Liability Management Policy

1. Background

Section 102(2)(b) of the Local Government Act 2002 (the "Act") requires the Council to adopt a Liability Management Policy (the "Policy"). Section 104 of the Act outlines the contents of such a policy:

A policy adopted under section 102(2)(b) must state the local authority's policies in respect of the management of both borrowing and other liabilities, including:

- interest rate exposure; and
- liquidity; and
- credit exposure; and
- debt repayment; and

Sections 104 and 105 of the Act are also relevant to requirements surrounding Council's external borrowing, investments and incidental financial arrangements.

Other relevant legislation includes, Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4 as well as the Trustee Act of 1956

2. Strategic alignment

The development of the policy statement aligns with the Council's strategy to establish a high-performing organisation with a focus on customer service, prudent financial management, quality processes, and a skilled and motivated work force. This Policy forms a cornerstone of the Council's Financial Strategy in that the adoption of this conservative debt borrowing policy will assist in ensuring Council remains financially sustainable into the future as it should have access to additional external debt facilities if required. Compliance with this conservative borrowing policy needs to be considered on a long-term rather than a short term basis. Compliance will require difficult decisions to be made regarding the approval and timing of proposed capital expenditure projects into the future.

Furthermore section 101(1) of the Act states:
A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interest of the community.

3. Implementation

In implementing the Policy, the Council is guided by the principles set out in section 14(1) (f) and (g) of the Act that state;

- a local authority should undertake any commercial transactions in accordance with sound business practices; and
- a local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region.

4. Delegated authorities (as approved by Council)

Pursuant to clause 32 (2), schedule 7, of the Local Government Act 2002, the Council may make delegations to officers of the Council to allow for the efficient conduct of Council business. Clause 32 (3), schedule 7 of this Act allows officers to delegate those powers to other officers.

Notwithstanding clause 32 (1) (c), schedule 7 the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan (LTP) remains the sole responsibility of the Council. This responsibility cannot be delegated.

Approved delegation to officers is contained within the Council's delegations register. This Policy's related delegations are included in Appendix 1.

Risks
Adoption of the Policy is a statutory requirement and failure to do so would place the Council in breach of its statutory obligations and could render its future borrowing and liabilities ultra vires and unenforceable.

5. Measurement and review

The Policy is reviewed in alignment with the LTP.

Measuring the effectiveness of the Policy will be achieved through a mixture of subjective and objective measures.

The predominant subjective measure is the overall quality of liability management information. The Chief Executive has prime responsibility for determining this overall quality.

6. Policy statements

6.1. Overriding objectives

The Policy is to be consistent with the LTP and Annual Plans. It is to achieve the lowest possible net borrowing costs obtainable within the policy parameters by proactively managing funding and interest rate exposures. Benefits from favourable interest rate movements are to be maximised while proactive measures are to be taken to minimise the effect of significant adverse interest rate movements.

The Council's overriding objectives are to:

- secure external funding to finance activities at acceptable margins and costs from debt lenders;
- manage liabilities in a manner consistent with current governing legislation and the Council’s strategic and commercial objectives;
- raise appropriate funding in terms of both maturity and borrowing margins and manage the Council's liquidity levels to ensure funds are readily available to meet known and reasonable unforeseen funding requirements;
- minimise borrowing margins and costs of funds to the Council whilst optimising flexibility and spread of debt maturities within the funding risk limits established by this Policy statement;
- avoid adverse interest rate related increases to rates and maintain overall interest costs within budgets;
- manage and minimise the impact of market risks such as interest rate risk on Council's assets and liabilities by undertaking appropriate hedging activity in the financial markets;
- develop and maintain professional relationships with the Council's bankers, the LGFA, the financial institutions, and other stakeholders;
- provide timely and accurate reporting of treasury activity and performance;
- report on financial/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements; and
- ensure adequate internal controls exist to protect Council’s financial assets and to prevent unauthorised transactions.

6.2. Total external core debt

The Council's infrastructural assets generally have long economic lives and long term benefits. Debt in the context of this Policy refers to the Council's total external core debt.

The Council approves external borrowing during the LTP and annual planning processes and in line with its policy for funding capital expenditure as outlined in its Revenue and Financing Policy. Approval for borrowing is by resolution of the Council and is based on projected debt levels prepared during the LTP, or Annual Plan planning process.

