Treasury Management Policy

Policy type: Governance

Policy Owner	Group Manager Corporate Services		
Adopted by	Council 31 October 2023		
Description of policy	The purpose of this policy is to provide a mechanism for the management of Council's financial liabilities and investments.		
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1. Background

Sections 102(2)(b) and 102(2)(c) of the Local Government Act 2002 (the "Act") requires the Council to adopt a Liability Management and Investment Policy (the "Policy"). Sections 104 and 105 of the Act outlines the contents of such a policy:

A policy adopted under section 102(2)(b) must state the local authority's policies in respect of the management of both borrowing and other liabilities, including:

- *interest rate exposure; and*
- *liquidity; and*
- *credit exposure; and*
- *debt repayment; and*

A policy adopted under Section 102(2)(c) must state the local authority's policies in respect of investments, including;

- *the mix of investments; and*
- *the acquisition of new investments; and*
- *an outline of the procedures by which investments are managed and reported on to the local authority; and*
- *an outline of how risks associated with investments are assessed and managed.*

Sections 104 and 105 of the Act are also relevant to requirements surrounding Council's external borrowing, investments and incidental financial arrangements.

Other relevant legislation includes, Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4 as well as the Trusts Act 2019. When acting as a trustee or investing money on behalf of others, trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

2. Strategic alignment

The development of the policy statement aligns with the Council's strategy to establish a high-performing organisation with a focus on customer service, prudent financial management, quality processes, and a skilled and motivated work force.

This Policy forms a cornerstone of the Council's Financial Strategy in that the adoption of this conservative debt borrowing policy will assist in ensuring Council remains financially sustainable into the future as it should have access to additional external debt facilities if required. Compliance with this conservative borrowing policy needs to be considered on a long-term rather than a short-term basis. Compliance will require difficult decisions to be made regarding the approval and timing of proposed capital expenditure projects into the future.

Furthermore section 101(1) of the Act states:
A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interest of the community.

3. Implementation

In implementing the Policy, the Council is guided by the principles set out in section 14(1)(f) and (g) of the Act that state;

- *a local authority should undertake any commercial transactions in accordance with sound business practices; and*
- *a local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region.*

4. Delegated authorities (as approved by the Council)

Pursuant to Section 32 (2), schedule 7, of the Local Government Act 2002, the Council may make delegations to officers of Council to allow for the efficient conduct of Council business. Section 32 (3), schedule 7 of this Act allows officers to delegate those powers to other officers.

Notwithstanding Section 32 (1) (c), schedule 7 the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan (LTP) remains the sole responsibility of the Council. This responsibility cannot be delegated.

Approved delegation to officers is contained within Council's delegations register. This Policy's related delegations are included in Appendix 1.

5. Risks

Adoption of the Policy is a statutory requirement and failure to do so would place the Council in breach of its statutory obligations and could render its future borrowing and liabilities ultra vires and unenforceable. Further, failure to adopt the Policy would undermine the validity of all future Council investments.

6. Measurement and review

The Policy is reviewed in alignment with the LTP.

Measuring the effectiveness of the Policy will be achieved through a mixture of subjective and objective measures.

The predominant subjective measure is the overall quality of liability management information. The Chief Executive has prime responsibility for determining this overall quality.

7. Liability Management Policy statements

7.1. Overriding objectives

The Policy is to be consistent with the LTP and Annual Plans.

In terms of liability management, Council aims to achieve the lowest possible net borrowing costs obtainable within the policy parameters by proactively managing funding and interest rate exposures. Benefits from favourable interest rate movements are to be maximised while proactive measures are to be taken to minimise the effect of significant adverse interest rate movements.

The Council's overriding liability management objectives are to:

- Secure external funding to finance activities at acceptable margins, costs and terms from debt lenders.
- Manage liabilities in a manner consistent with current governing legislation and the Council's strategic and commercial objectives.
- Raise appropriate funding in terms of both maturity and borrowing margins and manage Council's liquidity levels to ensure funds are readily available to meet known and reasonably unforeseen funding requirements.
- Minimise borrowing margins and costs of funds to Council whilst optimising flexibility and spread of debt maturities within the funding risk limits established by this Policy statement.
- Avoid adverse interest rate related increases to rates and maintain overall interest costs within budgets.
- Manage and minimise the impact of market risks such as interest rate risk on Council's assets and liabilities by undertaking appropriate hedging activity in the financial markets.
- Develop and maintain professional relationships with Council's bankers, the Local Government Funding Agency (LGFA), financial institutions, and other stakeholders.
- Provide timely and accurate reporting of treasury activity and performance.
- Report on financial/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.

7.2. Total external core debt

Council's infrastructural assets generally have long economic lives and long-term benefits. Debt in the context of this Policy refers to Council's total external core debt.

The Council approves external borrowing during the LTP and annual planning processes and in line with its policy for funding expenditure as outlined in its Revenue and Financing Policy. Approval for borrowing is by resolution of the Council and is based on projected debt levels prepared during the LTP, or Annual Plan planning process.

