Treasury Risk Management Policy
(including Liability and Investment Policies)

Policy Owner	Chief Executive
Approved By:	Policy & Regulatory Committee
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1.0 Introduction

Waikato District Council (the Council) undertakes borrowing (liability management) and investment activities, which in total are referred to as treasury activity. The Council's treasury activities are carried out within the requirements of the Local Government Act 2002, its related amendments and other relevant local authority legislation.

The Treasury Risk Management Policy (the Policy) provides the framework for all of the Council's borrowing and investment activities and defines key responsibilities and the operating parameters within which borrowing, investment and related risk management activities are to be carried out.

Key borrowing and investment objectives form the basis of the policies. These objectives, while consistent with corporate best practice, are subject to overall Council objectives, as stated in the Annual Plan and Long Term Plan (LTP).

This policy will be reviewed and amended if required on a three-yearly basis.

This Policy covers:

- **Liability management**

  The Council's borrowing activity is largely driven by its capital works programme, mainly related to its infrastructure assets. The Council's liability management policy is discussed in Section 4 of this Policy.

- **Investments**

  The Council manages a portfolio of investments comprising equity investments, property, and financial investments. The Council's investment policy is discussed in Section 5 of this Policy.

The Council acknowledges that there are various financial risks such as interest rate risk, currency risk, liquidity risk and credit risk arising from its treasury activities. The Council is a risk averse entity and does not wish to incur additional risk from its treasury activities.

The Council's accounting function in relation to its treasury activities is a risk management function focused on protecting the Council's budgeted interest costs and revenues and stabilising the Council's cash flows. The Council does not undertake any treasury activity that is unrelated to its underlying cash flows or is purely speculative in nature.

Further detailed information and procedures supporting the Policy are contained in the relevant internal policy and procedure manuals.

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

2.0 Objectives

This document identifies the policy of the Council in respect of treasury management activities. The Policy has not been prepared to cover other aspects of Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of the Council cover these matters. The key objective of this Policy is to control and manage costs and investment returns that can influence the Council's operational budgets and public equity. Specifically:

2.1 Statutory objectives

The statutory objectives of the Policy are as follows;

- 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.
- The Council is governed by the following relevant legislation:
    - Local Government Act 2002, in particular Part 6 including sections 101,102,104, 105, and 112 to 116.
    - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
    - Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in Part II of the Act - Investments.
- All projected external borrowings are approved by the Council as part of the Annual Plan or the LTP process.
- The Council will not enter into any borrowings denominated in a foreign currency.
- The Council will not transact with any Council Controlled Organisation (CCO) on terms more favourable than that which the Council would achieve without pledging rates revenue.
- All legal documentation in respect to external borrowing and financial instruments will be approved by Council's legal counsel prior to the transaction being executed.
- 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:

- o 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
- o 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.

2.2 General objectives

The general objectives of the Policy are as follows;

