Northland REGIONAL COUNCIL
Te Kaunihera ā rohe o Te Taitokerau

Treasury Risk Management Policy

Effective from 28 May 2024

TREASURY RISK MANAGEMENT POLICY

including Liability Management and Investment Policies

ADOPTED 28-MAY 2024

Contents

1. Introduction

Northland Regional Council (council) undertakes borrowing and investment activities, which in total are referred to as treasury activity.

This document provides the framework for all of council's treasury activities and defines the operating parameters within which borrowing, investment and related risk management activities are to be undertaken.

This Policy Includes council's Investment Policy as well as its Liability Management Policy, as required under Sections 102, 104 and 105 of the Local Government Act (2002) (LGA).

2. Purpose

The purpose of this Treasury Risk Management Policy (Policy) is to outline council's principles for its treasury activity to ensure treasury risks such as interest rate risk, foreign exchange risk, liquidity risk counter party credit risk are effectively, efficiently and prudently managed.

This is achieved by adhering to principles contained in relevant policies and other documents, such as:
- Liability Management Policy
- Investment Policy
- Revenue and Financing Policy
- Delegations Manual (part D)
- Long Term Plan (LTP) including the council's Financial Strategy
- Annual Plans
- Statements of Investment Policies and Objectives (SIPOs).
- Investment & Property and Audit & Risk subcommittee terms of reference.

3. Requirements and Objectives

3.1 Statutory requirements

All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments, and lending arrangements with CCOs and CCTOs) will meet the requirements of the LGA and comply with the Liability Management Policy and Investment Policy.

Council is governed by the following relevant legislation:
- Local Government (Rating) Act 2002, in particular Part 6 including sections 101,102,104,105, and 112 to 116
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4
- Local Government Borrowing Act 2011
- Public Bodies Lease Act 1969 and Property Law Act 2007
- Trusts Act 2019

All projected borrowings will be approved by the Council as part of its Annual Plan or Long Term Plan process or by resolution of Council before the borrowing is undertaken

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

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

Other instruments not specifically referred to in this policy may only be used with specific Council approval.

3.2 General objectives

The key objective of this Treasury Risk Management Policy is to prudently control and manage borrowing costs and investment returns that influence council's budgets, the council's reliance on rates, and hence fairness to current and future ratepayers.

Specific objectives of treasury activities are as follows:

- Prudently manage the investment framework, allowing optimised returns in the long term whilst balancing risk and return considerations.
- Manage debt to optimise the cost of funding for council within risk management parameters acceptable to Council.
- Maintain sufficient funds to meet both planned and reasonable but unforeseen expenditure
- Ensure any externally managed funds comply with council's formal Statement of Investment Policy and Objectives (SIPO), which is to be read in conjunction with, but is a separate from this policy document.
- Reduce the volatility of the council's reported financial performance
- Implement mitigation strategies to reduce treasury risks so as to protect council's financial assets Ensure adequate controls exist to safeguard the council's financial assets and prevent unauthorised transactions
- Monitor, evaluate and provide timely reporting to the CEO and council on treasury activities and risk management.

By doing this we will maintain confidence in the creditworthiness and integrity of the council through positive relationships with financial institutions, investors and investment counterparties.

4. Roles and Responsibilities

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

A summary of treasury roles and responsibilities is below. All treasury activity will be in accordance with what council has approved, as per the relevant policies documents outlined in the purpose of this policy.

Council	Approve and amend this Policy incorporating the following delegated authorities: • debt limits • respective authority levels delegated to the CEO and other management. • counterparties and credit limits. • risk management methodologies and benchmarks Approve the external debt programme for the year through the Long- Term Plan or Annual plan Approve new lenders and new borrowings Approve acquisition or disposal of strategic assets, property or forestry Approve new fund managers, new externally managed funds and SIPOs. Approve withdrawals from the Long term Investment Fund Authorise bank signatories and ratify the opening and closing of bank accounts

	Council may delegate all or any of the treasury responsibilities to a council specified committee or the CEO Review and approve this policy (and any changes required from time to time) at least every three years in conjunction with the Long Term Plan.
Investment and Property Subcommittee	Contribute to the review of this Policy Recommend SIPOs and fund managers to council Determine the means of reporting and monitor and report on the financial performance of externally managed fund portfolio. Manage the mix of investments in externally managed funds, recommend action on forecast variances against budgets, and invest and withdraw between fund managers (in line with SIPOs) Delegated authority as per subcommittee terms of reference.
Audit & Risk Subcommittee	Monitor and review this policy and recommend any policy changes to council Monitor, review, and revise as appropriate, the performance of the treasury function including risk management strategies, and report to council. Delegated authority as per subcommittee terms of reference.
CEO	While Council has ultimate responsibility for this policy and the management of its risks, it delegates overall responsibility for the day-to-day management of such risks to the CEO. It is the responsibility of the CEO to: Manage investments (with Investment and Property Sub-committee) Manage liabilities (with Audit and Risk Sub-committee) Authorise withdrawal from, and investment in, the Short Term Investment Fund Withdraw and invest funds held in Term Deposits being self-managed cash reserves Manage new debt and refinancing of existing debt, and sign off relevant documentation Report on treasury performance including the effective management of risk management strategies Manage foreign exchange risk arising from non NZD denominated investment funds Ensure the GM-CS is fulfilling their responsibilities.
GM - CS	Establish appropriate structures, procedures, controls, segregation of duties and reporting requirements, to support all treasury activities and ensure council's treasury activities comply with all relevant legislation Oversee cash requirements and day-to day treasury functions, banking and payments and sign off relevant documentation Recommend Treasury Management policy changes to Council for approval Recommend new counterparties and limits based on long-term credit ratings (Standard & Poor's, Fitch or Moody's). Consider external advice and assistance required to manage treasury activities Monitor all investments, report on risk/return on portfolio components and the portfolio as a whole.
Finance Manager	Manage, monitor and review treasury activity and outcomes and report performance and compliance against policy. Report to GM-CS, CEO, relevant subcommittees, and council Ensure that incompatible duties are segregated between staff that can enter transactions, and those that can control check and confirm those transactions.
Finance Team	Day-to-day treasury activities and transactions, including fixed and floating debt, internally managed funds, cash management, risk management & reporting – within policy limits and delegated authorities and in accordance with established internal controls, procedures and segregation of duties.

