



WESTLAND
DISTRICT COUNCIL

AGENDA

Risk Management Committee

Council Chambers

Thursday
8 September 2011

9.00 am

RISK MANAGEMENT COMMITTEE

NOTICE IS HEREBY GIVEN THAT A MEETING OF THE RISK MANAGEMENT COMMITTEE WILL BE HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 8 SEPTEMBER 2011 COMMENCING AT 9.00 AM

1. MEMBERS PRESENT AND APOLOGIES

2. CONFIRMATION OF MINUTES

2.1 Risk Management Committee Meeting – 22 June 2011

(Pages 1-4)

3. GENERAL BUSINESS

3.1 Review of Investment Policy

Council has requested further information from Council's Treasury Advisor regarding its Investment Policy.

The advice is attached for consideration.

(Pages 5-6)

3.2 Annual Report for period ended 30 June 2011

The Manager Finance will provide an update at the meeting.

3.3 Understanding Risk

The Group Manager Assets and Operations will give a presentation to the Committee on Risk.

NEXT MEETING – THURSDAY 8 DECEMBER 2011 COMMENCING AT 9.00 AM

**MINUTES OF A MEETING OF THE RISK MANAGEMENT COMMITTEE,
HELD IN THE COUNCIL CHAMBERS, WESTLAND DISTRICT COUNCIL,
36 WELD STREET, HOKITIKA ON WEDNESDAY 22 JUNE 2011
COMMENCING AT 9.00 AM**

1. **MEMBERS PRESENT**

Action
by

Her Worship the Mayor, M.H. Pugh (Chairperson)
Deputy Mayor Councillor Bryce Thomson
Councillors J.G. Birchfield, J.H. Butzbach and C.A. van Beek

APOLOGIES

Councillors A.M. Hurley

ALSO IN ATTENDANCE

Q.H. Horning (Manager Finance), T. O'Malley (Accountant), V. Goel (Group Manager – Assets and Operations) (until 9.30 am) and K.E. Manera (Word Processor/Receptionist).

2. **CONFIRMATION OF MINUTES**

2.1 **Risk Management Committee Meeting – 9 June 2011**

Moved Councillor Butzbach, seconded Her Worship the Mayor and **Resolved** that the Minutes of the Risk Management Committee Meeting held on the 9 June 2011 be confirmed as a true and correct record of the meeting, subject to the following changes:

1. Delete (until 1.20pm) at Members Present.
2. Delete *Councillor Butzbach left the meeting at 1.20pm.*

3. GENERAL BUSINESS

3.1 Draft Risk Policy

Councillor van Beek suggested the following changes:

Legal	Relationships with CCOs and other organisations.
Financial	Public resistance to paying fees. Failure to operate within budget. Increasing or Decreasing Valuations.
Environmental	Natural Disasters/Fire.
Operational	Lack of Budgetary Control.
Strategic	Vision not appropriate.

Policy wording – Item 4, 3rd bullet point: replace “oversight” with “overview”.

The Committee asked that staff come up with a draft to be circulated to the Committee for consideration and feedback. It was proposed that if necessary a workshop be held prior to the next Risk meeting on 8 September to set the level of risk against each of the items in the register.

3.2 Review of the Liability Management and Investment Policy

Liability Management Policy

There was a group discussion regarding the review of the Liability Management and Investment Policy and the recommendations received from Bancorp.

It was noted that the last recommendation in their report be changed to read:

That a provision is inserted under the heading ‘Liquidity and Credit Risk Management Policy’ which states that ‘WDC shall aim to maintain committed funding lines of not less than ~~either~~ 110% of projected core debt.’ Core debt is defined as that contained in the Annual Plan. ~~or as otherwise determined by the Manager Finance.~~

Moved Councillor van Beek, seconded Councillor Thomson and **Resolved** that the recommendations from Bancorp with the above changes form the revised policy and be recommended to Council for adoption.

Investment Policy

Considerable discussion was held regarding the recommendation that investments that no longer comply with minimum rating criteria due to a rating downgrade must be sold within one month of the downgrade being notified unless Council formally approves the continued holding of the investment. The committee agreed that the Policy needed to be clear about the risk profile of various investments and requested further information/advice from Bancorp. The Committee accepted the recommendation at Item 1 from Bancorp and suggested that replaced bullet points 1, 3 & 4 in the section "Objectives" in the existing Investment Policy which should now be deleted.

The committee recommends further information is sought from Bancorp regarding the level of risk versus the return on investment in the table suggested to become Appendix 1.

3.3 Financial Strategy

(Group Manager – Assets & Operations re-joined the meeting at 11.50 am)

There was a group discussion regarding the Financial Strategy with regards to Levels of Service in preparation for the LTP review.

Manager Finance noted the requirements of the Local Government Act and the need to set limits on rates and debt.

Group Manager – Assets & Operations noted that Council has the capability in-house to undertake the Levels of Service review and will be working with the existing LTCCP as the base document.

