



# POLICY AND FINANCE COMMITTEE

## AGENDA – 19 November 2014

### **A Conduct of Business**

The meeting will be held in the Council Chambers, 19 Kitchener Street, Martinborough and will commence at the conclusion of the District Council meeting. The meeting will be held in public (except for any items specifically noted in the agenda as being for public exclusion).

- A1. Apologies
- A2. Conflicts of Interest
- A3. Public Participation
- A4. Minutes for Confirmation: Policy & Finance Committee 15 October 2014 Pages 1-2
- A5. Minutes for Receipt: Risk & Audit 24 September 2014 Page 3

### **B Policies and Reports**

- B1. Investment Policy Pages 4-10
- B2. Liability Management Policy Pages 11-15

### **C Finances**





# POLICY AND FINANCE COMMITTEE MEETING MINUTES

**15 October 2014**

**Present:** Mayor Adrienne Staples (Mayor), Deputy Mayor Viv Napier, Councillors Margaret Craig, Dean Davies, Brian Jephson, David Montgomerie, Colin Olds, Julie Riddell, Solitaire Robertson and Max Stevens.

**In Attendance:** Paul Crimp (Chief Executive Officer) and Suzanne Clark (Committee Secretary).

**Conduct of Business:** The meeting was held in the South Wairarapa District Council Chambers at 19 Kitchener Street, Martinborough and was conducted in public between 1:40pm and 1:50pm.

## **A Preliminary Matters**

### **A1. Apologies**

There were no apologies.

### **A2. Conflicts of Interest**

There were no conflicts of interest declared.

### **A3. Public Participation**

There was no public participation.

### **A4. Policy & Finance Committee Minutes 27 August 2014**

*P&F RESOLVED (P&F2014/24)* that the minutes of the Policy and Finance Committee meeting held on 27 August 2014 be received and confirmed as a true and correct record.

*(Moved Cr Stevens/Seconded Cr Napier)*

Carried

### **A5. Risk and Audit Minutes for Receipt**

*P&F RESOLVED (P&F2014/25)* that the minutes of the Risk and Audit Working Party meeting held on 19 June 2014 be received.

*(Moved Cr Craig/Seconded Cr Davies)*

Carried

## **B Finances**

### **B1. Financial Report**

Mr Crimp said that no issues or budget trends had been identified for the finances to 31 August 2014. Rates debtors were being targeted and the arrears would be pursued via banks if payments were not received by the 8 January 2014.

### **DISCLAIMER**

*Until confirmed as a true and correct record, at a subsequent meeting, the minutes of this meeting should not be relied on as to their correctness*

*P&F RESOLVED (P&F2014/26) to receive the financial report for the 2 months ended 31 August 2014.*

*(Moved Mayor Staples/Seconded Cr Napier)*

Carried

**Confirmed as a true and correct record**

.....(Mayor)

.....(Date)

**DISCLAIMER**

*Until confirmed as a true and correct record, at a subsequent meeting, the minutes of this meeting should not be relied on as to their correctness*

**Risk & Audit Working Party**  
**Minutes**  
**24 September 2014**  
**3.30 pm, Waiohine Room**

**Present** – Cr. V Napier (Chair), Cr M Craig, Cr M Stevens, Cr D Davies  
Also in attendance – P Crimp.

**Apologies Nil**

**Minutes** – Minutes of the 19 June 2014 meeting were confirmed as a true and correct record.

Moved Craig/ Stevens

**Matters Arising** –

LTP reports – include an analysis of Wheelie bins – Timaru are an example

**Monthly Financials** – August management accounts presented and discussed. Too early to ascertain any full year trends but nothing to indicate any issues.

