Kaupapahere Whakahaere Tūraru Rawa –
Treasury Risk Management Policy (2024)
(Incl. Liability Management and Investment Policies)

Purpose	To outline the approved policies and procedures in respect of all treasury activity to be undertaken by the Wellington Regional Council (the Council). The formalisation of such policies and procedures will enable the prudent management of treasury risks within Council.
Vision	All external borrowing, investments and incidental financial arrangements will fully comply with legislative requirements, while returning benefits to the organisation and its ratepayers.
Rationale	The Council recognises that, as a responsible public authority, any investments that it holds have risk and returns. The Council is currently a net borrower of funds and will generally apply surplus funds to debt repayment and, wherever possible, internally borrow from reserve funds to meet future capital expenditure. This policy mitigates risks associated with this form of fund management. Greater Wellington is accountable for the use of public money; therefore, the highest standards of probity and financial prudence are expected that will enable the Council to withstand public scrutiny.
Policy Owner	Owned by **Group Manager Finance and Risk**
Responsibilities	- Group Manager Finance and Risk - Head of Finance - Manager Treasury
Application	The policy will be distributed to all personnel involved in any aspect of the Council's financial management. In this respect, all staff should be completely familiar with their responsibilities under this policy at all times.
Related Policy and Legislation	Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4. Local Government Act 2002, in particular Part 6 including sections 101, 102, 104, 105, 112 and 116. Trust Act 2019 Part ll Investments. Greater Wellington Financial Policy Handbook
Effective Date	**11 April 2024** (Approved by Council, Report 24.128)
Review Date	**Before 30 June 2027** As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within the Council continue to be well managed. In addition, regular reviews (section 9) will be conducted to test the existing policy against the following criteria:

	• Industry "best practices" for a council the size and type of the Wellington Regional Council. • The Council's risk-bearing ability and tolerance levels. • Effectiveness and efficiency of the Treasury Risk Management Policy and treasury management function in recognising, measuring, controlling, managing and reporting on the Council's financial exposures. • Robustness of the policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions. • The extent to which the policy assists the Council in achieving strategic objectives relating to ratepayers.
Purpose and Principles	• All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy. • All projected borrowings will be approved by the Council as part its Annual Plan. • All legal documentation in respect to borrowing and financial instruments will be approved by the Council's solicitors. • The Council will not enter into any borrowings denominated in a foreign currency. • The Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those which the Council would achieve without pledging rates revenue. • A resolution of the Council will not be 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 the Council.
Policy Statement	To enable treasury risks within the Council to be prudently managed.
Guidelines	This document identifies the policy and procedures of the Council in respect of treasury management activities. The policy has not been prepared to cover other aspects of the Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of the Council cover these matters. Planning tools and mechanisms are also outside of the scope of this policy.

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Kaupapahere Whakahaere Tūraru Rawa –

Treasury Risk Management Policy *(Including Liability Management and Investment Policies*)

SECTION ONE

Policy Objectives

1. Statutory objectives

1.1. All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy. GWRC is governed by the following relevant legislation:

1.1.1. Local Government Act 2002, in particular Part 6, including sections 101, 102, 104, 105, 112 and 116.

1.1.2. Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.

1.1.3. Trust Act 2019. When acting as a trustee or investing money on behalf of others, the Trust Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trust Act 2019 Part ll Investments.

1.1.4. All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long-Term Plan (LTP) process, or resolution of Council before the borrowing is affected.

1.1.5. All legal documentation in respect to external borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.

1.1.6. Council will not enter into any borrowings denominated in a foreign currency.

1.1.7. Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.

1.1.8. 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.

2. General objectives

2.1. The objective of this Treasury Risk Management Policy is to control and manage costs and investment returns that can influence operational budgets and public equity and set debt levels. Specific objectives are as follows:

2.1.1. Proactively manage the Council's costs and risks in the management of its borrowings and its return on investments.

2.1.2. Proactively manage the Council's exposure to adverse interest rate movements.

2.1.3. Monitor, evaluate and report on treasury performance.

2.1.4. Borrow funds and transact risk management instruments within an environment of control and compliance under the Council-approved Treasury Risk Management Policy so as to protect the Council's financial assets and costs.

2.1.5. Arrange and structure appropriate 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.

2.1.6. Monitor and report on financing/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements.

2.1.7. Comply with financial ratios and limits stated within this policy.

2.1.8. Maintain a long-term S&P Global credit rating at AA- or better.

2.1.9. Monitor the Council's return on investments in CCTOs, property and other shareholdings.

2.1.10. Ensure management, relevant staff and, where appropriate, the Council are kept abreast of latest treasury products, methodologies, and accounting treatments through training and in-house presentations.

2.1.11. Maintain liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.

2.1.12. Proactively manage counterparty credit risk.

2.1.13. Adhere to all statutory requirements of a financial nature.

2.1.14. Provide adequate internal controls to protect the Council's financial assets and to prevent unauthorised transactions.

2.1.15. Develop and maintain relationships with financial institutions, LGFA, credit rating agencies, investors and investment counterparties.

2.1.16. Manage foreign exchange risk associated with capital expenditure and goods and services on imported items as outlined in section 5(14) of this policy.

2.1.17. Keep Council abreast of macro-economic trends.

Policy Exclusion

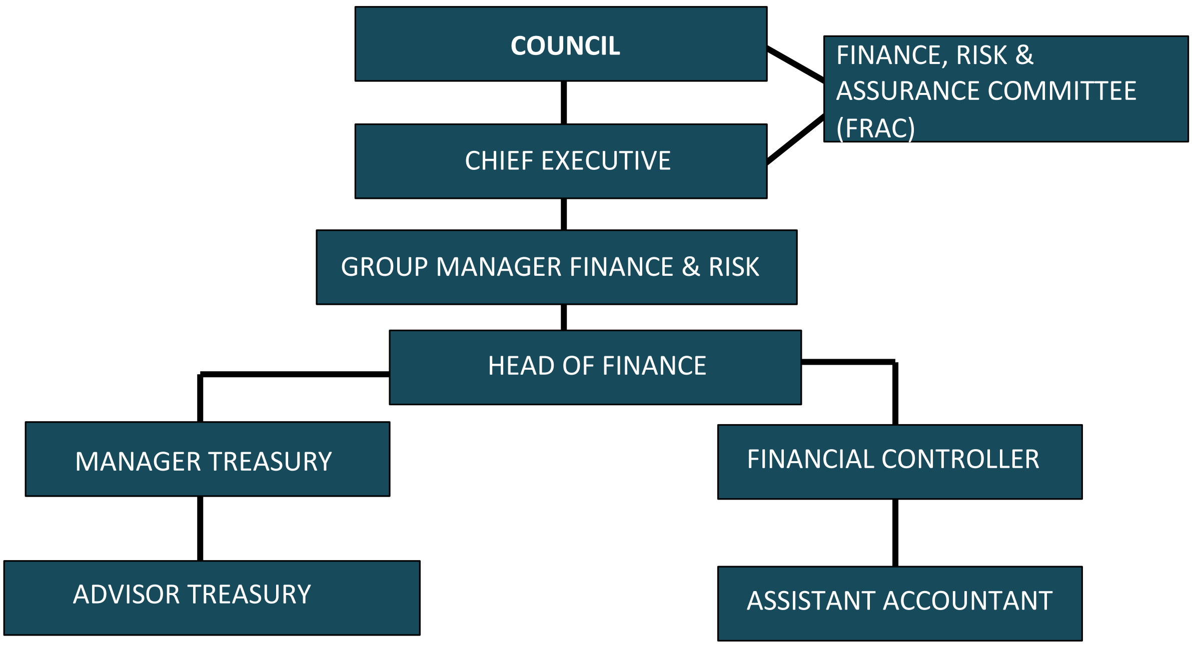
3. This policy includes WRC Holdings Limited (WRC) and its subsidiaries, but excludes CentrePort Ltd.

