TŪHONOTANGA MINITI ATTACHMENTS MINUTES

Te Miromiro - Assurance, Risk and Finance Committee Meeting

6 August 2025

Te Paeroa Kaupapa / Table of Contents

Public Excluded Te Miromiro - Assurance, Risk and Finance Committee Meeting Agenda 6 August 2025

6.2 TREASURY UPDATE

File Number: **A5272616**

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The Council is satisfied that, pursuant to the Local Government Official Information and Meetings Act 1987, the information to be received, discussed or considered in relation to this agenda item should not be made available to the public for the following reason/s:

s7(2)(h) the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities.

TAKE PŪRONGO / PURPOSE OF THE REPORT

The purpose of this report is to provide a treasury update to the Far North District Council Te Miromiro - Assurance, Risk, and Finance Committee (the Committee).

WHAKARĀPOPOTO MATUA / EXECUTIVE SUMMARY

During the 2024-25 financial year, Council was fully compliant across all treasury policies.

TŪTOHUNGA / RECOMMENDATION

That Te Miromiro - Assurance, Risk and Finance Committee receive the report Treasury Update.

TĀHUHU KŌRERO / BACKGROUND

Treasury compliance means an adherence to council's treasury policies, legislation, and financial best practice governing the management of Council's financial assets, liabilities, income, and expenditure.

It ensures that Council's funds are managed appropriately and prudently. In doing so, it safeguards public resources and provides a framework against which financial risk can be monitored. Therefore, maintaining treasury compliance is crucial in:

(1) upholding public trust,

(2) ensuring legal and regulatory adherence,

(3) supporting the council's ability to deliver services efficiently by ensuring financial stability and sustainability.

As at 31 May 2025, Councils borrowings were $155m, with $45m due within 12 months (current), and $110m due beyond 12 months (non-current).

Current council borrowings (draft unaudited as at 31 May 2025)

	Council	
	2025 $000s	**2024 $000s**
Maturity periods		
Payable no later than 1 year	45,000	61,000
Later than 1, not later than 2 years	20,000	10,000
Later than 2, not later than 5 years	50,000	40,000
Later than 5 years	40,000	20,000
	155,000	131,000

This maturity profile is shorter than might normally be expected, due largely to expectation of the decreasing interest rates climate in NZ over the last year.

The weighted average effective interest rates on secured loans (current and non-current) were:		
	2025	**2024**
Secured loans and debentures	4.06%	4.62%

Financial ratios

Ratios are key tools in measuring treasury compliance as they provide a clear and quantifiable insight into the financial health and performance of Council. Key ratios include:

- **Debt affordability benchmark (Net debt as a % of total revenue):**

  Indicates Council's leverage and its capacity to manage debt relative to its income, for assessing long-term financial sustainability.
- **Balanced budget benchmark (Total revenues over total expenses):** The balanced budget benchmark demonstrates Council's financial management by confirming that it has funded its operations without incurring deficits.
- **Debt servicing benchmark (Net annual interest to total revenue):** Evaluates the burden of interest payments on total revenue, reflecting the cost and efficiency of debt servicing.
- **Debt control benchmark (Actual net debt over planned net debt):** The debt control benchmark assesses whether the council's actual net debt is within the limits of its planned net debt, ensuring effective debt management and adherence to financial plans.

Council demonstrates compliance with these key financial ratios.			
Ratio	**2024/25**	**Limit**	**2023/24**
Debt affordability ratio	84.84%	Statutory limit: Debt not greater than 280% of revenue Policy limit: Debt not greater than 175% of revenue	66%
Balanced budget ratio	1.03	Statutory limit: > 1 Revenue exceeds operating expenses	1.01
Debt servicing ratio	3.72%	Statutory Limit: Less than 10%	3%
Debt control ratio	0.69	Statutory limit: < 1 Actual net debt is less than or equal to planned net debt	0.81

The above information will be updated next month for the June month end of year financial position and then be subjected to audit finalisation.

Bancorp Treasury Market Update

As part of Council treasury management, Council consults with treasury advisors Bancorp for refinancing and new borrowings. Bancorp provides professional advice around the debt terms, considering various factors including market assessment, current debt portfolio and associated maturities, treasury policies, and best practice.

Bancorp provides a full range of independent corporate treasury and cash management services, delivered by a team of professional treasurers.

Earl White, Executive Advisor at Bancorp, the Far North District Council's treasury advisors, will share a treasury update to the Committee. The presentation will focus on a market update and current and projected borrowing outlook.

Far North District Holdings Treasury Update

Far North Holdings Ltd (FNHL) Finance Director, will present a Treasury Update from FNHL, including a review of FNHL Treasury Policy by Bancorp.

MATAPAKI ME NGĀ KŌWHIRINGA / DISCUSSION AND NEXT STEPS

N/A

PĀNGA PŪTEA ME NGĀ WĀHANGA TAHUA / FINANCIAL IMPLICATIONS AND BUDGETARY PROVISION

N/A

ĀPITIHANGA / ATTACHMENTS

1. **Council Treasury,-Liability-and-Investment-policies - A5287713** ⇩
2. **FNHL - Treasury Report 5 June 2025 - A5289246** ⇩
3. **FNHL - Bancorp's Treasury Policy Review Summary - Confidential - A5289244** ⇩

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NGĀ KAUPAPAHERE MŌ TE PŪTEA MATUA, NGĀ PŪNAMA ME NGĀ HAUMITANGA

TREASURY, LIABILITY AND INVESTMENT POLICIES

Contents

Introduction

This document includes the overarching Treasury, Liability Management and Investment Policies of the Council (“the Policy”).

Policy purpose

The purpose of the Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Council. The formalisation of these policies and procedures will enable treasury risks within Council to be prudently managed.

As circumstances change, the Policy will be modified to ensure that treasury risks continue to be well managed. Council ensures there is periodic reviews of this policy by an appropriate external party.

The review will test the existing policy against the following criteria:

- Industry best practices for a council of similar size and type to the Far North District Council
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers
- The effectiveness and efficiency of the Treasury Policy and treasury management function to recognise, measure, control, manage, and report on Council’s financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks, and other associated risks
- The operation of a pro-active treasury function in an environment of control and compliance
- The robustness of the policy’s risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.

This Policy version was reviewed by Earl White, from the Council’s independent treasury advisor Bancorp Treasury Services Limited (“Bancorp”) and has been confirmed by Bancorp as meeting market best practice.

Scope

- This Policy identifies the policies and procedures of Council in respect of treasury management activities
- The policy has not been prepared to cover other aspects of Council’s operations, particularly transactional banking management, systems of internal control and financial management. Other Council policies and procedures cover these matters
- Planning tools and mechanisms are also outside of the scope of this policy.

Objectives

The objective of this Policy is to control and manage costs and investment returns that can influence operational budgets and public equity.

Statutory objectives and related controls

Council is governed by the following relevant legislation:

a. LGA, in particular Part 6 including sections 101,102,104 and 105 and Subpart 4 Sections 112 to 122
b. Trustee Act 1956. Details of relevant Sections can be found in the Trustee Act 1956 Part ll Investments
c. Public Bodies Lease Act 1969 and Property Law Act 2007.
   - All projected borrowings are to be approved by Council as part of the LTP or Annual Plan process, or by resolution of Council before the borrowing is undertaken
   - All legal documentation in respect to borrowing and financial instruments other than via the LGFA, which has its own legal review processes that Council can access, will be approved by Council's in- house solicitors prior to the transaction being executed
   - Council will not enter into any borrowings denominated in a foreign currency
   - Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself
   - A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
     i. The period of indebtedness is less than 91 days
     ii. (including rollovers)
     iii. The goods or services are obtained in the ordinary course of operations on normal terms for durations not exceeding the economic life of the asset.

General objectives

- To manage debt to optimise the cost of funding in the long-term whilst balancing risk and cost considerations
- Monitor, evaluate and report on treasury performance
- Borrow funds and transact risk management instruments within an environment of control and compliance under Council approved Treasury Policy so as to protect Council's financial assets and costs
- Arrange and structure long-term funding for Council at the lowest achievable interest margin from debt lenders in line with Council's credit characteristics
- Optimise flexibility and spread of debt maturity within the funding risk limits established by this policy
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/ security arrangements
- Manage interest rate risk within the parameters detailed in this policy
- Comply with financial ratios and limits stated within this policy
- Monitor Council's return on investments

- Ensure Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements
- To manage investments to optimise returns in the long- term whilst balancing risk and return considerations
- To minimise exposure to credit risk by only dealing with approved credit worthy counterparties
- Ensure that all statutory requirements of a financial nature are adhered to
- To ensure adequate internal controls exist to protect council's financial assets and to prevent unauthorised transactions
- Develop and maintain relationships with financial institutions, investors, and investment counterparties.

Overview of management structure

The treasury responsibilities of the Council and Chief Executive are detailed below. Other management responsibilities are outlined in the Treasury Procedures Manual ("TPM").

Council

Council has ultimate responsibility for ensuring that there is an effective policy for the management of its risks. In this respect, Council decides the level and nature of risks that are acceptable, given the underlying objectives of Council.

Council is responsible for approving this Policy. While the policy can be reviewed and changes recommended by other persons, the authority to make or change policy cannot be delegated. Council should also ensure that:

It receives regular information from management on treasury risk exposures and financial instrument usage in a form that is understood, and that enables it to make informed judgements as to the level of risk accepted; issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved in a timely manner;

Submissions are received from management requesting approval for any treasury transactions falling outside the controls detailed in this policy.

Chief Executive Officer (CEO)

While Council has ultimate responsibility for the policy governing the management of Council's risks, including treasury risks, it delegates overall responsibility for the management of treasury risks to the CEO. The CEO can sub-delegate these responsibilities to members of the executive team.

Delegations are detailed in the TPM.

Delegation of authority and authority limits

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of apparent authority. Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays). Specific procedures are outlined in the TPM.

Liability Management Policy

Council's liabilities comprise borrowings and various other liabilities. Council maintains borrowings in order to:

- Raise specific debt associated with projects and capital expenditures
- Raise finance leases for fixed asset purchases
- Fund assets whose useful lives extend over several generations of ratepayers.

Borrowing limits

Debt will be managed within the following macro limits as shown in the following table.

Ratio	Target policy limits
Net debt as a percentage of equity	<10%
Net debt as a percentage of total revenue	<280%*
Net interest as a percentage of total revenue	<10%*
Net interest as a percentage of annual rates income (debt secured under debenture)	<25%
Liquidity (external term debt + committed loan facilities + liquid investments to existing external debt	>110%
Excludes non-government capital contributions from revenue and government contributions netted from debt but excluded from revenues.	