7.3. Purposes of external debt

Council's ability to readily attract cost effective borrowing depends on its ability to maintain a strong balance sheet as well as its ability to levy rates, manage its image in the market and its relationships with bankers, the LGFA and investors. Council seeks a diversified pool of borrowing and ensures that borrowings are only sought from high credit quality financial institutions (as per section 7.9 of this Policy).

Council raises external borrowing for the following primary purposes:

- Specific debt associated with projects and expenditures in accordance with Council's Revenue and Financing Policy.
- General debt to fund Council's balance sheet.
- Short-term debt to manage timing differences between cash inflows and outflows to maintain Council's liquidity.
- To fund assets whose useful lives, extend over several generations of ratepayers.
- To fund CCO/CCTO's.

7.4. Borrowing mechanisms

The Council can borrow externally through a variety of market mechanisms including issuing stock/bonds, commercial paper, debentures, direct bank borrowing, through the LGFA, and/or accessing the short-term and long-term wholesale/retail debt capital markets directly or indirectly. The Council can also borrow internally from reserves and special funds.

Alternative funding mechanisms such as leasing are evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation will take into consideration, ownership, redemption value and effective cost of funds.

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

The internal debt portfolio is used as an input into determining Council's external debt requirements. Council's cash reserves may be used to reduce external debt, effectively reducing Council's net interest cost. Council's internal funding mechanisms are discussed in Section 7.5.

Definitions for external funding mechanisms are set out in Appendix 3.

The Group Manager Corporate Services reviews the funding strategy at least six-monthly after monitoring of the following issues:

- The overall cash flow/funding requirements of Council.
- Consistency with the Annual Plan and LTP.
- Available draw down facilities to match forecast expenditure.
- The impact of new debt on borrowing limits.
- Prevailing interest rates, relevant margins and total costs under each borrowing source.
- The markets' outlook on future interest rate and funding margin movements as well as Council's outlook.
- Council's overall debt maturity profile, to ensure maturity mismatches and concentration of debt levels are avoided at reissue/rollover dates.
- Available terms from various funding markets.
- For internally funded projects, ensuring that the implied finance terms within the specific debt is at least as equitable as Council could achieve through borrowing externally.
- Legal documentation, financial covenants and security requirements.
- The six-monthly funding strategies will be presented to the Council.

The management of interest rate risk is considered separately as discussed in Section 7.8

7.5. Local Government Funding Agency

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

- 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;
- Subscribe for shares and uncalled capital in the LGFA; and
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over Council's rates and rates revenue.

7.6. Internal borrowing

Council undertakes internal borrowing. Loans to each activity are set up within the internal debt portfolio based on approved loan funded capital expenditure, or operational expenditure through the annual planning and/or LTP process and allocated to the activity incurring the expenditure. The following operational parameters apply to the management of Council's internal borrowing portfolio:

- All internal borrowing activities are consistent with the principles and parameters outlined throughout the Treasury Management Policy.
- Council may utilise reserve and special funds and if insufficient reserves are available utilises external borrowing mechanisms.
- In determining an activity centre's maximum internal loan amount, any existing depreciation reserve amount or other related amount is firstly allocated to that centre. Any additional funding is provided through internal loans.
- Council seeks to match the maturity and interest rate profile on its internal and external borrowing and investing activities. Any mismatches are managed within the liquidity policy outlined in Section 7.9.

Specific operating parameters:

- On a quarterly basis, an internal loan is set up for all new capital expenditure and any renewal capital expenditure not covered by accumulated depreciation and allocated in the internal portfolio to the activity incurring the expenditure.
- Principal amounts are repaid in instalments on the anniversary of the loan. Instalment amounts are charged to the cost centre and agreed at conception of the loan and determined on a table mortgage basis.
- Interest is charged to each activity monthly in arrears. Interest may be notionally received and allocated to the specific reserve account providing the funds or through the related cost centres income/expenditure accounts.
- The interest rate is based on Council's expected weighted average cost of funds (including credit margin and other costs), and takes into account the following factors:
  - Anticipated cost of existing and new debt over the next twelve months.
  - The anticipated rate of return over the twelve months on any investment portfolio used for internal borrowing purposes.
  - Recovery of the finance department's treasury related operational costs. This charge is set annually during the annual budget process.
  - A buffer, which provides for certainty in the charging rate and avoids frequent adjustments.
- If required, the Council has the ability to reset interest rates quarterly.
- The term of the loan is the lesser of either;
  - the economic life of the project or asset; or
  - a maximum of 30 years.

Internal borrowing benchmarks are set to monitor the level of internal debt. The benchmarks are consistent with the Council's external borrowing limits outlined in section 7.12.

7.7. Lending activity to Council Controlled Organisations and Council Controlled Trading Organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any lending arrangement to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the Finance Manager considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amounts outstanding on due date.
- Impact on Council’s credit standing, credit rating (if appropriate), debt burden, lending covenants with the LGFA and other lenders and Council’s future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

All lending arrangements must be executed under legal documentation (e.g. loan, guarantee) reviewed and approved by Council’s independent legal counsel.

