Te Hui o Te Kaunihera ā-Rohe o Heretaunga
Hastings District Council
Risk and Assurance Committee Meeting

Kaupapataka

Agenda

Te Rā Hui: Meeting date:	**Monday, 14 February 2022**
Te Wā: Time:	**9.00am**
Te Wāhi: Venue:	**Council Chamber Ground Floor Civic Administration Building Lyndon Road East Hastings**
Te Hoapā: Contact:	**Democracy and Governance Services P: 06 871 5000 | E: democracy@hdc.govt.nz**
Te Āpiha Matua: Responsible Officer:	**Group Manager: Corporate - Bruce Allan**

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HASTINGS DISTRICT COUNCIL
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Phone **06 871 5000** | **www.hastingsdc.govt.nz**
TE KAUNIHERA Ā-ROHE O HERETAUNGA

Risk and Assurance Subcommittee – Terms of Reference

Fields of Activity

The Risk and Assurance Committee is responsible for assisting Council in its general overview of financial management, risk management and internal control systems that provide;

- Effective management of potential risks, opportunities and adverse effects.
- Reasonable assurance as to the integrity and reliability of the financial reporting of Council.
- Monitoring of Council's requirements under the Treasury Policy.
- Monitoring of Councils Strategic Risk Framework.

Membership

- Membership (7 including 4 Councillors).
- Independent Chair appointed by Council.
- Deputy Chair appointed by Council.
- 3 external independent members appointed by Council.

Quorum – 4 members

Delegated Powers

Authority to consider and make recommendations on all matters detailed in the Fields of Activity and such other matters referred to it by Council.

Monday, 14 February 2022

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Agenda

Mematanga: Membership:	*Koromatua* **Chair:** Jon Nichols – External Independent Appointee *Nga Kai Kaunihera* **Councillors:** Simon Nixon (Deputy Chair), Alwyn Corban, Tania Kerr, and Geraldine Travers Heretaunga Takoto Noa Māori Standing Committee appointee : Robin Hape External Independent Appointee: Jaun Park Mayor Sandra Hazlehurst
Tokamatua: Quorum:	4 members
Kaihokoe mo te Apiha Officer Responsible:	Group Manager: Corporate – Bruce Allan
Te Rōpū Manapori me te Kāwanatanga Democracy & Governance Services:	Christine Hilton (Extn 5633)

Te Rārangi Take

Order of Business

1.0 **Apologies** – *Ngā Whakapāhatanga*

At the close of the agenda no apologies had been received.

At the close of the agenda no requests for leave of absence had been received.

2.0 **Conflict of Interest** – *He Ngākau Kōnatunatu*

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the Manager: Democracy and Governance (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

3.0 **Confirmation of Minutes** – *Te Whakamana i Ngā Miniti*

Minutes of the Risk and Assurance Committee Meeting held Monday 29 November 2021.
(Previously circulated)

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: **Regan Smith, Risk and Corporate Services Manager**
Steffi Bird, Risk Assurance Advisor

Te Take:
Subject: **Emerging Risk Review**

1.0 Purpose and summary - Te Kaupapa Me Te Whakarāpopototanga

1.1 The purpose of this report is to present a range of emerging risk signals for the Risk and Assurance Committee to consider.

1.2 **Known Risks**

1.3 The following risks that are currently included on the Council's Strategic Risk Register, show growing levels of uncertainty:

Risk	Current Response	Comment
Failure of climate adaptation	Council internal work programme is focused on establishing a carbon budget benchmark and resulting action programme. Response for community adaptation is focused on awareness of hazard areas.	The pace of climate adaption continues to receive attention from the scientific community. Ensuring this receives adequate attention is important despite immediate work programme challenges.
Significant operations failure	Council is focused on business continuity planning to respond to the continually changing circumstances.	Despite having robust plans in place, it is still a likelihood that COVID-19 will cause unsustainable absenteeism levels affecting service delivery.
Financial sustainability	Council is monitoring its financial forecasts in the current financial	Pressures from COVID-19 interruptions, possible inflation

	year given reduced income and increased costs with the impacts of the COVID-19 protection framework. Current Annual Plan commitments are being reviewed to achieve an acceptable rate rise.	pressure (see emerging risks) and a significant central Government legislative review programme, may require reassessment of the targeted Annual Plan work programmes.

Item 4

1.4 **Emerging Risks:**

1.5 There are indications that the following risks may emerge as factors that require additional attention in the short to medium term:

Risk	Possible Implication	Comment
Inflation	Inflationary pressure including, interest rates rises and increasing cost of insurance are beginning to show. Note: the World Economic Forum Global Risk Report 2022 includes "asset bubble burst" and "prolonged economic stagnation" in the top 5 risks facing New Zealand.	Inflationary pressure may result in some projects becoming unsustainable.
Supply chain	The effects on supply chain from COVID-19 are likely to linger, with impacts on shipping schedules and access to raw materials likely.	It may not be possible to secure sufficient supplies to support the current growth. Requiring delaying, reprioritisation of projects, or possibly stopping planned projects.
Talent	Retention and attraction of staff with the required skills to deliver Council's services continues to be a potential challenge post COVID.	Delivery of planned projects will become difficult without key staff to undertake technical work.
Energy Costs.	Pressures to de-carbonise are likely to put pressure on electricity supply, while fuel prices continue to show upward trends. Both of these factors are likely to make energy more expensive in the medium term.	Energy supply concerns will make delivering new projects more difficult.

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee Meeting receive the report titled Emerging Risk Review dated 14 February 2022.

Attachments:

There are no attachments for this report.

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: From:	**Jennie Kuzman, Health and Safety Manager**
Te Take: Subject:	**Health & Safety Update Report**

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

1.1 The purpose of this report is to provide an update to the Committee in regards to the management of Health and Safety risks within Council.

1.2 This report provides information on:
- Health and Safety at Work Reform
- Health and Safety forward work plan
- COVID-19 response update

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled Health & Safety Update Report dated 14 February 2022.

3.0 Background – *Te Horopaki*

3.1 The purpose of this report is to provide information to the Committee in regards to the management of Health and Safety risks within Council.

3.2 This issue arises due to the Health and Safety at Work Act 2015 and the requirement of that legislation for Elected Members to exercise due diligence to ensure that Council complies with its Health and Safety duties and obligations.

4.0 Discussion – *Te Matapakitanga*

4.1 **Health and Safety at Work Reform**

4.2 In September 2021, the Government announced changes to a range of Health and Safety at Work Act Regulations in relation to plant and structures (this covers a wide range of topics: work machinery, equipment and tools, mobile plant such as tractors, quad bikes and elevated work platforms, existing regimes for pressure equipment, cranes, and fairground rides, working at heights and excavations). This has an obvious impact upon Council operations in particular construction and infrastructure projects.

4.3 The Ministry of Business, Innovation and Employment (MBIE) have advised that an early draft of the proposed regulations will be released in early 2022 for feedback, and final regulations are expected to be in place by late 2022. Further information in relation to the proposed reform is attached **(Attachment 1).**

4.4 **Health and Safety forward work plan**

4.5 The table below highlights the priority work for the HDC Health and Safety Team for the remainder of 2022. However, as per the rest of Council operations, this work plan is subject to potential business disruptions from the impact of Community transmission of COVID-19.

4.6 *Table 1: Health and Safety Priority Work Plan 2022*

Health & Safety policies & documents to be reviewed: • Health & Safety Manual • Working Alone Policy • Overarching Asbestos Management Plan • Permit to Work • Conflict & Violence Management Policy • Mauri Tū Mauri Ora (Wellbeing) Framework • Rehabilitation & Fit-For-Work Policy	Health & Safety critical risk profiles to be reviewed: • Working at Height • Plant & Machinery
Health exposure monitoring to be completed: • Omarunui Landfill: Vibration and Gases • Henderson Road RTS: Vibration, Noise, Particulates and Gases • Cemetery Operations: Vibration, Noise, Particulates and Gases • Water Civil Operations: Noise, Particulates and Gases	Audits / Inspections to be completed: • Annual facility inspections (Internal) • Contractor audits (Internal) • SafePlus H&S assessment (External)

4.7 Progress on this work plan will be reported to the Committee at the next meeting.

4.8 **COVID-19 response update**

4.9 As previously reported to the Committee in the November 2021 meeting, the established COVID-19 Response team has been supporting the organisation through its business continuity response and planning for any COVID-19. This approach continues to work well and is providing a joined up organisation-wide approach to managing the constantly changing environment.

4.10 Given the fast moving and constantly changing environment that we are operating in, a verbal update will be provided to the Committee based on the most up-to-date information at that time.

Attachments:

1⇩	Health and Safety at Work reform - September 2021	HR-03-01-22-361

Summary of Considerations - *He Whakarāpopoto Whakaarohanga*

Fit with purpose of Local Government - *E noho hāngai pū ai ki te Rangatōpū-ā-Rohe*

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural wellbeing of communities in the present and for the future.

Link to the Council's Community Outcomes – *Ngā Hononga ki Ngā Putanga ā-Hapori*

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

Sustainability - *Te Toitūtanga*

Financial considerations - *Ngā Whakaarohanga Ahumoni*

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

Consultation – internal and/or external - *Whakawhiti Whakaaro-ā-roto / ā-waho*

Risks

Rural Community Board – *Te Poari Tuawhenua-ā-Hapori*

Health and Safety at Work reform

The Government has announced changes to a range of outdated, complex and incomplete health and safety requirements. New health and safety regulations will provide more clarity and certainty for businesses and better safety and health for workers.

From 2008 to 2019, on average 54 people a year died at work from injuries involving plant (e.g. machines, vehicles and equipment) and structures (e.g. scaffolding and excavations). That's three-quarters of all work-related injury deaths. New Zealand's work-related acute fatalities are high by international standards, approximately twice that of Australia and four times the rate of the United Kingdom.

During the public consultation, many stakeholders supported changing the regulations that apply to plant and structures and wanted greater clarity and certainty. The changes have been designed to ensure the rules are clear, effective, flexible, durable and proportionate, making it easier for businesses to manage risks, and better ensure people come home from work safe and healthy.

The changes will create better regulations and release business from the burden of not being clear of what's required of them.

The Government will release a draft of the new plant and structures regulations in early 2022. People will have the chance to comment on how the changes are best implemented during that process. Support and guidance will be provided to businesses to give them time to prepare. The final regulations are expected to be in place by late 2022.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

New Zealand Government

Summary

Plant and structures are everywhere – they are used in a wide range sectors and for many different purposes at work. They are involved in 79% of work related injury fatalities. Risks associated with plant and structures kill and seriously injure people every day.

Plant includes any vehicle, machinery, equipment, tool, vessel and/or aircraft, appliance, container, implement or tool. Examples include cranes, tractors, scaffold components, conveyors, forklifts, power tools, boilers and theme-park rides.

Structures include anything that is constructed, whether fixed or moveable, temporary or permanent. Examples include scaffolding and excavations. The new regulations will apply to structures not already covered by the Building Act.

A Person Conducting a Business or Undertakings (PCBU – usually the business entity, not an individual) will need to apply the Prescribed Risk Management Process for any work with plant, mobile plant, work at height and on excavations.

