Investment Policy and Liability Management Policy

Group Responsible: Chief Financial Officer

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1.0 Overview

The Local Government Act 2002 requires local authorities to adopt an Investment Policy and a Liability Management Policy.

The Investment Policy is designed to ensure that the financial resources of the Council are managed in an efficient and effective way. It sets out how Council can utilise funds from the sale of assets, what should be done with the investment income and so on.

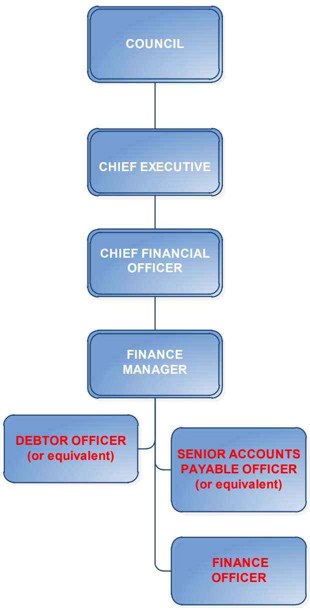
The Liability Management Policy is designed to provide a framework for prudent debt management and sets out how Council may wish to use debt as a funding mechanism.

Council has a structure of responsibilities and reporting lines to ensure the appropriate management and accountability of the liability and investing activities.

2.0 Structure

Organisational Structure

The organisational chart for the finance activity is as follows:



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Responsibilities

The key responsibilities of the above positions are as follows:

Council

- approve and adopt the Policies.
- review at least on a three yearly basis the Policies and approve any revisions or amendments as required.
- approve by resolution all external Council borrowing.
- responsible for the appointment of any fund managers.

CEO

- ultimately responsible for ensuring the Policies adopted by Council are implemented by officers of Council and administered in accordance with their terms.

Chief Financial Officer (CFO)

- responsible for recommending investment, borrowing and risk management strategy in conjunction with the Senior Financial Accountant and the Policy and Planning Manager.
- ensure compliance with the Risk Management Strategy.
- responsible for determining the level of cash available for investment and that held for working capital purposes.
- approve amounts to be placed with a fund manager for investment purposes.
- recommend to Council amendments to the Policies as required.
- recommend to Council the most appropriate source and terms for borrowing as and when required.
- review internal audit reports and approve as appropriate any recommendations made.
- approve new investments ensuring the proposed investment complies with these policy documents.

Finance Manager

- responsible for confirming adherence to the Policies, through internal reviews, to be performed on a regular basis.
- negotiate investment and borrowing transactions.
- reports findings to the CFO.
- assist in identifying amendments to the investment, borrowing and risk management strategy, which may require amendment of the Policies.
- responsible for all activities relating to the daily implementation and maintenance of the Policies.
- assist in determining the most appropriate sources and terms for borrowing and investing.
- negotiate investment and borrowing transactions.
- responsible for keeping the CFO informed of significant activity and market trends.
- responsible for reviewing/approving the weekly cashflow and cash management transaction requirements completed by the Senior Accounts Payable Officer (or equivalent).

Finance Officer/Senior Accounts Payable Officer/Debtor Officer (or equivalent)

- prepare and manage Council's cashflow and cash requirements.
- report to the Finance Manager on the weekly cashflow position and resulting cash management transactions required.

3.0 Investment

Introduction

This Investment Policy has been prepared pursuant to Section 102(1) of the Local Government Act 2002 (the "Act"), which requires the Council to adopt an Investment Policy and a Liability Management Policy. Section 105 of the Act sets out what must be included in an Investment Policy.

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity.

Council's rationale for retaining investments is:

- strategic assets are to be held by the Council, for public good.
- to earn from strategic investments a cash flow for investment in community wellbeing.
- to prudently manage cash flows within annual budget parameters.

Council is a risk adverse entity and does not wish to incur additional risk from its treasury activities. Accordingly, Council's primary objective when investing is the protection of its initial investment and generating a commercial return on strategic investments is considered a secondary objective.