Manager Finance and Group Manager – Assets & Operations will begin the review of existing Level of Services and seek support from the LTP team as work evolves.

Group Manager – Assets and Operations left the meeting at 12.25 pm.

3.4 Performance Management Frameworks - Key Issue from the Audit NZ Management Report 2010

The Manager Finance provided an update at the meeting.

MEETING CONCLUDED AT 12.35 PM

**NEXT MEETING – THURSDAY 8 SEPTEMBER 2011
COMMENCING AT 9.00 AM**

Confirmed:

Mayor Maureen Pugh
Chairperson

Date



BANCORP

BANCORP TREASURY SERVICES LIMITED

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30 August 2011

Quecha Horning
Manager Finance
Westland District Council
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Dear Quecha

REVISED INVESTMENT PARAMETERS

Bancorp Treasury Services Limited ("Bancorp Treasury") undertook a review of the Treasury Policy of Westland District Council ("WDC") in May 2011. Included in the recommended changes were some amendments to the parameters relating to financial market investments which are currently contained in the Investment Policy section of the Long Term Council Community Plan 2009 - 2019. The main changes that Bancorp Treasury recommended are as follows.

1) Introducing short term ratings e.g 'A-1' to govern investments which currently fall under the '*Investment Cash portfolio*' heading. Short term ratings, as opposed to long term ratings, are more applicable to cash and money market investments, hence the reason for the change.

2) Deleting the requirement for investments in New Zealand Government bonds to have a minimum credit rating. The government is a sovereign risk with a current domestic credit rating of 'AAA' and normally we do not see the need to attach a credit rating to investments in this asset class.

3) Lowering the minimum credit rating for State Owned Enterprises ("SoE") from the current 'A' to 'BBB+'. This provides a little more flexibility when investing in SoE's and recognises that as they are owned by the government there is a slightly greater degree of comfort for investors. However we should stress that there is no explicit guarantee from the government in respect of its obligations for the debt of any of the SoE's. We note that current government policy is to review the ongoing ownership of SoE's after the election which might require an amendment to the investment parameters. Also it should be noted that from an individual issuer limit perspective the parameters are tiered, in which a lower limit applies to those SoE's that fall within the 'BBB+' to 'A' band.

4) Lowering the minimum credit rating for New Zealand Corporates from 'A+' to 'A-'. Again this provides a little more flexibility when investing in this sector. Additionally it is only a two sub-notch adjustment and does not in our opinion expose WDC to any unnecessary risk. As with SoEs a tiered structure is adopted with a lower individual issuer limit applying to those corporates that fall within the 'A-' to 'AA-' band.

Following are the definitions of ratings from Standard & Poor's ("S&P") which apply to the categories that it is recommended WDC can invest in.

AAA: An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.

AA: An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest rated obligors only to a small degree.

A: An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher rates categories.

BBB: An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

We have been asked by WDC to cover two issues, firstly the ability under the new parameters to invest 100% of investments in banks and secondly to provide specific comment on Auckland International Airport Limited ("AIAL").


The rationale for authorising 100% of funds to be invested in New Zealand Registered Banks is to cater for the situation where it is deemed desirable to have the entire investment portfolio in short term investments, most likely bank term deposits. This may be a result of liquidity requirements, where for example WDC wishes to have all its investments in the short term money market so as to have them readily available to meet cash flow requirements. Alternatively it may be desirable from a pure investment management perspective, where it is considered prudent to have all of WDC's investments in the short term money market so as to avoid unnecessary revaluation losses during a period of rising interest rates. However we should stress that it would only be in **unusual circumstances** that all of WDC's portfolio would be invested in New Zealand Registered Banks. Normally we would envisage WDC's portfolio to be a mix of short and long term investments spread across a variety of asset classes.

WDC currently has \$180,000 invested in AIAL which has a S&P long term rating of 'A', this being below the current minimum requirement of 'A+' for a corporate. This investment was made by the previous manager ASB Bank in an apparent breach of the Treasury Policy. It should be noted that if the recommended parameters are adopted the AIAL holding will not contravene the new Treasury Policy. Also it is the opinion of Bancorp Treasury that WDC's holding of AIAL bonds does not expose it to any potential for loss of capital or non payment of coupon interest. To support our opinion we provide a brief report on AIAL in the following paragraph.

AIAL's biggest asset is Auckland Airport itself, a near monopoly situation, while the company has some diversity of income in that it owns stakes in Cairns, Mackay and Queenstown airports. Additionally the company has a stable credit rating outlook and is trading profitably. The latest result for the year ending 30 June 2011 showed a 15.1% increase in underlying profit to \$120.87 million, together with an increase in the dividend payout. We would therefore recommend that WDC continues to hold its AIAL bonds.

We will contact you shortly to discuss this letter; in the meantime if you have any questions please do not hesitate to contact us.

Yours sincerely



MILES O'CONNOR
Manager – Corporate Services



JON L CLARKE
Director

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