Policy: Treasury Risk Management Policy and Procedures including Liability Management and Investment Policies

Adopted 29 June 2021

1.0 INTRODUCTION

1.1 Policy purpose

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

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within Ōpōtiki 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 Ōpōtiki
- 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 Ōpōtiki '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 Ōpōtiki in achieving strategic objectives relating to ratepayers.

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

2.0 SCOPE AND OBJECTIVES

2.1 Scope

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

2.2 Treasury management objectives

The objective of this Policy is to control and manage costs and investment returns that can influence operational budgets and public equity and set debt levels.

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
- Ōpōtiki is governed by the following relevant legislation;
  - Local Government Act 2002, in particular Part 6 including sections 101,102,104 and 105
  - 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. Details of relevant sections can be found in the Trustee Act 1956 Part II Investments.
- 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

- Council will not enter into any borrowings denominated in a foreign currency
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself
- 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.

General objectives

- To manage investments and the protection of investment capital, optimise returns whilst balancing risk and return considerations within the parameters of the Policy
- Minimise Council's costs and risks in the management of its borrowings
- Minimise Council's exposure to adverse interest rate movements
- Monitor, evaluate and report on treasury performance
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect Council's financial assets and manage costs
- Arrange and structure external long term funding for Council at the lowest achievable margin cost from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this Policy statement
- 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
- Monitor Council's return on investments
- 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
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties
- Ensure that all statutory requirements of a financial nature are adhered to.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions
- Develop and maintain relationships with financial institutions, the LGFA, brokers and investors.

2.3 Policy setting and management

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

3.0 GOVERNANCE AND MANAGEMENT RESPONSIBILITIES

3.1 Overview of management structure

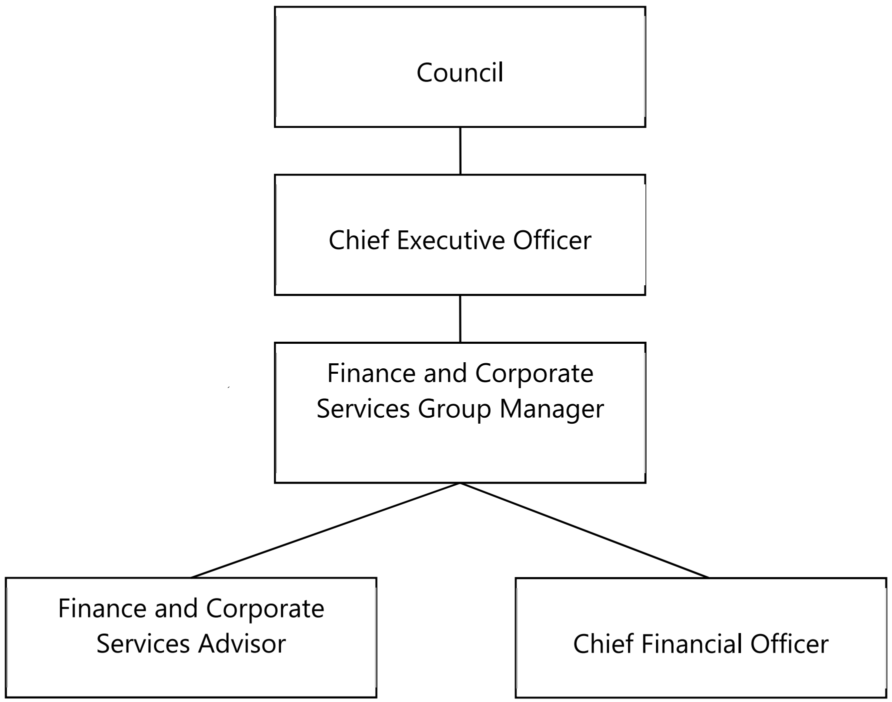
Policy statements

Council will ensure effective controls over treasury management and segregation of duties controls are in place.

