Attachment 1 to Report 08.742
Pages 1 to 30

DRAFT

GREATER WELLINGTON REGIONAL COUNCIL

TREASURY MANAGEMENT POLICY

INCLUDING LIABILITY AND INVESTMENT POLICIES

JUNE 2008

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1.0 INTRODUCTION

1.1 Purpose of Policy

The purpose of the Treasury Management Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Greater Wellington Regional Council ("Greater Wellington"). The formalisation of such policies and procedures will enable treasury risks within Greater Wellington to be prudently managed.

As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within Greater Wellington continue to be well managed. In addition, regular reviews will be conducted to test the existing policy against the following criteria:

- Industry "best practices" for a Council the size and type of Greater Wellington.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Treasury Management Policy and treasury management function to recognise, measure, control, manage and report on Greater Wellington's financial exposure to market interest rate risks, funding risk, foreign exchange risk related capital expenditure liquidity and investment risks and other associated risks.
- The operation of a pro-active treasury management in an environment of control and compliance.
- The robustness of the policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assist Greater Wellington in achieving strategic objectives relating to ratepayers.

It is intended that the policy be distributed to all personnel involved in any aspect of the Greater Wellington's financial management. In this respect, all staff must be completely familiar with their responsibilities under the policy at all times.

2.0 SCOPE AND OBJECTIVES

2.1 Scope

- This document identifies the policy and procedures of Greater Wellington in respect of treasury management activities.
- The policy has not been prepared to cover other aspects of Greater Wellington's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of Greater Wellington cover these matters.
- Planning tools and mechanisms are also outside of the scope of this policy.

2.2 Objectives

The objective of this Treasury Management Policy is to control and manage costs and investment returns that can influence operational budgets and public equity. Specifically:

Statutory Objectives

- All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- Greater Wellington is governed by the following relevant legislation;
  - Local Government Act 2002, in particular Part 6 including sections 101,102,104 and 105.
- All projected borrowings are approved by council as part of the Annual Plan and LTCCP process.
- All legal documentation in respect to borrowing and financial instruments will be approved by Greater Wellington's solicitors prior to the tabling of the resolution.
- Greater Wellington will not enter into any borrowings denominated in a foreign currency.
- Greater Wellington will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than that which Greater Wellington would achieve without pledging rates revenue.
- A resolution of Greater Wellington is not required for hire purchase, credit or deferred purchase of goods if:
  - the period of indebtedness is less than 91 days (including rollovers); or
  - the goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of Greater Wellington.

General Objectives

- Minimise Greater Wellington's costs and risks in the management of its borrowings and maximise its return on investments.
- Minimise Greater Wellington's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Management Policy so as to protect Greater Wellington's financial assets and costs.
- Arrange and structure appropriate funding for Greater Wellington at the lowest achievable interest margin from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Greater Wellington's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.
- Maintain a long term Standard & Poor's credit rating at AA- or better.

- Monitor Greater Wellington's return on investments in CCTO's, property and other shareholdings.
- Ensure the Council, management and relevant staff are kept abreast of latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain liquidity levels and manage cash flows within Greater Wellington to meet known and reasonable unforeseen funding requirements.
- To minimise counterparty credit risk.
- Ensure that all statutory requirements of a financial nature are adhered to.
- To ensure adequate internal controls exist to protect council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions and investors in Greater Wellington's debt securities.
- Manage foreign exchange risk associated with capital expenditure and goods and services on imported items.

2.3 Policy Exclusion

This policy covers WRC Holdings and subsidiaries but excludes CentrePort Ltd.

2.4 Transitional Period

This is a new policy. To allow Greater Wellington some time to meet the ratios listed under section 6.1.3, 6.3 there will be a 12 month transition period from the date the policy is first adopted.

PIL, along with the other shareholder in CentrePort Ltd, is responsible for appointing the Board of Directors who are responsible for the operations of the company. Any major transactions, as defined in the Company's Constitution or the Companies Act 1993, require the approval of the shareholders.

PIL, as a shareholder, has input into CentrePort's Statement of Corporate Intent and Constitution. Shareholders receive regular reports, along with briefings twice a year. The investment in CentrePort Ltd is not without risk. Greater Wellington's risk management processes are:

- Appointment of suitably qualified external directors
- Formal briefings to shareholders twice a year, quarterly briefings with the Chief Financial Officer
- Appointment of Greater Wellington's Chief Financial Officer as reporting officer for Greater Wellington on CentrePort Ltd
- Monthly reports to the shareholder
- Input into CentrePort's Statement of Corporate Intent.

Forestry investments

Greater Wellington has investments in forestry which are managed on a commercial basis, coupled with meeting the objectives of minimising soil erosion and water sedimentation (for land which is held for water catchment purposes). Harvesting is on a sustainable yield basis.

The forestry investments are set up as separate units within Greater Wellington and are regularly reported to Council. Greater Wellington manages the forests in-house but contracts out the silviculture, harvesting and marketing. Risk is managed by the use of in-house expertise along with external consultants.

