

INVESTMENT POLICY

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1 INTRODUCTION

1.1 Sections 102(4)(c) and 105 of the Local Government Act 2002 (the Act) require local authorities to adopt an investment policy.

1.2 Legal requirements and cross references thereto (including the Act and the Trustee Act 1956) are:

Requirement	Reference
General policy	Entire policy
Shares	Section 8.1
Property held	Section 8.2
Mix of investments	Section 7.1
Revenue from investments	Section 5
Proceeds of sale of assets	Section 9
Procedures and reporting	Schedule 1
Risk assessment and management	Section 6

2 OBJECTIVES

2.1 The objectives of this investment policy are:

- To ensure Council has appropriate working capital funds available to carry out its strategic plans as outlined in the Annual Plan and Long Term Council Community Plan.
- To ensure that funds are immediately accessible in the event of a disaster or unexpected failure of infrastructure.
- To ensure that Council is able to meet its liability commitments as they fall due.
- To ensure that legally restricted funds are appropriately accounted for and invested so as to earn reasonable income towards their purposes. (Legally restricted funds include trust funds, and bonds/deposits etc.)
- To ensure that where Council has resolved to set aside investments for particular purposes these funds earn interest towards those purposes and are readily available when called upon. (It should be recognised that these funds are by policy of Council only and have no enduring legal status that would bind a future Council).
- To **firstly** protect Council/ratepayers capital and to **secondly** earn an acceptable income.
- To ensure that all statutory requirements are met.

3 INVESTING PRIORITIES

3.1 Council's priorities with regards to investing are:

- Disaster relief funds and contingency liquidity
- Capital expenditure that meets Council goals and strategic plan criteria
- Repayment of debt and internal loans (to reduce external risk exposures)
- Purchase of appropriate land and buildings with endowment funds
- Financial instruments, risk or near risk free, diversified in term and institution

4 SCOPE

4.1 This document is binding on Council, Committees of Council, Recreation Reserve Committees, Community Boards, Committees of Community Boards and any Trusts whose accounts are incorporated in the Council's Annual Report and Accounts. The term "Council" includes all the above bodies.

5 ACCEPTABLE USES OF INVESTMENT FUNDS

5.1 The following are the guidelines for permitted uses of Council's investment funds:

Income/interest:

- Reduction of rates (maintenance and operations)
- Capital expenditure and one off projects
- Add to capital to increase ability of fund to meet intentions

Capital:

- Capital expenditure
- One off projects
- Disaster relief
- Debt repayment

6 RISK PROFILE

6.1 This policy ranks investment opportunities as follows:

High risk

Equity shares (other than those currently held)

Real estate, commercial property and unit trusts (other than those properties held for Council operations)

Forestry
Managed investment funds

Community groups and other local investments

Low risk

Repayment of current Council debt including internal loans

Fixed interest investments

Cash on short and long term bank deposits

6.2 To reduce interest rate exposure, instruments set out in paragraph 3.2.1 of Council's Liability Management Policy may also be utilised as part of this Investment Policy.

7 POLICY RELATING TO RISK FREE INVESTMENTS

7.1 All cash funds for the time being "surplus" are to be invested in a mixture of risk free or near risk free investments. The terms or maturities for short term investments will be a mixture of at call to up to 182 days, so that if necessary, the Council can call upon the funds at relatively short notice, after taking into account projected cashflows.

Longer term investments are entered into where:

- The investments can be traded on an efficient market

7.2 Credit Risk Criteria

7.2.1 *Risk free and near risk free investments are:*

- New Zealand Government investments
- New Zealand registered banks
- Building Societies
- Local Authority stock
- State Owned Enterprises

- Regional Health Entities
- Corporates

7.2.2 Council will not consider investing with a body unless it meets an acceptable Standard and Poors (or equivalent) credit rating, where applicable.

Acceptable Standard and Poor ratings:

<u>Short term rating</u>	<u>Long term rating</u>	<u>Explanation of rating</u>
A1+	AAA, AA+, AA	Extremely strong to very strong
A-1	A+, A	Strong

7.3 Diversification

7.3.1 Maximum amount per institution as set out in the table below:

Short Term Investments (Approved Issuers, Instruments and Limits)

Issuer	Overall Portfolio Limit (invest % of to a portfolio maximum of)	Approved Instruments	Minimum S & P Short Term Credit Rating of Issuer	Limit for Each Issuer Subject to Overall Portfolio Limit for Issuer Class (Nominal Amount)
New Zealand Government	100%	Treasury Bills	Not Applicable	No Limit
New Zealand Registered Banks	100%	Call/Term Deposits, Negotiable Certificates of Deposits, Transferable Certificates of Deposit	'A-1'	\$4 million
Local Authorities	50%	Promissory Notes	Not Applicable	\$2 million
State Owned Enterprises	50%	Promissory Notes	'A-1'	\$2 million
Regional Health Entities	50%	Promissory Notes	'A-1'	\$2 million
Corporates	50%	Promissory Notes	'A-1'	\$2 million
Building Societies	50%	Call/Term Deposits	'A-1'	\$2 million

Long Term Investments (Approved Issuers, Instruments and Limits)

