

Treasury Management Policy

Introduction

Purpose of Policy

The purpose of the Treasury Management Policy is to outline approved policies and procedures in respect of all treasury activities to be undertaken by Buller District Council (BDC). The formalisation of such policies and procedures will enable treasury risks within BDC to be prudently managed. As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within BDC continue to be well managed.

Changes to Treasury Management Policy

Inclusion in this policy is the ability to borrow from or invest in the Local Government Financing Agency.

1. Policy Objective

- Council has Treasury risks arising from raising of debt, investments and associated interest rate management activity.
- Council's broad objectives in relation to its Treasury activity are:
- Prudence - to ensure long term financial stability
- Ensure that BDC has an ongoing ability to meet its debts in an orderly manner as and when they fall due in both the short and long term, through appropriate liquidity and funding risk management.
- Arrange appropriate funding facilities for BDC, ensuring they are at market related margins utilising bank debt facilities and/or capital markets as appropriate.
- Maintain lender relationships and BDC's general borrowing profile in the local debt and, if applicable, capital markets, so that BDC is able to fund itself appropriately at all times.
- Control BDC's cost of borrowing through the effective management of its interest rate risks, within the interest rate risk management limits established by the LMP.
- Ensure compliance with any financing/borrowing covenants and ratios.
- Maintain adequate internal controls to mitigate operational risks.
- Produce accurate and timely reports that can be relied on by senior management and Council for control and exposure monitoring purposes in relation to the debt raising activities of BDC.
- Manage the overall cash position of Council's operations
- Invest surplus cash in liquid and creditworthy investments
- Safeguard BDC's financial market investments by establishing and regularly reviewing investment parameters and ensuring that all investment activities are carried out within these parameters.

2. General Approach

Council is a risk-averse entity and does not wish to increase risk from its Treasury activities.

Activity which may be construed as speculative in nature is not permitted.

Loans are repaid to the Treasury activity, six monthly, based on standard loan lives, depending on the useful life of the asset. The maximum term of any loan shall be 30 years.

3. Delegation of Authority and Authority Limits

Council has the following authorities in place for the Treasury functions:

Activity	Delegated Authority	Limit
Approving & changing policy	Council	Unlimited
Borrowing limits	Council	Borrowings limits are approved in the Long Term Plan by Council
Approving and setting up borrowing arrangements	Corporate Services Manager	Subject to the limits approved in the Long Term Plan or Annual Plan
Drawing down debts & Re-financing existing debt	Chief Executive Officer Corporate Services Manager	Subject to Council set limits
Approving transactions outside policy	Council	Unlimited (Subject to Council resolution)
Approving credit counter party limits	Corporate Services Manager	Subject to Council set limits
Adjust interest rate risk profile on borrowing	Corporate Services Manager	Fixed/floating ratio between 55% and 95% Fixed rate maturity profile limit as per risk control limits
Managing funding maturities in accordance with Council approved facilities	Corporate Services Manager	Per risk control limits
Authorising lists of signatories	Chief Executive Officer	Unlimited and reviewed as and when required Annual letter to lender
Opening/closing bank accounts	Chief Executive Officer	Unlimited
Ensuring compliance with policy	Corporate Services Manager	Ongoing
Review key performance measures	Finance & Audit committee	Quarterly Reports

4. Liability Management Policy

Section 102(4) (c) of the Local Government Act 2002 states that a local authority must adopt a liability management policy. The liability management policy must state the local authorities policies in respects of both borrowings and other liabilities.

4.1 Council raises borrowing for the following purposes:

- To fund assets with inter-generational qualities
- General debt to fund Council's Balance Sheet
- Specific debt associated with "special one-off projects and capital expenditure

4.2 Council approves borrowings by resolution during the annual planning process:

- A resolution of Council is not required for hire purchases, creditor or deferred purchase of goods.
- The period of indebtedness is less than 91 days; or
- The goods or services are obtained in the ordinary course of operations on normal terms for amount not exceeding in aggregate, an amount determined by resolution of Council, subject to Chief Executive approval.

4.3 Specific borrowing limits:

In managing borrowing, Council will adhere to the following limits which are consistent with its external financing agreements:

- The gross interest expense of all borrowings will not exceed 15% of total annual revenues
- Debt to total income ratio of not more than 2.5 times
- Term of loans is not to exceed a maximum term of 30 years
- "Total Revenue" is defined as earnings from rates, government grants and subsidies, user charges, interest and other revenue.
- "Rates" is defined as all income under the Local Government Rating Act 2002.

