Treasury Policy

1. General policy context

Hawke's Bay Regional Council's (HBRC) Treasury Policy is consistent with its objectives, Long Term Plan (LTP), Investment Strategy and Annual Plan. All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate risk management instruments) will meet the requirements of the Local Government Act 2002 (the Act) and incorporate the Liability Management Policy and Investment Policy. The policy is established in accordance with the following relevant legislation:

- Local Government Act 2002, sections 101, 102, 104, 112, 113 and 105. The policy covers Council's management of all borrowing, as defined in section 112 of the Act, as well as management of other liabilities. Section 113 of the Act prohibits Councils' from borrowing or entering into incidental arrangements denominated in other than New Zealand currency.
- In accordance with the Local Government Act, and by resolution, Council may borrow on such terms and conditions that it considers appropriate. HBRC uses short-term and long-term funding to achieve an effective borrowing mix and to balance the requirements of liquidity and funding risk management.
- Trusts Act 2019 - when acting as a trustee or investing money on behalf of others, the Trusts Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trusts Act 2019 Part 4 Investments.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Part 2 governing financial prudence.
- The definition of Strategic and Non-Strategic assets is outlined in the Significance and Engagement Policy.

2. General objectives

The objective of this Policy is to control and manage borrowing costs and investment returns that can influence operational budgets, public equity and the setting of debt levels. Specific objectives are to:

- manage investments to optimise returns in the long term whilst balance risk and return considerations
- balance the mix of financial investments and blended investments
- obtain an acceptable ongoing annual cash return from the investment portfolio as a whole
- ensure sufficient cash is available (liquidity) as needed to assist with the funding of HBRC's ongoing operations and to meet known and reasonably unforeseen funding requirements
- protect and maintain long-term gains in capital value of its investments for the benefit of future as well as current generations of ratepayers
- ensure externally managed investment funds protect the real capital value, and amounts available for distribution, between present and future ratepayer generations. Real capital value is the value that has been adjusted for the effect of inflation
- hold certain investments for strategic and non-strategic benefits as well as for the financial benefits to the region
- minimise liquidity risks and exposure to credit risk by investing and dealing with credit worthy counterparties
- develop and maintain relationships with financial institutions, credit agencies (if and when appropriate), the Local Government Funding Agency (LGFA), investment managers, investors and investment counterparties
- minimise HBRC's costs and risks in the management of its borrowings
- invest and borrow funds and transact risk management instruments within an environment of control and compliance under the Policy to protect HBRC's costs, returns and assets

- arrange and structure appropriate borrowing for HBRC at the lowest achievable credit margin from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this Policy
- monitor and report on financing/borrowing covenants and limits under the obligations of the HBRC's lending/security arrangements
- monitor, evaluate and report on Treasury performance
- ensure that all statutory requirements of a financial nature are adhered to
- ensure adequate internal controls exist to protect HBRC's financial assets and to prevent unauthorised transactions.

3. Investment Policy - purpose

As set out in the Investment Strategy, Council has three principal investment objectives as follows;

- to increase the region's wealth and prosperity through the investment portfolio
- to increase asset values within the investment portfolio
- to protect asset values so future generations can also benefit from the investment portfolio.

The purpose of the Investment Policy is to present HBRC's policies in respect to investments including:

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

4. Investment Policy - scope

HBRC has a significant portfolio of investments comprising of:

- Equity investments
- Property investments
- Forestry investments
- Treasury investments
- Externally managed investment funds.

Investments bound by this Policy are all of HBRC's financial assets and reserves, which are held to produce a financial return within accepted risk parameters, and help achieve its strategic economic objectives, while collectively retaining their real capital value over the period of their ownership. The real capital value is the current market value in New Zealand dollars (based on market or independent valuation) adjusted for movements in the consumer price index (CPI).

There are two investment categories that HBRC may invest in.

- **Financial investments** – the purpose of financial investments is to provide annual cash income at budgeted amounts and protect the real capital value of financial investments over time.
- **Blended investments** – the purpose of blended investments is to invest in projects that may have a combined objective of providing environmental or regional economic growth benefits as well as financial benefits. The return from blended investments will be taken into consideration as part of the total investment portfolio return requirements as part of the return targets.

5. Investment Policy - responsible investment

Investments will be made with judgment and care, under circumstances prevailing at the time that people of prudence, discretion and intelligence exercise in the professional management of financial assets.

HBRC does not make speculative investments (such as when there is not a legitimate underlying cashflow or asset) or any other investments not detailed within this Policy or Council's Statement of Investment Policy and Objectives (SIPO) document. Council has adopted an ethical-based investment strategy. This will involve companies and industries being reviewed for sustainability, socially responsible and ethical practices. Investments will be periodically reviewed against these principles; any contraventions discovered will lead to the prudent and timely divestment. Council's economic and financial objectives should be achieved by balancing potential risks.

Prudent investment management requires managing investment risk and return by consideration of the mix of investments by investment type, amount and location.

In its financial investment activity, HBRC's primary objective is to protect the value of its assets. Accordingly, investment may only be made in creditworthy counterparties having acceptable standing and credit ratings. Where investments are externally managed these activities are approved under a separate policy.

6. Investment Policy - ethical investment

Where practical, investments will consider the ethical practices of the investment entity. HBRC's intention for its investment portfolio is to avoid direct involvement with industries that have a negative impact on society and the environment. This includes but is not limited to:

- alcohol
- tobacco
- fossil fuels
- military/weapons.

7. Investment Policy - externally managed funds

Where Council funds are to be managed externally by suitably qualified Investment Managers, investment funds (Funds) are managed in line with a separate SIPO document. Any external investment manager will be appointed in the knowledge of and operate the portfolio according to, the investment guidelines outlined in the SIPO.

Council will be responsible for the following:

- Setting the Fund's Investment Strategy, including the level of risk and investment performance objectives, and investment policies.
- Formally reviewing and approving the SIPO annually, including the investment strategy, policies and manager configuration, and instructions to the investment managers.
- Formally fundamentally reviewing and approving the SIPO every three years. The review includes the investment strategy, return objectives, policies and manager configuration, and instructions to the investment managers.
- Ensuring that the level of redemptions from the Fund is consistent with the Fund's objectives to maintain equity, in terms of amounts available for distribution, between present and future ratepayer generations.
- Providing cash flow information to the investment managers with respect to future deposits to, and redemptions from the Fund.

