Treasury Policy

Incorporating the Liability Management and Investment Policies as required by sections 104 and 105 of the Local Government Act 2002

Council Approved: 03 August 2016

Kaipara te Oranganui
KAIPARA
DISTRICT
Two Oceans Two Harbours

CONTENTS

1.0 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 ("Kaipara"). The formalisation of such policies and procedures will enable treasury risks within Kaipara to be prudently managed.

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

- Industry "best practices" for a Council the size and type of Kaipara.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Treasury Policy and treasury management function to recognise, measure, control, manage and report on Kaipara's financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit 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.
- Assistance to Kaipara in achieving strategic objectives relating to ratepayers.

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

2.0 SCOPE AND OBJECTIVES

2.1 Scope

- This document identifies the policy and procedures of Kaipara in respect of treasury management activities.
- The policy has not been prepared to cover other aspects of Kaipara's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of Kaipara cover these matters.
- Planning tools and mechanisms are also outside of the scope of this policy.

2.1 Objectives

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

Statutory objectives

- All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- Kaipara is governed by the following relevant legislation; the Local Government Act 2002, in particular Part 6 including sections 101,102, 103, 104, 105,112 to 116.
- All projected borrowings are to be approved by Council as part of the Annual Plan process or the long term planning process (LTP) or resolution of Council before the borrowing is affected.
- All legal documentation in respect to borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.
- Council will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.
- Hire Purchase, Deferred Purchase, Trade Credit - for the purposes of sub-paragraph (c)(ii)(B) of the definition of "borrowing" in section 112 of the LGA 2002, "borrowing" does not include:
  - Debt incurred in connection with hire purchase of goods, the deferred purchase of goods or services, or the giving of credit for the purchase of goods or services, if the goods or services are obtained in the ordinary course of Council's performance of its lawful functions, on terms and conditions available generally to parties of equivalent credit-worthiness, for amounts not exceeding in aggregate $250,000 ; or
  - The deferred purchase of goods or services or the giving of credit for the purchase of goods or services through the mechanism of contract retentions held for periods less than 365 days.
- Other - Instruments not specifically referred to in this policy may only be used with specific Council approval.

- The Council routinely defers payment following completion of construction or other large scale engineering contracts in accordance with standard industry practices. Although this practice may mean that these deferred payments fall within the definition of borrowing for the purposes of the Act and this policy, these contractual arrangements create very little risk for the Council. There is no interest exposure on these payments; the credit-worthiness of the contracting party is not relevant; and the deferred period is sufficiently long that no impact on liquidity is anticipated, as payments can be programmed in advance through the annual plan process or standard cash flow procedures. Therefore, the Council will enter into these contracts in accordance with its standard procurement procedures, and deferred payment conditions will not require any additional approval by the Council.

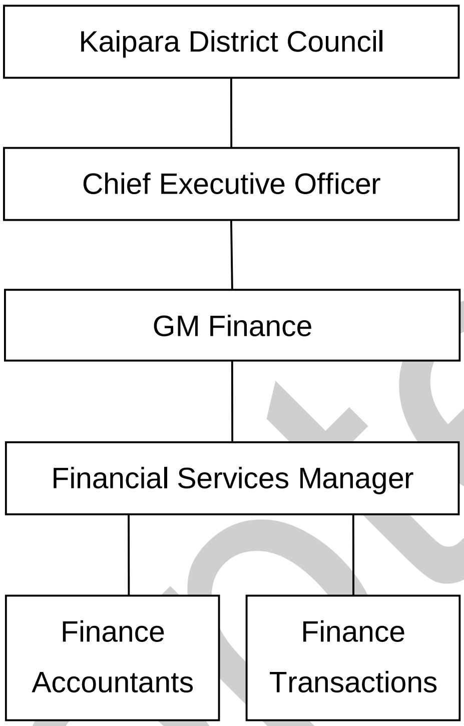
General objectives

- 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.
- Minimise Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Policy so as to protect Council's financial assets and costs.
- Arrange and structure long term funding for Council at the lowest achievable interest margin from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.
- Monitor Council's return on investments.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, investors and investment counterparties.

3.0 MANAGEMENT RESPONSIBILITIES

3.1 Overview of management structure

The following diagram illustrates those positions or functions that have treasury responsibilities.



3.2 Council

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

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

In this respect, the Council has responsibility for:

- Approving the long-term financial position of Kaipara through the 10 year Long Term Plan (LTP) and the adopted annual plan.
- Approving new debt through the adoption of the Annual Plan, specific Council resolution and approval of this policy.
- Approving the Treasury Policy incorporating the following delegated authorities:
    - Borrowing, investment and dealing limits and the respective authority levels delegated to the CEO.
    - Counterparties and credit limits.