Security is by way of a statutory land charge on the individual properties upon which rates postponement has been granted. Postponed rates are disclosed separately in the Council's statement of financial position. Eventually, when the amount of postponed rates becomes large enough, the Council will need to finance the shortfall in cash flow due to postponement of rates. The Council will achieve this by borrowing through its own means. The debt raised to offset the postponed rates will be excluded from the Council's overall borrowing limit (see Section 7.10). These specific debt amounts will be disclosed separately in the Council's statement of financial position.

6.3. Purposes of external debt

The Council's ability to readily attract cost effective borrowing depends on its ability to maintain a strong balance sheet as well as its ability to levy rates, manage its image in the market and its relationships with bankers, the LGFA and investors. The Council seeks a diversified pool of borrowing and ensures that borrowings are only sought from high credit quality financial institutions (as per section 7.8 of this Policy).

The Council raises external borrowing for the following primary purposes:

- Specific debt associated with projects and capital expenditures.
- General debt to fund the Council's balance sheet.
- Short-term debt to manage timing differences between cash inflows and outflows to maintain the Council's liquidity.
- To fund assets whose useful lives extend over several generations of ratepayers.

6.4. Borrowing mechanisms

The Council is able to borrow externally through a variety of market mechanisms including: issuing stock/bonds, commercial paper, debentures, direct bank borrowing, the Local Government Funding Agency (LGFA), or accessing the short term and long term wholesale/retail debt capital markets directly or indirectly or internal borrowing of reserve and special funds.

Alternative funding mechanisms such as leasing are evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation will take into consideration, ownership, redemption value and effective cost of funds.

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

The internal debt portfolio is used as an input into determining the Council's external debt requirements. Where possible, the Council's cash reserves are used to reduce external debt, effectively reducing the Council's net interest cost. The Council's internal funding mechanisms are discussed in Section 7.5.

Definitions for external funding mechanisms are set out in Section 10 of this Policy.

The Chief Executive formally approves the funding strategy on at least a six monthly basis with the Corporate Services Group Manager developing the strategy after monitoring the following issues:

- The overall cash flow/funding requirements of the Council.
- Consistency with the Annual Plan and LTP.
- Available draw down facilities to match forecast expenditure.
- The impact of new debt on borrowing limits.
- Prevailing interest rates, relevant margins and total costs under each borrowing source.
- The markets' outlook on future interest rate and funding margin movements as well as the Council's outlook.
- The Council's overall debt maturity profile, to ensure maturity mismatches and concentration of debt levels are avoided at reissue/rollover dates.
- Available terms from various funding markets.
- For internally funded projects, ensuring that the implied finance terms within the specific debt is at least as equitable as the Council could achieve through borrowing externally.
- Legal documentation, financial covenants and security requirements together with security and credit rating considerations.

The six monthly funding strategies will be presented to the Council.

The management of interest rate risk is considered separately as discussed in section 7.6.

6.5. Internal lending

The Council undertakes internal lending. Loans to each activity are set up within the internal debt portfolio based on approved loan funded capital expenditure, or operational expenditure through the annual planning and/or LTP process and allocated to the activity incurring the capital expenditure. The following operational parameters apply to the management of the Council's internal lending portfolio:

- All internal lending activities are consistent with the principles and parameters outlined throughout the liability management policy.
- The Council seeks to firstly utilise reserve funds and if insufficient reserves are available utilises external borrowing mechanisms.
- In determining an activity centre's maximum internal loan amount, any existing depreciation reserve amount or other related amount is firstly allocated to that centre. Any additional funding is provided through internal loans.
- The Council seeks to match the maturity and interest rate profile on its internal and external borrowing and investing activities. Any mismatches are managed within the liquidity policy outlined in Section 7.7.

Specific operating parameters:

- On a quarterly basis, an internal loan is set up for all new capital expenditure and any renewal capital expenditure not covered by accumulated depreciation and allocated in the internal portfolio to the activity incurring the expenditure.
- Principal amounts are repaid in instalments on the anniversary of the loan. Instalment amounts are charged to the cost centre and agreed at conception of the loan and determined on a table mortgage basis.
- Interest is charged to each activity monthly in arrears. Interest may be notionally received and allocated to the specific reserve account providing the funds or through the related cost centres income/expenditure accounts.
- The interest rate is based on the Council's expected weighted average cost of funds (including credit margin and other costs), and takes into account the following factors:
    - Anticipated cost of existing and new debt over the next twelve months.

