

33.2 INVESTMENT POLICY

Source: LTCCP 2004/2005, adopted 30/6/04

BACKGROUND

Section 102(4)(c) of the Local Government Act 2002 states that a local authority must adopt an investment policy. The investment policy must state the local authority's policies in respect of investments including:

- The objectives in terms of which financial and equity investments are to be managed; and
- The mix of investments; and
- The acquisition of new investments; and
- An outline of the procedures by which investments are managed and report on to the local authority; and
- An outline of how risks associated with investments are assessed and managed.

POLICY

Council's philosophy in the management of investments is to optimise investment value and returns in the long term while balancing risk and return considerations. Council recognises its fiduciary responsibility as a public authority and any investments that it does hold should be at an appropriate level of risk, giving preference to conservative investment policies and avoiding speculative investments. It also recognises that lower risk generally means lower returns.

INVESTMENT MIX

Council may maintain investments in the following assets:

- equity investments
- loan advances
- property investments
- forestry investments
- financial investments

Any new investments will be assessed in terms of the strategic objectives of Council.

1 Equity Investments

Equity investments include shareholdings in WestReef Limited and New Zealand Local Government Insurance Corporation Limited.

All income from Council's equity investments, including dividends are included in general revenue. Proceeds from the disposition of equity investments are applied to general revenues.

The Chief Executive Officer, together with the Manager Corporate Services, reviews performance of these investments on a regular basis.

2 Loan Advances

Council makes loan advances to community organisation and economic development initiatives, where these are consistent with Council strategic objectives.

Security is obtained for the loans as required. Council ensures that interest and principal repayments are made in accordance with the loan agreement. Where an organisation defaults on repayments, Council will take appropriate steps to recover the debt.

3 Property Investments

Council's primary objective is to own property that is necessary to achieve its strategic objectives. As a general rule, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output of Council. Council review property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows a similar assessment criteria in relation to new property investments.

4 Forestry

Council may from time to time invest in forestry where deemed appropriate.

5 Financial Investments

The Council approves overall investment strategy as recommended by the Manager Corporate Services who incorporates plans for approved expenditure and strategic initiatives, evaluates the outlook for interest rates, and where appropriate seeks advice.

In its financial investment activity, Council's primary objective when investing is the protection of the investment's capital value and to minimise the risk of capital loss. Accordingly, only credit worthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poors (S&P) rating which must be strong or better (see Investment Framework below). Credit ratings are monitored on an annual basis by the Manager Corporate Services.

Within the credit constraints contained above, Council seeks to:

- Optimise investment value and income

- Ensure investments are liquid and sufficiently flexible
- Diversify the mix of financial investments
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity

The following principles capture the above objectives and form the key assumptions of the operating parameters contained in the Investment Framework (see below):

- *Credit risk is minimised by placing maximum portfolio limits for each broad class of non-Government issuer, and specific limits for each counterparty.*
- *Only approved instruments are invested in.*
- *Liquidity risk is minimised by ensuring that all investments are capable of being liquidated in a readily available secondary market.*

Investment Framework

Issuers	Instruments	Limits (Percentage of Total Investment Portfolio)
Risk-Free Government guaranteed	Treasury bills Government stock	100%
Low Risk Major banks registered with the Central Bank with: • a short term credit rating of at least A- 1 (S&P), or better and • a long term	Money market call deposits Money market term deposits Negotiable certificates of deposits Transferable certificates of deposits Bank bills Bonds	Up to 100% of total portfolio but no more than \$7 million with any one registered bank

<p>credit rating of at least A (S&P), or better.</p> <p>Other issuers with:</p> <ul style="list-style-type: none"> • a short term credit rating of at least A-1 (S&P), or better or/and • a long term credit rating of at least A (S&P), or better. 	<p>Commercial Paper Promissory Notes Corporate Bonds</p>	<p>Up to 40% of total portfolio but no more than \$5 million with any one issuer.</p>
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Approved Treasury Risk Management Counterparties

Counterparties	Limits (Notional Principal Amounts)
<p>Major banks registered with the Central Bank, with a:</p> <ul style="list-style-type: none"> • short term credit rating of at least A-1 (S&P) or better and • a long term credit rating of at least A (S&P), or better. 	<p>Up to \$100m for interest rate products and \$50m for foreign exchange products with any one issuer.</p>

Council has the following financial investments:

- West Coast Package and Harbour Funds
- Other financial investments

5.1 West Coast Package and Harbour Funds

Council hold the proceeds from Government compensation of \$7 million for loss of rates on Department of Conservation land together with \$6 million accumulated in a separate fund for the long term benefit of the district's ratepayers. The objectives and policies pertaining to this fund are detailed below.

