POLICY

Clutha District Council

INVESTMENT AND LIABILITY POLICY 2024		ACTIVITY GROUP:	Finance
Policy Type:	Council		
Approved by:	Council		
Department:	Finance and Policy		
Date Approved:	26th July 2024	**Next Review Date:**	With every change in the TMP or management structure or no later than next LTP in 2027
Relevant Legislation:	Local Government (Rating) Act 2002, s102 s104 and s105.		
Clutha District Council Documents referenced:	Long Term Plan 2024		

Glossary

CCO / CCTO	Council Controlled Organisation / Council Controlled Trading Organisation
DTD	Debenture Trust Deed
ILMP	Investment and Liability Management Policy
LGA	Local Government Act 2002
LGFA	New Zealand Local Government Funding Agency
LTP	Long Term Plan
TMP	Treasury Management Policy

PURPOSE

1. This Policy sets Council's policies on investment and borrowing risks that support the delivery of the LTP, financial strategy and revenue and financing policy.
2. It is a requirement of the LGA to adopt an Investment Policy and a Liability Management Policy (ILMP). The ILMP is to provide the parameters under which Council operates its investment and borrowing activities.

Policy Setting and Management

3. Council approves policy parameters in relation to its treasury activities in the ILMP.
4. The Chief Executive has overall financial management responsibility for borrowing and investments.
5. The ILMP is supported by the Treasury Management Policy (TMP) which provides more detail for the day-to-day management of the treasury function.
6. The ILMP has no statutory review requirement and can be amended at any time subject to the LGA decision-making requirements including the Significance and Engagement Policy.

INVESTMENT POLICY

7. The Investment Policy includes all matters in this section and any matters in the General Treasury Management Policies section of this ILMP.

Objectives

8. Council's primary objective when investing is to have investments that support the development and growth outcomes of the district. The LTP financial strategy is to maximise investment returns while preserving ratepayer funds.
9. Council's secondary objectives are to:
    a. Use the income to reduce the rate requirement.
    b. Invest amounts held in restricted and council created reserve funds, including amounts held for future expenditure (depreciation reserves), to implement strategic initiatives, or to support intergenerational allocations.
    c. Retain vested land.
    d. Invest the proceeds from the sale of assets.
    e. Service working capital and liquidity requirements by holding cash and investing surplus cash arising from day-to-day operations.
    f. Build financial resilience to assist in managing the unplanned and unexpected.
    g. Provide a self-insurance fund, established in 2013, to contribute to the costs associated with replacing underground assets destroyed or damaged in a natural disaster.
    h. Provide an emergency fund, to contribute to the costs associated with replacing under or above ground assets destroyed or damaged in a natural disaster.

Overview of Approach to Investments

10. An increase in investments is planned over the next 10 years.
11. The overall objective is to optimise returns in the long-term.
12. The investment portfolio is diversified across a range of investments and different risk profiles which provides some protection to investment capital while achieving higher returns on other parts of the portfolio. This risk-based approach provides some security for current stakeholders while creating opportunity for future stakeholders.
13. This objective is achieved with a balance of risk and return by:
    a. Minimising exposure to adverse interest rate movements.
    b. Maintaining prudent liquidity levels and managing cash flows to meet known and reasonable unforeseen funding requirements.
    c. Minimising exposure to credit risk by dealing with and investing in credit worthy counterparties.
14. The following investments may be held from time to time:
    a. Equity investments.
    b. Property investments.
    c. Forestry investments.
    d. Financial investments.
    e. Carbon credits.

Investment Risk Approach

15. Council holds a mix of investments and takes a different risk approach to each investment.
16. Council is required to be prudent in all its financial dealings. Prudence is a complex matter that requires consideration of the past, present and future. In the case of investments, where the funds were received from, the impacts on current stakeholders of changes to that investment and the implications for future stakeholders need to be considered.
17. In New Zealand most councils have a net debt financial position and consequently have conservative and often short-term based investment policies. A few councils have large investment portfolios on which they take a mix of risk in order to provide some protection to investment capital while achieving higher returns on other parts of the portfolio. This approach provides some security for current stakeholders while creating opportunity for future stakeholders.
18. For its size, Council has a large investment portfolio. Local Government costs are increasing at a greater rate than general inflation and forecast interest rates. As such, holding reserve funds at conservative rates of return can erode their buying power. A mixed risk approach to its investment portfolio has been selected as reflected in the table below:

