New Plymouth District Council Treasury Management Policy

(Incorporating the Liability Management Policy and the Investment Policy as required by Section 102 of the Local Government Act 2002)

Location of Controlled Copies:	Electronic version is the only Controlled copy (ECM 8280048)
Approved By:	Council
Previous versions:	ECM7461701_v8; adopted by Council 27/09/2017 (P17-006) ECM8280048_v8; adopted by Council 02/06/2020 (P20-002)
Current version revision date:	ECM8280048_v10; as adopted by Council on 18/06/2024 (P24-004)
Review frequency:	Triennially

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1 INTRODUCTION

1.1 Purpose

This Treasury Management Policy (TMP) document sets out Council's objectives, policies, strategies and monitoring procedures for all of Council's treasury activities, encompassing liability management (Liability Management Policy) and investment activities (Investment Policy).

Council's primary obligation is to manage its treasury activities prudently and in the interest of the community. Therefore, Council must ensure that such activities are conducted with a focus on identifying, quantifying, and managing associated risks to minimise negative impacts. The Council adopts a risk-averse approach and prohibits speculative activities.

1.2 Legislative compliance

The TMP framework has been written in accordance with the statutory obligations set under the Local Government Act 2002 (LGA), particularly Part 6 (sections 101, 102, 104, 105 and 113). These obligations include:

- Ensuring prudent stewardship and efficient use of resources in the district's interest (LGA 14 (g)).
- Managing all financial matters prudently, to benefit the current and future community interests (LGA s101(1)).
- Making adequate provision for Council's expenditure needs, as outlined in the Long-Term Plan (LTP) and Annual Plan (AP) (LGA 101(2)).
- Conducting commercial transactions according to sound business practice (LGA 14 (f)).
- Meeting funding needs from appropriate sources determined by the Council (LGA 101(3)).
- Adopting Liability Management and Investment Policies to ensure predictability and certainty in funding (LGA 102(1)).
- Specifying policies regarding securities for its borrowing, financial investments, and equity securities and its quantified targets for returns as stated in the financial strategy (LGA 101A).
- Adhering to Local Government (Financial Reporting and Prudence) Regulations 2014, particularly Schedule 4.
- Following the Trustee Act 2019 (effective 30 January 2021), particularly Part 4 Investments. Subject to section 13C and 13D, 'a trustee exercising any power of investment shall exercise the care, diligence, and skill that a prudent person of business would exercise in managing the affairs of others.

A Council resolution is not required for hire purchase, credit or deferred purchase of goods if:

- the debt period is less than 91 days (including rollovers); or
- the goods or services are acquired as part of regular operations, under standard terms, and has the approval of the GM-CI.

1.3 Scope

This document governs the Council's treasury management activities, excluding those of the New Plymouth PIF Guardians Limited (NPG), which are covered in a separate Statement of Investment Policy and Objectives (SIPO).

1.4 Objectives

The TMP sets out guidelines to manage the Council's investments and borrowings in a prudent manner. The TMP objectives are as follows:

- Prudent, effective, and efficient management of treasury activity risks while complying with statutory obligations.
- Ensuring adequate funding to meet current and ongoing commitments.
- Maintaining the highest possible credit rating appropriate to its financial strength and nature of its operations.
- Developing and maintaining professional relationships with financial institutions, Local Government Funding Agency (LGFA), investors, and rating agencies.
- Managing investments within strategic objectives and investing surplus cash in liquid and creditworthy investments.
- Structuring external long-term funding with optimal funding margins, flexibility, and debt maturity spread.
- Monitoring, evaluating, and reporting treasury performance, including borrowing covenants compliance.

2 DELEGATED AUTHORITIES

Council may delegate powers to officers for efficient business conduct as per the LGA (Schedule 7, clause 32(3)). However, the power to borrow money, or purchase or dispose of assets, outside the LTP remain the sole responsibility of Council (Schedule 7, clause 32(1)(c)). This responsibility cannot be delegated. Delegations to Officers are approved by Council, up to the Chief Executive, and are documented in the Delegation Register.

The Treasury Policy related delegations are outlined below. All decisions and approvals must be made in accordance with the requirements of the TMP. All activities occur as required unless stated otherwise.

