

WESTLAND
DISTRICT COUNCIL



AGENDA

Risk Management Committee

Council Chambers

Wednesday 22 June 2011

9.00 am

NOTICE IS HEREBY GIVEN THAT A MEETING OF THE RISK MANAGEMENT COMMITTEE WILL BE HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON WEDNESDAY 22 JUNE 2011 COMMENCING AT 9.00 AM

1. MEMBERS PRESENT AND APOLOGIES

Apologies

Councillor A.M. Hurley.

2. CONFIRMATION OF MINUTES

2.1 Risk Management Committee Meeting – 9 June 2011

(Pages 1-2)

3. GENERAL BUSINESS

3.1 Draft Risk Policy

Attached is the Draft Risk Policy for review.

(Pages 3-10)

(The draft risk register from the previous meeting is enclosed for members' information and comment)

3.2 Review of the Liability Management and Investment Policy

As part of the review of the Long Term Plan, Council must review its key policies.

Attached are the recommendations from Council's Treasury Advisor for consideration.

(Pages 11-15)

3.3 Financial Strategy

As part of the review of the Long Term Plan, Council must review its financial strategy.

Attached is the relevant section of the amended Local Government Act 2002 and Councils current Financial Strategy. *(Pages 16-20)*

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

The Manager Finance will provide an update at the meeting.

NEXT MEETING – THURSDAY 8 SEPTEMBER 2011 COMMENCING AT 9.00 AM

RISK MANAGEMENT COMMITTEE

MINUTES OF A MEETING OF THE RISK MANAGEMENT COMMITTEE, HELD IN THE COUNCIL CHAMBERS, WESTLAND DISTRICT COUNCIL, 36 WELD STREET, HOKITIKA ON THURSDAY 9 JUNE COMMENCING AT 9.00 AM

1. MEMBERS PRESENT

Action
by

Her Worship the Mayor, M.H. Pugh (Chairperson)
Deputy Mayor Councillor Bryce Thomson (from 9.10 am to 1.00 pm)
Councillors J.G. Birchfield and J.H. Butzbach (until 1.20 pm).

APOLOGIES

Deputy Mayor Councillor Bryce Thomson for lateness.
Councillors A.M. Hurley, C.A. van Beek.

ALSO IN ATTENDANCE

Q.H. Horning (Manager Finance) and T. O'Malley (Accountant).

2. CONFIRMATION OF MINUTES

2.1 Risk Management Committee Meeting – 11 April 2011

Moved Councillor Birchfield, seconded Her Worship the Mayor and **Resolved** that the Minutes of the Risk Management Committee Meeting held on the 11 April 2011 be confirmed as a true and correct record of the meeting.

3. GENERAL BUSINESS

3.1 Draft Risk Policy

Councillors were in receipt of a copy of the Draft Risk Policy.

Councillor Thomson left the meeting at 1.00 pm.

A discussion took place on the Draft Risk Policy and the Committee identified a significant number of potential risks for the organisation-

Councillor Butzbach left the meeting at 1.20 pm.

Meeting concluded at 1.20 pm

**NEXT MEETING – WEDNESDAY 22 JUNE 2011
COMMENCING AT 9.00 AM**

Confirmed:

**Mayor Maureen Pugh
Chairperson**

Date

1. Policy Statement

The Westland District Council(WDC) will maintain a process that will provide it with a systematic view of the risks it faces in the course of its activities. Where appropriate, this process will be consistent with the Australian/New Zealand Standard AS/NZS 4360.

2. Purpose

This Policy establishes the process for the management of risks faced by the WDC. The aim is not to eliminate risk but rather to manage the risks involved in all WDC activities to maximise opportunities and minimise adversity. This required:

- a strategic focus;
- forward thinking and active approaches to management;
- balance between the cost of managing risk and the anticipated benefits;
- contingency planning in the event that critical risks are realised.

This Policy explains the WDC's underlying approach to risk management and documents the roles and responsibilities of key parties. It also outlines the key aspects of the risk management process, and identifies the main reporting requirements.

3. Application

This Policy applies to all WDC activities, Council members and employees.

