



# **TAUPO DISTRICT COUNCIL**

## **Treasury Management Policy**

### **Including Liability Management and Investment Policies**

**Adopted by Council  
26 March 2024**

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## 1.0 Introduction

### 1.1 Policy purpose

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

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

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

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

## 2.0 Scope and objectives

### 2.1 Scope

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

### 2.2 Treasury management objectives

The objective of this Policy is to control and manage costs, investment returns and risks associated with treasury management activities.

#### Statutory objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- TDC is governed by the following relevant legislation:
  - Local Government Act 2002, in particular Part 6 including sections 101,102, 104 and 105.
  - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
  - Trusts Act 2019 (effective 30 January 2021). When acting as a trustee or investing money on behalf of others, the Trusts 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. All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of Council before the borrowing is effected.

- All legal master documentation in respect to external borrowing and financial instruments will be approved by Council's legal counsel 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 if it were borrowing without charging rate revenue as security. (Section 63 of the Local Government Act).
- Council is not allowed to give any guarantee, indemnity, or security in respect to the performance of any obligation by a CCTOs under Section 62 of the Local Government Act
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
  - The period of indebtedness is less than 91 days (including rollovers); or
  - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate the CEO delegation.

### **General objectives**

- Minimise Council's costs and risks in the management of its external borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect Council's financial assets and manage costs.
- Arrange and structure external long term funding for Council at an acceptable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Monitor and manage carbon risk exposures.
- 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.
- Manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Safeguard Council's financial assets and investment capital.
- Monitor Council's return on investments.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, credit rating agencies and investment counterparties.

In meeting the above objectives Council is, above all, a risk averse entity and does not seek risk in its treasury activities. Interest rate risk, liquidity risk, funding risk, investment risk or credit risk, and operational risks are all risks which the Council seeks to manage, not capitalise on. Accordingly activity which may be construed as speculative in nature is expressly forbidden.

### 2.3 Policy setting and Management

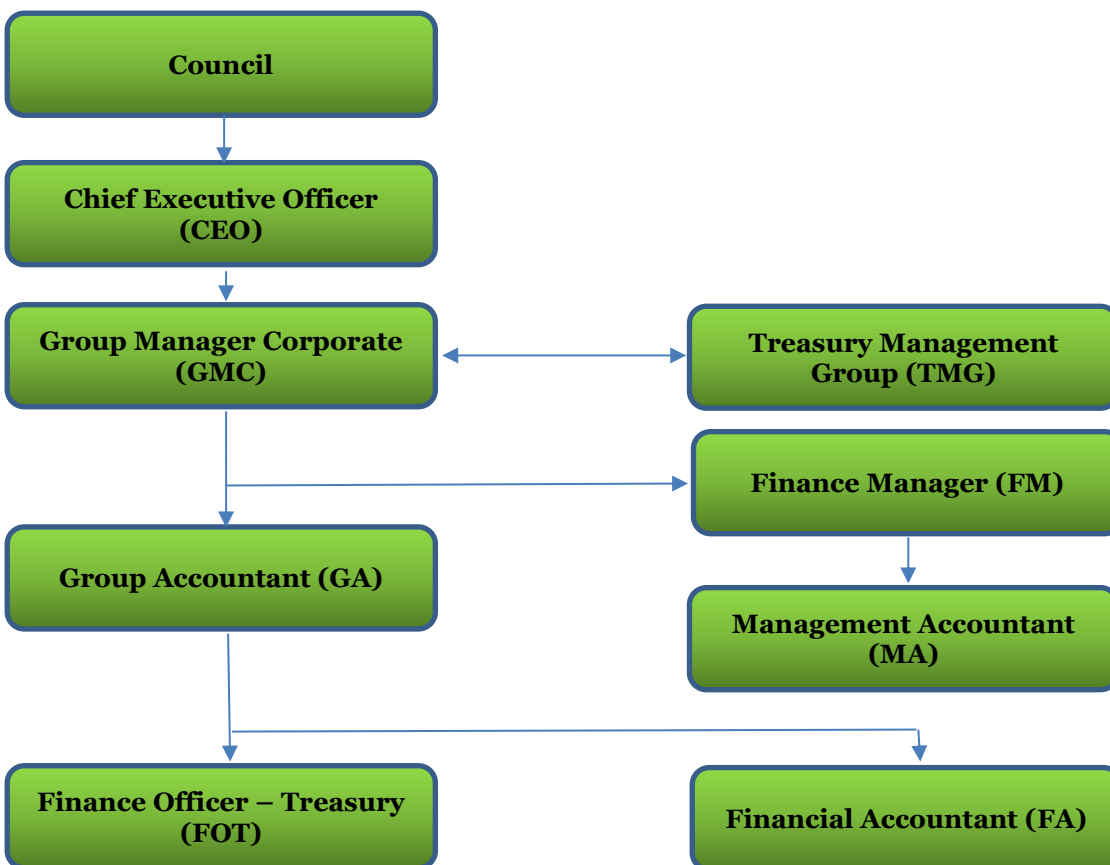
The Council approves Policy parameters in relation to its treasury activities. Council's Chief Executive Officer has overall financial management responsibility for the Council's borrowing and investments.

