



NOTICE OF MEETING

**Notice is hereby given of an
Extraordinary Meeting of the
Performance, Policy and Partnerships Committee
to be held in the Council Chamber, First Floor
Civic Administration Building,
101 Esk Street, Invercargill
On Tuesday 16 February 2021 at 3.00 pm**

Cr D J Ludlow
Cr R R Amundsen
Sir T R Shadbolt, KNZM JP
Cr R L Abbott
Cr A J Arnold
Cr W S Clark
Cr A H Crackett
Cr P W Kett
Cr G D Lewis
Cr I R Pottinger
Cr N D Skelt
Cr L F Soper

CLARE HADLEY
CHIEF EXECUTIVE

A G E N D A

2. **APOLOGIES**

3. **INTEREST REGISTER**

A2279220

4. **LIABILITY MANAGEMENT POLICY**

A3311251

4.1 *Draft Liability Management Policy - Appendix 1*

A3314032

5. **INVESTMENTS POLICY**

A3311780

5.1 *Draft Investments Policy - Appendix 1*

A3324132

10. **URGENT BUSINESS**

11. **PUBLIC EXCLUDED SESSION**

Moved, seconded that the public be excluded from the following parts of the proceedings of this meeting with the exception of the External Advisors, Mr Jeff Grant and Mr Lindsay McKenzie; namely

(a) Confirmation of Long Term Plan Consultation Document and Approach

(b) Confirmation of Draft Rating policy

(c) Confirmation of Draft Long Term Plan Financial Benchmark

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
(a) <i>Confirmation of Long Term Plan Consultation Document and Approach</i>	<p>Section 7(2)(i)</p> <p>Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p>	<p>Section 48(1)(a)</p> <p>That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p>
(b) Confirmation of Draft Rating policy	<p>Section 7(2)(f)</p> <p>Maintain the effective conduct of public affairs through—</p> <p>(i) the free and frank expression of opinions by or between or to members or officers or employees of any local authority, or any persons to whom section 2(5) applies, in the course of their duty; or</p> <p>(ii) the protection of such members, officers, employees, and persons from improper pressure or harassment</p>	<p>Section 48(1)(a)</p> <p>That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p>
(c) Confirmation of Draft Long Term Plan Financial Benchmark	<p>Section 7(2)(f)</p> <p>Maintain the effective conduct of public affairs through—</p> <p>(i) the free and frank expression of opinions by or between or to members or officers or employees of any local authority, or any persons to whom section 2(5) applies, in the course of their duty; or</p> <p>(ii) the protection of such members, officers, employees, and persons from improper pressure or harassment</p>	<p>Section 48(1)(a)</p> <p>That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p>

**INVERCARGILL CITY COUNCIL ELECTED MEMBERS
INTEREST REGISTER**

A2279220

ELECTED MEMBERS			
NAME	ENTITY	INTERESTS	PROPERTY
RONALD LINDSAY ABBOTT	Invercargill City Council Kiwi-Pie Radio 88FM Invercargill	Councillor Director / Broadcaster	
REBECCA RAE AMUNDSEN	Invercargill City Council Arch Draught Ltd BP Orr Ltd Task Ltd Arts Murihiku Dan Davin Literary Foundation Heritage South Glengarry Community Action Group SMAG Board	Councillor Director Director Director Trustee Trustee/Chair Contractor Events Co-ordinator (Volunteer) Council Representative	

**INVERCARGILL CITY COUNCIL ELECTED MEMBERS
INTEREST REGISTER**

A2279220

ALLAN JAMES ARNOLD	Invercargill City Council Ziff's Café Bar Ltd Buster Crabb Ltd Ziff's HR Ltd Ziff's Trust Southland Aero Club Invercargill Club Invercargill East Rotary	Councillor Executive Director Executive Director Executive Director Trustee Administrator Member Member Member	
WILLIAM STUART CLARK	Invercargill City Council Invercargill Ratepayers Advocacy Group	Councillor Member	
ALEX HOLLY CRACKETT	Invercargill City Council Sport Southland McIntyre Dick Zone 6 - National LGNZ Young Elected Members Committee	Councillor Trustee Marketing Manager Representative	High Street Invercargill