Investment Type	**Risk Category**
Equity Investment	Low to Medium
Property for operational purposes	Low
Property for social purposes	Low
Property for commercial purposes / endowment property	High

Property for economic development	Medium to High
Forestry Investments	Medium to High
Financial Investments	
Restricted Reserve Funds (Trust Fund)	Low
Council Created Reserve Funds	
Special	Medium
Asset Replacement Reserve Funds – (Depreciation)	Medium
Other Reserve Funds and financial investments – (Managed)	High
Liquidity Funds	Low

19. Risk Categories:
    a. Low – Not willing to risk erosion in investment value.
    b. Medium – Conservative mix of capital growth and investment return.
    c. High – Willingness to accept a higher return with consequences on losing investment value.
20. In its financial investment activity, Council's primary objective when investing is the protection of its investment capital, which requires a prudent approach to risk/return within the confines of this Policy.

Equity Investments

Investment Type	Risk Category
Equity Investment	Low to Medium

21. Equity investments are shares or interests held in CCO/CCTO and other shareholdings which fulfil various strategic, economic development and financial objectives as outlined in the LTP. Council maintains equity investments and other minor shareholdings.
22. Council seeks to achieve an acceptable rate of return (which may well be nil) on each equity investment consistent with the nature of the investment and their stated philosophy on investments. Forecast returns are shown in the Financial Strategy.
23. There are risks associated with holding equity investments. To minimise these risks the performance of its equity investments is monitored on a twice-yearly basis to ensure that the stated objectives are being achieved.

New Zealand Local Government Funding Agency Limited Investment

24. Despite anything otherwise in this policy, Council may invest in shares and other financial instruments of the LGFA.
25. The objective in making any such investment is to:
    a. Obtain a return on the investment.
    b. Ensure that the LGFA has enough capital to become and remain viable, meaning that it continues as a source of debt funding.
26. 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. In connection with an investment, Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

Property Investments

Investment Type	Risk Category
Property for operational purposes	Low
Property for social purposes	Low
Property for commercial purposes / endowment property	High
Property for economic development	Medium to High

27. The overall objective is to only own property that is necessary to achieve its strategic objectives. As a rule, a property investment that is not essential to the delivery of relevant services would not be maintained. Property is only retained where it relates to a primary activity (e.g. community housing which may generate a nil return).

28. Reviews of property ownership assess the benefits of continued ownership compared to other arrangements which could deliver the same results. This assessment is based on the most cost-effective method of achieving the delivery of services.

Development Property Investments

29. Development Property Investments are strategic property acquisitions and developments which drive growth and economic development in the district. By their very nature these development properties carry a medium to high risk as their eventual sale is dependent on factors affecting the property market and necessarily incurring costs over and above the purchase of the land. Normally, these acquisitions and development will be made on a rates neutral basis. Council reviews development property ownership through assessing the benefits of each business case on its merits.

Forestry

Investment Type	Risk Category
Forestry Investments	Medium to High

30. Forestry assets are currently being divested. Forestry assets may exist incidental to land ownership or for environmental reasons. Where this is the case the trees aren't considered to be forestry investments under this policy.

31. Council maintains a mix of financial investments that have different risk / return profiles and are both short-term and long-term.

32. A large portion of Financial Investments are held in managed investment funds. These funds contain a mix of investments with different risk/return profiles. Council receives independent external advice on the management of the fund and on the risk/return profiles. These are regularly monitored. Modifications are made to the portfolio as required to maintain the risk categories set in this policy.

Restricted Reserve Funds (Trust Funds)

33. Restricted Reserve Funds are those funds subject to specific conditions accepted as binding and which may not be revised by Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

34. These funds are generally held as low risk liquid investments (e.g. term deposit less than 90 days with strongly rated party) unless a specific provision has been made for alternative use of the funds.

Special Funds

35. Discretionary reserves arising either from funding surpluses from rate accounts or asset sales or other general funds. Some funds are directly rate funded (e.g. Emergency Fund) to create resilience, prefund an activity or fund a provision.