Council may, by way of a resolution, depart from the Treasury policy where it considers that the departure would advance the broader well-being of the district or other policy objectives.

Procedures

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 Ōpōtiki.

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 Ōpōtiki through the 10 year Long Term Plan (LTP) and Financial Strategy along with the adopted Annual Plan
- Approving new debt through the adoption of the Annual Plan, specific Council resolution and approval of this Policy
- Approving the Policy incorporating the following delegated authorities:
  - Borrowing, investment and dealing limits and the respective authority levels delegated to the CEO, F&CSGM and other management;
  - Counterparties and credit limits;
  - Risk management methodologies and benchmarks;
  - Guidelines for the use of financial instruments;
  - Receive a triennial review report on the Policy
- Evaluating and approving amendments to Policy
- Approving budgets and high level performance reporting
- Delegating authority to the CEO and other officers.

The Council should also ensure that:

- It receives regular information from management on risk exposure and financial instrument usage in a form that is understood, and that enables it to make informed judgements as to the level of risk undertaken
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved in a timely manner
- Submissions are received from management requesting approval for one-off transactions falling outside Policy guidelines.

3.3 Chief Executive Officer (CEO)

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 Officer.

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

- Ensuring the policies comply with existing and new legislation
- Approving the register of cheque and electronic banking signatories
- Approving new counterparties and counterparty limits
- Approving new external borrowing undertaken in line with Council resolution and approved borrowing strategy
- Approving the opening and closing of bank accounts
- Receiving advice of breaches of Policy and significant treasury events from the F&CSGM.

3.4 Finance and Corporate Services Group Manager (F&CSGM)

The F&CSGM's responsibilities are as follows:

- Management responsibility for all external borrowing and investment activities
- Recommending Policy changes to the Council for approval
- Ongoing risk assessment of borrowing and investment activity including procedures and controls
- Approving treasury transactions in accordance with delegated authority.
- Authorising the use of approved interest rate risk management instruments within discretionary authority
- Recommending authorised signatories and delegated authorities in respect of all treasury dealing and banking activities
- Proposing new funding requirements to the CEO for consideration and submission to the Council
- Reviewing and making recommendations on all aspects of the Policy to the CEO, including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments
- Conducting a review, at least triennially, of the Treasury Risk Management Policy, treasury procedures and counterparty limits
- Managing the long-term financial position of Council as outlined in the LTP
- Ensuring management procedures and policies are implemented in accordance with this Treasury Risk Management Policy
- Ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards
- Monitoring and reviewing the performance of the treasury function in terms of achieving the objectives of minimising and stabilising funding costs
- Authorising borrowing, investing, interest rate, cash management transactions with bank counterparties. Approving all amendments to Council records arising from checks to counterparty confirmations

3.5 Chief Financial Officer

- Review treasury exposure on a regular basis, including current and forecast cash position, investment portfolio, interest rate exposures and borrowings
- Execute borrowing, investment, and interest rate management transactions in accordance with set limits. Investigate financing alternatives to minimise borrowing costs, margins and interest rates, making recommendations to the F&CSGM as appropriate
- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles, Council's accounting and funding and financial policies
- Check compliance against limits and prepare report on an exceptions basis. Co-ordinate the compilation of cash flow forecasts and cash management.
- Reviewing and approving borrowing and investment spreadsheet reconciliation to internal records
- Review and approve bank reconciliations.

3.6 Finance and Corporate Services Supervisor, Accountant, or other designated staff

- Update treasury spreadsheets for all new, re-negotiated and maturing transactions
- Monitor and update credit ratings of approved counterparties
- Settlement of borrowing, investment, and interest rate management transactions
- Check all treasury deal confirmations against deal documentation and report any irregularities immediately to the CEO

- Complete general ledger reconciliations to treasury spreadsheets
- Forecast future cash requirements (working capital)
- Cash management
- Reconcile monthly summaries of outstanding financial contracts from bank counterparties to internal records
- Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA documents
- Monitor all treasury exposures daily
- Prepare treasury reports.

3.7 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 programme 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
Overall day-to-day treasury management	CEO (delegated by Council) F&CSGM (delegated by CEO) CFO(delegated by F&CSGM)	Subject to Policy
Re-financing existing debt	CEO (delegated by Council) F&CSGM (delegated by CEO) CFO (delegated by F&CSGM)	Subject to Policy

Activity	Delegated Authority	Limit
Approve new external borrowing in accordance with Council resolution or through the adoption of the AP/LTP.	CEO	Per Council approved borrowing programme AP/LTP or special resolution
Negotiate bank facilities	CFO	N/A
Manage borrowing and interest rate strategy	CFO	N/A
Adjust interest rate risk profile	CFO	Per risk control limits
Managing funding and investment maturities	CFO	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on existing debt and interest rate swaps.	Council CEO F&CSGM CFO	Unlimited $10M $5M
Manage cash/liquidity requirements	CFO	Per risk control limits
Authorising list of signatories	F&CSGM	Unlimited
Opening/closing bank accounts	F&CSGM	Unlimited
Triennial review of Policy	F&CSGM	N/A
Ensuring compliance with Policy	CFO	N/A

All management delegated limits are authorised by the CEO.

4.0 LIABILITY MANAGEMENT POLICY

4.1 Introduction

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

- Raise specific debt associated with projects and capital expenditures
- Raise finance leases for fixed asset purchases
- Fund assets whose useful lives extend over several generations of ratepayers.

4.2 Borrowing Limits

Policy statement

Council will manage its debt in accordance to limits set.

Procedures

Debt will be managed within the following limits:

Item	Borrowing Limit
Net Interest on external debt as a percentage of total revenue	$\leq$10%
Net Interest on external debt as a percentage of annual rates income (debt secured under debenture)	$\leq$15%
Net cash flows from operating activities divided by interest expense	$\geq$2

- 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 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)
- Annual Rates Income excludes regional levies
- Net cash flows from operating activities is defined as operating income less operating expenditure less adjustments for accrual accounting and excluding non-cash items such as depreciation
- Council borrows from creditworthy banks that have a long-term credit rating by S&P (or equivalent) of A+ or better
- Disaster recovery requirements are to be met through the liquidity ratio.

4.3 Asset management plans

In approving new external debt Council considers the impact on its 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

Policy statement

> **New external borrowings and refinancing existing external debt should be evaluated for cost effectiveness and compliance with policies.**

Procedures

Ōpōtiki 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 internal borrowing of reserve and special funds.

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.

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

- Available terms from banks, LGFA, debt capital markets and loan stock issuance
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time
- Prevailing interest rates and margins relative to term for loan stock issuance, debt capital markets, LGFA, and bank borrowing
- The outlook on bank and debt capital market credit margins
- Ensuring that the implied finance terms and conditions within the specific debt (e.g. project finance) are evaluated in terms such as cost/tax/risk limitation compared to the terms and conditions Ōpōtiki could achieve in its own right
- Legal documentation and financial covenants together with security considerations
- For internally funded projects, to ensure that finance terms for those projects are at least as equitable with those terms from external borrowing.

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

4.5 Security

Policy statement

Council offers a Debenture Trust Deed on the security arrangement for its external borrowing and investment activities.

Council assets may be pledged as security where it is advantageous and cost effective to do so.

Procedures

Council's external borrowings and interest-rate risk 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 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.

Physical assets will be charged only where:

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

4.6 Debt repayment

Policy statement

Council should retain tax deductible debt ahead of non-tax deductible debt provided the benefits of doing so continue to exceed the risks.

Procedures

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

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

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

Policy statement

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.

Procedures

Council is not allowed to guarantee loans to Council Controlled Trading Organisations under Section 62 of the Local Government Act.

