Clutha District Council

Treasury Management Policy		**Policy number:**	**01-01-003**
Approved by:	Audit & Risk Committee 8 February 2018 Council 22 February 2018		
Department:	Corporate Services		
Date Approved:	22 February 2018	**Next Review Date:**	January 2021 (3 years)
Relevant Legislation:	Incorporating the Liability Management and Investment Policies as required by sections 104 and 105 of the Local Government Act 2002		
Clutha District Council Documents reference:			

Contents

1.0 PURPOSE

The purpose of the Treasury Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Clutha District Council ("Council"). The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within Council continue to be well managed. In addition, regular reviews will be conducted to test the existing policy against the following criteria:

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

It is intended that the policy be distributed to all personnel involved in any aspect of the Council's financial management. In this respect, all staff must be completely familiar with their responsibilities under the policy at all times.

2.0 SCOPE AND OBJECTIVES

2.1 Scope

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

2.1 Objectives

The objective of policy is to control and manage costs and investment returns that can influence operational budgets and public equity. Specifically:

Statutory Objectives

- All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- Treasury management is governed by the following relevant legislation; the Local Government Act 2002, in particular Part 6 including sections 100, 101,101A, 102, 103, 104, 105,112 to 116.
- All borrowings are to be approved as part of the Long Term Plan (LTP) before the borrowing is affected.
- Legal advice will be sought on borrowing transactions if judged necessary by staff.
- Council will not enter into any borrowings or incidental arrangements in currency other than New Zealand currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.
- Hire Purchase, Deferred Purchase, Trade Credit - for the purposes of sub-paragraph (c)(ii)(B) of the definition of "borrowing" in section 112 of the LGA 2002, "borrowing" does not include:
    - Debt incurred in connection with hire purchase of goods, the deferred purchase of goods or services, or the giving of credit for the purchase of goods or services, if the goods or services are obtained in the ordinary course of Council's performance of its lawful functions, on terms and conditions available generally to parties of equivalent credit-worthiness, for amounts not exceeding in aggregate $250,000 ; or
    - The deferred purchase of goods or services or the giving of credit for the purchase of goods or services through the mechanism of contract retentions held for periods less than 365 days.
- Other - Instruments not specifically referred to in this policy may only be used with specific Council approval.
- The Council routinely defers payment following completion of construction or other large scale engineering contracts in accordance with standard industry practices. Although this practice may mean that these deferred payments fall within the definition of borrowing for the purposes of the Act and this policy, these contractual arrangements create very little risk. There is no interest exposure on these payments; the credit-worthiness of the contracting party is not relevant; and the deferred period is sufficiently long that no impact on liquidity is anticipated, as payments can be programmed in advance through the annual plan process or standard cash flow procedures. Therefore, the Council will enter into these contracts in accordance with its standard procurement procedures, and deferred payment conditions will not require any additional approval by the Council.

Borrowing Objectives – why and when do we borrow and how will we manage the cost and risk

- We borrow to pay for assets not expenses.

- We need to minimise the cost of borrowing by investigating loan options in the market, weighing up repayment periods and timing borrowing to when the outflow of funds is required.
- Establish a control environment that sets appropriate risk assessment and compliance procedures for effective treasury management.
- Arrange and structure long term funding to optimise flexibility and debt maturity and interest rate and counter party risk management.

Investment Objectives – why we invest and how we manage returns and risk

- To manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Minimise Council's exposure to adverse interest rate movements.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.

Reporting Objectives

- To monitor compliance with this and other council policies and plans, as it relates to debt and investments.
- To monitor the market and evaluate the performance of Clutha's debt and investments against the market and assess appropriateness of policy implementation.
- To report on treasury performance.

3.0 MANAGEMENT RESPONSIBILITIES

3.1 Overview of Management Structure

The following diagram illustrates those positions or functions that have treasury responsibilities:

Clutha District Council

Audit & Risk Committee

Chief Executive (CE)

Group Manager Corporate Services (GMCS)

Finance Manager (FM)

3.2 Council

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

The Council is responsible for approving the Treasury Policy. Council may delegate the review of changes made to the policy if it so chooses.

