Treasury Policy

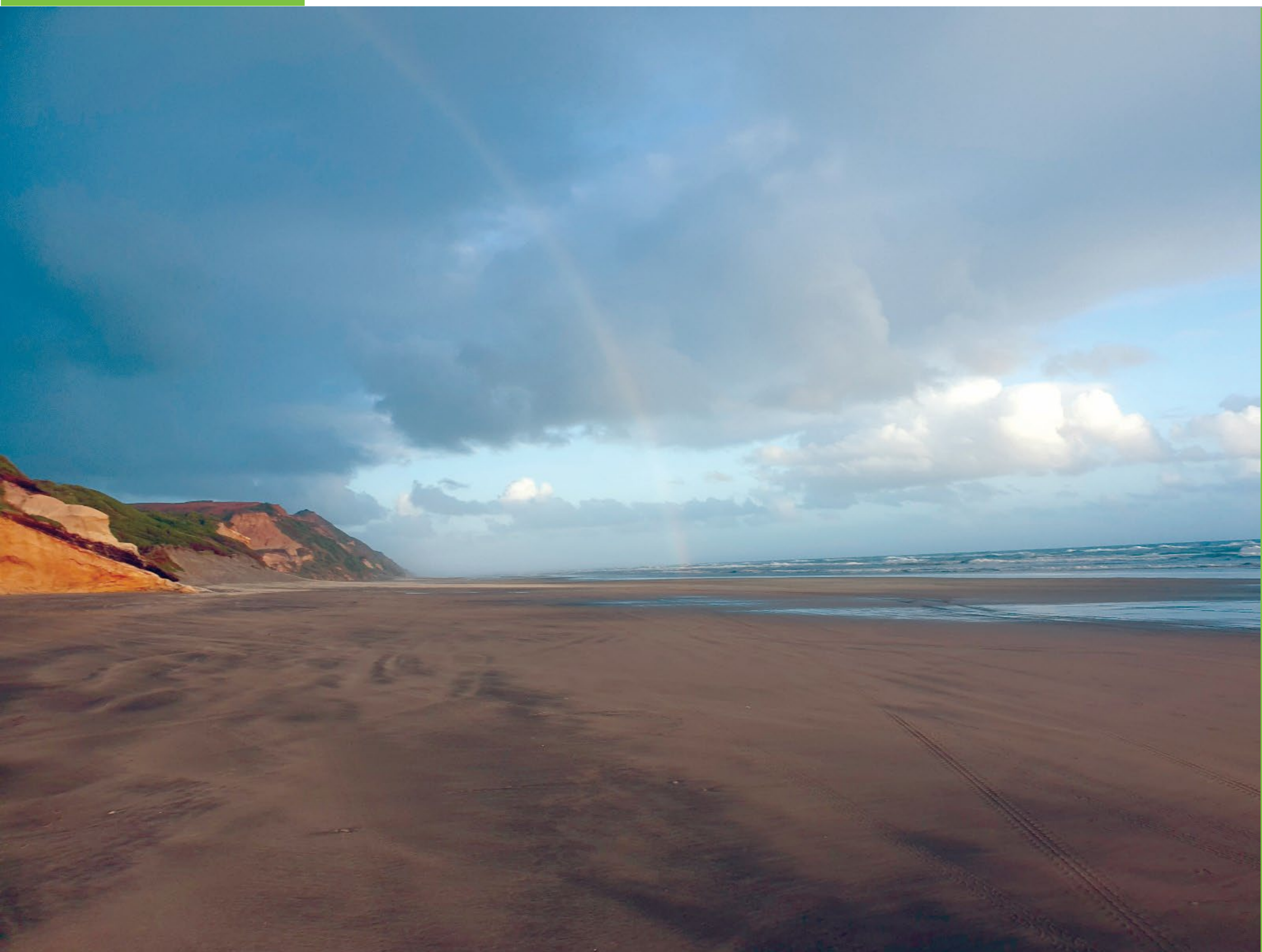
Incorporating the:

Liability Management Policy

Investment Policies

as required under sections 104 and 105 of the

Local Government Act 2002



KAIPARA DISTRICT

Kaipara te Oranganui • Two Oceans Two Harbours

Treasury Policy			
Category	Council	**Business Unit**	Finance and Risk
Author	GM Sustainable Growth & Investment	**Act(s)**	LGA 2002
Type	Statutory compulsory	**Date first adopted**	Not known
Authorised	Council	**Review cycle**	As required
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Contents

1. Introduction

1.1 Policy Purpose

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

2. Scope and Objectives

2.1 Scope

This document identifies the policy and procedures of Council in respect of treasury management activities.

