

City of Gothenburg

City Management Office

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Finance Policy and Financial Guidelines for the City of Gothenburg

1. FINANCE POLICY FOR THE CITY OF GOTHENBURG

- The City of Gothenburg (the City) and its wholly owned companies are under an obligation to exercise good financial management in their undertakings and processes. Operations must be conducted in a manner that is appropriate and financially sound. The City and its wholly owned companies are also required to manage their assets in a way that the demand for a good return yield and adequate collateral can be met
- This policy applies to the City and its directly and indirectly wholly owned companies
- It is recommended that the City's jointly owned companies and the local authority associations of which the City is a member apply the same guidelines as the wholly owned companies
- In compliance with Section 8, sub-section 3 of the Local Government Act, the City Council must issue detailed asset management directives
- The City Executive Board adopts financial guidelines governing asset management within the City of Gothenburg
- This policy must be revised annually
- The collective asset management operations of the City (City of Gothenburg enterprise group) are coordinated within the City's central finance function at the City Management Office

2. FINANCIAL GUIDELINES FOR THE CITY OF GOTHENBURG

These guidelines are intended to:

- Clarify the organisation and delineation of responsibility for financial operations within the City and its wholly owned companies
- Establish procedures and risk frameworks for the City's and its wholly owned companies' financial undertakings and processes
- Lay down routines for financial governance, control and reporting

2.1 Organisation and delineation of responsibility

2.1.1 City Council

- Adopts a City of Gothenburg asset management policy
- Confirms frameworks and decisions regarding the City's guarantee commitments, loan frameworks and similar arrangements. Confirms delegation of responsibility to the City Executive Board in financial matters

2.1.2 City Executive Board

- Adopts financial guidelines governing City of Gothenburg asset management
- Adopts the rules of procedure for delegation
- Decides on matters in accordance with the current delegation rules

2.1.3 City Management Office

The City Management Office must have a central finance function, hereinafter called Finance, which is responsible for the City's asset management and which satisfies the financial service requirements of the City and its wholly owned companies in compliance with a decision taken by the City Council regarding Financial Coordination in the City of Gothenburg – document 2013, No. 213. Through delegation by the City Executive Board, the right to make decisions regarding certain financial matters has been vested in the City Director. Following a decision by the City Executive Board, this right of decision can be delegated further to an individual public servant.

All Municipal Enterprise Group cash flows must be channelled into a group account system to ensure that the flows of liquid funds can be offset against each other.

The City Council is permitted, through Finance, to levy an administrative surcharge and a company-specific surcharge on companies in conjunction with asset management.

2.1.4 Wholly owned municipal companies

Each company must have a set of financial instructions, based on this policy and guidelines document, that have been passed by the board of directors of the company. Companies are not permitted to expose the City to financial risks that fall outside the guidelines adopted by the City Council and the City Executive Board. The companies' financial instructions must be passed each year by the boards of the various companies and sent to Finance. Decisions concerning financial instructions may not be delegated. All deviations must be reported to Finance.

Finance must be used for the companies' financial services but does not carry out any credit analysis of the companies.

2.1.5 City's jointly owned companies and the local authority associations of which the City is a member

Jointly owned companies and local authority associations can make use of Finance for the provision of financial services although financing requirements can also be met on the regular credit market. Municipal guarantees are granted where applicable in accordance with the current delegation rules and shareholders' agreements/consortium agreements.

This policy also applies to financing via the company *Kommunleasing i Göteborg AB*.

2.1.6 Exceptions

2.1.6.1 Göteborg Energi AB

Electricity and energy trading within the Göteborg Energi Group takes place within the Municipal Enterprise Group. Göteborg Energi AB is obliged to issue rules governing the handling of the electricity price risk and other risks associated with electricity and energy trading. These rules must fall within the framework of the company's risk policy. Göteborg Energi AB and its subsidiaries are required to incorporate risk limits related to the price of electricity into their financial guidelines.

Due to specific operating requirements, the Göteborg Energi Group is permitted to have accounts outside the group account system¹. As part of its operations, the Göteborg Energi Group has a risk mandate for exposure in currency and commodity derivatives. This is specified in 'Financial Instructions for the Göteborg Energi Group'.

Counterparty handling of commodity derivatives is laid down in 'Financial Instructions for the Göteborg Energi Group'.

Göteborg Energi must report all exposure to Finance, divided between currency and commodity derivatives.

Göteborg Energi must have a pre-approved list of counterparties with which the company and its subsidiaries are permitted to enter into financial transactions.

