MARLBOROUGH DISTRICT COUNCIL	2024 Treasury Management Policies							
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Policy owner	Chief Financial Officer							

1. Introduction

Marlborough District Council ("MDC") undertakes borrowing (Liability Management Policy) and investment activities (Investment Policy), which in total are referred to as treasury activity. MDC'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 Management Policy provides the policy framework for all of MDC'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 MDC objectives, as stated in the Long Term Plan ("LTP") and Annual Plan

The Liability Management Policy and the Investment Policy shall be reviewed and where necessary amended at least every three years. The Local Government Act 2002 Amendment Act 2010 states that MDC 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.

MDC 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 but operates under the assumption that being a risk averse entity it does not wish to incur unnecessary risks from its treasury activities.

MDC's Chief Executive has overall responsibility for the operations of Council. MDC's Chief Financial Officer has responsibility for the day to day operation of the treasury function and is assisted by other finance personnel as appropriate.

MDC 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 Management Policy are in compliance with the requirements of the LGA 2002.

2. Liability Management Policy

2.1 Purpose

MDC borrows for the following primary purposes:

General debt to fund MDC'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 MDC's assets and investments.

- Specific debt associated with significant "one-off" projects and non-financial investments from time to time.
- Debt to cover short term cash flow needs pending the anticipated receipt of revenue.
- General debt to fund the activities of MDC Holdings Ltd and its subsidiaries.
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of MDC business.
- Debt for energy efficiency projects.

2.2 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.

2.3 Objectives

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

- Prudently manage MDC's borrowing activities to ensure the ongoing funding of MDC and the MDC Group by ensuring that appropriate liquidity and funding risk management practices are adopted.
- Borrow only under MDC approved facilities and as permitted by this policy.
- Minimise borrowing costs within prudent risk management control limits.
- Manage exposure to adverse interest rate movements.
- Ensure operational controls and procedures to protect MDC against financial loss, opportunity cost and other inefficiencies are maintained.

2.4 Funding

MDC 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.

- New Zealand Local Government Funding Agency (LGFA)

  MDC 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 charge over the MDC's rates and rates revenue.
  - Other sources of debt finance following the specific approval of Council.

2.5 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.

Council considers the impact on its borrowing limits (section 2.10) as well as the size and the economic life of the asset that is being funded and its consistency with MDC's LTP.

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 $50,000.
- MDC's borrowing activities are managed centrally through its finance function. The finance function is broadly charged with the following responsibilities:
  - Manage MDC's borrowing programme to ensure funds are readily available at margins and costs favourable to MDC and the MDC Group.
  - 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.

MDC'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 MDC'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 MDC's accounts and records are updated promptly, accurately and completely.

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

2.6 Interest Rate Risk Management

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

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 MDC is required to adhere to for all externally sourced debt.

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	**Maximum Fixed Rate**
0 to 2 years	40%	100%
2 years to 5 years	20%	80%
5 years to 10 years	0%	60%

Any hedging outside of these parameters must be approved by the Chair of the Economic Finance and Community Committee ("EFCC" before being initiated and then reported accordingly.

While the above table sets a maximum term of 10 years (for hedging using derivatives) Fixed Rate Bonds issued by the LGFA (or MDC) for terms in excess of 10 years are permissible, following approval from the EFCC.

Details of MDC's overall interest rate risk management position shall be reported to the EFCC.

The hedging parameters are cumulative. For example if total debt was $25 million, $5 million of hedging entered into for a period of 5 years would increase the hedging profile for all time buckets up to 5 years, by 20%.

Fixed rate debt is defined as any debt that has an interest rate reset beyond 3 months.

MDC 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. MDC may use interest rate risk management products to convert fixed rate borrowing into floating rate and floating rate borrowing into fixed or hedged borrowing.

2.7 Authorised Interest Rate Risk Management Instruments

MDC may use the following interest rate risk management instruments to manage externally sourced debt:

- Interest Rate Swaps.

- Forward Rate Agreements.
- Interest Rate Options.
- Swaptions (options on swaps).
- Fixed Rate Bonds
- Interest Rate Collar strategy, but only where the ratio of the face value and interest rate exposure on bought to sold legs is 1:1.

2.8 Counterparty Exposure

Interest rate hedging can only be undertaken with New Zealand Registered Banks with a minimum S&P Global Ratings 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.

2.9 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 a price and terms that reflect the credit standing of MDC.. 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 MDC with appropriate levels of liquidity at all times as follows:

- Cash flow forecasts will be produced to assist in the matching of operational and capital expenditure to revenue streams and borrowing requirements.
- MDC will maintain liquidity at a minimum of 110% of the projected peak debt level over the ensuing twelve month period. Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt. The peak debt calculation includes iReX debt.
- MDC 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 40% of MDC’s debt can be subject to refinancing on a rolling 12 month basis.

