Te Kaunihera ō Taranaki ki Te Tonga
South Taranaki District Council

SOUTH TARANAKI

THE MOST LIVEABLE DISTRICT

Kaupapa Here Penapena Pūtea
Investment Policy

2021 - 2031

South Taranaki District Council's Long Term Plan Supporting Documentation

www.southtaranaki.com/longtermplan

Kaupapa Here Penapena Pūtea

Investment Policy

General Policy

The Council recognises its fiduciary responsibility as a public authority. and that delivery of Council services is impacted by the amount of funding Council may receive. Council must ensure that its financial position is not eroded and must maintain strong governance oversight of its strategic investments.

Council will continue to manage its investments in line with this Investment Policy (Policy) and Council's Risk Management Framework. Council has a low appetite for risks that negatively impact on Council's core financial business and accepts a moderate risk for commercial opportunities, as identified in the Council's Risk Management Framework.

Section 102 of the Local Government Act 2002 (the "Act") requires the Council to adopt an Investment Policy (the "Policy"). Section 105 of the Act outlines the contents of the Council's policies in respect of investments, including –

- The mix of investments; and
- The acquisition of new investments; and
- An outline of the procedures by which investments are managed and reported on to the local authority; and
- An outline of how risks associated with investments are assessed and managed

The Council recognises its custodial responsibility and reviews the performance and purpose of all investments on an annual basis. The Chief Financial Officer reports on all investments to the Council quarterly.
In its investment activities the Council is guided by the Trustee Act 2019 (effective from 30 January 2021). 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.

Investments

The Council may hold investments including equity, forestry, property, internal loans and other treasury financial investments (excluding digital currency). These investments do not form part of the Long Term Investment Fundand thisPolicy excludes management of the Long Term Investment Fund which is monitored and reviewed under a separate Council approved Statement of Investment Policy and Objectives.

The 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 the Council. Specific purposes for maintaining investments include:

- For strategic purposes consistent with the Council's LTP
- To reduce the ratepayer burden
- For the retention of vested land
- To hold short term investments for working capital requirements
- To hold investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations
- To hold assets for commercial returns

- To provide 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 (liquidity buffer).
- To invest amounts allocated to accumulated surplus, through restricted reserves and general reserves.
- To invest proceeds from the sale of assets.

The Council recognises that as a responsible public authority, all investments heldshould be low risk. The Council also recognises that low risk investments generally mean lower returns.

The Council will keep under review its approach to all major investments and the credit rating of approved financial institutions. The Council will review its policies on holding investments at least once every three years.

Long Term Investment Fund (LTIF)

The LTIF is managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. External fund managers areappointed to operate the portfolio according to the investment guidelines outlined in the SIPO.

The Council is responsible for:

- Setting the Fund's Investment Strategy, including the level of risk and investment performance objectives, and investment policies after taking advice from the Investment Consultant.
- Determining the appropriate number of investment managers, and selecting and changing those managers as appropriate after having taken advice from the Investment Consultant.
- Monitoring the performance of the investment managers compared to market indices and similar funds, using reporting and advice from the Investment Consultant.
- Reviewing the SIPO annually, including the Investment Strategy, policies, and manager configuration, and instructions to the managers and the Investment Consultant.
- Ensuring that the level of redemptions from the Fund is consistent with the Fund's objective to maintain equity, in terms of amounts available for distribution, between present and future generations.
- Providing cash flow information to the Investment Consultant with respect to future deposits and redemptions.
- Appointing the Investment Consultant.

Financial instruments and credit restrictions for funds under management in the LTIF are separate to that within this Investment Policy and are set out in the Council approved SIPO.

Objectives

Council's primary investment objective is the protection of its investment capital. Accordingly, only approved creditworthy counterparties are acceptable. The Council will act effectively and appropriately to:

- Protect the Council's investments.
- Ensure the investments benefit the Council's ratepayers.
- Maintain a prudent level of liquidity and flexibility to meet both planned and reasonable unforeseen cash requirements.