4. Responsibilities

For the purpose of this Policy:

- The Council of the WDC is required to oversee risk management within the WDC as a whole;
- The Chief Officer is required to ensure that a risk management system is established, implemented and maintained in accordance with this Policy;
- The Risk Management Committee is required to be accountable for the oversight of the processes for the identification and assessment of risk, reviewing the outcomes of risk management processes and for advising the Council as necessary;
- The Management Team is required to be accountable for operational risk management within their areas of responsibility, including the devolution of risk management to line managers;
- All Staff Members are responsible for the effective management of risk.

5. Definitions

For the purpose of this Policy

Risk is taken to mean the chance that an event will occur that will impact on the WDC's objectives. It is measured in terms of consequence and likelihood.

Risk Assessment is taken to mean the process used to determine risk management priorities by evaluating and comparing the level of risk against predetermined acceptable levels of risk.

Risk Management is taken to mean the systematic application of a management system (Policies, Procedures and Guidelines) to the task of identifying, analysing, treating and monitoring risk.

6. Process

1.0 Introduction

1.1 This Policy forms part of the WDC's internal control and governance arrangements.

1.2 The following key principles outline the WDC's approach to risk management:

- i) The Council has responsibility for overseeing risk management within the WDC as a whole;
- ii) An open and receptive approach to solving risk problems;
- iii) The Chief Officer (CEO) and Management Team (MT) are to support, advise and implement Policies, Procedures and Guidelines approved by the Council;
- iv) The conservative and prudent recognition and disclosure of financial and nonfinancial risk;
- v) The encouragement of good risk management practices amongst staff members by their relevant Managers;
- vi) The identification and close monitoring of key risk indicators on a regular basis.

2.0 Role of the Council

2.1 The Council of the WDC has a fundamental role to play in the management of risk. Its role is to:

- i) Set the tone and influence the culture of risk management within the WDC. This includes:
 - a) determining whether the WDC is 'risk taking' or 'risk averse' as a whole or on any relevant individual issue
 - b) determining what types of risk are acceptable and which are not
 - c) setting the standards and expectations of staff with respect to conduct and probity.

- ii) Determine the appropriate level of exposure for the WDC;
- iii) Approve major decisions affecting the WDC's risk profile or exposure;
- iv) Monitor the management of significant risks to reduce the likelihood of adverse outcomes;
- v) Satisfy itself that the less significant risks are being actively managed, with the appropriate controls in place and working effectively;
- vi) Annually review the WDC's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

3.0 Role of Senior Management

3.1 The key roles of senior management (led by the CEO) are to:

- i) Implement policies on risk management and internal control.
- ii) Identify and evaluate the significant risks faced by the WDC for consideration by the Council;
- iii) Provide adequate information in a timely manner to the Council and its committees/sub committees on the status of risks and controls;
- iv) Undertake an annual review of effectiveness of the system of internal controls and provide a report to Council.

4.0 Role of Risk Management Committee

4.1 The Risk Management Committee's key role is to provide an independent opinion on the adequacy of risk management by:

- i) Commenting on proposals for implementation of risk management and expressing an opinion on their overall adequacy;
- ii) Receiving reports from the Internal Auditor concerning the effectiveness of controls;
- iii) To comment annually on the effectiveness of risk management activity in the WDC on the basis of audit reports received.

5.0 Risk Assessment

5.1 The WDC will undertake assessment of risks throughout the organisation, using a standard methodology that is consistent with the Australian/New Zealand Standard AS/NZS 4360. This standard methodology is to include:

- i) establishment of a context for the assessment to occur in
- ii) identification of the risks;
- iii) analysis of the identified risks;
- iv) evaluation of the identified risks;
- v) treatment of the identified risks;
- vi) monitoring and review of the identified risks.

5.2 This standard methodology will be applied in Service/Department/unit and organisational-wide assessments.

5.3 This standard methodology assesses the consequences and likelihood of each risk.

5.4 The objective of each risk assessment is to establish a prioritised list of risks for further analysis.

5.5 Risk assessments are to be undertaken using the WDC Risk Assessment Form.

6.0 Risk Management as Part of the System of Internal Control

6.1 The system of internal controls established by the WDC is to incorporate risk management. This system will encompass a number of elements that together facilitate an effective and efficient operation, enabling the WDC to respond to a variety of operational, financial, and commercial risks. These elements include:

i) Policies and Procedures.