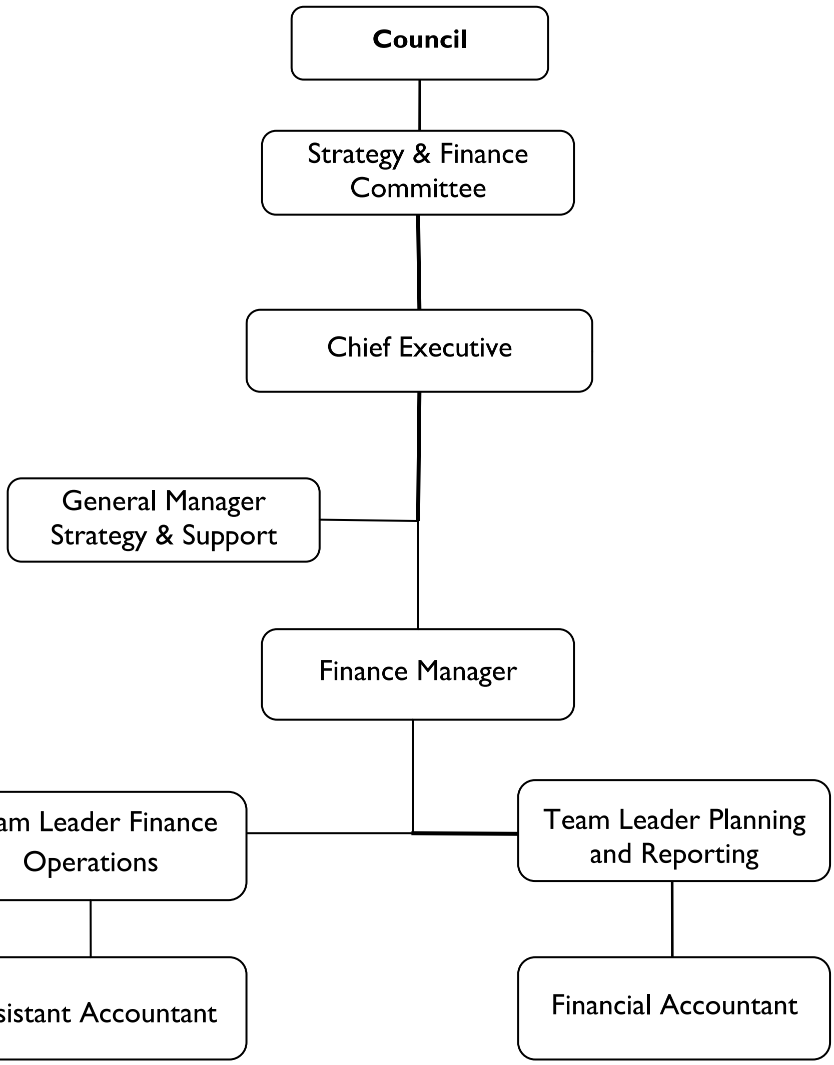
- Minimise the Council's costs and risks in the management of its external borrowings and maximise its return on investments.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under this Policy so as to protect the Council's financial assets and costs.
- Arrange and structure external long term funding for the 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, report and comply with financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements and as reported in this Policy
- Monitor the Council's return on investments in CCO's, property and other shareholdings.
- Ensure the Council, management and relevant staff are kept abreast of latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen, funding requirements.

- 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 adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions and investors in the Council's debt securities.

3.0 Management structure, responsibilities and delegated authorities

3.1 Financial services treasury risk 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:



Details of roles and responsibilities are set out below.

3.2 Delegated authorities

The 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 Council. 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, it is the Council's responsibility to:

- Approve and amend the Policy
- Approve the external borrowing programme for the year through the Annual Plan or LTP
- Approve the long-term financial position of Council through the LTP
- Approve borrowing strategy outside policy parameters
- Approve seal register signatories – transfers of stock / register new debt issues
- Approve charging assets as security over borrowing
- Approve acquisition and divesture of investments
- Approve the borrowing, and dealing limits and the respective authority levels delegated to the CE, GMSS and other management
- Ensure a triennial review of the Policy takes place

Strategy & Finance Committee

It is the Strategy and Finance Committee's responsibility to:

- Review performance of treasury risk management strategies in place and revise as appropriate
- Recommend alterations to the Policy
- Overview management of the Council's relationships with financial institutions and markets

Chief Executive

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

- Ensure the Council's policies comply with existing and new legislation
- Approve the register of cheque and electronic banking signatories
- Approve opening and closing of bank accounts

- Approve new external borrowing undertaken in line with Council resolution and approved borrowing strategy
- Receive advice of non-compliance of Policy and significant treasury events from the General Manager of Strategy and Support

General Manager Strategy and Support (GMSS)

It is the responsibility of the GMSS to:

- Recommend Policy changes to the Council for approval
- Manage the long-term financial position of the Council as outlined in the LTP
- Ensure management procedures and policies are implemented in accordance with this Policy
- Approve new counterparties and counterparty limits
- Raise new loans in accordance with Council-approved borrowing programme, and carry out debt negotiations in accordance with strategy and policy
- Propose new funding requirements to the CE, and, if required, submission to the Council
- Recommend authorised signatories and delegated authorities in respect of all treasury activities
- Conduct a review, at least triennially, of the Policy, treasury procedures and counterparty limits
- Implement day-to-day borrowing and investment strategies in line with overall strategy developed by Strategy & Finance Committee
- Authorise use of Council-approved interest rate risk management instruments in line with strategy and treasury policy
- Approve investment, investment interest rate risk management and daily cash management strategies within delegated limits

Finance Manager

It is the responsibility of the Finance Manager to:

