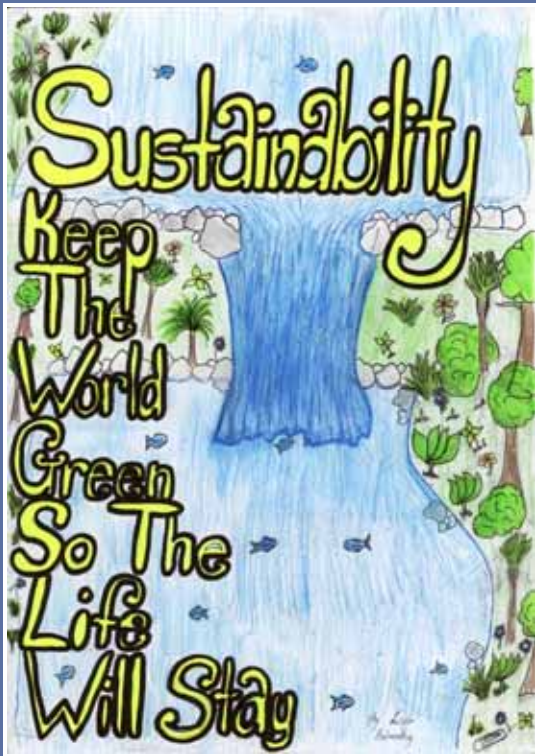


Hauraki District Council Financial Policies



*Hauraki Youth promoting
Sustainability in Hauraki*

*Artwork provided by:
Logan Belworthy, Kopuarahi School*

What is included in this section?

Hauraki District Council Financial Policies

- Liability Management
- Investment
- Rates Remissions - Natural Disasters
- Remission of Penalties
- Remission of Uniform Annual General Charge (UAGC) on Contiguous Rating Units in Separate Ownership, Used Jointly as a Single Entity
- Postponement of Rates
- Remission of Excess Water Rates
- Remission of Water Rates to Particular Rating Units
- Remission of Rates Assessed in Error
- Remission of Multiple Owned Maori Freehold Land
- Remission of Wastewater Rates Assessed on Educational Establishments
- Rates Remissions – Rating of Low Value Land Units
- Rates Remissions – Voluntarily Protected Land
- Rate Remissions for Community, Sporting and other Organisations
- Rate Remission of Multiple Dwellings on One Title Policy

Liability Management Policy

Principles & Purpose

The Local Government Act 2002 contains a number of sections, which impact on the Liability Management Policy. The key sections are noted below:

101(1): PRINCIPLES OF FINANCIAL MANAGEMENT – A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

104: CONTENTS OF LIABILITY MANAGEMENT POLICY – This section details what is required in the Liability Management Policy.

Part 6 SUBPART 4: BORROWING AND SECURITY – There are a number of sections within this Part of the Act which cover the following:

- Prohibition on borrowing in foreign currency
- Constraints on receiver
- Rates as security
- Register of charges maintained by local authority
- Protected transactions
- The Crown not liable for debts

Objectives of the Policy

This policy also addresses a number of key objectives, other than those required purely for legislative compliance.

The following objectives have been identified.

Prudence

Section 101(1) requires Council to be prudent in managing its debt. Council can achieve this by ensuring long-term financial stability. This is measured by financial ratios.

Prudence can also be achieved by making certain that strong control systems are in place. This should ensure that decisions are made by those persons with appropriate skills, at the correct level of responsibility and that policies are complied with.

Flexibility

Where possible the Liability Management Policy should have sufficient flexibility to permit Council to take advantage the tools available within the legislation This clearly needs to be consistent with other key objectives, e.g. financial prudence.

An inflexible policy may deny Council the opportunity to reduce risk, cost or both.

Risk

Borrowing exposes the Council to two principal risks:

- Interest Rate Risk – The risk that Council will be exposed to changes in market conditions, particularly interest rates, prevailing at any time. It is important to consider this when issuing debt. It will impact on the maturity profile of issued debt and the process of re-financing.
- Credit Risk – The risk that a party to a transaction, such as counter-party or a financial intermediary, may not settle a transaction. This risk is minimal where Council is the borrower, as opposed to being a lender or investor.

These risks should be minimised. However it is necessary to recognise there are trade-offs between the reduction of risk and the cost associated with this.

Liquidity Management

Council must ensure that it is able to meet its obligations as they fall due. These include ongoing operational expenditures and the repayment of maturing debt obligations, which are not being re-financed.

This should be achieved through short-term and long-term liquidity management.

Minimise Total Cost of Borrowing

Minimising the total cost of borrowing is a key objective within the Borrowing Management Policy.

The total cost of borrowing not only includes the interest expense but also advisory fees, transaction costs, internal administrative costs and the commitment of staff resource.

The total of these costs needs to be minimised, rather than focusing on one of the individual items to the exclusion of the others.

The total cost needs to be minimised in the long term.

A key method of minimising the total cost of borrowing is internal borrowing. This enables Council to bypass paying the margin between borrowing and investing interest rates. Internal borrowing also minimises credit risk because Council is investing funds internally rather than with a third party.

Policies

Interest Rate Exposure - Sec 104(a)

Interest rate exposure arises from movements in interest rates over time and the refinancing that may result in an adverse interest market.

If interest rates are decreasing it may be desirable to have a high percentage of Council's debt held at a floating interest rate to take advantage of the falling interest rate. Conversely in a period of increasing interest rates it would be better to hold fixed rate debt.

However, it is difficult to form a view of long-term interest rates given the numerous domestic and international influences on our economy.