Policies and procedures underpin the WDC's internal control process. The Policies and Procedures are set by the Council and implemented and communicated by the WDC's management to staff.

ii) Timely and Regular Reporting.

Comprehensive and timely reporting is designed to monitor significant risks and their controls. Decisions to rectify problems are made at regular meetings throughout the organisation.

iii) Planning and Budgeting.

The planning and budgeting process is used to set objectives, agree action plans, and allocate resources. Progress towards meeting Annual and Long Term Council Community Plan objectives will be monitored regularly.

iv) High Level Risk Register (Significant Risks Only).

This Risk Register is compiled by the MT and helps to facilitate the identification, assessment and ongoing monitoring of risks significant to the WDC. The document is formally appraised annually but emerging risks are added as required, and improvement actions and risk indicators are monitored regularly.

v) Risk Management Committee.

The Risk Management Committee is required to report to the Council on internal controls and alert Members to any emerging issues. In addition, the Committee oversees internal audit, external audit and management as required in its review of internal controls. The committee is therefore well placed to provide advice to Council on the effectiveness of the internal control system, including the WDC's system for the management of risk.

vi) Internal audit programme.

Internal audit is an important element of the internal control process. As part of its normal programme of work, internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation. Internal Audit will also perform additional reviews focused toward review of the controls in place to manage the significant risks identified in the High Level Risk Framework. The results of these reviews will be reported to the MT, to assist them in forming opinions on the adequacy of management of key risks.

vii) External audit.

External audit provides feedback to the Risk Management Committee on the operation of the internal financial controls reviewed as part of the annual audit.

viii) Third party reports.

From time to time, the use of external consultants will be necessary in areas such as health and safety, and human resources. The use of specialist third parties for consulting and reporting can increase the reliability of the internal control system.

7.0 Annual Review of Effectiveness

7.1 The Council is responsible for evaluating the effectiveness of internal control of the WDC, based on information provided by the MT.

7.2 For each significant risk identified, the Council will:

- i) review the previous year and examine the WDC's track record on risk management and internal control; and
- ii) consider the internal and external risk profile of the coming year and consider if current internal control arrangements are likely to be effective.

7.3 In making its decision the Council will consider the following aspects:

i) Control Environment:

The WDC's objectives and its financial and non-financial targets organisational structure and adequacy of the WDC's management oversight culture, approach, and resources with respect to the management of risk, delegation of authority and public reporting.

ii) On-Going Identification And Evaluation of Significant Risks:

- a) timely identification and assessment of significant risks;
- b) prioritisation of risks and the allocation of resources to address areas of high exposure.

iii) Information And Communication:

- a) quality and timeliness of information on significant risks
- b) time it takes for control breakdowns to be recognised or new risks to be identified.

iv) Monitoring And Corrective action:

- a) ability of the WDC to learn from its problems
- b) commitment and speed with which corrective actions are implemented.

7.4 The MT will prepare a report of its review of the effectiveness of the internal control system annually for consideration by Risk Management Committee, prior to reporting to Council

7. Related Procedures

WDC Risk Register Procedure

8. Related Documents

WDC Risk Register
WDC Risk Assessment Form

9. References

Australian/New Zealand Standard AS/NZS 4360.

Version	1
Developed By	Manager Finance
Authorised By	Chief Executive Officer
Date Authorised	
Date Last Reviewed	
Date Of Next Review	

