Treasury Management Policy

Comprising the Liability Management Policy and Investment Policy

Introduction

This policy has been prepared to fulfil the Council's obligations under Section 102(2)(b) and Section 104 of the Local Government Act 2002.

Section 102 of Part 6 of the Local Government Act 2002 (LGA) requires local authorities to adopt a Liability Management Policy and an Investment Policy.

The requirements for each Policy are detailed in Sections 104 and 105 of the LGA:

- The Liability Management Policy must state the Council's policies on how it will manage its borrowings and other liabilities, including interest rate exposure, liquidity, credit exposure, borrowing limits, giving of security and debt repayment.
- The Investment Policy must set out the Council's policies on investments including the mix of investments, acquiring new investments, management and reporting procedures, and risk assessment and management.

Together these policies make up the framework for the Council's treasury management activities and define the parameters within which all investment and borrowing activities are carried out. All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging instruments) will meet the requirements of the Local Government Act 2002 This policy should be read in the context of Council's Financial Strategy.

All projected borrowings are to be approved by Council as part of the Long-Term Plan or Annual Plan process or by resolution of Council before the borrowing is affected. Council will not enter into any borrowings denominated in a foreign currency.

A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:

- the period of indebtedness is less than 91 days (including rollovers); or
- the goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of Council.

Under the Local Government Rating Act 2002, Council has the powers to set, access and collect rates to fund local government activities. This allows the Council to provide its rating powers as security for borrowing and risk management purposes in the form of a Debenture Trust Deed.

Council is risk averse and wishes to minimise risk from its treasury management activities.

Recommended delegated authorities are included in Appendix 1. Refer to the Council's Delegation Manual for approved delegations.

2 Liability Management Policy

2.1 Objectives

The Council's liability management objectives in relation to borrowings are to:

- Minimise the Council's costs and risks in the management of its borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Ensure sufficient levels of liquidity to meet both planned and unforeseen cash requirements, and to assist borrowing decisions.
- Borrow funds and transact risk management instruments within an environment of control and compliance so as to protect the Council's financial assets and costs.
- Arrange and structure Long-Term funding for Council at the lowest achievable interest margin from debt lenders. Optimise flexibility and spread of debt maturities within the funding risk limits established by this Policy.
- Develop and maintain relationships with financial institutions, the LGFA, the trustee and advisers.
- Ensure compliance with all risk control limits, financial ratios, and external lender requirements.
- Monitor and report on treasury performance, financial ratios, covenants, and security arrangements within the Policy.

2.2 Borrowing Mechanisms

Council is able to borrow external funds in local currency through bank borrowing and the Local Government Funding Agency (LGFA). Council considers and approves its forecast borrowing requirements by approving financial projections in its Long -Term Plan and each Annual Plan, and reports on debt levels in the Annual Report. Council's finance function manages its borrowing activities in accordance with this policy.

In evaluating strategies for new and refinanced borrowing the following is taken into account:

- Available terms from banks and the LGFA.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and credit margins relative to term for LGFA and bank borrowing.
- The market's outlook on future interest rate and credit margin movements as well as its own.
- Legal documentation and financial covenants.
- For internally funded projects, to ensure that finance terms for those projects are at least as equitable with those terms from external borrowing.

Approved borrowing instruments are included in the Appendix 2.

2.3 Internal Borrowing of Special and General Reserve Funds

Council may authorise the funding of capital expenditure and new assets with existing special and general reserve funds. Accordingly, Council does not need to match cash investments to special and general reserves and can use reserve funds for internal borrowing purposes.

Internal loans are repaid over up to 20 years on a table mortgage basis.

Any internal borrowing of special and general reserve funds must be reimbursed for interest revenue lost. Interest on internal loans is charged annually in arrears, on year-end balances.

The internal loan rate is set annually in advance as part of the annual financial budget process.

The internal borrowing rate is set based on Council's actual borrowing rate for the previous financial year or as agreed by Council.

2.4 Borrowing Limits

Council must comply with all relevant financial covenants/ratios. In managing debt, Council will adhere to the following limits:

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 facilities plus liquid assets over existing external debt	Are maintained at or above 110%	Are maintained at or above 110%

2.5 Security

The objective of the security policy is to ensure that the Council can provide suitable security to lenders whilst retaining maximum flexibility and control over assets.

