

Report to the Policy and Finance Committee  
from Greg Schollum, Chief Financial Officer

## **Treasury Management Policy**

### **1. Purpose**

To seek adoption of the revised Treasury Management Policy (enclosed as **separate Attachment**).

### **2. Background**

The Local Government Amendment Act (No 3) 1996 requires each local authority to adopt by resolution, an Investment Policy and a Borrowing Management Policy. The Act also requires that the outline of both policies be included in every Annual Plan.

The act is silent on how frequently these policies need to be updated.

The Council adopted its first Treasury Management Policy (a combination of its Investment and Borrowing Management Policies) in April 1997 as part of its compliance with the No 3 Act, with effect from 1 July 1997.

The Treasury Management Policy adopted in April 1997 was prepared with the assistance of advisors and was reviewed by both the Audit Office and by Council's legal advisors from the perspective of legislative compliance.

Although there is no requirement in the No 3 Act to review the Treasury Management Policy, it makes sense that Council should wish to keep the policy current and relevant. As Council undertakes a thorough review of its policies and plans each three years, it is appropriate that the Treasury Management Policy is reviewed and updated each three years as part of the LTFS process.

Apart from being required by law, the Treasury Management Policy provides the Council with the following benefits:

- Provides transparency to external parties about Council's Treasury activities.
- Provides comfort to Council's lenders and prospective lenders.
- Provides a key building block into the LTFS process by providing parameters within which Council can plan its future borrowing.
- Enhances the credibility of the Council, as it is seen as sound business practice.

### 3. **The Key Principles within the Treasury Management Policy**

The Council's Treasury Management Policy is built upon the following key principles:

- The Council is risk averse.
- The Council agrees with the concept of intergenerational equity (i.e. where the benefits of expenditure are derived over a number of years such expenditure should generally be loan funded.)
- The Council wishes to retain prudent compliance limits so as to at least maintain its current credit rating.
- The Council will maintain a sound control framework including:
  - A separation of "front" and "back" office functions
  - Clear delegated authorities
  - Regular reporting of Treasury activities
  - A Treasury Management Group to oversee Council's Treasury area.

All these key principles have been retained within the revised Treasury Management Policy (**Attached**).

### 4. **Where are the major changes between the April 1997 Treasury Management Policy and the October 1999 Treasury Management Policy**

The Treasury Management Policy which was adopted by the Council in April 1997 has been updated in the following areas:

- General update for changes in circumstances since April 1997 (e.g. staff changes, changes to the structure of the Finance Department, and changes to the ownership of CentrePort).
- Update to reflect refinements in procedures (e.g. when the April 1997 Policy was prepared officers included a listing of Treasury

reports which we thought would be developed and used. Experience since has enabled us to rationalise the number and type of monitoring reports used).

- Update to reflect policy changes (e.g. Council's investment policies with respect to Forestry and CentrePort of "being a seller at the right price rather than a holder at all costs").
- Update to reflect new investments
  - Stadium advance
  - Major flood recovery fund
- Update to reflect Council's August 1998 decision that interest rate risk management tools (derivatives) can be used.
- Update to reinforce the linkage between Council's borrowing limits and the Council's credit rating.
- Inclusion of internal borrowing targets in addition to the existing internal borrowing limits to provide an indication of the long term sustainable levels of debt in each area.
- Amalgamation of the internal borrowing limits for Wairarapa and Western Region Forestry, into one compliance limit, on the basis that increasingly the forestry asset is being managed through the Forestry Management Group as one asset and an increase in the internal limit from 50% (Debt/Value) to 60%.
- Reduction in the borrowing targets for the corporate property area to reflect the reducing debt in this area.

## 5. **What does Council now need to do?**

I am seeking Council approval to the revised Treasury Management Policy (dated October 1999) to supersede the April 1997 Policy with effect from the date of adoption.

## 6. **Communications**

The new Policy will need to be made available to the public and should be sent directly to Council's bankers, Standard & Poor's and Audit New Zealand.

## 7. **Recommendations**

- (1) *That the report be received and the contents noted.*

- (2) *That the Policy and Finance Committee recommend to Council that it adopt the revised Treasury Management Policy dated October 1999, subject to minor editorial changes to be agreed by the Chairman and General Manager.*

GREG SCHOLLUM  
Chief Financial Officer

**Separate Attachment: Treasury Management Policy – October 1999**