DRAFT RISK MANAGEMENT REGISTER

AREA OF RISK	RISK
LEGAL	<ul style="list-style-type: none"> · Council decision is legally challenged/overturned. · Rules that apply nationally are not necessarily applicable to the westland district. · Resource Consent decisions are challenged /overturned. · Employee relations Law is not well understood or applied correctly. · Injury or death on council property / facilities. · Challenge to council contracts.
FINANCIAL	<ul style="list-style-type: none"> · Fraud · Mismanagement of council funds · Building Security · Resistance from community to raising rates · Interest rates fluctuate leaving council exposed · Theft · Exposure to financial institutions (lenders) · Depletion of cash reserves · Relationships breakdown · Poor Performance from Board of Directors · Negative effect of events outside Westland (earthquakes, legislation, NPS) · Business Interruption due to any event · Increasing bad debts. · Global financial crisis · Decline/Departure of core industry
ENVIRONMENTAL	<ul style="list-style-type: none"> · Poor Planning to protect/use the environment (district plan) · Poor procedure/execution of projects that affect the environment (OPS). · Lack of direction/strategy for managing all activities. · Under utilisation of Asset Management Plans and Business Plans. · Natural disasters · Politics influence on DOC controlled land (use of access, budget) · Poor Communication / education to public regarding policy · Industrial accidents.
IT	<ul style="list-style-type: none"> · Internal systems failure/ lack of system support · Systems is Obsolete · Loss of Data · Poor security of system · Lack of expertise / capability · Lack of leadership to ensure that communications infrastructure continues to be upgraded. · Resistance to change/ upskilling · System Incompatible / lack of intergration
PERSONNEL Welfare, Safety, Security	<ul style="list-style-type: none"> · Unhealthy Staff · Unsafe workplace · Unsafe/unhealthy/insanitary workplace · Unable to recruit / retain of skilled staff · Organisational / knowledge is not disseminated · Unclear guidelines for staff behaviour · Centralisation vs Decentralisation of services (accessibility) · Staff leave affects project delivery
OPERATIONAL	<ul style="list-style-type: none"> · Procedures are not regularly reviewed for efficiency (cost and process) · Contracts are not regularly reviewed for better pricing and value for money · Tender process is not followed · Tender process does not follow best practice · Procedures are not followed · Lack of expertise on tender assessment panel · Lack of ownership of established procedures

	<ul style="list-style-type: none"> · Lack of performance management framework · Poor contract supervision · Breakdown of trust with the community · Failure in delivering levels of services promised · Lack of appropriate communication/engagement with the community · Missed opportunities to partner with other organisations (private/public) · Lack of appropriate research · Lack of resources (ally types)
POLITICAL	<ul style="list-style-type: none"> · Central government changing legislation and / or government · Changes in the local government (elected reps) · Forced Amalgamation (partial as well) · Resistance to shared services · Popular decisions instead of prudent decisions · Reacting / decision making as a result of a 'vocal minority' · Not recognising and managing a conflict of interest · Ineffective / untrained elected representatives · Too many/ too few councillors · Not recognising the line between governance and management · Lack of vision (future thinking). · Elected Representatives have competing priorities · Negative media attention
STRATEGIC	<ul style="list-style-type: none"> · Not delivering on the vision · Poor alignment of strategies, policies and plans · Lack of a plan strategy or policy to deliver the vision · Unexpected or undesirable change as a result of achieving the vision
INFRASTRUCTURAL	<ul style="list-style-type: none"> · Not enough capacity · Run-down / underfunded · Decreased subsidy from Central Government · Poor asset management practices · Rising community expectations versus ability/willingness to pay · Rising costs of construction · Increasing valuations · Difficulty funding depreciation · Difficulty funding projects (cap on borrowing)
CCO	<ul style="list-style-type: none"> · CCO model doesn't deliver expected benefits · Perception that CCO's are preferred supplier · CCO's come back to council to cover liabilities · Lack of understanding in Community regarding the benefits of CCO's (Dividends which offset rates). · Poor risk management at the CCO level. · Incompatible strategic decisions by CCO (not aligned with vision) · Political interference with the strategy and operations of CCO's · CCO intentionally acts outside their mandate.
EMERGENCY MANAGEMENT	<ul style="list-style-type: none"> · Poorly prepared for natural disaster · Civil Defence plan not operable (check civil defence, business security, order books etc are covered in the defence plan) · Lack of training at council and community level · Lack of buying in complacency · Unable to recover costs from central government · Ability to rebuild and recover · Increased looting



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PRIVATE AND CONFIDENTIAL

30 May 2011

Quecha Horning
Manager Finance
Westland District Council
Private Bag 704
HOKITIKA 7842

Dear Quecha

REVIEW OF LIABILITY MANAGEMENT POLICY AND INVESTMENT POLICY

As agreed Bancorp Treasury Services Limited ("Bancorp Treasury") provides the following review of the Liability Management Policy ("LMP") and Investment Policy ("IP") of Westland District Council ("WDC "). The review of the IP is limited to the sections that relate to financial market investments.