36. Generally, these funds are allocated to specific projects or activities in a 10-year plan allowing

the long-term balance of the sum of these reserves to be forecasted.

37. To retain the buying power of the funds Council seeks to achieve a return equivalent to or better than the Local Government Cost Index.

Asset Replacement Reserves (Depreciation)

38. Asset replacement reserves are council created reserves for the purpose of setting depreciation funds aside for long-term asset renewal. The 30-year Infrastructure Strategy provides good information on long-term asset investment.

39. To retain the buying power of the funds and having regard to its long-term asset investment forecasts Council seeks to achieve a return equivalent to or better than the Local Government Cost Index.

Other Reserves and financial investments

40. Council holds financial investments in managed funds. The purpose of these funds is to achieve above inflation returns for the benefit of current and future ratepayers by reducing rates and growing the invested funds.

41. Council assesses all risks against the fund and not against the investments made by the fund. Council shall have regard to the ethical investment practices of each fund.

Liquidity Funds

42. Council must maintain funds to operate day to day transactions.

43. These funds are generally held in bank accounts or on short-term deposits (e.g. term deposit less than 90 days with strongly rated party).

44. Interest income from financial investments is credited to the various general funds and reserves.

Local Government Funding Agency Borrower Notes

45. On occasion, when Council borrows from the LGFA, it will be required to contribute part (currently 2.5%) of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

Acquisition and Disposal of Investments

46. Except for financial investments, new investments are acquired if an opportunity arises and approval is given by Council. Before approving any new investment, due consideration is given to the contribution the investment will make in fulfilling strategic objectives and the financial risks of owning the investment.

47. Any disposal of a property asset requires Council approval.

48. Proceeds from the sale of assets or investments will in the first instance be used to repay debt associated with the investment. Any surplus after this repayment would be placed in the appropriate reserve fund unless otherwise resolved. If assets are subject to legislative restrictions, the proceeds are used in accordance with the provisions of the appropriate legislation.

49. Operators of waste disposal facilities are required to surrender one New Zealand Unit (NZU)(commonly referred to as carbon credits) for each tonne of CO^2-equivalent emission. The cost of a NZU is determined by the market price of carbon credits at date of purchase. Council operates the Mt Cooee landfill facility and is required to report and pay for methane emissions under the Emissions Trading Scheme (ETS). The financial impact of movements in the carbon credit prices requires balancing Council’s need for price stability with the benefit of realising

market opportunities to reduce costs as they arise. Any purchase of Carbon Credits requires reporting to Council.

LIABILITIY MANAGEMENT POLICY

50. The Liability Management Policy includes all matters in this section and any matters in the General Treasury Management Policies section of this ILMP.

Objectives

51. Liabilities comprise borrowings and various other liabilities. Borrowing is used to provide enough liquidity to enable the provision of services and acquisition of new or improved services. Generally it is appropriate to borrow where it is considered there is an intergenerational benefit.
52. Borrowing is managed to minimise costs and limit risks.

Overview of Approach to Borrowing

53. Council operates a borrowing register that records debt against projects and activities and the term over which Council has resolved that debt should be repaid.
54. Council will manage debt on a net portfolio basis and will only borrow externally when it is commercially prudent to do so.

55. Council borrows in order to:
    a. Fund working capital requirements and short-term funding gaps.
    b. Fund the work programmes in the LTP and Annual Plans and in accordance with the Financial Strategy.
    c. Fund unplanned expenditure e.g. weather events, opportunities and emergencies.
56. Internal borrowing is used where surplus cash is available in reserves and where it is cost effective to use these funds to reduce potential external debt against the expected returns from retaining the funds for financial investments.
57. Interest costs are managed to be as low as possible, but this must be considered in relation to risk. Interest rates markets can be volatile. Risk management policies are designed to smooth this volatility and in doing so minimise the year-on-year impact on ratepayer funding.
58. Council approves the overall borrowing strategy with the implementation of the strategy delegated to the relevant council staff..

Debt Ratios and Limits

59. The following limits are the prudential limits which are recognised by our lenders as being the maximum levels within which it is prudent to operate.
60. The financial strategy sets limits on debt in the context of the environment that Council is operating and is forecast to operate in and its budgets and the impacts of these on residents. The financial strategy limits could be equal to or less than these prudential limits.
61. Debt will be managed within the financial strategy limits. The following prudential limits are maximums Council cannot exceed and are based on the LGFA ratios.