Objectives

The key investment policy objectives are to:

- provide a framework for the prudent and effective management of investments.
- ensure that investments are managed in accordance with current governing legislation and Council's strategic and commercial objectives.
- manage investments in a sustainable and equitable way, having regard to current and future generations.
- recognise the community ownership of these assets and the need for a balanced investment/risk profile.
- ensure Council assets are managed prudently and adequately safeguarded.
- safeguard Council's financial market investments by establishing and regularly reviewing investment parameters and ensuring all investment activities are carried out within these parameters.
- maximise interest income, within a prudent level of investment risk. Council recognises that as a responsible public authority any investments that it does hold should be of relatively low risk. It also recognises that lower risk generally means lower returns.
- ensure funds are available to meet Council's needs.
- maintain professional relationships with the Council's bankers, financial market participants and other stakeholders.
- regularly review the performance and credit-worthiness of all investments.
- maintain procedures and controls and provide timely and accurate financial and management information.

These objectives will be achieved by having regard to:

- the mix of investments that Council will utilise.
- the process for the acquisition of new investments.
- the management and assessment of risk.
- the need for appropriate management and reporting procedures.

Investment Mix

Council has a portfolio of investments, at any time these could comprise:

- treasury, including investments in banks, local government and government stock.
- stocks, bonds, debentures and notes.
- equity investments.
- property.
- other property investments – Community Housing.
- forestry.
- loans, advances for community development purposes.
- internal loans
- shares (if market conditions are favourable).

The decision on which mix of investments Council will hold at any time will be based on the purpose for which the funds were acquired and the market conditions at the time.

Acquisition of New Investments

With the exception of treasury investments, new investments are acquired if an opportunity arises and approved by Council resolution, based on advice and recommendations from Management. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives and the financial risks of owning the investment.

The authority to acquire treasury investments is delegated to the Chief Financial Officer.

Application of Returns from Investments

Some returns are earmarked for specific purposes, but generally returns on Council investments are applied to give equal benefit to the District ratepayers by application in a pro-rata basis to offset the costs of District services.

Equity Investments

Nature of Investment

Equity investments are held for strategic purposes only and include interests in:

- **Civic Assurance Corporation** (13,715 shares).
  Civic Assurance is a specialist Local Government insurance company.
- **Milford Sound Tourism Limited** (2,000 shares). The role of Council is to facilitate and co-ordinate development and operations at Milford Sound/*Piopiotahi* and Council's intention is to retain its shareholding in the company.

Rationale for Holding Investment

The Council may hold equity for non-investment purposes, provided that the holding is in furtherance of its purpose under the Local Government Act 2002.

To have the ability to utilise equity investments where necessary to:

- achieve the desired level of returns; and/or
- to provide a diversified investment portfolio.

Disposition of Revenue

These investments are held for strategic reasons only and not for investment purposes.
As such these investments do not derive revenue. If they do, revenue will be used to offset general rates.

Risk Management

Investments in the Civic Assurance Corporation and the Milford Sound Tourism Limited are held for strategic purposes. For any other equity investments, Council reviews the performance of the trading enterprises at least annually to ensure that strategic and financial objectives are being achieved.

Dispositions and acquisitions require Council approval.

Property

Nature of Investment

The Council's first objective is to only own property that is strategically necessary for the economic, physical and social development of the Southland District and secondly, to achieve an acceptable rate of return. Investment property holdings are being leased out based on market rents or lease conditions. Property investments do not include properties for operational purposes.

Rationale for Holding Investment

Council holds investment properties in order to generate income to offset general rates.

The Council reviews the performance of its property investments on an annual basis and ensures that the benefits of continued ownership are consistent with its stated objectives. Any disposition of these investments requires the Council's approval.

Disposition of Revenue

Income generated is used to offset operational expenditure and reduce the overall rates levied.

Risk Management

The risk in respect of holding investment property is evaluated as low given the location of the properties and their current and long term use.

Rental income is considered low risk, due to the fixed and long term nature of the lease agreements. Lease rental is negotiated at the time the lease expires.

Other Property Investments - Community Housing

Nature of Investment

Council currently has 69 community house units available for rental, generally to elderly or disabled persons. These houses are located in various townships across the Southland District.

Rationale for Holding Investment

Council retains community housing to allow people to continue to live in its local community. These people are primarily the elderly or people with disabilities.