2.10 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.

MDC repays borrowings from general or targeted rates, general funds or renewal loans.

2.11 Borrowing Limits

Subject to the overriding “Debt Cap” decided by Council of net interest being less than 15% of total rates , in managing its borrowings, MDC will adhere to the following financial covenants:

- Net debt / total revenue <250%
- Net interest / total revenue <20%
- Net interest / Annual rates income <15%
- Liquidity >110%

These covenants, albeit more conservative, are the same as that used by the LGFA, Council's prime source of debt.

2.12 Security

All loans are secured by debenture trust deed over either the separate general and targeted rates of the District or MDC assets.

2.13 Borrowing Mechanisms

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

- Available and MDC approved sources, terms and types of borrowing.
- MDC'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 MDC's outlook on future interest rate movements.
- Legal documentation and financial covenants.

3. Investment Policy

3.1 Introduction

MDC 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.

MDC provides loans and advances to:

- MDC Holdings Limited.
- Community groups.
- Others.

MDC holds equity investments which include:

- MDC Holdings Limited, which in turn holds investments in Port Marlborough Limited and Marlborough Airport Limited.
- Forestry related assets.
- New Zealand Local Government Funding Agency.

3.2 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 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.

3.3 Objectives

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

- Prudently manage MDC's investment assets in the interests of the MDC'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. MDC 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 MDC'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, including in the event of an emergency.
- Manage the potential risk due to adverse interest rate movements.
- Maintain relationships with financial market participants, to enable MDC 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 MDC against financial loss, opportunity cost and other inefficiencies.

3.4 Investment Management and Internal Controls

Council approves policy parameters in relation to investment activities.

MDC's investment activities are managed centrally through its finance 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 appreciation.
- 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.

MDC'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 MDC's accounts and records are updated promptly, accurately and completely.
- Overall assessment of performance of funds management.

3.5 Financial Market Risk Management and Investment Criteria

MDC's primary objective when investing is the protection of its capital. Accordingly, only creditworthy counterparties are acceptable. Specifically, MDC minimises its credit exposure by ensuring that all financial market investments meet the criteria outlined in the following table. 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 S&P Global Ratings' ("S&P") long term rating of 'A' or the Moody's Investors Service or Fitch Ratings equivalents and full members of the New Zealand Stock Exchange.

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 – S&P (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%	• Government Stock • Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities*	70%	• Commercial Paper	Short term S&P rating of A1 or better	$3.0 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	$2.0 million $3.0 million $5.0 million
Local Authorities where rates are used as security*	60%	• Commercial Paper • Bonds/MTNs/FRNs	Not Applicable	$2.0 million $2.0 million
New Zealand Registered Banks	100%	• Call/Deposits/Bank Bills/Commercial Paper	Short term S&P rating of A1 or better	$25.0 million
		• Bonds/MTNs/FRNs	Long term S&P rating of A- or better Long term S&P rating of A+ or better	$2.0 million $5.0 million
State Owned Enterprises	70%	• Commercial Paper	Short term S&P rating of A1 or better	$3.0 million
		• Bonds/MTNs/FRNs	Long term S&P rating of A- or better Long term S&P rating of A+ or better	$1.0 million $3.0 million
Corporates*	60%	• Commercial Paper	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
Financials*	30%	• Commercial Paper	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

Notes:

1. The combined holding of Rated Local Authorities and Local Authorities shall not exceed 70%. Also the combined holding of Corporates and Financials shall not exceed 70%.
2. MTN is Medium Term Note and FRN is Floating Rate Note.
3. For the purposes of calculating permissible short term investment percentages in New Zealand Registered Banks, funds invested for short term cashflow purposes with a term to maturity at the time of inception of less than 90 days shall not be included in the calculation.
4. As long as it is practical Investments that no longer comply with the minimum credit rating criteria must be sold within two months of the downgrade being notified, unless Council formally approves the continued holding of the investment.

3.6 New Zealand Local Government Funding Agency (LGFA)

Despite anything mentioned earlier in this Investment Policy, the MDC 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. MDC's objectives 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 MDC.

Because of this duel objective, MDC 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, MDC may also subscribe for uncalled capital in the LGFA.

3.7 Interest Rate Risk Management

Interest rate risk refers to the impact that movements in interest rates can have on MDC's cash flows. MDC's financial investments give rise to direct exposure to interest rate movements. Interest rate risk is managed by MDC 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.

