Treasury Management Policy

Including

Liability Management Policy

&

Investment Policy

Applicable to:	All employees
Issued by:	Chief Executive
Policy Number:	MDC025
Last Approved:	June 2020
Review Date:	June 2023
Contact Person	Manager Finance

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Adopted by:	Masterton District Council (as recommended by the Audit and Risk Committee
Date of Approval:	24 June 2020
Policy Number:	MDC025
Review Date:	20 May 2020

1. PURPOSE

The purpose of the Treasury Management Policy is to ensure Masterton District Council (MDC) undertakes its borrowing and investment activities, prudently, efficiently and in accordance with the requirements of the:

- Local Government Act 2002 (LGA);
- Local Government (Financial Reporting and Prudence) Regulations 2014;
- Trustee Act 1956; and
- Liability Management Policy and Investment Policy as outlined within this document.

2. OBJECTIVE

The objective of this Policy is to control and manage borrowing costs, investment returns, liquidity and risks associated with managing the Council's financial assets and liabilities.

3. SCOPE

This policy applies to all MDC borrowing and investment activity (referred to as treasury activity).

This policy does not apply to other aspects of MDC's financial operations (e.g. transactional banking and systems of internal control)

4. PRINCIPLES OF TREASURY ACTIVITY

MDC will undertake all treasury activities in accordance with the LGA and the following principles:

- To prudently manage MDC's Treasury liability and investment policies, and all identified treasury risks within policy limits and parameters.
- Minimise costs and risks in the management of MDC's borrowing through flexibility and spread of debt maturities.
- Where debt is raised for a specific activity or project, the debt servicing and repayment is funded from the revenue mechanisms associated with that activity.
- Manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Safeguard MDC's financial assets and investment capital through restricting assets classes to low risk and accepting lower returns that will result.
- Maintain appropriate liquidity levels and manage MDC's cash flows to meet known and predictable funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect MDC's financial assets and to prevent unauthorised transactions.
- Ensure compliance with all risk control limits, financial ratios, and external lender requirements.
- Develop and maintain relationships with financial institutions, LGFA, investors and investment counterparties.

MDC is risk averse and will avoid risk in its treasury management activities. MDC seeks to manage, not capitalise on, any risk associated with interest rates, liquidity, funding, default or credit, and operations. Any activity which may be construed as speculative in nature is not permitted under this policy.

5. DELEGATION OF AUTHORITY

MDC will ensure effective controls over treasury management and segregation of duties controls are in place. All treasury activities will be undertaken in accordance with the authority limits set out in the Governance Delegations Manual and the Chief Executive and Staff Delegations Manual.

6. LIABILITY MANAGEMENT POLICY

MDC may borrow in order to:

- raise specific debt associated with projects and capital expenditure;
- fund the balance sheet as a whole, including working capital requirements; or
- fund assets whose useful lives extend over several generations of ratepayers

Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, ensuring that costs are met by those ratepayers benefiting from the investment.

6.1 1 Borrowing Limits

MDC will manage external borrowing within the limits detailed in the table below.

Item	Borrowing Limit
Net External Debt/Total Revenue	<150%
Net Interest on External Debt/Total Revenue	<10%
Net Interest on External Debt/Annual Rates Income	<15%
Net Interest on Internal and External Debt/Annual Rates Income	<20%
Liquidity (External term debt + unutilised committed loan facilities + cash and cash equivalents / External term debt)	>110%

Borrowing limit definitions are outlined within the Appendices.

Financial covenants are measured on MDC only, there is no consolidated group.

Disaster recovery requirements will be met through the liquidity ratio and special reserve funds that held as term investments.

Net External Debt is defined as Total External Borrowing less all Financial Assets (as listed in the Statement of Financial Position) and is consistent with the LGFA's definition. See Section 13 of this policy for the LGFA's definition of Net Debt.

