Mackenzie
DISTRICT COUNCIL

Treasury Management Policy

REVISION HISTORY

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Department:	Finance
Responsible Officer:	Manager Finance
Sponsor:	General Manager – Strategic Financial Management and Commercial Services
Approved by:	Chief Executive Officer
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1.Policy Objective

The Treasury Management Policy includes the Investment Policy and the Liability Management Policy and details the specific policies in respect of all treasury activity to be undertaken by Mackenzie District Council. Compliance with these policies enables the Council's treasury risks to be prudently managed. Council is required by the Local Government Act 2002, s102(2), to have an Investment Policy, and a Liability Management Policy.

Part 1 - Investment Policy

The Investment Policy sets out the objectives of Council's investing activities and the actions required to obtain each objective. The contents of the Policy are defined by LGA 2002 s105.

Part 2 - Liability Management Policy

The Liability Management Policy sets out the objectives of Council's borrowing activities (external and internal) and the actions required to obtain each objective. The contents of the Policy are defined by LGA 2002 s104.

Part 3 – Accountability

This section details the day-to-day administration of investments and borrowing of Council, including the controls used to ensure a clear audit trail of treasury activity and the reporting required of the Manager Finance to Council.

2.Part 1-Investment 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. Council has investments in the following areas:

• Cash and cash equivalents

• Investment property

• Forestry • Shares

• Other financial assets

These assets form part of the Council's total assets, and the income provided is used to offset rates. It is important to ensure the risk of capital loss is minimised, and the maximum return is achieved while minimising this risk. This policy sets out how this will be achieved.

Introduction

The Council recognises that as a responsible public authority all investments held should be low risk. The Council also recognises that low risk investments generally mean lower returns. The Council's overall appetite for risk, and specific appetite for financial risk, is summarised in the Risk Appetite Statement which is reviewed annually.

Policy Objectives

The objectives of the Investment Policy are to ensure that:

- Council's funds are safeguarded and investments and borrowings selected are not detrimental to other areas of the Council's operations. This requires that policy guidance is established to define the investment and borrowing risks acceptable to Council
- Council's investment and borrowing activities satisfy the legislation controlling Council's ability to invest and borrow, and the prudent person concept as per the Trustee Amendment Act 1988
- Council's investments, both in financial instruments and physical assets, are managed to maximise the return, given the maturity profile chosen and within acceptable risk constraints.
- Additions and disposals of investments are controlled to achieve the greatest benefit for Council while minimising risk.
- The use of income and gains made by investments is applied as set out in the Council's Revenue and Financing Policy
- Council is adequately informed of investments by way of regular reporting.
- Any existing investments held by Council, that do not meet the criteria contained elsewhere in this document, are reviewed individually and are either disposed of or some justification made in writing for their retention and that they be reviewed on a regular basis
- Potential capital losses due to interest rate movements are managed if investments need to be liquidated before maturity
- Relationships are maintained with financial market participants, thus enabling the Mackenzie District Council to carry out its investment activities in an efficient and practical way.

Policy Setting and Management Procedure

The Council approves policy parameters in relation to investment activities and exercises on-going governance over its investments. The Chief Executive Officer has overall responsibility for the operations of the Council.

The General Manager Corporate Services has financial management responsibility over the Council's investments, including all treasury activity.

Operational management of the forestry investment is provided by the Property and Commercial Business Unit.

The Commercial and Economic Development Committee is responsible for approving commercial and investment strategy and monitoring strategy execution.

The investment and cash management activities are managed centrally through the finance function. The finance function is broadly charged with the following responsibilities:

- To manage investments within its strategic objectives and ensure that surplus cash is invested in liquid and credit worthy instruments.
- To manage the impact of market risks such as interest rate risk by undertaking appropriate hedging activity in the financial markets.
- To minimise adverse interest rate related increases on ratepayer charges and maintain overall interest revenues within budgeted parameters.

- To manage the overall cash and liquidity position of the Council's operations.
- To provide timely and accurate reporting of treasury activity and performance.

The Audit and Risk Committee oversees and monitors the risks arising from its treasury activities to ensure consistency with the Long Term Plan, to evaluate the finance function's effectiveness in achieving its objectives and for monitoring compliance and performance of the treasury activities.

The Council can appoint an independent advisor to assist in the management of the financial market exposures that the Council is subjected to. The scope of the appointment and the parameters within which the advisor operates, are determined by the General Manager Corporate Services.