Hauraki District Council Financial Policies

Liability Management Policy

The only way in which optimal interest rate mixes can be determined is by having the benefit of an accurate projection of future interest rates and movements.

Domestic and international fund managers, and corporate treasury departments are often incorrect in their predictions of future trends in interest rates. Such behaviour i.e. forecasting future interest rates, should be regarded as highly speculative from Council's perspective.

Exposure to interest rate risk can be reduced by placing debt at a mixture of floating and fixed interest rates. In addition it is appropriate to have a mix of maturity dates so refinancing risk is minimised.

Where core debt is at a low level, such as less than \$4 million, it may be difficult to efficiently have a flat maturity profile and/or a mixture of fixed and floating interest rates to ensure interest rate risk is minimised. It may be possible to minimise interest rate risk but potentially suffer from increased transaction and administration costs because of smaller individual debt parcels.

If current interest rates are substantially lower than that currently being paid by Council, it may be appropriate to re-finance. Other cost factors, such as the transaction costs of re-financing, must also be considered. If the re-financing involves a substantial portion of Council's overall debt, special consideration must be given to how it can be made compatible with Council's overall desired maturity profile.

Using hedging instruments - which include forward rate agreements, interest rate swaps, and interest rate options, can reduce interest rate risk. These should only be used for the purpose of hedging interest rate risk against specific borrowings.

The use of hedging instruments is viewed by some as somewhat risky. There have been a number of instances where financial instruments have been used and significant negative results have resulted. It should be noted that these instances are where the instruments were used in a speculative rather than hedging nature. (e.g. Hammersmith Council in London in the late 1980s).

However, the use of hedges to offset risk may be to Council's advantage. It would be appropriate if the scale of the transaction were such that there is a significant exposure to a prevailing set of interest rates. By entering offsetting interest rate contracts or the use of other sophisticated tools, the dangers associated with any large position can be minimised.

In deciding whether to use a hedge, two factors should be considered. First, Council must be confident that the proposed transaction is a genuine hedge, i.e. that it does in fact reduce total risk. Secondly, the cost of the hedge must be justified by the reduction in risk that is achieved.

If there is absolute certainty of the answers to these two questions, then a hedge is appropriate. It is likely that independent expertise would be sought in planning such a transaction.

Liquidity Management Policy 1 (a) (Fixed/Floating Interest Rates)

Council should maintain a mix of fixed and floating interest rates either directly via individual debt securities or via alternative debt instruments, e.g. Interest Rate Swaps.

Neither fixed nor floating interest rate exposure should exceed 75% after accounting for hedged positions.

Liquidity Management Policy 1 (b) (Maturity Profile)

Where possible Council will endeavour to maintain a flat maturity profile with no more than 34%, or \$3 million whichever is higher, of external debt being subject to refinancing in any one year.

Hauraki District Council Financial Policies

Liability Management Policy

Liquidity Management Policy 1 (c) (Hedging)

Council will only enter into a hedging transaction where it can be clearly demonstrated that:

- (i) the transaction is to be used to reduce risk associated with an existing position (it is expressly prohibited to enter into speculative contracts);
- (ii) the transaction will reduce risk to Council, by adjusting an undesirable maturity profile or a fixed versus floating interest rate position;
- (iii) the cost of the transaction is exceeded by the reduction in risk.

Liquidity - Sec 104(b)

There is a need to have a policy that ensures Council has sufficient funds available to meet its immediate cash outflow obligations as they fall due and are payable.

The key factors influencing this policy are prudence, flexibility, minimising total costs and having short term borrowing capacity.

The 1996 Local Government Amendment Act specifically provided for short term borrowing in section 122J. The 2002 Local Government Act replaced the specific and prescriptive powers previously in place with a general power of competence, specifically in section 12(2):

For the purposes of performing its role, a local authority has—

- (a) full capacity to carry on or undertake any activity or business, do any act, or enter into any transaction; and
- (b) for the purposes of paragraph (a), full rights, powers, and privileges.

Council needs to have strong forecasting systems in place to ensure it minimises the need for borrowing, especially short-term borrowing, and maximises the returns available from the investment of surplus funds.

Liquidity Management Policy 2

Council will ensure that it has, at all times, sufficient funds available to meet its obligations as they fall due. Potential sources of funds include cash deposits, committed but undrawn lines of credit and short-term lending.

Pursuant to Section 12(2) of the Local Government Act 2002, Council may borrow funds on a short-term basis to provide for efficient and effective cash management. Borrowing under this policy shall be used for the purpose of meeting temporary shortfalls in liquidity and will not be used as a permanent source of funds. (For the purposes of this policy “permanent sources of funds” are those funds borrowed for a term longer than twelve months).

Council delegates responsibility for establishing short-term debt and overdraft facilities and the day-to-day management of any Council overdraft facility to the Chief Executive and his staff. The long-term borrowing requirements for any year are approved by Council.

Credit Risk - Sec 104(c)

In any financial transaction, there is a risk that the counter-party may be unable or unwilling to settle the transaction as agreed. This risk is reduced when Council is the borrower as Council would be the settler of the transaction. However where Council has hedged the transaction there is a need to ensure the party with which the transaction has been placed is capable of settling that transaction.

Hauraki District Council Financial Policies

Liability Management Policy

Risks are minimised by limiting Council's dealings to counter-parties with appropriate industry standing, financial adequacy and track record.