In this respect, the Council has responsibility for:

- Approving the long-term financial strategy and budgets through the 10 year Long Term Plan (LTP) and annual plans.
- Approving new debt in accordance with the 10 year Long Term Plan.
- Approving the Treasury Policy incorporating the following delegated authorities either to Committees or other subordinate decision-making body or staff:
    - Borrowing, investment and dealing limits and the respective authority levels delegated to the CE.
    - Counterparties and credit limits.
    - Risk management methodologies and benchmarks.
    - Guidelines for the use of financial instruments.
    - Receive a triennial review report on the policy.
- Approving amendments to policy.
- Approving opening and closing of bank accounts.

The Council should also ensure that:

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

3.2 Audit & Risk Committee

The Committee should ensure that:

- There is a comprehensive risk management framework is in place for treasury management.
- The internal control environment for treasury management is sound and effective.
- There is quality reporting on treasury transactions and positions.
- The Council’s accounting policies and principles are appropriate for treasury transactions.

- It reviews Council's compliance with this policy.

3.3 Chief Executive (CE)

While the Council has final responsibility for the policy and management of risks, it delegates overall responsibility for the day-to-day compliance with the policy and management of risks to the Chief Executive.

In respect of treasury management activities, the Chief Executive's responsibilities include:-

- Ensuring the Treasury policies comply with existing and new legislation.
- Approving the register of cheque and electronic banking signatories.
- Approving new counterparties and counterparty limits.
- Approve new borrowing undertaken in line with the Long Term Plan.
- Receiving advice of breaches of Treasury Policy and significant treasury events from the Group Manager Corporate Services.
- Delegating treasury operation responsibilities to management.

3.4 Delegation of Authority and Authority Limits

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

To prevent these types of situations, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least once every three years to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council.

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Council has the following responsibilities, either directly itself, or via the following stated delegated authorities:

Responsible Activity	Delegated Authority	Limit
Approving and changing Policy	Council	Unlimited
Borrowing new debt	Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments other than financial investments	Council	Unlimited

Responsible Activity	Delegated Authority	Limit
Approval for charging assets as security over borrowing	Council	Unlimited
Appoint Debenture Trustee	Council	N/A
Opening / closing bank accounts	Council	Unlimited
Overall day-to-day risk management	CE (delegated by Council) GMCS (delegated by CE) FM (delegated by CE)	Overall day-to-day risk management
Re-financing existing debt	CE (delegated by Council) GMCS (delegated by CE) FM (delegated by CE)	Existing debt
Adjust net debt or net investment interest rate risk profile	CE (delegated by Council) GMCS (delegated by CE) FM (delegated by CE)	Per risk control limits
Managing funding and investment maturities in accordance with Council approved risk control limits	CE (delegated by Council) GMCS (delegated by CE) FM (delegated by CE)	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on floating rate investments and interest rate rollovers on swaps	Council CE (delegated by Council) GMCS (delegated by CE) FM (delegated by CE) Finance Accountants Team (delegated by CE)	Unlimited $10 million $5 million $3 million $1 million
Authorising lists of signatories	CE (delegated by Council)	Unlimited
Triennial review of policy	Audit & Risk	N/A

Responsible Activity	Delegated Authority	Limit
	Committee GMCS FM	
Ensuring compliance with policy	CE GMCS FM Finance Accountants Team	N/A
Monitoring compliance with policy	Audit & Risk Committee	NA

4.0 LIABILITY MANAGEMENT POLICY

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

- Fund working capital requirements and short term funding gaps.
- Fund the work programmes approved in the 10 year plan in accordance with the financial strategy.
- Fund unplanned expenditure e.g. weather events, opportunities and emergencies.