SECTION TWO

Management Responsibilities

1. Overview of management structure

1.1 All of the Council's treasury management activities are undertaken by the Treasury Management Department. The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in this section.



2. Council

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

2.2 The Council is responsible for approving this Treasury Risk Management Policy and any changes required from time to time. While the policy can be reviewed and changes recommended by other persons, the authority to make or change policy cannot be delegated.

2.3 In this respect, the Council has responsibility for:

a) Approving the long-term financial position of the Council through the 10-year Long-Term Plan (LTP) and the Annual Plan.

b) Approving new debt/funding via resolution of the Annual Plan.

c) Approving the Treasury Risk Management Policy, incorporating the following delegated authorities:

- borrowing, investing and dealing limits and the respective authority levels delegated to the Chief Executive, Group Manager Finance and Risk, Head of Finance, and Manager Treasury.

- counterparties and credit limits
- risk management methodologies and benchmarks
- guidelines for the use of financial instruments.

d) Approving budgets and high-level performance reporting.

e) Delegating authority to the Chief Executive, Group Manager Finance and Risk, Head of Finance, and Manager Treasury.

f) Reviewing and approving the Treasury Risk Management Policy every three years.

2.4 The Council will also ensure that:

a) It receives appropriate information from management on risk exposure and financial instrument usage in a form that is understood.

b) Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved immediately.

c) Approval will be gained by the Group Manager Finance and Risk for any transactions falling outside policy guidelines.

3. Finance, Risk and Assurance Committee

3.1 The Finance, Risk and Assurance Committee has the following responsibilities:

a) Recommending the Treasury Risk Management Policy (or changes to existing policy) to the Council.

b) Receiving recommendations from the Chief Executive and Group Manager Finance and Risk and making submissions to the Council on all treasury matters requiring Council approval.

c) Recommending performance measurement criteria for all treasury activity.

d) Monitoring six-monthly performance against benchmarks.

3.2 The Finance, Risk and Assurance Committee will:

a) Oversee the implementation of the Council's treasury management strategies and monitor and review the effective management of the treasury function.

b) Ensure that the information presented to the Council is timely, accurate and identifies the relevant issues and is represented in a clear and succinct report.

c) Discuss treasury matters on a six-monthly basis (and informally as required).

4. Chief Executive

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

a) Ensuring the Council's policies in respect of treasury activity comply with existing and new legislation.

b) Approving the register of cheque and electronic banking signatories.

c) Approving new counterparties and counterparty limits as defined within section 5(11) of this policy and recommended by the Group Manager Finance and Risk.

d) Approving the opening and closing of bank accounts.

e) Signing Debenture Stock and Security Stock certificates in relation to the Council's Debenture Trust Deed, in compliance with sections 112 and 118 of the Local Government Act 2002.

5. Group Manager Finance and Risk

5.1 The Council delegates the following responsibilities to the Group Manager Finance and Risk:

a) Management responsibility for borrowing and investment activities.

b) Recommending policy changes to the Finance, Risk and Assurance Committee for evaluation.

c) Ongoing risk assessment of borrowing and investment activity, including procedures and controls.

d) Approving new borrowing undertaken in line with Council resolution and approved borrowing strategy.

e) Approving re-financing of existing debt.

f) Approving treasury transactions in accordance with policy parameters outside of the Manager Treasury's delegated authority.

g) Authorising the use of approved financial market risk management instruments within discretionary authority.

h) Recommending authorised signatories and delegated authorities in respect of all treasury dealing and banking activities.

i) Recommending changes to credit counterparties.

j) Proposing new funding requirements falling outside the Annual Plan and Long-Term Plan (LTP) to the Finance, Risk and Assurance Committee for consideration and submission to the Council.

k) Reviewing and making recommendations on all aspects of the Treasury Risk Management Policy to the Finance, Risk and Assurance Committee, including dealing limits, approved instruments, counterparties, working capital policies and general guidelines for the use of financial instruments.

l) Conducting a triennial review of the Treasury Risk Management Policy, treasury procedures and all dealing and counterparty limits.

m) Receiving advice of breaches of Treasury Risk Management Policy and significant treasury events from the Financial Controller.

n) Managing the long-term financial position of the Council in accordance with the Council's requirements.

o) Ensuring that all borrowing and financing covenants to lenders are adhered to.

p) Ensuring management procedures and policies are implemented in accordance with this Treasury Risk Management Policy.

q) Ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards.

r) Monitoring and reviewing the performance of the treasury function in terms of achieving the objectives of proactively managing and stabilising funding costs and investment returns year-to-year.

s) Managing the organisations exposure and statutory requirements in relation to the holding, acquiring or disposing of Carbon Credits.

6. Manager Treasury

6.1 The Manager Treasury runs the day-to-day activities of the Council's Treasury Management Department. The Council delegates the following responsibilities to the Manager Treasury:

a) Overseeing and managing relationships with financial institutions including the Local Government Funding Agency (LGFA).

b) Approving treasury transactions in accordance with policy parameters within delegated authority.

c) Negotiating borrowing facilities.

d) Authorising interest rate hedge transactions (swaps, forward rate agreements (FRAs) and options) with bank counterparties to change the fixed: floating mix to re-profile the Council's interest rate risk on either debt or investments.

e) Making decisions and authorisations to raise and lower fixed rate percentage of net debt or investment position within interest rate policy risk control limits.

f) Designing, analysing, evaluating, testing and implementing risk management strategies to position the Council's net interest rate risk profile to be protected against adverse market movements within the approved policy limits.

g) Monitoring credit ratings of approved counterparties.

h) Co-ordinating annual reviews with S&P Global credit rating agency.

i) Investigating financing alternatives to proactively manage borrowing costs, margins and interest rates, making recommendations to Finance, Risk and Assurance Committee as appropriate.

j) Negotiating bank funding facilities and managing bank and other financial institution relationships.

k) Executing treasury transactions in accordance with set limits.

l) Entering into FX transactions to cover foreign currency liabilities.

m) Entering into FX hedging transactions in accordance with the section in this policy on Foreign Exchange risk.

n) Monitoring treasury exposure on a regular basis, including current and forecast cash position, investment portfolio, interest rate exposures and borrowings.

o) Providing written evidence of executed deals on an agreed form immediately to the Head of Finance.

p) Co-ordinating the compilation of cash flow forecasts and cash management.

q) Managing the operation of all bank accounts including arranging group offsets, automatic sweeps, and other account features.

r) Handling all administrative aspects of bank counterparty agreements and documentation such as loan agreements and International Swap Dealer's Association (ISDA) swap documents.

s) Preparing treasury reports.

t) Monitoring all treasury exposures monthly.

u) Forecasting future cash requirements.

v) Providing regular short-term and long-term cash flow and debt projections to the Group Manager Finance and Risk.

w) Completing deal tickets for treasury transactions.

x) Updating treasury system/spreadsheets for all new, re-negotiated and maturing transactions.

y) Updating credit standing of approved counterparty credit list on a quarterly basis.