- Risk management methodologies and benchmarks.
- Guidelines for the use of financial instruments.
- Receive a triennial review report on the policy.

- Evaluating and approving amendments to policy.
- Approving budgets and high level performance reporting
- Approve opening and closing of bank accounts
- Delegate authority to the CEO and other officers.

The 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.
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines.

3.3 Chief Executive Officer (CEO)

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

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

- Ensuring the Treasury policies comply with existing and new legislation.
- Approving the register of cheque and electronic banking signatories.
- Approve new counterparties and counterparty limits.
- Approve new borrowing undertaken in line with Council resolution and approved borrowing strategy.
- Approve interest rate strategy.
- Receive advice of breaches of Treasury Policy and significant treasury events from the General Manager of Finance or Financial Services Manager.
- Approve all amendments to Council records arising from checks to counterparty confirmations.
- Delegate treasury operation responsibilities to management through the Treasury Management Operations Schedule.

3.4 Delegation of authority and authority limits

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

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

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

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

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

Activity	Delegated Authority	Limit
Approving and changing Policy	The Council	Unlimited
Borrowing new debt	The Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments other than financial investments	The Council	Unlimited
Approval for charging assets as security over borrowing	The Council	Unlimited
Appoint Debenture Trustee	The Council	N/A
Overall day-to-day risk management	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Overall day-to-day risk management
Re-financing existing debt	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Re-financing existing debt
Approving transactions outside policy	The Council	Unlimited
Adjust net debt or net investment interest rate risk profile	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Per risk control limits
Managing funding and investment maturities in accordance with Council approved risk control limits	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Per risk control limits

Activity	Delegated Authority	Limit
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on floating rate investments and interest rate roll-overs on swaps	The Council CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO) Finance Accountants Team (delegated by CEO)	Unlimited $50 million $25 million $10 million $5 million
Authorising lists of signatories	CEO (delegated by Council)	Unlimited
Opening/closing bank accounts	The Council	Unlimited
Triennial review of policy	GMF FSM	N/A
Ensuring compliance with policy	CEO GMF FSM Finance Accountants Team	N/A

All management delegated limits are authorised by the CEO.

4.0 LIABILITY MANAGEMENT POLICY

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.
- Fund assets whose useful lives extend over several generations of ratepayers.

4.1 Debt ratios and limits

Debt will be managed within the following macro limits.

Ratio	KDC Policy Limits
Net debt as a percentage of total revenue	<170%
Net Interest as a percentage of total revenue	<15%
Net Interest as a percentage of annual rates income (debt secured under debenture)	<20%
Liquidity (External term debt + committed loan facilities + available liquid short-term financial investments to existing external debt)	>110%

- Total Revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net debt is defined as total debt less liquid short-term financial assets and investments.
- Liquidity is defined as external term debt plus committed loan facilities plus available liquid short-term financial investments divided by existing external debt.
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

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

Disaster recovery requirements are to be met through the liquidity ratio.

4.2 Asset management plans

In approving new debt the 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.

4.3 Borrowing mechanisms

Kaipara 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 GMF takes into account the following:-

- 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 interest rate movements as well as its own.
- Ensuring that the implied finance terms and conditions within the specific debt (e.g. project finance) are evaluated in terms such as cost/tax/risk limitation compared to the terms and conditions Kaipara could achieve in its own right.
- Legal documentation and financial covenants together with credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at similar terms to those from external borrowing.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to 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.

4.4 Security

Council's borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. The utilisation of special funds and reserve funds and internal borrowing of special funds/reserve funds and other funds will be on an unsecured basis.

Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act, excluding any rates collected by Council on behalf of any other local authority.

The security offered by Council ranks equally or 'Pari Passu' with other lenders.

Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more of Councils assets.

Physical assets will be charged only where:-

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

4.5 Debt repayment

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

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

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

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.

Financial arrangements include:

- Advances to community organisations.

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.

4.7 Internal borrowing of special and general reserve funds

Given that Council may require funding for capital expenditure over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. Accordingly Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using available borrowing facilities.

No interest is payable unless Council so directs or there is an agreement in place.

4.8 New Zealand Local Government Funding Agency Limited investment

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

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

5.0 INVESTMENT POLICY AND LIMITS

5.1 General policy

Council is currently a net borrower and is likely to remain so for the foreseeable future. Council should internally borrow from special reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt. Investments are maintained to meet specified business reasons.

