

## 1. Introduction

**This policy has been established to ensure prudent financial management of Council investments.**

The policy incorporates the requirements of the Local Government Act and should be read together with the Liability Management Policy. Together they form the Treasury Management Policy of the Council.

The policy includes the Christchurch City Council Sinking Fund Commissioners. Investments held by Council-controlled trading organisations (CCTOs) and other subsidiary companies are excluded.

To determine the scope of this policy, the definition of terms used shall be that of the Local Government Act and Accounting Standards.

## 2. Principles

**The following principles underlie the policy:**

- 2.1 Investments shall be managed to maximise the return to the Council consistent with the purpose of the investment but within the prudent risk management parameters detailed in this policy.
- 2.2 The Council shall maintain a prudent mix of investments.
- 2.3 Council investment management shall as far as possible be risk averse.
- 2.4 Any investments made outside of the policy require specific Council resolution.
- 2.5 Interest-rate exposure and yields on investments are to be managed according to the interest rate risk management practices outlined in this policy.
- 2.6 Hedging, if used, must be related to an actual physical investment and its ultimate return.

# investment policy

## 3. Investment categories subject to the policies - their purpose

The Council's investments are made for a range of purposes and fall broadly into five categories:

- 3.1 General Funds Investments
- 3.1.1 These investments are held for general Council use in the form of financial investments to provide general finance. Typically, they are invested on a commercial basis to produce a financial return for the Council to use in its ordinary course of business.
- 3.1.2 General Funds may be invested in the following investment sub-types as detailed in section 4 of this policy:
- Sub-types 4.1 to 4.8 (inclusive) 4.10 and 4.11,
- 3.2 Equity investments in Council Controlled Trading Organisations (CCTOs) and other subsidiary companies
- 3.2.1 The Council holds equity investments in a range of CCTOs and other subsidiary companies for a mix of the following purposes:
- Providing a rate of return on the investment to be used for general revenue purposes.
  - Ensuring that ownership of essential infrastructural facilities with monopoly characteristics remain in community ownership.
  - Separating trading activities or services from the ordinary operations of the Council in the interest of transparency, efficiency and competitiveness of pricing.
- 3.2.2 These investments are made up of:
- A majority interest in major utility CCTOs and other companies through a 100% interest in Christchurch City Holdings Limited, listed in Appendix A, Schedule 1.
  - 100% interest in CCTOs that have been established primarily to provide service delivery to the Council on a commercial basis, listed in Appendix A, Schedule 2.
  - Significant interest in CCTOs primarily for income purposes but recognised as being of benefit to the local economy, listed in Appendix A, Schedule 3.
- 3.3 Property held for investment purposes
- Investment properties are defined as being held for market return purposes and having no Council operational function.
  - The decision to hold or dispose of investment property is driven by the performance of this investment compared with similar properties in the market.
- 3.4 Investment of reserve funds including trust funds and the Capital Endowment Fund
- 3.4.1 These reserve and trust funds have the following characteristics:
- The Council has resolved to set aside funds for a specific, defined future purpose.
  - The Council has defined a minimum holding of the Emergency Capital Fund, set at \$5,000,000 to provide a first source of funding available in the case of an emergency arising from a natural disaster.
  - Estimates of the value of each separate reserve fund including revenue projections are prepared each year.
  - These funds are available for appropriation in the Annual Plan to finance expenditure incurred for the purpose of the fund.
  - The investments that make up the Reserve Funds can be held in common with General Funds investments with the earnings apportioned to each separate fund or may be invested separately with professional fund managers in managed portfolios of investments.
- 3.4.2 Reserve and trust funds may be invested in the following investment sub-types as

detailed in section 4 of this policy

- Sub-types 4.1 to 4.8 (inclusive) 4.11 and 4.12.

### 3.4.3 Capital Endowment Fund

The Council has invested \$75million of capital repatriation funds received from Christchurch City Holdings Ltd in a separate fund known as the Capital Endowment Fund. It is intended that the fund be divided into capital of \$71.5million and fluctuation reserves of \$3.5million and that the capital of this fund will be held together with sufficient income capitalised annually to cover inflation. The fluctuation reserve will vary depending on returns from investments. The balance of the income will be available to the Council to provide for economic development projects and civic and community projects that will enhance the city or region. Summaries of the Council resolutions creating the Capital Endowment Fund are set out in Appendix B.