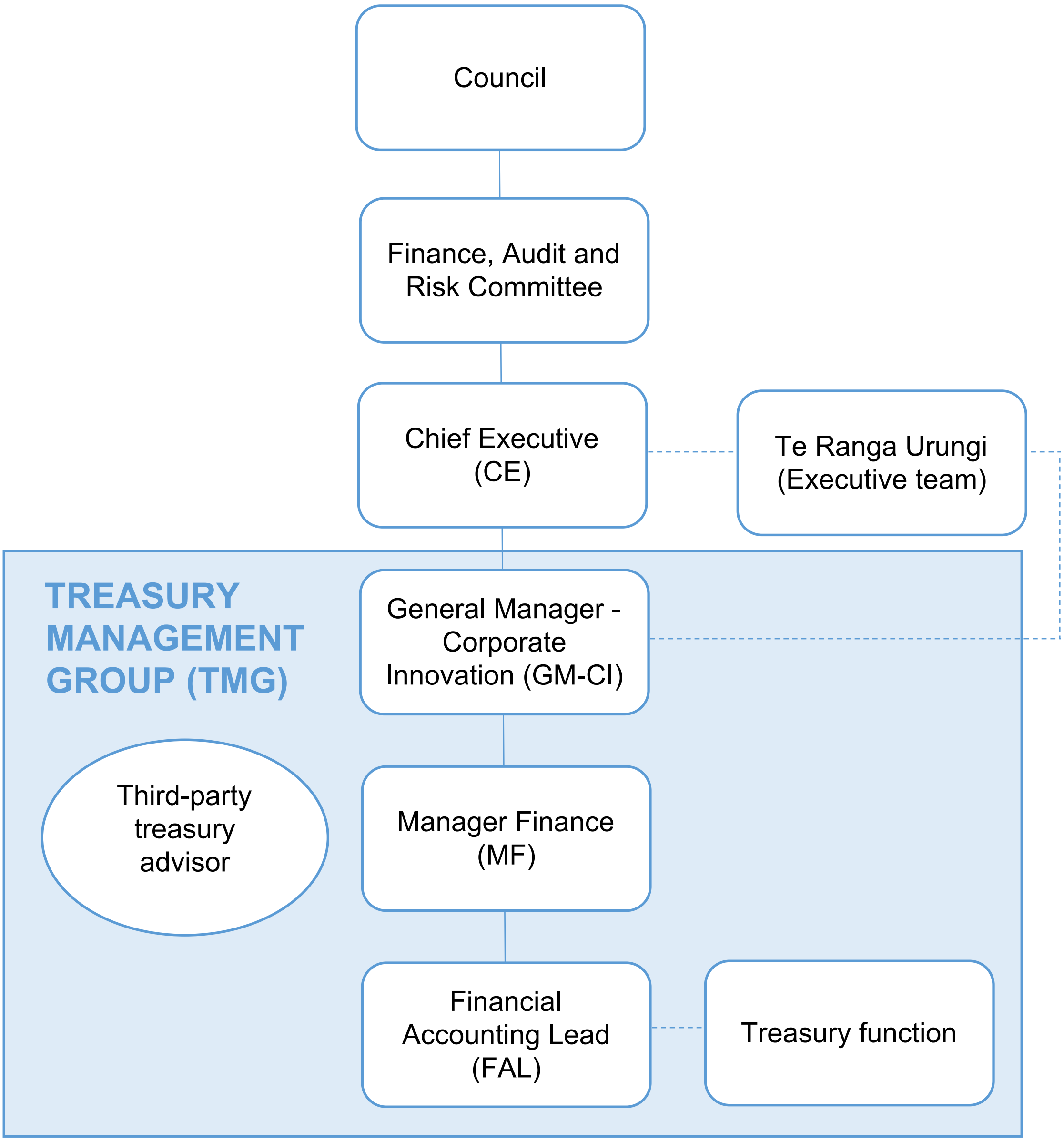
Activity	Delegated authority and limit (where applicable)	Delegation register clause*
Approve policy document (triennially)	Council	
Alter policy document	Council	
Approve external borrowing programme for the year as set out in the AP / LTP	Council	
Approve charging assets as security over borrowing	Council	
Approve new and re-financed lending activity with CCO / CCTOs	Council	
Approve borrowing and interest rate transactions outside policy	Council	
Approve allowable risk management instruments	Council	
Open/close bank accounts	CE	
Approve electronic signatory positions	CE	4
Approve the refinance of existing debt	CE	4
Approve any related borrowing management activity	GM-CI	4
Approve interest rate risk management activity	CE	4
Adjust borrowing interest rate risk profile	GM-CI	4
Managing funding maturities	CE	4
Ensuring compliance with policy	CE GM-CI	4
Review policy (triennially)	CE GM-CI	4
Manage and negotiate ongoing lending arrangements to CCO / CCTOs	GM-CI MF	
Approve borrowing or repayments^ in terms of the AP / LTP annual borrowing programme approved by Council	CE - Within policy limits GM-CI - $50m MF - $20m	1.1 – 1.3
Approve investments or liquidation^ of investments in terms of the TMP approved by the Council	Council - unlimited CE – Within policy limits GM-CI - $50m MF - $20m	2.1 - 2.3
Approve new derivative contracts^ (borrowing and investments)	Council – unlimited CE – Within policy limits	3.1 - 3.3

	GM-CI - $50m MF - $20m	
Approve payment of already contracted interest and fees^	GM-CI - $10m MF - $10m FAL - $5m	5
Perform transfers of stock / register new debt issues	Third-party security stock registrar	

*These powers cannot be subdelegated.
^ The limits specified apply per transaction.

3 TREASURY ROLES

The organisation chart showing separation of roles are outlined below:



4 LIABILITY MANAGEMENT POLICY

4.1 Purpose

The Liability Management Policy adopted under Section 102(1) of the LGA must state Council's policies for the management of both borrowings and other liabilities, including:

- Interest rate risk;
- Liquidity risk;
- Credit risk; and
- Debt repayment.

In accordance with best practice, the policy also addresses:

- Borrowing limits;
- Funding risk;
- The giving of security for lenders;
- Operational risk; and
- Several other considerations.

4.2 Objectives

The Council approach to liability management is based on the following principles:

- Maintaining debt and borrowing limits at a prudent level.
- Utilising borrowings to achieve intergenerational equity.
- Undertaking borrowings efficiently in accordance with Council's Liability Management Policy

Borrowing is undertaken to promote intergenerational equity. To achieve this, Council borrows for assets with a lifespan that exceeds ten years, such as new infrastructure assets for growth (to meet additional demand) or to upgrade existing assets (improve levels of service).

External borrowing is approved by Council during the LTP and annual planning processes. Projected debt levels are obtained from cash flow forecasts prepared during these planning processes. The authority to borrow is delegated to the Chief Executive as set out in the "Delegated Authorities" section.

In instances where long-term sustainable savings can be achieved from capital or operating projects, Council may utilise short-term borrowing to initially fund a project. However, all project borrowing must be within Council's borrowing limits and follow the appropriate Delegated Authority.

4.3 Interest rate risk

Interest rate risk refers to the potential for funding costs to deviate significantly from projections due to fluctuations in market wholesale interest rates, potentially impacting the projections included in the LTP or Annual Plan, and therefore impacting on cost control, capital investment decisions, returns and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty in interest rate movements by fixing wholesale market interest rates. This approach protects investment returns and funding costs through proactive management of underlying interest rate exposures. The interest rate management of the Perpetual Investment Fund (‘PIF’) is consistent with the founding principle of the fund and is outlined in the SIPO.

Management and mitigation of interest rate risk concerning debt funding costs are conducted through prescribed risk control limits. A fixed interest rate maturity profile that is outside the prescribed 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.

Approval from Council is required for any interest rate fixing with a maturity beyond 15 years, except in cases where Council raises LGFA funding as fixed rate debt or raises an interest rate swap that is linked to floating rate LGFA debt maturing beyond 15 years.

The GM-CI holds ultimate discretion regarding hedging percentages within these limits. Council approval will be sought if the TMG believe that hedging outside of these limits is warranted.