Council's philosophies include ensuring that rental charges cover cost (excluding depreciation) and to continue to maintain the housing at its current high standard. There is no required rate of return on this investment.

Disposition of Revenue

Revenue earned from the investment in community housing is retained in the community housing investment.

Risk Management

The risk in respect of holding investment property is evaluated as low given the location of the properties and their current and long term use.

Council's community housing activities are managed by staff in the Property Department. They regularly review Council's involvement in community housing, including assessment of the need for this asset within the community.

Forestry

Nature of Investment

The Council and its predecessor organisations have been involved in forestry for many years. Council's current forestry policy is that it will operate and maintain up to 3,000 planted hectares. The Council currently maintains 1,800 hectares of land.

Rationale for Holding Investment

The overall investment policy of the Council with regard to forestry is to maximise profit, with harvesting on a sustainable yield basis and without any demand on rates.

Disposition of Revenue

Any surplus revenue is used to offset rates. The revenue used to offset rates in any year may be the smoothed revenue calculated over a number of years. Approximately $100,000 is retained for operating working capital at any time.

Risk Management

Forests are currently managed by a specialist external party. Forestry activities are reviewed by the Services and Assets Committee.

Significant risk management strategies include diversity of forest age classes, insurance against fire and access to a rural fire fighting force, a mix of species, geographic spread of forests and controlled access. Retention of the forest is reviewed periodically.

Loans and Advances for community development purposes

Nature of Investment

The Council is not a lender and therefore is not generally involved in providing loans or advances.

Rationale for Holding Investment

Council provides loans for community development purposes. From time to time, Council has provided a loan or advance to a community organisation to facilitate the ongoing provision of community services or recreational opportunities. The loans/investments are not made for financial investment purposes.

Council sets the terms and conditions for any loans or advances as they are granted. Council will require security as deemed appropriate for each loan or advance. The security will be the assets or revenue of the organisation.

Disposition of Revenue

Generally these loans are to the benefit the local community and not for financial investment purposes. Interest will be charged at a rate that is consistent with Council's interest rate on internal loans. Any revenue would be applied to reserves, reduce external debt or offsetting general rates.

Risk Management

Council reviews the performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Council monitors the compliance of the borrower with the terms and conditions agreed upon.

All loans and advances documentation is subject to independent legal review prior to finalisation.

Internal Loans

Nature of Investment

Council may utilise surplus funds for the purposes of internal borrowing. Internal borrowing forms a part of the overall mix of Council investments.

Rationale for Holding Investment

To facilitate the development of Council activities within Council and the community to minimise the costs associated with borrowing externally.

Disposition of Revenue

Income derived from internal loans is generally used to fund the interest liability on reserves. Any surplus income is used to reduce external debt or offset against general rates.

Risk Management

Internal loans shall be managed as a treasury investment. Interest rates will be set having regard for Council's opportunity cost forgone by not investing externally.

Council may not achieve the opportunity cost due to actual external interest rates being different to the interest rate set for any given year as part of the LTP/Annual Plan process. In this case the return to Council may be more or less and will impact on the return to reserves.

Treasury Investments

Nature of Investment

To provide the ability to utilise a range of financial investments not already specified in this policy.

Rationale for Holding Investment

The Council maintains financial investments to:

- invest surplus cash and working capital funds.
- achieve the desired level of returns within acceptable risk parameters.
- invest amounts allocated to trust funds and special funds.

Disposition of Revenue

Income derived from Council's treasury activities will be used to fund Council activities including interest on reserves and offsetting rates and external debt.

Risk Assessment and Management

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives while balancing risk and return considerations. Council 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.

To provide the greatest benefit, Council utilises its surplus internal funds for internal borrowing to reduce external debt, thus effectively reducing net interest costs.

Council's primary objective when investing is the protection and liquidity of its investment. Accordingly, only credit-worthy counterparties are acceptable. Credit-worthy counterparties are selected on the basis of their current Standard and Poor's (S&P) or equivalent rating, which must be strong or better.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with as wide a range of counterparties as practicable. Transaction notional and principal sizes and maturities should be well spread where possible.

Within the above credit constraints, Council also seeks to:

- ensure investments are liquid.
- maximise investment return.
- manage potential capital losses due to interest rate movements.