1. For the Capital Endowment Fund the investment objectives are:

- Maintain the real value of the capital of the Fund with regard to inflation.
- Maximise the value of the fund and therefore the amount that can be distributed from the Fund over the long term, subject to a prudent level of portfolio risk.
- Maintain a degree of consistency in the amounts that can be withdrawn on an annual basis.

2. To fulfil the objectives for the Capital Endowment Fund the following investment criteria will be followed in addition to those elsewhere in this policy:

- Responsibilities under common law and statute must be met.
- The inflation-adjusted capital of the fund shall not be withdrawn.
- An appropriate level of portfolio risk will be determined and accepted by the Council in consultation with professional advisors.

- An appropriate level of diversification of investments in portfolios across securities, sectors, asset classes and countries must be maintained.
- The investment portfolio will accept risks in a prudent manner and investment risk will be minimised for the expected level of return.
- The capital of the investment portfolio will be preserved on a quarterly basis by adjusting for (positive) changes in the Statistics New Zealand All Groups CPI.
- An investment fluctuation reserve must be maintained to finance budgeted distributions from the fund.
- Liquidity must be considered and maintained at an appropriate level.
- The investment structure must be able to accommodate changes in the fund's requirements and the investment environment.
- All aspects of the investment process and functions will be reviewed regularly in accordance with the investment performance criteria in section 5.

### 3.5 Sinking Fund Investments

3.5.1 These funds are held by the Commissioners appointed by the Council on trust for the repayment of Council loans in accordance with the Council's Liability Management Policy.

3.5.2 Sinking Funds may be invested in the following investment sub-types as detailed in section 4 of this policy:

- 4.1 to 4.3 (inclusive).

3.5.3 Management of Sinking Fund investments shall be subject to the procedures outlined in sections 5 and 6 of this policy.

# investment policy

## 4. Types of investments

The Council may hold the following types of investments. See other sections of this policy for restrictions on the management of each type:

- 4.1 Bank deposits, bank accepted bills and bank issued certificates of deposit
- 4.2 Short Term Promissory Notes issued by suitably rated companies and also Local Authorities within the credit risk parameters outlined in this policy.
- 4.3 Stocks and bonds issued by Government, SOEs, Local Authorities Registered Banks and suitably rated Corporate entities within the credit risk parameters outlined in this policy.
- 4.4 Loans to CCTOs and other subsidiary companies
- 4.5 Loans to individuals (for Council approved purposes)
- 4.6 Loans to community organisations
- 4.7 Loans to non-Council entities to facilitate community infrastructural asset creation as approved specifically by the Council
- 4.8 Shares in (listed) public companies
- 4.9 Shares in CCTOs and other subsidiaries
- 4.10 Real estate held for investment purposes
- 4.11 Professionally managed (external to the Council) portfolios of investments, either by direct investment or through Unit Trusts, including:
  - Equities both New Zealand and overseas domiciled
  - Fixed interest, both New Zealand and overseas domiciled

- Short term cash
- Real estate.

4.12 Other investments the Council may from time to time resolve.

## 5. Outline of Procedures for Management of Each Type of Investment

### 5.1 General Procedures

- Each type of investment shall be prudently managed having regard to the purpose for which the investment was made and the needs of the Council.
- Delegated authority to act on all investments in accordance with this policy, (except Real Estate, Professionally Managed Funds, and equity investments in CCTOs and other subsidiary companies) is granted to any one of the Director of Strategic Investment, Funds and Financial Policy Manager, Funds Accountant, Financial Analyst, and Financial Services Manager. The primary responsibility lies with the Funds Accountant.
- The Director of Strategic Investment shall appoint a Treasury Review Team to:
  1. Monitor investments in the context of this policy
  2. Develop an overall interest-rate view and strategy
  3. Develop an investment-management strategy
  4. Approve and maintain operational guidelines developed for the proper ongoing monitoring and management of the Council's investments made under this policy.
- The Council's independent treasury advisor will be part of the Treasury Review Team on an ex-officio basis.
- The Treasury Review Team shall form a view on future interest rates based on independent professional advice. The view shall be revised at least quarterly and shall be used to guide the overall investment strategy. The Funds Accountant will

have the primary responsibility for the ongoing development of the interest rate view and the ongoing management of the investments of the Council within the overall investment strategy developed by the Treasury Review Team.