Investment Mix

The Council manages a portfolio of investments comprising:

- Loan advances
- Equity investments, including corporate investments and other shareholdings
- Property investments incorporating land, buildings and a portfolio of ground leases
- Forestry investments
- Treasury investments in both short, medium and longer term liquid investments.

This combination of investments supports Council's desire to minimise risk while maintaining options to choose investment based on less commercial criteria. An example of this is ownership of elderly persons housing, which is held for the purposes of providing a social benefit to the community.
For the purpose of managing investments they are divided into four separate categories:

- • Working capital
- • Investment funds
- • Property I (intended to gain a market return, including forestry)
- • Property II (intended for community use or held for strategic purposes and for which gaining a market return is not the highest priority).

1. Loan Advances

1.1 Nature of Investment / Rationale for Holding

In special circumstances, the Council will provide loan advances for sporting, community development and other reasons. Examples of these loans have been to the Twizel Basketball Club to purchase equipment for their use in the Twizel Events Centre and the debenture that the Council previously held with High Country Health Limited, a company formed to operate the Twizel medical practice.

Interest rates are set at the average of the Councils' bond portfolio rate, recalculated annually. Council must approve all loan advances on the basis of advice provided by staff.

Interest earned is allocated to the general rate.

The Council approves any repayment; proceeds on repayment are used to reimburse the reserve from where it was originally taken, or otherwise are taken to the ratepayers' equity account and used in achieving the Council's strategic objectives. The policy is to seek early retirement of loans wherever possible, otherwise the Council holds loan investments until maturity.

1.2 Risk Management

The primary risk is that the borrower defaults on the payment of interest and principal amounts owing. Where possible the Council seeks security for any loans provided. All loans to sporting bodies are subject to chattel security.

Should loan repayments go into arrears, the Council will take immediate steps to retrieve the monies owing.

1.3 Management/Reporting Procedures

Performance of these investments is reviewed quarterly to ensure objectives are being achieved and that interest and principal repayments are being made in accordance with the loan agreement.

2 Equity Investments

Equity investments include the following:

- investments held in Council Controlled Organisations (CCOs) or Council Controlled Trading Organisations (CCTOs)
- Shareholdings held directly
- Public/Private Partnerships
- Joint Venture Partnerships
- Local Government Shared Services

The Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the Long Term Plan. Equity investments may be held where there is strategic community value. The Council will acquire equity investments as outlined in the Long Term Plan and on the commercial merits of the proposal. All equity investment purchases will require prior Council approval.

The Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and the stated philosophy on investments.

Any purchase or disposal of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring. Dividends received from CCOs/CCTOs and unlisted companies not controlled by Council are credited to general funds and help reduce general rates.

Proceeds from the disposal of equity investments is used firstly to repay any debt relating to the investment. Any surplus remaining may be used to reinvest in other equities, and/or used to fund approved capital projects and/or reduce other Council debt.

Interim and final dividends are taken to the investment trading account to help reduce rates.

The Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant Council-committee, monitors the performance of its equity investments, at least, annually to ensure that the stated objectives are being achieved. The Council seeks professional advice regarding its equity investments when it considers this appropriate.

2.1 Nature of Investments

The Council has the following equity investments:

- Mackenzie Holdings Limited (MHL)
- Alpine Energy Limited
- Downlands Water Supply Scheme

2.1.1 Mackenzie Holdings Limited - Nature of Investment/Rationale for Holding

Mackenzie Holdings Limited was established as a wholly owned subsidiary in 2004 charged with developing the Pukaki Airfield as an operational airfield. The operations have been transferred to the Property and Commercial Business Unit with governance from the Commercial and Economic Development Committee. Mackenzie Holdings Limited is not operational. It has been exempted under section 7 of the Local Government Act 2002 from the normal reporting requirements.

2.1.2. Alpine Energy Limited - Nature of Investment/ Rationale for Holding

Alpine Energy Limited was created under the Energy Companies Act 1992, the Council having 2,049,870 $1 shares representing a minority 4.9% shareholding. The company supplies electricity to the South Canterbury region and was created from the former South Canterbury Electric Power Board. The Council views this investment as a strategic asset ensuring the cost-effective distribution of electricity to the District.

