Investment Policy

General Policy

Council's broad objectives in relation to investing are as follows:

- Compliance with the Local Government Act and other relevant legislation
- Development and maintenance of professional relationships with the financial markets
- Investment of surplus cash in liquid and credit worthy investments
- Ownership of property investments for strategic and business needs
- Management of the overall cash position of Council's operations

When engaged in the investing activity, Council may:

- Use external advice, where there is a particular risk or where it is prudent to the management of a particular investment
- Consider the value of its investments against the size of its debt burden

Council is a risk averse entity. The "Prudent Person" rule from the Trustees Act applies to all investing activity engaged in by Council.[1] Activity which may be construed as speculative in nature is expressly forbidden.

Council maintains investments in the following assets:

- **Equity investments** including shareholdings and loan advances to natural persons, trading and service enterprises, charitable trusts and incorporated societies (e.g. sporting and Community organisations)
- **Property investments**, including land and buildings purchased as an investment and excluding property assets owned in the course of delivering a service or those that Council has already on the market for sale
- **Treasury investments** including liquidity and longer-term investments

[1] The "Prudent Person" rule means that Council must "use such diligence and care in the management of" investments "as men of ordinary prudence and vigilance would use in the management of their own affairs".
[2] Council shall be taken to mean full Council or any of its Committees or Sub-Committees acting under delegation.

Mix of Investments

The mix of investments will not be determined, or influenced by the funding needs of any particular function, but must have regard to the overall funding needs of Council. Investment mix is also influenced by risk management considerations. Council may set up, alter or dissolve a fund for a particular purpose by ordinary resolution.

Treasury investments must be invested with a number of financial institutions.

Acquisition of New Investments

Equity and property investments may be acquired by resolution of Council and funded from Council's general funds, or whatever other source Council has available to it.[2] Monies from Funds Set Aside for Particular Purposes will not be used to fund equity or property investments that are inconsistent with the particular purposes of those funds.

When acquiring equity and property investments, Council seeks to:

- Improve business effectiveness and efficiency
- Improve its strategic position to face a perceived future need
- Further a social goal by providing loan assistance

Treasury investments may be acquired under delegated authority to the Chief Executive Officer. [3]

When acquiring treasury investments, Council seeks to:

- Optimise investment return
- Ensure investments are secure
- Ensure investments are liquid
- Manage potential losses due to interest rate movements if investments need to be liquidated before maturity

[3] Chief Executive Officer – wherever this term is used it shall be taken to mean the Chief Executive Officer and whichever staff to whom the Chief Executive Officer may delegate.

Investment Policy (cont'd)

Disposition of Revenue from Investments

All dividend, interest, rentals and other income from Council's investments will be available for Council's general use except in the following cases:

- Where Council has resolved that interest earned on the funds invested in an account shall be reinvested in that account

Disposition of Proceeds of Sale of Investments

Equity and property investments may be disposed of by resolution of Council and the proceeds will be available for Council's general use, unless it resolves otherwise.

Treasury investments may mature or be sold under delegated authority by the Chief Executive Officer and the proceeds will either be used to fund a purpose authorised by Council (e.g. as outlined in Council's Long Term Plan or Annual Plan) or be reinvested. Funds from Council's Depreciation Funds account may only be spent on renewing assets or repaying debt.

Procedures

Equity and property investments will be reviewed by Council before the end of December in each year.

Treasury investments will be managed under delegated authority by the Chief Executive Officer.

Whenever acquiring a new treasury investment, excluding maturities that rollover and transfers between accounts at Council's bank, the acquisition proposal must be certified that the acquisition complies with this policy and takes sufficient account of predicted interest rate movements and demands for cash. This procedure could include:

- Using an investment model that assesses the risk of the investment in relation to its return
- Obtaining external advice

The certified proposal must then be reviewed by the Chief Executive Officer, or the Manager, Finance and Corporate Services.

Overdraft facilities are used as little as is practical.

All investing activity must be approved by the Chief Executive Officer, or Manager, Finance and Corporate Services pursuant to this policy.

Council will receive a schedule of treasury investments regularly throughout the year.

Investment Risk Assessment and Management

Equity investments are subject to the risk of default. Risks are taken into account when these investments are reviewed. Property investments are subject to the risk of vacancy and devaluation. Risks are taken into account when these investments are reviewed.