4.4 Risk recognition

Council has identified the following risks:

- Local government risk is priced to a higher fee and marginal level
- The Council's own credit standing, or financial strength as a borrower, deteriorates due to financial, regulatory or other reasons
- A large individual lender to the Council experiences their own financial/exposure difficulties, resulting in the Council not being able to manage their debt portfolio as efficiently as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.

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. This is so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased, and the desired maturity profile is not compromised due to market conditions.

4.5 Credit risk management

Council's ability to readily attract cost-effective borrowings is largely driven by its ability to maintain a strong balance sheet, as well as its ability to rate, manage its image in the market and its relationships with bankers. Council is able to borrow through variety of market mechanism including stock and bank borrowings. Council will ensure that borrowings are only sought from the approved list of registered banks and the Local Government Funding Agency.

4.6 Liquidity and Funding Risk Management

Council shall maintain committed funding lines of not less than 110% of forecast debt over the ensuing 12 month period as detailed in the Annual Plan.

To minimise the risk of large concentrations of debt maturing or being reissued in periods where credit margins are high for reasons within or beyond Council's control, Council ensures debt maturity is spread widely over a band of maturities. Council manages this specifically by ensuring that:

- No more than 40% of total borrowings is subject to refinancing in any financial year. Total borrowing includes any forecast borrowing.
- Council will manage the maturity profile of the total committed funding in respect to all loans and committed facilities by avoiding the concentration of debt maturity dates.

4.7 Interest rate risk management

Council's borrowing gives rise to direct exposure to interest rate movements. Generally, given the long-term nature of Council's assets, projects and inter-generational factors, and Council's preference to avoid an adverse impact on rates, there is a general tendency to have a high percentage of long-term fixed rate or hedged borrowing.

Council debt/borrowings and financial risk management instruments must be within the following fixed/floating interest rate risk control limit:

Master Fixed/Floating Risk Control Limited

The interest rate exposures of BDC shall be managed according to the parameters detailed in the following table and shall apply to the projected core debt of BDC. Core debt is defined as that contained in the Annual Plan or as otherwise determined by the Manager – Corporate Services.

Fixed Rate Hedging Percentages		
Years	Minimum Fixed Rate	Maximum Fixed Rate
0 - 2 years	50%	100%
2 - 5 years	25%	80%
5 - 10 years	0%	60%

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

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

4.7.3 Loan Repayments

Debt will be repaid as it falls due usually by refinancing with new debt. External loans are repaid on due date. The length of external loans are based on projected internal loans and cash requirements.

4.8 Approved financial instruments

To manage the interest rate risk associated with its debt BDC may use the following interest rate risk management instruments.

- Interest rate swaps including forward start swap.
- Swaptions.
- Interest rate options, including collar type structures but only in a ratio of 1:1.
- Forward rate agreements.
- Fixed Rate Term Loans.

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

4.9 Security

The Council normally will secure its borrowings against its rates revenue. Generally, Council does not offer assets or deemed rates as security for general borrowing programmes.

In some circumstances, with prior Council approval, security may be offered:

- On borrowing by granting a special deemed rate and floating charges over general rates.
- By providing a charge over one or more of the Council's assets.

4.10 Internal Funding

Council operates an internal borrowing system for funding infrastructural improvements as well as funding current accounts. The internal borrowings will be permitted to a maximum of investments or as restricted by the banking covenant.

Internally funded projects will be charged interest at the market rate of investments deposit at the time the funds are drawn down.

4.11 Contingent Liabilities

The Council from time to time provides financial guarantees to recreation and service organisations. Where possible Council shall obtain cross guarantees. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Should the guarantee be called up, Council will take immediate steps to recover the money.

4.12 **New Zealand Local Government Financing Agency (LGFA)**

Despite anything earlier in this Liability Management Policy, Council may borrow from the New Zealand 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;
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- Subscribe for shares and uncalled capital in the LGFA; and
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a change over Council's rates and rates revenue.

4.13 **Reporting**

A quarterly report should be compiled which contains the following key details of the BDC's debt and hedging profile.

