RANGITĪKEI DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY

Date of adoption:	**September 2023**
Resolution number:	23/RDC/294
Date by which review must be completed:	September 2026
Relevant legislation:	LGA 2002
Statutory/Policy:	Statutory
Included in the LTP:	Indirectly (via Finance Strategy)

RANGITĪKEI
DISTRICT COUNCIL

Making this place home.

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1. Introduction

Rangitīkei District Council's ("Council's") Treasury Management Policy consists primarily of two statutory policies:

1. Liability Management Policy and
2. Investment Policy

These statutory policies:

- form the key elements of, and provide, the framework under which Council operates its borrowing and investment activities; and
- are required under the Local Government Act 2002 ("LGA2002") (Section 102 : Sections 104 and Section 105 outline the required content of these policies).

2. Overview

The key objectives of Council's treasury activities are to protect the interests of, and ensure fairness between, Council's current and future ratepayers.

In doing so, Council will apply procedures and controls to:

- ensure funds are always available to meet both planned and unplanned (but not extreme) levels of expenditure; and
- prudently manage the borrowing costs and investment returns that impact Council's operational budgets; and
- ensure that all borrowings, investments and incidental financing arrangements comply with relevant legislation; and
- prudently manage the risk and volatility associated with Council's treasury activities; and
- safeguard Council's assets; and
- provide appropriate treasury reporting; and
- ensure the key principles of Council's Treasury Management Policy are kept current via regular reviews and reporting.

Generally, Council will:

- avoid speculative type investments; and
- avoid investments in organisations whose activities are not consistent with Council's social, environmental, ethical or cultural values; and
- maintain a 'risk averse' approach to its treasury activities.

3. Liability Management Policy

3.1. Introduction

The Liability Management Policy applies to the following liability arrangements (ie borrowing arrangements) with external parties:

- to fund Council's capital works program, especially to provide funds for new (as opposed to replacement) assets. Council views the use of debt for these purposes as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers;
- for specific one-off projects, including those caused by an emergency situation, or new levels of service that may arise from time to time

All other council liabilities (eg hire purchase, credit transactions, deferred payment and lease arrangements) are managed in the course of council's day-to-day operations.

Council's borrowing requirements will be clearly identified in its Long Term Plan and Annual Plans. Amounts not included in the Long Term Plan or Annual Plan can only be borrowed if approved by council resolution.

3.2. Requirements

S104 of LGA2002 states that the Liability Management Policy must state Council's policies regarding its management of borrowings and other liabilities, including:

- interest rate exposure; and
- liquidity; and
- credit exposure; and
- debt repayment.

3.3. Borrowing Covenants

The first two of these four considerations (interest rate exposure and liquidity) are most effectively governed with the use of borrowing covenants. In determining what constitutes a prudent level of borrowings, Council will apply the Local Government Funding Agency covenants for 'guaranteeing member' councils. A 'guaranteeing member' council is one whose borrowings from LGFA are above $20m.

Council's Long Term Plan and Annual Plans show the planned future levels of Council debt. Although future cost of servicing debt is subject to future market conditions, the Long Term Plan will incorporate a reasonable estimate of these costs. Debt levels for each year within the Long Term Plan and for each Annual Plan must comply with the covenants in this Policy.

3.4. Interest Rate Exposure

Covenant	Limit
Net interest/total revenue	< 20%
Net interest/annual rates income	< 25%
Notes: Net interest is total annual interest cost and finance costs less interest earned Total revenue is cash income from rates, government grants and subsidies, user charges, interest, investment income but excludes vested assets and developer contributions	
Example: Interest rate at 5% Interest earned $200k Total annual revenue $55m Annual rates income $35m Debt $70m Interest paid $3.5m Interest earned $0.2m Net interest $3.3m Net interest/total revenue (maximum is 20%) : ($3.3m/$55m) = 6% Net interest/annual rates income (maximum is 25%) : ($3.3m/$35m) = 9.4%	

Council's finance department will primarily manage the impact of interest rate risk by accessing only fixed interest rate borrowings. Council approval will be obtained should non fixed interest rate borrowings be sought.

3.5. Liquidity

Covenant	Limit
Net debt/total revenue	<175%
The example information in S3.4 (Total Revenue of $55m and Debt of $70m) and an assumed Bank Balance of $10m would provide a Net Debt/Total Revenue ratio of 109%.	
External debt plus committed loan facilities plus liquid investments divided by external debt	>110%
The example information in S3.4 (Debt of $70m) and an assumed Bank Balance of $10m would provide a ratio of 114%.	