7.8. Interest rate exposure

Interest rate risk refers to the impact that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the LTP or Annual Plan to adversely impact revenue projections, cost control and capital investment decisions/returns/feasibilities. Council's borrowing gives rise to a direct exposure to interest rate movements. Generally, given that;

- The Council's desire is to have predictable, certain interest costs; and
- The need to avoid large adverse impacts on annual rates arising from adverse movements in interest rates; and
- The long-term nature of Council's assets and intergenerational factors.

Council’s interest rate fixing for the given period must be within the following fixed/floating limits as measured against rolling forecast gross external debt.

Period	Minimum %	Maximum %
Current	40	90
Year 1	40	90
Year 2	35	85
Year 3	30	80

Year 4	25	75
Year 5	20	70
Year 6	0	65
Year 7	0	60
Year 8	0	50
Year 9	0	50
Year 10	0	50
Year 11+	0	25

Fixed Rate is defined as all known interest rate obligations on forecast gross external debt, including where hedging instruments have fixed movements in the applicable reset rate.

Floating Rate is defined as any interest rate obligation subject to movements in the applicable reset rate.

Forecast gross external debt is the amount of total external debt for a given period. Forecasting gross external debt allows for pre-hedging in advance of projected physical drawdown or raising of new debt. When approved forecasts are changed (signed off by the Group Manager Corporate Services), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the Policy minimum and maximum limits. Gross external debt forecasts exclude pre-funding of refinanced existing debt.

The Group Manager Corporate Services can consider and approve alternative debt forecast scenarios that make assumptions around such matters as, the delivery and timing of the capital expenditure programme when designing the interest rate strategy. However, the interest rate risk position is measured and reported to a CE agreed and approved base case debt forecast.

Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average forecast gross external debt amounts for the given period.

A fixed rate maturity profile that is outside the above limits, but self corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile that is outside the above limits greater than 90 days requires specific approval by Council.

The implementation of the hedging framework assumes dealing lines are available from Council's counterparty banks.

Overall, the Finance Manager sets an interest rate risk management strategy on at least a six-monthly basis by monitoring the interest rate markets and evaluating the underlying existing and forecast borrowing amounts, the outlook for rates, the current and forecast yield curve and policy parameters. An appropriate hedged/floating rate mix is approved by the GMCS and reported to the Council.

The interest rate risk management strategy is implemented through using interest rate risk management instruments to convert fixed rate borrowing into floating rate or hedged borrowing and floating rate borrowing into fixed or hedged borrowing.

The use of interest rate risk management instruments is approved by the Council as part of this policy.

Interest rate risk management instruments approved for use, consistent with the policy contained in Section 7.8 are:

- Fixing through physical borrowing instruments - e.g. loan stock, bond issuance, debentures, bank term loan.
- Floating rate bank debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Forward rate agreements (FRAs) on bank bills.
- Interest rate swaps including forward start swaps (start date less than 36 months) (unless the forward start swap starts on the expiry date of an existing swap and has a notional amount which is no more than that of the existing swap).
- Interest rate swap maturity is limited by the maximum LGFA bond maturity, beyond this approval is required by Council.
- Purchase of interest rate options products on:
  - bank bills (purchased caps and one for one collars); and
  - interest rate swaptions (purchased swaptions and one for one collars).

  Interest rate options must not be sold outright. 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 (ineffective hedge).
- 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, the sold option can be purchased back. The forward start date of the collar strategy is to be no more than 36 months (unless the forward start collar starts on the expiry date of an existing collar and has a notional amount which is no more than that of the existing collar).
- Purchased borrower swaptions only that mature within 12 months.

Definitions for interest rate risk management mechanisms are set out in Appendix 3 of this Policy.

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. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

7.9. Liquidity (Section 104(b) of the Act)

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

Council minimises its liquidity risk by;

- Spreading income flow from rates, which are received three times over the year;
- Matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour;
- Maintaining its financial investments in cash, cash equivalent, and liquid negotiable instruments;
- Maintaining external debt plus available committed bank facilities plus liquid investments/cash equivalents at 110% over external debt. Debt pre-funding activity plus the associated investment activity are excluded from the liquidity ratio calculation;
- Committed bank facilities must have a remaining term of no less than three months;

Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings. Debt refinancing's that have been pre-funded will remain included within the funding maturity profile until their maturity date.

Once debt has been refinanced with a contracted term deposit (pre-funded), the term deposit amount will net off the maturing debt instrument from the funding maturity profile percentage calculation.

To minimise the risk of large concentrations of external debt maturing, or, being reissued in illiquid periods where funding margins are high for reasons within or beyond Council's control, Council ensures that total committed funding in respect to all external debt/loans and committed debt facilities is controlled by the following system.

Funding Limits		
Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	60%

A funding maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity schedule outside these limits for more than 90 days requires approval from the Council.

To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of Council's borrowings from the LGFA will mature in any 12-month period.

The Chief Executive has the discretionary authority to re-finance, rollover, re-negotiate existing debt on more favourable terms. Such action is reported to the Council at the earliest opportunity.

