Policy - Treasury

This Treasury Policy (Policy) is applicable to the operations of Environment Southland. Environment Southland is the brand name of the Southland Regional Council (‘**Council**').

The purpose of this (Policy) is to outline Council’s approach and practices for its treasury activities. The formalisation of such policies and procedures will enable treasury risks within Council and any Group entities to be prudently managed to help give effect to the Councils financial strategy and the objectives and outcomes of the Long-term Plan (LTP).

This document identifies the policies that support the approach and practices of Council in respect of treasury management activities. The scope includes Council’s **Investment Policy** as well as the **Liability Management Policy**, as required by the Local Government Act (2002) (LGA).

This Policy can be updated at any time by Council resolution.

The Policy sets Councils policies on investment, borrowing and debt management risks and policies to support the delivery of the LTP, financial strategy and revenue and financing policy.

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Appendix 1 - Authorised Investment Criteria (not covered by the managed fund)

Policy No.	Policy Sponsor	Approval Date and Date of Next Scheduled Review	Approved By	MORF Reference	Related Standards
CP B21.0	Executive	**Approved** – 30 July 2021 **Approved = February 2024**	Council	A677777	-

1. Financial Management Principles

1.1 Council developed some principles to assist in making informed and consistent choices within the statutory and general objectives listed in this policy:

- everyday costs for services to the region are met from everyday revenues.
- where future ratepayers use assets created today, they will pay their share through the prudent use of debt.
- financial resilience will be maintained by having funds, debt capacity and insurance sufficient to fund unplanned or unforeseen events.
- service levels are clearly defined and are delivered in an efficient and effective, customer focused manner, providing value for money.
- cost recovery will be undertaken where there is a private benefit, and it is efficient to collect.
- Rate increases will consider principles of affordability and equity, with increases set to provide certainty to ratepayers.
- investment funds and other investments will be managed by taking a prudent approach to risk and return.

1.2 Complying with these principles can be challenging and compromise between principles is often required.

2. Policy Setting and Management

2.1 Council approves by resolution policy parameters and all matters not delegated.

2.2 The Chief Executive, under delegation, has overall financial management responsibility for borrowing and other investments.

3. Foreign Currency

3.1 Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

3.2 Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts once expenditure is approved. Both spot and forward foreign exchange contracts can be used.

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

4. Investment Policies

4.1 Overview of Approach

4.1.1 Council's key investments and the reasons for holding these investments are:

(a) ***South Port NZ Limited shares*** - primarily to contribute to the economic wellbeing of the region through secure majority ownership of this significant asset and secondly to enhance the diversity of Councils revenue sources.

(b) ***Investment of Reserves in Financial Investments*** - to collectively invest the various reserve balances to maximise the efficiency of investment and maintain the buying power of the funds held for future spending or strategic purposes. Reserves are held in a variety of activity or rating accounts to provide for unforeseen circumstances, provide for future investments and to manage the inter-year funding variances that occur. Investment of Financial Investments is in accord with Councils Statement of Investment Policy and Objectives (SIPO).

The approach taken to managing the South Port NZ Limited share investment includes:

(a) The use of independent experts, in review and monitoring of Council shareholding in South Port NZ Limited,

(b) Proactive influence as a majority shareholder,

(c) Periodic review of the level of ownership of the shares,

(d) Periodic review of the regional and economic development achieved by Council shareholding.

(e) Determining the level of shareholdings required by Council as a Strategic Asset. Council has determined that a majority (51%) is strategic. Council may elect to sell down its stake in South Port NZ Limited to 51% where consultation on such a sale has occurred in accordance with the LGA.

4.1.2 The approach taken to managing the Investment of Reserves in Financial Investments includes:

(a) The use of independent experts, in review and monitoring the Investment of Reserves in Financial Investments,

(b) The regular review and adoption by Council of a SIPO governing Council risk and return expectations,

(c) Regular engagement between Council, and Investment Managers of movements in Reserves.

4.1.3 Additional investments may be held from time to time:

(a) Equity investments

(b) Property investments

(c) Forestry investments

(d) Financial investments

4.2 Investment Risk Approach

4.2.1 Council holds a mix of investments and take a different risk approach to each investment.

4.2.2 Council achieve a prudent approach to risk and return by:

(a) diversifying investments to spread exposure across investment types, sectors and investment advisors,

(b) taking a long-term approach to investing and regularly reviewing investments,
(c) minimising exposure to adverse interest rate movements,
(d) maintaining prudent liquidity and managing cash flows to meet known and reasonable unforeseen funding requirements, and/or
(e) minimising exposure to credit risk by dealing with and investing in credit worthy counterparties.

4.2.3 Council takes a mix of risk to provide some protection to investment capital while achieving higher returns on other parts of the portfolio. This approach provides some security for current stakeholders while creating opportunity for future stakeholders.

4.2.4 Councils mixed risk approach to investments is reflected in the table below:

Investment Type	Risk Category
Equity Investment	Low to High
Property Investments	
Held for operational purposes	Low
Held for community purposes	Low
Forestry Investments	Medium to High
Financial Investments	
Restricted Reserve Funds	Low
Council Created Reserve Funds	
Asset Replacement Reserve Funds – (Depreciation)	Medium
Other Reserve Funds and Managed Funds	Low to High
Liquidity Funds	Low

4.2.5 Risk Categories:

(a) Low - Not willing to risk erosion in investment value.
(b) Medium - Conservative mix of capital growth and investment return.
(c) High - Willingness to accept higher returns across longer time frames with volatility of investment value.

4.2.6 Council’s primary objective when investing is the long term protection of its investment capital, which requires a prudent approach to risk/return within the confines of this Policy.

4.3 Equity Investments

4.3.1 Equity investments are shares or interests held in Council Controlled Organisation (CCO)/Council Controlled Trading Organisation (CCTO) and other shareholdings which fulfil various strategic, economic development and financial objectives as outlined in the LTP. Council maintains equity investments and other minor shareholdings including:

- South Port New Zealand Limited,
- Regional Software Holdings Limited.

4.3.2 South Port NZ Limited as an equity investment is address under section 4.1 of this Policy.

4.3.3 Council seeks to achieve an acceptable rate of return (which may well be $nil) on each equity investment consistent with the nature of the investment and their stated philosophy on investments. Forecast returns are shown in the Financial Strategy.

New Zealand Local Government Funding Agency Limited Investment

4.3.4 Local Government Funding Agency (LGFA) is a CCTO. Council may invest in shares and other financial instruments of the LGFA. The objective in making any such investment would be to:

- obtain a return on the investment, and
- ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding.

4.3.5 Because of these dual objectives, 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 alternative investments. In connection with an investment, Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

4.4 Property Investments

4.4.1 Council own property that is necessary to achieve its strategic objectives.

4.4.2 The majority of property is held by Council is for operational purposes. Some of this property can be leased and continue to meet operational purposes. Where property becomes surplus to operational requirements it may be disposed of or kept for commercial or economic development purposes.

Property held for operational purposes	Policy
Flood schemes/floodway management/sustainable land management/biodiversity objectives	These properties were purchased to enable flood protection works/floodway management, or because it was more cost effective to purchase them than to protect them from flooding. Properties can be leased with the objective of maximising return being balanced with the need for good stewardship for floodway management. The properties that form part of a flood scheme and cannot be sold. However, if the property is no longer required for a flood scheme or floodway management, it is surplus to requirements, Council may be disposed of.
General operational purposes	Council can own or lease premises for its own operating purpose, or for the purpose of obtaining rental income.

4.5 Forestry Investments

4.5.1 Forestry assets are currently small and incidental to land ownership. Council may increase its investment in forestry on land already owned. An investment would further diversify the investment portfolio and could provide operational benefits to erosion and water quality and earn carbon income.

4.6 Financial Investments

4.6.1 Council maintains a portfolio of financial market investments to create a blended risk/return profile. This may include reserves for resilience for unexpected or unplanned events, new assets and asset renewal, operating costs and rates.

