



RISK AND ASSURANCE COMMITTEE

Open Attachments (Under separate cover 1)

Meeting Date: Friday 12 June 2026

Time: 9.30am

Venue: Breakout Room 2
War Memorial Centre
Marine Parade
Napier

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PUBLIC POLICY



Treasury Policy			
Adopted By	Council		
Department	Finance		
Original Approval Date	30 June 2015	Review Approval Date	14 May 2026
Next Review Deadline	30 June 2028	Document ID	352805
Relevant Legislation	Section 104 of the Local Government Act 2002 (LGA)		
NCC Docs Referenced	Published in the Long-Term Plan 2021-2031		

Purpose

The purpose of this Treasury Policy (“Policy”) is to provide a robust framework for the governance and management of treasury risks for Napier City Council (“Council”).

This Policy is in accordance with the Local Government Act 2002 (“LGA 2002”) and incorporates the Liability Management Policy and Council Treasury Investments. All other investments, including Council’s NCC Investment Portfolio and property and equity investments, are covered in the Investment Policy.

This Policy can be amended and adopted by resolution of the full Council.

Scope

This Policy covers the following treasury risks:

- Liquidity
- Funding
- Interest rate
- Treasury investments
- Counterparty credit
- Operational

Treasury related delegated authorities are outlined in Appendix 2 and are in addition to the Financial Delegations Policy.

Any treasury activity which is unrelated to underlying cash flows and exposures or is purely speculative in nature is not permitted.

Objectives

The objectives of this Policy are to:

- Comply with the LGA 2002 and any other relevant local authority legislation.
- Ensure treasury risks are managed in a prudent way that promotes the current and future interests of the Napier community.
- Ensure the overall impact of any allocation of liability for revenue needs or investments,

considers the current and future social, economic, environmental and cultural well-being of the Napier community.

- Manage Council's borrowings according to its strategic and commercial objectives and to protect Council's budgeted interest costs and reduce volatility (stabilise) on cashflows.
- Maintain funding with an appropriate maturity profile to ensure adequate liquidity is available at margins and costs appropriate with Council's credit standing and to meet known and reasonable unforeseen funding requirements.
- Manage the operational cash position and ensure that any surplus cash is invested in approved liquid instruments, or where appropriate is used to minimise debt.
- Protect the investment principal and meet liquidity needs, while balancing risk and return considerations.
- Mitigate potential adverse interest rate risk and minimise financing costs within Policy limits by proactively managing funding and interest rate exposures.
- Provide timely and accurate reporting of treasury performance and compliance, including reporting on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.

Roles and Responsibilities

The governance and management structure, including responsibilities of those involved in treasury management are detailed in Appendix 1.

Liability Management Policy (Section 104 LGA 2002)

Section 104 of the LGA 2002 provides that the Liability Management Policy required under Section 102(2)(b) must state the local authority's policies in respect of liability management, including:

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

These policies are covered throughout the following sections.

Borrowings

Council has capital and infrastructural assets, which have a long economic life and deliver long term benefits. Council determines the use of debt as an appropriate funding source and as an efficient mechanism for promoting intergenerational equity between current and future ratepayers. Where practical, this is achieved by aligning long-term assets with long-term funding sources (in relation to Council's assets and liabilities) to ensure that the costs are met by those future ratepayers benefiting from the investment. However, it is recognised that it is not possible to exactly align liabilities with the assets that are being funded and therefore some mismatch will occur.

It is essential for the prudent management of Council's finances that the level of debt is planned and carefully monitored. Council approves borrowings as part of the Annual Plan and the Long Term Plan ("LTP") process.

A resolution of Council is not required for hire purchase, leased, credit or deferred purchase of goods if the period of indebtedness is less than 91 days or the goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding \$250,000.

Borrowing arrangements in aggregate, in excess of the CE's financial delegation, that are not included in the current LTP must be approved by Council resolution.

Council raises borrowings for the following primary purposes:

- General debt to fund Council's balance sheet.
- Specific debt associated with 'one-off' projects and capital expenditure.
- To fund assets with inter-generational qualities.
- To assist Council in its day-to-day financing, through leases and hire purchases, of equipment purchases and replacement.

Liquidity (Section 104(b))

Liquidity risk is the risk that there are insufficient funds to meet financial obligations as they fall due.

Council will adhere to the following limit:

- Liquidity (term debt plus committed bank facilities and liquid financial assets/investments) to external debt must be at least 110%.

Council minimises its liquidity risk by:

- Matching expenditure to its revenue streams and managing cashflow timing differences through its liquid financial investments and/or committed bank or similar LGFA facilities.
- Maintaining sufficient available operating cashflow, committed bank facilities, and/or liquid financial investments to meet its projected cashflow commitments through the liquidity limit above.
- If practical, a targeted minimum of \$5 million is held at call to meet day-to-day operational cashflow requirements.
- Maintaining committed funding facilities from a New Zealand Registered Bank and/or the LGFA.
- Overdraft facilities are utilised as little as practical. Council maintains a \$300,000 committed bank overdraft facility to meet interim cash and liquidity requirements.

Funding

Funding risk is the risk that the Council is unable to refinance or raise new debt, or only at unfavourable pricing and/or terms or has large concentrations of external debt maturing when credit margins are high.

Council is able to fund through a variety of mechanisms including, from:

- The New Zealand Local Government Funding Agency ("LGFA").
- Direct bank borrowing from NZ registered banks (see Counterparty Credit Risk section).
- The issue of fixed and floating rate wholesale and retail bonds and Commercial Paper. Fixed Rate Bonds, Floating Rate Notes and Commercial Paper may be issued to the wholesale market via banks and brokers, but issues in the retail market require additional Council approval.
- Internal borrowing.

Council's ability to attract cost-effective borrowing is largely driven by its ability to maintain a strong balance sheet, its statutory ability to levy rates and manage its relationships with its lenders (LGFA, bankers and capital market investors).

Council's general preference is to first use available special funds for its borrowing requirements and thereafter utilise external funding sources.

Council does not borrow or enter into incidental arrangements (risk management products) within or outside New Zealand in currency other than New Zealand currency.

Funding risk is managed through ensuring sufficient funding is available, avoiding a concentration of debt maturity dates and the timely negotiation of financing/refinancing.

- No more than 33% of debt should mature in any rolling 12-month period.
- A debt maturity schedule outside this limit requires Council approval.
- The maximum term for external debt is 10 years unless approved by Council.

New Zealand Local Government Funding Agency (LGFA) Limited

Council borrows from the LGFA and, in connection with that borrowing, may enter into the following related transactions:

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

Borrowing Limits (Section 101A(3)(b)(1))

In relation to external borrowings, Council will adhere to the following limits:

- Net external debt as a percentage of total income will not exceed 175%
- Net interest expense as a percentage of total income will not exceed 20%
- Net Interest as a percentage of rates income will not exceed 25%

If Council receives an official credit rating, they will adhere to the following updated limits:

- Net external debt as a percentage of total income will not exceed 280%
- Net interest expense as a percentage of total income will not exceed 20%
- Net Interest as a percentage of rates income will not exceed 30%

Council reports compliance to these limits on an annual basis.