Benchmark	Measure
Council’s interest rate risk on forecast gross external debt[1] should be managed within the following fixed[2]/floating[3] limits:	Compliance with benchmark. Any breaches are noted in the Quarterly Performance Report.

Interest Rate Control Limits (calculated on rolling monthly basis[4])		
Rolling Period (in years)	**Minimum Fixed Rate**	**Maximum Fixed Rate**
0 – 1	40%	90%
1 – 2	35%	90%
2 – 3	30%	90%
3 – 4	20%	85%
4 – 5	10%	80%
5 – 6	0%	75%
6 – 7	0%	70%
7 – 8	0%	65%
8 – 9	0%	60%
9 – 10	0%	55%
10 - 11	0%	50%
11 - 12	0%	45%
12 – 13	0%	40%
13 – 14	0%	35%
14 – 15	0%	30%

[1] “Forecast gross external debt” is the amount of total external debt for a given 12-month period and does not include pre-funded debt amounts. This allows for pre-hedging in advance of projected physical drawdown of new debt.

[2] "Fixed Rate" is defined as all known interest rate obligations on forecast gross external debt where debt is borrowed on a fixed interest rate basis or where hedging instruments have fixed movements in the applicable reset rate. [3] "Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate. [4] Fixed interest rate percentages are calculated monthly 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).	

Forecast gross external debt is to be reviewed by the TMG as part of the ongoing strategic risk management process, and the specific levels of core debt deemed to be that which is not seasonal or working capital related. When changes in forecasts are approved by the GM-CI, fixed rate cover in place may have to be adjusted to ensure compliance with the policy minimum and maximum limits.

When designing and approving the interest rate strategy, the GM-CI or delegate can consider alternative debt forecast scenarios that make assumptions around such matters as the delivery and timing of the capital expenditure programme.

Any debt raised and on-lent to CCO/CCTOs is included in the forecast gross external debt amount and the related interest rate risk is managed within the limit framework. If fixed rate debt was raised, then the fixed rate amount would be included within the fixed rate/hedging interest rate risk position.

4.4 Liquidity risk

Liquidity risk refers to the potential inability of the Council to meet its day-to-day obligations, including debt maturities, due to unforeseen events or circumstances. This could result in loss of reputation or financial losses from asset liquidation.

Council's objective is to consistently meet its day-to-day commitments, preserve its reputation and prevent financial losses, whilst ensuring that the minimum possible cash balances are held in interest-earning accounts.

Benchmark	**Measure**
To manage liquidity risk, Council undertakes the following: (a) To always have in place comprehensive insurance cover for all assets and aspects of Council's activities as outlined in Council's insurance strategy. (b) To have access to committed bank facilities, cash and term deposits[1] (with a term of less than 30 days) that is equivalent to approximately one month of Council's payment commitments. [1] Council's Treasury Investments should only be made with the counterparties outlined in APPENDIX I. For the purposes of	Compliance with benchmark. Any breaches are noted in the Quarterly Performance Report.

assessing Liquidity risk, funds held within the PIF investment are excluded.	

4.5 Credit risk

Credit risk arises from potential credit rating deterioration of investment entities or counterparties in financial derivative contracts, which could lead to defaults, and ultimately loss by Council in respect of anticipated interest payments, repayment of principal, or non-payment of contracted financial obligations. Therefore, Council seeks to limit its risk in the above areas and mitigate potential financial losses.

Benchmark	Measure
To manage credit risk, the following standards and procedures must be followed: (c) Investments are only to be placed with the counterparties/issuers outlined in APPENDIX I. (d) Financial derivative contracts are only to be concluded with registered banks with a minimum credit rating of 'A-1/A' (S&P or equivalent). The maximum exposure to any one counterparty is set out in APPENDIX I.	Compliance with benchmark. Any breaches are noted in the Quarterly Performance Report.

4.6 Debt repayment

External debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the appropriate approvals and borrowing limits, a loan may be rolled over or re-negotiated as and when appropriate. Council will manage external debt on a net portfolio basis and will only borrow when it is commercially prudent to do so.

Benchmark	Measure
External debt is repaid as it falls due in accordance with the applicable loan agreement.	Compliance with benchmark. Any breaches are noted in the Quarterly Performance Report.

4.7 Borrowing limits

The borrowing limits specified below are measured on Council only and not the consolidated group.

For calculating 'Net Debt', Council has adopted a definition for *liquid funds* that is distinct from the one employed to measure 'Liquidity'. This differentiation is intentional: the Net Debt definition focuses on Council's net debt position and available borrowing capacity, considering a range of financial assets that can offset external debt. In contrast, Council's Liquidity calculation prioritises short-term assets that can be quickly converted to cash to meet immediate obligations, reflecting a conservative approach that emphasises immediate liquidity.

Council will manage its debt in accordance with the following Council borrowing limits and external lender covenants:

Benchmark	Council limits	LGFA covenants[*]	Measure
Net debt[1] / total revenue[2]	< 135%	< 280%	Compliance with benchmarks. Any breaches are noted in the Quarterly Performance Report.
Net interest[3] / total revenue[2]	< 10%	< 20%	
Net interest[3] / total annual rates income[4]	< 12.5%	< 30%	
Liquidity (external debt[6] + unused committed loan facilities + liquid funds[5]) / external debt[6]	> 105%	> 110%	

[1] "Net debt" is defined as total external debt[6] less liquid funds[5]. When calculating net debt, the LGFA considers the following items as *liquid funds*:

(a) cash, term deposits and any investments held within investment portfolios (whether these are ring fenced or not). Investment portfolios might include listed equities, fixed interest securities, listed property securities or units in managed funds. For the purposes of calculating Net Debt, *liquid funds* include the full balance of the PIF investment.

(b) LGFA borrower notes.

(c) any council lending to a Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO) can also be deducted but only where the CCO or CCTO is a going concern and not dependent upon council financial support.

Council calculation of "Net Debt" is in line with the LGFA interpretations as in (a)-(c) above.

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

For the purposes of this calculation, "total revenue" excludes any realised or unrealised gains/losses arising from the PIF due to the revenue flow to Council from the PIF being managed through a Release Rule, which spreads out the revenue impact of value-based fluctuations over time. As these variations are less relevant to the ratios being measured, they should be excluded from the calculation. However, the revenue released to Council under the Release Rule is still included in the total revenue figure.

