

REPORT TO COUNCIL

DATE: 11 March 2009
TO: Mayor and Councillors
FROM: Manager Finance



POLICIES ON INVESTMENT AND LIABILITY MANAGEMENT:

At the February Council meeting I advised that:

1. The policies on Investment and Liability Management were last reviewed in June 2006.
2. The current policy requires a review on a three yearly basis as part of the review of the LTCCP.
3. The purpose of this report is to assist the Council in its review of the policies so that it can be included in the Draft LTCCP.
4. The Council has engaged the services of Morrison Low & Associates Ltd. to review the policies relevant to the LTCCP and provide advice on improving the policies with regard to compliance and suitability to our organisation.
5. The changes proposed by the consultant have been reviewed by the Audit and Finance Committee on Thursday 12 February 2009.
6. A copy of each policy is attached.

Recommendation:

The Policies on Investment and Liability Management be reviewed by Council at the March meeting; with a view to being adopted for inclusion in the 2009 LTCCP.

Quecha Horning
Manager Finance

INVESTMENT POLICY

1. PURPOSE

Section 102(4) (c) of The Local Government Act 2002 requires Council to adopt an investment policy which in terms of Section 105 must state Council's policies in respect of its investments, including:

- (a) the objectives in terms of which financial and equity investments are to be managed.
- (b) the mix of investments.
- (c) the acquisition of new investments.
- (d) an outline of the procedures by which investments are managed and reported on to Council.
- (e) an outline on how risks associated with investments are assessed and managed.

This investment policy has been developed as a guide to control all investments of Council and under section 102(6) an adopted Investment Policy can be amended only as an amendment to the long-term council community plan.

Investments will be in investment grade fixed interest securities and call accounts within defined criteria designed to limit risk while providing an acceptable return to Council.

2. OBJECTIVES

The objective of an investment policy is to ensure the portfolio is managed, in a prudent and competent manner, in terms of the governing legislation.

Council's philosophy is to optimise investment value and returns in the long term while balancing risk and return considerations. As a responsible public authority any investments Council does hold should be low risk with preference being given to conservative investments particularly in the case of short term investments. It also recognises that lower risk generally means lower returns.

To achieve this aim Council primary strategies are as follows:

- Protection of investment capital value and to minimise the risk of loss.
- Optimise the investment value and return.
- Ensure investments are of a type which provides Council with funds when required.
- Diversify the mix of financial instruments.

INVESTMENT POLICY

3. INVESTMENT MIX

Council may maintain investments in the following financial assets:

- Equity investments (covered in Section 3.1)
- Property investments including land holdings (covered in Section 3.2)
- Forestry investments (covered in Section 3.3)
- Infrastructural Asset Investments (covered in Section 3.4)
- Financial investments (covered in Section 3.5)
- Loan advances (covered in Section 3.6)

Any new investments will be assessed in terms of the strategic objectives of Council and this Policy.

3.1 EQUITY INVESTMENTS

Council has equity investments in New Zealand Local Government Insurance Corporation Limited, T/A Civic Assurance, and Westland Holdings Limited.

3.1.1 CIVIC ASSURANCE

The shares in Civic Assurance were acquired by virtue of Council being a local authority.

The purpose of the company, in which most local authorities are shareholders, is to ensure that adequate insurance arrangements are available to local authorities at the lowest possible cost. The shares are not readily transferable.

Annual reports are received and reviewed by management. Election of Directors takes place at the AGM held at the Local Government of New Zealand annual conference. Council normally votes by proxy.

Revenue in the form of interest is earned from the shares and included in general revenue.

Council's policy is to review the performance of and commitment to the scheme on an annual basis.

INVESTMENT POLICY

3.1.2 WESTLAND HOLDINGS LIMITED

Westland Holdings Limited is a wholly owned Council Controlled Organisation (CCO) of Westland District Council formed on 24 July 2002. It holds 100% of the shares and assets of Hokitika Airport Limited and Westroads Limited.