Council will offer as a security for borrowing a charge over the Council's rates and rates revenue offered through a Debenture Trust Deed. The Council will not offer security over assets of the Council, except for borrowing by way of financial lease or some other form of trade credit under which it is normal practice to provide security over the asset concerned. Any security offered must be approved by Council.

2.6 Debt Repayment

The objective of the debt repayment policy is to ensure that the Council is able to repay or refinance debt on maturity with minimum impact on Council cash flows and borrowing costs.

2.7 Local Government Funding Agency Limited (LGFA)

Despite anything earlier in the Liability Management Policy, Council may borrow from the New Zealand Local Government Funding Agency (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 in the form of Borrower Notes
- Provide guarantees of 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 the other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

Council is a guaranteeing member borrower of the LGFA.

2.8 Liquidity Risk

Liquidity refers to the availability of financial resources to meet all obligations as they arise, without incurring penalty costs.

Council requires a minimum level of surplus liquidity to meet unexpected cash expenditure or revenue shortfall.

Council maintains at least $2m in bank, call and term deposits with a maturity date of no greater than 30 days.

Short-term liquidity management is monitored and controlled through daily cash management activities with long-term liquidity management being monitored and controlled through the Annual Plan and Long-Term Plan.

As part of its overall liquidity policy, Council seeks to avoid a concentration of debt maturity dates and may maintain an overdraft facility to meet cash requirements if it is necessary.

Council will only enter into borrowing arrangements with creditworthy counterparties. Creditworthy counterparties are selected on the basis of their Standards and Poor's rating (or equivalent ratings agency), which must be A- or better (or other equivalent rating).

Term deposits linked to debt prefunding activity are excluded from the liquidity calculations. Uncommitted bank facilities are included in liquidity and current ratio calculations.

Liquid assets are outlined in the Appendix 2.

2.9 Debt Funding Risk

The maturity profile of the total committed funding in respect to all external debt and committed bank facilities, is to be controlled by the following system.

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 profile beyond 90 days requires specific approval from Council.

Council can pre-fund up to 18 months forecast debt requirements including new and re-financed debt. Re-financing that has been pre-funded, will remain included within the funding maturity profile until their maturity date.

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

2.9.1 Interest Rate Risk

Borrowings issued at floating interest rates expose the Council to interest rate exposure. Interest rate exposure refers to the impact that movements in market wholesale interest rates have on the Council's financial performance (when compared to projections included in the LTP and Annual Plan).

Factors that influence interest rates over the long and short-term are beyond the control of the Council. Accordingly, it is prudent to be aware of what the interest rate outlook is and where interest rate cycles are when making decisions as to the type of borrowing to be undertaken and what arrangements might need to be entered into to manage the interest cost on borrowing.

Council's objective in managing interest rate risk is to minimise and maintain stability of debt servicing costs.

Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's gross forecast external debt (approved by the Corporate Services Manager) should be within the following fixed/floating interest rate risk control limits.

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	**Minimum Fixed Rate**	**Maximum Fixed Rate**
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%

Gross forecast external debt is the amount of total external debt for a given period. When approved forecasts are changed (signed off by the Corporate Services Manager), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the policy minimum and maximum limits.

The Corporate Services Manager can consider 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.

Approved interest rate instruments are included in the Appendix 2.

"Fixed Rate" is defined as all known interest rate obligations on gross forecast 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.

Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average gross forecast external debt amounts for the given period (as defined in the table above).

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.

Interest rate swap maturities beyond the maximum LGFA bond maturity must be approved by Council through a specific approval.

Hedging outside the above risk parameters must be approved by Council.

3 Investment Policy

3.1 Scope and Objectives

The Council seeks to minimise the risks associated with its investments to avoid placing the capital value of individual investments at risk. The Council is risk averse and wishes to minimise risks from its investment activities so it does not undertake unnecessary or speculative investment activity across any asset types.

The Council's investment policy objectives are to:

- Manage short term cash flows in an efficient and prudent manner.
- Support the Council's liquidity requirements.
- Invest only in approved financial instruments.
- Within its liquidity objectives, manage investments to optimise returns whilst balancing risk and return considerations.
- Minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.