BACKGROUND

The current LMP and IP of WDC were last reviewed in 2005 and incorporated into the 2006 Long Term Council Community Plan. This review has focused on developing appropriate recommendations for additions or amendments to both the LMP and IP to enable the treasury activities of WDC to be carried out under a set of market best practice standards. As requested by WDC the review has been carried out at the 'macro' level with the intention being to keep both the LMP and IP focused, yet still provide appropriate parameters to enable WDC's treasury function to operate in an efficient manner.

ADDITIONS TO BOTH THE LIABILITY MANAGEMENT POLICY AND INVESTMENT POLICY

1. Neither the LMP or the IP contain a contents page or section and sub-section numbers, instead it just has headings throughout the document. A contents page and numbered sections and sub-sections are common in the majority of policies and enable a user to quickly identify relevant headings and also assist in any cross referencing within the LMP, IP and any other associated policies.

Recommendation

- *That a contents page and section and sub-section numbers are included in the LMP and the IP.*
2. There are no references in either the LMP or the IP to the structure of the treasury function and the duties and responsibilities of those involved in its operation. Most policies incorporate an organisational structure and a list of the duties and responsibilities of the individuals and groups involved in the treasury function.

Recommendation

- *That a section titled 'Organisational Structure' is included in both the LMP and IP which lists the duties and responsibilities involved in WDC's borrowing activities (LMP) and investment activities (IP) of the following.*
 - *Full Council.*
 - *Chief Executive Officer.*
 - *Manager Finance.*
 - *Accountant.*

LIABILITY MANAGEMENT POLICY

1. There are no objectives listed in the LMP. We believe that a list of objectives should be included which would provide an appropriate reference guide for the borrowing activities of WDC.

Recommendation

- *That the following objectives are included in the LMP.*
 - *'Ensure that WDC has an ongoing ability to meet its debts in an orderly manner as and when they fall due in both the short and long term, through appropriate liquidity and funding risk management'.*
 - *'Arrange appropriate funding facilities for WDC, ensuring they are at market related margins utilising bank debt facilities and/or capital markets as appropriate'.*
 - *'Maintain lender relationships and WDC's general borrowing profile in the local debt and, if applicable, capital markets, so that WDC is able to fund itself appropriately at all times'.*
 - *Control WDC's cost of borrowing through the effective management of its interest rate risk, within the interest rate risk management limits established by the LMP.*
 - *Ensure compliance with any financing/borrowing covenants and ratios.*
 - *Maintain adequate internal controls to mitigate operational risks.*
 - *Produce accurate and timely information that can be relied on by senior management and Council for control and exposure monitoring purposes in relation to the debt raising activities of WDC.*

2. Liquidity management is dealt with under the heading Liquidity and Credit Risk Management and as far as liquidity is concerned the LMP states that *'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.'* We believe that it would be appropriate to state in the LMP a targeted maximum percentage of debt that may mature in any 12 month period. Also there should be a provision relating to liquidity which provides for 'headroom' above projected core debt included in the LMP.

Recommendations

- *That the sentence quoted in italics above, which refers to the concentration of debt maturity dates, is deleted and replaced with the following. 'To avoid a concentration of debt maturity dates Council will, where practicable, aim to have no more than 50% of debt subject to refinancing in any 12 month period.'*
- *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.*

3. The heading "Interest Rate Risk Management" deals with how WDC manages its ongoing interest rate risks. The section states that *'Council's preference, to avoid adverse impact on interest rates, is to have a preference for a high percentage of long term fixed rates.'* In our experience it is appropriate for a borrower to be more definitive than WDC currently is when managing interest rate risk. This is typically achieved by incorporating minimum and maximum hedging percentages into three defined time buckets. The recommended timeframes of the respective buckets should avoid any necessity to 'micro' manage exposures but at the same time incorporate sufficient flexibility to manage interest rate risk through multiple interest rate cycles. The recommended hedging parameters are, in our experience, in line with the typical policy parameters of WDC's peers.