The statement of intent of WHL will be submitted to Council by 30 June each year for adoption ensuring that the financial targets and strategic direction of WHL are in line with Council aims and requirements.

Council's policy is to support the directors of Westland Holdings Limited in the management of itself, Westroads Limited and Hokitika Airport Limited and to maximise the benefits to Council and the ratepayers of Westland.

3.2 PROPERTY INVESTMENTS

Council is the holder of a significant portfolio of property, which is divided into the following categories:

Essential / Restricted Land And Buildings

Land and Buildings that are to be retained by Council to meet operational or strategic needs. The bulk of these holdings represent infrastructural assets on reserve land or land administered by Council under statutory restrictions. These properties are not covered under this Investment Policy.

Leased Land and Buildings

Council holds land holdings intended for resale, which include surplus land and leased land and buildings.

Property rentals are generally charged at commercial levels. Rentals on housing for the elderly are charged at a level sufficient to ensure that the properties are fully self funding and that sufficient reserve funds are set aside for ongoing maintenance and improvements.

Any disposal of property will be in such a manner, which maximises the value of the property. Surplus property shall be disposed of in accordance with any statutory requirements placed on Local Authorities. Capital realised from the disposal of property shall be either reinvested in accordance with Council's Investment Policy or used for capital projects identified in the annual plan.

When considering new property investment Council must assess the benefits of ownership in comparison to other arrangements which could deliver the same results and assess what is the most financially viable method of achieving the delivery of Council services.

Council's policy is to dispose of any excess land and buildings not considered essential to the provision of Council services or amenities to ratepayers.

Any investment in property will be evaluated by Council's Management Team and approved by Council. This requires specific authorisation.

INVESTMENT POLICY

3.3 FORESTRY

Council has several small forestry plantations. The holdings are valued at cost in the Council's asset register and are managed in association with P F Olsen. Council may extend these holdings where considered appropriate.

Council's policy is to harvest the plantations on maturity and replant.

3.4 INFRASTRUCTURAL ASSET INVESTMENT (INTERNAL LOANS)

Council may provide advances from existing funds for the building and development of infrastructural assets in the District as an alternative to raising an external loan for the project.

Council's policy is to facilitate the establishment of infrastructural assets to improve services to the community. Council may therefore provide advances from existing funds, where available, for the building and development of infrastructural assets. The repayment of these advances will be made over time from rates or lump sum contributions.

3.5 FINANCIAL INVESTMENTS

Council maintains financial investments for the primary reasons:

- Invest proceeds from the sale of assets.
- Invest amounts allocated to general and separate funds.
- Invests funds set aside for approved future expenditure.
- Invest surplus cash holdings.
- Emergency requirements of \$1 million

The minimum cash and bond investment fund to be held at any time should equal the sum of

- Emergency Funds of \$1m
- All Trusts and Bequest Balances
- All Special Funds

Each quarter Council will report on the level of financial investments and whether they cover these areas

3.5.1 FINANCIAL INVESTMENT OBJECTIVE

Council's primary objective is the protection of its investment. Accordingly only credit worthy counterparties is acceptable.

- Credit risk is minimised by limiting investments to local authorities, registered banks, strongly rated SOEs and corporates within prescribed issuer and portfolio limits. (see Appendix 1)
- Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Individual parcels on long-term investments are not to exceed \$1 million in any one entity (refer 5.1).

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3.5.3 DELEGATION TO APPROVE TRANSACTIONS

The Manager Finance and Accountant with the approval of the General Manager, has the power to approve individual transactions provided they are within the scope of the recommended and approved general investment strategy as documented in this policy. These transactions are to be reported to Council's Audit and Finance Committee at the next meeting after the date of the transaction.

3.5.4 INTEREST RATE RISK MANAGEMENT

Council's investments give rise to direct exposure to changes in interest rates, which can impact on the return and capital value of its investments.