The above objectives are captured in the following investment framework - Interest Rate Risk Management.

Credit Risk Management

Credit risk is minimised by placing maximum limits for each broad class of non-Government issuer and by limiting investments to registered banks, bonds issued by institutions with appropriate investment grade from a recognised rating agency, local authority bonds, and other financial institutions which are within prescribed limits.

Liquidity Risk Management
Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market.

Interest Rate Risk Management
Council aims to minimise the risk of default and variability of interest rates. It does this by:

- ensuring that investments are made with entities that have at least a strong capacity (Long Term A- or Short Term A-1) rating from Standard and Poor's (S&P) or equivalent rating in Fitch or Moodys.
- limiting total exposure to prescribed amounts.
- monitoring compliance against set limits.

Based on Standard and Poor's rating, investments are to be spread as follows:

TABLE 1 - HOW THE SOUTHLAND DISTRICT COUNCIL WILL SPREAD ITS INVESTMENTS

Authorised asset classes	**Overall portfolio limit as a percentage of the total portfolio**	**Approved financial market investment instruments (must be denominated in nz dollars)**	**Credit rating criteria - standard and poor's (s&p), or moody's/fitch equivalents**	**Limit for each issuer subject to overall portfolio limit for issuer class $**
New Zealand Government	100%	Government Stock	Not Applicable	Unlimited
		Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	Commercial Paper	S&P short term rating of A-1 or better	3.0M
		Bonds/Medium Term Notes (MTN)/Floating Rate Notes (FRN)	S&P long term rating of A- or better	2.0M
			S&P long term rating of A+ or better	3.0M
			S&P long term rating of AA or better	5.0M
Unrated Local Authorities	50%	Commercial Paper	Not Applicable	2.0M
		Bonds/MTNs/FRNs	Not Applicable	2.0M
New Zealand Registered Banks	100%	Call/Term Deposits/Bank Bills/Commercial Paper	S&P short term rating of A-1 or better	10.0M
		Bonds/MTNs/FRNs	S&P long term rating of A- or better	3.0M

TABLE 1 - HOW THE SOUTHLAND DISTRICT COUNCIL WILL SPREAD ITS INVESTMENTS				
			S&P long term rating of A+ or better	5.0M
State Owned Enterprises	50%	Commercial Paper	S&P short term rating of A-1 or better	3.0M
		Bonds/MTNs/FRNs	S&P long term rating of BBB+ or better S&P long term rating of A+ or better	1.0M 3.0M
Corporates	50%	Commercial Paper	S&P short term rating of A-1 or better	2.0M
		Bonds/MTNs/FRNs	S&P long term rating of A- or better S&P long term rating of A+ or better S&P long term rating of AA or better	1.0M 2.0M 3.0M
Financials*	30%	Commercial Paper	S & P short term rating of A-1 or better	2.0M
		Bonds/MTNs/FRNs	S&P long term rating of A- or better S&P long term rating of A+ or better S&P Long term rating of AA or better	1.0M 2.0M 3.0M
Building Societies	20%	Call and Term Deposits	To be individually approved by Council	3.0M

*Entities that are neither NZ registered banks or corporates that are involved in the provision of financial services (ie AMP, IAG etc)

Credit ratings are as determined by Standard and Poor's, or equivalent rating. If any counterparty's credit rating falls below the minimum specified in the above table, then all practical steps are taken to eliminate the credit exposure to that counterparty as soon as practicable.

Short term investments (less than six months at the time of inception) shall be benchmarked against the ANZ 90 day bank bill index and that the comparison should be done on a quarterly basis. Long term investments (more than six months at the time of inception) shall be benchmarked against the ANZ A Grade Corporate Bond Index and the comparison shall be done on a quarterly basis. Compliance with the benchmarking standard is not required if the nominal value of either short term investments is less than $5M or long term investments is less than $5M.

Foreign Exchange

Council has foreign exchange exposure through the occasional foreign exchange transactions that Council may undertake such as plant and equipment.

Significant commitments for foreign exchange can be hedged using foreign exchange contracts, once expenditure is approved. Forward exchange contracts can be used by the Council. The majority of these transactions would be small and would carry no significant foreign exchange risk.