- The anticipated rate of return over the twelve months on any investment portfolio used for internal borrowing purposes.
- Recovery of the finance department's treasury related operational costs. This charge is set annually during the annual budget process.
- A buffer, which provides for certainty in the charging rate and avoids frequent adjustments.

- If required the Council has the ability to reset interest rates quarterly.
- The term of the loan is the lesser of either;
  - the economic life of the project or asset; or
  - a maximum of 30 years.

Internal borrowing benchmarks are set to monitor the level of internal debt. The benchmarks are consistent with the Council's external borrowing limits outlined in section 7.10.

6.6. Interest rate exposure (Section 104(a) of the Act)

Interest rate risk refers to the impact that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the LTP or Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions/returns/feasibilities. The Council's borrowing gives rise to a direct exposure to interest rate movements. Generally, given that;

- the Council's desire is to have predictable, certain interest costs; and
- the need to avoid large adverse impacts on annual rates arising from adverse movements in interest rates; and
- the long-term nature of the Council's assets and intergenerational factors.

The Council's requirement is to have a percentage of fixed rate or hedged borrowing where exposure to interest rate risk is managed and mitigated through the risk control limits below. Council’s projected external core debt should be within the following fixed/floating interest rate risk control limits:

Master Fixed/Floating Risk Control Limit	
Minimum Fixed Rate	Maximum Fixed Rate
55%	90%

"Fixed Rate" is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

“Floating Rate" is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling 12-month projected external core debt level calculated by management (signed off by the Finance Manager). This allows for pre-hedging in advance of projected physical drawdowns of new external core debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the policy minimums and maximums. External core debt relates to debt that is expected to remain outstanding for a period of greater than 12 months and typically funds long-term intergenerational assets.

The fixed rate or hedged amount at any point in time must be within the following maturity bands:

Fixed Rate Maturity Profile Limit		
Period	Minimum Cover	Maximum Cover
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

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 beyond 90-days requires specific approval by Council.

The implementation of the hedging framework assumes dealing lines are available from the Council's derivative counterparty banks.

Overall, the Chief Executive and the Corporate Services Group Manager set an interest rate risk management strategy on at least a six monthly basis by monitoring the interest rate markets and evaluating the underlying existing and forecast borrowing amounts, the outlook for rates, the current and forecast yield curve and policy parameters. An appropriate hedged/floating rate mix is approved by the Chief Executive and reported to the Council.

The interest rate risk management strategy is implemented through using interest rate risk management instruments to convert fixed rate borrowing into floating rate or hedged borrowing and floating rate borrowing into fixed or hedged borrowing.

The use of interest rate risk management instruments is approved by the Council as part of this policy.

Interest rate risk management instruments approved for use, consistent with the policy contained in Section 7.6 are:

- Fixing through physical borrowing instruments - e.g. loan stock, bond issuance, debentures, bank term loan.
- Floating rate bank debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Forward rate agreements (FRAs) on bank bills.
- Interest rate swaps including forward start swaps (start date less than 24 months) (unless the forward start swap starts on the expiry date of an existing swap and has a notional amount which is no more than that of the existing swap).
- Any interest rate derivative beyond 15 years requires approval from the Council. Borrowings on a fixed rate basis through the LGFA which have a maturity date beyond 15 years are however, permitted.
- Purchase of interest rate options products on:
    - bank bills (purchased caps and one for one collars); and
    - interest rate swaptions (purchased swaptions and one for one collars).

  Interest rate options must not be sold outright. 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.
- Interest rate collar type option strategies. 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,

the sold option can be purchased back. The forward start date of the collar strategy is to be no more than 24 months (unless the forward start collar starts on the expiry date of an existing collar and has a notional amount which is no more than that of the existing collar).
- Purchased borrower swaptions only that mature within 12 months.

Definitions for interest rate risk management mechanisms are set out in Section 11 of this Policy.