7.10. Credit exposure (Section 104(c) of the Act)

Council ensures that all borrowing, and interest rate risk management activity is undertaken with institutions that are of high credit quality to ensure that funds are available when required and amounts owing (particularly for interest rate risk management contracts) are paid fully on due date.

Institutions, primarily banks, LGFA, should have a short and long-term S&P credit rating of at least A-1 and A respectively. Credit exposure measurement and limits are outlined in the Section 8.4.

7.11. Debt repayment (Section 104(d) of the Act)

This section covers both internal and external debt amounts.

For specific project debt for which the Council has set a targeted rate to cover debt servicing and principal repayments, the repayment is made from the rate revenue received. For specific project debt for which the Council has offered a lump sum payment option, repayment is made from the lump sum revenue received. All other repayments are made according to the scheduled repayment dates at the time the debt/loan was incurred. These repayments are met from rates revenue or financial reserves. Council may also repay debt earlier than the scheduled date if there is surplus money available in reserves, and it is prudent and cost effective to do so. If a loan matures earlier than the scheduled repayment date, the refinancing of that loan will be made by raising new debt.

7.12. Specific borrowing limits

In managing debt, Council will adhere to the following limits (based on Council's latest monthly financial statements and budget projections):

LGFA Limits (external debt only)

Limit	Council Limit	LGFA Lending Policy Limit
Net external interest expense as a percentage of annual rates income	<15%	<25%
Net interest expense as a percentage of total revenue	<15%	<20%
Net external debt as a percentage of total revenue	<150%	<175%
External debt plus unutilised committed debt facilities plus liquid investments/cash equivalents over external debt.	are maintained above 110%	are maintained above 110%

Council total borrowing limit (external and internal debt)

Limit	Council Limit
Total net internal and external debt as a percentage of total revenue.	<200%

Debt excludes any debt raised to finance postponed rates. Definitions of the above limits can be found in Appendix 3 of this Policy.

7.13. The giving of securities

Council may secure its borrowing and interest rate risk management instruments against rates and rates revenue if it is considered advantageous to do so, generally by way of a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or pari passu with other lenders. In unusual circumstances, with prior approval from the Council, security may be offered as a charge over one or more of Council's specific assets.

Internal loans are provided on an unsecured basis, but any direct lending to CCOs/CCTO is on a secured basis.

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);
- The Council considers a charge over physical assets to be appropriate;
- The Group Manager Corporate Services ensures that the required register of charges and any associated documents are provided, filed and kept in accordance with the provisions of the Local Government Act 2002 and any other relevant legislation.

A register of charges over assets is established and maintained at Council's principal office. All instruments specifically affecting any of its property are listed[1]. Any prospectus, loan and incidental arrangement document will contain a statement that the loan or incidental arrangement is not guaranteed by the Crown[2].

7.14. Council guarantees

From time to time Council may act as a guarantor to financial institutions on loans for clubs, trusts or business units sporting and community organisations where the purposes of the loan are consistent with the Council's strategic objectives. The following policies apply to any such guarantees:

- The total of any guarantee to any organisation is to reduce according to the loan repayment programme originally arranged with the lending institution.
- Any guarantee is to be reviewed annually on receipt of the audited annual accounts for the year just passed and the proposed budget for the following year.
- The club, trust, business unit or organisation shall indemnify Council should the guarantee be called upon by the lender.
- The indemnity shall be such that in the event of the guarantee being called upon, the club, trust, business unit or organisation shall without delay, transfer ownership of the asset for which the funds guaranteed were provided to Council.
- In the event of transfer of ownership to Council, Council reserves to itself any future dealings, allocation of use, or sale of such assets.
- The club, trust, business unit or organisation shall meet all costs associated with the preparation of any loan guarantee document.
- Council reserves the right to decline, without reason, any request for a guarantee.

As set out in Part 5, section 62 of the Act, Council does not give any guarantee, indemnity or security in respect of the performance of any obligation by a council-controlled trading organisation (CCTO).

8. Investment Policy statements

8.1. General policy including objectives

The Policy is to be consistent with the LTP and Annual Plans. Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Council's overriding investment objectives are to:

- Manage investments in a manner consistent with current governing legislation and Council's strategic and commercial objectives.
- Optimise returns while minimising credit and liquidity risks.
- Manage the overall cash position of Council's operations.
- Hold investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations.
- Hold assets for commercial returns.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal revenue streams and assets.
- Invest amounts allocated to accumulated surpluses, Council created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

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[1] 1 Part 6(4), section 116 of the Act

[2] 2 Part 6(4), section 122 of the Act

Council's philosophy on the management of investments is to optimise returns in the long term while balancing risk and return considerations. Council recognises that as a responsible public authority any investments that it does hold should be low risk where the primary objective when investing is the protection of its investment capital. Accordingly, only approved creditworthy counterparties are acceptable and Council recognises that lower risk generally means lower returns in its investment activity, Council will act effectively and appropriately to ensure the investments benefit Council's ratepayers.