The General Manager Corporate Services (GMCS) approves the amount and the timing of the funds available for divestment, that can be withdrawn from the externally managed funds. The funds that are available for divestment will be based on Council's cash flow requirements and the financial investment strategy. The amount will be retrospectively reported to Council.

The strategic asset allocation and tactical ranges of the externally managed funds is outlined in the approved SIPO document.

8. Investment Policy - mix of investments

Equity investments

HBRIC Ltd

Since its establishment on 1 February 2012, HBRC beneficially owns 100% of the shares in HBRIC Ltd, a company established to manage the Regional Council's corporate investments. The Regional Council's intention is for HBRIC (Hawke's Bay Regional Investment Company) to be the vehicle through which commercial investments are made.

HBRIC Ltd is classified as a strategic asset in terms of section 97 of the Local Government Act 2002.

A key requirement of the Regional Council is that HBRIC adopt an Investment Policy for the management of the investments that is consistent with, and reflects the purpose, objectives and requirements of Council's Investment Policy and Strategy. This will remain the overriding policy document for all HBRIC's investments, including any investment assets and externally managed funds. HBRIC will have its own board-approved SIPO document that governs the externally managed funds.

HBRC sets a series of performance and strategic targets for HBRIC in a Letter of Expectation, which in turn is reflected in the HBRIC Annual Statement of Intent (SOI). These performance targets may change from year to year as a result of HBRC's annual review of its Letter of Expectation, the company's Statement of Intent and changing economic, market and financial circumstances.

As controlling shareholder HBRC appoints the directors of HBRIC and, as controlling shareholder, HBRC will have an expectation that the company's policies will support its strategic objectives.

In its role as a council-controlled organisation (CCO), HBRIC is responsible for approving new investments or divestments, including any made by its current and any future subsidiary companies, joint ventures or other investment vehicles, except where the new investment or divestment:

- is inconsistent with delivery of HBRC's strategic objectives and investment strategy
- significantly varies performance targets agreed through the Letter of Expectation
- requires HBRC to assist funding these investments by increasing its equity in its subsidiary, associate, joint venture or other investment vehicle, or provide loans or other financial assistance to them
- involves divestment of a strategic asset as defined under section 97 of the Local Government Act 2002.

Napier Port Holdings Limited

HBRC beneficially owns 55% of the shares in Napier Port Holdings Limited (NPHL) through HBRIC. NPHL is considered a strategic asset. HBRC's strategic objective is to continue to beneficially hold a majority of the shares of NPHL as a key means of assisting economic development of the region. The investment is expected to be a significant source of non-rate revenue and has long-term prospects for growth and development.

As controlling shareholder HBRC approves the appointment of the directors of NPHL recommended by HBRIC Ltd.

Property investments

Napier leasehold property

HBRC owns leasehold endowment property within and around Napier City. The portfolio was acquired in 1989 during the reformation of Local Government, and under the terms of each lease, the properties can only be sold to lessees. This means HBRC will retain ownership of each lease unless the lessor is willing to buy the freehold interest in the property at a value acceptable to both lessee and lessor. HBRC intends to continue to sell freehold interests to lessors wherever an acceptable sale price can be achieved, and reserves the right to sell the annual cash flows arising from ongoing rents paid by lessors from time to time. With effect from 1 July 2013, HBRC sold the annual rentals due from this portfolio over the next 50 years (i.e. until July 2063) to ACC for a lump sum of $37.8 million. The underlying properties continue to be owned by HBRC and sales to lessors have continued, and may continue in the future, in the same way as they have done in the past.

Ground rents paid by lessors have been predominantly set at 5% or "fair annual ground rental" and reviewed every 21 years.

Wellington leasehold property

HBRC owns 12 leasehold properties in the suburbs of Kelburn and Thorndon in Wellington, which are not subject to endowment restrictions. The leasehold properties are considered non-strategic assets. These leases provide an annual return with leases renewed every 14 years. HBRC reserves the right to sell some or all of these properties and reinvest the proceeds in appropriate investment types specified in this Policy or use a limited amount of funds from the proceeds of the disposal for purposes other than reinvestment in the investment types of this Policy, where appropriate as outlined in section 11.

Other property investments

HBRC may invest in other property if they meet section 1 to 6 of this Investment Policy and the correct delegations are engaged.

Forestry investments

HBRC has an existing forestry portfolio consisting of:

Table 5: Forestry Portfolio

Site Name	Area (ha)	Assumptions
CHB	168	No material investment, maintenance only, no harvesting in LTP period
Māhia	36	No material investment, maintenance only, no harvesting in LTP period
Waihapua	213	No material investment, maintenance only, no harvesting in LTP period
Tūtira	114	Harvesting proposed over the period from 2018-19 to 2022-23. Replanting after harvest
Tūtira Mānuka Honey	130	Maintenance continues with yearly honey income of $46,000 assumed
Tangoio	150	Harvesting proposed over the period from 2020-21 to 2021-22. Replanting after harvest
Carbon Credits	n/a	Council holds 105,640 post-1989 NZU, and 14,907 pre 1990 NZU

Returns on the forestry investments other than carbon credits are determined by the harvest revenue received.

Tangoio forestry is treated differently from all the other forestry investments as HBRC does not own the land but does have responsibility for the management and control of the forest. Any income received from harvest is kept on reserve to fund the continuing maintenance programme and is not available for general ratepayer funding.

Carbon credits are accumulated from Council’s forestry portfolio and are considered a non-strategic asset. The carbon credits are valued annually. Council management has the delegation to sell the carbon credits with the sale proceeds included in the revenue account and used for the general purposes of HBRC.

NZ LGFA limited investments

Council may invest in shares and financial instruments issued by the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

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

- obtain a return on the investment
- ensure that the LGFA has sufficient capital to become and remain viable as a source of debt funding for the Council.