The Prescribed Risk Management Process is an existing process set out in the General Risk and Workplace Management Regulations 2016. It requires PCBUs to identify hazards that could give rise to reasonably foreseeable risks, manage them using a hierarchy of control measures, maintain effective control measures, and review and revise control measures to make sure they're effective.

The Government has designed the regulations to be proportionate, effective, clear and cost-effective so workers are protected from harm and businesses know how to do this well. Some of the regulations manage risks that are common across New Zealand workplaces, such as machinery and equipment, while others will only apply to workplaces with higher risk plant such as cranes and boilers. The regulations have been designed to be proportionate to these varying levels of risk, ensuring that businesses are taking the right level of action and not doing more than they need to.

3

The proposed regulations will layer controls according to risk

Existing duties in the Health and Safety at Work Act, which apply to all plant and structures

- Ensure the health and safety of workers and others is not put at risk (s36)
- Provide and maintain safe plant and structures (s36)
- Businesses must ensure the safe use, handling, and storage of plant and structures (s36)
- Businesses that control plant must ensure it is without risks to health and safety (s37)

Regulatory controls that will apply to all plant and structures

- Obligations on designers, manufacturers, importers, suppliers of plant and structures
- Obligations on installers/ commissioners/ constructors of plant and structures
- Obligations on businesses that manage plant, eg adequate guarding and safety features

Additional controls that will apply to specific plant with specific risks

- Eg protections for the operator and passengers, safe operating methods
- Eg mobile plant, lasers, forklifts, scaffolding etc

Additional controls that will apply to high risk plant

- Design register
- Extra duties on designers, manufacturers, suppliers, and importers
- Eg vehicle hoists, scaffolding componentry

Additional controls that will apply to highest risk plant

- Register of individual items of plant
- Eg boilers, tower cranes, amusement devices (fairground rides), steep slope harvesting equipment

The higher the risk of the plant or structure, the **more layers** of controls that apply

LOWER RISK
FEWER CONTROLS

HIGHER RISK
MORE CONTROLS

Fewer controls means for example:

- General duties
- Performance or outco me-based regulations

More controls means for example:

- Authorisations eg permit, register
- Mandatory controls in regulations
- Sometimes prescriptive

The changes in more detail

Working with Plant

'Plant' includes machinery, equipment, vehicles and tools. Almost 65% of workplace deaths from injury involve plant.

Relevant sectors: manufacturing, construction, agriculture, forestry, transport, fisheries.

Overview of changes:

These changes modernise and build on the existing requirements to improve the management of risks from working with dangerous machinery parts, and the operation, cleaning and maintenance of machinery, tools and equipment.

- A specified process used to determine appropriate guarding for each plant.
- Plant is safely installed, maintained, cleaned, and stored.
- Operational controls, emergency stops and warning devices are of safe design.
- Specific steps are taken to avoid unsafe use or alterations.
- Presence-sensing safeguarding systems are monitored, and thorough records are kept of testing, inspection, maintenance and alterations.
- Additional design and operational requirements for plant that lifts or suspends loads, and for lasers.

5

Working with mobile plant

Mobile plant includes vehicles and other equipment that is mobile and is powered, for example bulldozers, quad bikes, mobile cranes, forklifts, elevating work platforms, tractors, and vehicles like cars, vans and trucks used for work.

More than half of all injury fatalities at work involve mobile plant. Mobile plant also causes significant injury harm in WorkSafe's priority sectors, with mobile plant each year involved in 41% of injury deaths in construction, 23% of injury deaths in manufacturing and 73% of injury deaths in agriculture.

Relevant sectors: agriculture, forestry, transport, construction, fisheries, transport, warehousing.

Overview of changes:

These changes will modernise and replace the current requirements for roll-over protection and seatbelts. They provide a flexible, fit-for-purpose approach that protects operators, passengers and bystanders.

› The Prescribed Risk Management Process must be applied to specific risks, such as overturning, collision, or being thrown off.
› Operators must be protected and passengers are only allowed when they have protections at least the same as the operator, so far as is reasonably practicable.
› A suitable combination of devices should protect the operator such as roll-over or crush protection, seatbelts and helmets.
› The risk from collisions must be managed through an adequate field of vision and suitable warning devices, so far as is reasonably practicable.
› Additional design and operational controls will be required, to manage the specific risks from forklifts.

6

Working with high-risk plant

High risk plant includes equipment or machinery that is associated with the highest risk, like cranes and pressure equipment.

Relevant sectors: manufacturing, construction, forestry, amusement activities (including snow sports), vehicle repair.

Overview of changes:

Current requirements for work with high-risk plant have been modernised by revising and consolidating them into a single set of obligations. The requirements will also be extended to additional types of plant such as steep-slope forestry harvesting equipment, hoists, and concrete-placing equipment.

- Suppliers and operators of some plant must ensure it is a registered design. The design must be verified by a qualified engineer and recorded on a central register, operated by WorkSafe. This will help businesses use only high-risk plant that is fit for purpose and meets the appropriate standards.
- Operators will register specified items of high-risk plant after they have been checked by an equipment inspector. This register will make it clearer which plant has been inspected, and when.

Amusement devices

The new high-risk plant regulations will apply to amusement devices. As with the Australian Model Regulations, qualifying devices will be determined from a risk-based definition and will include some gravity-operated equipment, certain fairground rides, and larger inflatable devices such as large scale blow up slides, which can seriously injure when they deflate.

Relevant sectors: tourism, recreation.

Overview of changes:

- We will adopt the risk-based definition of “amusement device” from the Australian Model Regulations, which incorporates a broader range of activities, but we will modify it for New Zealand.
- Territorial authorities will issue permits for higher-risk portable amusement devices only.
- The existing model engineering (model trains) inspection regime will be kept. The Model Engineering Association of NZ will be audited by International Accreditation NZ to be recognised as an inspection body.
- There will be new requirements for operator training, inspection and maintenance of amusement devices.

Upstream businesses

Designers, suppliers, importers and manufacturers will be required to take steps to make plant entering New Zealand workplaces safer, and therefore reduce harm to workers. These requirements clarify what these duty holders must to do meet their existing responsibilities under the Health and Safety at Work Act. They complement the duties introduced in the 'plant' section above, and ensure that responsibility for safety sits across the whole supply chain.

International research shows that the most effective risk control measure (eliminating hazards) is often cheaper, more effective and more practical to achieve at the design or planning stage, rather than managing risks later in the lifecycle, like having to retrofit safety features.

Relevant sectors: anyone who designs, manufactures, imports, supplies or modifies plant.

Overview of changes:

- Critical safety information must be provided across the supply chain.
- Upstream businesses manage risks and hazards identified when designing, manufacturing, supplying or importing plant.
- Any faults in second-hand plant must be shared with the person being supplied the plant (except when the second-hand plant is supplied 'as is'.)
- Guarding and safety features must meet the equivalent requirements placed on businesses that use the plant.
- PCBUs requesting or ordering new designs of plant must provide designers with any information about reasonably foreseeable risks and hazards at the workplace where the plant or structure will be used.

Working at height

Working at height is common to many workplaces, most obviously in commercial and residential construction, but also occurs across agriculture, in logging and forestry, manufacturing, warehousing and many other sectors.

Falls from height are most common in the construction sector - they occur at three times the rate of the manufacturing sector, and caused 18% of the cost of construction sector injuries in 2015.

Relevant sectors: most commonly in construction, but also in many other sectors including manufacturing, forestry, agriculture.

Overview of changes:

The changes will update, clarify and simplify the existing working at height requirements so that they are more flexible to the circumstances and proportionate to the risk.

- Businesses must apply the Prescribed Risk Management Process to all work at height, to ensure that these risks are managed in a consistent, proportionate way. This new approach will remove the current exemptions for work at heights below three metres and in agriculture, to ensure consistent and proportionate protection.
- Businesses will be required to follow a hierarchy of controls for construction work. This means applying a step by step process in descending order from a higher level of protection to a lower level - starting from providing a safe working platform, to a fall prevention system, to finally a fall arrest system. A combination of controls may also be used if appropriate. To accommodate minor work that is of low risk, such as clearing out a gutter or minor repairs, work from a ladder is permitted in specified circumstances.
- The licensing and qualifications for scaffolding construction and inspection will be modernised to reflect current industry practice. The detail of the high risk work licensing process for scaffolders will be consulted on as part of the early draft of the regulations.

Excavation work

Excavation work can occur anywhere and includes open or pit excavations, like building or road upgrade works, potholing, trenches and retaining wall, and shafts and drives. Between 2008 – 17 excavations were involved in 4 deaths and 27 serious injuries.

The health and safety risks from quarrying are addressed in separate regulations, and quarrying will be outside of the works to be covered.

Relevant sectors: most commonly in construction, but also at times in other sectors including agriculture and forestry.

Overview of changes:

- The Prescribed Risk Management Process is to be followed for specific risks associated with all excavation work, regardless of depth.
- The PCBU with management or control of the worksite must check for underground services to address the risks of harm and economic disruption from line strikes.
- For excavation work greater than 1.5m deep, existing controls for shoring and fencing will be retained and revised, as well as requirements for notifying WorkSafe.
- Strengthened competency requirements for determining whether shoring is required to prevent ground collapse.

11

Offences

Offences and penalties will be proportionate to the potential harm, and consistent with existing offences and penalties in health and safety at work regulations.

Overview of changes:

- Where we are modernising requirements, we will also update the offences, penalties and infringements. Where requirements are new, we will introduce new offences, and appropriate penalties and infringements.
- We will consult on these alongside the early draft of the regulations. Maximum penalties will vary depending on whether the person is an individual or corporate.
- The Health and Safety at Work Act:
  - Allows for a maximum penalty of $20,000 for individuals and $100,000 for non-individuals such as corporates for not having the correct authorisations. These penalties will apply to failure to have a scaffold licence or high-risk plant registration.
  - Provides for fines up to a maximum of $50,000 for other regulatory offences, (aligning with comparable regimes), and 'on-the-spot' fines of $300 to $9,000 for infringement offences relating to minor or less serious matters.

Find out more on the MBIE website and sign up
to receive the draft of the regulations
when it is released in early 2022:

www.mbie.govt.nz/plant-and-structures

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LSE 6748

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: From:	**Bronwyn Bayliss, Group Manager: People and Capability**
Te Take: Subject:	**Reform Update**

1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga*

1.1 A comprehensive update on reform matters was provided to the 29 November 2021 meeting and there have been no substantive changes to the various reforms since that report.

1.2 The 3 Waters National Transition Unit issued in January a Transition information pack and officers will keep a close watch on opportunities for the region to be involved in the transition process if that is in the best interest of the wider region.

1.3 Officers will provide verbal updates at the meeting as appropriate.

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled Reform Update dated 14 February 2022.

Attachments:

There are no attachments for this report.

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: From:	**Aaron Wilson, Financial Controller**
Te Take: Subject:	**Treasury Activity and Funding Update**

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

1.1 The purpose of this report is to update the Risk and Assurance Committee on treasury activity and funding issues.

1.2 Since the last update in June, Council has not borrowed any additional funds in the first six months of the current financial year.