Alpine Energy is made up of a number of discrete “businesses” which operate independently of each other, and which attract varying degrees of risk including electricity distribution and electrical contracting. Alpine Energy’s main business is electricity distribution where the risks are considered to be low given the high cost of replicating an electrical network. Alpine Energy manages its other business risks through separate companies, which limits its liability. Within each business the respective boards manage the operational risks.

2.1.3 Downlands Water Supply Scheme - Nature of Investment/ Rationale for Holding

The Downlands Water Supply Scheme is a Joint Venture with Timaru District Council and Waimate District Council. The Downlands Water Supply Scheme is primarily a stock water scheme which also supplies domestic drinking water to rural properties within the Timaru, Waimate and Mackenzie Districts. Thet Council has a 4% stake holding and views this investment as a strategic asset ensuring the cost-effective distribution of water to the District.

The statement of corporate intent is approved annually and the Council monitors the investment through unaudited six monthly and audited annual financial statements.

3. Property Investments

3.1 Nature of Investment

In addition to commercial and residential property, the Council has landholdings which have been acquired in a number of ways. Any surplus land is either leased or held intending to be sold at market valuation or at an agreed value satisfactory to the Council. Definitions and processes for the sale and acquisition of property identified as surplus is set out in the Property Sales and Acquisitions Policy.

3.2 Rationale for Holding

All property held must contribute towards the Council’s strategic objectives. Property ownership is reviewed through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving Council services. The Council generally follows a similar assessment criterion in relation to new property and land investments.

The Council approves any disposition of property or landholdings. With the exception of property sales through the activities of the Pukaki Airport, which is held for future airport development, sale proceeds are taken to the real estate reserve and used in achieving the Council's strategic objectives.

Property rentals are charged at commercial levels. All income including rentals and ground rent from property are taken to the property trading account and are used to offset the general rate.

3.3 Risk Management

The capital value of property and land is impacted by changes in economic and financial factors e.g. business confidence, growth, and interest rates. The Council reviews the performance of its property investments through annual reporting.

4. Forestry Investments

4.1 Nature of Investment/ Rationale for Holding

The Council has approximately 953 hectares of forestry plantation and has historically invested in forestry, as it provides diversification within the portfolio and good long-term inflation adjusted returns. Forestry plantations are held as long-term investments based on net positive discounted cash flows, factoring in projected market prices, annual maintenance and cutting costs.

Any harvesting outside the agreed Annual Plan and Long Term Plan requires governance approval from the Commercial and Economic Development Committee. Proceeds from the disposition of forestry investments are applied:

- To repay district wide funded debt and/or
- To repay of community funded debt and/or
- To fund pre-approved capital expenditure items and/or
- To re-afforest existing forestry blocks and/or
- To purchase new forestry blocks or purchase new and/or
- To purchase treasury investments from which interest accrued is to be used for general purposes and/or
- To offset the general rate by Council resolution.

Income from the forestry operation is reinvested in forestry through a separate Forestry Reserve.
Forestry Reserves received are used to reduce general rates. Expenditure in maintaining the forestry investment is expensed in the year it is incurred.

4.2 Risk Management

The most significant risk relates to product price returns, which are dependent on world markets. This means that forestry returns are dependent on commodity prices and carbon markets driven by other countries. Where there is a short-term downward spike in international stump prices, the Council defers harvesting until such time as it becomes economically viable.

4.3 Management and Reporting Procedures

The investment is managed by the Property and Commercial Business Unit with governance from the Commercial and Economic Development Committee. A forester and forest manager are employed on contract to report on the plantation management regime and report to the Property and Commercial Business Unit Manager on a regular basis.

5. Treasury Investments

5.1 Nature of Investment

The Council invests in approved financial assets, which excludes dealing in shares. The Council's investments include the following financial instruments:

- Government investments,
- New Zealand Registered bank investments,
- Local Authority investments.
- State Owned Enterprises (SOE) investments,
- Corporate investments
- Financial Institution investments

5.2 Rationale for Holding

The Council maintains a portfolio of financial investments to:

- Invest proceeds from the sale of assets,
- Invest amounts allocated to general and special fund reserves e.g. disaster reserve,
- Invest funds allocated for approved future expenditure, and
- Invest surplus cash and working capital funds.

Financial investments are normally held to maturity and interest earned is allocated to the general rate.
Council can internally borrow from reserve funds in lieu of external borrowing to meet future capital expenditure requirements where this is appropriate. See detail in the Liability Policy.