Notes:

- Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial, and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net debt is defined as total consolidated debt less liquid financial assets and investments.
- Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.
- Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002, together with any revenue received from other local authorities for services provided and for which the other local authorities rate.
- Financial covenants are measured on council only, not the consolidated group.
- Disaster recovery requirements are to be met through the liquidity ratio.

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Asset Management Plans

In approving new debt, council considers the impact on its borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP.

Borrowing mechanisms

Council is able to borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP), debentures, direct bank borrowing, Local Government Funding Agency (LGFA), accessing the short and long-term wholesale/retail debt capital markets directly or indirectly, or internal borrowing of reserve and special funds.

When evaluating strategies for new borrowing (in relation to source, term, size and pricing) a number of factors are considered to ensure the overall debt management objectives are achieved.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing, and manage its relationships with its investors and financial institutions.

Security

Council's external borrowings and interest rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a deed of charge, debenture or debenture trust deed. Under a deed of charge, debenture or debenture trust deed, Council's borrowing is secured by a floating charge over all council rates, levied under the Local Government (Rating) Act 2002. The security offered by council ranks equally or pari passu with other lenders.

From time to time, and with Council approval, security may be offered by providing a charge over 1 or more of Councils assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance)
- Council considers a charge over physical assets to be appropriate
- Any pledging of physical assets must comply with the terms and conditions contained within the deed of charge.

Debt repayment

The funds from all asset sales and operating surpluses will be applied to the reduction of debt and/or a reduction in borrowing requirements, unless Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or renegotiated as and when appropriate.

Council will manage debt on a net portfolio basis.

Contingent liabilities

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, trusts, or business units, when the purposes of the loan are in line with Council's strategic objectives.

Council is not allowed to guarantee loans to Council Controlled Trading Organisations under Section 62 of the LGA.

Financial arrangements include:

- Tenant contribution flats
- Advances to community organisations.
- Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed NZ$1 million in aggregate over and above the existing loan guarantee to the Kerikeri Civic Centre Trust (currently $1.1 million).

New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this policy, Council may resolve to borrow from the New Zealand Local Government Funding Agency Limited ("LGFA") and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

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

Investment policy and limits

General policy

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and regularly reported to Council. Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's Long-Term Plan
- To reduce the current ratepayer burden
- The retention of vested land
- Holding short-term investments for working capital requirements

- Holding investments that are necessary to carry out council operations consistent with annual plans
- Invest amounts allocated to accumulated surplus, council created restricted reserves and general reserves
- Invest proceeds from the sale of assets.
- Council recognises that as a responsible public authority, all investments held should be low risk. Council also recognises that low risk investments generally mean lower returns.

Objectives

In its financial investment activity, council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy. Accordingly, only approved creditworthy counterparties are acceptable.

Council will act effectively and appropriately to:

- Protect council's investments by only transacting with counterparties and instruments that are detailed in this policy to ensure investments are risk averse and secure
- Ensure the investments benefit council's ratepayers
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

Acquisition of new investments

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

The authority to acquire financial investments is delegated to the GMCS.

Investment mix

Council may maintain investments in the following assets from time to time:

- Equity investments, including investments held in CCO/ CCTO and other shareholdings
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development
- Forestry investments
- Financial investments
- Other investments approved by Council.

Equity investments

Council maintains equity investments and other minor shareholdings.

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Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the LTP.

Council seeks to achieve an acceptable rate of return on all its equity investments, consistent with the nature of the investment and their stated philosophy on investments.

Dividends received from Council Controlled Organisations (CCO's) and unlisted companies, not controlled by Council, are recognised when they are receivable in the Consolidated Statement of Financial Performance.

Any purchase or disposition of equity investments requires Council approval, and any profit or loss arising from the sale of these investments is to be recognised in the Statement of Financial Performance.

Any purchase or disposition of equity investments will be reported to the next meeting of Council.

Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then included in the relevant consolidated capital account.

Council recognises that there are risks associated with holding equity investments and to minimise these risks Council monitors the performance of its equity investments on a twice-yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

Property investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. As a general rule, council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output of council. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of council services. Generally, Council follows similar assessment criteria in relation to new property investments.

Council reviews the performance of its property investments on a regular basis. All income, including rentals and ground rent from property investments, is included in the Consolidated Statement of Financial Performance.

Forestry

Forestry assets are held as long-term investments on the basis of net positive discounted cash flows, factoring in projected market prices, and annual maintenance, and cutting costs.

All income from forestry is included in the Consolidated Statement of Financial Position.

Any disposition of these investments requires Council approval. Unless otherwise directed by Council, the proceeds from forestry disposition are used firstly to repay related borrowings and then included in the relevant consolidated capital account.

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Financial investments

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Any liquid investments must be restricted to a term of no more than 12 months and must be with an approved counterparty
- Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds, and other funds where interest may be credited to the particular fund
- Internal borrowing will be used as appropriate to minimise external borrowing.

Financial investment objectives

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in Counterparty Credit Risk section. Credit ratings are monitored and any changes reported to Council.

Council may invest in approved financial instruments as set out in the approved financial instruments section. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.

Special funds, reserve and endowment funds

Liquid assets are not required to be held against special funds and reserve funds. Instead, Council will internally borrow or utilise these funds wherever possible.

Unless otherwise directed by Council, internal borrowing to/from reserves will be undertaken at the external cost of borrowing, or in accordance with the fund agreements.

Trust funds

Where Council hold funds as a Trustee, or manages funds for a Trust, then such funds must be invested on the terms provided within the Trust. If the Trusts' Investment Policy is not specified, then this policy should apply.

New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this policy, Council may invest in shares and other financial instruments of the LGFA and may borrow to fund that investment.

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

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

Because of these dual objectives, Council may resolve to invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, Council may subscribe for uncalled capital in the LGFA and be a guarantor.

Risk management

The definition and recognition of interest rate, liquidity, funding, investment, counterparty credit, market, operational and legal risk of council will be as detailed below and applies to both the Liability Management Policy and Investment Policy.

Risk recognition

Interest rate risk

Interest rate risk is the risk that funding costs or investment returns (due to adverse movements in market interest rates) will materially exceed or fall short of projections included in the LTP and Annual Plan, so as to adversely impact revenue projections, cost control, and capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or funding costs.

Certainty around funding costs is to be achieved through pro-active management of underlying interest rate exposures.

Approved financial instruments

Dealing in interest rate products must be limited to financial instruments approved by Council. Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance or similar LGFA provided facilities (short term and long-term loan facilities) Uncommitted money market facilities Retail and Wholesale Bond and Floating Rate Note (FRN) issuance and commercial paper (“CP”)
Investments (term <12 months)	Call Deposits, Short-term bank deposits (“TDs”)
Investments	LGFA borrower notes/CP/bills/bonds
Interest rate risk management	Interest rate swaps including: • Forward start swaps (start date <24 months) • Amortising swaps (whereby notional principal amount reduces) • Interest rate swap options (purchased swap options and 1 for 1 collars only)

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

All investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

- Structured debt where issuing entities are not a primary borrower/issuer

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- Subordinated debt, junior debt, perpetual notes and hybrid notes such as convertible notes.

Interest rate risk control limits

Net debt/borrowings

Fixed rate is defined as an interest rate re-pricing date (beyond 12 months forward) on a continuous rolling basis.

Floating rate is defined as an interest rate re-pricing within 12 months.

The percentages are calculated on the rolling 12 month projected net debt level calculated by management (signed off by the CEO, or equivalent). Net debt is the amount of total debt net of liquid financial assets/ investments, cash / cash equivalents. This allows for pre hedging in advance of projected physical drawdown of new debt.

The fixed rate amount at any point in time should be within the following maturity bands:

Fixed rate maturity profile limit

Period	Minimum cover	Maximum cover
Year 1	40%	100%
Year 2 & 3	30%	80%
Year 4 & 5	10%	60%
Years 6 to 10	0%	40%
10 years plus	Council approval	Council approval

- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months
- Any interest rate swaps with a maturity beyond 10 years, must be approved by Council
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. re-purchased); otherwise both sides must be closed simultaneously
- Purchased borrower swap options mature within 12 months
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 1% above the appropriate swap rate at inception, cannot be counted as part of the fixed rate cover percentage calculation
- Forward start period on swaps and collar strategies to be no more than 24 months, and the underlying cap or swap starts within this period.

Financial investment risk

Council manages short term cash investment risk ensuring availability and access to financial investments held. In order to manage short-term cash risk, financial investments are required to have a term to maturity of less than 12-months.

Liquidity risk / funding risk

Risk recognition

Cash flow deficits in various future periods, based on long-term financial forecasts, are reliant on the maturity structure of cash, financial investments, loans, and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to refinance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

The management of Council's funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

- Local Government risk is priced to a higher fee and margin level
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons
- A large individual lender to council experiences financial/exposure difficulties, resulting in council not being able to manage their debt portfolio as optimally as desired
- New Zealand investment community experiences a substantial over supply of council investment assets.
- A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at a point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

Liquidity/funding risk control limits

- External term loans and committed debt facilities together with available liquid investments must be maintained at an amount of 110% over existing external debt
- Council has the ability to prefund up to 12 months forecast debt requirements including re financings
- The GMCS has the discretionary authority to refinance existing debt on the same or more favourable terms if within current Annual Plan or LTP approved debt levels. .
- Such action is to be reported and ratified by Council at the earliest opportunity.
- No more than $100 million of external debt can mature over the next 12 months or any rolling 12 month period thereafter.

Special and general reserve funds

Given that Council may require funding for capital expenditure cash shortfalls over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary, they should be used for internal borrowing purposes when external borrowing is required. Accordingly, Council maintains its funds in short-term maturities, emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds is therefore a secondary objective.

This will negate counterparty credit risk and any interest rate repricing risk that occurs when Council borrows at a higher rate compared to the investment rate achieved by Special/Reserve Funds.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using internal borrowing facilities.

Counterparty credit risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where council is a party. The credit risk to council in a default event will be weighted differently, depending on the type of instrument entered into.

Credit risk will be regularly reviewed by Council. Treasury related transactions would only be entered into with organisations specifically approved by Council.

Counterparties and limits can only be approved on the basis of either long-term credit ratings of A (Standard & Poor's or Fitch) and above or short-term rating of A 1 or above (Standard & Poor's).

Limits should be spread amongst a number of counter- parties to avoid concentrations of credit exposure.

The following matrix guide will determine limits:

Counterparty/Issuer	Minimum long-term/ short-term credit rating – stated and possible	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)
NZ Government	N/A	500	none
Local Government Funding Agency (LGFA)	N/A	500	20
NZ Registered Bank	A/ A-1	30	20
Local Government Stock/ Bonds/FRN/ CP	A/ A-1 or rates as security	30	none
NZ Corporate CP*	A/ A-1	2	none

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

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- Investments (e.g. bank deposits) – Transaction Notional x Weighting 100% (Unless a legal right of set off over corresponding borrowings exit whereupon a 0% weighting may apply)
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional x Maturity (years) x 3%
- Foreign Exchange – Transactional principal amount x the square root of the Maturity (years) x 15%.