2.2 Risk Appetite

Council’s overriding obligation is to manage its affairs prudently and in the interests of its community and is guided by the obligations imposed by the Local Government Act 2002.

Accordingly, Council’s philosophy on the conduct of its treasury activities is to ensure that the risks associated are properly identified, quantified and managed to ensure it meets the obligations under the Act and that there is minimal negative impact on the Council arising from such risks. Council is a risk averse entity and does not wish to seek risk from its treasury activities. Accordingly, activity that may be construed as speculative in nature is expressly forbidden.

2.3 Objectives

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

General objectives

- To manage investments to optimise returns in the long term whilst balancing risk and return considerations;
- Minimise Council's costs and risks in the management of its borrowings; and
- Minimise Council's exposure to adverse interest rate movements.

Statutory and principal objectives

- All external borrowing, investments, and incidental financial arrangements (e.g., use of interest rate hedging financial instruments) will meet requirements of all relevant legislation including but not limited to:
    - Local Government Act 2002, in particular Part 6 including sections 101,102, 104 and105, and incorporate the Liability Management Policy and Investment Policy;
    - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4;
    - Trustee Act 2019 (effective January 2021). When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act 2019 Part 3 and Part 4;

3. Responsibilities

3.1 Council

Council is responsible for approving the Treasury Policy and this cannot be delegated.

In this respect, Council has responsibility for:

- Approving the long-term financial position of Council through the 10-year LTP and the adopted Annual Plan;
- Approving new debt through the adoption of the Annual Plan, specific Council resolution and approval of this policy;
- Evaluating and approving amendments to policy;
- Approving budgets and high-level performance reporting;
- Approve opening and closing of bank accounts; and
- Approval for one-off transaction falling outside Policy.

Council should 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 in a timely manner; and
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines.

3.2 Staff Segregation of Duties

As there are a small number of people involved in borrowing and investment activity, adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting is not strictly achievable.

Chief Executive (CE)	Execution of Contract once approved by Council
GM Sustainable Growth & Investment (GMSG&I)	Execution of contract once approved by Council
Revenue Manager	Authorises Deposits and reviews cashflow on a minimum of monthly basis.
Finance & Risk Manager (F&RM)	Approves Refinancing of Debt terms with current Lenders Monthly reconciliation of Treasury Spreadsheet to general ledger is signed off by Finance & Risk Manager Revaluation of hedging instruments at year end for audit Presents to Audit & Risk Committee quarterly
Financial Services Manager (FSM) (in charge of Financial Transactions Team)	All treasury instruments should be recorded and diarised within a treasury spreadsheet, with appropriate controls and checks over journal entries into the general ledger Deal tickets are filed in system - authorised Reports any irregularities to CE.

	Monthly bank reconciliations performed by team and signed off by FSM. Unreconciled items referred to FSM. **Cash Management** The Finance Accountants Team has the responsibility to carry out the day-to-day cash and short-term debt management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function. • The Finance Accountants Team will calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), weekly (four weeks forward) and monthly (12 months forward) basis. The Long-Term Planning process completed every three years looks forward for 10 years. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment; • On a daily basis, electronically download all Council bank account information; • Co-ordinate Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters; • Undertake short term borrowing functions as required, minimising overdraft costs; Prepares quarterly treasury report to Audit, Risk & Finance Committee
PWC	Proposes debt structure and swaps to keep in policy. Monthly meeting and advice to Finance & Risk Manager, Financial Services Manager

Procedures

Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in a treasury procedures manual separate to this policy.

Procedures should include:

- Regular management reporting;
- Regular risk assessment, including review of procedures and controls as directed by Council or appropriate sub-committee of Council; and
- Organisational, systems, procedural and reconciliation controls to ensure:
  - All borrowing, interest rate and investment activity is bona fide and properly authorised;
  - Checks are in place to ensure Council accounts and records are updated promptly, accurately and completely; and
  - All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity.

Organisational controls

- The GMSG&I or equivalent has responsibility for establishing appropriate structures, procedures, and controls to support borrowing, interest rate and investment activity; and
- All borrowing, investment, cash management and interest rate risk management activity is undertaken in accordance with approved delegations authorised by Council.

Electronic banking signatories

- Positions approved by the CE as per register:
  - Chief Executive
  - GM Sustainable Growth and Investment
  - Finance & Risk Finance Manager
  - Financial Services Manager
- Revenue Manager
  - P&C Manager
- Dual signatures are required for all electronic transfers.

