



INVESTMENT POLICY



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

Adopted by	Council	
Relevant Legislation	Section 102 and 105 of the Local Government Act 2002	
NCC Documents Referenced	Not applicable	Not Applicable

Purpose

The Investment Policy is adopted under Section 102(1) and 102(2)(c) of the Local Government Act 2002 and must state the local authority's policies in respect of investments.

Policy

Council generally holds strategic investments where there is some social, economic, environmental or cultural benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective.

Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's LTP;
- To reduce the current ratepayer burden;
- The retention of vested land;
- Holding short-term investments for working capital requirements and liquidity management;
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations;
- Holding assets (such as property) for commercial returns;
- Providing ready cash in the event of a natural disaster, the use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets;
- Investing amounts allocated to accumulated surplus, Council created restricted reserves and general reserves;
- Investing proceeds from the sale of assets.

Investments and associated risks are monitored and managed, and regularly reported to Council in accordance with this policy.

In its investment activities Council is guided by the principles outlined in the Trusts Act of 2019. When acting as a trustee or investing money on behalf of others, the Trusts Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

For banking and fixed interest investments relating to treasury activities, Council is a risk-averse entity and does not wish to incur excess risk relative to expected returns. With the exception of any portfolio established to receive the proceeds of leasehold property sales (detailed below), Council's broad objectives in relation to treasury activity are to manage all of the investments to meet known

and reasonable unforeseen funding requirements. Surplus cash is invested in liquid securities and strongly credit-rated counterparties. Where possible returns should be optimised.

A separate Statement of Investment Policies and Objectives (SIPO) has been established for the receipt and reinvestment of the proceeds of leasehold property. As per the Investment Property Portfolio Policy (leasehold), sale proceeds are ring-fenced and reinvested to provide ongoing income and capital growth to replace that lost from property sales. With consideration to the prudent person test, a separate investment strategy with its own risk and return objectives have been set for these ring-fenced funds.

Staff seek to develop and maintain professional relationships with Council's bankers, financial market participants and other stakeholders.

Acquisitions of New Investments

With the exception of treasury investments, new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

The authority to acquire treasury investments, with the exception of cash and term deposits (which are provided for in the Financial Delegations Register), is delegated to the Director Corporate Services.

Mix of Investments

Council maintains investments in the following mix of investments:

Equity Investments

Equity Investments are held for various strategic, economic development and financial objectives, as outlined in the Long Term Plan (LTP). Council Equity Investments include interests in the Hawke's Bay Airport Authority and Omarunui Landfill Operation, and may include other Council Controlled Organisations (CCOs) and Local Government Funding Agency shares. Council may also make advances to CCOs.

Council seeks to achieve an acceptable rate of return on all its equity investments, consistent with the nature of the investment and Council's stated philosophy on investments.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved. Any disposition of these investments requires Council approval. With the exception of specific ringfencing provisions for some assets (e.g. Omarunui Landfill), dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

New Zealand Local Government Funding Agency Limited (LGFA)

Council consulted on, and became a member of, the LGFA in March 2020.

Council may invest in shares and other financial instruments of the 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 remain viable, meaning that it continues as a source of investment and/or debt funding for the Council.

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

Property Investments

Council's primary objective is to own property that is necessary to achieve its strategic or commercial objectives, or deemed to be a core Council function. Council therefore retains an investment in car parking, leasehold land, and rental and retirement housing.

Property purchases are supported by registered valuations and, where appropriate, a full business case analysis. Council does not purchase properties on a speculative basis.

Council provides car parking facilities which are operated on a commercial basis.

Rentals and ground rent from property investments, other than land covered by the HB Endowment Land Empowering Act 2002, is included in the consolidated rating account. Council's leasehold land portfolio was transferred from the Hawke's Bay Harbour Board in 1989 as part of the local government reorganisation and Council, by virtue of the Hawke's Bay Endowment Land Empowering Act 2002, is allowing lessees to freehold residential properties, which is diminishing the portfolio.

Council owns various Napier properties which it classifies as the 'Napier City Council Investment Property Portfolio'. The land held in the portfolio is leased to a variety of individuals and entities, and is managed in line with Council's leasehold land policy.

Property disposals are managed to ensure compliance with statutory requirements. Any disposition of a property investment requires Council approval. Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

Leasehold Land

Disposition proceeds from the sale of leasehold land after 30 March 2002 are unrestricted under the Hawkes Bay Endowment Land Empowering Act 2002, and ring-fenced as per the Investment Property Portfolio Policy (leasehold) and managed according to the SIPO established for this purpose.

General Land

Disposition proceeds from the sale of General Land (including Roothing Land) are used firstly to retire any debt related specifically to that investment prior to use for other purposes.

Treasury Investments – Cash & Fixed Interest Investments

Please note that Local Government Funding Agency borrower notes, bonds and commercial paper are discussed elsewhere in this policy.

