ATTACHMENT 1a

Waitomo District Council

Treasury Policy

2021

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Last Reviewed	**August 2017**
Review Date	**2020/2021 in preparation for the 2021-31 10YP**
Associated documents	**Referenced within the Policy**
Responsibility	**General Manager - Business Support**

Waitomo District Council

CONTENTS

INTRODUCTION | KUPU ARATAKI

1.1 Waitomo District Council undertakes borrowing and investment activities. Together these make up the Treasury Management activity. Council's borrowing and investment activities are carried out within the requirements of the Local Government Act 2002 (LGA) and its various amendments, which define the operating environment for local authorities in relation to borrowing, investment and treasury risk management.

1.2 The Treasury Policy includes the Investment Policy and the Liability Management Policy as required by Part 6, sections 104 and 105 of the LGA. The Policy provides the framework for all Council's treasury activities and the operating parameters within which the treasury activity is to be carried out.

INVESTMENT POLICY

PURPOSE AND SCOPE | TE ARONGA ME TE KORAHI

- To prudently manage the Council's financial investments by seeking to maximise investment income within acceptable investment risk parameters.
- To promote long term prudent financial management.
- To manage the operational cash position and ensure that any surplus cash is invested in approved liquid instruments or used to minimise debt.
- To safeguard Council's investments by establishing and regularly reviewing investment parameters and ensuring that all investment activities are carried out within these parameters.
- Ensure the integrity of Council's investments by only investing in appropriately rated organisations and in appropriate financial instruments, as detailed in this policy.
- Produce accurate and timely reporting on investment performance.

POLICY | KAUPAPA HERE

1.0 MIX OF INVESTMENT

Council's investments are maintained to meet specific strategic and economic objectives as outlined in the 10 Year Plan (10YP). Council generally has the following types of investments:

1.1 Strategic Investments

Investments made or held in alignment to Council's strategic direction and typically retained on a long term basis. These include property investments - i.e. land and buildings, and quarries.

1.2 Equity Investments

Equity (ownership) participation in a private (unlisted) company (including Council Controlled Organisations). Such investments may not necessarily provide a financial return to Council, and may be held for wider social, tactical and/or economic reasons. Notwithstanding, Council will continue to actively seek opportunities for a financial return from all such investments.

Council currently maintains equity investments in Inframax Construction Ltd (Inframax), Waikato Local Authority Shared Services Ltd (WLASS), and Civic Financial Services Ltd.

1.3 Treasury Investments

Short to medium term financial investments that maximise financial return but ensure an appropriate level of liquidity for forecast expenditure.

1.4 Loan Advances

Council has an existing outstanding community loan advance that it will manage until repayment is complete.

1.5 Local Government Funding Agency (LGFA) Borrower Notes

LGFA Borrower Notes must be subscribed for when borrowing from the LGFA at a rate of 2.5% of the amount borrowed from the LGFA for any new loan term lending. The notes are repaid when the related debt is repaid, they are subordinated and may convert to LGFA shares in some circumstances rather than being repaid.

2.0 NEW INVESTMENTS

2.1 Strategic Considerations

2.1.1 Prior to making new investments Council will consider:

a) The expected financial return.

b) Initial risk assessment of the proposed investment.

c) How the investment will be funded.

d) How the investment will contribute in furthering the Waitomo District's Community Outcomes as documented in the 10 Year Plan.

e) The existing investment portfolio and how the proposed investment 'fits' in terms of Council's preference to spread and minimise risk.

f) Any other consideration Council deems appropriate.

2.1.2 Generally, it is not Council's intention to undertake new equity investments other than to achieve strategic objectives.

2.1.3 Despite anything earlier in this Policy on Investment, the Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment, after taking into account the strategic considerations detailed above.

2.1.4 The purchase or disposal of investment property will be subject to a 10 Year Plan or Exceptions Annual Plan (EAP) adoption process and will be given effect to by the Chief Executive.

2.1.5 Council will consider any requests for loan advances on a case by case basis and will take into account the needs of the community and Council's stated outcomes for the District in its considerations.

3.0 MANAGEMENT AND REPORTING

3.1 Investments will generally be monitored and reported through Council's established reporting procedures (Quarterly and Annual Report).

3.2 Transparency and reporting mechanisms will be key elements in any governance arrangements. The frequency and nature of reporting will depend on the nature and size of each investment.