[3] Net interest is defined as the amount equal to all interest and financing costs on external debt less interest income for the relevant period.

(d) Interest and finance costs on external debt are calculated by adding together the value of all Council's financing costs including interest costs on debt, costs of derivatives (but not any unrealised mark to market movements) and any costs on committed bank facilities. The finance component of a lease payment may also be part of a council's interest cost, if agreed by the LGFA.

(e) Interest income is interest Council has earned on cash, term deposits, fixed interest and dividends on non-core listed equities. Council cannot deduct any foreign exchange gains or unrealised gains on investments.

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[*] https://www.lgfa.co.nz/about-lgfa/risk-management.
Council must provide an annual certificate of compliance to the LGFA to certify the covenants are met as at 30 June each year.

[4] Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate). Council can add any revenue received from income for which Council rates (e.g. volumetric water charges).

[5] Liquid funds:

When calculating Council's Liquidity covenant, Council defines *liquid funds* as:

(f) Cash on hand and overnight bank cash deposits.

(g) Bank term deposits no greater than 30days.

(h) Bank issued registered certificates of deposits (RCDs) less than 180 days.

(i) Cash portion/component of the PIF (not the full balance of the fund).

The length of investment refers to the number of days as per the investment agreement. This term is applied to the entire duration of the deposit, not to the remaining period of an investment at the time the liquidity measure is calculated.

For the purpose of calculating the LGFA Liquidity covenant, in addition to the above, the LGFA also allows the inclusion of:

(j) Approved fixed interest securities.

(k) Listed, non-core equity investments.

(l) The full balance of the PIF and any other longer-term fixed interest securities and listed equities that are non-core and that can be sold.

(m) Any loans to CCOs or CCTOs (that are a going concern) that mature within 12 months.

[6] External debt is debt secured under debenture, and is the aggregate of bank drawdown amounts, issued commercial paper, term debt, capitalised finance leases and financial guarantees provided to third parties. Any debt prefunding which has been temporarily invested should be subtracted from the external debt total, since these funds are directly linked to the debt raised.

4.8 Funding risk

Funding risk management centres on the ability to refinance or raise new debt at a future time at the same or more favourable terms, regarding fees, borrowing margins and maturity terms of existing facilities and loans.

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

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

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time. This ensures that access to funding, overall borrowing cost and desired maturity profiles are not unnecessarily compromised by market conditions.

To achieve this Council will:

- Diversify its funding sources. Council diversifies its funding sources by having a mix of LGFA, bank and capital market sourced debt.
- Maintain cash advance facilities with multiple lenders to spread funding relationships.
- Utilise investments earmarked for special funds to meet debt commitments or to avoid raising additional debt. Only those investments that have been received by Council as a result of a bequest, or Trust, or where there is a clearly identified obligation to a third party will be retained in a separately identified investment account for that purpose.
- Have the ability to pre-fund up to 18 months of forecast debt requirements, including re-financings of existing debt.
- Maintain a spread of maturity dates in funding facilities to mitigate the risk in situations where Council may not able to raise funding at acceptable credit margins due to changes in specific conditions relating to Council or market changes.
- Ensure total borrowings are reviewed and recalibrated annually, based on new assets built and borrowings repaid. Borrowings are to be repaid on a straight-line basis between 20 to 30 years.

The following parameters have been formulated taking into account Council's goal of maintaining a suitable S&P rating. If Council's credit rating falls below AA- then these parameters must be formally reviewed by the TMG and any changes recommended to Council. The parameters are as follows:

<table>
<tr><th>Benchmark</th><th>Measure</th></tr>
<tr><td>The maturity profile of the total committed funding in respect to all loans and committed lending facilities[1] is to be controlled as follows:
<table>
<tr><th>Period</th><th>Minimum</th><th>Maximum</th></tr>
<tr><td>0 to 3 years</td><td>15%</td><td>60%</td></tr>
<tr><td>3 to 7 years</td><td>25%</td><td>85%</td></tr>
<tr><td>7 years plus</td><td>0%</td><td>60%</td></tr>
</table>
[1] With regard to calculating the funding maturity profile, total committed lending facility amounts are recognised as maturing at the facility's legal expiry date.</td>
<td>Compliance with benchmark.
A funding maturity profile outside these limits, but which self corrects within 90 days is not in breach of this Policy. A maturity schedule outside these limits for a period greater than 90 days requires specific Council approval and must be noted in the Quarterly Performance Report.</td></tr>
</table>

External debt that is raised by Council to be on-lent debt to a CCO/CCTO is included in the funding maturity profile percentage calculation. The offsetting CCO/CCTO loan asset is not included in the debt funding maturity profile.

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.

4.9 The giving of security for lenders

Council's external borrowings and interest rate management instruments are secured by a charge over rates and rates revenue, offered through a Debenture Trust Deed.

Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act. This security arrangement places Council's security on equally footing with other lenders.

Should Council consider it necessary to provide security by mortgaging or charging a physical asset instead of rates, (with the exception of Council's water assets, per Section 130(3)(a) of the LGA), it has the discretion to do so. Independent advice may be sought if necessary.

In cases where security is offered over specific assets, prior Council approval is required along with the following considerations:

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

4.10 Operational risk

Operational risk is the risk potential losses due to human error (or fraud), system failures and inadequate procedures and controls.

Council's aims to minimise losses arising from mistakes, errors, and non-compliance with policies. Council mitigates operational risk by managing the following key elements:

- Clearly defined **delegation of authority** to specified individuals within the organisation.
- Adequate **segregation of duties** across the treasury function. Although, due to the small number of staff involved in treasury activity, strict segregation of duties might not always be achievable.
- Appropriate and sound **reporting systems and procedures** to enable management and senior executive to identify, manage and monitor risks. This involves ensuring the legitimacy of transactions, the level of authorisation required, and that robust systems are in place to ensure complete, timely and accurate reporting.
- **Triennial TMP reviews**, including reviewing operating guidelines on a regular basis.

4.11 Other liability management considerations

4.11.1 Types of funding

Council has a variety of funding sources available and will utilise the most appropriate and cost-effective source from time to time, as determined by management.