Financial arrangements include:

- Rural housing loans
- Tenant contribution flats
- Rural water supply loans
- Advances to community organisations

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed NZ$1 million in aggregate or if attached to a property.

Guarantees provided will be reported quarterly to Council.

4.8 Internal borrowing of special and general reserve funds

Policy statement

> **Council may authorise use of special funds to reduce the requirement for external debt where there is financial benefit to borrow internally.**

Procedures

Given that Council may require funding for capital expenditure cash shortfalls over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. Accordingly Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using internal borrowing facilities.

Any internal borrowing of special funds used must be reimbursed for interest revenue lost. Interest on internally-funded loans is charged annually in arrears, on year-end loan balances.

Except where a specific rate has been approved for particular circumstances, interest is charged annually in arrears on all internal loans at the weighted average cost of external borrowing (including credit margin and other related costs). The Council has the ability to reset interest rates monthly If required.

4.9 Capital works funding and debt period

Policy statement

> **Capital works will be funded through raising new debt.**
>
> **The use of long-term loan funds will be restricted to capital items only.**

Procedures

Capital works will be funded through raising new debt.

Term debt greater than one year will not be used to fund annual operational expenditure.

4.10 New Zealand Local Government Funding Agency Limited

Despite anything earlier in the Liability Management 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:

(a) Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA in the form of Borrower Notes;
(b) Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
(c) Commit to contribution additional equity (or subordinated debt) to the LGFA if required;
(d) Subscribe for shares and uncalled capital in the LGFA; and
(e) 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.

4.11 Departures from normal Policy

The Council may, in its discretion, depart from the Liability Management Policies where is considers that the departure would advance its broader social or other policy objectives. Any resolution authorising an external debt instrument under this provision shall note that it departs from the Council’s ordinary policy and the reasons justifying that departure.

5.0 INVESTMENT POLICY AND LIMITS

Policy statements

The Council may hold financial, property, forestry, and equity investments if there are strategic, economic or other valid reasons.

The Council will not be involved in investments for purely income earning purposes, except for short-term investment of surplus funds. 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.

5.1 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 regularly reported to Council. Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's Long Term Plan;
- 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
- 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 should internally borrow from special reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt.

5.2 Objectives

In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this Policy. Accordingly, only approved credit worthy counterparties are acceptable. The Council will act effectively and appropriately to:

- Protect the Council's investments and ensure they are risk averse and secure
- Ensure the investments benefit the Council's ratepayers
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

5.3 Acquisition of new investments

With the exception of financial investments, new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

The authority to acquire financial investments is delegated to the F&CSGM.

5.4 Investment mix

Council maintains the following mix of investments:-

5.4.1 Equity investments

Equity investments, including investments held in CCO/CCTO and other shareholdings.

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

Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

Dividends received from CCO's/CCTO's and unlisted companies not controlled by Council are recognised when they are received in the consolidated revenue account.

Any purchase or disposition of equity investments requires Council approval and any profit or loss arising from the sale of these investments is to be recognised in the Statement of Financial Performance. Any purchase or disposition of equity investments will be reported to the next meeting of Council. Council may also acquire shares that are gifted or are a result of restructuring.

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

Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant Council-committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate

5.4.1.1 New Zealand Local Government Funding Agency Limited

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

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

(a) Obtain a return on the investment; and

(b) Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for Council.

Because of this dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

5.4.2 Property investments

Property investments incorporating land, buildings, a portfolio of ground leases and land held for development.

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

Council reviews the performance of its property investments on a regular basis. All income, including rentals and ground rent from property investments is included in the consolidated revenue account. All rented or leased properties will be at market rentals, except where Council has identified a level of subsidy that is appropriate.

Properties for sale are to be marketed in accordance with statutory requirement and in a manner that does not disrupt the market place, and in consultation with Community Boards and Committees where appropriate.
Any purchased properties must be supported by a current registered valuation, substantiated by management including a fully worked capital

expenditure analysis. Council will not purchase properties on a speculative basis.

5.4.3 Financial investments

Objectives

Council's primary objective when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.3. Credit ratings are monitored and reported quarterly to Council.

Council may invest in approved financial instruments as set out in section 6.1.2. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Any cash investments must be restricted to a term of no more than 91 days ensuring that meets future cash flow and capital expenditure projections are met
- Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest may be credited to the particular fund.
- Internal borrowing will be used wherever possible to avoid external borrowing.

Special funds and reserve funds

Council holds special and reserve funds for specific Council objectives; as such these funds, except for depreciation reserves, are encumbered and cannot be included within Council's liquidity ratio. Liquid cash investments are required to be held against special funds and reserve funds.

Special and reserve fund, except for depreciation reserves, must be held as cash investments and restricted to a term of no more than 183 days ensuring availability.

Trust funds

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

5.4.4 Loan Advances

Council may provide advances to CCOs, CCTOs, charitable trusts and community organisations for strategic purposes only. New loan advances are by Council resolution only. Council does not lend money, or provide any other financial accommodation, to a CCO or CCTO on terms and conditions that are more favourable to the CCO or CCTO than those that would apply if Council were borrowing the money or obtaining the financial accommodation.
Council will assess risk, and reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Loan advances exceeding $500,000 are reported quarterly to Council. All loan advances are reported in the annual report.

5.5 Utilisation of investment sales and insurance monies

Funds released from investment sales (after sale costs) or non-reinstatement of damaged properties must be applied in the following order of priority:

- Repayment of any associated debt
- Repayment of debt, which incurs interest at a rate well above the rate able to be earned on the proceeds where costs are justified
- Placement of funds in reserves to the extent that the reserve is underfunded and/or is required for intended future events
- Purchase of assets / capital works rather than borrowing for those assets at an interest rate well above the rate able to be earned on the proceeds
- Council may change the order of priority as required.

5.6 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.

5.7 Investment management and reporting procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash or liquidity buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long-term cashflow through the annual Cashflow Forecast. To maintain liquidity, Council's short and long-term investment maturities are matched with Council's known cashflow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

6.0 RISK RECOGNITION/IDENTIFICATION/MANAGEMENT

Policy statements

> **Total amount of debt should be spread across the range of financial institution and maturity dates.**
>
> **Variable debt compared to fixed rate debt should be managed to appropriate percentage levels given the overall level of borrowing.**
>
> **Hedging instruments can be used in the management of wholesale market interest rate exposure, but should not increase Council's overall risk.**
>
> **Council's portfolio shall be arranged to provide, at all times, sufficient funds for planned expenditure and to allow for payment of its obligations as they fall due.**
>
> **The risk of default in respect to any individual investment will be minimised by the selection of creditworthy investments spread across different entities.**
>
> **Council may invest in equity instruments where they meet Council's strategic goals.**

Procedure

The definition and recognition of liquidity, funding, investment, 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

6.1.1 Risk recognition

Interest rate risk on borrowing, is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed projections included in the LTP and Annual Plan so as to adversely impact 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 funding costs. Certainty around funding costs is to be achieved through the active management of underlying interest rate exposures.

6.1.2 Approved financial instruments

Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Retail and Wholesale Bond and Floating Rate Note (FRN) issuance Commercial paper (CP)/Promissory notes
Investments	Call and short term bank deposits Bank certificates of deposit (RCDs) Treasury bills LGFA borrower notes / CP / bills

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) • Amortising swaps (whereby notional principal amount reduces) • 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

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. The following types of investment instruments are expressly excluded;

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

6.1.3 Interest rate risk control limits

Exposure to interest rate risk is managed and mitigated through the risk control limits below.

Council's external core debt should be within the following fixed/floating interest rate risk control limits.