- Manage responsibility for treasury risk management activities
- Approve treasury transactions in accordance with delegated authority (sign and approve all Treasury deal tickets)
- Ensure all financial instruments are valued and accounted for correctly in accordance with current best practice standards
- Monitor and review the performance of the treasury function in terms of achieving the objectives
- Authorise external borrowing, investing, interest rate, cash management transactions with approved counterparties

- Investigate financing alternatives to minimise borrowing costs, margins and interest rates, making recommendations to the GMSS as appropriate
- Check all treasury deal confirmations against the treasury spread sheet and report any irregularities immediately to both the GMSS and CE
- Account for all treasury transactions in accordance with legislation, generally accepted accounting principles, and Council's accounting and funding and financial policies
- Approve all amendments to Council records arising from checks to counterparty confirmations
- Review and approve treasury spread sheet reconciliation to the general ledger
- Review and approve monthly bank reconciliations
- Execute approved treasury management strategies in the absence of the Assistant Accountant or Team Leader Finance Operations
- Undertake on-going risk assessment of borrowing and investment activity including procedures and controls
- Review and make recommendations on all aspects of the Policy to the GMSS, including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments
- Monitor treasury exposures on a regular basis, including current and forecast cash and liquidity position, interest rate exposures and borrowings

Team Leader Planning and Reporting

It is the responsibility of the Team Leader Planning and Reporting to:

- Oversee the activities undertaken by the Financial Accountant

Team Leader Finance Operations

It is the responsibility of the Team Leader Finance Operations to:

- Execute approved treasury management strategies in the absence of the Assistant Accountant
- Check monthly bank reconciliations

Financial Accountant

It is the responsibility of the Financial Accountant to:

- Update treasury spread sheets for all new, re-negotiated and maturing transactions.
- Monitor and update credit ratings of approved counterparties.
- Capture settlement information for external borrowing, investment, cash management, and interest rate management transactions
- Check general ledger reconciliations to treasury spread sheet
- Co-ordinate the compilation of medium to long-term cash flow forecasts
- Reconcile monthly summaries of outstanding financial contracts from bank counterparties to internal records

- Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA documents
- Prepare treasury reports
- Check compliance against limits and prepare report on an exceptions basis

Assistant Accountant

It is the responsibility of the Assistant Accountant to:

- Execute all treasury risk management activity including borrowing, investment, and interest rate management transactions in accordance with set limits
- Complete treasury deal tickets
- Monitor all treasury exposures daily
- Co-ordinate the compilation of short-term cash flow forecasts and cash management

3.3 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.

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

Activity	Delegated Authority	Limit
Approving and changing Policy	Council	Unlimited
Approve external borrowing programme for year	Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments other than financial investments	Council	Unlimited
Approval for charging assets as security over borrowing	Council	Unlimited
Approve new and re-financed bank facilities and new debt programmes	Council	Unlimited
Approving transactions outside Policy	Council	Unlimited
Overall day-to-day treasury management	CE (delegated by Council) GMSS (delegated by CE)	Subject to Policy

Activity	Delegated Authority	Limit
Re-financing existing debt	CE (delegated by Council) GMSS (delegated by CE)	Subject to Policy
Approve new external borrowing in accordance with Council resolution	CE	Per Council approved borrowing programme
Negotiate bank facilities	GMSS	N/A
Manage borrowing and interest rate strategy	GMSS	N/A
Adjust interest rate risk profile	GMSS	Per risk control limits
Managing funding and investment maturities	GMSS	Per risk control limits
Approve use of interest rate options instruments	GMSS	Subject to Policy
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on debt and interest rate swaps	Council CE GMSS Finance Manager	Unlimited $30M $25M $10M
Manage cash/liquidity requirements	GMSS	Per risk control limits
Authorising list of signatories	CE	Unlimited
Opening/closing bank accounts	CE	Unlimited
Triennial review of Policy	GMSS	N/A
Ensuring compliance with Policy	GMSS	N/A

4.0 Liability management policy

4.1 Introduction

The Council borrows for the following primary purposes:

- Funding the Council's capital works, primarily infrastructure assets. The use of debt is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers in relation to the Council's assets and investments
- Short-term debt to manage timing differences between cash inflows and outflows, and to maintain the Council's liquidity
- Specific debt associated with significant 'one-off' projects and non-financial investments from time to time
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of Council business

Section 104 of the LGA 2002 requires that the Liability Management Policy must state the policies in respect of liability management, including:

- Interest rate exposure

- Credit exposure
- Liquidity
- Debt repayment
- Specific borrowing limits
- The giving of security

