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***Northland Regional Council***

***Supplementary Item***

***Council Meeting***

***Tuesday, 20 March 2018***  
***at 10.30 am***

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**TITLE:** Supplementary Item for Council Meeting 20 March 2018  
**ID:** A1046024  
**To:** Council Meeting, 20 March 2018  
**From:** Dave Tams, Group Manager – Corporate Excellence  
**Date:** 15 March 2018

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### Executive summary

As per the placeholder report included in the original agenda, the item 'Adoption of the Liability Management Policy and Investment Policy' could not be collated in time because the item had to be considered by the Audit and Finance Working Party prior to going to council. Hence council is requested to receive Supplementary Item 7.12: 'Adoption of the Liability Management Policy and Investment Policy'.

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### Recommendation

That as permitted under section 46A(7) of the Local Government Official Information and Meetings Act 1987:

- Supplementary Item 7.12: 'Adoption of the Liability Management Policy and Investment Policy'

be received.

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### Authorised by Group Manager

**Name:** Dave Tams  
**Title:** Group Manager – Corporate Excellence  
**Date:** 15 March 2018

**TITLE:** Adoption of the Liability Management Policy and Investment Policy

**ID:** A1038364

**To:** Council Meeting, 20 March 2018

**From:** Kyla Carlier, Strategy Specialist; and Steve Goddard, Management Accountant

**Date:** 15 March 2018

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### Executive summary

This report seeks council approval and adoption of the Liability Management Policy, and the Investment Policy.

If approved, the adoption of these policies will require changes to be made to the terms of reference of the Investment Subcommittee, and the delegations manual.

All changes will be effective from 1 July 2018.

The council is not required to consult on these documents.

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### Recommendations

1. That the report 'Adoption of the Liability Management Policy and Investment Policy' by Kyla Carlier, Strategy Specialist; and Steve Goddard, Management Accountant, dated 15 March 2018, be received.
  2. That council adopt the Liability Management Policy and Investment Policy (set out in **Attachments 1 and 2**).
  3. That the council adopt the changes to the terms of reference of the Investment Subcommittee (set out in **Attachment 3**), effective from 1 July 2018.
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### Background

Section 102 of the Local Government Act 2002 (LGA) requires local authorities to adopt a Liability Management Policy and an Investment Policy.

Section 102 of the LGA specifically excludes the Liability Management Policy and an Investment Policy from the requirement to be consulted on.

The Liability Management Policy must meet s104 of the LGA, and the Investment Policy must meet s105 of the LGA.

Currently, the council meets these LGA requirements within the Treasury Risk Management Policy (including Liability and Investment Policies). This policy is very long and includes large sections of treasury management and operational detail.

The Investment Subcommittee is responsible for some activities outlined in the proposed Investment Policy, so its terms of reference will need to be updated with the adoption of this policy.

The Audit and Finance Working Party is responsible for some activities outlined in the proposed Liability Management Policy. Its terms of reference include responsibilities to monitor and review financial policies and performance, so will not need to be amended with

the adoption of this policy. The Audit and Finance Working Party reviewed these policies at its 13 March 2018 meeting.

With the adoption of both policies, the delegations manual will need to be updated effective 1 July 2018, to reflect updated roles and responsibilities.

## Considerations

### 1. Options

Staff recommend option 1, to adopt the Liability Management Policy and Investment Policy, and approve the updated terms of reference for the Investment Subcommittee.

No.	Option	Advantages	Disadvantages
1	Adopt the Liability Management Policy and Investment Policy, and approve the updated terms of reference for the Investment Subcommittee	Clear, easy to understand policies and clear roles and responsibilities for council and staff. Better management of investments and liabilities.	Some additional work required to complete the other treasury management procedures.
2	Do not adopt the Liability Management Policy and Investment Policy, and approve the updated terms of reference for the Investment Subcommittee	Lower workload - No changes to implement.	Difficult to read, very long, unclear treasury management policies and procedures. Difficulties with ensuring compliance with the policy due to its complexity.

### 2. Significance and engagement

Section 76AA of the LGA directs that council must adopt a policy setting out how significance will be determined, and the level of engagement that will be triggered. This policy assists council in determining how to achieve compliance with LGA requirements in relation to decisions.

This decision in itself is considered to be of low significance when assessed against council's current Significance and Engagement Policy, because it is for the purpose of achieving compliance with sections 102, 104 and 105 of the LGA and does not, in itself, impact the community other than to provide them with information.