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

## 3.0 Governance and management responsibilities

### 3.1 Overview of management structure

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



### 3.2 Council

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

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

In this respect, the Council has responsibility for:

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

- Borrowing, investment and dealing limits and the respective authority levels delegated to the CEO, GMC and other management;
- Counterparties and credit limits;
- Risk management methodologies and benchmarks;
- Guidelines for the use of financial instruments;
- Receive a triennial review report on the Policy.
- Approving amendments to Policy.
- Approving one-off transactions falling outside Policy.

### **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:

- Approving the opening and closing of bank accounts.
- Approving the register of cheque and electronic banking signatories.
- Approving new external borrowing undertaken in line with Council resolution and approved financial strategy.
- Review the monthly management reports to monitor compliance with policies, procedures and risk limits. Receiving advice of non-compliance of Policy and significant treasury events from the GMC.
- Review amendments to the treasury policies and procedures as recommended by the GMC.

### **3.4 Treasury Management Group (TMG)**

The members of the TMG are the General Manager Finance & Strategy, Finance Manager, and the Management Accountant.

- Evaluate and recommend amendments to Policy.
- Review treasury management strategies.
- Review treasury activity and performance through monthly reporting, supplemented by exception reporting.
- Manage the process of selecting fund managers and appointing brokers/investment advisers and oversee negotiations of borrowing facilities with financial institutions.
- Investigate financing alternatives to minimise borrowing costs, margins and interest rates.

### **3.5 Group Manager Corporate (GMC)**

The GMC's responsibilities are as follows:

- Approving the opening and closing of bank accounts.
- Management responsibility for all external borrowing and investment activities as delegated by the CEO.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- Managing the long-term financial position of Council as outlined in the LTP.
- Approving deal tickets of treasury transactions in accordance with delegated authority.
- As part of the Annual Planning process, proposing new external borrowing requirements to the CEO for consideration and submission to the Council.
- Proposing new external borrowing and on-lending CCO/CCTO funding activity to the CEO for Council approval.
- Approving all amendments to Council records arising from checks to counterparty confirmations.

- Reviewing and making recommendations on all aspects of the Policy to the CEO, including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments.
- Monitoring and reviewing the performance of the treasury function in terms of achieving the objectives of minimising and stabilising funding costs.

### **3.6 Finance Manager (FM)**

The Finance Manager's responsibilities are as follows:

- Responsible for overseeing the day-to-day treasury function as delegated by the GMC.
- Approving deal tickets of treasury transactions in accordance with delegated authority.
- Reviewing treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings. Ensuring management procedures and policies are implemented in accordance with this Policy.
- Manage Council's relationship with financial institutions, LGFA, brokers, fund managers, trustee, registrar and credit rating agencies
- Review Council's cash flow and debt forecasts.
- Review monthly treasury report to Council
- Conduct review of policy as per 10.0 Policy Review.

### **3.7 Management Accountant (MA)**

The Management Accountant's responsibilities are as follows:

- Execution of external borrowing, investment, and interest rate management transactions in accordance with set limits. Completes all properly formatted deal tickets. Responsibilities include execution of on-lending activity to CCO/CCTOs.
- Manage Council's cash flow forecasts and debt forecasts.
- Carry out the day-to-day cash and short term cash management activities.
- Monitoring treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures, investments and borrowings.
- Liaise and negotiate with bankers/brokers/the LGFA, for issue of debt, investments and interest rate management activity.
- Update investment, borrowing and interest rate spreadsheets for all new, re-negotiated, reset and maturing investment, borrowing and interest rate transactions.
- Monitor and update credit ratings of approved counterparties.
- Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA documents.
- Ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards.
- Complete monthly general ledger reconciliations to borrowing and investment spreadsheets.
- Reconcile monthly summaries of outstanding financial contracts from bank counterparties to internal records.
- Prepare monthly treasury report to Council.
- Complete annual review of delegated authorities and authorised signatories.

### **3.8 Group Accountant (GA)**

- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles (GAAP), Council's accounting and borrowing and financial policies.
- Review and approve monthly, bank reconciliations, and general ledger reconciliations.



- Review and approve monthly, general ledger reconciliations to borrowing and investment spreadsheets.
- Arrange settlement of external borrowing, investment, and interest rate management transactions.
- Oversee day-to-day cash management, review and approve daily bank reconciliations.

### 3.9 Finance Officer Treasury (FOT)

- Process treasury transactions as per approved deal tickets.
- Check all treasury deal confirmations against deal tickets and spreadsheet records. Report any irregularities immediately to the GMC.
- Complete daily bank reconciliation.