Equity Investments:

Equity Investments involve the Council holding common stock (ordinary shares) in companies including investments held in CCO/CCTO and other shareholdings. The ownership of equity investments usually involves the receipt of dividends (or a proportionate share of the profits). Equity investments can be sold at any time at a market price. Approval of the Council (and public consultation where appropriate) is required to purchase or dispose of any significant parcels of equity holdings. All income from the Council's equity investments, including dividends, is included in general revenue. The Council reviews performance of these investments on a regular basis.

Borrowing mechanisms to council controlled organisations and council controlled trading organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTO's.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any lending arrangement (direct or indirect) to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the Chief Financial Officer considers the following:

- The credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- The impact on Council's credit standing and rating, debt cap amount (where applied), lending covenants with the LGFA and other lenders, and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate, given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, and term.
- Accounting and taxation impacts of on-lending arrangements.
- Lending arrangements to the CCO or CCTO must be documented on a commercial arms' length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date must be agreed between the parties.

All lending arrangements must be executed under legal documentation (e.g. loan, guarantee) reviewed by Council's independent legal counsel and approved by Council.

New Zealand Local Government Funding Agency Limited:

The Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency (LGFA), and may borrow to fund that investment.

The Council's objective in making any such investment will be to:

a) Obtain a return on the investment; and
b) Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

Because of these dual objectives, the 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. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA. Approved LGFA investments include commercial paper (CP)/bills, secured bonds or borrower notes.

Forestry Investments:

The Council is considering creating a long-term forestry investment in the NZ Emmissions Trading Scheme using carbon credits sequested from planting mixed native forests on Council land throught the district. The Council will monitor its forestry investment with regular reporting to the Audit & Risk Committee, including annual audited financial and carbon credit statements. Any purchase or disposal of these investments requires Council approval.

Property Investments:

Property investments include land, buildings, a portfolio of ground leases and land held for development.

The Council's overall objective is to only own property that is necessary to achieve its strategic objectives. As a general rule, the 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 output of the Council. The Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results.

This assessment is based on the most financially viable method of achieving the delivery of Council services. The Council follows similar assessment criteria in relation to new property investments. Any purchase or disposal of these investments requires Council approval.

Treasury Financial Investments:

Treasury financial investments for cash/liquidity management purposes, involve the Council acquiring financial products, such as bank call and term deposits, bank registered certificates of deposits (RCD), and bank bills of terms no greater than three months. The Council maintains financial investments for the following primary reasons:

- To invest surplus funds from its normal business activities; and
- To invest funds allocated for specific future expenditure, strategic initiatives or to support intergenerational allocations.

The Council's primary objective is to preserve the capital value of investments. Accordingly, investment is restricted to creditworthy institutions (counter parties) that must have a minimum short-term credit rating of A-1 and a long-term credit rating of A from Standard & Poors (or equivalent) (see the Counterparty Exposure Limits in the Appendix). Within its credit constraints contained above the Council seeks to:

- Protect its capital investment
- Ensure investments are liquid
- Diversify the mix of financial investments
- Optimise investment return
- Manage potential capital losses due to interest rate movements, for example, if investments need to be liquidated before maturity

The following principles capture the objectives outlined above and form the key assumptions of the operating parameters contained in Counterparty Exposure Limits:

- Credit risk is minimised by placing maximum limits for each broad class of non-government issuer and by limiting investments to the LGFA, and registered banks within prescribed limits.
- Liquidity risk is minimised by managing maturity terms to future expenditure requirements and ensuring that all investments are capable of being liquidated. Treasury Investments are restricted to a term of no more than three months.
- The Council's Treasury Financial Investments are structured to provide sufficient funds to meet the Council's cash flow and capital expenditure obligations as they fall due.

The Council reviews performance of these investments on a regular basis. Counterparty limits for cash/liquidity management are set out in Appendix 1. These risks are managed in accordance with the Investment Policy.