Because of this dual objective, Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

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

Treasury investments

Council maintains treasury investments for:

- investing money allocated to accumulated surpluses, Council-created special, and restricted reserves, and general reserves
- investing funds allocated for approved future expenditure in strategic initiatives or support inter-generational allocations
- investing funds arising from pre-funding upcoming maturing and new debt amounts
- investing surplus cash, to be used for operational and capital expenditure requirements
- investing proceeds from asset sales.

Treasury investments, that are not externally managed, will be managed within Council by the chief financial officer (CFO) and will be prudently invested as follows:

- Investments which have the intention of supporting liquidity should be matched to meet future cash flow and capital expenditure projections.

- Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest income may be credited to the particular fund.
- The CFO executes Council's Investment Strategy within approved policy limits by regularly reviewing cash flow and debt forecasts (incorporating plans for approved expenditure and strategic initiatives).
- Council adopts a conservative risk position for these funds and only accepts investments that have a minimum risk of loss, accepting that a low-risk portfolio may result in lower returns.
- Treasury investments will have a maturity term of 12 months or less. The only exception relates to term deposits that are linked to an upcoming pre-funded debt maturity.
- Treasury investments must be compliant with the Approved financial instruments and Counterparty credit sections of this Policy.

Term deposits

HBRC currently holds both treasury investment and reserve funds on term deposit with approved banking institutions for a term of 12 months or less. Funds may be deposited through a broker/investment manager arrangement only where the counterparty risk is with an approved banking institution.

9. Investment Policy - acquisition of investments

New non-strategic and strategic investments will be acquired from time to time within the investment types specified in accordance with the policies and objectives recorded in the Investment Strategy and this Policy.

New non-commercial investments will be made by HBRC and its officers in accordance with the management authorities and delegations summarised below. New commercial investments will be considered by HBRIC by default in accordance with the Investment Strategy.

Acquisition of new investments will be made after assessment of their benefits, alignment with strategic objectives, costs and risks in accordance with the assessment criteria set out in the Investment Strategy approved by HBRC.

10. Investment Policy - disposal of investments

Any disposal of non-strategic investment assets requires the approval of Council, other than those made within delegated authority granted by HBRC.

HBRC regards Napier Port Holdings Limited as a strategic asset and will retain beneficial control either directly, indirectly, or through HBRIC of not less than 51%. In any event Council will comply with the provisions of section 97(1)(b) of the Local Government Act 2002 where "a decision to transfer ownership or control of a strategic asset" is to be considered. HBRC will use either the Annual Plan or LTP process, or a separate special consultative process, it deems appropriate at the time, to obtain the views of ratepayers and stakeholders on its proposed sale of shares before committing to it. The Significance and Engagement Policy would apply to any consideration of Council for the sale of a strategic asset.

On occasion Council may receive unsolicited offers to purchase some of its investment holdings. In these instances, the following process is to be undertaken:

1. An officer assessment of how the asset fits into the overall strategic objectives of the total (HBRC and HBRIC) portfolio asset allocation and risk appetite.
2. An assessment of the offer – with an up-to-date valuation.

Once this has been undertaken, Council management is then required to take the offer along with the assessment completed to Councillors who will decide how to proceed.

HBRC wishes to retain the right to use a limited amount of funds from the proceeds of the disposals of Wellington leasehold property for purposes other than reinvestment in the investment types of this policy, where appropriate. Such purposes will be restricted to capital-related projects, loans (including interest free loans), and servicing the costs of borrowings by HBRC used for these purposes and may be initiated by HBRC or other organisations in the region.

Any disposal of investments needs to be consistent with the approved Investment Strategy and the Significance and Engagement Policy.

11. Disposition of income

Investment income other than that to be applied to reserve funds and in compliance with the provisions of section 3(b) of the Endowment Act, will be included in the revenue account and used for the general purposes of HBRC.

12. Risk assessment and management

The risk profile of the investment portfolio is continuously assessed to ensure adherence to the following risk management rules:

- HBRC will not invest where there is a significant known risk of decreased asset value or non-commercial returns, except where it has identified potential advantages to the Hawke's Bay economy in pursuit of its economic development, environmental, social and community objectives that may arise from making particular investments and has assessed whether potential economic gains could more than offset any potential decreases in asset value.
- For prudent management, while retaining a flexible approach to future investment opportunities, no more than 33% of HBRC's total investment portfolio will be invested in any one investment, or institution or groups of institutions in the same investment type, other than in institutions which are Government guaranteed (in which instance up to 100% of the portfolio may be invested). This rule does not apply to existing investments in NPHL and Napier endowment property and the investment company established by HBRC.
- HBRC may use financial derivatives to "hedge" against fluctuations in interest rates and foreign currency. In some instances HBRC matches foreign currency denominated purchases with forward exchange contracts to reduce the risk of exchange rates increasing the cost of its purchases.
- HBRIC and Napier Port Holdings will from time to time use interest-rate swaps and forward exchange contracts to manage interest rate and foreign currency risk, consistent with prudent treasury and risk management practices. These instruments will be approved instruments within the respective entities' Treasury Policy.

13. Investment Policy - investment types

HBRC can invest in the following investment types.

13.1 Investment instruments

Investment instruments include senior unsecured and secured bonds (floating and fixed rate), cash, bills, commercial paper, LGFA borrower notes and term deposits.

International and other investments are managed within the external Investment Fund and set out in the SIPO.

13.2 Investment property

Investment property includes Napier endowment property and other unrestricted investment property assets. New Zealand and international property investments are managed within the external Investment Fund.

13.3 Forestry

This includes physical assets including trees and land for forestry and forest development. Carbon credits are an approved investment instrument.

13.4 Equities

This excludes the Port of Napier, and includes shares in publicly listed New Zealand and International Companies. Equites are managed through the external Investment Fund by appointed investment managers.

13.5 Related equity investments

Equity investments in HBRIC, NPHL, CCOs, CCTOs (council-controlled trading organisations), and other subsidiary companies established in accordance with this policy, including those established by HBRIC.

13.6 Equity investments: joint ventures

Equity investments in, investment companies not considered subsidiaries and joint ventures with external partners.

13.7 Investment portfolios

Both professionally managed (external to HBRC) and internally managed investment portfolios of asset classes itemised in this section, either by direct investment or indirect investments through unit trusts, pooled structures, collective investment vehicles or other structures.