62.

Ratio	Policy Limits
Net debt as a percentage of total revenue	<280%
Net Interest as a percentage of total revenue	<20%
Net Interest as a percentage of annual rates income	<30%
Liquidity	>110%

- Total Revenue is defined as operating revenue less non-government capital contributions (e.g. financial contributions and vested assets).
- Net debt is defined as total debt less liquid financial assets and investments.
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

63. Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

64. Initial emergency response and disaster recovery requirements are to be met through the liquidity ratio.

Financing Mechanisms

65. Council can acquire debt from a variety of mechanisms including:
    a. Committed bank facilities,
    b. LGFA borrowing,
    c. Accessing the debt capital markets directly for both short-term and long-term debt.
    d. Finance lease, or
    e. Internal borrowing from reserve funds.
66. Council’s ability to readily attract cost effective borrowing is largely driven by its ability to assess rates, maintain a strong financial standing and manage its relationships with its investors, LGFA and financial institutions/brokers.

New Zealand Local Government Funding Agency Limited

67. Council may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:
    a. Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA (e.g. borrower notes).
    b. Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
    c. Commit to contributing additional equity (or subordinated debt) to the LGFA if required.

d. Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over Council's rates and rates revenue.

e. Subscribe for shares and uncalled capital in the LGFA.

Security

68. Council’s current security arrangements for its borrowing is a charge over rates. The details of this are contained in the Debenture Trust Deed (“DTD”) 21 December 2018 and administered by Trustee Executors.

    a. A DTD is an overarching security document under which all lenders share the same security (a charge over rates), with the way in which they share it dictated by the DTD. Without a DTD, a new security sharing arrangement would need to be entered into each time a new lender was added.

    b.

69. Subject to the DTD:

    a. Borrowings are generally secured by way of a charge over rates and rates revenue.

    b. Council could offer deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more assets.

    c. Physical assets will be charged only where:

        i. There is a direct relationship between the debt and the purchase or construction of the asset which it funds (e.g. an operating lease, or project finance).

        ii. Council considers a charge over physical assets to be appropriate.

        iii. Any pledging of physical assets must comply with the terms and conditions contained within the DTD.

Debt Repayment

70. Surplus funds will be applied to debt linked to the source(s) of the surplus. After repayment of debt the balance of any fund is held in an appropriate reserve. The use of those reserves for investment, or internal borrowing, is addressed elsewhere in this policy.

71. Council may specifically direct that the funds will be put to another use.

72. On maturity, debt will be refinanced in accordance with the financial strategy and the relevant limits at that time.

73. Council budgets to repay project and activity debt which flow through to the operating surplus.

Guarantees and other Financial Arrangements

74. Financial arrangements will be made in exceptional circumstances with appropriate due diligence and established extraordinary need for Council making advances.

75. Appropriate accountability reporting, monitoring and security (where possible) as determined by Council.

76. Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, or trusts, when the purposes of the loan are in line with Council’s strategic objectives on a case by case basis.

77. Council is not allowed to guarantee loans to CCTO's (LGA s62). The Local Government Borrowing Act 2011 exempts the LGFA from this requirement meaning Council can provide guarantees on the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
78. Financial arrangements include advances to community organisations.
79. All guarantees will be legally documented with appropriate security and protection for the level of risk. This may include an expectation that Council would rate the guaranteed party to recover any losses. All guarantees and their conditions will be approved by resolution of Council on recommendation from the Risk & Assurance Committee.
80. Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. The sum of all guarantees will be limited to 10% of available debt capacity.
81. All guarantees and other financial arrangements are disclosed in the Annual Report.

Cash Management (Short-term Borrowing)

82. From time to time it may be prudent to use short-term borrowing (less than 91 days) using approved overdraft or multi-option facilities to efficiently manage liquidity.

83. Borrowing for less than 90 days is considered debt for the purposes of the restrictions on lending required by the LGA. Council authorises the acquisition of overdraft, multi-option or other short-term borrowing facilities and delegations provide the authority for sub-ordinate committees and staff to undertake transactions.

