Liability Management and Investment Policy

Introduction

Environment Canterbury ('Council') undertakes borrowing (**Liability Management Policy**) and investment activities (**Investment Policy**), which in total are referred to as treasury activity. These are covered by this Treasury Policy. Environment Canterbury's treasury activities are carried out within the requirements of the Local Government Act 2002 (LGA 2002), its related amendments and other relevant local authority legislation.

This Treasury Policy provides the policy framework for all of Environment Canterbury's borrowing and investment activities and defines key responsibilities and the operating parameters within which borrowing, investment and related risk management activities are to be carried out.

Key borrowing and investment objectives form the basis of the policies. These objectives, while consistent with corporate best practice, are subject to overall Council objectives, as stated in the Annual Plan and the Long-Term Plan (LTP).

The Liability Management Policy and the Investment Policy within this Treasury Policy shall be reviewed and, where necessary, amended at least every three years. The Local Government Act 2002 Amendment Act 2010 states that Council does not need to go through the special consultative process to amend the Liability Management Policy and the Investment Policy.

This Treasury Policy covers:

- Liability management
- Investments
- Foreign exchange.

Environment Canterbury acknowledges that there are various financial risks such as interest rate risk, currency risk, liquidity and funding risk, and credit risk arising from its treasury activities. We operate as a risk averse entity, and do not wish to incur unnecessary risks from our treasury activities.

Environment Canterbury's Chief Executive has overall responsibility for the operations of Council. The Director of Finance and Corporate Services (DFCS) has responsibility for the day-to-day operation of the treasury function and is assisted by other finance personnel as appropriate.

Environment Canterbury does not undertake any treasury activity that is unrelated to its underlying cash flows or which is purely speculative in nature.

Legislative Requirements

The Liability Management and Investment Policies of the Treasury Policy are in compliance with the requirements of the LGA 2002.

Liability Management Policy

Introduction

The Council has large infrastructural assets with long economic lives yielding long-term benefits. The Council also has significant strategic investments. The use of debt is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers in relation to the Council's assets and investments.

Purpose

Environment Canterbury borrows for the following primary purposes:

- general debt to fund Council's capital works primarily on infrastructure assets. The use of debt is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers in relation to Council's assets and investments
- specific debt associated with significant 'one-off' projects
- borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of Council business
- borrowing to manage timing differences between cash inflows and outflows and to maintain the Council's liquidity.

Local Government Act 2002 Requirements

Section 104 of the LGA 2002 provides that the Liability Management Policy required to be adopted under section 102(4)(b) must state the local authority's policies in respect of liability management, including:

- interest rate exposure
- credit exposure
- liquidity
- debt repayment
- specific borrowing limits
- the giving of security.

Objectives

The objectives of the Liability Management Policy are consistent with market best practice and will take into account Environment Canterbury's 10-year plan as set out in the LTP. The key Liability Management objectives in relation to borrowings are to:

- prudently manage Environment Canterbury's borrowing activities to ensure the ongoing funding of Council by ensuring that appropriate liquidity and funding risk management practices are adopted
- borrow only under Council approved facilities and as permitted by this policy
- minimise borrowing costs within prudent risk management control limits
- manage exposure to adverse interest rate movement
- ensure operational controls and procedures to protect Environment Canterbury against financial loss, opportunity cost and other inefficiencies are maintained.

Funding

Environment Canterbury may obtain funding utilising the following methods:

- bank debt
- capital markets issuance comprising Fixed Rate Bonds, Medium Term Notes, Floating Rate Notes and Commercial Paper
- other sources of debt finance following the specific approval of Council
- New Zealand Local Government Funding Agency (LGFA).

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

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

Borrowing Management and Internal Controls

Council approves policy parameters in relation to borrowing activities.

Council approves, by resolution, the borrowing requirement for each financial year in the annual plan or LTP or by later resolution during the year.

Debt is defined as the Council's net external public debt, calculated as the Council's gross public debt less any reserves held for the specific purpose of repayment of debt.

To measure performance, the actual borrowing performance of the Council shall be compared with the following external benchmark which is predicated off the midpoints of the risk control bands contained in the list below.

25.0% Average 90-day bank bill rate for the reporting month;

12.5% Average 1-year swap rate for the reporting month;

12.5% Average 1-year swap rate for the reporting month, 1 year ago;

12.5% Average 3-year swap rate for the reporting month;

12.5% Average 3-year swap rate for the reporting month, 3 years ago;

12.5% Average 7-year swap rate for the reporting month;

12.5% Average 7-year swap rate for the reporting month, 7 years ago.

The Council is not required to benchmark its borrowing activities if external debt is less than $10.0 million.

Council considers the impact on its borrowing limits (section 2.11) as well as the size and the economic life of the asset that is being funded and its consistency with Council's LTP.

Finance leases and hire purchase agreements will be used for specific operating assets only, not for infrastructural assets. No finance lease or hire purchase arrangement will be more than $500,000 unless approved at a meeting of Council

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 365 days; or
- the goods or services are obtained in the ordinary course of operations on normal commercial terms for amounts not exceeding in aggregate $500,000.

Environment Canterbury's borrowing activities are managed centrally through its accounting function. The accounting function is broadly charged with the following responsibilities:

- manage Environment Canterbury's borrowing programme to ensure funds are readily available at margins and costs favourable to Council
- raise authorised and appropriate borrowing, in terms of both maturity and interest rate strategies
- manage the impact of interest rate risks 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 Environment Canterbury's borrowing activity, however the risk from this will be further minimised by the following processes:

- a documented approval process for borrowing activity
- regular management reporting and review
- regular operational risk control reviews by an independent audit function

Organisational, systems, procedural and reconciliation controls to ensure:

- all borrowing activity is bona fide and properly authorised
- reviews in place to ensure Environment Canterbury's accounts and records are updated promptly, accurately and completely.

Environment Canterbury is prohibited from borrowing in a foreign currency by section 113 of the LGA 2002.

