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. Organisational and Responsibility Structure

An effective policy requires a clear understanding and definition of the structure of the treasury function and the responsibilities of all personnel involved in treasury management.

The following personnel are primarily responsible for the management of the treasury activities of the Council:

- Full Council (of elected members).
- Chief Executive ("CE").
- General Manager Corporate Services ("GMCS").
- Manager Finance and Partnerships ("MFP")
- Manger Financial Services ("MFS")
- Accountant ("ACT").

In addition to the above, the Council may retain on an ongoing or consultancy basis the services of an Independent Treasury Advisor.

The respective responsibilities of those personnel involved in the treasury function are detailed below.

Full Council

- Approves the policy document.
- Approves any risk management strategies outside the delegated authorities outlined in this policy document.
- Approves any amendments to the policy as recommended by the CE.
- Approves new borrowing facilities from the banking sector and capital markets upon the recommendation of the CE.
- Monitors and reviews the ongoing treasury risk management performance of the Council to ensure that the treasury function is operating in such a way as to ensure that the Council's strategic objectives are being met.

Chief Executive

- Approves any amendments to the Treasury Policy recommended by the GMCS, prior to submission to the full council for approval.
- Monitors and reviews the ongoing treasury risk management performance of the Council to ensure that the treasury function is operating in such a way as to ensure that the Council's strategic objectives are being met.

Group Manager Corporate Services

- Organises all new or amended borrowing facilities which shall then be submitted to the Council for approval and then to the full Council for final approval.
- Reviews the Treasury Policy every three years or more regularly if required which shall then be submitted to the CE for approval and then to the full Council for final approval.
- Develops all interest rate risk management strategies in consultation with the MFP and/or MFS.
- Determines in conjunction with the MFP and/or MFS the level of future core debt is to be used for interest rate risk management purposes.
- Reports to the full Council and CE on overall treasury risk management issues on a regular basis.
- Manages the funding and liquidity activities of the Council.
- Maintains lender relationships with the banks and the capital markets including the LGFA.
- Has the authority to undertake all treasury transactions which will include but not be limited to the following:
  - Funding from bank facilities and the capital ~~markets~~markets, including the LGFA.
  - Interest rate derivative transactions relating to the hedging of the Council's debt.
  - Placing of deposits in the short term money market.
  - Investing in bonds in the fixed interest market.

- Monitors and reviews the ongoing treasury risk management performance of the Council to ensure compliance with the policy parameters.
- Reviews quarterly treasury reports.
- Checks external counterparty ~~advices~~advice on treasury transactions to records generated internally by other staff.

Manager Finance and Partnerships

- Assists the GMCS with the development of all interest rate risk management strategies.
- Determines in conjunction with the GMCS the level of future core debt is to be used for interest rate risk management purposes.
- Has the authority to undertake all treasury transactions which will include but not be limited to the following:
  - Funding from bank facilities and the capital ~~markets~~markets, including the LGFA.
  - Interest rate derivative transactions relating to the hedging of the Council's debt.
  - Placing of deposits in the short term money market.
  - Investing in bonds in the fixed interest market.

Manager Financial Services

- Assists the GMCS with the development of all interest rate risk management strategies.
- Determines in conjunction with the GMCS the level of future core debt is to be used for interest rate risk management purposes.
- Prepares all relevant Treasury reports.
- In the absence of the
- Has the authority to undertake all treasury transactions which will include but not be limited to the following:
  - Funding from bank facilities and the capital ~~markets~~markets, including the LGFA.

- Interest rate derivative transactions relating to the hedging of the Council's debt.
- Placing of deposits in the short term money market.
- Investing in bonds in the fixed interest market.

Accountant

- Prepares end of year financial reports
- Monitors adherence to LGFA lending covenants
- Assists the MFS with the preparation of treasury reports.

~~3.~~4. Liability Management Policy

~~3.1.~~4.1. Introduction

The Liability Management Policy applies to the following liability arrangements (~~ie~~i.e. 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~~e.g. hire purchase, credit transactions, deferred payment and lease arrangements) are managed in the course of C~~c~~ouncil'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.~~4.2. 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.~~4.3. LGFA 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, investm 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%	
Net debt/total revenue	<175%
The example information in S3.4 (Total Revenue of $55m and Debt of $70m) and an assumed Bank Balan $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 114%.	

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~~non-fixed interest rate borrowings be sought.