4.2 Objectives

The objectives of the Liability Management Policy are consistent with market best practice and will take into account the Council's 10-year plans as set out in the LTP. The key Liability Management objectives in relation to borrowings are to:

- Prudently manage the Council's external borrowing activities to ensure the ongoing funding of the Council
- Borrow only under Council-approved facilities and as permitted by this Policy
- Minimise external borrowing costs within prudent risk management control limits
- Manage exposure to adverse interest rate movements
- Ensure operational controls and procedures are in place to protect the Council against financial loss, opportunity cost and other inefficiencies

4.3 Debt ratios and limits

Debt is to be managed within the following macro limits:

Ratio	**Borrowing Limit**
Net External Debt / Total Annual Revenue	<150%
Net Interest on External Debt / Total Annual Revenue	<20%
Net Interest on External Debt / Annual Rates Income	<25%
Liquidity (External, term debt + committed bank facilities + available liquid short term financial investments to existing external debt)	>110%

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

Net external debt is defined as total external debt less liquid financial assets/investments.

Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.

Liquidity is defined as external term debt plus committed bank facilities plus liquid investments divided by current external debt.

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). 'Rates' excludes regional levies.

External 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.

Borrowing Limits are measured on Council only not consolidated group.
Disaster recovery requirements are met through the liquidity ratio and contingency reserves.

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 the Council's long term financial strategy and asset management plans.

4.4 Asset/Activity management plans

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

4.5 Borrowing mechanisms

The Council is able to externally borrow through a variety of market mechanisms including issuing Commercial Paper (CP), fixed rate bonds and floating rate notes (FRN's) through private placements, direct bank borrowing, Local Government Funding Agency (LGFA), or loans with private placement investors, accessing the short and long-term 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 GMSS takes into account the following:

- Available terms from banks, LGFA, debt capital markets and loan stock issuance
- The 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 debt issuance, capital markets and bank borrowing
- The market's outlook on future interest rate movements as well as its own
- Legal documentation and financial covenants together with 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

The Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate and manage its relationships with its investors and financial institutions.

4.6 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.

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

4.7 Security

Security will usually be provided to banks for the provision of debt facilities and treasury products and also to other investors in the Council's debt. 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 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.

4.8 New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this Policy, the Council may borrow from the New Zealand 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 in the form of 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
- Subscribe for shares and uncalled capital in the LGFA; and
- 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

4.9 Guarantees/contingent liabilities and other financial arrangements

The 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. The 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

The Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed.

4.10 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 emphasizing 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.

Any internal borrowing of reserve funds used must be reimbursed for interest revenue lost. Interest on internally-funded loans is charged on at least an annual basis on the weighted average difference between the average interest rate for investment and the average interest rate for external debt.

4.11 Performance measurement

The performance of the external borrowing activity will be measured against pre-determined benchmarks:

- Adherence to Policy and in particular the borrowing limits
- Unplanned overdraft costs – specifically that daily bank balances are within limits taking into account unforeseen external activity
- Comparison of actual monthly and year to date interest costs vs. budget borrowing costs
- Comparison of actual monthly borrowings with budgeted borrowings
- Comparison of actual financial ratios to budgeted financial ratios as per the Annual Plan and LTP

5.0 Investment policy

5.1 Introduction

The Council holds financial investments sufficient to match reserve accounts created by council resolution and as a result of short term cash flow surpluses. The Council also manages investments in equities, property and Council controlled organisations.

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

Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's LTP
- To reduce the current ratepayer burden
- The retention of vested land
- Holding short term investments for working capital and liquidity requirements
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans and the LTP, 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

Section 105 of the LGA 2002 requires that the Council's Investment Policy must state the policies in respect of investments, including:

- The objectives in terms of which financial and equity investments are to be managed
- The mix of investments
- The acquisition of new investments
- An outline of the procedures by which investments are managed and reported on to the Council
- An outline of how risks associated with investments are assessed and managed

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.

