjusted the policy to address these changes. The minimum credit rating for New Zealand Registered Banks has been split into two sections. For institutions rated A/A+ the counterparty limits are set at a lower level compared to institutions rated AA and above (changes are reflected in the tables below). By adjusting the policy we maintain the number of counterparties which spreads the risk between counterparties institutions. Any risk associated with a slightly lower counterparty credit rating has been mitigated by differentiating the maximum investment in counterparties with a lower credit rating. This approach is consistent with that of other organisations.

Before changes:

1. **Counterparty / Issuer**	2. **Minimum credit rating**	3. **Investments maximum per counterparty ($m)**	4. **Borrowings, maximum per counterparty ($m)**	5. **Interest rate risk management instrument maximum per counterparty ($m)**	6. **Total maximum per counterparty ($m)**
NZ Registered Bank	A+ (LT)	30.0	125.0	100.0	170.0

After changes:

7. **Counterparty / Issuer**	8. **Minimum credit rating**	9. **Investments maximum per counterparty ($m)**	10. **Borrowings, maximum per counterparty ($m)**	11. **Interest rate risk management instrument maximum per counterparty ($m)**	12. **Total maximum per counterparty ($m)**
NZ Registered	A/A+ AA/AA-	30.0 40.0	125.0 125.0	100.0 100.0	130.0 140.0

Bank					

9. **Local Government Funding Agency Covenant**

As the Council largely relies on Local Governement Funding Agency (LGFA) for its long term funding (currently 80.4% of Floating Rate Notes), it is required to meet the covenants defined in the LGFA Shareholders Agreement. To address its lending risk LGFA requires 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. This covenant has now been added to the Council's Treasury Management Policy.

10. **Funding Risk Control Limits**

The Treasury Management Policy breaks the term of debt instruments into three periods: 0 to 3 years; 3 to 5 years and 5 years plus. The maturity profile of the total committed funding in respect to all debt instruments is to be maintained within specifically defined ranges. These limits have been matched across all periods to be within the range of 15% to 60%. The change (lowering the minimum range from 20% to 15%) reflects sector practice and to allow for a greater flexibility for debt maturities beyond three years. The change also helps to ensure the flexibility in the policy so that Council is not required to source additional funding capacity within a maturity time band where there is sufficient overall liquidity and prudent spread of maturities.

The changes are highlighted in the tables below.

Before changes:

13. **Period**	14. **Minimum**	15. **Maximum**
0 to 3 years	20%	60%
3 to 5 years	20%	60%
5 years plus	15%	60%

After changes:

16. **Period**	17. **Minimum**	18. **Maximum**
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

Attachments

Attachment 1. Treasury Management Policy & Guidelines - August 2017 Page 12

Authors	Alina Manko, Funding Analyst Martin Read, Manager Financial Strategy & Treasury

Authoriser	Andy Matthews, Chief Financial Officer

SUPPORTING INFORMATION

Engagement and Consultation
<insert text here>

Treaty of Waitangi considerations
<insert text here>

Financial implications
<insert text here>

Policy and legislative implications
Changes to the policies are highlighted above, and there are are no new legislative implications.

Risks / legal
<insert text here>

Climate Change impact and considerations
<insert text here>

Communications Plan
<insert text here>

Health and Safety Impact considered
<insert text here>

TREASURY MANAGEMENT POLICY & GUIDELINES

August 2017

Document Owner	Wellington City Council – Treasury Manager
Previous version	August 2017

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1.0 INTRODUCTION

1.1 PURPOSE OF POLICY GUIDELINES

The Local Government Act 2002 (LGA) requires councils to have an Investment and Liability Management Policy, which sets the broad parameters of how a council will manage its investments and borrowings and related financial risks. These policies are prepared as part of the Long-term Plan (LTP).

They set out the general policy objectives, borrowing maturities, interest rate profiles, liquidity and security of a council.

The purpose of the Treasury Management Policy (the Policy) and its supporting guidelines is to underpin the Investment and Liability Management Policies. It outlines the approved operating policies and procedures in respect of all treasury activity to be undertaken by Wellington City Council ("the Council"). The formalisation of such policies and procedures enables treasury risks within the Council to be prudently managed.

This Policy does not apply to the Council Controlled Organisations.

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

- Industry "best practices" for a Council the size and type of Wellington City Council.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Policy and treasury function to recognise, measure, control, manage and report on the Council's financial exposure to market interest rate risks, funding risk, liquidity risks and other associated risks.
- The operation 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.
- Assist the Council in achieving strategic objectives.
- The requirement to maintain the Council's credit rating.

The Policy is distributed to all personnel involved in any aspect of the Council's financial management. In this respect, staff are expected to be completely familiar with their responsibilities under this policy at all times.

2.0

SCOPE, PRINCIPLES, OBJECTIVES & ORGANISATIONAL STRUCTURE

2.1 SCOPE

- This document identifies the operating policy and procedures of the Council in respect of its treasury management activities.
- The Policy has not been prepared to cover other aspects of the Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of the Council cover these matters.
- Planning tools and mechanisms are also outside of the scope of this Policy.
- The appendices to the Policy support and inform the policy but do not form part of the Treasury Management Policy.

2.2 PRINCIPLES

The Council delegates to management the appropriate transactional and reporting responsibilities to manage the day to day responsibilities of the treasury function including:

- Exposures are to be managed using approved hedging instruments as set out in this Policy
- Manage its debt on a net debt basis in order to reduce the overall net cost to the Council.
- The strategy for the management of exposures within the approved policy control limits will be determined by the Treasury Management Committee. The committee will meet on a regular basis to consider the day to day management of the Council's strategies.
- Timely, accurate and consistent reporting must be provided to management and the Council and/or its Committees
- All hedging activities must be linked to the directly identifiable financial market exposures faced by the Council. Trading or speculation is expressly prohibited.
- All breaches must be reported to the Chief Financial Officer and where appropriate the relevant Council Committee along with any remedial action that needs to be taken.

2.3 OBJECTIVES

The objective of this Treasury Management Policy is to control and manage risks to the Council's financial position affecting delivery of the Annual Plan/Long-term Plan. Specifically:

Statutory Objectives

- All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will be approved by resolution of the Council in accordance with the Local Government Act 2002.
- Reporting of financial performance in accordance with Local Government (Financial Reporting and Prudence) Regulations 2014.
- Any legal documentation in respect of new borrowing will be approved by the Council's solicitors.
- The Council will not enter into any borrowings denominated in a foreign currency.
- The Council will not transact with any Council Controlled Trading Organisation ("CCTO") on terms more favourable than that which the Council would achieve without pledging rates revenue.
- The Council will not guarantee the obligations of any CCTO, other than with respect to the Local Government Funding Agency ("LGFA").

- 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 the Council's costs and risks in the management of its borrowings and optimise its return on investments. Note that the Council's investments in Housing and Wellington International Airport are not covered by this Policy.
- Manage the Council's exposure to interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow and invest funds and transact risk management instruments within an environment of control and compliance under the Policy so as to protect the Council's financial assets and costs.
- Arrange and structure long term funding for the Council at the lowest achievable interest rate from lenders. Optimise flexibility and spread of the Council's debt maturity within the funding risk limits established by this Policy.
- Monitor and report on any financing or borrowing covenants and ratios under the obligations of the Council's lending/security arrangements.
- Periodically review the Council's return on investments in Council Controlled Trading Organisations ("CCTOs"), property and other shareholdings.
- Ensure the relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Seek to manage debt and interest rate risk within treasury best practise as far as possible within the confines of achieving high levels of hedge accounting treatment under PBE compliance.
- Develop and maintain relationships with financial institutions, brokers, investors, the LGFA, trustee and rating agencies.
- To ensure Council maintains the highest possible credit rating commensurate with its financial strength and nature of its operations of at least AA.

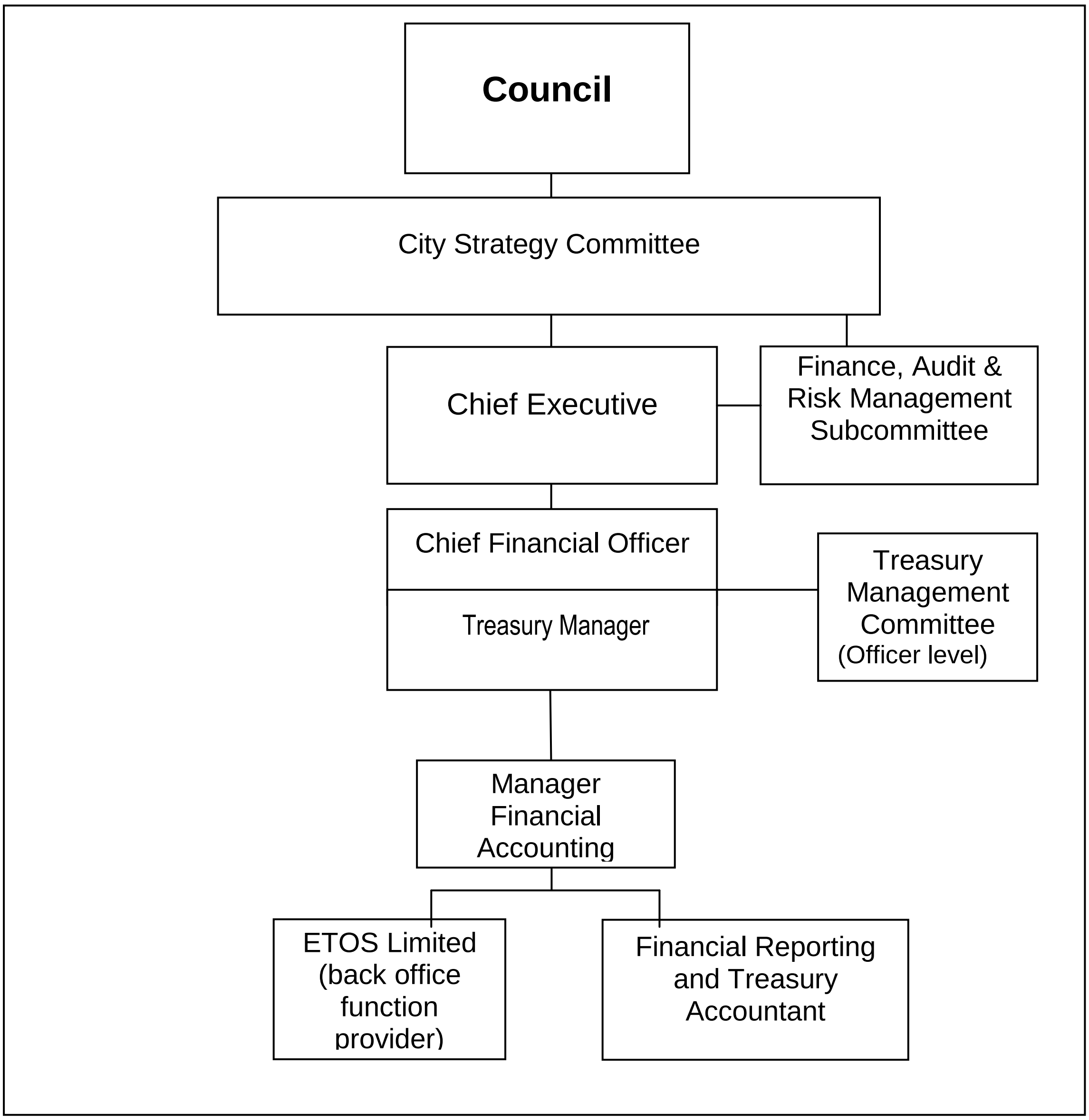
3.0

MANAGEMENT RESPONSIBILITIES

3.1 OVERVIEW OF MANAGEMENT STRUCTURE

- The Council will operate the treasury management function as part of its Finance Department, utilising the services of external advisors and providers where appropriate.
- All treasury management activities are to be undertaken by that function.