**INVERCARGILL CITY COUNCIL ELECTED MEMBERS
INTEREST REGISTER**

A2279220

PETER WARREN KETT	Invercargill City Council Age Concern Southland Kite Investments Limited Invercargill Harness Racing Club Board Member Ascot Consortium	Councillor Board Member Director Vice President and Life Member Member	
GRAHAM DAVID LEWIS	Invercargill City Council Bluff 2024 Rejuvenation Hospice Southland City Centre Heritage Steering Group Southland Regional Heritage Trust Invercargill Public Art Gallery	Councillor Officer Trustee Member Member Member	
DARREN JAMES LUDLOW	Invercargill City Council Radio Southland Healthy Families Invercargill Murihiku Maori Wardens Southland Community Law Centre Thrive Community Trust Environment Southland	Councillor Manager Board Member Board Member Board Member Trustee Lyndal Ludlow (wife) – Councillor	770 Queens Drive Invercargill

**INVERCARGILL CITY COUNCIL ELECTED MEMBERS
INTEREST REGISTER**

A2279220

IAN REAY POTTINGER	Invercargill City Council Southland Electronics Limited Santa Parade Organiser	Councillor Director Alice Pottinger (Wife)	171 Terrace Street Invercargill 9810
TIMOTHY RICHARD SHADBOLT	Invercargill City Council Kiwi Speakers Limited SIT Ambassador	Mayor Director Member	
NIGEL DEAN SKELT	Invercargill City Council Badminton New Zealand Badminton Oceania Badminton World Federation ILT Stadium Southland Judicial Control Authority NZ Racing	Councillor Board Member Vice President Council Member (Chair of Communications and Media) General Manager Member	

**INVERCARGILL CITY COUNCIL ELECTED MEMBERS
INTEREST REGISTER**

A2279220

LESLEY FRANCES SOPER	Invercargill City Council	Councillor	137 Morton Street
	Breathing Space Southland Trust (Emergency Housing)	Chair	Strathern
	Omaui Tracks Trust	Director	Invercargill
	National Council of Women (NCW)	Secretary / Treasurer	24 Margaret Street
	Citizens Advice Bureau	Member	Glengarry
	Southland ACC Advocacy Trust	Board Member	Invercargill
	Southern District Health Board	Employee	
	Southland Warm Homes Trust	Member	
	Southland Food Rescue Trust	Member	

**INVERCARGILL CITY COUNCIL ELECTED MEMBERS
INTEREST REGISTER**

A2279220

EXECUTIVE STAFF			
NAME	ENTITY	INTERESTS	PROPERTY
CLARE HADLEY	Invercargill City Council Hadley Family Trust	Chief Executive Trustee	
DARREN EDWARDS	Invercargill City Council	Group Manager – Customer and Environment	
MICHAEL DAY	Invercargill City Council	Group Manager - Finance and Assurance	
STEVE GIBLING	Invercargill City Council	Group Manager – Leisure and Recreation	
ERIN MOOGAN	Invercargill City Council	Group Manager – Infrastructural Services	
JANE PARFITT	Invercargill City Council Dementia Canterbury Charitable Trust	Advisor – Office of the Chief Executive Board Member	
PETER THOMPSON	Invercargill City Council Southland Charitable Broadcasters Community Trust TOA Fighting Systems Southland Incorporated	Executive Manager - Office of the Chief Executive Chairman President	

TO: POLICY, PERFORMANCE AND PARTNERSHIPS COMMITTEE

FROM: RHIANNON SUTER, STRATEGY AND POLICY MANAGER

AUTHORISED BY: MICHAEL DAY – GROUP MANAGER FINANCE AND ASSURANCE

MEETING DATE: TUESDAY 16 FEBRUARY 2021

DRAFT LIABILITY MANAGEMENT POLICY
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SUMMARY

The Liability Management policy is due for review and is included here for confirmation ahead of consultation, which will take place alongside the Long-term Plan

RECOMMENDATIONS

That the Performance, Policy and Partnerships Committee:

- 1. Receive the report “Draft Liability Management Policy”;**
- 2. Confirm the Draft Liability Management Policy (A3314032) for consultation, which will take place alongside the Long-term Plan.**

IMPLICATIONS

1.	<i>Has this been provided for in the Long Term Plan/Annual Plan?</i> N/A
2.	<i>Is a budget amendment required?</i> N/A
3.	<i>Is this matter significant in terms of Council’s Policy on Significance?</i> Yes
4.	<i>Implications in terms of other Council Strategic Documents or Council Policy?</i> This policy directs how the Council manages debt and other liabilities and aligns with other key financial policies and the financial strategy
5.	<i>Have the views of affected or interested persons been obtained and is any further public consultation required?</i> This draft is presented for consultation to take place alongside the Long-term Plan

FINANCIAL IMPLICATIONS

This policy directs how the Council manages debt and other liabilities and aligns with other key financial policies and the financial strategy which underpins the budget for the Long-term plan.