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

Procedures for Management and Reporting

Cash Management

The finance function is responsible for managing the Council's cash surpluses and/or deficits.

The Council maintains rolling daily, monthly and annual cash flow projections which form the basis of its cash management activity. The Council maintains one main bank account for its operating cash flows as well as other bank accounts for specialist activities such as investment and borrowing requirements. Individual business units within the Council do not maintain separate bank accounts.

The Council manages its working capital balances by matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour. Daily bank balances are extracted by the Senior Accounts Payable Officer and the Debtors' Officer.

Generally cash flow surpluses from timing differences are available for periods less than 90 days.

Cash management activities must be undertaken within the following parameters:

- an optimal daily range of $10,000 is targeted for in the Council's main bank account, with investments adjusted to balance the current account if required.
- cash flow surpluses are placed in call deposits, term deposits, registered certificates of deposits and promissory notes.
- amounts invested must be within limits specified in Table 1.
- the Council has a committed bank overdraft facility with a limit of $5,000,000 for working capital purposes which is used on an operational basis.

- Council also has the option of raising finance by issuing debentures pursuant to a Debenture Trust Deed entered into by a corporate trustee, should this provide a more attractive financing option than bank funding.
- the use of interest rate risk management on cash management balances is not permitted.

Internal Controls

The Council's systems of internal controls over cash management includes adequate segregation of duties among the core investment functions of deal execution, confirmation, settling and accounting/reporting.

Key internal cash management controls are as follows:

- cheque/electronic banking signatories - 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.
- reconciliations - general bank reconciliation is performed daily and monthly by the Debtors Officer (or equivalent) and reviewed by a senior finance staff member.

There are a small number of people involved in investment activity. Accordingly strict segregation of duties is not always achievable. The risk from this is minimised by the following processes:

- a documented discretionary approval process for investment activity.
- regular management reporting.
- operational risk control reviews will be undertaken periodically.
- appropriate organisational, systems, procedural and reconciliation controls exist to ensure:
  - (a) all investment activity is bona fide and properly authorised;
  - (b) checks are in place to ensure the Council's accounts and records are updated promptly, accurately and completely.

Reports

The following reports are produced to monitor cash management and investment activity:

TABLE 2 – REPORTS PRODUCED TO MONITOR CASE MANAGEMENT AND INVESTMENT ACTIVITY

Report	Frequency	Prepared By	Recipient
Cashflow	Daily	Senior Accounts Payable Officer or equivalent	Senior Finance staff member
Renewal Investment	Monthly	Senior Accounts Payable Officer or equivalent	Senior Finance staff member
Operating Investment	Monthly	Senior Accounts Payable Officer or equivalent	Senior Finance staff member

Additionally, a quarterly report to the Finance and Audit Committee containing the following key details of both short term and long term investments.

- total nominal value of portfolio.
- weighted average interest rate.

- asset class profile (if there are multiple classes).
- credit profile.
- maturity profile.
- duration measurement.
- a statement of policy compliance.
- details of any exceptions.
- delegated Authorities

Pursuant to Clause 32 (2), Schedule 7, of the Local Government Act 2002, the Council may make delegations to officers of the Council to allow for the efficient conduct of Council business. Clause 32 (3), Schedule 7 of this Act allows officers to delegate those powers to other officers.

Notwithstanding Clause 32 (1) (c), Schedule 7 the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan remains the sole responsibility of the Council. This responsibility cannot be delegated.

The Investment Policy related delegations are below.

