

# **Investment and Liability Management policies**

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<b>TO</b>	Council
<b>FROM</b>	Karl Dudley - Corporate Services Group Manager
<b>DATE</b>	23 January 2018
<b>SUBJECT</b>	<b>Investment and Liability Management policies</b>

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## **1 Purpose of report**

The purpose of the report is to present the updated Investment and Liability Management policies for Council consideration and adoption.

## **2 Background**

Section 102 of the Local Government Act 2002 states that in order for Council to provide predictability and certainty about sources and levels of funding it must adopt the following funding and financial policies:

- a revenue and financing policy; and
- a liability management policy; and
- an investment policy; and
- a policy on development contributions or financial contributions; and
- a policy on partnerships between the local authority and the private sector; and
- a policy on the remission and postponement of rates on Māori freehold land.

All of the above policies with the exception of the Liability Management Policy and Investment Policy must be adopted following consultation on a draft policy. While reviewing these policies at any time is now allowable it is still most relevant to review the policies during the development of the Long Term Plan to ensure the financial strategy aligns with the policies.

The relevant excerpts detailing the mandatory content of the policies from the Local Government Act 2002 is below:

### ***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.*

### ***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- (a) [Repealed]*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.*

### 3 Issue

Council must adopt any updates to the Investment and Liability Management policies before the new policies can take effect.

### 4 Discussion

Staff and PWC consultants briefed the Council on proposed updates to the policies at the December Long Term Plan workshop. The recommended changes to the policies will ensure that Council remain fit for purpose and consistent with sector best practice.

Major changes proposed for the Investment Policy:

- Inclusion of the protection of the investment capital as a primary objective
- Expansion of the financial objectives to include the following:
  - hold investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations.
  - hold assets for commercial returns.
  - provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
  - invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
  - invest proceeds from the sale of assets.
- Inclusion of a provision for a strategic investment fund
- Enabling the ability of investment in equities through an external investment manager in accordance with the Statement of Investment Policy and Objectives (SIPO).
- Expanded commentary within the policy on investment with LGFA.
- Inclusion of a section on legal risk
- Updated delegations

The updated Investment Policy is included as Attachment A.

Major changes proposed for the Liability Management Policy:

- Changes to borrowing limits are recommended which are consistent with LGFA borrowing covenants including:
  - External term debt + committed bank/loan facilities + available liquid investments/cash equivalents are maintained at 110% over existing external debt.
- A definition of liquid funds is also provided within the Policy.
- Alignment of policy wording to LGFA requirements and accounting standards, updated delegations and definitions.

The updated Liability Management Policy is included as Attachment B.

### 5 Suggested resolution(s)

That the Council:

1. Receives the 'Investment and Liability Management policies' report, dated 23 January 2018.
2. Adopts the updated Investment Policy as included in Attachment A to the agenda report and the updated Liability Management Policy as included in Attachment B to the agenda report to take immediate effect.

### References-Tabled/Agenda Attachments

- Attachment A** Updated Investment Policy  
**Attachment B** Updated Liability Management Policy

[Investment Policy January 2018 updated](#)

**Attachment B**  
**Liability Management Policy January 2018 update**