

Extraordinary Council Meeting
Thursday 24 September 2020 at 2.00pm

AGENDA

Northland Regional Extraordinary Council Meeting Agenda

Meeting to be held remotely
on Thursday 24 September 2020, commencing at 2.00pm

Recommendations contained in the council agenda are NOT council decisions. Please refer to council minutes for resolutions.

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TITLE: Withdrawal of the Planned 2020-21 Funding Contribution from the Managed Fund Portfolio

ID: A1364689

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

There have been sufficient gains generated from councils managed fund portfolio in the first two months of this financial year to allow the entire 2020-21 annual general funding requirement (\$1.62M) and the Northland Inc CPI funding requirement (\$111K) to be withdrawn from the portfolio now.

This strategy is proposed to reduce the risk of a market downturn eroding the gains that have already been generated in the two months to 31 August 2020, and presented in urgency in an endeavour to facilitate the withdrawal prior to the 2020 NZ General Election.

Table One summarises the situation as at 31 August 2020.

EriksensGlobal endorse the proposal and have recommended (refer **Attachment One**) the Fund Managers to withdraw the funding from.

Jonathan Eriksen will attend the council meeting (via Zoom) to confirm that the performance of the financial markets since August 2020 remain supportive of the proposed strategy.

Table One	TOTAL PORTFOLIO	
	ACTUAL YTD AUGUST	FULL YEAR BUDGET
Gains derived from Managed Funds	\$2,459,264	\$1,741,651
Gains to be used as NRC General Funding	-\$1,620,901	-\$1,620,901
Gains to be used to fund N.Inc CPI Adj	-\$111,135	-\$111,135
Gains Reinvested back into the Fund	\$727,228	\$9,615

Recommendations:

1. That the report 'Withdrawal of the Planned 2020-21 Funding Contribution from the Managed Fund Portfolio' by Simon Crabb, Finance Manager and dated 17 September 2020, be received.
2. That \$1,732,036 is withdrawn in September 2020 from the fund managers recommended by EriksensGlobal, and invested into term deposits.

Background/Tuhinga

The 2020-21 Annual Plan signalled that \$1,732,036 would be withdrawn from the managed fund portfolio as a mechanism to lessen the reliance on rating revenue and reduce the burden on the regions ratepayers. The \$1,732,036 is made up of:

- \$1,620,901 contribution to general funding, and
- \$111,135 used to fund the CPI adjustment component of Northland Inc's Operating grant.

Historically, the practice has been to withdraw these funding contributions at the end of the financial year, however as the level of actual gains earned already exceeds the entire annual budget it is proposed that \$1.732M of gains is withdrawn in September 2020.

Table Two illustrates the capacity to process the withdrawal from the Long Term and Long Short Investment Funds, and the alignment to each reserve, noting:

- All gains generated in the Short-Term Fund (STF) that are attributable to the Property Reinvestment Reserve have been retained (not withdrawn) to contribute towards the future cost of the Kensington and Kaipara Development projects.
- Overall, after withdrawing the gains proposed in this agenda item, there remains \$727,228 of gains retained in the portfolio (recapitalised), compared to an annual budgeted amount of \$9,615

Table Two	LONG TERM FUND						SHORT TERM FUND				TOTAL PORTFOLIO	
	CIF Reserve		PRF Reserve		IIF Reserve		PRF Reserve		Working Capital		ACTUAL YTD AUGUST	FULL YEAR BUDGET
	ACTUAL YTD AUGUST	FULL YEAR BUDGET										
Gains derived from Managed Funds	\$701,390	\$675,661	\$356,722	\$179,301	\$860,442	\$817,064	\$414,533	\$9,615	\$126,177	\$60,010	\$2,459,264	\$1,741,651
Gains to be used as NRC General Funding	-\$564,526	-\$564,526	-\$179,301	-\$179,301	-\$817,064	-\$817,064	\$0	\$0	-\$60,010	-\$60,010	-\$1,620,901	-\$1,620,901
Gains to be used to fund N.Inc CPI Adj	-\$111,135	-\$111,135	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$111,135	-\$111,135
Gains Reinvested back into the Fund	\$25,729	\$0	\$177,421	\$0	\$43,378	\$0	\$414,533	\$9,615	\$66,167	\$0	\$727,228	\$9,615

The gains will be withdrawn from Fund managers in line with a recommendation (**Attachment One**) provided by EriksensGlobal and then placed into Term Deposits with maturity dates aligned to working capital forecasts.

Table Three provides a breakdown of council's investments held in term deposits as a de-risking mechanism, protecting historical gains and surpluses from financial market volatility, and preserving the funding required to meet the operational costs of council.

As an indication over a six month period the gains forgone by holding \$4.04M in Term Deposits as opposed the STF is approximately \$90K

Table 3

Term Deposits Held	Purpose	Amount \$M
Opex reserve	Historical surpluses set aside and adjusted annually to cover the annual general funding requirement provided from the managed fund portfolio in any given year	\$1.62
Covid-19 Reinstatement Reserve (Aug '20)	Historical surpluses and excess investment returns set aside to fund the reintroduction of prioritised work programmes that were removed from the 2020-21 Annual Plan	\$0.69
Proposed 2020-21 General Funding	The planned 2020-21 Managed Fund gains withdrawn as general funding requirement to cover Council work programmes and the Northland Inc Operating grant Cpi adjustment	\$1.73
TOTAL		\$4.04

The delegations governing any withdrawal from the Managed Fund Portfolio are recorded in two documents:

1. The Treasury Management Policy:
"Council are to authorise any withdrawal from externally managed funds (except the Short-Term fund)";
2. The Investment and Property Subcommittees terms of reference:
"the subcommittee are to ensure that there are no withdrawals from funds except the Short-Term Fund without the approval of council".