Liquidity Management Policy 3

Council will satisfy itself, in all its borrowing transactions, that counter-parties:

- are financially adequate;
- have an appropriate industry standing; and
- have an appropriate track record;

to give Council reasonable certainty that obligations under concluded contracts will be honoured.

Debt Repayment Policy - Sec 104(d)

This policy gives effect to the objective of minimising Council's interest rate risk.

Liquidity Management Policy 4

Loan terms are to be set to ensure that the overall borrowing is consistent with an even spread of debt maturities.

Where repayment by the use of a sinking fund or loan repayment reserve is contemplated, sufficient funds will be provided to enable the repayment of the loan at the time contemplated.

Where Council has surplus long-term funds these may be used to repay debt if this doesn't compromise other aspects of the liability management policy.

Specific Borrowing Limits - Sec 104(e)

The amount of debt that is raised by Council clearly has implications on Council's overall financial position and future income streams required to fund the debt. This is fundamentally dictated by the community's ability to pay.

Appropriate limits on total borrowing should be reflected as ratios or dollar limits in terms of income streams, interest expense and debt per assessment.

Liquidity Management Policy 5(a)

Council must ensure that its borrowing satisfies the following ratios:

External Public Debt per Assessment	<=	\$5,000
Net interest – expense Total revenue	<=	10%
Net interest – expense Rates revenue	<=	15%

Liquidity Management Policy 5(b)

There are no limits on internal borrowing.

Provision of Security Sec 104(f)

In the past, Territorial Local Authorities offered the ability to levy a special rate as security to a lender. This afforded the lender significant comfort (i.e. reduced their risk) and interest rates discounted from the retail market could be achieved.

The current approach provides for similar security by way of the ability for a receiver to set a rate to repay any debt owing. It now also allows councils to offer assets as security. It is likely that this form of security would be viewed by the lenders as more risky than special rates. This would imply an increase in the cost of interest to Council. It is unlikely that assets would be offered as security to lenders.

Council should not prevent itself from offering fixed assets as security if this was the most appropriate course of action to take. Recognition needs to be made of the fact that Council is prohibited from giving any form of security over certain classes of land, or over assets held under a trust or endowment.

Liquidity Management Policy 6

In general, Council will secure its borrowings against its rates revenue.

Council is prepared to give security over its assets. Before giving security against any assets, Council must be satisfied that doing so is fairly reflected in the cost of borrowing. Comparisons of the cost of borrowing between different alternative borrowing transactions must account for different requirements as to the giving of security.

Giving of Loan Guarantees

The provision of a guarantee on behalf of an organisation should enable the provision of goods or services at a lower cost because of a reduction in the organisation's cost of interest. This indirect benefit to Council must be weighed against the lack of control associated with guaranteeing the obligations of another party, the increased risk to Council that is involved, and whether there are any offsetting considerations such as the potential availability of assets to offset obligations under the guarantee.

It is appropriate to cap the limits on the total to be guaranteed, both overall and to any one organisation.

Monitoring of the guaranteed party is a first step towards limiting Council's risk. Consideration should be given to requiring notice of any abnormal or extraordinary events that relate to a substantial change in the nature, objectives or functions of the guaranteed organisation, or that could affect the ability of the guaranteed organisation to meet its financial obligations. Notice would be required as soon as the event occurred or became reasonably possible to occur.

The most serious disadvantage is the absence of controls on guaranteed organisations, as opposed to purely procedural reporting requirements. There should be rules requiring organisations to maintain their ability to meet their obligations, analogous to interest coverage ratios and balance sheet ratios required of the Council by the borrowing limits policy. These rules are yet to be developed.

The remedies for the failure of a guaranteed organisation to comply with the agreement to guarantee its obligations require consideration. While the terms of a particular agreement to guarantee should specify the remedies available to the guarantor, these remedies must lie purely against the guaranteed party. They cannot, as a matter of contractual privity, affect the rights of the lender.

Liquidity Management Policy 7

Council may act as guarantor to bank loans for an incorporated organisation which will provide, improve, or develop amenities for recreation, amusement or the instruction of the public.

The total combined amount Council may guarantee at any one time shall not exceed 10.0% of the general rates levied in any year. The maximum amount Council may guarantee to any one qualifying organisation shall be 5.0% of the general rates levied, except that in special circumstances the limit of 5.0% may be exceeded.

Each organisation that Council has provided a loan guarantee shall provide to Council:

- A six-monthly unaudited financial report within three months of the first six months of the financial year, and;
- An annual audited financial report within four months of the balance date, and;
- A statement from the bank lending the money to the qualifying organisation each year that shows the principal outstanding at the end of that period and payment made during the year.

Internal Borrowing / Investing

Where possible Council will borrow or invest funds internally, so as to minimise its total cost of borrowing while still providing a market rate of return on its investments. Council will also borrow or invest internally to minimise its credit risk. Council may include a margin on borrowings or investments to recover administration costs.

Liquidity Management Policy 8(a)

Where at all possible Council will borrow or invest internally rather than externally.

Liquidity Management Policy 8(b)

Council will charge interest on internal borrowings equivalent to a market base rate, such as the 90-day bank bill mid rate, or the one year fixed interest borrowing base rate plus a basis point margin determined by the Chief Executive.

Liquidity Management Policy 8(c)

Council will pay interest on internal investments equivalent to a market base rate, such as the 90-day bank bill mid rate, or the one year fixed interest borrowing base rate less a basis point margin determined by the Chief Executive.

Investment Policy

Principles & Purpose

The investment policy, required by legislation is one aimed at formalising existing approaches and ensuring a fresh view is taken in light of the other changes and requirements included within the Local Government Act 2002.

