TREASURY MANGEMENT
POLICY

South Waikato District Council

Responsibility: Corporate

COUNCIL POLICY

Adpoted: May 2021

Treasury Management Policy

(including Liability Management & Investment Policies)

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1. Introduction – 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 South Waikato District Council ("Council"). The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

1.1 Policy Compliance

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

2. Policy Scope and Objectives

2.1 Scope

This document identifies the Policy of Council in respect to treasury management activities and includes the Liability Management Policy and the Investment Policy.

The Policy has not been prepared to cover other aspects of Council's operations, particularly transactional banking management, systems of internal control and financial management.

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.
- Council 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.
- 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 documentation in respect to external borrowing and financial instruments will be approved by Council's legal counsel prior to the transaction being executed.
- 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 except as described in section 4.7 of this Policy.
- 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 the Chief Executive Officer delegation.

General objectives

- Minimise Council's costs and risks in the management of its external 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 an acceptable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms 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.
- 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.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- Ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, credit rating agencies (where applicable), trustees and investment counterparties.

Investing objectives

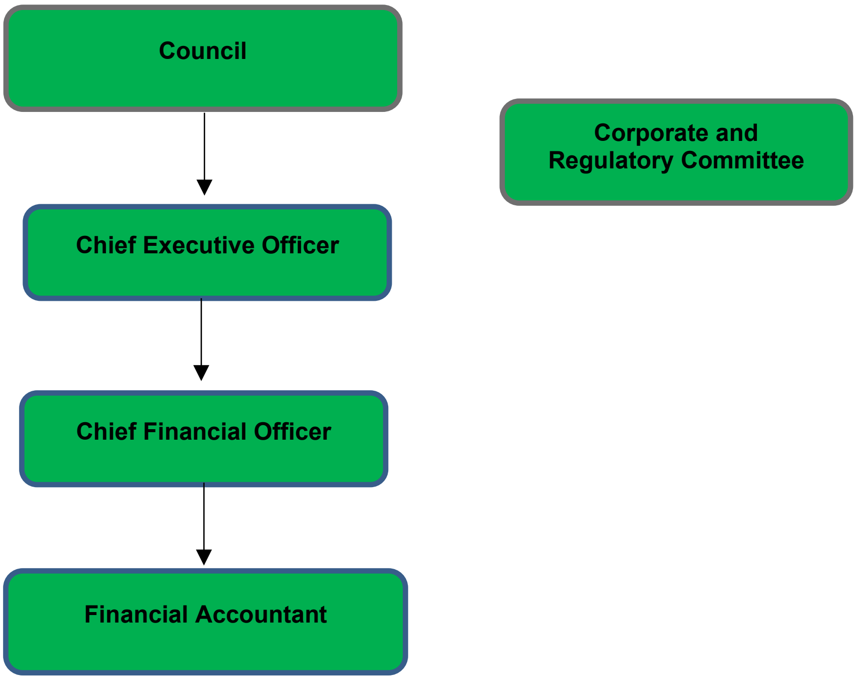
- To prudently manage Council's investment assets in the interests of the district and its inhabitants and ratepayers, only for lawful purposes and so as to safeguard from loss
- To maximise investment income within a prudent level of investment risk
- To comply with all relevant statutes and their amendments
- To ensure Council is able to meet its future commitments as they fall due, in both the short term and the long term, through active liquidity management
- To manage interest rate risk and to maintain the Council's exposure to interest rate risk within acceptable levels
- To safeguard the Council's investments by limiting counter-party risk and through ongoing monitoring of the credit ratings of approved financial institutions
- To actively manage adequate internal controls to ensure that funds are invested in accordance with Council policy
- To avoid all financial arrangements that could be described as speculative. To maintain a risk averse stance at all times.

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, investment risk, 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.

3. Governance and Management Responsibilities

3.1 Overview of organisation 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 treasury related risks. In this respect, Council decides the level and nature of risks that are acceptable, given the underlying objectives of Council.

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, Council has responsibility for:

- Approving the long-term financial position of Council through the Long Term Plan (LTP) and Financial Strategy along with the adopted Annual Plan.
- Approve new borrowing debt through the adoption of the Annual Plan, specific Council resolution and approval of this Policy.
- Approve and adopt the Liability Management and Investment Policies (together, the Treasury Management Policy incorporating the following Treasury activities:
    - Borrowing, investment and dealing limits and the respective authority levels delegated to the Chief Executive Officer, Chief Financial Officer and other management.
    - Counterparties and credit limits.
    - Risk management approach and benchmarks.
    - Guidelines for the use of financial instruments.
    - Receive a triennial review report on the Policy.

- Approving amendments to Policy.
- Approving the register of cheque and electronic banking signatories;
- Approving one-off transactions falling outside Policy.

3.3 Corporate and Regulatory Committee

The Corporate and Regulatory Committee is responsible for receiving reporting from management (as set out in section 9 in the Policy) and provide recommendations to Council for approval.

In this respect, the Corporate and Regulatory Committee is responsible for:

- Recommending the Policy and updates to Council.
- Receiving recommendations from the Chief Executive Officer and Chief Financial Officer and making submissions to the Council on all treasury matters requiring Council approval.
- Review treasury management activity through reporting and regular meetings.
- Review performance measurement criteria for all treasury activity.
- Monitoring performance against benchmarks.
- Determines liability and investment management direction within Policy constraints.