1.3 The Council's current total external debt is $205m as at 31 December 2021. Offsetting this is $16.7m of bank deposits, giving a net external debt position of $189m.

1.4 Officers have reviewed the Treasury policy and have recommended some changes to better align with current practice.

1.5 Council is currently compliant with its Treasury Management Policy.

The Reserve Bank of New Zealand (RBNZ) raised its Official Cash Rate (OCR) to 0.75% at its last review on 24 November 2021.

2.0 Recommendations - *Ngā Tūtohunga*

A) That the Risk and Assurance Committee receive the report titled Treasury Activity and Funding Update dated 14 February 2022.

B) That the Committee endorse the recommended changes to the Treasury Policy as reviewed by council officers.

3.0 Background – *Te Horopaki*

3.1 The Hastings District Council has a Treasury Policy which is a summarised version of the Treasury Management Policy and forms part of the 2021-2031 Long Term Plan. Under these policy documents, responsibility for monitoring treasury activity is delegated to the Risk and Assurance Committee.

3.2 Council is provided with independent treasury advice by Miles O'Connor of Bancorp Treasury Services and receives daily and monthly updates on market conditions.

3.3 Under the Treasury Policy, formal reporting to Council occurs quarterly and regular more in-depth treasury reporting is provided for the Risk and Assurance Committee.

4.0 Discussion – *Te Matapakitanga*

4.1 Council's debt portfolio is managed within macro limits set out in the Treasury Policy. It is recognised that from time to time Council may fall out of policy due to timing issues. The Treasury Policy allows for officers to take the necessary steps to move Council's funding profile back within policy in the event that a timing issue causes a policy breach.

4.2 **Attachment 1** sets out Council's overall compliance with Treasury Management Policy as at 31 December 2021.

4.3 Council's current total external debt is $205.7m as at 31 December 2021 ($205.7m as at 30 September 2021). Offsetting this are $16.7m of bank deposits ($31.8m as at 30 September 2021), giving a net external debt position of $189m. This is supported by the Treasury Position 31 December 2021 Report in **Attachment 2.**

4.4 Council has bank deposits totalling $16.7m which is to fund a significant capital spend budget.

4.5 In light of Council's current cash flows being able to meet its funding requirements, it is not expected that Council will engage in any further borrowing apart from just before year end ensuring Council maintains an ability to fund budgeted capital spend in the new financial year and meet Standard and Poors liquidity requirements.

4.6 Council last borrowed $40m with a floating and fixed debt mix in the last quarter of the prior financial year, at very competitive rates, this has enabled a strong cash flow position, but with the lowest possible cost of funds outcome, when compared to where the OCR rates are forecasted to go to.

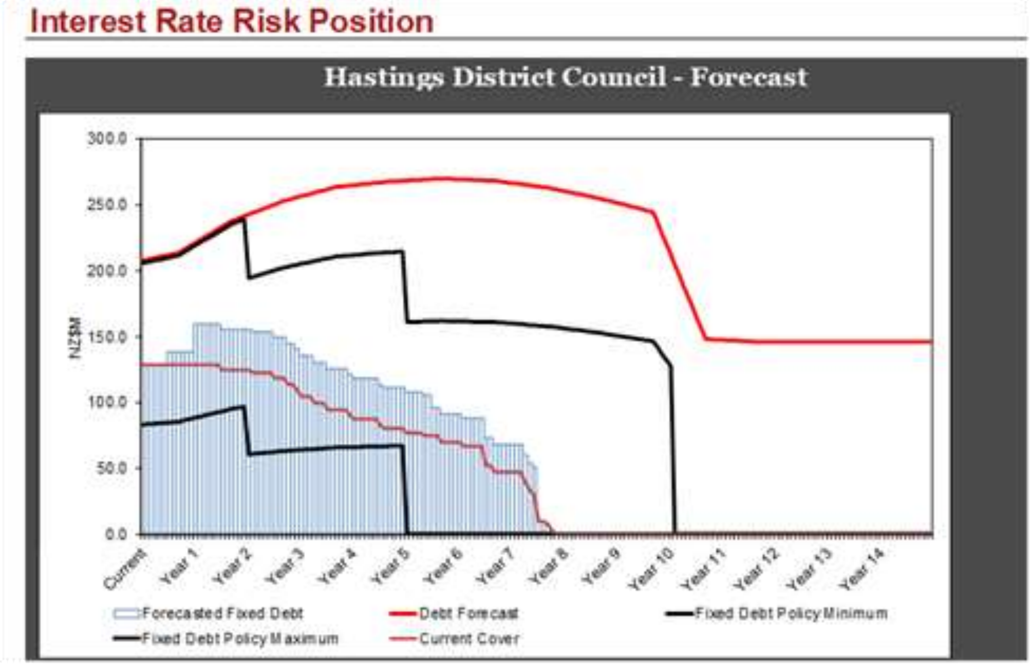
4.7 The mix of floating and fixed debt borrowed was in order to achieve two outcomes, firstly in terms of the fixed debt, to ensure that Council was compliant with Treasury Policy parameters in terms of cover, secondly, the floating portion was to enable Council to continue to suppress and lower the cost of funds wherever possible in light of policy and market considerations.

4.8 In addition to this, officers engaged in a forward start contract for $23m that will become "live" the day before the maturing debt for the same amount comes due in May 2022. Of this $23m, $10m was a fixed interest rate bond, when it comes into effect in May 2022 it will increase the percentage of fixed interest rate cover that Council has, pushing Council towards the mid-point range of policy.

4.9 It should also be noted on the Treasury position dashboard, Council's cost of funds remains low at 2.76%, due to the dropping off of historical high swaps, along with competitive new fixed rates.

4.10 This has been due to a strategy of borrowing at floating rates over the last 2-3 years and "banking" savings that would not be achieved if Council and the treasury advice it received had taken swaps positions based on reserve bank forecasts of the Official Cash Rate (OCR).

4.11 As was requested at the November 2021 Risk and Audit Committee meeting, officers have created a graph that forecasts the future level of debt cover due to commitments of fixing maturing debt over the next 5-15 months.



Graph One: Forecast compared to current position

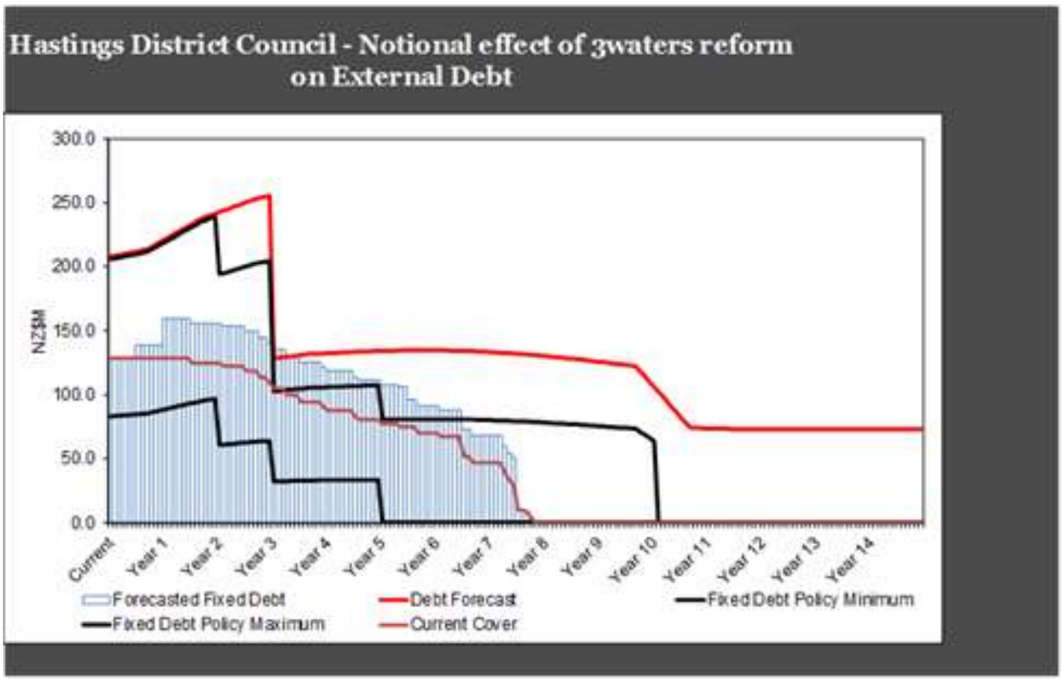
4.12 HDC's current position is the current cover line that shows cover being relatively flat with the cover in play and sitting at $128.5m and declining over time, and sitting lower down between the policy maximum/minimum dark black lines. The bright red line is our forecasted debt based on the LTP just completed.

4.13 The light blue block shows the forecasted cover based on what will be happening over the next 5 -15 months. Officers took out a forward debt contract for $23m back in July 2021 which will become live in May 2022 (in four months' time), this is to rollover maturing debt. Of this amount, $10m was fixed and will take effect from May 2022 and you can see on the graph how the light blue block jumps in in the current period from the current position of $128.5m to $138.5.

4.14 The second factor in this forecast is that in July 2022 officers will repeat this process and will enter into another forward debt contract for $21m, which is the debt that is maturing in May 2023, and is again rolling that debt over. It is expected that all of the new debt will be on a fixed basis, and the effect of this on the cover can be seen in that increase in year one, with cover jumping from $138.5m to $159.5m, ensuring that Council debt is well within policy guidelines going forward.

4.15 Officers are comfortable with the level of cover currently in place in relation to the level of debt held. There are a number of reasons for being cautious around committing Council to additional swap cover at this time.

4.16 Firstly due to the economic conditions both at a global and domestic level, current swap pricing has already factored in the expected rise in the OCR rates over the 12 months or so, and treasury advisors Bancorp have advised against further contracts at this stage.



Graph Two: <u>Notional effect of 3waters reform on external debt:</u>

4.17 Should the 3waters reform take place, the effect on Council debt will be dramatic, with approximately 50% (say $100m) of Council debt related to the 3 waters. This graph shows the debt forecast (bright red line), falling by 50% based on the reform taking place and the effect also on the max/min policy limits, against the existing and forecasted debt cover that Council would have in place. Note that it is currently unknown how (or if) fixed debt instruments will be transferred to the new entity.

4.18 As can be seen, the debt cover would be in excess of 100% of limits, however until the DIA give further guidelines of how debt and associated costs will be novated over in the new entities, Councils will be awaiting further information.

4.19 Officers have also reviewed the Treasury Policy, this is in line with recent years to review this policy annually. This allows the policy to be kept relevant and up to date whilst ensuring best practice in Treasury controls and prudent management.

4.20 There are a number of small update changes that have either been recommended by officers that will align the treasury policy to the version of the treasury policy in the LTP or are operational by nature. Changes that have been recommended are:

- Adjusting the maximum daily transaction amount (borrowing, investing, interest rate risk management) by the Financial Controller on spend, from $10m to $15m, this aligns with the overdraft facility of $15m that the Council now have. (Table on Page 10).
- Net external debt as a percentage of income changing from 150% to 175% as per LTP resolution (Table in 3.1)
- In Paragraph 5.5.5 officers have removed the word “cheque” from the paragraph now that cheques are no longer used.
- On page 26 have changed to what has already been happening for some time, which is that the Treasury policy is reviewed annually.