### **3. Policy and legislative compliance**

Adoption of the proposed Liability Management Policy and Investment Policy will achieve compliance with sections 102, 104 and 105 of the Local Government Act 2002.

### **4. Further considerations**

The delegations manual will need to be updated effective 1 July 2018, to reflect the changes contained within the Liability Management Policy and the Investment Policy.

We propose that the treasury management policies and operational detail is contained in a separate document, to be approved by the Audit and Finance Working Party before 1 July 2018.

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#### **Attachments:**

1. Liability Management Policy
2. Investment Policy
3. Revised terms of reference for the Investment Subcommittee (effective 1 July 2018)

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#### **Authorised by Group Manager**

**Name:** Dave Tams  
**Title:** Group Manager – Corporate Excellence  
**Date:** 15 March 2018

# NORTHLAND REGIONAL COUNCIL

## Liability management policy

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### 1.0 Introduction

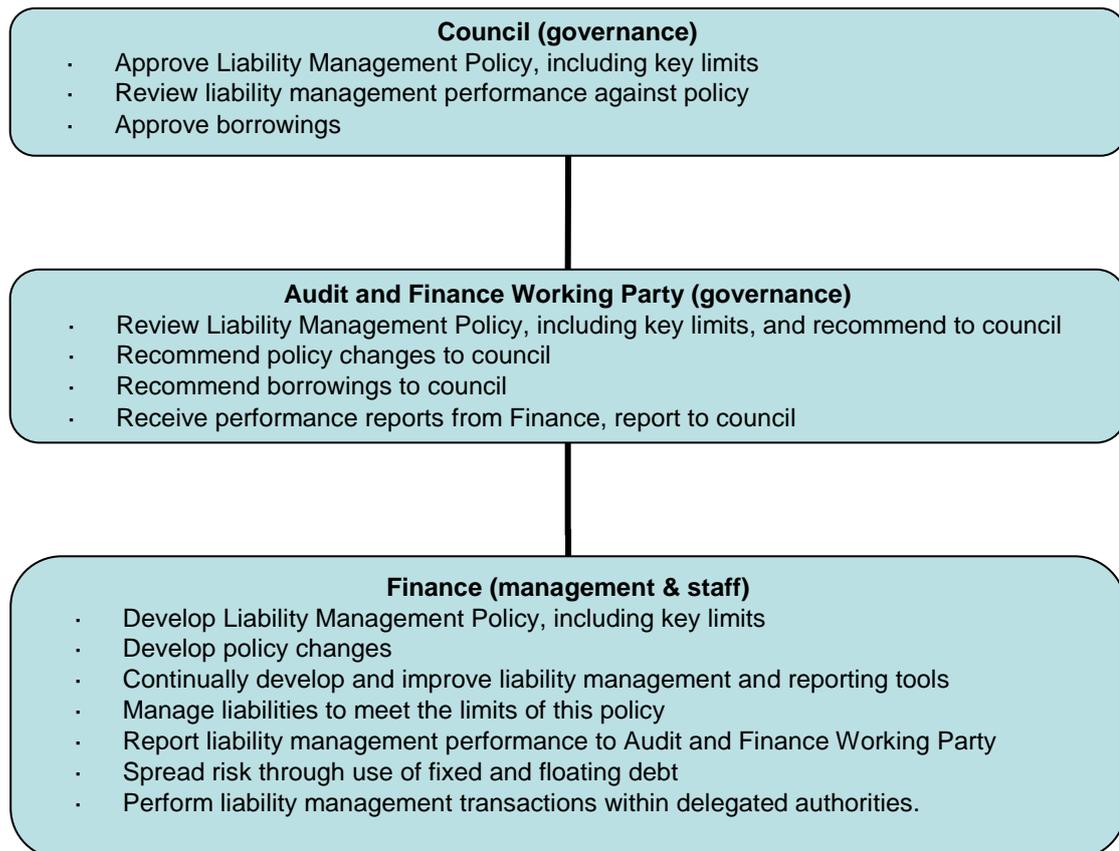
This document presents the council's policies for managing its borrowing and other liabilities, including its policies on interest rate exposure, liquidity, credit exposure and debt repayment.

This policy should be read in the context of the council's Financial Strategy, which outlines the key financial parameters and limits the council operates within; and the Revenue and Financing Policy which covers how the council funds its activities.