5.2 Objectives

The objectives of this investment policy are consistent with market best practices and will take into account the requirements of the Council's Annual Plan and LTP. The key investment policy objectives are to:

- Prudently manage the Council's investment assets in the interests of the Waikato district and its inhabitants and ratepayers, only for lawful purposes and so as to safeguard against loss
- Manage investments in accordance with the LGA 2002 and the Trustee Act 1956; administer, manage and account for its funds and exercise the care, diligence and skill that a prudent person of business would exercise in the managing the affairs of others
- Maximise investment income with a prudent level of investment risk. The Council recognises that as a responsible public authority any investments that it does hold should be of relatively low risk. It also recognises that lower risk generally means lower returns
- Invest only in approved securities and asset classes as permitted by this Policy. Accordingly, only creditworthy counterparties are acceptable
- Ensure investments are maintained at an appropriate level of liquidity to enable the provision of cash flow when required
- Minimise potential risk due to adverse interest rate movements
- Regularly review the performance and credit worthiness of all investments
- Maintain operational controls and procedures to best protect the Council against financial loss, opportunity cost and other inefficiencies

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, 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 investments and the credit rating of approved financial institutions
- The Council will review its policies on holding investments at least every three years

5.4 Acquisition of new investments

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

The authority to acquire financial investments is delegated to the GMSS.

5.5 Investment mix

The Council maintains investments in the following assets from time to time:

Pure commercial and semi-commercial

- Equity investments, including Council Controlled Organisation's (CCO) and other shareholdings
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development

Perpetual

- Financial investments incorporating longer term and liquidity investments
- Loans and guarantees to related community organisations

5.6 Equity investments

Investments in companies, organisations and property must be approved by specific resolution of Council having regard to all relevant information, including (but not limited to) the following:

- To act in the best interests of the community
- Legislative authority to hold such investments
- The degree of equity interest or control able to be exercised
- Prudence generally
- The likely returns on the investment compared with lower risk investments
- Re-saleability of property held for investment purposes
- To promote the development of the district
- To reduce the reliance on traditional revenue sources (such as rates)
- Other advantages

5.6.1 Specific investments

The Council considers its specific financial investments (listed below) as representing the best interests of the community and ratepayers. The Council's exposure to risk would be that of any other financial shareholder. Specific investments include the following:

- Civic Assurance - This company evolved from the former Municipalities Insurance Co-operative and New Zealand Local Government Insurance Corporation. The reason for the Council holding shares is that as a member of the co-operative, the Council was entitled to a shareholding related to the level of its premiums. This is not seen as core business for Council but previous attempts to sell its shareholding have failed because there is no ready market for these shares. The Local Government Act specifically excludes Civic Assurance so that it is not classified as a CCO.
- Strada Corporation Limited – This CCO, which commenced operations in 1992, is a contracting business for physical works. The Council holds shares in this organisation

as this operation provides roading and related services, which are seen as being part of the Council's core business.

- Waikato Regional Airport Limited (WRAL) - In December 1995, the Council, along with four other Waikato local authorities, purchased the Crown's 50 per cent shareholding in WRAL. The purchase increased the Council's shareholding to 15.625 per cent. The Council considers that the airport is a significant infrastructural asset for the region and is important for economic growth and development. For this reason, the Council has elected to retain its shareholding. In addition, the Local Government Act defines shareholding in an airport as a strategic asset.
- Local Authority Shared Services – There are a number of services provided by local authorities, particularly in respect of information collection and management, where improved services at lower aggregate cost can be achieved by having a number of authorities participate in purchase or development of the infrastructure for the service, and ongoing operation of it. Historically those have been addressed by one Council developing the service and sharing it with others on an agreed basis.

5.6.2 Liquid financial investments

The Council is a net borrower of funds and should apply surplus funds to debt repayment and wherever possible internally borrow from special reserve funds to meet future capital expenditure. An exception to this is that the Council may invest liquid funds externally for the following reasons:

- Strategic purposes consistent with the Council's long term strategic plan
- The retention of vested land
- Holding short term liquid investments for working capital requirements
- Holding investments that are necessary to carry out Council operations consistent with Annual Plan's and the LTP

For the foreseeable future, the Council will be in a net borrowing position and liquid investment funds will be prudently invested 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 is credited to the particular fund
- Internal borrowing will be used wherever possible to avoid external borrowing.

5.6.3 Special funds and reserve funds

Liquid assets will not be required to be held against special funds and reserve funds. Instead the Council should internally utilise or borrow these funds where ever possible.

Accounting entries representing monthly interest accrual allocations will be made using the Council's average weighted cost of funds for that period and will be charged in accordance with the Council's application of interest to Council Revenue Policy. Reserves on funds will be credited at the weighted average cost of funds less 0.5 per cent margin.