There are two main sections of the Local Government Act 2002 that impact on the Investment Policy:

- Section 102(4)(c): INVESTMENT POLICY – Requires every local authority to adopt an investment policy using the special consultative procedure.
- Section 105: CONTENT OF INVESTMENT POLICY – Details what is required in an Investment Policy.

Objectives of the Policy

Section 105(a) requires Council to include its objectives in terms of which financial and equity investments are to be managed.

Prudence

Section 101(1) requires Council to be prudent in managing its investments. Council, as a responsible corporate citizen and custodian of public funds, recognises that it should manage investments in a prudent manner. This will require a risk averse approach with care to ensure unnecessary risks are avoided.

For the Liability Management Policy, prudence can be achieved by ensuring that strong control systems are in place. This should ensure that decisions are made by those persons with appropriate skills at the correct level of responsibility, and that policies are complied with.

Flexibility

Where possible the Investment Policy should have sufficient flexibility to permit Council to take advantage of all the tools and opportunities available. This clearly needs to be consistent with other key objectives, e.g. financial prudence.

Minimisation of Risk and Maximisation of Returns

These two objectives are effectively opposing forces. It is well documented that investments with low risk carry low returns and conversely those investments with high risk carry high returns. Council should seek to maximise returns from a given risk acceptance position; it is important to establish what degree of risk Council is prepared to accept and then seek to maximise returns.

Prudence requires a degree of conservatism in investments, meaning that Council should be more risk averse than the average investor. Therefore, it should predominantly invest in low risk, low return investments.

Liquidity

It is emphasised in the Liability Management Policy that liquidity management is essential. A key element of this is the timing and matching of investment maturities to expected outflows, e.g. operating expenditures, project payments and debt retirement.

Hauraki District Council Financial Policies

Investment Policy

Given the uncertainty that inevitably surrounds forecasting, it is prudent that Council provides some coverage factor for unexpected transactions. This could take the form of a percentage of funds being on call.

When making investment decisions it is important to consider the length of time the investment will be placed for and the liquidity of the investment.

Policies

The policies provide a framework within which decisions can be made rather than providing a prescriptive set of criteria that is currently employed for surplus funds management.

General Policy – Sec 105(a)

Investment Policy 1

Council, as a responsible corporate citizen and custodian of public funds, recognises that it should manage investments in a prudent manner. This will require a risk averse approach and care to ensure unnecessary risks are avoided.

Council aims to maximise its returns in the long-term while ensuring risks remain within Council's accepted range.

Disposition of Revenue and Proceeds

Investment Fund

Council's most significant investment was its shareholding in Power New Zealand. When the shares were sold the sale proceeds were placed into a notional investment fund.

Council identified a number of key strategic assets including the Power New Zealand share holding, forestry holdings and leasehold sections held at Waihi Beach. The net proceeds from the sale of these assets was/will be placed into the same investment fund. (Net proceeds are defined as gross sale proceeds less costs of sale, any accrued debt arising from previous holding costs not previously funded and any rehabilitation costs.)

Council has determined that in the interests of fairness and equity the investment fund benefits should be ascribed to the benefit of all ratepayers. 25% of the fund income will be allocated to funding of projects. 75% will be used to reduce the District General Rate.

General Funds

Proceeds from the investment of surplus funds are credited to the District General Rate pool. Separate reserve funds are allocated interest at the estimated average rate of return achieved for the financial year.

Asset sale proceeds are generally credited to the fund or activity that provided the funding for the original purchase. Asset sale proceeds could also be credited to funds notified in the resolution approving sale if required or appropriate.

Investment Policy 2

Returns from investments, after the deduction of expenses, will be applied according as follows:

- 25% of the income from the Investment Fund will be credited to the District Community Projects Assistance Fund. This fund will be used to assist with the completion of community projects. The Council will allocate the funding on a project-by-project basis.

Hauraki District Council Financial Policies

Investment Policy

- 75% of the income from the Investment Fund will be used to reduce the District General rate requirement.
- Interest will be credited to separate reserve funds on the basis of the estimated average yield on surplus funds for the financial year less the margin for recovery of overheads.
- In accordance with any resolution of the Council.
- To Council's general operating revenues.

Net asset sale proceeds will be credited to the fund or activity, which originally provided the funding for the asset's original purchase, or to any other fund as per Council resolution.

Management and Reporting – Sec 105(d)

Delegated authority to approve investments should rest with the Chief Executive. However, for practical reasons the power to negotiate such investment needs to be extended.

Operational Procedures will, where possible, ensure that:

- There is clear segregation of duties between the person negotiating treasury arrangements and those authorising treasury arrangements;
- Transactions are made only with approved counterparties;
- Transactions comply with legislative requirements;
- Monthly reconciliation of all cash holdings, surplus funds and investments are completed. These are to be independently reviewed by the Corporate Services Manager;
- That there is close control over daily, weekly and monthly and longer-term cash flow projections so that Council's working capital requirements are met.

Quarterly reports should be made to Council for the three month periods ending 30 September, 31 December, 31 March and 30 June each financial year. Included within these reports should be details of:

- Investments on hand at the end of the quarter, including the names of counter-parties, sums invested with each, terms of each investment, and interest rates being earned;
- The average earnings rate on investments made during the quarter;
- A commentary on movements in interest rates during the quarter and the effect of these on anticipated returns for the financial year. This could include a comparison to interest rates earned over the previous six months.