### 3.10 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:

<b>Activity</b>	<b>Delegated Authority</b>	<b>Limit</b>
Approving and changing Policy	Council	Unlimited
Approve external borrowing for year as set out in the AP/LTP.	Council CEO, GMC	Unlimited (subject to legislative and other regulatory limitations) Per Council approved resolution, AP/LTP
Acquisition and disposition of investments other than financial investments (Excluding TEL Fund)	Council	Unlimited
TEL acquisition and disposition of investments	GMC	As per TEL ISS
Approval for charging assets as security over borrowing	Council	Unlimited
Approving of Council guarantees or uncalled capital relating to CCO/CCTO indebtedness	Council	Unlimited (subject to legislative and other regulatory limitations)
Approving new and refinanced direct and on-lending arrangements with CCO/CCTOs.	Council	Subject to Policy
Negotiation and ongoing management of direct and on-lending arrangements to CCO /CCTOs	GMC	Subject to Policy
Arranging new and reviewing re-financed bank facilities/debt issuance	GMC	Subject to Policy

Approving transactions outside Policy	Council	Unlimited
Approving of Council guarantees of indebtedness	Council	Unlimited
Overall day-to-day treasury management	GMC	Subject to Policy
Authorise use of risk management instruments	GMC	Subject to Policy Per risk control limits
Approve financial instruments	GMC	Subject to Policy Per risk control limits
Approve borrowing and investment strategy	GMC	Subject to Policy Per risk control limits
Adjust debt/investment interest rate risk, and debt/investment profiles	GMC	Per risk control limits
Managing funding and investment maturities	FM	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on debt and interest rate swaps.	Council CEO GMC FM	Unlimited \$50M \$30M \$15M
Manage cash/liquidity requirements	FM	Per risk control limits
Authorising list of signatories	CEO	Unlimited
Opening/closing bank accounts	CEO, GMC	Unlimited
Authorising carbon unit transactions relating to future calendar year's obligations. Authorising issuance of collateral with bid for acquisition of Carbon Units via auction from NZETS	GMC	\$2.5m in any one transaction
Acquiring and disposing Carbon Credits relating to current calendar year obligations	FM	\$2.5m in any one transaction
Triennial review of Policy	FM	N/A
Ensuring compliance with Policy	FM	N/A

All management delegated limits are authorised by the CEO.

## 4.0 Liability Management Policy

### 4.1 Introduction

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

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

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

### 4.2 Borrowing limits

Debt will be managed within the following limits:

Item	Borrowing Limit
Net External Debt / Total Revenue	<200%
Net Interest on External Debt/ Total Revenue	<20%
Net Interest on External Debt/ Annual Rates Income	<25%
Liquidity (External debt + available committed bank facilities + liquid investments to existing external debt)	>110%

- Total Revenue is defined as earnings from rates, government capital grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total external debt less unencumbered liquid investments.
- Liquid investments are unencumbered assets defined as:
  - Overnight bank cash deposits
  - Wholesale / retail bank term deposits no greater than 30-days
  - Bank issued RCD's less than 181 days
- External debt funding and associated investment activity relating to prefunding is excluded from the liquidity ratio calculation.
- External debt that is specifically borrowed for on-lending to a CCO/CCTO is netted, with the corresponding loan asset for LGFA covenant and Council imposed debt cap amount calculation purposes.
- TEL fund investments are excluded from liquid investments.
- LGFA accepts bonds and CP with an issuer minimum long-term credit rating of "A-" and minimum short term credit rating "A-1" and also considers the TEL fund when determining liquid investments. Therefore, Council may include these financial instruments within its liquidity ratio in LGFA reporting.
- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) 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 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

- Financial covenants are measured on Council only not consolidated group.
- Disaster recovery requirements are to be met through the liquidity ratio, special funds and TEL Fund.

### 4.3 Asset management plans

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

### 4.4 Borrowing mechanisms

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

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

A formal credit rating enhances Council's ability to attract cost effective borrowing and provides several advantages including:

- Broadening Council's source of funding and improved pricing.
- Improves Council credit standing in regards to stronger negotiating funding positions.
- Enforces financial management discipline and performance under the scrutiny of the credit rating agency. As such it provides a very useful 'monitoring' service to supplement the Council's own internal due diligence and reporting

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

### 4.5 Security

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

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

Physical assets will be charged only where:

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

## **4.6 Debt repayment**

Debt repayments will be in accordance with long term and annual plans. Additional repayments may be made from surplus funds generated by asset sales or operating surpluses.

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

## **4.7 Guarantees**

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

For any outstanding guarantees, Council will ensure that sufficient financial capacity exists relative to LGFA lending covenants. Unless approved by Council, guarantees or financial arrangements given will not exceed any amount agreed by Council or an appropriate Council Committee in aggregate. The Finance Manager monitors guarantees and reports monthly to Council via the treasury report.

Council is not permitted to provide any guarantee of indebtedness in favour of any loans to CCTOs under Section 62 of the Local Government Act. For any guarantee for indebtedness provided by Council to a CCO that borrows directly from the LGFA or bank lender, Council will approve the specific borrowing and guarantee arrangement.

Conditions to financial arrangements, such as loan advances, are specified in section 5.5.

### **4.7.1 Underwriting**

Financial arrangements may also include the specific underwriting of business performance where there is a strategic and economic benefit accruing from the activity. Underwriting arrangements must be approved by Council. The Finance Manager monitors underwriting arrangements and reports monthly to Council via the treasury report.

## **4.8 Internal borrowing**

Internal loans sourced from the Council's general funds are allowed as a valid means of funding projects, minimising the cost of borrowing while providing a market return on investment funds.

Council's internal borrowing needs have traditionally revolved around expansion or renewal of its assets. Hence internal borrowing is tied to assets and the cost centres associated with those assets.

This Policy allows for the use of internal borrowing structures where interest and repayments are sourced from operating budgets (generally funded by rates income). Where appropriate, inflation factors may be built into loan repayment tables to better reflect the ability of the community to pay in the future and avoid overcharging current ratepayers.

