Investment policy

Adopted 28 May 2014

Investment policy

Background

The Local Government Act 2002 requires Council to adopt a policy for the management of investments including;

- The mix of investments.
- The acquisition of new investments.
- An outline of the procedures by which investments are managed and reported on to the local authority.
- An outline of how risks associated with investments are assessed and managed.

Objectives

The objectives of the policy are:

- To provide a frame-work for the prudent and effective management of investments.
- Where appropriate, to maximise the level of return from Council investments whilst balancing risk and return considerations.
- To manage investments in a sustainable and equitable way, having regard for current and future generations.
- Recognising the community ownership of these assets and the need for a balanced investment/risk profile.
- To maintain a prudent level of liquidity and flexibility to meet both planned and unforseen cash requirements.
- To ensure adequate controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- To ensure that all statutory requirements related to Council's investments are adhered to.

Policy guidelines

Investment Mix

Council may maintain investments in the following assets from time to time:

- The Power New Zealand Investment Fund
- New Zealand Local Government Funding Agency Limited
- Investments in other companies and entities
- Community loans and advances
- Property investments
- Cash investments
- Internal loans.

The specific objectives and policies related to these types of investments are detailed below.

The Power New Zealand Investment Fund

The total capital base for the fund may comprise any one or combination of:

- Cash
- Internal borrowings
- Equities
- Bond investments.

Council has set the following long-term objectives for the fund:

- To utilise the fund as a source of funding for capital development for Council activities (ie. Internal borrowing).
- To utilise investment earnings (at a level determined appropriate by Council) as a source of revenue for Council activities.

These long-term objectives provide the context within which the specific investment strategies and risk parameters will be determined.

Council may have to set aside these objectives on occasions due to adverse financial markets or economic conditions. Council would expect that this would only be a short-term measure.

These matters will be addressed through annual reviews of the investment portfolio performance and after considering advice from Council's investment advisor.

Council may also make changes in the context of budgetary pressures. This may result in a need to give more weight to one particular objective (e.g. to generate additional or more certain investment earnings).

Any changes or reallocation of assets within the portfolio will also be considered in the annual review.

Council shall develop a separate Statement of Investment Policy and Objectives to apply to the management of the externally invested portion of the Power New Zealand fund. The Statement of Investment Policy and Objectives shall contain details of returns sought, acceptable risk levels and reporting and control procedures specific to these investments.

A review of the Statement of Investment Policy and Objectives shall be conducted no less than annually and changes proposed by Council will be considered in the context of the decision making framework within the Local Government Act 2002 and our significance policy.

New Zealand Local Government Funding Agency Limited (LGFA)

The Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

The Council's objectives in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for Council.

Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

Investments in other companies and entities

Equity investments arise from Council owning or controlling an equity holding in another entity. In general, investments in this category have and may be acquired with the primary objective of achieving strategic, efficiency, or community outcomes as opposed to financial returns.

Any purchase or disposition of equity investments requires Council approval. Council will assess the acquisition of any new investments in line with the provisions of this policy. Any profit or loss arising from the sale of these investments is to be recognised in the Statement of Comprehensive Income.

The proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then applied to the designated purpose as determined by Council.

Council recognises that there are risks associated with holding equity investments. To minimise these risks Council, through the relevant Council-committee, monitors the performance of its equity investments in Council Controlled Entitites (that have not been exempted under section 7 of the Local Government Act 2002) on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

Community loans and advances

From time to time Council may provide loans and/or advances to community organisations to assist with the achievement of community outcomes. The amounts involved are typically below $500,000 and the numbers of applications received (and/or approved) are minimal.

The purpose of such investments is to achieve community outcomes and not to receive a financial return on investment. Council will assess all applications having regard for the legislated purpose of Local Government as set out in the Local Government Act 2002, the need for prudent financial management and after assessing the risk associated with the investment and the security provided by the other party. All such loans/advances will only proceed by resolution of Council.

Property investments

Council owns property to achieve its strategic objectives. As a general rule Council will not maintain a property where it is not essential to the delivery of relevant services. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements that could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services.

All rented or leased properties will be at market rentals.

With the exception of minor parcels of land purchased for the purpose of roading and utility activities, Any acquisitions or disposals of property require the resolution of Council and any purchased properties must be supported by a current registered valuation, substantiated by management including a fully worked, capital expenditure analysis.

Net proceeds from the sale of surplus property will be used to reduce borrowings where appropriate, or form part of the reserves of the District, to be reinvested in new assets or the betterment of existing assets for the benefit of the present and future residents of the District. The exception to this is endowment property or other property subject to legislative restrictions, in which case any proceeds would be applied in accordance with the provisions of the legislation.

Cash investments

Council generally operates as a “net borrower”, and aims to manage its borrowings and cash assets on this basis in order to reduce the overall net cost of borrowing. Council does not maintain significant cash investments. Longer term investments will be held to support the level of restricted reserves though not for the balance of Council created reserves. To achieve the aim of minimising the overall cost of funds and managing debt re-financing risks, at times it may be prudent to pre-fund, and invest any surplus in short term cash investments. Cash investments are also used to maintain and manage liquidity risk. A range of treasury instruments may be used as outlined below to achieve the desired level of returns within acceptable risk parameters.

The following policies will apply in making any such investment:

- Council’s primary objective when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties.
- Council may invest in approved financial instruments that are of high credit quality and liquid.
- Council’s investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due.
- Interest income from investments is credited to general funds, except for income from investments for restricted reserve funds and other funds where interest may be credited to the particular fund.
- For liquidity and interest rate management purposes cash investments have a term of no more than 100 days.