4.6.2 Financial investments are to be managed in accordance with the SIPO. The SIPO includes Councils approach to Responsible Investment.

4.6.3 Where a conflict exists between the SIPO and the Treasury Policy regarding the management of Financial Investments, the SIPO shall take priority.

Restricted Reserve Funds

4.6.4 Restricted Reserve Funds are those funds subject to specific conditions accepted as binding and which Council cannot change without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

4.6.5 These funds are generally held as low risk liquid investments. Restricted reserve dependent, these funds will be invested in low risk liquid investments or be invested in accordance with the Council SIPO.

Asset Replacement Reserves

4.6.6 Asset replacement reserves are council created reserves for the purpose of setting depreciation funds aside for long-term asset renewal. The 30-year Infrastructure Strategy provides good information on long-term asset investment.

4.6.7 Asset Replacement Reserves are to be invested according to the SIPO.

Other Reserves and Managed Funds

4.6.8 The principal reason for the managed fund is to maintain the buying power of funds held for future spending.

4.6.9 These funds contain a mix of investments with different risk/return profiles. Council receives independent external advice on the management of the fund and on the risk/return profiles. These are regularly monitored.

4.6.10 Other Reserves are to be invested according to the SIPO.

Cash Reserves and liquidity

Maintaining cashflow through available cash reserves is a key component of prudent financial management.

"Cash Reserve" in this context is a "float" and represents the cash at bank that is held in a current account and immediately available to meet the day-to-day funding needs of Council. The day-to-day funding needs should not be exposed to the conditional requirements that lender facilities such as overdrafts and loans have.

Access to debt will provide liquidity for events or circumstances where additional funding is required to meet unforeseen events or opportunities and that require purposeful funding. The purpose of maintaining a cash reserve is to ensure that the variable day to day and month to month financial commitments of Council can be met.

Events that could contribute to variations in forecasted cashflows include, natural disasters, delays in receipt of budgeted revenues such as rates, grants or loans and unforeseen spikes in monthly operational costs incurred from contractors, consultants, and employees.

As a minimum the cash at bank cashflow cash reserve should not fall below the total of 3 months of the average operating expenditure. This level of cashflow reserve currently does not exist and presents a financial resilience risk. Building this reserve back will be achieved over the coming 10 years and will be reported on annually through the Financial Reserves Policy. Until the specified level is achieved the risk of not having a cashflow reserve will be mitigated by funding available from the accumulation of unspent year end cash, use of debt not used and identified cash investment in the Managed Fund.

4.6.11 The Cash Reserve may be invested with New Zealand registered banks for terms less than one year.

4.6.12 Interest income from financial investments is credited to general funds.

Local Government Funding Agency Borrower Notes

4.6.13 Council can borrow from the LGFA, it is required to contribute part of that borrowing back as equity in the form of "Borrower Notes". A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

4.7 Acquisition and Disposal of Investments

4.7.1 With the exception of financial investments, new investments are acquired if an opportunity arises, and Council resolves to do so. Before approving any new investment, due consideration is given to:

(a) the contribution the investment will make in fulfilling strategic objectives, and
(b) the financial risks of owning the investment.

4.7.2 Proceeds from the sale of assets or investments will in the first instance be used to repay debt associated with the investment. Any surplus after this repayment would be placed in the appropriate reserve fund unless otherwise resolved. If assets are subject to legislative restrictions, the proceeds are used in accordance with the provisions of the appropriate legislation.

5. Liability Management Policies

5.1 Overview of Approach

5.1.1 Liabilities comprise debt and various other liabilities in Councils Statement of Financial Position. Borrowing is the act of obtaining debt.

5.1.2 Council debt limits set in the Financial Strategy should maintain borrowing capacity for future generations and financial resilience in the event of unexpected events. Changes in debt limits are approved by the Council, generally in adopting the LTP or an Annual Plan.

5.1.3 Council borrows in order to fund:

(a) working capital requirements and short-term funding gaps.
(b) investments in infrastructure and other assets where there is a medium to long-term intergenerational benefit.
(c) certain capital projects and operating expenses or overall operating cash deficits as planned in the LTP and Annual Plans.
(d) unplanned expenditure e.g., weather events, opportunities, and emergencies.
(e) for long term Council amenities, for example, Corporate Facilities.