¹ There is now a requirement that pledged accounts are held at Nord Pool and NASDAQ. Trading in currency derivatives with several banks requires that accounts be held at these banks.

2.1.7 Pension commitments

The City Council has laid down specific instructions governing the management of assets allocated to cover pension commitments.

Companies must issue specific guidelines for investing pension capital.

2.2 Guidelines and risk frameworks

2.2.1 Financing risk

- Liquidity supply must be secured through binding agreements with banks and credit institutions. Binding loan commitments must cover debt that will mature within the coming 12 months
- Binding loan commitments and liquidity reserves must cover debt that will mature within the coming 12 months plus the forecast net outflow for the coming 12 months
- The average maturity of long-term loans must be a minimum of two years and should not exceed six years
- No more than 25% of the external long-term (> 1 year) loan debt is permitted to fall due during a calendar year
- No more than 35% of the total external loan debt is permitted to fall due within the coming 12 months

2.2.2 Interest risk

- The average fixed interest period for the total external loan debt must be a minimum of two years and should not exceed six years
- A minimum of 70% of the total external loan debt must be subject to interest rate hedging

2.2.3 Derivatives

- Derivatives may only be used for interest rate hedging and currency hedging and not for speculative purposes

2.2.4 Counterparty risk

In conjunction with new overdraft agreements, binding loan commitments and derivatives, the long-term credit rating of the counterparty must be a minimum of A3 as set by the credit rating company Moody's or a minimum of A- as set by Standard and Poor's.

- The maximum permitted collective counterparty risk per category in derivative agreements with an individual counterparty is 30%

- Loan commitments at an individual counterparty must amount to no more than 30% of the total volume

The risk at an individual counterparty is expressed as a percentage of the total agreement volume. The risk is calculated as a function of the counterparty's credit rating, remaining duration, type of derivative and the amount in question.

In the case of Förvaltnings AB Framtiden, the company's counterparty risks are handled in accordance with the stipulations listed below during the course of financial coordination:

- All financial counterparties must have a long-term credit rating of A3 as set by Moody's and/or a minimum of A- as set by Standard and Poor's.
- When entering into derivative agreements, the following counterparties are approved with due observance of the limitations stipulated below:

Counterparty	Limit
Bank/insurance company/mortgage institution or other Swedish financial institution with a minimum long-term credit rating of A3 as set by Moody's or a minimum of A- as set by Standard and Poor's	SEK 500 million
For a Swedish*) clearing house with regard to interest instruments	SEK 100 million**)

**) A clearing house is a financial institution with the dual task of position determination and collateral management.*

****) This amount is the maximum permitted claim against a clearing house as a result of a change in market values for open derivative transactions.*

- When calculating a limit in conjunction with derivative transactions, the higher of the following alternative calculation methods shall apply:
 - A. 10% of the underlying volume in the case of a five-year duration. In the case of shorter or longer durations, a corresponding adjustment must be made.*
 - B. Mark-to-market valuation of all positions.
If there is an ISDA agreement or other netting agreement in place, this must be applied. The calculated counterparty risk in derivative transactions can be offset against loans taken out with the counterparty.*

2.2.5 Exchange rate risk

An exchange rate risk may not arise with respect to the City's and the companies':

- Financial assets and liabilities
- Sale and purchase of goods or services involving a significant amount

Unsecured foreign currency positions in the corporate sector must be reported to Finance.

2.2.6 Operating risks

The purpose of handling operating risks is to ensure that financing operations are conducted in a controlled manner and that at any given point in time Finance has access to accurate data about positions and risks, thus ensuring that decisions can be reached based on correct information.

A process must be in place for the ongoing identification, valuation and handling of operating risks within financing operations.

2.2.7 Responsible investment

Short-term liquidity may be invested according to the table below.

In the event the Municipal Enterprise Group has external investment requirements, the investment should as far as possible match the Municipal Enterprise Group debt portfolio and future liquidity flow forecasts.

An investment is limited to the longest duration of the current liability on each occasion. When investments are made, ethical considerations must be observed and due account must be taken of the UN Principles for Responsible Investment, PRI.

When investments are made, ecological considerations must also be observed and due account must be taken of the Environmental Policy and the City's current climate and environmental strategies.