This policy applies to all liability management activity undertaken by the council from 1 July 2018. We review this policy at least every three years.

### 2.0 Management of borrowings and other liabilities

The council's borrowings and other liabilities will be managed to meet the council's expectations of interest rates, liquidity and credit risk exposure.



The council manages debt on a net portfolio basis. Net debt means financial liabilities less financial assets (excluding trade and other receivables)<sup>1</sup>.

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<sup>1</sup> Section 22, Local Government (Financial Reporting and Prudence) Regulations 2014

To fund its activities, the council can borrow externally through a variety of financial instruments, and from a range of market mechanisms, including from the Local Government Funding Agency. It can also access reserve funds internally.

The council will borrow from external sources, including the Local Government Funding Agency, to fund its investment in capital infrastructure.

To manage its credit exposure, the council will only borrow using widely used financial instruments with creditworthy counterparties. The council will not enter any borrowings denominated in a foreign currency<sup>2</sup>.

The council considers and approves its forecast borrowing requirements by approving financial projections in each Long Term Plan and Annual Plan. The council borrows as it considers appropriate and commercially prudent to do so.

### **3.0 Borrowing limits and interest rate exposure**

Borrowing and interest rate exposure limits will be reviewed from time to time. These limits will ensure compliance with any applicable covenants. The council may set limits lower than the highest covenant limits if it considers this to be prudent.

Without a credit rating, net external debt will not exceed 175% of total annual revenue. If the council obtains an external credit rating, this limit could increase to 250%.

Interest rate exposure is the impact that movements in interest rates can have on an organisation's financial performance. To manage interest rate exposure:

- net interest on external debt will not exceed:
  - 10% of total annual revenue
  - 25% of annual rates income.
- the council may target a mix of fixed and floating rate external debt to manage the council's expectations of risk and the cost of borrowing. The council shall determine the best mix of fixed and floating rate debt depending on market conditions at the time.

### **4.0 Liquidity**

Liquidity management is the management of liquid assets and funding sources to meet both short and long-term commitments as and when they fall due.

The council minimises its liquidity risk by:

- ensuring that the sum of external debt, committed bank (loan) facilities, and liquid funds (liquid investments)<sup>3</sup> is at least 110% of external debt (liquidity ratio)<sup>4</sup>
- maintaining accurate cashflow forecasts and using these to ensure the council always has sufficient liquid funds available to meet both planned and reasonable unforeseen funding requirements

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<sup>2</sup> Section 113, Local Government Act 2002

<sup>3</sup> Liquid funds includes 75% of externally managed funds

<sup>4</sup> This ratio is required by the Local Government Funding Agency

- avoiding maturity and interest rate re-pricing concentrations by (where appropriate) ensuring rates do not mature on the same dates.

## 5.0 Debt repayment

It is a council priority to reduce its long-term debt by ensuring that loan capital is repaid at the end of each loan term, hence avoiding intergenerational debt wherever possible. However, in cases where an asset funded by debt has an intergenerational useful life, intergenerational debt may be considered.

When the council raises debt:

1. The loan will be drawn down as required to fund activities
2. Targeted rates will be collected immediately and invested until needed to repay the loan
3. At the end of the loan term, the full loan will be repaid
4. Further loans may be raised while others are in progress.

Operating surpluses may be applied to the reduction of debt and/or a reduction in borrowing requirements.

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# NORTHLAND REGIONAL COUNCIL

## Investment Policy

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### 1.0 Introduction

The council will create an investment portfolio and manage it in such a way as to:

- balance preservation of the council's capital with its expectations of returns and risk
- supply the liquidity requirements of the council, and
- consider the council's aspiration to invest ethically.

The council's policy on its investment activity includes the mix of investments, the acquisition of new investments, an outline of how investments are managed and reported on, and an outline of how risks associated with investment activities are assessed and managed.

This policy should be read in the context of the council's Financial Strategy which outlines the key financial parameters and limits the council operates within; and the Revenue and Financing Policy which covers how the council funds its activities.

This policy applies to all investment activities undertaken by the council from 1 July 2018. We will review this policy at least every three years.

### 2.0 Investment mix

The investment mix will be managed to meet the council's expectations of returns and risk. It is our policy to continue to evaluate our investment portfolio, to ensure its investment mix is appropriately diversified and is achieving the best possible return, while managing risk in line with the council's risk appetite. The council's risk appetite is defined as its level of willingness to be exposed to the risk of loss of its capital.

