

**File number:** 2304.15 **Approved for agenda**

**Report to:** Audit, Risk and Finance Committee

**Meeting date:** **1 December 2017**

**Subject:** **Amendments to Treasury Management Policy**

**Date of report:** 28 November 2017

**From:** Robert Nelson, acting GM Finance

**Report purpose**  **Decision**  **Information**

**Assessment of significance**  **Significant**  **Non-significant**

### Summary

Council has a Treasury Management Policy incorporating liability management and investment policies required by the Local Government Act 2002. The Treasury Management Policy has been amended and updated based on a review undertaken by KPMG. PwC, Council's treasury advisor, also participated in the review and supports the changes.

The changes amend the policy settings in one area; the proportion of debt required to be at a fixed interest rate. Changes also do introduce an overarching risk appetite statement, improve the wording of delegations and policy breaches, make the liquidity definition consistent with that applied by the Local Government Funding Agency, and introduce a new interest rate benchmark

### Recommendation

*That the Audit, Risk and Finance:*

- 1 *Receives the acting GM Finance's report Amendments to Treasury Management Policy dated 28 November 2017; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Recommends to Council the adoption of the amended Treasury Management Policy.*

### Reason for the recommendation

It is appropriate that the Audit, Risk and Finance Committee review policies and adopt changes to improve Council's policy portfolio.

### Reason for the report

Following a review the Treasury Management Policy has been updated. The updated policy document requires the recommendation of the Audit, Risk and Finance Committee to Council for adoption.

## Background

The Local Government Act 2002 section 102(2) requires Councils to have a liability management policy and an investment policy. Kaipara District Council combines these in one document, the Treasury Management Policy. The current policy was adopted as part of the 2015/2025 Long Term Plan Process.

As part of the 2018/2028 Long Term Plan project all policy documents are reviewed and where necessary updated.

KPMG were engaged to review the current Treasury Management Policy and they reported to Council in May 2017. Their report stated “We found the Policy to be generally fit for purpose and well structured. The Policy is consistent with peer councils in New Zealand”<sup>1</sup>.

KPMG made three substantive recommendations,

1. Council clearly articulate its risk appetite via a risk appetite statement.
2. Interest rate controls (fixed /floating) terminology be improved
3. A reduction to the range of financial instrument Council is authorised to use.

They also suggested improvements to wording particularly around delegations and reporting of breaches.

Management reviewed the KPMG recommendations with PwC, Councils treasury advisors. In general they agreed with the KPMG recommendations except the reduction to the range of financial instruments Council is authorised to use. KPMG argued many of the authorised instruments were not being used and the list should be limited to those currently being utilised to manage the debt portfolio. The counter argument supported by PwC and management is that the range is consistent with best practice, does not expose Council to risk outside of policy and retains flexibility for risk management. Accordingly, this recommendation has not been adopted.

When reviewing KPMG’s interest rate control recommendations it was recognised the policy settings (that between 60% & 90% is required to be fixed) is too restrictive especially when applied to Kaipara’s relatively small and falling level of debt. PwC recommended a different approach in which the range for fixed interest rates varies depending on the maturity term for the debt. The longer the maturity, the lower the proportion required to be fixed. The rationale is:

- i. the longer the term the less certainty regarding the future level of debt and
- ii. The longer the term the less certainty around forecasting/predicting interest rates.

Adopting this approach requires a change to the benchmark used to assess management’s operational performance. The weighted composite benchmark is to be replaced by a wholesale interest rate mid-point benchmark rate. Council’s market benchmark rate will be the 7-year swap rate monthly rolling average over a 7 year period.

A risk appetite statement and a Debt Interest Rate Policy Parameters table have been incorporated into

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<sup>1</sup> KPMG Treasury Policy Review May 2014 page 3

section 6. The new Interest Rate Benchmark definition is incorporated in section 8.

There have been further minor amendments to the text of the policy reflecting input from KPMG and PwC.

Management's review of the document identified two further amendments. First, the wording of the definition of liquidity under Debt ratios and limits was not consistent with the definition applied by the Local Government Funding Agency. Council's wording has been aligned with that of the LGFA. The change of wording does not affect the policy setting or Council's compliance. Secondly, the Statutory Objectives section has been retitled Statutory and Principal Objectives to reflect the content and reformatted.

All the changes to the Treasury Management Policy have been reviewed by Council's treasury advisors PwC and have their support.

## **Factors to consider**

### ***Community views***

The community expects Council to have a fit for purpose liability and investment policies.

### ***Policy implications***

The recommended amendments will not require Council to change the manner in which it operates its treasury activities

### ***Financial implications***

There are no financial implications from the adoption of these recommendation

### ***Legal/delegation implications***

Adoption of a liability management policy and an investment policy is a legal requirement. Under the delegations a recommendation to Council to adopt the amendments is required from the Committee.

## **Options**

**Option A:** Accept the report and recommend adoption of the amendments to the Treasury Management Policy to Council

**Option B:** Accept the report and make further amendments to the Policy before recommending adoption to Council.

**Option C:** Receive the report and ask for additional information or clarification

## **Assessment of options**

Council has taken professional advice to review and update the Treasury Management Policy. The Committee can rely on that advice and adopt the amended Treasury Management Policy for inclusion in the 2018/2028 Long Term Plan

### **Assessment of significance**

Adopting the recommended amendments to the Treasury Management Policy is not significant in terms of Council's Significance and Engagement Policy

### **Recommended option**

The recommended option is **Option A**

### **Attachments**

- Attachment 1: Treasury Management Policy



# Treasury Policy

**Incorporating the Liability Management  
and Investment Policies as required by  
sections 104 and 105 of the  
Local Government Act 2002**

**Council Approved: 03 August 2016**



Kaipara te Orangakui

**KAIPARA  
DISTRICT**

Two Oceans Two Harbours

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adopted



## 1.0 INTRODUCTION

### 1.1 Policy purpose

The purpose of the Treasury Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Kaipara District Council (“Kaipara”). The formalisation of such policies and procedures will enable treasury risks within Kaipara to be prudently managed.

As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within Kaipara 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 Kaipara.
- 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 Kaipara’s financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operation of a pro-active treasury function in an environment of control and compliance.
- The robustness of the policy’s risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to Kaipara in achieving strategic objectives relating to ratepayers.

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

## 2.0 SCOPE AND OBJECTIVES

### 1.1 Scope

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

### 1.2 Risk Appetite

Council's overriding obligation is to manage its affairs prudently and in the interests of its community and is guided by the obligations imposed by the Local Government Act 2002.