3.4 Chief Executive Officer

While 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 (CEO).

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

- Approving the opening and closing of bank accounts.
- Approving new external borrowing undertaken in line with Council resolutions and approved borrowing strategy.
- Review monthly treasury reporting to monitor compliance with policies, procedures and risk limits. Receives advice of non-compliance of Policy and significant treasury events from the Chief Financial Officer. These reports are then presented to the Corporate and Regulatory Committee.
- Review amendments to the Policy and procedures as recommended by the Chief Financial Officer and make recommendations to the Corporate and Regulatory Committee.
- Reviews and approves the monthly bank and treasury spreadsheet reconciliation to the general ledger completed by the Financial Accountant.
- Approve opening and closing of bank accounts.

3.5 Chief Financial Officer

The Chief Financial Officer's (CFO's) responsibilities are as follows:

- Management responsibility for all external borrowing and investment activities as delegated by the CEO.
- The CFO determines appropriate sources of borrowing and ensures the size and maturity of the loan is in accordance with the resolution and the borrowing limits are within the appropriate parameters.
- The CFO determines the appropriate borrowing counterparty and documentation from the approved list of lenders.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- Managing the long-term financial position of Council as outlined in the Long Term Plan.

- Manage Council's cash flow and debt forecasts.
- Proposing new external borrowing requirements (including CCO/CCTO lending activity) to the CEO for consideration and submission to the Council, as part of the annual and long term planning process.
- Execution of external borrowing, investment, and interest rate management transactions in accordance with set limits. Completes all deal tickets for treasury transactions. This includes execution of on-lending activity to Council Controlled Organisations.
- Update treasury spread sheet for all new, re-negotiated and maturing transactions.
- Complete quarterly treasury report to the Corporate and Regulatory Committee.
- Manage the process of negotiating borrowing with financial institutions.
- Manage Council's relationship with financial institutions, LGFA, trustee and where applicable, credit rating agencies.
- Reviewing and making recommendations on all aspects of the Policy to the CEO for Council approval.
- Monitoring and reviewing the performance of the treasury function in terms of achieving its objectives.
- Conduct review of Policy.
- Complete annual review of delegated authorities and authorised signatories.
- Monitor and update credit ratings of approved counterparties.
- Reviewing treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Ensure all accounting is completed for all treasury transactions in accordance with legislation and generally accepted accounting principles, Council's accounting, borrowing and financial policies.

3.6 Financial Accountant

The Financial Accountant's responsibilities are as follows:

- Carry out the day-to-day cash and short term cash management activities.
- Arrange settlement of cash management, borrowing, investment, and interest rate management transactions.
- Handle all administrative aspects of bank counterparty and lender documentation such as loan agreements and ISDA documents.
- Monitoring treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Check all treasury deal confirmations against deal documentation and treasury spread sheet, and report any irregularities immediately to the Chief Executive.
- Complete monthly general ledger reconciliations to treasury spreadsheets.

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 or in the event of key personnel movement 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 Lending institutions 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) Per Council approved resolution, AP/LTP
Acquisition and disposition of investments other than financial investments	Council	Unlimited
Approval for charging assets as security over borrowing	Council	Unlimited
Approving new and refinanced on-lending arrangements with CCO/CCTOs.	Council	Unlimited
Approving of Council guarantees of indebtedness	Council	Unlimited
Approving transactions outside Policy	Council	Unlimited
Authorising list of signatories	Council	Unlimited
Opening/closing bank accounts	CEO	Unlimited
Arranging new and reviewing re-financed bank facilities/debt issuance	CFO	Subject to Policy and Council approval
Adjust debt and investment maturity and interest rate risk profiles	CFO	Per risk control limits
Managing borrowing and investment strategy	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 CFO	Unlimited $15 million $10 million
Manage cash/liquidity requirements	CFO	Per risk control limits
Negotiation and ongoing management and monitoring of on-lending arrangements to CCO/CCTOs	CFO	Per approval from Council
Annual review of Policy	CFO	N/A
Ensuring compliance with Policy	CFO	N/A

All management delegated limits are authorised by the Chief Executive Officer.

4.0 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:

- finance the purchase of assets which have inter-generational qualities
- provide finance for specific capital and multi-year operational projects
- raise finance for temporary shortfalls in Council general revenues.
- raise funding for on-lending to Council Controlled Organisations / Council Controlled Trading Organisations.

Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the costs are met by those ratepayers benefiting from the investment.

4.2 Specific Borrowing limits

Debt will be managed within the following limits:

Item	LGFA Lending Policy Covenants
Net Debt/Total Revenue	<175%
Net Interest/Total Revenue	<20%
Net Interest/Annual Rates Income	<25%
Liquidity (External debt + committed loan facilities + liquid investments to external debt)	>110%

- Total Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net debt is defined as total debt less liquid financial assets and investments. When calculating net debt, the LGFA allows the deduction of:
  - cash, term deposits and any investments held within investment portfolios (whether these are ring fenced or not). Investment portfolios might include listed equities, fixed interest securities, listed property securities or units in managed funds.
  - LGFA borrower notes can be deducted.
  - any council lending to a CCO or CCTO can also be deducted but only where the CCO or CCTO is a going concern and not dependent upon council financial support.
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
  - Interest Council earns on cash, term deposits, fixed interest and dividends on non-core listed equities is deducted to provide the net interest amount. Council cannot deduct any foreign exchange gains or unrealised gains on investments.
  - Gross interest is calculated by adding together the value of all Council's financing costs including interest costs on debt, costs of derivatives (but not any unrealised mark to market movements) and any costs on committed bank facilities.

- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate). Council can add on any revenue received from income for which Council rates (e.g. volumetric water charges).
- Liquid investments are assets defined as:
  - Overnight bank cash deposits
  - Wholesale/retail bank term deposits no greater than 30-days
  - Bank issued RCDs less than 181 days.
  - Approved fixed interest securities.
  - Listed, non-core equity investments.
  - any loans to Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO) (that are a going concern) that mature within 12 months.
- External debt includes; bank drawdown amounts, issued commercial paper (CP) and term debt.
- To minimise concentration risk the Local Government Funding Agency Limited (LGFA) will require that no more than the greater of NZD 100 million or 33% of Council's borrowings from the Local Government Funding Agency Limited will mature in any 12-month period.
- Financial covenants are measured on Council only not the consolidated group if this becomes applicable.
- Disaster recovery requirements are to be met through the liquidity ratio.

4.3 Asset management plans

In approving new 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 Long Term Plan, and other Financial Strategies.

4.4 Methods of borrowing

Council is able to externally borrow through a variety of market mechanisms including issuing bonds, commercial paper, direct bank borrowing, hire purchase, leasing or internal borrowing of reserves. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- The project; its size and economic life
- The nature of the assets to be financed
- How the additional borrowings will impact on total borrowing limits
- The term being offered for each source of finance
- How new debt will affect the overall debt maturity profile
- The prevailing interest rates and credit margins being offered for each source of finance
- The market's outlook on future credit margin and interest rate movements.
- The legal documentation and financial covenants sought by each lending institution or required for the differing finance sources.

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.

If Council considers that security should be given by mortgaging or otherwise charging a physical asset instead of rates, it may do so (with the exception of Council's water assets, per Section 130(3)(a) of the Local Government Act). Independent advice will be sought if considered necessary.

Where security is considered to be offered over specific assets, prior Council approval as well as the following are required:

- 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 security arrangement.
- Any lending to a Council Controlled Organisation will be on a secured basis and be approved by Council.
- Notwithstanding the above, independent advice will be sought if considered necessary.

4.6 Leases

Council utilises leases as a means of financing some property, plant and equipment, and in particular some office equipment. These arrangements are considered appropriate.

Outline of management and reporting procedures, risk assessment and management procedures

Council has delegated responsibility for quality control and risk management.

4.7 Debt repayment policy

The nature of Council's debt is primarily, but not exclusively, related to the purchase or creation of long term assets. Debt repayments will be in accordance with long term and annual plans. Additional repayments may be made from surplus funds generated by asset sales or operating surpluses.

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.

4.8 Guarantees and other potential liabilities

Council provides guarantees to banks for loans from the bank to sporting clubs and other community organisations. These guarantees are only to be provided where they are within the provisions of the appropriate Council policy and have been approved by Council resolution.

Council is not permitted to provide any guarantee of indebtedness in favour of any loans to Council Controlled Trading Organisations that are set up under Section 62 of the Local Government Act. Council may act as a financial guarantor to Council Controlled Organisation.

For any guarantee for indebtedness provided, Council will approve the guarantee arrangement. Any guarantee provided to community organisations or clubs for loans or incidental arrangements, the purpose of the arrangement must be consistent with Council's strategic objectives.

For any outstanding guarantees, Council ensures that sufficient financial capacity exists relative to Local Government Funding Agency lending covenants. Unless approved by Council, guarantees or financial arrangements given will not exceed any amount agreed by Council.

The CFO monitors guarantees and reports quarterly to the Corporate and Regulatory Committee.

4.9 Internal Borrowing

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, as savings are created by eliminating the margin that would be paid through Council separately investing and borrowing externally. In addition to external borrowing mechanisms, all reserve accounts are used for internal borrowing purposes.

The interest cost will be set with reference to margins on external borrowing.

Actual rates of interest charged for internal borrowing will be approved as part of Long Term Plan process and charged annually in arrears at the weighted average cost of external borrowing (including credit margin and other related costs).

4.10 New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited 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 Local Government Funding Agency Limited as an equity contribution to the Local Government Funding Agency Limited. For example borrower notes.
- Provide guarantees of the indebtedness of other local authorities to the Local Government Funding Agency Limited and of the indebtedness of the Local Government Funding Agency Limited itself.
- Commit to contributing additional equity (or subordinated debt) to the Local Government Funding Agency Limited if required.
- Secure its borrowing from the Local Government Funding Agency Limited and the performance of other obligations to the Local Government Funding Agency Limited or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the Local Government Funding Agency Limited.

4.11 On-lending to Council Controlled Organisations

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

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

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

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

- Accounting and taxation impact of on-lending arrangement.