Any internal borrowing of cash reserve funds used must be reimbursed for interest revenue lost. Interest on internally-funded loans is set at the weighted average cost of external borrowing (including credit margin and other related costs). Interest is charged in arrears on at least a monthly basis.

Council will not internally borrow from the TEL fund. The TEL fund is a ring-fenced investment fund separately managed per its Statement of Investment Policies and Objectives by an external investment manager.

## **4.9 Lending to Council Controlled Organisations and Council Controlled Trading Organisations**

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

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

Any direct borrowing from the LGFA or Council on-lending arrangement to a CCO/CCTO must be approved by Council. In recommending an arrangement for approval the GMC considers the following :-

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amounts outstanding on due date.

- Impact on Council's credit rating, debt cap amount (if any), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO/CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to CCTOs must be documented on a commercial arms length basis. A term sheet, including matters such as; borrowing costs, interest payment dates, principal payment dates, security, expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement

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

#### **4.10 New Zealand Local Government Funding Agency (LGFA) Limited**

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

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

## 5.0 Investment Policy

### 5.1 Introduction

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

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

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

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

### 5.2 Objectives

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

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

### 5.3 Policy

The Council's general Policy on investments is that:

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

### 5.4 Acquisition of new investments

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



The authority to acquire financial investments is delegated to the GMC and reported to Council on a monthly basis in the treasury report.

## **5.5 Financial investments**

### **Objectives**

Council maintains cash and fixed interest financial investments for the following primary reasons:

- Invest amounts allocated to special reserves.
- Invest surplus cash and working capital funds.
- Provide ready cash in the event of a natural disaster. This cash is intended to assist reinstatement and to finance short-term needs between the disaster and the reinstatement of normal income streams.
- Invest the TEL investment portfolio.

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 6.6. Credit ratings are monitored and reported monthly to Council in the treasury report.

Council may invest in approved financial instruments as set out in section 6.7. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.

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

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
- Council may choose to hold specific reserves in cash and direct what happens to that investment income. In effect the income from financial investments will be an interest income stream into the treasury activity.

### **General funds and special reserves**

Council holds general and reserve funds for specific Council objectives. To manage liquidity risk, a portion of general funds and special reserves must be held as cash/cash equivalent investments maturing within 12 months. Maturity and interest rate risk controls are set out in section 6.2, approved financial instruments in section 6.7, and counterparty credit limits in section 6.6.

### **Trust funds**

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

### **Loan Advances**

Council may provide advances to charitable trusts and community organisations for strategic and commercial purposes. New loan advances are by Council resolution only.

Advances to charitable trusts, and community organisations do not have to be on a fully commercial basis. Where advances are made to charitable trusts and community organisations at below Councils cost of borrowing, the additional cost is treated as an annual grant to the organisation.

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

All advances are made on a fully secured basis and executed under approved legal documentation.

Refer to conditions of CCO/CCTOs loans under section 4.9.

The Finance Manager monitors loan advances and reports to Council monthly in the treasury report.

### **Acquisition/disposition and revenue**

Interest income from financial investments is credited to general funds or special reserves and is included in the Statement of Comprehensive Revenue and Expense.

Proceeds from the disposition of financial investments are used for operational and capital expenditure purposes or for the purpose for which they have been established, as approved in the Annual Plan or LTP.

## **5.6 Equity investments**

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

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

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

Any purchase or disposition of equity investments held in CCO's/CCTO's requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring. In connection with the investment, Council can subscribe for uncalled capital in a CCO or CCTO.

Any dividends received, and/or profit or loss arising from the sale of these investments must be recorded in accordance with appropriate accounting standards. Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant Council-committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

The acquisition/disposition and management of Council's specific equity investments are set out in Appendix One.

### **5.6.1 New Zealand Local Government Funding Agency Limited**

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

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

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

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

## **5.7 Property investments**

Council's property investments include:

- Crown land vested in Council and Council owned reserve lands
- Property owned by Council for administrative purposes, for the development needs of the district, or for investment purposes (land, buildings, ground leases and motor camps) .

Council's primary objective for crown owned land vested in Council and Council owned reserve land is for the social benefit of the Taupo district.

Council's primary objective for property owned for administrative purposes, development needs or for investment purposes is that it is important for the economic, physical and social development of the Taupo district and secondly, to achieve an acceptable rate of return. Council generally follows a similar assessment criteria in relation to the acquisition of new property investments.

### **Acquisition/disposition and revenue**

Prior to acquisition of property for the development needs of the district or for investment purposes the property will be assessed as follows:

Property for the development needs of the district - a financial and non-financial assessment of economic, physical and social benefit to the district, the cost of owning the property and the cost of ownership and assessment.

- Investment property - a financial assessment including a calculation and assessment of the cost of ownership.
- Proceeds from the disposition of property investments are used for retirement of debt relating to such property, or allocated to general or special funds. All income from property investments is shown in the Statement of Comprehensive Revenue and Expense and forms part of general funds.

Any acquisition or disposition of property, other than investment property purchased within the asset allocation parameters of the TEL Investment Portfolio, requires Council approval.

### **Management reporting and procedures**

Council reviews the performance of its property investments on an annual basis, and ensures that the benefits of continued ownership are consistent with its stated objectives.

