

**SOUTH TARANAKI**

**THE MOST**

**LIVEABLE**

**DISTRICT**

**Kaupapa Here Whakarata Taumahatanga  
Liability Management Policy**

**2021 - 2031**

**South Taranaki District Council's Long  
Term Plan Supporting Documentation**

## Purpose

Under Section 102 of the Local Government Act 2002 it states that a local authority must adopt a Liability Management Policy. Section 104 of the Act outlines the contents of such a Policy.

The Policy is to be consistent with the Long Term Plan (LTP) and Annual Plan. The formalisation of such policies and procedures will enable treasury risks within the Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within the Council continue to be well managed. In addition, regular reviews will be conducted to test the existing Policy against the following criteria –

- Industry “best practices” for a Council the size and type of the South Taranaki District Council.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Policy and treasury management function to recognise, measure, control, manage and report on the Council’s financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operations of a pro-active treasury function in an environment of control and compliance.
- The robustness of the Policy’s risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to the Council in achieving strategic objectives.

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

## Treasury Management Objectives

### Statutory Objectives

All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.

The Council is governed by the following relevant legislation:

- Local Government Act 2002, in particular Part 6 including sections 101,102, 104 and 105.
  - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
  - Trustee Act 1956 (to be replaced with the Trustee Act 2019 when it comes in to effect on January 30 2021). When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.
- All projected external borrowings are to be approved by the Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of the Council before the borrowing takes effect.
  - All legal documentation in respect to external borrowing and financial instruments will be approved by the Council’s legal counsel prior to the transaction being executed.
  - The Council will not enter into any borrowings denominated in a foreign currency.

- The Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by the Council itself.

A resolution of the Council is not required for hire purchase, credit or deferred purchase of goods if:

- The period of indebtedness is less than 91 days (including rollovers); or
- The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of the Council.

## General Objectives

- Minimise the Council's costs and risks in the management of its external borrowings.
- Minimise the Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect the Council's financial assets and manage costs.
- Arrange and structure external long term funding for the Council at acceptable margins and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this Policy.
- Maintain appropriate liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.
- Minimise exposure to credit risk by dealing with credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect the Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, credit rating agencies and investment counterparties.

## General Borrowing

The Council may borrow to fund capital works providing assets where:

- The benefits of such expenditure are received over terms greater than one financial year.
- The time of the borrowing would be related to the expected economic life of the assets purchased or created.

## Internal Borrowing

The Council has the ability to fund internally by way of borrowing from its Long Term Investment Fund (LTIF), and available unrestricted reserve funds which is managed by the Council's Investment Policy.

Borrowing from the LTIF will be restricted to cash assets within the LTIF or funds which are due to be transferred to the LTIF for example sale of assets. The decision to utilise funds for internal borrowing will be made by the treasury function based on a cost/benefit analysis of expected returns on the investment versus costs of borrowing and the liquidity position of the Council.

The interest cost will be set with reference to margins on external borrowing. Internal borrowing will be restricted to 30% of the principal value at the commencement of the LTIF.

Actual rates of interest charged for internal borrowing will be approved as part of Long Term Plan process and charged annually in arrears at the weighted average cost of external borrowing (includes credit margins and other related costs). An appropriate level of principal repayments would also be funded.

## External Borrowing

The preference for the Council is to utilise borrowing from external sources rather than by internal means.

The Council is able to externally borrow through a variety of market mechanisms, including the issue of loan stock/bonds, commercial paper, debentures, LGFA and direct bank borrowing or through accessing the wholesale capital markets and retail debt capital markets directly or indirectly.

Finance lease and credit lines may be used, but to a lesser extent. These funding mechanisms are evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Before accessing any term borrowing, whether it is external or internal, the treasury function must firstly evaluate the Council's ability to fund loans from existing internal reserves. This will take account of:

- The size and the economic life of the project or asset.
- The impact of the new external borrowing on the borrowing limits.
- Relevant margins and total cost under each borrowing source.
- The Council's overall debt maturity profile, to ensure concentration of debt is avoided at refinancing/reissue/rollover time.
- Prevailing interest rates and credit margins relative to term, for both commercial paper, loan stock issuance, LGFA and bank borrowing and management's view of future interest rate and credit margin movements.
- Available term from banks, LGFA, debt capital markets and loan stock issuance.
- Legal documentation and financial covenants together with security and credit rating considerations.
- Internal versus external borrowing

The Council's ability to readily attract cost effective borrowing is largely driven by its ability to maintain a strong balance sheet as well as its ability to rate, manage its image in the market and its relationship with its investors, LGFA, financial institutions/brokers, and maintain a long-term credit rating of at least A.