4.1 Debt Ratios and Limits

The following limits are the prudential limits which are recognised by our lenders as being the maximum levels at which Council should prudently operate within. The financial strategy sets limits on debt in the context of the environment that Council is operating and is forecast to operate in and its budgets and the impacts of these on residents. The financial strategy limits will be equal to or under these prudential limits.

Debt will be managed within the financial strategy limits. The following prudential limits are maximums Council cannot exceed:

Ratio	Policy Limits
Net debt as a percentage of total revenue	<170%
Net Interest as a percentage of total revenue	<15%
Net Interest as a percentage of annual rates income	<10%

- Total Revenue is defined as operating revenue less non-government capital contributions (e.g. financial contributions and vested assets).
- Net debt is defined as total debt less liquid short-term financial assets and investments.
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.

- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

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

Initial emergency response and disaster recovery requirements are to be met through the liquidity ratio.

4.3 Financing Mechanisms

Council is able to finance activities through a variety of mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, LGFA borrowing, accessing the short and long-term wholesale and retail capital markets directly, lease or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size, short term versus long term and pricing) the GMCS takes into account the following:

- Available terms from banks, LGFA, debt capital markets and loan stock issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as its own.
- Ensuring that the implied finance terms and conditions within the specific debt (e.g. project finance) are evaluated in terms such as cost/tax/risk limitation compared to the terms and conditions Council could achieve in its own right.
- Legal documentation and financial covenants together with credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at similar terms to those from external borrowing.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

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

4.4 Security

Borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue. The utilisation of special funds and reserve funds and internal borrowing of special funds/reserve funds and other funds will be on an unsecured basis.

The security offered by Council ranks equally or 'Pari Passu' with other lenders.

Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more assets.

Physical assets will be charged only where:-

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

4.5 Debt Repayment

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

On maturity debt will be refinanced in accordance with the borrowing strategy and the relevant limits at that time.

Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

4.6 Guarantees and other Financial Arrangements

Financial arrangements will be made in exceptional circumstances where Council has undertaken due diligence and established extraordinary need for Council making advances. Council will ensure appropriate financial reporting and security (where possible).

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, or Trusts, when the purposes of the loan are in line with Council's strategic objectives. Council is allowed to provide guarantees on the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.

Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act 2002.

Financial arrangements include advances to community organisations.

Guarantees will only be entered into after appropriate due diligence has been undertaken and reported to Council. All guarantees will be legally documented with appropriate security and protection for the level of risk. This may include an expectation that Council would rate the guaranteed party to recover any loss by Council. All guarantees and their conditions will be approved by Council. Council will ensure appropriate financial reporting and monitoring of guarantees (not more than 6 monthly). Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees will be limited to 10% of available debt capacity.

All guarantees and other financial arrangements are disclosed in the Annual Report.

4.8 New Zealand Local Government Funding Agency Limited (LGFA)

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

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

5.0 INVESTMENT POLICY AND LIMITS

5.1 General Policy

Council is currently a net investor and is likely to remain so for the foreseeable future.

Council should internally borrow from special reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt. Investments are maintained to meet specified business reasons.

Council may maintain investments in the following assets from time to time:
- Equity investments (hedged, unhedged, global or core funds), including investments held in CCO/CCTO and other shareholdings.
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development.
- Forestry investments
- Financial investments (e.g. a share of a fund).

Council invests in order to:
- Earn a return commensurate with the risk undertaken.
- Meet its strategic purposes consistent with Council's Long Term Plan.
- To use the income to reduce the rate requirement.
- Retain vested land.

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- Service working capital and liquidity requirements.
- To support inter-generational allocations.
- To bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Provide a return on restricted and general reserves.
- Invest proceeds from the sale of assets.

5.2 Investment Risk Approach

Council holds a mix of investments and takes a different risk approach to each investment.

Council is required to be prudent in all of its financial dealings. Prudence is a complex matter that requires Council to consider the past, present and future. In the case of investments where the investment has come from and the impacts on current stakeholders of changes to that investment and the implications on future stakeholders need to be considered.