Operational procedures around the management and reporting of Counterparty Credit Risk are detailed in the TPM.

Risk management

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

Foreign currency

Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

Generally, all significant (in excess of NZD100,000 equivalent) commitments for foreign exchange must be hedged using foreign exchange contracts, once expenditure is approved. Both spot and forward foreign exchange contracts can be used by council.

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

Operational risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures, and inadequate procedures and controls.

Operational risk is very relevant when dealing with financial instruments given that:

- Financial instruments may not be fully understood
- Too much reliance is often placed on the specialised skills of 1 or 2 people
- Most treasury instruments are executed over the phone
- Operational risk is minimised through the adoption of all requirements of this policy
- The management of this risk is detailed in the TPM.

Dealing authorities and limits

Transactions will only be executed by those persons and within limits as detailed in the TPM.

Segregation of duties / procedures / reporting

As there are a small number of people involved in treasury activity, adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting is not strictly achievable. The risk will be minimised by the following process:

- The CFO reports to the GMCS
- There is a documented approval process for borrowing, interest rate, and investment activity
- The TPM is prepared by the CFO and reviewed and approved by the GMCS as appropriate, but at least tri-annually in line with the review requirements of this policy document. This details the day-to–day operational requirements and activities undertaken by specific personnel and how appropriate segregation of duties is achieved
- Reporting requirements are reviewed by the GMCS in consultation with senior management and Council annually. Actual reporting requirements are detailed in the TPM.

Agreements

Financial instruments can only be entered into with banks that have in place an executed International Swap and Derivatives Association (ISDA) Master Agreement with Council.

Council's internal/appointed legal counsel must sign off on all documentation for new loan borrowings, refinancing, and investment structures.

Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

Measuring Treasury performance

Those performance measures that provide a direct measure of the performance of treasury staff, (operational performance and management of debt and interest rate risk) are to be reported to Council or an appropriate sub- committee of Council on a quarterly basis.

Operational performance

All treasury limits must be complied with, including (but not limited to) counterparty credit limits, dealing limits, and control limits. All treasury deadlines are to be met, including reporting deadlines.

Management of debt and interest rate risk

The actual borrowing cost for Council (taking into consideration costs of entering into interest rate risk management transactions) is compared to budgeted borrowing costs in the current Annual and Long-Term plans.

Cash management

All cash inflows and outflows pass through bank accounts controlled by the finance function.

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Accounting treatment of financial instruments

Council uses financial market instruments for the primary purpose of reducing its exposure to fluctuations in interest rates. The accounting treatment for such financial instruments is to follow IFRS accounting standards.

Valuation of treasury instruments

All treasury financial instruments must be revalued (marked to market) by an independent party annually for risk management purposes. This includes those instruments that are used only for hedging purposes.

Policy review

The Treasury Policy is to be formally reviewed on a triennial basis.

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

LGFA Lending Policy

When dealing with the LGFA the Council operates under the guidelines within the LGFA lending policy to the Local Government sector. These are detailed in the TPM and are updated as required. They are available for review on the LGFA website. www.lgfa.co.nz/for-investors/risk-management

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Te Miromiro Assurance, Risk and Finance Committee

6 August 2025

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Section One - Market Update

2

Key developments/Outlook

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- Europe and Japan have agreed to 15% tariffs and at the time of writing a 90-day extension to the pause in Chinese tariffs (expiring early August) was almost certain. New Zealand stuck with 15% as well.
- Investors are now more focused on hard data to validate the economic and policy outlook, rather than over-interpreting trade agreements and this has helped US bond yields fall over recent weeks.
- The US Federal Reserve left its cash rate target unchanged at 4.25% to 4.50% in late July with financial markets pricing in 0.50% of cuts (to a 3.75% to 4.00% range) by the end of this year.
- A cut in late August to 3.00% by the RBNZ is fully priced in with the OCR projected to bottom out around 2.75% in Q1 2026.
- While export prices remain strong, households remain under pressure with higher food prices, higher insurance and energy costs and a still weakening housing market pressurising discretionary spending levels.
- Our base scenario for local economy for 2025 is lackluster, despite OCR declines, with recovery penciled in for second half of 2026.

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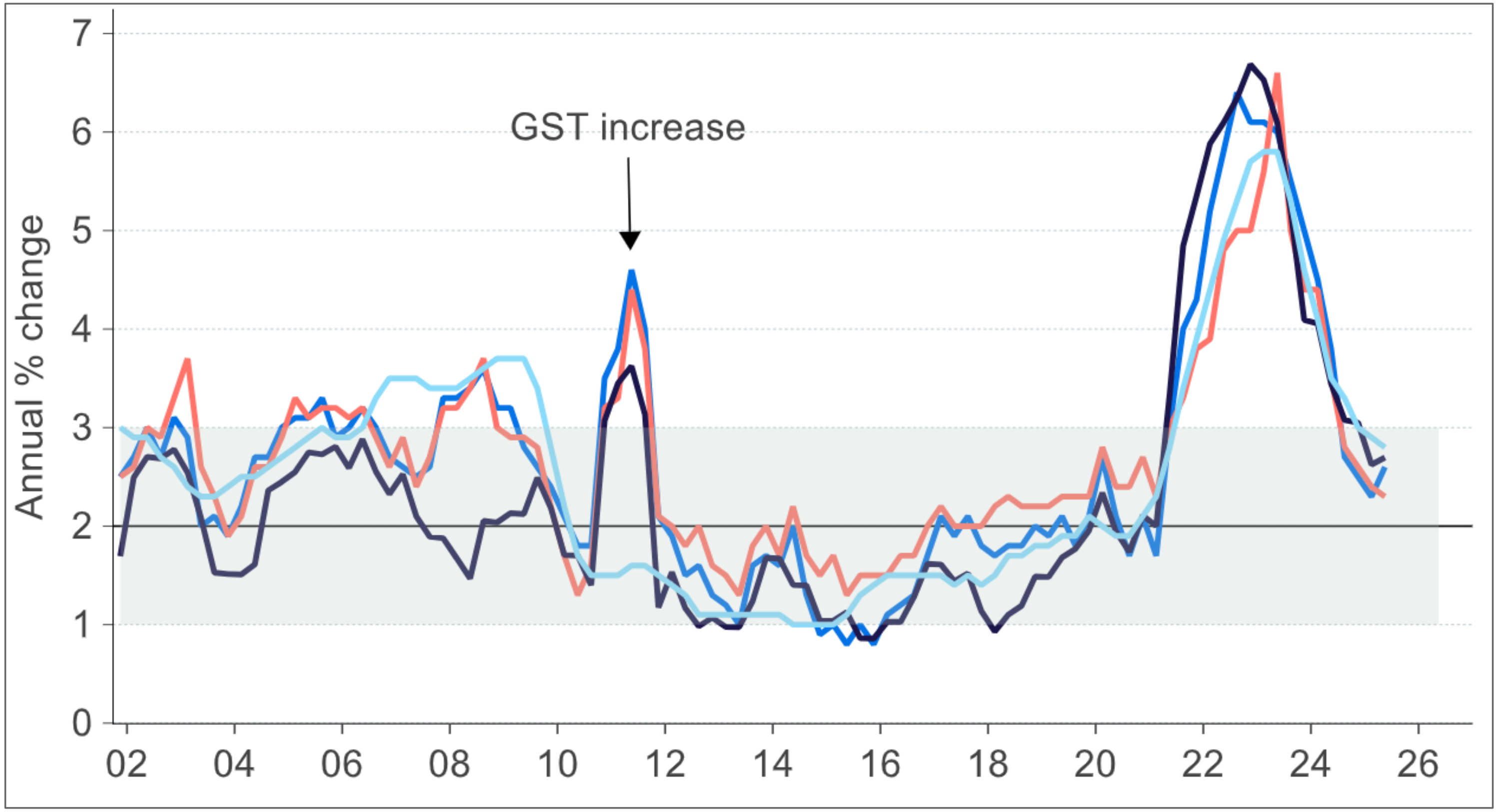
June quarter CPI supports August OCR cut

4



Trimmed mean inflation (30%) Weighted median Ex-food, fuel, & energy
Sectoral Factor Model CPI target band

Source: Stats NZ, RBNZ, Macrobond, ANZ Research

- Within RBNZ's target range and in line with its May projections which implied sub-3.00% OCR..

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OCR projections – 3.00% locked in….2.75% maybe

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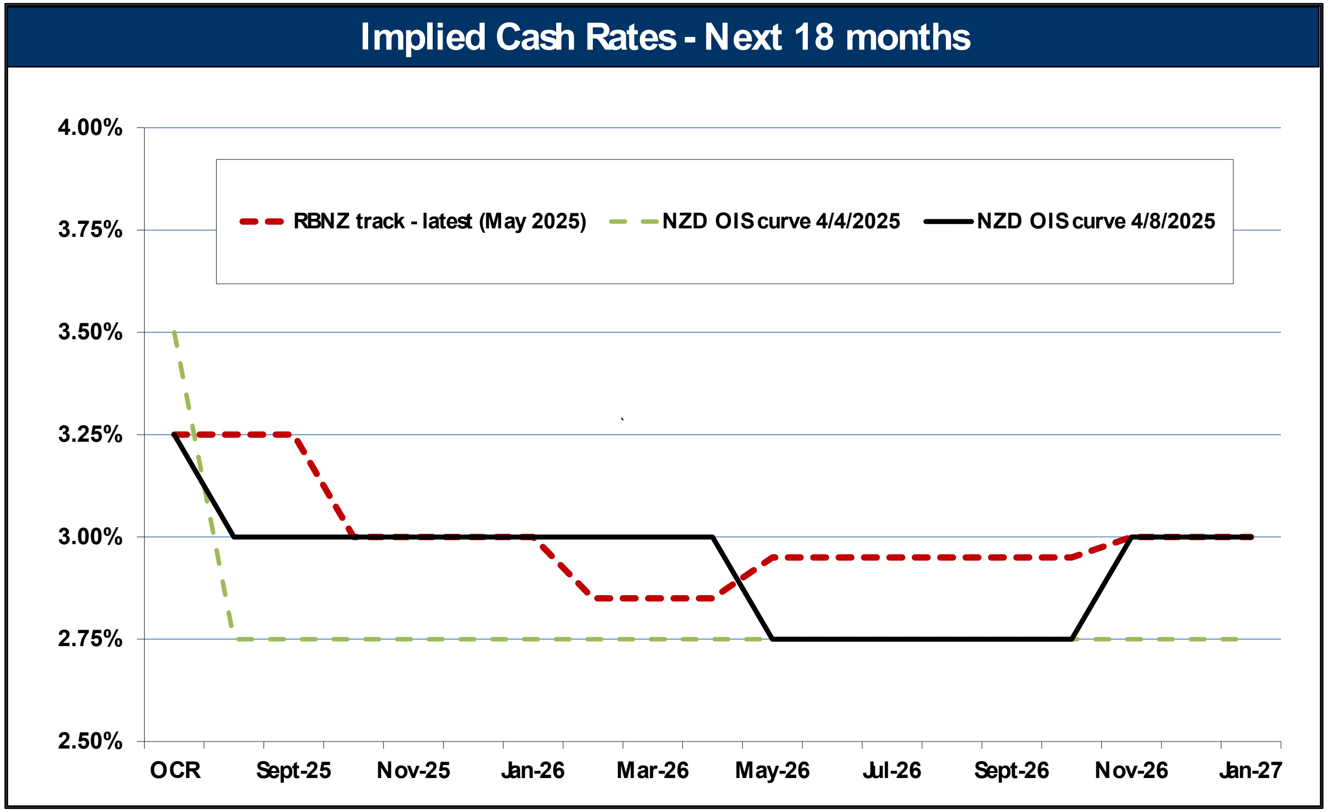

- RBNZ will outdate its outlook at end of this month, and we suspect it will continue to imply a circa 50% chance of a 2.75% bottom this cycle.
- Market pricing in line with this with ongoing weakness within domestic economy and a fragile global outlook offsetting strong export prices.