## New Zealand Local Government Funding Agency Limited

The Council may borrow from the New Zealand Local Government Funding Agency Limited (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 borrowings (1.6%) back to the LGFA as an equity contribution 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 subordinated debt) to 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.

## Borrowing Limits

In managing external core borrowing, the Council adheres to the following limits:

- Net External Debt as percentage of total income ratio of not more than 150%. Net External Debt refers to external debt, less any available cash or cash equivalent treasury investments.
- Net Interest Expense all external borrowings as a percentage of total annual income of not more than 15%.
- Net Interest Expense of all external borrowings as a percentage of total annual rates income of not more than 25%.
- Liquidity Ratio; external term debt plus unutilised committed bank loan facilities plus available liquid cash/cash equivalents maintained at an amount of at least 110% over existing external debt. The liquidity ratio excludes investments of the Long Term Investment Fund.
- Net Debt per Capita is less than \$2,000 person

Definitions:

**Net external debt** is defined as total external debt less liquid financial assets and liquid investments. External debt that is specifically borrowed for on-lending to a CCO/CCTO is netted (if consistent with LGFA covenant testing practice), with the corresponding loan asset.

**Net interest expense** is defined as gross external interest expense less any allocated surplus income from the LTIF. The rationale for this is that the Council has decided to have debt and core long-term investments. If the Council did not have a long-term investment external debt would be significantly reduced therefore from a longer-term sustainable approach income from LTIF should be offset against the external interest expense of all external borrowings.

**Total annual income** includes general rates, targeted rates, user charges and fees, subsidies and grants, sundries, interest income, dividends and capital contributions. This excludes non-government capital contributions from income, and government contributions netted from debt but excluded from revenues.

**Total annual rates income** includes general and targeted rates. This includes any rating activity authorised by the Local Government (Rating) Act 2002.

For the purposes of calculating the Liquidity ratio, **liquid cash/cash equivalents** are defined as:

- o Overnight bank cash deposits
- o Wholesale/retail bank term deposits no greater than 30 days
- o Bank issued RCD's less than 181 days

## Debt Repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in future borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

## Loan Arrangements

From time to time the Council enters into arrangements to develop assets in conjunction with/for the benefit of individuals, corporations or industries. The preference is for those counterparties to contribute for their share of these projects immediately or directly in line with the costs incurred. Where it is not viable for the third party to meet its commitments the Council may fund the third parties costs by way of loan subject to the following criteria:

- The third party would meet the investment policy criteria for the Council to invest in it; or
- A suitable credit review and the Council approval has been obtained.

AND

- Overall lending to third parties does not exceed \$5,000,000;
- Appropriate security is obtained where possible and practicable;
- The term does not exceed three years.

The Council does not lend money, or provide any other financial accommodation, to a CCO or CCTO on terms and conditions that are more favourable to the CCO or CCTO than those that would apply if the Council were borrowing the money or obtaining the financial accommodation.

## Borrowing mechanisms to council controlled organisations and council controlled trading organisations

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

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by

subscribing for shares as called or uncalled capital.

Any lending arrangement (direct or indirect) to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the Chief Financial Officer considers the following:

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

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

## **Liquidity, Funding and Credit Risk Management**

Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

The management of the Council's funding risks are important to mitigate any adverse movement in borrowing margins, term availability and general flexibility.

Where possible, the Council seeks a diversified pool of borrowing and ensures that bank borrowings are only sought from strongly rated New Zealand registered banks. Strongly credit rated banks have a short-term and long-term credit rating from Standard & Poors (or equivalent) of at least A-1 and A respectively. The Council minimises its liquidity risk by:

- Matching expenditure closely to its revenue streams and managing cashflow timing differences through its committed bank facilities
- Maintaining cash management through liquid cash/cash equivalent instruments and unutilised committed bank facility amounts; and
- Avoiding concentration of debt maturity dates (refer below).

To ensure funds are available when needed the Council ensures that:

- There is sufficient available operating cashflow and committed bank facilities to meet cashflow requirements between rates instalments as determined by the Chief Financial Officer.
- External term debt plus unutilised portion of committed bank loan facilities plus available liquid cash/cash equivalents are maintained at an amount of at least 110% over existing external debt.

- The liquidity ratio excludes investments of the LTIF and funds on deposit in conjunction with pre-funding activity.
- Liquid cash /cash equivalent financial investments are available investments which have a maturity of no more than 30 days; and
- The Council has the ability to pre-fund up to 18 months of the forecast debt requirements including re-financings. Re-financing that have been pre-funded, will remain included within the funding maturity profile until their maturity date.

To minimise the risk of large concentrations of external debt maturing or being reissued in periods where credit may be scarce or credit margins are high for reasons within or beyond the Council’s control, delegated debt maturities are generally spread widely over a band of maturities. Specifically, total committed funding in respect to all loans and committed facilities is controlled by the following system:

Period	Minimum %	Maximum %
1 to 3 years	15	60
3 to 7 years	25	85
<b>7 years plus</b>	<b>0</b>	<b>60</b>

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

## Interest Rate Risk Management

The Council’s external borrowing gives rise to a direct exposure to interest rate movements. Generally, given the long term nature of the Council’s assets, projects and intergenerational factors and the Council’s preference to avoid an adverse impact on rates, there is at least a minimum percentage of long term fixed rate or hedged debt that must be at a fixed rate. Furthermore, that fixed rate/hedged debt must be spread over a range of maturities to minimise interest rate re-pricing risk.

Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council’s forecast gross external debt should be within the following fixed/floating interest rate risk control limits.

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



## Debt Interest Rate Policy Parameters (calculated on a rolling monthly basis)

Debt Ending Current	Minimum Fixed %	Maximum Fixed %
Year 1	40	90
Year 2	40	90
Year 3	35	85
Year 4	25	75
Year 5	20	70
Year 6	0	65
Year 7	0	60
Year 8	0	50
Year 9	0	50
Year 10	0	50
Year 11 plus	0	25

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

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

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

Pre-hedging in advance of projected physical drawdowns of new debt is allowed.

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

Any fixed rate hedge with a maturity beyond the maximum LGFA bond maturity must be approved by Council.

Approved financial instruments are as follows:

Category	Instrument
<b>Cash management and borrowing</b>	Bank overdraft Committed/uncommitted cash advance and bank accepted bill facilities (short term and long term loan facilities) Committed standby facilities where offered by the LGFA Loan stock /bond issuance <ul style="list-style-type: none"> <li>Floating Rate Note (FRN)</li> <li>Fixed Rate Note (MTN)</li> </ul> Commercial paper (CP)/Promissory notes Forward starting committed debt with the LGFA
<b>Investments</b>	LGFA borrower notes
<b>Interest rate risk management</b>	Forward rate agreements (“FRAs”) on: <ul style="list-style-type: none"> <li>Bank bills</li> </ul> Interest rate swaps/collars including: <ul style="list-style-type: none"> <li>Forward start swaps/collars. Start date &lt;36 months, unless linked to existing maturing swaps/collars</li> <li>Swap extensions and shortenings</li> </ul> Interest rate options on: <ul style="list-style-type: none"> <li>Bank bills (purchased caps and one for one collars)</li> <li>Interest rate swaptions (purchased swaptions and one for one collars only)</li> </ul>
<b>Foreign exchange management</b>	<ul style="list-style-type: none"> <li>Spot foreign exchange</li> <li>Foreign exchange deposits</li> <li>Forward exchange contracts (including par forwards)</li> <li>Purchased foreign exchange options</li> <li>One for one collars</li> </ul>

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, the sold option can be closed out by itself (i.e. repurchased). The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- Purchased borrower swaptions mature within 18 months.
- Forward start period on swaps and collar strategies to be no more than 36 months, and the underlying cap or swap starts within this period, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.
- Interest rate options with a maturity date beyond 18 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

- Buying and selling of financial futures is not permitted, primarily due to the administrative burden and the ready availability of other more tailored risk management products.

## Foreign Exchange Risk Recognition

From time to time the Council may have foreign exchange exposure through the occasional purchase of foreign currency denominated plant, equipment and services. The defining principles for recognising the respective foreign exchange risk that the Council may incur are as follows:

- Capital and operational expenditure: Imported items/services. The Council is exposed to foreign exchange risk on both imported capital expenditure and operational items or services
- Contingent risk: This applies from the time the capital expenditure or operational expenditure budget is approved to the time expenditure on specific items is approved during the course of the year. This also includes the time from specific approvals to the time contracts are finalised; and
- Full risk: at the time the expenditure is approved and legal commitments are made.

