Te Takotoranga Moni, te Whakahaere Taunaha me ngā Kaupapahere Haumi

Treasury, Liability Management and Investment Policies

Adopted 10 July 2024

HAWKES BAY REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Contents

Purpose

The purpose of the Treasury, Liability Management and Investment Policies (the Policies) is to outline Hawke's Bay Regional Council's (the Regional Council) principles for treasury activity. Where aspects of the Policies refer to the Regional Council and consolidated Group it will be referenced as the Council Group. The formalisation of such policies and procedures will enable treasury risks within the Regional Council and the Council Group to be prudently managed.

Scope and objectives

Scope

This document identifies the policies of the Regional Council in respect of treasury, liability management and investment activities as required under Sections 102, 104 and 105 of the Local Government Act (2002) (LGA).

Statutory Objectives

These Policies are established in accordance with the following relevant legislation and include the Regional Council's **Investment Policy** as well as the **Liability Management Policy** as required.

- Local Government Act 2002, sections 101, 102, 104, and 105. In accordance with the LGA, and by resolution, the Regional Council may borrow on such terms and conditions that it considers appropriate. The Regional Council uses short-term and long-term funding to achieve an effective borrowing mix and to balance the requirements of liquidity and funding risk management.
- the 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 *Investment Powers*.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Part 2 governing *Financial Prudence*.

The definitions of Strategic and Non-Strategic assets are outlined in the Regional Council's Significance and Engagement Policy.

Treasury Policy

Responsibilities

The Regional Council has ultimate responsibility for ensuring that there is an effective policy for the management of its risks. In this respect, the Regional Council decides the level and nature of risks that are acceptable. The Regional Council is responsible for approving the Treasury Policy and any changes required from time to time.

In this respect, the Regional Council has responsibility for:

- approving the long-term financial position, including debt limits and forecasts, of the Regional Council through the Long-Term Plan and Annual Plan.
- approving the Treasury Policy, incorporating the following delegated authorities:
    - borrowing, investing and dealing limits and the respective delegated authority levels
    - counterparties and credit limits
    - risk management methodologies and benchmarks
    - guidelines for the use of financial instruments.
- reviewing and approving the Treasury Policy at least every three years in conjunction with the Long Term Plan.

The Regional Council will also ensure that:

- it receives appropriate information from Hawke's Bay Regional Investment Company (HBRIC) (in respect of investment assets) and the Regional Council Executive (in respect of debt management) on risk exposure and financial instrument usage in a form that is understood

- issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved immediately
- approval is gained for any transactions falling outside Policy guidelines
- it monitors performance measurement criteria for treasury activity
- the information presented to the Regional Council is timely, accurate and identifies the relevant issues and is represented in a clear and succinct report
- it discusses treasury matters on a six-monthly basis (and informally as required).

The Regional Council may delegate all or any of the treasury responsibilities to a Regional Council subsidiary, Regional Council specified committee, or the Chief Executive.

Treasury 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 investment framework to optimise returns in the long-term while balancing risk and return considerations
- 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 the Regional Council'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
- approve new and refinanced lending activity with Council Controlled Organisation and Council Controlled Trading Organisation to 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
- efficiently manage the Regional Council's overall 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 the Regional Council's costs, returns and assets
- arrange and structure appropriate borrowing for the Regional Council 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 Regional Council'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 the Regional Council's financial assets and to prevent unauthorised transactions.

Investment Policy

The Regional Council Investment Policy has been prepared in accord with section 105 of the Local Government Act 2002. The purpose of this Investment Policy is to outline the Council Group's approach to managing its investment assets.

The LGA requires the Policy must include the Regional Council Policy on:

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

The Investment Policy reflects the principles agreed with Councillors as part of the 2024-2027 Three-Year Plan process, and the Statement of Expectations between the Regional Council and HBRIC. It builds on this work by providing detail regarding the operational elements required to implement the Investment Strategy.

Investment objectives

The Regional Council has three principal investment objectives. These are to:

- optimise long-term cash returns from the Investment portfolio
- increase asset values within the investment portfolio, growing regional resilience
- equitably benefit from the investment portfolio for both current and future generations.

The Regional Council has tasked HBRIC with the role of supporting these Investment Objectives through its management of the Group Investment Assets. HBRIC may change the mix of assets over time to best achieve the overall objectives of the Group and to meet the Groups overall liquidity needs.

Where such an opportunity involves the potential to transacting in a Strategic Asset, the Regional Council's Significance and Engagement Policy will apply, including any provisions of the LGA.

