Liability Management Policy

Purpose

The purpose of the Liability management policy is to outline approved policies and procedures in respect of all borrowing related activity to be undertaken by Council. The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

Council borrows for the following purposes:

- To fund capital works primarily for infrastructure and other major assets. The use of debt is seen as an appropriate and efficient mechanism for promoting inter-generational equity between current and future ratepayers.
- Short-term debt to manage timing differences between cash inflows and outflows, and to maintain liquidity.
- Specific debt associated with one-off projects.
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of Council business.
- Fund emergencies in the short term.

Objectives

The objectives of the policy are consistent with best treasury management practice and will take into account the Annual Plan and Long-term Plan. The key objectives in relation to borrowing are:

- Prudently manage borrowing activities to ensure the ongoing funding of the Council.
- Borrow only under approved facilities and as permitted by this policy.
- Minimise borrowing costs and risks within prudent risk management control limits.
- Minimise and manage exposure to adverse interest rate movements.
- Ensure operational controls and procedures to protect Council against financial loss, opportunity cost and other inefficiencies are maintained.
- Monitor, evaluate and report on treasury performance.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Maintain a strong long term credit rating from Standard and Poor's (or equivalent agency) of at least A+.
- Borrow funds and transact financial risk management instruments within an environment of control and compliance under the Council-approved policy so as to protect Council's financial assets and costs.
- Comply with financial ratios and limits stated within this policy.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Develop and maintain relationships with financial institutions, credit agencies, trustees, registrars, brokers, investors and the Local Government Funding Agency ("LGFA").

Statutory objectives

All borrowing and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002. Council is governed by the following relevant legislation:

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- Local Government Act 2002, in particular Part 6 including sections 101, 102, 104 and 105.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- Trustee Act2019 (effective 31 January 2020). When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act 2019 Part 4 Investments.
- Public Bodies Lease Act 1969 and Property Law Act 2007.

Other objectives:

- All projected borrowings are to be approved by Council as part of the Annual Plan process or resolution of Council before the borrowing is effected.
- All legal documentation in respect to new borrowing facilities and financial instruments will be approved by Council's solicitors prior to the transaction being executed.
- Council will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council (without charging rates revenue as security).
- A resolution of Council 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 Council.

This policy is prepared under sections 102 and 104 of the Local Government Act 2002. The sections require Council to state its policies regarding:

- Interest rate exposure
- Credit exposure
- Liquidity
- Debt repayment

Borrowing is included in the Annual Plan and the Long-term Plan. Projected borrowing/debt levels are ascertained from forecasts in the Annual Plan or the Long-term Plan.

Council is able to borrow through a variety of market mechanisms including the issue of local authority stock and debentures, direct bank borrowing, accessing the short-term and long-term wholesale and retail capital markets directly or indirectly (e.g. LGFA). Council may also use internal funds as a borrowing mechanism.

New Zealand Local Government Funding Agency Limited

Despite anything in this policy, Council may borrow from the New Zealand Local Government Funding Agency Limited (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.

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- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required.
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

In evaluating new borrowings (in relation to source, term, size and pricing) the Chief Executive or delegate will take into account the following:

- The size and the economic life of the project requiring funding
- The impact of the new debt on the borrowing limits
- Relevant margins under each borrowing source
- Council's overall debt maturity profile, to ensure concentration of debt and debt re-pricing is avoided at reissue/rollover time
- Prevailing interest rates relative to term for both stock issuance, capital markets and bank borrowing and management's view of future interest rate movements
- Available term from banks, debt capital markets, the LGFA, loan stock issuance and credit facilities
- Ensuring that the implied finance terms of any specific debt is at least as favourable as Council could achieve in its own right
- Legal documentation and financial covenants

Council's ability to readily attract cost-effective borrowing is largely driven by its ability to rate, maintain a strong credit rating, strong financial standing and manage its relationships with its investors, the LGFA, banks and brokers.