The General Manager approves interest rate risk management strategy, as recommended by the Manager Finance and Accountant, who seek appropriate advice, including monitoring the interest rates available on a regular basis, evaluating the interest rate outlook and determine the interest rate profile to adopt for investments.

The Manager Finance and Accountant implement the interest rate risk management strategy by adjusting the average maturity of its investments in line with the interest rate risk management strategy.

3.6 LOAN ADVANCES

Loan advances include:

Loans to recreational and community organisations which further Council's community objectives and are approved by Council.

Loan Advances Criteria
<ul style="list-style-type: none">• Project meets Council approval• Security available• In all circumstances the advance will be formally documented and executed, setting out the nature and terms of the advance, securities, interest rate, repayment of principal and term of the advance.• Maximum of 15 years to repay• Entity can show its affordable and cash flow/ability to repay loan is assessed by Manager Finance• Annual balance sheet provided to Manager Finance• Market interest will be charged

The Manager Finance or Accountant will report to the quarterly Council meeting on the balance outstanding on each loan and all variations to the loan agreement to be approved by Council.

INVESTMENT POLICY

3.6 NEW INVESTMENT

Any acquisition of new investments must be made in accordance within the criteria and objectives contained in this policy.

4. FOREIGN EXCHANGE POLICY

Council has foreign exchange exposure through the occasional purchase of foreign exchange dominated plant, equipment and services and where it holds investments through managed funds in companies based overseas. The library also purchases some items from overseas mainly from Australia.

Generally, any significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Routine small payments are converted at the spot exchange rate on the date of payment.

Council does not borrow or enter into incidental arrangements within or outside New Zealand in currency other than NZ dollars.

5. MANAGEMENT OF INVESTMENTS

A quarterly report will be prepared for Council showing the type, dollar value and percentages of money invested in and within the various sectors.

Where possible performance benchmark figures will be used as a comparison.

Surplus monies not immediately required are placed on call or term investments.

Clear separation of operational, separate and trust funds is reflected in the general ledger accounts with interest earned pro-rated allocated across these accounts on an annual basis.

The operating account, i.e. District Fund Account, is reconciled on a daily basis.

5.1 SPECIFIC POLICIES

- Council does not have a committed bank overdraft facility but arranges overdraft limits as required
- Council's cash flow requirements will be managed by the Manager Finance.

INVESTMENT POLICY

5.1 APPLICATION OF INCOME

Council will consider on an annual basis the application of income. Income can be allocated to

- Special Funds and Reserves
 - Westland County Fund
 - Medical Health Fund
 - Off-street Parking
 - Reserve Development
 - Foreshore Protection
 - Emergency Health
 - Museum Assistance
 - Euphemia Brown
 - Mayors Trust
 - Three Mile Domain
 - Hokitika Community Pool Trust
 - Preston Bush Trust
- Specific projects
- General revenues of the district

INVESTMENT POLICY

APPENDIX 1

APPROVED FINANCIAL INVESTMENT INSTRUMENTS Westland District Council

Prudential Limits and Guidelines

Investment	Maximum with any one entity	Guidelines
Cash portfolio <ul style="list-style-type: none"> • Government stock • Government Securities • Local Authority Stock • Bank Deposits • Managed Funds 	\$1 million \$1 million \$1 million \$1 million \$1 million	A minimum credit rating of A for all
Bonds <ul style="list-style-type: none"> • NZ Government • State Owned Enterprises • Registered Banks • 	\$1 million \$1 million \$1 million	A minimum credit rating of A for all
NZ Corporate	\$1 million	A minimum credit rating of A+ for all
Equity	This covers Civic Assurance and Westland Holdings only	Any equity investment requires Council approval
Property		Any property investment requires Council approval
Forestry		Any forestry investment requires Council approval

LIABILITY MANAGEMENT POLICY

1. General Policy

Council exercises its borrowing powers within the Local Government Act 2002, S113 122. The borrowing programme is approved by Council when it approves the Annual Plan each year. Resolutions of Council are not required in the case of hire purchase, credit or deferred purchase of goods and services where:

- There is a period of less than 3 months indebtedness.
- The goods and services are obtained in the ordinary course of operations, on normal terms, for amounts not exceeding in aggregate an amount determined by resolution at Council i.e. approved financial delegations as documented in Councils Delegation Manual.