8.1.1. Strategic Investment Fund

The Strategic Investment Fund (SIF) is managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. External fund managers will be appointed to manage the portfolio according to the investment guidelines outlined in the SIPO.

Council will be responsible for the following:

- Setting the fund's investment strategy, including the level of risk, investment objectives, and investment policies.
- Determining the appropriate number of investment managers, selecting and changing those managers as appropriate after having taken advice.
- Reviewing the SIPO annually, including the investment strategy, policies and external investment manager configuration.
- Ensuring that the level of redemptions from the fund is consistent with the fund's objective to maintain equity, in terms of amounts available for distribution, between present and future generations.
- Protect the real capital value of the fund over time.
- Providing cash flow information with respect to future deposits and redemptions.

Approved financial instruments and counterparty credit restrictions for funds under management in the SIF are separate to that within this Policy and controlled within the Council approved SIPO.

8.1.2. Equity investments

Council does not hold equity investments in its own name, rather all equity investments are externally managed by Council's appointed investment manager in accordance with the SIPO. However, Council may hold equity investments for strategic purposes, provided that the holding is in furtherance of its community well-being objectives as outlined in the LTP. Investments may include holdings in CCO/CCTOs and other shareholdings.

8.1.3. Property investments

Council's first objective is to only own property that is strategically necessary for the economic, physical and social development of Thames-Coromandel District, and secondly, to achieve an acceptable rate of return.

Under Council's Leases and Licence to Occupy Policy, property held for social development purposes, is leased out to qualifying organisations at set rental rates considerably below that which could be achieved if commercial rental rates were applied.

Council reviews the performance of its property investments on an annual basis and ensures that the benefits of continued ownership are consistent with its stated objectives. Any disposition of these investments requires the Council's approval. Proceeds from the disposition of property investments are used firstly for retirement of debt relating to such property.

8.1.4. Loans and advances

Council is not generally involved in providing external loans or advances. However, on occasion it may be appropriate for Council to be involved in this activity in which case a resolution of the Council is required to approve the loan or advance.

Council may also lend money internally to its activity centres as set out in the Liability Management Policy Section 7.5.

As outlined in Section 63 of the Local Government Act, Council does not lend money, or provide any other financial accommodation, to a CCTO on terms and conditions that are more favourable to the CCTO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

8.1.5. Postponed rates

This "investment" in postponed rates is secured by way of a statutory land charge on the individual properties upon which rates postponement has been granted. Interest is charged on postponed rates at Council's cost of borrowing plus a 1% levy and a 0.25% reserve fund levy. Postponed rates are disclosed separately in Council's statement of financial position.

Postponed rates are disclosed separately in Council's statement of financial position. Eventually, when the number of postponed rates becomes large enough, Council will need to finance the shortfall in cash flow due to postponement of rates. Council will achieve this by borrowing through its own means.

8.1.6. Treasury financial investments

Council maintains financial investments to;

- Invest surplus cash and working capital funds;
- Invest amounts allocated to trust funds and special funds.

Normally financial investments are held to maturity date. Proceeds from the disposition of financial investments are used for operational expenditure purposes, or other purposes approved by the Council in the annual planning process.

Externally managed investments of the SIF are separately managed within the SIPO.

Treasury financial investment parameters

Council's primary objective when investing is the protection of its investment. Accordingly, only creditworthy counterparties are acceptable.

Within the above credit constraints, Council also seeks to;

- Maximise investment return;
- Ensure investments are liquid.
- Spread investments in line with cash flow requirements to avoid the need for realisation prior to maturity;

Therefore, to have funds available when needed Council ensures that:

- There is sufficient available operating cash flow and committed bank facilities to meet cash flow requirements between rates instalments as determined by the Finance Manager;
- External debt plus unutilised committed debt facilities plus liquid investments/cash equivalents are maintained above 110% over existing external debt amounts.;

- Liquid investments have a maturity date of no more than 30 days (unless linked to a pre-funding strategy).

8.2. New Zealand LGFA investment

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

8.3. Mix of investments

Council invests in the following mix of investments that include;
- Strategic investment fund (refer section 8.1.1);
- Equity investments (refer Section 8.1.2);
- Property investments (refer Section 8.1.3);
- Loans and advances (including internal borrowing) (refer Section 8.1.4);
- Postponed rates (refer Section 8.1.5);
- Treasury investments (refer Section 8.1.6).

Treasury investments are managed within the limits outlined in 8.4.

Approved treasury instruments are;
- Call and short-term bank deposits;
- Bank certificates of deposit (RCD's);
- LGFA borrower notes;

Any term greater than 30 days requires Council's approval; an exception to this is the holding of LGFA borrower notes and any term deposit investments linked to pre-funding activity. For further information and definitions see Appendix 3 of this policy.

8.4. Counterparty credit risk

Council ensures that all investment and interest rate risk management is undertaken with institutions that are of high-quality credit to ensure amounts owing to Council are paid fully and on due date.