As required by Section 101A(3)(b)(1) of the LGA, Council has also approved borrowing limits as part of the Financial Strategy included in the LTP.

Borrowing Limit Definitions:

- Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate) and excludes regional levies.
- Net external debt is defined as total external debt less liquid financial assets/investments (i.e. cash and cash equivalents).

- Total income is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net interest is defined as external interest expense less interest income.

Internal Borrowing

Council uses its reserves and external borrowing to internally fund both operating and capital expenditure.

Council manages debt on a net portfolio basis and will firstly utilise reserve funds and if insufficient reserves are available, utilise external borrowings. All internal borrowing activities are consistent with this Policy.

Interest on internally funded loans is charged annually in arrears, on year-end loan balances at the agreed three-year fixed interest rate. Except where a specific rate has been approved for circumstances, the three-year rate is set annually at the start of the financial year, based on the three-year swap rate plus the credit margin on three-year bonds.

The credit margin is determined by either Council's actual three-year margin or with reference to the LGFA credit curve for a non-credit rated guaranteeing Council borrower.

Repayment amounts on internal loans are set based on a table loan calculation over the life of the loan. Repayments are made annually at financial year end.

The Accounting Manager leads administration of internal loans.

Gross Debt and Gross Debt Limits

Gross debt includes all external and internal borrowing and gross interest includes interest calculated on external and internal borrowings.

As an additional measure Council has set borrowing limits relating to Gross Debt and the cost of servicing Gross Debt:

- Gross Debt as a percentage of total income will not exceed 230%
- Gross interest expense as a percentage of total income will not exceed 25%
- Gross Interest as a percentage of rates income will not exceed 30%

If Council receives an official credit rating, they will adhere to the following updated limits:

- Gross Debt as a percentage of total income will not exceed 300%
- Gross interest expense as a percentage of total income will not exceed 25%
- Gross Interest as a percentage of rates income will not exceed 35%

The use of the Gross measures is an additional discipline that will be monitored and reported on internally. To avoid confusion, only the measures relating to external debt will be reported on when Council prepares its audited financial statements.

Debt Repayment (Section 104(d))

Council repays external borrowings from the loan redemption reserve allocated to that borrowing, from general funds, rates revenue, asset sale proceeds, or through raising redemption loans. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as

and when appropriate.

Interest Rate Exposure (Section 104(a))

Interest rate risk is the risk that adverse movements in interest rates could adversely impact the Council's earnings and cashflows.

Council reduces uncertainty due to interest rate movements by fixing a portion of the external core debt. 'External core debt' is the level of external debt forecast in the current LTP. The fixed rate percentages apply when external core debt is greater than \$20 million and are calculated on the rolling 12-month forecast external core debt level in the current LTP.

Council will manage its interest rate risk within the following control limits:

Period	Fixed Rate Maturity Limits	
	Minimum	Maximum
0 to 2 years	40%	100%
2 to 5 years	20%	80%
5 to 8 years	0%	60%
8 to 10 years	0%	40%

Maintaining a maturity profile outside the above limits for greater than 90 days is a breach of Policy and must be reported to Council at the next meeting.

Approved Instruments

The following are approved instruments with which to manage interest rate risk:

- Forward rate agreements
- Interest rate swaps
- Fixed rate bonds
- Purchased interest rate swaptions
- Purchased interest rate options e.g. borrowers' caps where the strike price is not more than 1.5% above the prevailing swap rate at the time of inception.
- Interest rate collar options (1:1 collars) where the strike price on the cap is not more than 1.5% above the prevailing swap rate at the time of inception.

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

Security (Section 101A(3)(c))

Council will generally offer security by way of a floating charge over rates revenue, for borrowings and interest rate risk management activities. Council recognises that utilising rates revenue as security lowers the risk involved for lenders and therefore, will lower the cost of borrowing to the Council.

Council generally does not offer security over assets, however in exceptional circumstances, with prior Council approval, security may be offered as a charge over one or more specific assets. Where relevant a register of charges is maintained.

In all borrowing and related activities, Council complies with the relevant provisions of the Securities Act.

Guarantees

Council provides financial guarantees to community organisations. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on an annual basis. Council needs to be satisfied that any community organisation to which it provides a financial guarantee is capable of servicing the proposed borrowing from its income sources.

The annual contingent loan liability must not exceed 7.5% of Council's non-targeted rates revenue for the year. Guarantees provided to the LGFA are expressly excluded from the maximum guarantee limit above.

Granting guarantees is by Council resolution.

Treasury Investments

This section covers Council's Treasury Investments being cash, term deposits, commercial paper, fixed rate bonds ("FRBs"), floating rate notes ("FRNs"), and medium term notes ("MTNs"). This excludes Council's property and land, and equity investments and the NCC Investment Portfolio which are covered in the Council's Investment Policy.

Council maintains treasury investments for the following primary reasons:

- to invest amounts allocated to loan redemption reserves, trusts, bequests, and special funds.
- to repay debt and invest surplus cash and working capital funds.

Council recognises that as a responsible public authority any investments that it holds should be low risk. It also recognises that lower risk generally means lower returns.

Cash Management

SFSTL is responsible for day-to-day cash and short-term debt management activities.

Specifically, this will include the following:

- Ensure that appropriate cashflow projections are maintained, with the objective of managing an optimal cash position within approved parameters.
- Undertake short term borrowing functions as required, thus minimising overdraft costs.
- Ensure efficient cash management through improvements to the accuracy of forecasting.
- Minimise fees and bank charges by optimising bank accounts and borrowing and investment facility structures.
- When operating as a net borrower, surplus funds will normally only be permitted to be invested on a short-term basis, usually until the next opportunity to repay debt. However, exceptions to this may occur where it is prudent to do so, for example, the pre-funding of debt which is placed on term deposit until the funds are required.

Financial Market Investments

The Council may invest surplus funds in financial market instruments, generally on a short-term basis, and these funds are to be managed according to the control limits contained in Appendix 3.

In addition to the control limits contained in Appendix 3, the following applies:

- Spread maturities with no maturity beyond 6 months.
- Aligned with significant forecast cash outflows or shortfalls.
- Spread over approved counterparties.
- No more than \$25 million may be held with any one counterparty.

The above applies to business-as-usual (“BAU”) funds. If Council, receives a significant amount of non-BAU funds i.e. from the divestment of property assets, within the request to Council to approve the underlying transaction i.e. property divestment, should be a strategy covering how the funds received are to be managed/invested i.e. ring fenced for future investment and who will manage the funds - Council or Ahuriri Investment Management Limited.

Loan Advances

Council may provide advances to CCOs, charitable trusts and community organisations for strategic and commercial purposes only. New loan advances are by Council resolution only.

As outlined in Section 63 of the LGA 2002, Council does not lend money or provide any other financial accommodation to a CCO, on terms and conditions that are more favourable to the CCO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

Loan advances are generally provided on an unsecured basis. Where possible, Council seeks security through a mortgage over land and buildings.

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

Counterparty Credit (Credit Exposure - Section 104(c))

Counterparty credit risk is the risk that Council suffers loss due to a party defaulting on part or all of a financial obligation that the Council is a party to. To manage counterparty credit risk, Council enters into treasury transactions and funding and incidental arrangements with approved counterparties. Approved counterparties are defined as LGFA and New Zealand registered banks or financial institutions with an S&P Global Ratings (“S&P”) (or Fitch Ratings or Moody’s equivalent) long term credit rating of A or above.