Issuer	Overall Portfolio Limit (invest % of to a portfolio maximum of)	Approved Instruments	Minimum S & P Long Term Credit Rating of Issuer	Limit for Each Issuer Subject to Overall Portfolio Limit for Issuer Class (Nominal Amount)
New Zealand Government	100%	Bonds	Not Applicable	No Limit

Local Authorities	50%	Medium Term Notes, Bonds	Not Applicable	\$1 million
State Owned Enterprises	50%	Medium Term Notes, Bonds	A	\$1 million
New Zealand Registered Banks	50%	Medium Term Notes, Bonds	A	\$1 million
Regional Health Entities	50%	Medium Term Notes, Bonds	A	\$1 million
Corporates	50%	Medium Term Notes, Bonds	A	\$1 million
Building Societies	50%	Medium Term Notes, Bonds	A	\$1 million

7.4 Interest Rate Risk and Term Profile

7.4.1 There is a trade off between availability of funds and interest rate risk. This policy accepts a greater degree of interest rate risk in order to have accessible funds.

7.5 Current Account Management

7.5.1 The current account credit balance should not exceed \$750,000 for more than two continuous working days.

It is permitted to go into overdraft for up to \$400,000 on a maximum of 10 days per year.

7.6 Average Return - Comparative Benchmark

7.6.1 The emphasis is on capital protection rather than maximising returns. Nevertheless returns should be maximised within the parameters of this policy.

The short term portfolio will be benchmarked against the published 90 day bill rate.

The long term portfolio will be benchmarked by duration measurement, and this will be required to be within 2.5 and 3.5 years.

8 POLICY ON OTHER FORMS OF INVESTING

8.1 Equity Investments

8.1.1 No further equity investments will be entered into except by specific resolution of Council. Shares currently held by the Council are inherited from the past and will continue to be held. Any equity sales must be by specific resolution of Council.

8.2 Real Estate, Commercial Property and Unit Trusts

8.2.1 There will be:

- No investment without specific resolution of the Council

- Investing will be limited to endowment funds for other than strategic purposes
- Existing properties will be held if that is considered to be the best option by Council
- Council may invest for strategic purposes ie purposes which enable Council to achieve community outcomes as outlined in its LTCCP

8.3 Forestry

8.3.1 Existing forestry investment will continue.

8.3.2 Additional investment in forestry is permitted:

- on existing Council land subject to approval by Council, providing there is reasonable evidence to suggest that it is the best and highest use of that land; or
- in conjunction with meeting other goals in which case it becomes a higher priority investment.

8.3.3 Expenditure incurred in developing and growing forestry will be treated as capital/investing expenditure for accounting purposes. Forestry will be valued annually at market value in the Council's Annual Report.

8.4 Repayment of Debt

8.4.1 Subject to Council resolution or a stated intention in the Annual Plan, it is permitted to use existing funds to repay debt providing suitable internal arrangements are put into place to prevent any change in rates distribution among particular groups of ratepayers.

8.5 Community Groups

8.5.1 If there is to be investment in a community group, then:

- Consideration will be given as to whether a guarantee would be more appropriate
- Funds will only be lent upon a resolution of the Council or Community Board
- No funds are to be lent until all conditions of approval are satisfied and it is unconditional

8.5.2 A community group is defined as a non profit locally based group.

8.5.3 Minimum securities and assurances are:

- going concern assurance from committee; and

- written agreement that assets financed will vest in Council or the community and will not be offered as security to any other party; and
- legal advice and formalised security to be obtained for sums over \$25,000 unless for buildings on Council land that would already vest in the Council pursuant to a clause in a lease document that has been prepared pursuant to legal advice; and
- provision of annual audited accounts or, if in inaugural year, projections/budgets.

8.6 Advances to Promote Other Objectives

8.6.1 Advances to promote other objectives will be made:

- only by specific resolution of Council; and
- must be equal to the securities and assurances above, or better, unless under \$5,000 and for essential works.

9 PROCEEDS FROM SALE OF ASSETS

9.1 Net proceeds from asset sales will be invested for the following purposes:

- capital expenditure; or
- contingencies; or
- one off operational items (e.g. grants if the Council is satisfied that the receiver of the grant is likely to be able to maintain the worth of the asset to the Community).

Schedule 1

Treasury responsibilities, compliance and controls

1.1 Council

- Approve annual borrowing programme contained in Annual Plan.
- Approve treasury policy.
- Review treasury activity through regular reporting.
- Approve forward exchange and other agreements not already permitted within the policy.

1.2 Chief Executive

- Amendments to rules for operation of bank accounts (in conjunction with His Worship the Mayor).
- Approve opening and closing of bank accounts and new banking facilities.

1.3 Corporate Services Manager

- Overall responsibility for the treasury function.
- Provide policy advice.

1.4 Accountant

- Investing activity, maximise returns within policy and legal requirements.
- Authority to electronically transfer funds between specified bank accounts that have been set up on the Council's bank cash management system.
- Current account management within policy.
- Record keeping of all transactions and quotes for audit and review as required.
- Reconciliation of all bank accounts and other investment and borrowing accounts.
- Borrowing activity, minimising costs in accordance with policy and legal requirements, by seeking competitive bids for borrowing, subject to management approval as above.
- Produce regular reports for Council on investments and compliance with policy.