## Foreign Exchange Risk Control limits

Capital and Operational Expenditure: Imported items/services – All individual items/services greater than NZD100,000 must be hedged at all times in accordance with the following risk control limits:

Capital and Operational Expenditure – Foreign Exchange Risk Control Limits		
Time – point	Exposure covered by forward exchange contracts/collars	Exposure covered by purchased foreign exchange options
1. Budget approved by the Council – (Contingent Risk)		Maximum 50%
2. Specific item approved – (Contingent Risk)		Maximum 100%
3. Contract confirmed – (Full Risk)	Minimum 100%	

Exposures of less than NZD\$100,000 equivalent may be transacted at the prevailing spot rate on the day or hedged.

## Use of Foreign Exchange Instruments

- Financial instruments other than those stipulated require one-off Council approval prior to transacting.
- Foreign exchange options cannot be sold outright. However, 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option.
- The purchase price paid for an option (premium) is to be amortised over the period of the cover and added to the actual average exchange rate achieved by the Council.

- It is the Council's policy that all significant tenders allow bidders the opportunity to select desired currencies and where possible allow for suppliers to transparently link price escalations to clear financial market references.
- The hedging may be done directly by the Council or the requirement may be included in the purchase contract. Inclusion in the purchase contract may be preferable if the effective foreign exchange rate is acceptable, where the adverse foreign currency effect of import timing delays can be "successfully" transferred to the supplier.

## Borrowing in Foreign Currencies including Digital Currency

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

## Counterparty Credit Risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Council. Counterparties and limits can only be approved on the basis of long-term credit ratings being A and above, and short-term credit ratings of A-1 and above (Standard & Poor's, Fitch or Moody's).

Exposures should be spread amongst a number of counterparties to avoid concentrations of credit exposure. Counterparty limits and credit exposure measurement criteria are set out in Appendix 1 of this Liability Management Policy.

## Security for external borrowing

The Council generally does not offer assets other than a charge over rates or rates revenue as security for general borrowing programmes and interest rate risk management instruments. Security is offered through the Debenture Trust Deed. Internal loans are provided on an unsecured basis.

Where borrowing is by way of finance lease, or some other form of trade credit under which it is normal practice to provide security over the asset concerned, the Council may offer security over the asset.

From time to time, with prior Council approval, security may be offered by providing a charge over one or more of the Council's specific assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance);

- The Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the security arrangement.

## Contingent Liabilities

The Council, from time to time, provides financial guarantees to community and sporting organisations. The Council passes a resolution to approve all financial guarantees. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of the Council.

The Council is prohibited from guaranteeing loans to Council Controlled Trading Organisations under Section 62 of the Local Government Act.

The Council limits the total amount of financial guarantees to community and sporting organisations to \$500,000, with no one organisation having more than 10% of the total guarantees given.

The Finance Department monitors the total value of guarantees provided, reporting quarterly to the Council.

Should the guarantee be called up, the Council takes immediate action to recover the money.

## Incidental arrangements

The use of incidental arrangements i.e. risk management instruments, is confined to managing interest rate risk of the Council's borrowing, investments and any foreign exchange risk arising from capital expenditure and offshore investments.

The use of incidental arrangements will be notified to the Council as part of the performance monitoring process.

Incidental arrangements can only be entered into with approved banks that have in place an executed ISDA Master Agreement with the Council. The Council's internal/appointed legal counsel must sign off on all documentation.

## Financial covenants and other obligations

The Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. The Council must comply with all obligations and reporting requirements under existing funding arrangements and legislative requirements.

## Other liabilities

The Council has a liability for post closure aftercare for its variance landfills.

## Reporting on Liability Management Policy

Reporting on the achievements of the objectives contained within this policy will be part of the outcomes provided within the Annual Report.

Treasury reporting is conducted on a quarterly basis, and as required basis reporting on the Council's borrowing position to the Council, and where relevant external parties. Such reports detail month end position to risk control limits (borrowing limits, funding, interest rate, and liquidity), debt management position, and compliance.

## Accounting treatment of financial instruments

The Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate the Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

The Council's principal objective is to actively manage the Council's interest rate risks within approved limits and chooses not to hedge account. The Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in the Council's annual accounts.

All treasury financial instruments must be revalued (marked-to-market) at least every six months for risk management purposes.