BACKGROUND

The Liability Management Policy covers how the Council will manage debt. It is a document which is required alongside other financial management policies such as the Revenue and Finance Policy, as well as the Financial Strategy. The policy is due for review.

PROPOSED CHANGES

The policy has been updated to reflect the organisational structural changes at committee and at executive level.

In addition, the policy outlining loan guarantees for community organisations has been brought into the policy.

CONSULTATION

While the proposed changes are small, consultation is nevertheless recommended. This will enable the public to consider the full suite of Council financial policies together alongside the Financial Strategy.

The draft policy will be available on the website and consultation on all policies will be promoted as part of the Long-term Plan consultation process.

Consultation will commence on 30 March 2021 and conclude on 3 May 2021.

CONCLUSION

The draft Liability Management Policy (A3314032) is appended here for confirmation ahead of consultation.



LIABILITY MANAGEMENT POLICY

DRAFT FOR CONSULTATION - Effective from XXXX 2021

Purpose

Council borrows for the following primary purposes:

- General debt to fund Council's capital works primarily on infrastructure assets. The use of debt is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers in relation to Council's assets and investments.
- Short term debt to manage timing differences between cash inflows and outflows, and to maintain Council's liquidity.
- Specific debt associated with significant "one-off" projects and non-financial investments from time to time.
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of Council business.

Scope

Local Government Act 2002 Requirements

Section 104 of the Local Government Act 2002 provides that the Liability Management Policy required to be adopted under Section 102(1) must state the local authority policies in respect of liability management, including:

- (a) Interest rate exposure
- (b) Credit exposure
- (c) Liquidity
- (d) Debt repayment

Objectives

The objectives of the Liability Management Policy are consistent with market best practice and will take into account Council's 10 year plans as set out in the Long-Term Plan. The key Liability Management objectives in relation to borrowings are to:

- Prudently manage Council's borrowing activities to ensure the ongoing funding of Council.
- Borrow only under Council approved facilities and as permitted by this policy.
- Minimise borrowing costs within prudent risk management control limits.

- Manage exposure to adverse interest rate movements.
- Ensure operational controls and procedures to protect Council against financial loss, opportunity cost and other inefficiencies are maintained.

Borrowing Management and Internal Controls

Council approves policy parameters in relation to borrowing activities.

Council approves, by resolution, the borrowing requirement for each financial year in the Annual Plan or Long-Term Plan or by later resolution during the year.

Council considers the impact on its borrowing limits as well as the size and the economic life of the asset that is being funded and its consistency with Council's Long-Term Plan.

A resolution of Council is not required for hire purchase, leased, credit or deferred purchase of goods if:

- The period of indebtedness is less than 365 days; or
- The goods or services are obtained in the ordinary course of operations on normal commercial terms for amounts not exceeding in aggregate \$50,000.

Council's Chief Executive has overall responsibility for the operations of Council.

The Group Manager of Finance and Assurance reviews regular treasury reports to ensure compliance with policies, procedures and risk limits and has overall responsibility for setting risk management strategies in relation to the implementation of this treasury policy. The Group Manager will also oversee the management of Council's relationship with financial institutions and the negotiation of borrowing facilities with bankers, the appointment of brokers/arrangers/managers.

Council's borrowing activities are managed centrally through its accounting function. The accounting function is broadly charged with the following responsibilities:

- Manage Council's borrowing programme to ensure funds are readily available at margins and costs favourable to Council.
- Raise authorised and appropriate borrowing, in terms of both maturity and interest rate strategies.
- Manage the impact of market risks such as interest rate risk and liquidity on Council's borrowing by undertaking appropriate hedging activity in the financial markets.
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall interest costs within budgeted parameters.
- Provide timely and accurate reporting of treasury activity and performance.

Council is prohibited from borrowing in a foreign currency by Section 113 of the Local Government Act 2002.

Interest Rate Exposure

Interest rate risk management refers to managing the impact that movements in interest rates can have on Council's cash flows. This impact can be both favourable and unfavourable. Council's ongoing borrowing requirement gives rise to direct exposure to interest rate movements.

Fixed / Floating Profile

Interest is incurred on any bank funding facility, issuance of local authority stock and other borrowing arrangements. This policy recognises that the longer the term of borrowing, the greater the interest rate risk. Longer term fixed rate borrowings may be of benefit if market interest rates rise, but equally may not allow the Council to take advantage of periods of low interest rates.

A balance is achieved through having variable terms with regard to interest rate resets.