Interest Rate Risk Management

Interest rate risk management refers to managing the impact that movements in interest rates can have on Environment Canterbury's cash flows. This impact can be both favourable and unfavourable.

The following interest rate risk management instruments are authorised for interest rate risk management activity.

Note: Interest Rate Risk Management Instruments are only used to hedge an underlying asset or borrowing.

- forward rate agreements
- interest rate swaps. Purchase of interest rate options products including caps,floors, bond options and swaptions
- interest rate collar-type option strategies
- fixed Rate Term Loans.

The following interest rate risk management instruments are not permitted for use:

- selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature
- structured or leveraged interest rate option strategies
- interest rate futures contracts.

Interest is incurred on any bank funding facility, issuance of debt instruments and other borrowing arrangements. This policy recognises that the longer the term of borrowing, the greater the interest rate risk. A balance is achieved through having variable terms with regard to interest rate resets. The following table details the interest rate risk management parameters that Environment Canterbury is required to adhere to for all externally sourced debt.

Fixed Rate Hedging percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
0 to 2 years	50%	100%
2 years to 5 years	25%	80%
5 years to 10 years	0%	60%

Any fixed rate hedging beyond 10 years shall be carried out in conjunction with, or aligned with, any underlying debt.

Any hedging outside of these parameters must be approved by the Chair of Performance Audit & Risk Committee before being initiated and then reported accordingly.

Details of Environment Canterbury's overall interest rate risk management position shall be reported to the Performance Audit & Risk Committee.

The hedging parameters are cumulative. For example if total debt was a $25 million portfolio, $5 million of hedging entered into for a period of 5 years would increase the hedging profile for all time buckets [A1] up to 5 years, by 20% ($5m/$25m). Fixed rate debt is defined as any debt that has an interest rate reset beyond 3 months.

Environment Canterbury decides the interest rate risk management strategy by monitoring the interest rate markets on a regular basis, evaluating the outlook for short-term rates in comparison to the rates payable on fixed rate borrowing. Council may use interest rate risk management products to convert fixed rate borrowing into floating rate and floating rate borrowing into fixed or hedged borrowing.

Counterparty Exposure

Interest rate hedging can only be undertaken with New Zealand Registered Banks with a minimum Standard and Poor's long-term rating of 'A+' or the Moody's Investors Service or Fitch Ratings equivalents. An up-to-date list of New Zealand Registered Banks and current credit ratings can be obtained from the Reserve Bank of New Zealand's website.

The Council will:

- ensure that all investment, cash management, interest rate risk management and any foreign exchange transactions are undertaken in accordance with the respective Liability and Investment Policies
- rigorously monitor compliance against set prudential limits
- apply the prudential limits for the Market Investment Portfolio, and the Working Capital Fund as defined in the guidelines respectively (to be read exclusively of one another). Note that the amount allocated to the portfolio or the fund is to be determined by the DFSC taking into account forecast cashflow needs
- use the approved hedging instruments defined in Section 2.6
- exclude equity investments at this stage as having too great a risk in terms of return on investment and capital protection. This does not however preclude the future inclusion of equity investments that meet predetermined credit rating levels

- exclude first mortgages over commercial or residential property
- benchmark the Financial Market Investment Portfolio on a quarterly basis against the ANZ Corporate A Grade Index or a combination of the ANZ Corporate A Grade Index and the ANZ 90 Day Bank Bill Index in a ratio to be determined by the TOC in consultation with the Councils Treasury Advisor.

Liquidity and Funding Risk

Liquidity management refers to the timely availability of funds 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 the same or more favourable pricing (fees and borrowing margins) and terms than that of existing facilities. A key factor of funding risk management is to 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 is not unnecessarily increased.

The following guidelines have been established to provide Environment Canterbury with appropriate levels of liquidity at all times, as follows:

- cash flow forecasts will be produced to assist with the matching of operational and capital expenditure to revenue streams and borrowing requirements
- environment Canterbury will maintain its financial market investments in liquid instruments.

The following guidelines have been established to control funding risk:

- to avoid a concentration of debt maturity dates, no more than 50% of debt subject to refinancing in any 12 month period.

Liquidity shall be maintained at a minimum of 10% of projected external debt over the next twelve months.

Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

Debt Repayment

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

- affordability of debt servicing costs
- intergenerational equity principles
- maintenance of prudent debt levels and borrowing limits.

Environment Canterbury repays borrowings from general or targeted rates, general funds or renewal loans. Proceeds from the sales of assets shall be used to finance replacement assets via a capital reserve, or to further develop or enhance existing assets.

Borrowing Limits

In managing its borrowings, Environment Canterbury will adhere to the following financial covenants:

- net debt will not exceed the lower of $300 per capita or $660 per ratepayer across the region
- net annual interest expense cannot exceed 25% of total annual revenue*
- Council will only borrow externally for projects where the total required is more than $1 million
- net debt shall not exceed 175% of total annual revenue.

*Local Government Funding Agency – Lending Policy Covenants

Security

All loans are secured over either the separate general and targeted rates of the Council assets.

Formal security over either the separate general and targeted rates of the Council assets requires prior Council approval.

The Council in general will not offer assets, other than special rates, as security for general liability management programmes without a separate Council resolution, other than for Financing Leases or Hire Purchase arrangements.

Borrowing Mechanisms

In developing strategies for new borrowing (in relation to source, term, size and pricing) Council takes into account the following:

- available and Council-approved sources, terms and types of borrowing
- Environment Canterbury's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time
- prevailing interest rates, margins and total cost relative to term and nature of the borrowing
- the market's and Council's outlook on future interest rate movements
- legal documentation and financial covenants.

Investment Policy

Introduction

The Council's philosophy regarding the management of investments is to optimise returns in the long-term while balancing risk and return considerations. The Council is a risk adverse entity and acknowledges that there are various financial risks such as interest rate risk, liquidity risk and credit risk arising from investment activities and wishes to minimise the exposure to such risk through prudent treasury activities.