## Governance

The Council approves the Liability Management Policy while the Chief Financial Officer designs and implements the funding and interest rate risk management strategy to meet the policy requirements. Authorised officers of the Council monitor the funding and interest rate markets on a regular basis and after taking appropriate advice, evaluates amongst others; the Council's upcoming borrowing programme, the outlook for funding and interest rate markets, margins, maturities, terms and conditions of each funding market, along with policy control/borrowing limits, approved instruments and current/projected funding and interest rate risk positions.

The funding and interest rate strategy will be monitored by both the Audit and Risk Committee and the Council in accordance with the governance procedures set out in the "Investment and Liability Management Governance Policies and Procedure Manual".

## Delegated Authorities

Pursuant to Clause 32 (2), Schedule 7, of the Local Government Act 2002, the Council may make delegations to officers of the Council to allow for the efficient conduct of Council business. Clause 32 (3), Schedule 7 of this Act

allows officers to delegate those powers to other officers.

Notwithstanding Clause 32 (1) (c), Schedule 7, the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan remains the sole responsibility of the Council. This responsibility cannot be delegated.

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of “apparent authority”. Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind the Council.

Whenever a person with delegated authority on any account or facility leaves the Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Approved delegations to Officers are contained within the Council’s register. All delegations are approved by Council resolution.

## **Cash Management**

From time to time, the Council has daily cash flow 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 Department.

The Council maintains a daily cash position report, and a yearly cashflow projection is prepared during the Annual Planning process. These reports determine the Council’s borrowing requirements and surpluses for investment for the year.

## **Operational Risk**

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.

Operational risk is minimised through the adoption of all requirements of this Policy and detailed within the Council’s Treasury Procedures Manual.

## Policy Review

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes. The Chief Financial Officer has the responsibility to prepare the annual review report that is presented to the Council. The report will include:

- A recommendation as to changes, deletions and additions to the Policy.
- An overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- A summary of breaches of Policy and one-off approvals outside Policy.

The Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes.

## Treasury Performance

In order to determine the success of the Council's treasury management function, the following benchmarks and performance measures have been prescribed.

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to the Council or an appropriate sub-committee of the Council on a quarterly basis.

Management	Performance
Operational performance	<ul style="list-style-type: none"> <li>• All policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits.</li> <li>• All treasury deadlines are to be met, including reporting deadlines.</li> </ul>
Management of debt and interest rate risk (borrowing costs)	<ul style="list-style-type: none"> <li>• The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual borrowing cost amount.</li> </ul>



## Remission of uniform annual general charges on non-contiguous

### Appendix 1: Limits

Approved Bank, Cash Management, Foreign Currency and Interest Rate Risk Management Limits. The Council minimises its credit exposure by:

- Transacting with entities that have a short-term and long-term credit rating from Standard & Poor's (or equivalent) of at least A-1 and A respectively.
- Limiting total exposure to prescribed amounts.
- Monthly monitoring of compliance against set limits.

Institution	Minimum S&P Short Term Credit Rating	Minimum S&P Long Term Credit Rating	Total Exposure Limit for each Counterparty
Government	N/A	N/A	Unlimited
Local Government Funding Agency (This only applies to investment not for funding)	A-1	AA-	\$15 million
NZ Registered Bank - Off balance sheet exposures	A - 1	A	\$20 million
TSB Bank*	A-2	BBB+	\$15 million

### TSB Bank

The TSB Bank is currently credit rated by S&P short-term A - 3 and long-term BBB (stable).

The Council specifically approves the TSB Bank for borrowing purposes and a counterparty exposure up to \$15 million for cash management purposes as an exception to the above limits.

If any counterparties' credit rating falls below the minimum specified in the above table then immediate steps are taken to reduce the credit exposure of that counterparty to zero. Exceptions are reported to the Council.

### Calculation of Counterparty Exposure

Exposures to counterparties are computed as follows:

#### On-balance sheet

Total amounts invested with that counterparty. In determining the usage of the above gross limits, the following product weightings will be used:

*Investments (eg Bank Deposits)* – Transaction Notional X Weighting 100%.

## **Interest rate and foreign exchange rate risk management instruments**

*Interest Rate Risk Management (eg swaps, FRAs)*

– Transaction Notional X Maturity (years) X 3%.

*Foreign Exchange (eg CCY spot and forwards)*

– Transactional principal amount X (the square root of the maturity (years) X 15%).



Te Kaunihera o Taranaki ki Te Tonga  
**South Taranaki**  
District Council

[www.southtaranaki.com](http://www.southtaranaki.com)