Approval of Borrowing

New debt and the debt repayment programme is approved at the time of adopting the Long Term Plan (LTP) or Annual Plan. MDC's Financial Strategy (as included in the LTP) depicts the impact of the changing levels of debt and investments over the future ten year period.

All projected external borrowing is approved in advance by the Council as part of the Annual Plan or LTP process, or by resolution of the Council.

6.2 2 Borrowing Mechanisms

MDC will use the most appropriate and cost effective borrowing method available. Approved borrowing mechanisms include:

- issuing stock/bonds;
- commercial paper (CP) and debentures;
- direct bank borrowing;
- bonds issued by New Zealand Local Government Funding Agency (LGFA);
- accessing the short and long-term wholesale/retail debt capital markets directly or indirectly (including LGFA bespoke and short-term lending);
- accessing stand-by facilities with the LGFA; and
- internal borrowing – offset by cash holdings of reserves and special funds.

6.3 3 Security

MDC's security is provided by a charge over rates revenue, offered through a Debenture Trust Deed.

Under the Debenture Trust Deed, MDC's borrowing is secured by a floating charge over all MDC rates levied under the Local Government (Rating) Act 2002. The security offered by MDC ranks equally with other lenders.

With Council approval, security may be offered by providing a charge over one or more of MDC's assets. Physical assets will be charged only where:

- there is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. project finance); or
- 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.

6.4 4 Debt Repayment

All portions of debt will be progressively repaid or refinanced as it falls due, in accordance with the applicable borrowing mechanism.

Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

6.5 5 Guarantees, Contingent Liabilities and Other Financial Arrangements

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

MDC will not guarantee loans to Council-Controlled Trading Organisations, in accordance with the LGA (s.62).

MDC will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council or Council committee. The Manager Finance will monitor guarantees and report annually to Council.

Conditions to financial arrangements, such as loan advances, are detailed later in this document.

6.6 6 Internal Borrowing

Internal loans are sourced from MDC's cash investments and are recognised as a valid means of funding projects, minimising the cost of borrowing while providing a market return on investment funds.

6.7 7 New Zealand Local Government Funding Agency (LGFA) Limited

Regardless of any other provision in this policy, MDC may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers appropriate:

- contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA e.g. borrower notes;
- provide a guarantee over the indebtedness of the LGFA and to the extent of the MDC's shareholding percentage in the LGFA itself;
- commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over MDC's rates and rates revenue (using a Debenture Trust Deed), or
- subscribe for shares and uncalled capital in the LGFA.

7. INVESTMENT POLICY

MDC's primary objective is to protect its investment capital and ensure that a prudent approach to risk/return is applied, in accordance with this policy.

MDC may hold financial, property, forestry, and equity investments if there is strategic, commercial, economic or other valid reason (e.g. where it is the most appropriate way to deliver or administer a Council function).

Generating a commercial return on strategic investments is a secondary objective.

MDC will act effectively and appropriately to:

- protect MDC's capital;
- ensure investments are available to benefit MDC's current and future ratepayers;
- ensure ethical investing principles are followed, where they may be applicable to an investment decision;
- maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements; and
- use investment funds to repay debt.

MDC is a net borrower, meaning external debt is more than financial assets. There are strategic reasons to hold investments while also holding debt. However, MDC recognises that holding too much in financial assets, which generally earn less than the cost of the debt, is not prudent.

A prudent maximum level of financial assets is regarded as between $14m and $16m and a medium term target level is reducing it to $12m. These totals exclude short term cash and deposits held for working cashflow purposes and any funds held and invested on behalf of related entities.

Investment funds can be used to repay debt early and that debt/investment will be tracked using internal loans/investments.

MDC will regularly review its approach to all major investments and the credit rating of approved financial institutions.

7.1 1 Acquisition of New Investments

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

The authority to acquire financial investments is delegated to the Chief Executive and Manager Finance. Financial investments are reported to Council annually. Refer to the Treasury Management Procedures.

7.2 2 Equity Investments

Equity investments include investments held in CCO/CCTO and other shareholdings.