The Council manages its interest rate exposures by defining minimum and maximum hedging percentages within various time buckets. These parameters are reviewed annually by the Group Manager of Finance and Assurance. Any changes recommended must be approved by the full Council before inception. The table below shows an example of how minimum and maximum hedged or fixed rate exposure requirements within various time buckets are detailed in operational procedure and reporting documentation.

Interest Rate Maturity Profile Limit		
	Minimum Fixed Rate	Maximum Fixed Rate
Zero to two years	50%	100%
Two to five years	30%	80%
Five to ten years	0%	60%

Any hedging outside the determined parameters or for longer than 10 years must be approved by the Council, before initiation.

When managing the interest rate risk of the Council the hedging percentages relate to total core debt. Core debt cannot exceed borrowing projections as per the Long-Term Plan or Annual Plan or as approved by the Council.

Interest Rate Risk Management Contracts

Interest rate risk can be managed by using interest rate risk management contracts that allow the re-profiling of the portfolios including the:

- Hedging of up to 100% of repricing risk on existing fixed rate debt and issue yield risk on planned new debt within the next 12 month period.
- Converting fixed rate borrowing into floating rate or hedged borrowing and floating rate borrowing into fixed or hedged borrowing within the overall parameters of this policy.

The following interest rate risk management instruments are approved by Council:

- Interest Rate Swaps
- Forward Rate Agreements
- Interest Rate Options on approved underlying instruments, e.g. on Interest Rate Swaps or bonds.
- Interest Rate Collar Strategy, but only where the ratio of the face value and interest rate exposure on bought to sold legs is 1:1.

Credit Exposure

Council hedging can only be undertaken with approved New Zealand Registered Banks.

Liquidity and Funding Risk

Liquidity management refers to the timely availability of funds to Council when needed, without incurring penalty costs. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and terms of existing facilities. A key factor of funding risk management is to reduce the concentration of risk at any one point in time so that if one-off internal or external negative credit events occur, the overall interest cost is not unnecessarily increased.

The following guidelines have been established to provide Council with appropriate levels of liquidity at all times, as follows:

- Cash flow forecasts will be produced to assist in the matching of operational and capital expenditure to revenue streams and borrowing requirements.
- Council will maintain its financial investments in liquid instruments.
- Council will ensure that, where sinking funds or Council created investments are maintained to repay borrowing, these investments are held for maturities not exceeding the relevant borrowing repayment date.
- To minimise the impact of unexpected cash surpluses, the Council will take advantage of the efficiencies of any floating rate loan facility.

The following guidelines have been established to control funding risk:

- To avoid concentration of debt maturity dates no more than 50% or \$25 million (whichever is the highest) of total debt can be subject to refinancing on a rolling 12 month basis. Total debt is defined as total existing external debt.

Debt Repayment

Repayment of debt (interest and principal) is governed by:

- Affordability of debt servicing costs.
- Intergenerational equity principles (debt will be repaid over the life of the asset or an appropriate period of time determined by the asset involved, whichever is the lesser).
- Maintenance of prudent debt levels and borrowing limits.

- Council repays borrowings from general, special funds, the existing specific sinking fund, or operating surpluses allocated to that borrowing.
- Where a loan is raised for a specific purpose and the funds are no longer required, the funds will be used to repay existing debt or held in a special fund until the funds can be applied against a future borrowing.

Borrowing Mechanisms

In developing strategies for new borrowing (in relation to source, term, size and pricing) Council takes into account the following:

- Available and Council approved sources, terms and types of borrowing.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates, margins and total cost relative to term and nature of the borrowing.
- The market's outlook on future interest rate movements as well as Council's own.
- Legal documentation and financial covenants.

Guarantees

Council provides guarantees for banks for loans between the bank and non-profit bodies where Council considers the guarantee to be beneficial to the community and in accordance with the following parameters:

- The loan must be in the name of a legally constituted body.
- To qualify for a guarantee, the proposed works should be such as are not available for normal security when situated on Council reserve.
- The guarantee must be required by the lender.

The organisation must provide the Council with satisfactory evidence of its ability to repay the loan, on the terms specified for the loan. To that end the organisation shall supply the latest annual accounts and such other information as may be available in support of its application. A three-year projection of the organisation's financial ability to meet loan repayments should be included.