5.1.4 Council manages debt:

(a) on a net cash basis.
(b) use externally borrowed funds when it is commercially prudent to do so.
(c) use an internal borrowing approach to ensure reserve funds can be cash funded, when required.
(d) ensures that the cost of debt is minimised by actively managing fixed and floating rate exposure and the term lengths of loans.

5.1.5 Council repays debt as it falls due in accordance with the applicable loan agreement. A loan may be rolled over or re-negotiated as and when appropriate.

5.1.6 Councils' initial response to funding unexpected expenditure requirements is met firstly through liquidity. Where this is not possible, then committed debt facilities may be used.

5.2 Debt Ratios and Limits

5.2.1 These are the prudential limits, recognised by Councils lenders as being the maximum limits within which it is prudent to operate.

5.2.2 The Financial Strategy sets limits on debt in the context of the long-term planning assumptions, budgets and the impacts on residents. The financial strategy limits could be equal to or less than these prudential limits. Subject to extenuating circumstances, Council will operate within the limits as adopted in the LTP.

5.2.3 The following prudential limits are maximums, which cannot be exceeded and are based on the LGFA ratios.

Ratio	Policy Limits
Net debt as a percentage of total revenue	<17%
Net Interest as a percentage of total revenue	<20%
Net Interest as a percentage of annual rates income	<25%
Liquidity	>11%

5.2.4 Definitions for interpreting these limits:

- Total Revenue is defined as operating revenue less non-government capital contributions (for example, financial contributions and vested assets).
- Net Debt is defined as total debt less liquid financial assets and investments.
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

5.3 Financing Mechanisms

5.3.1 Council can acquire debt from a variety of mechanisms including:

(a) Commercial Paper (CP),
(b) Committed bank facilities,
(c) LGFA borrowing,
(d) Accessing the debt capital markets directly,
(e) Finance lease, or
(f) Internal borrowing from reserve funds.

5.3.2 Councils access to cost effective borrowing is largely driven by its ability to assess rates, maintain a strong financial standing and manage relationships with investors, LGFA and financial institutions/brokers.

5.4 NZ Local Government Funding Agency Limited

5.4.1 Council may borrow from the LGFA and, in connection with that borrowing, may enter the following related transactions to the extent considered necessary or desirable:

(a) contribute a portion of borrowing back to the LGFA as an equity contribution to the LGFA (e.g., 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) Secure borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over Councils rates and rates revenue.
(e) subscribe for shares and uncalled capital in the LGFA.

5.5 Security

5.5.1 Council approach to security is:

(a) debt is generally secured by way of a charge over rates and rates revenue. The details of this are contained in a Debenture Trust Deed (“DTD”), or similar.
(b) Council can offer deemed rates as security for general borrowing programs. From time to time, by resolution, security may be offered by providing a charge over one or more assets.
(c) physical assets will be charged only where:
   (i) there is a direct relationship between the debt and the purchase or construction of the asset, which it funds e.g., an operating lease, a building, project finance,
   (ii) Council considers a charge over physical assets to be appropriate,
   (iii) any pledging of physical assets must comply with the terms and conditions contained within the DTD.

5.5.2 A DTD is an overarching security document under which all lenders share the same security (a charge over rates), with the way in which lenders share it dictated by the DTD. Without a DTD, a new security sharing arrangement would need to be entered into each time a new lender was added.

5.6 Guarantees and other Financial Arrangements

5.6.1 Financial arrangements may be made in exceptional circumstances. This includes appropriate due diligence and an established extraordinary need prior to making advances.

5.6.2 Appropriate accountability reporting, monitoring, and security (where possible) as determined by resolution.

5.6.3 Council may act as guarantor to financial institutions on loans or enter incidental arrangements for organisations, clubs, or trusts, when the purposes of the loan are in line with Councils strategic objectives.

5.6.4 Council cannot guarantee loans to CCTO’s (LGA s.62) however, the Local Government Borrowing Act 2011 exempts the LGFA from this requirement meaning Council can provide guarantees on the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.

5.6.5 Council can on lend to subsidiaries of Council, where that subsidiary is 100% owned by Council, or 100% owned alongside other Council entities. Council cannot lend to subsidiaries that are not a 100% Council owned.

5.6.6 All guarantees will be legally documented with appropriate security and protection for the level of risk. This may include an expectation that Council would rate the guaranteed party to recover any losses. All guarantees and their conditions will be approved by resolution.

5.6.7 Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. The sum of all guarantees will be limited to 10% of available borrowing capacity.

5.6.8 All guarantees and other financial arrangements are disclosed in the Annual Report.

5.7 Liquidity (Short-term Borrowing)

5.7.1 Council can use short-term borrowing using overdraft, committed bank facilities, or LGFA debt, to efficiently manage short-term liquidity. Liquidity is an important element of Councils financial resilience to respond to unplanned events.

5.7.2 Rates and the timing of collection of rates has the greatest impact on Council cash flow. Short-term borrowing provides liquidity essential for prudent financial management in managing cash flows. As part of Councils' cash management plan, Council typically borrows from April through to November, repaying the debt from rates income.

5.7.3 The LTP 2024-34 forecasts external debt to fund capital expenditure. This presents an opportunity to better manage both short- and long-term debt to meet a variety of needs. Debt management is part of Councils overall cashflow planning and management.

5.7.4 Borrowing for less than 90 days is considered debt for the purposes of the restrictions on lending provided in the LGA and security for short-term borrowing is subject to the DTD.

5.8 Finance Leases

5.8.1 Council will enter finance leases where a business case has been prepared considering the whole of life costs of the arrangement.

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

(a) The period of indebtedness is less than 181 days (including rollovers); or
(b) 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 Council.

5.9 Reserves Funds and Internal Borrowing

5.9.1 Council maintains financial reserves as an essential part of its financial strategy. By collecting and holding cash in reserves, Council can manage intergenerational equity matters and smooth the impact of lumpy or unexpected cash flows. Reserves funds are recorded separately to maintain transparency and accountability.

5.9.2 Internal borrowing is used where surplus cash is available in reserve funds and where it is cost effective to use these funds to reduce potential external debt against the expected returns from retaining the funds for financial investments.

5.9.3 To maintain the real value of reserve funds for future spending, Council will ensure that:

(a) the cost of internal debt is weighted average borrowing cost of council's external debt (calculated quarterly).
(b) reserves that are used for internal or external investment is determined by resolution of Council.

6. Risk Management and Reporting

The Treasury Risk Management Policies cover matters applicable to both Investment Policies and Liability Management Policies.

6.1 Risk Management

6.1.1 Investment returns and borrowing costs are material to rates and funding Councils activities. These returns and costs can be volatile. Identifying and managing risks is critical to effective management of investments and liabilities.

6.1.2 The SIPO outlines Councils approach to Risk Management for Financial Investments.

6.1.3 The definition and recognition of interest rate, liquidity, funding, investment, counterparty credit, interest/market, operational and legal risk to Council is detailed below.

Interest Rate Risk (Income)

6.1.4 Interest rate risk (income) is the risk that investment returns from monies on deposit are lower than forecast, or lower than the current market interest rate due to duration. Council may also be exposed to this form of interest risk where it needs to break term deposits.

6.1.5 Council manages exposure to this risk by:

(a) Matching term deposits to the timeframes for use of the cash,
(b) Actively managing surplus cash, and
(c) Limiting term deposit duration to 24 months.

Interest Rate Risk (Borrowing)

6.1.6 Interest rate risk (borrowing) is the risk that borrowing rates are higher than forecast.

6.1.7 Interest rate risk management has the objective of containing interest rate exposures to:

(a) give a sufficient level of certainty to funding costs while, at the same time, allowing Council to participate if interest rates and credit spreads move favourably.
(b) control variations in interest expense for the debt portfolio from year to year, taking into consideration any relevant budgetary assumptions.
(c) recognise exposure to the local and international economies and maintain sufficient flexibility in its interest rate risk management profile to enable us to respond when considered appropriate.