Where a key driver of an investment is economic wellbeing of Northland, the council may accept a higher risk or lower return.

Investment returns influence operational budgets and public equity. The council recognises that as a responsible public authority, all investments held should be prudently managed. The council also recognises that lower investment risk generally means lower returns.

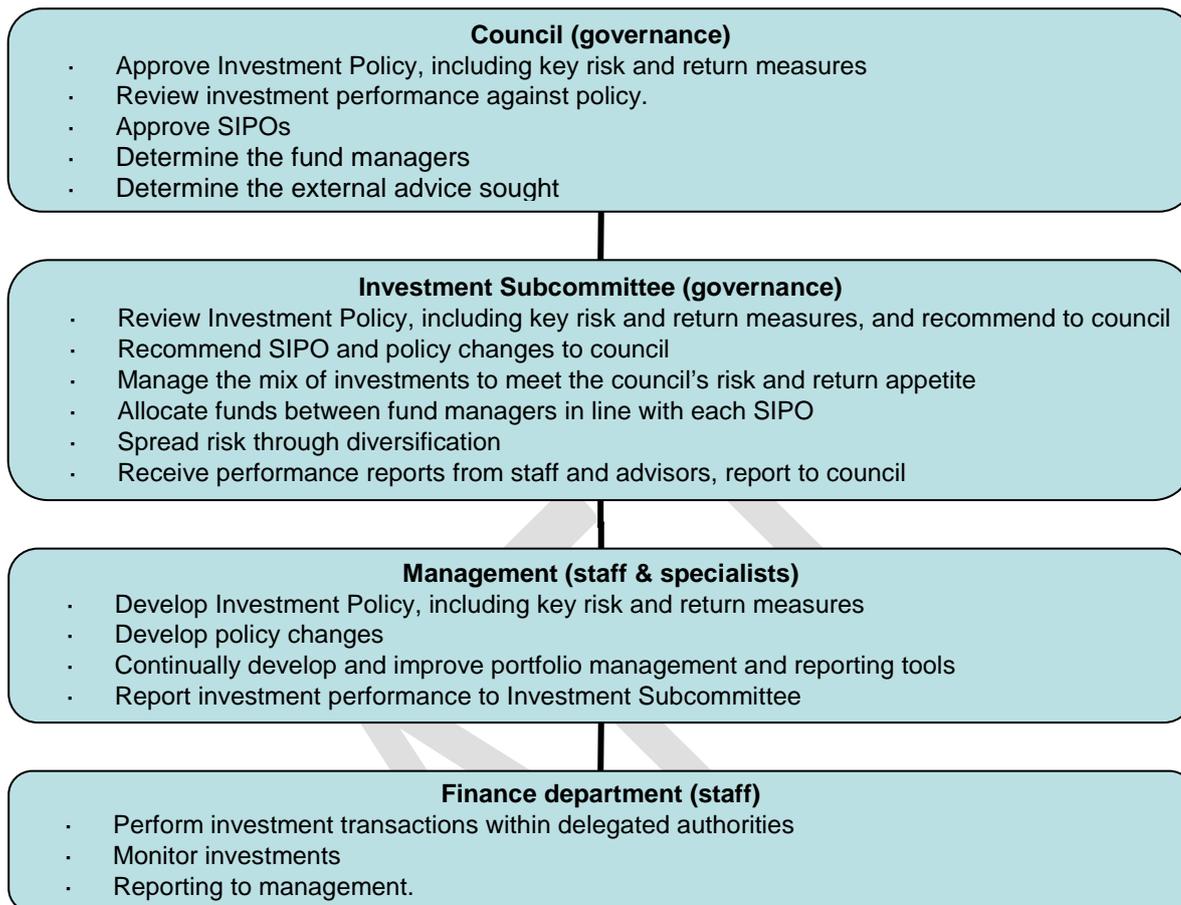
The council seeks to achieve a net return of at least 7% per annum across its whole investment portfolio (excluding Marsden Maritime Holdings Limited and the Working Capital Fund). The investment specific objectives and targeted returns are outlined in the Financial Strategy.

The council will take a limited active approach to portfolio management. Assets classes are groups of assets. Each asset class has assets with similar risk and return profiles and behaviour. The council will manage the portfolio on advice from suitably qualified external advisors.