These sources include:

- Short term, and medium term committed funding facilities from banks and the LGFA.
- Leasing, and hire-purchase of certain assets (including sale and leaseback where appropriate and cost effective).
- Issue of fixed and floating rate Local Authority stock or bonds to both the wholesale or retail market.
- Issue of commercial paper.
- Issue of ordinary shares, redeemable preference shares and other hybrid equity instruments by CCO's.
- The LGFA.

Other sources of financing will from time to time be offered to Council. Management is authorised to assess, and utilise such financing sources as it so determines, but within the general constraints laid down in this TMP.

4.11.2 Credit rating

Council holds a formal Standard and Poor's (S&P) credit rating (or equivalent), to facilitate access to the bank, LGFA and wholesale and retail investor markets. A formal credit rating offers several advantages:

- It broadens Council's sources of financing, facilitating access to the New Zealand debt capital market. This supports liquidity and funding risk management objectives and enhances Council's cost of financing.
- It establishes the Council as a highly rated entity, strengthening its negotiating position in contractual dealings with third parties. The current 'very strong' rating reinforces this advantage.
- It subjects Council's financial management practices and performance to scrutiny by credit rating agencies and the wider debt capital markets. As such, it provides a very useful 'monitoring' service to supplement Council's own internal due diligence and reporting.

4.11.3 Guarantees and underwriting

Council may from time to time provide financial guarantees to third parties. Management must ensure that the business plan of the guaranteed party aligns with Council's strategic objectives and that financial statements are received on a regular basis. Should the guarantee be called up, Council must take immediate action to recover the money.

Any significant guaranteed amounts are to be included in the definition of 'External debt' for the purpose of determining compliance with the borrowing limits set out above.

Council will approve any guarantee arrangements for indebtedness. Guarantees provided to community organisations or clubs for loans or incidental arrangements must align with Council's strategic objectives.

For existing guarantees, Council ensures that sufficient financial capacity exists relative to LGFA lending covenants. Unless approved by Council, guarantees or financial arrangements given will not exceed any amount agreed by Council.

As set out in Section 62 of the LGA, Council does not give any guarantee, indemnity or security in respect of the performance of any obligation by a CCTO.

4.11.4 Centralised borrowing and capital charge

All borrowing for activities funded from general rates is centralised for internal accounting purposes. Interest and principal repayment costs incurred at the corporate level are charged to each activity based on the proportion of long-term assets held by that operating unit compared to the total long-term assets of such activities.

Borrowing for activities funded by targeted rates is “ring-fenced” to each activity based on the actual capital expenditure and the chosen debt/rate funding ratio required for each activity.

Council uses a capital charge mechanism to reflect the cost of long-term capital employed within affected activities. The charge reflects both the interest costs and provisions for principal repayment.

4.11.5 Internal borrowing

Council manages all funding and liquidity as a centralised function to ensure cash and borrowing resources are used in an optimal manner. Some activities may effectively borrow internally against excess reserve funds instead of borrowing externally. The capital charge mechanism is applied to activities in the same manner for both internal and external borrowings.

4.11.6 New Zealand Local Government Funding Agency Limited (LGFA)

Council may borrow from the LGFA and engage in related transactions, including:

- Contributing a portion of its borrowing back to the LGFA as a loan or equity contribution to the LGFA. For example, borrower notes.
- Providing guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Committing to contributing additional equity (or subordinated debt) to the LGFA if required.
- Securing 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.

4.11.7 On-lending to Council Controlled Organisations

To align with strategic and commercial objectives, Council may provide debt funding directly or indirectly to CCO or 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, with the following considerations:

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

- Impact on Council's credit standing, credit rating, debt burden (particularly in relation to S&P credit assessment), 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 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 must be 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, guarantee) reviewed and approved by Council's independent legal counsel.

4.11.8 Approved financial instruments

Approved financial instruments are as follows; any other financial instrument must be specifically approved by Council on a case by-case basis. Any Council approval only applies to the one singular transaction being approved.

Category	**Instrument**
Cash and liquidity management and borrowing	• Call cash. • Call and short-term bank deposits (less than 30 days unless linked to prefunding strategy). • Bank registered certificates of deposit (RCDs). • Treasury bills.
	• Bank overdraft. • Committed cash advance and bank accepted bill facilities (short-term and long-term loan facilities). • Committed standby facilities from the LGFA. • Uncommitted money market facilities. • Retail and Wholesale Bond, both Fixed Rate (MTN) and Floating Rate Note (FRN) issuance (including forward start from the LGFA). • Commercial paper.
Interest rate risk management	Forward rate agreements ("FRAs") on: • Bank bills. Interest rate swaps including: • Forward start swaps. • Swap extensions and shortenings. Interest rate options[1] on: • Bank bills (purchased caps and one for one collars). • Interest rate swaps (purchased swaptions and one for one collars).

Investments (term <180 days)	• Call and short-term bank deposits (less than 30 days unless linked to prefunding strategy). • Bank registered certificates of deposit (RCDs). • Treasury bills.
Investments (excluding the PIF)	• LGFA borrower notes / commercial paper / bills / bonds. 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 or issuer. • Subordinated debt (other than borrower notes subscribed from the LGFA), junior debt, perpetual notes and debt or equity hybrid notes such as convertibles.

[1] Conditions on the use of interest rate instruments:

- Interest rate options must not be sold outright. However, one to one collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out in isolation (i.e. repurchased) otherwise both sides must be closed out simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions mature within 18 months.
- 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.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

4.11.9 Accounting treatment of financial instruments

Council uses financial arrangements (derivative swaps, or simply 'swaps') 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 swaps in a broad sense.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Statement of Revenue and Expense unless derivatives are designated in an effective hedge relationship.

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

Management	**Reporting**
The MF, through the GM-CI is responsible for advising the CE of any changes to relevant New Zealand Public Sector PBE Accounting Standards which may result in a change to the accounting treatment of any financial instruments.	Swaps gains or losses are reported to Council on a quarterly basis as part of the Financial Performance Report.

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

4.11.10 Agreements

Financial instruments can only be entered into with banks that have in place an executed International Swaps and Derivatives Association (ISDA) master agreement with Council. All ISDA Master Agreements for financial instruments and carbon units must be approved by Council.

