

# Investment Policy

## Purpose

The purpose of this Investment Policy (the policy) is to outline approved policy and procedures in respect of all Council investments. The formalisation of such policies and procedures will enable investment risk to be prudently managed.

## Objectives

The key objectives of this policy are to:

- Manage investments in accordance with relevant legislation and use best practice from the market as appropriate
- Maximise investment income within prudent levels of risk. Council as a public entity is risk averse and as such will invest in safer assets with lower returns
- Invest in only those investments that are approved under this policy
- Ensure the appropriate liquidity levels are maintained as required and to optimise the use of cash not immediately required
- Manage the risk of interest rate movements
- Enable regular reviews of the performance (risk and return) of investments
- Maintain satisfactory internal controls and procedures to safeguard investments
- Ensure Council recognises when an acquisition or divestment of an investment may require public consultation
- Obtain a revenue return to reduce the reliance on and impact of rates

- Invest in activities that Council believes have a positive impact on the community which contributes to Council's vision and purpose statement
- Meet the obligations imposed by legislation or trusts, bequests and endowments

## Application

This policy applies to any investment made by Council with an expected commercial return. While an investment may have other strategic economic objectives that are being met, the distinction between it and other spending is that it will be expected to generate a future flow of funds at a market rate of return.

## Local Government Act 2002 requirements

This policy is prepared according to sections 102 and 105 of the Local Government Act 2002. The Act requires Council to state the following:

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

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## Mix of investments

Council holds the following mix of investments:

### *Surplus cash and working capital funds*

- Short term on call deposits
- Long term deposits

### *Equity investments*

- 100% ownership of the shares in Whanganui District Council Holdings Limited (WDCHL)
- WDCHL's 100% ownership of the shares in GasNet Limited, New Zealand International Commercial Pilot Academy Limited and Whanganui Port General Partner Limited
- Units in Whanganui Port Limited Partnership
- Shares in Civic Financial Services Limited
- Shares in the NZ Local Government Funding Agency Ltd

### *Property investments*

- City Endowment property portfolio – investment focussed
- Harbour Endowment property portfolio – investment focussed (Ownership and management of the Harbour Endowment portfolio is being transferred to the (either Whanganui Port General Partner Limited or Whanganui Port Limited Partnership – Rob G to confirm)
- Community and operational portfolio (formerly known as the City Freehold property portfolio) – generally includes property held for operational or community purposes
- The contents of each of the property portfolios may change from time to time

### *Forestry investment*

- The Emissions Trading Scheme (ETS) system may accrue a carbon asset that could allow that sale of carbon credits.

### *Loan advances*

- For infrastructure works purposes
- For property freeholding of leasehold land
- For some community groups and activities
- For further capital investment (debt or equity) in subsidiary organisations
- For other investments that meet the Council's general objectives or desired outcomes

## Acquisition/disposition of new investments and revenue

New investments may be acquired if an opportunity arises or if investment supports the Council's desired/required outcomes and is considered the best means of achieving the outcome.

Council believes in socially responsible and ethical investments. Council will avoid investing in activities that would be regarded as socially irresponsible and unethical by a substantial majority of the community.

## Equities

Any equity acquisition or disposal must be approved by the Council. Council generally invests in equity investments to achieve other than just commercial outcomes. Revenue/dividends earned from equity

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investments other than WDCHL is minimal. All income is recognised in the Statement of Comprehensive Revenue and Expense and forms part of general funds.

### Property

Property investments are acquired to provide a better investment mix to any individual portfolio, so adjusting the portfolio will mean sales and purchases of individual properties.

### Council controlled organisations (CCOs)

CCOs are consolidated into the Council's Annual Report according to generally accepted accounting practice. Any surplus generated by the CCO will generally be utilised by the CCO, except in the case that a dividend requirement is set out in the CCO's Statement of intent (SOI) or other such determination. Proceeds from the disposition of any CCO investment will form part of general or special funds. Additions to or disposal of any CCO investment requires Council approval. Council facilitates cost-effective external borrowings if required for CCOs by way of its standing in the marketplace and recognises that there is a financial benefit to CCOs from this. Council can pass funding to CCOs at cost or include a margin to reflect its support.