TREASURY RISK MANAGEMENT POLICIES

84. The Treasury Risk Management Policies cover matters applicable to both Investment Policy and Liability Management Policy sections of this ILMP.

Risk Management

85. Investment returns and borrowing costs are material to Council's activities and rating income. These returns and costs can be volatile. Identifying and managing risks is critical to effective management of investments and liabilities.
86. The definition and recognition of interest rate, liquidity, funding, investment, counterparty credit, interest / market, operational and legal risk to Council is detailed below.

Interest Rate Risk / Market Risk for Investments

87. Interest rate risk /market risk is the risk that investment returns or funding costs (due to adverse movements in market interest rates) will materially exceed or fall short of projections included in the LTP and Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions, returns and feasibilities.
88. The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or funding costs. Certainty around funding costs within acceptable risk parameters is to be achieved through the active management of underlying interest rate exposures.
89. The investment policy (above) includes the investment risk approach.

Interest Rate Risk / Market Risk for Borrowing

90. Interest rate risk management has the objective of containing interest rate exposures in order to:
    a. Give a sufficient level of certainty to funding costs while, at the same time, allowing Council to participate if interest rates and credit spreads move favourably.

b. Control variations in interest expense for the debt portfolio from year to year, taking into consideration any relevant budgetary assumptions.

c. Recognise exposure to the local and international economies and maintain sufficient flexibility in its interest rate risk management profile to enable Council to respond when considered appropriate.

91. Council will maintain fixed interest rate cover of its debt within the control limits detailed in the table below. Debt is defined as that identified in the Annual Plan or LTP or as otherwise determined by the CE and CFO. Fixed rate debt is defined as all debt that has at least one more rate reset outstanding or has more than six months to maturity in the case of a fixed rate term loan. Compliance with these parameters is not necessary if debt is less than $5.0 million.

Period of actual and forecast external debt	Fixed Rate Hedging Parameters	
	Minimum	Maximum
0 - 2 years	40%	100%
2 - 4 years	25%	80%
4 - 8 years	0%	60%

92. The implementation of the fixed rate hedging parameters assumes dealing lines are available from the Council’s bank(s).

93. Risk management activity outside of policy parameters requires the approval of Council.

Market Risk for Carbon Credits

94. Every year Council has to buy carbon credits to offset its landfill emissions liability. Council may buy Carbon Credits in advance to reduce the risk of pricing uncertainty. By buying these carbon credits in advance there is a small offset in investment returns that are lost.

95. Market risk is the risk that funding costs (due to adverse movements in NZU pricing) will materially exceed or fall short of projections included in the LTP and Annual Plan so as to adversely impact cost projections.

96. The primary objective of market risk management is to reduce uncertainty relating to price movements through fixing of funding costs. Certainty around funding costs within acceptable risk parameters is to be achieved through the active management of underlying market exposures.

97. Operational risk to minimise the financial impact of movements in the carbon credit prices requires balancing Council’s need for price stability with the benefit of realising market opportunities to reduce costs as they arise. Emission liabilities are managed under the following risk control limits:

Period	Minimum Percentage	Maximum Percentage
0 to 1 Year	0%	100%
1 to 2 years	0%	50%
2 to 3 years	0%	0%

Liquidity Risk Management

98. Liquidity risk management has the objective of ensuring that adequate liquid assets and funding sources are available at all times to meet the short-term commitments of the Council as they arise in an orderly manner. Appropriate cash flow reporting mechanisms will be maintained to monitor estimated liquidity position over the next twelve months. Liquidity risk is minimised by:

a. Matching expenditure closely to its revenue streams, monitoring the weekly, monthly and annual cashflows and managing cashflow timing differences through a liquidity buffer.

b. To manage liquidity risk Council must maintain committed funding facilities at a minimum of 110% of the projected peak debt level over the ensuing twelve-month period.

Funding Risk Management

99. Funding risk is defined as an inability to secure access to external lines of credit sufficient to enable achievement of strategic short-term and long-term objectives where the financial requirements to achieve those goals exceed the funds being generated from operating activities. Funding risk covers both working capital requirements and core debt.

    a. To ensure that all debt is not exposed to excessive refinancing risk at any one time, no more than 40% of all debt facilities should mature within a rolling twelve-month period. Compliance with this provision is not required if total external debt is less than $5.0 million.