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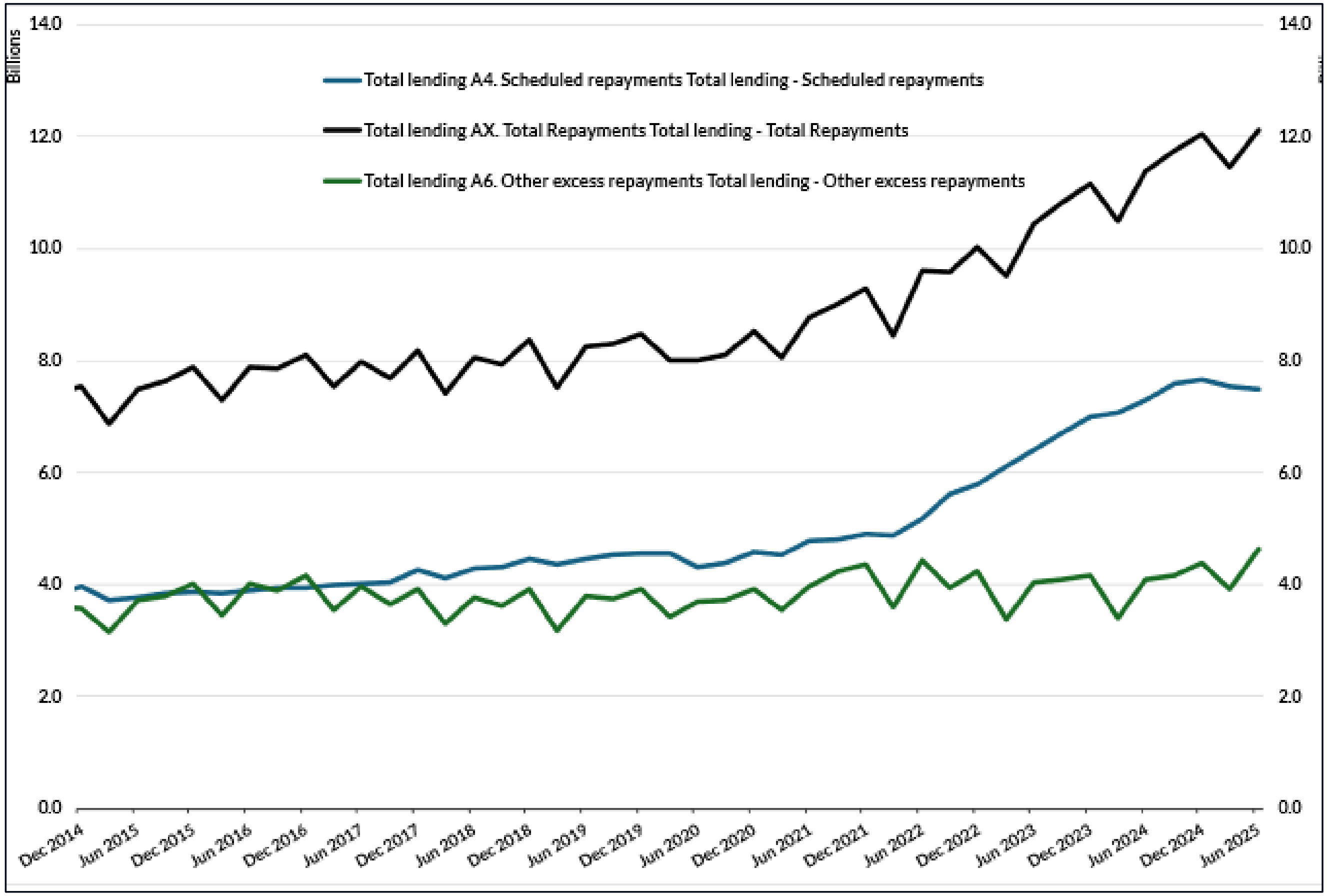
NZ consumer confidence still negative

6

Source: Roy Morgan, Macrobond, ANZ Research

Lower mortgage rates applied to principal repayments

7



- Household mortgage payments remains high with excess repayment at a record

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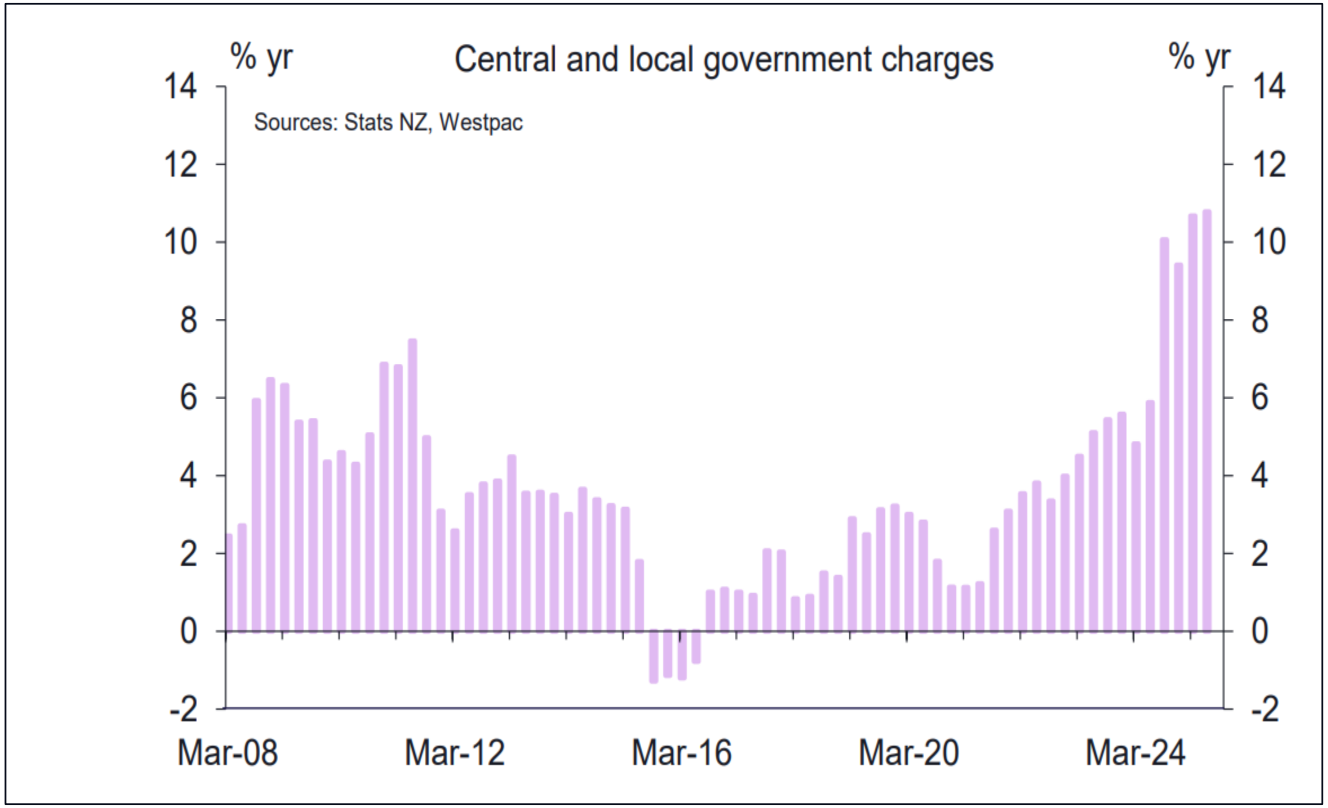
Govt and Council charges hitting households

8



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Card Spending flat despite lower OCR

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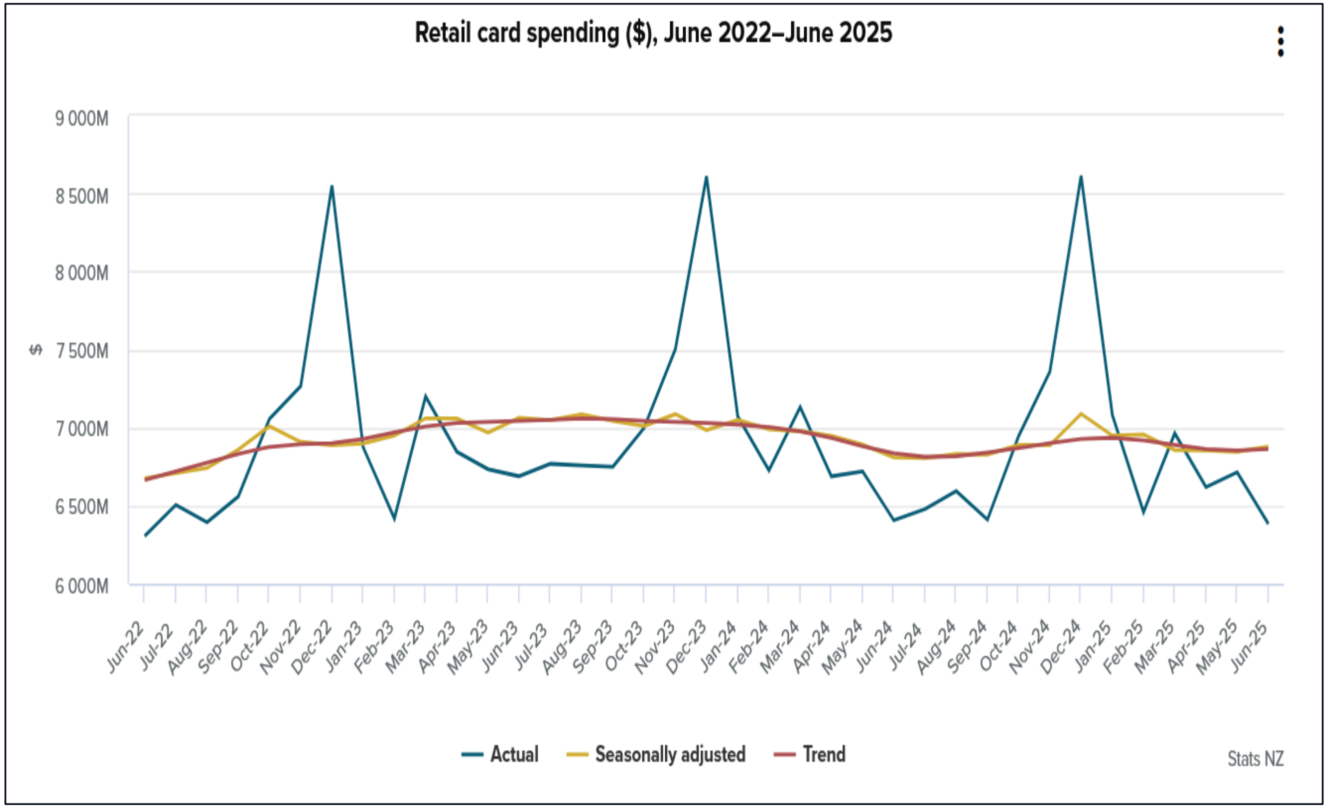

