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THE REGIONAL COUNCIL

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Treasury Management Policy

October 1999

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1. Introduction

Wellington Regional Council ("the Council") undertakes borrowing, investment and risk management activities (in total referred to in this document as treasury activities). The Council's treasury activities are carried out within the requirements of the Local Government Act 1974 and its related amendments; in particular the Local Government Amendment Act (No.3) 1996 defines the operating environment for local authorities in relation to borrowing, investment and risk management activity. This treasury policy document provides the policy framework for all of the Council's treasury activities and defines key responsibilities and the operating parameters within which borrowing, investment and risk management activity is to be carried out. The scope of this policy covers treasury activities at the Council level, and not at the total Group level. This treasury policy document will be reviewed and updated at least each 3 years as part of the update of Council's long term financial strategy.

1.1 Borrowing

The Council's borrowing activity is largely driven by its capital works programme, mainly related to regional water supply, flood protection and forestry activities. The Council's borrowing policy is discussed in Section 3 of this document.

1.2 Investments

The Council manages a significant portfolio of investments comprising equity investments, forestry, property, special funds, sinking funds, bank deposits and advances.

The Council's investment policy is discussed in Section 4 of this document.

1.3 Philosophy

The Council acknowledges that there are various financial risks such as interest rate risk, liquidity risk and credit risk arising from its borrowing and investment activities. The Council is a risk averse entity and does not wish to incur additional risk from its treasury activities.

The Council's treasury function (refer below) is a risk management function focused on protecting the Council's budgeted interest costs and stabilising the Council's cashflows. The Council will not undertake any treasury activity which is unrelated to its underlying cashflows or which is purely speculative in nature

1.4 Policy Setting and Management

The Council approves policy parameters in relation to its treasury activities.

The Council's Chief Financial Officer (CFO) has overall financial management responsibility for the Council's borrowing and investments.

The Council exercises on-going governance over its subsidiary companies (WRC Holdings Limited, Pringle House Limited, Port Investments Limited and CentrePort Ltd) through the process of approving the Constitutions, Statements of Corporate Intent and appointing Boards of Directors of these companies.

Operational management of the Council's forestry investment is provided by the Council's Utility Services and Wairarapa divisions. Key operational and strategic decisions are coordinated through the Forestry Management Group involving officers from both the Utility Services and Wairarapa divisions.

The Council has also established a Treasury Management Group (TMG) to oversee, manage and monitor the risks arising from its treasury activities to ensure consistency with the Council's long term financial strategy and to evaluate the treasury function's effectiveness in achieving its objectives. The TMG is responsible for approving strategy and for monitoring compliance and performance of the Council's treasury activities. Details of the composition of the TMG are included in Appendix II. The CFO is Chairman of the TMG.

The Council's borrowing, investments (other than those mentioned above) and cash management activities are managed centrally through its treasury function. The treasury function is broadly charged with the following responsibilities:

To:

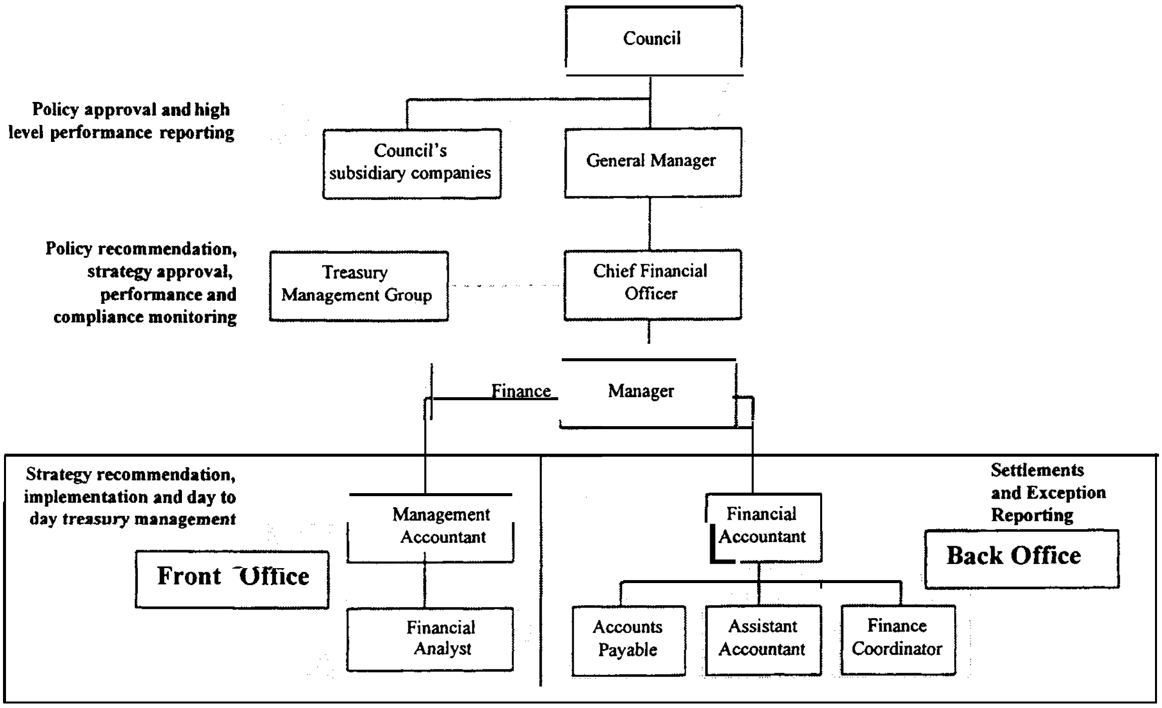
- Raise appropriate borrowing, in terms of both maturity and interest rate, and manage the Council's borrowing programme to ensure funds are readily available at margins and costs favourable to the Council.
- Develop and maintain professional relationships with financial markets in general, and the Council's bankers in particular.
- Manage the Council's investments within its strategic objectives and ensure that surplus cash is invested in liquid and creditworthy instruments.
- Manage the impact of market risks such as interest rate risk by undertaking hedging activity in the financial markets.
- Avoid adverse interest rate related increases on ratepayer charges and maintain an overall interest cost within budgeted parameters.
- Realise the economies of scale from operating as a centralised function on behalf of Council's operating divisions and business units.
- Manage the overall cash and liquidity position of the Council's operations.
- Provide timely and accurate reporting of treasury activity and performance.

- Manage the Council's internal debt portfolio and administer costs for debt incurred by operating divisions.

2. Structure

2.1 Treasury Organisational Structure

The organisation chart for treasury activity is as follows:



2.2 Treasury Responsibilities

The key responsibilities of the above positions are as follows:

Council

- Approve treasury policy
- Evaluate and approve amendments to policy
- Review treasury activity through quarterly and annual reporting, supplemented by exception reporting
- Approve annual borrowing programme contained in the Annual Plan
- Approve budgets and high level performance reporting
- Approve interest rate risk management instruments contained in Appendix IV and all subsequent additions/deletions

Chairman

- In conjunction with the General Manager approve the opening/closing of bank accounts and new banking facilities
- In conjunction with the General Manager approve the register of cheque and electronic banking signatories

General Manager

- In conjunction with the Chairman approve the opening/closing of bank accounts and new banking facilities
- In conjunction with the Chairman approve register of cheque and electronic banking signatories
- Review treasury activity through quarterly reporting
- Review, and if required change, the composition of the TMG

Chief Financial Officer (CFO)

- Overall responsibility for treasury function
- Overall responsibility for managing relationships with financial institutions
- Responsible for Council's credit rating
- 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 Management Group (TMG)

- Recommend policy changes to the CFO as Chairman of the TMG
- Evaluate and approve borrowing, investment and risk management strategies
- Review borrowing and investment management activity through regular meetings and monthly, quarterly and exception reporting where required
- Recommend performance measurement criteria for all borrowing and investment and risk management activity
- Monitor monthly performance against benchmarks and limits
- Ongoing risk assessment of treasury activity

Finance Manager

- Responsible for both front and back office
- Responsible for maintaining operational and accounting systems to record and report treasury activity
- Review and approve treasury system/spreadsheet reconciliation to general ledger
- Approve all amendments to the Council's records arising from checks to counter-party confirmations

Management Accountant

- Day to day responsibility for treasury function
- Primary responsibility for managing relationships with financial institutions
- Assist in the negotiation of borrowing facilities
- Review funding requirements, develop borrowing and risk management strategy, and provide recommendations to the TMG
- Review cashflow requirements, develop financial investment strategy and provide recommendations to the TMG
- Peruse market quotes for all treasury transactions (except cash management transactions) prior to execution
- Approve all treasury transactions executed by the Financial Analyst
- Secondary responsibility for executing treasury management transactions in the absence of the Financial Analyst
- Review month end variance analysis to ensure reasonableness of treasury accounts

Financial Analyst

- Report treasury activity to the TMG as required
- Primary responsibility for managing relationships with financial institutions
- Prepare cashflow forecasts and undertake cash management activity within policy guidelines
- Assist in developing borrowing, investment and interest rate risk management strategies for recommendation to the TMG
- Execute approved borrowing, investment, and interest rate risk management strategies
- Complete deal tickets for treasury transactions
- Update treasury system/spreadsheets for all new, re-negotiated or maturing transactions
- Reconcile treasury system/ spreadsheets to general ledger

Financial Accountant

- Review and approve bank reconciliations
- Review daily treasury reports
- Responsibility for reporting by back office to TMG

Assistant Accountant

- Reconcile confirmations from banks to deal tickets and/or treasury spreadsheet
- Inform Finance Manager of unresolved discrepancies between bank confirmations and internal deal records
- Maintain duplicate record of treasury spreadsheets relating to interest rate risk management instruments
- Update credit standing of issuers on a three monthly basis

Finance Coordinator

- Prepare bank reconciliations

Accounts Payable

- Create batch for treasury settlements and arrange for approval by authorised signatories

Independent Audit

- Verify accuracy of outstanding treasury transactions by undertaking independent confirmation checks
- On-going review of treasury procedures and controls

3. Borrowing Policy

3.1 General Policy

The Council borrows as it considers appropriate and exercises its flexible and diversified funding powers pursuant to the Local Government Amendment Act (No.3) 1996. The Council approves the borrowing requirement for each financial year during the Annual Planning process. The arrangement of the precise terms and conditions associated with each borrowing is delegated to the CFO.