Equity investments may be held where MDC considers there to be strategic community value. MDC may also acquire shares that are gifted or are a result of restructuring.

MDC seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment.

Any purchase or disposal of equity investments requires Council approval.

Unless otherwise directed by the Council, the proceeds from the disposal of equity investments will be used firstly to repay any debt relating to the investment and then utilised to reduce other MDC debt.

MDC recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant committee, monitors the performance of its equity investments on a yearly basis to ensure that the stated objectives are being achieved. MDC seeks professional advice regarding its equity investments when appropriate.

New Zealand Local Government Funding Agency Limited

Despite any other clause in this policy, MDC may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

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

- obtain a return on the investment; and
- ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for MDC.

MDC may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, MDC's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, MDC subscribes for uncalled capital in the LGFA.

7.3 3 Property Investment

Property disposals are managed to ensure compliance with statutory requirements and, where appropriate, consultation with local communities.

MDC's property holdings for the provision of services such as parks and reserves, sportsfields, senior housing, the district building, rural halls and housing of community groups are not considered property investments under this policy.

MDC may acquire property related to the provision or expansion of a service i.e. sewage treatment land or a commercially leased portion of a MDC facility. Again, these will not be considered as property investments.

Council may undertake property development initiatives and hold strategic property assets as it thinks appropriate within the local economy.

7.4 4 Financial Investments

MDC may only invest in approved creditworthy counterparties. Credit ratings are monitored and reported quarterly to Council.

MDC may invest in approved financial instruments as set out in Appendix 1. These investments are aligned with MDC's objective of investing in high credit quality and highly liquid assets.

MDC's investment portfolio will be arranged to provide sufficient funds for planned expenditure and allow for the payment of obligations as they fall due. MDC prudently manages liquid financial investments as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
- MDC may choose to hold specific reserves in cash and direct what happens to that investment income.
- Internal investments/borrowing can be used as an alternative to external borrowing.
- Financial investments do not include shares.

Special Funds and Reserve Funds

Liquid assets are not required to be held against all special funds and reserve funds. MDC may internally borrow or utilise these funds where possible.

Trust Funds

Where MDC holds funds as a trustee, or manages funds in-trust, then such funds must be invested on the terms provided by the other party. If the other party's Investment Policy is not specified then this policy will apply.

Loan Advances

Loan advances may be made from time to time to assist the Council to achieve its investment objectives and Council outcomes. Council approval is required for all loan advances.

Council will make advances and other investments after considering the impact of these on the community and the security and return of the advance.

Council may offer advances at concessionary interest rates (except to Council Controlled Trading Organisations as per below).

On occasion, Council may approve loans to trusts or other community-based organisations where there is social or community benefit to be achieve from the lending.

Often such lending might be made at significantly discounted or nil interest rates, again in recognition of the clear social and community benefit that is being provided.

MDC does not lend to CCTOs on more favourable terms than what it can achieve itself, without charging any rate or rate revenue as security. MDC will not guarantee loans to CCTOs in accordance with the LGA (s.62).

MDC may allow time for ratepayers to pay rates via postponement arrangements or other agreements to pay off debts over time. Those arrangements are governed by separate policies and are not regarded as Loan Advances.

MDC reviews the performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved. Reporting to the Council on the loan advances and guarantees of other entity borrowing must be done at least annually.

Borrowing mechanisms for council controlled organisations and council controlled trading organisations

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

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

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

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- Impact on Council's credit standing, debt cap amount (where applied), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as, CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

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

External Funds Management

Investments made through external fund managers will be to a maximum of $12 million. Investments must be limited to fixed income and cash/cash equivalent securities only.

The current mandate is as follows:

Asset	Allocation	Credit Range
ANZ Wholesale Sovereign Bond Fund	45% - 55%	AA to AAA
ANZ Wholesale High Grade Bond Fund	45% - 55%	A- to AAA

The credit restrictions for funds placed with any one institution (per Appendix 2) do not apply to externally managed funds as the portfolio is held in wholesale bond fund products via a trustee.