Also under the heading "Interest Rate Risk Management" it is stated that 'The use of interest rate risk management instruments requires Council approval e.g. hedging.' It does not state which financial instruments may be used. We believe that the specific instruments which can be used should be listed in the LMP and that the Manager Finance should have the authority to carry out the interest rate risk management activities of WDC without first having to obtain Council approval. Also it is often included that Council may retain the services of an independent external consultant to assist in managing interest rate risk.

Recommendations

- That the following table detailing the Fixed Rate Hedging Percentages which shall apply to the projected core debt of WDC is inserted into the LMP.

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0 – 2 years	50%	100%
2 – 5 years	30%	80%
5 – 10 years	0%	50%

- That the following interest rate risk management instruments may be used to manage the core debt of WDC.
 - Interest rate swaps.
 - Swaptions (options on swaps).
 - Interest rate options, including collar type structures but only in a ratio of 1:1.
 - Forward rate agreements.
- That the Manager Finance has the authority to manage the interest rate risks of WDC and that reference to Council having to approve interest rate risk management transactions is deleted.
- That a provision is inserted into the section which states that 'Council may retain the services of an independent external consultant to assist in managing the interest rate risks of WDC.'

INVESTMENT POLICY

1. In the IP under the heading 'Objectives', four criteria are listed. These are appropriate but we would recommend that three additional objectives are included in this section.

Recommendations

- That the following three objectives are listed under the 'Objectives heading in the IP.
 - Safeguard WDC's financial market investments by establishing and regularly reviewing investment parameters and ensuring that all investment activities are carried out within these parameters.
 - Ensure the integrity of WDC's financial market investments by only investing in appropriately rated organisations and in appropriate financial market instruments as detailed in this policy.
 - Produce accurate and timely information that can be relied on by senior management and Council for control and exposure monitoring purposes in relation to the investment activities of WDC.
2. The parameters relating to WDC's financial market investment activities are incorporated in the section titled 'Financial Investment Objectives' which defines the asset classes that WDC may invest and includes a statement about liquidity. The definition of the asset

classes and the liquidity statement are not considered objectives, therefore we believe that they should be deleted. The parameters are also defined in Appendix 1 and state the minimum permissible credit rating and the maximum amount that may be invested in any one issuer. We believe that these should be both modified and expanded on.

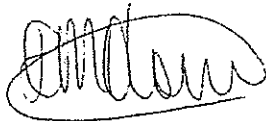
The modification would allow for a minimum investment criteria of 'A+' For New Zealand Registered Banks, 'A-' for Corporates and 'BBB+' for State Owned Enterprises. The expansion would result in two additional criteria being included. These would firstly place a maximum limit on each issuer class and secondly state the type of financial market instruments that WDC may invest in.

Recommendations

- That the '*Financial Investment Objective*' heading and its contents are deleted and replaced with a heading '*Authorised Financial Market Investment Criteria*' which states, '*The financial market investment activities of WDC are to be carried out in accordance with the criteria detailed in Appendix 1.* The new investment criteria are contained in matrix form in an Appendix to this letter.

We will contact you to discuss the recommended changes to the TMP, in the meantime if you have any questions please do not hesitate to contact us.

Yours sincerely



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Appendix 1: Authorised Investment Criteria for Short Term Funds and Long Term Funds.

Authorised Asset Classes	Overall Portfolio Limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government	100%	<ul style="list-style-type: none"> Government Stock Treasury Bills 	Not Applicable	Unlimited
Local Authorities where rates are used as security	70%	<ul style="list-style-type: none"> Promissory Notes Bonds/MTN's/FRN's 	Not Applicable	\$2.0 million \$2.0 million
New Zealand Registered Banks	100%	<ul style="list-style-type: none"> Call/Deposits/Bank Bills/Promissory Notes Bonds/MTN's/FRN's 	Short term S&P rating of A1 or better Long term S&P rating of A+ or better	\$7.5 million \$2.5 million
State Owned Enterprises	60%	<ul style="list-style-type: none"> Promissory Notes Bonds/MTN's/FRN's 	Short term S&P rating of A1 or better Long term S&P rating of BBB+ or better Long term S&P rating of A+ or better	\$2.0 million \$1.0 million \$2.0 million
Corporates	60%	<ul style="list-style-type: none"> Promissory Notes Bonds/MTN's/FRN's 	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of AA or better	\$2.0 million \$1.0 million \$2.0 million

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.