The Council has large infrastructural assets with long economic lives yielding long term benefits. The Council also has a significant strategic investment holding. 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. Debt in the context of this policy refers to the Council's net external public debt, which is derived from the Council's gross external public debt adjusted for sinking funds.

Generally, the Council's regional water supply and flood protection assets with their long term benefits are mainly debt funded. The Council's other regional responsibilities have largely policy and social objectives and are mainly revenue funded.

The Council raises debt for the following primary purposes:

- General debt to fund Council's capital expenditure requirements.
- Short term debt to manage timing differences between cash inflows and outflows and to maintain the Council's liquidity.
- Specific debt associated with "one-off" projects (e.g. Council's involvement in the Stadium). The specific debt can also result from finance which has been packaged into a particular project.
- Debt to fund investment activity from time to time.

In approving new debt the Council considers the impact on its borrowing limits (refer Section 3.2) as well as the size and the economic life of the asset that is being funded and its consistency with Council's long term financial strategy.

3.2 Borrowing Limits

In managing debt, the Council will adhere to the following limits (based on the Council's latest financial statements) with the objective of at least maintaining its current long term credit rating of AA-:

- ***Total interest expense (after interest rate risk management costs/benefits) on net external public debt will not exceed 20% of total annual rates and levies.***
- ***Percentage of net external public debt to annual rates and levies will not exceed 175%.***

- ***Net external public debt per capita will not exceed $300.00***

3.3 Borrowing Mechanisms

The Council will be able to borrow through a variety of market mechanisms including issuing stock and debentures, direct bank borrowing or accessing the short and long term capital markets directly.

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

- Available terms from banks, capital markets and loan stock issuance.
- The Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time (excluding routine rollovers as part of a committed facility).
- The Council's projected debt levels in future years.
- Prevailing interest rates and margins relative to term for both loan stock issuance, capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as TMG's own outlook.
- 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.
- Legal documentation and financial covenants.

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

The Council uses a mixture of facilities to achieve an effective borrowing mix, balancing the requirements of liquidity and cost.

3.4 Liquidity Risk Management

Liquidity risk management refers to the timely availability of funds to the Council when needed, without incurring penalty costs.

While the Council does not hold its reserves in cash, the Council anticipates and plans for drawdowns against reserves. (refer section 3.9) Some of these reserves are contingency reserves (e.g. flood contingency) and need to be available at short notice.

The Council minim&s its liquidity risk by :

- ***matching expenditure closely to its revenue streams and managing cashflow timing differences to its favour.***

- ***Ensuring, where sinking funds are maintained to repay borrowing, that these investments will be held for maturities not exceeding borrowing repayment date (see Section 4.7).***
- ***Avoiding concentration of debt maturity dates (refer below).***
- ***Maintaining a mixture of liquid financial investments, undrawn commuted lines and uncommitted credit lines with its relationship banks. (refer below)***

To minimise the risk of large concentrations of debt maturing or being reissued in periods where credit margins are high for reasons within or beyond the Council's control, the Council ensures debt maturity is spread widely over a band of maturities.

Specifically, the Council manages this by ensuring that:

- ***no more than 33% of total debt is subject to refinancing in any financial year.***
- ***access to a mixture of undrawn committed lines and liquid investments of no less than $5 million for normal operations.***
- ***access to a mixture of undrawn committed lines and liquid financial investments of no less than $25 million for Council's self insured infrastructural asset risk-s and contingency reserves.***

Total debt in this context includes existing as well as planned debt, but excludes any debt raised using stand alone project financing (eg stadium borrowing) where there is no refinancing risk. In this context refinancing risk excludes drawdowns or rollovers under committed facilities except where the committed facility itself is due to expire.

3.5 Interest Rate Risk Management

Interest rate risk refers to the impact that movements in interest rates can have on the Council's cashflows. The Council's borrowing gives rise to direct exposure to interest rate movements. Generally, given:

- the Council's desire to have predictable, interest costs,
- the need to avoid large adverse impacts on annual rates and levies arising from interest rate related rises, and
- the long term nature of the Council's assets and the related intergenerational factors,

the Council tends to have a high percentage of fixed rate or hedged borrowing. Notwithstanding the above, it may be appropriate from time to time, depending on the Council's outlook on interest rates to have a floating rate profile (any debt or interest rate risk management instrument where interest rates are being reset on a frequency less than 180 days)

The Council manages this specifically using the following operating parameter:

- ***The CFO will be able to approve (following recommendation from the TMG) up to 40% of the total debt to have a floating rate profile (taking into account the impact of derivatives).***

Overall, the TMG sets the interest rate risk management strategy by monitoring the 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.

An appropriate hedged/floating rate mix is recommended by the TMG every quarter and approved by the CFO as Chairman of the TMG.

The Council is also exposed to interest rate repricing risk on the maturity of existing fixed debt that will be refinanced, as well as issue yield risk on planned new debt. The Council manages these exposures using the following operational parameter:

- ***The CFO will be able to approve (following recommendation from TMG) hedging up to 100%, repricing risk on existing fixed rate debt and issue yield on planned new debt within the next eighteen month period***

Management implements its interest rate risk management strategy through the use of the following:

- Adjusting the average maturity of its borrowings. Interest rate risk is therefore managed within the confines of liquidity and there is a constant trade-off between the two.
- Using interest rate risk management instruments (refer note below) to convert fixed rate borrowing into floating rate or hedged borrowing and floating rate borrowing into fixed or hedged borrowing.
- Using interest rate risk management instruments (derivatives) to hedge repricing risk on existing fixed rate debt and issue yield on planned borrowing.

Council's policy in relation to the use of derivatives is as follows:

The use of interest rate risk management instruments is approved by the Council. (A current list of approved interest rate risk management instruments with appropriate definitions is included in the Risk Management ToolKit in Appendix IV.) Additions to, and deletions from, this list are recommended by the TMG and approved by the Council. The CFO as Chairman of the TMG has delegated authority to authorise the use of Council approved interest rate risk management instruments on a case by case basis.

3.6 Security

The Council does not offer assets other than special rates and levies as security for general borrowing programmes. All Council debt issued before 30 June 1997 is

secured against special rates and levies, whereas all debt issued after I July I997 is unsecured, supported by a negative pledge.

In unusual circumstances security may be offered over specific assets, but only with prior Council approval,

3.7 Repayment

The Council repays borrowings from rates, surplus funds, proceeds from the sale of investments and assets, or from specific sinking funds.

Surplus funds and proceeds from the sale of investments and assets will be used to repay borrowing unless the Council determines otherwise.

3.8 Internal Debt Management

Internal Debt Management

The treasury function is responsible for administering the Council's internal debt portfolio. Loans are set up within the internal debt portfolio based on planned loan funded capital expenditure (or operating expenditure in the case of forestry), and allocated to the department requiring the loan funding. The following operational parameters apply to the management of the Council's internal debt portfolio:

- Capital expenditure details and other internal borrowing requirements are extracted by the Financial Analyst at month end.
- A notional internal loan is set up for all new capital expenditure and other internal borrowing requirements and allocated in the internal portfolio to the department incurring the expenditure.
- Interest is charged by treasury to departments on month-end loan balances at an agreed rate.
- The interest rate is based on the Council's expected weighted average cost of funds, and takes into account factors such as the Council's long term cost of funds, anticipated cost of new debt over the next eighteen months, recovery of treasury's operational costs, pricing to reflect the different communities of interest, and a small buffer which provides for certainty in the charging rate and avoids frequent adjustments. The internal rate is reviewed annually and is capped for the next financial year. Where the actual weighted average cost of debt moves to be lower than the budget, an adjustment is made to departmental debt servicing costs (this adjustment is processed at year end).

Treasury uses the internal debt portfolio as an input into determining its external debt requirements. Where possible, the Council's reserves are used to reduce external debt, effectively reducing the Council's net interest cost.

Internal Borrowing Limits

Internal borrowing limits are set to monitor the level of debt utilised by departments and business units. The ratios are consistent with the Council's external borrowing limits outlined in Section 3.2 and consistent with the principle of prudent financial management.

The following limits are monitored monthly by the TMG:

Activity	**Ratio**	**Limit**
Regional Water Supply	Net Debt to Levy	300%
Regional Water Supply	Net Financial Costs to Levy	40%
Flood Protection Western Region	Net Debt to Rates	400%
Flood Protection Western Region	Net Financial Costs to Rates	50%

Activity	Ratio	Limit
Flood Protection Wairarapa Region	Net Debt to Rates	80%
Flood Protection Wairarapa Region	Net Financial Costs to Rates	10%
Regional Parks	Net Debt to Rates	50%
Regional Parks	Net Financial Costs to Rates	10%
Corporate Properties	Net Finc Costs to Revenue	50%
Corporate Properties	Debt to Inv's & Cap assets	75%
Forestry	Net Debt to Market Value	60%

In addition, the TMG monitors internal debt targets for each area where there is significant internal debt.

Internal Debt Targets have been established in addition to internal debt limits in order to provide guidance on the long term sustainable debt levels within each area of Council's activity. (N.B. compliance will be monitored primarily against the internal debt limits rather than the internal debt targets.)

The Internal Debt Targets are as follows:

Activity	Ratio	Limit
Regional Water Supply	Net Debt to Levy	220%
Regional Water Supply	Net Financial Costs to Levy	20%
Flood Protection Western Region	Net Debt to Rates	250%
Flood Protection Western Region	Net Financial Costs to Rates	25%
Flood Protection Wairarapa Region	Net Debt to Rates	80%
Flood Protection Wairarapa Region	Net Financial Costs to Rates	10%
Regional Parks	Net Debt to Rates	50%
Regional Parks	Net Financial Costs to Rates	10%
Corporate Properties	Net Finc Costs to Revenue	30%
Corporate Properties	Debt to Inv's & Cap assets	45%
Forestry	Net Debt to Market Value	35%

3.9 Reserves

The Council has a number of reserves which have been created for specific purposes. Such reserves are used to reduce external borrowings in order to avoid the negative spread on interest rates between borrowed and invested money.