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

The following interest rate risk management instruments are NOT permitted for use:
- Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.
- The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Structured or leveraged interest rate option strategies where there is any possibility of the Council's total interest expense increasing in a declining interest rate market or where the Council's total interest cost is increasing faster than the general market rate.
- Interest rate futures contracts, mainly for administrative ease.
- Interest rate risk management instruments in foreign currency, (see s113 of the Act).

6.7. Liquidity (Section 104(b) of the Act)

Liquidity risk management refers to the timely availability of funds to the Council when needed, without incurring penalty costs.

The Council minimises its liquidity risk by;
- spreading income flow from rates, which are received three times over the year;
- matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour;
- maintaining its financial investments in cash, cash equivalent, and liquid negotiable instruments;
- maintaining external term debt plus committed bank/loan facilities plus available unencumbered liquid investments/cash equivalents at 110% over existing external core debt;
- managing its banking facilities by renegotiating facilities six months prior to maturity;
- pre-funding up to 12 months of forecast debt requirements including re-financings.
- avoiding concentration of debt maturity dates.

Debt refinancing's that have been prefunded will remain included within the funding maturity profile until their maturity date. Such pre-funding proceeds may be re-invested with banks as term deposits.

To minimise the risk of large concentrations of external debt maturing, or, being reissued in illiquid periods where funding margins are high for reasons within or beyond the Council's control, the Council ensures that total committed funding in

respect to all external debt/loans and committed facilities is controlled by the following system.

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

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

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.
The Chief Executive has the discretionary authority to re-finance, rollover, re-negotiate existing debt on more favourable terms. Such action is reported to the Council at the earliest opportunity.

6.8. Credit exposure (Section 104(c) of the Act)

Council ensures that all borrowing and interest rate risk management activity is undertaken with institutions that are of high credit quality to ensure that funds are available when required and amounts owing (particularly for interest rate risk management contracts) are paid fully on due date.

Institutions, primarily banks, LGFA, should have a short and long-term S&P credit rating of at least A-1 and A respectively. Credit exposure measurement and limits are outlined in the Investment Policy Section 7.3.1.

6.9. Debt repayment (Section 104(d) of the Act)

This section covers both internal and external debt amounts.

For specific project debt for which Council has set a targeted rate to cover debt servicing and principal repayments, the repayment is made from the rate revenue received. For specific project debt for which Council has offered a lump sum payment option, repayment is made from the lump sum revenue received. All other repayments are made according to the scheduled repayment dates at the time the debt/loan was incurred. These repayments are met from rates revenue or financial reserves. Council may also repay debt earlier than the scheduled date if there is surplus money available in reserves, and it is prudent and cost effective to do so. If a loan matures earlier than the scheduled repayment date, the refinancing of that loan will be made by raising new debt.

6.10. Specific borrowing limits (Section 104(e) of the Act)

In managing external debt, Council will adhere to the following limits (based on the Council's latest monthly financial statements and budget projections):

- Net external interest expense as a percentage of annual rates income will not exceed 15%.
- Net interest expense as a percentage of total income will not exceed 15%
- Net external debt as a percentage of total income will not exceed 150%.
- External term debt plus committed bank/loan facilities plus available liquid investments/cash equivalents are maintained at 110% over existing external core debt.

Debt excludes any debt raised to finance postponed rates. Definitions of the above limits can be found in Section 11.2 of this policy.

6.11. The giving of securities (Section 104(f) of the Act)

The Council may secure its borrowing and interest rate risk management instruments against rates and rates revenue if it is considered advantageous to do so, generally by way of a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or pari passu with other lenders. In unusual circumstances, with prior Council approval, security may be offered as a charge over one or more of the Council's specific assets. Internal loans are provided on an unsecured basis.

Physical assets will be charged only where;

- there is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance);
- the Council considers a charge over physical assets to be appropriate;
- the Corporate Services Group Manager ensures that the required register of charges and any associated documents are provided, filed and kept in accordance with the provisions of the Local Government Act 2002 and any other relevant legislation.

A register of charges over assets is established and maintained at the Council's principal office. All instruments specifically affecting any of its property are listed[1]. Any prospectus, loan and incidental arrangement document will contain a statement that the loan or incidental arrangement is not guaranteed by the Crown[2].