~~3.5.~~4.4. 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%.~~	

4.5. Interest Rate Risk Management

Interest rate risk management has the objective of containing ~~the~~ Council's interest rate exposures in order to:

- Give a sufficient level of certainty to ~~the~~ Council's funding costs while, at the same time, allowing the Council to participate if interest rates and credit spreads move favourably.
- Control variations in interest expense for the debt portfolio from year to year, taking into consideration any relevant budgetary assumptions.
- Recognise ~~the~~ Council's exposure to the local and international economies and maintain sufficient flexibility in its interest rate risk management profile to enable the Council to respond when considered appropriate.

For the purposes of interest rate hedging, core debt projections should be supported by budgetary analysis contained in the Annual Plan and the Long Term Plan. Core debt is defined as the level of current and projected future debt as determined by the GMCS in consultation with the MFP and the MFS.

The Council will maintain fixed interest rate cover of its core debt within the control limits detailed in the table below.

Fixed Rate Cover Percentages		
Period	**Minimum**	**Maximum**
0 to 2 years	40%	90%
2 to 4 years	20%	75%
4 to 8 years	0%	60%

4.6. Approved Interest Rate Risk Management Instruments

The approved derivative interest rate risk management instruments are as follows with definitions and examples of these instruments contained in Appendix 3.

- Fixed interest rate swaps, including forward starting swaps.
- Interest rate options – includes caps, swaptions and collars. For a collar the amount of the sold option must match the amount of the purchased option.

Options on hedging floating rate debt with an exercise rate greater than 2.00% above the equivalent period interest rate at the time of inception cannot be counted as part of the fixed rate cover percentage calculation. For example a two year cap at 4.00% would only count as a fixed rate hedge if the underlying swap rate at the time of inception was greater than 2.00%.

In addition to the above derivative instruments, Fixed Rate Term Loans and Fixed Rate Bonds may also be used to manage the Council's interest rate risks.

4.7. Funding Risk Management

Funding risk is defined as an inability to secure access to external lines of credit sufficient to enable the Council to achieve its strategic short term and long term objectives where the financial requirements to achieve those goals exceed the funds being generated from operating activities.

Funding risk covers both working capital requirements and core debt.

- The Council must approve all new debt funding facilities and/or revision to the parameters of existing debt funding facilities.
- To ensure that all of the Council's debt is not exposed to excessive refinancing risk at any one time, where practicable no more than 40% of all debt facilities should mature within a rolling ~~twelve-month~~twelve-month period. Compliance with this provision is not required if total external debt is less than $5.0 million.
- The GMCS must renegotiate/replace maturing debt funding facilities on a timely basis. Specifically, the GMCS must obtain an indicative letter of offer no later than two months before the maturity of any bank facility.

Council may ~~utilise the~~utilise the following instruments as sources of debt funding:

- Bank overdraft.
- Committed bank funding facility.
- Committed LGFA stand-by facility.
- LGFA bonds and loans – fixed and floating rate.
- LGFA commercial paper.

~~3.6.~~4.8. Counterparty 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~~

The management of counterparty credit risk in relation to the Council's borrowing and interest rate risk management activities has the objective of minimising financial loss through the default of a financial counterparty, usually a financial institution, due to the financial insolvency of the counterparty, the inability of the counterparty to perform due to country decree, or any other circumstance such as an adverse market event. The purpose of counterparty credit limits is to limit the loss that the Council may incur if a counterparty was to default or be unable to meet its obligations.

The Council's exposure to counterparty credit risk will be managed by entering into financial market transactions and funding arrangements with only approved counterparties. Approved counterparties are defined as follows:

- An approved counterparty must be a New Zealand Registered Bank or financial institution with a long term credit rating of 'A' or above by Standard & Poor's ("S&P"), or the Moody's Investors Service ("Moody's) or Fitch Ratings ("Fitch") equivalents.

~~3.7.~~4.9. 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.~~4.10. Management and Reporting

A summary of Council's debt portfolio will be provided to each Finance and Performance Committee and Risk and Assurance Committee. The report shall contain the following.

- Total debt facility utilisation, including any debt sourced from a bank, the capital markets and the LGFA. ~~.~~
- Interest rate maturity profile against percentage hedging limits.
- New hedging transactions completed - interest rate risk management.
- Weighted average cost of funds.
- Funding profile against the policy limits.
- Liquidity profile against the policy limits.
- Statement of policy compliance.
- Commentary on economic conditions and the debt markets.

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.~~4.11. Other Considerations

~~3.9.1.~~4.11.1. 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 $50~~1~~,000 or more, be identified.

~~3.9.2.~~4.11.2. 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.~~4.11.3. Other Liabilities

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

~~4.~~5. Investment Policy

~~4.1.~~5.1. Introduction

Council will generally hold two types of investment:

1. commercial and
2. strategic

Commercial investments typically arise where C~~c~~ouncil 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 C~~c~~ouncil 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 C~~c~~ouncil than commercial investments.