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Section 101(2): amended, on 27 November 2010, by section 49 of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

101A Financial strategy

- (1) A local authority must, as part of its long-term plan, prepare and adopt a financial strategy for all of the consecutive financial years covered by the long-term plan.
- (2) The purpose of the financial strategy is to facilitate—
 - (a) prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
 - (b) consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.
- (3) The financial strategy adopted under this section must—
 - (a) include a statement of the factors that are expected to have a significant impact on the local authority during the consecutive financial years covered by the strategy, including—
 - (i) the expected changes in population and the use of land in the district or region, and the capital and operating costs of providing for those changes; and
 - (ii) the expected capital expenditure on network infrastructure, flood protection, and flood control works that is required to maintain existing levels of service currently provided by the local authority; and
 - (iii) other significant factors affecting the local authority's ability to maintain existing levels of service and to meet additional demands for services; and
 - (b) include a statement of the local authority's—
 - (i) quantified limits on rates, rate increases, and borrowing; and
 - (ii) assessment of its ability to provide and maintain existing levels of service and to meet additional demands for services within those limits; and

- (c) specify the local authority's policy on the giving of securities for its borrowing; and
- (d) specify the local authority's objectives for holding and managing financial investments and equity securities and its quantified targets for returns on those investments and equity securities.

Section 101A: inserted, on 27 November 2010, by section 18 of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

102 Funding and financial policies

- (1) A local authority must, in order to provide predictability and certainty about sources and levels of funding, adopt the funding and financial policies listed in subsection (2).
- (2) The policies are—
 - (a) a revenue and financing policy; and
 - (b) a liability management policy; and
 - (c) an investment policy; and
 - (d) a policy on development contributions or financial contributions; and
 - (e) a policy on the remission and postponement of rates on Māori freehold land.
- (3) A local authority may adopt either or both of the following policies:
 - (a) a rates remission policy;
 - (b) a rates postponement policy.
- (4) A local authority—
 - (a) must use the special consultative procedure in adopting a policy under this section;
 - (b) may amend a policy adopted under this section at any time using the special consultative procedure.
- (5) However, subsection (4) does not apply to—
 - (a) a liability management policy;
 - (b) an investment policy.

Section 102: substituted, on 27 November 2010, by section 19 of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

103 Revenue and financing policy

- (1) A policy adopted under section 102(1) must state—

- (a) the local authority's policies in respect of the funding of operating expenses from the sources listed in subsection (2); and
 - (b) the local authority's policies in respect of the funding of capital expenditure from the sources listed in subsection (2).
- (2) The sources referred to in subsection (1) are as follows:
- (a) general rates, including—
 - (i) choice of valuation system; and
 - (ii) differential rating; and
 - (iii) uniform annual general charges:
 - (b) targeted rates:
 - (ba) lump sum contributions:
 - (c) fees and charges:
 - (d) interest and dividends from investments:
 - (e) borrowing:
 - (f) proceeds from asset sales:
 - (g) development contributions:
 - (h) financial contributions under the Resource Management Act 1991:
 - (i) grants and subsidies:
 - (j) any other source.
- (3) A policy adopted under section 102(1) must also show how the local authority has, in relation to the sources of funding identified in the policy, complied with section 101(3).
- (4) If a local authority amends its revenue and financing policy under section 93(4), only a significant amendment to the policy is required to be audited in accordance with sections 84(4) and 94(1).

Compare: 1974 No 66 s 122O

Section 103(1): amended, on 27 November 2010, by section 20(1) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

Section 103(2)(ba): inserted, on 28 June 2006, by section 15(4) of the Local Government (Rating) Amendment Act 2006 (2006 No 28).