This policy allows the addition of other investment management products and fund managers to complement or replace the ANZ bond funds.

Monthly and Quarterly Investment Reports provide a performance summary to ensure the investment guidelines are being adhered to.

Interest Rate Risk Management

This section refers to the externally managed investment portfolio which has a direct exposure to a change in interest rates, impacting the return and capital value of its fixed rate investments.

Management of the bond fund products by the external fund managers assumes the use of interest rate risk management strategies as part of the day-to-day management of the bond fund portfolios.

7.5 5 Internal Loans/ Investments

Investment funds held by MDC may be invested in Council capital projects, subject to Council's selection of debt funding for those projects, via the annual planning or LTP cycle.

As a principle, no more than half of the value of special funds and reserves balances is available for internal borrowing/investment. Generally, smaller projects will be funded by way of internal loans.

7.6 6 Investment Management and Reporting Procedures

Investments and associated risks are monitored and managed, and regularly reported to Council.

Investments that are managed directly by MDC are a mix of term and current fixed interest investments, with sufficient minimum immediate cash reserves and a cash buffer maintained.

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

8. RISK RECOGNITION/ IDE NTIFICATION MANAGEME NT

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

The following section excludes investment funds under external management outlined in section 6.5

8.1 1 Liquidity and Funding

Risk Risk Recognition

Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

Liquidity/Funding Risk Control Limits

To ensure funds are available when needed MDC ensures that:

- There is sufficient available operating cash flow, liquid investments and committed bank facilities to meet cash flow requirements between rates instalments as determined by the Manager Finance.
- External term loans and committed debt facilities together with available cash/cash equivalents investments must be maintained at an amount of 110% over existing external debt. The liquidity ratio excludes externally managed funds.
- MDC has the ability to pre-fund up to 18 months forecast debt requirements including re-financings. Re-financings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.
- The maturity profile of the total committed funding in respect to all external debt/loans and committed debt facilities, is to be controlled by the following system:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	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 profile beyond 90-days requires specific approval by Council.
- To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a MDC's borrowings from the LGFA will mature in any 12-month period.

8.2 2 Interest Rate Risk on External

Borrowing Risk Recognition

Interest rate risk is the risk that funding costs will materially impact projections included in the LTP or Annual Plan. This would adversely impact revenue projections, cost control, and capital investment decisions, returns and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of interest costs. Certainty around interest costs will be achieved through active management of underlying interest rate exposures.

Interest Rate Risk Control Limits

Exposure to interest rate risk is managed and mitigated through the risk control limits defined in the table below.

Council's forecast gross external debt should be within the following fixed/floating interest rate risk control limits.

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

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

A fixed-rate maturity profile that is outside the above limits, but self corrects within 90-days is not considered to be a breach of this policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

- "Fixed Rate" is defined as all known interest rate obligations on forecast gross external debt, including where hedging instruments have fixed movements in the applicable reset rate.
- "Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.
  - Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average forecast gross external debt amounts for the given period (as defined in the table above).
  - Interest rate swap maturities beyond the maximum LGFA bond maturity must be approved by Council through a specific approval.
  - Hedging outside the above risk parameters must be approved by Council.
  - Interest rate options must not be sold outright. However, one for 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 (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
  - Purchased borrower swaptions mature within 18 months.
  - Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate hedge percentage calculation. (i.e. an ineffective hedge).
  - Forward start period on swaps and 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.

Hedging outside the above risk parameters must be approved by Council.

8.3 Financial Investment Interest Rate/Maturity limits

The following control limits are designed to manage interest rate and maturity risk on the financial investment portfolio managed internally by MDC (i.e. excludes externally managed funds). The portfolio comprises treasury financial investments.

An important objective of the financial investment portfolio is to match the portfolio's maturity term to planned expenditure thereby ensuring that investments are available when required. Financial investments should be restricted to a term that meets future cash flow projections and be mindful of forecast debt associated with future capital expenditure programmes as outlined within the LTP.

