Council

Tuesday 17 November 2020 at 10.30am

AGENDA

SUPPLEMENTARY

Northland
REGIONAL COUNCIL
Te Kaunihera ā rohe o Te Taitokerau

Northland Regional Council Supplementary Agenda

Meeting to be held in the Council Chamber
36 Water Street, Whangārei
on Tuesday 17 November 2020, commencing at 10.30am

Recommendations contained in the council agenda are NOT council decisions. Please refer to council minutes for resolutions.

TITLE:	**Receipt of Supplementary/Tabled Report: Report Title**
ID:	A1385841
From:	Christine Taylor, Governance Support Manager

Executive summary

Subsequent to the release of the council agenda an administrative error was identified in relation to Item 6.1 whereby the track changes where not showing on Attachment One: The Treasury Management Policy. This supplementary report presents the correct version.

Recommendation

That as permitted under section 46A(7) of the Local Government Official Information and Meetings Act 1987 the following supplementary report be received:

- Supplementary Item 6.1: Treasury Management Policy (with track changes)

Authorised by Group Manager

Name:	Bruce Howse
Title:	GM Corporate Excellence
Date:	16 November 2020

Treasury Management Policy

Effective from 19 February 2019

Treasury Management Policy (A1054519)
12 February 2019

Northland REGIONAL COUNCIL
Te Kaunihera ā rohe o Te Taitokerau

Document approval

The approval for distribution and use of this policy has been delegated as per the document information:

Document information:

	Information
Document ID:	A1054519
Document version:	1.0
Document name	Treasury Management Policy
Approved by:	Council
Date approved:	February 2019
Document Owner:	GM – Corporate Excellence
Document Author	Finance Manager
Group	Corporate Excellence
Date document published:	19 February 2019
Date document created:	January 2019
Review date:	**As required**

Document history:

Version	Issue date	Notes
1.0	02/2019	First edition
2.0	01/2020	Add document control and changes in sub-committee structure
3.0	11/2020	Updated to be consistent with changes to delegations of Investment & Property subcommittee Terms of Reference

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Introduction

As a council, our treasury activities include management of liquidity, investment performance and financial liabilities.

The aim of council's treasury management is prudent, effective and efficient financial management. This is achieved by adhering to principles contained in relevant policies and other documents, such as:

- Liability Management Policy
- Investment Policy
- Revenue and Financing Policy
- Delegations Manual (part D)
- Long Term Plan (LTP) including the council's Financial Strategy
- Annual Plans
- Statements of Investment Policies and Objectives (SIPOs).
- Investment & Property and Audit & Risk subcommittee terms of reference.

This document outlines how we will manage treasury activities and the risks these activities expose council to.

This document is reviewed by the ~~Audit and Finance Working~~Audit and Risk ~~Party~~subcommittee, approved by the Group Manager – Corporate Excellence (GM-CX), and applies to all treasury activity undertaken by the council. It will be reviewed at least every three years, as part of the council's long term planning cycle.

Legislation and compliance

Except where the law stipulates that the Chief Executive Officer (CEO) has first line responsibility for compliance, it is the responsibility of the GM-CX to ensure the council's treasury management framework and processes comply with all relevant legislation. It is the responsibility of the CEO to ensure the GM-CX is fulfilling these responsibilities. The Local Government Act 2002 (LGA) and its amendments define the operating environment for local authorities in relation to treasury activities and risk management.

Other legislation is also relevant:

- Local Government (Rating) Act 2002
- Local Government (Financial Reporting and Prudence) Regulations 2014, Schedule A
- Local Government Borrowing Act 2011
- Public Bodies Lease Act 1969 and Property Law Act 2007
- Trustee Act 1956, Part 2 (Investment).

Objectives

The key objectives of treasury activities are to:

- ensure the council always has sufficient funds available to meet both planned and reasonable but unforeseen expenditure
- prudently manage the borrowing costs and investment returns that impact the council's operational budgets, the council's reliance on rates and hence, fairness to current and future ratepayers
- safeguard the council's assets

- ensure that all the council's external borrowing, investments and incidental financial arrangements meet requirements of the Local Government Act 2002 (LGA) and other relevant financial legislation
- reduce the volatility of the council's reported financial performance
- implement mitigation strategies to reduce treasury risks
- provide timely reporting to the CEO and council, with appropriate and accurate reporting of treasury activities and risk management.

By doing this we will maintain confidence in the creditworthiness and integrity of the council through positive relationships with financial institutions, investors and investment counterparties.

Roles and responsibilities

A summary of treasury roles and responsibilities is below. All treasury activity will be in accordance with what council has approved, as per the relevant policies documents outlined in the introduction of this policy.

