

# TREASURY RISK MANAGEMENT POLICY



Including liability management and investment policies

Business unit	Finance
Date created	October 2014
Publication date	October 2014
Review period	October 2015 July 2017 May 2020 February 2023
Owner	Group Chief Financial Officer
Approved by	Council

Version	Author	Date	Description
V 1.0	Paul Blacker	October 2014	Approved by Council
V 2.0	Brent Kibblewhite	July 2017	Financial Strategy changes and Triennial review
V 3.0	Jenny Livschitz	May 2020	Policy changes and Triennial review
V 3.1	Jenny Livschitz	July 2021	Borrowing limit updates to align with financial strategy in adopted LTP 2021-2031
V 4.0	Jenny Livschitz	February 2023	July Triennial review

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# 1. INTRODUCTION

## 1.1 POLICY PURPOSE

The purpose of the Treasury Risk Management Policy (“Policy”) is to outline the policies in respect of all treasury activity to be undertaken by Hutt City Council Group (“HCC”) being Hutt City Council (“Council”) together with its wholly owned Council Controlled Organisations (“CCO’s”). The formalisation of such policies will enable treasury risks within HCC to be prudently managed.

As circumstances change, the policies outlined in this Policy will be modified to ensure that treasury risks within HCC 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 HCC.
- 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 HCC’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 HCC in achieving strategic objectives.

# 2. SCOPE AND OBJECTIVES

## 2.1 SCOPE

- This document identifies the policy of HCC in respect of treasury management activities.
- The Policy has not been prepared to cover other aspects of HCC’s operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of HCC cover these matters.
- This Policy should be read in conjunction with the [Financial Delegation Policy](#), which confirms that delegations for Treasury transactions are specifically covered by this Policy.

## 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 the Liability Management Policy and Investment Policy.
- HCC is governed by the following relevant legislation:
  - Local Government Act 2002, in particular Part 6 including sections 101,102, 104, 105, 112 and 116.
  - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
  - Trusts Act 2019. 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 (AP), the Long Term Planning (LTP) or CCO's Statement of Intent (SOI) process, or resolution of Council before the borrowing is affected.
- All legal documentation in respect to external borrowing and financial instruments will be approved by HCC's solicitors prior to the transaction being executed.
- HCC will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
  - The period of indebtedness is less than 91 days (including rollovers); or
  - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of Council.

**General objectives**

- Minimise HCC's costs and risks in the management of its external borrowings.
- Minimise HCC's exposure to volatility in interest costs.
- Minimise HCC's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transacts risk management instruments within an environment of control and compliance under HCC approved Policy so as to protect HCC's financial assets and manage costs.

- Arrange and structure external long term funding for HCC at a favourable 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 report on financing/borrowing covenants and ratios under the obligations of HCC's lending/security arrangements.
- Comply with financial ratios and limits stated within this Policy.
- Monitor HCC's return on investments.
- Ensure Council, HCC management and relevant officers 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 HCC 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 HCC's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, Local Government Funding Agency (LGFA), credit rating agencies and investment counterparties.
- To maintain Councils AA credit rating.

### 2.3 POLICY SETTING AND MANAGEMENT

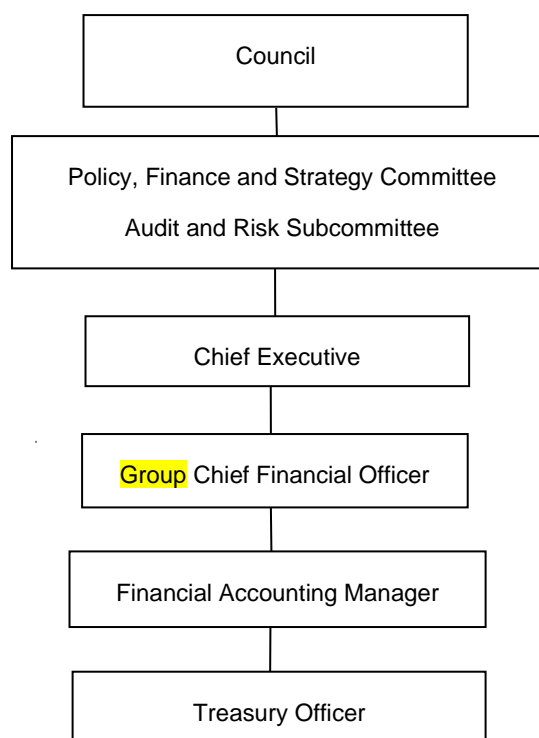
Council approves Policy parameters in relation to its treasury activities. Council's Chief Executive has overall financial management responsibility for HCC's borrowing and investments.