Authorised personnel

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

Recording of deals

- All deals are recorded on properly formatted deal tickets by the Finance Accountants Team and approved as required by the F&RM, GMSG&I or CE. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spreadsheets) are maintained and updated promptly following completion of transaction.

Confirmations

- All inward letter confirmations including registry confirmations are received and checked by the Finance Transactions Team against completed deal tickets and the treasury spread sheet records to ensure accuracy;
- All deliverable securities are held in Finance files;
- Deals, once confirmed, are filed (deal ticket and attached confirmation) by the Finance Transactions Team in deal date/number order; and
- Any discrepancies arising during deal confirmation checks which require amendment to Council records are signed off by the RFM, GMSG&I or CE.

Settlement

- The majority of borrowing, interest rate and investment payments are settled by direct debit authority; and
- For electronic payments, batches are set up electronically. These batches are checked by the FSM to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

Reconciliations

- Interest income from the treasury spreadsheet is reconciled to bank statements.

3.3 Agreements

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

Council's internal/appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings, and investment structures.

3.4 Financial covenants and other obligations

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

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

3.5 Treasury reporting

The following reports are produced:

Report name	Frequency	Prepared by	Recipient
Daily Cash Position Treasury Spreadsheet	Daily	Assistant Accountant	FSM
Treasury Exceptions Report	As required	FSM	GMSG&I
Treasury Report • Policy limit compliance • Borrowing limits • Funding and Interest Position • Funding facility • New treasury transactions • Cost of funds vs budget • Cash flow forecast report • Liquidity risk position • Counterparty credit • Treasury performance Debt maturity profile • Treasury investments	Quarterly	FSM	ELT/ARF
Quarterly Treasury Strategy Paper	Quarterly	GMSG&I	ARF
Statement of Public Liability	Monthly	FSM	Council
Revaluation of financial instruments	At least annually	FSM	Council
LGFA covenant reporting	At least annually		LGFA

4. Liability Management Policy

This policy is provided in accordance with Section 104 of the Local Government Act 2002 and must state the local authority policies in respect of the management of both borrowing and other liabilities.

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

- Fund working capital requirements and short-term funding gaps;
- Raise specific debt associated with projects and capital expenditures; and
- Fund assets whose useful lives extend over several generations of ratepayers.

4.1 Debt ratios and limits

In approving new debt Council considers the impact on its borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP.

Debt will be managed within the following macro limits.

Ratio	KDC Policy Limits	LGFA Lending Covenants
Net external debt as a percentage of total revenue	<170%	<175%
Net interest expense on external debt (debt secured under debenture) as a percentage of total revenue	<15%	<20%
Net interest expense on external debt (debt secured under debenture) as a percentage of total annual rates income	<20%	<25%
Liquidity	>110%	>110%

Borrowing Limit Definitions

- Total Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets); Net debt is defined as total external debt;
- Liquidity is defined as total external debt, plus available portion of committed loan facilities less cash investments;
- Net external debt is total external debt less cash investments;
- External debt is the aggregate of bank drawdown amounts, issued commercial paper (CP), term debt, capitalised finance leases and financial guarantees provided to third parties;
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period; and
- 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 the other local authorities rate). Council can add on any revenue received from income for which Council rates (e.g. volumetric water charges).

4.2 Borrowing mechanisms

Council is able to borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, accessing the short and long term wholesale and retail capital markets directly 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 margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing;
- The market's outlook on future credit margin and interest rate movements as well as its own;
- Legal documentation and financial covenants together with security and credit rating considerations;
- For internally funded projects, to ensure that finance terms for those projects are at similar terms to those from external borrowing; and
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Council's ability to readily attract cost-effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with its investors, LGFA and financial institutions/brokers.

Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings.

4.3 Security

Council's external borrowings and interest rate management instruments are secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government (Rating) Act 2002. The security offered by Council ranks equally or pari passu with other lenders.

Where security is considered to be offered over specific assets, prior Council approval as well as the following are required:

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

4.4 Debt repayment

The funds from all asset sales, operating surpluses, will be applied to the reduction of debt and/or a reduction in borrowing requirements once any direct debt obligations are repaid, unless Council specifically directs that the funds will be put to another use.

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

4.5 Guarantees/contingent liabilities and other financial agreements

The Council may from time to time provide financial guarantees to third parties i.e., community organisations or clubs.