### **Investment risk**

Insurance cover is held for all property investments. A risk assessment is carried out prior to acquisition of a property investment.

## **5.8 Forestry investments**

Council has a holding of forestry assets which are held as long term investments on the basis of their net positive discounted cash flows. The discounted cash flows take into account projected market prices, annual maintenance and logging costs.

### **Acquisition/disposition and revenue**

- Proceeds from the disposition of forestry investments are applied firstly to the repayment of loans raised to fund these assets. Surplus proceeds (after repayments of loans) from the disposition of forestry investments will be allocated to special funds .
- Any disposition of these investments requires Council approval. Valuations are carried out in accordance with accepted accounting principles

### **Management reporting and procedures**

The forestry assets are managed under contract to Council and are overseen by the GMC. An annual Forest Health report is provided by the Forest Managers.

### **Investment risk**

Professional Forest Managers are engaged to oversee the forests. Insurance cover is held for all forest investments.

## **5.9 TEL Investment Portfolio**

The TEL portfolio is managed by external investment managers in line with a separate Statement of Investment Policies and Objectives (SIPO) for that Fund.

## **5.10 Departures from normal Policy**

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

## 6.0 Risk recognition / identification management

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

### 6.1. Interest rate risk on external borrowing

#### 6.1.1 Risk recognition

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

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

#### 6.1.2 Interest rate risk control limits

Council's gross forecast external debt (as approved by the Group Manager Corporate) should be within the following fixed/floating interest rate risk control limits.

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	Minimum Fixed Rate	Maximum Fixed Rate
Current	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	55%
Year 9	0%	50%
Year 10	0%	45%
Year 11	0%	40%
Year 12	0%	35%
Year 13	0%	30%
Year 14	0%	30%
Year 15	0%	30%

- "Fixed rate" is defined as all known interest rate obligations on gross forecast external debt, including 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.
- Gross forecast external core debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the GMC), the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.
- Gross forecast external core debt amounts do not include pre-funded debt amounts.
- A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile that is outside the above limits beyond 90-days requires specific approval by Council.
- Any fixed rate hedge with a maturity beyond 15 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate or swapped floating rate and this maturity is beyond 15 years.
- The forward start period on swap/collar strategies to be no more than 36 months, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.

- 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 options must not be sold outright. However, one for one collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- Purchased borrower swaptions mature within 12 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate hedge percentage calculation.
- Hedging outside the above risk parameters must be approved by Council.

## **6.2. Financial investment interest rate/maturity limits**

The following control limits are designed to manage interest rate and maturity risk on cash surpluses, general funds and special reserves managed internally by Council (i.e. excludes TEL fund). The portfolio may comprise core treasury investments. Core treasury investments relate to unencumbered investments invested for terms of greater than 12 months.

An important objective of the financial investment portfolio is to match the portfolio’s maturity term to planned expenditure thereby ensuring that investments are available when required. Financial investments should be restricted to a term that meets future cash flow projections and be mindful of forecast debt associated with future capital expenditure programmes as outlined within the LTP.

<b>Period</b>	<b>Minimum %</b>	<b>Maximum %</b>
0 - 3 months	30%	80%
3 - 12 months	20%	70%
1 - 3 years	0%	50%
3 - 5 years	0%	30%

The repricing/maturity mix can be changed, within the above limits through sale/purchase of fixed income investments.

## **6.3. Liquidity risk/funding risk**

### **6.3.1 Risk recognition**

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

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

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

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

### 6.3.2 Liquidity/funding risk control limits

To ensure funds are available when needed Council ensures that:

- There is sufficient available operating cash flow, liquid investments and available committed bank facilities to meet cash flow requirements between rates instalments as determined by the Finance Manager. Cash flow management will be used to identify and manage maturity mismatches between external borrowings, internal loans and investments.
- External debt and committed available debt facilities together with unencumbered liquid investments must be maintained at an amount of 110% over existing external debt. The liquidity ratio excludes TEL fund.
- 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 GMC has the discretionary authority to re-finance existing external debt on acceptable terms.
- The maturity profile of the total committed funding in respect to all external debt / loans and committed debt facilities, is to be controlled by the following system:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 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. However, maintaining a maturity profile that is outside the above limits beyond 90-days requires specific approval by Council.
- To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a Council's borrowings from the LGFA will mature in any 12-month period.

### 6.4. Foreign currency

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

Generally, all individual commitments over NZ\$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, legal commitment occurs and the purchase order is placed, exact timing, currency type and amount are known.

The TEL fund has foreign exchange exposure as per the Statement of Investment Policies and Objectives. In general, these investments are not hedged.

The following foreign exchange risk management instruments may be used for foreign exchange risk management activity:

- Spot and Forward Exchange Contracts.
- Purchase of foreign exchange options, and collar-type instruments (1:1 only).

Independent external advice would be sought before the use of such instruments.

Selling foreign exchange options for the purpose of generating premium income is not permitted.