Council exercises ongoing governance over its subsidiary companies (CCO/CCTO), through the process of approving their Constitutions, SOI's, and the appointment of Directors/Trustees to these entities.

### 3. GOVERNANCE AND MANAGEMENT RESPONSIBILITIES

#### 3.1 OVERVIEW OF RESPONSIBILITIES

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



#### 3.2 COUNCIL

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

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, Council has responsibility for:

- Approving the long-term financial position, financial strategy and rating levels of HCC through the adoption of the LTP and AP
- Approval of annual Statements of Intent for CCOs and CCTOs
- Approve and adopt the Liability Management and Investment Policies.
- Adoption of the annual report for HCC.
- Approving the Policy and incorporating the following delegated authorities:
  - Borrowing, investment and dealing limits and the respective authority levels delegated to the Chief Executive (CE), Group Chief Financial Officer (CFO) and other HCC officers.

- Counterparties and credit limits.
- Risk management methodologies and benchmarks.
- Guidelines for the use of financial instruments.
- Receiving a triennial review report on the Policy.
- Approval for one-off transactions falling outside Policy. These will include:
  - Additional borrowings other than in accordance with the LTP, AP or CCO's SOI.
  - Purchase or disposal of assets other than in accordance with the LTP, AP or CCO's SOI,
  - The establishment and disposal of any CCO and the appointment of their directors or trustees.

### 3.3 **POLICY, FINANCE AND STRATEGY COMMITTEE (PFS)**

Under delegation from Council:

- Evaluate and recommend amendments to Policy.
- Reviewing debt levels for compliance with Councils Annual Plan, Long Term Plan or specific Council resolution and this Policy.
- Review treasury activity and oversee compliance with this Policy.

### 3.4 **AUDIT AND RISK SUBCOMMITTEE (AR)**

Under delegation from Council:

- Providing objective advice and recommendations to Council around the sufficiency, quality and results of assurance over HCC's financial management practices, risk management, internal control systems and governance frameworks.

### 3.5 **CHIEF EXECUTIVE (CE)**

While 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, the Chief Executive's responsibilities include:

- Ensuring the policies comply with existing and new legislation.
- Approving the delegated authorities in line with the Financial Delegations Policy.
- Approving new counterparties and counterparty limits.
- Approving new external borrowing undertaken in line with Council resolution and approved borrowing strategy.
- In conjunction with the Group Chief Financial Officer (CFO), approving the opening and closing of bank accounts.
- Receiving advice of non-compliance of Policy and significant treasury events from the CFO.

### 3.6 **GROUP CHIEF FINANCIAL OFFICER (CFO)**

The CFO's responsibilities are as follows:

- Management responsibility for all external borrowing and investment activities as delegated by the CE.
- Recommending Policy changes for approval.
- Managing the long-term financial position of Council as outlined in the LTP.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- Approving treasury transactions in accordance with delegated authority.
- Authorising the use of approved interest rate management instruments within discretionary authority.
- Recommending financial delegated authorities in respect of all treasury activities.
- Review all delegated authorities annually to ensure that they are still appropriate and current.
- Proposing new funding requirements to the CE, and if required submission to Council.
- Reviewing and making recommendations on all aspects of the Policy to the CE, including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments.
- Conducting a review, at least triennially, of the Policy, treasury procedures and counterparty limits.
- Monitoring and reviewing the performance of the treasury function in terms of achieving the objectives.
- Monitoring treasury exposures on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Authorising external borrowing, investing, interest rate, cash management transactions with bank counterparties. Approving all amendments to Council records arising from checks to counterparty confirmations - with any two authorised signatories.
- Reviewing and approving treasury spreadsheet reconciliation to internal records.
- The CFO has oversight, and approves actions undertaken by the Treasury Officer and Financial Accounting Manager per delegated authority.

### 3.7 **FINANCIAL ACCOUNTING MANAGER (FAM)**

The Financial Accounting Manager's responsibilities are as follows:

- Responsible for overseeing the day to day treasury function as delegated by the CFO.
- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles, Council's accounting and funding and financial policies.
- Ensuring management procedures and policies are implemented in accordance with this Treasury Risk Management Policy.