**Risks**

Risks discussed :

- Staffing
- Legislation
- LTP – Timetable to next meeting
- FAR review/ONRC
- Town hall

**General Business**

Discussed pensioner flats and Trusthouse

Meeting closed 10.50 am

**Next meeting:**

16/10/2014 4pm

18/11/2014 4pm

# POLICY AND FINANCE COMMITTEE

19 NOVEMBER 2014

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## AGENDA ITEM B1

### INVESTMENT POLICY

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#### **Purpose of Report**

To present the Investment Policy for consideration

#### **Recommendations**

Officers recommend that the Committee:

1. *Receives the information.*
2. *Recommends the Investment Policy to Council for adoption.*
3. *Recommends the review date of 30 June 2018.*

#### **1. Executive Summary**

The Local Government Act 2012 (the Act) S102 (2) (c) requires Local Authorities to adopt an investment policy.

Council's investment management policy review dates have been aligned to the Long Term Plan (LTP) process, with the current policy due for review by 30 June 2015 to align to the 2015/25 LTP.

#### **2. Discussion**

The current policy has proven workable and no significant changes are recommended.

The changes recommended are shown in the draft using track changes.

It is intended to utilise "internal borrowing" to a greater extent than has been the case in the past.

Note that an internal loan can always be "swapped" by an external bank.

#### **3. Legal Implications**

There are no legal implications.

## **4. Financial Considerations**

There are no financial implications.

## **5. Appendices**

Appendix 1 – Draft Investment Management Policy

Prepared by: Paul Crimp, Chief Executive Officer

# **Appendix 1 – Draft Investment Policy**



# INVESTMENT POLICY

## 1. General Policy

The investment policy will be consistent with Council's overall objectives and plans Council acknowledges that there are financial risks associated with its investment activities but is risk averse. The treasury function is based on managing risk and protecting investments. There is no involvement in speculative transactions.

The management of trusts, and special funds and reserves will be reviewed on a regular basis. This will ensure that their holding complies with any statutory or other special requirements and that their use is consistent with these and with Council policy at the time.

Investments generally will be made having regard to the following objectives:

- To manage short term cash flows in an efficient and prudent manner which provides cash for approved expenditure needs and in the event of urgent requirements.
- To provide cash for the future retirement of debt on maturity.
- To maximise interest income and minimise risk to the capital invested.

## 2. Treasury Investments

Council's treasury investments comprise sums reserved for special purposes and funds held for working capital requirements. These funds are managed using the following guidelines:

- Funds are invested only with institutions which offer an excellent degree of security. These include the New Zealand Government, State Owned Enterprises, Local Authorities ([including itself](#)) and New Zealand registered banks.
- The maximum amount to be invested with any one approved institution is 30% of Council's total investments except for the Wairarapa Building Society which shall be 10%.

## 3. Equity Investments

Council has a small shareholdings in the following organisations:

- New Zealand Local Government Insurance Corporation Limited.
- AIRTEL Limited.
- Farmlands Limited.

A Council resolution is required to dispose of these shares.

Council is risk averse and does not wish to expose itself to the risks associated with equity investments. It will not as a general rule seek to acquire further equity investments.

#### **4. Emissions trading scheme**

Council has a number of "New Zealand Emissions Units" that were issued as a result of the introduction of the emissions trading scheme.

A Council resolution is required to transact these units.

#### **5. Local Government Funding Authority**

Council may, ~~after following the special consultative procedure,~~ borrow funds from the Local Government Funding Authority.

Under certain very limited circumstances, the borrower notes can convert to shares.

A Council resolution will be required to manage these shares.

#### **6. Property**

Council does not hold real property for investment purposes. It may and does purchase property from time to time to assist in the provision of its core services to the community. Surplus properties will be disposed of wherever possible. Council will review its property holdings on a regular basis.

##### **6.1 Mix of Investments**

The mix of investments will be determined having regard to the overall funding needs of Council. Investment mix is also influenced by risk management considerations. Council will maintain sufficient general funds for day to day operational needs.

Council may establish, alter or dissolve a fund for a particular purpose by ordinary resolution.

##### **6.2 Acquisition of New Investments**

Treasury investments are acquired under delegated authority to the Chief Executive.<sup>1</sup>

It is unlikely that Council will invest in shares or investment properties in the foreseeable future. Any such acquisitions would require a resolution by Council.

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<sup>1</sup> Means the Chief Executive and/or other officers to whom the Chief Executive may delegate from time to time.