This policy prohibits direct investment in:

- derivative instruments such as futures (except for hedging purposes)
- speculative products or use of structured products
- securitised products.

### 3.0 Management of investments



Staff will use independent professional advice, and will consider investment objectives, maturity, risk and return profiles, the current market condition and the council's view to invest ethically.

#### Reporting

The performance of the investment portfolio will be monitored against the agreed benchmarks in this policy and the Statements of Investment Policy and Objectives (SIPO) for externally managed funds. Reports will be developed by staff, and provided to the Investment Subcommittee. The Investment Subcommittee will summarise this report to the council after each meeting.

#### 3.1 Acquisition of new investments

The council will not seek to acquire or dispose of strategic assets, property or forestry unless approved by council resolution.

### 4.0 Asset classes

#### 4.1 Equities

##### 4.1.1 Council controlled organisations

The council's shares in council controlled organisations are held for operational reasons, hence are not part of its investment portfolio.

#### **4.1.2 Marsden Maritime Holdings Limited**

The council has a majority shareholding in the subsidiary organisation Marsden Maritime Holdings Limited, the port company.

Periodic returns on Marsden Maritime Holdings Limited include dividends and changes in share price.

The Local Government Act 2002 (LGA) classifies a local authority's shareholding in a port company as a strategic asset. As such:

- a special consultative procedure must be adopted and followed before any transfer of ownership or control is made (LGA, s84(3)).
- it is exempted from publishing a Statement of Intent.

The council has also determined Marsden Maritime Holdings Limited to be a strategic asset in terms of the community. The port's activities are integrated with the economic structure of Northland. Whilst the council will continue reviewing ownership options, its strategic intent is to remain a long-term majority shareholder.

The council manages the risk of this investment through exercising governance through the constitution, the interim and annual reports, and appointments to the board of directors. The Chief Executive Officer is the reporting officer to the council on matters affecting the company. The council reviews the company's strategic intentions every three years, and seeks professional advice when appropriate.

#### **4.2 Property**

Variable returns on property include rents and lease income, and changes in capital value.

In respect of leasehold land, subject to the powers and provisions conferred under the LGA, Public Bodies Leases Act 1969 and the Property Act 2007, the sale of any ground leases and approval of lease discounts<sup>1</sup> require council approval.

The council will follow the legal obligations and restrictions on the council in disposing of any endowment property. These are outlined in the LGA, s140-141.

Risks associated with holding investment property are minimised by undertaking regular reviews of the property portfolio to ensure objectives are being met. The council seeks professional advice regarding these investments when appropriate.

#### **4.3 Forestry**

Periodic returns on forestry include harvest revenue net of maintenance and harvest costs, and changes in crop value.

Where the council invests in forestry, a forest management plan will be in place to mitigate the operational and revenue risks. These will be prepared triennially, and submitted to council for approval.

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<sup>1</sup> Which may be used to incentivise lessees to adopt short rent review periods

#### **4.4 Cash and cash equivalents**

Investments in cash and cash equivalents will be restricted to a term that meets future cash flow projections, and mindful of forecast debt associated with future capital expenditure programs as outlined within the council's Long Term Plan.

To mitigate credit risk, the council will only invest in widely traded financial instruments with creditworthy counterparties.

The council will actively manage underlying interest rate exposures, to reduce uncertainty about interest fluctuations.

This excludes cash components of externally managed funds.

#### **4.5 Externally managed funds**

The council may invest in externally managed funds. Any decision to invest in externally managed funds should be considered in the context of portfolio management undertaken by management.

The risk and return profile for each managed fund is outlined in its SIPO. Each externally managed fund is managed in accordance with its SIPO. If there is any conflict between this policy and the SIPO, the SIPO takes precedence.

#### **4.6 Trust funds**

Where the council hold funds as a trustee, or manages funds for a trust then such funds must be invested on the terms provided within the trust. If the trust's investment policy is not specified then this policy should apply.

## **Terms of Reference – 2016-2019 Triennium**

### **Investment Subcommittee**

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#### **Membership**

The Investment Subcommittee shall be comprised of two (2) councillors and an independent member as follows:

Chairperson:	John Bain
Members:	Penny Smart Geoff Copstick (independent)
Ex-officio:	Bill Shepherd (full voting rights)

Standing orders apply.

#### **Quorum**

The quorum for meetings of the subcommittee shall be three (ex-officio counts towards a quorum).