When borrowing is required it is generally used for the following main purposes:

- General debt to fund Council's balance sheet and from time to time liquidity requirements.
- To fund operational or infrastructural asset purchases that will benefit the Council and ratepayers over a long period of time.

Council may borrow through a variety of mechanisms comprising of the issue of stock, through accessing the capital markets or by direct bank borrowing.

When evaluating any new borrowing the Manager Finance or Accountant take into account the following in relation to source, term size, and pricing;

- The size and economic life of the project.
- The impact any new debt will have on the borrowing limits.
- Council's overall debt maturity profile.
- Interest rates prevailing relative to term for both stock issuance and bank borrowing.
- Management's view, after consultation with qualified advisors, of future interest rate movements.
- Term available from bank and stock issuance.
- Legal documentation and financial covenants required.

From time to time the Council may wish to replace external borrowing with internal funding or to use internal funds for new projects. Council would require a return on its internal funding because it would have lost the opportunity to invest externally in the market place.

Internally funded projects will be charged interest annually. The interest rate on internal borrowing will be the interest offered on 1st July for a 12 month investment plus a credit margin of 0.25 which Council would normally pay for a facility.

2. Borrowing Limits

Council in managing borrowing adheres to the following limits:

- Gross interest expense on all borrowing will not exceed 20% of total annual rates income, being total general rates, penalties and targeted rates levied.
- Net cash inflows from operating activities exceed gross annual interest expense by two times.
- Liquidity ratio of 1:1 which measures the ability of Council to quickly generate cash from current assets in order to meet its current obligations.
- Average debt per rateable property not to exceed \$4000

LIABILITY MANAGEMENT POLICY

3. Liquidity and Credit Risk Management

Council will avoid the concentration of debt maturity dates and the total amount of debt in so far as is practical, be spread evenly across the range of possible maturity dates.

Council will only enter incidental arrangements with creditworthy counterparts. Credit worthy counterparties are selected on the basis of their current Standard & Poors rating which must be A or better.

4. Interest Rate Risk Management

Any borrowing done by Council gives rise to exposure to interest rate movements. Council's preference, to avoid adverse impact on interest rates, is to have a preference for a high percentage of long term fixed rates.

The Manager Finance will manage the interest rate risk by ensuring a mix of fixed and variable rates are present in its debt portfolio.

The use of interest rate risk management instruments requires Council approval e.g. hedging.

The current loans for Westland Holdings Limited utilise interest swap instruments.

5. Security

Council will normally secure its borrowings against its rates revenue. Security may also be offered, with Council's approval, over specific Council assets.

Council can also offer security on infrastructure assets where special rating provisions apply.

6. Repayment

Repayments of Council borrowing are made from asset sale proceeds, sinking funds, renewal loans or from general funds.

Term of loan not to exceed the life of the asset to a maximum term of 20 years

Debt will be repaid as it falls due. Rates are collected quarterly for loan funding from these sectors for which the loans were raised and are credited quarterly to the bank loans outstanding.

7. Financial Guarantees

Financial guarantees can be made from time to time, by Council, to organisations, groups or bodies for recreational and community purposes. Before guarantees are approved the latest financial reports and cash flow projections are reviewed by management.

Appropriate conditions and controls will be established and documented, by Council, before the approval and provision of any financial guarantees.

MEMORANDUM

DATE: 12 March 2009
TO: Mayor and Councillors
FROM: Manager Finance



POLICY ON FUNDING OF DEPRECIATION

Recommendation

That the amended policy on Funding of Depreciation be adopted for inclusion in the 2009 LTCCP.

Quecha Horning
Manager Finance