Master Fixed / Floating Risk Control Limits	
Minimum Fixed Rate	**Maximum Fixed Rate**
50%*	100%*

* These policy limits have been set taking into consideration the future borrowing of the Council to fund the significant infrastructure works planned in the LTP. Interest rate risk strategies and instruments are commonly only financially viable with higher levels of debt. Therefore we expect to apply these policy limits when our external debt levels are higher than $10 million.

"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 external core debt level calculated by management (signed off by the CEO). External core debt is the amount of total external debt expected to mature beyond 12 months. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

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

Fixed Rate Maturity Profile Limit

Period	Minimum hedge %	Maximum hedge %
1 to 3 years	15%**	100%**
3 to 6 years	15%**	80%**
6 to 10 years	0%**	60%**

** As with above these policy limits will only be applied once Council's external debt is $10 million or higher.

- .Bank advances may be for a maximum term of 12 months
- 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 beyond 90-days requires specific approval by Council
- Any interest rate swaps with a maturity beyond 10 years 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.

6.1.4 Financial investment risk

Council manages short-term cash investment risk ensuring availability and access to financial investments held. In order to manage short-term cash risk financial investments are required to have a term to maturity of less than 91 days (not including special/reserve funds).

6.2 Liquidity risk/funding risk

6.2.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, 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.

6.2.2 Liquidity/funding risk control limits

- Cash equivalents is defined by managing financial investment maturity terms within strict Policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.

- The F&CSGM has the discretionary authority to re-finance existing debt on terms that are more favourable. Such action is to be reported to the CEO and the Council at the earliest opportunity.
- Council has the ability to pre-fund up to 12 months forecast debt requirements including re-financings.
- To avoid concentration of debt maturity dates Council will, where practicable, aim to have no more than 40% of debt subject to refinance in any 12 month period.

6.3 Counterparty credit risk

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

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

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

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

The following matrix guide will determine limits for financial instruments:

Counterparty / Issuer	**Minimum S&P long term / short term credit rating**	**Investments maximum per counterparty ($m)**	**Interest rate risk management instrument maximum per counterparty ($m)**	**Total maximum per counterparty ($m)**
NZ Government	N/A	Unlimited	none	Unlimited
Local Government Funding Agency (LGFA)	AA- /A-1	10.0	none	10.0
NZ Registered Bank	A+/ A-1	10.0	10.0	20.0

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 quarterly report prepared to show assessed counterparty actual exposure versus limits.

Individual counterparty limits are kept in a spreadsheet by management and updated on a day to day basis. Credit ratings should be reviewed by the Finance and Corporate Services Supervisor on an ongoing basis and in the event of material credit downgrades should be immediately reported to the

F&CSGM 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.

6.4 Foreign currency

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

Generally, all individual amounts of NZD 100,000 or greater for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved and the currency amount, and timing are known. Both spot and forward foreign exchange contracts can be used by Ōpōtiki.

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.

6.5 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 always strictly achievable. The risk will be minimised by the following process:

- The F&CSGM reports directly to the CEO
- The Chief Financial Officer (CFO) will report directly to the F&CSGM to control the transactional activities of the Finance and Corporate Services Advisor (FM)
- There is a documented approval and reporting process for borrowing, interest rate and liquidity management activity.

Procedures

All treasury 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 a Treasury Procedures Manual separate to this Policy.

Procedures should include:

- Regular management reporting
- Regular risk assessment, including review of procedures and controls as directed by the Council or appropriate sub-committee of Council
- Organisational, systems, procedural and reconciliation controls to ensure:
- All borrowing, 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 F&CSGM has responsibility for establishing appropriate structures, procedures and controls to support borrowing, investment, 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 CEO as per register
- Dual signatures are required for all cheques and electronic transfers
- Cheques must be in the name of the counterparty crossed "Not Negotiable, Account Payee Only", via the Council bank account.