Foreign Exchange

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets approved through the capital planning process. All commitments over NZ\$250,000 equivalent should be hedged using forward foreign exchange contracts, once expenditure is approved, the purchase order is placed, and the exact timing and amount is known. Council uses both spot and forward foreign exchange contracts.

Operational Risk

Operational risk is the risk of financial loss in treasury resulting from mismanagement, error, fraud, inadequate or failed internal policies, procedures and systems or Policy breaches.

The objective of operational risk management is to safeguard assets that treasury has responsibility for through disciplined, controlled and compliance treasury activities.

The Senior Financial Strategy and Treasury Lead (“SFSTL”) has primary responsibility for ensuring that policies, procedures and systems are in place to identify, monitor and manage all operational risks.

The management of operational risk involves oversight of the treasury function, segregation of duties and adherence to policy and procedures.

Reporting

Quarterly Funding and Debt Profile Report

This report forms the basis for the reporting of the Council’s funding and associated interest rate risk management activity and provides the elected members and management with details about the Council’s borrowing activities. The report shall contain the following:

- Total debt facility utilisation, including any debt sourced from the LGFA, banks and the capital markets
- Interest rate maturity profile against percentage hedging limits
- New hedging transactions completed – interest rate risk management
- Weighted average cost of funds
- Funding profile against the policy limits

- Liquidity profile against the policy limits
- Exception reporting as required
- Summary of any unresolved exception reports
- Statement of policy compliance
- Commentary on economic conditions and the debt markets.

Quarterly Investment Report

This report provides the elected members and management with details about the Council’s financial market investment activities. The report shall contain the following:

- Total nominal value of the investment portfolio
- Details of individual investments
- Asset class percentages
- Credit rating profile
- Maturity profile
- Weighted average yield of the portfolio
- Statement of policy compliance
- Commentary on economic conditions and the financial markets.

Policy Review

The review timeframe of this Policy will be no longer than every three years.

Appendix 1 – Roles and Responsibilities

The key roles and responsibilities are as follows:

- Full Council (of elected members)
- Corporate and Performance Committee
- Audit and Risk Committee
- Chief Executive
- Senior Financial Strategy and Treasury Lead
- Accounting Manager
- Financial Accountant

The respective responsibilities of those personnel involved in treasury are detailed below.

Full Council (“Council”) and/or Corporate and Performance Committee (“CPC”)

Reviews and approves:

- Treasury Policy and any amendments to the Policy as recommended.
- Total borrowings as part of the Annual Plan and LTP process.
- Amendments to existing LGFA agreements.
- Any new borrowing or financing arrangements outside normal general borrowing as approved under the borrowing resolution including allowable financial instruments.
- Any risk management strategies proposed outside the control limits outlined in this Policy.

Audit & Risk Committee (“ARC”)

- Reviews and endorses the items listed above for Council approval, as required.

Chief Executive (“CE”)

- Approves funding from the LGFA and bank facilities, financial investments and other treasury related transactions within limits in the Financial Delegations Policy.
- Recommends borrowings for Council approval as part of the Annual Plan and LTP process.
- In the absence of the CE, the Deputy Chief Executive / Executive Director of Corporate and Commercial assume the role of CE and associated delegations.

Senior Financial Strategy and Treasury Lead (SFSTL”)

- Organises all new or amended borrowing facilities to be submitted to the CE for approval.

- Undertakes borrowing and investment and interest rate risk management activities in accordance with Policy.
- Reports quarterly to the CPC on treasury risk management activities.
- Manages the funding and liquidity activities of the Council.
- Maintains lender relationships with the LGFA and banks.
- Monitors and reviews the ongoing treasury risk management performance of the Council to ensure compliance with Policy.
- Responsible for preparation of all treasury reports.
- In the absence of the SFSTL, the Financial Controller assumes the role of SFSTL and associated delegations.

Accounting Manager

- Leads financial administration of internal lending.

Financial Accountant

- Completes the accounting requirements for treasury related activities.
- Checks external confirmations to internal records for borrowings, investments, interest rate hedging and payments to ensure segregation of duties.
- In the absence of the Financial Accountant, the Accounting Manager assumes the role of the Financial Accountant and associated delegations.

Appendix 2 – Relevant Delegations

Activity	Delegated to	Limit
Approve or alter Policy	Council (or appropriate Committee)	Unlimited
Approval of borrowing programme for the year	Council (or appropriate Committee)	Unlimited (subject to legislative and other regulatory limitations)
Approval for charging assets as security over borrowing and guarantees	Council (or appropriate Committee)	Unlimited
Approving new, amending existing or re-financing LGFA or bank facilities.	Chief Executive	Subject to Policy and approved borrowing programme for the year
Loan and derivative documentation	Chief Executive	N/A
Open/close bank accounts	2 signatures required from authorised signatory list	Unlimited
Maximum daily transaction amount (borrowing, investing, interest rate, risk management and cash management)	Council (or appropriate committee)	Unlimited
	Chief Executive	Per Financial Delegation Policy
	Senior Financial Strategy and Treasury Lead	\$25 million

Appendix 3 – Financial Market Investments - Authorised Investment Criteria

Authorised Asset Classes	Maximum limit as a % of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ\$)	Limit for each Issuer
New Zealand Government	100%	Government Stock Treasury Bills	Unlimited
LGFA	75%	Commercial Paper FRBs/MTNs/FRNs	\$20 million \$15 million
Rated Local Authorities	50%	Commercial Paper FRBs/MTNs/FRNs	\$10 million \$10 million
New Zealand Registered Banks	100%	Call/Term Deposits FRBs/MTNs/FRNs	\$25 million \$10 million
State Owned Enterprises	33%	Commercial Paper FRBs/MTNs/FRNs	\$10 million \$10 million
Corporates and Financials	25%	Commercial Paper FRBs/MTNs/FRNs	\$5 million \$5 million

Document History

Version	Reviewer	Change Detail	Date
2.0.0	CFO	Updated and approved by Council with LTP	29 June 2018
3.0.0	Corporate Finance Manager	Updated and approved by Council for LTP	25 March 2021
4.0.0	Corporate Finance Manager	Reviewed, no changes made, adopted by Council	14 March 2024
5.0.0	Senior Financial Strategy and Treasury Lead	Reviewed and updated the Policy with Bancorp Treasury. Renamed Treasury Policy from Liability Management Policy to reflect the transfer of Council's treasury investments from the Investments Policy, to simplify the policies into one for the management of treasury risks.	14 May 2026

PUBLIC POLICY



Investment Policy			
Adoption By	Council		
Department	Corporate Services - Finance		
Original Adoption Date	30 June 2015	Review Adoption Date	XX May 2026
Next Review Deadline	XX May 2029	Document ID	352769
Relevant Legislation	Section 102 and 105 of the Local Government Act 2002		
NCC Docs Referenced	Investment Property Portfolio Policy (Leasehold)	Document ID	651838
NCC Docs Referenced	Statement of Investment Policies and Objectives (Managed Funds)	Document ID	TBC
NCC Docs Referenced	Significance Engagement Policy and	Document ID	88316
NCC Docs Referenced	Risk Management Policy	Document ID	16060553
NCC Docs Referenced	Risk Management Framework	Document ID	TBC
NCC Docs Referenced	Treasury Policy	Document ID	TBC

Purpose

The Investment Policy (“Policy”) is adopted under Section 102(1) and 102(2)(c) of the Local Government Act (**LGA**) 2002.