Accordingly Council's philosophy on the conduct of its treasury activities is to ensure that the risks associated are properly identified, quantified and managed to ensure it meets the obligations under the Act and that there is minimal negative impact on the Council arising from such risks. Council is a risk averse entity, and does not wish to seek risk from its treasury activities. Accordingly activity that may be construed as speculative in nature is expressly forbidden.

**~~1.2 Planning tools and mechanisms are also outside of the scope of this policy.~~**

### 1.3 —Objectives

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

#### Statutory and principal objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of all relevant legislation including but not limited to:
  - Local Government Act 2002 , in particular Part 6 including sections 101,102, 104 and105, and incorporate the Liability Management Policy and Investment Policy.
  - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule4.
  - 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 II Investments.
- All projected external borrowings are to be approved by Council as part of the Annual Plan or the

- Long Term Planning process (LTP) or resolution of Council before the borrowing is effected.
- All legal documentation in respect to external borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.
- Council will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.
- Hire Purchase, Deferred Purchase, Trade Credit - for the purposes of sub-paragraph (c)(ii)(B) of the definition of "borrowing" in section 112 of the LGA 2002, "borrowing" does not include:
  - Debt incurred in connection with hire purchase of goods, the deferred purchase of goods or services, or the giving of credit for the purchase of goods or services, if the goods or services are obtained in the ordinary course of Council's performance of its lawful functions, on terms and conditions available generally to parties of equivalent credit-worthiness, for amounts not exceeding in aggregate \$250,000 ; or
  - The deferred purchase of goods or services or the giving of credit for the purchase of goods or services through the mechanism of contract retentions held for periods less than 365 days.
- Other - Instruments not specifically referred to in this policy may only be used with specific Council approval.
- The Council routinely defers payment following completion of construction or other large scale engineering contracts in accordance with standard industry practices. Although this practice may mean that these deferred payments fall within the definition of borrowing for the purposes of the Act and this policy, these contractual arrangements create very little risk for the Council. There is no interest exposure on these payments; the credit-worthiness of the contracting party is not relevant; and the deferred period is sufficiently long that no impact on liquidity is anticipated, as payments can be programmed in advance through the annual plan process or standard cash flow procedures. Therefore, the Council will enter into these contracts in accordance with its standard procurement procedures, and deferred payment conditions will not require any additional approval by the Council.

### General objectives

- To manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Minimise Council's costs and risks in the management of its borrowings.
- Minimise 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 Council's financial assets and manage costs.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders . Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.

- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.
- Monitor Council's return on investments.
- 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.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.

### To ensure adequate internal controls exist to protect Council's financial assets and to prevent

#### **Statutory objectives**

- ~~All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.~~
- ~~Kaipara is governed by the following relevant legislation; the Local Government Act 2002, in particular Part 6 including sections 101, 102, 103, 104 and 105, 112 to 116.~~
- ~~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 II Investments.~~
- ~~All projected external borrowings are to be approved by Council as part of the Annual Plan process or the Long Term Planning process (LTP) or resolution of Council before the borrowing is effected.~~
- ~~All legal documentation in respect to external borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.~~
- ~~Council will not enter into borrowings denominated in a foreign currency.~~
- ~~Council will not transact with any Council Controlled Trading Organisation (CGTO) on terms more favourable than those achievable by Council itself.~~
- ~~Hire Purchase, Deferred Purchase, Trade Credit for the purposes of sub-paragraph (c)(ii)(B) of the definition of "borrowing" in section 112 of the LGA 2002, "borrowing" does not include:~~
  - ~~Debt incurred in connection with hire purchase of goods, the deferred purchase of goods or services, or the giving of credit for the purchase of goods or services, if the goods or services are obtained in the ordinary course of Council's performance of its lawful functions, on terms and conditions available generally to parties of equivalent credit-worthiness, for amounts not exceeding~~

in aggregate \$250,000; or

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### General objectives

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- Minimise Council's costs and risks in the management of its borrowings.
- Minimise 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 Council's financial assets and manage costs.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders the lowest achievable interest margin from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Ppolicy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.
- Monitor Council's return on investments.
- 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.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.

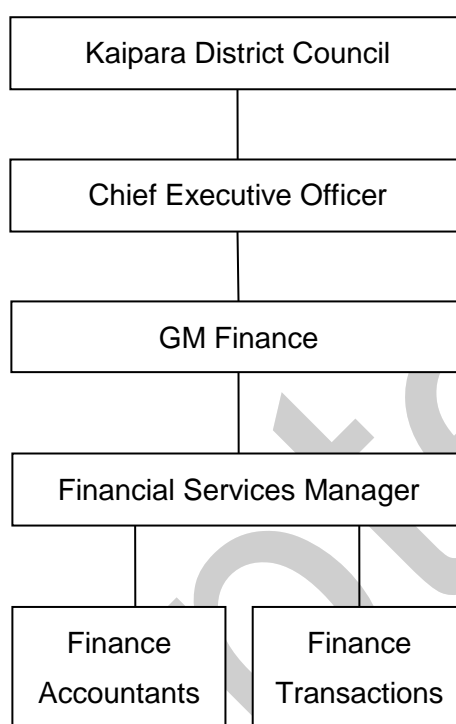
- ~~To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.~~
- Develop and maintain relationships with financial institutions, investors and investment counterparties.

adopted

## 3.0 MANAGEMENT RESPONSIBILITIES

### 3.1 Overview of management structure

The following diagram illustrates those positions or functions that have treasury responsibilities.



### 3.2 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 Kaipara.

The Council is responsible for approving the Treasury Policy. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of Kaipara through the 10 year Long Term Plan (LTP) and the adopted annual plan.
- Approve and adopt the Liability Management and Investment Policies.
- Approving new debt through the adoption of the Annual Plan, specific Council resolution and approval of this policy.
- Approving the Treasury Policy incorporating the following delegated authorities:
  - Borrowing, investment and dealing limits and the respective authority levels delegated to the CEO.

- Counterparties and credit limits.
- Risk management methodologies and benchmarks.
- Guidelines for the use of financial instruments.
- Receive a triennial review report on the policy.
- Evaluating and approving amendments to policy.
- Approving budgets and high level performance reporting
- Approve opening and closing of bank accounts
- Delegate authority to the CEO and other officers.
- Approval for one-off transaction falling outside Policy.

The Council should also ensure that:-

- It receives regular information from management on risk exposure and financial instrument usage in a form, that is understood, and that enables it to make informed judgements as to the level of risk undertaken.
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved in a timely manner.
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines.