Such reasons can be:-

- For strategic purposes consistent with Council's Long Term Plan.
- 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.
- Provide funding through the provision of committed bank facilities 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.
- Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

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

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

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

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
- 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.

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.

Dividends received from CCO's and unlisted companies not controlled by Council are recognised when they are received in the consolidated revenue account.

Any purchase or disposition of equity investments requires Council approval and any profit or loss arising from the sale of these investments is to be recognised in the Statement of Financial Performance.

Any purchase or disposition of equity investments will be reported to the next meeting of Council.

Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then included in the relevant consolidated capital account.

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.

5.2.2 Property investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. As a general rule, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output of Council. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows similar assessment criteria in relation to new property investments.

Council reviews the performance of its property investments on a regular basis.

All income, including rentals and ground rent from property investments is included in the consolidated revenue account.

5.2.3 Forestry

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

All income from forestry is included in the consolidated revenue account.

Any disposition of these investments requires Council approval. The proceeds from forestry disposition are used firstly to repay related borrowings and then included in the relevant consolidated capital account.

5.2.4 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. Creditworthy counterparties and investment restrictions are covered in section 6.3. Credit ratings are monitored and reported quarterly to Council.
- Council may invest in approved financial instruments as set out in section 6.1.2. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.
- Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:
    - Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
    - Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest may be credited to the particular fund.
    - Internal borrowing will be used wherever possible to avoid external borrowing
- Council's net investment interest rate profile will be managed within the parameters outlined in section 6.0

Special funds, sinking 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 where ever possible.

Sinking Funds will no longer be maintained by Council.

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

5.2.5 New Zealand Local Government Funding Agency Limited investment

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

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

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to become and 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. Notwithstanding the Counterparty Credit Risk Limits (set out in Section 6.3 of this policy), Council may invest in financial instruments issued by the LGFA up to a maximum of $5 million (i.e. borrower notes). If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

Proceeds from share sales will go to repay existing debt, unless Council specifically directs that the funds be put to another use.

6.0 RISK MANAGEMENT

The definition and recognition of interest rate, liquidity, funding, investment, counterparty credit, market, operational and legal risk of Council will be as detailed below and applies to both the Liability Management policy and Investment policy.

6.1 Interest rate risk

6.1.1 Risk recognition

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

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.

6.1.2 Approved financial instruments

Dealing in interest rate products must be limited to financial instruments approved by the 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) Uncommitted money market facilities Loan stock/bond issuance • Floating Rate Note (FRN) • Fixed Rate Note (MTN) Commercial paper (CP) /Bills / Promissory notes Finance Leases
Investments	Short term bank deposits Bank certificates of deposit (RCDs) Treasury bills 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

Category	Instrument
Interest rate risk management	Forward rate agreements ("FRAs") on: • Bank bills • Government bonds Interest rate swaps including: • Forward start swaps and collars (start date <24 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 the 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.
- Subordinated debt, junior debt, perpetual notes and hybrid notes such as convertibles.

6.1.3 Interest rate risk control limits

Net debt/borrowings

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

Master Fixed / Floating Risk Control Limits	
Minimum Fixed Rate	**Maximum Fixed Rate**
60%	90%

"Fixed Rate" is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

"Floating Rate" is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling 12 month projected net debt level calculated by management (signed off by the CEO, or equivalent). Net debt is the amount of total debt net of liquid short-term financial assets/investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the policy minimums and maximums.

The fixed rate amount at any point in time should be within the following maturity bands:

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	0%	60%

- 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.
- Any interest rate swaps with a maturity beyond 12 years must be approved by Council.
- 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.
- Forward start period on swaps and collar strategies to be no more than 24 months, unless it extends the maturity of an existing swap.

Sinking funds, special and general reserve funds

Given that Council may require funding for capital expenditure cash shortfalls over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. Accordingly, Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective.

This will negate counterparty credit risk and any interest rate repricing risk that occurs when Council borrows at a higher rate compared to the investment rate achieved by Special/Reserve Funds.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using internal borrowing facilities.

Foreign currency

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

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

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

Council does not hold investments denominated in foreign currency.

All foreign currency hedging must be approved by the GMF.

6.2 Liquidity risk/funding risk

6.2.1 Risk recognition

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

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

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

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

6.2.2 Liquidity/funding risk control limits

- 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 committed debt facilities together with available short-term liquid investments must be maintained at an amount exceeding 110% of existing total external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings.
- The CEO 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 5 years	15%	60%
5 years plus	10%	40%

A maturity schedule outside these limits will require specific Council approval.