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

## 6.5. Emissions Trading Scheme

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

Council will manage carbon price risk per the following risk limits when the annual exposure exceeds a cost of \$NZ 1,000,000

Exposures become committed for the calendar year in Jan-Mar of the following calendar year (which is the quarter following the emission period as Council must report emissions from previous calendar year). The carbon emissions liabilities are risk managed under the following risk control limits:

Obligation period	Compliance requirements as at (month of current year)	<b>Minimum</b> holding as a percentage of forecast, annual gross carbon liability obligations**
Current calendar year	by 30 June	75%
	by 31 December	100%
Current calendar year plus 1	by 31 December	50%

The second stage of the framework is to set a minimum and maximum level of carbon units to be purchased and held by Council to cover future years as shown below:

Period	Minimum unit holding	Maximum unit holding
Year 3* - Year 4	0%	50%
Year 4 - Year 5	0%	50%

\* Current calendar year plus 2

\*\* The forecast, annual gross carbon liability obligations are approved by the GMC. Any purchasing of carbon units beyond the current calendar year is approved by the GMC.

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

Hedging outside the above risk parameters must be approved by Council.

## 6.6. 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. Where Council has committed bank funding or stand-by facilities Council will only borrow from strongly rated banks with a minimum long-term credit rating of at least "A" (S&P, or equivalent Fitch or Moody's rating).

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 are only approved on the basis of the following Standard & Poor's (S&P, or equivalent Fitch or Moody's rating) long and short-term credit ratings matrix. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Issuer	Minimum LT/ST credit rating	Maximum \$ per counterparty (million)	Maximum % of total investment portfolio
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NZ Govt	N/A	Unlimited	100%
NZ LGFA	AA- /A-1	\$40	50%
NZ registered bank -on balance sheet*  -risk management	A /A-1	\$35 or 33% of total portfolio (whichever is the greater)  \$20	100%
Corporate / SOE	A-/A-1 BBB/A-2	\$5	50%
NZ local authority	A+/A-1 Unrated	\$10 \$5	25%

Note: \*Limit for Council's principal banker excludes balances in current and call accounts designated as working funds required for operational cash management purposes.



In determining the usage of the above gross limits, the current exposure method will be used which is defined as:

Counterparty credit exposure = Replacement Cost (RC) + Potential Future Exposure (PFE)

RC is equal to the mark to market (MtM) of a transaction. MtM refers to the close-out value at an agreed date of a financial instrument based upon underlying market prices. The MtM is defined as positive if the contract is “in the money” and negative if it is “out of the money”. When MtM is negative, the RC is equal to zero.

Potential Future Exposure (PFE) is calculated by multiplying the notional by a the prescribed percentages outlined in the table below:

Potential Future Exposure Factors				
Current term to maturity	Interest Rate Factor	Money Market Factor	Foreign Exchange Factor	Commodities
Less than 1 year	0.00%	100.00%	1.00%	10.00%
Over 1 year and uner 5 years	0.50%	100.00%	5.00%	12.00%
Over 5 years	1.50%	100.00%	7.50%	15.00%

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

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

#### Carbon counterparty settlement risk

Counterparty credit risk does not arise from the purchase of spot Carbon Units (CUs) either through the government auction system or on the secondary market. However, settlement risk arises when purchasing CUs. This risk is to be managed by:

- Purchasing CUs through the government auction and NZX, through an approved broker.
- Matching CUs in the Holding Account before settlement is approved.
- Entering forward contracts on CUs must be with an approved counterparty, being a New Zealand Registered Bank with a long-term Standard & Poor’s credit rating of at least A, or the equivalent rating from Moody’s or Fitch.

The type of approved CU dealing counterparties include;

- NZETS auction operating by the NZX (spot carbon transactions only)
- Registered NZX brokers (spot carbon transactions only)
- NZ registered banks with a credit rating of A or above (spot and forward carbon transactions)

Other counterparties must be approved by Council.

### **Risk management**

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

#### **6.7. Approved financial instruments**

Approved financial instruments are as follows (excluding TEL fund cash/debt securities):

<b>Category</b>	<b>Instrument</b>
Cash management and borrowing	<ul style="list-style-type: none"> <li>▪ Bank overdraft</li> <li>▪ Committed cash advance and bank accepted bill facilities (short term and long term loan facilities)</li> <li>▪ Loan stock/bond issuance</li> <li>▪ Floating Rate Note (FRN)</li> <li>▪ Fixed Rate Note (MTN)</li> <li>▪ Commercial paper (CP)/Promissory notes</li> <li>▪ Bank call/term deposits up to 30 days except for deposits linked to debt pre-funding activity.</li> <li>▪ Bank registered certificates of deposit (RCDs) less than 181 days</li> <li>▪ Committed standby facilities offered by the LGFA</li> </ul>
Investments- / treasury investments (general funds)	<ul style="list-style-type: none"> <li>▪ Bank call/term deposits except for deposits linked to debt pre-funding activity</li> <li>▪ Bank registered certificates of deposit (RCDs)</li> <li>▪ Treasury bills</li> <li>▪ LGFA FRNs/bonds/CP/borrower notes</li> <li>▪ Local Authority/State Owned Enterprise (SOE) Medium Term Notes (MTNs)/CP/bonds and FRNs (senior)</li> <li>▪ Corporate CP/MTNs/FRNs bonds (senior)</li> <li>▪</li> </ul>
Interest rate risk management	<ul style="list-style-type: none"> <li>▪ Forward rate agreements (“FRAs”) on: <ul style="list-style-type: none"> <li>○ Bank bills</li> </ul> </li> <li>▪ Interest rate swaps including: <ul style="list-style-type: none"> <li>○ Forward start swaps/collars. Start date no more than 36 months, unless linked to existing maturing swaps/collars</li> <li>○ Swap extensions and shortenings</li> </ul> </li> <li>▪ Interest rate options on: <ul style="list-style-type: none"> <li>○ Bank bills (purchased caps and one for one collars)</li> <li>○ Interest rate swaptions (purchased swaptions and one for one collars only)</li> </ul> </li> </ul>
Foreign exchange management	<ul style="list-style-type: none"> <li>▪ Spot foreign exchange</li> <li>▪ Forward exchange contracts (including par forwards)</li> <li>▪ Purchased options and collars (1:1 only)</li> </ul>
Carbon price risk management	<ul style="list-style-type: none"> <li>▪ Carbon Units - New Zealand Units (NZUs) and NZ Assigned Amount Units (NZAAUs) or any other New Zealand registered units legally allowable, on a spot and forward basis.</li> <li>▪ Approved collateral instruments to be placed in the NZETS auction include; <ul style="list-style-type: none"> <li>• Cash</li> <li>• Letters of Credit in favour of the Ministry for the Environment</li> <li>• Bank guarantee</li> </ul> </li> </ul>