Approved treasury instruments

The approved treasury instruments are as follows:

Category	Instrument
Cash Investments (term <100 days)	Call and term bank deposits Bank certificates of deposit (RCDs) Treasury Bills Promissory notes/Commercial Paper (senior)
Investment	Term bank deposits Bank certificates of deposit (RCDs) Government Bonds LGFA borrower notes/Commercial Paper/Bills/Bonds Local Authority Stock/Bonds (secured, fixed and floating rate) Bank/Corporate Bonds/Commercial Paper (senior, fixed and floating rate)

All investments must be senior in ranking. The following types of investments are expressly excluded;

- Structured debt where the issuing entities are not a primary borrower/issuer.
- Sub-ordinated debt, junior debt, perpetual notes and hybrid notes such as convertibles.

Any other treasury instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction.

Approved counterparties/issuers

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Council. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term Standard & Poor’s, (S&P) credit ratings (or equivalent Fitch or Moody’s rating) being A and above and/or short term rating of A-1 or above.

Where the total cash investment portfolio exceeds $5 million, the portfolio should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following counterparties/issuers are approved for investment.

Counterparty/ Issuer	Minimum short term/ long term "Issue" Credit Rating	Approved Investments	Maximum Investment per Counterparty/% of Total Investment Portfolio
NZ Government	N/A	NZ Government Bonds & Treasury Bills	100%
NZ Local Government Funding Agency	N/A	Bonds, Commercial Paper, Bills, Borrower Notes	100%
Local Authority	A-1/A	Stock, Bonds, Commercial Paper	$2m (Maximum of 20% of Total Portfolio)
NZ Registered Bank	A-1/A	Call and term deposit, Bank Registered Certificate of Deposit (RCD), Bonds	$20m (Maximum of 100% of Total Portfolio)
Corporate	A-1/A	Corporate Bonds, Commercial Paper	$2m (Maximum of 20% of Total Portfolio)

In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (e.g. Bank Deposits) – Transaction Principal x Weighting 100% (unless a legal right of set-off exists).
- Foreign Exchange – Transactional face value amount x the square root of the Maturity (years) x 15%.

Each transaction should be entered into a treasury spreadsheet and a monthly report prepared to show assessed counterparty actual exposure versus limits.

Internal loans

Council may utilise surplus funds for the purposes of internal borrowing. Internal borrowing forms a part of the overall mix of Council investments (though will only be reported to Council on an annual basis unless otherwise requested). Internal borrowing will be used wherever possible to avoid external borrowing.

Internal loans shall be managed as corporate debt, with interest applied. The interest rate shall be calculated at the start of each financial year, and will be based on the mid-point between the prior year's weighted average external borrowing and investment rates.

Risk management

Council will adopt prudent risk management practices that will include:

- Engaging appropriate expertise when major investment strategies are being developed.
- Reference to authoritative and current economic commentaries and financial market forecasts.

This policy contains parameters and procedures which have been established to reflect Council's risk tolerance.

Foreign currency

The Council recognises that any offshore financial investments give rise to foreign currency exposures which impact both the amount of income received and the New Zealand dollar capital value of the investment. Foreign currency management instruments will be used within the policy parameters and as detailed in the separate Statement of Investment Policies and Objectives document and Investment Manager's agreement.

Council may from time to time be exposed to foreign exchange risks through the occasional purchase of foreign exchange denominated services, plant and equipment etc. Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts can be used by Council.

The following instruments may be used for risk management activity:

Category	Instrument
Foreign exchange risk management	Forward foreign exchange contracts Foreign currency deposits

Acquisition of new investments

Council will assess the acquisition of any new investments having regard for the following:

- the requirements of the Local Government Act 2002.
- Council's policy on significance.
- Council outcomes and objectives.
- the provisions of this policy.

Application of returns on investments.

Returns on investments will be applied as outlined in the LTP or the Annual Plan or as specifically determined by Council from time to time.

Delegated authority and responsibilities

The Chief Executive Officer shall have delegated authority to implement this policy, except where this policy expressly states that Council resolution is required. The Chief Executive Officer shall be responsible for ensuring that appropriate procedures and controls are in place to safeguard Council's assets. These procedures and controls will be documented within Council's quality assurance programme.

The administration and management of the investments shall be undertaken in accordance with the procedures contained within Council's quality assurance programme. This includes monthly reconciliations to the general ledger of the external portion of the Power New Zealand Investment Fund, other financial instruments of the LGFA, and cash investments, The monthly reconciliation will be independently reviewed in accordance with the procedures contained within Council's quality assurance programme.

Reporting Requirements

Council shall be provided with the following reports on investment performance:

Investment types	Frequency	Reporting
Power New Zealand Investment fund	Monthly	Reports provided by Council's external investment advisor for the externally invested portion of the fund.
	Annually	The internal borrowing, (forming the other portion of the investment fund), will be reported as part of the Annual Report.
New Zealand Local Government Funding Agency Limited	Monthly	Other financial instruments invested in the LGFA will be included in the investment report provided as part of the Chief Executive's monthly report to Council.
Investments in other companies and entities	Annually	Investment balances reported as part of the Annual Report. Performance of Council Controlled Entities that have not been exempted under section 7 of the Local Government Act 2002 will be reviewed bi-annually.
Community loans and advances	Annually	Investments reported as part of the Annual Report.
Property investments	Annually	Investments reported as part of the Annual Report.
Cash investments	Monthly	Cash investments (including reporting of compliance with approved treasury instruments and approved counterparties), will be included in the investment report provided as part of the Chief Executive's monthly report to Council.
Internal loans	Annually	Investments reported as part of the Annual Report.