



4.0 Investment Policy

4.1 Objectives

For the foreseeable future, Council will have a permanent net debt/borrowing position and will, where practical, use flexible short-term working capital money market funding lines instead of maintaining cash deposits. Accordingly, it will not have any requirement to be in a surplus cash situation apart from:

- restricted reserves, and
- trust funds.

Therefore, outside of the above-mentioned exceptions, any liquid investments must be restricted to a term that meets future cash flow projections.

The objective of the investment policy is consistent with Council's objectives and with the LTCCP and Annual Plan. It is:

- (i) to maximise interest income on investments approved within the policy, by profiling the investment portfolio to gain from favourable market movements and to protect against adverse movements,
- (ii) to manage short-term cashflows in an efficient and prudent manner,
- (iii) to manage a level of liquidity sufficient to meet both planned and unforeseen cash requirements,
- (iv) to invest only in approved financial securities and maturity time periods permitted by the policy,
- (v) to have an adequate monitoring and reporting process to ascertain existing risk position and to measure performance levels against a predetermined benchmark,
- (vi) to operate a conservative approach to ensure protection of Council's assets,
- (vii) to establish investment and control practices and procedures to prevent unauthorised transactions,
- (viii) to establish an accurate cashflow forecasting model/schedule to increase efficiency in Council's investment decision-making.

4.2 General policy

4.2.1 Management Structure

The management structure involves the Finance Manager, Deputy Chief Executive and Chief Executive Officer who report to Council through the Finance & Audit Committee. Refer to Section 5.4.3 for full-delegated authorities.

4.2.2 Acquisition of New Investments

Council has adopted a conservative approach to its fiduciary duty to ratepayers. It will generally rely on proven investments (such as cash) but may invest in shares or property where specified



criteria are met. These criteria are outlined in Section 4.2.7 (below). The Council has established a Significance Policy to identify significant issues, which require public consultation.

4.2.3 Cash Investments

Council's restricted reserves and trust funds (when required to be held in cash, e.g., Restricted Reserves which can not be used for internal borrowing) will, as far as practicable, be spread by institution and instrument, having particular consideration to the type of fund being invested, the fund's cashflow requirements, interest rates available, and the risk of default.

4.2.4 Trust Funds

Any funds held by Council that are subject to a form of trust deed will be administered according to the conditions of the appropriate trust deed.

4.2.5 Restricted and Council Created Reserves

From time-to-time, Council establishes special funds or reserve funds. These funds or reserves are usually used for specific purposes and will be accounted for according to the conditions set out at the time of establishing the fund or reserve (or as amended by Council resolution). Liquid assets will not be required to be held against special funds, instead, such commitments to future specified releases will be covered by a committed standby line of credit in the form of a committed credit facility.

Such a facility will be for an amount equivalent to the maximum reserve release commitments over a 12-month period and, as in the nature of the facility, will be reviewed annually. Liquid assets (except when restricted to being held in cash as per Section 4.2.3) will be utilised for internal borrowing to offset Council's working capital and debt funding requirements.

Accounting entries representing monthly interest accrual allocations will be made using the weighted average 90-day bank bill bid rate for that period.

Such a mechanism is subject to a Council resolution, which will supersede previous Council resolutions pertaining to the funding of specific special funds.

4.2.6 Investments in Shares, Property and Other

Council may, by specific resolution, make investments (or sell, or dispose of such investments) in companies, local authority trading enterprises, joint ventures or other organisations, having regard to all relevant information including, but not limited to, the following:

- investments to be in the best interest of the community
- legislative authority to hold such investments
- the degree of equity interest or control able to be exercised
- prudence
- the likely returns on the investment
- other advantages as deemed appropriate by Council.

Investments are deemed to include loans to external organisations.



Council will monitor its investments in companies and other institutions by reviewing half-yearly financial reports on performance.

4.2.7 Specific Investments

Council considers its specific financial investments (listed below), as representing the best interests of the community and ratepayers. Council's exposure to risk would be that of any other financial shareholder. Specific investments include:

Waikato Regional Airport Limited

In December 1995, Council, along with four other Waikato local authorities, purchased the Crown's 50 per cent shareholding in Waikato Regional Airport Ltd. This purchase increased Hamilton City Council's holding from 32 per cent to 50 per cent.