3.2 Investment Mix

At any time, Council's mix of investments could include:

- Cash and term deposits held with banks for general and specific purposes.
- Property, intended for sale.
- Land and buildings for strategic purposes and to further achieve community outcomes.
- Forestry.
- Direct equity investments.
- Internal loans.
- Externally managed funds that could include growth assets like equities.
- Loan and advances to community organisations.
- The Council acknowledges that there are various financial risks arising from its investment activities. The Council recognises its fiduciary responsibility as a public authority and any investments that it does hold should be at an appropriate level of risk, giving preference to conservative investment policies and avoiding speculative investments. The Council accepts that lower risk generally means lower returns on investments.
- The mix of Council's investments will be determined by the individual investment decisions made in furtherance of the Council's goals and objectives as set out in the Long-Term Plan and Annual Plan. Investments are only made to achieve a particular goal or objective.
- Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA) and may borrow to fund that investment. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.
- As Council is risk adverse the Investment Committee will pay particular attention to any direct equity or property investment that does not enable the Council to access and use specific services or achieve strategic and/or community outcomes. The purpose of Council's equity and property investments will be assessed every three years, including whether these investments should continue to be held.
- When approving investment in external managed funds, Council must considers matters such as;
- Council's risk tolerance and capacity for risk including risk and return objectives
- Current and future generations of ratepayer objectives
- Maintaining, protecting and increasing the capital value of monies invested
- Diversifying Council's general and special reserves
- Maintaining liquidity and access to funds
- Annual contributions to subsidising rates revenue
- Environmental, social and governance investment objectives
- Appropriate mix of income and growth assets

An externally managed fund may be through purchasing units in an existing NZD fund(s) or designing a specific investment portfolio. Council approves the initial investment in the external managed fund, and the investment manager(s). The Chief Executive has delegated authority to then manage these funds appropriately as noted in the delegations to the Chief Executive.

Surplus funds are invested in a way that maintains the liquidity of the Council's investments so that cash is available when needed. New investments are acquired when surplus funds are available for investing. The Chief Executive has delegated authority to acquire these investments.

Investment funds that are held in special or general reserves and may be used to fund capital expenditure and new assets and are considered under internal borrowing.

Council may provide loans and advances to community organisations with terms and conditions attached. Council regularly reviews the performance of loans to these terms along with the community objectives for which the loan was provided.

Approved investment instruments are set out in Appendix 2.

3.3 Application of Revenue from Investment and Proceeds from Sale

Revenue from special funds and general reserves is retained in that fund, unless the Council approves otherwise in the Long-Term Plan or Annual Plan.

Revenue from the sale of investment property is retained in the Council's Major Projects Fund.

Revenue from the realisation of the forestry investment is retained in the Council's Major Projects Fund.

Revenue from sales of assets is either reserved or off-set for further asset acquisition.

3.4 Managing and Reporting on Investments

The Chief Executive has delegated authority to invest funds within the criteria outlined in this Investment Policy. The Chief Executive is authorised to sub-delegate this authority to the Corporate Services Manager.

Regular financial reports are to be presented to the Investment Committee, Risk & Assurance Committee and Council.

The Council's forestry consultants provide annual reports to the Council on the forest valuation and calculations of the anticipated cash flows from harvest. These are included in the Annual Report.

3.5 Risk Management

The Council's exposure to risk in relation to its investment activities is relatively minimal. The greatest risk exposure arises in relation to its liquidity investments and property investments.

In managing its investments, the Council always seeks to minimise its risk by investing only in institutions and banks with a strong credit rating.

The Council has a statutory obligation to promote prudent, effective, and efficient financial management. In considering investments, the Council may consider the following:

- Managing risk by having a diversified investment portfolio.
- Identifying all or any risks.
- The estimated return on investment.
- The term of the investment.
- The liquidity and negotiability of the proposed investment during its term and on completion.

4 Counterparty Credit Risk

Credit risk is the risk that a party to a transaction will default on its contractual obligation. Council is exposed to credit risk when there is a deterioration of the credit rating:

- Of an entity with which the Council places its investments;
- Of a counterparty with whom the Council may transact financial derivative contracts
- A contractual counterparty with whom the Council may have concluded major supply, construction or service contracts.

This policy covers treasury activity and financial instruments only.

All legal master documentation in respect to borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.

Approved financial instruments are included in the Appendix 2.

The following matrix determines limits for investment and derivative activity instrument activity:

Counterparty / Issuer	Minimum S&P Long-Term / short term credit rating	Total maximum per counterparty ($m)
NZ Government	N/A	Unlimited
Local Government Funding Agency (LGFA)	AA- / A-1	20.0
NZ Registered Bank	A- / A-1	20.0

It is anticipated that Council does not transact foreign exchange contracts such as, spot foreign exchange and forward foreign exchange contracts.