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



3.2 THE COUNCIL

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

In this respect, the Council has responsibility for approving:

- The long-term financial position of the Council through the Long-term Plan and Financial Strategy along with the approved Annual Plan.
- New borrowing arrangements not included in the Annual Plan.
- Purchase and sale of property and equity investments.
- Annual increases to total net borrowings (net debt [1]) as part of its approval of the Annual Plan.
- Approve and adopt the Investment and Liability Management Policies.

The Council must also ensure that:

- It receives regular information from management on risk exposure and financial instrument usage in a form, that is understood, and that enables it to make informed judgements as to the level of risk undertaken.
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved immediately.
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines.

3.3 CITY STRATEGY COMMITTEE

The City Strategy Committee will be responsible for providing recommendations to the Council in regard to the Council's Investment and Liability Management Policy and for the monitoring and review of the treasury function.

Responsibilities are as follows:

- Receive and review a quarterly treasury report as part of the Council quarterly reporting process.
- Recommend any changes to the Investment and Liability Management Policy to Council.
- Approve any treasury matters falling outside of policy but within the delegations of the Committee.

3.4 FINANCE, AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

- Receive internal audit reports on Treasury related matters.
- Review of the Council's Financial Policies as required under the LGA2002.

3.5

[1] Net Debt is calculated as total borrowings less total bank deposits and liquid investments.

TREASURY AND MANAGEMENT COMMITTEE

The Treasury Management Committee will be made up of the Chief Financial Officer, Treasury Manager, Manager CCOs and City Growth Projects and the Council's external treasury advisor on an ex-officio basis as required. Additional members can be added to the Committee on an ex-officio basis as required by the Chief Financial Officer. A quorum for the Treasury Management Committee is two members.

The Treasury Management Committee will consider and deliver on Financial Strategy and its responsibilities are as follows:

- Monitor all treasury positions on a monthly basis or more frequently if required, all meetings are to be minuted.
- Formulate appropriate treasury strategies within the context of the Policy.
- Report to the appropriate Council Committee and or Council as required by the policy and for all treasury matters requiring their approval.

3.6 CHIEF EXECUTIVE OFFICER (CE)

The Council has overall responsibility for the operating policy governing the management of the Council's treasury related risks. Responsibility for the day-to-day management of the treasury function and the operation of the Policy is delegated to the CE.

The CE's responsibilities include:

- Delegate authority to other officers.
- Ensure the Council's operating policies comply with existing and new legislation.
- Authorise the opening and closing of any bank accounts
- Approve authorised signatories in respect to bank accounts and funding facilities.
- Approve new borrowing within limits approved by Council as part of the Annual Plan adoption.
- Approve the issuing of securities under the Council's Debenture Trust Deed.

3.7 CHIEF FINANCIAL OFFICER (CFO)

The CE has delegated to the CFO day-to-day responsibility for management of the Council's treasury and financial risks.

The CFO's responsibilities include:

- Delegate authority to other officers.
- Implement and authorise the new borrowing requirements within the delegations of the Chief Executive.
- Approve re-financing of existing debt.
- Receive advice of breaches of the Policy and significant treasury events.
- Report to the Governance, Finance & Planning Committee and other appropriate committee's and sub-committee's on treasury activities on a timely basis as required by the policy.
- Advise the Governance, Finance & Planning Committee and other appropriate committees and sub-committees of significant treasury events.
- Authorise interest rate hedge transactions (swaps, FRA's and options) with bank counterparties to change the fixed: floating mix to re-profile the Council's interest rate risk.
- Decisions and authorisations to raise and lower fixed rate (interest rate market price re-set >12 months) percentage of net debt within interest rate policy risk control limits.

- Recommend authorised signatories and delegated authorities in respect of all treasury dealing and funding activities.
- Review and make recommendations on all aspects of the Policy.
- Manage the long-term financial position of the Council in accordance with the Council's requirements.
- Manage the relationship with Standard and Poor's with the objective of maintaining the Council's AA credit rating.
- Approve the issuing of securities under the Council's Debenture Trust Deed as required to implement new borrowings and all incidental arrangements within the Council's annual plan, Council decisions or re-financing existing borrowings.

3.8 TREASURY MANAGER

The CFO has delegated to the Treasury Manager responsibility for day to day management of the treasury function and operation of the Policy.

Responsibilities are as follows:

- Monitor and review the performance of the treasury function in terms of achieving the objectives of minimising and stabilising funding costs year-to-year. Design, analyse, evaluate, test and implement risk management strategies to position the interest rate risk profile to be protected against adverse market movements within the approved policy limits.
- Investigate financing alternatives to minimise borrowing costs, margins and interest rates, making recommendations to the Treasury Management Committee.
- Monitor treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Ensure that all borrowing and financing covenants to lenders are adhered to.
- Ensure management procedures and policies are implemented in accordance with the Policy.
- Conduct an annual/triennial review of the Policy, treasury procedures and all dealing and counterparty limits.
- Monitor credit ratings of approved counterparties.
- Negotiate bank funding facilities and manage bank and other financial institution relationships and stock register.
- Produce quarterly treasury reports for the Governance, Finance & Planning Committee as part of the Council's quarterly report.
- Handle all administrative aspects of bank counterparty agreements, the Debenture Trust Deed and documentation such as loan and security agreements and ISDA swap documents.
- Prepare treasury reports for the Treasury Management Committee.
- Authorise in conjunction with one other authorised officer the issue of short term (less than 12 months) commercial paper.
- Ensure that the required register of charges and any associated documents are provided, filed and kept in accordance with the provisions of the Trust Deed, LGA and any other relevant legislation.
- Monitoring and managing the treasury investment portfolio.

3.9 MANAGER, FINANCIAL ACCOUNTING AND THE TREASURY ACCOUNTANT

The CFO has delegated the responsibilities as follows:

- Settlement of money market, interest rate risk management, bank funding, or capital market transactions.

- Report to the CFO and Treasury Manager the net debt position regularly and the interest rate risk position monthly.
- Co-ordinate the compilation of short term cash flow forecasts and cash management.
- Manage the operation of all bank accounts including arranging group offsets, automatic sweeps and other account features.
- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles and the Council's accounting policy.
- Ensure all financial instruments are documented, valued, tested and accounted for correctly in accordance with Council's accounting policy.
- Monitor all treasury cash positions daily.
- Complete and record hedge accounting deal documentation.
- Ensure completion, review and approval of:
  - – Reconciliation of the general ledger to the treasury system; and
  - – Month end treasury journals.

3.10 ETOS LIMITED (BACK OFFICE SERVICE PROVIDER)

The responsibilities of Etos include:

- Execute treasury transactions in accordance with the duly authorised Council instructions and set limits.
- Provide written evidence of executed deals on an agreed form immediately to the Treasury Accountant or Manager, Financial Accounting.
- Maintain the Council's Interest Rate Hedge Accounting Register and conduct effectiveness testing and reporting as directed by the Treasury Accountant or Treasury Manager.
- Carry out ad-hoc treasury functions as delegated or requested by the Treasury Accountant or Manager Financial Accounting.

3.11

OTHER STAFF

Other finance staff provide treasury support, having responsibility for administration and all other back-office functions for the Council. These support staff report to the Manager, Financial Accounting. In addition, they must not be involved in dealing in treasury instruments, and accordingly, adequate segregation of duties must exist between Etos Limited and such finance staff.

The responsibilities are:

- Check all treasury deal confirmations against deal documentation and report any irregularities immediately to the Manager, Financial Accounting.
- Reconcile monthly summaries of outstanding financial contracts from banking counterparties to internal records.
- Complete all bank reconciliations relative to treasury activities on a monthly basis.
- Complete all treasury transaction confirmations and settlements on a daily basis.

3.12 DELEGATION OF AUTHORITY AND AUTHORITY LIMITS

Treasury transactions entered into by the Council 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 every six months to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least every year that details all relevant current delegated authorities of the Council and contracted personnel empowered to bind the Council.

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

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

Activity	Delegated Authority	Limit
Approving and changing the Investment and Liability Management policy	The Council City Strategy Committee	Unlimited Review and recommend changes to Council
Approves annual external borrowing requirement as set out in the AP/LTP	Council	Unlimited (subject to legislative and other regulatory limitations)
New borrowings	The Council CE and CFO	Unlimited (subject to legislative and other regulatory limitations) Subject to prior approval by Council through the Annual Plan or Council Resolution.