5.3 Investment Objectives

To better protect its investments the Council is mindful of and manages the following risks:

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5.3.1 Credit and Counterparty Risk

Only credit worthy counter parties are acceptable. Credit worthy counter parties are selected on the basis of their S&P Global Ratings (S&P) ratings, or the Moody's Investor Services ("Moodys") or Fitch Ratings ("Fitch") equivalents. Credit ratings are monitored on a quarterly basis by the General Manager Corporate Services from updated advice from the Council's investment advisors.

Credit risk is minimised by placing maximum limits for each broad class of non- Government issuer, and by limiting investments to registered banks, strongly rated SOEs, corporates and Financials within prescribed issuer and portfolio limits.

Refer to the table in Appendix A – Authorised Investment Criteria for Financial Market Investment Activities for guidance on credit rating thresholds for specific asset classes.

5.3.2 Liquidity Risk

Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Furthermore, the Council requires that the duration of their portfolio must be within a range of 25% shorter or longer than the benchmark portfolio set in conjunction with their investment adviser. Compliance with this requirement is not necessary if the nominal value of the portfolio is less than $5.0 million.

5.3.3 Interest Rate Risk Management

The General Manager Corporate Services determines the appropriate interest rate profile to adopt for investments, after reviewing on a regular basis, cash flow forecasts incorporating plans for approved expenditure and strategic initiatives, monitoring the interest rate markets, evaluating the interest rate outlook and seeking appropriate advice where necessary.

To minimise the exposure to changes in interest rates the General Manager Corporate Services may use risk management instruments to protect investment returns and to change interest rate and maturity profiles. The use of interest rate risk management instruments must be approved by Council.

5.4 Management and Reporting Procedures

The General Manger Corporate Services is responsible for developing the investment strategy. During the annual budget round the General Manager Corporate Services recommends a formal investment strategy to the Chief Executive Officer. Thereafter, the General Manager Corporate Services implements the investment strategy on an ongoing basis, considering cash flow forecasts, the outlook for interest rates and credit spreads, the shape of the yield curve and where necessary seeks appropriate advice.

The Council reviews its investments portfolio annually and manages the portfolio according to the objective performance measures determined during the annual budget round..

5.5 Foreign Exchange Policy

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

5.6 Cash Management

From time to time, the Council has cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the finance function. Cash management activities must be undertaken within the following parameters:

Cash management instruments are limited to:

- Call deposits with registered banks.
- Negotiable instruments with a maturity not more than three months at the time of inception.
- Term deposits with registered banks.

Cash may only be invested with approved counterparties as detailed below.

- If practical, a targeted minimum of $250,000 is invested at call.
- An optimal daily range of no more than $100,000 is targeted for in the Council's current account.

Interest rate risk management on cash management balances is not permitted.

6.New Zealand Local Government Funding Agency (LGFA)

The Council may invest in shares and other financial instruments of the New Zealand LGFA and may borrow to fund that investment. The objective in making such investment will be to:

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

Because of the dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternate investments.

If required in connection with the investment, the Council may subscribe for uncalled capital in the LGFA.

Clarification and Breaches

This policy represents the formal policy and expected standards of the Mackenzie District Council. Appropriate approvals need to be obtained prior to any deviation from the policy.

Elected Members and employees are reminded of their obligations under the Council Code of Conduct to give full effect to the lawful policies, decisions and practices of the Council.
Please review and update the table below

Appendix A – Authorised Investment Criteria for Financial Market Investment Activities

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%	• Short term deposits / Bank Bills / Commercial Paper	Short term S&P rating of A1 or better	$10.0 million
		• Bonds / MTNs / FRNs	Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$1.0 million $2.0 million $3.0 million $4.0 million
State Owned Enterprises	70%	• Commercial Paper	Short term S&P rating of A1 or better	$3.0 million
		• Bonds / MTNs / FRNs	Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$1.0 million $2.0 million $3.0 million $4.0 million

3.Part 1-Liability Management Role

Purpose

The Liability Management Policy focuses on borrowing (external and internal), as this is the most significant component of Council's liabilities and exposes the Council to the most significant risks. The contents of a Liability Management policy are set out in LGA 2002, s104.

The Council raises debt to finance longer term asset creation and renewal and as a means of creating intergenerational equity. This policy details how Council will raise debt funding and minimise the cost of debt.