- Appropriate reporting requirements will be detailed in the operational guidelines and will include a requirement to report quarterly to the Strategy and Finance Committee.

## 5.2 Short-term liquid investments - Bank deposits and promissory notes

Investment of this type will be managed on the following basis:

- The objective is to minimise the holding whilst having regard to liquidity needs and investment return.
- Invested in authorised bank instruments in accordance with the criteria outlined in section 6 of this policy.
- Compliance with the policy rules on acquisition, disposal, and the settlement process in accordance with the criteria outlined in section 6 of this policy.
- Interest rate risk management has an objective to maximise yield based on the interest rate view formed by the Treasury Review Team as outlined in section 5.1 of this policy.
- The maturity profile of investments will be based on the need for cash funds derived by the daily liquidity needs forecast.

## 5.3 Long-term Financial investments of authorised stocks and bonds

- The objective is to maximise the holding whilst having regard to liquidity needs and investment return subject to the size of funds available for investment and the maturity profile matched to the expected need for liquid funds.
- To minimise credit risk, the investments with any one issuer are subject to the limits as defined in section 6 of this policy.
- The interest view, formed by the Treasury Review Team, together with the

yield and maturity profile of the investments will form the basis of determining action required. In addition, the Funds Accountant is authorised to use hedging instruments to change the interest-rate exposure and to change the financial impact of the terms of the investment asset.

- The Council will seek to maximise yields either by primary investment or incidental arrangement.
- The procedures on acquisition, disposal, and the settlement process is set out in section 6 of this policy.

## 5.4 Loans to CCTOs and other subsidiary companies

- Loans to CCTOs and other subsidiary companies shall be made only after Council authorisation of the total amount, source of funds, security and the general terms.
- The Director of Strategic Investment is authorised to determine the specific terms and conditions of the loan, the maturities and interest cost.
- The administration of the loan investment can be delegated to staff as per section 5.1.

## 5.5 Loans to non-Council entities to facilitate community infrastructural asset creation

- Loans shall be made only after Council authorisation.
- Such authorisation shall include the total amount, source of funds, security and the general terms.
- The Director of Strategic Investment is authorised to determine the specific terms and conditions of the loan, the maturities and interest cost.
- The administration of the loan investment can be delegated to staff as per section 5.1.

# investment policy

## 5.6 Loans to individuals, and to community organisations

- These are subject to authorisation by the Council (or Committee if delegated) either on a one-off basis or by class (for example, the drainage conversion loans).
- The funding source will be nominated in each case, mainly Reserve Funds, to avoid the need for rate funding.
- If the source of funding is a specific reserve fund set up for the purpose of making loans (eg the Community Loans Fund), the loans made will be limited to the quantum of that fund.
- If the source is the Emergency Capital Fund then the funds available will be limited to 20% of the funds in excess of \$5,000,000. The minimum liquid cash reserve required is \$5,000,000.
- If the source of funds is unspecified Reserve Funds, ie other than the specific Loan Reserve Funds, Emergency Capital Fund or Debt Repayment Reserves and other specific short-term reserve funds, then the maximum which can be invested in loans from these sources is 10% of the available funds excluding the Victory Park lighting loan.
- Interest rate to be charged is set by the Council as either a policy decision or on a case-by-case basis. In the absence of specific instruction, then at no less than the Council's estimated cost of borrowing plus a margin (1% minimum) for administration and risk.
- The Funds Accountant is to prepare loan documentation as required based on legal advice on form and procedure.
- Security of loans will generally be a charge on the borrower's land unless specified as being unsecured (as in the case with some community organisations), in which case, such other security as the Council, Director of Strategic Investment, or the Funds Accountant may determine as being appropriate for this class of loan.

- Loan guarantees to protect repayment shall be obtained if directed by the Council or if in the opinion of the Director of Strategic Investment or the Funds Accountant it is considered to be prudent for a loan of this type.