Any Council borrowing from the LGFA that is on-lent to a CCO/CCTO or any direct borrowing by a CCO/CCTO from the LGFA must be consistent with the policy outlined in the Liability Management Policy.

From time to time Council may provide direct financing to assist in cash flow management. Any funding in this form that is equal to or less than

\$50,000 requires Chief Executive approval. Amounts over \$50,000 must be approved by the Council.

### New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment. The 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 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 and is a Guarantor.

### General monitoring procedure

For equities, the Annual Reports of the entity held are received and reviewed by the Council.

For CCOs, service level agreements between the Council and the CCO and the SOIs record the responsibilities of each party. Most CCOs are managed and reported on by the Council and the Chief Executive of the

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Council is generally delegated to appoint managers while the Council is generally responsible for appointing governance boards for the CCOs.

The Annual Reports of CCOs are generally prepared by Council and are subject to audit.

## Council controlled organisations

### Whanganui District Council Holdings Limited (WDCHL)

#### Objectives

The objectives relating to the ownership of the company are to oversee individual investments and to advise Council on:

- The mix of investments in the portfolio
- The risk of investments in the portfolio
- The management of individual investments in the portfolio
- The overall strategy for investments in the portfolio
- To identify opportunities to enhance investments and returns
- To identify potential new investments that meet council investment objectives
- To identify opportunities to sell investments that no longer meet Council's investment objectives
- To identify appropriate structures that may better enhance focus and management of particular investments

It is the sole responsibility of Council, by resolution, to purchase or sell assets owned by WDCHL.

WDCHL has a 100% interest in GasNet Limited, New Zealand International Commercial Pilot Academy Limited and Whanganui Port General Partner Limited, which is owned by the company.

#### Monitoring

WDCHL is required to submit a SOI to the Council annually. This document outlines what the company will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An Annual Report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with the Council to discuss issues and progress against objectives

#### Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by the Board of Directors and will be discussed with Council from time to time.

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## GasNet Limited

### Objectives

The objectives relating to the ownership of GasNet Limited by WDCHL are to:

- Protect the provision of an infrastructure investment
- Maximise dividends
- Enhance the value and moderate growth in investment

### Monitoring

GasNet Limited is required to submit a SOI to WDCHL annually. This document outlines what the company will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An annual report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with WDCHL to discuss issues and progress against objectives

### Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by the company and will be discussed with WDCHL when they meet.

## New Zealand Commercial Pilot Academy Limited (NZICPA)

### Objectives

The objectives relating to the ownership of NZICPA by WDCHL are to:

- Oversee the establishment and continued viability of NZICPA
- Maximise benefits to Whanganui Airport and the Whanganui community
- Enhance the value and moderate growth in investment

### Monitoring

NZICPA is required to submit a SOI to WDCHL annually. This document outlines what the company will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An annual report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with WDCHL to discuss issues and progress against objectives

### Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by the company and will be discussed with NZICPA when they meet.

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## Whanganui Port

The Whanganui Port operations involves three entities:

- Whanganui Port General Partner Limited (WPGPL: 100% owned by WDCHL)
- Whanganui Port Operating Company Limited (WPOCL: 100% owned by WPGPL)
- Whanganui Port Limited Partnership (WPLP: Council is the Limited Partner and WPGPL is the General Partner. The Crown has a convertible loan interest in the Partnership.)

The establishment of the Whanganui Port entities involved the transfer of Council Port assets, the Harbour Endowment property portfolio and cash to the WPLP.

### Objectives

The objective relating to the ownership of the Port assets are to:

- Oversee the rejuvenation and continued viability of the Whanganui port
- Operate the port in a sound and business-like manner
- Improve the long-term value and financial performance of the port while improving the economic value of the port to Whanganui

While the long-term objective of the port investment is to provide financial returns, initially this investment is for strategic purposes such as retaining local businesses and providing opportunities for new businesses to invest in Whanganui.