The Regional Council is accountable to its stakeholders to take care of the environment, meet community needs, and deliver acceptable financial results. In assessing potential investment opportunities, the Group considers these high-level objectives alongside well-being outcomes and governance considerations. This includes the Group's role as a socially responsible investor.

Socially responsible investment

The Council Group intends to behave as a socially responsible investor. The Group's position on Social Responsibility is contained within the Statement of Investment Policy and Objectives (SIPO) and is available on the Regional Council website.

The current SIPO includes:

> *"The Group recognises that Council has obligations to its community, including the delivery of social, environmental, cultural, and economic wellbeings. The values of the Council are similarly reflected by the Group.*
>
> *The Group expects its investment portfolio to demonstrate Corporate and Social Responsibility, not only in the way it is managed but also in the way that it determines its investments. This includes ensuring any managers apply industry standard methods and principles in the way they operate and in how underlying investments are selected.*
>
> *Investments are to be thoroughly researched and screened, where practical, to ensure that they meet our responsible investment criteria, including consideration for mitigating and adapting to the impacts of climate change, without material negative impact on overall investment objectives. The following initiatives are to be adopted by any appointed investment manager:*
>
> - *To incorporate Environment, Social and Governance (ESG) considerations into investment processes to enhance understanding of the potential risk and reward of investments in the portfolio. Corporate engagement and voting encouraged where practical*
> - *Using data from a globally recognised ESG research agency, to avoid investing in entities that exceed the ethical exclusion criteria by prohibited activities and thresholds, as these activities are inconsistent with our values*
> - *To review the Group's management and standards on Social Responsibility as part of the overall SIPO review, and update as necessary to reflect changes in best practices to ensure continued alignment with our values and mission. The Group excludes investment in any entity that is actively in opposition to the objectives of Council in the Hawke's Bay."*

The SIPO includes a list of investment exclusions in Appendix 1. This document can be found at **hbrc.govt.nz, search: #ltp**.

Mix of investments

Both the Regional Council and HBRIC own portions of the Council Group's investment assets.

Hawke's Bay Regional Investment Company Limited (HBRIC) is a council-controlled organisation and is a wholly owned (100%) subsidiary of the Regional Council. It was established in 2012 to manage and own various Council Group assets, including the holding in Napier Port. The Regional Council shareholding in HBRIC is a Strategic Asset. Today, HBRIC is the Manager of the Group's investment assets.

Table *1* details the investment assets covered by the Investment Policy and who owns them. It also indicates whether the investment holding is strategic or not as defined by Section 5 of the LGA.

Collectively, the mix of Investment Assets are known as the Investment Portfolio. It is anticipated that HBRIC, through its investment management of the Regional Council's Investment Assets will change the mix of Investment Assets to help the Regional Council better achieve its long-term Investment Objectives. This may include the addition of new investments.

Councils may sell strategic assets (subject to the Significant and Engagement Policy), retaining the proceeds for a strategic purpose and creating reserves.

A Strategic Asset is defined by Section 5 of the LGA as:

"An asset or group of assets that the local authority needs to retain to maintain its capacity to promote any outcome it considers important to the current or future wellbeing of the community."

Any proposed transfer or sale of such assets requires Regional Council approval and community consultation through the Special Consultative procedure set out in Section 93 of the LGA.

Table 1: Investment assets covered by the Investment Policy

Investment asset	Owner	Current manager	Strategic/ non-strategic
Napier Port Holdings Ltd	HBRIC	HBRIC	Strategic
Foodeast-Haumako Ltd Partnership	HBRIC	HBRIC	Non-Strategic
Future Investment Fund (Managed Funds)	HBRIC & Regional Council	HBRIC	Strategic
Long Term Investment Fund (Managed Funds)	Regional Council	HBRIC	Non-Strategic
Forestry Investments	Regional Council	HBRIC	Non-Strategic
Property Assets Investments	Regional Council	HBRIC	Non-Strategic

Descriptions of our current investment assets:

Napier Port Holdings Limited: the Regional Council owns 55% of the shares in Napier Port Holdings Limited (NPHL) through HBRIC. NPHL is considered a strategic asset. The Regional Council's strategic objective is to continue to beneficially hold 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, the Regional Council approves the appointment of the directors of NPHL recommended by HBRIC Ltd.

Foodeast-Haumako Ltd Partnership: the Regional Council owns 66.7% of the shares in Foodeast-Haumako Limited through HBRIC. Foodeast-Haumako is considered a non-strategic asset. It is a Food Innovation Hub that began as a concept to unlock potential growth in the Hawke's Bay economy through collaboration and technology in the food, beverage, and agri-tech space by facilitating and assisting our food producers, innovators and manufacturers to expand and develop their offerings to bring new products to the domestic and international markets.