Authorised personnel

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

Recording of deals

- All deals are recorded on properly formatted deal tickets by the FM and approved by the F&CSGM. 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 registry confirmations are received and checked by the Finance and Corporate Services Supervisor (FM) 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) by the FM in deal date/number order
- Any discrepancies arising during deal confirmation checks, which require amendment to the Council records, are signed off by the F&CSGM.

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 FM to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

Reconciliations

- Bank reconciliations are performed monthly by the Accountant and checked and approved by theCFO. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the F&CSGM
- A monthly reconciliation of the treasury spreadsheet to the general ledger is carried out by the Accountant and approved by theCFO.

6.6 Legal risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, Ōpōtiki may be exposed to such risks.

Ōpōtiki 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.

6.6.1 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.

6.6.2 Financial covenants and other obligations

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

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

7.0 MEASURING TREASURY PERFORMANCE

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 quarterly 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.

Management	Performance
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 borrowing cost amount • Actual wholesale interest costs must be benchmarked to market interest rates. The applicable market interest rate is determined by finding the mid-point policy benchmark rate. Ōpōtiki's policy mid-point represents an average maturity term of 5-years. The market benchmark rate will be calculated every month and represent the 5-year swap rate monthly rolling average over a 5-year period.
	• A margin representative of the actual weighted average term of Councils funding portfolio (for the reporting month) is used. The market benchmark margin (representing where a an equivalent non-credit rated Council funds at the equivalent funding maturity term) is added to the benchmark interest rate to provide a correct comparison to actual all-up borrowing costs
	• As an example, an unrated Council with an average term of funding of 5-years, then the 5 year rolling average market benchmark rate for unrated Councils using the 5-year margin is applied for the month. If at the next month, Council's average term increases to 7-years, then the 7 year rolling average market benchmark rate for unrated Councils using the 7-year margin is applied for that month.

Management	Performance
	• The appropriate market benchmark is the established local government credit curve (via. LGFA/relevant debt capital market placement).

8.0 CASH MANAGEMENT

The Finance and Corporate Services Advisor (FM) has the responsibility to carry out the day-to-day cash and short-term debt management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function.

- The FM will calculate and maintain cash flow projections on a regular 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 and forecast cash inflows and outflows with the objective of managing the cash position within approved parameters
- Undertake short term borrowing functions as required, minimising overdraft costs
- Ensure efficient cash management through improvement to forecasting
- Minimise fees and bank/Government charges by optimising bank account/facility structures
- Monitor Council's usage of overdraft and committed bank facilities. Overdraft facilities are utilised as little as practical. Committed bank overdraft facilities of $500,000 are maintained. This facility is loaded to trigger at $200,000 for review by the F&CSGM
- 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 vendor's 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 for a term of no more 181 days and in approved instruments and counterparties.

9.0 REPORTING

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

9.1 Treasury reporting

9.1.1 Reporting

The following reports are produced:

Report Name	Frequency	Prepared By	Recipient
Cash Position Treasury Spreadsheet	Weekly	FM	CFO/F&CSGM
Treasury Exceptions Report	Weekly	FM	CFO/F&CSGM
Treasury Report • Policy limit compliance • Borrowing limits • Funding and Interest Position • Funding facility • New treasury transactions • Cost of funds vs budget • Cash flow forecast report • Liquidity risk position • Counterparty credit • Treasury performance • Debt maturity profile • Treasury investments • Loan advances/guarantees	Quarterly	CFO	F&CSGM /CEO/ Council
Trustee Report	As required by the Trustee	CFO	Trustee company
Statement of Public Debt	Quarterly	FM	CFO/F&CSGM /CEO/ Council
Revaluation of financial instruments	Quarterly	CFO	F&CSGM /CEO/Council

9.2 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 Income Statement 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 F&CSGM is responsible for advising the CEO 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 product.

All treasury financial instruments must be revalued (marked-to-market) at least every six months for risk management purposes.

10 POLICY REVIEW

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

The F&CSGM has the responsibility to prepare the annual review report that is presented to the Council. 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.

The Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes.