

NORTHLAND REGIONAL COUNCIL

Draft Investment Policy

March 2021

1.0 Introduction

The council will create an investment portfolio and manage it in such a way as to:

- balance preservation of the council's capital with its expectations of returns and risk
- supply the liquidity requirements of the council, and
- consider the council's aspiration to invest ethically.

The council's policy on its investment activity includes the mix of investments, the acquisition of new investments, an outline of how investments are managed and reported on, and an outline of how risks associated with investment activities are assessed and managed.

This policy should be read in the context of the council's Financial Strategy which outlines the key financial parameters and limits the council operates within; and the Revenue and Financing Policy which covers how the council funds its activities.

This policy applies to all investment activities undertaken by the council from 1 July 2021. We will review this policy at least every three years.

2.0 Investment mix

The investment mix will be managed to meet the council's expectations of returns and risk. It is our policy to continue to evaluate our investment portfolio, to ensure its investment mix is appropriately diversified and is achieving the best possible return, while managing risk in line with the council's risk appetite. The council's risk appetite is defined as its level of willingness to be exposed to the risk of loss of its capital.

Where a key driver of an investment is economic wellbeing of Northland, the council may accept a higher risk or lower return.

Investment returns influence operational budgets and public equity. The council recognises that as a responsible public authority, all investments held should be prudently managed. The council also recognises that lower investment risk generally means lower returns.

The council seeks to achieve a net return of at least 7% per annum across its whole investment portfolio (excluding Marsden Maritime Holdings Limited and the Working Capital Fund). The investment specific objectives and targeted returns are outlined in the Financial Strategy.

The council will take a limited active approach to portfolio management. Assets classes are groups of assets. Each asset class has assets with similar risk and return profiles and behaviour. The council will manage the portfolio on advice from suitably qualified external advisors.

This policy prohibits direct investment in:

- derivative instruments such as futures (except for hedging purposes)
- speculative products or use of structured products
- securitised products.

3.0 Management of investments

Council	<p>Approve Investment Policy</p> <p>Approve acquisition or disposal of strategic assets, property or forestry</p> <p>Confirm the current matrix of approved counterparties and limits, and approve new named counterparties and limits.</p> <p>Approve new fund managers, new externally managed funds and SIPOs.</p> <p>Review investment performance against policy</p>	
Investment and Property Subcommittee	<p>Contribute to the review this policy</p> <p>Recommend SIPOs and fund managers</p> <p>Invest and withdraw between fund managers (in line with SIPOs)</p> <p>Manage the mix of investments in managed funds, and recommend action on forecast variances against budgets</p> <p>Determine the means of investment reporting</p> <p>Monitor and report on financial performance of funds.</p> <p>Delegated authority as per subcommittee terms of reference</p>	Audit & Risk Subcommittee
CEO	<p>Manage investments (with Investment and Property Sub-committee)</p> <p>Authorise withdrawal from, and investment in, the STIF</p> <p>Withdraw and invest funds held in Term Deposits being self-managed cash reserves</p> <p>Report on investment performance</p>	Monitor and review this policy and recommend any policy changes to council
GM - CX	<p>Overall responsibility for management of investments, including compliance with legislation</p> <p>Establish appropriate structures, procedures and controls, and reporting requirements, to support investing activities</p> <p>Oversee cash requirements and day-to day investment functions</p> <p>Recommend counterparties and limits</p> <p>Consider external investment advice and assistance required to manage investments</p> <p>Monitor all investments, report on risk/return on portfolio components and the portfolio as a whole.</p>	
Finance Manager	<p>Manage, and review investment transactions within policy limits and delegated authorities</p> <p>Report to GM-CX, CEO, relevant subcommittees and council</p>	
Finance Team	<p>Day-to-day investment activities and transactions, including fixed and floating debt, internally managed funds, cash management, and risk management</p>	

Staff will use independent professional advice, and will consider investment objectives, maturity, risk and return profiles, the current market condition and the council's view to invest ethically.

Reporting

The performance of the investment portfolio will be monitored against the agreed benchmarks in this policy and the Statements of Investment Policy and Objectives (SIPO) for externally managed funds. Reports will be developed by independent

professional advisors and staff, and provided to the Investment and Property Subcommittee. The Investment and Property Subcommittee will summarise this report to the council after each meeting.

3.1 Acquisition of new investments

The council will not seek to acquire or dispose of strategic assets, property or forestry unless approved by council resolution.

4.0 Asset classes

4.1 Equities

4.1.1 Council controlled organisations

The council's shares in council controlled organisations are held for operational reasons, hence are not part of its investment portfolio.

4.1.2 Marsden Maritime Holdings Limited

The council has a majority shareholding in the subsidiary organisation Marsden Maritime Holdings Limited, the port company.

Periodic returns on Marsden Maritime Holdings Limited include dividends and changes in share price.

The Local Government Act 2002 (LGA) classifies a local authority's shareholding in a port company as a strategic asset. As such:

- a special consultative procedure must be adopted and followed before any transfer of ownership or control is made (LGA, s84(3)).
- it is exempted from publishing a Statement of Intent.

The council has also determined Marsden Maritime Holdings Limited to be a strategic asset in terms of the community. The port's activities are integrated with the economic structure of Northland. Whilst the council will continue reviewing ownership options, its strategic intent is to remain a long-term majority shareholder.

The council manages the risk of this investment through exercising governance through the constitution, the interim and annual reports, and appointments to the board of directors. The Chief Executive Officer is the reporting officer to the council on matters affecting the company. The council reviews the company's strategic intentions every three years, and seeks professional advice when appropriate.

4.2 Property

Variable returns on property include rents and lease income, and changes in capital value.

In respect of leasehold land, subject to the powers and provisions conferred under the LGA, Public Bodies Leases Act 1969 and the Property Act 2007, the sale of any ground leases and approval of lease discounts¹ require council approval.

¹ Which may be used to incentivise lessees to adopt short rent review periods

The council will follow the legal obligations and restrictions on the council in disposing of any endowment property. These are outlined in the LGA, s140-141.

Risks associated with holding investment property are minimised by undertaking regular reviews of the property portfolio to ensure objectives are being met. The council seeks professional advice regarding these investments when appropriate.

4.3 Forestry

Periodic returns on forestry include harvest revenue net of maintenance and harvest costs, and changes in crop value.

Where the council invests in forestry, a forest management plan will be in place to mitigate the operational and revenue risks. These will be prepared triennially, and submitted to council for approval.

4.4 Cash and cash equivalents

Investments in cash and cash equivalents will be restricted to a term that meets future cash flow projections, and mindful of forecast debt associated with future capital expenditure programs as outlined within the council's Long Term Plan.

To mitigate credit risk, the council will only invest in widely traded financial instruments with creditworthy counterparties.

The council will actively manage underlying interest rate exposures, to reduce uncertainty about interest fluctuations.

This excludes cash components of externally managed funds.

4.5 Externally managed funds

The council may invest in externally managed funds. Any decision to invest in externally managed funds should be considered in the context of portfolio management undertaken by management.

The risk and return profile for each managed fund is outlined in councils Statement of Investment Policy and Objectives (SIPO). Each externally managed fund is managed in accordance with councils SIPO. If there is any conflict between this policy and the SIPO, the SIPO takes precedence.

4.6 Trust funds

Where the 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 trust's investment policy is not specified, then this policy should apply.