	All collateral placed in the NZETS auction system must be approved by the GMC.
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Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

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

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

### 6.8. Operational risk

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

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

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

#### Dealing authorities and limits

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

#### Segregation of duties

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

- A 'two authorisations' process is strictly enforced for all funds transfers.
- The Finance Manager reports directly to the GMC as control over the transactional activities of the Management Accountant.
- The Group Accountant has review and approval responsibility for the general ledger reconciliations.
- There is a documented approval and reporting process for borrowing, investment, interest rate and liquidity management activity.

#### Procedures

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

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

Organisational, systems, procedural and reconciliation controls to ensure:

- All borrowing, investing, interest rate and cash management activity is bona fide and properly authorised.
- Checks are in place to ensure Council accounts and records are updated promptly, accurately and completely.

- All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity.

### **Organisational controls**

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

### **Cheque/electronic banking signatories**

- Positions approved by the CEO as per register.
- Dual signatures are required for all cheques and electronic transfers.
- Authorisation of all electronic funds transfers requires two designated authorisers, one of whom must include the GMC, Finance Manager or the Group Accountant.
- Cheques must be in the name of the counterparty crossed “Not Negotiable, Account Payee Only” or “Not Transferable, Account Payee Only”, via the Council bank account.

### **Authorised personnel**

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.
- This list is provided at least annually and when there is a change in Council personnel.

### **Recording of deals**

- All deals are recorded on properly formatted deal tickets by the Management Accountant and approved where required as per the schedule of delegations.
- Market quotes for deals (other than cash management transactions) are considered by the Finance Manager before the transaction is executed.
- Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spreadsheets) are maintained and updated promptly following completion of transaction.

### **Confirmations**

- All inward deal confirmations including LGFA/bank funding and registry confirmations are received and checked by the Financial Accountant against completed deal tickets and the treasury spreadsheet records to ensure accuracy.
- All deliverable securities are held in the Council’s safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date/number order.
- The Finance Manager checks all dealing activity, deal tickets and confirmations monthly, to ensure documentation is in order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the GMC.

### **Settlement**

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

## **Reconciliations**

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

### **6.9. Legal risk**

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

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

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

#### **6.9.1 Agreements**

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

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

#### **6.9.2 Financial covenants and other obligations**

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

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

## 7.0 Measuring treasury performance

Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective and objective measures. The predominant subjective measure is the overall quality of treasury management information. The Chief Executive Officer has primary responsibility for determining this overall quality.

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

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

Management	Performance
Operational performance	<ul style="list-style-type: none"> <li>All Policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits.</li> <li>All treasury deadlines are to be met, including reporting deadlines.</li> <li>Number and cost of processing errors (generally measured by unplanned overdraft costs).</li> <li>Comparison of the Council's financial ratios to financial and non-financial performance measures included within the Annual Plan.</li> </ul>
Management of debt and interest rate risk (borrowing costs)	<ul style="list-style-type: none"> <li>The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual interest cost amount.</li> </ul>
Financial investment performance measure	<ul style="list-style-type: none"> <li>Internally managed general funds/special reserves. Actual investment returns must be benchmarked to a market interest rate. The market interest rate is the mid-point Policy benchmark rate based on 0-12 months where there are enforced minimum percentages. The benchmark is constructed as follows: 50.0% 6-month BKBM mid-rate (average of reporting month) 50.0% 6-month BKBM mid-rate, 6 months ago (average of month) = 100%</li> <li>TEL funds (benchmarks determined within the SIPO).</li> <li>Total return achieved by the TEL Fund compared to investment objectives and Annual Plan target.</li> </ul>
Investments	<p>Property:</p> <ul style="list-style-type: none"> <li>Adherence to Policy.</li> <li>Comparison of actual gross and net income to budgeted gross and net income.</li> <li>Comparison of actual return to budgeted (and/or market) return (with market return able to be established from such measures as the Property Council's Investment Performance Index).</li> <li>Comparison of actual property sales to budgeted property sales.</li> <li>Comparison of actual property purchases to budgeted property purchases.</li> </ul> <p>Equity:</p> <ul style="list-style-type: none"> <li>Adherence to Policy.</li> </ul> <p>Forestry:</p> <ul style="list-style-type: none"> <li>Adherence to Policy.</li> </ul>