5. Risk Recognition/Identification Management

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

5.1 Liquidity

Liquidity risk is the potential inability of council to meet its financial obligations as they fall due, in normal or abnormal operating conditions.

Liquidity risk arises though:

- Short term receipts and payments timing being mismatched
- Assets and liabilities not maturing evenly over time
- Market disruption
- Significant deterioration of the quality of council assets
- Significant deterioration of Council's counterparty credit risk
- Negligent management or fraudulent activities.

Liquidity risk management:

Liquidity risk management is the management of liquid assets and funding sources to meet both short and long-term commitments as and when they fall due. The key outcome of effective liquidity management is to optimise the cash held by the council at all times. Liquidity management is therefore the management of liquid assets and funding sources (including debt funding) to ensure immediate cash resources are accessible for both short and long-term commitments, and any emergency response requirements as and when they fall due.

Primarily, council will meet their need for cash at any time from the Short Term externally managed Investment Fund (STF), a managed fund of short duration investments. In most cases, surplus cash will be immediately invested in the STF or directly with banks as cash or term deposits.

The council minimises its liquidity risk by:

- ensuring that the sum of external debt, available committed facilities, and liquid funds (liquid investments) is greater than 110% of external debt (liquidity ratio)[1]
- maintaining accurate cashflow forecasts and using these to ensure the council always has sufficient liquid funds available to meet both planned and reasonable unforeseen funding requirements and assist making debt funding decisions.
- ensuring a suitable contingency is always available for unforeseen reasonable cash requirements and the liquidity ratio (set and considered in conjunction with council's Treasury advisors) is adhered to.
- managing council's mix of liquid and illiquid investments, and the duration of our financial investments to meet future cash flow projections and forecast debt positions (as outlined in the Annual and Long-Term plans).
- avoiding maturity and interest rate re-pricing concentrations by (where appropriate) ensuring rates do not mature on the same dates.

- Endeavouring to smooth loan repayments over time to avoid concentrating cash outflows into short periods of time.
- Accumulating and holding funds to repay debt
- Adhering to the Liquidity risk limits are set out int in the **Appendix One: Schedule of Treasury Limits**

5.2 Interest Rate

Interest rate risk is the risk that funding costs due to adverse movements in market wholesale interest rates will exceed the Annual Plan or the LTP cost projections so as to adversely impact on revenue projections, borrowing costs, capital investment decisions and the feasibility of some projects and work programmes.

The council has interest rate risks related to its cost of borrowings, and interest rate revenues related to its cash and cash equivalents (including term deposits and bonds).

Interest rate risk management:

The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements.

The council minimises and manages its interest rate risk by:

- targeting a mix of fixed and floating borrowing rates based on assessment of market conditions at the time.
- Seeking to avoid the concentration of interest rate repricing at any time
- Adhering to the maturity profiles and limits set out in **Appendix One: Schedule of Treasury Limits**

5.3 Counterparty credit

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

Counterparty credit risk management:

The primary objective of Counterparty credit risk management is to spread approved financial instruments among a wide range of approved counterparties as practicable to avoid concentrations of credit risk.

The council minimises and manages its counter party credit rate risk by:

- only invest and place deposits with creditworthy counterparties.
- avoid undue concentration of exposures, by using financial instruments with as wide a range of counterparties as possible, including investments through the externally managed fund SIPOs.
- Spreading, where possible, transaction notional sizes and maturities
- Periodically seeking independent advice to ensure Council assets are safeguarded.
- Adhering to the Counterparty credit Limits and acceptable credit ratings outlined in **Appendix One: Schedule of Treasury Limits, and Appendix Two: Schedule of Counterparties.**

5.4 Foreign exchange

Foreign exchange risk is the risk of financial losses (realised or unrealised) arising from an unforeseen movement in relevant exchange rates.

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

Council has indirect foreign exchange exposure through externally managed funds under the investment SIPO relating to all NZD denominated funds

The Council also has foreign exchange exposure through a portion of the underlying assets in its externally managed fund portfolio that are invested in AUD denominated funds. As such, returns may be affected by movements between the Australian dollar (AUD) and New Zealand dollar (NZD). As an indication at 30 June 2023 Council had NZD11million invested in AUD investments. Based on this level of investment in AUD, a 1 cent increase in the NZDAUD FX Cross rate would have a detrimental unrealised impact on council's financial position of $110,000.

