INVESTMENT POLICY

NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

Investment Policy

Adopted by	Napier City Council on 21 May 2020
Relevant Legislation	Section 102(1) of the Local Government Act 2002
NCC Documents Referenced	Not applicable

Purpose

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

Policy

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and regularly reported to Council in accordance with the relevant sections of the Council's Treasury Management Manual.

In its investment activities Council is guided by the Trustee Act of 1956. When acting as a trustee or investing money on behalf of others, the Trustee 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.

Council is a risk-averse entity and does not wish to incur additional risk from its treasury activities. Its broad objectives in relation to treasury activity are to manage all of Council's investments within its strategic, financial and commercial objectives and optimise returns within these objectives, manage the overall cash position of Council's operations to meet known and reasonable unforeseen funding requirements, and invest surplus cash and the financial investment portfolio in liquid securities and strongly credit-rated counterparties.

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 is delegated to the Director Corporate Services.Mix of Investments.

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). 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. 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 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 overall objective is to own only property that is necessary to achieve its strategic and 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. Generally, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is retained only where it relates to a primary Council output.

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, and are run to cover ongoing operational costs.

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.

Treasury Investments

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.

All interest income from Council's treasury investments is included in the consolidated rating account or special activity account.

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 strong or better.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with as wide a range of counterparties as practicable. Where possible, transaction notional and principal sizes and maturities should be well spread. Investment in corporate shares is considered to be an inappropriate asset class and therefore expressly forbidden.

Within the above credit constraints, Council also seeks to:

- Ensure investments are liquid
- Maximise investment return
- Manage potential capital losses due to interest rate movements

Credit, Liquidity and Interest Risk Management

- 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 State-Owned Enterprises, supranationals, local authorities and corporates within prescribed limits.
- Liquidity / Maturity risk is minimised by managing maturity terms within strict 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.

Financial Investment Interest Rate/Maturity Limits

The following control limits are designed to manage interest rate risk and maturity risk on the financial investment portfolio. The portfolio comprises both cash and core treasury investments. Cash investments relate to matching investments with Council's working capital funding requirement and liquidity buffer amount requirements. Core treasury investments relate to unencumbered investments that are invested for terms of greater than three months.

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.

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

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.

Issuers	Approved Instruments	Minimum Long-Term &Short-Term 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	AA-/A-1	$40.0m	50%
NZD Registered Supranationals	Promissory Notes / Commercial Paper, Fixed and Floating Rate Bonds	AAA	$20.0m	30%
State-Owned Enterprises	Promissory Notes / Commercial Paper, Fixed and Floating Rate Bonds	A+/A-1	$15.0m	20%
New Zealand Registered Banks *	Money market call deposits and term deposits, Registered Certificates of Deposit, Senior Bonds	A+/A-1	$30.0m or 40% of total portfolio (whichever is the lesser)	100%
Corporate Bonds *	Promissory Notes, Commercial Paper, Fixed and Floating Rate Senior Bonds	A+/A-1	$3.0m	20%

Issuers	Approved Instruments	Minimum Long-Term &Short-Term Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
Local Authority	Fixed and Floating Rate Bonds and Stock, Commercial Paper	A+/A-1 (if rated) Unrated	$5.0m $3.0m	20%

* Note: An approved exception to the above is other treasury investments made with local registered banks that are regulated by the Royal Bank of New Zealand having a credit rating of at least BBB. Such investments shall be limited to a term of 3 months or less, and be for not more than $2 million in aggregate. At no time should the total exposure to this risk category be greater than 5% of the total investment portfolio.

Any other financial instrument must be specifically approved by Council on a case-by-case basis and is applied to only the one singular transaction being approved.

All secured and unsecured investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

- No asset backed securities are allowed.
- Structured debt where issuing entities are not a primary borrower/ issuer.
- Subordinated debt, junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

Council does not adopt the use of interest rate risk management instruments on its investments.

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. Council does not lend money, or provide any other 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.

Loan Redemption Reserves

Council establishes specific Loan Redemption Reserves for each new external borrowing. The internal Loan Redemption Reserve is invested in accordance with Council's Investment Policy.

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.

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.

Policy Review

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

NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri