

**FINANCE POLICY AND FINANCIAL GUIDELINES FOR  
THE CITY OF GOTHENBURG**

## **FINANCE POLICY FOR THE CITY OF GOTHENBURG**

- The City and its wholly owned companies should have good financial management of their activities, meaning that the activities should be conducted in an appropriate and financially satisfactory manner. Furthermore, the City and its wholly owned companies should manage their assets in such a way that requirements for a good yield and adequate security can be met.
- This policy applies to the City and its directly and indirectly wholly owned companies. Each company is responsible for the policy being adhered to and reporting occurring according to pattern.
- Partly owned companies and joint authorities should endeavour to implement the same guidelines as the wholly owned companies.
- The City Council shall by law issue guidelines for the City's asset management.
- The City Executive Board determines guidelines for the City of Gothenburg's financial administration.
- This policy is revised annually.

## **A: FINANCIAL GUIDELINES FOR THE CITY OF GOTHENBURG**

The purpose of these guidelines is to:

- Clarify the division of responsibility in the City and its wholly owned companies for financial activities
- Determine guidelines and risk limits for the financial activities of the City and its wholly owned companies
- Determine routines for financial control, supervision and reporting

### **1. Organisation and division of responsibility**

#### **1.1. City Council**

The City Council decides on matters of a principal nature or otherwise of greater importance to the City.

- Determines policy and guidelines for the City of Gothenburg's asset management
- Determines limits for and decisions on the City's surety commitments and the like.

#### **1.2. City Executive Board**

The City Executive Board has overall responsibility for the City's asset management being conducted in accordance with risk-taking determined under the finance policy and the financial guidelines and with good internal supervision.

Determines guidelines for the City of Gothenburg's financial administration.

#### **1.3. City Executive Board Steering Committee**

- Decides on matters in accordance with the prevailing delegation order.
- Is responsible for following up this policy and these guidelines.

#### **1.4. City Management Office**

The City Management Office will have a financial function, the Finance Unit, which meets the needs for financial services of the City and its wholly owned companies.

The Chief Executive Officer has by means of delegation from the City Executive Board a decision-making right in financial matters. This decision-making right can be further delegated to individual officials.

#### **1.5. Finance Unit**

The Finance Unit has responsibility for the Group's assets management in accordance with guidelines in this policy. Finance has responsibility for the administration of the Group account systems, to which all the City's committees and wholly owned companies are affiliated.

The Finance Unit may only enter into transactions for which there are competence, systems and routines to handle.

The City will enter into agreements with wholly and partly owned companies that regulate the conditions and assumptions for financial services. These agreements are updated annually.

The City Executive Board may, through the Finance Unit, charge the companies commission in connection with assets management.

An action strategy for risk handling under special circumstances, i.e. a new financial crisis or the like, will be available at the City Management Office and used when considered suitable with regard to factors in the outside world.

#### **1.6. Wholly owned municipal companies**

The companies will have financial instructions decided on by the respective board of directors and based on this policy and these guidelines. The companies may not subject the City to financial risks that lie outside the guidelines determined by the City Council and the City Executive Board. The companies' financial instructions will be decided on annually by the board of directors and sent to the Finance Unit. Decisions on financial instructions may not be delegated further. All deviations are to be reported to the Finance Unit.

The Finance Unit will be used for the companies' financial services and will not carry out any credit rating of the companies.

### **1.7. Partly owned municipal companies and joint authorities**

Partly owned companies may make use of the Finance Unit for financial services, but financing needs can be met on the ordinary credit market. Municipal surety is granted where appropriate in accordance with the current delegation order and shareholder/consortium agreements.

Financing via Kommunleasing i Göteborg AB is also covered by this policy.

### **1.8. The Framtiden Group**

Companies in the Framtiden Group have no obligation to consult the Finance Unit and are exempted from the requirement to join the City's Group account system.

Förvaltnings AB Framtiden will, like the City, ensure that the supply of liquidity is secured through binding loan promises and ensure that there is efficient coordination of the liquidity flows.

The Framtiden Group will report its financial positions to the Finance Unit monthly in order to improve internal supervision of the Group's total financial risks. Reporting is made to the City Executive Board steering committee.

## **2. Municipal surety**

The City's total surety commitments are to be limited and a risk assessment made in the preparation of all external surety matters. Surety may only be granted in Swedish currency, or in foreign currency provided that it has been hedged.