6.1.8 Council will maintain fixed interest rate cover of its core debt within the control limits detailed in the table below. Fixed rate debt is defined as all debt that has at least one more rate reset outstanding or has more than six months to maturity in the case of a fixed rate term loan. Compliance with these parameters only apply where external debt is greater than $10 million. For the purposes of interest rate hedging, core debt projections should be supported by budgetary analysis. Core debt is defined as the level of current and projected future debt as determined by the Corporate Services Manager in consultation with the Chief Executive.

Period of actual and forecast external debt	Fixed Rate Hedging Parameters	
	Minimum	Maximum
0 - 2 years	40%	100%
2 - 4 years	20%	80%
4 - 8 years	0%	60%

6.1.9 The implementation of fixed rate hedging parameters assumes dealing lines are available from Councils bank(s), but also recognises that fixed rate debt can be achieved by funding using Fixed Rate Bonds.

6.1.10 Council is permitted to enter an ISDA Master Agreement with its main bank to provide Council access to swaps, options, and agreements to manage its interest rate risk.

6.1.11 Council is not permitted to use swaps, options, or agreements to speculate on interest rates.

6.1.12 Risk management activity outside of policy parameters requires approval by resolution.

6.1.13 If more active management is deemed to be required, the following may be done:

6.1.14 to minimise exposure to interest rate risk greater than the market – roll over debt regularly, or to minimise exposure to interest rate fluctuations – use fixed interest borrowing or banking facilities such as interest swaps, options, and agreements.

Liquidity and Funding Risk Management

6.1.15 Liquidity risk management has the objective of ensuring that adequate liquid assets and funding sources are always available to meet the short-term commitments of the Council in an orderly manner. Appropriate cash flow reporting mechanisms will be maintained to monitor the Council's estimated liquidity position over the next twelve months. To manage liquidity risk, the Council must maintain its liquidity level at a minimum of 110% of the projected peak debt level over the ensuing 12-month period. Liquidity is defined in Section 4.2.3.

6.1.16 Funding risk is defined as an inability to secure access to external lines of credit sufficient to enable the Council to achieve its strategic short-term and long-term objectives where the financial requirements to achieve those goals exceed the funds being generated from operating activities. Funding risk covers both working capital requirements and core debt. In managing funding risk:

- the full Council must approve all new debt funding facilities and/or revision to the parameters of existing debt funding facilities, and
- ensure that all the Council's debt is not exposed to excessive refinancing risk at any one time, where Council debt is greater than $10.0 million, no more than 40% of all debt facilities should mature within a rolling 12-month period, and
- the CSM must renegotiate/replace maturing bank funding facilities on a timely basis. Specifically, the CSM must obtain an indicative letter of offer no later than two months before the maturity of any bank facility.

6.1.17 Investments and cash will be managed to ensure that sufficient funds are available to meet repayment or refinancing commitments, along with interest payments.

Counterparty Credit Risk

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

6.1.19 To avoid undue concentration of exposures, financial instruments should not be concentrated with a single counterparty. Maturities should be well spread. The approval process must consider the liquidity of the market in which the instrument is traded and re-priced.

6.1.20 Credit risk will be regularly reviewed. Treasury related transactions are only entered into with organisations specifically approved by resolution.

6.1.21 Limits should be spread amongst several counterparties to avoid concentrations of credit exposure.

6.1.22 The matrix contained in Appendix 1 contains the investment criteria for money market and fixed interest investment activities not covered by the Managed Fund.

6.1.23 Financial investments are normally held to maturity date, although these could be liquidated prior to maturity.

7. Reporting/Accountability

Treasury Oversight Committee

Council will run an internal Treasury Oversight Committee for the day-to-day management of the treasury function to ensure Council compliance with the Treasury Policy and where applicable minimising costs and maximising returns within the risk limitation set. The committee will consist of the General Manager Business Support, the Chief Financial Officer, another General Manager and will be advised by Councils external treasury advisers. The committee will report to the Chief Executive and may co-opt other members with required skills or experience as necessary. The terms of reference for the Committee are to manage the day-to-day treasury function of the council which includes investments (noting that Councils Managed Fund is managed independently), debt management, debtors, liquidity management, performance reporting, revenue monitoring, rates management and any other function of a treasury nature that is required.