TABLE 3 – INVESTMENT POLICY RELATED DELEGATIONS

Activity	**Delegated to**	**Limits**
Approve and amend policy document	Council	Unlimited
Open/close bank accounts	Chief Financial Officer with advice given to Chief Executive	Unlimited
Approve signatories to Council's Bank Accounts	Chief Executive and Chief Financial Officer	Unlimited
Approve electronic banking amendment	Chief Financial Officer and Finance Manager	
Investment management	Chief Executive, Chief Financial Officer and Finance Manager	Subject to policy
Interest rate management	Chief Executive and Chief Financial Officer	Subject to policy
Cash management	Chief Executive, Chief Financial Officer, Finance Manager	Subject to policy
Approving transactions outside policy	Council	Unlimited
Approving allowable risk management instruments	Finance and Audit Committee	Unlimited subject to legislative limitations
Maximum daily transaction amount (approved investment,	Council, Chief Executive, Chief Financial Officer	Unlimited

TABLE 3 – INVESTMENT POLICY RELATED DELEGATIONS		
cash management, interest rate risk management)		
Ensuring compliance with policy	Chief Financial Officer	N/A

Local Government Funding Agency Limited (LGFA)

Despite anything earlier in this Investment Policy, Council may invest in shares and other financial instruments of the New Zealand LGFA and may borrow to fund that investment. The Council's objective in making any such investment will be to:

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

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

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

4.0 Liability Management

Introduction

This Liability Management Policy has been prepared pursuant to the

Local Government Act 2002; section 102(1) which requires the Council to adopt a Liability Management Policy and section 104 which outlines the contents of the policy.

Generally Council borrows to provide funding for the following activities:

- fund Council capital expenditure requirements.
- manage timing differences between cash inflows and outflows.
- cover special 'one-off' projects.
- fund assets with intergenerational qualities.

Total debt levels are determined through Council's Long Term Plan (LTP) and Annual Plans. Council approves this borrowing requirement for each financial year in the Annual Plan or LTP or by later resolution during the year.

Objectives

- ensure Council has appropriate working capital funds available to carry out its plans as outlined in its LTP and Annual Plan.
- ensure that Council has an on-going ability to meet its debts in an orderly manner as and when they fall due in both the short and long term, through appropriate liquidity and funding risk management.

- arrange appropriate funding facilities for Council, ensuring they are at market related margins utilising bank debt facilities and/or capital markets as appropriate.
- maintain lender relationships and Council general borrowing profile in the local debt and, if applicable, capital markets, so that Council is able to fund its activities appropriately at all times.
- control Council cost of borrowing through the effective management of its interest rate risks, within the interest rate risk management limits established by this policy.
- ensure compliance with any financing/borrowing covenants and ratios.
- maintain adequate internal controls to mitigate operational risks.
- produce accurate and timely reports that can be relied on by senior management and Council for control and exposure monitoring purposes in relation to the debt raising activities of Council.

Council will manage its borrowing activities prudently to ensure the best interests of the District are maintained. To undertake this, the following will be considered in conjunction with every transaction undertaken:

- cost minimisation
- cost stabilisation/risk management

Specific Borrowing Limits

Council's borrowing limits are:

- net external debt not to exceed 100% of total revenue.

Interest Rate Exposure

Interest rate risk management refers to managing the impact that movements in interest rates can have on Council's cash flows. This can have both a positive and/or negative impact

The interest rate exposures of Council shall be managed according to the parameters detailed in the following table and shall apply to the projected core debt of Council. Core debt is defined as that contained in the LTP or Annual Plan or as otherwise determined by the Chief Financial Officer.

TABLE 4 - FIXED RATE HEDGING PERCENTAGES		
Term	**Minimum Fixed Rate Amount**	**Maximum Fixed Rate Amount**
0 -2 years	50%	100%
2 - 5 years	25%	80%
5 - 10 years	0%	60%

'Fixed rate' is defined as any debt that has an interest rate reset beyond three months.

Interest Rate Risk Management

To manage the interest rate risk associated with its debt Council may use the following interest rate risk management instruments.

- interest rate swaps.

- swap options.
- interest rate options.
- interest rate collar structures but only in a ratio of 1:1.
- forward rate agreements.

Any other financial instrument must be specifically approved by the Chief Executive and Chief Financial Officer 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.

Prudent selection of funding instruments and mix will help the Council achieve its low debt servicing costs and risk minimisation objectives.

Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.

Liquidity and Funding Risk Management

Liquidity management refers to the timely availability of funds to Council when needed, without incurring penalty costs. This takes into account the ability to refinance or raise new debt at a future time at the same or more favourable pricing and terms of existing facilities.

The Council will strive to ensure the timely availability of funds to meet the Council's various expenditure needs, preferably without incurring penalties or holding unnecessary cash reserves.