Borrowing management and internal controls

Council's borrowing activities are managed centrally through the Finance function. The Finance function is broadly charged with the following responsibilities:

- Manage Council's borrowing programme to ensure funds are readily available at margins and costs acceptable to Council
- Manage liquidity to ensure obligations are paid when due
- Raise authorised and appropriate borrowing, in terms of both maturity and interest rate
- Manage the impact of market risks such as interest rate risk on Council's borrowing by undertaking appropriate hedging activity in the financial markets
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall interest costs within budgeted parameters
- Provide timely and accurate reporting of treasury activity and performance

Council's systems of internal controls over borrowing activity include:

- Adequate segregation of duties among the core borrowing functions of deal execution, confirmation, settling and accounting/reporting
- There are a small number of people involved in borrowing activity; however, the risk from this will be further minimised by the following processes:
    - A documented discretionary approval process for borrowing activity that will include when advice is sought from Council's treasury advisors, the internal borrowing process, authorisation and reporting through to Council

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    - (noting that all borrowing activity should be within the parameters set by this Policy)
    - Regular management reporting and review
- Organisational, systems, procedural and reconciliation controls to ensure:
    - All borrowing activity is bona fide and properly authorised
    - Reviews in place to ensure Council's accounts and records are updated promptly, accurately and completely

Council is prohibited from borrowing in a foreign currency by section 113 of the Local Government Act 2002.

Management of other liabilities

Council will from time to time enter into transactions and agreements that can expose Council to financial liability. These may include:

Creditors
Council wishes to maintain its credit standing and therefore pays all creditors by the due date in line with the terms agreed with the supplier.

Personnel liabilities
Council management reviews the level of staff liability balances and encourages the timely use of entitlements.

Deposits and bonds
These are primarily held for contract retentions until work is deemed to be complete.

Leases
Council utilises finance leases (as opposed to an operational lease i.e. renting) as a means of financing some office equipment.

Contingent liabilities
Council may provide financial guarantees to community and service organisations. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Should the guarantee be called up, Council takes immediate action to recover the money. Guarantees require prior approval by way of Council resolution.

Borrowing limits

Total Council borrowings will be managed within the following macro limits:

Ratio	LIMIT
Net debt as a percentage of total revenue	<200%
Net interest as a percentage of total revenue	<15%
Net interest as a percentage of annual rates	<20%
Liquidity (external debt + available committed bank facilities +cash or near cash financial investments, to existing external debt)	>110%

Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue. Income excludes development contributions and vested assets and excludes non-government capital contributions.

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Net debt is defined as total debt less cash or near cash financial investments.

Disaster recovery requirements are to be met through the liquidity ratio.

Cash or near cash financial investments are defined as being:

- Overnight bank cash deposits
- Wholesale/retail bank term deposits no greater than 30-days
- Bank issued RCD's (Registered Certificates of Deposit) less than 181 days

External debt funding and associated term deposit activity relating to pre-funding is excluded from the liquidity ratio calculation.

The LGFA's lending policy has covenants which are less restrictive than those stated above. Due to the low socioeconomic demographics of the Whanganui community, including a low percentage population growth for the region, it is considered prudent to retain Council's current borrowing limits and not increase them in order to align with those of the LGFA.

Category	Approved Instrument
Cash management and borrowing	Bank overdraft Committed cash advance facilities (short term and long term debt facilities) Committed standby facilities (where offered) from the LGFA Uncommitted money market facilities Retail and Wholesale Bond and Floating Rate Note (FRN) issuance Commercial paper (CP) Forward starting committed debt with the LGFA

Interest rate management

Council's ongoing borrowing requirement gives rise to direct exposure to interest rate movements.

Interest rate risk management refers to managing the impact that movements in market interest rates can have on Council's cash flows, Annual Plan and Long-term Plan. This impact can be both favourable and unfavourable. The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of debt funding costs. Certainty around interest costs is to be achieved through the active management of underlying interest rate exposures.

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Fixed/floating interest rate profile

Interest costs are incurred on any bank funding facility, issuance of local authority stock/bonds and other borrowing arrangements. This policy recognises that the longer the term of borrowing, the greater the interest rate risk. Longer term fixed rate borrowings may be of benefit if market interest rates rise, but equally may not allow the Council to take advantage of periods of low interest rates.

A balance is achieved through having a mix of variable/floating interest rates and hedged/fixed interest rates.

