

HURUNUI DISTRICT COUNCIL

POLICY

INVESTMENT



Adopted: Council meeting 28 June 2012

Replaces:

Review date:

General Policy

Investments are maintained to meet specified business reasons.

Such reasons can be:

1. For strategic purposes consistent with Council's Long Term Plan;
2. To reduce the current ratepayer burden;
3. The retention of vested land;
4. Holding short term investments for working capital requirements;
5. Holding investments that are necessary to carry out Council operations consistent with Annual Plans.

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

In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy. Accordingly, only approved credit worthy counterparties are acceptable.

Investment Mix

Council maintains investments in the following assets from time to time:

- Equity investments, including investments held in CCO/CCTO and other shareholdings.
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development.
- Forestry investments
- Financial investments
- Loan advances for staff and rural housing purposes
- Other.

Equity Investments

Council maintains equity investments and other minor shareholdings.

Council's equity investments fulfill various strategic, economic development and financial objectives as outlined in the LTP.

Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

Dividends received from CCO's and unlisted companies not controlled by Council are recognised when they are received in the consolidated revenue account.

Any purchase or disposition of equity investments requires Council approval and any profit or loss arising from the sale of these investments is to be recognised in the Statement of Comprehensive Income.

Any purchase or disposition of equity investments will be reported to the

next meeting of Council.

Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then included in the relevant consolidated capital account.

Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant sub-committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

Property Investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. As a general rule, 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 Council. 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. Council generally follows similar assessment criteria in relation to new property investments.

Council reviews the performance of its property investments on a regular basis.

All income, including rentals and ground rent from property investments is included in the Statement of Comprehensive Income.

Forestry Investments

Forestry assets are held as long term investments on the basis of net positive discounted cash flows, factoring in projected market prices and annual maintenance and cutting costs.

All income from forestry is included in the Statement of Comprehensive Income.

Any disposition of these investments requires Council approval. The proceeds from forestry disposition are used firstly to repay related borrowings and then included in the relevant consolidated capital account.

Financial Investments

Liquid investment funds will be prudently invested as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
 - Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest may be credited to the particular fund.
 - Internal borrowing will be used wherever possible to avoid external borrowing.
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Financial Investment Objectives

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in the Treasury Risk Management Policy. Credit ratings are monitored and reported quarterly to Council.

Council may invest in approved financial instruments as set out in the Treasury Risk Management Policy. These investments are aligned with Council's objective.

Special Funds and Reserve Funds

Liquid assets are not required to be held against special funds and reserve funds. Instead Council will internally borrow or utilise these funds wherever possible.

Unless otherwise directed by Council, internal borrowing to/ (from) reserves will be undertaken at the external cost of borrowing.

Trust Funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the trust. If the Trusts investment policy is not specified then this policy should apply.

New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Investment 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:

- (a) Obtain a return on the investment; and
- (b) Ensure that the LGFA has sufficient capital to become and 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.

END OF POLICY