Liabilities

Council is faced with both short term (current) liabilities and long-term liabilities. Current liabilities are those obligations that generally arise from day to day operations (such as trade creditors), and would normally be expected to be settled within a six month period. These liabilities are planned for, and met, from Council's working capital cash flow management.

This policy is more focused on the long-term liabilities (loans) which have arisen from purchasing or constructing assets.

This policy sets out the types of debt instruments that are appropriate and the rules to minimise the interest, credit and liquidity risks resulting through borrowing.

Principles

The Council approves borrowing by resolution arising from the Long Term Plan and Annual Plan process. Projected debt levels are ascertained from cash flow forecasts prepared during these planning processes. The Council raises debt for the following primary purposes:

- Borrowing to fund capital expenditure and equity investment, including borrowing to fund Council Controlled Organisations (CCOs).
- Specific debt associated with "special one-off" projects and capital expenditure
- To maintain intergenerational equity
- Operating cash management, through overdraft facilities

The Council does not undertake any treasury activity which is unrelated to its underlying cashflows or is purely speculative in nature.

Policy objectives

The objectives of the Policy are to ensure that:

- The Council's borrowings are not detrimental to other areas of the Council's operations. This requires that policy guidance is established to define the borrowing risks acceptable to Council.
- Borrowing activities satisfy the legislation controlling the Council's ability to borrow, and the prudent person concept as per the Trustee Amendment Act 1988.
- Borrowing is managed to minimise total borrowing costs given the maturity profile chosen and within acceptable risk constraints.
- The Council can meet its borrowing obligations in an orderly manner as and when they fall due, in both the short term and

- long-term, through appropriate liquidity and funding risk management.
- Appropriate funding facilities are arranged, ensuring these are at market related margins utilising bank debt facilities and/or capital markets (including LGFA) as appropriate.
- The Council stays within its debt covenants contained in the LGFA agreements and the Financial Strategy
- Lender relationships are maintained and the Council's general borrowing profile in the capital markets enables Council to always fund itself appropriately.
- Council is adequately informed of borrowing by way of regular reporting.

Internal borrowing/ investing

Liquid assets are not required to be held against all special funds and reserve funds and the Liability Management Policy explicitly allows for internal borrowing against the investment pool that Council maintains. This may be in lieu of external borrowing or may be used together with external fund raising. In arranging internal borrowing the Council will seek to build repayment flexibility into the loan structure and manage the risks associated with interest rate movement through the use of flexibly structured repayment loan tables.

Policy implementation

Minimising interest rate risk

The choice of a debt portfolio's maturity profile is one of the keys to management of interest rate risk. The term of debt should be selected depending on the volatility of the particular market as the longer the term the greater the effect of any movement in interest rate.

Risk management products to manage the underlying interest rate risk, (hedging), should be utilised as appropriate. Specialist external advice should be sought when using these products.

Minimising credit risk

All bank borrowing and interest rate hedging transactions must be undertaken with the New Zealand Government Funding Agency, LGFA), or a New Zealand registered bank with a minimum Standard and Poor's long-term credit rating of at least A+ (or the Moody's or Fitch rating equivalents).

The Council will satisfy itself in all its borrowing transactions that counterparties are financially adequate, have an appropriate industry standing, and have an appropriate track record to give the Council reasonable certainty that obligations under concluded contracts will be performed.

Liquidity

The liquidity ratio is the total current assets that can quickly be converted to cash - cash, debtors, and pre-approved Committed Cash Advance Facilities (CCAF), divided by the current liabilities that need to be paid. The Council's policy is to maintain a liquidity ratio of a minimum of 1.1:1 at all times, (which means $1.10 is available for every $1.00 payable).

Note: Council's unused Committed loan facilities are to be considered as a liquid and current asset.

Meeting legislative requirements

The Council's debt management must meet all relevant legislative requirements.

The concept of the prudent person as described by the Trustee Amendment Act 1988 must always be to the fore when considering risk. Ratepayers, in their own capacity, can make decisions on borrowing but may have different concerns regarding the types of debt Council takes on. The Council is not an organisation whose function primarily is dealing in liability management.

Council officers and elected members have a duty to ensure that borrowings are undertaken as per the criteria set out in this policy.

Controls and procedures for borrowing

Internal controls and procedures for borrowing are to be clearly documented. These procedures are detailed in separate *Guidelines to the Treasury Management Policy*.