4.11.11 Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

4.11.12 Foreign exchange and commodity price risk

Foreign exchange risk arises when the NZD cost of a product, service, material or equipment sourced offshore increases as a result of a deterioration in the foreign exchange rate, between the time of the commitment and the time payment is made.

Commodity price risk arises where certain areas of Council's operations are subject to the impact of commodity price fluctuations. The most significant activities affected are those involved in construction of community assets; in particular roading, which is affected due to the fluctuation of the bitumen price which is driven by oil prices and the movement in the NZD.

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

<u>Foreign exchange risk:</u>

Council's objective in relation to foreign exchange is to ensure that there are no material unhedged risks, from either:

- The time a tender is accepted (which includes a foreign exchange exposure for Council, either directly, or in terms of the ability of the contractor to vary NZD prices should exchange rates vary), or
- The time an approved purchase order is placed on an overseas supplier (collectively, "foreign exchange commitments").

To avoid these risks, all recognised foreign exchange commitments in excess of the equivalent NZD100,000 that entail the purchase of foreign currency will be hedged using the following approved financial instruments:

- Foreign currency deposits
- Spot foreign exchange
- Forward foreign exchange contracts
- Purchased currency options and collars (one to one only)

Hedging should take place within two days of the commitment being recognised once the expenditure is approved, and the currency amount and timing are known.

Commodity price risk:
Where appropriate and to provide certainty of commodity prices Council may hedge commodities using recognised hedging instruments. Commodity hedges should match budgeted expenditure or specific contracts.

Where commodity price hedging is available and where the applicable commodity component exceeds NZD100,000, the use of hedging may be considered. Approved commodity hedge instruments include:

- Bitumen Price Index (BPI) Swaps
- Other indices that apply to affected commodities

Foreign exchange and commodity instruments:
Financial instruments other than those stipulated above require one-off Council approval prior to transacting.

- Foreign exchange options cannot be sold outright.
- Commodity swaps can be entered into by the applicable General Manager provided they are reported in the next Quarterly Performance Report. Other hedging instruments must also be approved by the Chief Executive.

All risks are to be matched by foreign exchange contracts of the same currency, equal value and term. Records of any foreign exchange commitments are to be maintained, together with a record of forward exchange contracts undertaken to hedge the risks concerned.

4.11.13 Emissions Trading Scheme (ETS)

The objective of the ETS carbon credit policy is to strike a balance between the timing of obligations and budget-setting for price allocation, ensuring price stability for the current budgetary period while allowing for strategic hedging decisions to manage carbon price risk in the medium term. It accommodates some uncertainty in emissions forecasting, ensures earlier protection, and permits purchasing cover from Year 5 with a maximum of 50% unit holding.

ETS risk is managed under the following control limits based on Council's gross liability exposure amount:

Obligation period	Compliance requirements as at (month of current year)	Minimum holding as a percentage of annual gross obligations
Current calendar year	by 30 June	75%
	by 31 December	100%
Current calendar year plus 1	by 31 December	50%

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

Period	Minimum unit holding	Maximum unit holding
Year 3* - Year 4	25%	50%
Year 4 – Year 5	0%	50%
* Current calendar year plus 2		

Approved carbon hedge instruments include:
- New Zealand Unit (NZU), spot and forward contracts.
- New Zealand Assigned Amount Unit (NZ-AAU), forwards / spot.
- Units that are accepted by the Crown to settle obligations under the New Zealand Emissions Trading Scheme.

Currently, Council doesn't possess any ETS credits. However, the policy is in place in anticipation of the Council reconsidering its position on reestablishing the landfill.

5 INVESTMENT POLICY

5.1 Purpose

The Investment Policy adopted under Section 105 of the LGA must state Council's policies on investments, including:
- The mix of investments;
- The acquisition or disposal of new investments;
- The management and reporting of investments; and
- The assessment and management of risks.

5.2 Objectives

The investment policy is designed to ensure that Council's investments are managed prudently and in accordance with legislation. Council's investment management objectives are guided by the following fundamental principles:
- Alignment with Council's general strategic objectives as set in its LTP;
- Ensuring that associated risks remain within acceptable levels;
- Ensuring that investments serve the best interests of Council and ratepayers;
- Maintaining an appropriate level of liquidity to meet cashflow requirements; and
- Ensuring that investments do not breach the borrowing limitations outlined in Council's Liability Management Policy.

Council's specific objectives for other pure and semi-commercial investments include:
- Identifying, quantifying, and managing associated risks.
- Conducting regular reviews to maximise value or consider disposal in the most cost effective and efficient manner.
- For semi-commercial investments, aligning the pure commercial rationale with broader community outcomes (if applicable) that could be contributed to by holding the investment in question.

- Enhance long-term investment returns and overall value.

5.3 The Mix of investments

Council categorises its investments into four relatively distinct areas, the first three being long-term in nature and the fourth more short-term:

1. **Perpetual Investment Fund (PIF):** A long-term commercial investment fund set up by Council from the proceeds from sale of Council's former shareholding in Powerco Limited in 2004. The PIF's investment policy and objectives are detailed in the Council approved SIPO. On 28 June 2023, Parliament passed the New Plymouth District Council (Perpetual Investment Fund) Bill. This Bill aims to safeguard the fund for community benefits, ensure prudent management, and mandate independent investments decisions. The Bill received Royal assent on 5 July 2023.
2. **Other pure commercial investments**: Investments aligned with Council's general strategic objectives purely for commercial returns. This includes investments in Forestry Joint Ventures and surplus property holdings. Such investments may be subjected to a broader range of active commercial reviews e.g. regular hold/sell reviews, portfolio analysis, comprehensive monitoring.
3. **Semi-commercial investments**: Investments where the commercial returns are influenced by other strategic objectives or broader community outcomes. Examples include the airport, Council's forestry estates and other properties and equities (LGFA and Civic Assurance). Such investments are subjected to a narrower range of active commercial reviews given their infrastructural or financial relationships e.g. business monitoring and long-term planning according to their scale and complexity of each business.
4. **Treasury investments:** Investments made from short-term general surplus funds, liquidity, pre-funding and restricted funds and bequests. These are typically financial instruments issued by approved counterparties.