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

~~4.2.~~5.2. 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.~~5.3. 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. A matrix containing the Authorised Investment Criteria for financial market investments is contained In Appendix 1

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

~~4.4.~~5.4. 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~~business-as-usual activity and, for these purposes, is regarded as a banking activity and not an investing activity.

~~4.5.~~5.5. 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.~~6. ~~Other~~APP

~~5.1.~~6.1. 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.~~6.2. 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.~~6.3. 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.

APPENDIX 1: PROCEEDURES FOR FINANCIAL MARKET RANSACTIONS

Introduction

Arranging and agreeing transactions with external counterparties must occur within a framework of control and accuracy. It is vital to the internal control of the Council that all transactions are captured, recorded, reconciled and reported in a timely manner within a process that has the necessary checks and balances so that unintentional errors and/or fraud are identified early and clearly. Movements in financial market variables can be rapid and exposures to such movements that are not known due to inadequate transaction recording and reporting systems should not be allowed to occur.

Transaction Origination

The following authorities shall apply in respect of the execution of treasury transactions on behalf of the Council that may commit it to all the related contractual obligations under these transactions. All such transactions are generally originated and agreed either verbally via the telephone or by email. Therefore it is important that procedures are in place to control the activity.

Funding from Banks, the LGFA and the Capital Markets and Entering into Financial Market Investment Transactions

- Funding from bank facilities, the capital markets and the LGFA or entering into financial market investment transactions with an approved counterparty entails the personnel of the Council, who are authorised to undertake these activities, verbally or by email agreeing with the counterparty the amount, type of debt or investment instrument, term selection and rate accepted.
- Once the deal is agreed details of the transaction shall be entered on the relevant internal system.
- Once the confirmation of the transaction is received the details should then be checked by someone other than the person who entered into the transaction in the first place to ensure that the external confirmation is in accordance with the details on the Council's internal system.

Any discrepancies in the above procedures should be immediately communicated to the counterparty so that the correct details of the deal can be agreed. A report on the error shall be prepared by the person who transacted the deal in the first place and submitted to the GMCS for sign-off. Where the GMCS has transacted the deal, the report shall be submitted to the CE. In this way there, is a clear division of responsibility and a self-checking system.

Interest Rate Derivative Products

Transacting interest rate derivative products with an approved counterparty entails the personnel of the Council who are authorised to undertake these activities, verbally or by email agreeing with the counterparty the amount, term selection and rate accepted.

- Once the deal is agreed details of the transaction shall be entered on the relevant internal system.

- Once the bank confirmation of the transaction is received, the details should be checked by someone other than the person who entered into the transaction in the first place to ensure that the bank confirmation is in accordance with the details on the internal system.

Any discrepancies in the above procedures should be immediately communicated to the counterparty so that the correct details of the deal can be agreed. A report on the error shall be prepared by the person who transacted the deal in the first place and submitted to the GMCS for sign-off. Where the GMCS has transacted the deal, the report shall be submitted to the CE. In this way there, is a clear division of responsibility and a self-checking system.

Settlement Procedures

All transactions are to be confirmed and reconciled to external confirmations and internal documentation before settlement.

All transactions processed through the company bank accounts must conform to the Council's internal procedures and ~~controls, and~~controls and be reconciled to internal documentation and external confirmation(s).

APPENDIX 2: AUTHORISED INVESTMENT CRITERIA FOR FINANCIAL MARKET INVESTMENTS

Authorised Asset Classes	Maximum limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – S&P (or Moody's or Fitch equivalents)**	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government or Government Guaranteed	100%	Government Stock Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	50%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'BBB' or 'BBB+' S&P ST rating of 'A-1+' or LT 'A-' or better	$1 million $3 million
New Zealand Registered Banks	100%	Call/Term Deposits Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'BBB' or 'BBB+' S&P ST rating of 'A-1+' or LT 'A-' or better	$3 million $10 million
State Owned Enterprises	33%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'BBB' or 'BBB+' S&P ST rating of 'A-1+' or LT 'A-' or better	$1million $3 million
Corporates	25%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'BBB' or 'BBB+' S&P ST rating of 'A-1+' or LT 'A-' or better	$1 million $3~~2~~ million
Financials	25%	Commercial Paper Bonds/MTNs/FRNs	S&P ST rating of 'A-1' or LT 'BBB' or 'BBB+' S&P ST rating of 'A-1+' or LT 'A-' or better	$1 million $2 million