The 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. The Council also recognises that being a non-tax entity improves the returns available from fixed interest investments.

The Council will practise an ethical investment approach.

Ethical investment involves avoiding investing in a company whose business activities or products are deemed to be inappropriate, eg. arms manufacture, gambling, fossil fuels, alcohol or pornography.

Environment Canterbury holds financial investments which include:

- special funds and reserves
- funds set aside for approved future expenditure
- proceeds from the sale of assets
- forestry
- temporary surpluses and working capital funds.

Council holds equity investments which include:

- marlborough Forestry Corporation

- civic Assurance (Local Government Insurance Corporation)
- New Zealand Local Government Funding Agency.

Local Government Act 2002 Requirements

Section 105 of the LGA 2002 provides that the Investment Policy required to be adopted under section 102(4)(c) must state the local authority policies in respect of investments, including:

- the mix of investments
- the objectives in terms of which financial and equity investments are to be managed
- the acquisition of new investments
- an outline of the procedures by which investments are managed and reported on to the local authority
- an outline of how risks associated with investments are assessed and managed.

Objectives

The objectives of this investment policy are consistent with market best practices and will take into account the requirements of Environment Canterbury's Annual Plan and LTP. The key investment policy objectives are to:

- prudently manage Environment Canterbury's investment assets in the interests of the Council's district and its inhabitants and ratepayers, only for lawful purposes and so as to safeguard against loss
- manage investments in accordance with the LGA 2002 and the Trustee Act 1956; administer, manage and account for its funds and exercise the care, diligence, and skill that a prudent person of business would exercise in managing the affairs of others
- maximise investment income within a prudent level of investment risk. Council recognises that as a responsible public authority any investments that it does hold should be of relatively low risk. It also recognises that lower risk generally means lower returns
- ensure the integrity of Environment Canterbury's financial market investments by only investing in appropriate organisations and financial market instruments as specified in this policy
- ensure investments are maintained at an appropriate level of liquidity to enable the provision of cash flow when required
- manage the potential risk due to adverse interest rate movements
- maintain relationships with financial market participants, to enable Environment Canterbury to carry out its financial market investment activities in an efficient and practical way
- regularly review the performance and credit-worthiness of all investments
- maintain operational controls and procedures to best protect Council against financial loss, opportunity cost and other inefficiencies.

Investment Management and Internal Controls

Council approves policy parameters in relation to investment activities.

Environment Canterbury's investment activities are managed centrally through an accounting function and takes the following into consideration when deciding on the suitability of any investment:

- the desirability of diversifying investments
- the nature of existing investments
- the risk of capital loss or depreciation
- the potential for capital appreciationt
- the likely income return

- the length of the term of the proposed investment
- the marketability of the proposed investment
- the effect of the proposed investment in relation to tax liability
- the likelihood of inflation affecting the value of the proposed investment.

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

- adequate segregation of duties among the core investment functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in investment activity, however the risk from this will be further minimised by the following processes:
  - a documented approval process for investment activity
  - regular management reporting and review
  - regular operational risk control reviews by an independent audit function.

- organisational, systems, procedural and reconciliation controls to ensure:
  - all investment activity is bona fide and properly authorised
  - reviews are in place to ensure Environment Canterbury's accounts and records are updated promptly, accurately and completely
  - the Council's transactional banking relationships will be reviewed at least every three years
  - overall assessment of performance of funds management.

Financial Market Risk Management

Environment Canterbury's primary objective when investing is the protection of its capital. Accordingly, only creditworthy counterparties are acceptable. Specifically, Environment Canterbury minimises its credit exposure by ensuring that all financial market investments meet the criteria outlined in the table on the following page. These limits are cumulative and relate to the combined 'short- and long-term' funds portfolios.

Liquidity risk is managed by ensuring that all investments are readily tradable on the secondary market. In practice this is achieved by the credit rating and financial market instrument criteria contained in the investment table.

Counterparty risk shall be managed by only permitting financial market transactions with New Zealand Registered Banks with a minimum Standard and Poor's longterm rating of 'A+' or the Moody's Investors Service or Fitch Ratings equivalents and full members of the New Zealand Stock Exchange.

Cash Management

The Council will maintain sufficient liquidity to cover for emergency disaster requirements.

- Cashflow surpluses will be invested in approved financial investment instruments amounts invested must be within limits specified
- An optimal daily range of $0 to +1,500,000 is targeted for in the Council's main bank account, with amounts realised from the Council's money market lines if required
- The Council will not maintain an overdraft facility at this stage
- The undertaking of interest rate risk management activities on cash management balances is not permitted.

Authorised Investment Criteria				
Authorised Asset Classes	**Overall portfolio Limit as a Percentage of the Total Portfolio**	**Approved Financial Market Investment Instruments (must be denominated in NZ dollars)**	**Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)**	**Limit for each issuer subject to overall portfolio limit for issuer class**
New Zealand Government or Government Guaranteed	100%	GovernmentStock Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities*	70%	CommercialPaper	Short -term S&P rating of A1 or better	$2.0 million
		Bonds/MTNs/FRNs	Long -term S&P rating of A- or better long-term S&P rating of A+ or better long-term S&P rating of AA or better	$1.0 million $2.0 million $3.0 million
Local Authorities where rates are used as security*	60%	Commercial Paper Bonds/MTNs/FRNs	Not Applicable	$2.0 million $1.0 million
New Zealand Registered Banks	100%	Call/Deposits/Bank Bills/Commercial Paper	Short-term S&P rating of A1 or better	$15.0 million*
		Bonds/MTNs/FRNs	Long-term S&P rating of A- or better Long -term S&P rating of A+ or better Long-term S&P rating of AA or better	$1.0 million $2.0 million $3.0 million
State Owned Enterprises	70%	CommercialPaper	Short-term S&P rating of A1 or better	$2.0 million
		Bonds/MTNs/FRNs	Long -term S&P rating of A- or better long-term S&P rating of A+ or better Long-term S&P rating of AA or better	$1.0 million $2.0 million $3.0 million
Corporates**	60%	CommercialPaper	Short-term S&P rating of A1 or better	$2.0 million
		Bonds/MTNs/FRNs	Long-term S&P rating of A- or better long -erm S&P rating of A+ or better Long-term S&P rating of AA or better	$1.0 million $2.0 million $3.0 million
Financials**	30%	CommercialPaper	Short-term S&P rating of A1 or better	$2.0 million
		Bonds/MTNs/FRNs	Long-term S&P rating of A- or better long -term S&P rating of A+ or better Long-term S&P rating of AA or better	$1.0 million $2.0 million $3.0 million