LGA Section 105 requires an Investment Policy which “*must state the local authority’s policies in respect of investments, including:*

- *the mix of investments, and*
- *the acquisition of new investments, and*
- *an outline by which investments are managed and reported on to the local authority, and*
- *an outline of how risks associated with investments are assessed and managed”.*

The Investment Policy can be amended and adopted by resolution of Council at any time (LGA section 105 (2) (b)).

General Investment Objectives

Napier City Council ("**Council**") holds a broad mix of investment assets on behalf of ratepayers. Council seeks to ensure that the following objectives are met, namely that

- investment assets are managed to balance:
 - growth in an annual cash return for the benefit of today's Council and ratepayers; and
 - capital growth for the benefit of future Council and ratepayers;
- responsible investment standards are demonstrated in relation to the management of investment assets; and
- investment assets are managed in an active and prudent way to achieve the above objectives.

Council acknowledges that each investment asset, or group of investment assets, has different return targets and time horizons.

Council utilises experts to support it in the management of some or all of its investments.

Scope

Council has two investment portfolios covered by this policy:

NCC Investment Portfolio

In 2025 Council ring-fenced some its investments assets (the **NCC Investment Portfolio**) for the purpose of being "*an inter-generational investment portfolio that builds financial resilience and reduces future reliance on ratepayers for funding activities.*"

For reporting purposes, the formal start date of the NCC Investment Portfolio, as a ring-fenced investment portfolio is 1 July 2025. Schedule 1 sets out the Opening Statement of the NCC Investment Portfolio as at 1 July 2025.

Council Investments

All other investments held by Council that are not part of the NCC Investment Portfolio.

Council may decide to transfer assets from Council Investments to the NCC Investment Portfolio. Council will do this through a Council resolution and inform Ahuriri Investment Management Limited in line with the terms of the Management Services Agreement between the two organisations.

Note: the management of Council's Treasury Investments are covered in the Council's Treasury Policy.

Mix of Investments

Council maintains a mix of investments.

The following table outlines Council's investments, including the NCC Investment Portfolio and how they are managed. The list of assets defined is indicative and not exhaustive.

	NCC Investment Portfolio	Council Investments
Investment Manager	Ahuriri Investment Management Limited (AIM)	Council
Treasury Investments	Cash and Deposits Bonds and Fixed Interest Instruments	Cash, Term Deposits and Commercial Paper Fixed Rate Bonds, Floating Rate Notes and Medium Term Notes
Property and Land Investments	Leasehold Land Development Land Commercial Property Residential Property Other land-based activities (e.g. forestry)	Land and Buildings held for the operating purposes of Council.
Equity Investments	Listed Equities Private Equity	LGFA Shares
Equity Interests	Shareholding in Hawke's Bay Airport Shareholdings in various CCOs and CCTOs	Shareholding in Omarunui Landfill Shareholdings in various CCOs and CCTOs

Social responsibility

Council recognises that as an owner of significant investment assets, social responsibility should be demonstrated in how investment assets are managed.

All assets must be actively managed, considering the social responsibility expected of a reasonable investor.

Externally managed investment assets (such as Managed Funds) must be undertaken with the same social responsibility standards as though the assets were managed directly.

No investment will be directly contrary to the objectives or well beings of the Council.

NCC Investment Portfolio

Investment Management

Council has created Ahuriri Investment Management Limited ("**AIM**") and appointed AIM as its Investment Manager for the NCC Investment Portfolio. AIM is a 100% owned subsidiary and a Council Controlled Trading Organisation ("**CCTO**").

AIM must adhere to the Investment Policy in managing the NCC Investment Portfolio.

In developing the investment strategy for the NCC Investment Portfolio, the Investment Manager is expected to consider the NCC Investment Portfolio Purpose and Council's General Objectives as outlined in this Policy, as well as considering:

- the mix of assets to achieve growth and income objectives;
- assets being appropriately diversified to provide resilience and buffer Council from the impact of economic cycles and localised disasters; and
- a distribution policy that reflects the asset mix, potential volatility, and balances growth in the annual cash return for Council with capital growth of the NCC Investment Portfolio.

Regional Benefit

Council acknowledges that natural tension may arise between a commercial focus for the NCC Investment Portfolio and the ratepayer expectations regarding regional benefits and outcomes.

In this context, Council reaffirms the primary objective of the NCC Investment Portfolio, is to make a commercial return for Council. When considering the development and execution of the investment strategy for the NCC Investment Portfolio, the Investment Manager is to apply the following priority order:

1. Providing an annual cash return to Council equivalent to that set in the annual Statement of Intent.
2. Achieving long term capital growth and resilience of the NCC Investment Portfolio for the benefit of future generations of ratepayers.
3. Being a respected partner in the investment community.
4. Being a direct investor in Hawkes Bay (an example being the development of Parklands) and reporting on these regional benefits.

Financial Performance Measures

The following Financial Performance Measures apply for forecasting and performance reporting purposes.

- **Annual Cash Payment:** This is the payment that AIM will make from the NCC Investment Portfolio to Council. This is represented in New Zealand dollars.
- **Portfolio Net Return:** This is the net investment performance of the total NCC Investment Portfolio and is made up of the gross asset performance less all costs within the ring-fenced NCC Investment Portfolio. It is represented in both an annual dollar and percentage terms.
- **Asset Net Return:** This is like the Portfolio Net results but applied at an asset or asset class level. Costs included in the calculation would only be direct asset costs.

AIM will set out **Financial Performance Targets** against each Financial Performance Measure in its annual Statement of Intent. AIM will report on performance against the measures and targets in its regular reporting to Council.

Volatility, Valuations and Reserves

The **Inflation-Adjusted Net Value** of the NCC Investment Portfolio is a Strategic Asset under Council's Significance and Engagement Policy. This has been added to affirm the inter-generational purpose of the NCC Investment Portfolio. Being a Strategic Asset means Council

cannot withdraw value from the Inflation-Adjusted Net Value NCC Investment Portfolio without considering the Council's Significance and Engagement Policy.

Council acknowledges that, by their nature, investment portfolios can be volatile, and the value will naturally go up and down over time. This may mean that at points in time the **Total Net Value** is less than the starting value or the Inflation-Adjusted Net Value. This does not mean something is wrong or that the fund is failing – it is a normal part of investment cycles. The goal is to grow the value of decades not just year to year.

The distribution policy, that is to form part of the investment strategy, will consider volatility as part of balancing the growth in the annual cash return for Council with capital growth of the NCC Investment Portfolio.