5.6.4 Loans to related or community organisations

The Council may grant loans to community organisations on a case-by-case basis subject to available funding and the appropriate security and repayment ability of the organisation. Priority will be given to those organisations on Council-owned land.

Each community organisation granted a loan will pay an appropriate administration fee determined as part of the loan application.

The Council prefers to loan funds to community organisations rather than provide financial guarantees to other financial institutions.

Any loans to related community organisations will be on a commercial basis. The interest rate used for such loans will be the budgeted internal loan rate plus a 1 per cent margin, to be renewed annually.

5.6.5 Trust funds

Where the Council holds funds as a trustee then such funds must be invested on the terms provided within the trust.

5.7 New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Policy, the Council is able to enter into a commitment that could result in it becoming a shareholder in the New Zealand Local Government Funding Agency Limited (LGFA). In borrowing from LGFA, the Council can agree to the issue of borrower notes to the value of 1.6% of the total amount borrowed. These will be held by LGFA while the borrowing is outstanding and may in certain situations convert to shares in LGFA. Also, as a Guaranteeing Local Authority the Council is required to commit to subscribe for redeemable shares in LGFA in certain circumstances. As LGFA is a Council-controlled organisation, the Council has undertaken specific consultation to satisfy the requirements of section 56 of the Local Government Act 2002.

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

- Obtain a return on the investment; and
- Ensure that the LGFA has sufficient capital to 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.

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

5.8 Performance measurement

The performance of the investing activity will be measured against pre-determined benchmarks:

- Adherence to Policy

- Comparison of actual monthly and year to date accrued returns vs investing the entire treasury portfolio at the combined average of the 90-day bill rate and the three-year investor swap rate, over the last two years
- A maturity profile showing the average yield in each maturity band compared against the current market yields

6.0 Risk recognition, identification and management

The definition and recognition of interest rate, liquidity, funding, counterparty credit, market, operational and legal risk of the Council is detailed below and applies to both the Liability Management Policy and the 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 adopted Annual Plans or LTP so as to adversely impact revenue projections, cost control, capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements through fixing of investment returns or interest costs. Both objectives are 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 interest rate 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) NZD denominated Private Placements Finance leases
Investments	Short term bank deposits Bank bills Bank certificates of deposit (CD's) Treasury bills LGFA borrower notes / CP / bonds Local Authority stock or State Owned Enterprise (SOE) bonds and FRN's Corporate bonds Floating Rate Notes Promissory notes/Commercial paper Redeemable Preference Shares (RPS)
Interest rate risk management	Forward rate agreements (FRAs) on: • Bank bills • Government bonds Interest rate swaps including: • Forward start swaps • Amortising swaps (whereby notional principal amount reduces) • Swap extensions and shortenings *Interest rate options on: • Bank bills (purchased caps and one for one collars) • Government bonds • Interest rate swaptions (purchased only)

(Footnote: Approval of use of interest rate risk management is covered in section 3.3 of this Policy under "Delegations of Authority and Authority Limits")

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. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

6.1.3 Control limits

Net debt/borrowings

Exposure to interest rate risk is managed through the risk control limits below.

Council's net external debt 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**	**Maximum Fixed**
Current	50%	100%
Year 1	45%	100%
Year 2	40%	95%
Year 3	35%	90%
Year 4	30%	85%
Year 5	15%	80%
Year 6	0%	75%
Year 7	0%	70%
Year 8	0%	65%
Year 9	0%	60%
Year 10	0%	55%
Year 11	0%	50%
Year 12	0%	45%
Year 13	0%	40%
Year 14	0%	35%
Year 15	0%	30%

A fixed rate maturity profile that is outside the above limits, but self-corrects in less than 90 days is not in breach of this Policy. However, maintaining a maturity profile outside of the above limits beyond 90 days require specific approval by Council.
(Amended 11 April 2016)

'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 GMSS). Net external debt is the amount of total external debt net of liquid financial assets/investments. This allows for pre-hedging in advance of projected physical drawdown of new external debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply 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	15%*	60%

Any interest rate swaps with a maturity beyond 10 years must be approved by the Council.

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, 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 in isolation (i.e. repurchased) otherwise both sides must be closed out simultaneously. The sold option leg of the collar structure must not have a strike rate 'in-the-money.'

Purchased borrower swaptions mature within 18 months.

Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.0% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

The forward start period on swap/collar strategies to be no more than 24 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.

Liquid financial investment portfolio

Financial investments will, where possible, be restricted to a term that meets future cash flow projections and be mindful of forecast debt associated with future capital expenditure programs as outlined within the LTP.

Special funds/reserve funds

Given that the Council will require funding for capital expenditure cash shortfalls for the remaining life of the existing special / reserve funds, the Council should wherever practical cease to create, contribute or continue such funds. Where such funds are deemed necessary they should be used for internal borrowing purposes. This will negate counterparty credit risk and any interest rate gap risk that occurs when the 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 the Council will manage these funds using internal borrowing facilities. Accounting entries representing monthly interest accrual allocations will be made using the Council's average weighted cost of external funds for that period.

Shares

The Council will consider selling its non-strategic share holdings where the rate of return from owning the asset is lower than the financial benefit to ratepayers of selling and of using the proceeds of sale to repay debt. In its considerations the Council will take into account the risks associated with continuing to own the asset and the risks associated with the Council's total debt.

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

Investment properties

Investment properties will only be purchased in the future where such acquisition will strategically fit the Council's core activities.

Any funds received from the sale of investment properties will be used to repay existing debt, unless the Council specifically directs that the funds be put to another use.

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 loans and facilities. Liquidity risk management focuses on the ability to borrow 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 facilities.

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

- Local government risk is priced to a higher fee and margin level
- The Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons
- A large individual lender to the Council experiences its own financial/exposure difficulties resulting in the Council not being able to manage its 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

The Council must approve all new external loans and borrowing facilities.
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 debt and committed debt facilities together with liquid investments must be maintained at an amount that averages 110 per cent of existing external debt.
Council has the ability to pre-fund up to 18 months forecast external debt requirements including re-financings. Such pre-funding may be re-invested with banks as term deposits.

The GMSS has the discretionary authority to re-finance existing external debt on more favourable terms. Such action is to be ratified and approved 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;

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	40%

A maturity schedule outside these limits requires 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 or Moody's) being A- and above or short term rating of A2 or above; with the exception of New Zealand local authorities.

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	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government		Unlimited	none	unlimited
NZD Registered Supranationals	AAA	20.0	none	20.0
Local Government Funding Agency		20.0	none	20.0
State Owned Enterprises	A-/ A2	5.0	none	5.0
NZ Registered Bank - ANZ National Bank Limited - ASB Bank Limited	A-/ A2	20.0	30.0	30.0

- Bank of New Zealand - The Hong KONG and Shanghai Banking Corporation - Westpac Banking Corporation				
Corporate Bonds/ CP*	A-/ A2	2.0	none	2.0
Local Government Stock/ Bonds/ FRN/ CP **	A-/ A2 (if rated) Unrated	10.0 5.0	none none	10.0 5.0
* Subject to a maximum exposure no greater than 25 per cent of total funds invested in corporate debt at any one point in time. ** Subject to a maximum exposure no greater than 60 per cent of total funds invested in Local Government debt at any one point in time				

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 exit whereupon a 0% weighting may apply)
- Interest rate risk management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%

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 Finance Manager on an on-going basis and in the event of material credit downgrades should be immediately reported to both the GMSS and CE and assessed against exposure limits. Counterparties exceeding limits should be reported to the 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.

6.4 Foreign currency

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

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

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 GMSS.

6.5 Operational risk

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

6.5.1 Dealing authorities and limits

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

6.5.2 Segregation of duties

Adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in borrowing and investment activity. Accordingly strict segregation of duties is not always achievable.

The Council will seek to minimise this risk by:

- Controlling the reporting structure of finance staff
- The GMSS will report directly to the CE
- The Finance Manager will on Treasury Risk Management Policy issues report directly to the CE
- Maintaining an effective approval process for borrowing and investment activity

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, 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 GMSS has responsibility for establishing appropriate structures, procedures and controls to support borrowing, investing, interest rate and cash management activity.

All borrowing, investing, cash management and interest rate risk management activity is undertaken in accordance with approved delegations authorised by the Council.

Cheque/electronic banking signatories

Positions approved by the CE as per register.

Dual signatures are required for all cheques and electronic transfers.

Cheques must be in the name of the counterparty crossed "Not Negotiable, Account Payee Only", 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 Assistant Accountant and approved by the Finance Manager. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spread sheets) 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 Assistant Accountant 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 Assistant Accountant in deal date/number order.

Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the GMSS.

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 Assistant Accountant to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council signing registers.

Reconciliations

Bank reconciliations are performed monthly by the Assistant Accountant and checked and approved by the Finance Manager. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the GMSS.

A monthly reconciliation of the treasury spread sheet to the general ledger is carried out by the Financial Accountant and approved by the Finance Manager.

6.6 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, the Council may be exposed to such risks. In the event that the Council is unable to enforce its rights due to deficient or inaccurate documentation the Council will seek to minimise this risk by:

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

6.6.1 Agreements

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

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

6.6.2 Financial covenants and other obligations

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

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

7.0 Measuring treasury performance

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

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

7.1 Operational performance

The performance of the borrowing activity will be measured against pre-determined benchmarks:

- Adherence to Policy and in particular the borrowing limits
- Unplanned overdraft costs – specifically that daily bank balances are within limits taking into account unforeseen external activity
- Comparison of actual monthly and year to date interest costs vs. budget borrowing costs
- Comparison of actual monthly borrowings with budgeted borrowings
- Comparison of actual financial ratios to budgeted financial ratios as per the Annual Plan and LTP

7.2 Management of debt and interest rate risk

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

8.0 Cash and working capital management

Cash management deals with the net balance in the Council's main bank accounts. The Assistant Accountant is responsible for managing the Council's cash surpluses and/or deficits. Cash and working capital management procedures should include:

- Calculating and maintaining comprehensive rolling cash flow forecasts on a daily (two weeks forward), weekly (four weeks forward) and monthly (12 months forward) basis. These cash flow forecasts determine Council's funding gaps and borrowing requirements/surpluses for investment
- On a daily basis, electronically download all Council bank account information
- Co-ordinating Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters
- Undertaking short term borrowing functions as required, minimising overdraft costs
- Ensuring efficient cash management through improvement to forecasting
- Minimising fees and bank charges by optimising bank account/facility structures

- Monitoring Council's usage of overdraft and committed bank facilities. Overdraft facilities are utilised as little as practical. Committed bank overdraft facilities of $500,000 are maintained
- Matching future cash flows to smooth overall timeline
- Providing reports detailing actual cash flows during the month compared with those budgeted
- Maximising the return from available funds by ensuring significant payments are made within the suppliers payment terms, but no earlier than required, unless there is a financial benefit from doing so
- Interest rate management on cash management balances is not permitted
- Cash is invested for a term of no more 181 days and in approved instruments and counterparties

The Council maintains a daily balancing report (bank reconciliation) and short-term and long-term cash flow projections which are updated monthly and which form the basis of its cash management activity. Generally cash management surpluses are available for periods less than 90 days.

Cash management instruments are limited to:

- Call deposits with New Zealand registered banks
- Corporate Commercial Paper with a maturity less than three months
- Term deposits (less than three months) with registered banks
- A target average daily balance of $0 to $100,000 is aimed for in the main bank account, with surplus transferred to call deposits

Cash and the counterparties on cash management instruments may only be invested with approved counterparties within the limits detailed in Section 6.3

9.0 Reporting

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

9.1 Treasury reporting

The following reports are produced:

Report Name	Frequency	Prepared By	Recipient
Daily Cash Position Treasury Spread sheet	Daily	Assistant Accountant	Finance Manager
Treasury Exceptions Report	As required	Assistant Accountant	GMSS
Monthly Treasury Report Signalling significant changes in	Monthly	Financial Accountant	SFC

treasury management strategy			
Quarterly Treasury Report • Policy limit compliance • Borrowing limits • Funding and Interest Position • Funding facility • New treasury transactions • Cost of funds vs budget • Cash flow forecast report • Liquidity risk position • Counterparty credit • Treasury performance • Debt maturity profile • Treasury investments	Quarterly	Financial Accountant	SFC
Statement of Public Debt	Quarterly	Financial Accountant	SFC
Report Name	**Frequency**	**Prepared By**	**Recipient**
Revaluation of financial instruments	At least Annually	Financial Accountant	SFC
Internal audit on treasury management activity	At least triennially	GMSS	Council
Review of treasury risk management policy	At least triennially	GMSS	Council

9.2 Accounting treatment of financial instruments

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

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

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

10.0 Policy review

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

The GMSS has the responsibility to prepare a review report that is presented to the Council. The report will include:

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

The Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes.