TREASURY MANAGEMENT POLICY

Including Liability Management and Investment Policies

Date of adoption by Council	29 February 2016
Resolution Number	16/RDC/039
Date by which review must be completed	2018 – In conjuction with the LTP
Relevant Legislation	Local Government Act 2002
Statutory or Operational Policy	Statutory
Included in the LTP	No

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1 Introduction

1.1 Policy purpose

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

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within RDC 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 the size and type of RDC.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Policy and treasury management function to recognise, measure, control, manage and report on RDC's financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operations of a pro-active treasury function in an environment of control and compliance.
- The robustness of the Policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to RDC in achieving strategic objectives.

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

2 Scope and objectives

2.1 Scope

- This document identifies the Policy of RDC in respect of treasury management activities.
- The Policy has not been prepared to cover other aspects of RDC's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of RDC cover these matters.

2.2 Treasury management objectives

The objective of this Policy is to control and manage costs, investment returns and risks associated with treasury management activities.

Statutory objectives

- All external 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.

- RDC is governed by the following relevant legislation:
    - Local Government Act 2002, in particular Part 6 including sections 101,102, 104, 105 and 113.
    - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
    - Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that 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. All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of Council before the borrowing is affected.
- All legal master documentation in respect to external borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself, without charging any rate or rates revenue as security.
- 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 $250,000.

General objectives

- Ensure that all statutory requirements of a financial nature are adhered to.
- Minimise Council's costs and risks in the management of its external borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- Manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Develop and maintain relationships with financial institutions, LGFA and investors.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this Policy.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.

- Borrow funds, invest and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect Council's financial position and manage costs.
- Monitor, evaluate and report on treasury performance.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.

In meeting the above objectives Council is, above all, a risk averse entity and does not seek risk in its treasury activities. Interest rate risk, liquidity risk, funding risk, default or credit risk, and operational risks are all risks which the Council seeks to manage, not capitalise on. Accordingly activity which may be construed as speculative in nature is expressly forbidden.

2.3 Policy setting and Management

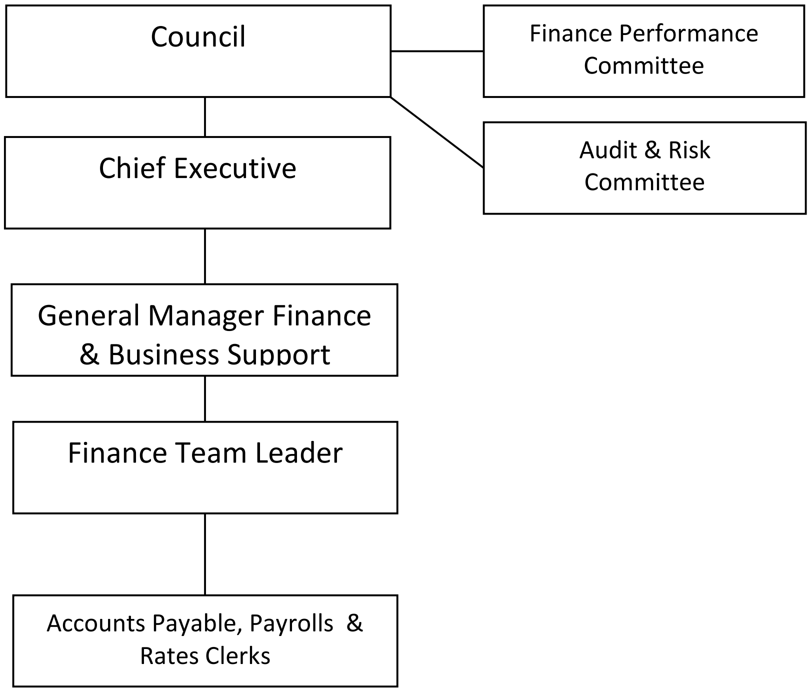
Council approves Policy parameters in relation to its treasury activities. The CE has overall financial management responsibility for the Council's borrowing and investments, and related activities.

The Council exercises ongoing governance over its subsidiary companies (CCO/CCTO), through the process of approving the Constitutions, Statements of Intent, and the appointment of Directors/Trustees of these organisations.

3 Governance and management responsibilities

3.1 Overview of management structure

The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in the following section:



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 RDC.

The Council is responsible for approving the Policy. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.
In this respect, the Council has responsibility for:

- Approving the long-term financial position of RDC through the Long Term Plan (LTP) and Financial Strategy along with the adopted Annual Plan.
- Approve and adopt the Liability Management and Investment Policies (the Treasury Management Policy).
- Approval for one-off transactions falling outside Policy.
- Report to the public via the Council's Annual Plan and Annual Report.

3.3 Finance Performance Committee

Under delegation from Council:

- Monitor and review treasury activity through monthly reporting, supplemented by exception reporting.

3.4 Audit & Risk Committee

Under delegation from Council:

- Review formally, on a three yearly basis, the Treasury Management Policy document.
- Evaluate and recommend amendments to the Treasury Management Policy to Council.

3.5 Chief Executive Officer (CE)

While the Council has final responsibility for the Policy governing the management of Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the Chief Executive (CE).

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

- Ensuring the policies comply with existing and new legislation.
- Managing the long-term financial position of Council as outlined in the LTP.
- Approving the list of authorised signatories.
- Approving treasury transactions in accordance with delegated authority.
- Approving new counterparties and counterparty limits.
- Approving new external borrowing undertaken within Council resolution and approved borrowing strategy.
- Approves the opening and closing of bank accounts.
- Approving all amendments to Council records arising from checks to counterparty deal confirmations.
- Receiving advice of non-compliance of Policy and significant treasury events from the General Manager Finance & Business Support.

3.6 General Manager Finance & Business Support (GMFBS)

The General Manager Finance & Business Support's responsibilities are as follows:

- Management responsibility for all external borrowing, investment and related activities as delegated by the CE.
- Approving treasury transactions in accordance with delegated authority.
- Manage Council's relationship with financial institutions, LGFA, and brokers.
- Liaise and negotiate with bankers/brokers/the LGFA for issue of debt.

- Execution of external borrowing, investment, and interest rate management transactions in accordance with set limits, including the completion of deal tickets to record transactions.
- Update treasury spreadsheets for all new, re-negotiated and maturing transactions.
- Check all settlement of external borrowing, investment, cash management, and interest rate management transactions.
- Review and monitor Council's cash flow forecasts.
- Review and approve monthly, bank reconciliations, and general ledger reconciliations.
- Ensure compliance to Policy risk control limits.
- Monitoring and reviewing the performance of the treasury function in terms of achieving the objectives.
- Monitor and report on treasury activity.
- Conducting a review, at least triennially, of the Policy.
- Reviewing and making recommendations on all aspects of the Policy to the CE and Audit & Risk Committee, including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments.
- Responsible for keeping the CE informed of significant treasury activity and market trends.

3.7 Finance Team Leader (FTL)

The Finance Team Leader's responsibilities are as follows:

- Complete Council's cash flow and debt forecasts, and day-to-day cash management responsibilities.
- Settlement of external borrowing, investment, cash management, and interest rate management transactions.
- Check all treasury deal confirmations against the treasury spreadsheet and report any irregularities immediately to the CE.
- Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA documents.
- Complete monthly treasury journals.

3.8 Accounts Payable & Payrolls Clerk (APPC)

- Complete monthly bank reconciliations.
- Complete monthly reconciliation of treasury spreadsheet to general ledger.
- Prepare treasury reports.