To avoid a concentration of debt maturity dates Council will, where practicable, aim to have no more than 50% of debt subject to refinancing in any 12 month period.

The Council shall aim to maintain committed funding lines of not less than 105% of projected core debt.

Credit Exposure

The Council may only enter into interest rate risk management transactions with New Zealand Registered Banks.

Debt Funding

The Council may obtain funding utilising the following methods:

- bank debt from New Zealand Registered Banks.
- capital markets issuance comprising Commercial Paper, Fixed Rate Bonds, Medium Term Notes and Floating Rate Notes.
- from the Local Government Funding Agency.

The Council'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. To this end it is the Council's intention to seek and maintain a strong balance sheet position.

The Council may use a mixture of short term facilities (which generally have lower credit margins) as well as longer term facilities to achieve an effective borrowing mix, balancing the requirements of liquidity and cost.

Debt Repayment

Total debt levels are indicated through Council's LTP or Annual Plans. Council's Annual Report will contain information to allow actual debt levels to be compared with those forecasted.

Loans raised for specific projects will generally be repaid through user charges or rates. Loans raised for local purposes will generally be repaid by the ratepayers in the relevant local area. Surplus Council funds and proceeds from the sale of investments and assets will be reviewed periodically by Council with a view to repaying debt, or for funding capital projects.

The Council may repay debt before maturity in special cases where the circumstances suggest that this would be in the best interests of the District.

Security

It is Council's general policy to offer security for its borrowing by way of negative pledge or a charge over its rates.

In the normal course, the Council's policy is not to offer a guarantee or security over any of the other assets of the Council. However the Council may decide to offer security over the asset:

- where borrowing is by way of finance lease, or some other form of trade credit under which it is normal practice to provide security over the asset concerned, or
- where the Council considers doing so would help further its community goals and objectives.

Benchmarking

That for performance measurement purposes the actual borrowing performance of the Council shall be compared with the following external benchmark which is predicated off the midpoints of the risk control bands contained in Table 4.

- 25.0% average 90 day bank bill rate for the reporting month.
- 12.5% average one year swap rate for the reporting month.
- 12.5% average one year swap rate for the reporting month, one year ago.
- 12.5% average three year swap rate for the reporting month.
- 12.5% average three year swap rate for the reporting month, three years ago.
- 12.5% average seven year swap rate for the reporting month.
- 12.5% average seven year swap rate for the reporting month, seven years ago.

Compliance with the benchmarking standard is not required if Council's nominal debt levels are less than $10M.

Reporting

A quarterly report to the Finance and Audit Committee is compiled which contains the following key details of Council's debt and hedging profile:

- total debt facility utilisation, including bank sourced debt, capital markets issuance and LGFA funding.
- interest rate hedging profile against percentage hedging limits.

- new interest rate hedging transactions completed.
- weighted average cost of funds.
- performance measurement.
- a statement of policy compliance.

The details of any exceptions, including remedial action taken or intended to be taken.

LGFA

Despite anything earlier in this Liability Management Policy, Council may borrow from LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- contribute a portion of its borrowing back to the LGFA as an equity contribution 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.
- subscribe for shares and uncalled capital in the LGFA.
- secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

Internal Loans

All Council investments may be used as a source for internal loans in relation to expenditure of a capital (or one off) nature related to any activity that would otherwise be funded by external loan.

The term of any internal loan shall not be more than 30 years and will be set after taking into account the ability of ratepayers affected to pay, alternative uses of the funds and the life of the assets to be funded. The term set will be subject to review during the course of the loan.

The interest rate to be applied to internal loans for any given year will be developed as part of Council's Long Term Plan or Annual Plan. To remove any doubt, the interest rate calculated will be the interest rate used for that year for budgeting and end of year actual results.

The method of calculation and the resulting interest rate will be resolved by Council as part of this annual process. In developing the method of calculation, Council will consider its investment policy objective, which is to obtain the net opportunity cost of not having the funds invested externally. Council will also consider its present and future financial position as well as market conditions.

After taking into account fairness and equity, Council can resolve to apply a lesser interest rate than the interest rate calculated where it agrees the circumstances are such that it is warranted.