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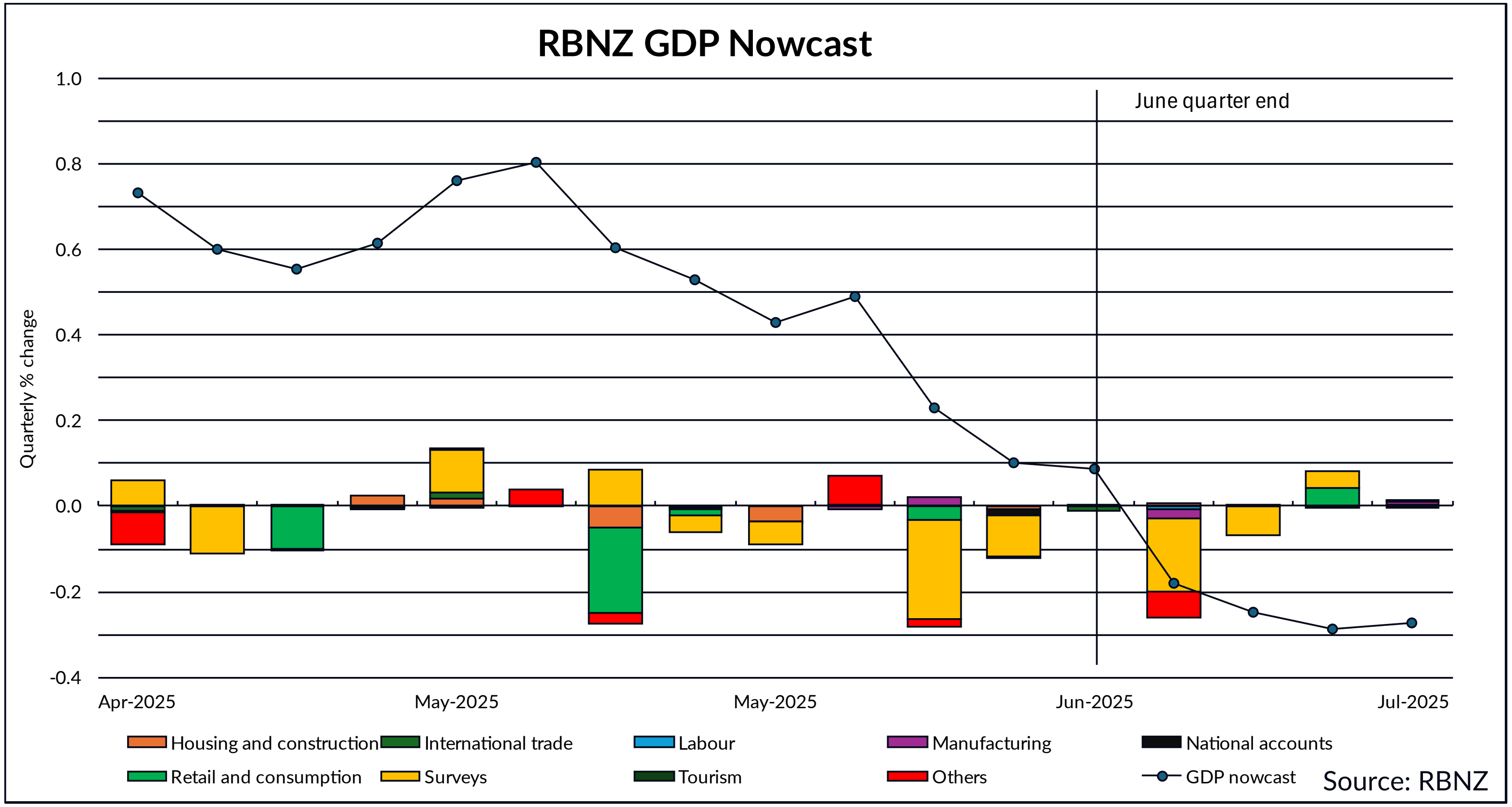
Back to contraction?

10



- After growing 0.8% in the March quarter, recent economic data has indicated possible contraction over the June quarter of 2025.

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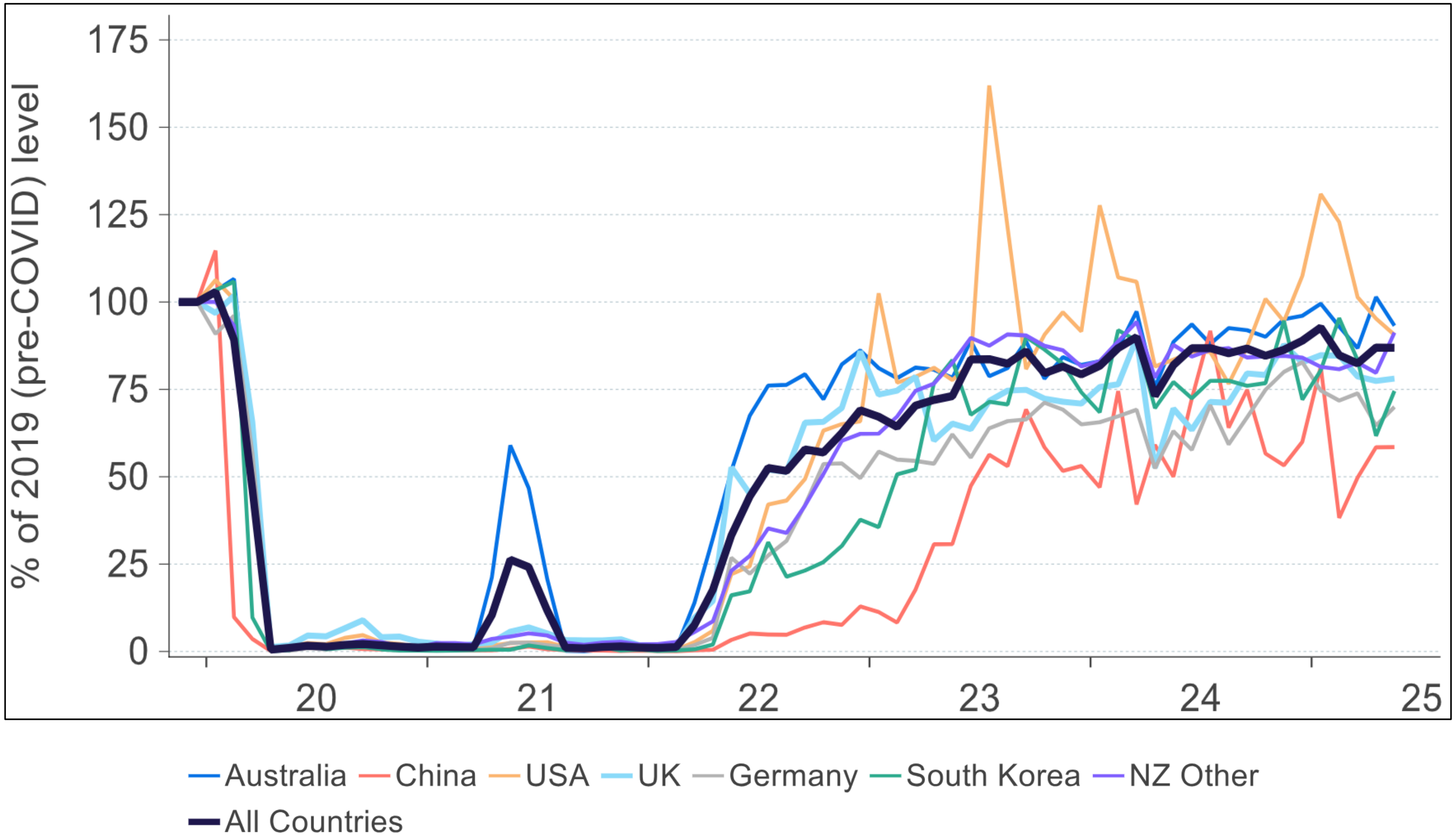
Tourism recovery stalled?