### 3.3 Chief Executive Officer (CEO)

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

In respect of treasury management activities, the Chief Executive Officer's responsibilities include:-

- Ensuring the Treasury policies comply with existing and new legislation.
- Approving the register of ~~cheque and electronic banking~~authorised signatories.
- Approve new counterparties and counterparty limits.
- Approve new external borrowing undertaken in line with Council resolution and approved borrowing strategy.
- Approve interest rate strategy.
- Receive advice of breaches of Treasury Policy and significant treasury events from the General Manager of Finance or Financial Services Manager.
- Approve all amendments to Council records arising from checks to counterparty confirmations.
- Delegate treasury operation responsibilities to management through the Treasury Management Operations Schedule.



### 3.4 Delegation of authority and authority limits

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

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

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

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

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

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

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
<u>Approving new and reviewing re-financed bank facilities</u>	<u>Council</u>	<u>Unlimited</u>
Appoint Debenture Trustee	The Council	N/A
Overall day-to-day risk management	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Overall day-to-day risk management
Re-financing existing debt	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Re-financing existing debt

Activity	Delegated Authority	Limit
Approving transactions outside policy	The Council	Unlimited
Adjust net debt or net investment interest rate risk profile	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Per risk control limits
<u>Approve new external borrowing in accordance with Council resolution or through the adoption of the AP/LTP.</u>	<u>GMF (delegated by CEO)</u>	<u>Per Council approved AP/LTP</u>
<u>Negotiate bank facilities</u>	<u>GMF</u>	<u>N/A</u>
<u>Manage borrowing and interest rate strategy</u>	<u>GMF</u>	<u>N/A</u>
<u>Adjust interest rate risk profile</u>	<u>GMF</u>	<u>Per risk control limits</u>
Managing funding and investment maturities in accordance with Council approved risk control limits	CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO)	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management and cash management) excludes roll-overs on floating rate investments and interest rate roll-overs on swaps	The Council CEO (delegated by Council) GMF (delegated by CEO) FSM (delegated by CEO) Finance Accountants Team (delegated by CEO)	Unlimited \$50 million \$25 million \$10 million \$5 million
<u>Manage cash/liquidity requirements</u>	<u>FSM</u>	<u>Per risk control limits</u>
Authorising lists of signatories	CEO (delegated by Council)	Unlimited
Opening/closing bank accounts	The Council	Unlimited
Triennial review of policy	GMF FSM	N/A
Ensuring compliance with policy	CEO GMF FSM Finance Accountants Team	N/A

All management delegated limits are authorised by the CEO.

adopted

## 4.0 LIABILITY MANAGEMENT POLICY

Council's liabilities comprise borrowings and various other liabilities. Council maintains borrowings in order to:

- Fund working capital requirements and short term funding gaps.
- Raise specific debt associated with projects and capital expenditures.
- Fund assets whose useful lives extend over several generations of ratepayers.

### 4.1 Debt ratios and limits

Debt will be managed within the following macro limits.

Ratio	KDC Policy Limits	LGFA Lending Covenants
Net debt as a percentage of total revenue	<170%	<175%
Net Interest as a percentage of total revenue	<15%	<20%
Net Interest as a percentage of annual rates income (debt secured under debenture)	<20%	<25%
Liquidity (External <del>term</del> debt + committed loan facilities + <del>available</del> liquid <del>short term financial</del> investments to existing external debt)	>110%	>110%

- Total Revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net debt is defined as total debt less ~~unencumbered~~ liquid ~~short term financial assets and~~ investments.
- Liquidity is defined as external term debt plus committed loan facilities plus available liquid ~~short term financial~~ investments divided by existing external debt. Liquid investments are unencumbered assets defined as being:
  - Overnight Bank cash deposits
  - Wholesale/retail bank term deposits no greater than 30 days
  - Bank issued RCD's less than 181 days

- Wholesale/ retail bank term deposits linked to pre funding of maturing term debt exposures

- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

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 to be met through the liquidity ratio.

## 4.2 Asset management plans

In approving new debt the Council considers the impact on its borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP.

## 4.3 Borrowing mechanisms

Kaipara is able to borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, accessing the short and long-term wholesale and retail capital markets directly or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the GMF takes into account the following:-

- Available terms from banks, LGFA, debt capital markets and loan stock issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future credit margin and interest rate movements as well as its own.
- Ensuring that the implied finance terms and conditions within the specific debt (e.g. project finance) are evaluated in terms such as cost/tax/risk limitation compared to the terms and conditions Kaipara could achieve in its own right.
- Legal documentation and financial covenants together with security and ~~with~~ credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at similar terms to those from external borrowing.
- 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.

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, LGFA and financial institutions/brokers.

Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings.

#### 4.4 Security

Council's borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. ~~The utilisation of special funds and reserve funds and internal borrowing of special funds/reserve funds and other funds will be on an unsecured basis.~~

Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act, ~~excluding any rates collected by Council on behalf of any other local authority.~~ The security offered by Council ranks equally or 'Pari Passu' with other lenders.

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 Councils 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).
- Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Deed.

#### 4.5 Debt repayment

The funds from all asset ~~sales, and operating~~ 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 appropriate approval and 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 and will only externally borrow when it is commercially prudent to do so.

#### 4.6 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.

Financial arrangements include:

- Advances to community organisations.

- 

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed NZ\$1 million in aggregate or attached to a property.

#### **4.7 Internal borrowing of special and general reserve funds**

Given that Council may require funding for capital expenditure over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. Accordingly Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using available borrowing facilities.

No interest is payable unless Council so directs or there is an agreement in place.

#### **4.8 New Zealand Local Government Funding Agency Limited investment**

Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:-

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example, Borrower Notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- 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.
- Subscribe for shares and uncalled capital in the LGFA.

## ~~5.0~~ INVESTMENT POLICY AND LIMITS

### ~~7.0~~

### ~~8.05.0~~

#### 5.1 General policy

Council is currently a net borrower and is likely to remain so for the foreseeable future. Council should internally borrow from special reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt. Investments are maintained to meet specified business reasons.

Such reasons can be:-

- For strategic purposes consistent with Council's Long Term Plan.
- To reduce the current ratepayer burden.
- The retention of vested land.
- Holding short term investments for working capital and liquidity requirements.
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations.
- Holding assets (such as property) for commercial returns.
- Provide ~~funding through the provision of committed bank facilities~~ 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.
- Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

Council recognises that as a responsible public authority all investments held, should be low risk. Council also recognises that low risk investments generally mean lower returns.

Council should internally borrow from reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt.

In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy. Accordingly, only approved credit worthy counterparties are acceptable.

#### 5.2 Investment mix



Council may maintain investments in the following assets from time to time:-

- Equity investments, including investments held in CCO/CCTO and other shareholdings.
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development.
- Forestry investments
- Financial investments

### 5.3 Equity investments

Equity investments, including investments held in CCO/CCTO and other shareholdings. Council maintains equity investments and other minor shareholdings.

Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the LTP. Equity investment may be held where Council considers there to be strategic community value.

Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

Dividends received from CCO's/CCTO's and unlisted companies not controlled by Council are recognised when they are received in the consolidated revenue account.

Any purchase or disposition of equity investments requires Council approval and any profit or loss arising from the sale of these investments is to be recognised in the Statement of Financial Performance. Council may also acquire shares that are gifted or are a result of restructuring.

Any purchase or disposition of equity investments will be reported to the next meeting of Council.

Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then included in the relevant consolidated capital account.

Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant sub-committee as applicable, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

### 5.4 Property investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. As a general rule, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output of Council. 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.

Council reviews the performance of its property investments on a regular basis.

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

## 5.5 Forestry

Forestry assets are held as long term investments on the basis of net positive discounted cashflows, factoring in projected market prices and annual maintenance and cutting costs.

All income from forestry is included in the consolidated revenue account.

Any disposition of these investments requires Council approval. The proceeds from forestry disposition are used firstly to repay related borrowings and then included in the relevant consolidated capital account.

## 5.6 Financial investments

### Financial investment objectives

- Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.3. Credit ratings are monitored and reported quarterly to Council.
- Council may invest in approved financial instruments as set out in section 6.1.2. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.
- Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:
  - Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
  - 
  - Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest may be credited to the particular fund.
  - Internal borrowing will be used wherever possible to avoid external borrowing
- Council's net investment interest rate profile will be managed within the parameters outlined in section 6.0

### Special funds, sinking funds, reserve and endowment funds

Liquid assets are not required to be held against special funds and reserve funds. Instead Council will internally borrow or utilise these funds where ever possible.

Sinking Funds will no longer be maintained by Council.

No interest is payable on internal borrowing to/from reserves, unless otherwise directed by Council or in accordance with the fund agreements.

### **Trust funds**

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the trust. If the Trusts investment policy is not specified then this policy should apply.

## **5.7 New Zealand Local Government Funding Agency Limited investment**

Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

The Council's objective in making any such investment will be to:-

- Obtain a return on the investment.
- 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 these dual objectives, 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. Notwithstanding the Counterparty Credit Risk Limits (set out in Section 6.3 of this policy), Council may invest in financial instruments issued by the LGFA up to a maximum of \$5 million (i.e. borrower notes). If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

Proceeds from share sales will go to repay existing debt, unless Council specifically directs that the funds be put to another use.

## 9.06.0 RISK MANAGEMENT

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

### — Interest rate risk

## 1.4

### 1.41.5 Risk recognition

Interest rate risk is the risk that investment returns or funding costs (due to adverse movements in market interest rates) will materially exceed or fall short of projections included in the LTP and Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or funding costs. Certainty around funding costs is to be achieved through the active management of underlying interest rate exposures.

#### 1.1.1. Approved financial instruments

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

Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Loan stock/bond issuance <ul style="list-style-type: none"> <li>• Floating Rate Note (FRN)</li> <li>• Fixed Rate Note (MTN)</li> </ul> Commercial paper (CP) /Bills / Promissory notes Finance Leases
Investments	Short term bank deposits Bank <u>registered</u> certificates of deposit (RCDs) <u>Treasury bills</u> NZ Government, LGFA, Local Authority stock or State Owned Enterprise (SOE) bonds and FRNs (senior) Corporate bonds (senior) Corporate Floating Rate Notes (senior) Promissory notes/Commercial paper (senior) Corporate/SOE/Other Local Authority Bonds NZLGFA Borrower Notes <u>Bank term deposits linked to pre funding maturing debt</u>
Interest rate risk management	Forward rate agreements (“FRAs”) on: <ul style="list-style-type: none"> <li>• Bank bills</li> <li>• Government bonds</li> </ul> Interest rate swaps including: <ul style="list-style-type: none"> <li>• Forward start swaps and collars (start date &lt;24 months, unless linked to existing maturing swaps and collars)</li> <li>• Amortising swaps (whereby notional principal amount reduces)</li> <li>• Swap extensions and shortenings</li> </ul> Interest rate options on: <ul style="list-style-type: none"> <li>• Bank bills (purchased caps and one for one collars)</li> <li>• Government bonds</li> <li>• Interest rate swaptions (purchased swaptions and one for one collars only)</li> </ul>

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

All investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:-

- Structured debt where issuing entities are not a primary borrower/ issuer.
- Subordinated debt, junior debt, perpetual notes and hybrid notes such as convertibles.

### 1.1.2. Interest rate risk control limits

#### Net debt/borrowings

Council debt/borrowings should be within the following fixed/floating interest rate risk control limit:

<b><u>Debt Interest Rate Policy Parameters</u></b> <b><u>(calculated on a rolling monthly basis):</u></b>		
<b><u>Debt Period</u></b> <b><u>Ending</u></b>	<b><u>Minimum Fixed</u></b>	<b><u>Maximum Fixed</u></b>
<u>Current</u>	<u>50%</u>	<u>95%</u>
<u>Year 1</u>	<u>45%</u>	<u>95%</u>
<u>Year 2</u>	<u>40%</u>	<u>90%</u>
<u>Year 3</u>	<u>35%</u>	<u>85%</u>
<u>Year 4</u>	<u>30%</u>	<u>80%</u>
<u>Year 5</u>	<u>25%</u>	<u>75%</u>
<u>Year 6</u>	<u>15%</u>	<u>70%</u>
<u>Year 7</u>	<u>0%</u>	<u>65%</u>
<u>Year 8</u>	<u>0%</u>	<u>60%</u>
<u>Year 9</u>	<u>0%</u>	<u>55%</u>
<u>Year 10</u>	<u>0%</u>	<u>50%</u>
<u>Year 11</u>	<u>0%</u>	<u>45%</u>
<u>Year 12</u>	<u>0%</u>	<u>40%</u>
<u>Year 13</u>	<u>0%</u>	<u>35%</u>
<u>Year 14</u>	<u>0%</u>	<u>30%</u>
<u>Year 15</u>	<u>0%</u>	<u>25%</u>
<u>Year 16</u>	<u>0%</u>	<u>20%</u>

<b><u>Master Fixed / Floating Risk Control Limits</u></b>	
<b><u>Minimum Fixed Rate</u></b>	<b><u>Maximum Fixed Rate</u></b>
<u>60%</u>	<u>90%</u>

“Fixed Rate” is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

“Floating Rate” is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling ~~12-month~~ projected net debt level calculated by management (signed off by the CEO, or equivalent). Net debt is the amount of total debt net of liquid short-term financial assets/investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the policy minimums and maximums.