7. Head of Finance

7.1 The Council delegates the following responsibilities to the Head of Finance:

a) Checking all treasury deal confirmations against deal documentation and reporting any irregularities immediately to the Group Manager Finance and Risk.

b) Ensuring delegated authorities are always up to date and advise counter parties of changes, and ensure they are checked at least every six months and refreshed with the banks annually.

c) Reconciling monthly summaries of outstanding financial contracts from banking counterparties to internal records.

d) Reviewing and approving borrowing and investment system/spreadsheet reconciliations to the general ledger.

e) Accounting for all treasury transactions in accordance with legislation and generally accepted accounting principles and the Council's accounting policy.

f) Checking compliance against limits and preparing reports on an exceptions basis.

g) Approving all amendments to the Council's records arising from checks to counterparty confirmations.

h) Creating batches for borrowing and investment settlements and arranging for approval by authorised signatories.

8. Delegation of Authority and Authority Limits

8.1 Treasury transactions entered into by the Council without the proper authority are difficult to cancel given the legal doctrine of 'apparent authority'. Insufficient authority for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays). Therefore, the following procedures will apply:

I. All delegated authorities and signatories will be reviewed at least every six months to ensure that they are still appropriate and current.

II. A comprehensive letter will be sent to all bank counterparties, at least every year, detailing all relevant current delegated authorities of the Council and contracted personnel empowered to bind the Council.

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

IV. Treasury management responsibilities are retained by Council or delegated, as set out in the following table:

Activity	Delegated Authority	Limit
Approving and changing policy	Council	Unlimited
Borrowing new debt (excludes prefunding of existing debt, which is re-financing)	Council Chief Executive (delegated by Council, to implement the Annual Plan) Group Manager Finance and Risk (delegated by Council, to implement the Annual Plan)	Unlimited (subject to legislative and other regulatory limitations) Subject to Council Resolution and policy, as contained in and approved when the Annual Plan is adopted.
Signing Stock/Debenture Issuance Certificate or any amendments to the DTD as provided for in the Debenture Trust Deed (DTD).	Chief Executive	As per the Annual Council Plan to meet lenders requirements
Acquiring and disposing of investments other than financial investments	Council	Unlimited
Approving charging assets as security over borrowing	Council	Subject to terms of the Debenture Trust Deed
Approving new lending activity with CCO/CCTOs	The Council, or as specifically delegated to the Group Manager Finance and Risk	Unlimited
Approving of Council guarantees or uncalled capital relating to CentrePort or CCO/CCTO indebtedness.	Council	Unlimited (subject to legislative and other regulatory limitations)
Approve LGFA membership for CCO/CCTOs	Council	Unlimited
Re-financing existing debt	Chief Executive (delegated by Council) Group Manager Finance and Risk (delegated by Council) Manager Treasury (delegated by Council)	Subject to policy

Activity	Delegated Authority	Limit
Approving transactions outside policy	Council	Unlimited
Acquiring and disposing of Carbon Credits	Group Manager Finance and Risk	$5m per transaction
Adjusting net debt or net investment interest rate risk profile	Manager Treasury	Per risk control limits
Managing investments and funding maturities in accordance with Council approved facilities	Manager Treasury	Per risk control limits
Setting maximum daily transaction amount (borrowing, investing, foreign exchange, interest rate risk management and cash management) excluding roll-overs on debt facilities	Council Chief Executive (delegated by Council) Group Manager Finance and Risk (delegated by Council) Manager Treasury (delegated by Council)	Unlimited $150 million $100 million $75 million
Authorising lists of bank signatories	Chief Executive	Unlimited
Opening/closing bank accounts	Chief Executive / Group Manager Finance and Risk	Unlimited
Reviewing the Treasury Management Policy every three years	Finance, Risk and Assurance Committee	N/A
Ensuring compliance with Policy	Group Manager Finance and Risk	N/A
Negotiation and ongoing management of lending arrangements to CCO /CCTOs	Group Manager Finance and Risk / Manager Treasury	Per approval / per risk control limits
Signing of LGFA new Debt confirmations	Group Manager Finance and Risk / Head of Finance	N/A
Signing of derivative confirmations	Group Manager Finance and Risk / Head of Finance	N/A

SECTION THREE

Liability Management Policy

1. **Liability management**

    1.1 The Council's liabilities comprise borrowings and various other liabilities. The Council's Liability Management Policy focuses on borrowings as this is the most significant component and exposes the Council to the most significant risks. Other liabilities are generally non-interest bearing. Cash flows associated with other liabilities are incorporated in cash flow forecasts for liquidity management purposes and determining future borrowing requirements.

    1.2 The Council's ability to readily attract cost-effective borrowing is largely driven by its ability to rate, maintain a strong credit rating, and manage its relationships with its investors and financial institutions.

2. **New Zealand Local Government Funding Agency (LGFA)**

    2.1 Despite anything earlier in this Policy, the Council may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

    a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;

    b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;

    c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;

    d) subscribe for shares and uncalled capital in the LGFA; and

    e) 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.

3. **Debt Ratios and Limits - new page**

    3.1 Debt will be managed within limits in the following table, that are consistent with those used by the LGFA.

Ratios (as 1 July 2024) *	
Net interest / Total revenue *	< 20%
Net debt / Total Revenue *	1 July 2024 < 285%
	From 1 July 2025 < 280%
Net interest / Annual rates and levies (debt secured under debenture) *	< 30%
Liquidity (external debt + available committed loan facilities + liquid investments to total external debt) *	> 110%

* *Or as amended by the LGFA from time to time.*

3.2 Revenue is defined as earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue.

3.3 Revenue excludes non-government capital contributions (e.g., vested assets)

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

3.5 Liquid financial investments are financial assets defined as being:

a) Overnight bank cash deposits

b) Wholesale/retail bank term deposits no greater than 92 days

c) Bank issued RCD's less than 181 days

d) Allowable fixed income bonds as per approved investment instruments (applying 85% of face value)

3.6 External debt funding and associated investment activity relating to LGFA prefunding (e.g., maturing LGFA bonds) is excluded from the liquidity ratio calculation. For internal covenant purposes Disaster recovery/Contingency funds shall not be used as liquid investments in the Liquidity calculation as they are not intended to be used for everyday liquidity purposes.

3.7 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.

3.8 Financial covenants are measured on Council only (parent) not consolidated group. Council can choose to use either methodology (group or parent) as allowed by the LGFA at the discretion of the Manager Treasury to provide the best outcome for Council. If group methodology is used, it will be reported through to the Finance, Risk and Assurance Committee.