Acquisition and disposition of investments other than treasury investments	Council	Unlimited
Issuing of Securities under the Council Debenture Trust Deed	CE CFO (delegated by CE)	Subject to policy
Overall day-to-day risk management	CE (delegated by Council) CFO (delegated by CE)	Subject to policy
Adjust interest rate risk profile	CFO (delegated by CE)	In accordance with the Investment and Liability Management Policy Fixed/floating ratio between 50% and 95% Fixed rate maturity profile limit as per risk control limits
Managing funding and treasury investment maturities in accordance with Council approved facilities	CFO (delegated by CE) Treasury Manager	In accordance with the Investment and Liability Management Policy
Approve treasury investments	CFO	Subject to policy
Maximum daily transaction amount (for each of the following activities separately; borrowing, investing and interest rate risk management). The limit excludes interest rate rollovers on existing swap transactions, existing drawn debt where the two together provide a hedge and issuance/roll-over of commercial paper, floating rate or fixed rate notes. It also excludes debt drawdowns on any new facilities which are replacing an existing facility.	The Council CE (delegated by Council) CFO (delegated by CE) Treasury Manager (delegated by CFO) Treasury Accountant (delegated by CFO for bank deposits only)	Unlimited Unlimited $50 million $25 million $10 million
Authorising lists of signatories	CE (delegated by Council)	Unlimited
Opening/closing bank accounts	CE (delegated by Council)	Unlimited
Negotiate bank facilities and new debt arrangements	CFO	Unlimited
Triennial review of Investment	Treasury Manager	N/A

and Liability Management policy	Council	
Ensuring compliance with policy	CFO (delegated by CE)	N/A
Issuance of commercial paper	Any two of the authorised signatories to the commercial paper programme acting together.	Within the Council's $100m commercial paper programme

4.0

BORROWING POLICY AND LIMITS

4.1 BORROWING RATIOS AND LIMITS

Liability Management Policy Statement:

1.0 *In determining a prudent level of borrowings the Council assesses the level of net borrowings against the Council's debt capacity and net interest expense per annum against operating income.*

Borrowing will be managed within the limits as set out in the Investment and Liability Management Policy and are as follows:

Ratio	
Net borrowings as a percentage of income	<175%
Net interest as a percentage of income	<15%
Net interest as a percentage of annual rates income	<20%
Liquidity (Term borrowing + committed loan facilities to existing external net debt)	>115%

Definitions

- Equity is defined as those funds designated as equity in the financial statements of the Council.
- Income is defined as earnings from rates, government grants and subsidies, user charges, interest and dividends, other revenue but excludes any income from vested assets and non-government grants (e.g. development contributions).
- Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period
- Net external debt is defined as gross debt less cash and cash equivalents
- Cash and cash equivalents are defined as; Overnight bank cash deposits, wholesale/retail bank term deposits no greater than 30-days, bank issued RCD's less than 181-days.
- Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which other local authorities rate).

The financial covenants are measured on the Council only and not the consolidated group.

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

4.2 BORROWING MECHANISMS

Council is able to externally borrow 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, debt capital markets and loan stock issuance.

- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and credit margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rate and credit margin 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.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a very strong credit rating and manage its relationships with its investors, LGFA, and financial institutions/brokers. A formal credit rating provides the Council with several advantages:

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

4.3

SECURITY

Liability Management Policy Statement:

2.0 *Council borrowings are secured by way of a Debenture Trust Deed (representing a charge over Council rates revenue). This security relates to any borrowing and to the performance of any obligation under any incidental arrangement. However if it is considered advantageous the Council's borrowings and other financial arrangements may be undertaken on an unsecured basis or secured by way of a charge over the physical assets.*

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset which it funds (e.g. an operating lease, or project finance).
- The 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.

Etos Limited ensures that the required register of charges and any associated documents are provided, filed and kept in accordance with the provisions of the LGA and any other relevant legislation. Terms and conditions within the Debenture Trust Deed are complied with at all times.

4.4 DEBT REPAYMENT

Liability Management Policy Statement:

3.0 *The Council will repay borrowings from a combination of excess depreciation over and above renewals, sale of surplus or underperforming assets, operating surpluses and any rates specifically set to repay borrowings associated with settling weathertight homes liabilities, or from the renewal of borrowings.*

The Council will manage debt on a net basis at all times with the exception of funds vested to the Council for specific purposes as dictated by legislation.

The funds from all asset sales and operating surpluses will be applied to the reduction of net debt and/or a reduction in borrowing requirements as set out in the Council's Revenue and Financing Policy, unless the Council specifically directs that the funds will be put to another use. In certain circumstances (where market interest rates allow) Council may re-purchase and cancel existing stock before maturity.

Whilst the Council will generally raise loans on a portfolio basis, interest expenses arising on the existing debt portfolio and future borrowings will be allocated (at the Council's actual weighted average cost of funds for the period concerned) to specific assets and activities as determined by the Council.

This method will also apply to the allocation of interest by internal accounting associated with the Council's use of special funds detailed in Section 5.1.3.

4.5 LOCAL GOVERNMENT FUNDING AGENCY LTD (LGFA)

The LGFA was enabled under the Local Government Borrowing Act 2011. It is a Council Controlled Organisation operating under the LGA. Its purpose is to provide more efficient funding costs and diversified funding sources for the sector (local authorities).

Each of the shareholding councils has to guarantee the obligations of the LGFA. In addition any non shareholding council who borrows in excess of $20 million must also guarantee the obligations of the LGFA. All shareholding and borrowing councils have entered into a debenture trust deed giving security over their rates.

To ensure that the LGFA has an adequate capital structure for the level of its borrowings from the market they issue Borrowers Notes to the local authorities borrowers. They are subordinate debt instruments which are required to be held by each local authority that borrows from the LGFA. It is equal to 1.6% of the aggregate borrowings by that local authority.

The LGFA may convert the Borrower Notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the LGFA Board determines it is at risk of imminent default.

Therefore, when the Council borrows a $100 the following transactions occur:

- Gross debt is recorded as $100.
- Council receives $98.40 in cash.
- The Council records $1.60 in Borrowing Notes.
- During the tenor of the borrowing the Council pays interest on $100 and accrues interest received in respect of the Borrower Notes.

On redemption:

- The Councils repays debt of $100
- Receives $1.60 as repayment of the Borrower Notes plus the interest accrues

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

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. 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.

4.6 GUARANTEES/CONTINGENT LIABILITIES AND OTHER FINANCIAL ARRANGEMENTS

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

Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council or an appropriate Council Committee in aggregate. Guarantees provided to the LGFA are expressly excluded from the maximum guarantee limit.

Council's specific policy on guarantees/contingent liabilities is included within Attachment III.

5.0

RISK RECOGNITION / IDENTIFICATION / MANAGEMENT

The definition and recognition of interest rate, liquidity, funding, counterparty credit, market, operational and legal risk of the Council will be as detailed below.

5.1 INTEREST RATE RISK

Liability Management Policy Statement:

4.0 *Borrowings issued at variable floating interest rates expose the Council to a cash flow interest rate risk. The Council manages the cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.*

5.1.1 Risk recognition

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed adopted annual plans, long-term plans and strategic 10-year plan interest cost projections, so as to adversely impact cost control, capital investment decisions/returns/and feasibilities.

Council has exposure to interest rate movements. Accordingly, the primary objective of interest rate risk management is to reduce the exposure to unexpected adverse interest rate movements whilst seeking to minimise the net funding costs for the Council within acceptable risk parameters. Both objectives are to be achieved through the active management of underlying interest rate exposures.

Note that hedging interest rates may result in the Council; not receiving all of the benefit of any favourable interest rate movement. However, as the Council is risk averse and requires a higher level of certainty then this is considered an appropriate trade off.

5.1.2 Approved Financial Instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council. Current approved interest rate instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Commercial Paper / Promissory Note Committed bank facilities (term facilities) Uncommitted money market facilities Retail and wholesale debt security issuance LGFA bond issuance
Treasury investments	Call and short term primary bank deposits with banks with a credit rating of A+ or above[2] Registered bank certificates of deposit (RCD's)[2]

[2] For a term of 12 months or less.

	Treasury bills[2] Promissory notes/Commercial paper with a credit rating of A-1 or above[2] Local Government Funding Agency as long as its credit rating is at least A+ Local Government Funding Agency Borrower Notes
Category	**Instrument**
Interest rate risk management	Forward rate agreements ("FRA's") on: • Bank bills Interest rate swaps including: • Forward start swaps[3] • Amortising swaps (whereby notional principal amount reduces) • Swap shortening and extensions (approved by CFO) [4] Interest rate options on: • Bank bills (purchased caps and one for one collars) Interest rate swaptions (purchased only, but sold swaptions allowable under the definition of 1:1 collar strategy)

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.

[3] The forward start date is limited to a maximum of 24 months unless the forward start swap is replacing an existing maturing swap or an existing forward start swap in an IFRS hedge relationship.

[4] Swap shortening and extending strategies generally fall outside the definition of hedge accounting for IFRS compliance and therefore require the approval of the CFO.

5.1.3 Interest Rate Risk Control Limits

Debt/Borrowings

Council debt/borrowings must be within the following fixed/floating interest rate risk control limit as set out in the Investment and Liability Management Policy:

Master Fixed / Floating Risk Control Limit	
Minimum Fixed Rate	Maximum Fixed Rate
50%	95%

"Fixed Rate" is defined as an interest rate repricing date beyond 3 months forward on a continuous rolling basis.

The "Fixed Rate" percentage is based on the projected gross debt level on a rolling forward basis[5]. Gross debt is the amount of total borrowing.. This allows for pre-hedging in advance of projected physical draw downs of new debt. When forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the policy minimums and maximums. In the event of one-off significant changes caused by asset sales/purchases or capital expenditure in advance of the forecast, then a 3 month period of adjustment is permitted.

The fixed rate amount at any point in time must be within the following maturity bands as set out in the Investment and Liability Management Policy:

Fixed Rate Maturity Profile Limit		
Period	Minimum Cover	Maximum Cover
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

- Any maturities outside these limits requires Chief Executive approval, any period greater than 90 consecutive days requires City Strategy Committee approval.
- Any interest rate swap or fixed rate debt with a maturity beyond 16 years must be approved by the City Strategy Committee. The exception to this will be if Council raises LGFA funding as fixed rate or swapped floating rate debt and this maturity is beyond 16 years.
- Bank advances may be for a maximum term of 12 months.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, the sold option can be purchased back. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- The forward start date of the swap/collar strategy is to be no more than 24 months, and the underlying cap, swap commences within this period, unless the forward start swap/collar is replacing an existing swap/collar in an IFRS hedge relationship

[5] A forecast 12 month rolling net debt projection is produced on a monthly basis.

- Purchased borrower swaptions mature within 18 months.
- Interest rate options that have a strike rate (exercise rate) higher than 2.00% above the relevant swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

Investments

For the foreseeable future, the Council will have a net debt position. In accordance with section 5.2 the Council will maintain adequate levels of liquidity to manage risk and to maintain the Council credit rating. Liquidity will be maintained through an appropriate mix of committed bank facilities, short and long term debt security issuances and liquid assets.