6.3 Counterparty credit risk

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

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

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

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

The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term / short term credit rating – stated and possible	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	N/A	Unlimited	none	Unlimited
Local Government Funding Agency	N/A	Unlimited	none	Unlimited
NZD Registered Supranationals	AAA	10.0	none	10.0
State Owned Enterprises	A+/ A-1	5.0	none	5.0
NZ Registered Bank	A+/ A-1	15.0	20.0	30.0
Corporate Bonds/ CP	A+/ A-1	2.0	none	2.0
Local Government Stock/ Bonds/FRN/ CP	A+/ A-1 (if rated)	10.0	none	10.0
This summary list will be expanded on a counterparty named basis which will be authorised by the CEO.				

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%. (Unless a legal right of set-off over corresponding borrowings exist whereupon a 0% weighting may apply).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange – Transactional principal amount x the square root of the Maturity (years) x 15%

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

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed by the FSM on an on-going basis and in the event of material credit downgrades; this should be immediately reported to the GMF and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

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

Local Government Funding Agency

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 the 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.

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.

6.4 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.

6.4.1 Dealing authorities and limits

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

6.4.2 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. The risk will be minimised by the following process:-

- The GMF reports directly to the CEO.
- There is a documented approval process for borrowing, interest rate and investment activity.
- Any execution activities undertaken by the GMF will be checked by the Financial Services Manager and the Financial Services Manager will report any irregularities direct to the CEO. Any execution activities undertaken by the Financial Services Manager and the Finance Accountants Team (Finance Accountant (FA) and Assistant Accountant (AA)) will be checked by the Finance Transactions Team (Finance Officer and Finance Administrator) and any irregularities reported to the GMF and CEO.
- In the absence of the Financial Services Manager, the Financial Services Manager's deal execution delegated authority moves to the Revenue Manager

6.4.3 Procedures

All treasury instruments should be recorded and diarised within a treasury spread sheet, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in 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 the Council or appropriate sub-committee of Council.
- 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.
    - 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 GMF or equivalent has responsibility for establishing appropriate structures, procedures and controls to support borrowing, interest rate and investment activity.
- All borrowing, investment, cash management and interest rate risk management activity is undertaken in accordance with approved delegations authorised by the Council.

Cheque/electronic banking signatories

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

Authorised personnel

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

Recording of deals

- All deals are recorded on properly formatted deal tickets by the Finance Accountants Team and approved as required by the FSM, GMF or CEO. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spread sheets) are maintained by the FSM 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 the Council’s safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) by the Finance Transactions Team in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the FSM, GMF or CEO.

Settlement

- The majority of borrowing, interest rate and investment payments are settled by direct debit authority.
- 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

- Bank reconciliations are performed monthly by the Finance Transactions Team and checked and approved by the FSM. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council’s records are signed off by the GMF.
- A monthly reconciliation of the treasury spread sheet to the general ledger is carried out by the FSM and reviewed by the GMF.
- Interest income from the treasury spread sheet is reconciled to bank statements by the AA or FA.

6.5 Legal risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, Kaipara may be exposed to such risks with Council unable to enforce its rights due to deficient or inaccurate documentation.

Kaipara will seek to minimise this risk by adopting policy regarding:-

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

6.5.1 Agreements

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

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

6.5.2 Financial covenants and other obligations

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

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

6.6 Specific Council Approval

Any activity outside the limits set in section 6 will require specific Council approval.

7.0 REPORTING

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

7.1 Treasury reporting

7.1.1 Reporting

The following reports are produced:

Report Name	Frequency	Prepared By	Recipient
Daily Cash Position Treasury Spread sheet	Daily	AA/FA	FSM
Treasury Exceptions Report	Daily	FSM	GMF
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	Monthly Quarterly	AA/FA	FSM/GMF
Quarterly Treasury Strategy Paper	Quarterly	GMF	Council
Statement of Public Debt	Monthly	FSM	Council
Revaluation of financial instruments	At least Annually	FSM	Council

7.2 Accounting treatment of financial instruments

Council uses financial market instruments for the primary purpose of reducing its exposure to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense.

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

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

The FSM is responsible for advising the GMF and CEO of any changes to relevant NZIFRS which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least once annually for risk management purposes. Banks can confirm valuation of financial instruments at least six monthly and during periods of significant change quarterly.

7.3 Valuation of treasury instruments

All treasury financial instruments must be revalued (marked-to-market) at least annually. This includes those instruments that are used only for hedging purposes.

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 company'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 GMF.

8.0 POLICY REVIEW

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

The CEO has the responsibility to prepare a review report that is presented to the Council or Council sub-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 Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury spread sheets and procedures should be undertaken.
- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to Council.

The Council receives the report, approves policy changes and/or reject recommendations for policy changes.