



SOUTH WAIRARAPA
DISTRICT COUNCIL
Kia Reretahi Tātau

Investment Policy

Date of Approval	xx June 2021
Policy Number	M400
Next Review	30 June 2023

Investment Policy

1. General Policy

The investment policy will be consistent with Council's overall objectives and plans. Council acknowledges that there are financial risks associated with its investment activities but is risk averse. The treasury function is based on managing risk and protecting investments. There is no involvement in speculative transactions.

The management of trusts, special funds and reserves will be reviewed on a regular basis. This will ensure that their holding complies with any statutory or other special requirements and that their use is consistent with these requirements and with Council policy at the time.

Investments generally will be made having regard to the following objectives:

- » To manage short term cash flows in an efficient and prudent manner providing cash for approved expenditure needs and in the event of urgent requirements.
- » To provide cash for the future retirement of debt on maturity.
- » To maximise interest income and minimise risk to the capital invested.
- » To minimise the risk of investments.

2. Treasury Investments

Council's treasury investments comprise sums reserved for special purposes and funds held for working capital requirements. These funds are managed using the following guidelines:

- » To minimise risk to Council funds will only be invested with institutions which offer an high degree of security. These include the New Zealand Government, State Owned Enterprises, Local Authorities (including itself), Local Government Funding Agency, and New Zealand registered banks with:
 - » For long term investments, a credit rating of Standard & Poors 'A' (or equivalent) or better
 - » For short term investment, a credit rating of Standard & Poors 'BB' (or equivalent) or better
- » Within the above institutions, funds are invested to optimise the return to Council from the investment.
- » Funds are invested in a way that maintains the liquidity of the Council's investments so that cash is available when required.
- » The maximum amount to be invested with any one approved institution is 50% of Council's total investments.

3. Equity Investments

Council has small shareholdings in the following organisations:

- » Civic Financial Services Limited
- » Farmlands Trading Society Limited
- » Wellington Water Limited

A Council resolution is required to dispose of these shares.

Council is risk averse and does not wish to expose itself to the risks associated with equity investments. It will not as a general rule seek to acquire further equity investments.

4. Emissions trading scheme

Council has a number of “New Zealand Emissions Units” that were issued as a result of the introduction of the emissions trading scheme.

A Council resolution is required to transact these units.

5. Local Government Funding Agency

Council may borrow funds from the Local Government Funding Agency (LGFA).

Council holds Borrower Notes with the LGFA. Borrower notes are subordinated debt instruments which are required to be held by each local authority that borrows from LGFA in an amount equal to 1.6% of the aggregate borrowings by that local authority.

Under certain very limited circumstances, the borrower notes can convert to shares.

If this were to occur, a Council resolution will be required to manage these shares.

6. Property

Council holds a limited amount of real property for investment purposes. It may and does purchase property from time to time to assist in the provision of its core services to the community. Surplus properties will be disposed of wherever possible. Council will review its property holdings on a regular basis.

7. Mix of Investments

The mix of investments will be determined having regard to the overall funding needs of Council. Investment mix is also influenced by risk management considerations. Council will maintain sufficient general funds for day to day operational needs.

Council may establish, alter or dissolve a fund for a particular purpose by ordinary resolution.

8. Acquisition of New Investments

Treasury investments are acquired under delegated authority to the Chief Executive.¹

It is unlikely that Council will invest in shares in the foreseeable future. Any such acquisitions would require a resolution by Council.

When acquiring treasury investments Council seeks to:

- » Optimise return on investments.
- » Ensure investments are secure.
- » Manage potential interest rate movement losses.

9. Disposition of Revenue from Investments

All dividends, interest and other income from investments will be available for Council's general use except where Council has resolved that interest earned on funds invested in an account shall be reinvested in that account. These accounts shall be subject to review each year.

10. Disposition of Proceeds of Sale of Investments

Equity and property investments may be disposed of by resolution of Council. In general terms, these proceeds will not be available for operational purposes unless Council resolves otherwise. These proceeds will normally be used for capital investments or the retirement of debt.

On maturity, treasury investments may be realised for Council's general use or reinvested under delegated authority by the Chief Executive.

11. Procedures

Equity and property investments will be reviewed by Council each year.

Treasury investments will be managed under delegated authority by the Chief Executive. All realisations, transfers and reinvestments will comply with this policy. The Audit and Risk working party will receive a schedule of all treasury investments for each month. A schedule of investments will be provided to Council on a regular basis as part of the financial statements included in the Chief Executive Officer's report.

12. Investment Risk Assessment and Management

Council has no investment properties and only three equity investments.² [Council does hold shares in Farmlands Trading Society Limited, Wellington Water Limited, and Civic Financial Services Limited, however these are not held for investment purposes]. The exposure to risk in these areas is minimal.

¹ The Chief Executive and/or other officers to whom the Chief Executive may delegate from time to time.

² Civic Financial Services Ltd 53,390 shares. Wellington Water Ltd 150 Class A and 25 Class B shares.

Council's primary objective in respect of treasury investments is the protection of those investments. Only credit worthy counter parties are acceptable. Council will manage its exposure to credit risk by maintaining a diverse investment portfolio with prescribed limits for each counter party. The exposure to interest rate risk will be managed by a mix of terms and staggered maturity dates to mitigate the effect of market fluctuations.

13. Objectives for holding and managing financial investments and equity securities

The objectives of holding financial investments are:

- » To maintain sufficient cashflow to meet current and future needs.
- » To ensure sufficient funding is available to meet future loan repayments as they fall due.

The objectives of holding equity investments are:

- » Equity investments are held solely for strategic purposes and are not held for financial return.
- » Equity investments will only be made to support companies that provide a service that may not otherwise be provided, for the benefit of either the three Wairarapa local authorities, or a wider base of local authorities.

14. Targets for returns on financial investments and equity investments

The targets for returns on financial investments are:

- » The key rationale of the holdings of financial investments is risk minimisation. Due to the levels of cash holdings these are managed solely for cashflow purposes. Council policy limits investment to very low risk investment, which by its nature provides modest returns.

The objectives of holding equity investments are:

- » Equity investments are held solely for strategic purposes and are not held for financial return.
- » There is no quantified target for equity investments for the reasons outlined above.