

Part Four – Funding and Financial Policies

INVESTMENT POLICY

This policy is provided in accordance with Section 105 Of the Local Government Act 2002.

4.1 General Policy

Council's philosophy in the management of investments is to optimise returns in the long term while balancing risk and return considerations. Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

In its treasury investment activity, Council's primary objective when investing is the protection of its investment. Accordingly, only creditworthy counterparties are acceptable.

When there are excess balances in Special Funds Council may authorise an internal advance to particular Council capital projects in the form of bridging finance.

Investment Mix

Council maintains investments in the following financial assets:

- Equity investments and loan advances. (Section 4.2)
- Property investments. (Section 4.3)
- Treasury investments. (Section 4.4)

4.2 Equity Investments and Loan Advances

Council policy is that Council does not see itself as an active investor in equities but will continue to hold, acquire, and sell equity investments where there are economic opportunities and social benefits for the District of Wairoa.

Council will consider investing in equity investments only where it is demonstrated that there is an economic benefit for the district of Wairoa and the investment has limited risk exposure from capital loss.

Major investments include 100% shareholding in the Council controlled Organisation (CCO) Quality Roading and Services (Wairoa) Ltd, Civic Assurance Ltd (previously known as NZ Local Government Insurance Corporation Ltd) and minor investment in community organisations that are consistent with Council's strategic plan.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved, and reports the results to Council. Council ensures that interest and principal repayments are being made in accordance with loan agreements.

All dividend and interest income from Council's equity investments and loan advances is included in the consolidated rating account or special activity account.

Any disposition of these investments requires Council approval.

4.2.1 Quality Roading Services (Wairoa) Ltd

Council owns 100% of the shares of Quality Roading Services (Wairoa) Ltd., (QRS) which was set up as a Local Authority Trading Enterprise, and is now classified as a Council controlled organisation (CCO). The company is a contractor providing construction, forestry, quarrying, reserves and utility services mainly in the Wairoa District.

The strategic objectives in owning QRS are to reduce costs and provide greater competition in tendering for construction, roading and maintenance work, to provide revenue by way of dividends to offset overheads, and to maintain employment levels and expertise in contracting within Wairoa.

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Dividends of 50% of the after-tax paid profit are paid to Wairoa District Council, with payments made after reporting of the six-month and annual result.

In order to achieve the strategic objectives, Council requires regular reporting of financial and non-financial results against target, including a statement of corporate intent, half yearly financial statements, and annual financial statements. Council appoints appropriately qualified directors to manage the business, and ensures that proper governance procedures are in place.

Council appoints the board of QRS and annually approves the Statement of Corporate Intent. Council also monitors the performance by reviewing the six-monthly accounts, and annual accounts.

4.2.2 Civic Assurance Limited

The shares in Civic Assurance were acquired by virtue of Council being a local authority. The purpose of the company is to ensure that adequate insurance is available to local authorities at the lowest cost. The shares are not readily transferable.

Revenue earned from the shares is minimal. Any sale requires Council approval. Any disposition would be realised in a managed way, with proceeds transferred to district development fund.

The investment is managed by consideration of the Statement of Intent and review of the annual performance as disclosed in the Annual Report.

Annual Reports are received and reviewed by Council. Election of Directors takes place at the AGM held at the Local Government New Zealand annual conference.

Council will continue to hold its share in Civic Assurance while it continues to do business with the company.

4.3 Property Investments

Council's overall objective is to own only property that is necessary to achieve its strategic objectives, or deemed to be a core Council function. The Council therefore retains an investment in car parking, commercial retail and rental and retirement housing. 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 delivery of Council output. Council regularly reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements that could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council follows similar assessment criteria in relation to new property investments.

Council provides car parking areas which are not income earning but are seen as a service to the central business area.

Rentals and ground rent from property investments is included in the consolidated rating account.

Council reviews the performance of its property investments on a regular basis and reports the results to Council.

Any disposition of these investments requires Council approval. Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

4.3.1 General Property

Disposition proceeds from the sale of General Property (which includes reserve, designated land, housing and non specified property) are credited to the District Development Reserve Account, and are used firstly to retire any debt related specifically to that investment, and then to finance the redevelopment and/or acquisition of assets that enhance the district.

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4.3.2 Rooding Property

Disposition proceeds from the sale of Rooding Property Land are credited to the District Development Reserve Account, and are used firstly to retire any debt related specifically to that investment, and then to finance new rooding requirements.

4.3.3 Commercial Property

Disposition proceeds from the sale of commercial property are credited to the District Development Reserve and are used firstly to return any debt related specifically to that investment and then to finance redevelopment and/or acquisition of assets that enhance the district.

4.4 Treasury Investments

Council maintains treasury investments for the following reasons:

- Invest amounts allocated to sinking funds, trusts and bequeaths.
- Invest funds allocated for approved future expenditure.
- Invest proceeds from the sale of assets.
- Invest surplus cash, and working capital funds (also see Section 6 Cash Management).

All dividend and interest income from Council's treasury investments is included in the consolidated rating account, special activity account or allocated to reserve accounts based on funds held.

4.4.1 Investment Objectives

The Finance Manager approves overall investment strategy, and evaluates the outlook for interest rates and the shape of the yield curve, and where applicable, seek appropriate financial advice.

Council's primary objective when investing is the protection of its investment. Accordingly, only creditworthy 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. The Accountant monitors credit ratings on a monthly basis.

Investment in corporate shares is considered to be speculative in nature, and is therefore expressly forbidden.