Management must ensure that the business plan of the guaranteed party furthers the strategic objectives of the Council and that financial statements are received on an annual basis. Should the guarantee be called up, the Council must take immediate action to recover the money.

For any outstanding guarantees, Council ensures that sufficient financial capacity exists relative to LGFA lending covenants. Unless approved by Council, guarantees or financial arrangements given will not exceed any amount agreed by Council.

Financial arrangements can include:

- Advances to community organisations;
- Council can approve loans to community organisations but must ensure that the principal is repaid with interest over a maximum of 30 years as per a table loan (at the average interest cost of funds) with one payment made at the end of the year for interest and principal;
- Council can guarantee community loans. Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed;
- Guarantees given will not exceed NZ$1 million in aggregate;
- Guarantees will not be attached to Council property; and
- Such advances/guarantees will be reported in the Annual Report each year.

As set out in Section 62 of the Local Government Act, Council does not give any guarantee, indemnity or security in respect of the performance of any obligation by a Council Community Trading Organisation (CCTO).

4.6 New Zealand Local Government Funding Agency Limited investment

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

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

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

4.7 On-lending to Council Controlled Organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs.

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

Any lending arrangements (direct or indirect) to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the F&RM considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amounts outstanding on due date;
- Impact on Council's credit standing, credit rating, debt burden (particularly in relation to S&P credit assessment), lending covenants with the LGFA and other lenders and Council's future borrowing capacity;
- The form and quality of security arrangements provided;
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.;
- Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates,
- security and expiry date is agreed between the parties and
- Accounting and taxation impact of on-lending arrangement.

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

4.8 Approved financial instruments

Dealing in interest rate products must be limited to financial instruments approved by Council.

Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long-term loan facilities) Committed standby facilities from the LGFA Uncommitted money market facilities Retail and Wholesale Bond, both Fixed Rate (MTN) and Floating Rate Note (FRN) issuance (including forward start from the LGFA) Commercial paper (CP) /Bills / Promissory notes Finance Leases
Interest rate risk management	Forward rate agreements ("FRAs") on: • Bank bills • Government bonds Interest rate swaps including: • Forward start swaps and collars (start date <36 months, unless linked to existing maturing swaps and collars) • Amortising swaps (whereby notional principal amount reduces) • Swap extensions and shortenings Interest rate options on: • Bank bills (purchased caps and one for one collars) • Government bonds • Interest rate swaptions (purchased swaptions and one for one collars only)

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

Foreign Currency Borrowings

Council does not borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency. There will be times Council has to pay for ad hoc minor items in overseas currency.

4.9 Interest rate risk control limits

Net debt/borrowings

Council debt/borrowings should be within the following fixed/floating interest rate risk control limit:

Debt Interest Rate Policy Parameters (Calculated on a rolling monthly basis):		
Debt Period Ending	**Minimum Fixed**	**Maximum Fixed**
0 – 36 months	40%	90%
37 – 60 months	30%	75%
60 – 84 months	0%	60%
Greater than 84 months	0%	50%

To minimise concentration, risk the Local Government Funding Agency Limited (LGFA) will require that no more than the greater of NZD $100 million or 33% of Council's borrowings from the LGFA will mature in any 12-month period.

"Fixed Rate" is defined as all known interest rate obligations on forecast gross external debt, including where debt is borrowed on a fixed interest rate basis and where hedging instruments have fixed movements in the applicable reset rate.

"Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.

Forecast gross external debt is the amount of total external debt for a given period (12 month). This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the Finance & Risk Manager), the amount of interest rate fixing in place may have to be adjusted. The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or funding costs. Certainty around funding costs is to be achieved through the active management of underlying interest rate exposures to ensure compliance with the Policy minimum and maximum limits.

Forecast gross external debt is to be reviewed by the F&RM as part of the ongoing strategic risk management process, and the specific levels of core debt deemed to be that which is not seasonal or working capital related.

- A fixed rate maturity profile that is outside the above limits, but self corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile beyond 90 days requires specific approval by Council;
- The above interest rate risk control limits apply when external debt exceeds $25 million;

- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months;
- Interest rate swap maturities beyond the maximum LGFA bond maturity must be approved by Council through a specific approval.
- 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, only the sold side of the collar can be closed out (i.e., repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”;
- Purchased borrower swaptions mature within 12 months;
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation; and
- Forward start period on swaps and collar strategies to be no more than 36 months unless it extends the maturity of existing interest rate fixing (via either derivatives or fixed rate borrowing).