The presentation of this report to an extraordinary council meeting is to enable any ratified withdrawals take place prior to the end of September to:

- Avoid any potential market corrections that may come about due to the NZ General Election; and
- Facilitate the recommended \$500K withdrawal from Aspiring (who only allow withdrawals on the last business day of each month)

A separate report will be presented to a future council meeting in relation to the other capital funding required from the Long-Term Investment Fund (LTF) that was also signalled in the 2020-21 Annual Plan. Specifically:

- \$1.7M from the LTF (CIF reserve component) for economic development funding
- \$200K from the LTF (CIF reserve component) for general funding
- \$250K from the LTF (IIF reserve component) for general funding

Considerations:

1. Options

No.	Option	Advantages	Disadvantages
1	Withdraw \$1.732M of gains earned in the first 2 months of the 2020-21 financial year and invest into fixed term deposits in September 2020	Protect the gains generated over the past two months, and have the planned annual general funding contribution secured in term deposits and available for councils working capital requirements.	Earn a lower rate of return, associated with term deposits.
2	Do not withdraw any gains from the Managed Fund Portfolio in September 2020.	Take advantage of a higher rate of return should the managed fund portfolio perform well in the remaining months of the 2020-21 financial year.	Maintain an exposure to the risk of a market downturn eroding the Fund Manager gains that have already been generated over the past two months, and the possibility that annual gains earned on the managed fund portfolio are not sufficient to cover the required annual general funding contribution. In this case funding held in the Opex reserve would need to be withdrawn as general funding.

The staff's recommended option is 1 to provide certainty of funding.

1. Significance and engagement

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance because it is part of council's day-to-day activities and is in accordance with the approved Treasury Management Policy.

2. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with council's Treasury Management Policy, and the 2018–28 Long Term Plan, both of which were approved in accordance with council's decision-making requirements of sections 76–82 of the Local Government Act 2002.

3. Financial implications

Holding funds in term deposits is a low risk - low return investment option. The opportunity cost associated with a term deposit is the forgone gains that the investment could have earned in the Short-Term Investment Fund. As an indication if \$4m was held in a Term deposit for six months at a rate of 1.25%pa it would generate approximately \$90K less than if invested in the Short-Term Fund (assuming the one year average continues at 5.7%). However, investment strategies carry different risk profiles and are subject to different return volatilities. The returns from managed funds can fluctuate over a given time and historical returns do not necessarily form the basis for forecasted returns.

4. Implementation issues

Council approval is sought before the end of September 2020 to enable \$500K to be withdrawn from Aspiring (as recommended by EriksensGlobal) before the NZ elections in October 2020.

Being a purely administrative matter, Community Views and the Māori Impact Statement, are not applicable.

Attachments/Ngā tapirihanga

Attachment 1: EriksensGlobal Recommendation [!\[\]\(104fbf564e2e5a8fbd84f31656d114c7_img.jpg\) !\[\]\(59fb7c3d0d149ddaef5c4152c50f6f25_img.jpg\)](#)

Authorised by Group Manager

Name: Bruce Howse
Title: Group Manager - Corporate Excellence
Date: 21 September 2020

We recommend the following:

	Original Asset Allocation		Movement	Suggested Asset Allocation		Target Range %
Growth Assets	25,575,258	66.5		23,954,357	65.2	50 - 85
Diversified Growth	20,976,937	54.5		19,356,036	52.7	30 - 70
Aspiring	4,051,169	10.5	-500,000	3,551,169	9.7	5 - 15
Castle Point 5 Oceans	5,621,084	14.6	-620,901	5,000,183	13.6	5 - 15
Millford Active Growth	2,059,184	5.4		2,059,184	5.6	5 - 15
Mint Diversified Growth	2,125,941	5.5		2,125,941	5.8	0 - 10
Schroders Real Return Fund + 5%	3,069,072	8.0		3,069,072	8.4	0 - 10
T. Rowe Price Global Equity Growth	4,050,487	10.5	-500,000	3,550,487	9.7	0 - 15
Private Equity	4,598,321	12.0		4,598,321	12.5	0 - 35
Continuity Capital PE Fund No.2 LP	1,260,348	3.3		1,260,348	3.4	0 - 8
Continuity Capital PE Fund No.4 LP	459,914	1.2		459,914	1.3	0 - 8
Continuity Capital PE Fund No.5 LP	563,443	1.5		563,443	1.5	0 - 8
Direct Capital VI	265,625	0.7		265,625	0.7	0 - 8
MLC PE II	1,091,038	2.8		1,091,038	3.0	0 - 8
PCP III	957,953	2.5		957,953	2.6	0 - 8
Income Assets	12,881,070	33.5		12,769,935	34.8	15 - 50
Diversified Income	12,881,070	33.5		12,769,935	34.8	15 - 50
BlackRock FIGO	1,240,356	3.2		1,240,356	3.4	0 - 10
Harbour Income	3,288,467	8.6		3,288,467	9.0	0 - 15
Millford Diversified Income	4,595,403	11.9	-111,135	4,484,268	12.2	0 - 15
Mint Diversified Income	3,756,844	9.8		3,756,844	10.2	0 - 15
Cash	0	0.0		0	0.0	0 - 5
Self-Managed	0	0.0		0	0.0	0 - 5
Total Assets	38,456,328	100.0	-1,732,036	36,724,292	100.0	

Warm regards

Jonathan

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Actuaries & Investment Strategists
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