The Council manages its interest rate exposures by defining minimum and maximum hedging percentages and spreading maturities across various time bands.

There is a tendency to have a higher percentage of fixed/hedged rate borrowing. Council believes this is a prudent approach given the long-term nature of Council's assets, projects and intergenerational factors. In addition, as the major revenue stream is rates, which are set on an annual basis, Council prefers to have reasonable certainty on the level of interest costs and therefore reduce the impact of interest rate increases adversely affecting rates.

The Chief Executive and Chief Financial Officer approve the interest rate risk management strategy based on advice from Council's Treasury Advisors who monitors the interest rate markets on a regular basis and evaluate the outlook for interest rates in comparison to the rates payable on fixed rate/hedged borrowing.

The following table provides guidelines for achieving a floating/fixed rate mix. The table reflects Council's preference for a reasonable level of certainty over interest costs. Notwithstanding the above, it may be appropriate from time to time, depending on Council's outlook on interest rates, to have a floating rate profile.

Council's forecast gross external debt must be within the following fixed/floating interest rate risk control limits:

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	**Minimum Fixed**	**Maximum Fixed**
Current	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	50%
Year 9	0%	50%
Year 10	0%	50%
Year 11 plus	0%	25%

Forecast gross external debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the Chief Financial Officer or equivalent), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the Policy minimum and maximum limits.

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"Fixed Rate" is defined as all known interest rate obligations on forecast gross external debt, including where hedging instruments have fixed movements in the applicable reset rate.

"Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.

Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average forecast gross external debt amounts for the given period (as defined in the table above).

A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council.

Any interest rate swap with a maturity beyond the maximum LGFA bond maturity must be approved by Council.

Interest rate risk management instruments

Interest rate risk can be managed by using interest rate risk management instruments that allow the re-profiling of the portfolios. Hedging use includes:

- Adjusting the average maturity of fixed rate borrowings, thereby managing interest rate risk within the confines of liquidity management
- Using interest rate risk management instruments to convert fixed rate borrowing into floating rate, floating rate borrowing into fixed or hedged borrowing. Using interest rate risk management instruments to hedge market interest rate re-pricing risk on existing and new debt

The following interest rate risk management instruments are approved by Council:

- Interest rate swaps including forward start swaps, and swap restructures
- Forward rate agreements on bank bills and government bonds
- Interest rate options on approved underlying instruments e.g. on interest rate swaps (purchased swaptions and one-for-one collars), bank bills (purchased options, one-for-one collars) and government bonds

Any other financial instrument must be specifically approved by Council on a case-by-case basis and only be applied to the one singular transaction being approved.

Approved use of interest rate risk management instruments:

- Buying and selling risk management instruments for the primary purpose of generating premium income is not permitted because of its speculative nature
- Interest rate options must not be sold outright. However, one-for-one 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 (i.e. repurchased), otherwise both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money"
- Purchased swaptions mature within 12 months

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- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate cannot be counted as part of the fixed rate cover percentage calculation
- Forward start period on swaps and collar strategies to be no more than 36 months, unless linked to the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as reasonably possible. Maturities should be well spread.

Credit exposure management

Council's ability to readily attract cost-effective borrowing is largely driven by its ability to:

- Maintain a strong balance sheet
- Service loans as interest and principal amounts become due
- Manage its image in the marketplace and its relationships with bankers, the LGFA, trustees, brokers and wholesale investors
- Maintain a strong credit rating.

Liquidity management

Liquidity management refers to the timely availability of funds to Council when needed, without incurring penalty costs. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and terms. A key factor of funding risk management is to spread and control the risk and reduce the concentration of risk at any one point in time so that if one-off internal or external negative credit events occur, the overall interest cost through adverse credit margins movements is not unnecessarily increased, or term availability and general flexibility reduced.

The following guidelines have been established to provide Council with appropriate levels of liquidity at all times,

- Cash flow forecasts are produced to assist in the matching of operational and capital expenditure to revenue streams and borrowing requirements
- Council will maintain its financial investments in liquid instruments
- Council will ensure that where Council-created investment reserves are maintained in liquid financial investments to repay borrowing, these investments are held for maturities not exceeding the relevant borrowing repayment date
- To minimise the impact of unexpected cash surpluses, Council may repay outstanding borrowings to benefit from the efficiencies of a committed cash advance facility
- External debt and committed available debt facilities together with cash or near cash financial investments must be maintained at an amount of at least 110% over the existing external debt
- The Chief Executive or delegate has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by Council at the earliest opportunity
- Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings of existing debt.