#### **Objectives**

The objectives of the subcommittee are to:

- Provide oversight and assistance to the Chief Executive on council's investment activities within established limits, ensuring external accountabilities and responsibilities are fulfilled;
- Make recommendations to council on investment fund matters; and
- Manage investment returns that can influence operational budgets and public equity.

#### **Role and responsibilities**

The subcommittee is directly responsible and accountable to the council for the exercise of its responsibilities. In carrying out its responsibilities, the subcommittee must at all times recognise that primary responsibility for management of the council rests with the Chief Executive.

For reasons of efficiency and/or expediency, should the subcommittee not be able to perform their functions, the council will assume their role and responsibilities.

#### **Working Groups**

The subcommittee is further authorised to fulfil its role and responsibilities through the establishment or disestablishment of other working groups as the subcommittee sees fit. Working groups can include councillors, independent members, and advisors whose skills and experience are appropriate to the work being done. The staff member responsible to provide support to the working groups shall be the Chief Executive, who may delegate the role.

#### **Delegated Authority and functions**

The council authorises the subcommittee, within the scope of its Terms of Reference, role and responsibilities, to:

##### **1. General**

- Move investment funds between various managed funds within approved limits provided for in the Statement of Investment Policy and Objectives (SIPO).

- CEO to withdraw and invest in the Working Capital Fund within established delegations.
- Recommend manager/s of new funds for approval by council.
- Ensure that there are no withdrawals from funds except the Working Capital Fund without the approval of council.
- Subject to operating within approved budget allocation - obtain information it needs from the CEO and/or external party (subject to their legal obligation to protect information);
- Discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- Request the attendance of any employee, subject to the Chief Executive's approval, at meetings of the subcommittee or its working groups;
- Subject to operating within approved budget allocation - obtain external legal or other professional advice, as considered necessary to meet its responsibilities, at the council's expense;
- Co-opt a person as a (non-voting) member of the subcommittee to assist with special projects;
- Recommend to council that additional members be appointed to the subcommittee should it consider wider representation would be of assistance in performing its functions;
- Appoint working groups to make recommendations to the subcommittee on any matters of responsibility within the subcommittee's Terms of Reference, and act in accordance with resolutions of the subcommittee (in line with specific limitations) where there is urgency or special circumstance;
- To regularly report progress on its functions to the council; and
- Undertake such other functions as may be delegated by council from time to time.

## 2. Financial Management and Reporting

In relation to the purpose of this subcommittee:

- a. Monitor and report on the ~~\_quarterly\_~~ financial performance of all funds against budget.
- b. Make recommendations to council on any forecast variances against budget.
- c. Determine the means of financial reporting to council and the public.

## 3. Funding, Financial and Other Policies

In relation to the purpose of this subcommittee:

- a. Contribute to the review of any changes required to relevant sections of the council's funding and financial policies (including those required under Section 102 of the Local Government Act (LGA) 2002) specifically the:
  - i) Revenue and Financing Policy; and
  - ii) ~~Treasury Management Policy (incorporating Liability Management Policy and Investment Policy)~~

## 4. Investment Functions

In relation to the purpose of this subcommittee:

- a. To periodically review council's overall investment portfolio and provide recommendations to council as to adjustments to maintain an appropriate investment mix.
- b. Undertake the investment functions referred to in the ~~Treasury Management Investment~~ Policy adopted within the current LTP. These functions include:

- i. To review performance and compliance against council's ~~Treasury Management Investment~~ Policy ~~(and its objectives)~~ and reporting for all the council's investment funds (Statement of Investment Policy and Objectives).
- ii. To make investment decisions within the subcommittee's delegations;
- iii. To make recommendations to council on any changes that fall outside the subcommittee's delegations including changes to the construction of investment portfolios, the Investment Fund Statement of Investment Policies and Objectives, the ~~objectives and policies in the Treasury Management Investment~~ Policy, and investment management appointees.
- iv. To recommend to the council targets, policies and strategies for undertaking its investment activities.
- v. To oversee the administration and review of the council's investment opportunities within the subcommittees delegated authority and make recommendations to council as appropriate.

#### **5. No Delegated Authority – Power to Act**

In Accordance Clause 32 (1) of Schedule 7 of the Local Government Act 2002, the subcommittee does not have the powers of council to borrow money or purchase or dispose of assets, other than in accordance with the current Long Term Plan or Annual Plan.

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