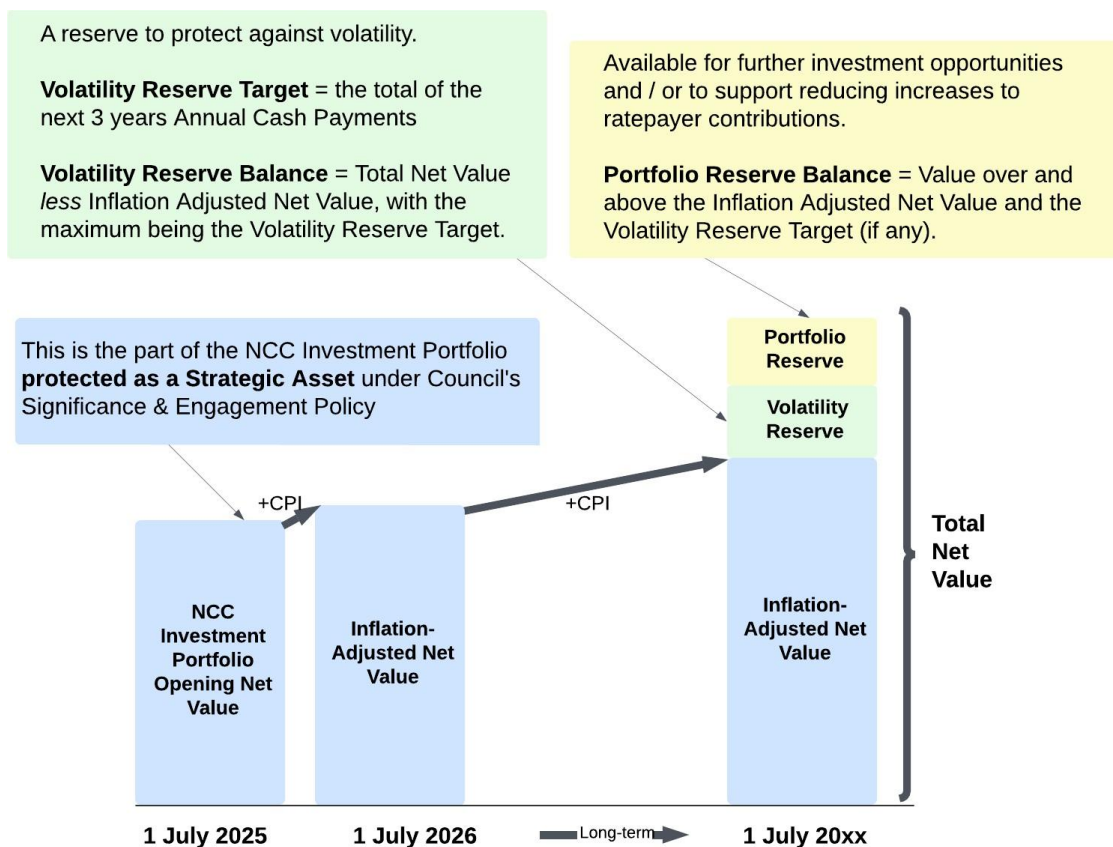
The Inflation-Adjusted Net Value is to be calculated annually as the opening Inflation-Adjusted Net Value at the prior 1 July plus annual inflation. Inflation is to be based on Statistics New Zealand Consumer Price Index (CPI) for the 12 months to 30 June. If a new asset is added to the portfolio part way through a year, the inflation adjustment for that asset is to be pro-rated.

To protect against short-term volatility and create certainty for the **Annual Cash Payment** from the NCC Investment Portfolio to Council, a **Volatility Reserve** will be created. The **Volatility Reserve Target** will be equal to the next three-years Annual Cash Payments, as set out in AIM's annual Statement of Intent.

Council acknowledges that it could take several years for the **Volatility Reserve Balance** to build up to achieve the Volatility Reserve Target. Council also acknowledges that if the Total Net Value is less than the Inflation-Adjusted Net Value, the Volatility Reserve Balance will be negative.

When the Volatility Reserve Target is achieved, any net value over and above this will be reported as a **Portfolio Reserve**.

Diagram 1: A summary of the NCC Investment Portfolio values and reserves.



Risk Management

To manage risk within the NCC Investment Portfolio, Council delegated its management to AIM and empowered AIM to manage risk. Council expects AIM to manage the NCC Investment Portfolio in accordance with the Enterprise Risk Management Framework and Risk Management Policy.

Council expects risks to be managed by AIM, firstly at a whole of NCC Investment Portfolio level, and secondly at an asset class level. Risk management will form part of the reporting of AIM to Council for the NCC Investment Portfolio.

Acquisitions or Disposal Assets

Council has made AIM responsible for the investment decisions of the NCC Investment Portfolio.

AIM may diversify assets within the NCC Investment Portfolio to achieve the objectives of investment management as set out in this Policy.. The individual assets of the NCC Investment Portfolio are expected to change over time as individual assets are sold, and new assets are acquired.

In considering asset transactions for the NCC Investment Portfolio, AIM is expected to exercise sound commercial judgement, consider relevant Council policies, and consider the impact of a transaction in the context of the objectives of NCC Investment Portfolio as a whole.

Where a specific investment asset is named as Strategic Asset (e.g. Hawkes Bay Airport Shares) Council's **Significance and Engagement Policy**, then that Policy and the LGA must be followed in relation to any disposal.

Where commercial leasehold land is being sold the **Investment Property Portfolio Policy (Leasehold)** also applies.

Commercial leasehold

The commercial leasehold land set out in the Opening Statement (Appendix 1) is land transferred from the Hawke's Bay Harbour Board in 1989 as part of the local government reorganisation and Council, by virtue of the Hawke's Bay Endowment Land Empowering Act 2002.

To support Council's compliance with the Hawke's Bay Endowment Land Empowering Act 2002, it is necessary to track all operating income, sale income, and expenditure related to commercial leasehold land in a manner that meets the Act's provisions.

Managed Funds

Within the NCC Investment Portfolio, some of the assets and asset classes may be managed by a professional third-party fund manager. This Managed Funds arrangement may include directly held or pooled investments in various asset such as shares, bonds, and property and may include offshore investments and currency. Assets managed through this arrangement are subject to Council's Statement of Investment Policies and Objectives (**Managed Funds SIPO**)

Council Equity Interests

For Council Equity Interests within the NCC Investment Portfolio AIM will in line with the LGA:

- Write and issue a Statement of Expectations
- Respond to Draft Statement of Intent from the Entity
- Correspond as needed with the Entity
- Receive investment and strategic presentations from the Entity
- Vote at the Entity Annual General Meeting on matters not affecting the level of shareholding of Council.

Where AIM is the appointed investment manager for a CCO and CCOs AIM must consult Council where:

- There is a change affecting the Council shareholding in an Entity
- AIM proposes a change in Council shareholding of an Entity
- Where an Entity proposes a transaction impacting the level of investment by Council

Council Investments

Risk Management

Council acknowledges that the holding of investment assets carries risk.

Council wishes to ensure that the returns provided by each asset adequately compensates Council for the risk taken in owning the asset.

Council will manage its investments in accordance with the Enterprise Risk Management Framework and Risk Management Policy.

The following sections cover the risk management of Council Investments, except for Council's Treasury Investments which are covered in Council's Treasury Policy.