11



Source: Stats NZ, ABS, Macrobond, ANZ Research

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Lending still biased towards housing

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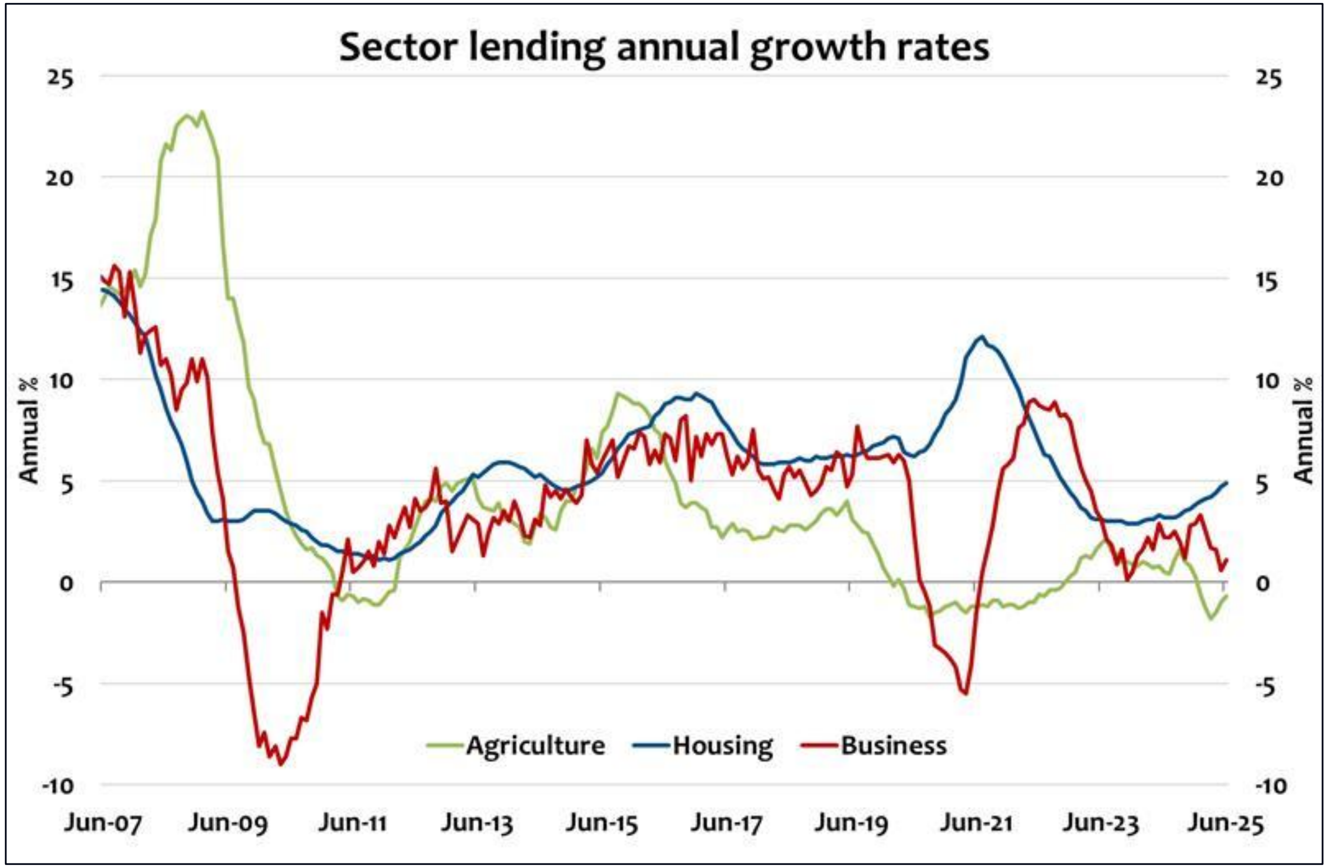

Source: RBNZ

- Lending to productive sector woeful

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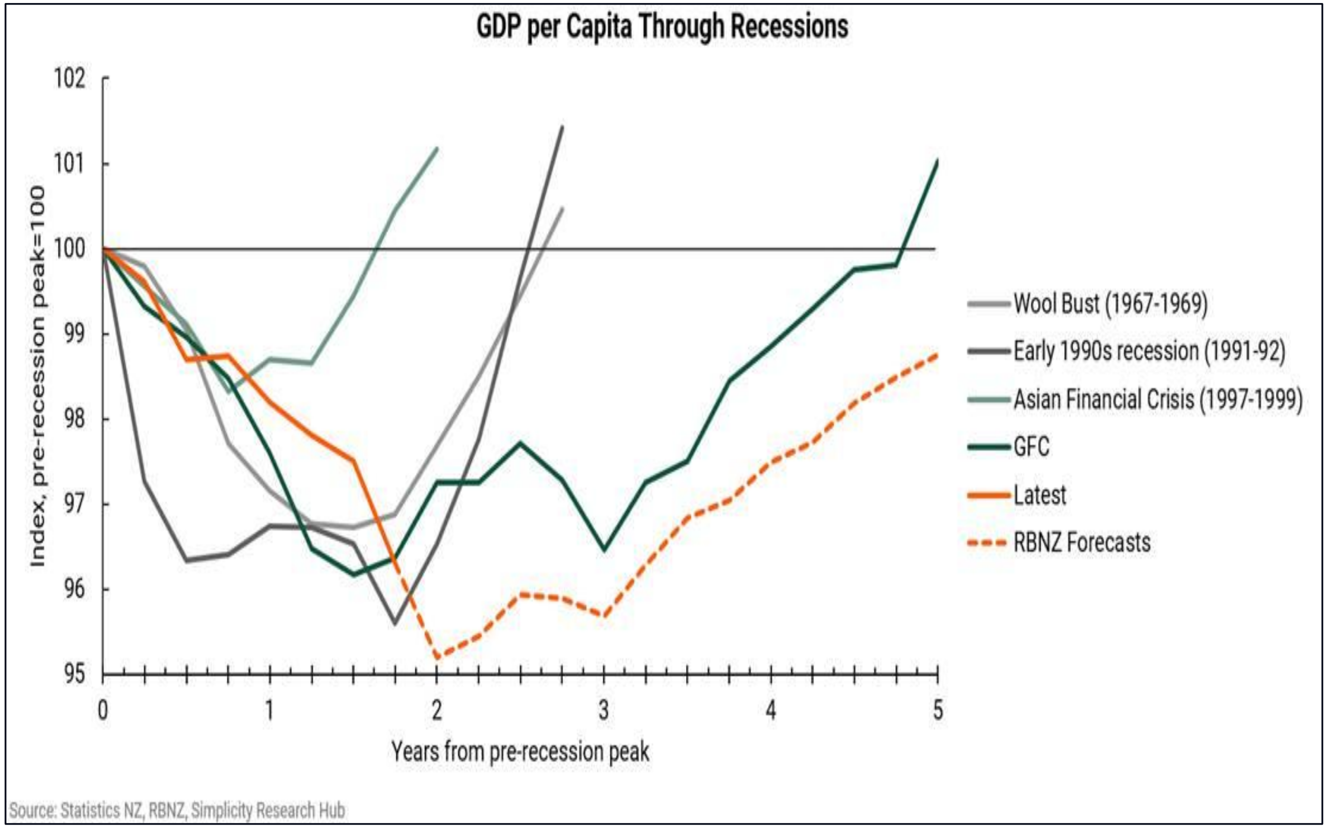
GDP per capita shows scale of latest downturn

13



- Productivity growth woeful so immigration meant more people and all a little poorer

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NZ Commodity Price Index

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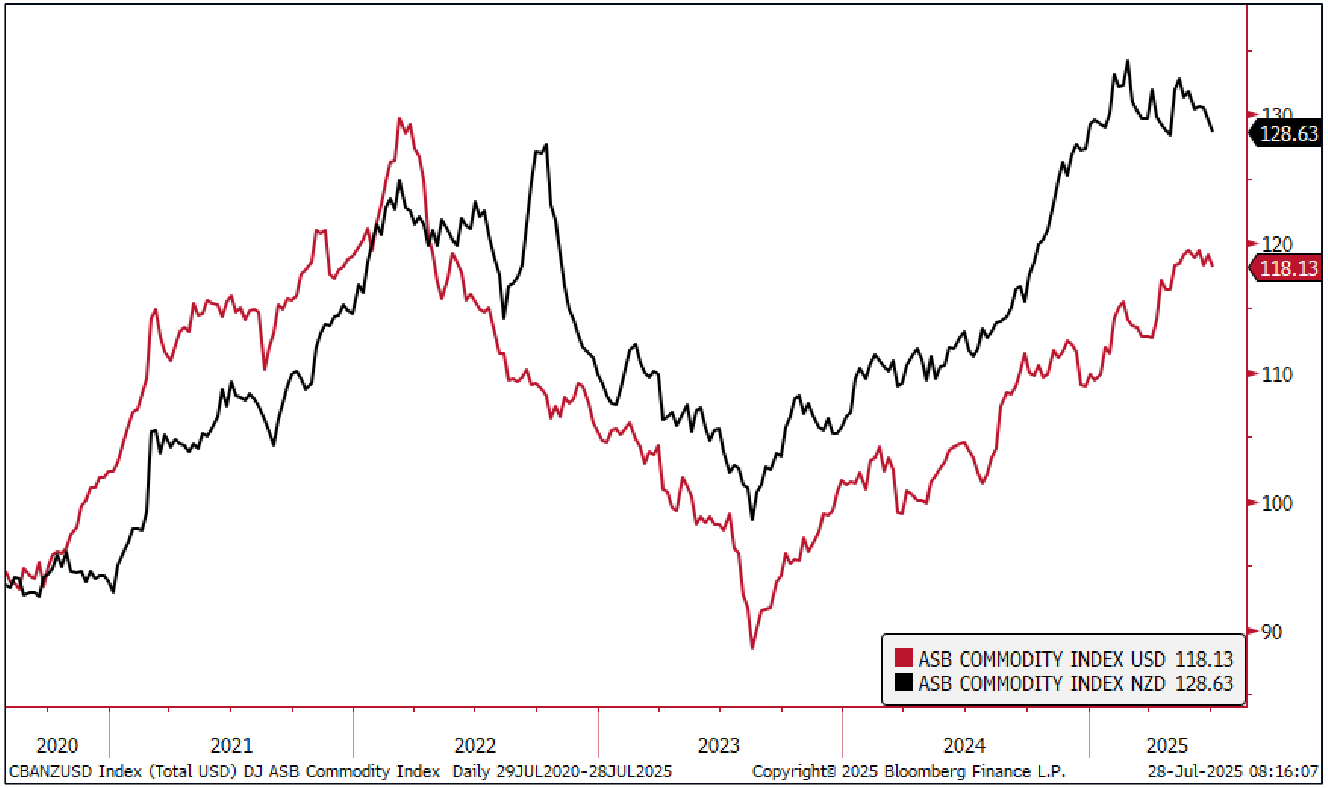