Most New Zealand councils are net debt councils and consequentially have conservative and often short-term based investment policies. A few councils have large investment portfolios on which they take a mix of risk in order to provide some protection to investment capital while achieving higher returns on other parts of the portfolio. This approach provides some security for current stakeholders while creating opportunity for future stakeholders.

Clutha for its size has a large portfolio. Council is also aware that Local Government Inflation rate (as measured by BERL's LGCI) is exceeding general inflation and forecast interest rates. As such; holding reserves at conservative rates of return can erode their buying power. Council has chosen to take a mixed risk approach to its investment portfolio as reflected in the table below:

Investment Type	Risk Category
Equity Investment	Low to Medium
Property for operational purposes	Low
Property for social purposes	Low
Property for commercial purposes / endowment property	High
Property for economic development	Medium to High
Forestry Investments	Medium to High
Restricted Reserves	Medium
Asset Replacement Reserves	Medium
Other Reserves and financial investments	High

Risk Categories:

- Low – Not willing to risk erosion in investment value.
- Medium – Conservative mix of capital growth and investment return.
- High – Willingness to accept a higher return with consequences on losing investment value.

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In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy.

5.1.1 Equity Investments

Equity investments, including investments held in CCO/CCTO and other shareholdings. Council maintains equity investments and other minor shareholdings.

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

Council seeks to achieve an acceptable rate of return (which may well be nil) on each equity investment consistent with the nature of the investment and their stated philosophy on investments. Forecast returns are shown in the Financial Strategy.

Any purchase or disposition of equity investments requires Council approval and when actioned will be reported to the next meeting of Council.

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

Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the Audit & Risk Committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved.

Council seeks professional advice regarding its equity investments when it considers this appropriate.

5.1.1.1 New Zealand Local Government Funding Agency Limited Investment

Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA).

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

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

Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. Notwithstanding the Counterparty Credit Risk Limits (set out in Section 6.3 of this policy), Council may invest in financial instruments issued by the LGFA up to a maximum of $5 million (i.e. borrower notes). If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

5.1.2 Property Investments

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

Any purchase or disposition of property investments requires Council approval and when actioned will be reported to the next meeting of Council.

Council will ensure appropriate financial reporting and monitoring of property investments.

Council reviews the performance of its property investments on a regular basis.

5.1.3 Development Property Investments

Sometimes Council has strategic objectives to drive growth and economic development in the district. These investments are referred to as Development Property Investments. By their very nature these development properties carry a medium to high risk as their eventual sale is dependent on factors affecting the property market and necessarily incurring costs over and above the purchase of the land. Normally these acquisitions and development will be made on a rates neutral basis. Council reviews development property ownership through assessing the benefits of each business case on its merits.

Any purchase or disposition of development property investments requires Council approval and when actioned will be reported to the next meeting of Council.

Council will ensure appropriate financial reporting and monitoring of development property investments.
Council reviews the performance of its development property investments on a regular basis.

5.1.4 Forestry

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

Any purchase or disposition of forestry investments requires Council approval and when actioned will be reported to the next meeting of Council. The proceeds from forestry disposition are used firstly to repay related borrowings and then included in the relevant consolidated capital account.

Council will ensure appropriate financial reporting and monitoring of forestry investments.

5.1.5 Financial Investments

Council maintains a mix of financial investments that have different risk / return profiles and are both short-term and long-term.

Financial investment objectives:

- To manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Minimise Council's exposure to adverse interest rate movements.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.3. Credit ratings are monitored and reported quarterly to Council.
- Council may invest in approved financial instruments as set out in section 6.1.2. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.
- Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:
    - Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
    - Interest income from financial investments is credited to the various general funds and reserves at budget and actual decision points at Council's discretion.
- Council's net investment interest rate profile will be managed within the parameters outlined in section 6.0.

Managed Funds

Council may hold financial investments in managed funds. Council assesses all risks against the fund and not against the investments made by the fund. Council shall have regard to the ethical investment practices of each fund.