Approved financial instruments are as follows:

Category	Instrument
Investments	Bank Deposits Bank Certificates of deposit (RCDs) LGFA securities and borrower notes

Internal Borrowing

The Council has the ability to fund internally by way of borrowing from the LTIF, and through the availability of unrestricted reserve funds managed in accordance withthe Council's Investment Policy.

The decision to utilise funds for internal borrowing will be made by the treasury function based on a cost/benefit analysis of expected returns on the investment versus costs of borrowing and the liquidity position of the Council.

The interest cost will be set with reference to margins on external borrowing. Internal borrowing will be restricted to 30% of the current value of the LTIF (capped to a maximum internal borrowing of $39m).

Actual rates of interest charged for internal borrowing will be approved as part of the Long Term Plan process and charged annually in arrears at the weighted average cost of external borrowing (including credit margin and other related costs).

Acquisition and Disposal Investments

With the exception of Treasury Financial Investments, new investments are acquired if an opportunity arises and approval is given by the Council, based on advice and recommendations from Council officers. Before approving any new investments, the Council must give due consideration to the contribution the investment will make in fulfilling the Council's strategic objectives, and the financial risks of owning the investment. The authority to acquire Treasury Financial Investments is delegated to the Chief Financial Officer.

Proceeds from the sale of assets or investments will, in the first instance, be used to repay outstanding borrowings unless otherwise specifically authorised by the Council or as required by legislation.

Transaction and Holding Arrangements

General investments are normally held to maturity date. Where investments are liquidated prior to maturity, approval is obtained from the Chief Executive.
All deliverable or bearer certificates of investments (e.g. bank bills) are held with the Council's dealing bank. The LGFA instruments are managed through various Registries. The Council receives notice of the stocks transferred into its name from those Registries.

Cash Management

Cash management relating to general investments is in accordance with the Liability Management Policy and Investment Policy. The 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, the Council's investment maturities are matched with the Council's known cash flow requirements.

Reporting Procedures

The performance of Council investments is regularly reviewed to ensure the Council's strategic objectives are being met. Both performance and policy compliance are reviewed through regular reporting to the Council. Reporting of the LTIF to the Council is managed in accordance to the SIPO.

Departures from Policy

The Council may, in its discretion, depart from the Investment Policy where it considers that the departure would advance its broader social or other policy objectives. Any resolution authorising an investment under this provision shall note that it departs from the Council's policy and the reasons justifying that departure.

Counterparty Exposure Limits

The Council minimises its credit exposure by:

- Transacting with entities that have a short-term and long-term credit rating from Standard & Poors (or equivalent) of at least A-1 and A respectively.
- Limiting total exposure to prescribed amounts.
- Ensuring investments are liquid.
- Monthly monitoring of compliance against set limits.

Approved Limits

Institution	Minimum S&P Short Term Credit Rating	Minimum S&P Long Term Credit Ration	Total Exposure Limit for each Counterparty (Approved Financial Instruments)
Local Government Funding Agency	A-1	AA-	$15 million
Registered Bank - on balance sheet exposures	A-1	A	$20 million
TSB Bank*	A-2	BBB+	$15 million

Note, these limits are mirrored in the Liability Management Policy. They are not in addition to the limits in that policy.

In determining the usage of the above gross limits, the product weightings which will be used are Investments (e.g. Bank Deposits) – Transaction Principal x Weighting 100% (unless a legal right of set-off exists).

The limit for the Council's transactional banker excludes any balance in the current account. Approval is required from the Council for any alterations to these limits.

If any counterparties' credit rating falls below the minimum specified in the above table then immediate steps are taken to reduce the credit exposure of that counterparty to zero. Exceptions are reported to the Council.

***TSB Bank**
The TSB Bank is currently credit rated by S&P short-term A-2 and long-term BBB+ (stable).

The Council specifically approves the TSB Bank for borrowing purposes and a counterparty exposure up to $15 million for cash management purposes as an exception to the above limits.

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