Surety fees are charged in accordance with the European Commission's currently prevailing guidelines concerning state support.

If the surety commitment may constitute support that can be subject to examination by the European Commission, details of the surety commitment are to be submitted to the government or to the authority appointed by the government in accordance with the Act (1994:1845) on the application of the European Union's state support rules.

Surety is granted in accordance with the current delegation order.

## **B: CITY EXECUTIVE BOARD GUIDELINES FOR THE CITY OF GOTHENBURG'S FINANCIAL ADMINISTRATION**

### **1. Overall information**

The City and its directly and indirectly wholly owned companies will continually consult with the Finance Unit on financial questions and in good time submit information concerning all financial needs. A liquidity plan for maturity and planned new borrowing for the following year will be submitted to the Finance Unit not later than the end of December.

The City and its directly and indirectly wholly owned companies will establish routines to ensure good internal supervision, reporting and following up, as well as risk evaluation.

## **2. Reporting obligation**

To the **City Executive Board Steering Committee** the Finance Unit will:

- compile the City's financial risks
- report on how this finance policy is adhered to, as well as
- reporting deviations from the finance policy. The CEBSC decides on further reporting to the City Executive Board.

## **3. City Executive Board guidelines for City Management Office assets management**

### **3.1. Financing risk**

The Finance Unit manages total borrowings. This means that the Finance Unit is responsible for the entire financing risk in the Group (except Framtiden). The liquidity supply will be secured through binding agreements with banks and credit institutes.

The debt should be spread over several loans and terms so that the refinancing risk is limited. The average time of maturity for long-term loans should lie in an interval of 2-6 years.

- No more than 25 % of external long-term (>1 year) borrowings may mature during one calendar year. No more than 35 % of total external borrowings may mature within the coming 12 months.
- There should be agreements on binding loan promises equivalent to total loan maturity in the coming 12 months.

### **3.2. Interest risk**

The average fixed interest term of net borrowings should lie in an interval of 2-6 years.

### **3.3. Derivative instruments**

Derivative instruments may not be used for speculative purposes, but only for interest and currency hedging.

### **3.4. Counterpart risk**

The risk with a specific counterpart is expressed as a percentage of the total volume of the agreement. The risk is calculated as a function of the counterpart's credit rating, the length of the agreement period, the type of agreement and the size of the amount.

For new agreements on overdrafts, binding loan promises and derivative products, the counterpart's long-term credit rating shall be no lower than A3 at Moody's credit rating institute or no lower than A- at Standard & Poor's.

- There may be no more than 30 per cent of the total counterpart risk in derivative agreements with one specific counterpart.
- There may be no more than 30 per cent of the total volume of credit promises with one specific counterpart.

### **3.5. Currency risk**

Currency risk is not permitted in respect of the City's and the companies'

- financial assets and liabilities
- sales and purchases of goods or services for significant amounts.

### **3.6. Investments**

The City Council has decided on special directions with regard to the management of funds reserved for pension obligations.

Liquid assets may be used for the repayment of existing loans. Temporary liquidity may be invested in accordance with the specification below. The companies should deposit all their excess liquidity with the Group bank.

<b>Counterpart category</b>	<b>Maximum amount per category (MSEK)</b>	<b>Maximum amount per counterpart (MSEK)</b>
State of Sweden	Unlimited	Unlimited
Swedish credit institute with the same credit rating as the State of Sweden	2,000	500
Promissory note with state guarantee with AAA rating by S&P's and Aaa by Moody's respectively	2,000	500
Swedish credit institute with the best Swedish short-term credit rating and not lower than A- (Standard & Poor's) or not lower than A3 (Moody's) in respect of the long-term credit rating. Alternatively companies wholly owned by the Swedish state	1,000	500
Certificates with credit rating K1	1,000	500

### **3.7. Operative risks**

The purpose of handling operative risks is to:

- ensure that finance activities are conducted in a controlled manner and that the Finance Unit has correct information on positions and risks at each point in time, so that decisions can be made on correct grounds.

There should be a process for continuous identification, valuation and handling of operative risks in the finance activities.

#### **4. City Executive Board guidelines for the wholly owned municipal companies**

This policy applies to the City's directly and indirectly wholly owned companies. The City's partly owned companies and joint authorities should endeavour to apply this policy. Provisions for securing the companies' pension undertakings are not covered by this policy.