Council will receive reports which:

(a) monitor compliance with this and other policies and plans, as it relates to debt and investments, including limits.
(b) monitor the market and evaluate the performance of debt and investments against the market and assess appropriateness of policy implementation.
(c) report on treasury activities including changes to investment, borrowing and liquidity.

The table below outlines specific investment and reporting procedures for each of the investments.

Investment type	Investment Management procedures	Investment Reporting
South Port New Zealand Limited	The Finance and Performance Committee monitor and review its holding in SPNZ. Formal recommendation to Council on shareholding levels must occur at least every three years. This reflects a desire to ensure that the Council has an appropriate mix of investments and is not unnecessarily exposed to any one investment.	Regular reporting on South Port from both the Finance and Performance Committee and South Port Governors and or Executive.

Property	Council undertakes an annual review of its property portfolio and consider the disposal of any properties.	Use and revenue from the property portfolios is reported to Council on a quarterly basis and is included in the annual report of Council.
Liquidity	The holdings will be invested to maximize returns while maintaining adequate working capital to meet projected cash flow requirements.	A schedule of short-term funds is to be presented monthly to Council.
Southland Diversified Investment Portfolio (Managed Fund)	The SIPO must be reviewed and approved by Council at least every two years.	• Reporting is in line with the expectations set out in Council SIPO.

8. Definitions

The following definitions are used within the policy:

- ***Borrowing:*** the act of acquiring debt, including bank finance, finance lease, hire purchase or credit greater than 91 days.
- ***Borrowing arrangements:*** any arrangements to acquire debt or any incidental arrangements. It does not include amounts owing to creditors for purchases in the normal course of business.
- ***CCO:*** Council Controlled Organisation, as defined by the Local Government Act 2002.
- ***CCTO:*** Council Controlled Trading Organisation, as defined by the Local Government Act 2002.
- ***Debt:*** the total amount borrowed on Council balance sheet.
- ***DTD:*** Debenture Trust Deed, a contractual arrangement between Council and its debt funders to providesecurity.
- ***Incidental arrangements:*** includes various arrangements associated with debt, including risk management tools such as swaps, caps and guarantees.
- ***LGA:*** Local Government Act 2002.
- ***LTP:*** Long-term Plan as defined in the Local Government Act 2002.
- ***LGFA:*** Local Government Finding Agency, a Council Controlled Organisation established to provide debt funding to local government in New Zealand.
- ***Operational assets*:** total assets of Council, excluding infrastructural assets.
- ***Prudence:*** financial prudence, a requirement of the Local Government Act 2002, is a judgement call Council must make on all financial dealings having regard to financial circumstance as well as the well-being of the community.

9. Appendix 1: Authorised Investment Criteria

(not covered by the managed fund)

* The combined holding of Corporates and Financials shall not exceed 70% of the total portfolio

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 $(M)
New Zealand Government	100%	• Government Stock • Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 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	$3.0 $2.0 $3.0 $5.0
New Zealand Registered Banks	100%	• Call/Term Deposits/Bank Bills/Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of A+ or better	$10.0 $3.0 $5.0
State Owned Enterprises	50%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB+ or better Long term S&P rating of A+ or better	$3.0 $1.0 $3.0
Corporates*	30%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 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	$2.0 $1.0 $2.0 $3.0
Financials*	20%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 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	$2.0 $1.0 $2.0 $3.0

The combined holding of Corporates and Financials shall not exceed 40% of the portfolio.

The combined holdings of entities rated BBB and/or BBB+ shall not exceed 25% of the portfolio.

Other relevant documents

Other relevant documents include:

- The Financial Strategy.
- Financial policies.
- Significance and Engagement Policy.

Statement(s) of Investment Policy and Objectives (where available).