- Check all treasury deal confirmations against the treasury spreadsheet/deal ticket and report any irregularities immediately to the CFO.
- Complete general ledger reconciliations to treasury spreadsheet.
- Review and approve monthly bank reconciliations.
- Reconcile monthly summaries of outstanding financial contracts from bank counterparties to internal records.
- Ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards.

### 3.8 **TREASURY OFFICER (TO)**

The Treasury Officer's responsibilities are as follows:

- Execution of external borrowing, investment, and interest rate management transactions in accordance with set limits. Investigate financing alternatives to minimise borrowing costs, margins and interest rates, making recommendations to the CFO as appropriate.
- Carry out the day to day cash and short term cash management activities.
- Co-ordinate the compilation of cash flow forecasts and day-to-day cash management responsibilities.
- Update treasury spreadsheets for all new, re-negotiated and maturing transactions.
- Monitor and update credit ratings of approved counterparties.
- Settlement of external borrowing, investment, cash management, and interest rate management transactions, after approval from CFO/CE and signed-off.
- Complete monthly reconciliations of On-Call, Investment and Loan Balance Accounts.
- 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.
- Foreign exchange transaction processing, ensuring the best rate available.

### 3.9 **FINANCE AND TREASURY COMMITTEE (FTC)**

This is an internal committee of Officers, comprising the CFO, FAM and TO, and is supported by external specialist treasury advisors as required. The committee considers HCC's cash flow forecast, current and forward looking debt position, interest rate hedging, upcoming debt issuance requirements, compliance with this Policy and formulates and agrees strategy in those regards.

### 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. This letter will also provide each counterparty Councils standard settlement instructions.

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

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

Activity	Delegated Authority	Limit
Approving and changing Policy	Council	Unlimited
Approve external borrowing for year as set out in the AP/LTP.	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 borrowings as set out in the AP/LTP.	CE (delegated by Council)	Subject to Policy
Approving new and reviewing re-financed bank facilities.	CE (delegated by Council)	Subject to Policy
Approving transactions outside Policy	PFS (delegated by Council)	Unlimited
Overall day-to-day treasury management	CE (delegated by Council) CFO (delegated by CE)	Subject to Policy
Re-financing existing debt	CE (delegated by Council) CFO (delegated by CE)	Subject to Policy
Approve new external borrowing in accordance with Council resolution or through the adoption of the AP/LTP.	CFO (delegated by CE)	Per Council approved AP/LTP
Negotiate bank facilities	CFO	N/A
Manage borrowing and interest rate strategy	CFO	N/A
Adjust interest rate risk profile	CFO	Per risk control limits

Managing funding and investment maturities	CFO	Per risk control limits
<b>Activity</b>	<b>Delegated Authority</b>	<b>Limit</b>
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on debt and interest rate swaps.	Council CE CFO TO	Unlimited \$50 million \$35 million \$10 million
Manage cash/liquidity requirements	CFO	Per risk control limits
Authorising list of signatories	CE	Unlimited
Opening/closing bank accounts	CFO	Unlimited
Triennial review of Policy	CFO	N/A
Ensuring compliance with Policy	CFO	N/A

All management delegated limits are authorised by the CE.

## 4. 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 and targeted funding for on-lending to CCOs/CCTOs.
- Fund assets whose useful lives extend over several generations of ratepayers.

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

### 4.2 BORROWING LIMITS

Debt will be managed within the following limits:

Item	Borrowing limit
Net interest on external debt / total revenue	<10%
Net interest to annual rates income	<20%
Liquidity (external debt + committed loan facilities + available liquid investments to existing external debt)	>110%
Net external debt	<250% Net debt can be increased to a maximum of 270% of total revenue at any time, provided that this is due to a significant natural disaster.

- Total Revenue is defined as cash 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 liquid financial assets and investments. Where Council borrows to on-lend to a CCO/CCTO then the loan asset amount will be netted off the debt amount in the calculation. It is assumed the CCO/CCTO will be able to meet its ongoing interest and principal repayment obligations as assessed by officers and approved by Council when granting the loan.
- Liquidity is defined as external term debt plus committed loan facilities plus liquid investments divided by external debt.
- Liquid investments are defined as: Overnight bank cash deposits, Wholesale/retail bank term deposits no greater than 30 days, Bank issued RCDs less than 181 days.

- 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 and special funds.

#### 4.3 **ASSET 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 Council's LTP and Financial Strategy.

#### 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, LGFA, accessing the short and long-term wholesale/retail debt capital markets directly or indirectly, or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- Available terms from banks, LGFA, debt capital markets and loan stock issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future credit margin and interest rate movements as well as its own.
- Legal documentation and financial covenants together with security and credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at 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.