Fund investments will comply within all limits and restrictions imposed by this policy.

Special funds, reserve and endowment funds

Outside of allocations of funds made in the first three years of the 10 year plan funds could be invested in products with longer term investment goals.

Interest is payable on internal borrowing to/from reserves as determined by Council.

Trust funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the trust. If the Trusts investment policy is not specified the investments need to be liquid.

6.0 RISK MANAGEMENT

The definition and recognition of interest rate, liquidity, funding, investment, counterparty credit, market, operational and legal risk of Council is detailed below and applies to both the Liability Management policy and Investment policy.

6.1 Interest Rate Risk

6.1.1 Risk recognition

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

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or funding costs. Certainty around funding costs is to be achieved through the active management of underlying interest rate exposures.

6.1.2 Approved Financial Instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council.

Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Loan stock/bond issuance: • Floating Rate Note (FRN) • Fixed Rate Note (MTN) Commercial paper (CP) /Bills / Promissory notes Finance Leases

Category	Instrument
Investments	Short term bank deposits Bank certificates of deposit (RCDs) Treasury bills NZ Government, LGFA, Local Authority stock or State Owned Enterprise (SOE) bonds and FRNs (senior) Corporate bonds (senior) Corporate Floating Rate Notes (senior) Promissory notes/Commercial paper (senior) Corporate/SOE/Other Local Authority Bonds NZLGFA Borrower Notes Wholesale Managed Funds Global Share Funds Global Bond Funds
Interest rate risk management	Forward rate agreements (“FRAs”) on: • Bank bills • Government bonds Interest rate swaps including: • Forward start swaps and collars (start date <24 months, unless linked to existing maturing swaps and collars) • Amortising swaps (whereby notional principal amount reduces) • Swap extensions and shortenings Interest rate options on: • Bank bills (purchased caps and one for one collars) • Government bonds • Interest rate swaptions (purchased swaptions and one for one collars only)

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

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

- Structured debt where issuing entities are not a primary borrower/ issuer.
- Subordinated debt, junior debt, perpetual notes and hybrid notes such as convertibles.

6.1.3 Interest Rate Risk Control Limits

Net debt/borrowings

Council debt/borrowings should be within the following fixed/floating interest rate risk control limit:

Master Fixed / Floating Risk Control Limits	
Minimum Fixed Rate	**Maximum Fixed Rate**
60%	90%

"Fixed Rate" is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

"Floating Rate" is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling 12 month projected net debt level calculated by management (signed off by the CE). Net debt is the amount of total debt net of liquid short-term financial assets/investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the policy minimums and maximums.

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

Fixed Rate Maturity Profile Limit		
Period	**Minimum Cover**	**Maximum Cover**
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

- The above interest rate risk control limits apply when external debt exceeds $10 million.
- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate swaps with a maturity beyond 12 years must be approved by Council.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions mature within 12 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.
- Forward start period on swaps and collar strategies to be no more than 24 months, unless it extends the maturity of an existing swap.

Foreign currency

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

Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Both spot and forward foreign exchange contracts can be used by Council.

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

Council does not hold investments denominated in foreign currency.

All foreign currency hedging must be approved by the GMCS.

6.2 Liquidity Risk/Funding Risk

6.2.1 Risk Recognition

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

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

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences financial/exposure difficulties resulting in Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.
- Financial market shocks from domestic or global events.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

6.2.2 Liquidity/Funding Risk Control Limits

- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- External term loans and committed debt facilities together with available short-term liquid investments must be maintained at an amount exceeding 105% of existing total external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including refinancing but this requires the decision of Council.
- The CE has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by the Council at the earliest opportunity.