- Where the loan is for an insurable asset, such as a building, it shall be insured in the joint names of the Invercargill City Council and the applicant organisation for full replacement value (not the indemnity value).
- The loan shall be subject to personal guarantees, by way of a legal document, from persons acceptable by the Council. Such personal guarantees shall remain in force until the loan is fully paid off and shall not reduce proportionality to repayments.
- In consideration of the guarantee, the organisation which will benefit shall pay an annual charge of 1/2% of the amount guaranteed either to form a fund from which any liability of the Council could be met, or for administration purposes. Such a percentage, together with the personal guarantees suggested, will tend to make an application for guarantees more realistic.
- In the event of the Council being required to meet a guarantee all the assets of the organisation revert to the Council. To ensure that these assets are kept in good repair the Council shall have the right to inspect assets and request any action necessary to maintain them in good repair.

- Guarantees require the approval by way of Council resolution.

Leases

Council utilises finance leases (as opposed to an operational lease ie renting) as a means of financing some office equipment.

Approved Risk Management Instruments

Interest Rate Swap (“IRS”)

An interest rate swap is an agreement between Council and a counterparty (usually a bank) protecting Council against a future adverse interest rate movement. Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties agree to a notional principal amount, the future interest rate, the settlement dates and the benchmark floating rate, which is usually off the Reuters page containing the daily rate sets for BKBM (bank bill reference rates).

Objective

To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period. Floating rate sets are typically every three or six months over the life of the swap.

Example

Council fixes its interest rate for three years at 6.50%, on a quarterly basis on a portion of its planned borrowings by entering into a three year 6.50% fixed rate swap. The floating rate reference is three month BKBM.

Outcome

On a swap-reset date, the three month bank bill rate is at, say 4.75%. Council borrows from its bank the principal, for three months at 4.75% plus Council's margin. At the same time the bank pays Council 4.75% on the principal amount for a three month period. Council then pays the bank 6.50% on the principal amount for a three month period. This means that Council's effective interest rate is 6.50% plus its margin. In practice cash flows would be netted off if the swap and the underlying borrowing facility were with the same bank.

Monitoring and Auditing

The Audit and Risk Committee will monitor the application of this Policy via reports from Executive staff.

Revision History:

Reference Number: **A3314032**

Effective Date: TBC

Review Period: This Policy will be reviewed every six (6) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.

Supersedes: 2017 Liability Management Policy

New Review Date: TBC

Associated Documents/References:

Policy Owner: GM – Finance and Assurance, Invercargill City Council

TO: PERFORMANCE, POLICY AND PARTNERSHIPS COMMITTEE
FROM: RHIANNON SUTER, MANAGER – STRATEGY AND POLICY
AUTHORISED BY: MICHAEL DAY – GROUP MANAGER FINANCE AND ASSURANCE
MEETING DATE: TUESDAY 16 FEBRUARY 2021

DRAFT INVESTMENTS POLICY

SUMMARY

The Investments policy is due for review and is included here for confirmation ahead of consultation, which will take place alongside the Long-term Plan
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RECOMMENDATIONS

That the Performance, Policy and Partnerships Committee:

1. **Receive the report “Draft Investments Policy”;**
2. **Confirm the Draft Investments Policy (A3324132) for consultation, which will take place alongside the Long-term Plan.**

IMPLICATIONS

1.	<i>Has this been provided for in the Long Term Plan/Annual Plan?</i> N/A
2.	<i>Is a budget amendment required?</i> N/A
3.	<i>Is this matter significant in terms of Council’s Policy on Significance?</i> Yes
4.	<i>Implications in terms of other Council Strategic Documents or Council Policy?</i> This policy directs how the Council manages investments and aligns with other key financial policies and the financial strategy
5.	<i>Have the views of affected or interested persons been obtained and is any further public consultation required?</i> This draft is presented for consultation to take place alongside the Long-term Plan

FINANCIAL IMPLICATIONS

This policy directs how the Council manages investments. It aligns with the financial strategy which underpins the budget for the Long-term Plan.

A3311780

BACKGROUND

The Investments Policy covers how the Council will manage investments. It is a document which is required alongside other financial management policies such as the Revenue and Finance Policy, as well as the Financial Strategy. The policy is due for review.

PROPOSED CHANGES

No significant changes are proposed. The policy has been updated to reflect the organisational structural changes both at committee and at executive level.

CONSULTATION

While there are no significant proposed changes, consultation is nevertheless recommended. This will enable the public to consider the full suite of Council financial policies together alongside the Financial Strategy.

The draft policy will be available on the website and consultation on all policies will be promoted as part of the Long-term Plan consultation process.

Consultation will commence on 30 March 2021 and conclude on 3 May 2021.