3.9 Disaster recovery requirements will be met through Liquid Financial Deposits, Money Market Investments, undrawn credit lines and contingency reserves.

4. Security and Charges

4.1 The Council borrows funds and grants security to its lenders via a Debenture Trust Deed (DTD). The DTD gives the lenders a charge or security over the Council's rates and rates revenue. A DTD was entered into during 2011 as part of the Council's initiative and requirements to borrow funds from the LGFA.

4.2 Trustee Executors has been appointed to act as Trustee under the DTD for the benefit of the lenders, or stockholders.

4.3 From time to time, with prior Council approval, security may be offered by providing a security interest in one or more of the Council's assets other than its rates and rates revenue. Security interest in physical assets will only be granted when:

a) there is a direct relationship between a debt and the purchase or construction of the secured assets which it funds (e.g. through a finance lease, or some form of project finance).

b) the Council considers a security interest or security in the physical assets to be appropriate.

4.4 In addition, the Council may grant security interests in physical assets where those security interests are leases or retention of the arrangements which arise under the terms of any lease or sale and purchase agreement.

5. Borrowing Mechanisms

5.1 The Council will borrow through a variety of market mechanisms including but not limited to:

- Commercial paper (CP)
- Fixed rate bonds and floating rate notes (FRNs)
- Direct bank borrowing or loans from wholesale private placement investors
- Short and long-term capital markets directly
- Internal reserves and special funds.

5.2 In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following will be taken into account with a view to maintaining an appropriate balance across the portfolio:

a) Available terms from banks and capital markets.

b) The Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.

c) Prevailing interest rates and margins relative to term for debt issuance, capital markets and bank borrowing.

d) The market's outlook on future credit margin and interest rate movements.

e) The Council's outlook on future credit margin and interest rate movements.

f) Legal documentation and financial covenants, together with credit rating considerations.

g) Whether retail or wholesale debt issue.

SECTION FOUR

Investment Policy and Limits

1. General Policy

1.1 The Council is currently a net borrower of funds and will generally apply surplus funds to debt repayment and, wherever possible, internally borrow from reserve funds to meet future capital expenditure. The Council may invest liquid funds externally for the following reasons:

a) Strategic purposes consistent with the Council's LTP.

b) Holding short term liquid investments for general working capital requirements or any other cash management objective.

c) Holding investments that are necessary to carry out the Council operations consistent with annual plans.

d) Holding investments for self-insured infrastructural assets and contingency reserves.

e) To meet liquidity requirements of S&P Global in terms of their credit assessment criteria.

1.2 The Council recognises that, as a responsible public authority, any investments that it holds should be low risk. It also recognises that lower risk generally means lower returns. The investments tabled in section five are considered low risk.

1.3 Any investments considered by officers considered to be greater than a 'low' risk must be discussed and approved by Council, specifically acknowledging the level of risk.

1.4 In its financial investment activity, the Council's primary objective when investing is the protection of its investment. Accordingly, only credit-worthy counterparties are acceptable.

2. Investment Mix

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

- Equity investments, including CCOs/CCTOs and other shareholdings
- Property investments incorporating land, buildings
- Financial investments incorporating longer term and liquidity investments.

3. Equity Investments

3.1 The Council's current equity investments are held in WRC Holdings Limited (100%):

- WRC Holdings Limited owns the following companies:
  - 76.9% (10/13) of CentrePort Ltd (CentrePort)
  - Greater Wellington Rail Ltd (GWRL)

3.2 CentrePort was established under the Port Companies Act 1998 and GWRL is a CCO.

4. Council Controlled Organisations (CCOs) and Council Controlled Trading Organisations (CCTOs)

4.1 The Council is responsible for the appointment of the board of directors for the Council's CCOs and CCTOs. Any asset additions or disposals of note are approved by directors, unless they are significant, as defined by the companies' constitutions, at which point shareholder approval is required.

4.2 The objectives of the Council's CCOs and CCTOs are to:

a) Seek commercial, strategic and other community objectives.

b) Separate the Council's investments and commercial assets from its public good assets.

c) Impose a commercial discipline.

d) Appropriate separation of management and governance.

4.3 The Council manages risk associated with CCOs and CCTOs by:

a) Appointing suitably qualified external directors

b) Receiving regular reports from directors

c) Using external advisors when required

d) Providing input into the statements of corporate intent and constitutions of the CCOs and CCTOs.

5. New Zealand Local Government Funding Agency Limited Investment

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

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

a) obtain a return on the investment; and

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

5.3 Because of this dual objective, 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.

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

6. Other Investments

6.1 The Council's other investments are:

- CentrePort
- Forestry Investments
- Wellington Regional Stadium Trust advances
- Liquid financial investments
- Contingency funds
- Carbon credits

7. CentrePort

7.1 The Council, through WRC Holdings Ltd owns 76.9% (10/13) of CentrePort. CentrePort operates under the Port Companies Act 1988. It is not a CCTO under the Local Government Act 2002.

7.2 WRC Holdings Limited, along with the other shareholder in CentrePort, is responsible for appointing the CentrePort Board of Directors who, in turn, are responsible for the operation of the company. Any major transactions, as defined in the company's constitution or the Companies Act 1993, require the approval of the shareholders. WRC Holdings Limited, as a shareholder, has input into CentrePort's statement of corporate intent and constitution and receives regular reports and briefings.

7.3 The Council manages risk associated with CentrePort by:

a) Appointing suitably qualified external directors.

b) Appointing of the Council's Group Manager Finance and Risk as reporting officer for the Council in respect of CentrePort.

c) The Council receiving formal briefings and reports twice a year.

d) The Group Manager Finance and Risk receiving quarterly briefings and monthly reports.

e) Providing input into CentrePort's Statement of Corporate Intent.

8. Forestry Investments

8.1 The Council has investments in forestry which are managed on a commercial basis, but also minimise soil erosion and water sedimentation (for land which is held for water catchment purposes).

Note: The Council sold its cutting rights to its forestry investments for a period of up to 60 years, concluding in 2073/74.

9. Wellington Regional Stadium Trust Advances

9.1 The Council has lent $25 million to the Wellington Regional Stadium Trust and is proposing to lender further sums. The $25 million advance is interest free with limited rights of recourse. The Council will continue to hold the advance until repayment. It receives regular reports from the Stadium Trust on the Trust's performance. The Council and Wellington City Council, as the settlors of the Trust, appoint the trustees to the Stadium Trust.

9.2 The Council has provided a $4.2 million shared credit facility with Wellington City Council. The facility is fully drawn, interest bearing at 3% and due for repayment on 07 December 2030.

10. Liquid Financial Investments

10.1 The Council's primary objective when investing is the protection of its investment capital and the maximisation of its returns. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties and investment restrictions are covered in section 5 (11) of this policy. Credit ratings are monitored on a regular basis by the Manager Treasury.

10.2 For the foreseeable future, the Council will be in a net borrowing position and liquid investment funds will be prudently invested as follows:

a) Any liquid investments will be restricted to a term that meets future cash flow and capital expenditure projections.

b) Interest income from financial investments will be credited to general funds.

c) Internal borrowing will be used wherever possible to avoid external borrowing.