Acquisition or Disposal of Investments

Except for treasury investments, or where delegation has been given to Council officers, new investments are acquired and divestments are made if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers.

Before approving any new investments, Council gives due consideration to the contribution the transaction will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment or making the divestment.

Where a specific investment asset is named as a Strategic Asset (e.g. Hawkes Bay Airport Shares) in accordance with Council's **Significance and Engagement Policy**, then that Policy and the LGA must be followed in relation to any disposal.

Asset Specific Considerations

Set out below are some asset investment considerations that apply to Council Investments.

Council Equity Interests

Council holds Equity Interests in entities held for various strategic, economic development and financial objectives, as outlined in the Long-Term Plan (LTP).

Council's Equity Interests include:

- Shares in Omarunui Landfill Operation; and
- 100% shareholding in Ahuriri Investment Management Limited.

For Council Equity Interests classed as Council Investments except for specific ringfencing provisions for some assets (e.g; Omarunui Landfill), dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

For Council Equity Interests, Council will in line with the LGA:

- Write and issue a Statement of Expectations
- Respond to Draft Statement of Intent from the Entity
- Correspond as needed with the Entity
- Receive investment and strategic presentations from the Entity

- Vote at the Entity Annual General Meeting on matters not affecting the level of shareholding of Council.

New Zealand Local Government Funding Agency Limited (LGFA)

Council consulted on and became a member of the LGFA in March 2020.

Council may invest in shares and other financial instruments of the LGFA and may borrow to fund that investment.

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

- a) Obtain a return on the investment.
- b) Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of investment and/or debt funding for the Council.

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

Property Investments

Council owns property that is necessary to achieve its strategic or commercial objectives or deemed to be a core Council function. Council therefore may retain an investment in investment property, car parking, and rental and retirement housing.

Property purchases are supported by registered valuations and, where appropriate, a full business case analysis. Council does not purchase properties on a speculative basis.

Council provides car parking facilities which are operated on a commercial basis.

Property disposals are managed to ensure compliance with statutory requirements. Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

General Land

Disposition proceeds from the sale of General Land (including Rooding Land) are used firstly to retire any debt related specifically to that investment prior to use for other purposes.

Investment Property

Outside of development property, Council may own property to generate commercial returns for the benefit of the city. Prior to acquisition of investment property, a financial assessment to determine a reasonable price and likely returns generated from ownership must be conducted. Regular reviews of investment property must be conducted to ensure ongoing financial viability of ownership.

Reporting Procedures

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly, or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
1	Investment and Funding Manager	NCC Long Term Plan 2015-2025, wording below was reviewed between March and May 2018, and published in the Long-Term Plan 2018-2028	2019
2	Investment and Funding Manager	No change	May 2020
3	Investment and Funding Manager	Significantly restructured with provision for SIPO added.	May 2022
4	Corporate Finance Manager	Significantly restructured with provision for a CCO/CCTO to invest and expansion of additional property assets for investment.	January 2024
5	Programme Manager– Transformation / Corporate Finance Manager	Simplification and more clearly integrate Ahuriri Investment Management Limited. Adopted by Council 31 July 2025	31 July 2025
6	Senior Financial Strategy and Treasury Lead	Reflect transfer of risk management of Council's Treasury Instruments from this Investments Policy to the Treasury Policy.	XX May 2026

Schedule 1: NCC Investment Portfolio Opening Statement at 1 July 2025

Note: Values shown are indicative only and will be updated by the Deputy Chief Executive following the approval of the 30 June 2025 Financial Statements and the completion of ring-fencing the NCC Investment Portfolio within the Council's financial system.

	Component	Opening Value at 1 July 2025
Commercial Leasehold Land	Book value of assets set out in Table 1.	\$89.1m
	A ring-fenced revaluation reserve that reflects the variance between the book value and a market value on 30 June 2025.	Formal Valuation 30 June 2025
	Reserve 953 – Investment Property Portfolio Sale Account balance on 30 June 2025	~\$5.5m Indicative value at March 2025
	TOTAL	~\$94.6m

Surplus Land	Book value of assets set out in Table 2.	\$26.4m
	A ring-fenced revaluation reserve that reflects the variance between the book value and a market value on 30 June 2025	Formal Valuation 23 November 2024
	TOTAL	\$26.4m

Parklands Residential Development Area 3 and 4	Area 3 and 4 inventory values at 30 June 2025	\$26.2m
	A ring-fenced revaluation reserve that reflects the variance between the inventory value and a market value on 30 June 2025	TBC
	Reserve 888 – Parklands balance on 30 June 2025. This is expected to be negative and reflects the working capital debt for the development	~(\$12.5m) Indicative value at 30 June 2025
	TOTAL	\$13.7m + TBC

HB Airport Shares	26% Shareholding in Hawke's Bay Airport Limited	~\$14.6m B/Sheet value at 30 June 2024
	TOTAL	~\$14.6m

Managed Funds	Opening balance	\$0
	TOTAL	\$0

Working capital debt balance	Facility balance	\$30m
	Facility utilised by Parklands Reserve 888	~(\$12.5m)
	Available Balance	\$17.5m

Indicative Total (excl. available debt balance)	\$149.4m
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Table 1: Commercial Leasehold Land

Set out below is a table of leasehold land addresses and their associated legal descriptions. This list was approved by Council on 12 December 2024 and endorsed on 31st July 2025.