Counterparty Credit Risk for Investments

100. 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 in a default event will be weighted differently depending on the type of instrument entered into.

101. To avoid undue concentration of exposures, financial instruments should not be concentrated with a single counterparty. Maturities should be well spread. The approval process must take into account the liquidity of the market in which the instrument is traded and re-priced.

102. Credit risk will be regularly reviewed. Treasury related transactions are only entered into with organisations specifically approved by Council.

103. Counterparties and limits can only be approved on the basis of long-term credit ratings (S&P Global Ratings, or the Fitch Ratings or Moody’s Investors Services equivalents) with a minimum long-term rating of ‘A+’ or a minimum short-term rating of ‘A-1’.

104. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

105. The matrix contained in Appendix 1 contains the investment criteria for money market and fixed interest investment activities not covered by the Managed Fund.

106. Investments are normally held to maturity date, although these could be liquidated prior to maturity.

Counterparty Credit Risk for Borrowing Risk Management

107. The management of counterparty credit risk in relation to borrowing and interest rate risk management activities has the objective of minimising financial loss through the default of a financial counterparty, usually a financial institution, due to the financial insolvency of the counterparty, the inability of the counterparty to perform due to country decree, or any other circumstance such as an adverse market event. The purpose of counterparty credit limits is to limit the loss that may incur if a counterparty was to default or be unable to meet its obligations.

108. Exposure to counterparty credit risk will be managed by entering into financial market transactions and funding arrangements with approved counterparties only. Approved counterparties are defined as follows:

109. An approved counterparty must be a New Zealand Registered Bank or financial institution with a long term credit rating of ‘A‘ or above by S&P Global Ratings, or the Moody’s Investors Service or Fitch Ratings equivalents.

110. The maximum exposure for any one counterparty is $20 million.

111. Exposures are calculated as follows:

Interest Rate Swaps/Caps/Collars	MTM + 5% of Face Value.

112. MTM is defined as positive if the position is 'in the money' for Council and nil if it is 'out of the money for Council.

Operational Risk and Legal Risk

113. Operational and Legal risk is considered in the TMP.

Approved Financial Instruments

114. Dealing in interest rate products must be limited to the following financial instruments:

Category	**Instrument**
Borrowing	• Bank overdraft • Committed bank cash advance facilities (short-term and long-term loan facilities) including Fixed Rate Term Loans • Floating Rate Note (FRN) • Fixed Rate Bond (FRB) • Commercial Paper (CP) • Finance leases
Investments	• Cash and short-term bank deposits • Registered Certificates of Deposit (RCDs) • Treasury bills • NZ Government, LGFA, Local Authority stock or State Owned Enterprise (SOE) bonds, Medium Term Notes (MTN) and FRNs (senior) • Corporate bonds and FRNs(senior) • CP issued by Corporate/SOE/ • LGFA Borrower Notes • Wholesale Managed Funds • Global Share Funds • Global Bond Funds

Interest rate risk management	• Forward rate agreements (FRA)
	• Interest rate swaps including:
	    • Spot and forward start swaps
	    • Amortising swaps (whereby notional principal amount reduces)
	    • Swap extensions and shortenings (blend and extends)
	• Interest rate option caps:
	    • Interest rate option collars but not in a ratio exceeding 1:1
	    • Interest rate swaptions

115. Any other financial instrument must be specifically approved by Council (generally on recommendation of the Risk & Assurance Committee) on a case-by-case basis and only be applied to the one singular transaction being approved.

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

a. Structured debt where issuing entities are not a primary borrower/ issuer.

b. Subordinated debt, junior debt, perpetual notes and hybrid notes such as convertibles.

117. Deferred payments under contract. Council routinely defers payment following completion of construction or other large engineering contracts in accordance with standard industry practices. Although this practice may mean that these deferred payments fall within the definition of borrowing in the LGA and this Policy, these contractual arrangements create very little risk. There is no interest exposure on these payments; the creditworthiness of the contracting party is not relevant; and the deferred period is sufficiently long that no impact on liquidity is anticipated, as payments can be easily forecast. Council authorises the entering into these contracts in accordance with its standard procurement procedures, and deferred payment conditions will not require any additional approval by the Council.