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

5. Investment Policy

5.1. General Policy

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. 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.
- Holding assets (such as property) 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.

The Council's approach is to manage investments to optimise returns in the long-term while balancing risk and return considerations. The Council recognises that as a responsible public authority any investments that it holds should be prudently managed. It also recognises that lower risk generally means lower returns. The Council also seeks to optimise investment returns, ensure investments are liquid and manage potential losses due to interest rate movements if investments need to be liquidated before maturity.

In its financial investment activity, Council's primary objective 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. Council will act effectively and appropriately to:

- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.
- Avoid capital losses.
- Maximise investment return.

5.2. Council's investments

Council created and restricted reserve funds

Council requires Council created and restricted reserves, to be invested in accordance with an adopted Statement of Investment Policies and Objectives (SIPO) for that Fund.

General investment funds

In addition to these Funds, Council has general funds available for investment. These tend to arise from short-term operating cash flow surpluses.

In terms of this Policy, an investment is any asset held for the purpose of operating income and/or capital gain that was not acquired for service delivery purposes. Council currently holds investments in the following categories:

- Treasury/financial Instruments.

- Property Investments – land and buildings.
- Equity investments.
- Registered mortgages.
- Secured loans.
- Unsecured loans.

5.3. Categories of investment

Treasury/financial investments

Investments represent:

- Cash held to finance activities arising from an emergency or unexpected event
- The balances of Council created or restricted reserves and general reserves
- The working capital reserves of Council:
- The proceeds from the sale of redundant and/or surplus property. Council holds these funds in reserve to purchase or assist in purchasing new or replacement property.
- Funds invested to generate income for named or general purposes of Council.

Property investment

Investment property holdings will be divested where fair market value can be obtained and there is no strategic necessity or other limiting factor requiring their retention. Council's objective is to only own property which is necessary to achieve its strategic vision and deliver relevant services.

Council will generally not purchase land and/or buildings directly as an investment. It will allow its investment advisor to invest in New Zealand property. The Corporate and Regulatory Committee reviews the performance of the property investments on a regular basis. All operational income from investment property is to be credited to general revenue.

Miscellaneous equity investments and loan advances

Investments include shareholdings in public, private and local government enterprises and loan advances to charitable trusts, incorporated societies and residential housing, which is consistent with Council's Long Term Plan.

Equity investments are permitted, providing they form part of a clearly defined, realistic and adopted investment or other business strategy.

Council retains a minor shareholding in Civic Financial Services Limited and Shared Valuation Database Systems. These were acquired historically or as the result of a shared service venture and may be divested provided fair market value can be obtained. All dividend income from Council's equity investments is included in general revenues.

Loans, mortgages and other advances

Council has in the past provided limited loan funding to community organisations. Any advance of this nature requires a Council resolution. The organisation's ability to repay and the obtaining of adequate security for Council's position must be considered in any decision to lend.

The Corporate and Regulatory Committee reviews the performance of any advances on a regular basis to ensure strategic and economic objectives are being achieved. Council ensures that interest and principal repayments are being made in accordance with loan agreements.

5.4. Matching investments with the intent of the fund

It is intended that the type of investment should match the expected use of the particular Fund so that the use of long term investment, such as shares, can be maximised for funds which are not expected to be used in the short term.

The long term return of shares has historically, and is predicted to continue to be, higher than cash investments. However, it is expected that periodically (e.g. every 20 years) shares could halve in value and that as an investor, Council should be prepared for this. In the long term, returns are predicted to be better from shares than cash but it is important that a long term view is taken.

Three types of investments with their appropriate investment lives are identified:

Type of investment	Timeframe in which funds would generally be needed (years)
Cash	0 -1
Bonds	1-3
Shares	3-10

5.5. Revenue from investments

- Interest earned on loan monies shall be applied to settlement of costs for the related loan monies.
- Returns on shareholdings shall be applied in accordance with specific Council resolutions.
- Rental income shall be applied in accordance with specific Council resolution.
- No interest will be charged on any Reserves that have a negative balance.

Utilisation of revenue earned from investments is to be treated in the following manner:

1. Working capital

Investment income arising from working capital cash surpluses is to be used to fund the annual general activities of Council that are supported by district-wide rates and charges.

2. Special funds

Income arising from the investment of special purpose funds is to be credited to the appropriate Reserve.

3. Utility services special funds

Council provides utility services (stormwater, wastewater and water supply) to the urban communities, a water supply to two rural communities, plus a range of other separately rated services. Surplus funds remain the property of the consumers of each service. Income earned on the investment of any surplus funds is credited to the respective utility service Targeted Rates Reserve.

5.6. Proceeds from any disposal or maturity of investments

Special funds

To be used for a purpose consistent with that for which the Reserve was created. Any departure from this requires a Council resolution.

Land and buildings

Any re-investment of the proceeds from the sale of land and/or buildings is to be authorised by Council, and to be supported by Council resolution.

Acquisition of new investments

When considering new investments outside the provisions of this policy, Council will undertake public consultation in relation to strategic assets or where the issue is considered to be significant, in accordance with its Significance Policy.

5.7. Outline of management and reporting procedures

Council has delegated responsibility for quality control and risk management. The measures to be applied include:

Equities

- Adherence to policy.
- Minimum income in line with budget.