Period	Minimum %	Maximum %
0 to 6 months	30%	80%
6 to 12 months	20%	70%
1 to 3 years	0%	50%
3 years plus	0%	20%

8.4 4 The repricing/ maturity mix can be changed, within the above limits through sale/ purchase of financial investments. Counterparty Credit Risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where MDC is a party. The credit risk to MDC in a default event will be weighted differently depending on the type of instrument entered into. MDC will only borrow from strongly rated banks with a minimum long-term credit rating of at least "A" (S&P, or equivalent Fitch or Moody's rating).

Treasury related transactions will only be entered into with organisations specifically approved by the Council. Entities and financial instruments are outlined within the Appendices.

Counterparties and limits are only approved on the basis of Standard & Poor's (S&P, or equivalent Fitch or Moody's rating) long and short-term credit ratings matrix provided within the Appendices.

8.5 5 Financial Instruments

Approved financial instruments for cash management and borrowing, investments, interest rate and foreign exchange risk management are outlined in Appendix 1.

9. OTHER

9.1 1 Foreign Currency

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

Generally, all individual commitments over NZ$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, legal commitment occurs and the purchase order is placed, exact timing, currency type and amount are known.

Per the LGA, MDC will not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

MDC does not hold investments denominated in foreign currency.

9.2 2 Operational Risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Refer to the Treasury Management Procedures.

9.3 3 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, MDC may be exposed to such risks.

MDC will seek to minimise this risk by the:

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

Agreements

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

MDC’s CE and/or internal/appointed legal counsel must sign under seal all documentation for new loan borrowings, re-financings and investment structures.

Financial Covenants and Other Obligations

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

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

10. . MEASURING TREASURY PERFORMANCE

Measuring the effectiveness of MDC's treasury activities is achieved through a mixture of subjective and objective measures. The predominant subjective measure is the overall quality of treasury management information. The Chief Executive has primary responsibility for determining this overall quality.

11. EXCEPTIONS

Exceptions to this policy are permitted if it would advance MDC's broader social or other policy objectives.

Any resolution authorising an investment under this provision shall note that it departs from MDC's ordinary policy and the reasons justifying that departure.

12. . REVIEW OF POLICY

The policy is to be formally reviewed every three years, and annually for internal purposes.

The Manger Finance has the responsibility to prepare the annual review report (following the preparation of annual financial statements) that is presented to the Chief Executive. The report will include:

- a recommendation as to changes, deletions and additions to the policy;
- an overview of the treasury function in achieving the stated treasury objectives and performance benchmarks; and
- a summary of breaches of policy and one-off approvals outside policy.

The Council receives the report, approves policy changes and/or rejects recommendations for policy changes. The policy review should be completed and presented to the Council within five months of the financial year-end.

13. . REPORTING

Council and management reporting on treasury activities is based on comprehensive and regular communication of the following areas to ensure high standards of governance and control:

- Policy compliance
- Risk/exposure position
- Performance

Council ensures reporting of the Liability and Investment Management Policies is consistent with the requirements of the LGA.

14. . DEFINITIONS

Net External Debt: Net debt is defined as total debt less liquid investments/cash equivalents. When calculating net debt, the LGFA allows the deduction of:

- 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.
- LGFA borrower notes can be deducted.
- Any council lending to a CCO or CCTO can also be deducted but only where the CCO or CCTO is a going concern and not dependent upon council financial support.

Annual Rates Income: The amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

Cash/cash equivalents: Assets defined as being:

- overnight cash deposits;
- wholesale/retail bank term deposits no greater than 30-days; or
- RCDs less than 181 days.

Core External Gross Debt: The total external debt maturing beyond 12 months.

Floating Rate: any interest rate obligation subject to movements in the applicable reset rate.

Investment Property: Properties owned by MDC which MDC is actively seeking to sell/dispose or properties held for strategic purposes but are not part of MDC's current service delivery needs.