## 5.7 Equity investments in CCTOs and other subsidiary companies

- Investment in shares in CCTOs and other subsidiary companies will be made on the authorisation of the Council only, after the receipt of professional advice on valuation and acquisition procedures.
- The Council will not involve itself directly in the management of its subsidiary companies. Management services may be contracted by the companies from Council staff.
- Each company that is defined as a CCTO in the Local Government Act will be required to prepare annually a Statement of Intent that sets out its activities and strategic direction and to report in accordance with the Statement of Intent and the reporting requirements for CCTOs in the Local Government Act.
- Subsidiary companies which do not fall under the definition of CCTO must prepare annual Statements of Intent if required by their industry-specific legislation and the provisions of their constitutions, and must report under the same.
- Christchurch City Holdings Ltd (CCHL) is an investment-monitoring company established by the Council to hold its significant CCTOs and other subsidiary companies on behalf of the Council. The Board will comprise a mix of Councillors and external directors.
- Regular monitoring will be carried out by CCHL of the ownership options, business strategy and operating plans, capital structure and risk management affecting both the CCHL and CCC-owned CCTOs and other subsidiary companies.
- Investment performance of CCTOs and other subsidiary companies will be assessed in comparison to the performance of similar companies in the same industry.

- The CCHL Board will report at least six times a year to the Council's Strategy and Finance Committee on issues arising from its monitoring role. Ad hoc briefing sessions and seminars for Councillors will also be arranged.
- The Council is responsible for the approval of Statements of Intent and the appointment of directors for all CCTOs and other subsidiaries held directly by the Council and CCHL.
- Directors of all CCTOs and other subsidiary companies will be selected according to the policy established by the Council in June 2003.
- Ownership of shares in CCTOs and other subsidiaries may be transferred to CCHL when a subsidiary has an established record of financial performance and it is Council policy to retain the investment in the long term.
- This policy does not apply to non-trading companies.

## 5.8 Shares in listed public companies

- Specific authorisation is required by the Council to invest directly in listed equities except in the case of professionally managed portfolios as outlined in 5.10 below.
- The disposal of shares in listed public companies, other than those held within professionally managed portfolios, must be authorised by the Treasury Review Team.
- There is to be an annual review by a registered share broker to assess price, total value and hold or sell advice.
- Trading is authorised to rationalise a holding and on the advice of a registered share broker. Normally, taking up cash issues, sale of rights etc will be subject to advice.
- Staff listed in section 5.1 are authorised to enter into transactions.
- Low-value transactions with a total value less than \$20,000 may be actioned by the Funds Accountant on documented registered share brokers advice, without further authority.

## 5.9 Real estate held for investment purposes

- Acquisition or sale decisions on investment property shall be made by the Council.
- The properties should be managed in accordance with professional property management principles for the administration and maintaining of properties.
- The Property Manager will maintain accurate records for all individual investment properties including income and expenditure which will then be used for measuring performance of the investment.
- Management principles will be in accordance with prudent commercial terms and conditions effective in the market.
- The Property Manager will ensure compliance with all relevant statutes.
- The decision to hold or dispose of investment property is driven by the performance of a specific investment compared with similar properties in the market.
- The Property Manager is to report to the Council on a six-monthly basis on the performance of all investment property.

## 5.10 Professionally managed portfolios

- Investments in professionally managed (external to the Council) portfolios may be made for the Capital Endowment Fund and other reserve fund investments.
- The initial selection of fund managers will be made by the Council's Strategy and Finance Committee on recommendation from the Treasury Review Team after receipt of professional advice.
- Significant decisions relating to Fund Manager appointments will normally be subject to Strategy and Finance Committee approval but the Treasury Review Team is authorised to act on urgent issues and report to the next meeting of the Strategy and Finance Committee.

# investment policy

- Immediately after fund managers are selected, the Council will approve appropriate management guidelines for the ongoing management of the fund and the level of delegated authority to the Treasury Review Team for ongoing decisions regarding those investments. The Treasury Review Team shall:
  1. Take account of and consider the objectives of the funds, management guidelines, the appropriate level of risk to be accepted and the reserve retention policy of the fund, as agreed to by the Council.
  2. Recommend to the Council the quantum of funds which are available for distribution in any year after provision for inflation protection and management of the fluctuation reserve.
  3. Monitor the performance and compliance of investment managers.
  4. Develop and implement appropriate periodic reporting to the Council.