5.0 Next steps – *Te Anga Whakamua*

5.1 Council officers will continue to work with Bancorp Treasury Services to keep Council's financing costs to a minimum, maintaining adequate liquidity, while maintaining compliance with Council's Treasury Policy.

Attachments:

1⇩	Treasury Dashboard 31st December 2021	FIN-15-01-22-26
2⇩	Treasury Policy Tracked Changes 2022	Fin-09-01-22-203

Item 7

Summary of Considerations - *He Whakarāpopoto Whakaarohanga*

Fit with purpose of Local Government - *E noho hāngai pū ai ki te Rangatōpū-ā-Rohe*

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural wellbeing of communities in the present and for the future.

Link to the Council's Community Outcomes – *Ngā Hononga ki Ngā Putanga ā-Hapori*

This proposal promotes the economic wellbeing of communities in the present and for the future.

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

There are no known impacts for Tangata Whenua.:

Sustainability - *Te Toitūtanga*

This report promotes sustainable financing costs ensuring the economic wellbeing of communities in the present and for the future.

Financial considerations - *Ngā Whakaarohanga Ahumoni*

This report will ensure that financing costs are kept within Council's existing budgets.

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

This decision/report has been assessed under the Council's Significance and Engagement Policy as being of minor significance.

Consultation – internal and/or external - *Whakawhiti Whakaaro-ā-roto / ā-waho*

There has been no external engagement:

Risks

The purpose of this report and the Treasury Policies it refers to, assist officers to manage Council's treasury risk.

REWARD – *Te Utu*	RISK – *Te Tūraru*
To assist officers to manage Council's Treasury risk; Finances, Reputation.	Cashflows and finance costs; Finances, Service Delivery, Reputation.

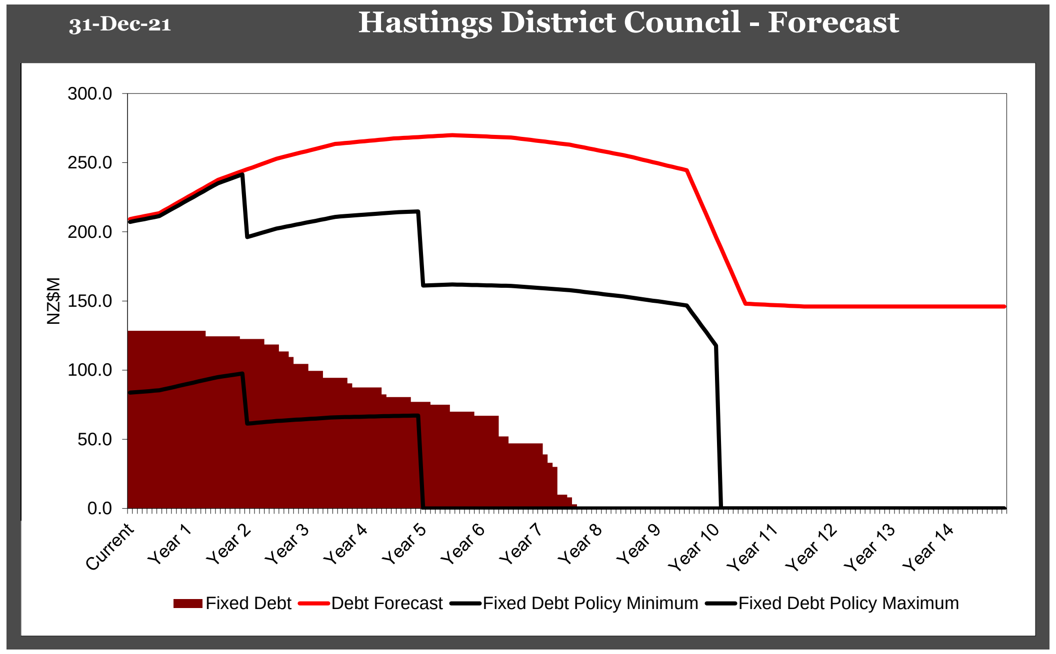
Item 7

Rural Community Board – *Te Poari Tuawhenua-ā-Hapori*

There are no implications for the Rural Community Board:

Interest Rate Risk Position

31 December 2021

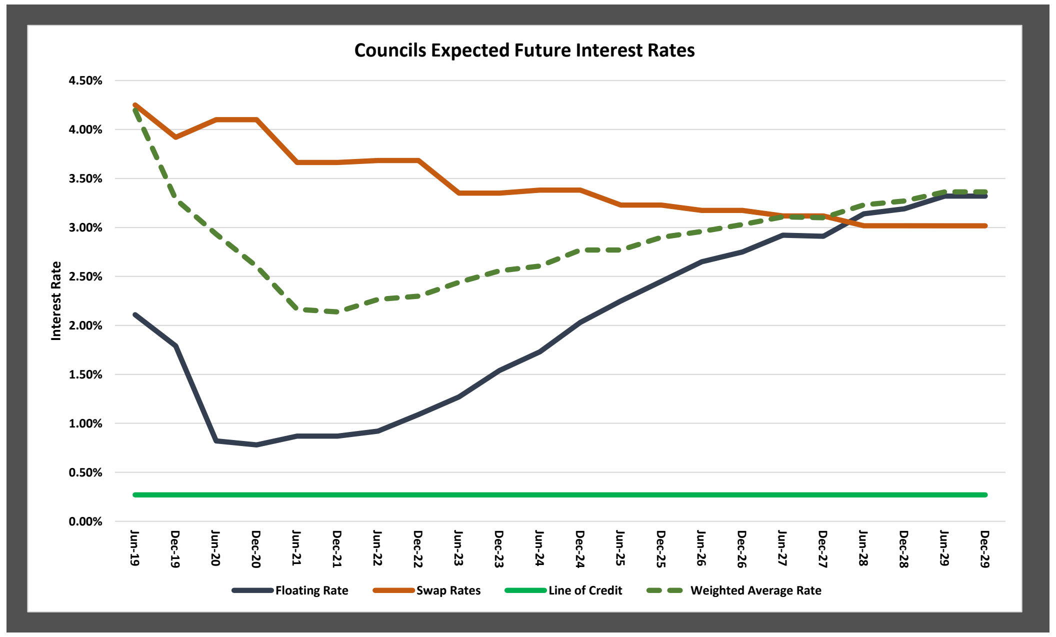


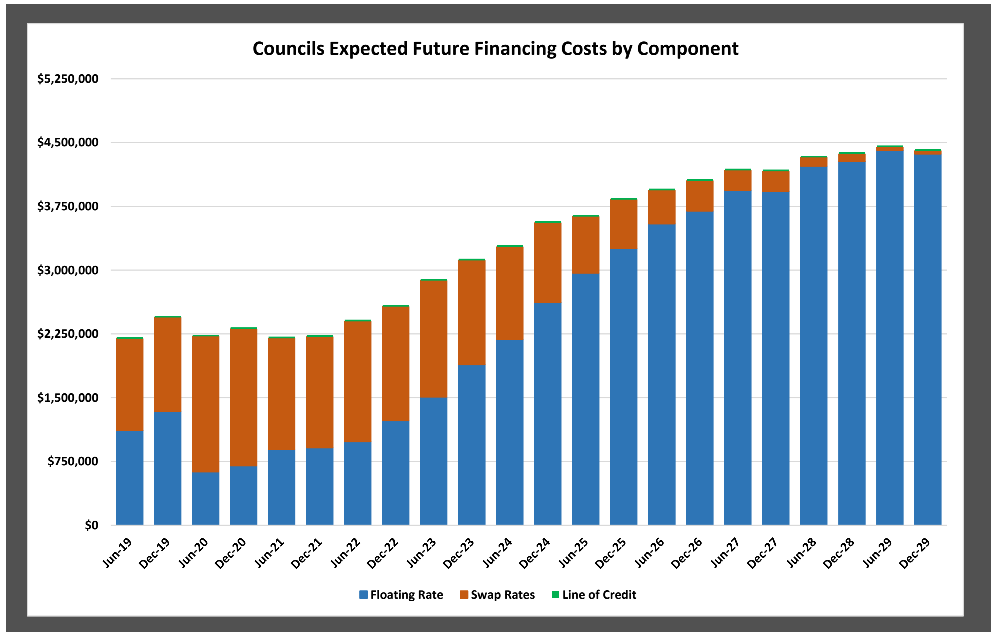
Debt Interest Rate Policy Parameters

(calculated on rolling monthly basis)

Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
Current	206	40%	99%	60%	Yes
Year 1	226	40%	99%	57%	Yes
Year 2	245	25%	80%	50%	Yes
Year 3	258	25%	80%	40%	Yes
Year 4	266	25%	80%	33%	Yes
Year 5	269	0%	60%	29%	Yes
Year 6	269	0%	60%	25%	Yes
Year 7	266	0%	60%	18%	Yes
Year 8	259	0%	60%	0%	Yes
Year 9	250	0%	60%	0%	Yes
Year 10	196	0%	60%	0%	Yes
Year 11	147	0%	0%	0%	Yes
Year 12	146	0%	0%	0%	Yes
Year 13	146	0%	0%	0%	Yes
Year 14	146	0%	0%	0%	Yes
Year 15	146	0%	0%	0%	Yes

Weighted Avg Cost of Fixed Rate Instruments	3.39%
Value of Live Fixed Rate Instruments	$ 123,500,000
Weighted Avg Length of Fixed Rate Instruments	5.37 Years