The fixed rate amount at any point in time should be within the following maturity bands:

Fixed Rate Maturity Profile Limit		
Period	Minimum Cover	Maximum Cover
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

- A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council.
- The above interest rate risk control limits apply when external debt exceeds \$25 million.
- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate ~~swaps derivatives or interest rate fixing~~ with a maturity beyond ~~12~~ 16 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate and this maturity is beyond 16 years.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- Purchased borrower swaptions mature 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.
- Forward start period on swaps and collar strategies to be no more than 24 months, unless it extends the maturity of ~~an-existing swap~~ interest rate fixing (via either derivatives or fixed rate borrowing).

### Sinking funds, special and general reserve funds

Given that Council may require funding for capital expenditure cash shortfalls over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. Accordingly, Council maintains its

funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective.

This will negate counterparty credit risk and any interest rate repricing risk that occurs when Council borrows at a higher rate compared to the investment rate achieved by Special/Reserve Funds.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using internal borrowing facilities.

### **Foreign currency**

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

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

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

Council does not hold investments denominated in foreign currency.

All foreign currency hedging must be approved by the GMF.

## **6.1 Liquidity risk/funding risk**

### **1.2.1. Risk recognition**

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

The management of Council's funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:-

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences financial/exposure difficulties resulting in Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.
- Financial market shocks from domestic or global events.

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 so that if any of the above events occur, the overall borrowing cost is not



unnecessarily increased and desired maturity profile compromised due to market conditions.

### 1.2.2. Liquidity/funding risk control limits

- 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.
- External term loans and committed debt facilities together with available unencumbered short-term liquid investments must be maintained at an amount exceeding 110% of existing total external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings. Debt re-financings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.
- The CEO has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by the Council at the earliest opportunity.
- The maturity profile of the total committed funding in respect to all loans and committed facilities, is to be controlled by the following system and apply when external debt exceeds \$25 million:-

Period	Minimum Cover	Maximum Cover
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	640%

A maturity schedule outside these limits will require specific Council approval.

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

## 6.2 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 (Standard & Poor's, Fitch or Moody's) being A+ and above or short term rating of A-1 or above.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term / short 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	N/A	Unlimited	none	Unlimited
NZD Registered Supranationals	AAA	10.0	none	10.0
State Owned Enterprises	A+ / A-1	5.0	none	5.0
NZ Registered Bank	A+ / A-1	15.0	20.0	30.0
Corporate Bonds/ CP	A+ / A-1	2.0	none	2.0
Local Government Stock/ Bonds/FRN/ CP	A+ / A-1 (if rated)	10.0	none	10.0
<b>This summary list will be expanded on a counterparty named basis which will be authorised by the CEO.</b>				

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%. (Unless a legal right of set-off over corresponding borrowings exist whereupon a 0% weighting may apply).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange – Transactional principal amount x the square root of the Maturity (years) x 15%

Each transaction should be entered into a treasury spread sheet and a quarterly report prepared to show assessed counterparty actual exposure versus limits.

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed by the FSM on an on-going basis and in the event of material credit downgrades; this should be immediately reported to the GMF and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Investments are normally held to maturity date. Where investments are liquidated before legal maturity date, approval is obtained from the CEO, who also approves guidelines for a minimum acceptable sale price. The GMF evaluates quotes based on these instructions and proceeds with the transaction.

### Local Government Funding Agency

Borrower Notes. On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of "Borrower Notes". A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the

Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

### **Risk management**

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. Maturities should be well spread. The approval process must take into account the liquidity of the market the instrument is traded in and re-priced from.

## **6.3 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.
- Operational risk is minimised through the adoption of all requirements of this policy.

### **1.4.1. Dealing authorities and limits**

Transactions will only be executed by those persons and within limits approved by the Council.

### **1.4.2. Segregation of duties**

As there are a small number of people involved in borrowing and investment activity, adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting is not strictly achievable. The risk will be minimised by the following process:-

- The GMF reports directly to the CEO.
- There is a documented approval process for borrowing, interest rate and investment activity.
- Any execution activities undertaken by the GMF will be checked by the Financial Services Manager and the Financial Services Manager will report any irregularities direct to the CEO. Any execution activities undertaken by the Financial Services Manager and the Finance Accountants Team (Finance Accountant (FA) and Assistant Accountant (AA)) will be checked by the Finance Transactions Team (Finance Officer and Finance Administrator) and any irregularities reported to the GMF and CEO.
- In the absence of the Financial Services Manager, the Financial Services Manager's deal execution delegated authority moves to the Revenue Manager

### **1.4.3. Procedures**

All treasury instruments should be recorded and diarised within a treasury spread sheet, 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.

Procedures should include:-

- Regular management reporting.
- Regular risk assessment, including review of procedures and controls as directed by the Council or appropriate sub-committee of Council.
- Organisational, systems, procedural and reconciliation controls to ensure:
  - All borrowing, interest rate and investment activity is bona fide and properly authorised.
  - Checks are in place to ensure Council 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.

#### **Organisational controls**

- The GMF or equivalent has responsibility for establishing appropriate structures, procedures and controls to support borrowing, interest rate and investment activity.
- All borrowing, investment, cash management and interest rate risk management activity is undertaken in accordance with approved delegations authorised by the Council.

#### **Cheque/electronic banking signatories**

- Positions approved by the CEO as per register.
- Dual signatures are required for all cheques and electronic transfers.
- Cheques must be in the name of the counterparty crossed "Not Negotiable, Account Payee Only", via the Council bank account.

#### **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.

#### **Recording of deals**

- All deals are recorded on properly formatted deal tickets by the Finance Accountants Team and approved as required by the FSM, GMF or CEO. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spread sheets) are maintained by the FSM and updated promptly following completion of transaction.

#### **Confirmations**

- All inward letter confirmations including registry confirmations are received and checked by the Finance Transactions Team against completed deal tickets and the treasury spread sheet records to ensure accuracy.
- All deliverable securities are held in the Council's safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) by the Finance Transactions

Team in deal date/number order.

- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the FSM, GMF or CEO.

### **Settlement**

- The majority of borrowing, interest rate and investment payments are settled by direct debit authority.
- For electronic payments, batches are set up electronically. These batches are checked by the FSM 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 Finance Transactions Team and checked and approved by the FSM. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the GMF.
- A monthly reconciliation of the treasury spread sheet to the general ledger is carried out by the FSM and reviewed by the GMF.
- Interest income from the treasury spread sheet is reconciled to bank statements by the AA or FA.

## **6.4 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, Kaipara may be exposed to such risks with Council unable to enforce its rights due to deficient or inaccurate documentation.

Kaipara 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.

### **1.5.1. Agreements**

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council.

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

### **1.5.2. Financial covenants and other obligations**

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

Council must comply with all obligations and reporting requirements under existing funding facilities and

legislative requirements.

## 6.5 Specific Council Approval

Any activity outside the limits set in section 6 will require specific Council approval.

## 7.0 CASH MANAGEMENT

The Finance Accountants Team has the responsibility to carry out the day-to-day cash and short-term debt management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function.

- The Finance Accountants Team will calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), 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 Council bank account information.
- Co-ordinate 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.
- 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.

- Cash is invested for a term of no more than 3 months and in approved instruments and counterparties.

adopted

## 8.0 MEASURING TREASURY PERFORMANCE

In order to determine the success of 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 Council or an appropriate sub-committee of Council on a quarterly basis.

### 5.1 Operational performance

#### 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.

### 5.2 Management of debt and interest rate risk

The actual funding cost for Council (taking into consideration costs of entering into interest rate risk management transactions) should be below the budgeted interest cost.

Since senior management is granted discretion by the Council to manage debt and interest rate risk within specified limits, the actual funding rate achieved must be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within existing policy. Note: in this respect, a risk neutral position is one that is always precisely at the mid-point of the minimum and maximum percentage 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 the Treasury Policy, the market benchmark (composite) indicator rate will be calculated as follows:

- The wholesale interest rate is the mid-point policy benchmark rate. Council's policy mid-point represents an average term of 7-years. The market benchmark rate will be calculated every month and represent the 7-year swap rate monthly rolling average over a 7-year period.

<u>—Composite Benchmark Indicator Rate</u>	
<u>Weighting</u>	<u>Rate</u>
<u>20%</u>	<u>Average 90-day bank bill bid-rate for the reporting month</u>
<u>16%</u>	<u>5 year interest rate swap bid-rate, end of reporting month</u>
<u>16%</u>	<u>5 year interest rate swap bid-rate, 1 year ago</u>
<u>16%</u>	<u>5 year interest rate swap bid-rate, 2 years ago</u>
<u>16%</u>	<u>5 year interest rate swap bid-rate, 3 years ago</u>



<u>16%</u>	<u>5-year interest rate swap bid rate, 4 years ago</u>
<u>100%</u>	

The micro-benchmark rate used to measure performance is the aggregate of the composite benchmark indicator rate calculated above and the margin that applies to existing funding facilities.

Accordingly, the actual weighted average interest rate for the financial year to date (that incorporates all issuance margins and derivative settlements) must be compared against the micro-benchmark rate on a monthly basis, with historical comparison reported graphically over the previous 12 months.

adopted

## 10.09.0 REPORTING

When budgeting forecast interest costs/returns, the actual physical position of existing loans, investments and interest rate instruments must be taken into account.

### 9.1 Treasury reporting

#### 2.1.1. Reporting

The following reports are produced:

Report Name	Frequency	Prepared By	Recipient
Daily Cash Position Treasury Spread sheet	Daily	AA/FA	FSM
Treasury Exceptions Report	Daily	FSM	GMF
Treasury Report <ul style="list-style-type: none"> <li>• Policy limit compliance</li> <li>• Borrowing limits</li> <li>• Funding and Interest Position</li> <li>• Funding facility</li> <li>• New treasury transactions</li> <li>• Cost of funds vs. budget</li> <li>• Cash flow forecast report</li> <li>• Liquidity risk position</li> <li>• Counterparty credit</li> <li>• Treasury performance Debt maturity profile</li> <li>• Treasury investments</li> </ul>	Monthly <u>(ELT)/</u> Quarterly <u>(Council)</u>	AA/FA	<u>ELT/Council</u> <u>FSM/GMF</u>
Quarterly Treasury Strategy Paper	Quarterly	GMF	Council
Statement of Public Debt	Monthly	FSM	Council
Revaluation of financial instruments	At least Annually	FSM	Council

## 9.2 Accounting treatment of financial instruments

Council uses financial market instruments for the primary purpose of reducing its exposure to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense.

Under [NZIFRS-NZ IPSAS](#) accounting standards changes in the fair value of derivatives go through the Income Statement 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 FSM is responsible for advising the GMF and CEO of any changes to relevant [NZIFRS-NZ IPSAS](#) 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 once annually for risk management purposes. Banks can confirm valuation of financial instruments at least six monthly and during periods of significant change quarterly.

## 9.3 Valuation of treasury instruments

All treasury financial instruments must be revalued (marked-to-market) at least annually. This includes those instruments that are used only for hedging purposes.

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 GMF.

## 11.010.0 POLICY REVIEW

This Treasury Policy is to be formally reviewed on a triennial basis.

The CEO has the responsibility to prepare a review report that is presented to the Council or Council sub-committee. The report will include:-

- Recommendation as to changes, deletions and additions to the policy.
- 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 Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury spread sheets and procedures should be undertaken.
- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to Council.

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

adopted

# Health and Safety Report

## Audit, Risk and Finance Committee 01 December 2017

Robert Maassen (Health and Safety Advisor)

Report dated 20 November 2017

File number: 2209.12/2017 Reports

### 1 Purpose

To provide the Audit, Risk and Finance Committee with information on critical health and safety risks, the treatments in place to manage those risks and the occurrence and nature of any OSH events at the Kaipara District Council (KDC) workplace.

### 2 Recommendation

*That the Audit, Risk and Finance Committee notes the information presented in the Health and Safety Advisor's report and its attachments.*

### 3 Background

Elected members have significant influence over our workplace and are obliged to:

- Apply due diligence to ensure the Kaipara District Council is meeting legal health and safety obligations;
- Ensure that health and safety risks have been identified and that Kaipara District Council is meeting the legal obligation to lower the risk so far as is reasonably practicable; and
- Be confident that Kaipara District Council is providing a safe workplace for its staff and contract workers.

This report provides key information that addresses these matters at a governance level.