The council minimises and manages its foreign exchange risk by:

- Each Externally managed investment fund is governed and managed by the terms of a Statement of Investment Policy and Objectives (SIPO). The SIPO is approved by council resolution and stipulates the limit of investment in non-NZD denominated funds
- The council (via its CEO) is responsible for the funds' foreign exchange risk exposure, which results from the purchase and sale of AUD denominated assets, the portfolio requiring an associated foreign exchange transaction selling or buying NZDs.
- Underlying Fund Managers may at their discretion hedge foreign currency denominated investments back to the underlying funds denominate currency in accordance with the investment management agreements and /or governing documents referred to in the application form(s).
- **not** entering into any debt denominated in a foreign currency.
- Adhering to the Foreign exchange risk limits outlined in **Appendix One: Schedule of Treasury Limits.**

5.5 Operational and legal

Operational risk is the risk of financial or reputational loss due to human error (or fraud), system failures and inadequate procedures and controls.

Legal risks relate to the unenforceability of a transaction due to the council not having the legal capacity or power to enter into the transaction, usually because of prohibitions contained in legislation.

The council may be exposed to such risks if it is unable to enforce its rights due to deficient or inaccurate documentation.

The council minimises and manages its operational and legal risk by:

- Maintaining written instructions for all standard treasury transactions and procedures
- using expert advice for any non-standardised transactions
- segregating duties between staff that can enter transactions, and those that can control, check and confirm those transactions.
- segregating duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting
- maintaining and complying with financial delegations as outlined in the delegations manual

- using 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
- ensuring legal agreements are reviewed by council's legal advisors
- ensuring financial covenants are not breached
- ensuring all parties involved in treasury transactions and are aware of the policies and procedures that must be complied with.
- not entering into Financial instruments if the systems, operations and internal controls do not satisfactorily support the measurement management and reporting of the risks
- adhering to the operational treasury management procedures outlined in **Appendix One: Schedule of Treasury Limits.**

6. Measuring and Reporting Treasury Performance

The performance of Council treasury management function is regularly reviewed to ensure the Council's strategic objectives are being met. Both treasury performance and policy compliance are measured against adherence to policy and reviewed through quarterly reporting to the Audit and Risk Subcommittee

The performance of the externally managed funds will be monitored against the agreed benchmarks in this policy and the Statements of Investment Policy and Objectives (SIPO) and reported to the Investment and Property Subcommittee on a monthly basis.

Reports will be developed by independent professional advisors and staff. A template of the summary reporting structure is in appendix 2.

7. Departures from Policy

The Council may, in its discretion, depart from this Policy while there is plan of action rectifying any departure or where it considers that the departure would advance its broader social or other policy objectives. Any resolution authorising a financial instrument under this provision shall note that it departs from the Council's policy and the reasons justifying that departure.

8. Review of Policy

In line with section 102(5) of the LGA, there are no mandatory requirements to consult nor amend council's Liability Management Policy or Investment Policy.

This policy including the Investment policy and liability management policy must be reviewed by an appropriate independent third party, on a no less than three-yearly basis, as part of preparing the Long-Term Plan. Amendments can be made through Council resolution any time within the three-yearly period.

9. Key relevant documents and Essential supporting information

Key relevant documents

This policy should be read in the context of the council's Financial Strategy, which outlines the key financial parameters and limits the council operates within; and the Revenue and Financing Policy which covers how the council funds its activities. Both these policies can be found in council's Long Term Plan.

Other relevant document

- Statement of Investment Policy and Objectives
- Investment Strategy
- Property Management Plan
- Forest Management Plan

10. Investment Policy

10.1 Purpose

Section 102 of the LGA requires the Council to adopt an Investment Policy, Section 105 of the LGA outlines the contents of the council's policies in respect to investments including To present Council's policy for investments including:

- the mix of investments,
- the acquisition of new investments,
- an outline of the procedures by which investments are managed and reported on
- an outline of how risks associated with investments are assessed and managed.

The investment policy forms part of the Treasury Management policy.

10.2 General policy and objectives

Council seeks to achieve a net realised return on its overall investment portfolio of 5% per annum, and a return of at least 7% per annum across its whole investment portfolio inclusive of unrealised revaluations. The methodology to derive council's actual performance is set out in **Appendix 2: Framework for assessing returns across Council Investment portfolio.**

The council recognises that as a responsible public authority, all investments held should be prudently managed and have an appropriate balance between council's risk appetite and the returns generated. Council recognises this approach generally means lower returns.

The council's risk appetite is defined as its level of willingness to be exposed to the risk of loss of its capital.

Council's primary investment objective is the protection of its investment capital, This means only creditworthy counterparties are acceptable. Within the credit constraints applicable council seeks to create an investment portfolio and manage it in such a way as to:

- balance preservation of the council's capital with its expectations of returns and risk
- supply the liquidity requirements of the council, and
- consider the council's aspiration to invest ethically.

Where a key driver of an investment is economic wellbeing of Northland, the council may accept a higher risk or lower return.

The council will take a limited active approach to portfolio management, and manage its investment portfolio on advice from suitably qualified external advisors.

Council's externally managed investment fund portfolio is governed by the Statement of Investment Policy and Objectives

This policy prohibits direct investment in:

- derivative instruments such as futures (except for hedging purposes)
- speculative products or use of structured products
- securitised products.

10.3 Responsible investments

Responsible investment, including environmental, social and governance considerations (ESG), is considered in council's investment decision making process to ensure that all relevant factors are accounted for when assessing risk and return.

Responsible investing does not require ruling out opportunities, but it does require decision makers to incorporate ESG information into investment and debt funding decisions to identify and consider activities known to be socially, culturally and environmentally detrimental.

ESG factors are numerous and continually changing.

- Environmental factors include climate change, greenhouse gas emissions, resource depletion, waste and pollution, and deforestation.
- Social factors include working conditions, local communities, conflict, health and safety, and employee relations.
- Governance factors include executive pay, bribery and corruption, board diversity and structure, and tax strategy.

Council's independent Investment advisors must screen potential investments from an ethical perspective to ensure they meet the following criteria as an important part of our due diligence process.

The Council will look to avoid holding investments in companies whose principal business activity is:

- The exploration, extraction, and processing of fossil fuels,
- the manufacture and sale of military weapons and civil firearms,
- the manufacture and sale of tobacco and alcohol,
- the manufacture and sale of nuclear power,
- the manufacture, sale and promotion of gambling or adult entertainment

10.4 Investment Mix

The council will continually evaluate its investment mix in conjunction with advice from independent professional advisors, and consideration to its investment objectives, maturity, risk and return profiles, the current market conditions, and the council's view to invest ethically.

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

10.4.1 Equity Investments

Council controlled organisations

The council's shares in council-controlled organisations are held for operational reasons, hence are not part of its investment portfolio.

Marsden Maritime Holdings Limited

The council has a majority shareholding in the subsidiary organisation Marsden Maritime Holdings Limited, the port company.

Periodic returns on Marsden Maritime Holdings Limited include dividends and changes in share price.

The Local Government Act 2002 (LGA) classifies a local authority's shareholding in a port company as a strategic asset. As such:

- a special consultative procedure must be adopted and followed before any transfer of ownership or control is made (LGA, s84(3)).

- it is exempted from publishing a Statement of Intent.

The council has also determined Marsden Maritime Holdings Limited (and the Northport shares held by it) to be a strategic asset in terms of the community. The port's activities are integrated with the economic structure of Northland. Whilst the council will continue reviewing ownership options, its strategic intent is to remain a long-term majority shareholder.

The council manages the risk of this investment through exercising governance through the constitution, the interim and annual reports, and appointments to the board of directors. The Chief Executive Officer is the reporting officer to the council on matters affecting the company. The council reviews the company's strategic intentions every three years and seeks professional advice when appropriate.

Other Indirect investment in Equities

The Council may indirectly invest in a diversified mix of New Zealand, Australian and Global equity markets and private equity funds as part of it Externally managed investment fund portfolio.

10.4.2 Property

The key objectives and risks associated with council's commercial land, building, and ground lease portfolio are contained within the Property management plan.

Variable returns on property include rents and lease income, and changes in capital value.

In respect of leasehold land, subject to the powers and provisions conferred under the LGA, Public Bodies Leases Act 1969 and the Property Act 2007, the sale of any ground leases and approval of lease discounts[2] require council approval.

The council will follow the legal obligations and restrictions on the council in disposing of any endowment property. These are outlined in the LGA, s140-141.

Risks associated with holding investment property are minimised by undertaking regular reviews of the property portfolio to ensure objectives are being met. The council seeks professional advice regarding these investments when appropriate.

10.4.3 Forestry

Council's objectives and risks associated with holding a forestry investment are contained within the Forest Management Plan.

Periodic returns on forestry include harvest revenue net of maintenance and harvest costs, and changes in crop value.

Where the council invests in forestry, a forest management plan will be in place to mitigate the operational and revenue risks. These will be prepared triennially and submitted to council for approval.

10.4.4 Cash and cash equivalents

Investments in cash and cash equivalents will be restricted to a term that meets future cash flow projections, and mindful of forecast debt associated with future capital expenditure programs as outlined within the council's Long Term Plan.

To mitigate credit risk, the council will only invest in widely traded financial instruments with creditworthy counterparties.

The council will actively manage underlying interest rate exposures, to reduce uncertainty about interest fluctuations.

This excludes cash components of externally managed funds.

10.4.5 Externally managed funds

The council may invest in externally managed funds. The Council is responsible for setting a externally managed funds Investment Strategy, including the level of risk and investment performance objectives after taking advice from the Independent Investment advisor and independent treasury advisor.

The risk and return profile for each managed fund and approved investment categories are outlined in council's Statement of Investment Policy and Objectives (SIPO). Each externally managed fund is managed in accordance with council's SIPO. If there is any conflict between this policy and the SIPO, the SIPO takes precedence.

Financial instruments and credit restrictions for funds under management in externally managed funds are separate to those detailed in this policy.

Any decision to invest in externally managed funds should be considered in the context of portfolio management undertaken by management.

10.4.6 Loans granted to Community Organisations

The Council may grant loans to community organisations on a case by case basis subject to available funding and the appropriate security and repayment ability of the organisation.

Any on lending of external debt to a community organisation should be undertaken in line with the Maturity Matching principle, that is the term of the loan issued should match the material terms and conditions (including but not limited to the maturity and interest rate repricing) of the loan used to finance it.

In the event of receiving early repayment of a loan issued council will recover any break costs or related fees.

10.5 Acquisition of new investments

The council will not seek to acquire or dispose of strategic assets, property or forestry unless approved by council resolution.

11. Liability management policy

11.1 Purpose

Under Section 102 of the Local Government Act 2002 it states that a local authority must adopt a Liability Management Policy with Section 104 of the Act outlining the contents of such a Policy.

This document covers council's management of all debt as defined in Section 112 of the LGA and the Local Government Borrowing Act 2011(LGBA), as well as management of other liabilities including its policies on interest rate exposure, liquidity, credit exposure and debt repayment.

The liability management policy forms part of the Treasury Management policy

11.2 General policy and objectives

Liabilities comprise debt (external/internal) and various other liabilities.

Council maintains external debt in order to:

- Raise specific debt associated with projects and capital expenditures.
- Fund the balance sheet as a whole, including working capital requirements.
- Fund assets whose useful lives extend over several generations of ratepayers.
- Raise specific debt for on-lending to CCO/CCTOs.

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

The council considers and approves its forecast debt requirements by approving the financial projections in each Long Term Plan and Annual Plan.

The council can borrow for capital, and operational projects and work programmes, as it considers appropriate and commercially prudent to do so.

To fund its activities, the council can borrow internally, or externally through a variety of financial instruments, and from a range of market mechanisms, including from the Local Government Funding Agency (LGFA)

The council considers the impact on debt limits, the size and economic life of that asset that is being funded and its consistency with the current Annual and Long Term plans before approving new debt.

In evaluating strategy for new debt (in relation to source, term, size, pricing, and purpose) the council will take advice from its Independent Treasury advisors and consider:

- Available terms from banks, capital markets and loan stock issuance (including LGFA)
- Prevailing interest rates and margins
- The risk management parameters in respect to liquidity, interest rate and credit parties as set out in **Appendix One: Schedule of Treasury Limits.**
- Accessing internal reserved funds as a source of debt funding.

The council will not enter any debt denominated in a foreign currency.

The council will accumulate and hold funds to repays its debt.

The council will borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect the Council's financial assets and manage costs.

The council will ensure that all statutory requirements of a financial nature and the terms, financial ratios and limits outlined in **Appendix One: Schedule of Treasury Limits** are adhered to.

11.3 New Zealand Local Government Funding Agency Limited

The Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) to fund its investment in capital and operational projects and work programmes, and in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowings back to the LGFA as an equity contribution to the LGFA in the form of borrower notes
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required
- Subscribe for shares and uncalled capital in the LGFA
- 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.
- Access standby facilities from the LGFA as an alternative to Banks

11.4 External Debt limits

External Debt and interest rate exposure limits ensure compliance with any applicable covenants from external lenders. Although, the council may set limits lower than the lenders' covenant limits if it considers this to be prudent.

The Council's debt levels will be reviewed as economic conditions change and will be managed within the limits set out in **Appendix One: Schedule of Treasury Limits.**

11.5 Internal Borrowings

Internal borrowing sourced from the Council's general funds are allowed as a valid means of funding both capital expenditure and working capital.

The primary objective in funding internally is to use funds efficiently, by eliminating the margin that would be paid through council separately investing and borrowing externally.

Council will consider the use of internal borrowing in conjunction with advice from council's independent Treasury advisor.

Any internal borrowing of reserve funds used must be reimbursed for any revenue lost. Interest rates on internally funded loans are set in line with the 3 year average return generated by the funding source as advised by council's Independent investments advisor, at the commencement of the arrangement.

11.6 Security

The Council's external debt and interest rate management instruments will generally be secured by way of a charge over rates and rates revenue through a Debenture Trust Deed. Under a Debenture Trust Deed, council's debt is secured by a floating charge over all of council's rates under the Local Government (Rating) Act 2002. The security offered by council ranks equally or pari pasu with all lenders. A debenture Trust Deed is required to borrow through the Local Government Funding Agency.

11.7 Debt repayment

It is a council priority to reduce its long-term debt by ensuring that loan capital is reduced and/or repaid upon maturity, using one or more of:

- Surplus operating funds
- Rating revenues established for that purpose
- Surplus proceeds from investment if asset sales
- Regular instalments of principal and interest
- Refinancing with new debt

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

In cases where an asset funded by debt has an intergenerational useful life, intergenerational debt may be considered. (i.e. part repayment at time of maturity and concurrent drawdown of the remaining balance with a view to repay at maturity)

When the council raises debt:

1. The loan will be drawn down as required to fund activities
2. Targeted rates will be collected immediately and invested until needed to repay the loan
3. At the end of the loan term, the full loan will be repaid
4. Further loans may be raised while others are in progress

Loans may be raised in advance of maturing debt to pre-fund the upcoming debt maturity, with proceeds being placed on a contracted term deposit airmarked to repay the existing debt.

Committed funding (all loans and committed facilities) will be managed to the Funding Maturity limits outlined in **Appendix One: Schedule of Treasury Limit** to ensure a staggered maturity profile, unless council's independent treasury advisor deems it prudent to depart from these limits.

11.8 On-lending to Council controlled Organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to Council Controlled Organisations (CCO's) or Council Controlled Trading Organisations (CCTO's).

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

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

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

- Impact on Council's credit standing, debt cap amount (where applicable), lending covenants with LGFA and other lenders and Council's future debt 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 parties.
- Accounting and taxation impact of on-lending arrangement.

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

Appendix One: Schedule of Treasury Limits

12.1 Debt ratios and limits

Total external debt levels will be managed within the limits detailed in the following table:

Ratio	
Net external debt / Total revenue	175% Limit
Net external debt / Total revenue (without a credit rating)	175% Limit
Net external debt / Total revenue (with a credit rating)	280% Limit
Net interest / Total revenue	20% Limit
Net interest / Annual rates	25% Limit
Liquidity	110% Minimum

Total Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue. Revenue excludes fair value gains on revaluation of council assets and any vested assets.

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

Liquidity is defined as the sum of external debt plus committed loan facilities plus liquid investments divided by external debt.

Liquid investments are defined as being:

- Overnight bank cash deposits
- Wholesale/retail bank term deposits that mature within 30 days.
- 75% of Investments in Externally Managed funds after excluding all Private equity investments.

12.2 Liquidity limits

Liquidity must be maintained as detailed in the above section – Debt Ratios and Limits.

Future cashflow

Cash held for future cashflow (for the month being forecast) shall be the amount required to fund council's forecasted:

- operational expenses +20% contingency
- capital expenses +20% contingency
- Loan repayments related to council projects for which rates are or have been levied

The cash held requirement shall be forecasted monthly and monitored daily.

12.3 Interest rate risk management

Exposure to interest rate risk is managed and mitigated through the risk controls limits below:

12.3.1 Fixed Rate Maturity/repayment profile of Debt

The maturity profile of the fixed rate debt must be within the following maturity (repricing) bands:

Maturity Period	Minimum Fixed Rate Exposure	Maximum Fixed Rate Exposure
0 to 3 years	15%	100%
3 to 7 years	25%	85%
7 years plus	0%	60%

- Fixed rate debt is defined as gross external debt with an interest rate repricing beyond 6 months. Any debt with an interest rate repricing within 6 months is defined as floating rate debt.

- For any debt which is to be repaid by a specific targeted rate, council may:
  - have a maximum maturity profile in any one year of 100%.
  - have 100% of debt in fixed rate arrangements. This provides certainty that the total cost of borrowing and the principal will be met by the funds recovered through these rates.

- Any other maturity schedule outside these limits (besides the bullet-point immediately above) requires specific council approval at the time the new debt is approved.

12.3.2 Interest rate limits

Interest on external debt must be maintained as detailed in the above section – *Debt Ratios and Limits:*

12.4 Approved financial instruments

The following financial instruments are considered acceptable:

Category	Financial instrument
Cash management and external debt	Bank overdraft Committed cash advance and funding facilities (short term and long-term loan facilities) Forward starting committed term debt with the LGFA Loan stock / bond issuance Fixed rate note (MTN)
Investments <181 days	Short term bank deposits Bank registered certificates of deposit (RCDs)
Investments (other)	LGFA borrower notes Bank term deposits linked to pre-funding maturing debt

	Indirect investment in New Zealand, Australian and Global equity markets, and private equity funds (as part of it Externally managed investment fund portfolio)
Interest rate risk management	Forward rate agreements (FRAs) on bank bills Interest rate swaps including swap extensions, deferrals 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	Foreign currency deposits Spot foreign exchange contracts Forward foreign exchange contracts Purchased currency options

- All investment securities, other than those approved as part of the SIPO, must be senior in ranking.
- Any other financial instrument (including risk linked securities) must be specifically approved by the council on a case-by-case basis and only be applied to the one singular transaction being approved.

12.5 Counterparty Credit limits

The following guide summarises the acceptable counterparties and limits.

Counterparty/issuer	**Minimum long term/short term credit rating – stated & possible**	**maximum exposure per counterparty ($m)**
NZ Government	N/A	Unlimited
Local Government Funding Agency (LGFA)	N/A	20.0
NZ registered Banks & Supernationals	AAA	30.0
RBNZ Registered banks	AA- /A1	40.0
	A-/A1	20.0
	ASB Bank Limited (AA-)	40
	ANZ Bank Limited (AA-)	40
	Bank of New Zealand (AA-)	40
Local government stock/ bonds/ floating rate note/ commercial paper	A- / A2 (if rated) Unrated	20.0 5.0
Corporate counterparties bonds/ commercial paper/ settlement risk	A- / A2 BBB / A2	2.0 1.0
Fund Managers settlement risk	As per SIPO	The lessor of 20% of external fund or $15M

Refer to Appendix 3 for a summary outlining the actual counterparties names and the limits in place.

12.6 Foreign exchange (FX) risk Management

The management of FX risk involve management using discretion within risk control limits and considering a range of influencing factors as follows:

- Managements views and outlook,
- Weighted average entry level of funds invested,
- Current spot rate compared to 7-year average spot rate,
- Views and outlook of council's independent financial advisor, independent treasury advisor and independent investment advisors.
- A maximum of 20% of the aggregated sum of the Long-Term Fund (LTF) is permitted to be invested in non-NZD denominated funds.

12.6.1 Hedging Limits – Non-NZD denominated investment funds

As at 30 June 2023 Council had NZD11m invested in AUD investments. A 1 cent increase in the NZD/AUD FX cross rate has a detrimental unrealised impact on council's financial position of $110,000. This is below the level of materiality ($150,000). There is no minimum requirement to hedge the FX risk associated with the investment in non-NZD denominated investment funds. In the event that the materiality threshold is exceeded this policy will be reviewed.