3.9 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 annually 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:

Activity	Delegated Authority	Limit
Approving and changing Policy	Council	Unlimited
Approve external borrowing for year as set out in the AP/LTP.	Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments other than financial investments	Council	Unlimited
Approval for charging assets as security over borrowing	Council	Unlimited
Approving transactions outside Policy	Council	Unlimited
Approve new external borrowing in accordance with Council resolution.	CE	Per Council approved AP/LTP
Arranging/negotiation of new and re-financing bank facilities/debt issuance.	GMFBS	Per Council resolution Subject to Policy
Overall day-to-day treasury management	CE	Subject to Policy
Authorising list of signatories	CE	Unlimited
Opening/closing bank accounts	CE	Unlimited
Approve financial investments and activity	GMFBS	Subject to Policy Per risk control limits
Manage borrowing, investment and interest rate activity	GMFBS	N/A
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on debt and interest rate swaps.	Council CE GMFBS	Unlimited $2oM $5M
Manage cash/liquidity requirements	GMFBS	Per risk control limits
Triennial review of Policy	GMFBS	N/A

Ensuring compliance with Policy	GMFBS	N/A

All management delegated limits are authorised by the CE.

4 Liability Management Policy

4.1 Introduction

Council's liabilities comprise of borrowings (external/internal) and various other liabilities. Council maintains external borrowings in order to:

- Raise specific debt associated with projects and capital expenditures.
- Fund the balance sheet as a whole, including working capital requirements.
- Fund assets whose useful lives extend over several generations of ratepayers.
- Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the cost are met by those ratepayers benefiting from the investment.

4.2 Borrowing limits

Debt will be managed within the following limits:

Item	Limit
Net External Debt / Total Revenue	<150%
Net External Debt per Capita	<$2,500
Net Interest on External Debt / Total Revenue	<10%
Net Interest on External Debt / Annual Rates Income	<15%
External, term debt + committed bank facilities + unencumbered cash/cash equivalents to existing external debt.	>110% Cash / Cash equivalents, at least $2.5m, but no more than $5.0m

- Total Revenue is defined as cash earnings from rates, government capital 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 external debt is defined as total external debt less unencumbered cash/cash equivalents.
- The liquidity ratio is defined as external term debt plus committed bank facilities, plus unencumbered cash/cash equivalents divided by current external debt.
- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) 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 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- Financial covenants are measured on Council only not consolidated group.
- Disaster recovery requirements, urgent financing of emergency-related works and services are to be met through the liquidity policy and special funds.

4.3 Asset management plans

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

4.4 Borrowing mechanisms

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

- Available terms from banks, the LGFA and debt capital markets.
- 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 debt issuance, the LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as its own.
- Legal documentation and financial covenants considerations.
- For internally funded projects, to ensure that finance terms for those projects are at least as equitable with those terms 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, the LGFA, and financial institutions/brokers.

4.5 Security

Council's external borrowings and interest rate management instruments will generally be secured by way of a charge over rates and rates revenue offered through 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.

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

Any internal borrowing will be on an unsecured 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. 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 Trust Deed.

4.6 Debt repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or 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.

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

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

4.7 Guarantees/contingent liabilities and other financial arrangements

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

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

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council or an appropriate Council Committee in aggregate. The GMFBS monitors guarantees and reports quarterly to Council.

4.8 Internal borrowing

Council uses its reserves to internally fund new capital projects. The GMFBS is responsible for administering the Council’s internal loan portfolio. Loans are set up within the portfolio based on planned loan funded capital projects or operational expenditure as approved by Council resolution as part of the Annual Plan and LTP.

The primary objective in funding internally is to use reserves and external borrowing effectively, by establishing a portfolio that provides funding to internal activity centres. This creates operational efficiencies through not paying fees/margins and other costs associated with raising external borrowing.

In addition to external borrowing the following specific reserves are used for internal borrowing purposes:

- Special Fund Reserves
- General Accumulated Reserves
- The following operational parameters apply to the management of Council's internal loan portfolio:

All internal borrowing activities are consistent with the principles and parameters outlined throughout the Liability Management and Investment Policies:

- Council firstly seeks to utilise internal reserve funds and if insufficient reserves are available utilises external borrowing.
- A notional internal loan is set up for all new capital or operational expenditure purposes and allocated in the internal loan portfolio to the activity centre incurring the obligation.
- Interest received is allocated into the general account and offset against general rate requirements.

For operational lending the following specific parameters apply:

- The term of the loan is limited to a maximum of one year with the loan to be fully repaid by the second anniversary of the loan.
- Interest is set based on a margin above the 90-day floating BKBM mid interest rate at the beginning of the calendar quarter. If external debt is used the weighted average cost of external borrowing plus a margin. The margin can include a credit margin and other treasury related costs.
- Interest is paid quarterly in arrears.

For capital lending the following specific parameters apply:

- The Council approves lending for capital purposes through the Annual Plan/LTP. These are ratified by the Council subsequent to the Annual Plan being approved.
- Interest on internally-funded loans is charged annually in arrears, on year-end loan balances at the agreed three-year fixed interest rate. Except where a specific rate has been approved for particular circumstances, the three-year rate is set annually at the start of the financial year, based on the three-year swap rate plus the credit margin on three-year loan stock and other related treasury costs. The margin is determined by that of the LGFA three-year credit curve for a non-credit rated non-guaranteeing Council borrower.
- If external debt is used the weighted average cost of external borrowing (including credit margin and other related costs).

4.9 New Zealand Local Government Funding Agency (LGFA) Limited

Despite anything earlier in this Policy, the 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 Investment Policy

5.1 Introduction

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

- For strategic purposes consistent with Council's LTP.
- To reduce the current ratepayer burden.
- The retention of vested land.
- Holding short term investments for working capital requirements.
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations.
- Holding assets (such as property and land parcels) 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 income streams and assets.
- Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

Council recognises that as a responsible public authority all investments held, should be low risk. Council also recognises that low risk investments generally mean lower returns.
Council can internally borrow from reserve and investment funds in the first instance to meet operational and capital expenditure requirements, unless there is a compelling reason for establishing external debt.

5.2 Policy

The Council's general Policy on investments is that:

- The Council may hold financial, property, forestry, and equity investments if there are strategic, commercial, economic or other valid reasons (e.g. where it is the most appropriate way to administer a Council function).
- The Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.

- The Council will review its policies on holding investments at least once every three years.

5.3 Mix of investments

The Council maintains investments in the following assets:

- Equity investments and other shareholdings.
- Property investments incorporating land, buildings and a portfolio of ground leases.
- Forestry investments.
- Community loans and advances.
- Financial investments incorporating longer term and liquidity investments.

5.4 Acquisition of new investments

With the exception of financial investments, acquisition and management of medium to long-term investments are managed in accordance with goals, objectives and provisions of the LTP and Annual Plans. However, the Council may from time to time deem it appropriate, in terms of prudent financial management, to modify its investment mix such a change would be entered into only through specific Council resolution and in compliance with the provisions of the Local Government Act 2002.

The authority to acquire financial investments is delegated to the GMFBS and reported to Council on a monthly basis.

5.5 Equity investments

It may be appropriate to have limited investment(s) in equity (shares) when Council wishes to invest for strategic, economic development or social reasons, such as Local Government Insurance Corp.

Council will approve equity investments on a case-by-case basis, if and when they arise.
Generally such investments will be in (but not limited to) infrastructural companies and/or local government joint ventures (including Council Controlled Trading Organisations (CCTO)) to further District or regional economic development. Council does not invest in overseas companies.
Council reviews performance of these investments as part of the annual planning process to ensure that their stated objectives are being achieved.

Any disposition of these investments if the market value exceeds $100,000 requires approval by Council. For investments equal to or less than $100,000, the decision is made by the Chief Executive. Acquisition of new equity investments requires Council approval. The Council decides on the allocation of proceeds from the disposition of equity investments on a case-by-case basis.
All income, including dividends, from the Council's equity investments is included in general revenues in the Statement of Revenue and Expense.

Equity investments excludes those investments that are not held for strategic or economic development or social reasons.

Equity investments are reported to Council on a Annual basis.

5.5.1 New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, 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.

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 remain viable, meaning that it continues as a source of debt funding for the Council.