13.8 Internal loans

Internal loans are provided for all of Council's activities and are funded from either external borrowing, cash operating balances or available unrestricted reserves.

Interest is charged on internal loans. Interest amounts received are credited to the unrestricted reserves for investment revenue lost and otherwise used as revenue or for debt reduction. The interest rate for internal loans is set annually during the budget process and checked for its appropriateness at financial year end.

14. Counterparty risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into. External borrowing, treasury investment and interest/foreign exchange risk management related transactions would only be entered into with organisations specifically approved by Council. Risks within the external Investment Fund are managed within the SIPO.

Counterparties and limits can only be approved based on long-term credit ratings (Standard & Poor's or Moody's or Fitch). For liquidity and borrowing purposes all banks must be registered with the Reserve Bank of NZ and have a minimum long-term credit rating of A. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Treasury investments are only made in alignment with the following parameters:

- Investments (such as bank deposits) – Transaction Notional × Weighting 100%
- Interest Rate Risk Management (such as swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange Risk Management (such as FECs) – Transaction Notional × the square root of the Maturity (years) × 15%.

Table 6: Counterparty credit risk

Issuer / counterparty	Instrument	Minimum short term credit rating	Minimum long term credit rating	Maximum exposure per counterparty (% of rates revenue[9])
New Zealand Government	Treasury bills, NZ government bonds, debt issued by entities explicitly guaranteed by the NZ Government	n/a	n/a	unlimited
RBNZ registered banks*	Cash, call and term deposits, bank bills, bonds	A-1	A	$15 million
	Interest rate and foreign exchange instruments	A-1	A	$5 million
LGFA	Borrower notes, commercial paper, bonds	A-1	AA-	Unlimited

*Cash deposits arranged through the Jarden Cash Management Facility are approved and included within the ANZ counterparty limit.

Individual counterparty limits are kept on a register and updated on a day to day basis with specific approvals made by the General Manager Corporate Services(GMCS). Credit ratings should be reviewed by the accountant(s) on an ongoing basis and in the event of material credit downgrades; should be immediately reported to the GMCS and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

[9] Rates revenue is defined as general rates, targeted rates and uniform annual general charges. It also includes late payment penalties when rates become overdue but excludes rate remissions where they satisfy the Council's Rates Remission Policy. Rates revenue was $25.15 million in the 2020 Annual Report.

14.1 Disaster Damage Reserve

The Disaster Damage Reserve requirements are met through both the liquidity buffer amount held under section 19 of this Policy and through liquid assets available for disposition within the externally managed fund portfolio.

14.2 Reserves

HBRC holds a number of reserves for asset replacement provisions, disaster damage management, land drainage and flood control schemes along with other reserves for specific purposes. Treasury investments are not required to be held against reserve funds. HBRC may internally borrow or utilise these funds where possible.

The reserves established to cover the funding of replacement operating property, plant and equipment and renewal of flood and drainage scheme infrastructure are treated as one reserve balance for the purposes of providing funds for the purchase of new assets. Therefore for the most part loans are only raised from external funding sources when the total reserve balance is low.

15. Liability Management Policy – purpose

HBRC has large infrastructure assets with long economic lives yielding long-term benefits for the community. The use of debt as a funding option is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future community members in relation to such assets. In addition, debt may allow scheme or other projects to progress at an earlier stage than might otherwise be possible as it reduces the cash flow burden on beneficiaries and therefore increases affordability.

Council may borrow for any of the following primary purposes:

- Funds for the acquisition of any assets expected to have a useful economic life of more than two years.
- Funds for specific one-off projects and capital expenditures.
- The acquisition of low risk investments.
- Short term debt to manage timing differences between cash inflows and outflows and to maintain Council's liquidity position and, if necessary, to fund emergency expenditure.
- The pre-funding of upcoming debt maturities or capital expenditure requirements.
- Fund the balance sheet as a whole, including working capital requirements.
- Raise specific debt for on-lending to CCO/CCTOs.

In approving new borrowing, HBRC will apply the following principles:

- Borrowings will be repaid over the economic life of the assets being funded, or such shorter period as determined, at its discretion.
- Interest costs and principal repayments will be funded by the beneficiaries of the borrowings.
- The extent of borrowings will be determined by the beneficiaries' ability and willingness to pay, as determined by consultation.

HBRC considers the impact on borrowing limits, and its consistency with the Annual Plan and Long Term Plan.

In evaluating the Strategy for new borrowing (in relation to source, term, size and pricing), HBRC considers:

- Available terms from banks, domestic capital markets and LGFA.
- The overall debt maturity profile to ensure concentration of debt is avoided at re-issue/rollover time.
- Prevailing interest rates and credit margins relative to domestic capital markets, LGFA and bank borrowing.
- Liquidity, funding and interest rate risk-management parameters as detailed in this Policy.
- Legal documents and financial covenants, together with any credit rating considerations.
- The market and HBRC's outlook on future credit margin and interest rate movements.

16. Local Government Funding Agency

HBRC is a guaranteeing borrower member of the LGFA borrowing from the LGFA and entering into the transactions relating to that borrowing.

In connection with LGFA borrowings, HBRC may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example 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.
- 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.
- Subscribe for shares and uncalled capital in the LGFA.

17. Debt repayment

HBRC will repay borrowings from rates, surplus operating funds, proceeds from the sale of assets or investments, re-financing with new debt or from general and specific reserve funds.

Guarantees/contingent liabilities and other financial arrangements

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

HBRC is not allowed to guarantee loans to council-controlled trading organisations (CCTOs) under section 62 of the Local Government Act.

On-lending to council-controlled organisations (CCO and CCTO)

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. Indirect debt funding relates to the CCO/CCTO becoming a member of the LGFA.

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

Council does not lend money, or provide any other financial accommodation, to a CCTO on terms and conditions that are more favourable to the CCTO than those that would apply if Council were borrowing the money or obtaining the financial accommodation without providing rates as security.

Any direct or indirect debt funding arrangement to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the GMCS 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, lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

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

Loan advances

Council may provide advances to charitable trusts and community organisations that are consistent with Council's objectives. Advances do not need to be on a fully commercial basis. Council does not provide guarantees.