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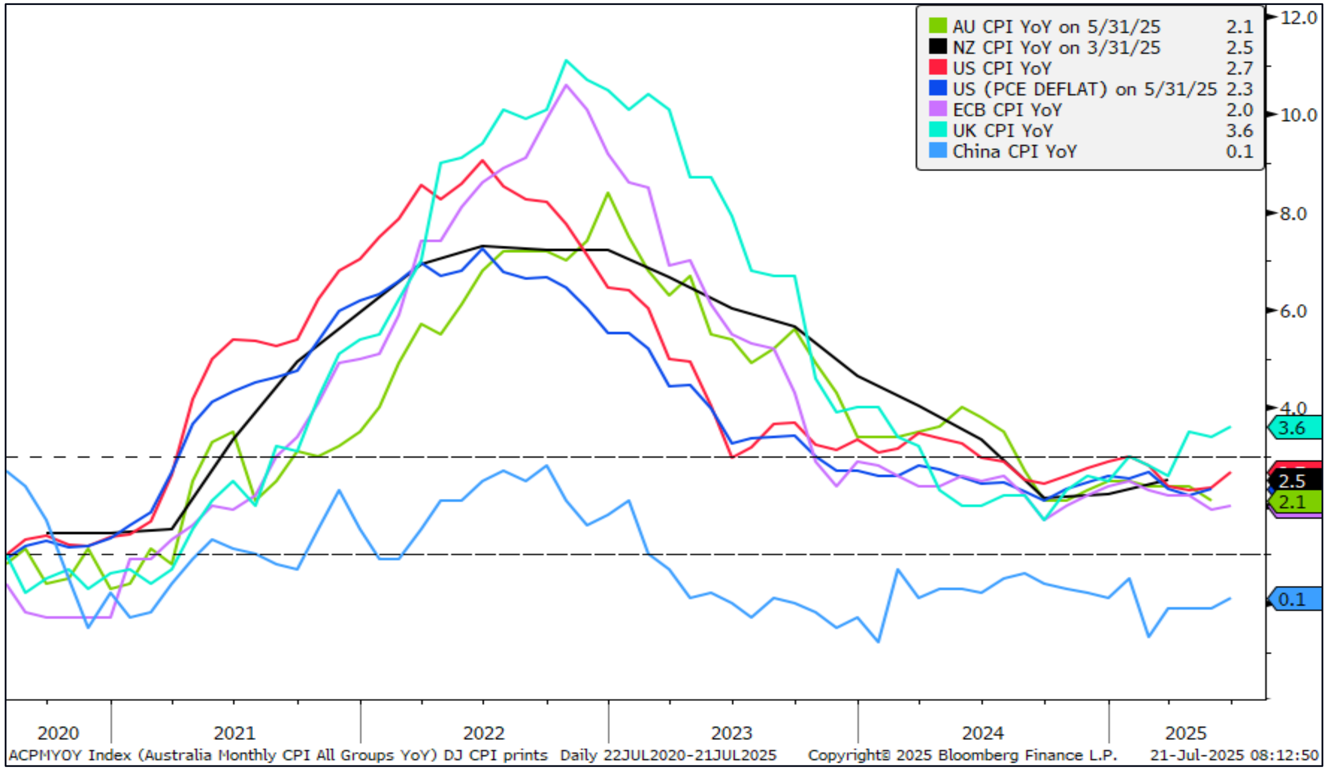
Global inflation measures

15



- China still suffering from deflation

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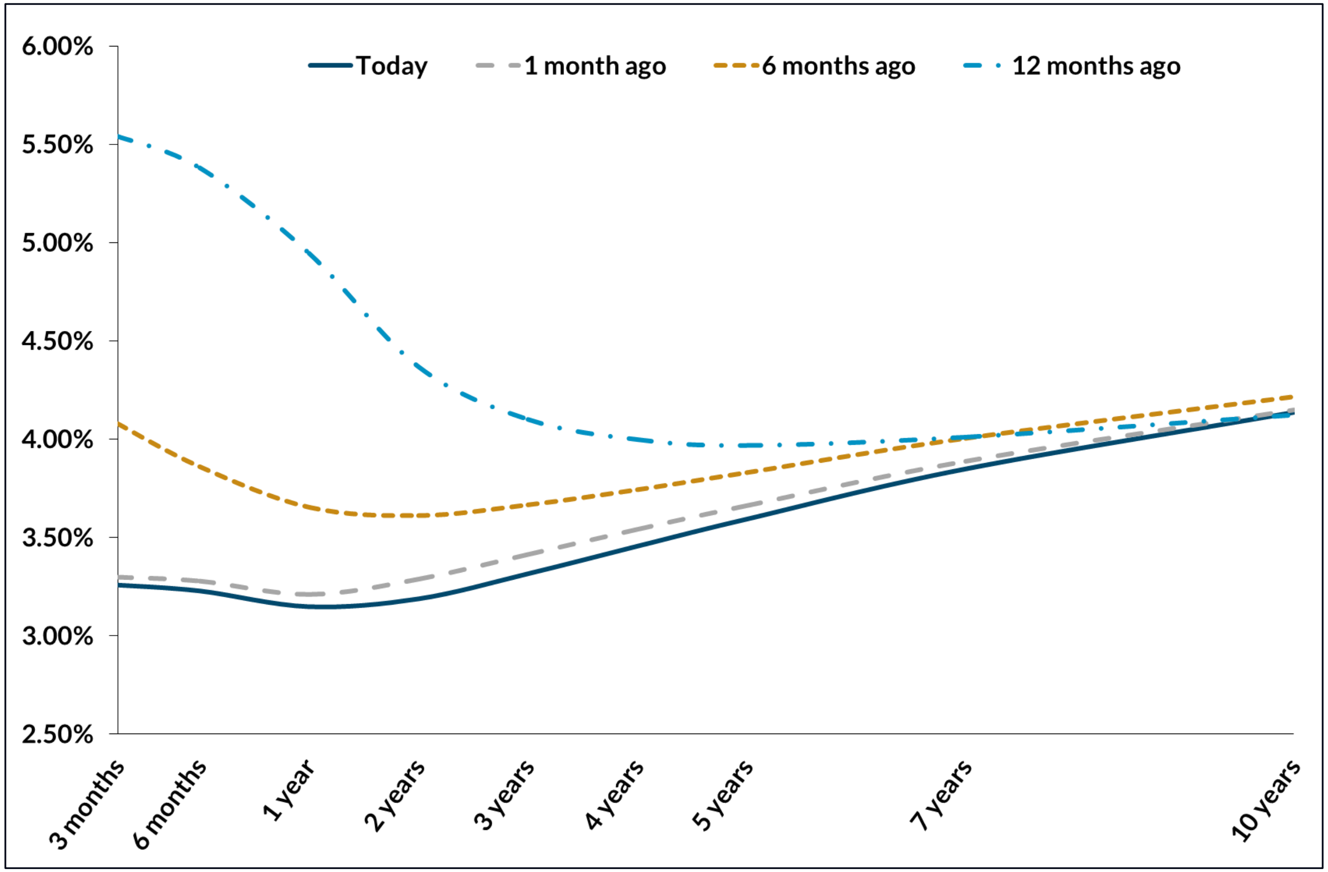
NZ yield curve - 4 August

16



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5-year swap rate

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- Still declining but to get below 3.40% requires lower US rates and probably an OCR below 3.00%. A 3.40% swap rate implies LGFA 2030 lending to FNDC at circa 4.20%.

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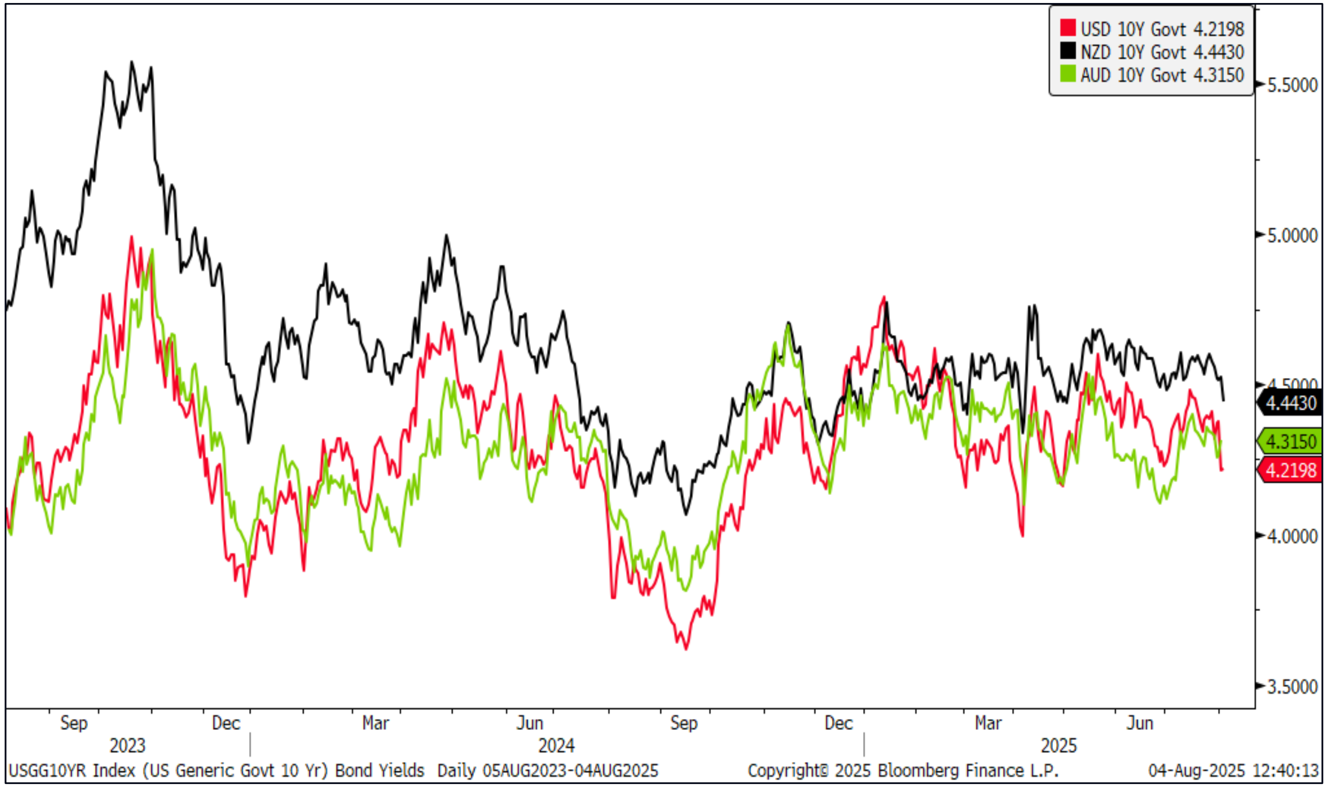
10-year Government Bond yields

18



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Section Two- Borrowing Update