10.3 The Council may invest in acceptable liquid debt instruments and make interest rate duration positions using investor swaps. This will further meet the Council's objectives of investing in high credit quality and highly liquid assets, yet allow for optimal interest rate decisions.

10.4 The Council's external investment interest rate profile will be managed within the parameters outlined in section 5 (6) of this policy.

11. Contingency Funds

11.1 The Council currently has monies set aside in liquid funds that may be used when an event occurs such that the funds are required by the business.

11.2 From time to time the Council may set aside funds for such contingency purposes, which will be held in a readily available form.

12. Special Funds and Reserve Funds

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

12.2 If interest is accrued from these funds, they will be credited to the particular fund.

13. Carbon Credits and Low Carbon Acceleration Fund

13.1 Approved projects will be funded by internal loans. Both principal and interest charges will be repaid by selling Carbon Credits (LCAF NZUs).

13.2 Internal loans must be repaid within 10 years from the date the internal loan becomes a permanent internal loan.

13.3 All interest costs and repayments of a permanent internal loan must to be extinguished via the sale of Carbon Credits (LCAF NZUs) in the year the internal loan incurs interest.

> Council received an allocation of 255,660 NZUs (Carbon Credits, units used in the NZ Emissions Trading Scheme) for its pre-1990 holdings of exotic forestry from the government. Council will leverage these credits by borrowing internal funds to finance projects that will reduce greenhouse gas ('carbon') emissions, this mechanism is known as the Low Carbon Acceleration Fund (LCAF).

13.4 The total value of the unsold Carbon Credits (LCAF NZUs) is required to be at least 90% of the total remaining internal loans and their projected interest it is designed to repay.

Note: The Council has received additional NZUs for carbon sequestration by its post-1989 for its native forests and will continue to do so for their further growth and future new plantings. These NZUs units are not part of the LCAF.

14. Investments in fossil fuels

14.1 The Council has a policy to divest from any direct investment in fossil fuel extraction industries and investigate existing non direct investment with a view to preventing future investment where practical.

15. General Rates Operating Surplus[1]

15.1 The actual general rates operating surplus is to be allocated to the general rates reserve account for the purpose of reducing future rates. This could be achieved by:

a) Repaying debt, or reducing need to raise debt

b) Funding expenditure that would be funded from general rates revenue

15.2 A surplus general rate revenue is calculated by: General Rates + Other Income (unless for a capital project) – Expenditure (that is not loan funded) – Finance costs – Overheads -/+ Investment or Reserve movements.

16. Surplus from targeted rates

16.1 Targeted rates may incur a surplus for the same reasons a general rate would, however the use of this surplus is restricted to being utilised for the activity in which that targeted rate was collecting for.

16.2 This surplus revenue may be used for:

a) Reducing the impact to those targeted ratepayers for the same activity in the following financial year

b) Increasing the reserves required for the activity to be spent in later years of the Long-Term Plan

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[1] *Council may generate operating surpluses due to factors such as sale of Council assets or increased rateable units throughout a financial year etc. The surplus varies from year to year and is not easily forecasted, however, council uses the revenue to consistently to reduce future impacts to ratepayers.*

SECTION FIVE

Risk Recognition / Identification Management

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

1. Interest Rate Risk Recognition

1.1 Interest rate risk is the risk that investment returns or funding costs will be materially different from those in annual plans and the LTP.

1.2 The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements through fixing of investment returns or funding costs. This will be achieved through the active management of underlying interest rate exposures.

2. Approved Financial Instruments

2.1 Dealing in interest rate products will be limited to financial instruments approved by the Council. Approved interest rate instruments are:

Category	Instrument
Cash Management and Borrowing	▪ Bank overdraft ▪ Committed cash advance and debt funding facilities (short-term and long-term loan facilities) ▪ Committed standby facilities where offered by the LGFA ▪ Uncommitted money market facilities ▪ Wholesale Bond and Floating Rate Note (FRN) issues ▪ Commercial paper (CP) ▪ New Zealand Dollar (NZD) denominated local or offshore private placements. ▪ Retail bond and FRN issues ▪ Forward starting committed term debt with the LGFA
Investments	▪ Short-term bank deposits ▪ Bank bills ▪ Bank registered certificates of deposit (RCD’s) ▪ Local authority stock or State-owned Enterprise (SOE) bonds and FRNs ▪ Corporate / bank senior bonds ▪ Floating Rate Notes ▪ Promissory notes / Commercial paper ▪ Redeemable Preference Shares (RPS) ▪ LGFA borrower notes ▪ Carbon credits
Interest Rate Risk Management	▪ Forward rate agreements (FRAs) on: o Bank bills ▪ Interest rate swaps including: o Forward start swaps o Amortising swaps (whereby notional principal amount reduces)

	○ Swap extensions, deferrals and shortenings ▪ Interest rate options on: ○ Bank bills (purchased caps and one-for-one collars) ○ Interest rate swaptions (purchased and one-for-one collars only)
Foreign Exchange Risk Management	▪ Foreign currency deposits ▪ Purchased currency options ▪ Collars (one-for-one) ▪ Forward foreign exchange contracts

2.2 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 will be restricted by specified counterparty credit limits.

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

I. Structured debt where issuing entities are not a primary borrower / issuer

II. Subordinated debt (other than Borrower Notes subscribed from the LGFA), junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

3. Interest rate exposure

3.1 Exposure to interest rate risk is managed and mitigated through the controls defined in the table below: Council's forecast gross 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	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	55%
Year 9	0%	50%
Year 10	0%	50%**
Year 11	0%	50%**
Year 12	0%	50%**
Year 13	0%	50%**
Year 14	0%	50%**
Year 15	0%	50%**
Year 16*	0%	50%**

**Council management has delegated authority to tactically position the interest rate risk portfolio within approved ranges out to a maximum period of 16 years, based on anticipated future interest rate movements. The exception to this will be if LGFA introduce funding terms exceeding 16 years; in this event, management can position the interest rate portfolio to maturities that match LGFA funding terms. Council may enter into interest rate swaps beyond 16 years where LGFA debt* *exceeds this term, but only where the swap is used to convert Fixed or Floating rate LGFA debt, i.e. there is a corresponding LGFA debt position.*

*** The maximum hedging percentage each year for fixed rate or hedged debt beyond 10 years is 50 % of forecast debt but shall not exceed 100 % of existing debt.*

3.2 A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile outside of the above limits beyond 90-days requires specific approval by Council.

3.3 Forecast gross external debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the Group Manager Finance and Risk or Head of Finance), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the Policy minimum and maximum limits. Forecast gross external debt excludes any pre-funded debt amounts.

3.4 The Group Manager Finance and Risk 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.

- **"Net debt"** is all external debt ((existing and forecast) including WRC Holdings Limited) at the given debt ending period net of any liquid financial assets and investments and excluding CentrePort Limited debt.
- **"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.

3.5 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).

4. Use of Approved Interest Rate Management Instruments

4.1 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, one side of the collar cannot be closed out by itself, both must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".