ADDRESS	LEGAL DESCRIPTION	ADDRESS	LEGAL DESCRIPTION
ONEKAWA			
52- 54 West Quay / GO2 1 Lever Street	LOT 1 DP 321505	8 Austin Street	LOT 6 DP 8016
88 Meeanee Quay	SEC 6 SO 541581	16 Austin Street - title 1	PT LOT 1 DP 6211
10 West Quay	LOT 11 DP 11303	16 Austin Street - title 2	PT LOT 1 DP 8078
14 West Quay	LOT 1 DP 10748	39A Austin Street	LOT 2 DP 10199
26 West Quay	LOT 1 DP 27094	8 Cadbury Road	LOT 1 DP 10574
32 West Quay	TN SEC 767 NAPIER	34 - 36 Carnegie Road	LOT 2 DP 27597
34 West Quay	TN SEC 601 NAPIER	1 Dunlop Road	LOT 1 DP 8815
48 West Quay	LOT 1 DP 478162	2 Dunlop Road	LOT 7 DP 8953
56 West Quay	LOT 2 DP 6122	15 Dunlop Road	LOT 2 DP 8815
40 West Quay	LOT 2 DP 478162	33 Dunlop Road	LOT 2 DP 8553
60 Nelson Quay	LOT 1 DP 23082	53 Dunlop Road	LOT 2 DP 11357
AHURIRI OTHER		55 Dunlop Road	LOT 1 DP 11357
14 Bridge Street	LOT 2 DP 17631	57 Dunlop Road	PT LOT 1 DP 7860
16 Bridge Street	LOT 1 DP 17631	26 Edmundson Street	LOT 2 DP 11863
22 Bridge Street	TN SEC 610 NAPIER	6 Ford Road	LOT 3 DP 9474
72 Bridge Street	PT LOT 1 DDP 135	10 Ford Road	LOT 4 DP 9474
4 - 8 Hardinge Road	LOT 1 DP 26638	19 Ford Road	LOT 2 DP 14158
PANDORA		23 Ford Road	LOT 1 DP 14158
22 Thames Street	LOT 101 DP 12262	68 Wakefield Street	LOT 3 DP 10199
26 Thames Street	LOT 102 DP 12262	27 - 29 Cadbury Road	LOT 5 DP 9971
28 Thames Street	LOT 103 DP 12262	4 Cadbury Road	LOT 12 DP 10199
30 Thames Street	LOT 105 DP 12262	6 Cadbury Road	LOT 13 DP 10199
36 Thames Street	Lot 106 DP 12262	64 Wakefield Street	LOT 5 DP 10199
38 Thames Street	LOT 107 DP 12262	16 Austin Street - title 3	PT LOT 2 DP 8078
54 Thames Street	LOT 115 DP 12262	108 Niven Street	LOT 14 DP 12936
60 - 62 Thames Street	LOT 119 DP 12262	18 - 20 Austin Street	Section 4 SO 502169
64 Thames Street	LOT 120 DP 12262	29 Leyland Street	LOT 14 DP 10199
40 Thames Street - title 1	Lot 108 DP 12262	OTHER	
40 Thames Street - title 1	Lot 108 DP 12262	9 Owen Street	LOT 5 DP 5319
44 Thames Street	Lot 110 DP 12262	156 Wellesley Road	PT TN SEC 314 NAPIER
46 Thames Street	Lot 112 DP 12262	160 Wellesley Road	PT TN SEC 569 NAPIER
50 Thames Street	Lot 113 DP 12262		
52 Thames Street	Lot 114 DP 12262		
56 Thames Street	LOT 1 DP 14069		
68 Thames Street	LOT 1 DP 15012		
52 - 54 Pandora Road	LOT 1 DP 15945		
34 Thames Street	LOT 105A DP 12809		
66 Thames Street	LOT 2 DP 17336		
1-35 / 82 Thames Street	LOT 93 DP 16785		
84 Thames Street	LOT 94 DP 16785		
88 Thames Street	LOT 95 DP 16785		

Table 2: Surplus Land

Set out below is a table of leasehold land addresses and their associated legal descriptions. This list was approved by Council on 12 December 2024 and endorsed on 31st July 2025

398 Prebensen Drive, Tamatea excluding land previously designated for	Lot 1 DP 14906
17 Allen Berry Avenue, Pirimai	Lot 126 DP 11689
11 Hospital Terrace, Napier Hill	Lot 100 DP 493568
5 Tangaroa Street, Ahuriri	Lot 2 DP 17736
115 Battery Road, Ahuriri	Lot 11 DP 556903
113 Battery Road, Ahuriri	Lot 158 DP 4703
111 Battery Road, Ahuriri	Lot 157 DP 4703



Treasury Policy - Summary of Controls & Rationale

May 2026

STRICTLY PRIVATE AND CONFIDENTIAL



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BANCORP TREASURY SERVICES LIMITED



Treasury Policy Controls & Rationale

2

Section	Controls	Rationale
Purpose and Review	<ul style="list-style-type: none"> The Council approves the Napier City Council (“NCC”) Treasury Policy (“Policy”). The Policy is in accordance with the Local Government Act 2002 (“LGA 2002”), including the Liability Management Policy and Council Treasury Investments. The management of all other investments are covered in the Investments Policy. The Policy is to be reviewed every three years. 	<ul style="list-style-type: none"> To state the approval and review process to ensure that the Policy is reviewed on a periodic basis and remains fit for purpose. To consolidate the management of treasury risks in one treasury policy, while NCC Investment Portfolio managed by Ahuriri Investment Management Limited (“AIM”) and Council property and equity investments are covered by the Investments Policy.
Scope and Objectives	<ul style="list-style-type: none"> The Policy covers liquidity, funding, interest rate, treasury investments – including cash management, counterparty credit, foreign exchange and operational risks. NCC will not take speculative risks. The objective is to manage treasury risk within a prudent manner considering the current and future interests of the Napier community, within Council approved control limits and in accordance with the Local Government Act 2002 (“LGA 2002”). 	<ul style="list-style-type: none"> To document the treasury risks that are covered by the Policy and that NCC will not introduce further risk by undertaking speculative activity. To state the overall objectives of the Policy that guide how treasury risks are managed and the setting of control limits.
Roles and Responsibilities	<ul style="list-style-type: none"> The governance and management structure has the Council and/or Corporate & Performance Committee providing governance and setting the parameters within which Council officers can operate, outside of which, requires Council approval, oversight and compliance of the treasury function/activities and the Audit & Risk Committee reviewing and endorsing treasury related items for Council approval, as required. 	<ul style="list-style-type: none"> To illustrate the governance and management framework at NCC, outlining responsibilities for the governance roles (Council to Audit & Risk Committee) and management roles (Chief Executive to Financial Accountant) to ensure treasury activities are conducted with appropriate oversight, internal controls, review, approvals, monitoring and reporting of performance and compliance.

Treasury Policy Controls & Rationale

Section	Controls	Rationale
Liquidity Risk	<ul style="list-style-type: none"> Liquidity (term debt + committed bank facilities + liquid financial investments) to external debt > 110%. Revenue and expenditure matching; shortfalls covered with funding from treasury investments maturities or bank/LGFA facilities. Maintain cash liquidity buffer of \$5 million on call to meet day-to-day operational cashflow requirements. Maintain \$300,000 committed overdraft facility. 	<ul style="list-style-type: none"> NCC needs to meet the Local Government Funding Agency (“LGFA”) liquidity limit requirement to obtain funding. Having sufficient liquidity or access to funding to meet both known and unforeseen obligations. The cash liquidity buffer and overdraft facility ensures that there is adequate funding available to cover the volatility in cash balances for capex in between rates strikes.
Funding Risk	<ul style="list-style-type: none"> No more than 33% of debt maturing in any 12-month period. 10 years is the maximum term for external debt per Policy. > 10 years requires Council approval. 	<ul style="list-style-type: none"> Mitigate against concentration and repricing risk by spreading maturities. Removed 0-3 years, 3-5 years and 5+ years minimum and maximum limits as this is difficult to administer and the updated control is a simpler and effective way to spread maturities.
Borrowing Limits	<ul style="list-style-type: none"> Borrowing limits to adhere to (non-rated Council): <ul style="list-style-type: none"> Net external debt as a percentage of total income < 175% (was 230%). Net interest expense as a percentage of total income < 20% (was 10%). Net interest as a percentage of rates income < 25% (was 15%). Included LGFA limits for a rated council to apply if NCC obtains a credit rating (new limits will be 230%, 20% and 30% respectively). 	<ul style="list-style-type: none"> Updated policy to align with LGFA limits for a non-rated Council and if NCC obtains a credit rating the applicable limits for a rated Council. Compliance with the limits is required to borrow from the LGFA.
Other Borrowing Related Sections	<ul style="list-style-type: none"> No material changes made to the following sections: <ul style="list-style-type: none"> ‘Policy’ and ‘Borrowings’ (combined) ‘NZ LGFA’ in relation to LGFA borrowing ‘Internal Borrowing’ ‘Debt Repayment’ ‘Security’ ‘Guarantees’ (previously Contingent Liabilities) 	<ul style="list-style-type: none"> Changes may include minor wording changes or re-organisation if previously captured in another section of the previous version of the Policy.