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

#### 4.6 DEBT REPAYMENT

The nature of Council's debt is primarily, but not exclusively, related to the purchase or creation of long term assets. 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.

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

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

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

#### 4.7 GUARANTEES/CONTINGENT LIABILITIES AND OTHER FINANCIAL ARRANGEMENTS

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

Council is not permitted to provide any guarantee of indebtedness in favour of any loans to Council Controlled Trading Organisations that are set up under Section 62 of the Local Government Act. Council may act as a financial guarantor to Council Controlled Organisation.

CCO's are not permitted to provide any guarantee of indebtedness in favour of any loans to third parties.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed NZ\$2.0 million in aggregate.

Conditions to financial arrangements, such as loan advances, are specified in section 5.5.5.

#### 4.8 INTERNAL BORROWING

As Council manages all funding and liquidity as a centralised function, ensuring cash and borrowing resources are used in an optimal manner, there is an element of funding per activity which at times is effectively borrowed as excess reserve funds are sometimes used instead of external borrowing.

The capital charge mechanism is applied to activities in the same manner for both internal and external borrowings.

#### 4.9 NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY (LGFA) LIMITED INVESTMENT

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

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

#### 4.10 ON-LENDING TO COUNCIL CONTROLLED ORGANISATIONS

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

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

Any on-lending arrangement to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the CFO considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- Impact on Council's credit standing, debt cap amount (where applied), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.

- Lending arrangements to CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

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

## 5. INVESTMENT POLICY

### 5.1 INTRODUCTION

HCC 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, AP and CCO's Statements of Intent.
- To reduce ratepayer burden.
- 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 LTP, AP and CCO's SOI, to implement strategic initiatives, or to support inter-generational allocations.
- Holding assets (such as property) for commercial returns.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to accumulated surplus, HCC created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

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

Council can 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

In its financial investment activity, HCC'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. HCC will act effectively and appropriately to:



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

### 5.3 POLICY

HCC's general policy on investments is that:

- HCC 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 an HCC function).
- HCC will keep under review its approach to all major investments and the credit rating of approved financial institutions.
- HCC 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, new investments are acquired if an opportunity arises and approval is given by Council, based on advice and recommendations from HCC officers. Before approving any new investments, HCC officers give due consideration to the contribution the investment will make in fulfilling HCC's strategic objectives, and the financial risks of owning the investment.

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

### 5.5 INVESTMENT MIX

#### 5.5.1 Equity investments

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

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

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

Any purchase or disposition of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring.

Dividends received from CCO's/CCTO's, and unlisted companies not controlled by Council, are used firstly to repay debt in relation to that investment, then, unless otherwise directed by Council, used to reduce other Council debt.

Any dividends received, and/or profit or loss arising from the sale of these investments must be recorded in accordance with appropriate accounting standards. Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then utilised to reduce other debt. HCC recognises that there are risks associated with holding equity investments and to minimise these risks HCC, 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. HCC seeks professional advice regarding its equity investments when it considers this appropriate.

### **5.5.2. New Zealand Local Government Funding Agency Limited investment**

Despite anything earlier in this Policy, in conjunction with their borrowing activity, HCC may enter into the following transactions with the New Zealand Local Government Funding Agency Limited (LGFA):

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

and may borrow to fund that investment.

HCC'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 HCC.

Because of these dual objectives, HCC may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. In connection with the investment, Council subscribes for uncalled capital in the LGFA and is a Guarantor.

### **5.5.3 Property investments**

HCC owns property investments for strategic and commercial purposes. HCC reviews ownership through assessing the benefits including financial returns, in comparison to other arrangements that could deliver similar results.

Surpluses generated from commercial and semi commercial property investments are treated as an internal dividend to HCC. Other surpluses from property are treated as income in the related HCC activity.

Property disposals are managed to ensure compliance with statutory requirements and where appropriate consultation with Community Boards, Committees and Board of Directors/Trustees.

Property purchases are supported by registered valuations and where appropriate a full business case analysis. HCC will not purchase properties on a speculative basis.

#### **5.5.4 Financial investments**

##### **Objectives**

HCC's primary objectives when investing is the protection of its investment capital. Accordingly, HCC may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.3. Credit ratings are monitored and reported quarterly to Council.

HCC may invest in approved financial instruments as set out in section 6.1.3. These investments are aligned with HCC's objective of investing in high credit quality and highly liquid assets

HCC's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. HCC 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.
- HCC 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. The treasury activity pays interest on special funds and reserves.
- Internal borrowing will be used wherever possible to avoid external borrowing.
- Financial investments do not include shares.