Management of borrowing

When entering into a borrowing transaction, factors such as the type and term of the debt, its all-up cost (including any ancillary internal and external costs) and its compatibility with the existing debt portfolio shall be considered.

At various times it may be possible to refinance a debt in such a way as to reduce the total costs of the transaction. Any such refinancing must consider the cost/benefit characteristics of the proposed transaction and how the transaction fits within the context of other sections of this policy.

Council will maintain an overdraft facility of at least $ XXXXXXX for day to day cash management purposes.

Where possible, Council will secure borrowing against rates revenue to gain lower borrowing costs. Physical assets will only be pledged where:

- There is a direct relationship between the debt and the asset purchase/construction e.g. operating lease or project finance
- Council considers a pledge of physical assets to be more appropriate than a pledge of rates.

Debt instruments

The Council can borrow using the following instruments and methods:

- Committed bank facilities
- Uncommitted bank facilities
- Commercial Paper issued by Councils or by LGFA
- Floating Rate Notes
- Medium Term Notes

Borrowing limits

Council has an obligation to report against the financial prudence benchmarks set out in the Local Government (Financial Reporting and Prudence) Regulations 2014. In addition, the Council has four further debt benchmarks which are used to satisfy financial covenants agreed with LGFA.

Measure	Limit
Net Debt/Total Revenue	<175%

Net Interest/ Total Revenue	<20%
Net Interest/ Annual Rates Income	<25%
Liquidity	>110%

As detailed out in the Council's Financial Strategy, the Council has set the following limits on its level of debt:

- External borrowing will not exceed $15 million
- Gross interest expense will not exceed 20% of total revenues

Please confirm borrowing and interest as % of revenue %

Borrowing

(Note: For these purposes 'borrowing' does not include hire purchase, deferred payment or the giving of credit for goods and services where the transaction is for less than 91 days or does not exceed $500,000. Guidelines for Borrowing Limits are in the Financial Strategy document.)

Council approves, by resolution, the external borrowing requirement (including financial leases) for each financial year during the annual planning process. A resolution of Council is not required for indebtedness in connection to hire purchase, deferred purchase or the giving of credit, the aggregate amount Council determines as not being so significant as to require specific authorisation is $50,000, or where the period of indebtedness is less than 91 days.

Council must confirm all new loans required to fund expenditure that has arisen subsequent to the Annual Plan. In approving new debt Council considers the impact on its borrowing limits as well as the size and the economic life of the asset that is being funded and consistency with Council's Long Term Plan.

1.1 Borrowing Principles

The following principles are embedded within the policy:

- Debt will be used as a residual source of funds after Council has considered all other available options.

- The mix of debt, reserve and revenue funding will be determined by Council.
- Debt raised will be repaid over the economic life of the asset generally restricted to a maximum of 20 years but may be extended to 30 years.
- Interest costs will be treated as part of the operational expenditure and will be funded annually from operating revenue.
- The repayment of principal on debt will be funded from operating revenue, although Council may resolve to repay loans from other capital sources.

Fixed Rate Hedging Percentages

The table below outlines the minimum and maximum hedged or fixed rate exposure requirements within various time buckets. The actual hedging percentages in place, within these bands, will be determined, and reviewed on a regular basis.

	Minimum Fixed Rate	Maximum Fixed Rate
Less than 2 years	50%	100%
2 years to 5 years	25%	80%
5 years to 10 years	0%	60%

Fixed rate hedging in excess of 10 years is permissible provided that it is carried out in conjunction with, or aligns with, an underlying debt instrument.

When managing the interest rate risk of the Council the hedging percentages above relate to total core debt. Core debt cannot exceed borrowing projections as per the Annual Plan or Long Term Plan with the actual quantum used for policy parameters to be reviewed annually.

The hedging parameters are cumulative. For example, if total debt was $25 million, $5 million of hedging entered into for a period of five years would increase the hedging profile for all time buckets up to five years, by 20%.

Fixed rate debt is defined as any debt that has an interest rate reset beyond 3 months. The hedging parameters are dependent on the Reserve Bank of New Zealand continuing to implement monetary policy through adjustments to the Official Cash Rate (OCR).

The Council decides the interest rate risk management strategy by monitoring the interest rate markets on a regular basis, evaluating the outlook for short term rates in comparison to the rates payable on fixed rate borrowing.