The Council will not hold liquid assets to support those reserves, rather funding is arranged as required to match withdrawals from reserves. The Council maintains committed lines sufficient to cover the sum of the Council's contingency reserves. (Refer section 3.4)

3.10 Credit Risk Management

While the Council will only borrow from reputable financial institutions, there is no minimum credit rating requirements imposed by the Council on its lenders. Also, there is no limit on the level of borrowing to which the Council may commit from any one lender. This limit is one imposed by the lender.

4. Investment Policy

4.1 Investment Mix

The Council has a significant portfolio of investments comprising:

- equity investments (covered in Section 4.3)
- forestry investments (covered in Section 4.4)
- property investments (covered in section 4.5)
- special funds (covered in section 4.6)
- sinking funds (covered in section 4.7)
- liquid financial deposits (covered in section 4.8)
- Stadium advance (covered in section 4.9)

A full list of the Council's current investments and their updated book values is included in Appendix V.

4.2 General Policy

The Council's philosophy in managing investments is to optimise returns in the long term while balancing risk and return considerations. 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.

From a risk management point of view, the Council is well aware that its investment returns to the rates line are exposed to the success or otherwise of its two main investment sectors - CentrePort Ltd (formerly Port Wellington Ltd) and Plantation Forestry. At an appropriate time in the future the Council believes that it should continue to reduce risk exposure by reducing its holdings, and using the proceeds to reduce debt. The timing of these divestments will be in accordance with the Council's objective to optimise the return.

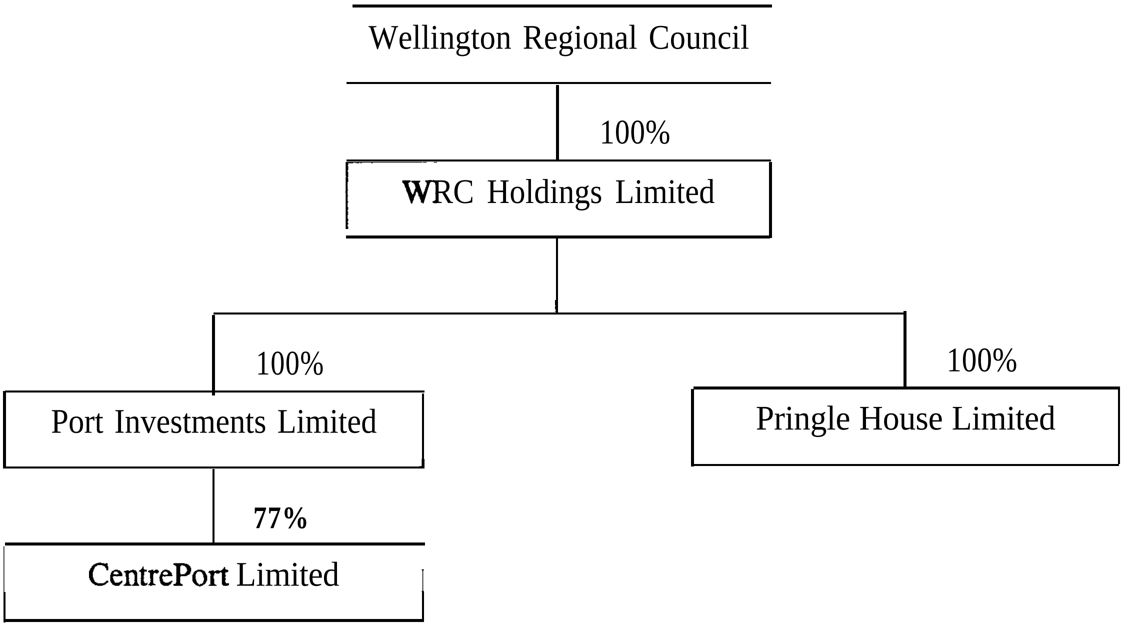
The Council will not hold financial investments other than those involving special funds, sinking funds and cash management investments. In its financial investment activity, the Council's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counterparties will be acceptable. The Council's policy on managing credit risk is contained in Section 7.

Within the credit constraints contained in Section 7, 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 before maturity).

4.3 Equity Investments

The Council has the following significant equity investments:



WRC Holdings Limited and Port Investments Limited are in essence investment holding companies. The main operating companies in the group are CentrePort Limited (refer Section 4.3.1) and Pringle House Limited (refer Section 4.5).

4.3.1 CentrePort Limited

Nature of Investment

On 1 November 1989 the Council became the owner of 76.9% of CentrePort.

The Council currently owns, via a 100% owned subsidiary company, 76.9% of CentrePort Limited. The balance of shares are held by Horizons MW (formerly the Manawatu-Wanganui Regional Council).

CentrePort is a significant strategic asset held by the Council on behalf of the regional community with its activities intertwined in the economic fabric of the Region.

CentrePort has consistently paid to shareholders by way of dividend at least 50% of post tax paid profit. In addition the Council has received capital repayments and special dividends as follows:

1992	$3.8 million
1995	$12.3 million
1999	$5.8 million

The impact of these capital repayments and special dividends has been to reduce the Council's investment in CentrePort whilst retaining its 76.9% ownership.

Rationale for Holding Investment

An analysis of events and decisions over the last few years is critical in clarifying the Council's current position in relation this investment. In May 1991 the Council confirmed its policy on ownership of CentrePort. At that time on the basis of professional financial advice, the Council resolved:

- That the determination of alternative shareholding should be driven by "what is best for the ultimate success of the Port" and "what is most appropriate for the role of local government in Port ownership".

- That the most appropriate role for local government is one of being able to "influence" and not necessarily "control" a regionally essential operation such as a Port Company.

- That CentrePort would benefit from a wider base of shareholding, especially if drawn from key Port users.

- That, in line with an influencing role, the Council should agree to a programme of planned divestment with the aim of achieving a position of around 30 percent shareholding in CentrePort.

- That in order to demonstrate publicly the Council's commitment to having the Region's transportation welfare as its prime objective, an initial divestment of around 25 percent of CentrePort should be undertaken, either by way of public float or placement.

In the long term the Council intended via this resolution to hold no less than 30% of the shares in CentrePort in order to 'influence' rather than 'control' the company. An initial divestment of around 25% was considered appropriate at that time, meaning the Council would still hold 5 1% in the interim (76.9% - 25% = 5 1.9%).

In March 1992 the Council resolved to effect a capital reduction of up to $16 million to replace capital with debt and issue new shares to allow public participation in ownership of CentrePort. Under this resolution, the two Councils were to retain control (ie 5 1%) of CentrePort and the debt/equity ratio would be optimised by introducing new capital.

Since the 1992 resolution, the Council has kept under review its strategy to achieve these long term objectives. In that time there have been a number of factors which have continued to impact the Council's divestment plans:

- The 1992 Local Government Law Reform Bill which proposed that 50% of the proceeds from the sale of Port shares to be distributed to territorial authorities of the Region did not become law but it was a sufficiently material prospect to delay any divestment plans.

- Capital restructuring by CentrePort in 1992, 1995 and 1999 have had the effect of reducing the Council's exposure to this investment, and have gone some way to achieving the primary objective of risk reduction as shareholder.

- During the 1995 restructuring, convertible notes were issued to shareholders and have until 30 June 1999 provided a flow of interest equivalent to a market interest rate, thereby further reducing the Council's exposure to solely dividend income.

- CentrePort's integration plans were put into effect in May 1995 at which time CentrePort purchased Container Terminals Ltd. Since 1972 the Port's container terminal had been leased to a consortium of shipping companies and prior to its acquisition in 1995, Wellington remained the only Port Company in the country where the container terminal was not controlled by the Port Company. The integration in May 1995 was a significant step for CentrePort and enhanced its ability to increase efficiency and ultimately value for the shareholders and its customers.

- Since 1991 Council has remained concerned with the issue of Port Company land. The most significant asset owned by the Port Company is the land which is considered by Council to be of strategic interest to the residents of the Region. Council has been keen to ensure that any divestment of shares does not result in the ownership of prime strategic land going outside the Region. The Council is continuing to work with the Port Company and advisors in respect of the land issue.

- CentrePort has been involved in a dispute with the Inland Revenue Department (IRD) in relation to the IRD disallowing certain deductions primarily relating to PW depreciation claims from 1988 to 1993. CentrePort lodged objections to these assessments and during 1997/98 settled with the IRD in respect of disallowed claims.

Since 1991, the Council has retained its 76.9% holding in CentrePort but much has been achieved to reduce Council's exposure to the risks associated with this investment.

Notwithstanding the history of Council's investment holding in CentrePort, in March 1998 the Council reviewed its investment policy in relation to the Port company and resolved that it should be "a seller at the right price rather than a holder at all costs". This policy was reconfirmed in April 1999. By reaffirming its policy as being "a seller at the right price rather than a holder at all costs", the Council was mindful of the following objectives:

- Long term risk reduction for ratepayers
- Maximisation of sale value
- Protection of future land use

Dealing appropriately with the land issue remains at the cornerstone of any exit strategy with the first key step being a revision of the Port Company Property Development Plan. The Council is not a desperate seller and wishes to ensure the land issue has been dealt with appropriately before any further moves towards ultimate sale.

Disposition of Revenue

Dividend revenue from CentrePort is ultimately used to reduce rates. Dividends and other cashflows from CentrePort are received by Port Investments Ltd (Council's 100% owned subsidiary) and then passed onto Council in accordance with Council's funding requirements.

The Council's accounting policy in respect of dividend revenue was changed during 1997/98 from cash based recognition (when received) to accruals in order to line up with CentrePort's accounting treatment. Dividends paid or declared by CentrePort relating to any one year are now recognised in the same period by Port Investments Limited.

Since June 1995 the Council has also received interest on convertible notes. Both dividends and interest have been credited to the statement of financial performance and therefore contribute to the operating surplus each year. In future there will be no interest received on convertible notes as the convertible notes have been converted by CentrePort into additional share capital.