Within the above credit constraints, Council also seeks to:

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

The following principles form the key assumptions of the operating parameters contained in the investment framework:

- ***Credit risk is minimised by placing maximum limits for each broad class of non-Government issuer, and by limiting investments to registered banks, strongly rated SOEs, local authorities and corporates within prescribed limits, as detailed in Appendix 1.***
- ***Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Furthermore, Council maintains at least 20% of its investments with a maturity of less than one year.***

4.5 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.

The Finance Manager sets interest rate risk management strategy by monitoring the interest rate markets on a regular basis and after taking appropriate advice, evaluates the outlook and determines the interest rate profile to adopt for investments.

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Council does not adopt the use of hedging instruments for interest rate risk management on its investments. Should hedging instruments be required, Council will adopt a resolution approving the use of these instruments.

4.6 Sinking Funds

Council uses its discretion in determining whether a sinking fund mechanism is appropriate. Council operates sinking funds and nominates commissioners to administer the outstanding loans. The sinking fund commissioners are the Public Trust Office.

Sinking funds are managed as part of the Council's overall investment portfolio.

A statement of sinking funds is prepared annually by the sinking fund commissioners and reported to Council.

5. FOREIGN EXCHANGE POLICY

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets.

Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Council uses both spot and forward foreign exchange contracts.

6. CASH MANAGEMENT

From time to time, Council has daily cashflow surpluses and borrowing requirements, due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the Finance function.

Council maintains a daily cash position, and a yearly cashflow projection is prepared during the Annual Planning process. These reports determine Council's borrowing requirements, and surpluses for

investment. Generally any cash to be invested for longer than three months is covered by Section 4 of this policy.

Cash management activities must be undertaken within the following parameters:

- Cash management instruments are limited to:
 - Call deposits with registered banks.
 - Negotiable instruments with maturity less than three months.
 - Term deposits with registered banks (less than three months). These are not recommended if early break penalties are enforced.
- If practical, a targeted minimum of \$250,000 is invested at call.
- Overdraft facilities are utilised as little as practical. Council does not currently require to maintain a committed bank overdraft facility to meet interim cash and liquidity requirements. Should this be required the CEO is authorised to negotiate a bank overdraft facility of up to \$2 million and the Finance Manager is authorised to negotiate an overdraft facility of \$0.5 million with a Council approved bank.
- Interest rate risk management on cash management balances is not permitted.

7. ACQUISITION OF NEW INVESTMENTS

Acquisition of new investments and disposal of property are to be approved by Council on a case-by-case basis. All property activities are managed by the Finance manager and reported to Council. All financial investments are to be undertaken with institutions of high quality credit rating to ensure amounts owing to Council are paid in full and on due date.

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All financial investments are

- required to comply with credit rating criteria outlined in section 8 below
- restricted to the following instruments
 - Government investments
 - State Owned Enterprises
 - Registered banks
 - Local Authority Investment
 - Approved Corporate Investments

Examples of approved investment instruments include

- Short term bank deposits
- Bank bills
- Treasury bills
- Corporate and government bonds
- Local authority stock and SOE bonds

8 ASSESSMENT OF RISKS

Assessment and management of risk associated with property and investments is reviewed on a case by case basis.

The primary objective of Council when making financial investments is the protection of its investment. Accordingly only creditworthy counterparties are selected on the basis of their current Standard and Poor credit rating. Council will minimise its credit exposure by:

- Ensuring all investments, cash management, interest rate risk and any foreign exchange transactions are undertaken With entities that comply with the credit ratings below:
- Limiting exposure by spreading investments and limiting prescribed amounts
- Regular monitoring of compliance against set limits, as detailed in Appendix 1.
- Ensuring that all Corporate, State Owned Enterprises or Registered banks have a credit rating of A-1 or better for short term investments, or A or better for long term

investments

9. PERFORMANCE MANAGEMENT

Measuring the effectiveness of Council's treasury activities is achieved through a mix of subjective and objective measures. The predominant measure is the overall quality of treasury management information. Council has prime responsibility for determining the overall quality of investments.

Objective measures include monitoring the adherence to target policy levels for each investment class and comparison of yield to agreed benchmark levels, for each class of investment.

10. MONITORING AND REPORTING

Council contracts a broker to act as an investment adviser and sharebroker to manage the Council portfolio of investments and report on investment performance and strategy.

The Finance Manager is responsible for the purchase and sale of investment instruments on behalf of Council. This includes treasury bills issued by the Reserve bank, government and local authority stock, corporate bonds, and New Zealand registered bank bills and bonds. Corporates are required to have a credit rating of at least A-1 for short-term investments, and A or better for long-term investments.

The broker compiles quarterly valuation statements detailing the market value for each investment, and comparing the return for the quarter with the NZX bond index return.

The Finance Manager prepares a quarterly investment report based upon the quarterly valuation, comparing the return for the quarter with the NZX bond index return, and showing the maturity profile of the investments. A summary listing the individual investments is provided detailing the maturity date, coupon rate and market value of each investment. In addition a narrative summary detailing the investment activity over the quarter is provided.

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A variety of other reports are prepared for internal management purposes, including a daily cash position report and a monthly schedule of investments, which reconciles the general ledger with the investment ledger and monthly bank confirmation reports. A reconciliation is provided at 30 June each year for Council short and long term investments for the purposes of the Annual Report.

Appendix 1

Approved Issuers, Limits and Instruments

Long Term Funds or Fixed Interest Portfolio

Issuer	Portfolio Limit	\$ Limit
NZ Government	100%	No Limit
NZ Registered Banks - one issuer	80%	\$2million
Local Authorities - one issuer	100%	\$2million
Corporates - one issuer	60%	\$1million

Short Term Funds or Working Capital

NZ Registered Banks	100% fixed interest	\$5million
	foreign exchange	\$1 million