Managed funds: both the Regional Council and HBRIC hold investments in Managed Funds. These investments are governed by HBRIC under a single Group SIPO, approved by the Regional Council. HBRIC may use an external manager to support the investment of Managed Funds.

There are two funds that form the Regional Council's managed fund investments:

Future Investment Fund is held by the Regional Council and HBRIC. It was formed using proceeds raised from the Napier Port IPO. The value of these proceeds are strategic assets.

Long Term Investment Fund is held by the Regional Council. The liquid nature of any investment of this fund is determined by the timing and intended use for any ratepayer reserves this needs to back. These investments are classified as a non-strategic asset.

Forestry investments: the Council Group holds a number of smaller forestry blocks in the region, both full forest and trees only. The purpose of Forestry Investment holdings includes a mix of commercial harvest and environmental objectives. The Group may hold carbon credits associated with its forestry holdings.

Property assets investments: the Council Group owns various residential and commercial leasehold properties in Wellington and Napier. The Council Group also holds freehold interests in commercial property. Significant property holdings include:

Napier Leasehold Property: the Regional Council owns leasehold endowment property within and around Napier City, inherited in 1989 as part of the reformation of Local Government, and subject to certain legal restrictions. In 2013, the Regional Council 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 the Regional Council and sales to lessors have continued in the same way as they have done in the past.

Wellington Leasehold Property: the Regional Council holds a portfolio of leasehold properties in Wellington.

The Council Group will also at various times hold treasury investments including cash and term deposits, both as part of the Managed Funds portfolio, general investments, and for operating purposes. The Regional Council retains control of its own treasury investments and daily operating cash flows.

Financial delegations for the transactional activities on an existing Investment of the Regional Council will be updated from time to time by the Regional Council as part of its financial delegations.

New investments

The Council Group anticipates that the nature and mix of investment assets required to support the Regional Council's long-term objectives will change over time. The Regional Council has also asked HBRIC to look to grow the asset base of the Council Group, including the Council Group's long-term resilience.

New investment opportunities or unsolicited offers for existing investment assets are expected to be evaluated by the Board of HBRIC in its capacity as professional Investment Manager.

HBRIC Board has the authority to undertake new investments for HBRIC within the principles of the Letter of Expectation and Statement of Intent. In fulfilling its mandate, HBRIC may borrow; this aligns with its wider objectives related to increasing the size of its in-region investments. When borrowing, there will be a range of parameters and debt limits which HBRIC must comply with; these will be outlined in HBRIC's Treasury Policy. This policy will ensure the level of leverage is appropriate and doesn't put the Regional Council or strategic Council Group assets at risk.

Management and reporting on investments

In 2023, the Regional Council endorsed an improved oversight and governance model for the Regional Council and HBRIC investments such that, from 1 July 2024, HBRIC would manage and oversee all the Council Group's investments on the Regional Council's behalf. This centralisation and oversight will ensure improved co-ordination and return expectations across all investments to the benefit of our ratepayers.

The parameters of the HBRIC role is defined annually in both the Regional Council's Letter of Expectation to HBRIC and the HBRIC Statement of Intent back to the Regional Council. These documents include the roles and responsibilities that the Regional Council and HBRIC have in the management of Investment Assets. These documents are available on the Regional Council website.

HBRIC will report to the Regional Council quarterly on the performance of the Investment Assets against the objectives of the Regional Council.

Risk management

The Regional Council acknowledges that there are risks associated with investment and seeks to protect the value of its investments, and associated returns, through applying the 'prudent person' principles and the use of experts. The Council Group is a long-term intergeneration investor by nature, and therefore holds long-term assets and the associated volatility that the assets may bring.

Risk management associated with Managed Funds are managed through the SIPO. Risk management on other investment assets are managed by HBRIC as an Investment Manager for the Council Group assets, through the use of internal and external expertise and, at times, may also change the mix of assets.

Return targets

In forecasting the 2024-2027 Three-Year Plan (3YP), inflation is assumed and applied at 2.5% each year over the life of the 3YP. Asset growth equivalent to inflation ensures the value of asset is maintained over time.

The retention of any asset growth over and above the inflation target is used to build resilience for the Council Group's benefit.

HBRIC has been tasked with managing the Investment Assets as a portfolio. The cash return targets take into account where the performance of the investment asset is today, and the growth that HBRIC anticipates can be achieved annually. The returns targeted in 3YP are lower than forecast in the prior 3YP because the impact of events like Cyclone Gabrielle are felt in assets such as the Napier Port.