As a borrower Council’s LGFA investment includes borrower notes.

5.6 Property investments

Investments in property fall into three classes:

(i) Leased property
The types of assets that the Council invests in on a commercial basis could include residential housing, commercial /industrial property and/or farmland. Council will seek professional advice before purchasing any land for investment purposes.

(ii) Land subdivision
Council may facilitate or partake in property development or subdivision where a clear economic benefit is perceived to benefit the District Ratepayers.

(iii) Non-commercial properties
Currently Council holds buildings such as halls, libraries and administration buildings for non-commercial purposes and as such does not get a market return or make fully adequate provision for their eventual replacement.

It also holds a number of flats let out to predominantly elderly persons in the Rangitikei District on a non-profit basis sufficient to cover operational and longer-term maintenance. While Council supports the provision of social housing it continues to review its ownership and management options for these.

Through the LTP process Council reviews property ownership by assessing the benefits of continued ownership in comparison to other arrangements that could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Surplus property in relation to this criterion is disposed of.

All Council property, which is surplus to requirements, is available for sale.

For all property disposals that have been approved by Council, the Chief Executive may accept any offer for purchase that is over the rateable value of the property if that rateable value is less than $100,000. For property sales over $100,000 (or for property in class (i) and (ii)) an independent valuation should be sought as a benchmark for offers and rewards. Council approval is required for property sales where the offer price is less than rateable value or (for class (i) and (ii) and class (iii) properties over $100,000) the independent valuation.

Proceeds from the disposition of property investments form part of the Council's general funds. Any gains or losses on sale are included as general, revenues or expenditure in the Statement of Financial Performance.

All income, including rentals and ground rent from property investments, is included in property activity in the Statement of Financial Performance.

Property investments are reported to Council on a quarterly basis.

5.7 Forestry Investments

The Council has a number of small forestry holdings throughout the District. These holdings are situated on land that:

- Is used as part of other activities such as water catchment areas, landfills, and road stabilisation;
- Was used for other activities and is no longer required for the original purpose and cannot be disposed of; or
- Is purely for investment purposes (historically).

5.8 Council does not see itself as a long term investor in forestry and will be seeking to dispose of these assets. Loans, Advances and Investments in Community Projects

From time to time, the Council makes loans to other parties. All loans are secured and all loan advances are reviewed as part of the annual planning process to ensure that interest and principal repayments are made in accordance with the loan agreement.

Council does not lend to CCTO's on more favourable terms than what it can achieve itself, without charging any rate or rate revenue as security.

At various times groups within the community request loans, advances or guarantees for projects that will be of benefit to a significant proportion of the community. As these investments are with groups that the Council would not normally invest with Council needs to debate the suitability of any loan application. During this process Councillors pay particular regard to the ability of the applicant to service the debt and repay principal. Council will be responsible for authorising any such loans, advances or guarantees.

Advances to charitable trusts, and community organisations do not have to be on a fully commercial basis. Where advances are made to charitable trusts and community organisations at below Councils cost of borrowing the additional cost is treated as an annual grant to the organisation.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved. The GMFBS monitors loan advances and reports to Audit & Risk Committee quarterly.

5.9 Financial investments

Objectives

- Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.5. Credit ratings are monitored and reported monthly.

Council may invest in approved financial instruments as set out in section 6.3. These investments are aligned with Council's objective of investing in high credit quality and 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.
- Council may choose to hold specific reserves in cash and direct what happens to that investment income. In effect the income from financial investments will be an interest income stream into treasury activity. The treasury activity pays interest on special funds and reserves.
- Internal borrowing will be used wherever possible to minimise external borrowing.
- Financial investments do not include shares.

Special funds and reserve funds

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

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 Trust's Investment Policy is not specified then this Policy should apply.

5.10 Departures from normal Policy

The Council may, in its discretion, depart from the Investment Policies where is considers that the departure would advance its broader social or other Policy objectives. Any resolution authorising an investment under this provision shall note that it departs from the Council's ordinary Policy and the reasons justifying that departure.

5.11 Investment management and reporting procedures

Council's policy for the management and reporting of investments includes:

- The legislative necessity to maintain efficient financial systems for the recording and reporting (inter alia) of:
- All revenues and expenditures;
- All assets and liabilities; and

- The treatment and application of special funds.
- Adherence to Council's financial processes and delegations to Council's staff to invest surplus short-term funds and negotiate reinvestments, subject to the provision of adequate cash resources to meet normal expected cash demands;
- Monthly reporting of current investments to Council, including details of investment types, maturity dates and interest rates applicable, including the current weighted average rate; and
- Monthly reporting to Council through a summary of investments, including investment amounts by type, year of maturity, total amounts, and appropriate weighted average interest rate.

6 Risk recognition / identification management

The definition and recognition of liquidity, funding, interest rate, counterparty credit, 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 on external borrowing

6.1.1 Risk recognition

Interest rate risk is the risk 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 so as to adversely impact revenue projections, cost control and capital investment decisions/returns/feasibilities.

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

6.1.2 Interest rate risk control limits

Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's forecast core external debt should be within the following fixed/floating interest rate risk control limit, and will apply when forecast 12 month core debt exceeds $10 million.

Core external debt is defined as gross external 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.

Master Fixed / Floating Risk Control Limits	
Minimum Fixed Rate	Maximum Fixed Rate
50%	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 core debt level calculated by management (signed off by the CE).

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

Fixed Rate Maturity Profile Limit		
Period	Minimum Hedge %	Maximum Hedge %
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	60%

A fixed rate maturity profile that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

- 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.
- Hedging outside the above risk parameters must be approved by Council.
- Interest rate options must not be sold outright. However, one for one 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 hedge percentage calculation.
- The forward start period on swap/collar strategies to be no more than 24 months, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.

6.2 Approved financial instruments

Approved financial instruments (which do not include shares or equities) are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities Loan stock /bond issuance ▪ Floating Rate Note (FRN) ▪ Fixed Rate Note (Medium Term Note/Bond) Commercial paper (CP)/Promissory notes

Financial investments – no more than 12-month term (except for LGFA borrower notes and investments linked to debt pre-funding)	Bank call/term deposits Bank registered certificates of deposit (RCDs) Treasury bills LGFA borrower notes
Interest rate risk management	Forward rate agreements ("FRAs") on: ▪ Bank bills Interest rate swaps including: ▪ Forward start swaps. Start date <24 months, unless linked to existing maturing swaps ▪ 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)
Foreign exchange management	▪ Spot foreign exchange ▪ Forward exchange contracts (including par forwards)

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 unsecured investment securities must be senior in ranking.

6.3 Liquidity risk/funding risk

6.3.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term 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 acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

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

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences its own 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.

6.3.2 Liquidity/funding risk control limits

- To ensure funds are available when needed Council ensures that:
- There is sufficient available operating cash flow, liquid investments (cash/cash equivalents) and committed bank facilities to meet cash flow requirements between rates instalments as determined by the GMFBS. Cash flow management will be used to identify and manage maturity mismatches between external borrowings, internal loans and financial investments.
- For liquidity purposes Council maintains the greater of;
- Unencumbered liquid financial investments (cash/cash equivalents) not less than $2.5m and no greater than $5m. or,
- External term debt plus committed bank facilities, plus unencumbered cash/cash equivalents to existing external debt of at least 110%.
- Of the unencumbered cash/cash equivalent financial investments, at least $1m must have a maturity term of no more than 30-days.
- Council has the ability to pre-fund up to 12 months forecast debt requirements including re-financings.
- The GMFBS has the discretionary authority to re-finance existing external debt.
- The maturity profile of the total committed funding in respect to all external term debt and committed bank facilities is to be controlled by the following system. The limits will apply when core debt exceeds $10 million:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	40%

A funding maturity profile that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

6.4 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. Council will only borrow from strongly rated banks with a minimum long-term credit rating of at least “A+” (S&P, or equivalent Fitch or Moody’s rating).
Credit risk will be regularly reviewed by Council. Treasury related transactions would only be entered into with approved counterparties.