Section 103(3): amended, on 27 November 2010, by section 20(2) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

Section 103(4): added, on 27 November 2010, by section 20(3) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

104 Liability management policy

A policy adopted under section 102(1) must state the local authority's policies in respect of the management of both borrowing and other liabilities, including—

- (a) interest rate exposure; and
- (b) liquidity; and
- (c) credit exposure; and
- (d) debt repayment.
- (e) *[Repealed]*
- (f) *[Repealed]*

Compare: 1974 No 66 s 122S

Section 104: amended, on 27 November 2010, by section 21(1) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

Section 104(d): amended, on 27 November 2010, by section 21(2) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

Section 104(e): repealed, on 27 November 2010, by section 21(3) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

Section 104(f): repealed, on 27 November 2010, by section 21(3) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

105 Investment policy

A policy adopted under section 102(1) must state the local authority's policies in respect of investments, including—

- (a) *[Repealed]*
- (b) the mix of investments; and
- (c) the acquisition of new investments; and
- (d) an outline of the procedures by which investments are managed and reported on to the local authority; and
- (e) an outline of how risks associated with investments are assessed and managed.

Compare: 1974 No 66 s 122Q

Section 105: amended, on 27 November 2010, by section 22(1) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

Section 105(a): repealed, on 27 November 2010, by section 22(2) of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).

106 Policy on development contributions or financial contributions

- (1) In this section, **financial contributions** has the meaning given to it by section 108(9) of the Resource Management Act 1991.

COUNCIL'S FINANCIAL STRATEGY

Council's Goal

The goal of Council's financial strategy is the prudent and sustainable stewardship of Council resources on behalf of current and future ratepayers.

This entails consideration of Council's financial performance and position through the ten year period of this LTCCP – balancing the current affordability of rates with equity for future ratepayers (for example, not borrowing for expenditure that only benefits current ratepayers when future ratepayers will have to repay that debt).

Through its financial strategy Council seeks to maintain existing levels of service, ensure that costs are kept under tight control, and ensure that rates increases are kept as low as realistically possible, while at the same time maintaining a strong balance sheet and affordable levels of debt.

Economic uncertainty

At the time of preparing this LTCCP the global economy is in a period of unprecedented turmoil.

Economic commentators and market analysts are uncertain how long the current recession will last or what its long term consequences will be.

Although this LTCCP has been prepared based on the best data available at the time of writing, the nature of the economic uncertainty is such that assumptions made in this document, along with other planning assumptions made by Council, may not eventuate.

To mitigate the possible consequences of inaccurate growth assumptions in the short term Council has taken a conservative approach in preparing other assumptions.

Further information on these assumptions is available in the Summary of Assumptions section of this LTCCP.

Intergenerational equity

Council seeks to ensure that today's ratepayers pay only for the services and assets which currently provide a benefit to the District, and not for benefits that will be received by ratepayers in the future. This is known as intergenerational equity. Intergenerational equity is primarily achieved by funding the cost of renewing and replacing assets through revenue sources including rates. This means that the costs of replacing the assets which benefit existing ratepayers are being funded by those ratepayers.

Funding for assets that are new is in line with the capital expenditure provisions of the Revenue and Finance Policy on page 218. Any debt funding for assets is normally repaid over 20 years. The repayment of this debt is funded through rates or corporate revenues. This means that rates in future years, received from ratepayers who are benefiting from those new assets, are servicing the debt on these new assets.

Long term implications of this financial strategy

Westland District Council is committed to sustainable management of the District's finances and this LTCCP demonstrates this in two key ways:

1. For every year of the 2009/10 to 2018/19 LTCCP Council plans to earn sufficient operating revenue to meet that year's projected operating expenditure (see the Prospective Statement of Comprehensive Income)
2. For every year of the 2009/10 to 2018/19 LTCCP Council plans to have a positive cash flow.

Over the next ten years it is not anticipated that Council's financial strategy will change from that outlined in this section.

The main components of Council's financial strategy underlying the forecasts in this Plan are as follows:

- Council intends to move away from raising general rates to fund its activities, drawing greater revenue from Targeted Rates so that those benefitting directly from Council services pay a greater share of the cost.
- In the short term, Council intends to sell property assets to improve its cash position and reduce the impact of cost increases on Rates.
- In the medium term, Council is intending to borrow more to fund its capital programme.
- In the long term, Council aims to conserve and increase its cash