

# Investment Policy



<b>Policy Section:</b>	Finance
<b>Department responsible:</b>	Corporate Services
<b>Next Review:</b>	January 2021
<b>Approved by:</b>	3 June 2020 by Council adoption (Doc ID: 444709)
<b>Effective Date:</b>	3 June 2020
<b>Version Number:</b>	2.0

## Table of Contents

1. Introduction .....	2
2. Objectives .....	3
3. Scope .....	3
4. Investing Priorities .....	4
5. Acceptable Uses of Investment Funds .....	4
6. Risk Profile .....	4
7. Policy Relating to Cash and Term Investments .....	5
8. Policy on other Forms of Investing .....	8
9. Proceeds from Sale of Assets .....	9
Schedule 1 .....	10

# 1. Introduction

1.1 Sections 102(2)(c) and 105 of the Local Government Act 2002 (the Act) require local authorities to adopt an investment policy. It discloses the Council's principles of prudent financial management and risk mitigation strategies and they relate to the management of external debt.

1.2 The purpose of the policy is to establish a framework and guidelines within which the Council manage its treasury risks. While the Council does not seek to speculatively profit from its treasury activities, it recognizes that active and prudent management of all its treasury risks, within defined management parameters, will assist the Council in achieving its overall commercial objectives.

1.3 It is recognized that the policy is an evolving document which can be amended and expanded to take account of changes in the Councils operational activities and operating structure. The policy must be regularly monitored for compliance and appropriateness and, where necessary, the document updated with any changes to be approved by the Council through its Annual Plan or Long-term Plan process. Notwithstanding this, a formal review of the policy must be completed every three years, or more frequently if required.

1.4 It is also recognised that the Council does not have a dedicated treasury function and the Executive manager – Corporate Services will effectively be responsible for treasury risk management as well as other duties. Hence it is essential that this policy reflects this structure and the other resources available to assist in this area.

1.5 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

1.6 This policy will be reviewed by Council every three years or on an 'as required' basis.

## 2. Objectives

2.1 The objectives of this treasury function should be consistent with the Council's overall commercial objectives, in particular recognising that the Council is a risk adverse organisation which does not seek to profit from any speculative treasury activity.

2.2 The primary objectives of this investment policy are:

- Minimise the cost of the Council's borrowings through monitoring and implementation of the most effective financing techniques giving consideration to balance sheet and other strategic limitations.
- To ensure Council has appropriate working capital funds available to carry out its Long-term Plan, Financial Strategy and core objectives.
- 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).
- Maintain dialogue and information flows to the Council's funding providers to enhance the commercial relationship between the parties.
- To **firstly** protect Council/ratepayers capital and to **secondly** earn an acceptable income.
- To ensure that all statutory requirements are met.
- Safeguard Council's financial market investments by establishing and regularly reviewing investment parameters and ensuring that all investment activities are carried out within these parameters.
- Produce accurate and timely information that can be relied on by senior management and Council for control and exposure monitoring purposes in relation to the investment activities of Council.
- Ensure compliance with the Council's financing and borrowing covenants and ratios specified in this document.
- Maintain adequate internal controls to minimise operational risk while recognising the limited number of personnel who participate in the Council's treasury function.
- Control cash in an effective and efficient manner.

## 3. Scope

3.1 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.

## 4. Investing Priorities

4.1 Council's priorities with regards to investing are:

- Disaster relief funds, working capital and contingency liquidity
- Capital expenditure that meets Council goals and strategic plan criteria
- Repayment of debt and internal loans (to reduce external risk exposures)
- Diversify investment portfolios where appropriate
- Financial instruments are diversified in term and institution

## 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
- Reinvestment as part of a diversified portfolio
- Disaster relief funds and contingency liquidity

### **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
- Repayment of current Council debt including internal loans
- Appropriately-rated fixed interest investments

- Cash on short and long term bank deposits should only be transacted with appropriately rated institutions.