In-house managed New Zealand equities

(Such as shareholding in the Civic Financial Services Limited and Shared Valuation Database Systems)

- Net asset backing supports value of shareholding.
- Contingent liabilities do not have an adverse effect on value of shareholding.

Loans, mortgages and advances

- Mortgagor's ability to service debt.
- Mortgagor's ability to repay debt on due date.

Treasury investments

- Adherence to Policy.
- Investments held comply with appropriate credit rating standards.
- Interest income, actual to budget.
- Actual return to market benchmark.

Real estate

- Adherence to Policy
- Rental income, actual to budget.

5.8. Council created and restricted reserves

This statement summarises Council's policies in respect of the investment of the Council Created and Restricted Reserves Fund. It is the intention of Council to review and update, as appropriate, the policies to reflect the changing investment markets, community characteristics and Council requirements.

The Restricted Reserves Funds for Asset Replacement were developed by the South Waikato District Council following the introduction of the Local Government Amendment Act (No 3) 1996. The legislation effectively required Council to fund depreciation and this has resulted in cash depreciation funds being built up and reserved for future capital expenditure on infrastructure. Such reserves are to be maintained and managed separately from the working capital of Council.

There are three types of Council Created and Restricted reserves Funds:

- Asset Replacement Reserves are used for the future capital funding for the replacement of assets
- Targeted Rate Reserves are used to account for the surpluses and deficits collected for specific Targeted Rate Schemes such as water, stormwater, sewerage and halls.
- Council Created Reserves have been established at the discretion of Council to manage funds that have a specific purpose.

Distribution policy

Distributions can be made from the Council Created and Restricted Reserves Funds each year. The Asset Replacement Restricted Reserve is used for the renewal of existing infrastructure. Distributions from the Special Restricted Reserves can only be for the benefit of the population of ratepayers who have contributed to the particular Targeted Rate Scheme. Distributions from Council Created Reserves will be dependent on the purpose of each Reserve. The Council Created and Restricted Reserves Fund may also be drawn on in the event of a natural disaster significantly damaging Council's infrastructure.

Primary objectives

The primary objectives underlying the Investment Policy for the Asset Replacement Reserves Fund are:

- To ensure that the Council Created and Restricted Reserves Fund is invested prudently to ensure that money is available for distribution, as required, to meet the needs and financial policies of Council
- To maintain, over time, the value of the Council Created and Restricted Reserves Fund's capital base in real terms and to grow such capital value. Real in this context relates to changes in the Consumer Price Index (CPI)
- To maximise the return each year, having regard to Council's risk tolerance.

Performance objectives

Return requirements

The return requirements of Council are to achieve a real total return after investment expenses over the long-term as set out in the Long Term and Annual Plans. 'Real' means over and above inflation as measured by annual CPI inflation rates.

Risk profile

The risk profile of the investment strategy of Council will be set to maximise the long-term after-tax return while staying within the parameters set out in this policy.

Returns

Income will be applied to all Reserves with a positive balance and applied to the capital base in order to protect against the impact of future short-term fluctuations and to accommodate inflation. There is no separate fluctuation reserve.

Investment strategy

Council Created and Restricted Reserves (excluding Asset Replacement Reserves)

Asset Replacement Reserves

Given the longer term nature of the Asset Replacement Reserves these funds will be invested to follow the long-term benchmark allocation and will generally be maintained within these ranges.

Long Term Investment Strategy Asset Class*	Benchmark Allocation (Note 1)	Allowable Range (Note 2)
NZ Cash	5%	0 - 10%
NZ Fixed Interest	9%	4 - 14%
International Fixed Interest	26%	21 - 31%
Total NZ and International Fixed Interest	40%	25 - 45%
Australasian Equities	20%	15 - 25%
International Equities	40%	35 - 45%
Hedge Funds	0%	0 - 10%

Note 1 - Benchmark allocation

The benchmark allocation reflects the long-term views of the asset structures likely to generate the required investment return to meet the primary objectives. The benchmark allocation assumes a hypothetical 'neutral *environment' ie one in which the Council does not have a tactical view that one asset class should be favoured over another.*

Note 2 - Allowable range

These reflect the normal minimum and maximum holdings for an asset class. The ranges exist to allow for normal market movement so that the Council can minimise transaction costs and are not for short-term tactical decisions.

The Council Created and Restricted Reserves Fund’s benchmark strategy and ranges will be reviewed as circumstances change and also when appropriate.

In respect of the above strategy it is intended that:

- The Council Created and Restricted Reserves Fund will be managed around the benchmark with appropriate rebalancing back to benchmark as required
- The overseas share investments will be managed on a passive basis. The overseas share assets will be hedged typically within a range of 50 to 100%
- A specialist NZ bond and fixed interest manager(s) may be appointed to manage the NZ Bonds / Other Fixed Interest assets via a suitable mandate, however this portfolio may be held and managed directly by the Council in whole or in part

The Cash portfolio may be held and managed directly by the Council in whole or in part.

Investment guidelines and requirements

The following investment guidelines and requirements have been set for prudential reasons to ensure there is an adequate level of security in the investments. They relate to the day-to-day management of the Council Created and Restricted Reserves Fund and, in each case, can be deviated from, as appropriate, by a decision of Council.