5.4 The acquisition or disposal of investments

All new acquisitions, additions, or disposals of investments require Council approval and must follow Council's Investment Policy objectives set above.

Council policy positions for other pure or semi-commercial investments are reviewable by Council outside of this policy document and are as follows:

- **Joint venture forestry:** Harvest at maturity and not renew any joint venture agreements, or sell its interest if the joint venture partner or other party wishes to purchase at a commercial price.
- **Council forestry:** Retain the investment and continue to harvest on a rotational basis where commercially feasible (the land is generally retained for other Council purposes unless it is classified as surplus to those purposes. It would then be classified as a pure investment for eventual disposal along with other surplus property).
- **Papa Rererangi i Puketapu Limited (New Plymouth Airport):** To be managed in a commercial manner to ensure it is able to achieve all of its operational objectives.
- **Surplus properties:** Council has an existing process for declaring properties surplus to operational or future requirements and a review process for properties declared to be surplus but not yet disposed of.

5.5 The management and reporting of investments

5.5.1 Perpetual investment fund (PIF)

The objectives for the management of the PIF are outlined in the Governance Deed entered between Council and the New Plymouth PIF Guardians Limited (The Guardians) on 1 March 2017.

Management	Reporting
The Council objectives in relation to the management of the PIF are: (a) To at least maintain the real capital of the PIF as a sustainable perpetual investment fund (the Founding Principle) whilst generating a sufficient return to maintain a sustainable release to the Council; and (b) To ensure that the following principles underpin the operation of the PIF: (i) all investments are made on purely commercial terms; and (ii) the PIF will be managed on the basis of a prudent, commercial, diversified portfolio investment style and asset allocation, which manages risk to further the Founding Principle.	The Guardians will report on a quarterly basis to the Council Controlled Organisation Committee. The performance of the PIF is principally measured through The Guardians meeting the requirements of the Governance Deed with Council, annual statements of intent, and industry benchmarks for fund performance as stated in the Statement of Investment Policy and Objectives (SIPO).

5.5.2 Other pure and semi-commercial investments

Management	Reporting
Council will manage these investments based on investment size and nature. The Strategy and Operations Committee holds delegated authority for managing urgent commercial investments. This committee monitors the performance of the investments and receives advice on its future position from the appropriate experts. On major decisions such as the holding or selling of such investments, the Strategy and Operations Committee would normally make recommendations to Council.	Other pure commercial and semi-commercial investments will report through the Strategy and Operations Committee as required. The performance of other pure and semi-commercial investments is principally measured through statements of intent and appropriate benchmarks for investment performance.

5.5.3 Treasury investments

Treasury investments include short-term surplus general funds, debt pre-funded amounts, and restricted funds and bequests where Council has resolved to maintain a separate fund for the benefit of the specific parties or activity.

The effectiveness of Council's other treasury activities is principally measured through a mixture of subjective and objective measures. The predominant subjective measures are:

- Adherence to the TMP guidelines.
- The overall quality of treasury management information.
- The quality of relationships with the banking sector, and key participants in the debt capital markets.

Management	Reporting
These investments should be managed as follows: • Treasury instruments should only be made in NZD denominations. • Short-term surplus general funds and other funds should be invested in approved treasury investments included in section 4.4 Liquidity risk. • Investments are held with strongly credit rated banks (S&P or equivalent) of no worse than short-term A-1 / long-term A, and for terms of up to twelve months, unless linked to a debt pre-funding strategy. • Investments are spread amongst Council's relationship banks (as per the limits in APPENDIX I) to diversify counterparty credit risk.	Quarterly reports on all treasury investments will be submitted to Council in the format determined by the TMG.

5.6 The assessment and management of risks

The Council acknowledges that investments carry an element of risk and is committed to managing this risk responsibly. Council's overall investment strategy aims to balance risk against long-term returns, accepting that lower risk typically yields lower returns.

The assessment and management of investment risk is in line with the elements outlined in Council's Liability Management Policy:

- 4.4 Liquidity risk: by managing investment maturity terms in line with future expenditure requirements;
- 4.5 Credit Risk: by limiting investment with certain counterparties/issuers;
- 4.10 Operational risk: by having appropriate delegations in place, segregation of duties, sound reporting system and procedures, regular TMP reviews; and
- by following Council's Investment objectives listed in point 5.2.

5.7 Other investment policy considerations

5.7.1 Treatment of surplus funds

Council may generate surplus funds from various sources, including:

- Operating surpluses which could arise due to a reduction in expenses or an increase in revenue against the planned budget.
- Sale of Council assets.
- Other one-off sources e.g. a bequest.

Where there is no specific planned or approved purpose for the use of surplus funds, such surpluses should be applied to repaying debt, or applied against rates requirements for any one or all of the first three financial years of the LTP.

5.7.2 Loan advances

Management	Reporting
Council may provide strategic advances to CCOs, CCTOs, charitable trusts and community organisations, but not to individuals. Any new loan advances must be approved by Council resolution. In accordance with Section 63 of the LGA, Council will not provide loans or financial accommodations to a CCTO under terms and conditions that are more favourable to the CCTO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing money or obtaining the financial accommodation. Council regularly reviews performance of these loans to ensure alignment with strategic and economic objectives and verifies that interest and principal repayments adhere to the loan agreement.	Loan advances are reported to Council on a quarterly basis as part of the Financial Performance Report.

5.7.3 New Zealand Local Government Funding Agency Limited (LGFA)

Council may invest in shares and other financial instruments of the LGFA and may borrow to fund that investment.