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

- Investments (e.g. Bank Deposits) - Transaction Principal x Weighting 100% (unless a legal right of set-off exists).
- Interest Rate Risk Management (e.g. swaps) - Transaction Notional x Maturity (years) x 3%.

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

Credit ratings should be reviewed on an ongoing basis and in the event of material credit downgrades should be immediately reported to the Corporate Services Manager and assessed against exposure limits. Counterparties exceeding limits should be reported to Council.

5 Cash Management

Cash management is the process used for managing cash effectively and efficiently, using Council's short-term cash and liquidity resources to sustain its ongoing activities, mobilise funds and optimise liquidity. The most important elements are:

- The systematic planning, monitoring, and management of Council's cash receipts, payments and bank accounts.
- The gathering and management of information to use available funds effectively and identify funding gaps.
- Optimal usage of transactional banking services to streamline efficiencies of cash payments and receipts.

6 Reporting

Council, Risk and Assurance Committee and Investment Committee reporting on treasury activities is based on comprehensive and regular communication of the following areas to ensure high standards of governance and control:

- Policy compliance.
- Risk/exposure position.
- Performance.

The Corporate Services Manager has the responsibility to provide regular and accurate treasury reporting to the Chief Executive, the Investment Committee, the Risk and Assurance Committee and Council.

7 Policy Review

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes (if required).

The Corporate Services Manager has the responsibility to prepare the review report that is presented to Council.

The Council, or the Committee with delegation to adopt policies, receives the report, approves Policy changes and/or rejects recommendations for Policy changes.

Policy owner:	Corporate Services Manager (CSM)
Original date:	1 June 2022
Approved by:	Chief Executive (CE)
Effective date:	6 December 2023
Next revision date:	1 June 2025
Last revision date:	

Appendix 1: Recommended delegation of Authority

The following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.
- confirm details of all relevant current delegated authorities empowered to bind Council and standard settlement instructions.

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 recommended delegated authorities which are confirmed in the Delegations Manual:

Activity	**Recommended Delegated Authority**	**Limit**
Approving and changing Policy	Council	Unlimited
Approving borrowing programme for the year	Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments including externally managed funds, other than liquidity investments	Council	Unlimited
Approval for charging assets as security over borrowing	Council	Unlimited (subject to legislative and other regulatory limitations)
Approve new and re-financed bank facilities and new debt programmes	Council	Unlimited
Approving transactions outside Policy	Council	Unlimited
Overall day-to-day treasury management	CEO (delegated by Council) CSM (delegated by CEO)	Subject to Policy
Re-financing existing debt	CEO (delegated by Council) CSM (delegated by CEO)	Subject to Policy
Approve new borrowing in accordance with Council resolution	CEO	Per Council approved borrowing programme
Negotiate bank facilities	CSM	N/A
Manage treasury requirements	CSM	Per risk control limits
Authorising list of signatories	CEO	Unlimited
Opening/closing bank accounts	CEO	Unlimited
Ensuring compliance with Policy	CSM	N/A

Appendix 2: Approved Financial Instruments

Approved financial instruments for treasury management purposes are as follows:

Category	Instrument
Cash management and borrowing	• Bank overdraft • Committed or uncommitted cash advance facilities • Committed stand-by facilities offered by the LGFA • Fixed and floating rate bonds/loans • Commercial paper (CP)/Promissory notes
Liquidity and investment management	• Call and term bank deposits • Bank registered certificates of deposit (RCDs) • LGFA borrower notes (not for liquidity)
Interest rate risk management	• Forward rate agreements ("FRAs") on: • Bank bills • Interest rate swaps/collars including: • Forward start swaps/collars (start date <36 months, unless linked to existing maturing swaps/collars) • Swap extensions and shortenings • Interest rate options on: • Bank bills (purchased caps and one-for-one collars) • 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.

Interest rate swaps and fixed rate maturity terms are limited by the maximum offered LGFA bond maturity. Beyond this, approval is required by Council.

The forward start period on swaps and collar strategies to be no more than 36 months unless linked to the expiry date of an existing instrument and has a notional amount which is no greater than that of the existing instrument.

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, the sold option can be closed out by itself (i.e. repurchased). The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions mature within 12 months.