- Total debt facility utilisation.
- Interest rate hedging profile against percentage hedging limits (graphically illustrated).
- New interest rate hedging transactions completed
- Weighted average cost of funds.
- Performance measurement.
- A statement of policy compliance.
- Details of any exception reports including remedial action taken or intended to be taken.

5. **Investment Policy**

Section 102(4) (c) of the Local Government Act 2002 states that a local authority must adopt an investment policy. The investment policy must state the local authority's policy in respect of its investments.

Investments and loan advances	Treasury Investments
	Loan advances to Charitable trusts and incorporated societies - eg sporting and community organisations.
Equity investments and loan advances	Investments include shareholding in trading and service enterprises and loan advances to charitable trusts, incorporated societies, residential and rural housing which are consistent with Council's Long Term Plan, eg Council's shareholding in Buller Holdings Limited
	Advances and loans are only provided to organisations where Council has significant interest. In default, the assets of the organisation may not revert to Council, however personal guarantees are obtained from the principals of the organisation.
Property Investments	Council's overall objective is to only own property that is necessary to achieve its outcomes. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. Council from time to time may own property solely for investment purposes.
	Council holds a number of residential leasehold properties and endowment land, from the time of amalgamation in 1989. These are freeholded, subject to Council policy, at the resident's request.

5.1 **Disposition of Revenue**

- Proceeds from investments are applied to the general revenue of Council.
- Net income from other residential leases is used as a source of operating revenue for the "Property & Housing" activity.
- Net proceeds from freeholding or asset sales are transferred to special funds.

5.2 **Treasury Investments Rationale**

- Council maintains treasury investments for the following primary reasons:
- Provide ready cash in the event of a natural disaster. This cash is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to cover Council created restricted reserves, sinking funds and other reserves.
- Invest funds allocated for approved future expenditure.
- Invest proceeds from the sale of assets.
- Invest surplus cash, and working capital funds.

5.3 **Treasury Investment Objectives**

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

Council also seeks to:

- Maximise investment return.
- Preserve the capital base of the Council.
- Council gives preference to conservative investment policies and avoids speculative investments.
- Council will consider as part of the annual plan process each year, any allocation of income to the capital base to offset inflation.

5.4 Credit risk is minimised by limiting investments to registered banks, strongly rated SOEs, and corporates within prescribed limits.

5.5 Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a regularly available secondary market. Where practical, Council maintains at least \$1 million of its investments with a maturity less than one year.

5.6 Interest Rate Risk Management

Council's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its fixed rate investments.

Interest rate risk will be managed by reviewing rolling cash flow forecasts and using risk management instruments to protect investment returns and or to change interest rate and maturity profile.

5.7 Sinking Funds

Under the Local Government Act 2002, the Council is not required to use specific borrowing mechanisms and therefore Council uses its discretion in determining whether a sinking fund mechanism is appropriate.

5.8 Acquisition and Disposal of Assets

Any disposal of assets requires the approval of Council except those assets within delegated authority. Disposal of assets signalled in the Annual Plan or Long Term Plan process is approved by resolution on adoption of those plans.

5.9 Counterparty Credit Risk

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

Council will regularly review credit risk. Treasury related transactions would only be entered into with organizations specifically approved by Council.

Counterparties and limits can only be approved on the basis of long term credit ratings (Standard and Poor's or Moody's) being A- and above.

5.10 The following matrix guide will determine limits:

Authorised Asset Classes	Overall Portfolio Limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria - Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government	100%	Government Stock Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	Commercial Paper	Short term S&P rating of A1 or better	\$3.0 million
		Bonds/MTNs/FRNs	Long term S&P rating of A- or better	\$2.0 million
			Long term S&P rating of A+ or better	\$3.0 million
			Long term S&P rating of AA or better	\$5.0 million
Local Authorities where rates are used as security	60%	Commercial Paper	Not Applicable	\$2.0 million
		Bonds/MTNs/FRNs		\$2.0 million
New Zealand Registered Banks	100%	Call/Term Deposits/ Bank Bills/Commercial Paper	Short term S&P rating of A1 or better	\$10.0 million
		Bonds/MTNs/FRNs	Long term S&P rating of A- or better	\$3.0 million
			Long term S&P rating of A+ or better	\$5.0 million
State Owned Enterprises	70%	Commercial Paper	Short term S&P rating of A1 or better	\$3.0 million
		Bonds/MTNs/FRNs	Long term S&P rating of BBB+ or better	\$1.0 million
			Long term S&P rating of A+ or better	\$3.0 million
Corporates *	60%	Commercial Paper	Short term S&P rating of A1 or better	\$2.0 million
		Bonds/MTNs/FRNs	Long term S&P rating of A- or better	\$1.0 million
			Long term S&P rating of A+ or better	\$2.0 million
			Long term S&P rating of AA or better	\$3.0 million
Financials*	30%	Commercial Paper	Short term S&P rating of A1 or better	\$2.0 million
		Bonds/MTNs/FRNs	Long term S&P rating of A- or better	\$1.0 million
			Long term S&P rating of A+ or better	\$2.0 million
			Long term S&P rating of AA or better	\$3.0 million
Building Societies	15%	Call and Term Deposits	To be individually approved by Council	\$2.0 million