Investment Policy 3a

The Chief Executive shall have delegated authority to negotiate and authorise any investment transaction within the approved policy, and shall be authorised to delegate that authority.

Investment Policy 3b

Quarterly reports will be made to Council (for the three month periods ending 30 September, 31 December, 31 March and 30 June each financial year).

Included within these report should be details on:

Hauraki District Council Financial Policies

Investment Policy

- Investments on hand at the end of the quarter, including the names of counter-parties, sums invested with each, terms of each investment, and interest rates being earned;
- The average earnings rate on investments held during the quarter.

Acquisition of New Investments and Credit Risk – Sections 105(c) and 105(e)

Credit risk - also called default risk - is the risk that a counter-party will not be able to meet interest or principal payments when due.

While this was not so critical in the Liability Management Policy, it has greater significance in the Investment Policy.

The credit risk of issuers can be established via international credit agencies such as Moody's, and Standard and Poor's. When viewing the ratings supplied by the agencies it is relevant to consider the instruments or debt type being rated.

There are different debt types depending on the security or ranking offered.

Credit risk can be reduced by limiting investments to highly rated organisations and diversifying the type and maturity of investments.

Council may, from time to time, wish to promote the development and expansion of commercial organisations through the advance of funds. It should be recognised that while there may be sound reasons to justify the advances, this may involve a departure from normal investment policy. The following policy is to cover this eventuality.

Investment Policy 4(a)

Credit risk will be minimised by investing only in high quality investments. For the purposes of this Policy, this means that investments will only be acquired that have Standard & Poor's ratings for short-term investments of A1 or higher and for long-term investments of AA- or higher. Equivalent Moody's ratings may apply.

Investment Policy 4(b)

Council may, in its discretion, acquire investments that depart from IP 4(a) where it considers that the departure would advance its broader social or other policy objectives.

A Council resolution is required to authorise an investment under this provision, and that resolution shall note that it departs from the Council's ordinary policy on credit risk and the reasons justifying that departure.

Return on Investment - Sec 105(e)

Council should, within the parameters of other policies, seek to maximise the returns on its investments. The returns must, however, reflect the risk involved.

Government stock is regarded as a risk-free investment and as such is the benchmark from which the pricing of other investments is determined.

A higher risk should only be accepted if the expected return is also higher. Although greater returns may be achieved by investing in securities issued by corporates (such as company debentures) we must always remember that the higher yield represents the extra margin that is generally required to compensate the investor for increased risk.

Investment Policy 5

The expected return on all funds invested should reflect the risk involved, according to the following guidelines:

- If a potential investment carries greater risk than is consistent with Council's credit risk policy then an investment will not be made, irrespective of the expected returns.
- Where there are two investments of equivalent risk within Council's risk constraints, the investment with the higher expected return shall be selected.
- If there are two investments of different risks, but both are within Council's risk constraints, an assessment will be made of the trade-off between the risks and expected returns of the two options. The investment that is considered to be the most attractive for Council, having regard to prudence, the risks and the expected returns, will be selected.

Liquidity and Duration - Sec 105(b) and 105(e)

The liquidity and duration of investments are important considerations in relation to an overall investment portfolio. The failure to match the availability of funds to expected cash outflows, or to provide for unexpected outflows, can carry considerable costs in the form of short-term bridging finance.

The ability to liquidate an investment is determined by the existence of potential buyers. A lack of liquidity may force the seller to discount the price below its current market value. Liquidity is affected by the characteristics such as the credit-worthiness of the issuer and the volume of supply.

The duration of investments can vary from a one-day term, such as call deposits, to a long-term, such as 10 years. When investments are less liquid, the maturity or duration of the investment assumes higher significance.

Duration of the investment is not of major significance if the investment is particularly liquid.

Investments should be principally focused on duration; investment maturities should closely match expected cash outflows.

Often investments have been made on the basis of best return without identifying what ultimate maturity date is required. To invest with a significant degree of certainty requires comprehensive forecasting systems and procedures.

Investment Policy 6

Council's portfolio shall be arranged to provide sufficient funds for planned cash outflows and to otherwise allow the payment of obligations as they fall due.

Individual investments shall be chosen with regard to:

- The period of time for which the funds are surplus to requirements;
- The maturity of the investment;
- The ability to liquidate the investment before its maturity;
- The extent to which the portfolio already provides funds as required; and
- Market conditions.

Portfolio Diversification - Sec 105(b)

An important method of reducing the exposure of the Council to any single adverse investment is to spread the amount invested across a number of investments and counter-parties. This reduces the danger of extreme losses but also reduces the possibility of large returns.

Past examples of financial collapse of major companies clearly illustrates the inherent dangers in a high exposure to any one form of investment or single issuer.

However, sometimes the cost of diversification may exceed the benefits of diversification by the increased administrative costs and the non-marketability of small parcels that may result.

Investments may be classified into broad risk types - risk free, near risk free, and low risk. There are others that can be classified as medium to high risk investments but these are excluded under this policy (IP 4(a)).

Investment Policy 7

Classes of Investments:

The following will be classes of investments for the purposes of this investment policy:

- Risk-free and near risk-free investments: securities issued or guaranteed by the New Zealand Government, local authority stock secured by rates.
- Low-risk investments: the debt of issuers with ratings equivalent to a Standard and Poor's rating of AA- or better for long term debt or A1 or better for short term debt.