Council will assess the risk and consider the following criteria;

- Consistency with Council's objectives
- Credit risk profile of the borrowing entity and the ability to repay interest and principal amounts outstanding
- Wherever practical, advances will be secured
- The impact on Council's credit profile and the current and future borrowing capacity with the LGFA

All loan arrangements must be executed under legal documentation reviewed and approved by Council's independent legal counsel.

No individual advance will be greater than $500,000 and the aggregate of all advances to be no greater than $2,000,000. Any new loan advances beyond $2,000,000 in aggregate are approved by Council. The term will not exceed three years.

Interest income is included as general revenue. Outstanding advances will be reported to Council and compliance reviewed at least annually.

18. Specific borrowing limits

The following table summarises the specific borrowing limits that HBRC adheres to, in conjunction with the LGFA's lending covenants.

Table 7: HBRC specific borrowing limits

	HBRC	LGFA
Net external debt as a percentage of total revenue	<175%	<175%
Net interest on external debt as a percentage of annual rates income	<20%	<25%
Net interest on external debt as a percentage of total revenue	<15%	<20%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	N/A
Liquidity ratio comprising external debt plus available committed loan facilities plus liquid investments to existing total external debt	N/A	At least 110%

The first three borrowing limits are used by HBRC as the quantified limits on borrowing for the debt affordability benchmarks.

- Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue.
- Revenue excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net debt is defined as total external debt less liquid financial assets and investments.
- Liquid funds are cash and cash equivalents defined as being:
  - overnight bank cash deposits
  - wholesale/retail bank term deposits no greater than 30 days
  - bank issued registered deposits no greater than 181 days
  - allowable bonds as per approved investment instruments
  - term deposits linked to debt pre-funding activity are excluded from the liquidity ratio.

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

Borrowing limits are measured on Council only, not a consolidated group basis.

Disaster recovery requirements will be met through the liquidity ratio and contingency reserves.

19. Liquidity and funding limits

Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Council will maintain liquidity by:

- matching average expenditure closely to revenue streams and managing cash flow timing differences to its favour
- avoiding concentrations of debt maturity dates
- maintaining a liquidity buffer amount of greater than 10% that comprises liquid assets and available committed debt facility amounts relative to existing total external debt
- having the ability to pre-fund up to 18 months of forecast debt requirements including new and re-financed debt. Debt refinancings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.

Funding risk management centres on the ability to refinance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and maturity terms.

The debt maturity profile of the total committed funding in respect to all external debt and committed debt facilities is to be controlled by the following risk control limits.

Table 8: Risk control limits

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	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, a maturity profile outside these limits for greater than 90 days will require specific Council approval.

The LGFA require that no more than the greater of NZD 100 million or 33% of HBRC's borrowings from the LGFA mature within an immediate 12-month period.

20. Security

HBRC's external borrowings and interest rate risk-management instruments are secured by way of a charge over rates and rates revenue offered through the Debenture Trust Deed. Under the Debenture Trust Deed, HBRC's borrowing is secured by a floating charge over all HBRC rates levied under the Local Government (Rating) Act 2002. The security offered by HBRC ranks equally or pari passu with all lenders to Council.

Other borrowing structures are possible, but HBRC does not normally offer assets, other than rates, as security. Under special circumstances, and if considered more appropriate, security may be offered over specific assets, but only with Council's prior approval.

21. Interest rate risk management

Interest rate risk refers to the impact that adverse movements in interest rates may have on Council's cash flows and interest expense.

The following interest rate risk control limits apply to forecast external core debt (as approved by the GMCS).

Table 9: Interest rate risk control limits

Debt interest rate policy parameters (calculated on a rolling monthly basis)		
Debt period ending	Minimum fixed	Maximum fixed
Current	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	50%
Year 9	0%	50%
Year 10	0%	50%
Year 11	0%	25%
Year 12	0%	25%
Year 13	0%	25%
Year 14	0%	25%
Year 15	0%	25%

- "Fixed Rate" is defined as all known interest rate obligations on forecast external core 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 external core debt amounts for the given period (as defined in the table above).For interest rate calculation purposes pre-funded debt amounts are excluded from the forecast external core debt amounts.
- Core debt is the amount of forecast external debt for a given period that is expected to remain outstanding for a period of greater than one year. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved debt forecasts are changed, the amount of fixed rate protection in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.
- A fixed rate maturity profile that is outside the above limits, but self corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile that is outside the above limits for greater than 90 days requires specific approval by Council. Bank draw down advances may be for a maximum term of 12 months.
- Any interest rate hedge with a maturity beyond 15 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate or an interest rate hedge is linked to floating rate LGFA debt that has a maturity date beyond 15 years.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, one side of the collar cannot be closed out by itself, both must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions must mature within 12 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00 per cent above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

22. Foreign currency

HBRC has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment. All individual commitments over NZ$100,000 equivalent are hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts are used.

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

Foreign currency management of the external Investment Fund is managed within the SIPO.

23. Approved financial instruments

Table 10: Approved financial instruments

Category	Instrument
Cash management and external borrowings	Bank overdraft Committed cash advance and bank accepted bill facilities (short-term and long-term loan facilities) Bonds (fixed rate or floating rate) either through the LGFA or domestic capital markets Committed standby facilities offered by the LGFA Commercial paper (CP)
Interest rate risk management (for borrowing activity only)	Forward rate agreements ('FRAs') on bank bills Interest rate swaps including: - Forward start swaps (start date <36 months, unless linked to existing maturing swap/collar with notional amount amounts not exceeding maturing swap/collar) - Amortising swaps (whereby notional principal amount reduces) - Swap extensions, deferrals and shortenings Interest rate options on: - Bank bills (purchased caps and one for one collars) - Interest rate swaptions (purchased swaptions and one for one collars with matching notionals only)
Foreign exchange risk management	Spot foreign exchange Forward exchange contracts (including par forwards)
Treasury investments	Bank term deposits (senior unsecured) Treasury bills (senior unsecured) Bank bills, bank certificates of deposit (RCDs) (senior unsecured) Government bonds (senior unsecured) LGFA borrower notes Note: bonds are either fixed rate or floating rate.