## 5.11 Performance Review Criteria

- The performance of any investment managers used will be monitored against benchmarks at least monthly, and against the performance of other investment managers at least quarterly.
- Any investment managers used will be reviewed annually with respect to their organisational structure, investment processes and personnel.
- Investment policies and objectives, asset allocation strategy and overall investment-management structure will be reviewed at least once every three years.
- The performance of any funds managed without the use of external investment managers will be monitored against suitable benchmarks as determined from time to time by the Director of Strategic Investment.

## 6. Assessment and management of risks by type of investment

### 6.1 Authorised bank instruments

The Council may invest in any registered bank in New Zealand subject to the following:

- The bank remains the primary debtor throughout the term of the investment.
- Investments will only be in banks with a Standard and Poor's short term credit rating of A-3 or better and a long-term credit rating of A or better (equivalent Moody's ratings may be used).
- A maximum of 33% of the total investments placed with the financial market (which is made up of short term bank deposits, promissory notes and long-term stocks and bonds, including those issued by other Local Authorities and Government Stock) may be invested with any one bank except where the total bank investments are less than \$10,000,000, when the investments shall be made with at least two banks.
- Any instrument issued by the bank may be taken up.
- Deposits may include foreign currency to meet Council commitments in overseas currencies.

### 6.2 Authorised stock or bond investments

The Council may invest in any fixed term stock or bond issued in New Zealand subject to the following:

- Up to 100% of the available funds may be invested where the stock is issued by the New Zealand Government.
- Up to 30% may be invested with State Owned Enterprises or regional health authorities up to a maximum of 10% of total investments with any one issuer.
- Up to 20% of the available funds may be invested in Civic Bonds issued by the