6.3 Counterparty Credit Risk

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

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

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

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term / short term credit rating – stated and possible	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	N/A	Unlimited	None	Unlimited
Local Government Funding Agency	N/A	Unlimited	None	Unlimited
NZD Registered Supranationals	AAA	10.0	None	10.0
State Owned Enterprises	A+/ A-1	5.0	None	5.0
NZ Registered Bank	A+/ A-1	15.0	20.0	30.0
Corporate Bonds/ CP	A+/ A-1	2.0	None	2.0
Local Government	A+/ A-1 (if	10.0	None	10.0

Counterparty/Issuer	Minimum long term / short term credit rating – stated and possible	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
Stock/ Bonds/FRN/ CP	rated)			
Managed Funds	A- or above	30.0	None	30.0
Bond or Cash Funds	B or above	1.5	None	1.5
This summary list will be expanded on a counterparty named basis which will be authorised by the CE.				

Each transaction should be entered into a treasury spread sheet and a quarterly report prepared to show assessed counterparty actual exposure versus limits.

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed by the FM on an on-going basis and in the event of material credit downgrades; this should be immediately reported to the GMCS and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Investments are normally held to maturity date. Where investments are liquidated before legal maturity date, approval is obtained from the CE, who also approves guidelines for a minimum acceptable sale price. The GMCS evaluates quotes based on these instructions and proceeds with the transaction.

Local Government Funding Agency Borrower Notes

On occasion when Council borrows from the LGFA it will be required to contribute part (currently 1.6%) of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

Risk management

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

6.4 Operational Risk

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

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

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

6.4.1 Dealing Authorities and Limits

Transactions will only be executed by those persons and within limits approved by the Council.

6.4.2 Segregation of Duties

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

- The GMCS reports directly to the CE.
- There is a documented approval process for borrowing, interest rate and investment activity.
- Any execution activities undertaken by the GMCS will be checked by the FM and the FM will report any irregularities direct to the CE. Any execution activities undertaken by the FM and the MA will be checked by the Accounting Officer and any irregularities reported to the GMCS and CE.
- In the absence of the FM, the FM's deal execution delegated authority moves to the Accounting Officer.

6.4.3 Procedures

All treasury instruments should be recorded and diarised within a treasury spread sheet, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in a treasury procedures manual separate to this policy.

Procedures should include:

- Regular management reporting.
- Regular risk assessment, including review of procedures and controls as directed by the Council or appropriate sub-committee of Council.
- Organisational, systems, procedural and reconciliation controls to ensure:
- All borrowing, interest rate and investment activity is bona fide and properly authorised.
- Checks are in place to ensure Council 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.

Organisational controls

- The GMCS has responsibility for establishing appropriate structures, procedures and controls to support borrowing, interest rate and investment activity.
- All borrowing, investment, cash management and interest rate risk management activity is undertaken in accordance with approved delegations authorised by the Council.

Cheque/electronic banking signatories

- Positions approved by the CE as per register.
- Dual signatures are required for all cheques and electronic transfers.
- Cheques must be in the name of the counterparty crossed "Not Negotiable, Account Payee Only", via the Council bank account.

Authorised personnel

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

Recording of deals

- All deals are recorded on properly formatted deal tickets by the Finance Team and approved as required by the FM, GMCS or CE. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spread sheets) are maintained by the FM and updated promptly following completion of transaction.

Confirmations

- All inward letter or email confirmations including registry confirmations are received and checked by the Finance Team against completed deal tickets and the treasury spread sheet records to ensure accuracy.
- All deliverable securities are held in the Council's safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) by the Finance Team in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the FM, GMCS or CE.

Settlement

- The majority of borrowing, interest rate and investment payments are settled by direct debit authority.
- For electronic payments, batches are set up electronically. These batches are checked by the FM to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

Reconciliations

- Bank reconciliations are performed monthly by the Finance Team and checked and approved by the FM. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the GMCS.
- A monthly reconciliation of the treasury spreadsheet to the general ledger is carried out by the FM and reviewed by the GMCS.
- Interest income from the treasury spreadsheet is reconciled to bank statements by the AA or FA.