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 the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

4.10 Liquidity risk/funding risk

4.10.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

Liquidity/funding risk control limits

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

The maturity profile of the total committed funding in respect to all loans and committed facilities, is to be controlled by the following system and apply when external debt exceeds $25 million:

Period	Minimum Cover	Maximum Cover
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	60%

- A funding maturity profile that is outside the above limits, but self corrects within 90 days is not in breach of this Policy. A maturity schedule outside these limits for a period greater than 90 days requires specific the Council approval; and
- With regard to calculating the funding maturity profile, total committed bank facility amounts are recognised as maturing at the facility's legal expiry date.

Internal Loans

Council has the option to use the day-to-day cashflow, financial investments and available special fund balances to internally fund capital expenditure.

Borrowing internally, by utilising its own cash reserves creates fiscal efficiencies by eliminating the interest rate margin between borrowing and investing.

Interest on internal loans is charged annually in arrears on prior year end loan balances.

5. Investment Policy and Limits

5.1 General Policy

The Investment Policy is adopted under Section 105 of the Local Government Act.

Investments are generally maintained to meet specified business reasons. However, it should be noted that Council does not usually hold any investment funds corresponding to special funds and has a policy of borrowing net of special funds that are likely to remain unspent at the year end.

Specific reasons for maintaining investments include:

- For strategic purposes consistent with Council's LTP;
- To reduce the current ratepayer burden;
- The retention of vested land;
- Holding short term investments for working capital and liquidity requirements;
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives or to support inter-generational allocations;
- Holding assets (such as property) for commercial returns;
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets; and
- Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
- Council recognises that as a responsible public authority all investments held, should be low risk. Council also recognises that low risk investments generally mean lower returns

5.2 Investment mix

Council may maintain investments in the following assets from time to time:

- Equity investments, including investments held in CCO/CCTO and other shareholdings;
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development;
- Forestry investments; and
- Financial investments.

5.2.1 Equity investments

Equity investments, including investments held in CCO/CCTO and other shareholdings. Council maintains equity investments and other minor shareholdings.

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

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

Any purchase or disposition of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring. Any purchase or disposition of equity investments will be reported to the next meeting of Council.

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

5.2.1 Property investments

Equity investments, including investments held in CCO/CCTO and other shareholdings. Council maintains equity investments and other minor shareholdings.

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

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

Any purchase or disposition of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring. Any purchase or disposition of equity investments will be reported to the next meeting of Council.

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

5.2.3 Financial investments

Financial investment objectives

Council's primary objectives when investing is the protection of its investment capital.

Accordingly, Council may only invest in approved creditworthy counterparties.

These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.

5.3 Approved financial instruments

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

Category	Instrument
Investments	Term deposits (including those linked to prefunding strategies) Call and Short-term bank deposits Bank registered certificates of deposit (RCDs) NZ Government, LGFA, Local Authority stock or State-Owned Enterprise (SOE) bonds and FRNs (senior) Corporate bonds (senior) Corporate Floating Rate Notes (senior) Promissory notes/Commercial paper (senior) Corporate/SOE/Other Local Authority Bonds NZLGFA Borrower Notes Bank term deposits linked to pre-funding maturing debt

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

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

- Structured debt where issuing entities are not a primary borrower/ issuer; and
- Subordinated debt, junior debt, perpetual notes and hybrid notes such as convertibles.

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due.

Special funds, reserve and endowment funds

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

No interest is payable on internal borrowing to/from reserves, unless otherwise directed by Council or in accordance with the fund agreements.

Trust funds

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

5.4 New Zealand Local Government Funding Agency Limited investment

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

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

- Obtain a return on the investment; and

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

Because of these dual objectives, 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.

Borrower Notes

On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

5.4.1 Counterparty credit risk

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

The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term / short term credit rating – stated and possible	Total maximum per counterparty ($m)
NZ Government	N/A	Unlimited
Local Government Funding Agency	N/A	Unlimited
NZ Registered Bank	A/ A-1	30.0
Local Government Stock/ Bonds/FRN/ CP	A+/ A-1 (if rated)	10.0
This summary list will be expanded on a counterparty named basis which will be authorised by the CE.		

Risk management

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

No more than 50% of the investment portfolio will be held with one bank at any one time.

Investments are normally held to maturity date. Where investments are liquidated before legal maturity date, approval is obtained from the CE, who also approves guidelines for a minimum acceptable sale price. The GMSG&I evaluates quotes based on these instructions and proceeds with the transaction.

Reporting of Investments is monthly to Council.