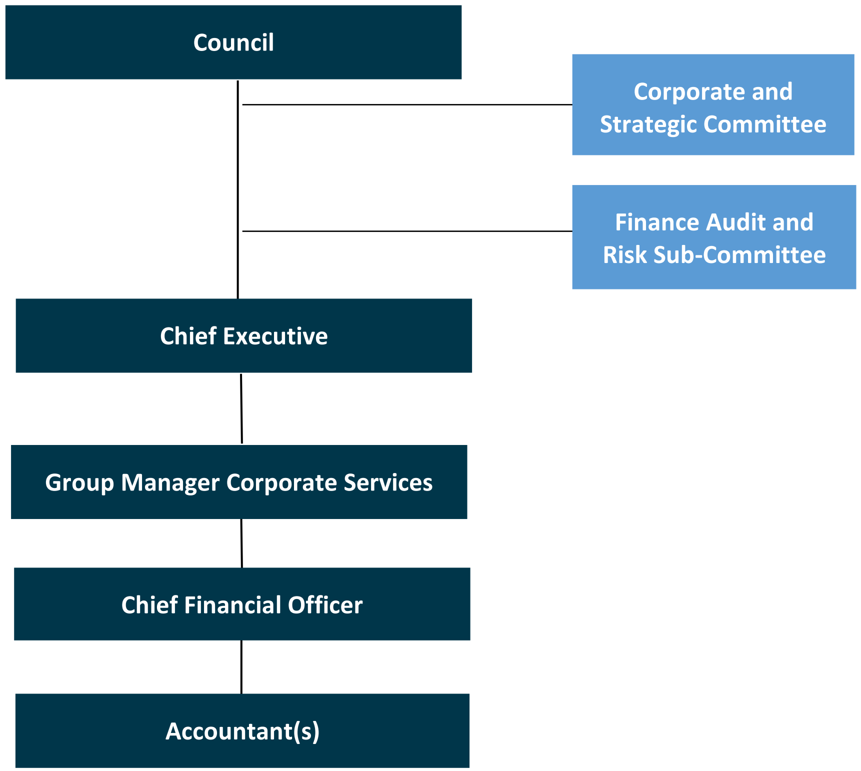
24. Review of Policy

This Policy will be reviewed no less than every three years and amendments can be made through Council resolution any time within the three year period.

25. Management responsibilities

All of the Council's treasury management activities are undertaken by the finance function. The following diagram illustrates those individuals and bodies who have treasury responsibilities.

Figure 11: Treasury responsibilities



Council

The 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.

The Council is responsible for approving these Liability Management and Investment Policies (Treasury Policy) and any changes required from time to time. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, the Council has responsibility for:

- approving the long-term financial position of the Council through the 10-year LTP and the Annual Plan
- approving HBRC's SIPO document, including the investment strategy, return objective, policies, manager configuration, and instructions to the investment manager
- approving new debt funding via resolution of the Annual Plan
- approving the Treasury Policy, incorporating the following delegated authorities:
    - borrowing, investing and dealing limits and the respective authority levels delegated to the Chief Executive (CE), Group Manager Corporate Services (GMCS), Chief Financial Officer (CFO) and other managers
    - risk management control limits
    - guidelines for the use of financial instruments
- delegating authority to the CE and other officers
- reviewing and approving changes to the Treasury Policy as well as the SIPO document every three years.

Council will also ensure that:

- issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved immediately
- approval will be gained by the GMCS for any transactions falling outside Policy guidelines.

Corporate and Strategic Committee

The Corporate and Strategic Committee will discuss investment matters on a quarterly basis. Responsibilities are:

- approve investments (in the instances where funding is required from HBRC) in HBRIC, NPHL, CCO and any CCTOs, other subsidiary companies or trusts, including authorisations of use of investment funds and the terms and conditions of investment for these purposes
- as controlling shareholder, vote for the appointment of directors in HBRIC, NPHL, CCO and any CCTOs or other subsidiary companies established to manage HBRC's investments in future
- approve new investments to facilitate community infrastructure asset creation, whether by way of direct property ownership or by making loans to non-HBRC entities for this purpose
- approve the investment strategy and distribution policy for the external Investment Fund. Review the SIPO and appoint the investment manager.

Finance Audit and Risk Sub-Committee (FARS)

The FARS will oversee the implementation of the Council's borrowing and investment strategies and monitor and review the effective management of the treasury function, borrowing and investment activities.

The FARS will ensure that the information presented to the Council is accurate, identifies the relevant issues and is represented in a clear and succinct manner.

The FARS will discuss treasury matters on a quarterly basis.

Responsibilities are:

- recommending the Treasury Policy and SIPO document (or changes to existing policy) to the Council
- receiving recommendations from the GMCS and make submissions to the Council on all treasury matters requiring Council approval
- recommending performance measurement criteria for externally managed funds

- reviewing all matters concerning the SIPO as well as providing guidance and leadership on the appointment, management, monitoring and review of the appropriate investment manager(s)
- monitoring quarterly performance of externally managed funds and borrowing activity against benchmarks
- completing an annual review of all investments.

Chief Executive Officer (CE)

While the Council has final responsibility for policy governing the management of Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the CE. The Council formally delegates to the CE the following responsibilities:

- ensuring Council's policies comply with existing and new legislation
- approving the bank signatories
- to exercise delegated authority to make and implement treasury decisions in accordance with authority delegated by HBRC
- to monitor financial market conditions and treasury performance and recommend initiatives and changes to HBRC as circumstances require
- to grant delegated authority to implement treasury decisions to senior staff as appropriate
- approving new counterparties and counterparty limits as defined within this policy and recommended by the GMCS
- approving the opening and closing of bank accounts.

Group Manager Corporate Services (GMCS)

The CE formally delegates the following responsibilities to the GMCS:

- approving new borrowing undertaken in line with Council resolution and approved borrowing strategy
- approving refinancing of existing debt
- approving all treasury deal tickets (borrowing, investment and risk management instruments) within delegated authority
- approving treasury transactions in accordance with policy parameters outside of the CFO's delegated authority
- authorising the use of approved risk management instruments within discretionary authority
- approving all foreign currency hedging activity
- receiving advice of breaches of Policy and significant treasury events from the CFO
- discretionary authority to refinance existing debt on acceptable terms. Such action is to be reported and ratified by the Council at the earliest opportunity.