Risk Management

The Council's investment in CentrePort is not without risk. Returns to the shareholders are driven by the level of profitability that CentrePort can continue to generate. Given the fixed cost nature of CentrePort's business, the level of revenue it can generate is the prime driver of profitability. Both the returns the Council can expect to receive from the investment and the ultimate value of its investment, are therefore very dependent on the ability of CentrePort to protect and enhance its revenue base. Recent labour restructuring by CentrePort has resulted in a reduced fixed cost structure which has increased the ability of the company to withstand variations in revenue.

Past repayments of capital and special dividends have reduced the Council's risk exposure to the CentrePort investment.

The Council's ongoing risk management procedures include:

- Selling its investment in CentrePort to Port Investments Limited (a 100% owned subsidiary of Council) with a view of strengthening the governance framework
- appointing external directors with appropriate expertise to the Boards of Directors of CentrePort Limited and Port Investments Limited.
- appointing the Council's Chief Financial Officer as reporting officer to the Council on CentrePort related matters. The Council's CFO has quarterly briefings from CentrePort.
- approving on an annual basis CentrePort's Statement of Corporate Intent (via the approval of the SCI for Port Investments Limited).
- receiving a formal briefing, and a half year report from CentrePort on the results achieved and future outlook.

Management/Reporting Procedures

The impact of CentrePort on the Council is reported as part of the financial statements presented to the WRC Holdings Group of companies (including Port Investments Limited). The impact on the Council's rate line depends on the level of dividends paid by the WRC Holdings Group.

Other management/reporting issues have been noted under risk management issues above.

Policies for CentrePort investment

The foliowing policies will be applied by the Council in the management of its investment in CentrePort:

- ***The Council will continue to maintain the current governance framework over CentrePort via its 100% owned subsidiary Port Investments Limited, including the review of CentrePort's Constitution, Statement of Corporate Intent, and the appointment of the Board of Directors.***

- ***The Council will continue to be a seller at the rightprice rather than a holder of all costs.***

- ***The Council will, via Port Investments Limited, continue to review CentrePort's policy for the payment of dividends (currently 60% of net profit after tax is paid out in dividends).***

4.3.2 NZ Local Government Insurance Corporation Ltd (Civic Assurance)

Nature of Investment and Rationale for Holding

The shares in Local Government Insurance Corporation (LGIC) were acquired by virtue of the Council being a local authority. The purpose of the company, in which almost all local authorities are shareholders, is to ensure that adequate insurance arrangements are available to local authorities at the lowest possible cost. The shares in LGIC continue to be held as the shares are not readily transferable. The amount involved is immaterial relative to the Council's total investment holdings.

Disposition of Revenue

Revenue earned from the shares in LGIC is minimal.

Risk Management

Risks associated with the Council's investment in LGIC are limited.

Management/Reporting Procedures

Annual reports are received and reviewed by Council. Election of Directors takes place at the Corporation's AGM held at the time of the Local Government New Zealand annual conference. The Council votes by proxy.

Policies for LGIC Investment

Due to the limited transferability of shares and limited risks, the Council's policy is to retain shares in LGIC.

4.4 Forestry

Nature of Investment

The Council and its predecessor organisations have been involved in forestry for many years. When indigenous logging and saw-milling on Council land ceased in the early 1970s, exotic planting increased. These new plantation forests were added to those forests already established in the late 1950s and 1960s for soil conservation and water quality purposes. The Council currently holds 6,000 hectares of plantation and soil conservation reserve forests of which approximately 4000 hectares are in the western or metro part of the region, with the remaining 2,000 hectares in the Wairarapa. With these holdings, the Council is the fourth largest plantation forest owner in the lower North Island.

Rationale for Holding Investment

Forestry has been undertaken in response to both a need to check soil erosion and to minimise water sedimentation. As a result, forestry should not be considered to be a pure investment in which profit maximisation is paramount. Having said that, the Council is the owner of a significant forestry resource with ongoing logging potential which needs to be prudently managed to maximise returns.

The overall investment policy of the Council with regard to forestry has been to maxirnise profit while meeting soil conservation, water quality and recreational needs. This policy assumes that harvesting will be on a sustainable yield basis and, furthermore, will be maintained without any demand on regional rates.

The Council periodically reviews its rationale for holding its forestry investment. In March 1998 the Council reviewed its investment policy in relation to its investment in forestry and resolved that it should be "a seller of cutting rights at the right price rather than a holder at all costs". The Council reaffirmed this policy in April 1999 and resolved to undertake a sale scoping exercise as a precursor to ultimate sale of cutting rights.

Disposition of Revenue

Both plantation and reserve forests within the Region are required to return an 'internal dividend' to Corporate irrespective of the operating result for the year. The internal dividend reflects the intergenerational equity issues inherent in the forestry investment and a recognition of the cost of ratepayer equity.

The level of internal dividend contribution to the rates line from forestry is negotiated annually between the Corporate and Utility and Wairarapa divisions of the Council. This is then reflected in the ten year business plans and published within the long term financial strategy approved by the Council.

Where a deficit is incurred in any one year the deficit is debt funded to ensure at no time is the forestry activity a drain on rates. Debt funding is considered appropriate because the forestry activity currently carries a low level of debt relative to the underlying value of the investment and to ensure there is intergenerational fairness. Forestry is therefore treated as a self contained activity of Council.

Risk Management

The most significant risk management issues relate to revenue flows. The first key risk is the product price returns achieved from forestry which are dependent on world markets. This means that forestry returns are dependent on commodity prices driven by other countries, principally in Asia. From a Council perspective the risk of revenue returns is mitigated in the short term that the Council requires from the Forestry activity a set level of contributions towards rates by way of internal dividend. This policy has the effect of immunising the rates line from the fluctuations in commodity prices. However, the value of the forestry investment is still affected by changing commodity prices.

The other key risk area impacting the Council's returns is pulp and paper prices which are essentially a US dollar driven commodity. Accordingly, while the Council is selling its logs either domestically or to an exporter in New Zealand dollars, the underlying price is still heavily influenced by United States newsprint and pulp prices and the NZD/USD exchange rate. The Council potentially faces the same risks as a direct exporter of goods priced in USD. There are currently no robust and proven commodity hedging solutions for newsprint and pulp prices. Furthermore, the Council is prohibited by law from entering into any incidental arrangements in foreign currency.

Management/Reporting Procedures

Plantation Forestry and Reserve Forests are set up as separate business units within the Council and as a result financial information is reported separately to the Council on a monthly basis.

The Council uses a combination of in-house contracting expertise with external consultants to manage the forestry investment. Silviculture is carried out in accordance with a defined management plan and all forestry operations including logging is contracted out.

Policies for Forestry Investment

The following policies will be applied by the Council in the management offorestry:

- ***The various roles of forestry in terms of soil conservation, water catchment and recreation facilities will be protected regardless of any future ownership structures.***

- ***The Council will continue to be a seller of cutting rights at the right price rather than a holder at all costs.***

- ***Harvesting will continue to be on a sustainable yield basis.***

- ***Forestry will continue to be treated as two self contained units (plantation forestry and reserve forestry) for accounting purposes to ensure that there is no negative impact on rates but management will be co-ordinated through the Forestry Management Group. The level of dividend contribution from forestry towards the rates line will continue to be reviewed annually.***

4.5 Property Investments

4.5.1 Pringle House Limited

Nature of Investment

Pringle House Limited which owns the Regional Council Centre in Wakefield Street, Wellington is 100% owned by the Council via WRC Holdings Limited (refer Section 4.3). The Council currently occupies 7 of the 9 floors in the Regional Council Centre and is therefore the major tenant of the building. All rentals are set at commercial rates based on advice from the Council's property consultants.

The Council, through Pringle House Limited has owned the Regional Council Centre since it was purchased in 1987, a time when property prices were artificially high. Since then the property has been written down from its original purchase price and now reflects its market value.

Rationale for Holding Investment

It is clear with hindsight that the Regional Council Centre was purchased when the market was high as evidenced by the subsequent write-downs in property values. Although commercial rentals are being charged to all tenants (including the Council) rental streams do not meet the costs of debt servicing of that investment. Should the property be sold a significant level of debt would remain to be serviced.

The Council periodically reviews the rationale for holding its investment in Pringle House Limited. The Council continues to retain ownership of the Regional Council Centre (via Pringle House Limited) at the present time for the following reasons:

- The Council's property consultants consider that Pringle House Limited is in the enviable position of owning a building which is functioning well, is occupied by three major tenants, is relatively modem and is poised to take advantage of any upward movement in the market. The view of most property market commentators and analysts is that the NZ commercial property market is going to be in a stable environment for a long time.

- In the view of the property consultants, if sale is contemplated in the future it should be at a time when the Council needs to dramatically alter in size and/or when the market for commercial property is perceived to be about to enter a downward trend.

- Furthermore, to sell now will be to lose the ability to recover some of the capital value lost in past years and the Council as major tenant is likely to be subject to rent increases to the benefit of other parties. While the property is owned by Pringle House Limited, the Council enjoys the benefits of being tenant and ultimate landlord should the need ever arise to dramatically alter the area occupied or amend the term of the lease.

Disposition of Revenue

Any surpluses generated from Pringle House Limited are returned to the Council through either subvention payments or dividends. This return is then used within the Council to offset the cost of debt servicing attached to the Regional Council Centre.

Risk Management

The risks of the Council's investment in Pringle House Limited are inextricably linked to its investment in the Regional Council Centre and the Council takes advice on all matters relating to the Regional Council Centre from its property consultants.

Based on advice received the Council considers that the NZ commercial property market is going to be in a stable environment for a long time which should mean no significant change in the medium term to either rentals or valuation of the Regional Council Centre.

Property maintenance, if not completed, will create risks for Pringle House Limited as property owners. The Council, through its governance of Pringle House Limited ensures that all such maintenance is carried out as required.

Management/Reporting Procedures

The financial results of Pringle House Limited are reported regularly within the financial statements which are produced for the WRC Holdings Group of Companies. Each year Pringle House Limited, as part of the WRC Holdings Group is required to prepare a Statement of Corporate Intent outlining planned achievements and at the end of each year an annual report is prepared. The property is revalued annually.