The following investments by Council Resolution only:

Authorised Asset Classes	Overall Portfolio Limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria - Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
Australasian Equities:				
Common shares, unit trusts, investment trusts, convertible notes, warrants, rights contributory shares. Council also has strategic share holding (NZLG Investment Corp).	15%	<ul style="list-style-type: none"> ■ NZSX50 Gross Index - ASX 200 Index ■ A minimum of 80% must be NZSE 40 or top 50 companies on NZSE 40X or ASX 200 Index ■ Maximum 20% in ASX SCI Index or NZ SCL 	Not applicable	15% of total investment
International Equities:				
Common shares, unit trusts, investment trusts, warrants, rights, contributory shares. * Recommended hedging between 0-65% of the International Exposure	15%	<ul style="list-style-type: none"> ■ New York SE ■ Hong Kong SE ■ London SE ■ Tokyo SE ■ Singapore SE ■ West European SE 	Not applicable	The lesser of \$1 million or 15% of total investments

Council is currently in breach of the policy as Council has exceeded the \$1 million. The breach will be rectified when the sponsorship agreement ends in 2019.

5.11 Repayment

The Council repays borrowings from the specific sinking fund allocated to that borrowing or from general funds.

5.12 External Advisors

The Council may appoint Investment Managers to continually monitor the Council's portfolio and provide recommendations within the scope of the Prudential Guidelines which safeguard the portfolio against risk and maximize its performance.

5.13 New Zealand Local Government Financing Agency (LGFA)

Despite anything earlier in this Investment Policy, Council may invest in shares and other financial instruments of the New Zealand LGFA, and may borrow to fund that investment. Council's objective in making any such investment will be to:

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

Because of this dual objective, 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, Council may also subscribe for uncalled capital in the LGFA.

6. Foreign Exchange Policy

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

Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Council uses both spot and forward foreign exchange contracts. All commitments for foreign exchange over \$10,000 are to be hedged.

The use of other foreign exchange risk management products is not permitted.

7. Performance Measurement

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 Finance and Audit Committee has prime responsibility for determining this overall quality. Objective measures are as follows:

Borrowing:

- Adherence to policy
- Unplanned overdraft costs
- Number and cost of processing errors
- Comparison of actual monthly and year to date interest costs vs budget borrowing rate
- Council to use competitive tendering for its borrowing from time to time.

Equity Investments:

- Adherence to policy
- Comparison of financial ratios to budgeted benchmark levels.
- Comparison of actual and budget return.

Property Investments:

- Adherence to policy
- Comparison of actual rental costs to budgeted costs

Treasury Investments:

- Adherence to policy
- Number and cost of processing errors

Council measures the performance of the investments portfolio on a quarterly basis by benchmarking the performance of the portfolio against the following indicators evenly weighted.

- 12 month rolling average of the official cash rate
- 12 month rolling average of the investor 90 day bank bill rate
- 12 month rolling average of the 3 year investor swap rate

8. Reporting

The following reports are produced:

Report Name	Frequency	Prepared by	Reviewer	Recipient
Cash Position	Daily	Financial Accountant	Corporate Services Manager	Corporate Services Manager
Investment reconciliation	Monthly	Financial Accountant	Corporate Services Manager	Corporate Services Manager
Bank Reconciliation	Monthly	Financial Accountant	Corporate Services Manager	Corporate Services Manager
Review of investments and borrowings	Monthly	Financial Accountant	Corporate Services Manager	Monthly review by Council Finance and Audit Committee