Hedging limits apply on a currency-by-currency basis as shown below: **% of Non-NZD denominated funds hedged (FEC and FX Swaps)**	
Minimum	Maximum
0	100

12.6.2 Hedging – Non-NZD denominated purchases of Expenditure Items (Capex and Opex)

Operational and/or Capital expenditure items in excess of NZD100,000 shall be immediately covered with a forward exchange contract.

12.7 Operational risk limits

Treasury procedures	Written procedures for the treasury management function must be maintained and complied with.
Delegations	• Staff must comply with the delegations manual at all times • All delegated financial authorities are reviewed at least every year to ensure they are still appropriate and current • a letter must be sent to all counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind council • whenever a person with delegated authority on any account or facility leaves the council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.
Authorising signatures	The CEO must sign off on all documentation for new debt, re-financings and investment structures.

	The CEO and GM-CS must sign off all documentation in respect of day-to-day treasury transactions.
Reporting	The council will comply with all obligations and reporting requirements under existing funding facilities and legislative requirements. There will be regular internal reporting on treasury activity. At a minimum, reports on treasury activity will be provided quarterly to the GM-CS. Reports on treasury activity will be provided on a quartery basis to council or a delegated subcommittee
Legal documentation	All legal documentation in respect to external debt and financial instruments will be approved by the council’s solicitors prior to the transaction being executed.
Legal agreements	Financial instruments will only be entered into with banks that have in place an executed ISDA Master Agreement with the council. In the absence of an ISDA document a “long form confirmation” is acceptable so long as a master ISDA is signed with the bank counterparty following the transaction.
Financial covenants	The council will not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. The council will comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

Appendix Two: Treasury Management Reporting Template (including Framework for assessing returns across council's Investment portfolio)

NORTHLAND REGIONAL COUNCIL TREASURY REPORTING				
Quarter Ending	**Jun-23**			
Summary				
Investment Portolio Realised Cash Return	X Last Quarter	X	X Next Quarter	Realised Cash retrun Target for councils overall portfolio = **5%**
Investment Portolio Total Return	X Last Quarter	X	X Next Quarter	Retrun Target for councils overall portfolio inclusing cash returns and unrealised revaluations = **7%**
Interest Rate Risk	✓ Last Quarter	✓	✓ Next Quarter	Interest rate risk is the risk that adverse movements in wholesale interest rates will adversley impact revenue, borrowing costs, and the feasibility of some projects
Liquidity Risk	✓ Last Quarter	✓	✓ Next Month	Liquidity risk is the potential inability of council to meet its financial obligations as they fall due, in normal or abnormal operating conditions.
Counterparty Credit Risk	✓ Last Quarter	✓	✓ Next Month	Counterparty risk is the risk of financial losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the council is a party.
FX Risk	✓ Last Quarter	✓	✓ Next Month	Foreign exchange risk is the risk of financial losses (realised or unrealised) arising from an unforeseen movement in relevant exchange rates.
Debt Convenants and Thresholds	✓ Last Quarter	✓	✓ Next Month	

Source: Finance\Investments\Advice and Reporting\Treasury reporting template – Demo

1. Interest Rate Risk Management

1.1 Interest Rate Covenants	Net Interest $m	Policy Limit $m	Notional %	Policy Limit %
Net Interest / Total Revenue	$0.1	< $15.6	0.1%	< 20%
Net Interest / Total Annual Rating Revenue	$0.1	< $10.9	0.3%	< 25%

2. Liquidity Risk Management

2.1 Liquidity covenant	Notional $	Policy Limit $m	Notional %	Policy Limit %
Liquidity	$39,834	$1,836	317.0%	> 110%

2.2 Funding Summary	Years	Maturing $,000	Maturing %	Policy Min %	Policy Max %
Debt instruments maturing	0 - 3	$0	0%	15%	100%
Debt instruments maturing	3 - 7	$0	0%	25%	85%
Debt instruments maturing	7+	$18,358	100%	0%	60%
Total		**$18,358**	**100%**		

Comment: $14.547m of councils total debt (18.358M) has a dedicated targeted rate repayment source. The remianing $3,811M (20%) is witin the 7+ yuear policy max % of 60%.

3. Counterparty Credit Risk Management

3.1 Counterparty	Notional $	Policy Limit M	Credit Rating	Credit Rating Policy
Local Governement Funding Agency	$373	N/A	N/A	N/A
ASB Bank Limited	$10,979	$40.0	AA-	AA-
ANZ Bank Limited	$2,599	$0	AA-	AA-
BNZ Bank Limited	$0	$0	AA-	AA-
Aspiring Asset Management	$4.48			
BlackRock Investment Management	$0.60			
Castle Point Funds	$9.70			
Castlerock	$0.88			
Continuity Capital Partners	$4.68			
CPE Capital	$0.13			
Direct Capital	$0.86			
Federation Asset Management	$1.20			
Fermat Capital Management	$0.67	$14.7	N/A	N/A
Harbour Asset Management	$6.56			
Milford Asset Management	$13.61			
Mint Asset Management	$8.53			
MLC Asset Management	$1.52			
Nanuk Asset Management	$0.97			
Oriens Capital	$0.35			
Pioneer Capital	$1.61			
Schroders Wealth Management	$3.56			

4. Foreign Exchange (FX) Risk Management

4.1 Investment in Non NZD denoimated currencies	Actual $M	Policy Limit $M	Actual %	Policy Limit %
20% of the aggregated Long Term Investment fund Balance	$11.07	$12.8	17%	20%
Materiality* 1% increase in the on councils financial position	$0.11	$0.15	N/A	N/A