Cost of Holding Fixed Interest Position

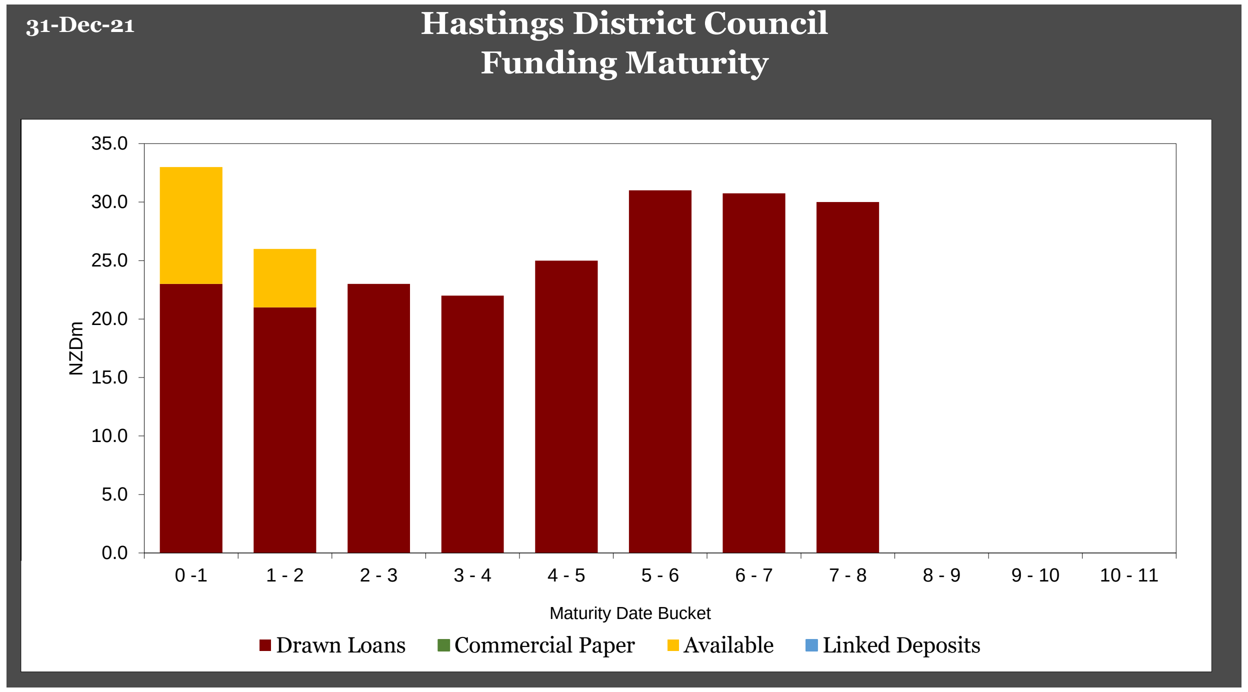
	31-Dec-21			30-Jun-21			Movement for Year		
	Notional Swap Value	Avg Int Rate	Valuation	Notional Swap Value	Avg Int Rate	Valuation	Notional Swap Value	Avg Int Rate	Valuation
Live Interest Rate Swaps	85,500,000	3.92%	(3,871,019)	88,500,000	3.88%	(8,543,926)	(3,000,000)	0.03%	4,672,907
Forward Starting Interest Rate Swaps	25,500,000	4.03%	(1,193,389)	27,500,000	4.01%	(2,208,262)	(2,000,000)	0.01%	1,014,873
Total Interest Rate Swaps	111,000,000	3.94%	(5,064,408)	116,000,000	3.91%	(10,752,188)	(5,000,000)	0.03%	5,687,780

Average Cost of Funds

	31-Dec-21		30-Jun-21		Movement for Year	
	Notional Value	Avg Int Rate	Notional Value	Avg Int Rate	Notional Value	Avg Int Rate
Fixed Rate Loans with LGFA	38,000,000	2.19%	38,000,000	2.19%	0	0.00%
Floating Rate Loans with LGFA	167,000,000	1.52%	167,000,000	0.97%	0	0.55%
Live Interest Rate Swaps	85,500,000	3.92%	88,500,000	3.88%	(3,000,000)	0.03%
Westpac Lines of Credit	15,000,000	0.27%	15,000,000	0.27%	0	0.00%
Fixed Rate Loans with HNZ	740,000	0.00%	740,000	0.00%	0	0.00%
Total External Loans / Average Cost of Borrowing	205,740,000	2.91%	205,740,000	2.49%	0	0.42%

Funding and Liquidity Risk Position

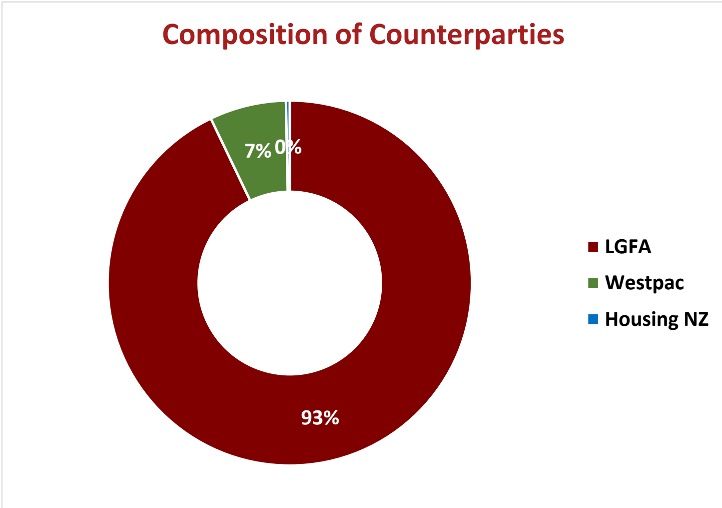
31 December 2021



Funding KPI's

	Minimum %	Maximum %	Actual	Compliant (Y/N)
Liquidity	110%	170%	115%	Yes
Fixed Interest Debt	40%	99%	60%	Yes
Funding Maturity Profile				
0-1 Year	0%	33%	21%	Yes
1-2 Year	0%	33%	11%	Yes
2-3 Year	0%	33%	10%	Yes
3-4 Year	0%	33%	9%	Yes
5-6 Year	0%	33%	11%	Yes
6-7 Year	0%	33%	13%	Yes
7-8 Year	0%	33%	13%	Yes
8-9 Year	0%	33%	13%	Yes
9-10 Year	0%	33%	0%	Yes
10-11 Year	0%	33%	0%	Yes
Net Debt as % Equity		20%	8%	Yes
Net Debt as % Income		175%	103%	Yes
Net Interest as % Income		15%	3%	Yes
Net Interest as % of Rates		20%	6%	Yes

Composition of Counterparties



Funding and Liquidity Characteristics

205,740,000
Total External Council Drawn Debt

23,000,000
Forward Start Contract

205,000,000
Funds Drawn from LGFA

1.15
LIQUIDITY RATIO
Definition: (Cash Reserves + Lines of Credit + Drawn Debt) / Drawn Debt)

15,000,000
Undrawn Bank Facilities

16,700,000.00
Bank Deposits & Term Deposits

3.87 Years
Weighted Average Length of Funding

Treasury Management Policy

(Incorporates LTP Treasury Policy plus more detailed management delegations and performance measures)

Policy expert	Aaron Wilson, Financial Controller
Policy owner	Bruce Allan, Group Manager Corporate Services
Owner Department	Finance
Approval date	[Date this version was approved]
Version	PMD-02-06-03-
Review date	30 November 2020

Contents

1. Introduction/Scope and Objectives

1.1. Purpose of Policy

The purpose of the Treasury Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by the Council. 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 Hastings.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Treasury 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 risks and other associated risks.
- The operation of a pro-active treasury management 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.
- Assist the Council in achieving strategic objectives relating to ratepayers.

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.

1.2. Scope

- This document identifies the policy and procedures of the Council in respect of treasury management activities.
- The policy has not been prepared to cover other aspects of the Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of the Council cover these matters.

1.3. Objectives

The objective of this Treasury Policy is to control and manage costs that can influence operational budgets and public equity. Specifically:

1.3.1 Statutory Objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet the requirements of the Local Government Act 2002 and its subsequent amendments and incorporate the Liability Management Policy and Investment Policy.
- HDC is governed by the following relevant legislation:
    - Local Government Act 2002, in particular Part 6 including sections 101,102, 104, 105 and 113.
    - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.

- Trustee Act 1956. 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. Details of relevant sections can be found in the Trustee Act 1956 Part ll Investments.
- All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of Council before the borrowing is affected.

1.3.2 General Objectives

- Minimise the Council's costs and risks in the management of its external borrowings and maximise its return on investments.
- 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 Treasury Policy so as to protect the Council's financial assets and manage costs.
- Arrange and structure external short and long term funding for the Council at a favourable margin and cost from debt lenders.
- Optimise flexibility and spread of debt maturities 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.
- Monitor the Council's return on investments in Council Controlled Organisations ("CCO's"), Council Controlled Trading Organisations (CCTO's), property and other shareholdings.
- Maintain liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.
- Manage funding requirements to ensure an appropriate spread of debt maturities.
- Comply with financial ratios and limits stated within this Policy.
- Ensure that future capital expenditure will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To minimise exposure to credit risk by dealing with and investing in creditworthy counterparties.
- Develop and maintain relationships with financial institutions, credit rating agencies, the Local Government Funding Agency (LGFA), investors and investment counterparties.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.

2. Management Responsibilities

2.1. Delegations of Authorities

Pursuant to schedule 7,clause 32 (2), of the Local Government Act 2002, the Council may make delegations to officers of the Council in order to allow for the efficient conduct of Council business. Schedule 7, Clause 32 (3) of this Act allows officers to delegate those powers to other officers.

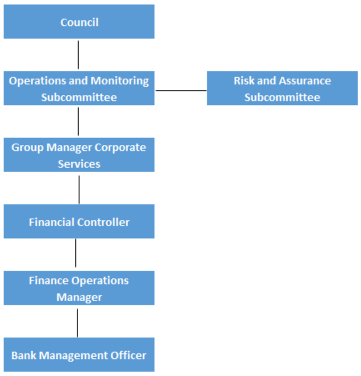
Notwithstanding schedule 7, clause 32 (1) (c)the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan remains the sole responsibility of the Council. This responsibility cannot be delegated.

The limits of approved delegation to Officers are contained within the Council's Delegations Register.

2.2. Treasury Organisational Structure

The council will operate the treasury management function as a cost centre.

The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in the following section.



2.3. Treasury Responsibilities

The key responsibilities of the above positions are as follows:

2.3.1 Council

The Council has ultimate responsibility for ensuring that there is an effective policy for the management of its risks. In this respect the Council decides the level and nature of risks that are acceptable, given the underlying objectives of the Council.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of the Council through the 10-year Long Term Plan (LTP) and Financial Strategy, along with the adopted annual plan.
- Approving the Treasury Management Policy incorporating all relevant delegated authorities.
- Evaluating and approving amendments to Policy.
- Approving budgets and high level performance reporting.
- Approving acquisition/disposal of assets and non-financial instruments.

- Approving the appointment of the Trustee to any Debenture/ Debenture Trust Deed.
- Delegating authority to the Chief Executive and other officers
- Approving one-off transactions falling outside Policy.

The Council, through the Risk and Assurance Subcommittee, must also ensure that:
- It receives regular information from management on funding and interest rate risk exposures and financial instruments.
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved urgently.
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines.

2.3.2 Chief Executive Officer (CEO)

While the Council has final responsibility for the policy governing the management of the Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the CEO.

The CEO's responsibilities include:
- Ensuring the Council's Policies comply with existing and new legislation.
- Approving the register of authorised signatories.
- Approving new counterparties and counterparty limits.
- Approving opening and closing of bank accounts.
- Approving daily transactions in excess of $30 million
- Receiving and reviewing the monthly treasury report.

2.3.3 Risk and Assurance Subcommittee (RASC)

The RASC will oversee the implementation of the Council's treasury management strategies and monitor and review the effective management of the treasury function.

The RASC will discuss treasury matters on a quarterly basis (and informally as required).

Responsibilities are as follows:
- Recommending the Treasury Policy (or changes to existing policy) to the Council.
- Receiving recommendations from the General Manager Corporate Services and make submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for all treasury activity.
- Monitoring quarterly performance against benchmarks.
- Approving allowable financial instruments.

2.3.4 General Manager Corporate Services (GMCS)

The GMCS's responsibilities are as follows:
- Management responsibility for borrowing, investment and cash management activities.
- Recommend Policy changes to the Risk and Assurance Subcommittee for evaluation.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- Liaise with S&P Global Ratings ("S&P") in regards to obtaining/maintaining the Councils external credit rating.
- Oversee relationships with financial institutions.
- Approve new borrowing undertaken in line with Council resolution and approved borrowing strategy.

- Approve re-financing of existing debt.
- Approve treasury transactions in accordance with policy parameters outside of the Financial Controller's delegated authority.
- Authorise the use of Risk and Assurance Subcommittee approved interest rate risk management instruments within discretionary authority.
- Negotiate new and maturing borrowing facilities.
- Approve all amendments to the Council's records arising from checks to counterparty confirmations.
- Authorise all interest rate hedging transactions (swaps, FRAs and options) with bank counterparties to change the fixed: floating mix to re-profile the Council's interest rate risk.
- Decide on the mix of fixed and floating rate debt. Recommend authorised signatories and delegated authorities in respect of all treasury dealing and banking activities.
- Propose new funding requirements to the Risk and Assurance Subcommittee for consideration and submission to the Council.
- Review and make recommendations on all aspects of the Treasury Policy to the Risk and Assurance Subcommittee.
- Oversee the annual review of the Treasury Policy, treasury procedures and all dealing and counterparty limits.
- Ensure that all borrowing and financing covenants to lenders are adhered to.
- Analyse the most cost effective financing options to minimise borrowing costs.
- Negotiate all new or rollover funding facilities.
- Monitor and review the overall performance of the treasury function.
- Monitor treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Approve deal tickets for treasury transactions.
- Review Treasury reports to Risk and Assurance Subcommittee and Finance and Monitoring Committee.

2.3.5 Financial Controller (FC)

The FC's responsibilities are as follows:

- Provide regular short term and long-term cash flow and debt projections to the GMCS.
- Deliver monthly reports to the GMCS covering cash/liquidity, interest rate risk position, transaction activity and performance.
- Review month end variance analysis to ensure reasonableness of borrowing and investment accounts.
- Review and approve borrowing and investment system/spreadsheet reconciliation to general ledger.
- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles and the Council's accounting policy.
- Update treasury spreadsheets for all new, re-negotiated and maturing transactions.
- Monitor borrowing and investment settlements and arrange for approval by authorised signatories.
- Prepare short term cash flow forecasts.
- Reconcile monthly summaries of outstanding financial contracts from banking counterparties to internal records.
- Check compliance against limits and prepare report on an exceptions basis.
- Monitor credit rating of approved counterparties.
- Ensure all financial instruments are valued and accounted for correctly in accordance with current best practice standards.
- Manage all administrative aspects of bank counterparty agreements and documentation

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such as loan agreements and ISDA swap documents.
- Check all treasury deal confirmations against deal documentation and report any irregularities immediately to the CEO.

2.3.6 Finance Operations Manager (FOM)
- Execute treasury transactions in accordance with set limits and GMCS authority.
- Manage the operation of all bank accounts and other account features.
- Monitor all treasury exposures daily.
- Manage daily cash management.

2.4. Delegation of Authority and Authority Limits
Treasury transactions entered into by the Council 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 annually to ensure that they are still appropriate and current.

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 immediately to ensure that no unauthorised instructions are to be accepted from such persons.

Clear Policy breaches should be reported to the CEO and tabled with action points to the Council.

The Council has the following responsibilities, either directly itself, or via the following stated delegated authorities.

Activity	Delegated Authority	Limit
Approving and changing policy	The Council	Unlimited
Borrowing new debt	The Council	Unlimited (subject to legislative and other regulatory limitations)
Acquisition and disposition of investments other than financial investments	The Council	Unlimited
Approval for charging assets as security over borrowing	The Council	Unlimited
Overall day-to-day risk management	CEO (delegated by Council) GMCS	Subject to policy
Re-financing existing debt	CEO (delegated by Council) GMCS	Subject to policy
Approving transactions outside Policy	The Council	Unlimited

Activity	Delegated Authority	Limit
Approving allowable risk management instruments	The Council	N/A
Adjust interest rate risk profile	GMCS	Per risk control limits Fixed rate maturity profile limit as per risk control limits
Managing funding maturities in accordance with Council approved facilities	GMCS	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management	The Council CEO GMCS FC	Unlimited $40 million $30 million $~~10~~15 million
Authorising lists of signatories	CEO	Unlimited
Opening/closing bank accounts	CEO	Unlimited
Annual review of policy	GMCS	N/A
Ensuring compliance with policy	GMCS	N/A

3. Liability Management Policy

Council's liabilities comprise borrowings and various other liabilities. Council's Liability management policy focuses on borrowings as this is the most significant component and exposes the Council to the most significant risks. Other liabilities are generally non-interest bearing. Cash flows associated with other liabilities are incorporated in cash flow forecasts for liquidity management purposes and determining future borrowing requirements.

3.1. External Debt Ratios and Limits

External debt will be managed within the following macro limits.

Ratio	HDC Policy limits
Net external debt as a percentage of income	<175~~50~~%
Net Interest on external debt as a percentage of income	<15%
Net Interest on external debt as a percentage of annual rates income	<20%
Liquidity range (liquid funds and committed bank facilities as a proportion of external debt)	110% - 170%

Income is defined as earnings from rates, government grants and subsidies, user charges, interest and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).

Net external debt is defined as total external debt less liquid financial assets/investments

Liquidity funds are defined as:

- Overnight Bank cash deposits at 100% of value
- Wholesale / retail bank term deposits no greater than 30 days at 100% of value
- NZ government bonds, Kauri bonds and LGFA bonds at 100% of market value
- Bank deposits less than 181 days at 100% market value
- Bank term deposits linked to pre-funding of term debt maturing in the next 365 days.

The liquidity ratio excludes encumbered cash investments, such as cash held within special/reserve funds.

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 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate). 'Rates' exclude regional levies.

External debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate. Disaster recovery requirements are met through the liquidity ratio.

3.2. Borrowing Mechanisms

The Council is able to externally borrow through a variety of market mechanisms including direct bank borrowing or accessing the short and long-term New Zealand capital markets directly or through the LGFA. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the GMCS takes into account the following:

- Available terms from banks, the LGFA and the wider capital markets.
- The Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins of the available funding alternatives.
- The market's outlook on future credit margin and interest rate movements as well as its own.
- Ensuring that the implied finance terms within the specific debt (e.g. project finance) are at least as favourable as the Council could achieve in its own right.
- Legal documentation and financial covenants together with security and credit rating considerations.

The Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with its investors, the LGFA, financial institutions and S&P. To this end it is the Council's intention to seek and maintain a strong balance sheet position.

The Council may use a mixture of short-term facilities (which generally have lower credit margins) as well as longer term facilities to achieve an effective borrowing mix, balancing the requirements of liquidity and cost.

3.3. Security

All the Council's external borrowings and interest-rate risk management instruments will generally be secured by way of a charge over the Council's rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

The Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more of the Council's 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.
- The GMCS ensures that the required register of charges and any associated documents are provided, filed and kept in accordance with the provisions of the Local Government Act 2002 and any other relevant legislation.

3.4. 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 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 loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.
The Council will manage debt on a net portfolio basis at all times

3.5. Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, Trusts, or Business Units, when the purposes of the loan are in line with Council's strategic objectives.

Council is not allowed to guarantee loans to Council-Controlled Trading Organisations under Section 62 of the Local Government Act.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council or an appropriate Council Committee in aggregate or attached to a property.

3.6. New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Liability Management Policy, the Council may borrow from the 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 borrowing back to the LGFA as an equity contribution to the LGFA;
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.

4. INVESTMENT POLICY AND LIMITS

4.1. General Policy

As Council is a net borrower of funds and applies surplus funds to debt repayment. Investments are only maintained to meet specified business reasons. Such reasons can be:

- For strategic purposes consistent with the Council's long term strategic plan
- The retention of vested land

- Holding short term investments for working capital and liquidity requirements
- Holding investments that are necessary to carry out the Council's operations consistent with annual long term plans, to implement strategic initiatives, or to support inter-generational allocations
- Pre-funding forecast capital expenditure.
- To reduce the current ratepayer burden.
- Holding assets (such as property) for commercial returns.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets (including insurance recoveries).

The Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

The Council does not hold financial investments other than those involving special funds, sinking funds and cash management balances. In its financial investment activity, the Council's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counterparties are acceptable.

4.2. Investment Mix

The Council maintains investments in the following assets from time to time:

- Equity investments and advances
- Property investments including vendor financing through deferred payment licences
- Financial investments incorporating longer term and liquidity investments
- Forestry investments

Council needs to take into consideration its obligations and duties to the community when making investment decisions. Council's investment decisions are guided by the goals and objectives of the Council as expressed in the Long Term Plan (LTP) and Annual Plan and are not made purely on commercial considerations.

4.2.1. Acquisition of New Investments

New investments will be acquired to meet the Council's long term objectives including the diversification of Council income streams. This may include the purchase of land or equity investments that the Council considers appropriate to meet an identified current or future need. Subject to the limits in the Council's significance policy the Council may invest in a new investment that is identified and is not in the Long Term Plan (LTP). When purchasing an investment that is not provided for in the LTP the Council will identify the risks and benefits associated with the purchase.

4.2.2. Use of Sale Proceeds

Any proceeds from the sale of investments (except for forestry assets) are used firstly to repay any debt related to the investment and then the use of any remaining funds will be determined by Council at the time of sale. Preference is to be given to either further debt reduction, the purchase of investments or the funding of capital expenditure.

4.2.3. Equity Investments and Loan Advances

Investments include shareholdings in CCTOs and trading and service enterprises. Advances are made to CCTOs and community organisations, such as Trusts managing Council facilities for financing purposes.

The GMCS, reviews performance of these investments and advances on a regular basis to ensure strategic and economic objectives are being achieved. Council ensures that interest and principal repayments are being made in accordance with the loan agreement.

All dividend and interest income is included in the consolidated revenue account.

Any disposition of these investments, other than the repayment of loans and advances requires Council approval.

4.2.4. Property Investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. This includes property investment not essential to the delivery of relevant services, acquired to achieve commercial returns and to diversify Council income streams. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows similar assessment criteria in relation to new property investments.

The GMCS reviews the performance of property investments on a regular basis and reports to the Chief Executive on any underperforming assets. Council periodically undertakes a strategic review of its property investments.

All income, including rentals and ground rent from property investments is included in the consolidated revenue account.

Council approves the sale of property.

4.2.5. Other Property Investments -Quarries

Council also maintains quarries for the extraction of metal for roading. These are held for their strategic importance in relation to the roading asset and they are leased to the roading maintenance contractor who must pay the Council royalties based on the quantity of metal extracted.

All royalties are included in the consolidated revenue account.

Any disposition of these assets requires Council approval.

4.2.6. Forestry Investments

Council is not in the business of investing in forestry assets to be held as a long term investment. Council will only invest in forestry assets where the Forest also serves another purpose such as plantings associated with the joint Landfill. A specific fund is allocated to meet annual maintenance and cutting costs of the Landfill forestry block.

Council approves the sale of forestry. Sale proceeds of the Landfill forestry block are to be used for future landfill development and the Waste Futures project unless otherwise authorised by Council.