6.12. Council guarantees

From time to time the Council may act as a guarantor to financial institutions on loans for clubs, trusts or business units sporting and community organisations where the purposes of the loan are consistent with the Council's strategic objectives.. The following policies apply to any such guarantees:

- The total of any guarantee to any organisation is to reduce according to the loan repayment programme originally arranged with the lending institution.
- Any guarantee is to be reviewed annually on receipt of the audited annual accounts for the year just passed and the proposed budget for the following year.
- The club, trust, business unit or organisation shall indemnify the Council should the guarantee be called up by the lender.
- The indemnity shall be such that in the event of the guarantee being called up the club, trust, business unit or organisation shall without delay transfer ownership of the asset for which the funds guaranteed were provided to the Council.
- In the event of transfer of ownership to the Council, the Council reserves to itself any future dealings, allocation of use, or sale of such assets.
- The club, trust, business unit or organisation shall meet all costs associated with the preparation of any loan guarantee document.
- The Council reserves the right to decline, without reason, any request for a guarantee.

[1] [1] Part 6(4), section 116 of the Act

[2] [2] Part 6(4), section 122 of the Act

As set out in Part 5, section 62 of the Act, the Council does not give any guarantee, indemnity or security in respect of the performance of any obligation by a council controlled trading organisation (CCTO).

7. New Zealand LGFA Investment

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 to;

(a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, for example Borrower Notes;
(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.

8. Measuring treasury performance

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

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

Operational performance
All treasury limits must be complied with including (but not limited to) counterparty credit limits, dealing limits and control limits.
All treasury deadlines are to be met, including reporting deadlines.

Management of debt and interest rate risk
The actual borrowing cost for Council (taking into consideration costs of entering into interest rate risk management transactions) should be below the budgeted borrowing costs contained within the Annual Plan.

9. Reporting

Part 4, section 40(1)(l) of the Act requires the Council to prepare and make publicly available, following the triennial general election of members, a local governance statement that includes information on key approved planning and policy documents and the process for their development and review.

Operational reports are listed in Appendix 2

10. Accounting treatment of financial instruments

As a general rule, financial risk management instruments on initial recognition valued at cost and thereafter carried at fair value with any period-unrealised fair value gains or losses booked through the statement of comprehensive revenue and expense, at any particular reporting date.

Valuation of financial instruments
Council uses financial arrangements (“derivatives”) for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council’s accounting treatment of derivatives in a broad sense.

Under New Zealand International Public Sector Accounting Standards (NZ IPSAS) changes in the fair value of derivatives go through the statement of comprehensive revenue and expenses unless derivatives are designated in an effective hedge relationship.

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

The Corporate Services Group Manager is responsible for advising the Chief Executive of any changes to relevant NZ IPSAS which may result in a change to the accounting treatment of any financial derivative product.

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

Accounting treatment for bank and loan stock funding
As a general rule bank and loan stock funding is held to maturity and consequently accounted for on an amortised cost basis.

Interest rate options
The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right but not the obligation to borrow (described as a cap) or invest (described as a floor) at a future date for a specified period. The Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). Interest rate option products include caps, floors and swaptions.

Interest rate swap
An interest rate swap is an agreement between the Council and a counterparty (usually a bank) whereby the Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties to the contract agree notional principal, start date of the contract, maturity date of the contract (greater than one year), fixed interest rate and the benchmark rates (usually BKBM).

The swap can have a forward start date directly matching the contract to the underlying future borrowing requirement or interest rate repricing date.

Liquidity
Liquidity refers to negotiable instruments that have a reliable underlying market where buyers and sellers are available to transact and readily convert the investment into cash.

Negotiable
These instruments are able to be bought and sold prior to their legal maturity date.