Stadium advance

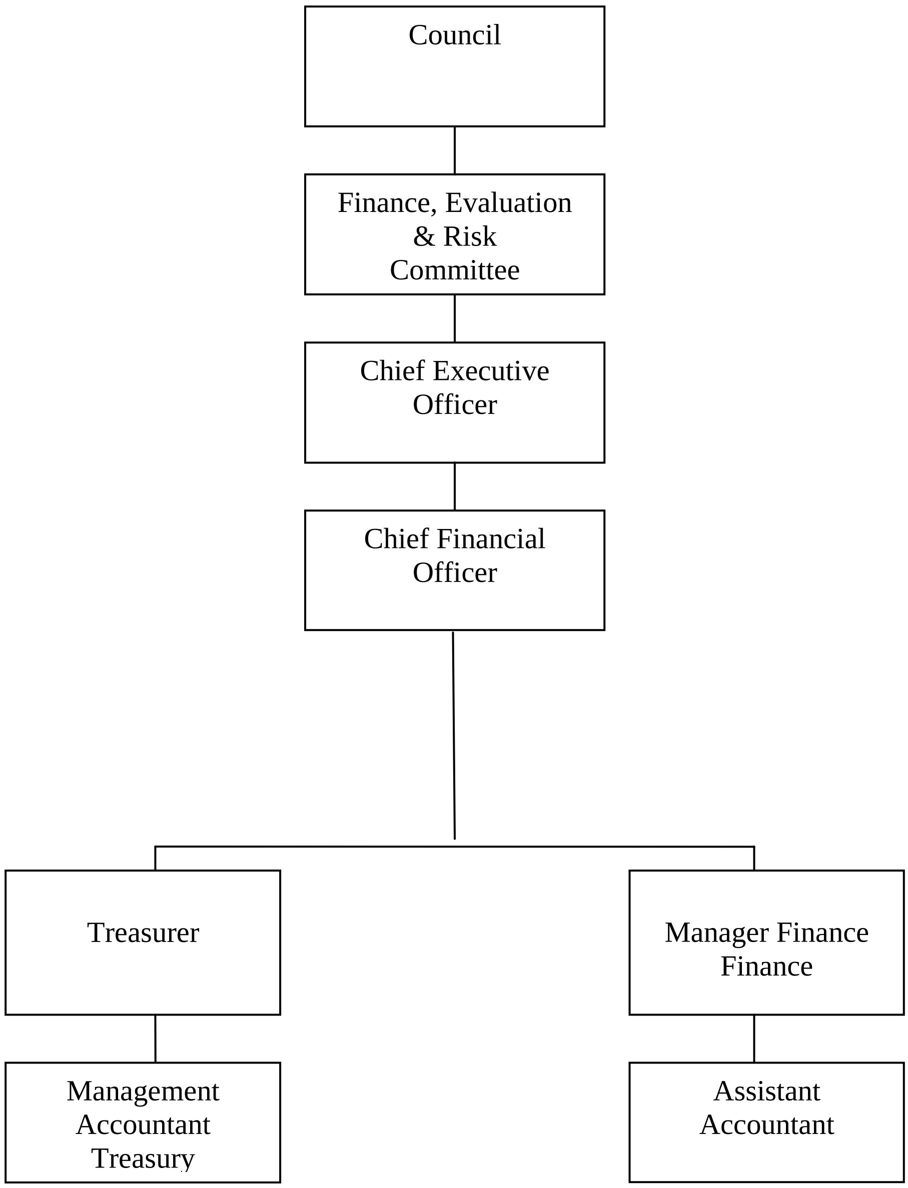
Greater Wellington has lent $25 million to the Wellington Regional Stadium Trust. The advance is interest free with limited rights of recourse. Greater Wellington will continue to hold the advance until repayment. It receives regular reports from the Stadium Trust on the Trust's financial performance. Greater Wellington, along with the Wellington City Council, appoints the trustees to the Stadium Trust.

3.0 MANAGEMENT RESPONSIBILITIES

3.1 Overview of Management Structure

- Greater Wellington will operate the treasury management function as a cost centre.
- All treasury management activities are to be undertaken by that function.

The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in the following section:



3.2 Council

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

The Council is responsible for approving all policy, as detailed in this Treasury Management 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 Greater Wellington through the 10 year long-term council community plan and the adopted annual plan.
- Approving new debt/funding via resolution of the annual plan and the Treasury Management Policy

- Approving the Treasury Management Policy incorporating the following delegated authorities:
  - borrowing, investment and dealing limits and the respective authority levels delegated to the CEO, Chief Financial Officer and other management.
  - counterparties and credit limits.
  - risk management methodologies and benchmarks
  - guidelines for the use of financial instruments.
  - approves the Treasury Management Policy every 3 years
- Approving budgets and high level performance reporting.
- Delegate authority to the CEO and other officers.

The Council should also ensure that:

- It receives appropriate information from 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 for any transactions falling outside policy guidelines.