6.5 Legal Risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, Council may be exposed to such risks with Council unable to enforce its rights due to deficient or inaccurate documentation. Council will seek to minimise this risk by adopting policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

6.5.1 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council.

6.5.2 Financial Covenants and Other Obligations

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

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

6.6 Specific Council Approval

Any activity outside the limits set in section 6 will require specific Council approval.

7.0 REPORTING

The following reports are produced:

Report Name	Frequency	Prepared By	Recipient
Treasury Exceptions Report	As it occurs	FM	GMCS
Treasury Report: • Policy limit compliance • Borrowing limits • Funding and Interest Position • Funding facility • New treasury transactions	Quarterly	MA	FM/GMCS Audit & Risk Committee
Treasury Strategy Paper	Annually	GMCS	Audit & Risk Committee
Revaluation of financial instruments	At least Annually	FM	Council

8.0 INTERNAL BORROWING OF SPECIAL AND GENERAL RESERVE FUNDS

Council maintains a variety of financial reserves of a large value. These reserves are part of Council's financial strategy. By collecting and holding cash in reserves Council is able manage intergenerational equity matters and smooth the impact of lumpy or unexpected cashflows. Reserves are held separately to maintain transparency and accountability.

Much of the funds held in reserves are required to fund renewal expenditure on assets that have an economic life of many years as such funds should be used for internal borrowing purposes where it is more cost effective than external borrowing . Reserve funds can be invested in a managed portfolio focussing on income and growth.

Council wants to be clear about how the real value of special and general reserve funds is maintained for future generations and has come up with the following treatment:

- The cost of debt is either the internal rate of return calculated in July for the next year (as calculated on Westpac's 3 year swap and risk margin) or the external interest rate. Where external debt is used the cost of finance for a given year shall be the average of the internal rate of return and external interest rate.
- Council determines what reserves are used for internal or external investment.

- Council determines the disbursement of the interest return whether on external or internal loans and represented by **Table** below:
    - Certain returns are ring-fenced (Fund Allocation column) to maintain an intergenerational fairness position with respect to buying power and to increase the value of the fund.
    - The Rates Disbursement percentage is determined by Council.
    - For all external investments other than Forestry, the difference between Council's investment return position and the assumed interest from Nikko is returned to the pure Investment Fund balance.
    - Where the total value of the depreciation reserve exceeds internal loans internal loans earn the internal rate and the balance earn the external return with distributions of the interest as per above and per the table.
    - The table and the distributions are all based on budgets, where actual investment return is more than budgeted Council determines any additional distribution.
    - Where actual investment return is less than budgeted the impact is absorbed by the Investment Fund Balance and not by Depreciation or Special Accounts.
    - Council may set a limit on the total the Investment Fund Balance may grow to and determine distribution of any excess funds.

Interest Allocation - Reserve Funds	Investment Return	Rates Disbursement	Fund Allocation	Return to Balance
Special Funds - Excluding General Funds - Externally invested	5.00%	1.00%	3.00%	1.00%
General Funds - Externally Invested	5.00%	4.00%	0.00%	1.00%
Serdel - Externally Invested	5.00%	4.00%	0.00%	1.00%
Forestry Fund - Externally Invested	5.00%	3.00%	2.00%	0.00%
Investment Fund Balance - Externally Invested	5.00%	4.00%	0.00%	1.00%
Balance of Depreciation Funds - Externally Invested	5.00%	1.00%	3.00%	1.00%
Depreciation Funds - Internal Loans	3.98%	0.98%	3.00%	0.00%

9.0 POLICY REVIEW

This Treasury Policy is to be formally reviewed on a triennial basis or as required.

The CE has the responsibility to prepare a review report that is presented to the Council or Council subcommittee. The report will include:-

- Recommendation as to changes, deletions and additions to the policy.
- Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
- Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
- Analysis of bank and lender service provision, share of financial instrument transactions etc.
- Comments and recommendations from Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury spread sheets and procedures should be undertaken.

- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to Council.

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