The companies submit quarterly financial reports in accordance with the instructions of the City Executive Board (see appendix 2).

##### **4.1. Financing risk**

All borrowing occurs via the Finance Unit, which means that the financing risk is transferred to the City of Gothenburg. If conditions specific to the business allow favourable alternative forms of financing, this is to be approved by the CEBSC and occur in consultation with the Finance Unit.

##### **4.2. Interest risk**

Each company will in its finance policy determine the average fixed interest period and maximum permitted interest exposure during the coming 12-month period. Guidelines refer to the company's net exposure. Permitted interest exposure is based on the company's business conditions.

The companies shall bear the interest risk fully in agreements concluded with the City through the Finance Unit. Group benefit will be taken into consideration in this respect too, by means of continuous reconciliation with the City Management Office.

##### **4.3. Derivative instruments**

Derivative instruments may not be used for speculative purposes, but only for interest and currency hedging.

#### **4.4. Investments**

Investment of the companies' liquid assets will be made by the City Management Office.

The companies will issue special guidelines for the investment of pension capital.

#### **5. City Executive Board implementation regulations for the drafting of matters concerning municipal surety**

The City Management Office is responsible for the drafting of surety matters in accordance with the supplementary guidelines below.

- The terms for loans with municipal surety are always to be reported to the City Management Office for evaluation.
- The City Management Office is responsible for registering and following up individual surety matters.
- Loans with municipal surety should be finally repaid when the surety ceases, unless other decisions set this aside.
- The maximum surety sum and the life of the loan will be stated in the surety decision.
- Surety that has not been made use of 24 months after the surety decision ceases to apply.
- The City's total surety commitments are to be reported in connection with the final accounts.

## Appendix 1

### **Definitions appendix to the finance policy**

#### **Credit risk**

Credit risk is the risk of the counterpart in a transaction not fulfilling its obligations. Capital risk, counterpart risk and system risk are included in credit risks.

#### *Counterpart risk*

Investments and/or derivative exposure are concentrated to a limited number of counterparts, to a certain sector and/or geographic area etc, which may entail greater credit risk. The risk is handled within the scope of the handling of credit risks.

#### *Interest renewal risk*

Interest renewal risk is the risk of the municipal debt being renewed at unfavourable rates of interest.

#### **Market risk**

Market risk is the risk of prices in the market changing in an unfavourable way. Interest risk and currency risk are different forms of market risk.

#### *Interest risk*

Interest risk is the risk of the value of assets and liabilities being changed in an unfavourable manner when rates of interest are changed.

#### *Currency risk*

Currency risk is the risk of the value of assets and liabilities in foreign currency, translated to SEK, being changed in an unfavourable way.

**Financing risk**

Financing risk is the risk of the City not managing to borrow to cover maturing loans, or alternatively paying very high rates of interest to be able to borrow at all.

**Operative risk**

Operative risk is the risk of losses as a consequence of inappropriate or unsuccessful internal processes, human error, faulty systems or external events.

## Appendix 2

### **Reporting template for the City of Gothenburg Finance Policy:**

#### **Finance Policy - general**

Are there any deals outside the Group bank? If so, account for them below.

Are there any deviations from the finance policy? If so, account for them below.

#### **Financing risks**

What percentage of long-term borrowings mature during the year?

Does more than 35% of total borrowings mature within the coming 12 months?

#### **Interest risks**

What is the average fixed interest term of total borrowings?

Do loans and derivative instruments have the same interest renewal days?

How great a volume, as a percentage, is interest hedged?

#### **Derivative instruments**

Are derivative instruments used for speculative purposes?

If so, what is the reason for this? Outcome? Amount at risk?

#### **Counterpart risks**

Show borrowings as a percentage of total borrowings per counterpart.

Show the counterpart's rating – Is there any involvement with institutes with a credit rating lower than A3 (Moody's) or lower than A- (S&P)? If so, account for individual deals with these institutes and state the date of maturity.

Is there more than 30% of derivative agreements with one individual counterpart?

**Excess liquidity**

Does the company have any excess liquidity at present? If not, skip the next item.

State the amount in MSEK per reconciliation day (1st of each month).

Will these liquid funds be used to repay existing loans? If so, state the approximate time schedule and amount.

Show how temporary excess liquidity is invested. Counterparts for investment?