3.3 Finance, Evaluation & Risk Committee (FERC)

The FERC will oversee the implementation of the Greater Wellington's treasury management strategies and monitor and review the effective management of the treasury function.

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

The FERC will discuss treasury matters on a 6 monthly basis (and informally as required).

Responsibilities are as follows:

- Recommending the Treasury Management Policy (or changes to existing policy) to the Council.
- Receiving recommendations from the Chief Financial Officer and make submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for all treasury activity.
- Monitoring six monthly performance against benchmarks.

3.4 Chief Executive Officer (CEO)

While the Council has final responsibility for the policy governing the management of Greater Wellington's risks, it delegates overall responsibility for the day-to-day management of such risks to the Chief Executive Officer.

The Chief Executive Officer's responsibilities include:

- Ensure Greater Wellington's policies comply with existing and new legislation.

- Approving the register of cheque and electronic banking signatories.
- Approve new counterparties and counterparty limits as defined within section 6.4 and recommended by the CFO.
- Approve opening and closing of bank accounts.

3.5 Chief Financial Officer (CFO)

The CFO's responsibilities are as follows:

- Management responsibility for borrowing and investment activities.
- Recommend policy changes to the FERC for evaluation.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- Approve new borrowing undertaken in line with Council resolution and approved borrowing strategy.
- Approve re-financing of existing debt.
- Approve treasury transactions in accordance with policy parameters outside of the Treasurer's delegated authority.
- Authorise the use of approved financial market risk management instruments within discretionary authority.
- Recommend authorised signatories and delegated authorities in respect of all treasury dealing and banking activities.
- Recommend changes to credit counterparties to the CEO
- Propose new funding requirements falling outside annual plan and LTCCP to the FERC for consideration and submission to the Council.
- Review and make recommendations on all aspects of the Treasury Management Policy to the FERC, including dealing limits, approved instruments, counterparties, working capital policies and general guidelines for the use of financial instruments.
- Conduct a tri-annual review of the Treasury Management Policy, treasury procedures and all dealing and counterparty limits.
- Receive advice of breaches of Treasury Management Policy and significant treasury events from the Manager Finance.
- Manage the long-term financial position of Greater Wellington in accordance with Greater Wellington's requirements.
- Ensure that all borrowing and financing covenants to lenders are adhered to.
- Ensure management procedures and policies are implemented in accordance with this Treasury Management Policy.
- Ensure all financial instruments are valued and accounted for correctly in accordance with current best practice standards.
- Monitor and review the performance of the treasury function in terms of achieving the objectives of minimising and stabilising funding costs and maximising investment returns year-to-year.

3.6 Treasurer

The Treasurer runs the day-to-day activities of Greater Wellington's treasury management function. Responsibilities are as follows: Whilst the Treasurer is responsible for these activities some duties will be delegated by the Treasurer to the Management Accountant Treasury.

- Oversee relationships with financial institutions.
- Approve treasury transactions in accordance with policy parameters within delegated authority.
- Negotiate borrowing facilities.
- Authorise interest rate hedge transactions (swaps, FRAs and options) with bank counterparties to change the fixed:floating mix to re-profile Greater Wellington's interest rate risk on either debt or investments.
- Decisions and authorisations to raise and lower fixed rate (interest rate market price re-set >12 months) percentage of Net debt or Investment position within interest rate policy risk control limits.
- Design, analyse, evaluate, test and implement risk management strategies to position the councils net interest rate risk profile to be protected against adverse market movements within the approved policy limits.
- Monitor credit ratings of approved counterparties.
- Co-ordinate annual reviews with Standard & Poor's credit rating agency.
- Investigate financing alternatives to minimise borrowing costs, margins and interest rates, making recommendations to the FERC as appropriate.
- Negotiate bank funding facilities and manage bank and other financial institution relationships.
- Execute treasury transactions in accordance with set limits.
- Monitor treasury exposure on a regular basis, including current and forecast cash position, investment portfolio, interest rate exposures and borrowings.
- Provide written evidence of executed deals on an agreed form immediately to the Manager Finance.
- Co-ordinate the compilation of cash flow forecasts and cash management.
- Manage the operation of all bank accounts including arranging group offsets, automatic sweeps and other account features.
- Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA swap documents.
- Prepare treasury reports.
- Monitor all treasury exposures daily.
- Forecast future cash requirements.
- Provide regular short term and long-term cash flow and debt projections to the CFO
- Primary responsibility for managing relationships with financial institutions.
- Complete deal tickets for treasury transactions.
- Update treasury system/spreadsheets for all new, re-negotiated and maturing transactions.

- Update credit standing of approved counterparty credit list on a quarterly basis.

3.7 Manager Finance (MF)

The following responsibilities of the MF include duties that may be delegated by the MF to the Assistant Accountant.

