



# Investment Policy

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## **1. Introduction**

- 1.1. Council recognises its responsibility to manage its investments on behalf of the community. In accepting this responsibility, Council has taken a risk adverse approach to its investment activities. Council will not undertake transactions where the level of return or benefit depends on a high level of risk. As a result it is recognised that the lower level of risk generally means a lower level of return.

## **2. Investment Objectives**

- 2.1. This policy's objectives ensures the prudent management of Council's funds:
- to maintain the capital base of Council's investment portfolio
  - adequate funds are available when needed
  - optimise investment income while maintaining an appropriate level of risk.

## **3. Investment Mix**

- 3.1. Council has a number of diverse investments, which in some cases exist as a result of the passage of time and history rather than an explicit decision to be involved. Fundamental to this investment policy, Council will periodically review all investments to ensure that they fit with Council achieving its strategic objectives.

- 3.2. The following is the mix of investments available to Council.

### **3.3. *Equity***

- 3.3.1. Council currently holds shares in Heartland Contractors Limited, Civic Financial Services Limited, Manawatu-Wanganui LASS Limited, Central Economic Development Agency Limited and the Local Government Funding Agency Limited. If required in connection with the investment, the Council may also subscribe for uncalled capital.
- 3.3.2. Shares are held for strategic purposes that facilitate other activities within Council. Shares are not purchased solely for investment purposes.
- 3.3.3. The performance of these investments is reviewed regularly to ensure strategic and economic objectives are being met.

### **3.4. *Treasury Investments***

- 3.4.1. Treasury investments include government stock, local government stock, bank bonds, borrower notes and bank deposits.
- 3.4.2. The purpose of these investments is to:

- ensure Council's specific reserves (separate and special funds) are backed up by realisable cash assets except where Council approves otherwise
- manage Council's cash position in a manner that maximises interest returns and minimises operational cash deficits and the associated costs incurred
- invest surplus funds to maximise interest returns
- provide ready cash in the event of a natural disaster
- facilitate borrowing at lower interest rates

### **3.5. *Investment Properties***

3.5.1. Council has resolved that properties will only be acquired and held to assist in achieving the strategic objectives of Council. Accordingly, Council does not involve itself in acquiring properties purely for investment purposes.

### **3.6. *Community Loans and Advances***

3.6.1. Council has a moderate level of short and long-term loans to community organisations. While a return is received from a number of these investments, the main purpose for investing are the community benefits.

### **3.7. *Internal Loans***

3.7.1. Council is able to invest surplus funds and special funds in Council capital projects by way of internal loans, where it is financially advantageous to do so. Any internal loans must comply with the provisions in the Liability Management Policy as well as ensuring adequate liquid funds are held to cover Council's operational obligations.

### **3.8. *Loans and Advances to Individual Ratepayers***

3.8.1. Council is able to loan or advance funds to individual ratepayers only when there is an identified community benefit. An example would be where it is beneficial to encourage more properties to connect to a reticulated water or wastewater system. For this type of investment a market rate of return is required. A credit and risk assessment of individual borrowers is required.

## **4. Management of Risks**

4.1. Council's main objective with all its investments is to preserve its capital base. Within that underlying principle, Council will endeavour to maximise investment returns after giving due consideration to the following:

### **4.2. *Credit Risk and Security***

4.2.1. Council maintains a policy of limiting treasury investments to approved organisations as per Appendix 1.

4.2.2. To assist in limiting our risk exposure, the maximum value of treasury investments which can be held with one particular organisation is outlined in Appendix 1

- 4.2.3. Prior to approving the acquisition of non treasury investments, Council will assess the risks involved taking into account the organisation’s contribution to Council strategies, the interest rate charged, organisational financial stability and the ratio of the investment in individual organisations as a percentage of Council’s overall investment portfolio.
- 4.2.4. Any form of speculative activity is expressly forbidden.

**4.3. Liquidity Risk**

- 4.3.1. Adequate short-term or liquid treasury investments must be maintained to ensure operational obligations are able to be met as due.
- 4.3.2. Council is able to invest surplus funds or reserve funds in fixed term bonds when there is no short-term requirement for these funds.

**4.4. Interest Rate Risk Management**

- 4.4.1. Council has historically held investments to maturity. Inherent in this is the fact that opportunities to increase returns may be missed due to not having funds available at the right time. Without wishing to enter into any form of speculative investments, Council will investigate the use of interest rate management instruments where the use will enhance the returns on the investments. Council will only utilise such instruments after due consideration and consultation with Council’s external financial advisors. Council is able to invest surplus funds and special funds in Council capital projects by way of internal loans, where it is financially advantageous to do so. Any internal loans must comply with the provisions in the Liability Management Policy as well as ensuring adequate liquid funds are held to cover Council’s operational obligations.

**5. Acquisition and Disposal of Investments**

	Acquisitions/Disposal
Treasury Investments	To be managed on a day to day basis by the Chief Financial Officer within approved limitations
Equity Investments	The investment and disposal of equity investments are to be approved by Council.
Loans and Advances	Loans/advances and any changes to agreed terms are to be approved by Council. Loans/Advances are to be paid in accordance with the approved terms.
Internal Loans	To be managed on a day to day basis by the Chief Financial Officer within the parameters of this policy, the Liability Management Policy and Council loan approvals.

## 6. Allocation of Income

- 6.1. All incomes earned from the investment of special or trust funds are to be credited to those funds.

## 7. Management and Reporting

- 7.1. Investments will be managed by the Chief Financial Officer under delegated authority. Investments will be included in the quarterly report to Council following review and approval by the Executive Team.

## 8. Appendix 1

### 8.1. Authorised Investment Criteria

Authorised Asset Class	Overall portfolio Limit as per % of total portfolio	Approved financial market investment instruments (must be in NZ dollars)	Credit rating criteria – Standards and Poor’s (or Moodys or Fitch equivalent)	Limit for each issuer
NZ Government Bonds	100%	Government Stock / Treasury Bills	Not Applicable	Unlimited
NZ Registered Banks	100%	Call/Deposits/Bank Bills/Commercial Paper Bonds/MTNs/FRNs	Short Term S&P Rating of A1+ Short Term S&P Rating of A1+ Long term rating of A+ or better	Max \$20M Max \$10M Max \$10M
Rated Local Authorities (RLA)	50%	Commercial Paper/Bonds/MTNs/FRNs	Min short term S&P rating of A1 or Min long term S&P rating of A+	Max \$10M
State Owned Enterprises (SOE)	50%	Commercial Paper/Bonds/MTNs/FRNs	Short Term S&P rating of A1+ or long term rating of A+ or better  Short term S&P rating of A1 or longer term rating of BBB- top A	Max \$10M  Max \$5M
Corporates	50%	Commercial Paper/Bonds/MTNs/FRNs	Short Term S&P rating of A1+ or long term rating of A+ or better  Short term S&P rating of A1 or longer term rating of BBB- top A	Max \$7M  Max \$3M
Financials	50%	Commercial Paper/Bonds/MTNs/FRNs	Short Term S&P rating of A1+ or long term rating of A+ or better Short term S&P rating of A1 or longer term rating of BBB- top A	Max \$5M  Max \$2M