In addition to the above objectives, the following objectives relate to the ownership of the Harbour Endowment property portfolio:

- To provide revenue for harbour maintenance operations
- To help fund infrastructure for harbour development
- To maintain the value of the portfolio
- To maintain investment in land and property
- To enhance opportunities for economic development on a commercial basis
- To act as a prudent investor

The Harbour Endowment requires that funds must be invested in property. However, proceeds from investment must be used for harbour purposes. Not all properties within the Harbour Endowment are regarded as investment properties as some are used for operational purposes or are owned for strategic reasons. Proceeds from property sales for the Harbour Endowment are not used for harbour maintenance but remain in the capital fund for the purchase of property.

### Monitoring

All three entities are required to submit a SOI to their shareholder annually (the exception is where Council grants CCO exemption). This document outlines what the entity will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An annual report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with shareholders to discuss issues and progress against objectives

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## Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by each entity and discussed with shareholders.

- A six-monthly report is required to report on progress against the objectives in the SOI
- An Annual Report is required to also report on objectives in the SOI

## Risks

The primary objective for risk management of the airport is to maintain operational efficiency and safety. This is managed by regular Civil Aviation Authority audits.

## Whanganui Airport Joint Venture (WAJV)

Council has 50% ownership of the joint venture with the other 50% owned by the Crown. Council retains ownership of the airport because it is essential for the economic development of the Whanganui District.

## Objectives

WAJV's primary objectives are to:

- Provide high quality facilities and service commensurate with existing levels of aviation activity and in accordance with all the appropriate Acts, Regulations and Rules pertaining to airport and aviation operations in line with the size of Whanganui Airport.
- Operate the airport in a sound and business-like manner.
- Improve the long-term value and financial performance of the airport while improving the economic value of the airport to Whanganui.

## Monitoring

WAJV is required to submit a SOI to the Council annually. This document outlines what the joint venture will be doing in the next three years to meet its objectives. Other monitoring tools are:

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## Property investment portfolios

The objectives for investment and the use of the proceeds from each portfolio differ. The contents of each portfolio may change from time to time to achieve the Council's objectives and outcomes. This section should be read in conjunction with Council's Property Portfolio Investment Plan.

### City Endowment property portfolio

The objectives of ownership of the portfolio are:

- To provide community facilities
- To provide revenue for general operations
- To enhance the value of the portfolio
- To maintain an investment in land and property
- To enhance opportunities for economic development on a commercial basis where prudent
- To act as a prudent investor

A large proportion of the value of the City Endowment property portfolio/fund is invested in property with a cash surplus balance available for reinvestment. Not all properties in the portfolio are regarded as investment properties as some are used for operational purposes or are owned for strategic reasons. Investment proceeds are used for the general purposes of Council. There is a requirement that any proceeds of sale be reinvested in property. Capital funds may be invested short term in cash deposits awaiting property investment and interest on those deposits may be used for general purposes.

### Community and operational portfolio (formerly known as the City Freehold property portfolio)

The objectives of ownership of the portfolio are:

- To provide property to support community activities and the operations of Council
- To enhance opportunities for economic development
- To act as a prudent property owner

The long term objective for the community and operational portfolio would be for all community related properties to be held within this portfolio, with the two Endowments only holding investment properties. This needs to remain a long term objective which can be achieved as and when the rate payer / community and operational portfolio can afford to purchase the community related properties that sit within the two Endowments.

### Monitoring

The Council includes property investments within its annual planning cycle. A property investments business plan has been developed and Council will monitor progress against that.

Quarterly reports are prepared and presented to Council to evaluate performance against the plans.

The Council reviews the performance of its property investments on a regular basis. Targets for returns are included in the 10-Year Plan or Annual Plan.

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Divestment of property investments requires Council approval. Proceeds from the sale of endowment property investments are allocated to the appropriate capital account and used for acquisition of another investment property within that portfolio. Proceeds from other property sales are allocated to general funds and used to repay debt or to fund capital improvements.

## Risks

Risks are assessed as part of the annual process of developing and adopting an Annual Plan or 10-Year Plan. Business plans will be prepared for each portfolio and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. The Audit and Risk Committee and WDCHL will monitor major risks.