Appendix 1: Delegations

Activity	Responsibility	Limit
Approve and amend policy document	Council	Unlimited
Approve annual funding programme as set out in Annual Plan/LTP	Council	Unlimited (subject to legislative and other regulatory limitations)
Approve charging of assets as security over borrowing	Council	Unlimited
Approving borrowing and interest rate transactions outside policy	Council	Unlimited
Open/close bank accounts	Corporate Services Group Manager	Unlimited
Approving allowable risk management instruments	Council	Unlimited subject to legislative limitations
Approve authorised cheque/electronic signatory positions	Chief Executive (delegated by Council)	Unlimited
Register new external debt issues	Finance Manager	Subject to policy
Overall day-to-day liability management	Chief Executive (delegated by Council) Corporate Services Group Manager (delegated by Chief Executive) Finance Manager	Subject to policy
Refinancing of existing external debt	Chief Executive (delegated by Council) Corporate Services Group Manager (delegated by Chief Executive) Finance Manager	Subject to policy (two of three signatories to sign-off)
Approve new borrowing (loans, borrowing facilities) in accordance with Council resolution or through the adoption of the Annual Plan/LTP	Chief Executive	Unlimited (subject to legislative and other regulatory limitations)
Negotiate bank facilities	Corporate Services Group Manager (delegated by Chief Executive)	N/A
Adjust interest rate risk profile	Chief Executive (delegated by Council) Corporate Services Group Manager (delegated by Chief Executive)	Subject to policy
Managing funding maturities	Chief Executive (delegated by Council) Corporate Services Group Manager (delegated by Chief Executive)	Subject to policy
Maximum daily transaction amount (approved borrowing, interest rate risk management, daily fund management)	Chief Executive Corporate Services Group Manager Finance Manager Financial Accountant Management Accountant	Unlimited$15 million $10 million $1 million $1 million
Triennial review of policy	Corporate Services Group Manager	N/A
Ensuring compliance with policy	Corporate Services Group Manager	N/A

Appendix 2: Operational reporting

Report	Frequency	Prepared by	Recipient
Daily money management report	Daily	Finance	Management Accountant Finance Manager
Borrowing status/limits exceptions update	Daily	Finance	Finance Manager
Quarterly treasury report including: • Policy compliance • Debt Analysis • Councils liquidity Profile • Projected debt requirements 12 month forecast • Section 7.10 debt limit report • Debt facilities maturity profile • Weighted average cost of funding vs budget. • Interest rate hedge profile • Counterparty credit • New treasury transactions • Approved Policy exceptions • Treasury performance	Per Council meeting schedules	Finance	Council Chief Executive
Treasury strategy paper	Six monthly	Corporate Services Group Manager	Council Chief Executive
Monthly debt reconciliation	Monthly	Finance	Finance Manager
Fourth Schedule Debenture Trust Deed	Six monthly	Finance	Chief Executive Covenant Trustees
Revaluation of financial instruments	Six monthly	Finance	Council Chief Executive

Appendix 3: Definitions

11. Definitions

Definitions are also included in Part 6(4) Section 112 of the Act.

11.1. Borrowing instrument definitions

Bank sourced borrowing- bank bill facilities

Commercial bills cover all types of bills of exchange, which are defined under the Bills of Exchange Act 1908 as an unconditional order in writing, addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at fixed or determinable future time, a sum certain in money to, or to the order of a specified person, or to bearer.

Bank bill facilities are normally for a term of up to three years but may be for as long as five years. Bank bills are bills of exchange, drawn or issued usually by the original borrower and accepted or endorsed by a bank.

For a bank-accepted bill, the bank makes the payment of the face value of the bill on maturity. Most bank bills traded in the New Zealand market are bank-accepted bills.

Bank bill instruments are now rarely used in the New Zealand corporate borrowing market with most borrowing facilities being revolving term loan facilities. For bank funding requirements a paperless and registered form of the bank bill is now used, the registered certificate of deposit or RCD.

The principal costs to the borrower are the discounting bank's yield at which it discounts the bill at the time of drawdown, an arrangement fee, an acceptance fee and a line fee (expressed in basis points or percentage per annum) and margin. Acceptance fees, arranger fees, line fees and margins in aggregate normally range between 35 - 300 basis points (i.e. 0.35% 3.00%), depending on the credit worthiness of the borrower.

11.2. Revolving bank term loan facilities

Revolving term loan facilities are similar to bank bill facilities, from a borrower's perspective, except interest is paid in arrears rather than upfront as in the case of bank bills. Revolving term loan facilities are usually for a term of up to three years but may be for as long as five years and like bank bills, drawings under the facility are priced at a margin above the bank bill bid rate. Most facilities allow for the borrowers to drawn up the facility amount in various tranches of debt, and for various terms, out to a maximum term of the maturity date of the facility. Like bank bills most borrowers use these facilities to borrow on a 90-day revolving basis.