3.6. Credit Exposure

Council will ensure that each of its parcels of debt:

- is likely to provide Council with sufficient finance so that no further debt will be required for at least 3 months; and
- is included in a report to Finance and Performance Committee; and
- considers the cost/benefit of being fixed or floating with regards to other existing parcels of debt and market conditions; and
- has a maturity date set such that no more than two parcels of debt mature in the same six month period

3.7. Debt Repayment

Council will repay borrowings when, or before, they fall due in accordance with the applicable borrowing arrangement by refinancing or from surplus general funds.

3.8. Management and Reporting

A summary of Council's debt portfolio will be provided to each Finance and Performance Committee and Risk and Assurance Committee.

This reporting will include commentary regarding Council's debt position compared to the position included in the Annual Plan and Ten Year Plan and compliance with its borrowing covenants.

3.9. Other Considerations

3.9.1. Foreign Exchange Exposure

Council will ordinarily source its borrowings from bank debt, LGFA or from domestic capital markets (fixed rate bonds, medium term notes, floating rate notes and commercial paper). It is not envisaged that Council will have any foreign exchange exposure other than standard commercial risk that exists should Council source procurement from overseas . Council approval will be sought should such exposure, of $1,000 or more, be identified.

3.9.2. Other Guarantees

Apart from LGFA, Council may provide financial guarantees to local organisations, groups or bodies for recreational and community purposes.

The total value of these non-LGFA guarantees will be capped as per the following covenant:

Covenant	Limit
Non-LGFA Guarantees as % of total annual rates	3%

3.9.3. Other Liabilities

Other RDC liabilities will be managed in the course of RDC's day-to-day operations.

4. Investment Policy

4.1. Introduction

Council will generally hold two types of investment:

1. commercial and
2. strategic

Commercial investments typically arise where council invests surplus funds with the primary objective of generating a commercial return whilst exposing council to an appropriate level of risk. Council, like most public authorities:

- recognises that holding commercial investments should reduce the reliance on rates, and
- has a focus on investments that have a relatively low risk, and
- recognises that lower returns are generally associated with the lower risk investments that will form part of its investment portfolio, and
- will generally not hold equity investments for purely commercial reasons.

Strategic investments typically arise where council invests funds in an opportunity where the primary objective is to generate a social, community or similar benefit or for legislative reasons. These investments are generally expected to return a lower financial return to council than commercial investments.

Council's investment plans will be clearly identified in its Long Term Plan and Annual Plans.

4.2. Requirements

S105 of LGA2002 states that the Investment Policy must state Council's policies regarding its investments, including:

- the mix of investments, and
- the acquisition of new investments, and
- an outline of the procedures by which investments are managed and reported to the local authority and
- an outline of how risks associated with investments are assessed and managed.

4.3. Mix of Investments

Council's investments will typically be in the form of:

- equity and other shareholding interests - these may include holding financial interests in LGFA, Council Controlled Organisations and other strategic investment opportunities; or
- property, including land, buildings and ground leases; or
- forestry investments; or
- financial investments.

Council will not invest in initiatives that are not consistent with its social, environmental, cultural or ethical values.

4.4. Acquisition of New Investments

New equity and forestry investments (and disposals thereof), not included in an Annual Plan or Long Term Plan, require prior council approval.

The placing of surplus cash and working capital in interest-bearing bank deposit accounts is regarded as business as usual activity and, for these purposes, is regarded as a banking activity and not an investing activity.

4.5. Management and Reporting (including Risk Management)

Where Council holds material Investments, a summary of Council's investment portfolio and its performance will be provided to Finance and Performance Committee on a quarterly basis.

This quarterly reporting will include commentary regarding investment returns compared to the amounts included in the Annual Plan and Ten Year Plan.

Where Council holds financial investments it may use mechanisms such as interest rate swaps, interest rate options and forward rate agreements to manage interest rate risk. In doing so, Council will seek external advice as required.

5. Other

5.1. Review

The Treasury Management Policy shall be reviewed by Council at least once every three years. The Local Government Act (S102) states that Council does not need to go through the special consultative process to amend the Liability Management Policy and the Investment Policy.

5.2. Reporting - Summary

- Council's Long Term Plan and Annual Plans show the planned future levels of Council debt and investment
- Each new parcel of debt will be reported to Council's Finance and Performance Committee
- A summary of Council's investment portfolio and debt position will be provided to Finance and Performance Committee. This reporting will include commentary regarding investment returns and debt position compared to the amounts included in the Annual Plan and Ten Year Plan
- Council's Treasury function will formally report any concerns relating to Council's investment portfolio or debt position to Risk and Assurance Committee and to Council.

5.3. Delegations

All delegations exercised under this Policy need to comply with the requirements of the Delegations Register and/or any sub-delegations that may be made by the CEO. All such sub-delegations made by the CEO must be clearly recorded.