Council maintains treasury investments for the following primary reasons:

- to invest amounts allocated to loan redemption reserves, trusts, bequests and special funds.
- to invest surplus cash, and working capital funds.

Treasury Investment Philosophy and Objectives

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives 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.

To provide the greatest benefit, Council utilises its surplus internal funds for internal borrowing to reduce external debt, thus effectively reducing net interest costs.

Council’s primary objective when investing is the protection of its investment capital and liquidity of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poor’s (S&P) or equivalent rating, which must be A- rated or better. Exposure to investments below a strong rating (A rated) are not recommended due to Councils Risk Framework and financial risk appetite.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with a suitable range of counterparties as practicable. Where possible, transaction notional and principal sizes and maturities should be well spread.

Within allowable credit constraints, Council also seeks to:

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

Cash

Cash is defined as money held (physical or in a NZ registered bank) and term deposits.

A cash balance is maintained for liquidity purposes to meet operational needs. Council has daily cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments.

If practical, a targeted minimum of \$5,000,000 is held at call to meet day-to-day operational cashflow requirements.

Term deposits must be held with NZ registered banks. Maturities are staggered to provide day-to-day cashflow requirements and to avoid early break penalties. Not more than \$40,000,000 may be held with any one bank at any point in time.

Overdraft facilities are utilised as little as practical. Council maintains a \$300,000 committed bank overdraft facility to meet interim cash and liquidity requirements.

Cash Interest Rate/Maturity Guide

An important objective of the financial investment portfolio is to match the portfolio’s maturity term to planned expenditure, thereby ensuring that investments are available when required. This should be considered before applying the maturity guide (discussed below).

The following maturity guide is designed to manage interest rate risk and maturity risk on the treasury investment portfolio. The portfolio comprises both cash and fixed interest investments. Cash investments relate to matching investments with Council’s working capital funding requirement and liquidity buffer amount requirements.

Period	Minimum	Maximum
0-6 months	30%	80%
6-12 months	20%	70%
1-3 years	0%	50%
3-5 years	0%	20%

Cash - Foreign Exchange Policy

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets approved through the capital planning process. Generally, all commitments over NZ\$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, the purchase order is placed, and the exact timing and amount is known. Council uses both spot and forward foreign exchange contracts.

Council does not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Fixed Interest

Fixed interest is defined as debt instruments (other than those defined as cash). Fixed interest can include, but is not limited to, bonds, commercial paper, etc.

Fixed interest may be used to supplement cash investments where terms are more favourable than those offered for cash investments or where timeframes are greater than 5 years.

Council preference is for plain vanilla bonds although other structures may be considered on a case-by-case basis. All secured and unsecured investment securities should preferably be senior in ranking. The following types of investment instruments are expressly prohibited:

- No asset-backed securities are allowed
- Structured debt (e.g. CDOs, CLOs or synthetic instruments)
- Subordinated debt or unsecured junior debt
- Perpetual notes
- Debt/equity hybrid notes such as convertibles

Fixed Interest - Credit, Liquidity and Interest Risk Management

- Credit risk is minimised by placing limits for each broad class of non-Government issuer.
- Liquidity / Maturity risk is minimised by managing maturity terms within policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.
- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

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Fixed Interest - Counterparty Limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. Credit ratings are as determined by Standard and Poor's, or equivalent rating. If any counterparty's credit rating falls below the minimum specified in the following table, then all practical steps are taken to eliminate the credit exposure to that counterparty as soon as practicable.

Fixed Interest Issuers	Approved Instruments	Minimum Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
NZ Government	Treasury bills Government stock	N/A	Unlimited	100%
NZ Local Government Funding Agency	LGFA Fixed and Floating Rate Bonds Promissory notes / Commercial paper Borrower Notes	N/A	\$40.0m	50%
State-Owned Enterprises and Local Authority	Promissory Notes / Commercial Paper, Fixed Rate Bonds	A-	\$5.0m	40%
Corporate Listed Bonds	Commercial Paper, Fixed Rate Bonds	A-	\$5.0m	0%

Loan Advances

Council may provide advances to CCOs, charitable trusts and community organisations for strategic and commercial purposes only. New loan advances are by Council resolution only.

As outlined in Section 63 of the Local Government Act 2002, Council does not lend money, or provide any other financial accommodation to a CCO on terms and conditions that are more favourable to the CCO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

Loan advances are generally provided on an unsecured basis. Where possible, Council seeks security through a mortgage over land and buildings.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Investment Management and Reporting Procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long term cashflow through the annual Cashflow Forecast. To

maintain liquidity, Council's short and long term investment maturities are matched with Council's known cashflow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
1	Investment and Funding Manager	NCC Long Term Plan 2015-2025, wording below was reviewed between March and May 2018, and published in the Long Term Plan 2018-2028	2019
2	Investment and Funding Manager	No change	May 2020
3	Investment and Funding Manager	Significantly restructured with provision for SIPO added.	May 2022



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