The principal costs are the same as with bank bills. The lending bank's yield sets the base rate at the time of lending, an arrangement fee, and a credit margin (including line or commitment fee (expressed in basis points or percentage per annum). Fees and margins in aggregate normally range between 20 - 150 basis points (i.e. 0.20% - 1.50%), depending on the credit worthiness of the borrower.

11.3. Short term money market lines

Short-term money market loans or cash loans can be committed or uncommitted. A customer pays for a guarantee of the availability of the funds in a committed loan. In an uncommitted loan, funds are provided on a best endeavours basis and no commitment fee is payable. In addition to a line fee, a margin may be charged on any line usage.

The minimum amount for a cash loan is $1,000,000. Smaller loans can be arranged, although the interest rate quoted will be a reflection of the size of the loan. Smaller requirements are usually managed through a committed overdraft facility.

The main use of cash loans is to cover day-to-day shortfalls in funds. The interest rate is governed by the term of the borrowing and the implied or implicit credit rating of the borrower. Cash loans are short term only and are normally drawn for a term of one (overnight) to seven days. Interest collection can be daily.

11.4. Capital markets

Commercial paper ("CP") programmes/placements normally provide for issuance with tenors of between 7 and 364 days. The majority of CP issued in the New Zealand market is for terms of 90 days.

Corporate bonds commonly in existence in the New Zealand market have essentially the same characteristics as government stock. These are a source of longer term fixed or variable rate finance, which can be sold either in bearer or registered form (normally registered). Bonds are normally issued with coupon interest paid in arrears on a six monthly basis for fixed rate instruments, and three monthly for floating rate instruments. Local authority stock/bond is issued by a variety of Councils by tender or private placement to the LGFA and wholesale investors. The bonds are registered secured securities. They are repayable on a fixed date, and are generally issued for terms ranging from one to ten years.

Local authority stock/bond is priced on a semi annual basis and issued at face value. A fixed or floating rate coupon payment is made semi annually or quarterly to the holder of the security.

The term bond is usually reserved for securities with terms longer than one year to clearly distinguish between short-term instruments (CP).

CP and bonds usually constitute unconditional, unsecured and unsubordinated obligations of the issuer. Local government bonds are secured through a charge over rates.

11.5. Structured and project finance

Project and structured financing matches up debt to suit the quantifiable income stream from the project. This type of financing is appropriate for the funding of standalone assets which are able to be ring-fenced and over which security can be taken. The owner of the asset usually retains an equity interest in the asset.

12. Borrowing limits definitions

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

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

Liquidity is defined as external term debt plus committed bank/loan facilities plus available unencumbered liquid investments/cash equivalents divided by current external core debt.

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

Annual rates income means, in relation to a local authority for a financial year, the amount representing total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

13. Interest rate risk management instruments and terms

BKBM
The bank bill mid market settlement rate (FRA rate) as determined at 10:45am each business day on Reuters page BKBM. This is the standard rate for the settlement of interest rate swaps, forward rate agreements and interest rate caps and collars.

Forward rate agreement
An agreement between the Council and a counterparty (usually a bank) protecting the Council against a future adverse interest rate movement for a specified period of time (up to a year). The Council and the counterparty agree to a notional principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). This definition includes the forward rate agreement where the benchmark rate is the underlying 90 day bank bill rate.

Interest rate collar strategy
The combined purchase (or sale) of a cap or floor with the sale (or purchase) of another floor or cap. Known as a borrower collar and swaption collar strategy.

Interest rate options
The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right but not the obligation to borrow (described as a cap) or invest (described as a floor) at a future date for a specified period. The Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). Interest rate option products include caps, floors and swaptions.

Interest rate swap
An interest rate swap is an agreement between the Council and a counterparty (usually a bank) whereby the Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties to the contract agree notional principal, start date of the contract, maturity date of the contract (greater than one year), fixed interest rate and the benchmark rate(usually BKBM).

The swap can have a forward start date directly matching the contract to the underlying future borrowing requirement or interest rate repricing date.

Liquidity
Liquidity refers to negotiable instruments that have a reliable underlying market where buyers and sellers are available to transact and readily convert the investment into cash.

Negotiable
These instruments are able to be bought and sold prior to their legal maturity date.