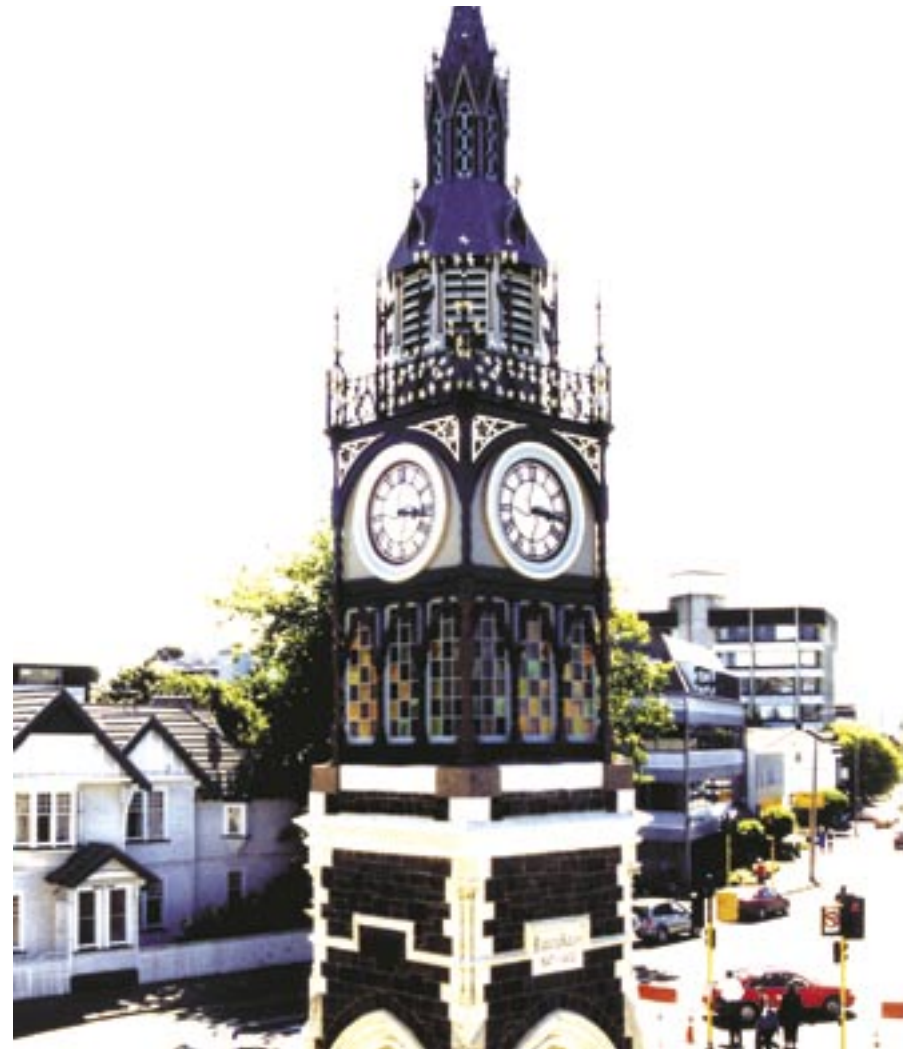


Local Government Finance Corporation as these are backed by rate-secured investments in local authorities.

- Up to 60% of the available funds may be invested where the stock is issued by a local authority (not CCC or CCC-owned CCTOs or other subsidiary companies) and is rate-secured, but subject to a maximum 20% of the total investments (see 5.1) with any one issuer having a standard and Poor's long-term credit rating of A or better (equivalent Moody's ratings may be used) or 10% if the local authority is not rated.
- Up to 35% of the available funds may be invested where the bonds are issued by any company in New Zealand subject to the issuer having a Standard and Poor's long term credit rating of A- or better (equivalent Moody's ratings may be used) and subject to a maximum 10% of the total investments (see 5.1) with any one issuer.

6.3 For the purchase, sale, and settlement of bank deposits, stock and bonds and listed public company shares

- The Funds Accountant and in his absence others listed in section 5.1 have authority to deal in these investments, taking on the authorities of the Funds Accountant, subject to the parameters within this policy and the related operational guidelines.



The recently restored Clock Tower in Victoria Street

# investment policy

## APPENDIX A

### ***EQUITY INVESTMENTS IN CCTOs AND SUBSIDIARY COMPANIES***

#### **Schedule 1**

**A majority interest in major CCTOs and other companies through a 100% interest in CCHL:**

- Orion Group Limited 87.625%
- Christchurch International Airport Limited 75%
- Lyttelton Port Company Limited 65.328%
- Red Bus Limited 100%
- City Care Limited 100%

#### **Schedule 2**

**Interest in CCTOs which have been established primarily to provide service delivery to the Council on a commercial basis:**

- Christchurch City Facilities Limited 100%
- Travis Finance Limited (now non-trading) 100%
- Jade Stadium Limited 100% Transwaste Canterbury Limited 37.85%

#### **Schedule 3**

**Significant interest through a 100% interest in CCHL in enterprises primarily for income purposes recognised as being of benefit to the Council and the local economy:**

- Selwyn Plantation Limited 39.32%

## APPENDIX B

### ***CAPITAL ENDOWMENT FUND - COUNCIL RESOLUTIONS***

**The following is extracted from resolutions passed by the Council in March and July 2001, which record the intentions of the Council relating to the management and investment of the Capital Endowment Fund, and amended on 18 March 2004:**

- That up to 100% of the available income from the fund be allocated in year one and up to 75% be allocated for subsequent years.
- That the income from the fund be allocated each year in the following way:
  - Economic development 60%; Civic and community projects 40%.
- That the above general categories be reviewed on a three-yearly cycle.
- That if desired, funding for a particular category be carried forward to another year.
- That civic and community projects which cost of less than \$100,000 in any one year not be funded from the Capital Endowment Fund.
- That no single project be funded for more than three years, except in exceptional circumstances.
- That the capital of the fund not be used unless 80% of Councillors vote in favour.
- That a statement in the Council's funding policy and long term financial strategy outline the structure and purpose of the fund.
- That the intention is to protect the capital and the process of applying the income to projects for the benefit of the community.
- That the Council establish a practice of reporting on the fund in its Annual Plan and Annual Report as a separate activity each year, including any significant variations to the policy.