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

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

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

6 CLIMATE CHANGE AND SUSTAINABILITY CONSIDERATIONS

6.1 Investment

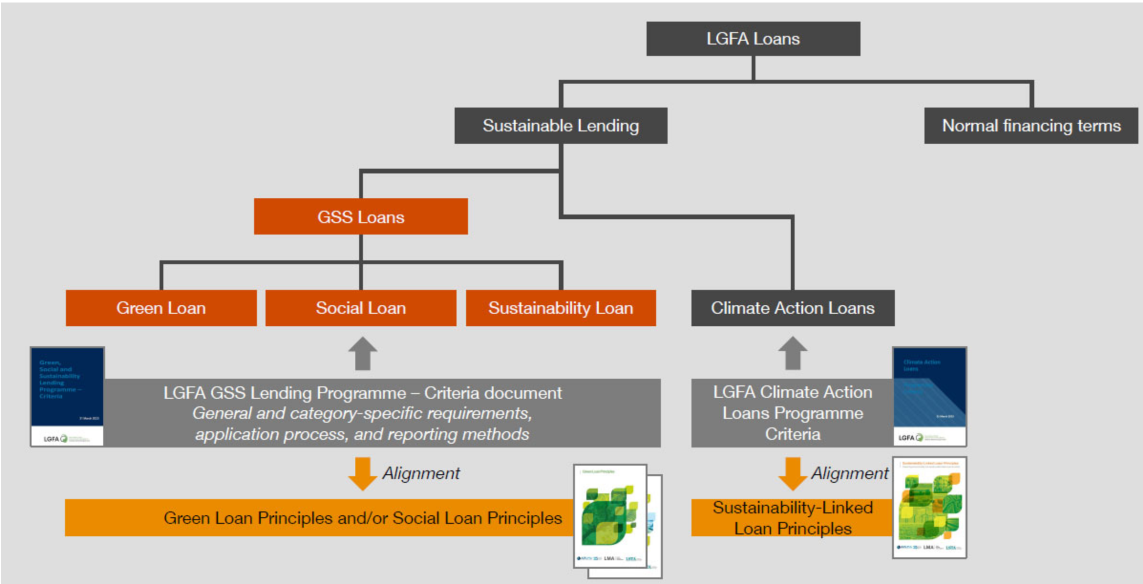
The PIF Guardians support, and expect that the appointed Fully Outsourced Agent will adhere to, the six Principles of Responsible Investment developed by the United Nations. These principles are widely recognised as the standard for incorporating responsible investment practices across investment portfolios. The PIF responsible investment policy and objectives are outlined in the Council approved SIPO. The SIPO uses the United Nations Global Compact as the benchmark for responsible conduct.

6.2 Borrowing

Council takes consideration whenever possible to finance projects that promote environmental and social wellbeing through LGFA's sustainable loan programmes accessible to member Councils and CCOs. These programs facilitate either (a) financing or refinancing specific sustainable assets and activities, or (b) incentivising GHG emissions reductions.

These loan programs are categorised as Green, Social & Sustainability Loans (GSS loans) and Climate Action Loans (CALs), respectively. Council must undertake a detailed eligibility assessment for either program, and a series of other criteria must be continued fulfilled throughout the life of the loan to ensure benefits from such on lending aren't compromised. GSS loans offer lending at a discounted margin of 5 basis points[†], while CALs also feature a margin discount.

The diagram below provides an overview of LGFA's current sustainable lending options:



Source: PwC Guide to LGFA Sustainable Loans Programme, November 2023.

7 CASHFLOW MANAGEMENT

From time to time, Council has daily cash flow surpluses and borrowing requirements, due to the mismatch of daily receipts and payments. All cash inflows and outflows are managed through bank accounts controlled by Finance.

Council maintains a daily cash position report, and a yearly cash flow projection is prepared during the Annual Planning process. These reports determine Council's borrowing requirements and surpluses for investment for the year.

Cash management activities must be undertaken within the following parameters:

- Cash management instruments are limited to:

[†] https://www.lgfa.co.nz/sites/default/files/2023-03/RatingsDirect_NewZealandLocalGovernmentFundingAgency_54196807_Mar-02-2023_0.PDF

- Money market call deposits with New Zealand registered banks.
- Negotiable instruments such as registered certificates of deposit (RCDs) with a maturity no more than 180 days.
- Term deposits with staggered maturities to provide day-to-day cash flow requirements and to avoid early break penalties.

- Overdraft facilities are utilised as little as practical.
- Interest rate risk management activity on cash management balances is not permitted.
- Cash is only invested with approved counterparties as detailed in APPENDIX I.

8 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, Council may be exposed to such risks. Council 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.

9 POLICY REVIEW

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

The TMG 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.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of policy and one-off approvals outside policy.

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

Section 102(5) of the LGA states that Council does not need to go through the special consultative process to amend the Liability Management Policy and the Investment Policy.

10 APPENDIX I

10.1 Prudential guidelines for counterparty credit exposure limits

10.1.1 Treasury investments

To diversify counterparty credit risk, investments are spread amongst Council's relationship banks as per the limits below. Credit risk will be regularly reviewed by Council. Treasury related transactions will only be entered into with counterparties specifically approved by Council. Counterparty risks within externally managed investment funds (e.g. PIF) are managed within the parameters of the SIPO.

Counterparty / Issuers	Minimum short term / long term credit rating^	Maximum exposure per counterparty	Maximum % of counterparty exposure
Banks registered with the Reserve Bank of NZ*	A-1+/AA-	$35 million	100%
Banks registered with the Reserve Bank of NZ*	A-1/A	$20 million	100%
New Zealand Government	N/A	Unlimited	100%
Local Government Funding Agency (LGFA)	A-1/A+	Unlimited	100%
^ As evaluated by S&P Global Ratings, sourced from Registered banks in New Zealand - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz); last modified May 2024. * An approved exception to the above is other treasury investments made with TSB Bank Limited, currently with a A- rating with Fitch. Such investments shall be limited to a term of 12 months or less, and be for not more than $15 million in aggregate, and never more than 5% of TSB Bank's shareholders funds.			

At no point in time, no more than 50 per cent of the treasury investment portfolio will be invested with one bank counterparty.

10.1.2 Financial instruments

Financial instrument	Calculation of deemed exposure
Treasury investments (e.g. Bank call and term deposits)	Transaction principal amount (unless a legal right of set-off exists).
Interest rate swaps, Forward rate agreements, Collars, Interest rate options (purchased options)	The greater of the current market-to-market valuation of the instrument or zero.
Foreign exchange contracts – Forwards and options (*bought*) / carbon units	The greater of the current market-to-market valuation of the instrument or zero.
Commodity contracts – swaps	The greater of the current market-to-market valuation of the instrument or zero.