Investment by class:

Limits on investment in any of the above classes of investments shall be as follows:

- Near risk-free to risk-free investments: in any one class, up to 100% of the total assets available for investment whether short or long-term.
- Low-risk investments: up to 100% of the total if debt purchased is short-term, i.e. less than one year, or no more than 60% of the total assets available for investment if the debt is long-term, i.e. greater than one year.
- Medium to high-risk investments: nil exposure, subject to specific Council resolution.

Individual investments:

Limits on any one investment shall be as follows:

- Risk-free investments: up to 100% of the total assets available for investment.
- Near risk-free investments: up to 100% of the total assets available for investment.
- Low-risk investments: no more than 50% of the total assets available for investment.
- Medium to high-risk investments: nil exposure, subject to the Council's direction.

Settlement Risk - Sec 105(e)

One way to mitigate investment settlement risk is the adoption of costly, time-consuming verification procedures for the transfer of funds and securities. In general, however, it is better to concentrate on the soundness of the other parties to the transaction. The critical factors that reduce settlement risk are similar to those stated in the Borrowing Management Policy in relation to credit risk:

- Appropriate industry standing;
- Financial adequacy; and
- Track record.

Investment Policy 8

The Council will satisfy itself, in all its investment transactions, that counter-parties:

- Are financially adequate;
- Have an appropriate industry standing; and
- Have an appropriate track record;

in sufficient degree to give Council reasonable certainty that obligations under contracts will be performed.

Rates Remissions – Natural Disasters and Emergencies

Section 85 Local Government (Rating) Act 2002

Remission of rates—

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if—
 - (a) the local authority has adopted a rates remission policy under section 109 of the Local Government Act 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objectives of the Policy

This policy is to provide for the possibility of rates remission where a form of natural or other type of disaster or emergency affects one or more rating units capacity to be inhabited, used or otherwise occupied for an extended period of time.

Conditions and Criteria

The Council may on written application from the ratepayer of rating units affected by a natural disaster or emergency:

- Remit up to 100% of rates levied.
- Council may consider voiding the need for an application and grant remission for any rating unit, or group of rating units collectively, affected by a natural disaster or emergency.
- Each application will be considered on its merits.
- Applications for remission under this policy will be considered and approved or rejected by a full meeting of Council.

Remission of Penalties

Section 85 Local Government (Rating) Act 2002

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if –
 - (a) the local authority has adopted a rates remission policy under section 109 of the Local Government Act, 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objective of the Policy

The objective of the remission policy is to enable the Council to act fairly and reasonably in its consideration of rates which have not been received by the Council by the penalty date.

Conditions and Criteria

The Council may remit the penalty rates where the application meets the following criteria:

- (1) Automatic remission of the penalties incurred on instalment one and two will be made where the ratepayer pays the total amount due for the year on or before the penalty date of the second instalment. Automatic remission of the instalment penalties incurred during the year will be made where the ratepayer is paying by quarterly, fortnightly, or weekly arranged payments, and all rates owing have been paid by 30 June.
- (2) Proportionate remission of an instalment penalty will be considered where payment has been made in accordance with the following time frame, and provided the ratepayer has a good prior payment history. Good payment history takes into account the occasions when ratepayers have paid previous instalments on time. Penalty proportions remissible are:
 - Payment within two weeks of penalty date – 100%
 - Payment within four weeks of penalty date – 75%
 - Payment within eight weeks of penalty date – 50%
 - Payment within twelve weeks of penalty date – 25%
 - Payment after twelve weeks of penalty date – 0%.

Future penalties may be remitted where a ratepayer makes suitable arrangements for the regular reduction of arrears. Substantial compliance with the payment arrangement is a precondition to penalty remission. Past penalties may be remitted where a ratepayer has paid all arrears, and has co-operated with Council in taking appropriate steps to reduce the balance outstanding.

Penalties may be remitted where Council is convinced that it would be unfair and unreasonable not to remit the penalties.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Hauraki District Council Financial Policies

Remission of Uniform Annual General Charges on Contiguous Rating Units in Separate Ownership, Used Jointly as a Single Entity

Remission of Uniform Annual General Charges on Contiguous Rating Units in Separate Ownership, Used Jointly as a Single Entity

Section 85 Local Government (Rating) Act 2002

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if –
 - (a) the local authority has adopted a remission policy under section 109 of the Local Government Act, 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objective of the Policy

This policy is to provide for the possibility of rates remission where two or more uniform annual general charges or targeted rate annual charges are levied on contiguous, separately owned rating units which have the same occupier who is using the rating units jointly as a single property and for a single purpose.

Conditions and Criteria

The Council may remit the rates where the application meets the following criteria:

- (1) The rating units must be contiguous and have the same occupier who uses them jointly as a single property and for a single purpose.
- (2) An annual application is required to confirm the properties are used jointly as a single entity.
- (3) The Council may on written application from the ratepayers of such rating units:
 - Remit 50% of the uniform annual general charge assessed on each rating unit apart from the first or principal rating unit;
 - Remit 100% of any targeted rates, where the factor is the rating unit apart from those assessed on the first or principal rating unit.
- (4) Any remission granted under this policy will be applied equally across all rating units for which an application has been made.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Postponement of Rates Policy

Section 87 Postponement of Requirement to pay rates

1. A local authority must postpone the requirement to pay all or part of the rates on a rating unit (including penalties for unpaid rates) if –
 - (a) the local authority has adopted a rates postponement policy under section 110 of the Local Government Act 2002; and
 - (b) the ratepayer has applied in writing for postponement; and
 - (c) the local authority is satisfied that the conditions and criteria in the policy are met.
2. The local authority must give notice to the ratepayer –
 - (a) identifying the postponed rates; and
 - (b) stating when, or in the circumstances, the rates will become payable.