To ensure funds are available on repayment of debt, financial investments are maintained in liquid assets and ready funds are available through various committed cash advance and note purchase facilities.

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Council also maintains with at least two banks (or alternatively at least one bank and the LGFA), committed cash advance/credit facilities to ensure funds are available when and if required.

Council ensures debt maturity is spread widely over a band of maturities to minimise the risk that large concentrations of debt may mature or be reissued when credit margins are high. Council manages this specifically by adopting maximum maturity percentages.

The maturity profile of the total committed funding in respect to all external loans and committed facilities is to be controlled by the following system:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	60%

A funding maturity profile that is outside the above limits, but self corrects with 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval from Council.

To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a council's borrowings will mature in a 12 month period.

Debt repayment

Funds are provided from operating surpluses, asset sales and general funds for repayment of most loans/or a reduction in borrowing requirements, unless the Council specifically directs that the funds be put to another use.

Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

Each Council activity is rated for loan repayments depending on the life of the individual assets and the ability of that activity to repay the loan.

Repayment of debt (interest and principal) is governed by:

- Affordability of debt servicing costs
- Intergenerational equity principles (debt will be repaid over the life of the asset or 25 years, whichever is the lesser)
- Maintenance of prudent debt levels and borrowing limits
- Council repays borrowings from general funds, special funds or from an existing specific fund allocated to that borrowing
- Where a loan is raised for a specific purpose and the funds are no longer required, the funds will be held in a special fund until the funds can be applied against a future borrowing

Security

Council offers a charge over rates and rates revenue, as security for general borrowing programmes and interest rate risk management activity. From time to time, with prior Council approval and the Trustee, security may be offered by providing a charge over one or more of Council's assets. Council offers security under a Debenture Trust Deed.

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The utilisation of internal funds for internal borrowing purposes will be on an unsecured basis.

Internal borrowing

Council uses funds allocated to reserves in the manner which provides Council with the greatest benefit. Where possible, these funds are used to reduce external debt, effectively reducing the Council's net interest cost.

Where Council has a borrowing requirement for specific projects or activities, internal cash resources may be utilised first before any funds are borrowed externally. When Council's cash flows indicate that additional cash resources are required on an ongoing basis, officers will seek external borrowings in accordance with this policy.

Where internal funds are utilised to reduce borrowing, a record will be kept of the source of the funds and an interest rate will be credited to the internal source at the market rate applicable to borrowings over the period of the loan. The cost of the internal borrowing will be charged as an expense to the activity to which the funds have been applied. This is advantageous to Council as there is a difference between the margins that apply to borrowings as opposed to investments and also the costs of transactions.

Borrowing mechanisms for council controlled organisations and council controlled trading organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.
Any lending arrangement to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the Chief Financial Officer considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- Impact on Council’s credit standing, debt cap amount (where applied), lending covenants with the LGFA and other lenders and Council’s future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to CCO/CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

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

Interest costs allocated to Council activities

Interest costs are prorated across those Council activities with internal loan balances. The exception are interest costs for internal loans relating to the Wastewater Treatment Plant. Due to the financial cost of this

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project and the desire to provide certainty to the users of the plant, the interest rates for these loans will be capped at 4.5%.