3.3 Reporting will comply with generally accepted accounting practice and applicable accounting standards for financial reporting purposes.

3.4 Performance of investments will be reported in accordance with any governance arrangements, but no less than on a six monthly and annual basis.

4.0 RISK MANAGEMENT

4.1 Council is a risk adverse entity and therefore takes a prudent approach to managing its investments. Council seeks to maintain diversity in its Investment Portfolio to spread and minimise risk.

4.2 Where material risk to Council is apparent (e.g. equity investments) Council will commission an Independent Risk Assessment and Management Report prior to entering into the investment.

4.3 To ensure the protection of Treasury Investments (short term money market or medium term fixed interest investments), Council will only invest with credit worthy counter parties and in accordance with Schedule 1.

4.4 Council may periodically review investments with a view to exiting at a time when market conditions are favourable and if the overall strategic objectives are not compromised.

5.0 INFRAMAX CONSTRUCTION LIMITED

5.1 Background

Inframax Construction Limited was initially formed in the early 1990's by converting an in-house delivery department into the company Waitomo Civil Construction. A merger with Northgate Construction in 1999 formed Inframax Construction Limited which is 100% owned by the Waitomo District Council. The core activities of Inframax Construction Limited are road maintenance and construction, quarrying and the maintenance and construction of utilities and infrastructure assets.

5.2 Policy

The Council's policy for Inframax Construction Limited is to:

- Retain the Waitomo District Council 100% ownership for the present;
- Review future options while still retaining community benefit of ownership;
- Sustained equity growth and increasing financial return;
- Apply dividends or capital proceeds to reduce external borrowings.

5.3 Rationale

Council considers that it is important to maintain community control of a large employer within the District for the financial return and the social and economic benefits.

5.4 Financial Benefits

Financial benefits include any dividends that will be used to reduce external debt, and value of the investment held.

5.5 Risks

The risk of investing in the roading construction company is that dividends depend on Inframax Construction Limited's ability to generate profit.

5.6 How the Investment is Managed

The Council manages this investment by:

- Appointing external Directors with appropriate expertise to the Board of Directors;
- Preparing annually a Statement of Expectations;

- Annually approving and/or amending Inframax Construction Limited's Statement of Intent; and
- Requiring 6 monthly reports on Inframax Construction Limited's results and future outlook.

LIABILITY MANAGEMENT POLICY

PURPOSE AND SCOPE | TE ARONGA ME TE KORAHI

- To comply with sections 102(1) and 104 of the LGA.
- To promote long term prudent financial management.
- To outline how liability risk associated with borrowing activities is assessed and managed.
- To outline how liabilities are managed and reported on.
- Ensure that Waitomo District Council has an ongoing ability to meet its debt obligations 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 Waitomo District Council at competitive pricing.
- Maintain relationships with banks, investors, the Local Government Funding Agency and other creditors.
- To provide appropriate levels of funding for investments and as may be authorised from time to time by way of Council resolution.
- Control Waitomo District Council's cost of borrowing through the effective management of its interest rate risk, within the rate risk management limits established by the Liability Management Policy.
- Ensure compliance with all financial covenants and ratios within this Policy and any others agreed to with other significant creditors.
- Maintain adequate internal controls to mitigate operational risks.
- Produce accurate and timely information and reports for control and monitoring purposes in relation to both the debt raising and financial market investment activities of Waitomo District Council.

POLICY | KAUPAPA HERE

The following policy is developed pursuant to Section 102(1). It seeks to outline the suggested content for a Liability Management Policy in compliance with Section 104 of the LGA. It discloses Council's principles of prudent financial management and risk mitigation strategies as they relate to liability management.

1.0 ROLES AND RESPONSIBILITIES

1.1 Role of Council

1.1.1 Approve Treasury Policy (TP), including any amendments proposed by the Treasury Management Committee.

1.1.2 Approve any hedging outside the parameters of the TP.

1.1.3 Approve the use of any risk management products not authorised by the TP.

1.1.4 Monitor treasury performance through receipt of appropriate reporting.

1.1.5 Approve overall borrowing levels on an annual basis through the Annual Plan and first year of the 10 Year Plan.

1.1.6 Determination of any Local Government Funding Agency transactions as per Section 8 of this Policy.

1.2 Role of Audit, Risk and Finance Committee (ARFC)

1.2.1 Maintain overview of reviews of financial policies and make recommendations to Council for any changes.

1.2.2 Monitor Council's treasury management practices in order to provide assurance that policy limits are being adhered to. Recommendations will be made to Council when there are good reasons to exceed policy.