Counterparties and limits are only approved on the basis of the following Standard & Poor's (S&P, or equivalent Fitch or Moody's rating) long and short-term credit ratings matrix. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Counterparty /Issuer	Minimum S&P long term / short term credit rating	Investments maximum per counterparty ($m)	Risk management instruments maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	N/A	Unlimited	None	Unlimited
Local Government Funding Agency (LGFA)	AA-/A-1	10.0	None	10.0
NZ Registered Bank (minimum rating)	A+ /A-1	5.0 (with the exception of Council's transactional banker* which may exceed this for up to 5 working days)	10.0	15.0

- Note: *Limit for Council's principal banker excludes balances in current and call accounts designated as funds required for operational cash management purposes.

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

- Investments (e.g. Bank Deposits) – Transaction Principal × Weighting 100% (unless a legal right of set-off exists).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange - Transactional face value amount x (the square root of the Maturity (years) x 15%).

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

Individual counterparty limits are kept in a spreadsheet and updated on a day to day basis. Credit ratings should be reviewed by the GMFBS on an ongoing basis and in the event of material credit downgrades should be immediately reported to the CE and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

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 and prevailing market conditions the instrument is traded in and repriced from.

6.5 Foreign currency

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

Generally, all individual commitments over NZ$100,000 equivalent are hedged using approved foreign exchange instruments, once expenditure is approved, legal commitment occurs and the purchase order is placed, exact timing, currency type and amount are known.

Independent external advice would be sought before the use of such instruments.

Selling foreign exchange options for the purpose of generating premium income is not permitted. 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.

6.6 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.

Dealing authorities and limits

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

Segregation of duties

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

- A 'two authorisations' process is strictly enforced for all treasury settlements.
- The Finance Team Leader reports any irregularities upon independently checking the bank deal confirmation, to the CE.
- There is a documented approval and reporting process for borrowing, interest rate and investment management activity.

Procedures

All financial instruments should be recorded and diarised within a treasury spreadsheet, 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 an appropriate operations and procedures manual separate to this Policy. Procedures should include:

- Regular management reporting.
- Regular risk assessment, including review of procedures and controls as directed by Council or appropriate sub-committee of Council.
- Organisational, systems, procedural and reconciliation controls to ensure:
- All borrowing, investing, interest rate and cash management 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 GMFBS has responsibility for establishing appropriate structures, procedures and controls to support borrowing, investing, interest rate and cash management activity.
- All borrowing, investing, 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.
- Authorisation of all electronic funds transfers requires two designated authorisers, one of whom must include the CE or GMFBS.
- Cheques must be in the name of the counterparty crossed "Not Negotiable, Account Payee Only" or "Not Transferable, 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 deal confirmations.

Recording of deals

- All deals are recorded on properly formatted deal tickets by the GMFBS and approved where required as per the schedule of delegations.
- Market quotes for deals (other than cash management transactions) are documented and considered by the GMFBS before the transaction is executed.
- Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spreadsheets) are maintained and updated promptly following completion of transaction.

Confirmations

- All inward deal confirmations including LGFA/bank funding and registry confirmations are received and checked by the Finance Team Leader against completed deal tickets and the treasury spreadsheet records to ensure accuracy.
- All deliverable securities are held in the Council's safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date/number order.
- The GMFBS checks all dealing activity, deal tickets and confirmations monthly, to ensure documentation is in order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the CE.

Settlement

- The majority of borrowing, investing, interest rate and cash management transactions are settled by direct debit authority.
- For electronic payments, batches are set up electronically. These batches are checked by the Finance Team Leader to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers or by direct debit as per setup authority by Council.

Reconciliations

- Bank reconciliations are performed monthly by the Accounts Payable & Payrolls Clerk and checked and approved by the Finance Team Leader. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the CE.
- A monthly reconciliation of the treasury spreadsheet to the general ledger is carried out by the Accounts Payable & Payrolls Clerk and approved by the Finance Team Leader.