CONCLUSION

The Draft Investments Policy is appended here for confirmation ahead of consultation.



INVESTMENT POLICY

DRAFT FOR CONSULTATION - Effective from XX 2021

Purpose

Council holds financial investments sufficient to match reserve accounts created by Council resolution and as a result of short term cash flow surpluses.

Local Government Act 2002 Requirements

Section 105 of the Local Government Act 2002 provides that the Investment Policy adopted under Section 102(1) must state Council policies in respect of investments, including:

- (a) The mix of investments,
- (b) The acquisition of new investments,
- (c) An outline of the procedures by which investments are managed and reported on to Council.
- (d) An outline of how risks associated with investments are assessed and managed.

Objectives

The objectives of this Investment Policy are consistent with market best practices and will take into account the requirements of Council's Annual Plan and Long-Term Plan. The key Investment Policy objectives are to:

- Prudently manage Council's investment assets in the interests of the Council's district and its inhabitants and ratepayers, only for lawful purposes and so as to safeguard against loss.
- Manage investments in accordance with the Local Government Act 2002; administer, manage and account for its funds and exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.
- Maximise investment income within a prudent level of investment risk. Council recognises that as a responsible public authority any investments that it does hold should be of relatively low risk. It also recognises that lower risk generally means lower returns.
- Invest only in approved securities and asset classes as permitted by this policy. Accordingly, only creditworthy counterparties are acceptable.
- Ensure investments are maintained at an appropriate level of liquidity to enable the provision of cash flow when required.
- Minimise potential risk due to adverse interest rate movements.

- Regularly review the performance and credit worthiness of all investments.
- Maintain operational controls and procedures to best protect Council against financial loss, opportunity cost and other inefficiencies.

Investment Management and Internal Controls

Council approves policy parameters in relation to borrowing and investment activities.

In making any investment decisions the Group Manager Finance and Assurance considers:

- The desirability of diversifying investments.
- The nature of existing investments.
- The risk of capital loss or depreciation.
- The potential for capital appreciation.
- The likely income return.
- The length of the term of the proposed investment.
- The marketability of the proposed investment during, and on the determination of the term of the proposed investment.
- The effect of the proposed investment in relation to tax liability.
- The likelihood of inflation affecting the value of the proposed investment.

Council's Chief Executive has overall responsibility for the operations of Council.

The Group Manager Finance and Assurance has financial management responsibility over Council's investments.

Investment Portfolio

An investment is an asset held by Council that provides service potential or future economic benefit to Council. Investments include property; ownership in Council related trading entities and financial assets. A financial asset is any asset that is cash or the contractual right to receive cash including the financial investment instruments.

Council invests in the following assets:

- Financial investments (excluding day to day cash management activity).
- Property investments.
- Cash and working capital management.

Financial Investments

Council maintains financial investments for the following primary reasons:

- Invest amounts allocated to special reserves.
- Invest surplus cash and working capital funds.

The following are approved financial investments:

- Government investments (treasury bills, government stock).
- New Zealand Registered Bank investments (call and term deposits, registered certificates of deposit), subject to Counterparty Exposure Limits.
- Local authority investments subject to Counterparty Exposure Limits.

- State Owned Enterprise investments subject to Counterparty Exposure Limits.
- Corporate investments (corporate bonds, promissory notes) subject to Counterparty Exposure Limits.

Acquisition/Disposition and Revenue

Interest income from financial investments is credited to general funds or special reserves and is included in the Statement of Comprehensive Revenue and Expenses.

Proceeds from the disposition of financial investments are used for operational and capital expenditure purposes or for the purpose for which they have been established, as approved in the Annual Plan or Long-Term Plan.

Management Procedures

Financial investment strategy is set by the Group Manager Finance and Assurance and implemented by the Finance Team of Council with day to day management centrally through its treasury function. The treasury function is broadly charged with the following responsibilities:

- Assist the Group Manager Finance and Assurance in developing its investment strategy by reviewing on a regular basis, cash flow forecasts incorporating plans for approved expenditure and strategic initiatives, evaluation of the outlook for interest rates and the shape of the yield curve, and where applicable, seeking appropriate financial advice.
- Develop and maintain professional relationships with the financial markets in general and Council's main relationship bank in particular.
- Manage Council's investments within its strategic objectives and ensure that surplus cash is invested in liquid and creditworthy instruments.
- Manage the impact of market risks such as interest rate risk and liquidity on Council's investments and currency risk on investments by undertaking appropriate hedging activity in the financial markets.
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall revenues within budgeted parameters.
- Manage the overall cash and liquidity position of Council's operations.
- Provide timely and accurate reporting of treasury activity and performance for management and the Council.