Chief Financial Officer (CFO)

The GMCS formally delegates the following responsibilities to the CFO:

- recommending policy changes to the FARS for evaluation
- ongoing risk assessment of borrowing and investment activity, including procedures and controls
- receive quarterly reporting from the Investment Manager(s)
- proposing any new borrowing requirements falling outside the Annual Plan and LTP to the FARS for consideration and submission to the Council
- designing, analysing, evaluating, testing and implementing risk management strategies to position Council's interest rate risk profile to be protected against adverse market movements within the approved Policy limits
- investigating financing alternatives to minimise borrowing costs, credit margins and interest rates, making recommendations to FARS as appropriate
- reviewing and making recommendations on all aspects of the Treasury Policy to the FARS including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments
- negotiating bank funding facilities

- managing bank, LGFA, investment manager(s), trustee, custodial and other financial institution relationships
- overseeing a triennial review of the Treasury Policy, treasury procedures and all dealing and counterparty limits
- managing the long-term financial position of the Council in accordance with Council's requirements
- ensuring that all borrowing and financing covenants/limits to lenders are adhered to
- ensuring management procedures and policies are implemented in accordance with this Policy
- monitoring and reviewing the performance of the treasury function in terms of achieving its objectives.

Accountant(s)

The CFO formally delegates the following responsibilities to the accountant(s):

- executing treasury transactions in accordance with approved limits. In the absence of the CFO, the GMCS will execute treasury transactions
- completing documentation for all treasury transactions
- on a continuing basis, monitoring and updating credit ratings of approved counterparties
- recommending changes to credit counterparties to the CFO
- monitoring treasury exposure on a regular basis, including current and forecast cash position, treasury investment portfolio, interest rate exposures and borrowings
- checking compliance against limits and preparing reports on an exceptions basis
- preparing treasury reports
- delivering weekly reports to the CFO covering cash/liquidity, investment portfolio, debt funding portfolio and interest rate risk position
- forecasting future cash requirements
- check the written evidence of executed deals on an agreed form
- ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards
- managing the operation of all bank accounts
- handling all administrative aspects of bank, LGFA, trustee, custodial agreements and documentation
- completing, reviewing and approving treasury journals, bank, borrowing and investment spreadsheet reconciliations to the general ledger (ensuring segregation of completion, review and approval tasks amongst accountant(s))
- undertaking a triennial review of the Treasury Policy, treasury procedures and all dealing and counterparty limits
- updating treasury spreadsheets for all new, renegotiated and maturing transactions
- checking all treasury deal confirmations against internal deal documentation and reporting any irregularities immediately to the GMCS (ensuring the separation between the deal executor and deal checker)
- reconciling monthly summaries of outstanding financial contracts from banking counterparties to internal records
- review electronic batch payments to creditors and arranging for approval by authorised signatories.

26. Delegation of authority and authority limits

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

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

- A comprehensive letter will be sent to all bank and lender counterparties, at least every year, detailing all relevant current delegated authorities of the Council and contracted personnel empowered to bind the Council.
- Whenever a person with delegated treasury authority leaves Council, all relevant banks and other counterparties will be advised in writing on the same day to ensure that no unauthorised instructions are to be accepted from such persons.

The Council has the following responsibilities, either directly, or via the following stated delegated authorities.

Activity	Delegated authority	Limited
Approving and changing policy	Council	Unlimited
Borrowing new debt	Council CE (delegated by Council) GMCS (delegated by Council)	Unlimited (subject to legislative and regulatory limitations) Subject to Council resolution and policy
Acquiring and disposing of investments other than financial investments	Council	Unlimited
Approving charging assets as security over borrowing	Council	Subject to terms of the Debenture Trust Deed
Approving Council guarantees	Council	Unlimited (subject to legislative limitations)
Approving of Council guarantees or uncalled capital relating to CCO/CCTO indebtedness	Council	Unlimited (subject to legislative and other regulatory limitations)
Approving new and refinanced lending activity with CCO/CCTOs	Council	Unlimited
Overall day-to-day treasury management	GMCS (delegated by Council) CFO (delegated by Council)	Subject to policy
Refinancing existing debt	GMCS (delegated by Council)	Subject to policy
Approving transactions outside policy	Council	Unlimited
Adjusting debt risk profile	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Negotiation of lending arrangements to CCO/CCTOs	GMCS (delegated by Council)	Per approval/per risk control limits
Ongoing management of lending arrangements to CCO/CCTOs	CFO (delegated by Council)	Per approval/per risk control limits
Managing investments and funding maturities	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Maximum daily transaction amount (borrowing and interest rate risk management) excluding roll-overs under bank debt facilities.	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $15 million $10 million $2.5 million
Maximum daily transaction amount (investing and cash management)*	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $15 million $10 million $5 million
Maximum daily transaction amount (foreign exchange risk management)	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $1 million $0.5 million $0.25 million
Approving bank signatories	CE	Unlimited
Approving the opening/closing bank accounts	CE	Unlimited
Reviewing Treasury Policy every three years	FARS	N/A
Ensuring compliance with Policy	GMCS	N/A

*Daily transaction amounts relate to internally managed Investment Funds only with external Investment Funds managed under Council's SIPO document.

27. Treasury procedures – operational risk

Operational risk is the risk of loss as a result of human errors including fraud, system failures, or inadequate procedures and controls. Operational risk is very relevant when dealing with financial instruments given that:

- financial instruments may not be fully understood
- too much reliance is often placed on the specialised skills of one or two people
- most treasury instruments are executed over the phone.

Operational risk is minimised by this Policy.

Dealing authorities and limits

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

Segregation of duties

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

The risk will be minimised by:

- the accountant(s) will report directly to the CE to control the transactional activities of the GMCS and the CFO
- documented approval processes for borrowing and investment activity.