Treasury investments are subject to the following risks:

- Credit risk – Council's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counter parties, eg banks, financial institutions or other organisations that Council invests in, are acceptable (list below). Council may approve alteration to the list of credit worthy counter parties by ordinary resolution
- Where total treasury investments exceed $250,000, no more than 50% of the total investments can be placed with any one institution (other than Council's banker) at the time of making the investment. Also investments with any one institution shall not exceed $1.5 million.
- These investment limits can be exceeded with the approval of the CEO, however, each time the limits are exceeded it must be reported to Council's Regulatory and Services Committee as well the Audit and Risk Committee.
- Liquidity risk is minimised by ensuring that all investments, must be capable of being liquidated on demand
- Interest rate risk is managed by the treasury investments review process above
- Council does not adopt the use of hedging instruments for interest rate risk management on its investments. Maturity dates of treasury investments will be staggered to mitigate the effect of one-off market fluctuations

Creditworthy Counter Parties

Council may make treasury investments with the following banks, financial institutions, which are deemed to be sufficiently creditworthy:

- Bank of New Zealand (Council's Banker)
- ANZ Banking Group (New Zealand) Limited
- ASB Bank Limited
- Kiwibank
- Rabobank
- Taranaki Savings Bank
- Westpac Trust
- Local Body Stock
- NZ Government Stock

Liability Management Policy

General Policy

Council's broad objectives in relation to liability management are as follows:

- Compliance with the Local Government Act 2002 and other relevant legislation.
- Develop and maintain professional relationships with the financial markets.
- Raise appropriate finance, in terms of both loan maturity and interest rate.
- Manage the overall cash position of Council's operations.

When engaged in the borrowing activity, Council may:

- Use external advice, where there is a particular risk, or where it is prudent for the management of a particular borrowing.
- Consider the value of its investments against the size of its debt burden.

Council may borrow to finance:

- Specific projects
- The purchase or construction of assets
- Finance leases or hire purchases of assets[1]
- General operating expenses
- Any combination of the above

Council is a risk averse entity. Council intends to borrow prudently and maintain debt at a prudent level. Activity which may be construed as speculative in nature is expressly forbidden.
Borrowing limits are listed in Council's Financial Strategy

Interest Rate Exposure

Council's borrowing gives rise to direct exposure to interest rate movements. Given the long term nature of Council's assets, projects and intergenerational factors, Council's general tendency is to have a high percentage of fixed rate[2] borrowing. Council aims for no less than 60% of its borrowings outstanding at any given time to be at a fixed rate.

Interest rate risk is managed by adjusting the maturity of borrowings in line with interest rate predictions.

All matters that can be lawfully delegated concerning borrowings are delegated to the Chief Executive Officer and must be reported back to Council as they occur.

The use of hedging instruments for interest rate risk management on Council's borrowing is not possible, as these instruments are priced for larger denominations than Council is likely to borrow. Should hedging instruments be required, an ordinary resolution approving use of these instruments will be adopted by Council.

Liquidity

To ensure funds are available for operational needs and the repayment of debt, maturities of investments and borrowings are matched through cash-flow forecasts and investments are maintained in liquid assets. Council aims for a liquidity ratio of not less than 1.5:1 at each month end[3].

Credit Exposure

Council's ability to readily attract cost effective borrowing is largely driven by its:

- Ability to maintain a strong balance sheet
- Ability to rate
- Image in the market
- Successful communications with bankers

Council may borrow from itself, Local Government Funding Agency, any registered bank, local authority or anyone else, by the issue of registered local authority stock or in any other manner that it considers appropriate.

Debt Repayment

Council repays borrowings from its general funds.

Council must consider and record how it intends to effect repayment at the time of borrowing.

The term of repayment of any borrowing will be determined after considering:

- The intergenerational benefit of the assets being financed.
- The cost of finance.

The maximum period over which borrowings are repaid is: 50 years or the expected life of the asset financed.

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[1] This policy only applies to finance leases or hire purchase where the amount borrowed in any instance exceeds $50,000.

[2] Fixed rate borrowing is generally taken to mean that borrowing where the interest rate does not vary more often than yearly. The interest rate on floating rate borrowing may alter every 90 days.

[3] This ratio measures Council's ability to generate cash from assets in order to meet its obligations. The liquidity or acid test ratio consists of the sum of cash, marketable securities, short-term notes and receivables divided by current liabilities (excluding the current portion of term debt).