- Check all treasury deal confirmations against deal documentation and report any irregularities immediately to the CFO.
- Reconcile monthly summaries of outstanding financial contracts from banking counterparties to internal records.
- Review and approve borrowing and investment system/spreadsheet reconciliation to general ledger.
- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles and Greater Wellington's accounting policy.
- Check compliance against limits and prepare report on an exceptions basis.
- Approve all amendments to Greater Wellington's records arising from checks to counterparty confirmations.
- Create batch for borrowing and investment settlements and arrange for approval by authorised signatories.
- Deliver weekly reports to the CFO covering cash/liquidity, investment profile, funding profile and interest rate risk position.

3.8 Delegation of Authority and Authority Limits

Treasury transactions entered into by Greater Wellington without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least every six months to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least every year that details all relevant current delegated authorities of Greater Wellington and contracted personnel empowered to bind Greater Wellington.

Whenever a person with delegated authority on any account or facility leaves Greater Wellington, all relevant banks and other counterparties must be advised in writing immediately to ensure that no unauthorised instructions are to be accepted from such persons.

In terms of clarification it is acknowledged that management's delegated authority to borrow is evidenced by Council resolution, approved annual plans or LTCCP.

Greater Wellington has the following responsibilities, either directly itself, or via the following stated delegated authorities.

Activity	Delegated Authority	Limit
Approving and changing policy	The Council	Unlimited
Borrowing new debt	The Council CEO (delegated by Council) CFO (delegated by Council)	Unlimited (subject to legislative and other regulatory limitations) Subject to Council Resolution and policy
Acquisition and disposition of investments other than financial investments	The Council	Unlimited
Approval for charging assets as security over borrowing	The Council	Subject to terms of the Negative Pledge
Overall day-to-day risk management	CEO (delegated by Council) CFO (delegated by Council)	Subject to policy
Re-financing existing debt	CEO (delegated by Council) CFO (delegated by Council)	Subject to policy
Approving transactions outside policy	The Council	Unlimited
Adjust net debt or net investment interest rate risk profile	Treasurer	Per risk control limits
Managing funding maturities in accordance with Council approved facilities	Treasurer	Per risk control limits
Maximum daily transaction amount (borrowing, investing, foreign exchange, interest rate risk management and cash management) excludes roll-overs on debt facilities	The Council CEO (delegated by council) CFO (delegated by council) Treasurer (delegated by Council	Unlimited $75M $50M $30 million
Authorising lists of signatories	CEO	Unlimited
Opening/closing bank accounts	The Council	Unlimited
Tri-annual review of policy	FERC	N/A
Ensuring compliance with policy	CFO	N/A

4.0 LIABILITY MANAGEMENT POLICY

Council's liabilities comprise borrowings and various other liabilities. Council's Liability Management Policy focuses on borrowings as this is the most significant component and exposes the Council to the most significant risks. Other liabilities are generally non-interest bearing. Cash flows associated with other liabilities are incorporated in cash flow forecasts for liquidity management purposes and determining future borrowing requirements.

4.1 Debt Ratios and Limits

Debt will be managed within the following macro limits.

Ratio	
Net debt per capita	<$400
The percentage of net external debt to annual rates and levies	<210%
Net Interest expense on net external debt as a percentage of annual rates and levies	<25%
Liquidity (Total debt + committed loan facilities + liquid investments to total debt)	>110%

Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue.

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

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

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

4.2 Negative Pledge

Greater Wellington operates under a negative pledge and will not offer security, other than that provided in the Negative Pledge Deed, over any of its wholly owned assets for any borrowings except in specific circumstances and when approved by Council. The terms of the negative pledge must not be broken any time.

4.3 Borrowing Mechanisms

Greater Wellington is able to borrow through a variety of market mechanisms including issuing Commercial Paper (CP), fixed rate bonds and floating rate notes (FRN's), direct bank borrowing or loans with private placement investors, accessing the short and long-term capital markets directly or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the CFO takes into account the following:

- Available terms from banks, capital markets and loan stock issuance.
- Greater Wellington's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.

- Prevailing interest rates and margins relative to term for debt issuance, capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as its own.
- Legal documentation and financial covenants together with credit rating considerations.
- Retail or wholesale debt issue.

Greater Wellington's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong credit rating and manage its relationships with its investors and financial institutions.

5.0 INVESTMENT POLICY AND LIMITS

5.1 General Policy

Council is currently a net borrower of funds and should generally apply surplus funds to debt repayment and wherever possible internally borrow from reserve funds to meet future capital expenditure. An exception to this is that Greater Wellington may invest liquid funds externally for the following reasons:

1. For strategic purposes consistent with Greater Wellington's long term strategic plan.
2. Holding short term liquid investments for general working capital requirements or any other cash management objective.
3. Holding investments that are necessary to carry out Greater Wellington operations consistent with annual long term plans.
4. Holding investments for self-insured infrastructural assets and contingency reserves

Greater Wellington recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

In its financial investment activity, Greater Wellington's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counterparties are acceptable.

5.2 Investment Mix

Greater Wellington maintains investments in the following assets from time to time:

- Equity investments, including CCO/ CCTO and other shareholdings.
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development.
- Financial investments incorporating longer term and liquidity investments.