Authorised interest rate risk management instruments

The following interest rate risk management derivative instruments may be used for interest rate risk management activity.

- Forward rate agreements
- Interest rate swaps
- Swaptions
- Interest rate collar type option strategies in a ratio not exceeding 1:1.

Selling interest rate options for the primary purpose of generating premium income is NOT permitted because of its speculative nature.

The use of Interest rate risk management instruments must have the formal prior approval of the General Manager Corporate Services.

Debt repayment

Council will make provision for the repayment of debt over the life of the asset for which the loan has been raised, however, it is not possible or practical in many circumstances to match the life of the asset with the underlying debt. This will be achieved either by making regular loan repayments or through the provision of sinking funds to extinguish debt at a future time.

Management of funding and liquidity risk

The Council must ensure that it has sufficient funds available to meet its obligations as they fall due. Liquidity is improved by maintaining a diversified portfolio of debt and investment with varying degrees of liquidity and maturity dates. This allows the Council to access funds before maturity should the need arise and to prevent large amounts of debt falling due at the same time.

To avoid a concentration of debt maturity dates, where practical no more than 50% of total debt can be refinanced in any rolling 12-month period.

The Council must maintain access to liquidity of not less than 110% of projected core debt. Liquidity can include committed bank facilities, bank cash and term deposits and fixed interest investments. Core debt is defined as that contained in the Long-Term Plan/Annual Plan or as otherwise determined by the General Manager Corporate Services.

New Zealand Local Government Funding Agency (LGFA)

The Council may borrow from LGFA and, in connection with that borrowing, the Council may enter the following related transactions to the extent it considers necessary or desirable.

- Contribute a portion of its borrowing back to the LGFA as subordinate debt that could, in limited circumstances, be converted to equity if required by LGFA, and
- Secure its borrowings from LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

Because of the dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternate investments.

If required in connection with the investment, the Council may subscribe for uncalled capital in the LGFA.

Clarification and Breaches

This policy represents the formal policy and expected standards of the Mackenzie District Council. Appropriate approvals need to be obtained prior to any deviation from the policy. Elected Members and employees are reminded of their obligations under the Council's Code of Conduct to give full effect to lawful policies, decisions, and practices of the Council.

Clarification

Clarification regarding this policy can be sought from the Mackenzie District Council General Manager Corporate Services.

Breaches

The General Manager Corporate Services is responsible for monitoring compliance with this policy. All identifies breaches will be escalated to the Chief Executive Officer and the Manager People and Culture and will be treated as misconduct which may result in disciplinary Action.

Exceptions

The General Manager Corporate Services (being the policy owner) will need to authorise any deviation from this policy.

Benchmarking

Related Documents / Websites
Related Council policies and documents include: • Property Sales and Acquisition Policy • Risk Appetite Statement • Risk Policy • Mackenzie District Council Code of Conduct • Financial Strategy Relevant legislation and other resources include (but is not limited to): • Local Government Act 2002 • Local Government Amendment Act 2002 Amendment Act 2019

1. Part 3- Accountability

Reporting

To ensure that the Treasury Management Policy is being adhered to, the Group Manager Business Support must keep abreast of significant changes in the market which could lead to an alteration in policy, strategy or the nature of investments or liabilities held. The Group Manager Business Support is responsible to Council to ensure the policies are adhered to and should report to either Council or the Chairman of the responsible Standing Committee on a regular basis providing relevant details of the portfolio excluding property.

For financial market investments, the Finance Manager will submit a monthly summary report (as contained in Council's financial variance report) to Council or the responsible Standing Committee outlining:

- term of investments
- interest rates
- movements in portfolio
- any other appropriate measures contained in this policy.

For property investments, the Property Manager and District Forester will submit an annual property investment report to either Council or the responsible Standing Committee detailing:

- investments held (Commercial and Non-commercial)
- the rate of return received by investments (Commercial and Non-commercial)
- confirming adequate insurances are held where appropriate
- movements in portfolio

- maintenance of assets has been carried out as per the relevant asset plan
- revaluations have been carried out where applicable.

For the debt portfolio, the Finance Manager shall present a quarterly report to Council or the responsible Standing Committee which contains 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
- Funding profile against the policy limits
- Liquidity profile against the policy limits
- Exception reporting as required
- Summary of any unresolved exception reports
- Statement of policy compliance