When acquiring treasury investments Council seeks to:

- Optimise return on investments.
- Ensure investments are secure.
- Manage potential interest rate movement losses.

### **6.3 Disposition of Revenue from Investments**

All dividends, interest and other income from investments will be available for Council's general use except:

- Where Council has resolved that interest earned on funds invested in an account shall be reinvested in that account. These accounts shall be subject to review each year.
- Interest earned on sinking funds which shall remain in the sinking funds.

### **6.4 Disposition of Proceeds of Sale of Investments**

Equity and property investments may be disposed of by resolution of Council and the proceeds will be available for Council's general use unless it resolves otherwise. These proceeds may only be used for capital investments or the retirement of debt.

On maturity, treasury investments may be realised for Council's general use or reinvested under delegated authority by the Chief Executive.

### **6.5 Procedures**

Equity and property investments will be reviewed by Council before the end of March each year.

Treasury investments will be managed under delegated authority by the Chief Executive. All realisations, transfers and reinvestments will comply with this policy. All treasury transactions are required to be validated by way of a deal ticket (as contained in Council's Treasury Policy).

Council will receive a schedule of all treasury investments each month as part of the Chief Executive Officer's report.

### **6.6 Investment Risk Assessment and Management**

Council has no investment properties and only one equity investment.<sup>2</sup> [\[Council does hold shares in Airtel Ltd and Farmlands Trading Society, however these are not held for investment purposes\]](#) The exposure to risk in these areas is minimal.

Council's primary objective in respect of treasury investments is the protection of those investments. Only credit worthy counter parties are acceptable. Council will manage its exposure to credit risk by maintaining a

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<sup>2</sup> New Zealand Local Government Insurance Corporation Ltd 26,965 shares.

diverse investment portfolio with prescribed limits for each counter party. The exposure to interest rate risk will be managed by a mix of terms and staggered maturity dates to mitigate the effect of market fluctuations.

### **6.7 Objectives for holding and managing financial investments and equity securities**

The objectives of holding financial investments are:

- To maintain sufficient cashflow to meet current and future needs.
- To ensure sufficient funding is available to meet future loan repayments as they fall due through the maintenance of sinking fund accounts.

The objectives of holding equity investments are:

- Equity investments are held solely for strategic purposes and are not held for financial return.
- Equity investments will only be made to support companies that provide a service that may not otherwise be provided, for the benefit of either the three Wairarapa local authorities, or a wider base of local authorities.

### **6.8 Targets for returns on financial investments and equity investments**

The targets for returns on financial investments are:

- The key rationale of the holdings of financial investments is risk minimisation. Due to the levels of cash holdings these are managed solely for cashflow purposes. Council policy limits investment to very low risk investment, which by its nature provides modest returns.

The objectives of holding equity investments are:

- Equity investments are held solely for strategic purposes and are not held for financial return.
- There is no quantified target for equity investments for the reasons outlined above.

# POLICY AND FINANCE COMMITTEE

19 NOVEMBER 2014

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## AGENDA ITEM B2

### LIABILITY MANAGEMENT POLICY

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#### **Purpose of Report**

To present the Liability Management Policy for consideration

#### **Recommendations**

Officers recommend that the Committee:

1. *Receives the information.*
2. *Recommends the Liability Management Policy to Council for adoption.*
3. *Recommends the review date of 30 June 2018.*

#### **1. Executive Summary**

The Local Government Act 2012 (the Act) S102 (2) (b) requires Local Authorities to adopt a liability management policy.

Council's liability management policy review dates have been aligned to the Long Term Plan (LTP) process, with the current policy due for review by 30 June 2015 to align to the 2015/25 LTP.

#### **2. Discussion**

The current policy has proven workable and no significant changes are recommended.

The changes recommended are shown in the draft using track changes.

The key change recommended is to dispense with the use of sinking funds and allow the conversion of the existing sinking fund loans to ordinary loans. Sinking funds are inefficient ways to set funds aside for future repayment we borrow the principal and repay interest only on that loan. At the same time we set aside a calculated amount each month so that, after adding interest earned on the funds set aside, there will be sufficient funds set aside to repay the loan when it is due.