6.7 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, RDC may be exposed to such risks.
RDC 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.

6.7.1 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. All ISDA Master Agreements for financial instruments must be signed under seal by the Council.

Council’s internal/appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings and investment structures.

6.7.2 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 bank funding facilities, LGFA, Trustee and legislative requirements.

7 Measuring treasury performance

Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective and objective measures. The predominant subjective measure is the overall quality of treasury management information. The CE has primary responsibility for determining this overall quality.

In order to determine the success of Council’s treasury management function, the following benchmarks and performance measures have been prescribed.
Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to Council or an appropriate sub-committee of Council on a monthly basis.

Management	Performance
Operational performance	• All Policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits. • All treasury deadlines are to be met, including reporting deadlines. • Number and cost of processing errors (generally measured by unplanned overdraft costs). • Comparison of Council's financial ratios to financial and non-financial performance measures included within the Annual Plan.
Management of debt and interest rate risk (borrowing costs)	The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual interest cost amount.

8 Cash management

The Finance Team Leader has the responsibility to carry out the day-to-day cash and short-term cash management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function.

- The Finance Team Leader will calculate and maintain comprehensive rolling cash flow projections on a weekly (four weeks forward) and monthly (12 months forward) basis. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment.
- On a daily basis, electronically download all Council bank account information.
- Co-ordinate Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters.
- In the management of financial investments, Council will maintain at least $1 million in term bank deposits not exceeding 30-days.
- Undertake short term borrowing functions as required, minimising costs.
- Ensure efficient cash management through improvement to forecasting.
- Minimise fees and bank charges by optimising bank account/facility structures.
- Monitor Council's usage of committed bank facilities.
- Match future cash flows to smooth overall timeline.
- Provide reports detailing actual cash flows during the month compared with those budgeted.
- Maximise the return from available funds by ensuring significant payments are made within the suppliers payment terms, but no earlier than required, unless there is a financial benefit from doing so.
- Interest rate management on cash management balances is not permitted.
- Cash is invested in approved instruments and counterparties only.

9 Reporting

When budgeting interest costs and investment returns, the actual physical position of existing loans, investments, and interest rate instruments must be taken into account.

1.1. Treasury reporting

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	FTL	GMFBS
Exceptions Report	Daily	APPC	GMFBS
Treasury Report ▪ Policy limit vs actual position ▪ Cash flow forecast report ▪ Borrowing limits ▪ Funding Maturity and Interest Position/Profiles ▪ Liquidity position ▪ Financial investment risk position / Summary of investments held ▪ Counterparty credit ▪ New treasury transactions ▪ Treasury performance	Monthly	APPC / GMFBS	Finance Performance Committee
Trustee Report	As required by the Trustee	GMFBS	Trustee company
Revaluation of financial instruments Guarantees, loan advances	Quarterly	GMFBS	CE

1.2. Accounting treatment 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. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Statement of Comprehensive Revenue and Expense unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to actively manage the 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 GMFBS is responsible for advising the CE of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative instrument.

All derivative instruments must be revalued (marked-to-market) at least quarterly for reporting purposes.

10 Policy review

The Policy is to be formally reviewed on a triennial basis in conjunction with the LTP, and annually for internal purposes.

The GMFBS has the responsibility to prepare the annual review report (following the preparation of annual financial statements) that is presented to the CE. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes. The Policy review should be completed and presented to the Council, through the Audit & Risk Committee within five months of the financial year-end.

11 Appendix – Council Equity Investments

1.3. Equity Investments

Council owns the following equity investments.

Unlisted shares in the New Zealand Local Government Insurance Corporation. These are held to allow council to participate in the Corporations collective insurance programme.

Unlisted share in the Manawatu Wanganui LASS Limited. These are held to allow council to participate in the shared services arrangements available in a Local Government collective around insurance cover and other cost saving and efficiency initiatives.