## Cash and working capital management

Financial investments are those made in cash deposits or money market term deposits.

The objectives of Council maintaining financial investments are to:

- Invest surplus cash and working capital funds
- Invest amounts allocated to special funds if required
- Invest funds allocated for approved future expenditure to implement strategic initiatives or to support intergenerational allocations if required
- Prefund existing loan maturities
- Invest excess proceeds from the sale of assets if required

Council maintains a cash flow projection (by day) for the financial year and surplus cash is managed on a daily basis.

## Risks

This policy sets operating parameters for financial investment activity including approved counterparties, instruments and limits. The following principles form the key assumptions of the operating parameters contained in the investment framework:

- Credit risk is minimised by placing maximum limits for each broad class of non-Government issuer and by limiting investments to local authorities and registered banks within prescribed limits
- Liquidity risk is minimised by ensuring that all negotiable investments must be capable of being liquidated in a readily available secondary market
- Any financial investments must be restricted to a term of no more than 91 days (unless linked to a debt pre-funding strategy or known capital works programme), ensuring future cash flow and capital expenditure projections are met
- Council may only make financial investments in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are provided below

Council's financial investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments.

Management implements an interest rate risk management strategy by reviewing rolling cashflow forecasts and adjusting the maturity of its investments as appropriate. Interest rate management instruments are not approved instruments.

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### Financial investments - approved issuers, instruments and limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Council. Treasury-related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term credit ratings (Standard & Poor's, Fitch or Moody's) being A+ and above or short term rating of A-1 or above.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term/short term credit rating	Approved investment instruments	Total maximum investment (\$m) (\$m)
NZ Government	N/A	Treasury bills	unlimited

Local Government Funding Agency (LGFA)	A	LGFA borrower notes/Commercial paper	20.0m
NZ Registered Bank	A / A-1	Money market call deposits Money market term deposits Registered certificates of deposits Bank bills	Up to 100% of total portfolio but no more than \$15m with one registered bank

In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (e.g. bank deposits) – transaction amount x weighting 100%.

To avoid undue concentration of exposures, financial investments should be used with as wide a range of approved counterparties as possible. The approval process must take into account the liquidity of the investment and prevailing market conditions the instrument is traded in and repriced from.

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed on an on-going basis and in the event of material credit downgrade this should be immediately reported to the Council and assessed against exposure limits. Counterparties exceeding limits should be reported to

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the Council along with a strategy to achieve policy compliance as soon as practical.

Treasury reporting requirements are outlined in the Liability Management Policy.

### Loan advances

Loan advances may be made from time to time to assist the Council to achieve its investment objectives and Council outcomes. Council approval is required for all loan advances.

Council has made advances with respect to infrastructure works loans to its ratepayers.

Council will make advances and other investments after considering the impact of these on the community and the security and return of the advance. Council may offer advances at concessionary interest rates. According to Section 63 of the Local Government Act 2002, concessionary interest rates are unable to be provided to Council Controlled Trading Organisations.

On occasion, Council may also approve loans to trusts or other community-based organisations where there is social or community benefit to be achieved from the lending. Often such lending might be made at significantly discounted or nil interest rates, again in recognition of the clear social and community benefit that is being provided.

### Delegation of authority and authority limits

Council has the following responsibilities, either directly itself or via the following stated delegated authorities:

Activity	Delegated authority	Limit
Approving and changing policy	The Council	Unlimited
Approving transactions outside policy	The Council	Unlimited
Authorising lists of signatories including seal register signatories	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Opening/closing bank accounts	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Triennial review of policy	Chief Executive or Chief Financial Officer (or delegate)	N/A
Ensuring compliance with policy	Chief Executive or Chief Financial Officer (or delegate)	N/A

All management delegated limits are authorised by the Chief Executive. The following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current

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- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

### Policy review

This Investment Policy is to be formally reviewed on a triennial basis.

The Chief Executive has the responsibility to prepare a review report that is presented to the Council. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

The Council receives the report, approves policy changes and/or rejects recommendations for policy changes.