Investment Risk: Credit Risk – Counterparty Exposure Limits

Council's primary objective when investing is the protection of its capital. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their Standard and Poor's (S&P) rating except for unrated Local Authorities secured by charge over rates, which are governed by individual counterparty limits.

More specifically, Council minimises its credit exposure by:

- Ensuring all investment, cash management, interest rate risk management and any foreign exchange transactions are undertaken with entities (excluding Government) that have a Standard and Poor's (S&P) credit rating of at least A2 for short term and A- for long term except for unrated Local Authorities secured by charge over rates, which are governed by individual counterparty limits and State Owned Enterprises which must have minimum credit ratings of A2 and BBB respectively.
- Limiting total exposure to prescribed amounts and portfolio limits.
- Rigorous monitoring of compliance against set limits.

Council approval is required to add to or delete from the counterparty exposure limits. The following table summarises credit requirements and limits:

Institution	Minimum S&P Short Term Credit Rating ¹	Minimum S&P Long Term Credit Rating ²	Total Exposure Limit for Each Counterparty	Portfolio Limit (% of Total Portfolio)
Government	N/A	N/A	Unlimited	100%
New Zealand Registered Banks				
➤ On balance sheet exposures	A2	AA-	\$35 million	80%
➤ Off balance sheet exposures	A2	AA-	\$10 million	N/A
Strongly Rated Corporates, SOEs (on balance sheet exposures only), Local Authorities with rates as security (on balance sheet exposures only)	A2 (N/A for Local Authorities)	A- (BBB for SOEs, N/A for Local Authorities)	\$5 million [Face Value]	50%

1. Short term refers to securities with a remaining maturity of 12 months or less.
2. Long term refers to securities with a remaining maturity of more than 12 months.

If any counterparty's credit rating falls below the minimum specified in the above table then all practical steps are taken to reduce the credit exposure to that counterparty to zero as soon as possible or in any case within three months of the downgrade being notified. Exposures to each counter party are computed as follows:

On-Balance Sheet

- Total principal invested with that counterparty.
- International equities currency exposure on foreign currency hedging converted on the day at the spot rate.

Off-Balance Sheet

Credit exposure on interest rate contracts computed by multiplying face value of outstanding transactions by an interest rate movement factor of 5%, per calendar year or part thereof of the life of the instrument.

Interest Rate Risk

Interest rate risk refers to the impact that movements in interest rates can have on Council's cash flows. Council's financial investments give rise to direct exposure to interest rate movements. Interest rate risk is managed by Council as part of its overall investment strategy.

The following interest rate risk management instruments are approved by Council:

- Interest Rate Swaps.
- Forward Rate Agreements.
- Interest Rate Options on approved underlying instruments, eg on Interest Rate Swaps or bonds.
- Interest Rate Collar Strategy, but only where the ratio of the face value and interest rate exposure on bought to sold legs is 1:1.

Council does not enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

Liquidity Risk

Liquidity risk management refers to the timely availability of funds to Council when needed, without incurring penalty costs.

Because of Council's credit rating criteria, all investments would be readily saleable in the secondary market, which addresses Council's liquidity requirements, even though there may be a pricing risk if there was a forced sale in adverse market conditions. Nevertheless, at least 25% of financial investments must mature within the ensuing 12 months.

The average duration* of the total investment portfolio would normally be between two and three years.

* *Duration is a mathematically calculated term representing the average of the time weighted cash flows of the investment, discounted at current yields.*

Property Investments

Council's property investments include:

- Property owned by Council either for the development needs of the district or for investment purposes which could include land, buildings and ground leases.

Council's primary objective for property owned for development needs or for investment purposes is that it is important for the economic, physical and social development of the Invercargill district and to achieve an acceptable rate of return. Council generally follows a similar assessment criteria in relation to the acquisition of new property investments.

Acquisition/Disposition and Revenue

Prior to acquisition of property for the development needs of the district or for investment purposes the property will be assessed as follows:

- Property for the development needs of the district – a financial and non financial assessment of economic, physical and social benefit to the district, the cost of owning the property and the cost of ownership and assessment.
- Investment property – a financial assessment including a calculation and assessment

of the total cost of ownership, and the likely returns to be generated from that ownership.

Proceeds from the disposition of property investments are used for retirement of debt relating to such property, or allocated to general funds, endowment funds or special funds. All income from property investments is shown in the Statement of Comprehensive Revenue and Expenses and forms part of general funds.