- Special Funds
  - Liquid assets are not required to be held against special funds, or Trust Funds administered by Council in terms of a Bequest Trust Deed, document etc, that has been created by a third party, unless that document expressly requires funds to be separately invested. Commitments to future specified releases of funds will be covered within the levels of liquidity maintained. Such a facility will be, at a minimum, for an amount equivalent to the maximum release commitments over a 12-month period and, as in the nature of the facility, will be reviewed annually.
  - Accounting entries representing specific balances of special funds or Trust Funds will be maintained and interest accrual allocations will be made using the Council's monthly average weighted cost of funds for that period.
  - Such a mechanism is subject to a Council resolution, which will supersede previous Council resolutions pertaining to the funding of specific special funds.
  - Accounting entries representing monthly interest accrual allocations will be made using the Council's average weighted cost of funds for that period.
- Equity Investments
  - Council's investment in CCTOs and associates fulfil a specific strategic purpose as outlined in Council's strategic plan and comply fully with the Local Government Act. Any purchase or sale of equities requires Council approval.
  - Council Committees review the performance of these investments on a regular basis to ensure strategic objectives are being achieved.
  - All income from Council's equity investments, including dividends is included in the consolidated Statement of Comprehensive Revenue and Expense.
  - Proceeds from share sales will go to reducing net debt, unless the Council specifically directs that the funds be put to another use.
- LGFA
  - Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.
  - The Council's objective in making any such investment will be to:
  - 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.

- Investment Properties
  - Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements that could deliver similar results. This assessment is based on both the strategic benefit to the City and on the most financially viable method of achieving the delivery of Council services.
  - Investment properties will only be purchased in the future where such acquisition will strategically fit the Council's core activities.
  - Any funds received from the sale of investment properties will be used to reduce net debt, unless the Council specifically directs that the funds be put to another use.
  - All Council property (including land and building, ground leases and land held for development) are held for the purpose of achieving the Council's strategic objectives. If the property does not meet this definition, then Council will determine whether it is appropriate to retain the property.
  - Any purchase or sale of property requires Council approval.
  - All income, including rentals and gain or loss on sale of property investments is included in the consolidated Statement of Comprehensive Revenue and Expense. The net carrying value of property investments are disclosed separately in the Statement of Financial Position.
  - Contributions, Loans, Guarantees and Underwrites
  - The achievement of Council's strategic objectives can require Council to assume financial risk associated with providing contributions, loans, guarantees and underwrites.
  - Certain undertakings may require Council approval and will be monitored regularly by management to minimise credit risk. Refer to Attachment III.
- Loans and Advances
  - The Council does not normally give out loans or guarantee loans to Community groups and will only consider doing so in exceptional circumstances. Loans and Advances are approved by Council.[6]

Council's specific policy on loans is included within Attachment III.

5.2 LIQUIDITY RISK / FUNDING RISK

Liability Management Policy Statement:

5.0 *The Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining term debt and committed bank borrowing facilities at a level that exceeds 115% of existing external net debt .*

6.0 *Where special funds are maintained to repay borrowings, these investments are held for maturities not exceeding borrowing repayment dates.*

5.2.1 Risk Recognition

[6] This does not include loans which are effectively grants that have been provided in the form of a suspensory loan and the amount is provided for within a fund such as the Economic Development Fund.

Funding any cash flow deficits, asset purchases, renewals etc in future periods are reliant on the maturity structure of loans and facilities. Liquidity risk management focuses on the ability to borrow at that future time to fund the Council's requirements. Liquidity risk centres on the ability to re-finance or raise new debt at a future time, with appropriate maturities and at competitive pricing levels (fees and borrowing margins)

Managing the 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.
- The Council's own credit rating or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to the Council experiences their own financial/exposure difficulties resulting in the 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.
- Markets are disrupted or become illiquid due to external financial market 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.

Liquidity / Funding Risk Control Limits

- All new loans, debt issuances and borrowing facilities must be approved in accordance with the appropriate delegated authority.
- 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.
- The Council has a long term AA/stable credit rating from Standard and Poor's. Maintaining the credit rating is critical to managing the Council's liquidity and funding risks through broadening access to funding sources, greater funding capacity from those sources and favourable pricing, maturities and terms.
- Liquidity must be maintained at an amount of at least 115% over existing external net debt.
- Council has the ability to pre-fund up to 12 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 levels of liquidity maintained will be sufficient to cover any special funds as outlined in Section 5.1.3 and other legislative requirements.
- Treasury provides comprehensive daily and weekly cash management reporting together with monthly (rolling 12 month forecast) and annual cash/debt forecasting and that long term debt forecasts out to ten years are maintained.
- The CFO has the delegated authority to re-finance existing debt on more acceptable terms and to increase liquidity levels in accordance with this policy.
- The maturity profile of the total committed funding in respect to all loans, and committed bank facilities, is to be controlled by the following parameters as set out in the Liability Management Policy:

Period	Minimum	Maximum
0 to 3 years	15%	60%

3 to 5 years	15%	60%
5 years plus	15%	60%

Any maturities outside these limits requires Chief Executive approval, any period greater than 90 consecutive days requires specific City Strategy Committee approval.

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.

5.3 CREDIT RISK AND EXPOSURE

Investment and Liability Management Policies Statement:

7.0 *The Council's principal exposure on its financial investments is credit risk. Credit risk is minimised by the Council investing in approved institutions with satisfactory credit ratings which are assessed and reviewed by independent credit rating organisations. Limits are spread amongst a number of counterparties to avoid concentration of credit exposure.*

8.0 *The Council borrows from approved institutions with satisfactory credit rating. A risk arises if the bank counterparty is unable to provide funds on demand as required under the committed borrowing facility. Borrowings are managed across a range of bank lenders to ensure the Council is not exposed to material concentrations of credit risk. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure.*

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.

The Council will regularly review credit risk. 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 short term credit ratings (Standard & Poor's, Fitch, or Moody's) being A-1 and above, and long term credit ratings (Standard & Poor's, Fitch, or Moody's) being A and 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 credit rating	Investments maximum per counterparty ($m)	Borrowings, maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	N/A	unlimited	unlimited	none	unlimited
NZ Registered Bank	A/A+ AA/AA-	30.0 40.0	125.0 125.0	100.0 100.0	130.0 140.0
Commercial paper (CP)	A-1 (ST)	N/A	Limit of the program and the	N/A	N/A

			bank facilities which support the program		
LGFA	N/A	unlimited	unlimited	N/A	unlimited

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

- Investments (e.g. Bank Deposits) – Transaction Notional × Weighting 100%.
- Interest Rate Risk Management (e.g. swaps, FRA's) – Transaction Notional × Maturity (years) × 3%.

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

The Treasury Manager, on an ongoing basis should review credit ratings and in the event of material credit downgrades, this should be immediately reported to the Treasury Management Committee and appropriate action agreed including reporting the exposure position to the Council. Counterparties exceeding limits should be reported to the Treasury Management Committee and if the counterparty limit is exceeded for a period of three consecutive months it must be reported to the City Strategy Committee.

Risk Management

To avoid undue concentration of exposures, a range of financial instruments must be used with as wide a range of counterparties as possible. The approval process to allow the use of individual financial instruments must take into account the liquidity of the market the instrument is traded in and repriced from.

5.4 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

5.4.1 Dealing Authorities and Limits

Transactions will only be executed by those persons and within approved limits. These limits are detailed in the schedule of delegated authorities table in section 3.13 of this policy.

5.4.2 Segregation of Duties

Separation and division of responsibilities is achieved by the Treasury Accountant reporting directly to the Manager, Financial Accounting as control over the transactional activities of Etos Limited (in its back office function capacity).

5.4.3 Procedures

All treasury products must be recorded and diarised on a treasury system, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. The Council should capture the percentage of deals transacted with banks to determine competitiveness and reconcile the summary to the Council records. A detailed Treasury Procedures Manual will be maintained.

5.5 LEGAL RISK

Legal and regulatory risks relates to the inability to enforce 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, the Council may be exposed to such risks. In the event that the Council is unable to enforce it's rights due to deficient or inaccurate documentation.

The Council will seek to minimise this risk by adopting policy regarding:

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

5.5.1 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with the Council. All ISDA Master Agreements for financial instruments must be signed under seal by the Council.

The Council's internal/appointed legal counsel must sign off on all documentation for new bank loan facilities and investment structures.

5.5.2 Financial Covenants and Other Obligations

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

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

5.6 FOREIGN EXCHANGE RISK

The Council is prevented by legislation from borrowing or entering into incidental arrangements, within or outside New Zealand, in currency other than the New Zealand dollar.

Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated goods and services..

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

6.0 CASH MANAGEMENT

The Treasury Accountant, and other staff as delegated by the Manager, Financial Accounting, has the responsibility to carry out the day-to-day cash and short term debt management activities.

- Etos Limited will calculate and maintain comprehensive settlement projections on a daily (two weeks forward), weekly (four weeks forward), monthly (12 months forward) and annual (five years) basis.
- On a daily basis, electronically download all the Council bank account information.
- Co-ordinate the 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 and deposits as required to reduce funding costs.
- Ensuring efficient cash management through improvement to accurate forecasting using spreadsheet modelling.
- Minimise fees and bank/Government charges by optimising bank account/facility structures.
- Monitor the Council's usage of cash advance facilities.
- Match future cash flows to smooth overall timeline.
- Provide reports detailing actual cash flows during the month.

- Maximise the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.
- Optimise the use of available facilities to minimise interest costs.

7.0

REPORTING

When budgeting interest costs the actual physical position of existing loans and swaps / swaptions / FRA's must be incorporated.

7.1 TREASURY REPORTING

7.1.1 Reporting

The monthly Treasury Management Committee reporting package and quarterly City Strategy Committee report must achieve coverage of the following major information/reporting objectives:

- **Cash/Debt position:** The tracking of cash flow and debt levels compared to plan and the reasons for divergence and updated future cash/debt projections.
- **Risk Exposure position:** Clear and concise reporting of the Council's current interest rate risk position. The report must include underlying physical exposures, hedges (cover) in place and the actual net risk position, compared to the risk control limits of the policy.
- **Policy Compliance:** Reports that confirm conformity to other policy limits and requirements in the areas of liquidity/funding risk, counterparty credit risk, operational risk and debt covenants/ratios.

The Treasury Manager will be responsible for providing a short commentary on the results, market conditions and future risk management strategy.

