

Report 11.594
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Committee Audit and Risk Committee
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Treasury Risk Management Policy

1. Purpose

As part of the LTP process, Greater Wellington (GW) is obliged to prepare a liability management policy and investment policy, which it must consult the community on. These have been combined into one document called the Treasury Risk Management Policy (TRMP). This paper presents the TRMP and proposes a number of amendments.

2. The decision-making process and significance

No decision is being sought in this report. The Committee is asked, however, to make recommendations to Council in relation to the TRMP.

3. Background

The existing TRMP was developed during the last planning round in June 2009. A new policy was adopted at this time with the assistance of our treasury advisors, Asia Pacific Risk Management (APRM). The policy has worked reasonably well over the last three years. The proposed amendments generally reflect changes GW has made since the policy was implemented, coupled with some other operational items.

The TRMP was circulated to Councillors on 1 November 2011 for comment. To date no comment has been received back and this is likely a reflection of its technical nature. The fact that the document was originally prepared by our independent advisor, APRM, will have given Councillors some comfort.

The TRMP is attached (refer **Attachment 1**) and is in the form of a marked up document so Councillors can recognise the proposed changes. A commentary on the major changes is made below, and follows the sequence of the document.

4. Comment

Stuart Henderson of APRM, will be available by conference phone should the Councillors require any clarification or explanation about the policy or changes made.

Section 3.5 Chief Financial Officer

A section is added in relation to dealing with GW's carbon credits, this has also been added to section 3.8 dealing with delegations.

A section is added to deal with the signing of debenture and security stock certificates under our newly created debenture trust deed providing rates revenue as security to our lenders.

Section 3.6 Treasurer

A section is added to allow the Treasurer to enter into FX contracts to meet GW's FX payments. This is a technical process in terms of meeting GW's commitments.

Section 3.8 Delegations

The addition of the Debenture Trust Deed and the dealing with Carbon credits was discussed above. The delegations dealing with managing Investments has been added. This delegation is controlled within the policy and regularises what the Treasurer does. Investments include the contingency and liquidity deposits held by GW.

Section 4.1 Debt ratios

This section has been amended to incorporate new limits. These are the limits that the Local Government Funding Agency (LGFA) can approve lending to without consultation to the Shareholders' Councils. Given the LGFA will be GW's main lender, it is important to adopt their covenants.

The definitions around these covenants have been added for clarification and are consistent with the LGFA lending documents.

Section 4.2 Security and Charges

This section has been updated to reflect the change to a Debenture Trust Deed.

Section 5.2.3 (e) Contingency Funds

This section has been added to recognise that GW has contingency funds and that they may be increased in the future. A review of GW's Insurance risk is currently in progress and this could see the increase use of such funds.

Sections 6.1.3, Interest Rate Risk Control limits and Section 6.2.2 Liquidity/Funding Risk Control limits

Both of these sections have been relaxed slightly, reflecting a change to a more secure source of funding from the LGFA and to provide GW with a bit more flexibility with treasury risk management.

A section on prefunding has been added which regularises the annual delegation by Council for the CFO to raise debt in accordance with GW's annual plan. Given the current international environment prefunding is considered prudent to secure funds for future capital projects.

6.2.3 Commercial paper

This section has been added to regularise what GW does in relation to Commercial paper. Note it can be overridden by the requirements of the credit rating agencies.

6.3 Counterparty credit risk

A section has been added here to deal with investing directly with the LGFA. Also, a comment on the rating on the NZ Government and GW's ability to review the counter party credit risk, should this occur.

6.4 CentrePort Debt and Guaranteeing Debt

This section has been added to regularise what is currently in place and provides for possible future lending to CentrePort, should GW think there would be a benefit to rate payers.

5. Communication

There are no communications presently. The TRMP, once approved by Council, will be available for public consultation.

6. Recommendations

That the Committee:

1. *Receives the report.*
2. *Notes the content of the report.*
3. *Recommends the Treasury Risk Management Policy be presented to Council with any amendments for approval as part of Greater Wellington's Long Term Plan.*

Report prepared by:

Report approved by:

Mike Timmer
Treasurer

Bruce Simpson
Chief Financial Officer

Attachment 1: Treasury Risk Management Policy