Council	Approve long term and annual plans (including associated policies, measures and limits), and delegations Approve acquisition or disposal of strategic assets, property or forestry Approve new lenders, new borrowing and changes to borrowing limits Confirm the current matrix of approved counterparties and limits, and approve new named counterparties and limits. Approve new fund managers, new externally managed funds and SIPOs. Authorise withdrawal from externally managed funds (except the Short Term Investment Fund (STIF)) Authorise bank signatories and ratify the opening and closing of bank accounts Review treasury performance.
nvestment and Property Subcommittee	Contribute to review of financial policies Recommend SIPOs and fund managers Invest and withdraw between fund managers (in line with SIPOs) Manage the mix of investments in managed funds, and recommend action on forecast variances against budgets Determine the means of investment reporting Monitor and report on financial performance of funds. Delegated authority as per subcommittee terms of reference
Audit & Risk Subcommittee	Monitor and review financial policies (including this policy) Monitor and review financial performance, report to council Monitor and review the reporting framework for treasury activity and risk management Recommend new borrowing.
CEO	Manage investments (with Investment Sub-committee) Authorise withdrawal from, and investment in, the STIF Withdraw and invest fund held in Term Deposits being self-managed cash reserves Manage new borrowing and refinancing of existing debt Report on treasury performance
GM - CX	Approval of this policy, including the schedule of treasury limits Overall responsibility for treasury management, including compliance with legislation Establish appropriate structures, procedures and controls, and reporting requirements, to support all treasury activities Oversee cash requirements and day-to day treasury functions, banking and payments Recommend counterparties and limits Consider external advice and assistance required to manage treasury activity Monitor all investments, report on risk/return on portfolio components and the portfolio as a whole.

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Finance Manager	Manage, monitor and review treasury activity and outcomes Report to GM-CX, CEO and council
Finance Team	Day-to-day treasury activities and transactions, including fixed and floating debt, internally managed funds, cash management, risk management & reporting

Treasury Policies

These treasury policies outline the council's identification and management of risks, and provides specified limits for each. These risks are:

- Liquidity risk – the council not having sufficient available cash to meet its requirements
- Interest rate risk – loss arising from unforeseen changes to interest rates
- Foreign exchange risk – loss arising from unforeseen movements in relevant exchange rates
- Counterparty credit risk – borrowers or parties holding council's deposited funds being unable to repay amounts owed when they fall due or are requested.
- Legal and operational risks – risk of losses arising from the council's inability to legally enforce or fulfil an action, and loss from human error or fraud in relation to how we conduct our treasury activity.

Liquidity

Liquidity is a measure of the extent to which council has cash and other liquid assets to meet its immediate and short-term obligations, or access to funding sources (including borrowing) that can be quickly converted to do this. In accounting terms, it is the availability of current assets to meet current liabilities.

Liquidity risk is the potential inability of council to meet its financial obligations as they fall due, in normal or abnormal (but modelled) operating conditions.

Liquidity risk arises though:

- Short term receipts and payments timing being mismatched
- Assets and liabilities not maturing evenly over time
- Market disruption
- Significant deterioration of the quality of council assets
- Negligent management or fraudulent activities.

Liquidity risk management

The key outcome of effective liquidity management is to optimise the cash held by the council at all times. Liquidity management is therefore the management of liquid assets and funding sources (including borrowing) to meet both short and long-term commitments as and when they fall due.

We will manage any short term mismatches between operational receipts and payments to ensure that the inability to meet short term obligations does not occur. We achieve this by maintaining accurate cash flow forecasts to determine planned cash requirements and to assist our borrowing decisions. We will ensure a suitable contingency is always available for unforeseen reasonable cash requirements. We will ensure we maintain the liquidity ratio as per the long term plan.

Primarily, we will meet our need for cash at any time from the STIF, a managed fund of short duration investments. In most cases, surplus cash will be immediately invested in the STIF or directly with banks as cash or term deposits.

We manage council's mix of liquid and illiquid investments, and the duration of our financial investments to meet future cash flow projections and forecast debt associated with future capital expenditure programs (as outlined in the long term plan).

Regarding borrowing, we will seek to smooth loan repayments over time to avoid concentrating cash outflows into short periods of time. Council will accumulate and hold funds to repay borrowings.

Liquidity risk limits

Treasury limits relating to interest rate risk management are detailed in liquidity risk limits in the schedule of treasury limits.

Interest rate

The council has interest costs related to its borrowings, and interest rate income related to its cash and cash equivalents (including term deposits and bonds).

The council's Investment Policy outlines the approach we will take to actively manage underlying interest rates given council's expectations of risk and returns on cash and cash equivalents, and seek to reduce volatility resulting from interest rate fluctuations.

The council's Liability Management Policy outlines the approach we will take to manage liquidity and interest rate risk relating to external borrowings, given council's expectations of risk and the cost of borrowing. Based on market conditions and approved forecasts, the council will target a mix of fixed and floating rates where appropriate.

The liquidity risk limits outline the approach we will take to address the cashflow impacts of drawing down and repaying borrowing, and how we will target the repayment and duration profile of our borrowings at any time.

Interest rate risk management

Interest rate risk refers to the impact that movements in interest rates can have on the council's performance compared to what is budgeted in the long term and annual plans.

The council seeks to avoid the concentration of interest rate repricing at any time, so that financial performance is not adversely affected.

Interest rate risk is managed by entering fixed or floating arrangements for deposits and borrowings based on assessment of market conditions at the time. The performance of these arrangements is regularly monitored and reported on against appropriate benchmarks.

For any borrowings which are to be repaid by a specific targeted rate, council may put 100% of this debt into fixed rate arrangements. This provides certainty that the total cost of borrowing and the principal will be met by the funds recovered through these rates.

Interest rate risk limits

Treasury limits relating to interest rate risk management are detailed in interest rate risk limits in the schedule of treasury limits.

Counterparty credit

Counterparty credit management is spreading investments among as wide a range of approved counterparties as practicable to avoid concentrations of credit risk.

Counterparty risk management

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

The GM-CX will recommend that council approve new counterparties and limits based on long-term credit ratings (Standard & Poor's or Moody's).

To manage this risk, the council will only invest and place deposits with creditworthy counterparties. Prior to approving new investments, the counterparty credit limits will be reviewed by those delegated to approve investments to ensure limits are not breached.

Counterparty risk is also managed through the externally managed fund SIPOs.

To avoid undue concentration of exposures, financial instruments will be used with as wide a range of counterparties as possible. Where possible, transaction notional sizes and maturities will also be well spread.

The GM-CX will report periodically on counterparties and their borrowings against the limits.

Council will seek independent advice periodically to ensure Council assets are safeguarded.

Counterparty risk limits

Treasury limits relating to counterparty risk management are detailed in counterparty risk limits in the schedule of treasury limits.

Foreign exchange

The council invests in Australian denominated assets through its externally managed funds. Each externally managed fund is governed and managed by the terms of a SIPO. As a portion of the council's underlying investments will be invested in Australia, returns may be affected by movements between the Australian dollar (AUD) and New Zealand dollar (NZD).

The council is responsible for the funds' foreign exchange risk exposure, which is the purchase and sale of Australian denominated assets, the portfolio requiring an associated foreign exchange transaction selling or buying NZDs.

The council also has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services and plant and equipment.

As per the liability management policy, the council will **not** enter any borrowings denominated in a foreign currency.

Foreign exchange risk management

Council will not attempt to manage foreign exchange risk, but rather allow through the SIPOs governing Council's managed funds, individual fund managers the discretion to hedge NZD/AUD as they see fit.

Operational and legal

Operational risk is the risk of financial or reputational loss due to human error (or fraud), system failures and inadequate procedures and controls.

Legal risks relate to the unenforceability of a transaction due to the council not having the legal capacity or power to enter into the transaction, usually because of prohibitions contained in legislation. The council may be exposed to such risks if it is unable to enforce its rights due to deficient or inaccurate documentation.

Operational and legal risk management

The GM-CX ensures adequate internal structures, procedures and controls are in place to protect the council's financial assets and prevent unauthorised transactions. This includes:

- written instructions for all standard treasury transactions and procedures
- using expert advice for any non-standardised transactions

- segregation of duties between staff that can enter transactions, and those that can control, check and confirm those transactions
- adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting
- financial delegations as outlined in the delegations manual
- using standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties
- matching of third party confirmations and the immediate follow-up of anomalies
- ensuring legal agreements are entered prudently
- ensuring financial covenants are not breached
- ensuring all parties involved in treasury transactions and are aware of the policies and procedures that must be complied with.

Financial instruments are not entered into if the systems, operations and internal controls do not satisfactorily support the measurement management and reporting of the risks.

Operational and legal risk limits

Treasury limits relating to operational risk management are detailed in operational and legal risk limits in the schedule of treasury limits.

Schedule of Treasury Limits

Liquidity risk limits

Balance sheet

As per the financial strategy and liability management policy, we ensure the sum of external debt, liquid funds and committed bank facilities are at least 110% of external debt (liquidity ratio).

Future cashflow

Cash held for future cashflow may consist of:

- bank accounts
- maturing and redeemed term deposits and investments
- the Short Term Investment Fund (STIF).

Cash held for future cashflow (for the month being forecast) shall be the amount required to fund councils forecasted:

- operational expenses +20% contingency
- capital expenses +20% contingency
- Loan repayments related to council projects for which rates are or have been levied

The cash held requirement shall be forecasted monthly and monitored daily. Forecasted and actual cashflows will be reported to the GM-CX monthly.