A regular (monthly reports unless otherwise stated) report package must be provided to the Treasury Management Committee incorporating the following items:

- Borrowing limits (actual against policy limits)
- Interest rate exposure reports (actual position against risk control limits including all financial instruments).
- Cost of funds report (actual cost compared to budget).
- Funding facility report (individual bank loans against limits).
- Liquidity and Funding risk report (maturity profile against funding risk control limits).
- Cash flow forecast report (indicating projected debt levels).
- Counterparty credit risk report (actual position against limits).

7.2 ACCOUNTING TREATMENT OF FINANCIAL INSTRUMENTS

9.0 *Council's over-riding policy and principal objective is to prudently manage the funding and interest rate risks as far as possible within the confines of achieving high levels of hedge accounting treatment under PBE compliance.*

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) , if hedge accounting treatment is not achievable on part of the portfolio of financial instruments (as these hedging structures need to be maintained for sound economic value reasons or are hedge ineffective) the resultant unrealised fair value gains or losses have to be booked through the Statement of Comprehensive Revenue and Expense. Any financial instruments used to manage funding and interest rate risks that do not qualify for hedge accounting under PBE must be authorised by the CFO.

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

7.3

VALUATION OF TREASURY INSTRUMENTS

All treasury instruments must be fair valued (marked-to-market) on a consistent basis, at least quarterly for treasury management and accounting purposes.

Underlying rates to be used to value financial instruments must follow the requirements as set out within the Treasury Procedures Manual and will be performed by the Treasury Management System (Reval).

Underlying rates to be used to value treasury instruments are as follows:

- Official daily settlement prices for established markets.
- Official daily market rates for short-term treasury instruments (e.g. FRA settlement rates calculated by Reuters from price maker quotations as displayed on the BKBM page).
- Relevant market mid-rates provided by the Council's bankers at the end of the business day (5.00pm) for other over-the-counter treasury instruments.
- For markets that are illiquid, or where market prices are not readily available, rates calculated in accordance with procedures approved by the Treasury Manager.

7.4 INTEREST RATE CASH FLOW HEDGE ACCOUNTING COMPLIANCE: BANK DEBT

Council's approach to structure bank debt on a floating rate basis.

Qualification for cash flow-based hedging treatment must be maintained for financial instruments used to manage interest rate risk on floating rate bank-sourced debt (non-loan stock/capital markets issues) by adherence to the following guidelines:

- There is a high degree of probability of forecast debt being accurate to actual debt outcomes through the Council's budgeting and planning process.
- Long-term (10 year) debt forecasts as set out in the Long-term Plan (LTP) are updated at least annually.
- Appropriate hedge designation documentation of the financial instruments and actual/forecast debt on inception, in accordance with the Treasury Procedures Manual.
- The actual and hypothetical financial instrument and actual/forecast debt are set on a similar basis as follows:
- Interest rate conventions (i.e. discount vs. arrears).
- Quarterly floating rate rate-setting dates and benchmarks. Benchmark for floating rate notes, bank debt and financial instruments to be quarterly Reuters BKBM.
- Maturity dates (for actual and hypothetical financial instrument only).

Prospective and retrospective hedge effectiveness testing between the actual and hypothetical hedge conducted monthly using the "cumulative dollar offset" method (refer to the Treasury Procedures Manual).

Interest rate contracts that are amended/re-structured from original maturity dates and rates must be de-designated and re-designated in accordance with the procedures established in the Treasury Procedures Manual.

7.5

INTEREST RATE FAIR VALUE HEDGE ACCOUNTING COMPLIANCE: NON-BANK DEBT

Council's policy is to structure non-bank debt (loan stock/capital markets) issues to minimise all-up pricing (fees and margins measured on a basis-point per annum equivalent basis above BKBM) and achieve desired tenors, in preference to whether the interest rate basis is fixed or floating.

Floating rate debt issues are treated the same as bank debt (above) and thus qualify for cash flow hedge accounting treatment.

Fixed rate debt issues must not be interest rate risk managed by converting the fixed rate profile to a floating rate profile, unless the fixed rate issue is converted to a floating rate profile simultaneously with the rate fixing at the inception of the issue. In this case the fixed rate debt is permanently designated as a trading liability, with both the debt and the financial instrument fair valued through the Statement of Comprehensive Revenue and Expense. The resultant generated floating-rate profile must therefore be permanently attached to the fixed rate debt issue and maintained through the full term of the debt.

Any additional interest rate instruments that convert the resultant floating profile to a fixed profile are specifically allocated to a non-compliant hedging portfolio. In this instance the portfolio is fair valued with period changes in value booked to the Statement of Comprehensive Revenue and Expense.

If accounting standards subsequently allow the simultaneous rate fixing at the inception of the issue, of a grouped combination of floating and fixed rate financial instruments then the fixed rate debt is permanently designated as a trading liability with both the debt and the grouped financial instruments fair valued through the Statement of Comprehensive Revenue and Expense through the full term of the debt.

8.0 POLICY REVIEW

This Policy is to be formally reviewed on a triennial basis, and annually for internal purposes, to ensure consistency with the Council's Investment and Liability Management Policies.

The Treasury Manager has the responsibility to prepare a triennial review report that is presented to the Treasury Management Committee. The report will include:

- Recommendation as to changes, deletions and additions to the policy.
- Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
- Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
- Analysis of bank and lender service provision, share of financial instrument transactions etc.
- Comments and recommendations from the Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury systems and procedures must be undertaken.
- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to the Council.

Where the Treasury Management Committee recommends any change to the Investment and Liability Management Policy, these recommendations will be passed through the City Strategy Committee or Council wherever the delegation sits to approve the policy change recommendations.

9.0 MEASURING TREASURY PERFORMANCE

In order to determine the success of the 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 the Treasury Management Committee on a monthly basis and the City Strategy Committee (through the consolidated treasury report contained in the Quarterly Report) on a quarterly basis.

9.1 OPERATIONAL PERFORMANCE

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

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

9.2 MANAGEMENT OF DEBT AND INTEREST RATE RISK

The actual funding cost for the Council (taking into consideration costs of entering into interest rate risk management transactions, establishment fees and facility fees) should be below the budgeted interest cost.

Since senior management is granted discretion by the Council to manage debt and interest rate risk within specified limits, the actual funding rate achieved will be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within existing policy. Note: in this respect, a risk neutral position is one that is always precisely at the mid-point of the minimum and maximum percentage limits specified within the policy.

Given current fixed/floating risk control limits and fixed rate maturity profile limits as defined in Section 5.1.3 of this manual, policy mid-point represents an average maturity term of 7-years. The market benchmark rate will be calculated every month and represent the 7-year swap rate monthly rolling average over a 7-year period.

Accordingly, the actual weighted average all-up cost of borrowing for the financial year to date (that incorporates all issuance margins and derivative settlements) must be compared against the market benchmark rate (plus Council's weighted average margin) on a monthly basis, with historical comparison reported graphically over the previous 12 months.

The benchmark rate should be calculated annually, compared with the Council's average cost of funds and reported to the Treasury Management Committee.

ATTACHMENT I - DEFINITION OF FINANCIAL INSTRUMENTS

1.0 FORWARD RATE AGREEMENTS (FRAS)

1.1 DEFINITION

A forward rate agreement ("FRA") is a synthetic contract between two parties in which one party agrees to pay to the other an agreed interest rate on a notional principal amount, for a fixed period of time, commencing on a specific date in the future (settlement date).

A borrower's FRA provides protection against rising interest rates whereas an investor FRA provides protection against falling rates.

FRAs are available from any specific date but contract periods are generally quoted for 90-day periods. FRAs are usually referred to by the number of calendar months from the current month to the settlement date, against the number of months from the current month to the maturity date. For example, a 3-month borrowing rate in 4 months time would be quoted as a 4 against 7 FRA (4 x 7 FRA).

FRAs are valued (and settled) on the relevant FRA settlement rates shown on the Reuters BKBM page each morning at 10:45am. FRA settlement rates are calculated from the 7 Bank Bill price maker bid/offer quotations provided to Reuters at 10:30 am. The settlement rate is the average mid-rate of the quotes after excluding the highest and lowest quotes.

1.2 CHARACTERISTICS

- FRAs are generally used to hedge short-term exposures.
- Because the transaction is synthetic, no movement of principal amounts is necessary.
- On settlement date, only the net settlement amount representing profit or loss changes hands, thereby requiring minimal utilisation of credit lines.
- A FRA can be closed out at any time by taking an opposite FRA with the same settlement date.
- FRAs attract no deposit requirements, margin calls or brokerage fees.
- FRAs can be customised according to individual requirements in terms of amount, maturity settlement date and counterparty.
- FRAs are off-balance sheet transactions with credit risk limited to the interest rate variation over the term of the FRA.

1.3 RECOMMENDED USAGE

FRAs should be used where the Council has a view on interest rate trends that may adversely affect future borrowing rates.

They are ideally suited for the following applications:

- Where uncertainty exists coming up to a rollover date for term borrowings, buying a borrower FRA will effectively "lock in" a rate over a pre-determined period of time.
- Where additional funding is required and it is anticipated that interest rates will rise, buying a borrower FRA will "lock in" a rate today and neutralise the effect of interest rate increases.

1.4

EXAMPLE

The Council wishes to borrow additional funds of $2 million in a month's time for 90-days. It is concerned about the effect on interest rates of a Reserve Bank statement to be announced this week.

The Council decides to hedge the amount by purchasing a 1 x 4 borrower FRA for $2 million (with a settlement date of one month hence and a maturity date of four months hence). The agreed FRA rate is 5.20%. Note: current 90-day rates are 5.00%.

In one month's time, 90-day rates have risen by 40 basis points with the rate now 5.40%. The 3-month FRA settlement rate per BKBM page is 5.40%.

The Council receives $1,000 for the FRA settlement and borrows the $2 million at a rate of 5.40%. The effective borrowing rate is 5.20% i.e. the Council borrow at the rate they budgeted for.

2.0 INTEREST RATE SWAPS

2.1 DEFINITION

An interest rate swap is an agreement between two parties to exchange interest payments at regular intervals over a period of time based on a notional principal amount. Generally, one party will pay interest at a fixed rate while the other will pay interest at a floating rate.