** Short-term investments in any one New Zealand Registered Bank shall not exceed 70% of the portfolio or $15.0 million whichever is the greater.*
*** The combined holding of Corporates and Financials shall not exceed 70% of the portfolio*

New Zealand Local Government Funding Agency (LGFA)

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

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

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

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

Interest Rate Risk Management

Interest rate risk refers to the impact that movements in interest rates can have on Environment Canterbury's cash flows. Environment Canterbury's financial investments give rise to direct exposure to interest rate movements. Interest rate risk is managed by Council as part of its overall investment strategy.

The following interest rate risk management instruments in relation to investment are approved by Council:

- interest Rate Swaps
- interest rate options
- forward Rate Agreements.

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

Duration Control for Investment Portfolio

Duration calculates the effective average term of an investment portfolio by combining all individual investments and weighting all the cash flows using a series of net present value calculations. Duration is then reported as the average life of the portfolio as if it was effectively one investment instrument, e.g. 2.9 years.

The duration for the investment portfolio shall be controlled by referencing its duration against an appropriate external benchmark. Environment Canterbury is able to vary the duration of the portfolio by no more than 25% either side of the benchmark portfolio's duration. Compliance with the duration control is not required if the nominal value of the portfolio is less than $10 million.

Benchmarking

Benchmarking measures the performance of a portfolio against an appropriate external benchmark, thus providing Environment Canterbury with an indication as to the effectiveness and suitability of the current investment parameters and the manner in which the parameters are being implemented at an operational level.

Environment Canterbury shall benchmark the performance of the LTFP[A1] against the performance of an appropriate external benchmark portfolio. Compliance with the benchmarking standard is not required if the nominal value of the portfolio is less than $10 million.

Equity Investments

Significant dispositions and acquisitions require Council approval.

All income is reflected in Environment Canterbury accounts with dividend income reflected in the Environment Canterbury accounts as revenue.

It is not contemplated that Environment Canterbury will make any future equity investments, to do so would require a specific Council resolution.

Loans and Advances

These are made to:

Community organisations [A1] to facilitate the ongoing provision of community services or recreational opportunities. These are usually at a lower than commercial interest rate.

Council sets the criteria to apply for any other loans or advances as they are granted. Environment Canterbury as a rule is not a lender of money.

The Council must be satisfied that the potential for capital loss is minimal.

- where possible, securing a charge over collateral security realisable on default;
- ensuring the organisation is financially stable and the ongoing cashflow is sufficient to service the loan;
- ensuring that the return on capital is market related;
- the total value of Non-Commercial Loans and guarantees shall not exceed 2% of the Council's investment portfolio.

Foreign Exchange Policy

Environment Canterbury may incur minor foreign exchange exposures through the occasional purchase of foreign exchange denominated plant, equipment and services All significant commitments defined as an exposure in excess of NZD$100,000 equivalent are hedged using foreign exchange contracts.

The council shall not borrow or enter into incidental arrangements within or outside New Zealand, in currency other than New Zealand currency.

Guidelines & Procedures

The following guidelines should be read in conjunction with the Treasury Policy. These guidelines provide background information on how the Treasury Policy should be applied.

Liability Management Policy

Approving new debt

Guidance

In approving new debt the Council considers the impact on its liability management limits as well as the size and economic life of the asset that is being funded and its consistency with Council's long-term financial strategy. Generally, only large infrastructural assets would be funded by debt.

- the objectives of the treasury function in so far as it relates to the Council's borrowing activities should be consistent with the Council's overall corporate objectives and strategic plans.

Due to the current healthy status of the Council's Balance Sheet the only debts are as follows:

- finance leases (for mainly computer equipment)
- committed cash advance facility with a trading bank
- LGFA debt for long-term fixed and infrastructural assets.

Authorised borrowing mechanisms which Council is able to utilise to source external debt are as follows:

- bank debt
- capital markets issuance comprising Fixed Rate Bonds, Medium Term Notes and Floating Rate Notes
- finance leases and hire purchase agreements.

Interest rate risk is the risk that the Council's interest expense will rise due to adverse movements in interest rates impacting on its total borrowing costs.

Environment Canterbury's Treasury Oversight Committee sets interest rate risk management strategy by monitoring interest rate markets on a regular basis and evaluating the outlook for short-term rates in comparison to the rates payable on its fixed rate borrowing, together with any internal factors such as budgeted interest rates which may have an impact on the overall strategy.

An appropriate floating rate/fixed rate profile is determined by the Treasury Oversight Committee on an as required basis with the assistance of the Treasury Advisor and approved by the Director of Finance & Corporate Services (DFCS) as chairman of the Treasury Oversight Committee.

Management may implement an interest rate risk management strategy as determined by the Treasury Oversight Committee through the use of the following mechanism:

Using interest rate risk management instruments (refer (i) below) to convert floating rate borrowing into a fixed rate or fixed rate borrowing into floating rate.

1. The use of interest rate risk management instruments is approved by the Council only to facilitate and maintain interest costs within budget parameters.

A current list of approved interest rate risk management instruments with appropriate definitions is included in the list below. Additions to, and deletions from, this list are recommended by the Treasury Oversight Committee and approved by the Council. The DFCS as chairman of the Treasury Oversight Committee has delegated authority to authorise the use of Council approved interest rate risk management instruments as appropriate to effectively manage Council's interest rate risks.