##### **Special funds and reserve funds**

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

##### **Trust funds**

Where HCC 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.

#### **5.5.5 Loan Advances**

Council may provide advances to CCOs, CCTOs, charitable trusts and community organisations for strategic and commercial purposes. New loan advances are by Council resolution only. Council does not lend money, or provide any other financial accommodation, to a CCO or CCTO on terms and conditions that are more favourable than those that would apply if Council were borrowing the money or obtaining the financial accommodation.

Council does not lend to CCTOs on more favourable terms than what it can achieve itself, without charging any rate or rate revenue as security.

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.

## 5.6 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 Council's ordinary policy and the reasons justifying that departure.

## 5.7 INVESTMENT MANAGEMENT AND REPORTING PROCEDURES

HCC's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Flow Forecast, and long-term cash flow through the annual Cash flow Forecast. To best manage funding gaps, HCC's financial investment maturities are matched with HCC's forecast cash flow requirements.

The performance of HCC investments is regularly reviewed to ensure HCC's strategic objectives are being met. Both performance and policy compliance are reviewed through regular reporting.

# 6. RISK RECOGNITION / IDENTIFICATION MANAGEMENT

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

## 6.1 INTEREST RATE RISK

### 6.1.1 Risk recognition

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates), will materially exceed or fall short of projections included in the LTP, AP or CCO's SOI 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

Exposure to interest rate risk is managed and mitigated through the risk control limits below. HCC's forecast gross external debt should be within the following fixed/floating interest rate risk control limits.

Forecast gross external debt is the amount of total external debt for a given period. The CFO can consider alternative debt forecast scenarios that make assumptions around such matters as, the delivery and timing of the capital expenditure programme when designing and approving the interest rate strategy.

Any debt raised and on-lent to CCO/CCTOs is on a fixed rate basis and therefore is netted for interest rate management purposes. This debt is not included in the debt forecast for Council’s ongoing interest rate management purposes.

<b>Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)</b>					
<b>Debt Period Ending</b>	<b>Debt Amount</b>	<b>Minimum Fixed</b>	<b>Maximum Fixed</b>	<b>Actual Fixed</b>	<b>Compliant (Y/N)</b>
Current		40%	95%		
Year 1		40%	95%		
Year 2		35%	90%		
Year 3		30%	85%		
Year 4		25%	80%		
Year 5		20%	75%		
Year 6		0%	70%		
Year 7		0%	65%		
Year 8		0%	60%		
Year 9		0%	55%		
Year 10		0%	50%		
Year 11 plus		0%	25%		

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 beyond 90-days requires specific approval by the PFS.

- “Fixed Rate” is defined as all known interest rate obligations on forecast gross 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.

- Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average forecast gross external debt amounts for the given period (as defined in the table above).
- Managing to forecast gross external debt allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the CFO or equivalent), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the Policy minimum and maximum limits.
- Interest rate swap maturities beyond the maximum LGFA bond maturity must be approved by Council/PFS through a specific approval.
- Hedging outside the above risk parameters must be approved by the PFS.
- Interest rate options must not be sold outright. However, one for one collar option structures is 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 18 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 (i.e., an ineffective hedge).
- 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.

### 6.1.3 Approved financial instruments

Approved financial instruments (which do not include shares or equities) are as follows:

Category	Instrument
Cash management and borrowing (from LGFA and approved banking institutions)	Bank overdraft Committed cash advance and funding facilities (short term and long term loan facilities) Committed Standby facilities (where offered) Loan stock /bond issuance <ul style="list-style-type: none"> <li>▪ Floating Rate Note (FRN)</li> <li>▪ Fixed Rate Note (Medium Term Note/Bond)</li> </ul> Commercial paper (CP) / Promissory notes Deferred Settlement committed debt
Investments	Bank deposits Bank certificates of deposit (RCDs) LGFA borrower notes

Category	Instrument
Interest rate risk management	Forward rate agreements (“FRAs”) on: <ul style="list-style-type: none"> <li>▪ Bank bills</li> </ul> Interest rate swaps including: <ul style="list-style-type: none"> <li>▪ Forward start swaps/collars. Start date &lt;36 months, unless linked to existing maturing swaps/collars</li> <li>▪ Swap extensions and shortenings</li> </ul> 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>

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

All 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.