Liquidity Ratio: External term debt plus unutilised committed bank facilities, plus cash/cash equivalents, divided by current external debt.

Net Debt: Total consolidated debt less cash/cash equivalents and financial investments.

Net Interest on External Debt: The amount equal to all interest and financing costs (on external debt) less interest income for the relevant period (and includes interest from MDC's externally managed investment funds).

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

15. . RELATED DOCUMENTS

Governance Delegations Manual
CE and Staff Delegations Manuals
Corporate Risk Management Policy
Treasury Procedures and Process Manual

16. . VERSION CONTROL

Version	Date	Summary of Amendments	Approved By
	24/06/2020	As per Amendments approved by A&R Committee (see marked up version)	Audit & Risk (May 2020) Council (24 June 2020)

Appendix 1: Approved Financial Instruments

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

Category	Instrument
Cash management and borrowing	• Bank overdraft • Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) • Loan stock /bond issuance • Floating Rate Note (FRN) • Fixed Rate Note (Medium Term Note/Bond) • Commercial paper (CP)/Promissory notes • Committed stand-by facilities from the LGFA • Forward starting committed debt with the LGFA
Investments	• Bank call/term deposits • Bank registered certificates of deposit (RCDs) • Treasury bills • LGFA FRNs/bonds/CP/borrower notes • Local Authority/State Owned Enterprise (SOE) Medium Term Notes (MTNs)/CP/bonds and FRNs (senior) • Corporate CP/MTNs/FRNs bonds (senior) • Building societies short term deposits (up to three months)
Interest rate risk management	• Forward rate agreements (FRAs) on bank bills • Interest rate swaps including: - Forward start swaps/collars. Start date <24 months, unless linked to existing maturing swaps/collars - Swap extensions and shortenings • Interest rate options on: - Bank bills (purchased caps and one for one collars) - Interest rate swaptions (purchased swaptions and one for one collars only)
Foreign exchange management	• Spot foreign exchange • Forward exchange contracts (including par forwards) • Purchased options and collars (1:1 only)

Any other financial instrument must be specifically approved by the Council on a case-by-case basis.

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

expressly excluded;

- Structured debt where issuing entities are not a primary borrower/ issuer.
- Subordinated debt (other than Borrower Notes subscribed from the LGFA), junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

Appendix 2: Investment Counterparty Limits

Counterparty /Issuer	Minimum S&P long term/short term credit rating	Investments maximum per counterparty ($m)	Risk management instruments maximum per counterparty ($m)	Total maximum per counterparty ($m)	Maximum investment portfolio percentage
NZ Government	N/A	Unlimited	None	Unlimited	Unlimited
Local Government Funding Agency (LGFA)	AA-/A-1	10.0	None	10.0	< 35%
NZ Registered Bank (minimum rating)	A /A-1	6.0 (with the exception of Council's transactional bankers[1] which may exceed this for up to 5 working days and when funds are held as pre-funding to match loan maturities)	10.0	20.0	100%
Local authorities	A /A-1	1.5	None	1.5	< 35%
SOEs and Corporates	BBB /A-2	No more than $0.5m with any single issuer with BBB credit rating.	None	1.5	<35% exposed to SOEs/ corporates < 10% exposed to BBB credit ratings.
Building Societies, incl Wairarapa Building Society[2]	BB+ (long term)	2.5	None	2.5	< 15%

Note

Note 1: Limit for Council's principal bankers (Westpac & ANZ) excludes balances in current and call accounts designated as working funds required for operational cash management purposes and deposits held as pre-funding of an up-coming loan maturity.

Note 2: Limit excludes funds held and invested on behalf of other entities.

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

- Investments (e.g. Bank Deposits) – Transaction Principal Weighting 100% (unless a legal right of set-off exists).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional Maturity (years) 3%.
- Foreign Exchange - Transactional face value amount x (the square root of the Maturity (years) x 15%).