### 4 Discussion

#### Risks

Attachment 1 of this report shows the top 10 critical health and safety risks at the Kaipara District Council Workplace.

The Aranga Rockfall event has been a reminder that our staff from time to time will be exposed to extraordinary risks that will most likely result from unexpected natural events such as this. The expectation is that Council staff will respond to these emergencies and is therefore predictably requiring that we review the adequacy of measures to protect our staff who may need to put themselves in harm's way to facilitate recovery and remediation works.

We also had WorkSafe investigate a complaint into alleged unsafe practice which involved a contractor to Kaipara District Council. This has reinforced that "Contractor Management" as a significant risk and the ongoing challenge for Kaipara District Council to engage with our contractors around the identification of risk in the work we are asking them to undertake, and how those risks should be eliminated or mitigated to ensure the activity is undertaken safely.

## Legislative Compliance

### The Asbestos Regulations 2016

The Council-owned buildings constructed pre-2000 which have been identified are:

Building	Address
Council Offices	42 Hokianga Road, Dargaville
Dargaville Library	71 Normanby Street Dargaville
Northern Wairoa War Memorial Hall (Dargaville Town Hall)	37 Hokianga Road
Kauri Court community housing	8 Kauri Court, Dargaville

The top three buildings in the table above were subject to a Cove Kinloch (CK) assessment in the last six months; the project scope was to report on any asbestos found rather than to report that it was not. The CK reports will be reviewed against WorkSafe's guidelines for asbestos surveys which set strict requirements for thorough survey and analysis (basically to remove all doubt).

The Dargaville Fire Shed leased from Harrison's for off-site storage is roofed in a product likely to contain asbestos that could be a source of exposure to staff from asbestos-related airborne contaminants.

### The Health and Safety at Work (Hazardous Substances) Regulations 2017

Waters operations in particular use classes of substances (chlorine gas being one) which come under the new regulations. The Maungaturoto and Dargaville water treatment plants that store and use chlorine gas were subject to a HSNO audit in June of this year; this product triggers the Hazardous Substances Location requirement and requires a Location Test Certificate. The June audit resulted in identified non-compliance with the HSNO regulations in respect of the storage, signage and emergency planning requirements, interim location test certificates have been issued so that operations can continue but are subject to meeting the works required in a specified timeframe. From 01 December 2017 these regulations will be administered and enforced by WorkSafe NZ.

## Occupational Health and Safety Events

Statistics are shown for the last quarter of the 2016/2017 and first quarter of the 2017/2018 year. The trend arrow is compared with the previous quarter.

Table 1: KDC OSH Events 01 April – 30 September 2017

Event Type	Staff	Contractors	Public	Last QTR	Staff	Contractors	Public	This QTR	Trend
Environmental Incident	0	0	0	0	0	0	0	0	=
Notifiable Event	0	0	0	0	0	0	0	0	=
Lost Time Injury	0	0	0	0	0	0	0	0	=
Medical Treatment Injury	0	0	0	0	0	0	0	0	=
First Aid Injury	3	2	0	5	0	4	0	4	↓
Pain or Discomfort	0	0	0	0	1	0	0	1	↑
Property Damage	0	7	0	7	0	14	0	14	↑
Near Miss	3	37	1	41	1	25	1	27	↓

**Near Miss (NM)** – An event that has occurred which had the potential to cause harm to a person(s) but did not due to the narrowest of margins.

**Property Damage** – An incident where any asset belonging to a person or entity has received damage but no injury to any person has resulted.

**Pain or Discomfort** – The onset of pain or discomfort generally caused by awkward postures or repetitive movements.

**First Aid Injury (FAI)** – The provision of initial care for an illness or injury, including diagnostic tests or advice, which does not lead to treatment.

**Medical Treatment Injury (MTI)** – The carrying out of, by or under the supervision of a registered medical practitioner, an operation, the administration of a drug or other like substance, or any other medical procedure (not including diagnostic tests or advice that do not lead to treatment).

**Lost Time Injury (LTI)** – An injury that is attributable to work (including the aggravation, exacerbation or recurrence of a prior work related injury) that resulted in permanent disability, a fatality or time lost from work (excluding the day of incident) of one day/shift or more.

**Notifiable Event** – Any event that meets the threshold of the statutory reporting obligations under the Health and Safety at Work Act 2015, namely; a death, a notifiable illness or injury, a notifiable incident.

**Environmental Incident** – An incident that has or had the potential to cause harm (temporary or permanent) to any; natural receiving environment, flora or fauna and community or cultural value.

## Training

Table 3: Summary of training undertaken 01 July – 30 September 2017

Internal Training	External Provider
	National Advanced Drivers School

### Occupational health and well-being

- HR staff have been promoting replacing fizzy drinks with water;
- An OSH newsletter has gone out highlighting summer driving risks and resilience building;
- Participation in the Hatea Loop workplace team run and yoga classes; and
- Council is about to partner with Sport Northland in the development of a comprehensive staff wellness programme.

### Audit Activity (for period)

Audit Type	Council premises	Waters Contractors	Roading Contractors	Regulatory Contractors	Community Contractors
Office audits	5				
Fixed Facility		3	0	0	
Mobile works		0	20	0	3

### Safety Management System Audits

SafePlus is a joint initiative developed by WorkSafe New Zealand, ACC and the Ministry of Business, Innovation and Employment (MBIE).

- SafePlus is made up of 10 performance requirements fundamental to achieving good health and safety performance; and
- These are organised into three core areas: leadership, worker engagement, and risk management; and are underpinned by continuous improvement. Each performance requirement has a maturity scale that measures a business's performance initially and over time.

Kaipara District Council has the option to volunteer for an Independent Onsite Assessment or use the Free Online Self-Assessment (available mid 2018).