Management Reporting and Procedures

Council reviews the performance of its property investments on at least a six monthly basis, and ensures that the benefits of continued ownership are consistent with its stated objectives.

Investment Risks

Insurance cover is held for all property investments. A risk assessment is carried out prior to acquisition of a property investment.

Cash and Working Capital Management

Cash management deals with the net balance in Council's main bank accounts. The treasury function is responsible for managing Council's cash surpluses and/or deficits.

Council maintains a Daily Balancing Report (bank reconciliation) and short term and long term cash flow projections which are updated weekly and which form the basis of its cash management activity. Generally cash management surpluses are available for periods less than 90 days.

Cash management instruments are limited to:

- Call deposits with New Zealand Registered Banks.
- Corporate Commercial Paper with a maturity less than three months.
- Term deposits (less than three months) with registered banks.
- The use of interest rate risk management instruments on cash management balances is not permitted.

Cash and the counterparties on cash management instruments may only be invested with approved counterparties within the limits detailed.

Monitoring and Auditing

The Risk and Assurance Committee will monitor the application of this Policy via reports from Executive staff.

Revision History:	21 November 2017 (A804694)
Reference Number:	A3324132
Effective Date:	TBC
Review Period:	This Policy will be reviewed every six (6) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.
Supersedes:	2017 Investment Policy
New Review Date:	June 2027
Associated Documents/References:	
Policy Owner:	Invercargill City Council



Appendix 1

Approved Risk Management Instruments

Examples of the Use Derivative Products

Forward Rate Agreement

An agreement between Council and counterparty (usually a bank) protecting Council against a future adverse interest rate movement. Council and the counterparty agree to a notional future principal amount, the future interest rate, the date and the benchmark rate, which is contained on the Reuters system.

Objective

To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period. A Forward Rate Agreement (FRA) typically applies to a three month period, starting at some point within the next 12 months.

Example

Council wishes to provide certainty on a portion of its floating rate borrowings over the event risk posed by an expected change in monetary policy at a point in the future. A borrower's FRA is purchased in say, March, at 6.00% for protection through the June to September period. It is described as a 3X6 FRA, ie the rate applies to a borrowing for three months starting in three months' time.

Outcome

If on the rate set date in June, the three month interest rate has climbed to, say, 8.00%, Council receives the difference between this and the FRA rate of 6.00%. It then borrows at 8.00%, the payment received making the effective borrowing rate 6.00%, plus its margin.

Interest Rate Swap

An interest rate swap is an agreement between Council and a counterparty (usually a bank) protecting Council against a future adverse interest rate movement. Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties agree to a notional principal amount, the future interest rate, the settlement dates and the benchmark floating rate, which is usually off the Reuters page containing the daily rate sets for BKBM (bank bill reference rates).

Objective

To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period. Floating rate sets are typically every three or six months over the life of the swap.

Example

Council fixes its interest rate for three years at 6.50%, on a quarterly basis on a portion of its planned borrowings by entering into a three year 6.50% fixed rate swap. The floating rate reference is three month BKBM.

Outcome

On a swap-reset date, the three month bank bill rate is at, say 4.75%. Council borrows from its bank the principal, for three months at 4.75% plus Council's margin. At the same time the bank pays Council 4.75% on the principal amount for a three month period. Council then pays the bank 6.50% on the principal amount for a three month period. This means that Council's effective interest rate is 6.50% plus its margin. In practice cashflows would be netted off if the swap and the underlying borrowing facility were with the same bank.

Interest Rate Collar

The combined purchase (or sale) of a cap or a floor with the sale (or purchase) of another floor or cap. Unlike an outright option purchase there is no premium payable but conversely participation in favourable movements is limited.

Objective

To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period, but at the same time avoid the need to pay an up front premium.

Example

Council wishes to secure a worst case borrowing rate of 7.50% for the next five years, but wishes to avoid paying a premium. In exchange for the worst case protection at 7.50%, Council accepts a best case outcome at 6.00%. In this structure Council has bought and sold options, with the respective option premiums offsetting each other. On each quarterly rate set date Council will have a rate between 6.00% and 7.50%, the parameters of the collar.

Outcome

If on each rate set date the three month interest rate is in excess of 7.50% Council exercises its option and pays 7.50%, for that three month period, its worst case rate. If on each rate set date the three month interest rate is below 6.00%, the bank exercises its option on Council and Council pays 6.00%, Council's best case rate. If on any rate set date the three month interest rate is between 6.00% and 7.50%, Council borrows at the market rate.