4.2 Purchased borrower swaptions must mature within 12 months.

4.3 Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

4.4 The forward start period on swap/collar strategies is to be no more than 36 months unless the forward starting swap/collar starts on the expiry date of an existing fixed interest rate instrument (i.e. either derivative or fixed rate borrowings) and has a notional amount which is no more than that of the existing fixed interest rate instrument.

5. WRC Holdings Limited

5.1 WRC Holdings has wholesale interest rate risk arising from its borrowing activity from GWRC. This borrowing typically has a term of up to three years and is either on a floating rate or fixed rate basis. WRC Holdings can determine its own mix of fixed and floating rate debt, managing its interest rate risk through either fixed rate debt or using interest rate swaps. Any fixing or hedging of interest rate risk can be no more than 100% of the current, outstanding borrowed amount and for a term of no greater than three years. Any interest rate strategy is approved by the Group Manager Finance and Risk of the Council.

6. Liquid Financial Investment Portfolio

6.1 The following interest rate re-pricing percentages are calculated on the projected 12-month rolling Financial Investment Portfolio total. This allows for pre-hedging in advance of projected physical receipt of new funds. When cash flow projections are changed, the interest rate re-pricing risk profile may be adjusted to comply with the policy limits.

Interest Rate Re-Pricing Period	Minimum Limit	Maximum Limit
0 to 1 year	70%	100%
1 to 5 years	0%	30%

6.2 To ensure maximum liquidity, any interest rate position up to five years will be made with acceptable financial instruments such as investor swaps.

6.3 The re-pricing risk mix may be changed, within the above limits through selling/purchasing fixed income investments and/or using approved financial instruments, such as swaps.

7. Special Funds/Reserve Funds

7.1 Where such funds are deemed necessary, they will 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.

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

8. Liquidity Risk / Funding Risk

8.1 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, in order to achieve pricing (fees and borrowing margins) and maturity terms that are the same or better than existing facilities.

8.2 Managing the Council’s funding risks is important as changing circumstances can cause an adverse movement in borrowing margins, term availability and general flexibility such as:

8.3 Local Government risk is priced to a higher fee and margin level.

8.4 The Council’s own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.

8.5 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.

8.6 New Zealand's investment community experiences a substantial 'over supply' of the Council's investment assets.

8.7 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. Then, if any of the above circumstances occur, the overall borrowing cost is not unnecessarily increased and the desired maturity profile is not compromised.

9. Liquidity/Funding Risk Control Limits

9.1 These control limits will be determined by the following:

a) Alternative funding mechanisms, such as leasing, will be evaluated. The evaluation will take into consideration, ownership, redemption value and effective cost of funds.

b) External debt and available committed loan facilities together with liquid investments, will be maintained at an amount that is greater than 110% of total external debt.

c) The maturity profile of total external debt in respect to all loans, bonds and committed facilities, will be controlled by the following:

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	10%*	60%

d) A funding maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council.

e) 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.

**When total external debt falls below $400 million this minimum will reduce to 0%.*

9.2 The Group Manager Finance and Risk will have the discretionary authority to re-finance existing debt.

9.3 The Council may pre-fund its forecasted debt requirements up to 18 months in advance including the re-financing of existing debt maturities. 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.

10. Commercial Paper

10.1 Commercial Paper[2] (CP) should not be issued to fund core term debt requirements unless there are bank standby, committed bank or committed undrawn lending facilities that are available to cover any outstanding CP. As a result, any undrawn credit lines to cover maturing CP do not count as excess liquidity.

10.2 Nevertheless, the coverage of CP by back–up facilities is a Credit Rating Agency requirement, and the Council will adhere to the requirements of the rating agencies in the first instance.

10.3 The exception to the above is where CP is used for working capital or bridging financing purposes and where certain, know or contracted cashflows are used to repay the CP on maturity.

11. Counterparty Credit Risk

11.1 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.

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

11.3 Counterparties and limits may only be approved on the basis of long-term credit ratings (S&P Global or Moody’s) being A- and above or short-term rating of A2 or above, with the exception of New Zealand Local Authorities.

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

11.5 To avoid undue concentration of exposures, financial instruments will be used with as wide a range of counterparties as possible. Where possible, transaction notional sizes and maturities will also be well spread. The approval process to allow the use of individual financial instruments will take into account the liquidity of the market in which the instrument is traded and repriced.

[2] Commercial Paper is a promissory note, akin to a post-dated cheque. It is colloquially known as one name paper issued by a non-bank borrower, as distinct from bank paper, or a bankers acceptance which has two or more names (parties) who are liable to honour the debt on maturity if the acceptor (bank) fails to.

11.6The following matrix guide will determine limits:

Issuer / counterparty	Instruments	Minimum credit rating (short-term / long-term)	Maximum exposure per counterparty(NZD) % of rates revenue	Maximum exposure per counterparty grouping as a % of rates revenue
New Zealand Government	Treasury bills, NZ government bonds, debt issued by entities explicitly guaranteed by the NZ Government	n/a	unlimited	100%
RBNZ registered banks	Bank deposits, bank bills, bank bonds, interest rate risk management contracts, foreign exchange contracts	A1+ / AA-	60%	100%
		A1+ / A+	40%	
		A1 / A	25%	
		A1 / A-	15%	
Offshore banks	Bank deposits, bank bills, bank bonds, interest rate risk management contracts, foreign exchange contracts	A1 / A	15%	75%
Local Government Funding Agency	Borrower notes	n/a	60%	60%
Local authorities – rated	Local authority bonds, CP	A1+ / AA-	20%	20%
Local authorities - non rated	Local authority bonds, CP	n/a	10%	10%
Other issuers including state owned enterprises, listed and unlisted companies	Commercial paper, corporate bonds	A1+ / AA-	5%	10%
		A1 / A-	5%	5%

* *Current counterparty credit ratings will be reviewed and monitored monthly. The definition of annual rates revenue includes water levy.*

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

- Financial investments (e.g. deposits, bonds) -100% of the principal value.
- Interest Rate Risk Management* (e.g. swaps, FRAs) – Any positive month-end mark to market value (as provided by the treasury management system) plus: 3% of the notional principal for all interest rate hedging instruments.
- Foreign Exchange instruments* (e.g. Forward Exchange Contracts) – Any positive month-end mark to market value (as provided by the treasury management system) plus 30 % of the notional value of the instrument.

**GWRC will not net off marked to market values against counterparties. Only positive marked to market values (from GWRC's perspective) will contribute to the counterparty calculation. Negative marked to market values will always have a value of zero for counterparty calculation purposes.*

11.8 Each transaction will be entered into a reporting spreadsheet and a monthly report will be prepared to show assessed counterparty actual exposure versus limits.

11.9 The above limits may be amended by Council, especially in the case where the NZ Government credit rating is changed.

11.10 Individual counterparty limits will be kept on a register by management and updated on a day-to-day basis. Specific approvals will be made by the Group Manager Finance and Risk. Credit ratings will be reviewed by the Manager Treasury on an ongoing basis and in the event of material credit downgrades, this will be immediately reported to the Group Manager Finance and Risk and the Council and assessed against exposure limits. Counterparties exceeding limits will be reported to the Council.