Investment Strategy

- *That Council invest \$13 million only in bank deposits with registered New Zealand banks.*
- *That any borrowing not exceeding \$5 million required for capital projects may be borrowed from these investments.*
- *That any funds loaned for economic development to be borrowed from other investments Council hold with a limit of \$1 million being the total amount on loan at any one time.*

Investment Objectives

- *Maintain the real value of the capital of the capital investments with regard to inflation.*
- *Maintain the stability of income available to supplement Council's rate income on an annual basis.*

Investment Policies

- *Council's responsibilities under common law and statute must be met.*
- *The assets of the Fund may not be reduced by withdrawals to a level below that of the capital base of the Fund at any time.*
- *An investment fluctuation reserve will be established to maintain stability of income available for withdrawals.*
- *The investment risk of the portfolio will be controlled to an appropriate level by spreading the fund over several registered New Zealand banks.*
- *The investment risk of the portfolio will be minimised for the expected level of return.*
- *Liquidity will be considered and maintained at an appropriate level.*

- *The investment structure must be able to accommodate changes in the Council's requirements and the investment environment.*
- *All aspects of the investment process will be reviewed regularly, including, but not limited to:*
 - *Monthly reporting of investment results;*
 - *Three yearly review of investment policies, objectives and strategies.*
- *The Council may withdraw an amount not exceeding \$5 million net of repayments from the investment fund for purposes of long term financing. Such withdrawals are to be considered as loans from the investment fund, and are to be repaid according to a schedule of payments that include both capital and interest. The interest rate charged on such loans will be set based on the interest rates being earned on Council's bank deposit investments. Such loans will be accounted for as assets of the investment fund.*

The \$3.25m invested in Managed Fund Equities is to be withdrawn from the management of Frank Russell once the value increases to \$3.25m

5.2 Other Financial Investments

Council maintains other financial investments for the primary reasons:

- Invest proceeds from the sale of assets.
- Invest amounts allocated to special funds, restricted and statutory reserves and general reserves.
- Invest funds allocated for approved future expenditure, to implement strategic initiatives or to support intergenerational allocations.
- Provide ready cash in the event of a natural disaster. This cash is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.

Interest Rate Risk Management

Council's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments.

Council approves interest rate risk management strategy as recommended by the Chief Executive and Corporate and Community Services Manager who monitor interest rate markets on a regular basis and after taking appropriate advice, evaluate the outlook and determine the interest rate profile to adopt for investments.

Management implements interest rate risk management strategy by:

- Changing interest rate profiles by adjusting the average maturity of its investments to match the borrowing maturity profile. Investments held to maintain liquidity and for specific purposes are excluded and/or;

- Using risk management instruments to protect investment returns and/or to change interest rate and maturity profile.

The following interest rate risk management instruments may be used for interest rate risk management activity, after formal prior approval of the Chief Executive or Manager Corporate Services.

- Forward rate agreements
- Interest rate swaps
- Purchase of interest rate options products including floors
- Interest rate collar type strategies

Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.

Buying and selling of financial futures is not permitted primarily due to the administrative burden.

Sinking Funds

Under the provisions of the Local Government Act 2002, Council is no longer required to hold sinking funds specific to new loans raised. However, Council has considered it prudent to continue setting aside annual sums for the future repayment of loans along similar lines to the manner in which sinking funds operated.

The Corporate and Community Services Manager will manage the process and invest these funds in a manner consistent with Council's General Investment Policy. The historical sinking funds held with external managers will be withdrawn and applied wherever loans are redeemed. In the meantime a statement of sinking funds is prepared annually by the Sinking Funds Commissioners and reported to Council.