Procedures and controls

- The CFO will have responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.
- All borrowing, investment, cash management and risk management activity will be undertaken in accordance with approved delegations authorised by Council.
- All treasury products will be recorded and diarised within a treasury system/spreadsheet, with appropriate controls and checks over treasury journal entries into the general ledger. Deal capture and reporting will be done immediately following execution and confirmation. Details of procedures, including templates of deal tickets, will be included in a treasury procedures manual separate to this policy.

Procedures and controls will include:

- Regular management reporting.
- Regular risk assessment, including review of procedures and controls.
- Organisational systems, procedural and reconciliation controls to ensure:
  - all borrowing and investment activity is bona fide and properly authorised
  - checks are in place to ensure Council's accounts and records are updated promptly, accurately and completely
  - all outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity
  - cheque/electronic banking signatories will be approved by the CE. Dual signatures will be required for all electronic transfers.
- All treasury counterparties will be provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive deal confirmations.
- The Accountant will record all deals on properly formatted deal tickets. Deal summary records for borrowing, investments, risk management and cash management transactions (on spreadsheets) will be maintained and updated promptly following completion of transaction.
- All inward deal confirmations, including registry confirmations, will be received and checked by the Accountant(s) against completed deal tickets and summary spreadsheets records to ensure accuracy.
- Deals, once confirmed, will be filed (deal ticket and attached confirmation) in deal date/number order.

- Any discrepancies arising during deal confirmation checks which require amendment to Council records will be signed off by the GMCS.
- Where possible borrowing and investment payments will be settled by direct debit authority.
- For electronic payments, batches will be set up electronically. These batches will be checked by the accountant(s) to ensure settlement details are correct. Payment details will be authorised by two approved signatories as per Council register.
- The accountant(s) will perform bank reconciliations monthly. Any unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's records will be signed off by the GMCS.
- A monthly reconciliation of the borrowing and investment spreadsheets to the general ledger will be completed, reviewed and approved by the accountant(s), ensuring of completion, review and approval tasks.

Treasury procedures – cash management

The accountant(s) have the responsibility to carry out the day-to-day cash and short-term debt management activities. The accountant(s) will:

- calculate and maintain cash flow projections on a, weekly (four weeks forward) and monthly (12 months forward) basis
- electronically download all Council bank account information daily
- coordinate Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters
- undertake short-term borrowing functions as required, minimising overdraft costs
- ensure efficient cash management, through improvement to accurate forecasting using spreadsheet modelling
- minimise fees and bank charges by optimising bank account/facility structures
- monitor Council's usage of committed cash advance facilities
- match future cash flows to smooth over time
- provide reports to CFO detailing actual cash flows during the month compared with forecast.

Treasury procedures – financial instrument accounting treatment

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

Under Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) changes in the fair value of financial instruments go through surplus or deficit unless the financial instruments have been irrevocably designated at initial recognition as at fair value through comprehensive revenue and expense.

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

The accountant(s) are responsible for advising the CFO of any changes to relevant accounting standards, which may result in a change to the accounting treatment of any financial instruments.

Treasury procedures – reporting

Table 12: Treasure reporting procedures

Report name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	Accountant(s)	CFO
Treasury Investments	Quarterly	Accountant(s)	CFO
Treasury Report*	Quarterly	Accountant(s)	CFO, GMCS, CE, FARS, and Council
Counterparty Credit Limits Report	Daily for exceptions / Quarterly	Accountant(s)	CFO, GMCS, and FARS
Debt Maturity Profile	Quarterly	CFO	FARS and Council
Revaluation of financial instrument and review of guarantees	Quarterly	Accountant(s)	CFO

*The 'Treasury Report' includes:

- Treasury exceptions report
- Policy compliance
- Borrowing limit report
- Funding and liquidity report
- Debt maturity profile
- Interest rate report
- Investment management report (see below)
- Treasury investments
- Cost of funds report
- Cash flow and debt forecast report
- Debt and Interest rate strategy and commentary
- Counterparty credit report.
- Loan advances.

Investment Management Report

Investment mix and performance is reported to HBRC for all investments through the following means.

1. Reporting annually

For all equities, (including HBRIC, NPHL, CCTOs and other subsidiary companies, and New Zealand and international shares):

- Dividends and other payments received
- Sales and acquisitions; gains and losses on disposal (if any)
- Changes in capital values of the assets (based on market or independent valuation)
- Financial and operating results
- Economic impacts (if any) generated during year.

For property investments (including the Napier endowment property):

- Movements in rental renewals
- Sales and acquisitions of leases and property over the year
- Any transfers of leasehold properties between lessees
- Gains and losses on disposal (if any)
- Net income and change in capital values of the underlying assets (based on market or independent valuation)
- Economic impacts (if any) generated during the year.

2. Reporting quarterly

For all treasury investments:

- Dividends, interest and other income received during the quarter
- Sales and acquisitions; gains and losses on disposal (if any)
- Changes in capital values of the assets (based on market or independent valuation)
- Economic impacts (if any) generated during quarter.

For all externally managed investment funds:

- Fund valuation
- Compliance reporting (including approved exceptions)
- Performance summary for the Fund and by asset class
- Performance against benchmarks
- Income and capital return
- Asset transactions summary
- Cash transactions
- Investment management fees
- Custodial fees
- Individual fund management fees
- Brokerage and other transaction costs.

3. Individual issue papers submitted to Council dealing with matters of relevance (including changes in investment policy) to the investment portfolio that may arise during the year.
4. Additional requirements on HBRIC, NPHL, CCTOs and other subsidiary companies reporting through HBRIC, including:
   - Agreeing financial and other relevant strategic and performance targets for these businesses through an annual Statement of Intent
   - Confirm appointment of directors having appropriate expertise to their boards
   - Where requested, for HBRC's strategic planning purposes, review businesses strategic plans, annual budgets and financial forecasts for their medium and long-term future operations
   - Receiving 6 and 12 month reports on financial performance and position and operating results of these businesses
   - Being briefed by the Chairperson of Directors and Chief Executive Officer of the businesses as required by the HBRC, but no less than twice a year
   - Being consulted, and where necessary, making decisions as shareholders, at any time on new developments or significant departures from anticipated performance.