4.2.7. Financial Investments

For the foreseeable future, the Council will have a permanent net debt/borrowing position and will use flexible short-term working capital money market funding lines. Accordingly, it does not have any requirement to be in surplus cash. Circumstances where Council may have surplus funds other than for cash management purposes are listed below.

- Specific Bequests & Donations

  Any liquid investments must be restricted to a term that meets future cash flow projections.

  Interest income from financial investments is credited to general funds, except for income from investments for special funds and sinking funds where interest is credited to the particular fund.

  The Council's primary objective when investing is the protection of its investment and maximise returns. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties covered in section 5.3. Credit ratings are monitored on a quarterly basis by the RM.

- Council Created and Other Reserves

  Liquid assets will not be required to be held against Council reserves (sometimes referred to as "special funds"). Instead Council should internally utilise these funds.

  Through adopting this Treasury Policy, Council supersedes any previous Council resolutions pertaining to the funding of specific Council reserves.

  Unless the Council specifically determines, by resolution, that interest should be credited to a specific reserve for a specified purpose, no interest shall be credited to reserves.

  Where the Council has determined that interest shall be credited to specific reserves accounting entries representing monthly interest accrual allocations will be made using the rate prescribed by the Council. If no interest rate is prescribed the calculation shall be based on the average of the 90 day bank bill bid rate and the 3 year Government Stock rate.

4.2.8. New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Investment Policy, the Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment. The Council's objective in making any such investment will be to:

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

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

Council may invest in financial instrument issues by the LGFA up to a maximum of $50m.

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

5. RISK RECOGNITION/IDENTIFICATION/ MANAGEMENT

The definition and recognition of interest rate, liquidity, funding, counterparty credit, market, operational and legal risk of the Council will be as detailed below and applies to both the Liability Management Policy and Investment policy.

5.1. Interest Rate Risk

5.1.1 Risk Recognition

Interest rate risk is the risk that funding costs (due to adverse movements in market interest rates) will materially exceed adopted annual plans and LTP interest cost projections, so as to adversely impact cost control, capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements through fixing of funding costs. However, a secondary objective is to minimise the net funding costs for the Council within acceptable risk parameters. Both objectives are to be achieved through the active management of underlying interest rate exposures.

5.1.2 Approved Financial Instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council.

Current approved interest rate instruments are as follows:

Category	Instrument
Cash management and external borrowing	Bank overdraft Committed bank facilities Uncommitted money market facilities Bond issuance Commercial paper (CP)/
Investments	Short term bank deposits Registered Bank certificates of deposit (RCD's) Local Authority stock or State Owned Enterprise (SOE) bonds LGFA borrower notes Corporate bonds Promissory notes/Commercial paper Bank term deposits linked to pre-funding maturing debt up to 18 months
Interest rate risk management	- Forward rate agreements Interest rate swaps Interest rate options Interest rate swaptions

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.

5.1.3 Interest Rate Risk Control Limits

External Core Debt/Borrowings

The Council external core debt/borrowings must be within the following fixed/floating interest rate risk control limit (calculated on a rolling monthly basis):

Fixed/Floating Interest Rate Risk Control Limits		
	Minimum Fixed Rate	**Maximum Fixed Rate**
0 – 2 years	40%	100%
2 – 5 years	25%	80%
5 – 10 years	0%	60%

- Floating rate debt may be spread over any maturity out to 12 months.
- 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. Purchased borrower swaptions maturing within 12 months.
- Interest rate options with a maturity date beyond 12 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.

Any fixed rate debt or interest rate swap beyond 10 years requires the approval from the Risk and Assurance Subcommittee.

Liquid Investments

For the foreseeable future, the Council will have a permanent net debt/borrowing position and will use flexible short-term working capital money market funding lines. Accordingly, it would not have any requirement to be in a term surplus cash situation.

Therefore, outside of the above mentioned exceptions, any liquid investments must be restricted to a term that meets future cash flow projections.

5.1.4 Council Reserves

Liquid assets will not be required to be held against special funds, instead Council will manage these funds using internal borrowing facilities.

Foreign Currency

The Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment and the on-going purchase of library books. Generally, all significant commitments for foreign exchange are hedged by the Council. Significant foreign exchange commitments are defined as individual currency amounts exceeding NZD50,000.

The following foreign exchange risk management instruments may be used for foreign exchange risk management activity:

- Spot and Forward Exchange Contracts.
- Purchase of foreign exchange options, and collar-type instruments (1:1 only).

Independent external advice would be sought before the use of such instruments.

- The Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.
- Contingent Liabilities
- Unless the possibility of an outflow is remote, contingent liabilities must be identified and reported within the Council's financial statements. Such liabilities will be valued based on an accepted basis, and such a valuation will be provided for within the financial statements
- Contingent liabilities include but are not limited to the following:
  - Staff Gratuities
  - Guarantees

5.1.5 Disaster Recovery

Council recognises that events of an unforeseen or un-forecasted nature may result in financial loss to the Council. Such events are provided for through undrawn committed bank facilities.

5.2. Liquidity Risk/Funding Risk

5.2.1 Risk Recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of loans and facilities. Liquidity risk management focuses on the ability to borrow 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 or better than current market pricing.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time.

5.2.2 Liquidity/Funding Risk Control Limits

- The Council must approve all new loans and borrowing facilities.
- Alternative funding mechanisms such as leasing should be 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.
- Liquid funds, committed bank and capital markets facilities must be maintained at a minimum of 110% over forecast external debt levels over the next 12 months.
- Treasury provides daily and weekly cash management reporting, together with monthly (rolling 12 month forecast) and annual cash/debt forecasting and that long-term debt forecasts out to ten years are made available.
- The GMCS has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be ratified and approved by the Council at the earliest opportunity.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings providing there is a high level of confidence in the forecast debt levels.
- The maturity profile of the total committed funding in respect to all loans and committed facilities, is to be controlled by the following system:

To minimise concentration risk no more than the greater of NZD 100 million, or 33% of a council's borrowings will mature in any rolling 12-month period.

5.3. 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. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term credit ratings S&P or equivalent Fitch or Moody's) being A- and above.
Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits (with the exception of externally managed funds which are governed by the appropriate SIPO).

Counterparty/ Issuer	Minimum long term credit rating – stated and possible	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	N/A	unlimited	none	unlimited
Local Government Funding Agency	A-	50.0	None	50.0
State Owned Enterprises [name]	A-	5.0	none	5.0
NZ Registered Bank	A-	20.0	20.0	30.0
Corporate Bonds	A-	2.0*	none	2.0
Local Government	A- (if rated)	2.0**	none	2.0
Stock	Unrated	0.5**	none	0.5

* Subject to a maximum of $5.0m investment in corporate/securitised bonds at any one point in time.
** Subject to a maximum of $15.0m investment in Local Government stock at any point in time.

In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (e.g. Bank Deposits) – Transaction Notional ⍰ Weighting 100%.
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional ⍰ Maturity (years) ⍰ 3%.

Each transaction should be entered into a reporting spreadsheet and a monthly report prepared to show assessed counterparty actual exposure versus limits.
Credit ratings should be reviewed by the ACC on an ongoing basis and in the event of material credit downgrades, below the minimum long term credit rating, the investment will cease. Future investments assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

5.4. Risk Management

To avoid undue concentration of exposures, a range of financial instruments must be used with as wide a range of counterparties as practical. The approval process to allow the use of individual financial instruments must take into account the liquidity of the market the instrument is traded in and repriced from.

5.5. 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 very relevant when dealing with financial instruments given that:

- Financial instruments may not be fully understood.
- Too much reliance is often placed on the specialised skills of one or two people.
- Most treasury instruments are executed over the phone or email.
- Operational risk is minimised through the adoption of all requirements of this policy

5.5.1 Dealing Authorities and Limits

Transactions will only be executed by those persons and within limits approved by the Council. These limits are detailed in the schedule of delegated authorities table in section 2.4 of this policy.

5.5.2 Segregation of Duties

Adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in borrowing and investment activity. Accordingly, strict segregation of duties is not always achievable. The risk will be minimised by the following process:

5.5.3 Procedures

All treasury products must be recorded and diarised on a spreadsheet system, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in a treasury procedures manual separate to this policy. The Council should capture the percentage of deals transacted with banks to determine competitiveness and reconcile the summary to the Council records.
Procedures should include:

- Regular management reporting
- Regular risk assessment, including review of procedures and controls as directed by the committee.
- Organisational, systems, procedural and reconciliation controls to ensure:
    - All borrowing and investment activity is bona fide and properly authorised
    - Checks are in place to ensure the Council's accounts and records are updated promptly, accurately and completely
    - All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity

5.5.4 Organisational Controls

- The GMCS has responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.

- All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations authorised by the Council.

5.5.5 ~~Cheque/~~Electronic Banking Signatories

- Positions approved by the CEO as per register.
- Dual signatures are required for all ~~cheques and~~ electronic transfers.

5.5.6 Authorised Personnel

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

5.5.7 Recording of Deals

- All deals are recorded on properly formatted deal tickets by the FC and approved by the GMCS. Market quotes for deals (other than cash management transactions) are perused by the FC before the transaction is executed. Deal summary records for borrowing (on the Debt Management System) investments, interest rate risk management and cash management transactions (on spreadsheets) are maintained and updated promptly following completion of transaction.

5.5.8 Confirmations

- All inward letter confirmations including registry confirmations are received and checked by the FC against completed deal tickets and summary spreadsheets records to ensure accuracy.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the CEO.

Settlement

- The majority of borrowing and investment payments are settled by direct debit authority.
- For electronic payments, batches are set up electronically by Accounts Payable and the Bank Management Officer. These batches are checked by an Accountant to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

Reconciliations

- Bank reconciliations are performed monthly by the Bank Management Officer. Any material unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the CEO.
- A monthly reconciliation of borrowing and investment spreadsheets to the general ledger is carried out by the FC and reviewed by the FC.

5.6. Legal Risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, the Council may be exposed to such risks. In the event that the Council is unable to enforce its rights due to deficient or inaccurate documentation.

The Council will seek to minimise this risk by adopting policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice for any non-standardised transactions

5.6.1 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with the Council. All ISDA Master Agreements for financial instruments must be signed under seal by the Council.

The Council's internal/appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings and investment structures.

Currently the Council has, ISDA agreements with the following banks:

- Westpac Banking Corporation NZ Ltd
- Australia and New Zealand Banking Group
- ASB Bank Limited
- Bank of New Zealand
- Kiwibank

5.6.3 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 facilities and legislative requirements.

The Council must maintain a register of charges relating to any commitment which is specifically relating to any asset.

6. MEASURING 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 committee on a monthly basis.

6.1. Operational Performance

All treasury limits must be complied with including (but not limited to) counterparty credit limits, dealing limits and exposure limits.

All treasury deadlines are to be met, including reporting deadlines.

6.2. Management of Debt and Interest Rate Risk

The actual funding cost for the Council taking into consideration the entering into of interest rate risk management transactions should be below the budgeted interest cost. When budgeting forecast interest costs, the actual physical position of existing loans and swaps / swaptions / FRAs must be incorporated together with all fees.

Since senior management is granted discretion by the Council to manage debt and interest rate risk within specified limits of this policy, the actual funding rate achieved must be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within existing policy. In this respect, a risk neutral position is always precisely at the mid-point of the minimum and maximum percentage control limits specified within the policy.