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

3.8 Equity Investments

MDC reviews the performance of the trading enterprises at least annually to ensure that strategic and financial objectives set are being achieved. In particular MDC reviews the financial returns and the present and future values of these investments.

Significant dispositions and acquisitions require Council approval.

All income is reflected in the consolidated MDC accounts with dividend income reflected in the MDC accounts as revenue.

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

3.9 Loans and Advances

These are made to:

- MDC's trading enterprises on an arms length basis and in accordance with normal commercial practice in accordance with the Matched Funding Facility Agreement in place.
- Community organisations 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. It is normal that MDC secures loans and advances against the assets of the organisation and obtains personal guarantees where appropriate. MDC as a rule is not a lender of money.

Interest and principal repayments are monitored to ensure they comply with loan agreements.

4. Foreign Exchange Policy

MDC may incur 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 NZD50,000 equivalent are hedged using foreign exchange contracts.

5. Policy Parameters for iReX Ferry Terminal Project (‘’iReX”)

The policy parameters for iReX being incorporated into MDC’s Treasury Policy is predicated on funding for the project being sourced from the Local Government Funding Agency (“LGFA”) by MDC and then on-lent to Port Marlborough NZ Limited (“PMNZL”).

The two principal risks that need to be addressed are funding and interest rate risk management, while an ancillary risk is that of cash management, this is due to the requirements associated with pre-funding.

5.1 Funding

Funding risk management for iReX centres around the following: -

- The need to avoid a concentration of funding risk which can involve an inability to obtain funding at a particular time and/or at a price that does not reflect the credit standing of MDC.
- The need to meet the liquidity requirements of Standard & Poors which involves pre-funding of rollover or new debt that is forecast to occur within the ensuing 12 months. If MDC were not to meet this requirement it could have an adverse effect on its credit rating which in the event of a downgrade would result in higher funding costs for both MDC and PMNZL

To manage the funding risk for iReX, the funding shall be spread over seven separate debt tranches of equal (or as near as possible) nominal amounts with maturities being on a common day and month one year apart. In addition forthcoming debt maturities that occur within a 12 month period shall be pre-funded, although if pricing for maturities that occur in excess of the 12 month period is attractive these maturities may also be pre-funded.

It is anticipated that funding for iReX will be obtained from the LGFA with the primary funding instrument being Floating Rate Notes (“FRN”). However in appropriate circumstances LGFA Commercial Paper (”CP”) and Fixed Rate Bonds (”FRB”) may also be used.

Pre-funding can be carried out in one of two ways, these are as follows: -

Funding at spot i.e obtaining the funding immediately and then placing it on deposit until the funds are required or funding using a forward start date coinciding with the time the funds are required.

Alternative funding sources such as bank debt and the capital markets may also be utilised after approval from the Board of PML and Council.

5.2 Cash Management associated with Pre-Funding

The use of pre-funding most commonly involves funding at spot and the placing the funds on term deposit. The investment parameters for the term deposits will be governed by the investment parameters of MDC which are contained in Appendix 3.5 of this policy.

5.3 Interest Rate Risk Management

Interest rate risk management associated with iReX involves aligning the interest rate component of the projects Weighted Average Cost of Capital (“WACC”) with an underlying interest rate hedging instrument. The resets are scheduled to occur every two years on a common anniversary date with the interest rate portion of the calculation based on the average of the New Zealand 10-year government bond rate for the 30 days preceding the reset.

To manage the interest rate risk for iReX, a 2-year borrowers swap shall be transacted on each business day for a period of 30 days preceding the bi- annual WACC reset. This will be achieved by instructing a New Zealand Registered Bank who MDC has as International Swap Dealers Association agreement with to execute a swap for an equal nominal amount on each business day and at the completion of the 30-day period to package the swap into one nominal interest rate being the average of the rates achieved.

By using this method Council replicates iReX’s reset rates and avoids a mismatch if for example only one swap was transacted on a specific date or only four swaps were transacted on a weekly basis.

It is acknowledged that there is a basis risk associated with this approach, in that the WACC is based off the 10-year government bond rate, but is reset every two years, hence the use of the 2 year swap. However this basis risk is unavoidable due to the methodology that is to be used for the interest rate portion of the WACC calculation. In a ‘normal’ interest rate environment where the yield curve is positive sloping, i.e lower short term rate and higher long term rates, MDC will receive a benefit in that the 2 year swap rate which is used for interest rate risk management process will be lower than the 10 year government bond rate. On the other hand, in a ‘abnormal’ interest rate environment where the yield curve in inverted, i.e higher short term rates and lower long term rates MDC will be at a disadvantage. To put this into context though over the last 23 years the yield curve has only been inverted twice, in 2008/2009 and 2022/2023.