The Council currently has 3 representatives on the Board of Directors of Pringle House Limited (out of a total Directorate of 5).

Policies for Pringle House Limited Investment

The following polices will be applied by the Council in the management of its investment in Pringle House Limited:

- ***Decisions on future ownership will be driven by the requirement to maximise ratepayer benefit.***

- ***The Council will continue to exercise governance over Pringle House Limited, via WRC Holdings Limited, to ensure the value of its prime asset (the Regional Council Centre) is appropriately protected through planned maintenance.***

- ***The Council will continue to pay market rentals and maintain a long term accommodation agreement with Pringle House Limited***

- ***The Council will continue to rely on the advice of its property consultants with respect to all property matters relating to Pringle House Limited***

4.5.2 Investment Properties

Nature of Investment

The Council still owns some residual investment properties in Wellington City primarily in Blair and Allen Streets by way of ground leases which were transferred to the Council at the time the Council assumed the role of the previous Wellington Harbour Board. All properties are currently leased on a long term basis to parties external to the Council.

Rationale for Holding Investment

Investment properties were acquired by the Council when the functions of the Wellington Harbour Board were assumed in 1989. It is the intention of the Council to divest all interest in these properties in the long term, as the Council considers there are no significant advantages of retaining ownership and no operational benefits exist. Sales of various properties have already occurred in line with this policy and will continue until all such properties have been fully divested.

Disposition of Revenue

Revenue earned from investment properties forms part of investment revenue within the statement of financial performance and therefore contributes towards the Council's operating surplus.

Proceeds from the sale of the Council's interest in investment properties are used to repay debt. As a matter of policy the Council does not budget for sales of properties.

Risk Management

The Council recognises the risks of having an interest in commercial property not used for Council business and this recognition underlies the intention to dispose of all such interest in the long term.

Advice is sought and received from the Council's property consultants in respect of individual decisions to dispose of the Council's interests.

Revenue derived from investment properties is stable due to the long term nature of the ground leases. As leases are renewed the Council renegotiates the lease amount with the tenant in the light of prevailing market conditions. Advice is received from the

Council's property consultants in respect of managing the risks associated with renegotiation.

Management/Reporting Procedures

Returns from investment properties are monitored regularly and reported to the Council on a monthly basis as part of the review of financial results. The Council's interest in these properties is valued at market value and revalued annually.

Policies for Investment Properties

- ***The Council will continue to divest its interests in investment properties as opportunities arise and apply proceeds to reduce debt. Decisions to divest or hold will continue to be based on advice from property consultants.***

- ***The Council will continue to maximise returns from its investment properties until they are divested***

4.6 Special Funds

4.6.1 Regional Water Supply Self Insurance Fund

Nature of Investment

The Regional Water Supply Self Insurance Fund was established during the 1995/96 financial year. Its current balance is listed in Appendix V. The fund was established as a result of the Council's decision to self insure a significant portion of its bulk water assets. It is maintained as a separate fund by the Council but managed, as part of the Council's treasury function, much in the same way as sinking funds.

Rationale for Holding Investment

During 1995/96 Council decided that insurance costs associated with insurance of the bulk water infrastructure were prohibitive. The Council has therefore chosen to self insure a portion of its bulk water infrastructure. Each quarter $125,000 is added to the fund (in lieu of insurance premiums) and interest accrues on an ongoing basis.

In March 1999 the Council reaffirmed the policy of self insurance for these assets.

Disposition of Revenue

Revenue earned on the fund is added to the fund. The fund is reduced in the event of claims being made.

Risk Management

It is important that amounts relating to this fund are kept in liquid instruments to ensure ready conversion to cash. Accordingly, the fund is invested in short term wholesale market instruments such as bank bills and negotiable certificates of deposits. These instruments are able to be liquidated in an actively traded secondary market. The fund is only invested with approved counterparties within the limits outlined in Section 7 of this policy.

Should an event occur which requires Council to spend more than has been built up in the self insurance fund, Council's Treasury function will lend the balance needed to the water activity.

Management/Reporting Procedures

As the fund is managed as part of the treasury function it is subject to daily monitoring.

The performance of the fund is formally reported on a quarterly basis as part of the quarterly review process operating within Council. In addition monthly results are reviewed by the TMG. At least annually the level of contribution to the fund of $125,000 per quarter is reviewed in conjunction with the fund balance and the claims history.

Policies for Regional Water Supply Self Insurance Fund

The following policies will be applied by the Council in the management of the Regional Water Supply Insurance Fund:

- ***The fund will only be placed with approved counterparties (as per Section 7) in short term instruments that are able to be readily liquidated***
- ***The Council will continue to contribute $125,000 per quarter into the fund until it is determined that such an amount requires adjustment***
- ***At least annually the level of contribution will be reviewed in conjunction with the fund balance and claims history.***
- ***All interest earned on the fund will continue to be added to the balance of the fund for reinvestment purposes.***
- ***All withdrawals from the fund will be approved by the Council.***

4.6.2 Major Flood Recovery Fund

Nature of Investment

In March 1999 the Council agreed that it should self insure its flood protection assets in the same manner as its regional water supply assets (noted in Section 4.6.1 above).

Commencing in 1999/00, the Council will set aside $150,000 per annum in a major flood recovery fund to be invested in a similar manner to the Regional Water Supply Self Insurance Fund.

Rationale for Holding Investment

Self insurance is seen as an appropriate means of managing the risks inherent in the flood protection infrastructure. While in any given year insurance premiums may appear a more cost efficient option, self insurance is seen as an effective and efficient option long term.

Disposition of Revenue

Revenue earned on the fund is added to the fund. The fund is reduced in the event of claims being made.

Risk Management

As with the Regional Water Supply Self Insurance Fund, the fund will be kept in liquid investments to ensure that it is readily convertible into cash if required. (refer section 7) Should an event occur which requires Council to spend more than has been built up in the self insurance fund, Council's Treasury function will lend the balance needed to the flood protection activity.

Management Reporting Procedures

As the fund is managed as part of the Treasury function, it is subject to daily monitoring.

Policies for Major Flood Recovery Fund

The following policies will be applied by the Council in the management of the major flood recovery fund:

- ***The fund will only be placed with approved counterparts (as per Section 7) in short term instruments that are able to be readily liquidated***

- ***The Council will continue to contribute $150,000 per annum into the fund until it is determined that such an amount requires adjustment.***

- ***At least annually the level of contribution will be reviewed in conjunction with the fund balance and claims history.***

- ***All interest earned on the fund will continue to be added to the balance of the fund for reinvestment purposes.***

- ***All withdrawals from the fund will be approved by the Council.***

4.7 Sinking Funds

Nature of Investment

Sinking funds are investments required to be maintained by Local Authorities for all pre No 3 Act debt to ensure that on the maturity of loans, funds are available to repay them. However, the Local Government Amendment (No.3) Act 1996 provides for Local Authorities to unwind established sinking funds with the permission of relevant creditors and the sinking fund commissioner so long as the Local Authority has available in easy realisable funds, such amounts as may be required to repay the principal or interest when it becomes due. The Council's current sinking fund balances are listed in Appendix V.

Sinking funds on loans raised up to 199 1 are managed by the National Provident Fund. Under this arrangement a guaranteed and constant interest rate is paid on all sinking fund contributions over the life of the loan. The interest rate is set at the commencement of the loan and is at a margin (typically approx. 2% p.a.) below the interest payable on the loan.
Sinking funds on loans raised after 1991 are administered by commissioners appointed by the Council as the National Provident Fund no longer undertakes new sinking funds management.

Many Council assets have a life of 30 years or more (e.g. bulk water assets) and therefore the loans relating to these assets are usually renewed several times within this period. However, the sinking fund contributions are determined by reference to the original loan resolution, and not the term of each individual loan.

Rationale for Holding Investment

The Council is currently required by the Local Authorities Loans Act 1956 to hold sinking fund investments in those instances where loan repayments relating to pre No 3 Act debt do not allow for principal repayments until maturity and where the necessary creditor and Sinking Fund Commissioner approval to unwind has not been received.

The Council intends to continue to unwind existing sinking funds where possible, in order to mitigate the disadvantages of the negative spread outlined below (risk management issues). Since July 1997 a number of sinking funds have been unwound where the necessary approvals have been received.

Disposition of Revenue

Revenue earned on sinking funds is added to the sinking fund balance to ensure that the sinking fund contributions plus interest over the term, will be sufficient to repay the loan on maturity.

Risk Management

The management of sinking funds exposes the Council to costs and risks. The earnings rate on the sinking fund investments will usually be less than the interest rate cost of the underlying debt. This is called the “negative spread” and represents the return of the bank or other provider of funds.

In addition the dollar amount of this negative spread for a particular loan is not known until loan maturity. This is because for a fixed rate loan, the interest rate payable is known at the commencement of the loan but the interest rate that will be received on sinking fund contributions throughout the life of the loan will not be known until the investment is rolled over. This means that the Council is exposed to an additional interest rate risk each time funds are reinvested.

Credit risk is managed by limiting investments to high quality credit institutions consistent with limits outlined in Section 7.

Management/Reporting Procedures

Sinking funds are managed as part of the Council’s overall treasury function.

The performance of sinking funds is monitored quarterly as part of the quarterly review process operating within Council, and results are reviewed by the TMG on a monthly basis.

At least annually the level of contributions into sinking funds is reviewed and if necessary adjusted to ensure future contributions plus interest will result in sufficient funds to repay debt on maturity.

Policies for Sinking Funds

The following policies will be applied by the Council to reduce as far as is possible, the costs and risks of operating sinking funds:

- ***The Council will cease to operate sinking funds where the necessary creditor and Sinking Fund Commissioner approval has been received***

- ***Proceeds from the unwinding of existing sinking funds will be used to repay debt.***

- ***Sinking fund assets will continue to be invested over terms which will enable unwinding of sinking funds at the earliest practical time.***

- ***Sinking fund investments will continue to be made in the context of the Council's policy on managing credit risk as outlined in Section 7. The highest possible interest rate return will be earned within the credit and term limits.***

4.8 Liquid Financial Deposits

Nature of Investment

The Council holds in liquid bank deposits $40.8 million as a result of selling its interest in CentrePort Ltd to one of its wholly owned subsidiaries, Port Investments Ltd.