The following interest rate risk management instruments are authorised for interest rate risk management activity.

Note*:* Interest Rate Risk Management Instruments are only used to hedge an underlying asset or borrowing.

- forward rate agreements
- interest rate swaps
- purchase of interest rate options products including caps, floors, bond options and swaptions
- interest rate collar-type option strategies
- fixed Rate Term Loans.

- the following interest rate risk management instruments are not permitted for use:

- selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature
- structured or leveraged interest rate option strategies
- interest rate futures contracts.

New Borrowing Consideration

Matters for the Treasury Oversights Committee to take into account for evaluating strategy for new borrowing (in relation to source, term, size and pricing):

- current approved liability management mechanisms
- available terms from banks and capital markets
- the Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time
- prevailing interest rates and margins relative to term for capital markets and bank borrowing
- the market's outlook on future interest rate movements
- ensuring that the implied finance terms within the specific debt (e.g. project finance) are at least as favourable as the Council could achieve in its own right.

Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level may lead to the Council being unable to meet its obligations. Funding risk is the risk that, after the expiry of existing borrowing facilities, funds will not be available at the price or terms required.

The Council minimises its liquidity and funding risks by:

- matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour
- avoiding concentration of debt maturity dates
- maintaining a mixture of committed and uncommitted credit lines with its relationship banks
- the use of internal debt management to assist in funding the purchase of new and replacement assets is at the discretion of the Treasury Oversight Committee and will be reviewed every three years during the LTP process.

Reserves may be used to reduce external borrowings in order to avoid the negative spread on[A1] interest rates between borrowed and invested money

The use of incidental arrangements is confined to managing interest rate risk of the Council borrowings and is to be within the confines of the parameters specified in Section 2.6 of the liability management policy.

The use of incidental arrangements requires formal prior approval of the Director Finance & Corporate Services (DFCS).

Investment policy guidelines

Guidance

Within the credit constraints contained in authorised investment criteria listed in the investment policy, the Council also seeks to:

- optimise investment return
- ensure investments are liquid
- manage potential capital losses due to interest rate movements if investments need to be liquidated prior to maturity
- preserve the capital invested and where possible promote capital growth.

Equity Asset Holdings

With respect to investments, Environment Canterbury's overall policy on dealing with assets it holds is dependent on the particulars of the assets as follows:

Strategic Assets	Land or buildings identified as a Strategic Asset in Environment Canterbury's policy on significance will be retained by Environment Canterbury[A1].
Reserve Land	Land held by Environment Canterbury as the administering authority under the Reserves Act 1977 will be retained by Environment Canterbury and be used for the particular purpose gazetted for the land.
Endowment Land	Land held by Environment Canterbury under the terms of the document creating the endowment will generally be retained and utilised for the best and highest value, subject to any constraints related to the purpose for which the land is vested. Where alternative opportunities arise to increase best and highest values endowment land may be disposed of subject to Sections 140 and 141 of the Local Government Act 2002 and any overriding provisions of a particular Local Act.
Land subject to a particular Local Act	Will generally be retained by Environment Canterbury unless proceeds of disposal can be applied to further enhance or advance the specific statutory purpose for which the land is held.
Regional Park	Land held as a regional park will be retained by Environment Canterbury.
Beneficially held land	Acquisition, construction, retention, abandonment or disposal of beneficially held land will be determined by reference to maximising ratepayer benefit.

Investment	Guidance
Civic Financial Services formerly Local Government Insurance Corp	Due to the limited transferability of shares and limited risks, the Council's policy is to retain shares in Civic Financial. If required in connection with the investment, the Council may also subscribe for further shares in Civic Financial.
Marlborough Forestry Corp (MFC)	Due to the limited transferability of the holding and limited risks, the Council's policy is to retain the holding shares in MFC.
Forestry	The Council will invest in forestry for the primary purposes of flood protection and soil conservation. Within these constraints, these stands will be managed in a commercial manner, in order to optimise the return on investment.
Tuam Street & Timaru Offices	The following policies will be applied by the Council in the management of its investment in these properties: • decisions on future ownership will be driven by the requirement to maximise ratepayer benefit and will be reviewed at valuation time by the Treasury Oversight Committee who will make recommendations to Council • the Council will continue to exercise governance over these properties to ensure the value of these assets is protected through planned maintenance • the Council will continue to rely on the advice of its property consultants with respect to all property matters relating to these properties • the Council will evaluate offers of purchase in light of its requirement and maximising ratepayer benefit.
Clean Heat Loan Scheme	Council approved the Clean Heat Loan Scheme as an amendment to the 2004-14 Long-Term Council Community Plan. The scheme is limited to Christchurch, Timaru, Ashburton, Rangiora and Kaiapoi. Scheme was closed to new entrants in 2012.
Non-Commercial investments	Non-commercial investments may occur where there are clearly defined social benefits to the community as a consequence of making such a loan or providing a guarantee. As this is a departure from normal investment policy the following criteria should be applied. The Council must be satisfied that the potential for capital loss is minimal. This is to be achieved by: • Where possible, securing a charge over collateral security realisable on default • Ensuring the organisation is financially stable and the ongoing cash flow is sufficient to service the loan • Ensuring that the return on capital is market related. The total value of Non-Commercial Loans and guarantees shall not exceed 2% of the Council's investment portfolio.
Property investments	Those properties retained for Council use will be assessed as to appropriateness on an annual basis to maximise ratepayer benefit. All properties will be maintained. The following practices will be applied by the Council in the consideration of Commercial property development: 1. the Council will consider the advice of its property consultants or steering group with respect to all property development matters