Maturity/repayment profile of borrowing

The maturity profile of the total committed funding (for all loans and committed facilities) must be:

Maturity Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	100%

For any borrowings which are to be repaid by a specific targeted rate, council may have a maximum maturity profile in any one year of 100%.

A maturity schedule outside these limits requires specific council approval at the time the new borrowing is approved.

Interest rate limits

Interest on external debt

As per the liability management policy, we will ensure that net interest on external debt will not exceed:

- 20% of total annual revenue, and
- 25% of annual rates income.

Fixed and floating mix

We will match the proportion of fixed deposits to floating borrowings e.g.:

View of future interest rates	Borrowings		Deposits	
	Fix %	Floating %	Fix %	Floating %
Decreasing	30	70	70	30
Neutral	50	50	50	50
Increasing	70	30	30	70

This is based on the concept that if we believe that interest rates are increasing, we should fix more borrowings and float more deposits (and vice versa).

We will monitor and report on interest rate risk management against appropriate benchmarks.

Instruments held

No more than $10 million will be held in interest rate risk management instruments, principally interest rate swaps, with each New Zealand registered bank.

Financial instruments

The following financial instruments are considered acceptable:

Category	Financial instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long-term loan facilities) Loan stock / bond issuance Fixed rate note (MTN)
Investments <181 days	Short term bank deposits Bank registered certificates of deposit (RCDs)
Investments (other)	LGFA borrower notes Bank term deposits linked to pre-funding maturing debt
Interest rate risk management	Forward rate agreements (FRAs) on bank bills Interest rate options on: • Bank bills (purchased caps and one for one collars) • Interest rate swaptions (purchased swaptions and one for one collars only)

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. All investment securities must be senior in ranking.

The investment policy prohibits direct investment in:

- derivative instruments such as futures (except for hedging purposes)
- speculative products or use of structured products
- securitised products.

As per the liability management policy, the council will not enter any borrowings denominated in a foreign currency.

Counterparty risk limits

Counterparties and limits

The following guide summarises the acceptable counterparties and limits. It excludes externally managed funds, which are governed by the appropriate Statement of Policy Objectives (SIPO).

Counterparty/issuer	Minimum long term/short term credit rating – stated & possible	maximum investments per counterparty ($m)
NZ Government	N/A	Unlimited
Local Government Funding Agency (LGFA)	N/A	20.0
NZD registered Supranational [name]	AAA	20.0
State owned enterprise [name]	BBB / A2	5.0
NZ registered bank [name]	A- / A2	20.0
Corporate bonds/ commercial paper* [name]	A- / A2 BBB / A2	2.0 1.0
Local government stock/ bonds/ floating rate note/ commercial paper** [name]	A- / A2 (if rated) Unrated	20.0 5.0

*Subject to a maximum exposure no greater than 40% of the net financial investment portfolio (NFIP) being invested in corporate debt securities at any one point in time. A maximum of 20% of the NFIP can be rated less than A- and no lower than BBB.

** Subject to a maximum exposure no greater than 60% of the NFIP being invested in local government debt at any one point in time. The maximum portfolio exposure limit does not apply to the LGFA.

This summary guide will be expanded on a counterparty named basis (denoted by [name] above), outlining the actual counterparties and limits in place. This will be authorised by the council.

Externally managed fund limits

Each SIPO outlines the limits for an externally managed fund. In addition to these limits, no more than 20% of the aggregated sum of externally managed funds will be held with any one fund manager.

Foreign exchange risk limits

NZD/AUD risk on portfolio returns

- Council will not hedge

Operational risk limits

Treasury procedures	Written procedures for the treasury management function must be maintained and complied with.
Delegations	• Staff must comply with the delegations manual at all times • All delegated financial authorities are reviewed at least every year to ensure they are still appropriate and current • a letter must be sent to all counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind 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.
Authorising signatures	The CEO must sign off on all documentation for new loan borrowings, re-financings and investment structures. GM-CX must sign off all documentation in respect of day-to-day treasury transactions.
Reporting	The council will comply with all obligations and reporting requirements under existing funding facilities and legislative requirements. There will be regular internal reporting on treasury activity. At a minimum, reports on treasury activity will be provided monthly to the GM-CX. Reports will be disseminated to the CEO and council.
Legal documentation	All legal documentation in respect to external borrowing and financial instruments will be approved by the council's solicitors prior to the transaction being executed.
Legal agreements	Financial instruments will only be entered into with banks that have in place an executed ISDA Master Agreement with the council. In the absence of an ISDA document a "long form confirmation" is acceptable so long as a master ISDA is signed with the bank counterparty following the transaction.
Financial covenants	The council will not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. The council will comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.