Rationale for Holding Investment

The Council retains the sale proceeds in liquid bank deposits to ensure that it has sufficient liquidity to cover its self insured infrastructural assets and to ensure it can fully fund at short notice its contingency reserves (e.g. flood contingency reserve), in the event that it is unable to raise new borrowing when required.

Over time the Council is building up self insurance investment funds in both the water and Flood Protection functional areas as follows:

- Water $10 million (refer 4.6.1)
- Flood Protection $11 million (refer 4.6.2)

In the meantime, the Council's Treasury function needs to ensure that it can provide sufficient liquid funds to meet the cost of any self insured damage.

Disposition of Revenue

Revenue earned from Council's liquid bank deposits contribute towards Council's operating surplus.

Risk Management

The Council retains its liquid deposits with its transaction banker, on the basis that its transaction banker provided the loan funding for Council's subsidiary company to purchase Council's interest in CentrePort. Council's transaction banker has a long-term credit rating equivalent to that of the Council (AA-).

Management Reporting Procedures

The investment is monitored regularly by Council's Treasury function and the Treasury Management Croup.

Policies for Liquid Financial Deposits

- ***The Council will continue to hold its Liquid Financial Deposits for the purposes of providing a ready source of liquidfunds.***
- ***The Council will continue to monitor its investment and the associated interest earned, through Council's Treasury function.***

4.9 Stadium Advance

Nature of Investment

On 6 August 1998 the Council advanced to the Wellington Regional Stadium Trust $25 million for the planning, development and construction of the Railyards Stadium. The advance is interest free with limited rights of recourse, although it is expected to be repaid from surplus funds generated by the Stadium Trust in future years.

Rationale for Holding Investment

In August 1995 the Council agreed in principle to participate in the establishment of the Wellington Regional Stadium Trust and the Wellington Regional Council (Stadium Empowering) Act 1996 empowered the Council to lend up to $25 million to the Trust. The Council reached this decision after extensive public consultation which was supported by a market research survey.

The Council continues to hold the advance as an investment on the basis that it is repayable by the Trust.

Disposition of Revenue

There is no revenue earned on the investment.

Risk Management

An extensive risk management exercise was carried out prior to the Council advancing the *$25* million to the Stadium Trust. Ongoing monitoring is carried out of the Trust's financial affairs and formal reporting is received from the Trust on a regular basis.

Management Reporting Procedures

The Council receives regular reports from the Stadium Trust pursuant to the funding deed signed by the Stadium Trust and the Council (in conjunction with the Wellington City Council).

Policies for the Stadium Advance

- ***The Council will continue to hold its advance as an investment until such time as the Stadium Trust has repaid it in full.***
- ***The Council will continue to closely monitor the financial performance of the Trust.***

5. Cash Management

The treasury function is responsible for managing the Council's cash surpluses and/or deficits and those of Council's 100% owned subsidiaries. Cash management functions for CentrePort are handled by personnel within that company.

The Council maintains rolling daily, monthly and annual cashflow projections which form the basis of its cash management activity. The Council maintains one main bank account for its operating cashflows as well as other bank accounts for specialist activities such as sinking funds. Individual business units 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 cashflow timing differences to its favour. Daily bank balances are extracted by the Financial Analyst through the Direct Link system. Daily cash requirements are determined by reference to the Daily Cashflow Position Report and appropriate adjustments are made to money market balances.

Generally cashflow surpluses from timing differences are available for periods less than 180 days.

Cash management activities must be undertaken within the following parameters:

- ***Cashflow surpluses will be placed in call deposits, negotiable certificates of deposits or bank bills with its relationship banks. Amounts invested must be within limits specified in Section 7.***

- ***An optimal daily range of -$100,000 to +$300,000 is targetedfor in the Council's main bank account, with amounts drawn from the Council's money market lines if required***

- ***The Council will maintain a committed bank overdraft facility of not less than $500,000. However, amounts in excess of $100,000 are used only in exceptional circumstances because of the high cost of using overdraft facilities.***

- ***The use of interest rate risk management on cash management balances is not permitted***

- ***The Council will maintain undrawn committed lines of no less than $5 million.***

6. Foreign Exchange Management

The Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated plant and equipment.

However, due to legislative restrictions, the Council will not borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency. Where appropriate foreign exchange cover will be arranged through the supplier.

7. Treasury Counterparty Exposure Limits

The Council ensures that all investment, interest rate risk management as well any foreign exchange activity is undertaken with institutions that are of high quality credit to ensure amounts owing to the Council are fully paid and on due date.

More specifically, the Council minimises its credit exposure by :

- ***Ensuring all investment, cash management, interest rate risk management and any foreign exchange transactions are undertaken with entities that have a very strong Standard and Poor's (S&P) credit rating.***
- ***Limiting total exposure to prescribed amounts.***
- ***Rigorously monitoring compliance against set limits.***

The following table summarises credit requirements and limits:

Institution	Minimum S&P Short Term Credit Rating	Minimum S&P Long Term Credit Rating	Total Exposure Limit for each counterparty
Government	**N/A**	**NIA**	**Unlimited**
Registered Bank **- On balance sheet exposures** **- Off balance sheet exposures**	**Al+** **Al+**	**AA-** **AA-**	**$10 million(1)** **$10 million**
Strongly Rated Corporates, SOEs and Local Authorities (on balance sheet exposures only)	**Al+**	**AA-**	**$5 million**

(1) $50 million for National Bank of New Zealand given NBNZ is funder of Council's subsidiary, WRC Holdings Ltd.

If any counterparty's credit rating falls below the minimum specified in the above table then all practical steps are taken to reduce the credit exposure to that counterparty to zero as soon as possible. A current list of S&P rated issuers is included in Appendix VI.

Exposures to each counterparty are computed as follows:

On-balance sheet

- Total amounts invested with that counterparty.

Off- balance sheet

- Credit exposure on interest rate contracts computed by multiplying face value of outstanding transactions by an interest rate movement factor of 5%

Netting Arrangements

Exposures computed above can be netted where there is a right to set-off which is enforceable by law. e.g. transactions entered into under a single master agreement.

8. Banking Relationships

As in other parts of its activities, 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. In this regard whilst day to day transactional requirements are important, it is the Council's borrowing requirements that are likely to drive key relationships.
- 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 banks.

The Council's banking relationships will be reviewed at least every three years.

9. Reports and Meetings

9.1 Reports

The following reports will be produced:

Report Name	Frequency	Prepared by	Reviewed by	Recipients
Daily Treasury Report (Detailing Council cash position exceptions and counterparty exposure)	Daily	Assistant Accountant	Finance Manager	CFO Finance Manager Management Accountant
Quarterly Treasury Review (Including Debt Maturity profile as Statement of Public Debt)	Quarterly	Financial Analyst	Management Accountant Finance Manager	TMG CFO General Manager Council (each 6 months)
Treasury Compliance Report	Daily, reported on exceptions basis Monthly	Financial Analyst	Financial Accountant Finance Manager	CFO TMG Council
Statement of Sinking Funds	Annually	Financial Analyst	Management Accountant Finance Manager	Council

9.2 Meetings

A meeting of the TMG will continue to be held at approximately monthly intervals to discuss the activity for the previous month together with likely activity for the coming months. The approved quarterly borrowing, investment and risk management strategies are reviewed at this meeting and amended if appropriate. Tactics for the following months are agreed with operating guidelines provided to the Management Accountant for implementation. The Financial Analyst is responsible for preparing the agenda for the monthly meeting as well as documenting the actions required by the TMG.

10. Delegated Authorities

Activity	Delegated to:
Approve policy document	Council
Alter policy document	Council
Open/close bank accounts	General Manager / Chairman
Acquire and dispose of investments other than financial investments	Council
Approve borrowing programme for the year (including debt buy backs)	Council
Approve charging assets as security over borrowing	Council
Approve new loans in accordance with Council resolution	CFO
Negotiate debt in relation to interest rate, term and maturity date	CFO
Transfer of stock / register new debt issues	Approved Austraclear signatories
Approve RBNZ/Austraclear signatories	As per register approved by the General Manager
Approve cheque signatories	General Manager/ Chairman
Approve Direct Link funds transfer signatories	As per register approved by the General Manager
Manage borrowing strategy	CFO (Approve strategy as Chairman of TMG) TMG (recommend strategy) Management Accountant/Financial Analyst (Execute approved strategy, daily management)
Approve interest rate risk management instruments contained in the Risk Management ToolKit in Appendix IV, and subsequent additions and deletions	Council
Authorise use of Council approved interest rate risk management instruments	CFO
Manage Council cash requirements	Management Accountant
Manage Council foreign exchange exposures (via external suppliers)	CFO (amounts over $20,000) Management Accountant (amounts up to $20,000)

11. Key Internal Controls

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

- Adequate segregation of duties among the core treasury functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in treasury activity. Accordingly strict segregation of duties is not always achievable. Refer to section 2.2 for more detailed treasury responsibilities. The risk from this will be minimised by the following processes:

  - a documented discretionary approval process for treasury activity.
  - regular management reporting.
  - regular operational risk control reviews by the independent audit function.

- 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.
  - all outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity.

More specifically, key internal controls are as follows:

11.1 General

Organisational Controls

- The CFO 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 the Council's Treasury Procedures Manual.

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

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

Cheque /Electronic Banking Signatories

- Positions approved by the Council as per register.

- Dual signatures are required for all cheques and electronic transfers.

Authorised Personnel

- All counter-parties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

Recording of Deals

- All deals are recorded on properly formatted deal tickets by the Financial Analyst and approved by the Management Accountant. Market quotes for deals (other than cash management transactions) are perused by the Management Accountant before the transaction is executed. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions are maintained and updated promptly following completion of transaction.

Confirmations

- Same day faxed confirmations are requested from banks and checked by the Financial Analyst

- All inward letter confirmations including registry confirmations are received and checked by the Assistant Accountant against completed deal tickets and summary spreadsheet records to ensure accuracy.

- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date order.

- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the Finance Manager.

Settlement

- Payment batches for treasury payments are set up on Direct Link by Accounts Payable and checked by the Financial Analyst to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

- The Financial Analyst and Management Accountant are **<u>not</u>** included in the list of approved Direct Link payment signatories.

Reconciliations

- Bank reconciliations are performed regularly by the Finance Co-ordinator and checked by the Financial Accountant. Any unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the CFO.

A monthly reconciliation of the treasury system/spreadsheets spreadsheets to the general ledger is carried out by the Financial Analyst and approved by the Finance Manager.

11.2 Borrowing

In addition to the controls listed under Section 11 .1, the following controls apply to borrowing:

- Borrowing activity is undertaken within borrowing limits specified in Section 3 of this policy.
- All borrowing is undertaken by private placement or by using competitive bidding processes. Detailed procedures for issuing securities and bank borrowing are included in the Treasury Procedures Manual.

11.3 Investments

In addition to the controls listed in Section 11 .1, the following controls apply to investments:

- Investment activity is undertaken within limits specified in Section 7 of this policy.
- All deliverable certificates of investments (for example, bank bills) are held in safe custody with Austraclear or with the originating bank.
- NZ Government stock, Treasury bills, local authority stock and debentures are registered with the RBNZ. The Council receives notice of the stocks transferred into its name from the RBNZ. This notice is checked to the Council's treasury system/spreadsheets.

11.4 Incidental Arrangements (Derviatives)

In addition to the controls listed under Section 11 .1, the following controls apply to incidental arrangements:

- The use of incidental arrangements is confined to managing interest rate risk of Council borrowings and is to be within the confines of the parameters and instruments specified in Section 3 of this policy.
- The use of incidental arrangements requires formal prior approval of the CFO.
- Standard master agreements for incidental arrangements are completed by the Council with its relationship banks.

12. Content of Appendices

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Appendix 1

Policy Cross-Reference to Local Government Amendment Act (No.3) 1996

Act Section Reference	Brief Description of Requirement	Borrowing and Investment Policy Section Reference
s122c (e)	Principles of financial management- prudent debt levels	sections 1,3
s122d	Local authorities not required to use specific funding mechanisms	Section 4.7
s122j	Short term borrowing, reserves	Sections 3.1, 3.4,5
s122q (a)	General policy on investments	Section 4.2
s122q (b)(i)	Mix of investments	Section 4.1
s122q (b)(ii)	Acquisition of new investments	Section 4.2,
s 122q (c)(i)	Revenue from its investments	Sections 4.3- 4.7
s 122q (c)(ii)	Proceeds of sale of assets	Sections 4.3- 4.7, Section 3.7
s122q (d)	Outline of procedures for management and reporting of investments	Sections 4.3- 4.7, 9,
s122q (e)	Management of risks associated with investments	Sections 4.3- 4.7,5,11
s122s	Content of borrowing management policy	Section 3
s122s (a)	Interest rate exposure policy	Section 3.5
s122s (b)	Liquidity policy	Section 3.4
s122s (c)	Credit exposure policy	Section 3.10
s122s (d)	Debt repayment policy	Section 3.7
s 122s (e)	Borrowing limits	Section 3.2
s122s (e)	Giving of security	Section 3.6
s122za	General power to borrow	Section 3.1
s122zb	Power to enter into incidental arrangements	Section 3.5
s122zc	Prohibition on borrowing in foreign currency	Section 6
s122zd	Procedure for borrowing money	Sections 3.3,11
s122ze	Security for loans	Section 3.6
s122zq	Assimilation of existing stock with new stock	Section 3.6
s122zr	Provisions relating to sinking funds	Section 4.7
s223f	Financial systems	Section 11

Appendix II

Treasury Management Group - Composition

The composition of the Treasury Management Group is approved by the General Manager. The following table details the positions within the Council that form part of the Treasury Management Group, as well as the input they are expected to add:

Position	Input Value
Chief Financial Officer	Overall responsibility for treasury functions. Chairman of TMG
Divisional Manager Utility Services	Perspective from the Council's largest user of debt
Finance Manager	Overall responsibility for front and back office
Management Accountant	Management of treasury function. Development of strategy. Analysis of treasury performance
Financial Analyst	Operational responsibility. Assist in developing strategy. Feedback on previous activity
Financial Accountant	Settlements and exception reporting
External Risk Advisor	Technical expertise, outlook on market movements

Appendix III

Borrowing Instruments Definitions

1. Bank Sourced Borrowing

1.1 Bank Bill facilities

Commercial Bills cover all types of bills of exchange which are defined under the Bills of Exchange Act 1908 as:

"An unconditional order in writing, addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at fixed or detenninable future time, a sum certain in money to, or to the order of a specified person, or to bearer."

Bank bill facilities are normally for a term of up to three years but may be for as long as five years. Bank bills are bills of exchange, drawn or issued usually by the original borrower and accepted or endorsed by a bank.

For a Bank Accepted Bill, the bank makes the payment of the face value of the bill on maturity. Most bank bills traded in the New Zealand market are Bank Accepted Bills.

Bank Endorsed Bills have been endorsed by a bank with another party as acceptor. In the event of default of the original acceptor, payment can be sought through the chain of endorsers to the bill.

An investor in bank bills can sell the bills prior to maturity date and receive the cash. Bank bills are a longer term borrowing instrument than cash loans. Bills are normally drawn for terms of 30, 60 or 90 days with a few being drawn for 180 days. The 90 day bank bill is the underlying traded benchmark instrument for the short end of the market.

Costs:
The principal costs to the borrower are the discounting bank's yield at which it discounts the bill at the time of drawdown, an arrangement fee, an acceptance fee and a line fee (expressed in basis points or percentage per annum) and margin. Acceptance fees, arranger fees, line fees and margins in aggregate normally range between 35 - 300 basis points (i.e. 0.35% - 3.00%), depending on the credit worthiness of the borrower.

1.2 Revolving Credit Facilities (Variable Amount Term Loans)

Revolving credit facilities are similar from a borrower's perspective except interest is paid in arrears rather than upfront as in the case of bank bills. Revolving credit facilities are usually for a term of up to three years but may be for as long as five years and like bank bills drawings under the facility are priced off the bank bill buy rate. Most facilities allow for the borrower's to draw up to the facility amount in various tranches of debt and for various terms out to a maximum term of the maturity date of the facility. Like bank bills most borrowers use these facilities to borrow on a 90 day basis.

Costs:
The principal costs are the same as with bank bills, the lending bank's yield which sets the base rate at the time of lending, an arrangement fee, an acceptance fee and a line fee (expressed in basis points or percentage per annum) and the margin. Acceptance fees, arranger fees, line fees and margins in aggregate normally range between 35 - 300 basis points (i.e. 0.35% - 3.00%), depending on the credit worthiness of the borrower.

1.3 Money Market Lines

Money market loans or cash loans can be Committed or Uncommitted. A customer pays for a guarantee of the availability of the funds in a Committed Loan. In an Uncommitted Loan, funds are provided on a best endeavors basis and no line/commitment fee is payable. In addition to a line fee, a margin may be charged on any line usage.

The minimum amount for a cash loan is typically $250,000. Smaller loans can be arranged, although the interest rate quoted will be a reflection of the size of the loan.

The interest rate is governed by the term of the borrowing and the implied or implicit credit rating of the borrower. Cash loans are short term only and are normally drawn for a term of one (overnight) to seven days. Interest collection can be daily.

2. Capital markets programmes

Commercial Paper ("CP. ") programmes normally provide for issuance with tenors of between 7 and 364 days. The majority of CP. issued in the New Zealand market is for terms of 30, 60, or 90 days.

Corporate Bonds commonly in existence in the New Zealand market have essentially the same characteristics as Government Stock. These are a source of longer term fixed or variable rate finance which can be sold either in bearer or registered form (normally registered). Bonds are normally issued with coupon interest paid in arrears on a six monthly basis for fixed rate instruments, and three monthly for floating rate instruments. Local Authority Bonds are issued by a variety of local governments by tender or private placement. The Bonds are registered securities. They are repayable on a fixed date, and are generally issued for terms ranging from one to fifteen years.

Local Authority Bonds are priced on a semi annual basis and issued at a discount to face value. A fixed coupon payment is made semi annually to the holder of the security. The pricing formula is the same as Government Bonds.

The term bond is usually reserved for securities with terms longer than five years, to clearly distinguish between short term (CP.), medium term (MTNs) and long term (Bonds) debt instruments. Given that the term "bond" can also be used generically to denote a coupon bearing instrument irrespective of tenor this term will be used for this paper and will include the MTN security. Fixed term, floating rate instruments are becoming increasingly common and are also discussed in this paper. The name usually given to these instruments is "Floating Pate Notes" ("FRNs"), and these are also covered under the generic heading "Bond". FRNs are typically for terms of 2-5 years.

CP. and Bonds usually constitute unconditional, unsecured and unsubordinated obligations of the issuer, except indebtedness given a preference by operation law.

3. Structured and Project Finance

Project and structured financing matches up debt to suit the quantifiable income stream from the project. This type of financing is appropriate for the funding of standalone assets which are able to be ring-fenced and over which security can be taken. The sort of assets to which this usually applies are assets which are transferable, and for which an international equity market exists, e.g. infrastructural assets. The owner of the asset usually retains an equity interest in the asset.

Appendix IV

The Risk Management ToolKit

1. **Approved Interest Rate Risk Management Instruments**
2. **Interest Rate Risk Management Instruments - definitions**

1. Approved Interest Rate Risk Management Instruments

A. **Interest rate risk management instruments approved for use, consistent with the policy contained in Section 3.5 are:**

- Fixing through physical borrowing instruments - loan stock, debentures, medium term notes, bank term loan.
- Floating through physical borrowing instruments - short term revolving stock, bank borrowing, promissory note programme.
- Forward rate agreements on approved funding instruments.
- Interest rate swaps.
- Purchase of interest rate options on approved funding instruments.
- Interest rate collar type option strategies.