REPORTING

118. Council will receive reports which:

a. Monitor compliance with this and other policies and plans, as it relates to debt and investments, including limits.

b. Monitor the market and evaluate the performance of debt and investments against the market and assess appropriateness of policy implementation.

c. Report on treasury activities including changes to investment, borrowing and liquidity.

FOREIGN CURRENCY

119. Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

120. Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved for amounts in excess of $250,000. Both spot and forward foreign exchange contracts can be used by Council.

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

122. Council does not hold investments denominated in foreign currency.

INTERNAL BORROWING AND RESERVES FUNDS

123. Council maintains a variety of financial reserves of a large value. These reserves are an essential part of the financial strategy. By collecting and holding cash in reserves, Council is able manage intergenerational equity matters and smooth the impact of lumpy or unexpected cashflows. Reserves are held separately to maintain transparency and accountability.

124. Much of the funds held in reserves are required to fund renewal expenditure on assets that have an economic life of many years (that is the funds aren’t required for some time).

125. Internal borrowing is used where surplus cash is available in reserves and where it is cost effective to use these funds to reduce potential external debt against the expected returns from retaining the funds for financial investments.

126. Council wants to be clear about how the real value of reserve funds is maintained for future generations and has come up with the following treatment:

a. The cost of debt for budgeting purposes for internal or external loans is determined as the weighted average cost of borrowing on external loans with no margin.

b. Council determines what reserves are used for internal or external investment.

c. Council determines the disbursement of the interest return whether on external or internal loans and represented by table below:

    i. Certain returns are ring-fenced (Fund Allocation column) to maintain an intergenerational fairness position with respect to buying power and to increase the value of the fund.

    ii. The Rates Disbursement percentage (amount applied to reduce the rates requirement) is determined by Council.

    iii. For all external investments other than Forestry, the difference between Council's investment return position and the assumed interest is returned to the Investment Fund Balance.

    iv. Where the total value of the depreciation reserve exceeds internal loans, internal loans earn the internal rate and the balance earn the external return with distributions of the interest as per above and per the table.

    v. The table and the distributions are all based on budgets, where actual investment return is more than budgeted, Council determines any additional distribution.

    vi. Where actual investment return is less than budgeted the impact is absorbed by the Investment Fund Balance and not by Depreciation or Special Funds.

    vii. Council may set a limit on the total the Investment Fund Balance may grow to and determine distribution of any excess funds.

Interest Allocation - Reserve Funds	Investment Return	Rates Disbursement	Fund Allocation	Return to Balance
Special Funds - Excluding General Funds - Externally invested	5.00%	1.00%	3.00%	1.00%
General Funds - Externally Invested	5.00%	4.00%	0.00%	1.00%
Serdel - Externally Invested	5.00%	4.00%	0.00%	1.00%
Forestry Fund - Externally Invested	5.00%	3.00%	2.00%	0.00%
Investment Fund Balance - Externally Invested	5.00%	4.00%	0.00%	1.00%
Balance of Depreciation Funds - Externally Invested	5.00%	1.00%	3.00%	1.00%
Depreciation Funds - Internal Loans	3.98%	0.98%	3.00%	0.00%

Appendix 1: Authorised Investment Criteria (not covered by the managed fund)

* The combined holding of Corporates and Financials shall not exceed 70% of the total portfolio

Authorised Asset Classes	Overall Portfolio Limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class $(M)
New Zealand Government	100%	• Government Stock • Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA or better	$3.0 $2.0 $3.0 $5.0
Local Authorities where rates are used as security	50%	• Commercial Paper • Bonds/MTNs/FRNs	Not Applicable	$2.0 $2.0
New Zealand Registered Banks	100%	• Call/Term Deposits/Bank Bills/Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of A+ or better	$10.0 $3.0 $5.0
State Owned Enterprises	60%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB+ or better Long term S&P rating of A+ or better	$3.0 $1.0 $3.0
Corporates/Financials	40%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA or better	$2.0 $1.0 $2.0 $3.0

Version History			
Date:	**Action:**	**Name:**	**Version:**
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15 February 2024	Investment and Liability Policy 2024 (LTP Draft)	**Council**	2024 Ver1
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