Investment Policy

Council's general policy on investments under Sections 102 and 105 of the Local Government Act 2002 (LGA) is set out below.

Council's detailed operational policy on investments is included in its Treasury Management Policy and Procedure Manual which includes Council's objectives, policies, strategies, monitoring and reporting procedures.

This policy will be reviewed and updated at least every three years as part of the update of Council's Long Term Plan (LTP).

1. Objectives

The objective of this Investment policy is to ensure that Council's portfolio of investments is managed in a prudent and competent manner in accordance with the LGA.

Council will manage its investment portfolios to optimise investment value and returns in the medium to long term while balancing risk and return considerations.

In managing and selecting investments Council will aim to:

- protect the investment capital value and minimise the risk of loss,
- optimise the investment value and return,
- ensure investments provide Council with funds when required, including sustainable income flows from commercial investments,
- spread the risk by diversifying the mix of investments,
- promote economic and business development within the district.

Council may make strategic, commercial and semi-commercial investments.

Commercial investments are those made primarily for capital gain or maximum investment yield. The performance of these investments will be assessed on a purely financial basis.

Strategic and semi-commercial investments are those made to promote economic and business development within the district and/or achieve other goals set out in the Council's Long Term Plan or Annual Plan. Strategic investments and semi-commercial investments may not provide a commercial return.

The current objectives and Targeted Rates of Return for all investments are set out in the Treasury Management Policy and Procedure Manual.

2. Investment mix

Council may maintain investments in:

- equity investments
- property investments
- forestry investments
- infrastructural asset investments
- financial investments
- loan advances
- the New Zealand Local Government Funding Agency.

3. Acquisition or disposal of investments

Any non day-to-day acquisition or disposal of investments require Council approval.

At the time of disposal, Council determines the most appropriate use of the sale proceeds.

Council may consult with the public on an acquisition or disposal, depending on the significance of the proposal or the intended use of the funds from that disposal.

Commercial and Semi-Commercial Investments

Council will only make new investments and/or retain existing investments if all the following criteria are met.

- The investment has clear long-term benefits for the community or the district.
- The risks associated with the investment can be managed within acceptable levels.
- The investment will provide Council with funds when required, including where appropriate, sustainable income flows.
- Making or retaining the investment would not result in a material breach of the borrowing limits set out in the Liability Management Policy.
- Council's overall investment risk is spread by ensuring that the overall value of any single investment does not exceed either the percentage of Council's total consolidated assets or the percentage of total investments, as detailed in the Treasury Management Policy and Procedure Manual.

4. Management and reporting of investments

Council may delegate the power to approve individual transactions provided they are within the investment strategy as detailed in the Treasury Management Policy and Procedure Manual.

As each investment (or category of investments) will have its own unique characteristics, a specific management and return policy for each investment will be included in the Treasury Management Policy and Procedure Manual.

In determining investment holding structures, Council will consider the following criteria:

- Appropriate separation of management and governance.
- Imposing commercial discipline on the investment activity to produce an appropriate return by ensuring appropriate debt/equity funding and requiring a commercial rate of return.
- Separation of Council's investment assets from Council's public good assets.

Periodically Council will review its investment holding structure to determine if it is still an appropriate vehicle for holding Council's investments.

The Performance, Audit and Risk Committee reviews performance of all investments on a regular basis to ensure strategic and economic objectives are being achieved.

5. Investment risk management

Council's investments give rise to a direct exposure to credit risk, interest rate risk, liquidity risk, and market risk which can impact on the capital value of its investments.

Credit risk is managed by placing maximum limits for each class of investment by issuer, performing credit evaluations as appropriate and investing funds with approved institutions that have satisfactory credit ratings.

Interest rate risk is managed by matching investment and borrowing maturities, and the use of interest rate instruments for interest rate risk management purposes. Liquidity risk is managed by ensuring that all investments are capable of being liquidated in a readily available secondary market or that appropriate standby facilities have been established.

Market risk arises from the potential change in the value of an investment which results primarily from changes in market interest rates. Council manages market risk as part of its overall interest rate risk management process.

The Chief Finance and Information Officer approves the risk management strategy. The Performance, Audit and Risk Committee reviews this strategy on a regular basis.

All investments will be made strictly in accordance with the policies and procedures set out in Council's Treasury Management Policy and Procedure Manual.

Commercial investments are subject to a broad range of active commercial reviews including regular hold/sell reviews, portfolio analysis and comprehensive monitoring.

Strategic and semi-commercial investments are subject to a narrower range of active commercial reviews given their infrastructural relationships. This includes business monitoring and long-term planning appropriate to the scale and complexity of each business.

Treasury investments are made from short-term surplus funds available to Council from time to time and typically made in the form of financial instruments. To minimise operational risks, these investments will be made strictly in accordance with the policies and procedures set out in Council's Treasury Management Policy and Procedure Manual.

6. Investment income

Income from investments will be utilised as determined from time to time by Council and incorporated in the Treasury Management Policy and Procedure Manual.

In general, income will be utilised to support ongoing Council operations.

7. New Zealand Local Government Funding

Agency Limited investment

Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

Council's objective in making any such investment will be to:

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

Because of these dual objectives, Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.