Objective of the Policy

Hauraki District Council does not grant postponed payments.

Remission of Excess Water Rates

Section 85 Local Government (Rating) Act 2002

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if –
 - (a) the local authority has adopted a rates remission policy under section 109 of the Local Government Act 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objective of the Policy

This policy is to standardise procedures to assist ratepayers who have excessive water rates due to a fault (leak) in the internal reticulation serving their rating unit.

Conditions and Criteria

The Council may remit the excess water rates where the application meets the following criteria:

- (1) The policy will apply to written applications from ratepayers who have excess water rates due to a fault(s) in the internal reticulation.
- (2) The application is submitted by the applicant within 60 days of the due date of an invoice.
- (3) That the ratepayer be charged the full charge for the expected consumption.
- (4) That the consumption in excess of expected consumption be charged at 50% of the standard rate per cubic metre.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Remission of Water Rates to Particular Rating Units

Section 85 Local Government (Rating) Act 2002

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if –
 - (a) the local authority has adopted a rates remission policy under section 109 of the Local Government Act 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objective of the Policy

This policy is to standardise procedures for the treatment of water rates where an agreement has been made between Council and ratepayer(s) for a discounted water rate.

Conditions and Criteria

The Council may remit water rates in excess of the amount agreed between Council and the ratepayer(s) where the water rates meet the following criteria:

- (1) The agreement must have been approved by Council.
- (2) The ratepayer must have a good prior payment history. Good payment history takes into account the occasions when ratepayers have paid previous instalments of water rates, and other rates, on time.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Remission of Rates Assessed in Error

Section 85 Local Government (Rating) Act 2002

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if –
 - (a) the local authority has adopted a rates remission policy under section 109 of the Local Government Act 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objective of the Policy

This policy is to enable the Council to remit rates that have been assessed in error for any rating unit.

Conditions and Criteria

The council may remit rates that have been assessed in error where the application meets the following criteria:

- (1) Council may remit up to 100% of rates where Council has assessed the rates incorrectly. Council will remit the difference between the incorrect rate and a lesser correct rate.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Remission of Rates on Multiple Owned Maori Freehold Land

108. Policy on Remission and Postponement of Rates on Maori Freehold Land—

- (1) If a policy adopted under section 102(4)(f) provides for the remission of rates on Maori freehold land, the policy must state—
 - (a) the objectives sought to be achieved by the remission of rates; and
 - (b) the conditions and criteria to be met in order for rates to be remitted.
- (2) If a policy adopted under section 102(4)(f) provides for the postponement of the requirement to pay rates on Maori freehold land, the policy must state—
 - (a) the objectives sought to be achieved by a postponement of the requirement to pay rates; and
 - (b) the conditions and criteria to be met in order for the requirement to pay rates to be postponed.
- (3) For the avoidance of doubt, a policy adopted under section 102(4)(f) is not required to provide for the remission of, or postponement of the requirement to pay, rates on Maori freehold land.
- (4) In determining a policy under section 102(4)(f), the local authority must consider the matters set out in Schedule 11.
- (5) For the purposes of this section, the term “rates” includes penalties payable on unpaid rates.

Objectives of the Policy

- (1) To recognise situations where there is no occupier or no economic or financial benefit being derived from the land.
- (2) Where part only of a block is occupied to grant remission for the portion of land not occupied.
- (3) Where the owners cannot be found, to take into account the statutory limitation of time for the recovery of unpaid rates.

Conditions and Criteria

- (1) The land must be multiple-owned and unoccupied Maori freehold land that does not produce any income.
- (2) A request for rates remission by the owners must include:
 - Details of the land; and
 - Documentation that shows the ownership of the land; and
 - Reasons why remission is sought
- (3) Where after due enquiry the owners of an unoccupied block cannot be found, the Council may apply a remission without the need for a request.
- (4) If circumstances change in respect of the land, the Council will review whether this remission policy is still appropriate to the land.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Remission of Wastewater Rates Assessed on Educational Establishments

Clause 6, Pt 1, Schedule 1 Local Government (Rating) Act 2002

Land owned or used by, and for the purposes of,—

- (a) a special school established under section 98(1) of the Education Act, 1964:
- (b) an educational establishment defined as—
 - (i) a state school under section 2(1) of the Education Act, 1989:
 - (ii) an integrated school under section 2(1) of the Private Schools Conditional Integration Act, 1975:
 - (iii) a special institution under section 92(1) of the Education Act, 1989:
 - (iv) an early childhood centre under section 308(1) of the Education Act, 1989, excluding any early childhood centres that operate for profit:
 - (v) a school under section 35A of the Education Act, 1989, excluding any registered schools that operate for profit.

Section 85 Local Government (Rating) Act 2002

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if—
 - (a) the local authority has adopted a rates remission policy under section 109 of the Local Government Act 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objectives of the Policy

The objective of this remission policy is to enable the Council to remit wastewater rates assessed on educational establishments to the extent that they exceed Council's roll-based formula.

Conditions and Criteria

Where a rating unit comprises an educational establishment as defined above, Council may remit any wastewater rates in excess of:

- (1) The rates that would have been charged if the number of water closets/urinals was equal to one water closet/urinal per twenty students or staff, or part thereof.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Rates Remissions - Rating of Low Value Land Units

Section 85 Local Government (Rating) Act 2002

Remission of rates—

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if—
 - (a) the local authority has adopted a [rates remission policy under section 109 of the Local Government Act, 2002]; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objectives of the Policy

The introduction of the Local Government (Rating) Act, 2002 requires each separate title to have a separate valuation/rating unit. This has resulted in many low capital value rating units being created.