6.2 To reduce interest rate exposure, instruments set out in paragraph 3.2 of Council's Liability Management Policy may also be utilised as part of this Investment Policy.

## **7. Policy Relating to Cash and Term Investments**

7.1 All cash funds for the time being "surplus" are to be invested in New Zealand Registered Banks with a short term rating of at least A-. The terms or maturities for short term investments will be a mixture of at call to up to 274 days, so that if necessary, the Council can call upon the funds at relatively short notice, after taking into account projected cashflows.

7.2 Longer term investments are entered into where:

- The investments can be traded on an efficient market

7.3 Approved Investment Categories

7.3.1 Appropriately rated investments are:

- New Zealand Government investments
- New Zealand registered banks
- Local Authority stock
- State Owned Enterprises
- Regional Health Entities
- Corporates

7.4 On a case by case basis and approved by Council

- Building Societies

7.4.1 Council will not consider investing with third party institutions unless they meet an acceptable Standard and Poor's (or equivalent) credit rating, where applicable.

## 7.5 Diversification

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

### Short Term and Long Term Investments (Approved Issuers, Instruments and Limits)

Authorised Asset Classes	Overall Portfolio Limit (as a % of the total portfolio)	Approved Financial Market (must be demonstrated in NZ dollars) Instruments	Credit Rating Criteria: Standard and Poor's or Moody's or Fitch equivalents)	Limit for Each Issuer Subject to Overall Portfolio Limit for Issuer Class
New Zealand Government	100%	<ul style="list-style-type: none"> <li>Treasury Bills</li> <li>Government Stock</li> </ul>	Not Applicable	Unlimited
Rated Local Authorities	70%	<ul style="list-style-type: none"> <li>Commercial Paper</li> <li>Bonds/MTNs/FRNs</li> </ul>	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA or better	3 million \$2 million \$3 million \$5 million
Unrated Local Authorities	50%	<ul style="list-style-type: none"> <li>Commercial Paper</li> <li>Bonds/MTNs/FRNs</li> </ul>	Not applicable	\$2 million \$2 million
New Zealand Registered Banks	100%	<ul style="list-style-type: none"> <li>Call/Term Deposits, Bank Bills/ Commercial Papers</li> <li>Bonds/MTNs/FRNs</li> </ul>	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of A+ or better	\$10 million \$3 million \$5 million
State Owned Enterprises	50%	<ul style="list-style-type: none"> <li>Commercial Paper</li> <li>Bonds/MTNs/FRNs</li> </ul>	Short term S&P rating of A1 or better Long term S&P rating of BBB+ or better Long term S&P rating of A+ or better	\$3 million \$1 million \$3 million
Corporates*	50%	<ul style="list-style-type: none"> <li>Commercial Paper</li> <li>Bonds/MTNs/FRNs</li> </ul>	Short term S&P rating of A1 or better	\$2 million

Authorised Asset Classes	Overall Portfolio Limit (as a % of the total portfolio)	Approved Financial Market (must be demonstrated in NZ dollars) Instruments	Credit Rating Criteria: Standard and Poor's or Moody's or Fitch equivalents)	Limit for Each Issuer Subject to Overall Portfolio Limit for Issuer Class
			Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA or better	\$1 million \$2 million \$3 million
Financials*	30%	•	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA or better	\$2 million \$1 million \$2 million \$3 million

\* The combines holding of Corporates and Financials shall not exceed 70% of the portfolio.

## 7.6 Interest Rate Risk and Term Profile

7.6.1 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.

## 7.7 Current Account Management

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

7.7.2 It is permitted to go into overdraft for up to \$500,000 on a maximum of 10 days per year.

## 7.8 Average Return - Comparative Benchmark

7.8.1 The short term portfolio shall be benchmarked against the published 90 day bank bill rate.

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

7.8.3 The short term portfolio will be benchmarked against the ANZ 90 day bill index on a quarterly basis.

7.8.4 The long term portfolio will be benchmarked against the ANZ Corporate A Grade Index on a quarterly basis measurement, and this will be required to be within 2.5 and 3.5 years.