12. Borrowing Mechanisms for Council Controlled Organisations and Council Controlled Trading Organisations

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

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

12.3 Any lending arrangement (direct or indirect) to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval, the Group Manager Finance and Risk considers the following:

a) Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.

b) Impact on Council's credit standing and rating, debt cap amount (where applied), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.

c) The form and quality of security arrangements provided.

d) The lending rate given factors such as: CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.

e) Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.

f) Accounting and taxation impact of on-lending arrangement.

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

13. To CentrePort Debt and Guaranteeing Debt

13.1 The Council, through its wholly owned CCO WRC Holdings Limited, is a 76.9% (10/13) owner of the Port Company CentrePort Limited. From time to time the Council will guarantee these obligations, given that the level of CentrePort's debt varies over time and the lenders to CentrePort may also change.

13.2 The Council, by providing a guarantee, formally recognises this relationship and as a result means CentrePort can borrow funds at a similar cost to the Council. This is cheaper than borrowing on its own, ultimately resulting in a financial benefit to the rate payers.

13.3 The Council may lend funds directly to CentrePort when it believes that there is further benefit to be given to the ratepayer.

13.4 CentrePort may wish from time to time if it has surplus funds to invest those with Council in the form of short-term debt securities at prevailing rates.

14. Foreign Exchange Risk Recognition

14.1 The Council's policy is to identify and record these risks by their respective types and then to manage each risk under predetermined and separately defined policies and risk control limits.

14.2 It is prudent practice to pre-hedge potential adverse foreign exchange rate movements on capital imports from the time the capital expenditure budget is approved by Council. There is a risk that the net NZ dollar cost could increase substantially between the time the expenditure is approved by Council and the actual placement of the purchase order. It is expected that the payment currency and payments schedule are known at the time the purchase order is issued and the contract is signed with the supplier.

14.3 The Council has foreign exchange risks on imported items or services (capital and operating expenditure). There is a contingent risk when there is a time lapse between expenditure approval and placement of orders or finalisation of contracts and a further risk when the contract is signed, or order is placed.

14.4 **Full risk:** is at the time the expenditure is approved and legal commitments are made.

15. Foreign Exchange Risk Control Limits

15.1 All individual items/services greater than NZ$100,000 must be hedged at all times in accordance with the following risk control limits:

Time – point	Exposure hedged by forward exchange contracts or options	Exposure hedged by purchased foreign exchange options
1. Budget approved by Council – (Medium Probability)		Maximum 50%
2. Specific item approved – (High probability)		Maximum 100%
3. Contract / Order confirmed – (Undoubted Risk)	Minimum 100%	

16. Use of Foreign Exchange Instruments and Forecasting

16.1 Financial instruments, other than those stipulated in section 5 (2), will require Council approval. Foreign exchange options will not be sold outright. The purchase price paid for an option (premium) will be amortised (spread) over the period of cover and added to the actual average exchange rate achieved.

16.2 All significant tenders will allow bidders the opportunity to select desired currencies and where possible, allow for suppliers to transparently link price escalations to clear financial market references.

16.3 Project managers will update any assumptions prior to budgets being finalised and, where necessary, discuss with the Manager Treasury and Head of Finance. The following approach will be used when calculating foreign exchange rates for budgeting purposes:

- In determining a suitable foreign exchange rate to use in the calculation of budgets for procurement purposes, a purchased NZD Put option at the market forward rate to the middle of the budgeted financial year is used. The all-up premium cost in dollar terms of the option expressed in foreign exchange points is subtracted from the market forward rate to provide the appropriate budget rate to be used.

17. Managing Operational Risk

17.1 This Policy is designed to reduce the operational risk, which is the risk of loss as a result of human errors including:

- fraud,
- system failures, or
- inadequate procedures and controls.

17.2 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

18. Dealing Authorities and Limits

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

19. Segregation of Duties

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

19.2 The risk will be minimised by the following:

a) The Head of Finance will report directly to the Group Manager Finance and Risk to control the transactional activities of the Manager Treasury.

b) There will be a documented approval process for borrowing and investment activity.

20. Procedures and controls

20.1 The Group Manager Finance and Risk will have responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.

20.2 All borrowing, investment, cash management and risk management activity will be undertaken in accordance with approved delegations authorised by the Council.

20.3 All treasury products will be recorded and diarised, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting will be done immediately following execution and confirmation. Details of procedures, including templates of deal tickets, will be included in a treasury procedures manual separate to this policy. The Council will capture the percentage of deals transacted with banks to determine competitiveness and reconcile the summary.

20.4 Procedures and controls will include:

a. Regular management reporting

b. Regular risk assessment, including review of procedures and controls

c. Organisational systems, procedural and reconciliation controls to ensure:

- All borrowing and investment activity is bona fide and properly authorised
- Checks are in place to ensure the Council's 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
- Cheque/Electronic Banking Signatories will be approved by the Chief Executive. Dual signatures will be required for all cheques and electronic transfers.

d. All counterparties will be provided with a list (at least annually or at the time of key personnel changes) of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

e. All deals will be recorded on properly formatted deal tickets by the Manager Treasury and approved, where required, by the Group Manager Finance and Risk. Market quotes for deals (other than cash management transactions) will be perused by the Manager Treasury before the transaction is executed. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spreadsheets) will be maintained and updated promptly following completion of transaction.

f. GWRC generated deal tickets may be approved by electronic /email means where the approver is not in the office or its more efficient to do so.

g. All inward letter confirmations, including registry confirmations, will be received and checked by the Head of Finance against completed deal tickets and summary spreadsheets records to ensure accuracy.

h. Deals, once confirmed, will be filed (deal ticket and attached confirmation) in deal date/number order.

i. Any discrepancies arising during deal confirmation checks which require amendment to the Council records will be signed off by the Group Manager Finance and Risk.

j. The majority of borrowing and investment payments will be settled by direct debit authority.

k. For electronic payments, batches will be set up electronically. These batches will be checked by the Head of Finance to ensure settlement details are correct. Payment details will be authorised by two approved signatories as per Council registers.

l. Bank reconciliations will be performed monthly by the Head of Finance. Any unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's records will be signed off by the Group Manager Finance and Risk. A monthly reconciliation of the Debt Management system and borrowing and investment spreadsheets to the general ledger will be carried out by the Manager Treasury and reconciliation reviewed by the Head of Finance.

21. Managing legal risk

21.1 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.

21.2 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:

a) 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.

b) The matching of third-party confirmations and the immediate follow-up of anomalies.

c) The use of expert advice for any non-standardised transactions.

22. Agreements

22.1 Financial instruments will only be entered into with banks that have in place an executed International Swap Dealer's Association (ISDA) Master Agreement with the Council. All ISDA Master Agreements for financial instruments will be signed under seal by the Council.