Investment	Guidance
	2. the required rate of return for such development projects will be set by the property consultants or steering committee and will reflect the level of risk associated with such projects 3. any proposal for commercial property development will require a rate of return equal to or greater than the required rate of return before it is put forward as a recommended course of action 4. consideration will be given to 3 types of development being; block lease (low risk), subdivision of land (moderate risk), subdivision and build (high risk) 5. in considering options put forward, and to be consistent with its overall investment philosophy, the Council will place priority on the maintenance of Capital by focussing on investments with a lower risk profile. This means that the sub-divide and build option is unlikely to be the option adopted.
Local Government Funding Agency	Despite anything earlier in this document, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment. The Council's objective in making any such investment will be to: • obtain a return on the investment; and • ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Council. Because of this dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

Authorised Investment Criteria

Authorised Asset Classes	Overall Portfolio Limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria - Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government	100%	Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million
Unrated Local Authorities	50%	Commercial Paper	Not Applicable	$2.0 million
New Zealand Registered Banks	100%	Call/Term DepositS/Bank Bills/Commercial Paper	Short-term S&P rating of A1 or better	$15.0 million
State Owned Enterprises	50%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million
Corporates **	50%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million

Authorised Asset Classes	Overall Portfolio Limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria - Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
Financials **	30%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million
* Short-term investments in any one New Zealand Registered Bank shall not exceed 70% of the portfolio or $15.0 million whichever is the greater ** The combined holding of Corporates and Financials shall not exceed 70% of the portfolio				

Treasury organisational structure

Council

- Approve the Liability Management Policy and Investment Policy
- Evaluate and approve amendments to the above policies
- Review treasury activity through annual reporting, supplemented by exception reporting
- Approve annual borrowing programme contained in the Long-Term Plan (LTP) or Annual Plan
- Approve budgets and high-level performance reporting
- Approve interest rate risk management instruments contained in Appendix III and all subsequent additions/deletions.

Performance Audit and Risk Committee

- Appoint and review the Treasury Advisor
- Review investment performance annually.

Chief Executive

- In conjunction with the DFCS, approve the opening/closing of bank accounts and new banking facilities
- Review, and if required change, the composition of the Treasury Oversight Committee
- In conjunction with the DFCS, approve register of cheque and electronic banking signatories.

Director Finance & Corporate Services (DFCS)

- Overall responsibility for treasury function
- Primary responsibility for managing relationships with the Treasury Advisor, financial institutions and the capital markets
- Negotiate borrowing facilities
- Approve new borrowing undertaken in line with Council resolution and approved borrowing strategy
- Authorise the use of Council-approved interest rate risk management instruments within discretionary authority
- Recommend policy changes to Council for approval.

Treasury Oversight Committee (TOC)

- Recommend policy changes to the DFCS as Chairman of the TOC
- Evaluate and approve borrowing, investment and risk management strategies
- Review borrowing and investment management activity through regular meetings as required and quarterly reporting

- Recommend performance measurement criteria for all borrowing and investment and risk management activity
- Monitor monthly performance against benchmarks
- Ongoing risk assessment of treasury activity.

Treasury Advisor

- Assist with the review of the LMP and IP
- Provide advice on developments in both the domestic and international financial markets insofar as they relate to Councils treasury activities
- Evaluate available borrowing options for Council
- Formulate appropriate interest rate risk management strategies for Council's external debt
- Provide quarterly reports which detail relevant aspects of Council's borrowing and financial market investment activities.

Finance Operations Manager

- Day-to-day responsibility for treasury function
- Secondary responsibility for managing relationships with the Treasury Advisor, financial institutions and the capital markets
- Assist in the negotiation of borrowing facilities
- Review funding requirements, develop borrowing and risk management strategy, and provide recommendations to the TOC
- Review cash flow requirements, develop financial investment strategy with the Funds Manager [A1] (including performance measures) and provide recommendations to the TOC
- Responsible for maintaining operational and accounting systems to record and report treasury activity
- Approve all amendments to the Council's records arising from checks to counterparty confirmations
- Report treasury activity to the TOC
- Prepare cash flow forecasts and undertake cash management activity within policy guidelines
- Update treasury system/spreadsheets for all new, re-negotiated or maturing transactions
- Maintain loan repayment records.

Assistant Accountant

- Reconcile treasury system/spreadsheets to general ledger
- Execute approved borrowing, investment, and interest rate risk management strategies
- Review and approve bank reconciliations
- Maintain loan repayment records.

Independent Audit

- Verify accuracy of outstanding treasury transactions by undertaking independent confirmation checks
- On-going review of treasury procedures and controls
- Consideration of the internal audit charter.

Treasury Oversight Committee (TOC) - Composition

- The composition of the TOC is approved by the Chief Executive. The following table details the positions within the Council that form part of the TOC, as well as the input they are expected to add

Position	Input Value
Director Finance & Corporate Services	Overall responsibility for treasury functions. Chairman of TOC.
Property Manager	Perspective from the Council's largest asset manager.
Chairman of PARC ex-officio	Providing political perspective to treasury decision making as required.
Finance Operations Manager/Chief Financial Officer	Management of treasury function. Development of strategy. Analysis of treasury performance. Compliance monitoring.
Operational Section Manager	Provide input from the operations group of Environment Canterbury.
Risk Advisor	Oversight on risk
Treasury Advisor	Technical expertise, outlook on market movements, new investment tools, investment and borrowing recommendations, reporting on market conditions and overall advice.

Managing Cash Surpluses and/or Deficits

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

The Council maintains monthly and annual cash flow projections which form the basis of its cash management activity. The Council maintains one main bank account for its operating cash flows as well as other bank accounts for specialist activities. Individual sections within the Council do not maintain separate bank accounts.

The Council manages its working capital balances by matching expenditure closely to its revenue streams, and managing cash flow appropriately. Daily bank balances are extracted by the Finance Operations Manager. Daily cash requirements are determined by reference to the Daily Cash Flow Position Report and appropriate adjustments are made to money market balances.

Cash flow surpluses from timing differences will be invested at the best possible rate on the short-term money market.

If any counterparty's credit rating falls below the minimum specified in the investment policy then all practical steps are taken to reduce the credit exposure to that counterparty to zero as soon as possible.