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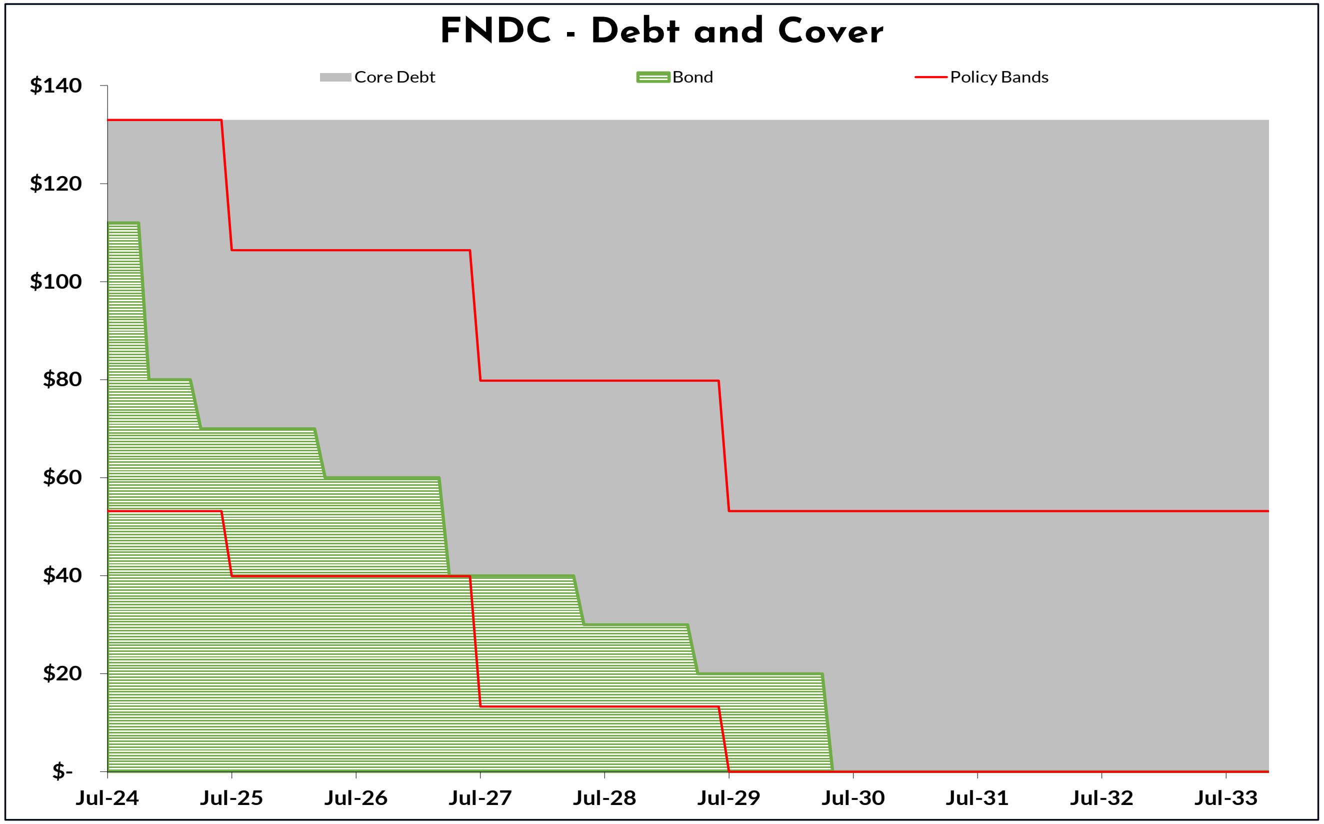
Hedging profile 30 June 2025

20



- Policy compliant

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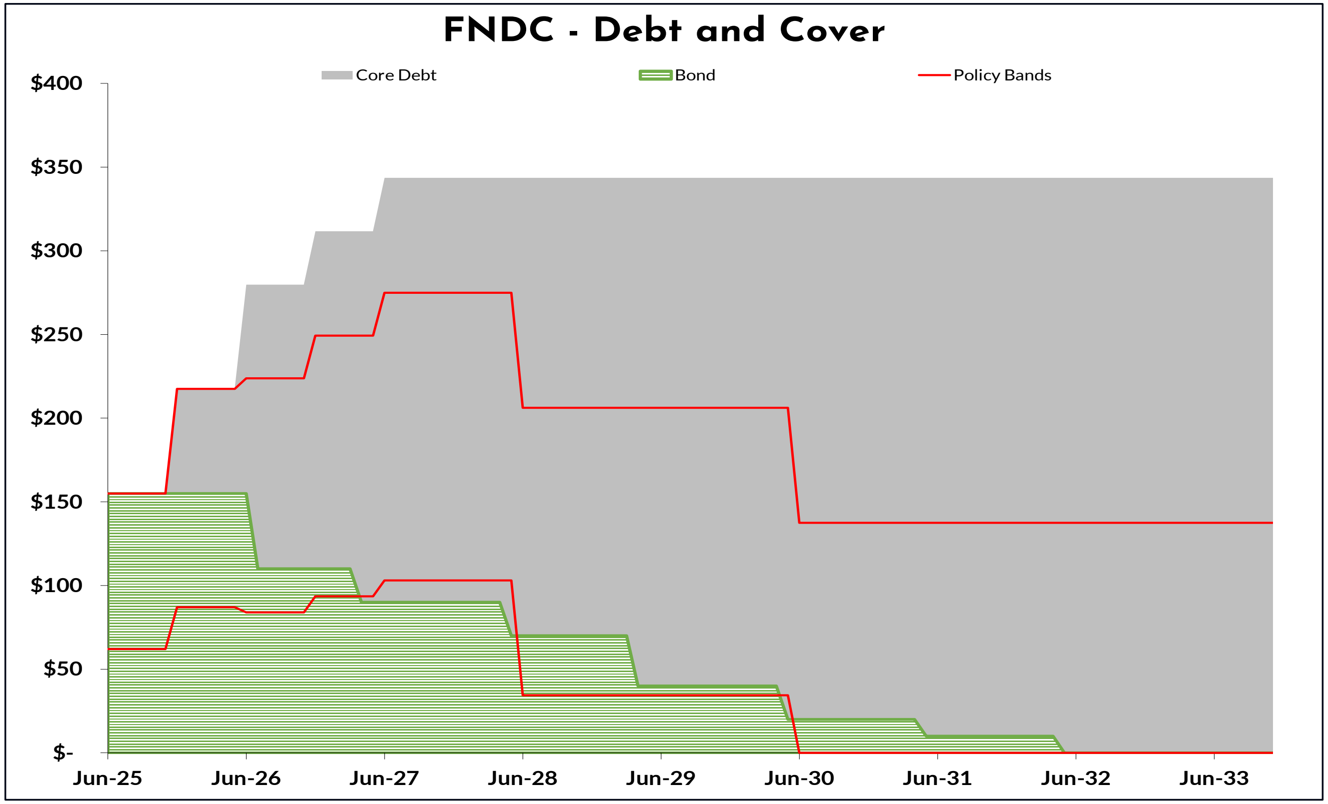
Hedging profile projected debt

21



- But well placed to take advantage of ongoing falls in interest rates and balance floating and fixed rate debt to optimise interest expense.

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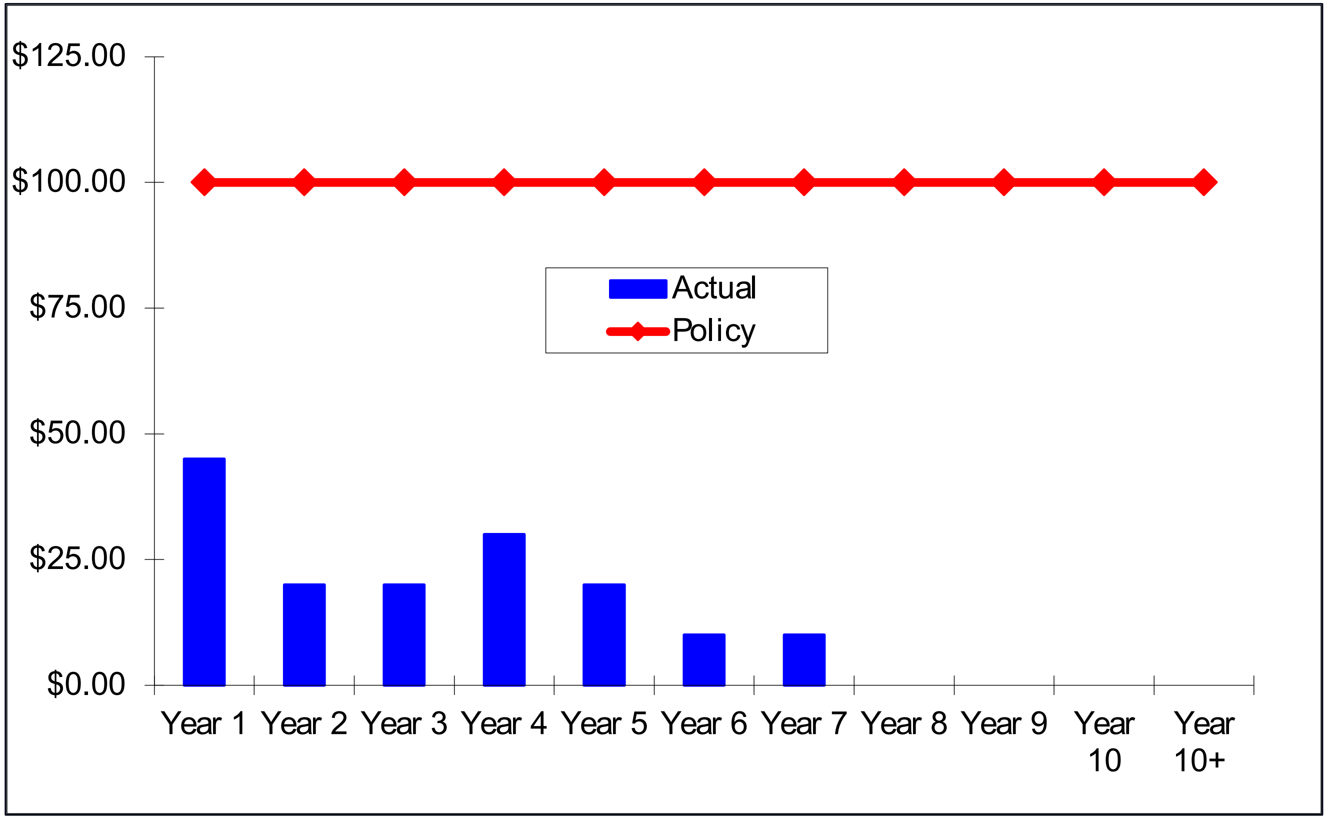
Funding profile 30 June 2025

22



- Significant headroom across all funding buckets gives high level of flexibility

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Council Borrowing Outlook

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- FNDC has positioned funding and interest rate hedging profiles to take advantage of our core view that the weak domestic economy implies further rate cuts this cycle.
- Our core hedging strategy is an ongoing focus on targeting fixed rates around 4.00% to move the Council profile towards policy mid-points but at the same time maintain a prudent exposure to short-term debt to drive down funding costs.
- For example 2030 LGFA debt is at 4.28% (4 August) which is a margin of 0.76% over the inter-bank 5-year rate whereas a 1-year fixed rate loan is at 3.38%, a margin of 0.20%.
- The margin and yield curve benefit, albeit with less certainty over longer-run, is around 0.90%.
- Markets are doing the work for us currently, but we need to (and are) keeping a very close eye on developments (external and internal) with management to achieve budgeted interest rate levels through this cycle.

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