Treasury Policy Controls & Rationale

Section	Controls	Rationale
Gross Debt and Gross Debt Limits	<ul style="list-style-type: none"> Gross debt and gross interest includes all external and internal borrowing and related interest. NCC imposed borrowing limits to adhere to: <ul style="list-style-type: none"> Gross debt as a percentage of total income < 230%. Gross interest expense as a percentage of total income < 25%. Gross interest as a percentage of rates income < 30%. Included limits to apply if NCC obtains a credit rating (new limits will be 300%, 25% and 35% respectively). 	<ul style="list-style-type: none"> Council have limits on gross debt and interest to manage total borrowings. Noting, this is an additional discipline that will be monitored and only reported on internally. No material changes to 'Internal Borrowing' section.

Interest Rate Risk

- External core debt is the level of external debt forecast in the current LTP.
- When external core debt is > \$20 million NCC must maintain interest rate hedging to be within the following fixed interest rate risk control limits.

Period	Fixed Rate Maturity Limits	
	Minimum	Maximum
0 to 2 years	40%	100%
2 to 5 years	20%	80%
5 to 8 years	0%	60%
8 to 10 years	0%	40%

- External core debt is defined to reduce the risk of over-hedging, which may result in NCC needing to close out swaps and potentially at a cost.
- Increased the limit to \$20 million from \$15 million that the fixed interest rate risk control limits apply from to set an appropriate level that balances exposure risk (i.e. unhedged) and administration to comply.
- Removed the high-level limit of debt being hedged between 55% and 100%, as the two sets of control limits are confusing and difficult to administer. Simplified to one set of control limits per the table to the left.
- Removed the definition that fixed rate is an interest rate repricing beyond 12 months, as fixed debt is fixed for the term of the fixed rate borrowing.
- The periods were changed per the table from 1 to 3 years, 3 to 5 years and 5 to 10 years (to align with the above fixed rate point). Control limits for the first period were increased to 40% to 100% from 20% to 60%, the second period – the maximum was increased to 80% from 60% and the last period was split into two with 5 to 8 years keeping the same 0% to 60% limits and the last period 8 to 10 years being 0% to 40%. The changes were made to provide certainty (higher levels of hedging) in earlier periods, with reducing levels as time goes on where there may be less certainty about debt forecasts and also considering the cost of longer dated hedging.
- Updated approved instruments to include fixed rate bonds which NCC use.



Treasury Policy Controls & Rationale

5

Section	Controls	Rationale
Cash Management	<ul style="list-style-type: none"> Maintain cashflow projections to optimise cash position. Efficient use of cash and available funding sources so as not to incur unnecessary cost. Surplus funds invested to next debt maturity or can pre-fund debt which is placed on term deposit until funds are needed. 	<ul style="list-style-type: none"> To ensure cashflow forecasts are consulted to avoid NCC being in a position where it needs to borrow as funds are locked up in an investment and overall, this costs NCC. To ensure that cash is managed to minimise the cost of fees and bank charges. Moved \$5.0 million cash buffer and \$300,000 overdraft facility reference from the cash management section to the liquidity section.

Financial Market Investments

- Authorised investment criteria shown in table below.

Authorised Asset Classes	Maximum limit as a % of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ\$)	Limit for each Issuer
New Zealand Government	100%	Government Stock Treasury Bills	Unlimited
LGFA	75%	Commercial Paper FRBs/MTNs/FRNs	\$20 million \$15 million
Rated Local Authorities	50%	Commercial Paper FRBs/MTNs/FRNs	\$10 million \$10 million
New Zealand Registered Banks	100%	Call/Term Deposits FRBs/MTNs/FRNs	\$25 million \$10 million
State Owned Enterprises	33%	Commercial Paper FRBs/MTNs/FRNs	\$10 million \$10 million
Corporates and Financials	25%	Commercial Paper FRBs/MTNs/FRNs	\$5 million \$5 million

- Funds are invested to mature within 6 months.
- Funds are invested to align with significant forecast cash outflows or shortfalls.
- Funds are spread over counterparties with < \$25 million per counterparty

- Removed the fixed interest section which had duplication and stated prohibited instruments and not approved.
- Replaced with a simplified authorised investment criteria table that includes approved instruments and limits by issuer.
- Removed the cash interest rate/maturity guide as this was cover complicated and not applicable for NCC as it went out 5-years. Simplified to no maturity beyond 6-months.
- To ensure that cash is managed to optimise the secure use and return on cash.

Counterparty Credit Risk	<ul style="list-style-type: none"> Treasury transaction can only be entered into with the LGFA or New Zealand registered banks or financial institutions with an S&P Global Ratings (or Fitch Ratings or Moody's equivalent) long term credit rating of A or above. 	<ul style="list-style-type: none"> This is to ensure that NCC only deals with high credit rated counterparties to reduce the risk that NCC suffers loss as a result of the counterparty defaulting.
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Treasury Policy Controls & Rationale

6

Section	Controls	Rationale
Foreign Exchange Risk	<ul style="list-style-type: none"> Committed foreign currency exposures greater than NZD250,000 equivalent should be hedged using forward foreign exchange contracts. 	<ul style="list-style-type: none"> Hedging of foreign exchange expenditure is to provide NCC with certainty in relation to the NZD cost of foreign currency expenditure.
Operational Risk	<ul style="list-style-type: none"> Assets are to be safeguarded by disciplined, controlled and compliant treasury dealing and back-office operations. 	<ul style="list-style-type: none"> This is to reduce the risk of losses for NCC because of human error, fraud, system failures, inadequate policies, procedures and controls.
Reporting	<ul style="list-style-type: none"> Quarterly funding and debt profile report and quarterly investment report requirements 	<ul style="list-style-type: none"> Added as previously not included. This provides Council with comfort that once the Policy is adopted, Council will receive reporting on performance and compliance to Policy.

Relevant Delegations

- Treasury related delegations are outlined in the table below.

Activity	Delegated to	Limit
Approve or alter Policy	Council (or appropriate Committee)	Unlimited
Approval of borrowing programme for the year	Council (or appropriate Committee)	Unlimited (subject to legislative and other regulatory limitations)
Approval for charging assets as security over borrowing and guarantees	Council (or appropriate Committee)	Unlimited
Approving new, amending existing or re-financing LGFA or bank facilities.	Chief Executive	Subject to Policy and approved borrowing programme for the year
Loan and derivative documentation	Chief Executive	N/A
Open/close bank accounts	2 signatures required from authorised signatory list	Unlimited
Maximum daily transaction amount (borrowing, investing, interest rate, risk management and cash management)	Council (or appropriate committee)	Unlimited
	Chief Executive Senior Financial Strategy and Treasury Lead	Per Financial Delegation Policy \$25 million

- Limits are set and approved, so that the management team can transact without the need to go back to Council for approval for transactions that are within approved limits. This is also to cover financial delegations that are not specifically included in the Financial Delegations Policy but are required for effective treasury operations.

Disclaimer

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