Compliance with the benchmarking and duration requirements is not necessary if the nominal value of the portfolio is less than \$10 million.

## 8. Policy on other Forms of Investing

### 8.1 Equity Investments

- 8.1.1 Equity investments may be entered into by specific resolution of Council. Any equity sales must be by specific resolution of Council unless the shares are externally managed through a managed equity fund.

### 8.2 Real Estate, Commercial Property and Unit Trusts

8.2.1 There will be:

- Investment allowed by way of specific resolution of the Council
- Investment in property not directly contributing to community outcomes/ activities where the investment is supported by a positive business case and provides income in addition to rating income.

### 8.3 Forestry

- 8.3.1 Existing forestry investment will continue having regard to existing Contractual Arrangements, commercial return, best forms of land use, environmental and community outcomes.

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 fair value less estimated costs to sell 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
- 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 will be made:

- Only by specific resolution of Council; and
- Council require first mortgage over the property / assets.

8.7 Market interest rates will be charged or where economic benefit to the District/ community is considered greater sole discretion is given to Council.

8.8 New Zealand Local Government Funding Authority (LGFA)

8.8.1 Despite anything earlier in this policy, Council may invest in shares and other financial instruments in the LGFA, and may borrow to fund that investment. The Council's objective in making such an investment will be to -

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

8.8.2 Because of the dual objective, the Council may invest in LGFA shares in circumstances in which the return on investment is potentially lower than the return it could achieve with alternate investments.

8.8.3 If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

## **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).
- Reduce external debt.
- Reinvestment for future gains.

# Schedule 1

## Organisational Responsibilities and Internal Controls

### 1. Council

- Approve annual borrowing programme contained in Annual Plan.
- Approves any risk management strategy outside the delegated authorities outlines in this policy document.
- Approve Investment policy.
- Review treasury activity through regular reporting.
- Approves new borrowing facilities from the banking sector and capital markets, including the Local Government Funding Agency (LGFA), upon recommendation from the Chief Executive (CE).

### 2. Chief Executive

- Submits to the Council new or amended borrowing facilities which have been negotiated by the EM-CS.
- Approves all debt related interest management strategies submitted by the Executive Manager – Corporate Services (EM-CS).
- Approves any amendments to the Investment Policy recommended by EM-CS, prior to submission to Council for approval.
- In the absence of the EM-CS undertakes the following treasury transactions or delegates to the Finance Manager where permissible under his/her permissions –
  - Funding from bank facilities and the capital markets including the LGFA.
  - Interest rate derivatives transactions relating to the hedging of Council's debt.

### 3. Executive Manager - Corporate Services

- Overall responsibility for the treasury function and the regular review of the Investment Policy.
- Approve opening and closing of bank accounts and new banking facilities.
- Arranges all new or amended borrowing facilities to then submit to the CE for approval and then to Council for final approval.
- Submits all debt related interest management strategies to the CE for approval.
- Provide policy advice as needed and reports to the CE and Council on overall treasury risk management issues on a regular basis.
- Manages the funding and liquidity activities of the Council.
- Maintains lender relationships with the banks and capital markets, including the LGFA.
- Monitors and reviews the ongoing treasury risk management performance of Council to ensure compliance with the policy parameters.

### 4. Finance Manager

- Undertakes all treasury activities which include but not limited to –
  - Investing activity, maximise returns within policy and legal requirements.
  - Interest rate derivatives relating to the hedging of the Councils debt
  - Undertaking short term borrowing transactions with the bank of LGFA for terms not exceeding 12 months
  - Investing in bonds in the fixed interest market.

- 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.
- Prepare quarterly treasury reports.
- Checks external counterparty advices on treasury transactions to records generated internally by other staff.