More specifically, Council minimises its credit exposure by;
- Ensuring all investment, cash management, interest rate risk management and any foreign exchange transactions are undertaken with entities (excluding government) that have a strong S&P credit rating;
- Limiting total exposure to prescribed amounts;
- Spreading exposures amongst a number of counterparties to avoid concentrations of credit exposure;
- 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 Counter-party (Investments and Risk Management Instruments)
Government	N/A	N/A	Unlimited
Local Government Funding Agency	A-1+	AA	Unlimited

NZ Registered Bank	A-1	A	$30 million

*Counterparty credit risk for investments made within the SIF are managed within the SIPO rather than the above table.

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. Counterparties exceeding limits are reported to the Council.

Exposures to each counterparty are computed as follows:

Financial investments

- Total amounts invested with that counterparty.

Risk management instruments (see Section 8.2 of this policy)

- Credit exposure on interest rate contracts computed by multiplying face value of outstanding transactions by an interest rate movement factor of 3% per annum. i.e. Notional amount * maturity (years) * 3%.
- Credit exposure on foreign exchange contracts computed by multiplying the face value amount by the (square root of the remaining maturity (years) x 15% per annum).

Each transaction is entered into a reporting spreadsheet and a monthly report prepared to show assessed counterparty actual exposure versus limits.

8.5. Acquisition of new investments (Section 105(c) of the Act)

Council's policy for acquisition of new financial instruments is the same as for the mix of investments (Section 8.3) and within the counterparty limits as outlined in 8.4.

Acquisition of new equity investments, new external advances or loans must be by resolution of the Council. Property purchases will be approved in the LTP or Annual Plan, or, by resolution of the Council.

8.6. Procedures for management and reporting (Section 105(d) of the Act)

8.6.1. Cash management

Council manages its working capital balances by matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour. Daily cash requirements are determined by reference to the daily money management report and appropriate adjustments are made to money market balances.

Generally, cash flow surpluses from timing differences are available for periods less than 181 days and in approved instruments and counterparties.

Cash management activities must be undertaken within the following parameters:

- An optimal daily range of zero is targeted for in Council's main bank account, with investments adjusted to balance the current account if required.

- Cash flow surpluses are placed in bank call deposits and short-term deposits. Amounts invested must be within limits specified in 8.4.
- The use of interest rate risk management instruments on cash management balances is not permitted.

Cash management reports are set out in Appendix 2.

8.6.2. Foreign exchange

Council generally has minor foreign exchange exposure arising through the occasional purchase of foreign exchange denominated services, plant and capital equipment. Foreign currency payments are converted at the spot exchange rate on the date of payment.

Where there is significant capital project related individual foreign exchange commitments (greater than NZD100,000 equivalent) these may be hedged based on the following system. When the expenditure is committed the exposure is fully hedged with approved foreign exchange instruments.

8.6.2.1. Approved foreign exchange instruments

- Foreign currency deposits.
- Purchased currency options.
- Forward foreign exchange contracts.
- One for one Collars.

8.6.2.2. Use of foreign exchange instruments

- Financial instruments other than those stipulated in section 8.6.2.1 require one-off approval by resolution of the Council prior to transacting.
- Foreign exchange options cannot be sold outright.
- The purchase price paid for an option (premium) is to be amortised (spread) over the period of cover and added to the actual average exchange rate achieved by Council.
- It is important that all significant tenders allow bidders the opportunity to select desired currencies and where possible allow for suppliers to transparently link price escalations to clear financial market references.

Council does 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.

8.6.3. Performance measurements

Measuring the effectiveness of Council's borrowing, investment and cash management activities is achieved through a mixture of subjective and objective measures. The predominant subjective measure is the overall quality of treasury management information. The Council has prime responsibility for determining this overall quality. Objective measures are as follows:

- Adherence to policy.
- All treasury limits are complied with including (but not limited to) counterparty credit limits, dealing limits and exposure amounts.
- All treasury deadlines are to be met, including reporting deadlines.

Management of debt and interest rate risk

The actual borrowing cost for Council (taking into consideration costs of entering into interest rate risk management transactions) should be below the budgeted borrowing costs contained within the Annual Plan.

Accounting Treatment for Financial Investment Instruments

As a rule, a financial asset is held to maturity and consequently accounted at cost but subject to annual impairment assessment.

8.6.4. Internal controls for borrowing, investment and cash management activity

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. The risk from this is minimised by the following processes:

- A documented discretionary approval process for treasury activity.
- Regular management reporting.
- Regular operational risk control reviews by an independent audit function.
- Organisational, systems, procedural and reconciliation controls to ensure all borrowing, investment, interest rate and cash management activity is bona fide and properly authorised.
- Checks are in place to ensure 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:

Electronic banking signatories

- Positions approved by the Chief Executive.
- Dual signatures are required for all electronic transfers

Authorised personnel

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

Recording of deals

- All deals are recorded by the Management Accountant and approved by the Finance Manager. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions are maintained on a system/spreadsheets and in Hedgebook and updated promptly following completion of the transaction.

Confirmations

- All inward letter confirmations including LGFA, bank and registry confirmations are received and checked by the Assistant Management Accountant against Hedgebook and the summary spreadsheets records to ensure accuracy.
- All documentation is filed in Council's document management system.
- Any discrepancies arising during deal confirmation checks, which require amendment to Council's records, are signed off by the Finance Manager.

Settlement

- Borrowing and investment payments/receipts are settled electronically. Batches are set up electronically by the Accounts Payable Administrator. These batches are checked by the Financial Accountant to ensure settlement details are correct. Payment details are authorised by two approved bank signatories.

- Some bank interest payments are settled by direct debit authority.

Reconciliations

- A general bank reconciliation is performed monthly by the Accounts Payable Administrator and checked by the Financial Accountant. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to Council's records are signed off by the Finance Manager.
- A monthly reconciliation of the investment spreadsheet to the general ledger is carried out by the Assistant Management Accountant and reviewed by the Finance Manager.

8.6.5. Legal risk

Legal 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. The 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;
- Matching of third-party confirmations and the immediate follow-up of anomalies;
- Use of expert advice.

Agreements

- Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council.
- Council's internal/appointed legal counsel must sign off on all documentation.

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.

9. Measuring treasury performance

In order to determine the success of Council's treasury management function, benchmarks and performance measures have been prescribed in sections 7.12, 8.6.3

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

10. Reporting

Part 4, section 40(1)(l) of the Act requires Council to prepare and make publicly available, following the triennial general election of members, a local governance statement that includes information on key approved planning and policy documents and the process for their development and review.

Operational reports are listed in Appendix 2.

11. Risk Assessment and Management

Credit risk is minimised by placing maximum limits for each broad class of issuer, and by limiting investments to government, LGFA, and NZ registered banks within prescribed limits (see Section 8.4 of this Policy).

Risks are controlled by first setting an overall investment strategy taking into account counterparty and cash flow requirements.

The use of interest rate risk management instruments is approved by Council for borrowing related activities only. A current list of approved interest rate risk management instruments with appropriate definitions are included in Section 8 of this policy.

All investment activity is reported against policy parameters as outlined in Section 8.6.3.

12. Accounting treatment of financial instruments

As a general rule, financial risk management instruments on initial recognition valued at cost and thereafter carried at fair value with any period-unrealised fair value gains or losses booked through the statement of comprehensive revenue and expense, at any particular reporting date.

Valuation of financial instruments

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense.

Under New Zealand International Public Sector Accounting Standards (NZ IPSAS) changes in the fair value of derivatives are recognised in the statement of comprehensive revenue and expenses unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to actively manage Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's annual accounts.

The Group Manager Corporate Services is responsible for advising the Chief Executive of any changes to relevant NZ IPSAS which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least annually for financial reporting purposes.

Accounting treatment for bank and loan stock funding

As a general rule bank and loan stock funding is held to maturity and consequently accounted for on an amortised cost basis.

Appendix 1: Delegations

Activity	Delegation	Limit
Approve and amend policy document	The Council	Unlimited
Approve annual funding programme as set out in Annual Plan/LTP	The Council	Unlimited (subject to legislative and other regulatory limitations)
Approve charging of assets as security over borrowing	The Council	Unlimited
Open/close bank accounts	Group Manager Corporate Services	Unlimited to be reported to Council
Approving transactions outside policy	The Council	Unlimited
Approving allowable risk management instruments	The Council	Unlimited subject to legislative limitations
Approve authorised cheque/electronic signatory positions	Chief Executive	Unlimited
Register new external debt issues	Finance Manager	NA
Oversight of day-to-day liability and investment management	Finance Manager	Subject to policy
Maximum daily transaction amount (approved borrowing, interest rate risk management, daily fund management)	Chief Executive Group Manager Corporate Services Finance Manager Financial Accountant Management Accountant	Within Annual Plan budget $15 million $10 million $1 million $1 million
Refinancing of existing external debt	Chief Executive	Subject to policy
Approve new borrowing (loans, borrowing facilities) in accordance with Council resolution or through the adoption of the Annual Plan/LTP	Chief Executive	Within Annual Plan budget (subject to legislative and other regulatory limitations)
Approving new and re-financed lending activity with CCO/CCTOs	The Council	Unlimited
Negotiation and ongoing management of lending arrangements to CCO/CCTOs	Finance Manager	
Negotiate bank facilities	Group Manager Corporate Services	NA
Adjust interest rate risk profile	Group Manager Corporate Services	Subject to policy
Managing funding maturities	Group Manager Corporate Services	Subject to policy
Triennial review of policy	Group Manager Corporate Services	NA
Ensuring compliance with policy	Group Manager Corporate Services	NA