Counterparty category	Maximum amount per category (SEK m)	Maximum amount per counterparty (SEK m)
Swedish state	Unlimited	Unlimited
Swedish credit institution or local authority with the same credit rating as the Swedish state	3,000	1,000
State-guaranteed debt instrument with an AAA rating from Standard and Poor's or Aaa from Moody's	3,000	1,000
A Swedish credit institution with the best Swedish short-term credit rating as well as a	1,500	700

minimum long-term credit rating of A- (Standard and Poor's) or A3 (Moody's)		
Companies in which the state has at least a 51% holding	2,000	500
Certificates with a K1 credit rating	1,000	500
Certificates with a K2 credit rating	400	100

2.2.8 Municipal guarantee

The City's total guarantee commitment must be limited and a risk assessment must be made in conjunction with the drafting of all external guarantees. A guarantee may only be provided in Swedish currency or in a foreign currency on condition that currency hedging has taken place.

A guarantee fee must be paid in accordance with the European Commission state aid guidelines applicable on each occasion.

If the guarantee commitment constitutes aid that could be the subject of a review by the European Commission, details of the guarantee commitment must be provided to the government or the authority decided by the government in accordance with the Application of the European Union Competition and State Aid Rules Act (1994:1845).

2.2.8.1 Application rules for drafting of municipal guarantees

Finance is responsible² for drafting guarantees according to the following supplementary guidelines.

- Conditions for loans with a municipal guarantee must always be submitted to the City Management Office for evaluation
- There must be an official board decision regarding a guarantee application made to the City Authority
- Finance is responsible for registering individual guarantees
- Loans with a municipal guarantee must be amortised in full when the guarantee ceases unless this requirement is set aside as a result of other decisions
- The maximum guaranteed amount and the duration of the loan must be stated in the guarantee decision
- If the guarantee is not exercised within 24 months of the date on which the guarantee decision was reached the guarantee ceases to be valid
- Finance shall assist the Sports and Associations Administration with follow-up of guarantees
- The City's total guarantee commitment must be reported in the year-end accounts

² With the exception of the delegation held by the Sports and Associations Administration regarding an association guarantee.

In the case of decisions regarding lending and guarantees to external parties, Finance must assist the Sports and Associations Administration with the production of a written statement containing a credit assessment. The assessment must state the purpose of the financing, repayment capacity and, if applicable, the value of the collateral.

2.3 Routines for financial governance, control and reporting

- The City and its directly and indirectly wholly owned companies must establish routines that assure good internal control, reporting, follow-up and risk evaluation
- It is recommended that the City's jointly owned companies and local authority associations of which the city is a member draw up routines that ensure good internal control, reporting, follow-up and risk assessment.

2.3.1 Financial governance

Each year the City Council must confirm the following as part of the budget process:

- The City's loan ceiling
- Guarantee frameworks for companies

2.3.2 Reporting obligation

Finance must

- Provide feedback to the City Executive Board regarding the Finance Policy
- Report to the City Executive Board any deviations from the companies' financial instructions

The companies must provide Finance with

- Financial instructions passed by each Board of Directors based on this policy and guidelines document. Decisions related to financial instructions may not be delegated. All deviations must be reported to Finance.
- The regular liquidity forecast for the forthcoming two weeks is presented each Friday.
- According to the 'exceptions' item, Göteborg Energi AB must report exposure divided between currency and commodity derivatives.

Annex 1

Definition Annex to the Finance Policy

Credit risk

Credit risk is a risk that the counterparty in a transaction fails to discharge its obligations. Credit risks include capital risk, counterparty risk and system risk.

Counterparty risk

Investments and/or derivative exposures are concentrated on a limited number of counterparties, in a certain sector and/or in a geographical area etc. and this could entail an increased credit risk. The risk is handled within the credit risk framework.

Interest rate renewal risk

Interest rate renewal risk is the risk that the City's debt will be refinanced at unfavourable rates of interest.

Market risk

Market risk is the risk that prices on the market will change unfavourably. Interest risk and currency risk are different forms of market risk.

Interest risk

Interest risk is the risk of an unfavourable change in the value of assets and liabilities when interest rates change.

Currency risk

Currency risk is the risk of an unfavourable change in the value of assets and liabilities in a foreign currency when translated into Swedish kronor.

Financing risk

Financing risk is the risk that the City fails to raise funds to cover loans that have fallen due or pays very high rates of interest in order to borrow.

Operating risk

Operating risk is the risk of losses arising from processes that were not appropriate or which were unsuccessful, or as a result of human error, faulty systems or external events.

Electricity price risk

Electricity price risk refers to the amount by which the Municipal Enterprise Group's result changes in the event of a certain change in the market price of electricity.