1.3 Role of Treasury Management Committee (TMC)

1.3.1 Council has established a Treasury Management Committee (TMC). The structure of the TMC shall comprise of:

- General Manager - Business Support
- Finance Manager
- Senior Accountant
- Waitomo District Council's Independent Treasury Advisor

1.3.2 Plan and discuss all funding and interest rate risk management activities of WDC and make recommendations prior to implementation/execution.

1.3.3 Monitor and review the ongoing treasury performance of Waitomo District Council and compliance with TP parameters through the receipt of regular reporting.

1.3.4 Conduct a review of the TP every three years or on an 'as required' basis and submit any recommended changes to Council for approval once the necessary statutory processes have been followed.

1.4 Role of the Chief Executive Officer

1.4.1 To approve recommendations made by the TMC in respect to treasury management within the parameters of the TP.

1.4.2 Execute and sign various legal documents with respect to extending security under the Debenture Trust Deed.

1.4.3 To approve the opening or closing of bank accounts.

1.5 Role of the General Manager - Business Support

1.5.1 To approve recommendations made by the TMC in respect to treasury management within the parameters of the TP.

1.5.2 Report to the ARFC on overall treasury activity on a quarterly basis as part of the Quarterly Report.

1.5.3 Manage the bank lender and capital markets relationships, including providing financial information to lenders.

1.5.4 Negotiate new or amended borrowing facilities or methods for approval by the full Council following recommendation from the ARFC.

1.5.5 Sign documents relating to the financial market activities of Waitomo District Council.

1.5.6 Check external confirmations against internal records.

1.6 Role of the Finance Manager

1.6.1 Check external confirmations against internal records.

1.6.2 Check cash payments of treasury transactions.

1.7 Role of the Senior Accountant

1.7.1 Execute treasury transactions.

1.7.2 Assist the General Manager - Business Support in the preparations of reports to the ARFC and Council.

1.7.3 Review the Treasury Management Report that forms part of the Quarterly Report.

2.0 INTEREST RATE EXPOSURE

2.1 Interest rate risk is the risk of significant unplanned changes to interest costs as a result of financial market movements.

2.2 The objective of managing interest rate risk is to have a framework in place under which Council can actively manage its borrowings within overall guidelines to spread and reduce risk and stabilise interest costs.

2.3 Borrowings can only be made in New Zealand dollars (Section 113 of the LGA).

2.4 The interest rate exposures of Waitomo District Council shall be managed according to the parameters detailed in the following table and shall apply to the projected core debt of Waitomo District Council. Core debt is defined as that contained in the Annual Plan or as otherwise determined by the General Manager - Business Support.

Fixed rate hedging percentages		
	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0-2 years	40%	100%
2-4 years	20%	80%
4-10 years	0%	60%

2.5 To manage the interest rate risk associated with its debt Waitomo District Council may use the following interest rate risk management instruments.

- Interest rate swaps
- Forward start interest rate swaps
- Interest rate options
- Interest rate collars (only in a ratio of 1 to 1)
- Fixed rate bonds
- Fixed Rate term loans
- Floating Rate Notes
- Commercial Paper

(Refer to Schedule 2 for definitions and objectives of each of the interest rate risk management instruments)

2.6 Council may retain the services of an Independent Treasury Advisor to assist in managing the funding and interest rate risks of Waitomo District Council.

3.0 LIQUIDITY

3.1 The objective of managing liquidity is to ensure that Council has adequate financial resources available to meet all its obligations as they fall due.

3.2 To avoid a concentration of debt maturity dates Council will, where practicable, aim to have no more than 33% of debt subject to refinancing in any 12 month period.

3.3 Council's main revenue sources are cyclical in nature and therefore committed bank facilities are required to ensure sufficient funds can be called upon when required.

3.4 Subject to clause 9.5 committed funding lines shall be maintained of not less than 110% of projected core debt. (Core debt is defined as that contained in the Annual Plan or as otherwise determined by the General Manager - Business Support).

3.5 At balance date, in accordance with the Local Government Funding Authority Multi-Issuer Deed, the Available Financial Accommodation will be more than 110% of External Indebtedness.

3.6 Council maintains a call advance or standby facility that allows for immediate drawdown capability and is available to meet daily cash flow obligations where required.

4.0 CREDIT EXPOSURE

4.1 Credit risk is the risk that a party to a transaction will default on its contractual obligation. A credit risk may exist when the credit rating of an entity with which Council has borrowings with deteriorates.

4.2 Council will only enter into borrowing agreements with creditworthy counterparties. Creditworthy counterparties are selected on the basis of their Standards and Poors rating which must be A or better.

5.0 FUNDING METHODS

5.1 Waitomo District Council may obtain funding utilising the following methods:

(a) Bank debt; Money market loans (Term and Call Advances), Term Loans and Overdrafts.

(b) Issuances of Fixed Rate Bonds, Commercial Paper and Floating Rate Notes to the LGFA on either a bespoke basis or participation in the LGFA tender process.

(c) Capital markets issuances through either Fixed Rate Bonds, Commercial Paper and Floating Rate Notes.

6.0 LOCAL GOVERNMENT FUNDING AGENCY (LGFA)

6.1 Despite anything earlier in this Liability Management Policy, the Council may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

(a) Contribute a portion of its borrowing back to the LGFA in the form of Borrower Notes;

(b) Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;

(c) Commit to contributing additional equity or the conversion of Borrower Notes to equity of the LGFA if required;

(d) Subscribe for shares and uncalled capital in the LGFA; and

(e) Secure its borrowing from the LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

7.0 DEBT REPAYMENT

7.1 The objective of managing debt repayment is to ensure that Council is able to repay debt on maturity with minimum impact on Council operations.

7.2 Borrowings will be repaid as they fall due in accordance with the applicable loan agreement. Subject to borrowing limits, a loan may be rolled over or re-negotiated as and when appropriate.

7.3 All external borrowings are deemed to be corporate borrowings and are accounted for in the Treasury Management Activity, except for borrowings that fund Council's shareholding investment in its subsidiary company; Inframax Construction Limited.

7.4 Debt repayments will be made from general funds, by any funds raised specifically to repay debt, from dividend revenue and by proceeds from asset sales, except for any sale of Council's investment in Inframax Construction Limited, where these proceeds will be applied to borrowings relating to that shareholding, in the first instance.

7.5 The cost of capital is allocated over significant activities from the Treasury Management Activity using internal loans. Internal loans are raised to fund to cost of capital expenditure in any financial year. The term of the internal loan is determined by reference to the economic life of the assets being funded. Internal loans for infrastructural assets, land and building assets that have long economic lives will have a term of up to 30 years and for other assets up to 15 years.

7.6 Where an internal loan is to be raised for expenditure that is not of a capital nature, but there is an enduring benefit, the term of the internal loan is to match (within reason) the expected duration of the benefit up to a maximum of 30 years.

8.0 SPECIFIC BORROWING LIMITS

8.1 Council will borrow to fund its total funding needs in accordance with the Exceptions Annual Plan or first year of the 10 Year Plan. Borrowing includes the funding of short term working capital requirements and long term capital investments. In general terms, Council approves borrowing through the annual planning process with public disclosure by way of resolution.

8.2 Council will adhere the following financial ratios in the management of its liabilities:

- The ratio of net debt to total revenue will not exceed 165%
- Net interest will not exceed 20% of annual rates.

9.0 ACCOUNTING TREATMENT OF FINANCIAL INSTRUMENTS

9.1 Derivative financial instruments are used primarily for the management of interest rate risk.

9.2 Public benefit accounting standards require that any changes in fair value of derivative financial instruments are recognised through the surplus or deficit, unless a hedge relationship has been designated and is effective.

9.3 Where an effective hedge is determined any change in value will show as "Other Comprehensive Revenue and Expense" and rather than being included in the surplus or deficit and is transferred directly to a reserve within equity.

9.4 Valuations of derivative financial instruments are to be carried out annually for balance date by an independent third party for financial reporting purposes. Indicative valuations are to be provided by the counter party to the financial instrument and reported to ARFC as part of the Quarterly Report.

9.5 Management of derivatives will continue with the dual purpose of managing interest rate risk and remain within the hedge accounting framework. Where at all possible, hedge accounting is to be carried out.

9.6 The purpose of this policy is to remove market related volatility due to valuation changes in derivative financial instruments from the surplus or deficit.

REFERENCES

This policy should be read in conjunction with other related Council policies and documents. Council policies and documents often reference and inform each other so that any issue before Council can be dealt with in an integrated and comprehensive fashion.

The policies and documents that have a clear relationship with the Treasury Management Policy are:

- Revenue and Financing Policy (for sources and level of funding)
- Significance and Engagement Policy (which if triggered by a proposal to make an investment will mean that the proposal will be subject to further decision-making and consultation requirements).
- Accounting Policies for Financial Reporting.
- Audit, Risk and Finance Committee's Terms of Reference
- Delegations Register
- Financial Strategy

SCHEDULE 1: AUTHORISED INVESTMENT CRITERIA FOR TREASURY INVESTMENT

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
New Zealand Registered Banks	100%	▪ Term Deposits	Short term S&P rating of A-1 or better Long term S&P rating of A or better	$5.0million
Local Government Funding Agency (LGFA)	100%	▪ Borrower Notes	Not Applicable	Unlimited

Investments that no longer comply with minimum rating criteria due to a rating downgrade must be sold within one month of the downgrade being notified unless Council formally approves the continued holding of the investment.

SCHEDULE 2: LIABILITY MANAGEMENT

The following provide definitions and objectives of each of the interest rate risk management instruments and types of debt instruments.

INTEREST RATE SWAP

An interest rate swap is an agreement between WDC and a counterparty (usually a bank) protecting WDC against a future adverse interest rate movement. WDC pays a fixed interest rate and receives a floating interest rate. The parties agree to a notional principal amount, the future interest rate, the settlement dates and the benchmark floating rate (BKBM).

Objective

To provide WDC with certainty as to its interest rate cost on an agreed principal amount for an agreed period. Floating rate sets are typically every 1 or 3 months over the life of the swap.

FORWARD START INTEREST RATE SWAP

A Forward Start Interest Rate Swap is a financial instrument that fixes the interest rate for a set amount of debt at some date in the future (generally up to 2 years). These transactions are negotiated with Banks.

Objective

To provide WDC with certainty as to its interest rate cost on an agreed principal amount for an agreed period, commencing at a future point in time. All other conditions are as with an interest rate swap.

INTEREST RATE OPTIONS

The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right but not the obligation to borrow (described as a cap) or invest (described as a floor) at a future date. WDC and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark floating rate (BKBM).

Objective

To provide WDC with worst case cover on its interest rate cost on an agreed principal amount for an agreed period. As for an interest rate swap, rate sets are typically at each 1 or 3 month date for the life of the option. A premium is payable for entering into an interest rate option.

INTEREST RATE COLLAR

The combined purchase (or sale) of a cap or a floor with the sale (or purchase) of another floor or cap.

Objective

To provide WDC with certainty as to its interest rate cost on an agreed principal amount for an agreed period, but at the same time avoid the need to pay an up front premium.

FIXED RATE BOND

A Fixed Rate Bond is a debt instrument where the amount of interest is constant throughout the term of the bond.

Objective

To provide WDC with certainty as to its interest rate cost on an agreed principal amount for an agreed period.

FIXED RATE TERM LOANS

A Fixed Rate Term Loan is an agreement between WDC and a counterparty (usually a bank) protecting WDC against a future adverse interest rate movement. WDC pays a fixed interest rate as set by the counterparty on an agreed principal amount for the term of the loan.

Objective

To provide WDC with certainty as to its interest rate cost on an agreed principal amount for an agreed period.

FLOATING RATE NOTES

A Floating Rate Note is a debt instrument where the amount of interest is variable throughout the term of the note, with interest rates normally reset at three monthly intervals.

Objective

To provide WDC provides exposure to variable interest rates on an agreed principal amount for an agreed period.

COMMERCIAL PAPER

Commercial Paper is a short term debt instrument that are issued for less than one year. Interest payable is calculated on issuance date and is payable when the commercial paper matures.

Objective

To provide WDC provides exposure to variable interest rates that are generally lower than other debt instruments and provides for a short borrowing at minimal cost.