Given current fixed/floating risk control limits and fixed rate maturity profile limits as defined in Section 5.1.3 of this policy, the market benchmark (composite) indicator rate will be calculated as follows:

- 30% Average 90 day bill rate for reporting month.
- 8.75% 2 year swap rate at end of reporting month.
- 8.75% 2 year swap rate, 2 year ago.
- 11.25% 5 year swap rate at end of reporting month.
- 11.25% 5 year swap rate, 5 years ago.
- 15% 7 year swap rate at end of reporting month.
- 15% 7 year swap rate, 7 years ago.

The actual reporting benchmark is the 12 month rolling average of the monthly calculated benchmarks using the above parameters. This is compared to actual cost of funds, excluding all credit margins and fees.

7. CASH MANAGEMENT

The FOM has the responsibility to carry out the day-to-day cash and short-term debt management activities.

- The FOM will calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), and weekly (four weeks forward), monthly (12 months forward) and annual (five years) basis. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment.
- On a daily basis, electronically download all the Council bank account information.
- Co-ordinate the Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters.
- Undertake short term borrowing functions as required, minimising overdraft costs.
- Ensuring efficient cash management through improvement to accurate forecasting using spreadsheet modelling.
- Minimise fees and bank/Government charges by optimising bank account/facility structures.
- Monitor the Council's usage of cash advance facilities.
- Match future cash flows to smooth overall timeline.
- Provide reports detailing actual cash flows during the month compared with those budgeted.

- Maximise the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.

The FOM will calculate and maintain cash flow projections monthly (twelve months forward) and annual (five years) basis.

8. REPORTING – PERFORMANCE MEASUREMENT

When budgeting forecast interest costs, the actual physical position of existing loans and swaps/swaptions/FRAs must be incorporated.

8.1. Treasury Reporting

8.1.1 Reporting

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	FOM	GMCS
Treasury Exceptions Report	Daily	FC	CEO
Risk Management performance	Quarterly	Risk Assurance Advisor	GMCS
Policy Compliance	Monthly	FC	GMCS
Interest rate exposure report	Quarterly	FC	GMCS
Cost of funds & funding facility report	Quarterly	FC	GMCS
Cash flow forecast report	Monthly	FOM/FC	GMCS
Summary Treasury Report	Quarterly	FOM/FC	Council CEO
Quarterly Treasury Strategy Paper	Quarterly	GMCS	Risk and Assurance Subcommittee CEO
Limits Report	Daily, reported on an exceptions basis Quarterly	FOM	GMCS Council
Debt Maturity Profile	Quarterly	FC	Council CEO Risk and Assurance Subcommittee GMCS

Revaulation of financial instruments	Monthly	FC	GMCS

Quarterly the RASC approves borrowing, investment and risk management strategies and reviews the preceding quarters results amending if appropriate. Tactics for the following quarter are agreed with operating guidelines and provided to the GMCS for implementation. The GMCS is responsible for preparing the agenda for the quarterly meeting as well as documenting the actions required by the committee.

8.2. Valuation of Treasury Instruments

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 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 of Comprehensive Revenue and Expenditure unless derivatives are designated in an effective hedge relationship.

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

The GMCS is responsible for advising the CEO of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

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

Note: For management accounting purposes, financial instruments used for hedging will not be marked-to-market but will be shown in the annual statutory accounts.

Underlying rates to be used to value treasury instruments are as follows:

- Official daily settlement prices for established markets.
- Official daily market rates for short term treasury instruments (e.g. FRA settlement rates calculated by Reuters from price maker quotations as displayed on the BKBM page).
- Relevant market mid-rates provided by the company's bankers at the end of the business day (5.00pm) for other over-the-counter treasury instruments.
- For markets that are illiquid, or where market prices are not readily available, rates calculated in accordance with procedures approved by the GMCS.

9. POLICY REVIEW

This Treasury Policy is to be formally reviewed on an annual basis.
The GMCS has the responsibility to prepare an annual treasury report (following the preparation of annual financial statements) that is presented to the Committee. The report will include:

- Recommendation as to any proposed changes, deletions and additions to the policy.
  - Any amendment to this policy requires the adoption of the special consultative procedures as outlined in the Local Government Act 2002.
    - Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
    - Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
    - Analysis of bank and lender service provision, share of financial instrument transactions etc.
    - Comments and recommendations from the Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
    - An annual audit of the treasury systems and procedures must be undertaken.
    - Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to the Council.
    -

The Council receives the report, approves policy changes for consultation with the community and/or reject recommendations for policy changes.

The policy review must be completed and presented to the Council annually. ~~within five months of the financial year end.~~

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Te Hui o Te Kaunihera ā-Rohe o Heretaunga
Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: From:	**Bruce Allan, Group Manager: Corporate**
Te Take: Subject:	**GM Corporate: Update**

1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga*

Overview

1.1 The introduction of the Omicron variant of COVID-19 and the corresponding shift to the red traffic light in the COVID-19 Protection Framework has added a large amount of uncertainty to the operations of Council and is yet another factor that will mean the delivery of Council's already ambitious capital programme is not achievable.

1.2 The Emerging Risk review presented by Mr Regan Smith earlier on the agenda quite rightly shines a spotlight on risks that are currently included on the Council Strategic Risk Register that are showing signs of growing levels of uncertainty and on other risks that are emerging as factors that require additional attention. These growing areas of concern and risk highlight to us that while Hastings District is operating in economic boom times, as an organisation we are facing many heightened risks that we are attempting to address across many fronts.

1.3 As an organisation we will always look to do the best by our community and we will look to be ambitious in what we can achieve. We will, however, need to be cognisant of the many growing risks we face that will continue to make this a challenging time to achieve those ambitions.

Covid-19 Business Continuity response and preparedness

1.4 Managers across the Council have been busy updating and enacting their COVID-19 business continuity plans. Given the diversity of the organisation, each team has their own specific plan which they have developed to meet the needs of their own specific requirements.

1.5 The organisation is preparing for significant absenteeism from the workplace and we are putting in measures to reduce the risk that entire teams will be taken out of action at one time, it is still a possibility that this may happen and staff are doing their best in the circumstances to have the organisation best prepared for significant disruption.

Half Year Financial Forecasts

1.6 The finance team have been putting in a lot of effort alongside budget managers to improve the accuracy of the organisation's financial forecasting. Financial forecasts prepared prior to Christmas for the year ended 30 June 2022 show that there is a likelihood that a financial deficit will be recorded for the year.

1.7 The Lead Team are working with budget managers to understand opportunities to manage the financial risks that are being exacerbated with strong inflationary pressures and supply chain issues impacting on expenses and the COVID-19 Protection Framework settings which have included a Level 4 lockdown in August 2021 and more recently the red traffic light restrictions impacting on revenue for a number of our facilities. More work is being undertaken to ascertain the impacts of the red traffic light setting on the Toitoi operations in particular.

1.8 A more detailed commentary will be presented to the Operations and Monitoring Committee in March on the financial forecasts. The purpose of this commentary is to inform the Risk and Assurance Committee of the financial risks that the current operating environment is presenting.

Audit New Zealand

1.9 Council have not yet received a management letter from Audit NZ for the 2021 annual report at the time of writing this report. In addition to this, due to resource constraints that Audit NZ are experiencing, a number of points that were raised from earlier audits have not yet been able to be reviewed and signed off by them. With the New Zealand borders being closed Audit NZ staffing levels have been under severe pressure with Parliament extending statutory timeframes. Officers will continue to work with Audit NZ and expect to be able to update the committee at the next meeting.

Action Schedule

1.10 Attached as **Attachment 1** are the outstanding actions from previous Risk and Assurance meetings.

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled GM Corporate: Update dated 14 February 2022.

Attachments:

1⇩ Status of Actions CG-16-6-00131

Hastings District Council
Risk and Assurance Committee
Status of Actions – February 2022

Item No.	Meeting Date	Action	Reporting Officer	Progress	Complete
1	02/02/21	IT Risk and Controls • Officers investigate a process to provide independent assurance for Council's IT systems to an appropriate level of security.	CIO	Update report from CIO included on agenda	Ongoing and partially complete
2	05/07/21	Risk Assurance Programme • Scoping documents of most relevant work required for the next six months to be emailed to the Committee • Consider scheduling additional meetings over next financial year	Regan Smith/ Steffi Bird GM:C	Scoping documents still in development 2022 meeting calandar currently in development. Will look to include an October meeting to capture Annual report adoption and Insurance renewals	
3	05/07/21	GM: Asset Management • Dashboard – delivery risk,what is aimed at, what is realistic and consequences. To be circulated prior to September meeting	GM:AM	New dashboard for strategic projects being deleoped and will be included in Ops and Monitoring agenda in Februray and then included as standing item for Risk and Assurance	
4	13/09/21	Insurance • Report on possible Council self-insurance and whether deductibles could be increased, to be circulated prior to November meeting	GM:C	Detailed update on options to be presented to April 2022 meeting	

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5	29/11/21	Reform updates • Workshop or briefing to be developed for Councillors on RMA and Local Governmnet reforms	GM: P&C	Yet to be finalised	
6	29/11/21	Strategic Risk Update • Undertake "deep dive" on two matter at each Risk and Assurance meeting, including mitigation measures	Regan Smith/ Steffi Bird GM:C	Deep dive analysis to commence from April 2022 meeting onwards	
7	29/11/21	Treasury • Review debt forecasts and actions required to ensure fixed interest rate debt is maintain at mid point of policy	FC	Update of actions taken and to be taken included in the attached Treasury agenda item	Complete but ongoing
8	13/09/21	IT Cyber Security • Present top 7-8 controls identified as being above the red level to Councillors as soon as possible.	CIO	Update report from CIO included on the agenda	Ongoing and partially complete

CG-16-6-00131

HASTINGS DISTRICT COUNCIL

RISK AND ASSURANCE COMMITTEE MEETING

MONDAY, 14 FEBRUARY 2022

Item 11

RECOMMENDATION TO EXCLUDE THE PUBLIC

SECTION 48, LOCAL GOVERNMENT OFFICIAL INFORMATION AND MEETINGS ACT 1987

THAT the public now be excluded from the following part of the meeting, namely:

12 Contractor Health & Safety Performance Report

13 Cyber Security Update

The general subject of the matter to be considered while the public is excluded, the reason for passing this Resolution in relation to the matter and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this Resolution is as follows:

GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	***REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER, AND PARTICULAR INTERESTS PROTECTED***	***GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF EACH RESOLUTION***
12 Contractor Health & Safety Performance Report	**Section 7 (2) (b) (ii)** The withholding of the information is necessary to protect information where the making available of the information would be likely to unreasonably prejudice the commercial position of the person who supplied or who is the subject of the information. This report contains confidential Health & Safety data relating to Third Parties.	**Section 48(1)(a)(i)** Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.
13 Cyber Security Update	**Section 7 (2) (b) (i)** The withholding of the information is necessary to protect information where the making available of the information would disclose a trade secret. Sharing of security elements which protect Councils Information systems.	**Section 48(1)(a)(i)** Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.