Approved Financial Investment Instruments

Investment instruments available in the market (excluding equities and property) can be categorised under four broad categories relating to the issuer of these instruments.

1. New Zealand Government Treasury Bills
2. Local Authorities Stock
3. Registered Banks Term Deposits
4. Corporates Bonds & Commercial Paper.

'Local Authority' means any City, District or Regional Council or wholly owned subsidiary of such a body and the NZ Fire Services Commission.

'Registered Bank' means as defined in Section 2 of the Reserve Bank of New Zealand Act 1989.[A1]

Treasury Management Suppliers

The Council's preference in the treasury management area is to deal with preferred suppliers. The Council's choice of relationship banks is determined by its desire to benefit from long-term relationships rather than seeking the best returns in the short-term.

Each financial institution must be capable of providing the Council with:

- comprehensive treasury services in NZD products
- proven expertise and a track record in arranging local capital markets facilities
- a desire to accommodate the Council with funding without additional security requirements
- the Council's cash management and interest rate risk management activities are undertaken with its relationship bank ASB.

Treasury Reporting

Report Name	Frequency	Prepared by	Recipient
Treasury Exceptions Report	Daily	Finance Operations Manager	Treasury Oversight Committee
Treasury Report listing investments and debt with maturity dates	Quarterly (detailed)	Finance Operations Manager	Director Finance & Corporate Services TOC
Limits Report	Daily – reported on an exceptions basis	Finance Operations Manager	Director Finance & Corporate Services TOC
Debt Maturity Profile	Quarterly	Finance Operations Manager	Director Finance & Corporate Services TOC
Statement of Council Public Debt	Quarterly	Finance Operations Manager	Director Finance & Corporate Services -TOC
Treasury Performance	Quarterly	Funds Manager & Finance Operations Manager	Director Finance & Corporate Services -PARC

Approvals

Activity	Delegated to:
Approve policy document	Council (by resolution)
Alter policy document	Council (by resolution)
Open/close bank accounts	Chief Executive, Director Finance & Corporate Services
Approval and appointment of the Treasury Advisor	Performance Audit and Risk Committee
Acquire and dispose of investments other than financial investments	Council (by resolution)

Activity	Delegated to:
Approve borrowing programme for the year	Council (by resolution)
Approve charging assets as security over borrowing	Council (by resolution)
Approve new loans in accordance with Council resolution	Chief Executive, Director Finance & Corporate Services
Negotiate debt in relation to interest rate, term and maturity date.	Director Finance & Corporate Services
Approve cheque signatories	Chief Executive, Director Finance & Corporate Services
Approve Electronic Banking funds transfer signatories	Chief Executive, Director Finance & Corporate Services
Manage borrowing strategy	Director Finance & Corporate Services (approve strategy as Chair of TOC) TOC (recommend strategy) Finance Operations Manager (execute approved strategy, daily management)
Approve interest rate risk management instruments contained in the Risk Management Tool Kit in Appendix IV and subsequent additions and deletions	Council (by resolution)
Authorise use of the Council approved interest rate risk management instruments	Director Finance & Corporate Services
Manage the Council cash requirements	Finance Operations Manager

Internal Controls

The internal controls for the operation of the Council's treasury function are noted below:

Organisational controls

The Director Finance & Corporate Services (DFCS) has responsibility for establishing appropriate structures, procedures and controls to support treasury activity. Detailed procedures supporting the key controls contained in this document are contained in these policies.

All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations authorised by the Council.

The Council's systems of internal controls over treasury activity include:

1. Adequate segregation of duties among the core treasury functions of deal, confirmation, settling and accounting/reporting. There are a small number of people involved in the Finance Section. Accordingly, strict segregation of duties is not always achievable. The risk from this will be minimised by the following processes:

    - Utilising the services of Council's Treasury Advisor
    - A documented discretionary approval process for treasury activity

- Regular management reporting
- Regular operational risk control reviews.

2. Organisational, systems, procedural and reconciliation controls to ensure:

    - All treasury activity is bona fide and properly authorised
    - Checks are in place to ensure the Council's accounts and records are updated promptly, accurately and completely.

Personnel with dealing responsibilities cannot perform bank reconciliations or act as a sole cheque signatory.

New Cheque/Electronic banking signatories approved by the Chief Executive on recommendation of Director Finance & Corporate Services (DFCS).

Dual signatures are required for all cheques and electronic transfers.

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

Settlement

Payment batches for treasury payments are set up on desk bank and checked by the accountant to ensure settlement details are correct. Payment details are authorised by two approved signatories as per delegations.

Investments

Investment activity is undertaken within limits specified in Section 3.6a of the Investment Policy.

NZ Government stock, Treasury bills, local authority stock and debentures are registered with the relevant registry or custodian. The Council receives notice of the stocks transferred into its name from the registry. This notice is checked to the Council's treasury system/spreadsheets.

Internal Debt Management

The Finance Section is responsible for administering the Council's internal debt portfolio. Loans are set up within the debt portfolio based on planned loan funded capital expenditure, and allocated to the area incurring the capital expenditure. The following operational parameters apply to the management of the Council's debt portfolio.

Where debt is incurred for general capital works:

- capital expenditure details are extracted by the Finance Section each month end
- a notional internal loan is set up for all new capital expenditure and allocated in the debt portfolio to the area incurring the expenditure
- interest is charged by financial services to areas on month-end loan balances at an agreed rate
- the interest rate, where the external debt has not been specifically raised for that project, will be based on the Council’s weighted opportunity cost of funds, and a margin which provides for certainty in the charging rate and avoids frequent adjustments. The rate is reviewed by the TOC and is set for the next financial year in the Long-Term Plan and Annual Plan.

Where debt is raised for a specific asset/project:

- the interest rate when the external debt has been raised specifically for that project will be the rate of that external debt. All costs related to incurring that debt, including interest are charged to the project
- for calculating effect on rating requirements, the Council will use the repayment and interest costs for the year. The finance section will, for every loan, maintain a record of its repayments, identifying principal and interest portions; this will be used for rating calculations and cashflow across the life of the loan.