In addition a set of "Sinking Fund Commissioners" accounts need to be prepared and audited by Audit New Zealand.

It is intended to utilise "internal borrowing" to a greater extent than has been the case in the past.

Note that an internal loan can always be "swapped" by an external bank.

### **3. Legal Implications**

There are no legal implications.

### **4. Financial Considerations**

There are no financial implications.

### **5. Appendices**

Appendix 1 – Draft Liability Management Policy

Prepared by: Paul Crimp, Chief Executive Officer

# **Appendix 1 – Draft Liability Management Policy**

# LIABILITY MANAGEMENT POLICY

## 1. General policy

The borrowing management policy will be consistent with Council's overall objectives and plans. The amount of borrowing is driven on a project by project basis. Council approves borrowing by resolution as part of the Annual Planning process.

Council may borrow from itself, any registered bank or wholesale investor by the issue of local authority stock, or the [Local Government Funding Authority Agency](#) ~~(following special consultative procedure adoption during the 2012-22 LTP process)~~ or in any other manner which it considers appropriate.

## 2. Interest rate exposure

Council's borrowing gives rise to direct exposure to interest rate movements. Given the long term nature of Council's assets, projects and intergenerational factors, Council's policy is to have a high percentage of fixed rate borrowing, [however in certain circumstances it may be prudent to consider a more even balance between floating and fixed rate instruments.](#)

Interest rate risk is managed by adjusting the maturity of borrowings to avoid a concentration of debt reissues or rollovers in line with interest rate predictions.

All matters concerning borrowing which can be lawfully delegated are delegated to the Chief Executive.

The use of hedging instruments for risk management on Council's borrowing is not appropriate. Should Council wish to use hedging instruments an ordinary resolution approving their use will be adopted by Council.

## 3. Liquidity

Liquidity refers to the availability of cash resources to meet all obligations as they arise.

Short term liquidity management is monitored and controlled through daily cash management activities with long term liquidity being monitored and controlled through the Annual Plan and Long Term Financial Strategy processes.

Council ensures debt maturity is spread widely to minimise the risk of large concentrations of debt maturing at any one time. Council may maintain an overdraft facility to meet short term cash requirements as and when necessary.



## 4. Credit exposure

Council is readily able to attract cost effective borrowing because of the strength of security offered by its powers to rate, and the very low historical incidence of default by local authorities.

## 5. Debt repayment

Council has at present two types of loans. These comprise reducing balance and interest only loans. Reducing balance (table mortgage) loans are repaid from operational funds over the life of the loan. Council can liquidate these loans at any point of time if allowed under the terms of the loan agreement. Interest only loans are taken out over the life of the project and refinanced at three to five year intervals.

Council has established sinking funds in respect of all interest only loans. Council has not forecast to make any repayments of principal on the loans it has sinking funds for, as the loans are intended to be for the same length of time as the asset life and the sinking fund repayment schedules are calculated based on the same. Most of the loans are for assets that have a life of either 10 or 20 years and as a result – none of these mature within the period of this LTCCP, ~~other than one in 2010 which is accounted for~~. This spreads the principal and interest costs related to the asset purchase evenly over the period of the assets life, and therefore achieves inter-generational equity for the ratepayers. While the loan principal is not paid off progressively, the sinking fund deposits accumulate progressively and therefore accumulate more interest earned. [Sinking funds may be converted to "table" loans should it be prudent to do so.](#)

Council has introduced a policy of building up its cash reserves in order to meet future renewals of its assets.

Council is under no obligation to establish sinking funds for new borrowings but must consider and record how it intends to effect repayment.

Terms of repayment should be determined after consideration of the cost of finance and any intergenerational benefits of the assets being financed.

The maximum period over which borrowings are to be repaid is the lesser of 30 years or the life of the project, [unless otherwise resolved by Council](#).

## 6. Specific borrowing limits

The gross interest expense of all borrowings will not exceed 12% of rates income.

## 7. Security

Council does not offer assets as security for borrowings.