Appendix 2: Operational reporting

Report	Frequency	Prepared by	Recipient
Daily money management report	Daily	Assistant Management Accountant	Management Accountant Finance Manager
Quarterly treasury report	Per Council meeting schedules	Finance Manager	The Council (or appropriate sub-committee of the Council). Chief Executive
Treasury strategy paper	Six monthly or as required	Finance Manager	The Council or appropriate sub-committee of the Council Chief Executive
Monthly debt reconciliation	Monthly	Assistant Management Accountant	Finance Manager
Fourth Schedule Debenture Trust Deed	Six monthly	Finance Manager	Chief Executive Covenant Trustees
Revaluation of financial instruments	At least annually	Financial Accountant	Finance Manager for inclusion in the quarterly treasury report.
Cash flow report	Monthly	Management Accountant	Finance Manager
CCO/CCTO loans and guarantees report	Quarterly	Finance Manager	The Council (or appropriate sub-committee of the Council). Chief Executive
LGFA Covenant Reporting	At least annually	Finance Manager	LGFA

Appendix 3: Definitions

13. Definitions

LGFA - Borrower Notes

When Council borrows from the LGFA it will be required to contribute part 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 at maturity on the Borrower Notes.

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 basis. Term deposits are not negotiable instruments. At least a 31 day notice period needs to be given before termination

Registered certificates of deposits (RCD) are securities issued by banks for their funding needs or to meet investor demand. They are registered or held on behalf of by the dealing bank. Details include, the name of the investor, face value and maturity date. They are able to be transferred by registered transfer only. RCDs are priced on a yield rate basis and issued at a discount to face value or a grossed-up basis. They are generally preferred over term deposits because investors can sell them prior to maturity.

Borrowing instrument definitions

Revolving bank term loan facilities

Most borrowers use these facilities to borrow on a 90-day or shorter revolving basis and pay interest amounts in arrears. Revolving term loan facilities are usually for a term of up to three years but may be for as long as five years with drawings under the facility priced at a margin above the bank bill bid rate. Most facilities allow for the borrowers 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.

The lending bank sets the base rate at the time of lending, an arrangement fee, and a credit margin (including line or commitment fee (expressed in basis points or percentage per annum).

Short term money market facility

Short-term money market loans or cash loans can be committed or uncommitted. A borrower pays for a guarantee of the availability of the funds in a committed loan. In an uncommitted loan, funds are provided on a best endeavours basis and no commitment fee is payable. In addition to a line fee, a margin may be charged on any usage.

The main use of cash loans is to cover day-to-day shortfalls in funds. Cash loans are short term only and are normally drawn for a term of one (overnight) to seven days.

LGFA borrowing limits definitions

Total revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).

Net debt is defined as total debt less liquid investments/cash equivalents. When calculating net debt, the LGFA allows the deduction of:

a Cash, term deposits and any investments held within investment portfolios (whether these are ring fenced or not). Investment portfolios might include listed equities, fixed interest securities, listed property securities or units in managed funds.
b LGFA borrower notes can be deducted.
c Any council lending to a CCO or CCTO can also be deducted but only where the CCO or CCTO is a going concern and not dependent upon council financial support.

Net Interest is defined as the amount equal to all interest and financing costs less interest revenue for the relevant period.

d Gross interest is calculated by adding together the value of all Council's financing costs including interest costs on debt, costs of derivatives (but not any unrealised mark to market movements) and any costs on committed bank facilities. The finance component of a lease payment may also be part of a council's interest cost (to be confirmed with LGFA).
e Interest Council earned on cash, term deposits, fixed interest and dividends on non-core listed equities is deducted to provide the net interest amount. Council cannot deduct any foreign exchange gains or unrealised gains on investments.

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).Council can add on any revenue received from income for which Council rates (e.g. volumetric water charges).

Liquid investments for the purposes of the LGFA limits are defined as:

f Overnight bank cash deposits
g Wholesale/retail bank term deposits no greater than 30-days
h Bank issued RCDs less than 181 days
i Approved fixed interest securities
j Listed, non-core equity investments
k Any loans to Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO) (that are a going concern) that mature within 12 months.

External debt for LGFA purposes is the aggregate of bank drawdown amounts, issued commercial paper (CP), term debt, capitalised finance leases and financial guarantees provided to third parties.

Borrowing limits are measured on Council only not consolidated group.

Interest rate risk management instruments and terms

BKBM
The bank bill mid-market settlement rate (FRA 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.

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 (up to a year). The Council and the counterparty agree to a notional principal amount, the future interest rate, the

benchmark dates and the benchmark rate (usually BKBM). This definition includes the forward rate agreement where the benchmark rate is the underlying 90-day bank bill rate.

Interest rate collar strategy
The combined purchase (or sale) of a cap or floor with the sale (or purchase) of another floor or cap. Known as a borrower collar and swaption collar strategy.

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 and swaptions.

Interest rate swap
An interest rate swap is an agreement between the Council and a counterparty (usually a bank) whereby the Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties to the contract agree notional principal, start date of the contract, maturity date of the contract (greater than one year), fixed interest rate and the benchmark rate (usually BKBM).
The swap can have a forward start date directly matching the contract to the underlying future borrowing requirement or interest rate repricing date.

Negotiable
These instruments are able to be bought and sold prior to their legal maturity date.

Liquid investments for liquidity ratio purposes are defined as term deposits that are maturing within 30 days.