## 8.0 Cash management

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

- The Finance department will calculate and maintain comprehensive rolling cash flow projections on a daily (two weeks forward), weekly (four weeks forward) and monthly (12 months forward) basis. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment.
- On a daily basis, electronically download all Council bank account information.
- Co-ordinate Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters.
- Undertake short term borrowing functions as required, minimising overdraft costs.
- Ensure efficient cash management through improvement to forecasting.
- Minimise fees and bank charges by optimising bank account/facility structures.
- Monitor Council's usage of overdraft and committed bank facilities. Overdraft facilities are utilised as little as practical.
- Match future cash flows to smooth overall timeline.
- Target of zero unplanned overdraft costs.
- Maximise the return from available funds by ensuring significant payments are made within the suppliers payment terms, but no earlier than required, unless there is a financial benefit from doing so.
- Interest rate management on cash management balances is not permitted.
- Cash is invested in approved instruments and counterparties only.
- Cash management investment instruments are limited to:
  - Call deposits with approved registered banks.
  - Approved bank RCDs with a maturity of less than 181 days.
  - Term deposits with approved registered banks of less than 30 days.

## 9.0 Reporting

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

### 9.1. Treasury reporting

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
<ul style="list-style-type: none"> <li>▪ Daily Balancing Report (bank reconciliation)</li> </ul>	Daily	FA	GA
<ul style="list-style-type: none"> <li>▪ Investment General Ledger Reconciliations</li> <li>▪ Borrowing General Ledger Reconciliations</li> </ul>	Monthly	FA	GA
Treasury Report Liability Management <ul style="list-style-type: none"> <li>▪ Policy limit compliance</li> <li>▪ Borrowing limits</li> <li>▪ Funding and interest position</li> <li>▪ Funding facility</li> <li>▪ New debt funding, TEL investments and interest rate swap transactions</li> <li>▪ Cost of funds vs. budget</li> <li>▪ Cash flow forecast report</li> <li>▪ Liquidity risk position</li> <li>▪ Counterparty credit</li> <li>▪ Treasury performance</li> <li>▪ Revaluation of financial instruments (quarterly)</li> <li>▪ Carbon credit exposure and hedged position</li> <li>▪ CCO/CCTO loans and guarantees, financial arrangements</li> <li>▪ Exemptions to Policy</li> </ul> Investments <ul style="list-style-type: none"> <li>▪ Summary of funds held</li> <li>▪ Interest income vs. budget</li> <li>▪ Maturity and interest rate position</li> <li>▪ Counterparty credit</li> <li>▪ TEL performance / summary of position / compliance</li> <li>▪ TEL fund managers' report</li> </ul>	Monthly	FM	Council
Trustee Report	As required by the Trustee	FM	Trustee company
Borrowing / Investment strategy	Annual	GMC	Council
Annual Plan Statement of Intent	Annual	FM	Council CCOs
Annual Report	Annual	GA	Council CCOs

### 9.2. Accounting treatment of financial instruments

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



Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Statement of Comprehensive Revenue and Expenditure 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 Finance Manager is responsible for advising the GMC and the CEO of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

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

## 10.0 Policy review

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes (Liability Management and Investment Policies).

The Finance Manger has the responsibility to prepare the annual review report (following the preparation of annual financial statements) that is presented to the Chief Executive Officer. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

The Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes. The Policy review should be completed and presented to the Council within five months of the financial year-end.

## **11.0 Appendix One**

### **11.1. Specific investments**

#### **11.1.1 TAUPO AIRPORT AUTHORITY INVESTMENT**

Council has 50% ownership of the joint venture Taupo Airport Authority, with the other 50% owned by the Crown. Council has 100% ownership in Destination Lake Taupo Ltd and Data Capture Systems Ltd. Both these companies are non-trading.

Council retains ownership of the airport because it is essential for the economic development of the Taupo district and is consistent with Council's Annual Plan and LTP.

#### **Acquisition/disposition and revenue**

The airport and any other CCO investment is consolidated into the Council's annual report in line with generally accepted accounting practice. Any surplus generated by the CCO will be utilised by the CCO, except in the case that a dividend requirement is set out in the CCO SOI or other such determination. Proceeds from the disposition of the investment will form part of general or special funds.

Additions to or disposal of any CCO investment requires Council approval.

#### **Management reporting and procedures**

Council is responsible for the management of the airport through its appointment of the Airport Manager who reports to the Taupo Airport Authority Committee. A half year financial report and an Annual Report are prepared by Council staff. The authority prepares an annual statement of intent for approval of the joint venture partners.

Similar management reporting and accountability practices are also in place for other CCO interests.

#### **Investment risk**

The primary objective for risk management of the airport is to maintain operational efficiency and safety. This is managed by regular Civil Aviation Authority audits.

#### **11.1.2 LASS**

#### **11.1.3 BOPLASS**

#### **11.1.4 LGFA**

#### **11.1.5 TEL Fund Equity Investments**

Council maintains Australasian and international equities as part of the TEL fund and is managed by a separate Statement of Investment Policies and Objectives by external investment managers.