## 6.2 LIQUIDITY RISK/FUNDING RISK

### 6.2.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, 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 HCC’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.
- HCC’s own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to HCC experiences its own financial/exposure difficulties resulting in HCC 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

materially unnecessarily increased and desired maturity profile compromised due to market conditions.

### 6.2.2 Liquidity/funding risk control limits

- External term loans and committed debt facilities together with available liquid investments must be maintained at an amount of 110% over existing external debt.
- HCC has the ability to pre-fund up to 18 months forecast debt requirements including re-financings. Debt re-financings that have been prefunded will remain included within the funding maturity profile until their maturity date.
- The CFO has the discretionary authority to re-finance existing external debt on more acceptable terms. Such action is to be reported to the CE and the PFS at the earliest opportunity.

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 maturity schedule outside these limits will require specific Council approval.

- A funding maturity profile that is outside the above limits, but self corrects itself within 90-days is not in breach of policy. However, maintaining a maturity profile beyond 90 days requires specific approval by the PFS.
- Once debt has been refinanced with a contracted term deposit (pre-funded), the term deposit amount, will net off the maturing debt amount, from the funding maturity profile percentage calculation.
- External debt that is raised by Council to be on-lent debt to CCO/CCTO's is included in the funding maturity profile percentage calculation. The CCO/CCTO loan asset is not included in the funding maturity profile.
- 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.

## 6.3 COUNTERPARTY CREDIT RISK

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

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



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

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

The following matrix guide will determine limits:

Counterparty/Issuer	Minimum S&P long term / short term credit rating	Total maximum per counterparty (\$m)
NZ Government	N/A	Unlimited
Local Government Funding Agency (LGFA)	N/A	Unlimited
NZ Registered Bank (minimum rating)	AA- / A-1	50.0
NZ Registered Bank (minimum rating)	A / A-1	25.0

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

- Investments (e.g., Bank Deposits) – Transaction Principal × Weighting 100% (unless a legal right of set-off exists).
- Interest Rate Risk Management (e.g., swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.

Each transaction should be entered into a treasury spreadsheet and a monthly 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 Treasury Officer on an ongoing basis and in the event of material credit downgrades should be immediately reported to the CFO and assessed against exposure limits. Counterparties exceeding limits should be reported to the PFS.

### 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.

## 6.4 FOREIGN CURRENCY

HCC 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 HCC.

HCC shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency. HCC does not hold investments denominated in foreign currency.

## 6.5 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 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:

- The CFO reports directly to the CE.
- The FAM will report directly to the CFO to control the transactional activities of the TO.
- There is a documented approval and reporting process for borrowing, interest rate and liquidity management activity.

## 6.6 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, HCC may be exposed to such risks.

HCC 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.

### 6.6.1 Agreements

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

HCC's internal/appointed legal counsel must sign off on all documentation.

### 6.6.2 Financial covenants and other obligations

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

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

## 7. MEASURING TREASURY PERFORMANCE

In order to determine the success of HCC'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 the Treasury function (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.

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> </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> <li>▪ Actual wholesale interest costs must be benchmarked to market interest rates. The applicable market interest rate is determined by finding the mid-point policy benchmark rate.</li> <li>▪ HCC policy mid-point represents an average duration of 5-years. The market benchmark rate will be calculated every month and represent the 5-year swap rate monthly rolling average over a 5-year period.</li> </ul>

## 8. REPORTING

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

### 8.1 TREASURY REPORTING

The following reports are produced:

Report Name	Frequency	Prepared by	Reviewed by	Recipient
Daily Cash Flow Forecast	Daily	TO	FAM	CFO
Treasury Exceptions Report	Daily	TO	FAM	CFO
Treasury Report <ul style="list-style-type: none"> <li>▪ Policy limit compliance</li> </ul>	Monthly	TO	CFO / FAM	FTC

<ul style="list-style-type: none"> <li>▪ Borrowing limits</li> <li>▪ Funding and Interest Position</li> <li>▪ Funding facility</li> <li>▪ New treasury 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>▪ Debt maturity profile</li> <li>▪ Treasury investments</li> <li>▪ Revaluation of financial instruments</li> </ul>				
Treasury Report	Quarterly	CFO	PFS	Council
Credit ratings update				
CCO/CCTO loans and guarantees, financial arrangements	Monthly	TO	FAM	CFO
Trustee Report	As required by the Trustee	TO	CFO	Trustee company
Compliance Certificate	Annually	TO	CFO	LGFA

## 9. POLICY REVIEW

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes.

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

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

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