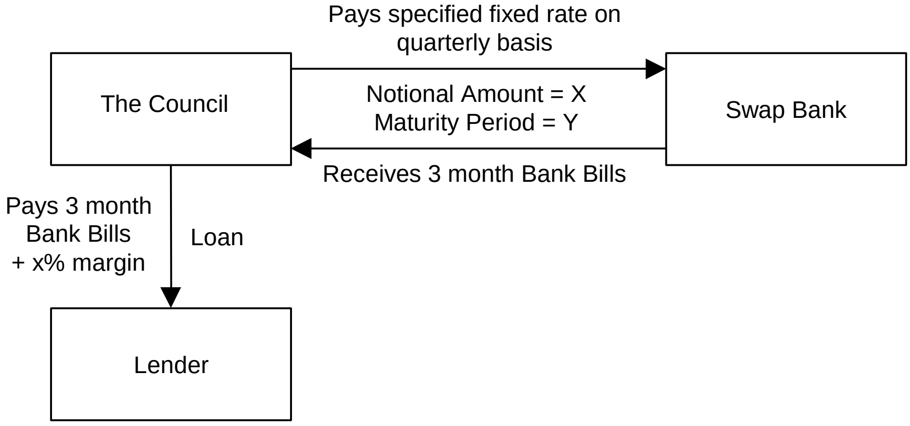
Like FRAs, the intervals between swap payments can be for any specified period (and the floating period need not be the same as the fixed period). However, the period between payments will generally be 90 days. The floating rate is set at the beginning of each swap period and will normally be a specified margin over the 3 month rate, shown on the Reuters BKBM page on the day (much the same as the settlement of the Council's 90-day Bank Bill rate from its bank lenders).

The swap agreement is a separate paper contract; the physical debt remains unchanged.

A "payers" swap, as its name suggests, allows a corporate borrower to swap its underlying interest rate exposures from a floating to fixed basis to protect against rising interest rates. Alternatively, a borrower may wish to swap its interest exposure from fixed to floating to take advantage of falling interest rates.

For the purposes of the Council, the counterparties to all swaps will be banks. The Council's credit risk will always be with the bank and vice-versa.

The following diagram illustrates payment flows for each swap period for an interest rate swap (from the point of view of corporate borrower who has an underlying floating exposure and who wishes to fix it): Illustration Swap



The operation of a swap is determined by the underlying swap confirmation. This will define the swap periods, the fixed interest rate and the floating rate as appropriate.

The variations of an interest rate swap include the following:

- **Forward start swaps:** A swap that has a future start date. Often used to hedge future debt drawdowns in anticipation of a rise in interest rates.
- **Amortising swaps:** A swap where the notional principal reduces on a straight-line basis over the life of the swap. Such swaps are useful in hedging the funding of depreciating assets especially when the loans require regular principal repayments during their life.
- **Arrears reset swap:** A swap where the floating rate is set a couple of days prior to payment rather than at the beginning of the interest period.
- **Basis swap:** A floating/floating swap where both parties exchange interest payments based on different floating rate indexes i.e. the Council could pay interest on a monthly basis against receiving interest on a quarterly basis.
- **Zero coupon swap:** A swap where the fixed payer only makes one lump sum payment on maturity rather than regular payments throughout the life of the swap (the floating payer continues to pay as normal).

2.2 CHARACTERISTICS

- Swaps will typically cover a period in excess of one year. Maturities of less than one year generally use FRAs.
- Because the transaction is synthetic, no exchange of principal amounts is necessary.
- On each settlement date, only the net settlement amount representing the interest differential changes hands.
- Swap agreements may allow early termination. This would normally require settlement of the net present value of all future cash flows based on the current market settlement rates.
- A swap can be closed out at any time by taking an opposite swap position with the same settlement periods (referred to as a reverse swap) or by assigning the obligations under the swap to a different counterparty where the swap agreement permits (which would require a lump sum payment of the value of the swap to the appropriate counterparty).
- Swaps attract no deposit requirements, margin calls or brokerage fees.
- Swaps can be customised according to individual requirements i.e. the Council can perfectly tailor interest payment dates to match those of underlying loan advances.
- Swaps are off-balance sheet transactions.
- Swaps are governed by comprehensive agreements called ISDA documents.

2.3 RECOMMENDED USAGE

Payer swaps should be used where the Council has a view on interest rate trends that may adversely affect future borrowing rates. They are ideally suited for the following applications:

Where uncertainty exists on medium to long term interest rates and the impact this will have on term loans, entering into a swap will effectively “lock in” a rate for the entire term of the swap.

Where additional core funding is required and it is anticipated that interest rates will rise, entering into a payers swap will “lock in” a rate today and neutralise the effect of interest rate increases.

When it is widely forecast that 90-day Bank Bill rates will rise and average above current 1-5 year fixed swap rates over the term.

2.4 EXAMPLE

The Council has a new borrowing of $5 million under a revolving credit facility that is rolled every 90-days. There is widespread concern that rates will be considerably higher in the next six months and that this will most likely continue for the following 12 to 18 months.

The Council decides to hedge by entering into a 3 year, $5 million payer's swap (with settlement dates coinciding with rollover dates for the underlying borrowings). The 3-year swap rate is 7.00%.

- The Council pays fixed interest at 7.00%.
- The Council receives floating interest at 6.80% (assuming current 90-day Bank Bill rate) for the first settlement date (in 90-days).
- The Council receives floating interest at the 90-day Bank Bill rates for each subsequent interest period (this rate being set on the first day of each interest period).

In three months time (on the first rollover date), 90-day Bank Bill rates have risen by 50 basis points (assumption) with the 90-day Bank Bill rate now 7.30%. The swap floating rate cash flow is accordingly set at 7.30% for the second roll period.

Interest rate calculations for the first roll period

- The Council pays $5 million x 7.00% x 90/365 = $87,500
- The Council receives $5 million x 7.30% x 90/365 = $91,250
- The Council receives net difference = $3,750

The Council is meanwhile paying its lenders 90-day Bank Bills plus 0.25% therefore, the full cost of funds =

5,000,000 x Bank Bills (7.30%) x 90/365 =	$ 91,250.00
Plus 5,000,000 x 0.25% margin x 90/365 =	$3,082.19
Less net difference of swap payments =	$3,750.00
	$ 90,582.19

Effective annualised cost of funds = 7.25% (7.00%fixed rate + 0.25% loan margin)

3.0 INTEREST RATE OPTIONS

3.1 DEFINITION

An interest rate option provides protection against adverse future interest rate movements while still allowing some benefit where rates move favourably.

The buyer (holder) has the right (but is not obligated) to exercise the option should rates be favourable whereas the seller (grantor) has no rights but is obligated to pay cash to the buyer where the option is exercised. The buyer pays a premium to the seller on the execution of the option. As the buyer can let an option expire worthless where rates are unfavourable, the premium is the maximum loss that the buyer will incur and conversely the maximum profit the seller will receive. In other words, the buyer of an option has limited loss potential while unlimited profit potential. The seller on the other hand has limited profit potential while having unlimited loss potential.

Caps and Floors

A “floor” provides the buyer protection against falling interest rates, whereas an interest rate “cap” provides protection against rising interest rates. A "floor" might be used by an investor to establish a minimum rate on floating rate deposits and a cap might be used by a corporate borrower who wanted to set a maximum funding rate for borrowings. The floor and cap levels will sometimes be referred to as the strike rate, strike price or exercise price (consistent with other option products).

Swaptions

Swaptions are an option to enter into a pre-determined swap contract. Options are said to be “in the money” at a given point in time where the strike rate is more advantageous to the buyer of the option than the corresponding Bank Bill rate. Conversely, options are said to be “out of the money” where the strike rate is less advantageous to the buyer of the option than the corresponding Bank Bill rate. Where the strike rate and the corresponding Bank Bill rate are the same, options are said to be “at the money”.

Interest rate options that are exercised on maturity are cash-settled with the settlement amount payable to the buyer. As the underlying instrument is not physically delivered, it will still be necessary for the buyer to borrow or invest funds at current market rates. However, the settlement of the option (if exercised) will partially offset the rate obtained.

The cost of an option (premium) is generally calculated using technical mathematical models based on lognormal probability distributions. While many option pricing models exist, the most widely used is the Black & Scholes model.

This model uses the following variables in determining the option price:

- Time to maturity of the option.
- Underlying Bank Bill (current and forward Bank Bill rates).
- Strike rate.
- Volatility of the underlying Bank Bill market.

Clearly an option that has a long time to maturity will be more expensive than one that has a short term to maturity. This portion of the cost is often described as the time decay effect. Also, an option that is “in the money” will be more expensive than one that is “out of the money” (as measured by the difference between the strike rate and the underlying Bank Bill rate). Finally, the more volatile the underlying market is, the more expensive the option. As will be evident, options are considerably more complicated to price and value than forward-based products. However, options are much more flexible with the strike rate able to be chosen to suit individual requirements.

One of the major benefits of options is that with so many variables affecting the pricing, combinations of floors and caps at different strike rates can allow very effective risk management strategies at tailored cost. The most common combination is referred to as an interest rate collar, which in the case of a corporate borrower involves simultaneously buying a cap and selling a floor. The premium received from selling the floor partially offsets the cost of buying the cap. In return, profits are fixed at a level. The effect of this strategy is that the corporate borrower can minimise its funding rates at very low cost.

3.2

CHARACTERISTICS

- Options are used to insure against adverse market movements while still providing the ability to benefit from favourable movements.
- The option premium is payable up-front by the buyer and represents the maximum loss payable. Sometimes this premium can be deferred until the option expiry date.
- Because the transaction is synthetic, no movement of principal amounts is necessary.
- On maturity, if the option is "in the money" it can be exercised with the buyer receiving the profit. If the option is either "out of the money" or "at the money" the option will expire worthless with no settlement required.
- Options can be closed-out at any time by taking an opposite option with the same settlement date and strike rate.
- Combinations of options can provide sophisticated risk management at minimal cost.
- Options attract no deposit requirements, margin calls or brokerage fees.
- Options are able to be customised according to individual requirements in terms of amount, strike rate, maturity settlement date and counterparty.
- It is considered dangerous and imprudent for corporate borrowers to sell options for long terms in isolation. Such a transaction produces unknown risk and unlimited potential loss. The premium received may only be a minor offset to the end loss if market rates shift significantly.

3.3 RECOMMENDED USAGE

An interest rate cap will provide a worst case interest rate in the event of short-term interest rates (90-day Bank Bills) rising in the future.

Options are at their most economic value when they are needed, and are therefore best used when financial budgeting requires certainty or "a worst case" insurance against a rise in interest rate however, the view may be that rates will not rise. Usually swaps represent the most cost-effective form of actual hedge in the event of rising interest rates due to the relatively high cost of interest rate options.

Options are best purchased when:

- They are not intended to be exercised;
- Volatility in the market is low; or
- The underlying debt being hedged is uncertain.

3.4 EXAMPLE

The Council has purchased a swaption, i.e. an option to enter into a swap with pre-determined pricing of 7.20% and a maturity of 3 years. The option expires in July of 2014. The notional is $5 million.

Should the 3 year swap rate be higher than 7.20% next July, the Council will exercise the swaption and enter into a swap with the seller of the swaption where the Council will exchange the following cash flows each quarter for 3 years.

- The Council pays 5,000,000 x 7.20% x 90/365 = $88,767.12.
- The Council receives 5,000,000 x (90-day Bank Bills) x 90/365.

The net difference is paid by the Council if the 90-day Bank Bill rate is below 7.20% and paid by the swap counterparty if the 90-day Bank Bill rate is above 7.20%.

ATTACHMENT II – GLOSSARY OF TERMS CORPORATE TREASURY MANAGEMENT

TERM	DEFINITION
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.
Arbitrage	A method or action that allows the securing of a profit (with no market risk) by taking advantage of a miss pricing of one financial instrument between two markets/time-zones.
Asset / Liability Management	The management process a bank uses to ensure its assets (loan made to customers) matches its liabilities (deposits taken from customers).
Average Rate Forward	A series of forward exchange contracts to different dates for the same amount, but at different rates. The series of contracts is re-stated as one contract at the one average rate. Also called a "**par forward**".
Balloon Payment	The repayment terms of a loan being the full principal amount due for repayment in one amount on the final maturity date. Also called a "**bullet**" payment.
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.
Barrier Option	An option that will come into existence or cease to exist if the underlying asset, currency, commodity price trades at a pre-determined price prior to expiration.
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 the interest rate difference between the current physical debt instrument (say, a bank bill) market interest rate and the interest rate quoted for that debt instrument's future price (say, a bank bill futures price) changes over the period to the date of the future price.

TERM	DEFINITION
Basis Swap	A variation of an interest rate swap whereby interest payments are exchanged on a floating to floating basis to change the timing of interest payments on a bank loan i.e. quarterly payments swapped to monthly basis.
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 pre-determined 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 of 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 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. Also called a “**ceiling**”.
Caplet	A series of call options (caplets) which exist for each period the cap agreement is in existence
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.
TERM	**DEFINITION**
Collar	Two option contracts linked together into the one transaction or contract. A borrower's collar is normally a "**cap**" above current market rates and a "**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	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.
Compound Option	An option contract on the premium of an option i.e. the right, but not the obligation, to enter an option contract at a pre-determined premium amount.
Convexity	A measure of the degree of curve or slope in an interest rate yield curve.
Convertible Bonds	A debt instrument issued to investors by a borrower that has a fixed interest rate for a period and then converts (under a strict pricing formula) to shares in the issuing company.
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	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 Default Swap	A credit default swap (CDS) is a credit derivative between two counterparties,

	whereby one makes periodic payments to the other and receives the promise of a payoff if a third party defaults. The former party receives credit protection and is said to be the "buyer" while the other party provides credit protection and is said to be the "seller". The third party is known as the "reference entity". CDS resemble an insurance policy, as they can be used by debt owners to hedge, or insure against credit events such as a default on a debt obligation. However, because there is no requirement to actually hold any asset or suffer a loss, credit default swaps can also be used for speculative purposes.
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, liquidity between the two securities e.g. five-year corporate bonds may be at a credit spread of 200 basis points above Government bonds.

TERM	DEFINITION
Cross Currency Interest Rate Swap	A borrower exchanges (swaps) one set of interest payments from a loan in one currency for another set of interest payments in a second currency. Interest payments are swapped from fixed to floating and vice verse. See “Interest Rate Swaps”.
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” asset e.g. sharemarket 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 payout 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 or on a borrower at a future date, but the determining conditions are buried or “embedded” in a separate debt or financial instrument.
Eurobond	A fixed rate bond issued by a non-resident borrower in a European country.
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, Y2K, political elections, adversely affecting a company’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.

TERM	DEFINITION
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.
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).
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.
Floorlet	A series or string of floor options which exist for each period the floor agreement is in existence.
Forward Exchange	A contract to buy and sell one currency against another at a contract fixed price for delivery at some specified future date
Forward Forwards	A forward exchange contract on the forward points for foreign exchange forward contracts i.e. a hedge on the forward points which are determined by the two separate interest rates of the currencies involved.
Forward Points	The difference in interest rates between two currencies expressed as the exchange rate points i.e. 152 forward points is a 0.0152 adjustment to the

	0.5500 NZ$/US$ exchange spot rate.
Forward Rate Agreement	A contract ("FRA") whereby a borrower or investor in Bank Bills 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 Starting 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 company's own credit worthiness, industry trends or banking market conditions.

TERM	DEFINITION
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.
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 bond 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 a 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 sharemarket index, or the gold price.
Indirect FX Risk	A company has indirect foreign exchange risk where their costs, revenues or profits can be adversely affected by exchange rates that they are not directly paying or receiving. The prices they pay or receive in the domestic currency are influenced by the exchange rate movements.
ISDA	International Swaps and Derivatives Association: a governing body that determines legal documentation/standards for over-the-counter swaps/options/FRA's 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.
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.
TERM	**DEFINITION**
"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.
Junk Bonds	High yield bonds at the bottom-end of the credit quality spectrum.
Knock-in/Knock-out Options	Option contracts for currencies or interest rates that are either activated or de-activated on pre-determined market rates being achieved.
Liability Management	The policy, strategy and process of actively managing 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 a company cannot obtain cash/funds from liquid resources 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 program whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.

TERM	DEFINITION
Multi-currency Facility	A committed banking facility that allows the borrowing of several alternative currencies to the NZ dollar.
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 company 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 pre-set 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” Option	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 company.
Primary Market	The market for new issues of bonds or MTN's.
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 or 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.

TERM	DEFINITION
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 counterparty at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.
Repurchase Agreement (Repo)	A sale and repurchase agreement has a borrower sell securities for cash to a lender and agrees to repurchase those securities at a later date for more cash. The repo rate is the difference between borrowed and paid back cash expressed as a percentage. For example, the RBNZ in open market operations buys securities from financial institutions who agree to buy them back at a cost of OCR plus margin.
Reverse Repo	The same repurchase agreement from the buyers' perspective, i.e. the seller executing the transaction would describe it as a 'repo', while the buyer in the same transaction would describe it as a 'reverse repo'
Roll-over	The maturity date for a funding period, where a new interest rate is re-set 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, normally two business days after the transaction is

	agreed.
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 FRA's for a one or two-year period, normally expressed as one average rate.
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 borrowing is called a tranche.
Treasury	Generic term to describe the activities of the financial function within a company that is responsible for managing the cash resources, debt, foreign exchange risk, and sometimes the commodity price and energy price risk.
Treasury Bill	A short-term (<12 months) financing instrument/security issued by a Government as part of its debt funding program.

TERM	DEFINITION
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.
Yankee Bond	A non-resident US borrower issuing a corporate bond in the domestic US bond market.
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.

ATTACHMENT III – CONTRIBUTIONS, LOANS, GUARANTEES AND UNDERWRITING COMMITMENT POLICY

1.0 INTRODUCTION

This policy specifically relates to contributions, loans, guarantees and underwriting commitments entered into by Council, hereafter referred to as the provision of financial support. It does not deal with the provision of Council grants.

Council seeks to minimise the risks associated with providing such financial support and seeks to ensure that the amount "at risk" at any given time fits comfortably within Council's Treasury Management Policy.

1.1 DEFINITIONS

Guarantee

A guarantee is where the Council agrees to act as a guarantor on a loan that a third party organisation has arranged with a lender, normally a commercial bank. The bank normally requires a guarantee in cases where the borrower cannot provide adequate security for the loan or does not have a proven credit history.

Council can guarantee an individual facility which would be "capped" at a predetermined maximum.

Council has historically been called upon to provide a guarantee for a sports club who wishes to develop a facility, but does not own the land upon which the facility is sited.

Underwriting Commitment

An underwriting commitment is where the Council agrees to provide financial support to a third party organisation, normally in favour of that organisation's bank. It is different to a guarantee in that the commitment is specifically linked to an event or a "deliverable" such that the Council agrees to support the organisation to the extent that the event or "deliverable" does not occur.

For example, if the Council underwrites a proposal to sell 50 seats within an agreed period of time, if at the end of that period the organisation has sold only 40 of those seats, the Council would be called upon to finance the balance. An underwrite is therefore a form of limited guarantee.

Loan

There are basically three types of loan Council can provide. If interest is charged on the loan then it will be based on the Council's own cost of funds

- Regular Loan

  Money lent with the intention and expectation than it would be repaid, either with or without interest, at a particular time or over a specified period.
-

Inter-generational Loan

Money lent either with or without an interest charge, where the loan may be matched by a grant to cover the repayment of interest and/or principal.

Council would normally only make such a loan where the borrower is unable to borrow money on commercial terms from a bank. The Council therefore becomes "the lender of last resort". Council would consider a loan in this instance where it deems the organisation and its proposed outputs meet the strategic objectives of the Council.

- Suspensory loan

  Money lent with the expectation that it will not be repaid subject to certain conditions being met. Interest is usually not charged.

Contribution

Money put into an organisation which is not any of the above, such as the settlors interest in a Trust. This is normally an "equity" investment in an entity and would be used by Council where direct control as a result of ownership is required.

1.2 DISCUSSION OF RELEVANT ISSUES

Role of Council

Council acknowledges that it has a role of facilitating the construction of new city amenities and/or economic development. All projects involving Council funding, whether managed by Council itself or by an external party on behalf of and/or supported by the Council, must meet the Council's strategic objectives while discharging stewardship responsibilities to the community. Where Council provides financial support it seeks to keep the relationship at arms length and promote transparency with respect to Council's contribution. Any loans including suspensory must be either;

- Included in the Annual Plan/LTP; or
- The amount is provided for within a fund such as the economic development fund;

If not, then the Council must approve the loan.

Any new arrangements must not compromise the financial principles contained in the ten-year financial strategy:

1.2.1 Council's Financial Constraints

Compensation of Council

Excluding suspensory loans the decision to charge interest and/or guarantee/commitment fees, and at what rate, rests with Council.

Where the business plan shows an ability to pay, interest should be charged.

Justification must be given where no interest or concessionary interest is charged.

To ensure the true cost of the transaction is transparent interest should be provided at a rate at least equivalent to the Council's own cost of borrowing. Any difference between the contracted rate and the imputed cost of borrowing (assuming a discounted rate is given) should then be written off.

As noted above, if the borrower is able to borrow money on commercial terms, it should be directed to a commercial bank.

Minimum Criteria

In considering providing financial support to a third party, Council may want:

- Details of the applicant's objectives, strategy, history and business performance;
- To assure itself that the applicant can meet their obligations by presentation of a viable business plan and audited financial statements for the previous three years;
- To assure itself the project is a significant social or recreational benefit to the community consistent with the Council's strategic plan. The applicant would be required to indicate who would benefit from the project and how;
- A project plan detailing the need for the project, a complete budget including the costs, any proposed income, a detailed cashflow and any other documentation a prudent bank would require;
- Where applicable, written confirmation from the bank indicating it is prepared to offer the organisation a loan subject to the provision of council support. Details of the loan and the support sought should also be provided;
- Written documentation from the applicant evidencing that it has tried other financing avenues and been rejected. Reasons for the rejection must also be given.

All proposals must be subjected to the following risk assessment by Council:

- What are the internal and external influences on the applicant's present and future cash flows?
- What has the applicant done to mitigate or eliminate any negative influences?
- What is the present and future profitability of the applicant and its likely volatility?
- What is the underlying present and future liquidity and value of assets employed in the business of the applicant?
- What is the present and future debt structure of the applicant?
- What security, and the ranking thereof, has already been provided to a third party(s) and to whom?
- What is the likely impact if the Council refuses to give the requested support?

Limits

It is appreciated that not all the guarantees or underwriting commitments are likely to be enforced at one time. However Council should assume, because it is often approached as the lender of last resort, that the probability of a claim being made under the guarantee would be significantly higher than in a normal commercial undertaking. Therefore, Council should assume that it will be called upon to honour a guarantee or underwriting commitment at any time.

As a result, a provision for these arrangements should be created recording the maximum potential level of exposure to the best of Council's knowledge at a given time. Some guarantees will cover outstanding loan balances, interest costs and expenses however, as the guarantee must be capped (including these additional costs) these must be quantified.

1.2.2 Treasury Management Committee

The Treasury Management Committee is responsible for approving limits:

- Total guarantees and underwriting commitments should not exceed $5 million excluding any underwrite commitment to the Stadium.
- Total loans should not exceed $50 million in total, with no arrangement exceeding $30 million, depending on the merits of each project.
- Guarantees and underwriting commitments can be granted for a maximum period of 5 years, subject to review, depending on the merits of each project.
- Loans (excluding suspensory loans) should only be given for a facility that is of a durable nature and not to meet short-term expenditure. It must improve the organisation's long term viability and augment its income generating capacity.
- The loan, guarantee or underwriting commitments should not exceed 75% of the realisable assets of the borrowing entity (excluding suspensory loans), depending on the merits of the individual project.
- Council will retain some form of security in the entity until the organisation's obligations to Council are met.
- Ensuring compliance with the policy limits. This can be incorporated as part of the normal Treasury reporting process.
- Determining the amount of risk the Council can prudently carry given its reserves and other claims thereon.
- Assessing the impact on Council's borrowing constraints.

Documentation

All situations where Council provide financial support must be formalised with legal documentation. This must:

For a guarantee or underwriting commitment

- Clarify what exactly is being guaranteed or underwritten
- Make sure that as principal and interest obligations reduce with repayments so does the corresponding guarantee or underwriting commitment
- Ensure the guarantee or underwriting commitment is not for a sum greater than the amount borrowed plus an agreed level of interest and cost in some circumstances.
- Require the bank to notify the Council as soon as the borrower is in default of its obligations

For a guarantee only in addition to all of those items above:

- Ensure further amounts cannot be borrowed against the original guarantee
- Require the bank to be a proactive manager of the account. Failure to do so will result in withdrawal of the guarantee.

For a loan

- Take security where ever possible.
- Use the Council's standard loan documentation or approved documentation where possible.

1.2.3 Security

When Council provides financial assistance it must maximise the security protections it has the benefit of, wherever possible.

Security mechanisms include:

- Registered mortgage
- Personal guarantees
- Other registered charge
- Caveat on title
- Negative pledge

The preferred mechanism would be a first mortgage over easily realisable assets together with a personal guarantee. Where a loan is secured against a physical asset Council will require evidence of acceptable insurance arrangements and payment of related premiums.

1.3 COUNCIL CONTROLLED TRADING ORGANISATIONS (CCTOs)

Section 6 of the Local Government Act defines a CCTO as:

- A company in which a local authority, or combination of local authorities, hold 50% or more of the voting rights at any general meeting of the company;
- An organisation through which a local authority or local authorities operate a trading undertaking with the intention or purpose of making a profit (being an organisation over which the local authority has significant control);
- Any other company or organisation being an organisation through which a trading undertaking is operated (which local authority or local authorities directly or indirectly have control by any means whatsoever).

If an entity is a CCTO then certain consequences flow from that. Those that impact on this policy are:

- That a local authority may not guarantee any of the obligations of a CCTO, but is allowed to guarantee LGFA;
- That a local authority may not provide any form of financial accommodation to a CCTO other than on commercial terms. This means for example that interest must be charged on loans at normal market rates;
- Council will be liable for tax on any income derived from a CCTO.

1.4 RESPONSIBILITIES

Council

Council is responsible for:

- Approving the Annual Plan, which includes known arrangements.
- Approving new arrangements not included in the Annual Plan.
- Approving the Investment and Liability Management policy and subsequent amendments.

City Strategy Committee

The Governance, Finance and Planning Committee is responsible for:

- Reviewing the Investment and Liability Management policy and recommending to Council any amendments for approval.

ATTACHMENT IV – INTERNAL CONTROLS

Sound treasury procedures with appropriate controls are required to minimise risks the Council may experience through unauthorised treasury activity or unintentional error. Treasury procedures and controls are reviewed by Risk Assurance, on an annual basis. As part of this review, treasury transactions, whether currently outstanding or having already matured are independently confirmed with counterparties.

The following key internal controls must be adhered to:

1.1 INVESTMENT ACTIVITY

1.1.1 NZClear / Electronic Banking Signatories

Approved by CFO as per registers.

NZClear signatories are maintained in the Austraclear system by the Systems Administrator. An NZClear signatory is required to release transactions entered into NZClear by the Etos Limited on behalf of the Council. All treasury payments, receipts and transfers are undertaken through the NZClear system. In exceptional situations where cheques are used, full details are noted and reviewed by the CFO.

1.1.2 Authorised Personnel

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

1.1.3 Deal Recording

Each deal is assigned a unique identification number by the NZClear system. These numbers are recorded by the Etos Limited and transferred to the deal summary spreadsheet. Hard copies are retained.

All deals executed by Etos are reviewed by the Treasury Accountant or Manager Financial Accounting.

1.1.4 Confirmations

All inward confirmations are received and checked by the Reconciliation Clerk against completed deals / spreadsheet records to ensure accuracy.

Deals, once confirmed, are filed in date order with the confirmation attached.

1.1.5 Reconciliations

Discrepancies arising during bank statement reconciliations are dealt with by the Reconciliation Accountant and reviewed by the Manager, Financial Accounting.

Discrepancies arising during deal confirmation checks are dealt with by the Treasury Manager and reviewed by the Chief Financial Officer.

The Reconciliation Accountant reviews monthly reconciliation of the investment register to the general ledger and to NZClear statements carried out by the Etos Limited.

Interest income as per Investment register is reconciled by the Reconciliation Accountant to ensure the income is received.

In the event that there are material or repetitive discrepancies in respect of the above these must be reported to the Treasury Manager.

1.1.6 Custody Arrangements

All bearer and deliverable instruments are held in safe custody in the NZClear system.

New Zealand Government stock, Treasury bills and Local Authority stock are registered with Computershare. Council receives notice of the stocks transferred into its name in the NZClear system from Computershare.

1.2 BORROWING ACTIVITY

1.2.1 Issuing Council Stock/Bonds

Council may use a broker or bank to find prospective investors and place its stock in the market. In such cases, the broker/bank will attend to correspondence with investors. Council can issue directly; either by dealing with reverse enquiry's from the financial market or by calling for competitive bids in a tender process. Both processes will be controlled by the Treasury Manager. Where stock placement is administered internally the following procedures are to be followed:

- Bids are solicited verbally or by sending out a notice of "Intention to issue Stock" to various parties.
- Incoming bids are recorded and collated by the Treasury Manager.
- Bids are approved by the Treasury Manager.
- Successful bidders are notified and where appropriate forwarded an application for registered stock to be issued form for their completion and return.
- All deal records, related confirmations and authorities relating to issuing stock are filed.
- At the time of issue Council will provide the trustee of the Debenture Trust Deed with a Stock Issuance Certificate
- At time of issue Council will provide Computershare with the following:
  - Stock Registration Form or Issue Notice and Stock Certificate.
  - The schedule of cash applications for subscription.
- The Treasury Manager is responsible for collating the appropriate material and forwarding it to Computershare, Etos and the trustee of the Debenture Trust Deed.
- Issues to be made in accordance with the Council's Dealer Agreement and Debenture Trust Deed.

For LGFA placements, Council can borrow outside of LGFA tender dates for any chosen maturity. The maximum term is restricted to the LGFA's longest dated bond on issue. Ahead of tender dates, Council informs the LGFA of its required funding amount and term. The LGFA tenders, and raises funds on behalf of Council. Successful investors bidding in the LGFA tender are notified and forwarded an 'application for registered secured debenture security form for their completion and return.

A term sheet executed by Council is sent to the LGFA for registration.

1.2.2 Issuing Commercial paper

Commercial paper will be issued in accordance with the Dealer Agreement and, unless authorised by the Chief Financial Officer, within the limits of the commercial paper programme.

1.2.3 Bank Borrowing

Etos Limited manages the drawdown, rollover and repayment (in terms of amount, term and interest rate) of amounts from approved Bank(s) facilities. The Treasury Accountant, as delegated by the Manager, Financial Accounting, approves all bank draw-downs, repayments and rollovers.

3. Public Excluded

Resolution to Exclude the Public:

THAT the Finance, Audit and Risk Management Subcommittee :

Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
3.1 Internal Audit Update	7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
3.2 Council debtor report	7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest. 7(2)(h) The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
3.3 Health and Safety Report	7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

	subject of the information.	
3.4 Risk Management Update	7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest. 7(2)(h) The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. 7(2)(i) The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.