4.2 Hedging Limits	Actual	Policy Min %	Policy Max %
Hedging Instruments	0%	0%	100%

*Comment: In the event that the materialy exceeds $150,000 the Actual Hedging will be reviewed

5. Debt Covenants & Thresholds

5.1 Requirement	Actual %	Policy %	Policy imposed by:
Net External Debt / Total Revenue	-28%	< 175%	LGFA
Net Interest / Total Revenue	0.1%	< 20%	LGFA
Net Interest / Total Annual Rating Revenue	0.3%	< 25%	LGFA
Liquidity	317%	> 110%	LGFA

5.2 List of instruments	Counterparty	Notional $m	Start Date	Maturity Date	Interest Rate
NZD Fixed Coupon Bond	NZ LGFA	$2.80	4/08/2017	13/08/2032	4.86%
NZD Fixed Coupon Bond	NZ LGFA	$3.81	7/05/2018	14/02/2033	4.77%
NZD Fixed Coupon Bond	NZ LGFA	$1.93	14/05/2018	14/02/2033	4.72%
NZD Fixed Coupon Bond	NZ LGFA	$1.02	22/02/2019	14/02/2033	4.00%
NZD Fixed Coupon Bond	NZ LGFA	$4.40	11/08/2020	14/04/2033	1.98%
NZD Fixed Coupon Bond	NZ LGFA	$4.40	2/06/2023	15/05/2028	5.25%
Total		**$18.36**			**4.2%**

6. Compliance Schedule

6.1 Requirement		Review: Freq/ Next	
Statement of Investment Policy and Objectives (SIPO)	✓	Annually	Aug-24
Treasury Risk Manangement Policy including Liability Management and Investment Policies	✓	3 Yrly	Nov-26
Authoried Signatories and delegated authorities	✓	Annually	Jul-24

Source: Finance\Investments\Advice and Reporting\Treasury reporting template – Demo

Framework for assessing returns across council's Investment portfolio

NRC INVESTMENT PORTFOLIO

2024 Q1 REPORTING (30 September 2023)

Asset item	Q4 2023 30 June 2023 $	Q4 2023 30 June 2023 % annualised	**Q1 2024 30 September $**	**Q1 2024 30 September % annualised**
CASH RETURNS				
Cash & Term deposits < 30 days	$1,336,167	3.41%	**$5,506,198**	5.50%
Term deposits 30 + Days	$3,041,043	3.41%	**$1,934,886**	4.64%
STF: Term deposits < 30 days	$3,000,000	2.57%	**$0**	5.44%
STF: Term deposits 30+ days	$1,019,013	-	**$0**	-
LTF: Term deposits < 30 days	$0	0.00%	**$0**	5.44%
LTF: Term deposits 30 + days	$5,182,013	3.46%	**$1,067,177**	6.00%
STF: Fund managers	$5,341,259	5.90%	**$10,816,305**	-0.20%
LTF Fund Managers	$59,011,565	5.70%	**$63,800,988**	-0.70%
Loan to NEST	$1,922,428	4.77%	**$1,922,428**	4.77%
LGFA Borrower Notes	$373,041	2.34%	**$373,041**	2.34%
Investment property	Refer below	4.42%	Refer below	4.24%
Shares in MMH	Refer below	2.80%	Refer below	3.02%
Forestry Crop	Refer below	-	Refer below	-
Total Cash Returns **KPI TARGET 5%**	$80,226,529	**3.91%**	**$85,421,022**	**0.73%**
NON CASH RETURNS				
Investment property	$75,753,394	4.0%	**$75,753,394**	-
Investment property developments in progress	$8,399,607	0%	**$8,399,607**	-
Shares in MMH ($4.72 at 30 Sept 2023)	$110,050,248	-13%	**$104,514,521**	-5.03%
Forestry Crop	$4,242,424	4%	**$4,242,424**	-
Forestry Land	$706,856	0%	**$706,856**	-
Carbon credit holding	$698,400	-47%	**$1,147,995**	64.37%
Total Non Cash returns	$199,850,929	**-6.8%**	**$194,764,797**	**-2.54%**
TOTAL CASH AND NON CASH RETURNS **KPI TARGET 7%**	$280,077,457	**-1.03%**	**$280,185,818**	**-1.08%**

Source: G:\FINANCE PERMANENT\Annual report\Annual Report 2022-23\Version 04 - ADOPTION\2. ANNUAL REPORT 2023 CORE WORKBOOK.xlsx<portfolio performance>

Appendix Three: Schedule of Named Counterparties.

Counterparty Name	Balance at 30 June 2023 $M
ASB Bank	13.5
ANZ Bank	2.6
Bank of New Zealand	0
NZ Local Government Funding Agency Ltd (Borrower Notes)	0.4
Aspiring Asset Management	4.5
BetaShares Grade Corporate Bonds	0
Castle Point Funds	9.7
Castlerock Partners	0.9
Continuity Capital Partners	4.7
CPE Capital	0.1
Direct Capital	0.9
Federation Asset Management	1.2
Fermat Capital Management	0.7
Harbour Asset Management	11.0
Milford Asset Management	13.6
Mint Asset Management	8.5
MLC Asset Management	1.5
Nanuk Asset Management	1.0
Oriens Capital	0.3
Pioneer Capital	1.6
Schroders Wealth Management	

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