Authorised Investment Criteria – Financial Market Investment Fund

Authorised Asset Classes	Overall portfolio limit as a percentage of the total portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government	100%	Government Stock Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	Commercial Paper Bonds/MTNs/FRNs	Short-term S&P rating of A1 or better Long-term S&P rating of A- or better Long-term S&P rating of A+ or better Long-term S&P rating of AA or better	\$2.0 million \$1.0 million \$2.0 million \$3.0 million
Unrated Local Authorities	50%	Commercial Paper Bonds/MTNs/FRNs	Not Applicable	\$2.0 million \$1.0 million
New Zealand Registered Banks	100%	Call/Term Deposits/Bank Bills/Commercial Paper Bonds/MTNs/FRNs	Short-term S&P rating of A1 or better Long-term S&P rating of A- or better Long-term S&P rating of A+ or better Long-term S&P rating of AA or better	\$7.5 million* \$1.0 million \$2.0 million \$3.0 million
State Owned Enterprises	50%	Commercial Paper Bonds/MTNs/FRNs	Short-term S&P rating of A1 or better Long-term S&P rating of A- or better Long-term S&P rating of A+ or better Long-term S&P rating of AA or better	\$2.0 million \$1.0 million \$2.0 million \$3.0 million
Corporates * *	50%	Commercial Paper Bonds/MTNs/FRNs	Short-term S&P rating of A1 or better	\$2.0 million \$1.0 million

Authorised Asset Classes	Overall portfolio limit as a percentage of the total portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
			Long-term S&P rating of A- or better Long-term S&P rating of A+ or better Long-term S&P rating of AA or better	$2.0 million $3.0 million
Financials* *	30%	Commercial Paper Bonds/MTNs/FRNs	Short-term S&P rating of A1 or better Long-term S&P rating of A- or better Long-term S&P rating of A+ or better Long-term S&P rating of AA or better	$2.0 million $1.0 million $2.0 million $3.0 million

Authorised Investment Criteria – Working Capital Fund

Authorised Asset Classes	Overall portfolio limit as a percentage of the total portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government	100%	Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million
Unrated Local Authorities	50%	Commercial Paper	Not Applicable	$2.0 million
New Zealand Registered Banks	100%	Call/Term Deposits/Bank Bills/Commercial Paper	Short-term S&P rating of A1 or better	$15.0 million*
State Owned Enterprises	50%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million
Corporates * *	50%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million

Authorised Asset Classes	Overall portfolio limit as a percentage of the total portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
Financials* *	30%	Commercial Paper	Short-term S&P rating of A1 or better	$3.0 million
** Short-term investments in any one New Zealand Registered Bank shall not exceed 70% of either fund or $15.0 million whichever is the greater.* *** The combined holding of Corporates and Financials shall not exceed 70% of either fund (Financial Markets or Working Capital)*				

Interest Rate Risk Management Instruments and Terms – Definitions

BKBM: The bank bill mid-market settlement rate as determined each business day and displayed on the New Zealand Financial Markets Authority website. This is the standard rate for the settlement of interest rate swaps, forward rate agreements and interest rate caps and collars.

Bond Options: The Council, when purchasing a bond option, has the right but not the obligation to buy or sell a specified Government stock maturity on an agreed date and time and at an agreed rate.

Forward Rate Agreement: An agreement between the Council and a counterparty (usually a bank) protecting the Council against a future adverse interest rate movement for a specified period. The Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM).

Interest Rate Collar Strategy: The combined purchase (or sale) of a cap or floor with the sale (or purchase) of another floor or cap.

Interest Rate Options: The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right but not the obligation to borrow (described as a cap) or invest (described as a floor) at a future date for a specified period. The Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). Interest rate option products include caps, floors, bond options and swaptions.

Interest Rate Swap: An Interest Rate Swap is an agreement between the Council and a counterparty (usually a bank) whereby the Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties to the contract agree notional principal, start date of the contract, duration of the contract, fixed interest rate and the benchmark rates (usually BKBM).

Swaption: The purchase of a swaption gives the Council the right but not the obligation to enter into an interest rate swap, at a future date, at a specific interest rate.

Repurchase Agreements: A simultaneous sale and repurchase of a fixed interest security for different settlement dates. Repurchase agreements are also known as Lending.

Standard and Poor Definitions

Long-Term Issuer Credit Ratings Definition

Category	
AAA	An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P Global Ratings.
AA	An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.
A	An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
BBB	An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
BB; B; CCC; and CC	Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
BB	An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.
B	An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
CCC	An obligor rated 'CCC' is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.
CC	An obligor rated 'CC' is currently highly vulnerable. The 'CC' rating is used when a default has not yet occurred, but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
R	An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others.
SD and D	An obligor rated 'SD' (selective default) or 'D' is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non-payment according to terms. An obligor is considered in default unless S&P Global Ratings believes that such payments will be made within five business days of the due date in the absence of a stated grace period, or within the earlier of the stated grace period or 30 calendar days. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively

defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. An obligor's rating is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.

NR	An issuer designated 'NR' is not rated.

*The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Short-Term Issuer Credit Ratings Definition

Category	
A-1	An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by S&P Global Ratings. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong.
A-2	An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.
A-3	An obligor rated 'A-3' has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
B	An obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.
C	An obligor rated 'C' is currently vulnerable to non-payment that would result in a 'SD' or 'D' issuer rating, and is dependent upon favourable business, financial, and economic conditions for it to meet its financial commitments.
R	An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others.
SD & D	An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated), excluding hybrid instruments classified as regulatory capital or in non-payment according to terms, when it came due. An obligor is considered in default unless S&P Global Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations, excluding hybrid instruments classified as regulatory capital, but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. An obligor's rating is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.
NR	An issuer designated 'NR' is not rated.