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

22.3 Currently, the Council has ISDA agreements with the following banks:

- Bank of New Zealand
- ANZ Banking Group (New Zealand) Ltd
- ASB/CBA Bank
- Westpac
- Kiwibank

23. Financial Covenants and Other Obligations

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

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

24. Diesel hedging

24.1 Other risks, such as commodity price risk associated with diesel, will be considered for risk management by the Council. Management is aware of the indirect risk to diesel procurement that is embedded in existing transport contracts. To this end the Council has delegated to the Group Manager Finance and Risk the power to enter into any price hedges or options with the following conditions:

a) The Group Manager, Finance & Risk will report any hedges to the Council on a quarterly basis

b) Maximum term of a hedge or option contact once it becomes operational is one year

c) Contracts shall only be with a counterparty with a S&P rating of at least A.

25. Electricity Hedging

25.1 Wholesale electricity spot market price risk will be considered for risk management by the Council. Management is aware of the inherent price volatility of the electricity spot market. To this end, the Council has delegated to the Chief Executive the power to enter into price hedges with the following conditions:

a) An electricity hedge contract will be in place for the duration of any spot market physical supply agreement.

b) The price exposure can be hedged via an over-the-counter electricity swaps contract, a contract for difference or a futures contract.

c) The notional value of the hedge contract will be in New Zealand dollars.

d) The hedge contract will be for a maximum duration of no more than three years and will be signed no earlier than 12 months prior to contract commencement.

e) The expiry of any hedge contract will be no more than four years.

f) For any given reporting year, the hedge volume will be between 85% and 115% of the expected actual consumption. The hedge ratio will be monitored and reported annually.

g) The credit rating of the hedge counterparty will be at least investment grade from Standard and Poor's at the time of entering into the contract (i.e., a long-term rating of not less than BBB-). In the event of the rating falling below this, the Council would be advised and a recommendation on how to deal with existing hedges and any new hedges contemplated would be made to the Council. If the preferred hedge counterparty does not have an external credit rating with S&P Global the Group Manager Finance and Risk may review the financial position of the proposed counter-party and provide a recommendation for approval by the Chief Executive.

SECTION SIX

Cash

1. Cash Management

1.1. The Manager Treasury has the responsibility to carry out the day-to-day cash and short-term debt management activities. The Manager Treasury will:

- Calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), weekly (four weeks forward), monthly (12 months forward) and annual (five years) basis
- Electronically download all the Council bank account information daily
- Co-ordinate the Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters
- Undertake short-term borrowing functions as required, minimising overdraft costs
- Ensure efficient cash management, through improvement to accurate forecasting using spreadsheet modelling
- Minimise fees and bank/Government charges by optimising bank account/facility structures
- Monitor the Council's usage of cash advance facilities
- Match future cashflows to smooth over time

1.2. Maximise the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.

SECTION SEVEN

Measuring Treasury Performance

1. Measuring Treasury Performance

1.1. In order to determine the success of the Council's treasury management function, 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) will be reported to the Finance, Risk and Assurance Committee on a quarterly basis.

2. Operational performance

2.1. All treasury limits will be complied with, including, but not limited to, counterparty credit limits, dealing limits and exposure limits. All treasury deadlines will be met, including reporting deadlines.

3. Management of debt, investments and interest rate risk

3.1. The actual funding cost for the Council (taking into consideration costs of entering into interest rate risk management transactions) will be below the budgeted interest cost and investment returns will be above the budgeted interest rate income.

SECTION EIGHT

Reporting

1. Reporting – Performance Measurement

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

2. Treasury Reporting

2.2 The following reports will be produced:

<table>
<tr><th>Report Name</th><th>Frequency</th><th>Prepared by</th><th>Recipient</th></tr>
<tr><td>Treasury Exceptions Report</td><td>Upon occurrence</td><td rowspan="2">Manager Treasury</td><td rowspan="9">Group Manager Finance and Risk and Head of Finance</td></tr>
<tr><td>Risk Exposure position</td><td rowspan="6">Monthly</td></tr>
<tr><td>Policy Compliance</td><td>Head of Finance / Manager Treasury</td></tr>
<tr><td>Interest rate exposure</td><td rowspan="7">Manager Treasury and Advisor Treasury</td></tr>
<tr><td>Funding risk report</td></tr>
<tr><td>Cash flow forecast</td></tr>
<tr><td>Treasury investments</td></tr>
<tr><td>Cost of funds</td><td>Quarterly</td></tr>
<tr><td>Borrowing limits</td><td>Quarterly</td></tr>
<tr><td>Summary Treasury Report</td><td>Monthly
Quarterly</td><td>Group Manager Finance and Risk / Finance, Risk and Assurance Committee / Council</td></tr>
<tr><td>Limits Report</td><td>Daily on exceptions
Quarterly on exceptions</td><td>Head of Finance</td><td>Manager Treasury / Finance, Risk and Assurance</td></tr>
<tr><td>Revaluation of financial instruments</td><td>Quarterly</td><td>Manager Treasury</td><td>Group Manager Finance and Risk / Finance, Risk and Assurance</td></tr>
<tr><td>LGFA covenant reporting</td><td>At least annually</td><td>Manager Treasury</td><td>LGFA and Group Manager Finance and Risk</td></tr>
<tr><td>Counterparty credit compliance report</td><td>Monthly</td><td>Manager Treasury</td><td>Group Manager Finance and Risk and Head of Finance</td></tr>
</table>

3. Accounting treatment of financial instruments

1.1 The 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.

1.2 Under NZ IPSAS changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

1.3 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.

1.4 The Head of Finance is responsible for advising the Group Manager Finance and Risk of any changes to relevant NZ IPSAS which may result in a change to the accounting treatment of any financial derivative product.

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

SECTION NINE

Policy Review

1. Review of the Treasury Risk Management Policy

1.1 This Treasury Risk Management Policy will be formally reviewed every three years. The Group Manager Finance and Risk has the responsibility to prepare a review report (following the preparation of annual financial statements) that is presented to the Finance, Risk and Assurance Committee. The report will include:

a) Recommendations on changes, deletions and additions to the policy.

b) Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).

c) Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.

d) Analysis of bank and lender service provision, share of financial instrument transactions, etc.

e) Comments and recommendations from the Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.

f) Total net debt servicing costs.

1.2 The policy review will be completed and presented to the Finance, Risk and Assurance Committee. The Finance, Risk and Assurance Committee will approve any resulting policy changes.

ABBREVIATIONS REFERENCE:

CCO	Council Controlled Organisation
CCTO	Council Controlled Trading Organisation
CHIEF EXECUTIVE	Chief Executive
CP	Commercial Paper Commercial Paper is a promissory note, akin to a post-dated cheque. It is colloquially known as one name paper issued by a non-bank borrower, as distinct from bank paper, or a bankers acceptance which has two or more names (parties) who are liable to honour the debt on maturity if the acceptor (bank) fails to.
DTD	Debenture Trust Deed
FRA's	Forward Rate Agreements
FRN's	Floating Rate Notes
GWRL	Greater Wellington Rail Ltd
LGFA	Local Government Funding Agency
LTP	Long-Term Plan
NZU	New Zealand Units used in the NZ Emission Trading Scheme
RCD's	Registered certificates of deposit
RPS	Redeemable Preference Shares
S&P Global	Standard & Poors (Credit Rating Agency)
SOE	State-owned Enterprise
WRC	WRC Holdings Limited