The objective of this policy is to provide relief from uniform annual charges on rating units that have low valuations.

Conditions and Criteria

- (1) The Council may on written application from the ratepayer of rating units with a capital value less than \$5,000:
 - Remit 100% of all targeted rates where the factor is the rating unit, other than the Uniform Annual General Charge or any rates levied under section 9 of the Local Government (Rating) Act 2002 (that is, targeted rates for water supply, sewage disposal or waste collection).
- (2) Rating Units that qualify for the Remission of Uniform Annual General Charges on Contiguous Rating Units shall have that remission policy applied and will not qualify for remission under this policy.
- (3) The applicant must renew the application for remission every three years.
- (4) Where there is a change of ownership of the rating unit the new owner must make a separate application for remission.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Rates Remissions – Voluntarily Protected Land

Section 85 Local Government (Rating) Act 2002

Remission of rates—

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if—
 - (a) the local authority has adopted a [rates remission policy under section 109 of the Local Government Act 2002]; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objective of the Policy

This policy is to encourage and promote the conservation and protection of land.

Conditions and Criteria

- (1) Each application will be considered on its merits.
- (2) To qualify for remission under this part of the policy a rating unit or part of the rating unit must be the subject of a:
 - QE11 Open Space Covenant, similar DOC Covenant (in which case 100% remission of all rates will apply), or
 - the likes of a DOC Management Agreement under the Reserves Act or Conservation Act (in which case 50% remission of some or all rates may apply), or
 - directly covenanted with Council and not be receiving any other form of rating relief.
- (3) Other matters taken into account in determining whether a rating unit qualifies for remission will include:
 - (a) The degree to which significant natural features worthy of conservation and protection are present on the land;
 - (b) The degree to which such significant natural features inhibit the economic utilisation of the land;
 - (c) The extent to which to conservation and protection of such significant natural features would be promoted by the remission of rates;
 - (d) The ability or potential of the public to enjoy the significant natural features.
- (4) Applications must be in writing, supported by documentary evidence of the protected status.
- (5) The remission will only apply to the area of land protected.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Rates Remissions – Community, Sporting and other Organisations

Section 85 Local Government (Rating) Act 2002

Remission of rates—

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if—
 - (a) the local authority has adopted a [rates remission policy under section 109 of the Local Government Act 2002]; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objectives of the Policy

- (1) To assist organisations providing non-business community and recreational services which meet the needs of residents.
- (2) To make membership of such organisations more accessible to the general public, particularly disadvantaged groups. These include children, youth, young families, aged people, and economically disadvantaged people.
- (3) To improve the equity of rating between similar community, sporting or other organisations across the Hauraki District.

Conditions and Criteria

- (1) Council may remit up to 100% of the rates on land which is used primarily for sporting or community purposes so that the net rating affect for that organisation is the same as though it had been conducting that purpose on Council land and would have been non rateable under clause 4(b) Part 1 Schedule 1 under the Rating Act 2002.
- (2) Where only a portion of a property is primarily used for the qualifying purpose a portion of the rates may be remitted.
- (3) The policy will not apply to organisations operated for private pecuniary profit, or which charge commercial tuition fees.
- (4) The policy will not apply to groups or organisations whose primary purpose is to address the needs of adult members (over 18 years) for entertainment or social interaction, or who engage in recreational, sporting, or community services as a secondary purpose only.
- (5) The policy shall apply to such organisations as approved by the Corporate Services Manager and the Community Services Manager as meeting the relevant criteria.
- (6) The extent of any remission to any qualifying organisation shall be as determined by the Corporate Services Manager and the Community Services Manager.
- (7) No remission will be granted in respect of those rates referred to in section 9 of the Local Government (Rating) Act 2002 (that is, targeted rates for water supply, sewage disposal or waste collection).

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy.

Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.

Rates Remissions of Multiple Dwellings on One Title

Section 85 Local Government (Rating) Act 2002

- (1) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if –
 - (a) the local authority has adopted a remission policy under section 109 of the Local Government Act, 2002; and
 - (b) the local authority is satisfied that the conditions and criteria in the policy are met.
- (2) The local authority must give notice to the ratepayer identifying the remitted rates.

Objective of the Policy

The objective of this policy is to improve the equity of rating between developments which have multiple dwellings on one large block of land under one title and housing developments on a large block of land which have separate titles for each occupied portion. These are typically retirement villages or complexes but can be any multiple dwelling complexes across the Hauraki District.

This policy is an interim measure until rating of residential properties is carried out using separately used or inhabited parts of rating units, SUIPs. Council has resolved to investigate implementing SUIPs for the rating of all rating units during the term of this plan.

Conditions and Criteria

The Council may remit rates where the application meets the following criteria:

- (1) The property must be a rating unit within a residential development or complex that has a minimum number of four rating units.
- (2) The complex has common accessways or other services.
- (3) An application can be made but generally Council staff will action the remission automatically on behalf of the property owners.
- (4) Council may remit rates on each rating unit within the qualifying development so that the individual rating units are rated at the same basis and level as if they were in a single title development as exists elsewhere within the District.
- (5) Any remission granted under this policy will be applied consistently to all qualifying rating units within multiple dwelling developments in the district.

Implementation

The Corporate Services Manager has been delegated authority to grant or refuse remissions under this policy. Any appeals against the decision of the Corporate Services Manager will be referred to the Audit Committee for final determination.