Foreign currency

Council may from time to time be exposed to foreign exchange risks through the occasional purchase of foreign exchange denominated services, plant and equipment etc. Generally, all significant commitments (greater than $500,000 NZD equivalent) for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts can be used by Council. The following instruments may be used for risk management activity:

Category	Approved Instrument
Foreign exchange risk management	Spot foreign currency contracts Forward foreign exchange contracts Foreign currency deposits

Delegation of authority and authority limits

Council 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
Approving borrowing programme and new debt	The Council	Unlimited (subject to legislative and other regulatory limitations)
Approval for charging physical assets as security over borrowing	The Council	Unlimited
Approval for providing security stock as security over borrowing	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Appoint Debenture Trustee	The Council	Unlimited
Re-financing existing debt, including pre-funding debt maturities for liquidity purposes	Chief Executive or Chief Financial Officer (or delegate)	Re-financing existing debt
Approving transactions outside policy	The Council	Unlimited
Adjust net debt interest rate risk profile	Chief Executive or Chief Financial Officer (or delegate)	Per risk control limits
Managing funding maturities	Chief Executive or Chief Financial Officer (or delegate)	Per risk control limits
Approving CCO/CCTO membership of the LGFA	Council	Unlimited
Approving new and refinanced lending activity with CCO/CCTOs	Council	Unlimited

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Approving of Council guarantees or uncalled capital relating to CCO/CCTO indebtedness	Council	Unlimited (subject to legislative and other regulatory limitations)
Negotiation and ongoing management of lending arrangements to CCO/CCTOs.	Chief Executive or Chief Financial Officer (or delegate)	Per approval / per risk control limits
Maximum daily transaction amount (borrowing, interest rate and foreign exchange risk management) excludes roll-overs on floating rate debt and interest rate roll-overs on swaps	Chief Executive or Chief Financial Officer (or delegate)	$20 million $10 million
Authorising lists of signatories including seal register signatories	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Opening/closing bank accounts	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Triennial review of policy	Chief Executive or Chief Financial Officer (or delegate)	N/A
Ensuring compliance with policy	Chief Executive or Chief Financial Officer (or delegate)	N/A

All management delegated limits are authorised by the Chief Executive. The following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council

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

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Counterparty credit risk management

The Council will satisfy itself, in all its borrowing and risk management transactions that a counterparty:

- has a long-term S&P (or equivalent Fitch or Moody's rating) credit rating of at least A or above; and a short term rating of A-1 or above.
- banks are New Zealand registered banks with the Reserve Bank of New Zealand.

The following matrix sets out the policy limits:

Counterparty	Minimum S&P long term / short term credit rating	Risk management limit maximum per counterparty ($m)	Total maximum per counterparty, including investments ($m)
NZ Registered Bank	A/ A-1	15.0	30.0

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

- Interest Rate Risk Management (e.g. swaps) – Transaction Notional × Maturity (years) × 3%.
- Foreign exchange – transactional face value amount multiplied by the square root of the maturity (years) x 15%.

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. Maturities should be well spread. The approval process must take into account the liquidity of the instrument and prevailing market conditions the instrument is traded in and repriced from.

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed on an on-going basis and in the event of material credit downgrade this should be immediately reported to the Council and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Performance measurement

The performance of the borrowing activity will be measured against pre-determined benchmarks:

- Adherence to policy and in particular the borrowing limits
- Unplanned overdraft costs – specifically that daily bank balances are within limits taking into account unforeseen external activity
- Comparison of actual monthly and year to date interest costs vs budget borrowing costs
- Comparison of actual monthly borrowings with budgeted borrowing amounts
- Comparison of actual financial ratios to budgeted financial ratios as per the Annual Plan and Long-term Plan

Reporting to Council

The following reports are produced:

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Report name	Frequency	Prepared by/reviewed by	Recipient
Daily cash flow position	Daily	Finance Technician/ Financial Accountant	As required
Treasury report Policy limit compliance Borrowing limits Funding and interest position Funding facility New treasury transactions Cost of funds vs budget Cash flow forecast report Liquidity risk position Counterparty creditTreasury performance Borrowing and interest rate strategy commentary	Each bi-meeting of the Strategy & Finance Committee	Financial Accountant/ Chief Financial Officer	The Council
Annual Report – statement of debt and revaluation of financial instruments	Annual	Financial Accountant/ Chief Financial Officer	Stakeholders
Liability management policy review	3 yearly	Chief Financial Officer	The Council

Accounting treatment of financial instruments

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

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

The Chief Financial Officer is responsible for advising the Chief Executive of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least every twelve months for risk management purposes.

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Policy review

This Liability management policy is to be formally reviewed on a triennial basis.

The Chief Executive has the responsibility to prepare a review report that is presented to the Council. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

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