### Attachment 1: Top 10 Critical OSH Risks for Kaipara District Council

Agency of OSH risk		Impact of the risk	Risk Assessment (before controls)			Risk Treatments (what we are currently doing)	Legal Requirements & Other Guidance
	Hazard Class		Likelihood	Consequence	Rank		
1.0	<b>SAFETY HAZARDS</b>						
	Mobile Plant	Loss of control/Rollover/Collisions	Almost Certain	Major	<b>23</b>	<p>Ensure appropriate licensing, certification and competency to operate</p> <p>Do not exceed the manufacturers recommendations</p> <p>Ensure all mobile plant is fitted with Certified Cab Operator Protective Structures or Rollover Bars</p> <p>Ensure seat belts are worn</p> <p>Plant is fitted with flashing beacons and audible reversing alarms</p> <p>Safe distances from live electrical lines are observed</p>	<p>H&amp;SWA Act 2015</p> <p>GR&amp;WM regs 2016 cl 9 &amp; cl 47</p> <p>NZTA Road Rules</p> <p>Code of Practice for electrical safe distances NZECP 34:2001</p>
	Natural Events (Earthquakes, tsunami, weather bombs)	Death/Serious injury/Damage claims	Possible	Major	<b>18</b>	<p>Emergency Planning is in place</p> <p>Workers are trained in emergency management</p> <p>Buildings undergo Sismic assessment</p>	<p>H&amp;SWA Act 2015</p> <p>GR&amp;WM Regs 2016 cl 14 Part 1</p>
	Occupational Driving	Death/Serious injury/Damage claims	Almost Certain	Critical	<b>25</b>	<p>Safe Driving Policy</p> <p>Purchase vehicles with superior ANCAP star rating (5)</p> <p>Fleet management systems are in place that maintain vehicle safety compliance</p> <p>Vehicle checks undertaken periodically</p> <p>License details and expiry cited at employment commencement</p> <p>Police check including traffic infringements at employment commencement</p> <p>D&amp;A policy</p> <p>Driver training - Defensive driving</p> <p>Counselling/Discipline from manager of driver following GPS events or knowledge of infringement notices</p> <p>Use of mobile phone hands free devices in vehicles</p> <p>Staff disclosure of medical issues or the taking of prescription medicines that could affect or limit driving</p>	<p>H&amp;SWA Act 2015</p> <p>NZTA Road Rules</p> <p>NZTA Safe Driving &amp; Safer Journeys strategies</p>
	Work at heights	Death/Serious injury	Possible	Major	<b>18</b>	<p>Eliminate by doing the work at ground level</p> <p>Provide fixed or mobile platforms or scaffold with edge protection and kick boards</p> <p>Use suitable EWP and train in safe operation</p> <p>Provide static lines or certified anchor points for proprietary fall arrest</p> <p>Personal Fall Arrest System training</p> <p>Training in use of edge protection and scaffold erection</p> <p>Scaffold to be erected by a person holding a certificate of competence</p> <p>Scaf tags are visible</p>	<p>H&amp;SWA Act</p> <p>Worksafes BPG for Working at Height</p> <p>Worksafes Good Practice Guidelines for Scaffolding</p>
	Working on the road/Traffic management	Death/Serious injury/Reputational damage	Likely	Critical	<b>24</b>	<p>Ensure contractors have the appropriate training to CoPTTM</p> <p>Ensuring traffic management plans are in place, approved by the RCA (or designated agent) and is available to the workers</p> <p>Use of professional traffic management services where appropriate</p> <p>All Council staff must report to the person in charge of any operation in the road reserve for induction to site hazards</p> <p>Managed TMP approvals process and auditing of contractors in place</p>	<p>H&amp;SWA Act 2015</p> <p>Land Transport Act 1998</p> <p>NZTA CoPTTM</p> <p>Traffic Regulations 1976</p> <p>Land Transport Rule (setting of speed limits) 2003</p>
	Asbestos	Death, serious injury, serious health conditions	Likely	Major	<b>21</b>	<p>An Asbestos Register and Asbestos Management Plans is in place for all identified or suspected ACM/s</p> <p>Use of certified/licensed operators for removal</p> <p>Training &amp; Supervision of staff</p> <p>Suitable PPE is issued</p>	<p>H&amp;SWA Act 2015</p> <p>GR&amp;WM Regs 2016 cl 28-42</p> <p>Asbestos Regs 2016</p> <p>ACOP for the Removal of Asbestos</p>

Agency of OSH risk		Impact of the risk	Risk Assessment (before controls)			Risk Treatments (what we are currently doing)	Legal Requirements & Other Guidance
	Hazard Class		Likelihood	Consequence	Rank		
1.0	<b>SAFETY HAZARDS</b>						
	Aggressive or violent persons	Death/Serious Injury	Possible	Critical	22	<b>Field Inspections Involving Private Property Access</b> - Provide training in how to deal with angry people and de-escalate - Scope the job and use available resources to determine level of risk i.e. records of places of interest, critical event records, collective team knowledge, Police intel etc.) - Buddy up and maintain comms with manager or supervisor - Read danger signs i.e. gang insignia, property care and condition, signs of drug or alcohol use, mood and state of people present, presence of weapons etc. - Have a planned unblocked escape route <b>Public Access - Customer Counter</b> - Reduce cash handling /EFTPOS only policy - Maintain secure access systems and visitor sign in procedures - Risk is built into the architectural design of front counter areas: - Monitored CCTV of entrance area - Door can be locked down - Doors and shields are made of difficult to penetrate, well secured, shatter proof materials - Counter cannot be scaled and staff are not within reach - Staff can easily remove themselves to a secure area - Alarms can be set off to warn others and get assistance - Dealing with aggressive people & Robbery Training	H&SWA Act 2015 Worksafe Fact Sheet Violence at Work
	Contractor Management	Death/Serious Injury/Overlapping duties legal obligation	Possible	Critical	22	Contractor Management Policy Assessing contractor risk level Prequalifying contractors using SITEWISE Maintaining a preferred contractor register Building safety and risk into upstream design or by fulfilling CCC obligations Identify and owning risks where Council influence is primary Reviewing SSSP and task safety analysis submitted by contractors for projects Meet contractor supervision and auditing requirements Record identified CA's and follow up to ensure closure Post contract evaluation	
	Confined spaces	Death/Serious injury	Possible	Critical	22	Use of CSE permit system and atmosphere testing which conforms with AS/NZS 2865 Training for all staff required to enter Confined Spaces Provision of appropriate PPE and maintaining safety equipment	H&SWA Act 2015 AS/NZS: 2865: 2001 GR&WM Regs 2016 cl 22 & 23 part 2
	Excavations	Death/Serious injury	Possible	Major	18	<b>B4 U DIG</b> Identify all underground services prior to excavation (if necessary use PTW process) Notification of excavations over 1.5m and use of appropriate shoring according to Worksafe BPG	GR&WM Regs 2016 cl 27 Part 2 Worksafes Excavation Safety Best Practice Guidelines Worksafes Safety Guide with Underground Services
	Lone or remote work	Death/Serious injury	Possible	Major	18	Implement Lone Worker Policy Provide tracking/communications and effective emergency response systems for lone workers	H&SWA Act 2015 GR&WM Regs 2016 cl 13, 14 of Part 1 & cl 21 of Part 2