B. **The following interest rate risk management instruments, among others, are available for interest rate risk management activity, but are to be specifically approved by the Council in the future:**

C. **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 where there is any possibility of the Council's total interest expense increasing in a declining interest rate market or where the Council's total interest cost is increasing faster than the general market rate.
- Interest rate futures contracts, mainly for administrative ease.

2. Interest Rate Risk Management Instruments and terms - Definitions

BKBM

The bank bill mid market settlement rate as determined at 10:45am each business day on Reuters page BKBM. 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 of time. 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 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 Collar Strategy

The combined purchase (or sale) of a cap or floor with the sale (or purchase) of another floor or cap.

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 bench mark 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.

Appendix V

Schedule of current Council investments and values

WRC's Investments as at 30 June 1999

Nature of Investments	Book Value ($,000)	Relevant Section of Policy
Shares in Local Government Insurance	80	Section 43.2
Forestry	13,327	Section 4.4
Shares in WRC Holdings Limited	11,882	Section 4.3
Regional Water Supply Self Insurance Fund	2,310	Section 4.6.1
Sinking Funds - WRC Commissioner	1,445	Section 4.7
Sinkiug Funds - NPF Commissioner	4,120	Section 4.7
Liquid Financial Deposits	40,800	Section 4.8
Stadium Advance	25,000	Section 4.9
TOTAL INVESTMENTS	$98,964	

Appendix VI

1. **Approved Financial Investment Instruments - Definitions and Description**
2. **Standard and Poors definitions and current listing**

1. Approved Financial Investment Instruments

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

I. New Zealand Government

- Treasury bills are registered securities issued by the Reserve Bank of New Zealand (RBNZ) on behalf of the Government. They are usually available for terms up to a year but generally preferred by investors for 90 day or 180 day terms. They are discounted instruments, and are readily negotiable in the secondary market.

- Government stock are registered securities issued by the RBNZ on behalf of the Government. They are available for terms ranging from one year to twelve year maturities. Government stock have fixed coupon payments payable by the RBNZ every six months. They are priced on a semi-annual yield basis and are issued at a discount to face value. They are readily negotiable in the secondary market.

2. Local Authorities

- Local Authority stock are registered securities issued by a wide range of local government bodies. They are usually available for maturities ranging from one to ten years. A fixed coupon payment is made semi-annually to the holder of the security. They are negotiable and usually can be bought and sold in the secondary market.

3. Registered Banks

- Call and term deposits are funds accepted by the bank on an overnight basis (on call) or for a fixed term. Interest is usually calculated on a simple interest formula. Term deposits are for a fixed term and are expected to be held to maturity. Term deposits are not negotiable instruments. Termination prior to maturity date can often involve penalty costs.

- Certificates of deposits are securities issued by banks for their funding needs or to meet investor demand. Transferable certificates of deposits (TCDs) are non-bearer securities in that the name of the investor, face value and maturity date are recorded on the certificate. They are able to be transferred by registered transfer only. Negotiable certificates of deposits (NCDs) on the other hand, are bearer securities and are able to be transferred immediately. Both TCDs and NCDs are priced on a yield rate basis and issued at a discount to face value. They are generally preferred over term deposits because investors can sell them prior to maturity.

- Bank bills are bills of exchange drawn or issued, usually by a corporate borrower and accepted or endorsed by a bank. The investor is exposed to bank credit risk when investing in such instruments. Bank bills are readily available for any maturity up to

180 days, although 30 to 90 day terms are more common. They are priced on a yield basis and issued at a discount to face value. Investors in bank bills can sell the bills prior to maturity date.

4. *Corporates*

- Corporate bonds are generally issued by companies with good credit ratings. These bonds can be registered securities or bearer instruments. A fixed coupon payment is made semi-annually to the holder of the security. They are priced on a semi-annual yield basis and are issued at a discount to face value. Corporate bonds are negotiable and can be bought and sold in the secondary market.

- Promissory notes are issued by borrowers who usually have a credit rating and standing in the market that is sufficient to enable the notes to be issued without endorsement or acceptance by a bank. The notes are usually underwritten by financial institutions to ensure that the borrower obtains the desired amount of funds. Promissory notes are issued with maturities ranging from 7 days to over one year. The common maturities are for 30 and 90 days. The face value of the note is repaid in full to the bearer on maturity.

2. Standard and Poors definitions and current listing

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NEW ZEALAND RATINGS

RATING		NZ$ LONG-TERM RATING	
Extremely strong capacity to pay	AAA	Electricity Corp. of New Zealand Ltd. (GTD) New Zealand Primary Industry Bank of Australia Ltd. (GTD)	Rabobank Nederland N.V. Tokio Marine & Fire Insurance Co. Ltd. (New Zealand Branch)
Very strong capacity to pay	AA+	Mitsui Marine & Fire Insurance Co. Ltd. (New Zealand Branch) New Zealand Post Ltd.	Transpower Finance Ltd. (GTD) Transpower New Zealand Ltd.
	AA	Auckland City Council Bank of New Zealand Ltd. Barclays Bank PLC Christchurch City Council Christchurch City Holdings Ltd. Credit Agricole Indosuez S.A.	New Zealand Dairy Board WatchN New Zealand Dairy Board Finance (N.Z.) Ltd. WatchN Telecom Corp. of New Zealand Ltd. WatchN TCNZ Finance Ltd.
	AA-	ANZ Banking Group (New Zealand) Ltd. Bankers Trust New Zealand Ltd. (GTD) Chase Manhattan New Zealand Ltd. Citibank Ltd. Dunedin City Council Dunedin City Treasury Ltd. Endeavour Mortgage Trust Funds Hutt City Council Mortgage Corp. of New Zealand	National Bank of New Zealand Ltd. (The) NBNZ International Ltd. (GTD) New Zealand Co-operative Dairy Co. Ltd. (The) WatchD Ports of Auckland Southern Cross Medical Care Society Teiecom New Zealand Finance Ltd. Wellington Regional Council Westpac Banking Corp.
Strong capacity to pay	At	ASB Bank Ltd. Auckland International Airport Ltd. AVCO Financial Services International Inc. (GTD) WatchD Coca-Cola Amatil N.Z. Ltd. (GTD)	Housing New Zealand Ltd. Kiwi Co-operative Dairies Ltd. WatchP Vector Ltd. Watercare Services Ltd. WatchN
	A	Capital Coast Health Ltd. Christchurch International Airport Ltd.	General Motors Acceptance Corp. (N.Z.) Ltd. (GTD)
	A-	Bank of Tokyo-Mitsubishi (Australia) Ltd. Ford Motor Credit Co. of New Zealand Ltd. PowerCo. Ltd.	TransAlta New Zealand Ltd. Wellington International Airport Ltd.
Adequate capacity to pay	BBB+	Contact Energy Ltd. Goodman Fielder Ltd.	Natural Gas Corp. Holdings Ltd. Tranz Rail Holdings Ltd. WatchN
	BBB	Air New Zealand Ltd. WatchN Brierley investments Ltd. Fisher & Paykel Finance Ltd.	Fletcher Challenge Ltd. WatchN Fletcher Challenge Industries Ltd. WatchN
	BBB-	Carter Holt Harvey Ltd. Fernz Corp. Ltd.	
Uncertainties or adverse conditions could lead to inadequate capacity to pay	BB+	Lion Nathan Ltd.	
	BB		
	BB-		
Adverse conditions likely to impair capacity to pay	B+		
	B		
	B-		
Vulnerable to default	CCC		
High risk of default	C		
Default	D		

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NEW ZEALAND COMMERCIAL PAPER RATINGS

	RATING	NZ$ SHORT-TERM ISSUES	
Extremely strong	A-1+	ANZ Banking Group (New Zealand) Ltd. Auckland City Council Bankers Trust New Zealand Ltd. (GTD) Bank of New Zealand Ltd. Barclays Bank PLC CBA Funding (N.Z.) Ltd. Chase Manhattan New Zealand Ltd. Christchurch City Council Christchurch City Holdings Ltd. Citibank Credit Agricole Indosuez S.A. Dunedin City Council Dunedin City Treasury Ltd. Electricity Corp. of New Zealand Ltd. (GTD) Medical Mortgages Ltd. MTF Securities Ltd. National Bank of New Zealand Ltd. (The) NBNZ International Ltd. (GTD)	New Zealand Dairy Board Finance (N.Z.) Ltd. New Zealand Co-operative Dairy Co. Ltd. (The) WatchN New Zealand Post Ltd. New Zealand Receivables Corp. Ltd. Pacific Retail Securities Ltd. Ports of Auckland Primary Industry Bank of Australia Ltd. Rabobank Nederland N.V. Retail Financial Services Ltd. Speirs Securities Ltd. Telecom Corp. of New Zealand Ltd. Toyota Finance New Zealand Ltd. (GTD) Transpower Finance Ltd. (GTD) Transpower New Zealand Ltd. Wellington Regional Council Westpac Banking Corp.
Strong	A-l	ASB Bank Ltd. Auckland International Airport Ltd. AVCO Financial Services international Inc. (GTD) WatchD Bank of Tokyo-Mitsubishi (Australia) Ltd. WatchN Christchurch International Airport Ltd. Ford Motor Credit Co. of New Zealand Ltd. (GTD)	General Motors Acceptance Corp. (N.Z.) Ltd. (GTD) Guardian Assurance Ltd. Housing New Zealand Ltd. Kiwi Co-operative Dairies Ltd. WatchP SABRE New Zealand Ltd. Vector Ltd. Watercare Services Ltd. WatchN
Satisfactory	A-2	Contact Energy Ltd. Fisher & Paykel Finance Ltd. Fletcher Challenge Ltd. WatchN GF Finance (NZ) Ltd. (GTD) Natural Gas Corp. Finance Ltd.	Pacific Dunlop Holdings (NZ) Ltd. PowerCo Ltd. TransAlta New Zealand Ltd. Tranz Rail Holdings Ltd. WatchN Wellington International Airport Ltd.
Adequate	A-3	Air New Zealand Ltd. Brierley Investments Ltd.	Carter Holt Harvey Ltd. Fernz Corp. Ltd.
Speculative	B	Lion Nathan Ltd.	