The cash returns targeted to be delivered to the Regional Council over the first three years of the 3YP are:

Cash return targets	Year 1 2024/25	Year 2 2025/26	Year 3 2026/27
Cash return	$15.05M	$13.3M	$13.5M

Both the Regional Council and HBRIC have the opportunity to review the cash return targets as part of the annual Letter of Expectation and Statement of Intent.

Other investment assets

Treasury investments

The Regional 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 the Regional 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 the Regional Council's Investment Policy within approved policy limits by regularly reviewing cash flow and debt forecasts (incorporating plans for approved expenditure and strategic initiatives).
- The Regional 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

The Regional Council may hold 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.

Counterparty risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Regional Council is a party. The credit risk to the Regional 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 the Regional 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 2: Counterparty Limits

Issuer / counterparty	Instrument	Minimum short term credit rating	Minimum long-term credit rating	Maximum exposure per counterparty (% of rates revenue[1])
New Zealand Government	Treasury bills, NZ government bonds, debt issued by entities explicitly guaranteed by the NZ Government	n/a	n/a	Unlimited
Reserve Bank of NZ registered banks[2]	Cash, call and term deposits, bank bills, bonds	A-1	A	$25 million
	Interest rate and foreign exchange instruments	A-1	A	$15 million
LGFA	Borrower notes, commercial paper, bonds	A-1	AA-	Unlimited

[1] 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 Regional Council's Rates Remission Policy. Rates revenue was $30 million in the 2022-2023 Annual Report.

[2] Cash deposits arranged through the Jarden Cash Management Facility are approved and included within HBRC's 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 Regional Council.

Liability Management Policy

The Regional Council Liability Management Policy has been prepared in accord with section 104 of the Local Government Act 2002.

The LGA requires this Policy must include the Regional Council policy on:

- interest rate exposure
- liquidity
- credit exposure
- debt repayment.

Under section 113 of the LGA, the Regional Council can only enter into arrangements for borrowing under New Zealand Dollars.

Liability management objectives

The Regional Council 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 schemes or other projects to progress at an earlier stage than might otherwise be possible, because it reduces the cash flow burden on beneficiaries and therefore increases affordability.

The Regional 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
- acquisition of low-risk investments
- short-term debt to manage timing differences between cash inflows and outflows and to maintain the Regional Council's liquidity position and, if necessary, to fund emergency expenditure
- pre-funding of upcoming debt maturities or capital expenditure requirements
- funding the balance sheet as a whole, including working capital requirements
- raising specific debt for on-lending to CCO/CCTOs.

In approving new borrowing, the Regional Council 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.

The Regional Council considers the impact on borrowing limits, and consistency with the Annual Plan and Long Term Plan.

In evaluating the strategy for new borrowing (in relation to source, term, size and pricing), the Regional Council 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 the Regional Council’s outlook on future credit margin and interest rate movements.

Local Government Funding Agency Limited: the Regional Council 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, the Regional Council 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 or borrower’s note to the LGFA
- 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 Regional Council's rates and rates revenue
- subscribe for shares and uncalled capital in the LGFA.

Debt repayment

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

Guarantees/contingent liabilities and other financial arrangements

The Regional Council 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 the Regional Council’s strategic objectives.

The Regional Council is not allowed to guarantee loans to council-controlled trading organisations (CCTOs) under section 62 of the LGA.

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

To better achieve its strategic and commercial objectives, the Regional 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.

The Regional 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 the Regional 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 the Regional Council. In recommending an arrangement for approval the GMCS considers the following:

- the credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date
- impact on the Regional Council’s credit standing, lending covenants with the LGFA and other lenders and the Regional 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 Regional Council borrowing rates, borrower note and liquidity buffer requirements, term, etc
- lending arrangements to the CCO or CCTO. These 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.
- the accounting and taxation impact of an on-lending arrangement.

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

Loan advances

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

The Regional Council will assess the risk and consider the following criteria:

- consistency with the Regional Council's objectives
- credit risk profile of the borrowing entity and the ability to repay interest and principal amounts outstanding
- advances will be secured wherever practical.
- impact on the Regional 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 the Regional 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 million. Any new loan advances beyond $2 million in aggregate are approved by the Regional Council. The term will not exceed three years.

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

Specific borrowing limits

The following table summarises the specific borrowing limits that the Regional Council adheres to, in conjunction with the LGFA's lending covenants. The Regional Council has recently obtained an AA credit rating.

Table 3: HBRC specific borrowing limits

	HBRC	LGFA without credit rating	LGFA with credit rating
Net external debt as a percentage of total revenue	<250%	<175%	<280%
Net interest on external debt as a percentage of annual rates income	<30%	<25%	<30%
Net interest on external debt as a percentage of total revenue	<20%	<20%	<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	>110%	>110%

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

Notes:

- 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 the Regional Council only, not a consolidated group basis.

Liquidity and funding limits

Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. The Regional 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 4: 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 the Regional Council’s borrowings from the LGFA mature within an immediate 12-month period.

Security

The Regional Council’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, the Regional Council’s borrowing is secured by a floating charge over all Regional Council rates levied under the Local Government (Rating) Act 2002. The security offered by the Regional Council ranks equally and without preference (pari passu) with all lenders to the Regional Council.

Other borrowing structures are possible, but the Regional Council 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 the Regional Council’s prior approval.

Interest rate risk management

Interest rate risk refers to the impact that adverse movements in interest rates may have on the Regional 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 5: 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%

Notes:

- *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 rateFixed 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 the Regional Council. Bank draw down advances may be for a maximum term of 12 months.

Approved financial instruments

Table 6: 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) offered by the LGFA
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.*

Foreign currency

The Regional Council 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.

The Regional 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 Investment Funds is managed within the SIPO.

Review of Policy

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

Management responsibilities

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

Table 7: Treasury responsibilities

Council (elected representatives)

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

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

In this respect, the Regional Council has responsibility for:

- approving the long-term financial position of the Regional Council through the Long Term Plan and the Annual Plan
- approving the Regional Council's SIPO document, including the investment strategy, return objective, policies, manager configuration, and instructions to the investment manager
- approving the Statement of Intent for CCOs
- 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.

The Regional 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:

- approving investments (in the instances where funding is required from the Regional Council) 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, voting for the appointment of directors in HBRIC, NPHL, CCO and any CCTOs or other subsidiary companies established to manage the Regional Council's investments in future
- approving new investments to facilitate community infrastructure asset creation, whether by way of direct property ownership or by making loans to non-Regional Council entities for this purpose
- approving the investment strategy and SIPO.

Risk and Audit Committee (RAC)

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

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

The RAC will discuss treasury matters on a quarterly basis.

Responsibilities are:

- recommending the Treasury Policy and SIPO document (or changes to existing policy) to the Regional Council receiving recommendations from the GMCS and make submissions to the Regional Council on all treasury matters requiring the Regional 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 Regional Council has final responsibility for policy governing the management of the Regional Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the CE. The Regional Council formally delegates to the CE the following responsibilities:

- ensuring the Regional Council's policies comply with existing and new legislation
- approving the bank signatories
- exercising delegated authority to make and implement treasury decisions in accordance with authority delegated by the Regional Council
- monitoring financial market conditions and treasury performance and recommending initiatives and changes to the Regional Council as circumstances require
- granting 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 the Regional 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 Regional Council at the earliest opportunity.

Chief Financial Officer (CFO)

The GMCS formally delegates the following responsibilities to the CFO:

- recommending policy changes to the RAC for evaluation
- monitoring the ongoing risk assessment of borrowing and investment activity, including procedures and controls
- receiving quarterly reporting from the Investment Manager(s)
- proposing any new borrowing requirements falling outside the Annual Plan and Long Term Plan to the RAC for consideration and submission to the Regional Council
- designing, analysing, evaluating, testing and implementing risk management strategies to position the Regional 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 RAC as appropriate
- reviewing and making recommendations on all aspects of the Treasury Policy to the RAC 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 Regional Council in accordance with the Regional 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
- monitoring and updating credit ratings of approved counterparties on a continuing basis
- 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, debt funding portfolio and interest rate risk position
- forecasting future cash requirements
- checking 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
- reviewing electronic batch payments to creditors and arranging for approval by authorised signatories.

Delegation of authority and authority limits

Treasury transactions entered into by the Regional 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 Regional Council and contracted personnel empowered to bind the Regional Council.
- Whenever a person with delegated treasury authority leaves the Regional 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 Regional Council has responsibilities, either directly, or via the following stated delegated authorities (see table over).

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 $30 million $20 million $10 million
Maximum daily transaction amount (investing and cash management)*	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $30 million $20 million $10 million
Maximum daily transaction amount (foreign exchange risk management)	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $2 million $1 million $0.5 million
Approving bank signatories	CE	Unlimited
Approving the opening/closing bank accounts	CE	Unlimited
Reviewing Treasury Policy every three years	RAC	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.