Bonds

- Bond investments are not limited to government guaranteed investments and should focus on non-government guaranteed securities where appropriate
- All investments with a credit rating below the level of the Council, as would be measured by the Standard & Poor's or equivalent rating measure, must be well diversified
- Normally at least 50% of the bond investments will have a level of security equal or better than a Standard & Poor's AA- credit rating
- All security holdings must have a level of security equal or better than a Standard & Poor's A- credit rating
- All security holdings with a security level below AA- security level must be notified to Council
- No holding of a single government issue should exceed 10% of the market value of the Council Created and Restricted reserves Fund
- No holding in a single non-government entity should exceed 5% of the market value of the investments of the Council Created and Restricted Reserves Fund
- No investments in direct mortgages may be made.

Cash

Cash and cash equivalent investments must be well diversified and invested with organisations with a level of security equal to, or better than, a Standard & Poor's A2 rating, or a Moody’s equivalent rating.

General

- All investments must be prudent investments and shall be made in accordance with the requirements of the applicable legislation
- Borrowing for investment purposes is prohibited
- No investment manager appointed by Council may:

- Hold, without prior disclosure to Council, any investment in its own company, its parent or any subsidiary and must disclose any investment in associated companies
- Delegate to another investment manager on terms other than in accordance with these guidelines.
- Investments in assets other than those contemplated by this policy statement (including antiques, art, stamps, gold, silver, or venture capital investments) are not permitted
- Total holdings in any one company shall not exceed 7.5% of the market value of the Council Created and Restricted reserves Fund

Currency hedging may be used by a manager, at its discretion, for the prudential investment management of the Council's Asset Replacement Reserves provided that such hedging is not used for gearing purposes.

Pooled investments

Where the appropriate investment vehicle is a pooled investment arrangement, it is recognised by Council that the strict application of the investment guidelines and requirements may not be possible, or be in the overall best interests of the Council Created and Restricted Reserves Fund. Where such a vehicle is used, the manager of the pooled arrangement shall be required to disclose to Council, as soon as practicable, details of any investment that materially falls outside the guidelines and requirements, so that Council can continually reassess the overall suitability of such an investment vehicle.

Monitoring and review

The overall performance of the Council Created and Restricted Reserves Fund will be evaluated on an on-going basis in terms of return and volatility against:

- The Council Created and Restricted Reserves Fund's overall performance objectives, as identified in Clause 2 of this policy statement
- The return, after expenses, of a portfolio with the benchmark asset allocation invested in the market indices used to review the individual asset sector returns
- The risk-free rate of return as measured by the Credit Suisse First Boston (CSFB) NZ 90 Day Bank Bill Index
- Such other objectives as determined by Council from time-to-time.

The performance of each sector will be evaluated on a return and volatility basis over the period indicated against the return of the appropriate market index.

	Market Index	Evaluation Period
NZ Bonds	CSFB NZ Government Stock Gross Index	3 years
Cash	CSFB NZ 90 Day Bank Bill Index	1 year

Management, investment advisors and managers

Management

The responsibility for the implementation and monitoring of the Council Created and Restricted Reserves Fund's investment policies shall be that of the Chief Executive.

The Chief Executive's role, likely to be achieved through the Chief Financial Officer, includes:

- Implementing the Council Created and Restricted Reserves Fund's investment policies
- Regular monitoring of any appointed investment managers
- Liaison with Council's investment advisor
- Advising Council of changes or issues regarding the Council Created and Restricted Reserves Fund
- Reporting to Council on the performance of the Council Created and Restricted Reserves Fund on a basis agreed between Council and the Chief Executive.

Appointment of investment managers

External professional investment managers may be appointed to manage the Council Created and Restricted Reserves Fund.

Where investment managers are appointed, a specific mandate will document the requirements of the manager in terms of performance evaluation, reporting, and the investment guidelines and requirements within the guidelines of the Council as a whole.

Council may change investment manager(s) from time to time as it sees fit and at its sole discretion.

Investment advisor's responsibilities and accountabilities

The appointed investment advisor, in terms of Clause 6.2, shall be responsible for and accountable for:

- Assisting Council in the review and development of the Council created and Restricted Reserves Fund's investment policies
- Evaluating the on-going appropriateness of the long-term investment strategy relative to the investment objectives
- Monitoring the investment manager's performance in terms of Council's evaluation policy
- Proactively advising Council on the way in which the Council created and Restricted Reserves Fund should be invested and market changes including legislation and trends
- Ensuring that the investment manager manages the Council created and Restricted Reserves Fund under its care in terms of the mandate
- Proactively advising Council on the need for changes to its policies or the implementation of its policies.

Reports

In terms of its responsibilities the investment advisor is expected to provide independent reports quarterly, or more frequently as required or requested, covering:

- The managers' performance and analysis of the performance
- 'Market intelligence' in terms of changes to the manager that may have an impact on the quality of the future performance.

With a view to identifying the potential for:

- An unacceptable risk occurring
- Poor future performance
- Sudden and unexpected events that may lead to unacceptable outcomes.

Temporary departures from this statement

Council recognises that from time to time circumstances will occur which require a departure from the guidelines set out in this statement. Any such departure requires the prior approval of the Corporate and Regulatory Committee of Council.

6. Risk recognition / identification management

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

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will exceed the Annual Plan or the LTP cost projections so as to adversely impact on revenue projections, borrowing costs, capital investment decisions and the feasibility of some projects.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of interest costs. The secondary objective is to spread and smooth any concentration of interest rate risks over the medium term. Both objectives can be achieved through the proactive management of Councils interest rate exposures. To achieve this aim, the interest rate maturity profile should depict Council's view of interest rate trends. This view is generally determined with assistance from management's professional treasury advisors.

6.2 Interest rate risk control limits

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

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Rolling Period	**Minimum Fixed Rate**	**Maximum Fixed Rate**
0 – 1 Year	40%	90%
1 - 2 Years	35%	85%
2 - 3 Years	30%	80%
3 - 4 Years	20%	75%
4 - 5 Years	10%	70%
5 - 6 Years	0%	65%
6 - 7 Years	0%	60%
7 - 8 Years	0%	55%
8 - 9 Years	0%	50%
9 - 10 Years	0%	45%
10 - 11 Years	0%	40%
11 - 12 Years	0%	35%
12 - 13 Years	0%	30%
13 - 14 Years	0%	30%
14 - 15 Years	0%	30%

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

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

Forecast gross external debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the CFO), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the Policy minimum and maximum limits.

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

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

- Any interest rate fixing with a maturity beyond 15 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate or an interest rate swap is linked to floating rate LGFA debt and this is maturing beyond 15 years.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity, to the simultaneously purchased option.
- During the term of the option, the sold option can be closed out by itself (i.e. repurchased). The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- Purchased borrower swaptions mature within 12 months.
- The forward start period on swaps and collar strategies to be no more than 36 months unless linked to the expiry date of an existing instrument and has a notional amount which is no greater than that of the existing instrument.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation (i.e. an ineffective hedge).

6.3 Treasury investments

Council has interest rate and maturity risk on its treasury investments portfolio. An important objective of the treasury investment portfolio is to match the portfolio’s maturity term to planned expenditure thereby ensuring that investments are available when required. Treasury investments are restricted to a term that meets future cash flow projections, liquidity needs and capital expenditure programmes.

Council’s interest rate risk is managed within its maturity objectives. In support of liquidity objectives, Council maintains a policy that at least 25% of treasury investments must mature within the next 12 months.

6.4 Liquidity risk / funding risk

6.4.1 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 the same or more favourable 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 liquidity/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.

6.4.2 Liquidity /funding risk control limits

To ensure funds are available when needed Council ensures that:

- There is sufficient available operating cash flow, liquid investments and committed bank facilities to meet cash flow requirements between rates instalments as determined by the CFO. Cash flow management will be used to identify and manage maturity mismatches between external borrowings, internal loans and investments.
- External debt and committed debt facilities together with liquid investments must be maintained at an amount of 110% over existing external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings.
- The CFO has the discretionary authority to re-finance existing external debt.
- The maturity profile of the total committed funding in respect to all external debt/loans and committed debt facilities is to be controlled by the following system:

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

- A funding maturity profile that is outside the above limits, but self corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile that is outside of the above limits for a period greater than 90 days requires specific approval by Council.
- To minimise concentration risk, the Local Government Funding Agency Limited require that no more than the greater of NZD 100 million or 33% of a Council's borrowings from the Local Government Funding Agency Limited will mature in any 12-month period.

6.5 Foreign currency

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

Generally, the exposure to foreign exchange risk on these commitments is relatively small and will not be hedged.

All significant commitments for foreign exchange are however, hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts can be used.

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

Hedging is permitted for the restricted Asset Replacement Reserves and is to be managed by Council's appointed investment manager.

6.6 Counterparty credit risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument(s) 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. Where Council has committed bank funding or stand-by facilities, Council will only borrow from strongly rated banks with a minimum long-term credit rating of at least "A" (Standard & Poor's (S&P), or equivalent Fitch or Moody's ratings).

Credit risk will be regularly reviewed by the Council. Treasury related transactions will only be entered into with counterparties specifically approved by the Council. Counterparty risks within externally managed investment funds are managed within the parameters of the SIPO.

Counterparties and limits are only approved on the basis of the following 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.

The following matrix guide will determine limits.

Counterparty/Issuer	Minimum S&P long term/short term credit rating	Maximum per counterparty ($m)	Maximum % of total counterparty exposure
NZ Government	N/A	unlimited	100%
Local Government Funding Agency	N/A	unlimited	100%
NZ Registered Bank	AA- / A-1	15.00	100%
NZ Registered Bank	A / A-1	5.00	35%

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

- Treasury 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 credit 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 and monitored by the CFO on an ongoing basis and in the event of material credit downgrades should be immediately reported to the CEO and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

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.

6.7 Approved financial instruments

Category	Instrument
Cash and liquidity management and borrowing	• Bank overdraft • Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) • Floating Rate Note (FRN) • Fixed Rate Bond (MTN) • Commercial paper (CP)/Promissory notes • Bank registered certificates of deposit (RCDs) less than 181 days • Forward starting committed debt with the LGFA • Bank call/term deposits up to 30 days and those linked to debt prefunding activity (i.e. up to 18-months)
Treasury investments	• Bank term deposits greater than 30 days • Bank registered certificates of deposit (RCDs) • Treasury bills • LGFA FRNs/bonds/CP/borrower notes
Interest rate risk management	• Forward rate agreements ("FRAs") on: o Bank bills • Interest rate swaps including: o Forward start swaps/collars. Start date no more than 36 months, unless linked to existing maturing swaps/collars o Swap extensions and shortenings • Interest rate options on: o Bank bills (purchased caps and one for one collars) o Interest rate swaptions (purchased swaptions and one for one collars only)
Foreign exchange management	• Spot foreign exchange • Forward exchange contracts (including par forwards) • Purchased options and collars (1:1 only)

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.

6.8 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 may not be strictly achievable. The risk will be minimised by the following process:

- A 'two authorisations' process is strictly enforced for all funds transfers.
- The Financial Accountant reports directly to the CEO as control over the transactional/settlement activities undertaken by the CFO.
- The CEO has review and approval responsibility for the general ledger and bank reconciliations.

- There is a documented approval and reporting process for borrowing, investment, interest rate and liquidity management activity.

Procedures

All treasury instruments are recorded and diarised within a treasury spreadsheet, with appropriate controls and checks over journal entries into the general ledger. Journal entries are prepared by the Financial Accountant and approved by the CEO. Deal capture and reporting must be done immediately following deal execution. Details of procedures including templates of deal tickets should be compiled in an appropriate Operations and Procedures Manual.

Organisational, systems, procedural and reconciliation controls are required 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 (at least quarterly) and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity.

Organisational controls

- The CFO 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 Council as per register.
- Dual signatures are required for all forms of outgoing payments (cheque and electronic).
- The CEO and the CFO may negotiate financial transactions but cannot authorise their own negotiations.
- The CEO may, as necessary, make a temporary appointment of an Authorised Officer for a period not exceeding 30 days.
- 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 bank counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.
- This includes anti money laundering (AML) or Know Your Customer (KYC) regulations that need to be complied with in order to maintain counterparty relationships.
- These requirements will be reviewed and updated instructions sent to the bank counterparty at least annually or in the event of applicable staff movement.

Recording of deals

- All deals are recorded on properly formatted deal tickets by the CFO and approved as required by the CEO.
- Market quotes for deals (other than cash management transactions) are considered by the CFO 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 Financial Accountant against completed deal tickets and the treasury spreadsheet to ensure accuracy.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date/number order.
- The Financial Accountant 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 CEO.

Settlement

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

Reconciliations

- Bank reconciliations are performed monthly by the Assistant Accountant and checked and approved by the Financial Accountant. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the CFO.
- A monthly reconciliation of the treasury spreadsheet to the general ledger is completed by the Financial Accountant to be reviewed and approved by the CFO.

6.9 Legal risk

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

Council will seek to minimise this risk by adopting Policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- Complying with all 'Know Your Customer' (KYC) and 'Anti-money laundering' activity (AML) requirements that will be required by counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

6.10 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. An independent legal review of the documentation must be completed before signing these documents.

Council's internal/appointed legal counsel must sign off on all legal documentation.

6.11 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. 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 CFO 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 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 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 Financial Accountant 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 CFO will calculate and maintain comprehensive rolling cash flow projections on a daily (two weeks forward), weekly (four weeks forward) and monthly (12 months forward) basis. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment or debt repayment.
- 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.
- Undertake short term borrowing functions as required, minimising overdraft 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 overdraft and committed bank facilities. Overdraft facilities are utilised as little as practical.
- Match future cash flows to smooth overall timeline.
- Target of zero unplanned overdraft costs.
- 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 with approved counterparties only.

9. Treasury reporting

Report Name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	Financial Accountant	CFO
Treasury Spreadsheet	Weekly	CFO	Financial Accountant
Treasury Report - incorporating the following: • Treasury Risk Management Policy compliance • Borrowing limits • Funding and Interest Position Profile • Funding facility • New treasury transactions • Cost of funds vs. budget • Cash flow forecast report • Liquidity risk position • Counterparty credit • Treasury performance • Funding and interest rate strategy commentary • CCO/CCTO loans and guarantees, financial arrangements • Treasury exceptions	Quarterly	CFO	Corporate and Regulatory Committee
Half-yearly Financial Statements Half-yearly Reporting Certificate	Six monthly	CFO	Council
Annual Report Annual Reporting Certificate Auditors Report Insurance Certificate Annual Plan/Long Term Plan	Annual	CFO	Council
Revaluation of financial instruments	Annual	CFO	Corporate and Regulatory Committee
LGFA compliance report	Annual	CFO	LGFA

9.1 Accounting Treatment of financial instruments

Council uses incidental 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.

The Financial Accountant is responsible for advising the CFO of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment.

All incidental arrangements must be revalued (marked-to-market) and reported annually.

10. Policy review

The Policy is to be formally reviewed on at least a triennial basis.

The CFO has the responsibility to prepare the annual review report (following the preparation of annual financial statements) that is presented to 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.