5.2.1 Equity Investments

Greater Wellington's current and equity investments are:

- WRC Holdings Limited (100%), owner of Port Investments Ltd and Pringle House Ltd. It also owns the following companies
- Port Investments Ltd (100%), 76.9% owner of CentrePort Ltd

- Pringle Houses Ltd (100%), owner of the Regional Council Centre
- Greater Wellington Rail Ltd
- Greater Wellington Infrastructure Ltd
- Greater Wellington Transport Ltd.

The above companies are Council Controlled Organisations or Council Controlled Trading Organisations.

5.2.2 Other Investments

Greater Wellington's other investments are:

- Forestry investments
- Stadium advance
- Liquid financial deposits

5.2.3 Council Controlled Organisation (CCO) and Council Controlled Trading Organisation (CCTO)

The objectives of Greater Wellington's CCTO/CCOs are to:

- Separate appropriately management and governance
- Impose a commercial discipline
- Separate Greater Wellington's investments and commercial assets from its public good assets.

Greater Wellington is responsible for the appointment of the Board of Directors for Greater Wellington's CCO/CCTOs. Any asset additions or disposals of note are approved by Directors, unless they are significant, as defined by the company's constitution, at which point shareholder approval is required.

Risk is managed by:

- Appointment of external Directors
- Regular reporting to Directors
- Use of external advisors where there is limited in-house experience.

Greater Wellington, as shareholder, has input into the CCO/CCTOs Statements of Corporate Intent, and Constitutions, and receives half and full year reports.

CentrePort Limited

Greater Wellington, through Port Investments Ltd (PIL), owns 76.9% of CentrePort Limited. CentrePort Ltd is also governed by the Port Companies Act 1988 which impacts on some governance arrangements. CentrePort Ltd is not a CCTO under the Local Government Act 2002.

5.2.4 Liquid Financial Investments

For the foreseeable future, the Council will be in a net borrowing position and liquid investment funds will be prudently invested as follows:

Any liquid investments must be restricted to a term that meets 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 is credited to the particular fund.

Internal borrowing will be used wherever possible to avoid external borrowing.

Liquid Financial Investment Objectives

- Greater Wellington's primary objective when investing is the protection of its investment capital and maximise returns. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties and investment restrictions are covered in section 6.3. Credit ratings are monitored on a regular basis by the Treasurer.

- Greater Wellington may invest in acceptable liquid debt instruments such as Commercial Paper or Floating Rate Notes (FRN'S) and make interest rate duration positions using investor swaps. This will further meet Greater Wellington's objectives in meeting objectives in investing in high credit quality and highly liquid assets yet allow for optimal interest rate decisions.

- Greater Wellington's external investment interest rate profile will be managed within the parameter outlined in section 6.0

Special Funds and Reserve Funds

Liquid assets will not be required to be held against special funds and reserve funds. Instead Council should internally utilise or borrow these funds where ever possible.

Through adopting this Treasury Management Policy, Council supersedes any previous Council resolutions pertaining to the continued funding or internal borrowing of specific special funds and reserve funds.

6.0 RISK RECOGNITION/IDENTIFICATION/MANAGEMENT

The definition and recognition of interest rate, liquidity, funding, counterparty credit, market, operational and legal risk of Greater Wellington will be as detailed below and applies to both the Liability management policy and Investment policy.

6.1 Interest Rate Risk

6.1.1 Risk Recognition

Interest rate risk is the risk that Investment returns or funding costs (due to adverse movements in market interest rates) will materially exceed or fall short of adopted annual plans and strategic 10 year plan interest returns or cost projections, so as to adversely impact cost control, capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements through fixing of investment returns or funding costs. Both objectives are to be achieved through the active management of underlying interest rate exposures.

6.1.2 Approved Financial Instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council.

Current approved interest rate instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Wholesale Bond and Floating Rate Note (FRN) issuance Commercial paper (CP) NZD denominated local or offshore Private Placements Retail Bond and FRN Issues
Investments	Short term bank deposits Bank bills Bank certificates of deposit (RTD's) Treasury bills Local Authority stock or State Owned Enterprise (SOE) bonds and FRN's Corporate / Bank bonds Floating Rate Notes Promissory notes/Commercial paper Redeemable Preference Shares (RPS)
Interest rate risk management	Forward rate agreements ("FRAs") on: – Bank bills – Government bonds Interest rate swaps including: – Forward start swaps – Amortising swaps (whereby notional principal amount reduces) – Swap extensions and shortenings Interest rate options on: – Bank bills (purchased caps and one for one collars) – Government bonds – Interest rate swaptions (purchased only)

Foreign exchange risk management	- Foreign currency deposits - Purchased currency options - Collars (one for one) - Forward foreign exchange contracts

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

6.1.3 Interest Rate Risk Control Limits

Net Interest Rate Debt is defined as being total external debt less matching liquid investments.

Greater Wellington net interest rate debt should be within the following fixed/floating interest rate risk control limit:

Master Fixed/Floating Risk Control Limit

Minimum Fixed Rate	Maximum Fixed Rate
40%	95%

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

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

The percentages are calculated on the rolling 12 month projected net debt level calculated by management (signed off by the CFO). Net debt is the amount of total debt net of liquid financial assets/investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the policy minimums and maximums.

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

Fixed Rate Maturity Profile Limit		
Period	**Minimum Cover**	**Maximum Cover**
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	60%

- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.

- 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, only the sold side of the collar can be closed out in isolation (i.e. repurchased) otherwise both sides must be closed out simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions must mature within 18 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 1.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

Liquid Financial Investment Portfolio

The following interest rate re-pricing percentages are calculated on the projected 12-month rolling Financial Investment Portfolio total. This allows for pre-hedging in advance of projected physical receipt of new funds. When cash flow projections are changed, the interest rate re-pricing risk profile may have to be adjusted to comply with the policy limits.

Interest Rate Re-Pricing Period	Minimum Limit	Maximum Limit
0 to 1 year	40%	100%
1 to 3 years	0%	60%
3 to 5 years	0%	40%
5 to 10 years*	0%	20%

- To ensure maximum liquidity any interest rate position beyond 5 years must be made with acceptable financial instruments such as Investor Swaps
- The re-pricing risk mix can be changed, within the above limits through sale/purchase of fixed income investments and/or using approved financial instruments such as swaps.

Special Funds/Reserve Funds

- Given that Greater Wellington will require funding for capital expenditure cash shortfalls for the remaining life of the existing special / reserve funds, Greater Wellington should wherever possible/ practical cease to create / contribute or continue such funds. Where such funds are deemed necessary they should be used for internal borrowing purposes. This will negate counterparty credit risk and any interest rate gap risk that occurs when Greater Wellington borrows at a higher rate compared to the investment rate achieved by Special / Reserve Funds
- Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead Council will manage these funds using internal borrowing facilities.

6.2 Liquidity Risk/Funding Risk

6.2.1 Risk Recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of loans and facilities. Liquidity risk management focuses on the ability to borrow at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing facilities.

Managing Greater Wellington’s funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

- Local Government risk is priced to a higher fee and margin level.
- Greater Wellington’s own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Greater Wellington experiences their own financial/exposure difficulties resulting in Greater Wellington not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial “over supply” of Council investment assets.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

6.2.2 Liquidity/Funding Risk Control Limits

- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- Term debt and committed debt facilities together with liquid investments must be maintained at an amount that averages 110% of existing external debt.
- The CFO has the discretionary authority to re-finance existing debt.
- The maturity profile of total external debt less liquid financial investments in respect to all loans, bonds and committed facilities, is to be controlled by the following system:

Period	Minimum	Maximum
0 to 3 years	10%	60%
3 to 5 years	20%	60%
5 years plus	0%*	60%

* When total external debt less liquid investments exceeds $100,000,000 this minimum will increase to 15%.

A maturity schedule outside these limits and the 12 month transition timeframes, requires specific Council approval.

6.3 Counterparty Credit Risk

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

Credit risk will be regularly reviewed by the Council. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term credit ratings (Standard & Poor's or Moody's) being A- and above or short term rating of A2 or above; with the exception of New Zealand Local Authorities.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term / short term credit rating – stated and possible	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government		Unlimited	none	unlimited
NZD Registered Supranationals	AAA	50.0	none	50.0
State Owned Enterprises [name]	A-/ A2	15.0	none	15.0
NZ Registered Bank [name]	A-/ A2	50.0	70.0	70.0
Corporate Bonds/ CP [names]*	A-/ A2	10.0	none	10.0
Local Government Stock/ Bonds/ FRN/ CP [name]**	A-/ A2 (if rated) Unrated	40.0 25.0	none none	40.0 25.0

- **Subject to a maximum exposure no greater than 25% of total funds invested in corporate debt at any one point in time.*
- ** Subject to a maximum exposure no greater than 60% of total funds invested in Local Government debt at any one point in time

Sub-ordinated debt investments are not permitted

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

- Investments (e.g. Bank Deposits) – Transaction Notional × Weighting 100%.(unless a legal right of set-off over corresponding borrowings exist whereupon a 0% weighting may apply)
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange – Transactional principal amount x the square root of the Maturity (years) x 15%

Each transaction should be entered into a reporting spreadsheet and a monthly report prepared to show assessed counterparty actual exposure versus limits.

Individual counterparty limits are kept on a register by management and updated on a day to day basis with specific approvals made by the CFO. Credit ratings should be reviewed by the Treasurer on an ongoing basis and in the event of material credit downgrades; this should be immediately reported to the CFO and the Council and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Risk Management

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of counterparties as possible. Where possible, transaction notional sizes and maturities should also be well spread. The approval process to allow the use of individual financial instruments must take into account the liquidity of the market the instrument is traded in and repriced from.

6.4 Foreign Exchange Risk

6.4.1 Foreign Exchange Risk Recognition

Greater Wellington's policy is to identify, define, recognise and record these risks by their respective types or category and then to manage each risk under predetermined and separately defined policies/risk control limits for each risk category.

It is prudent practice to pre-hedge potential adverse foreign exchange rate movements on capital imports from the time the Capital expenditure budget is approved by Council. There is a risk that the net NZD cost could increase substantially from Capital expenditure budget time to the actual placement of the purchase order. It would be expected that the payment currency and payments schedule are known at the time of the purchase order and sale/purchases contract signed with the equipment supplier.

The defining principles for recognising the respective foreign exchange risks that Greater Wellington may incur are as follows:-

Capital and Operational Expenditure: Imported Items/ services, the council is exposed to foreign exchange risk on imported capital expenditure and operational expensed items/ services:-

> **Contingent risk:** this applies from the time the annual capital expenditure (Capital expenditure) and operational expenditure (Opex) budget is approved to the time specific Capital expenditure and Opex items are approved during the course of the year. This also includes the time from specific approvals to the time contracts are finalised.
>
> **Full risk:** at the time the expenditure is approved and legal commitments are made.

6.4.2 Foreign Exchange Risk Control Limits

Capital and Operational Expenditure: Imported Items/ services – All individual items/ services greater than NZD100,000 must be hedged at all times in accordance with the following risk control limits:-

Capital and Operational Expenditure –Foreign Exchange Risk Control Limits

Time – point	Exposure hedged by forward exchange contracts or options	Exposure hedged by purchased foreign exchange options
1. Budget approved by Council – (Medium Probability)		Maximum 50%
2. Specific item approved – (High probability)		Maximum 100%
3. Contract/ order confirmed – (Undoubted Risk)	Minimum 100%	

6.4.3 Use of Foreign Exchange Instruments and Forecasting

Financial instruments other than those stipulated in section 6.1.2 require one-off Council approval prior to transacting Foreign exchange options cannot be sold outright. The purchase price paid for an option (premium) is to be amortised (spread) over the period of cover and added to the actual average exchange rate achieved.

It is important that all significant tenders allow bidders the opportunity to select desired currencies and where possible allow for suppliers to transparently link price escalations to clear financial market references.

Project management team leaders and should critically update any assumptions prior to budgets being finalised. The following approach should be used when calculating foreign exchange rates for Capital expenditure budgeting purposes.

In order to determine a suitable spot rate to use for the calculation of outright forward cover budget levels, the two year daily average rate or spot rate, which ever is the lower, should be used. This allows for some degree of movement in the NZD cross during the budget evaluation process, prior to Council approval. This takes into consideration the annual volatility of the NZD, especially with the USD where the average annual movement over the past ten years has been 9.7 cents. Forward points reflecting the market rates at the time should then be added/subtracted to budget spot rate to establish an effective budget rate.

In considering the budget rate, thought should be given to the use of options within the hedging strategy and consequently option premiums should be built into any scenario testing and breakeven analysis.

6.5 Operational Risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and 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 through the adoption of all requirements of this policy.

6.5.1 Dealing Authorities and Limits

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

6.5.2 Segregation of Duties

Adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in borrowing and investment activity. Accordingly strict segregation of duties is not always achievable. The risk will be minimised by the following process:

- The MF should report directly to the CFO as control over the transactional activities of the Treasurer.

- A documented approval process for borrowing and investment activity.

6.5.3 Procedures

All treasury products should be recorded and diarised within a treasury system, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in a treasury procedures manual separate to this policy. Greater Wellington should capture the percentage of deals transacted with banks to determine competitiveness and reconcile the summary to the Council records.

Procedures should include:

- Regular management reporting.
- Regular risk assessment, including review of procedures and controls as directed by the FERC.
- 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 Greater Wellington'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.

Organisational Controls

- The CFO has responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.
- All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations authorised by the Council.

Cheque/Electronic Banking Signatories

- Positions approved by the CEO as per register.
- Dual signatures are required for all cheques and electronic transfers.

Authorised Personnel

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

Recording of Deals

- All deals are recorded on properly formatted deal tickets by the Treasurer and approved where required by the CFO. Market quotes for deals (other than cash management transactions) are perused by the Treasurer before the transaction is executed. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spreadsheets) are maintained and updated promptly following completion of transaction.

Confirmations

- All inward letter confirmations including registry confirmations are received and checked by the MF against completed deal tickets and summary spreadsheets records to ensure accuracy.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the CFO.

Settlement

- The majority of borrowing and investment payments are settled by direct debit authority.
- For electronic payments, batches are set up electronically. These batches are checked by the MF to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

Reconciliations

- Bank reconciliations are performed monthly by the MF. Any unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the CFO.
- A monthly reconciliation of the Debt Management system and borrowing and investment spreadsheets to the general ledger is carried out by the Treasurer and reviewed by the MF.

6.6 Legal Risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, Greater Wellington may be exposed to such risks. In the event that the Council is unable to enforce it's rights due to deficient or inaccurate documentation.

Greater Wellington will seek to minimise this risk by adopting policy regarding:

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

6.6.1 Agreements

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

Greater Wellington's internal/appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings and investment structures.

Currently Greater Wellington has ISDA agreements with the following banks:

- Bank of New Zealand
- ANZ Banking Group (New Zealand) Ltd
- National Bank of New Zealand Ltd
- ASB / CBA Bank
- Westpac

6.6.2 Financial Covenants and Other Obligations

Greater Wellington must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

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

6.7 Other Risks

Management may from time to time consider the need to hedge the risk it has to movements in the price of Diesel and the New Zealand dollar. This is because it is exposed to changes in the price of these through contracts with its Transport supply Operators. Any risk management of such commodity risks will only be conducted with Council authorisation.

7.0 MEASURING TREASURY PERFORMANCE

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

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to the FERC on a monthly basis.

7.1 Operational Performance

All treasury limits must be complied with including (but not limited to) counterparty credit limits, dealing limits and exposure limits.

All treasury deadlines are to be met, including reporting deadlines.

7.2 Management of Debt, Investments and Interest Rate Risk

The actual funding cost for Greater Wellington (taking into consideration costs of entering into interest rate risk management transactions) should be below the budgeted interest cost and investment returns above budgeted interest rate income.

8.0 CASH MANAGEMENT

The Treasurer has the responsibility to carry out the day-to-day cash and short-term debt management activities. Note: Cash management functions for Greater Wellington's CCTO's are handled by personnel within that company.

- The Treasurer will calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), weekly (four weeks forward), monthly (12 months forward) and annual (five years) basis.
- On a daily basis, electronically download all Greater Wellington bank account information.
- Co-ordinate Greater Wellington'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.
- Ensuring efficient cash management through improvement to accurate forecasting using spreadsheet modelling.
- Minimise fees and bank/Government charges by optimising bank account/facility structures.
- Monitor Greater Wellington's usage of cash advance facilities.
- Match future cash flows to smooth overall timeline.
- Provide reports detailing actual cash flows during the month compared with those budgeted.
- Maximise the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.

9.0 REPORTING – PERFORMANCE MEASUREMENT

When budgeting forecast interest costs/ returns, the actual physical position of existing loans, investments and swaps/swaptions/FRAs must be incorporated.

9.1 Treasury Reporting

9.1.1 Reporting

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	Treasurer	CFO
Treasury Exceptions Report	Daily	Treasurer	CFO
Risk Exposure position	Monthly	Treasurer	CFO
Risk Management performance	Monthly	Treasurer	CFO
Policy Compliance	Monthly	MF	CFO
Interest rate exposure report	Monthly	Treasurer	CFO
Cost of funds report	Monthly	Treasurer	CFO
Funding facility report	Monthly	Treasurer	CFO
Funding risk report	Monthly	Treasurer	CFO
Cash flow forecast report	Monthly	Treasurer	CFO
Summary Treasury Report	Monthly Quarterly	Treasurer	CFO Council/FERC
Quarterly Treasury Strategy Paper	Quarterly	Treasurer	 CFO CFO CEO/FERC
Limits Report	Daily, rep on an exceptions basis Quarterly	MF	Treasurer FERC
Debt Maturity Profile	Quarterly	Treasurer	FERC/Council
Statement of Public Debt	Quarterly	Treasurer	FERC/Council
Revaluation of financial instruments	Quarterly	Treasurer	CFO

9.2 Accounting Treatment of Financial Instruments

Greater Wellington uses financial market instruments for the primary purpose of reducing its exposure to fluctuations in interest rates.

The accounting treatment for such financial instruments is to follow IFRS accounting standards.

9.3 Valuation of Treasury Instruments

All treasury financial instruments must be revalued at least quarterly for risk management purposes. This includes those instruments that are used only for hedging purposes.

Underlying rates to be used to value treasury instruments are as follows:

- Official daily settlement prices for established markets.
- Official daily market rates for short term treasury instruments (e.g. FRA settlement rates calculated by Reuters from price maker quotations as displayed on the BKBM page).
- Relevant market mid-rates provided by the company's bankers at the end of the business day (5.00pm) for other over-the-counter treasury instruments.
- For markets that are illiquid, or where market prices are not readily available, rates calculated in accordance with procedures approved by the CFO.

10.0 POLICY REVIEW

This Treasury Management Policy is to be formally reviewed on a tri-annual basis.

The CFO has the responsibility to prepare a review report (following the preparation of annual financial statements) that is presented to the FERC. The report will include:

- Recommendation as to changes, deletions and additions to the policy.
- Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
- Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
- Analysis of bank and lender service provision, share of financial instrument transactions etc.
- Comments and recommendations from Greater Wellington's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury systems and procedures should be undertaken.
- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to Greater Wellington.

The Council receives the report, approves policy changes and/or reject recommendations for policy changes.

The policy review should be completed and presented to the Council within five months of the financial year-end