Reason for the Council holding shares:

The purpose of this shareholding is that the airport is considered to be a significant infrastructural asset, important to the economic health and growth of the region.

NZ Local Government Insurance Co. Limited

This company evolved from the former Municipalities Insurance Co-operative. Council holds 3.17 per cent of the shares in this company. The remaining shares are held by other Councils in New Zealand.

Reason for the Council holding shares:

As a member of this Co-operative, Council was entitled to a shareholding related to the level of its premiums.

Hamilton Riverview Hotel Ltd

Council holds 41.38 per cent of the shares in the Hamilton Riverview Hotel venture. Tainui Development Ltd and AAPC NZ PTY Ltd hold the remaining shares.

Reason for the Council holding shares:

In May 1998, Council entered into a joint venture agreement for the purpose of developing a hotel and conference centre (Novotel Tainui Hamilton) on a site bounded by Victoria Street, Alma Street and the Waikato River in Hamilton.

During 2007, the company developed a new hotel (Ibis Tainui Hamilton) and opened in early December 2007.

Council has recently evaluated its shareholding in Hamilton Riverview Hotel Ltd and has decided to continue holding its investment in the company until at least 2013, to maximise its return on the investment.



Local Authority Shared Services Ltd

Council holds 7.69 per cent of the shares in Local Authority Shared Services Ltd (LASS). The remaining shares are held by other Councils in the Waikato Regional Council region.

Council contributed additional capital for the development of Shared Valuation Database Service (SDVS), which represents 13.72 per cent of the service shares in the SDVS. The SDVS is included as part of LASS.

Council has also contributed additional capital for the development of the Waikato Regional Transport Model (WRTM), which represents 37.5 per cent of the service shares in WRTM. The WRTM is included as part of LASS.

Reason for the Council holding shares:

In November 2005 Council resolved to become a shareholder for the purpose of developing shared services across the local authorities within the Waikato region, following consultation in the 2005/06 Annual Plan.

Hamilton Fibre Network Limited

Hamilton Fibre Network Ltd (HFNL) commenced 28 March 2008. The company controls an urban fibre and ducting network which is currently under development. Council currently holds 34.85 per cent of 'A' shares in the company. The remaining 'A' shares are owned by Environment Waikato, University of Waikato, Waikato Institute of Technology, and the partially issued 'B' shares by Telco Infrastructure Investments Ltd.

Reason for the Council holding shares:

During 2007 Council resolved to become a shareholder for the purpose of developing an urban fibre and ducting network for Hamilton, and in March 2008 Council made a significant contribution of assets to the company. The company is currently in a development phase.

SODA Inc Limited

Hamilton City Council and Wintec have jointly established SODA Inc Limited, the City's new creative industries incubator, aimed at encouraging and enabling economically successful businesses within the creative industries sector, to thrive in Hamilton. Council has a 40% shareholding in SODA.

Investments Managed by External Investment Managers

From time-to-time Council may decide to have specific funds managed by external investment managers.

Externally managed funds will be subject to specific contract conditions.



4.3 Hedging Interest Rate Risk

In accordance with the Council's policy to manage the balance sheet on a net basis, Council will be a net borrower for the foreseeable future. All trust funds will be invested on a rolling 90-day basis in keeping with Section 5.2.2 of the Liability Management Policy. Any operating cashflow surpluses will be managed on a prudent cash management basis.

4.4 Approved Financial Instruments

A list of approved instruments can be found in Section 5.4 of the Liability Management Policy.

4.5 Counterparty Credit Risks

Counterparty credit risk is the risk that a party to a transaction will default on its contractual obligation. A counterparty credit risk is incurred whenever Council enters a transaction with a third party which requires the third party to make a payment to Council. The degree of counterparty credit risk will vary according to the perceived creditworthiness of the counterparties.

Refer to Section 5.6 of the Liability Management Policy for the list of authorised counterparties, with whom management is authorised to transact.

4.6 Allowable Investment Instruments

For allowable investment instruments refer to Section 5.4 of the Liability Management Policy.

4.7 Disposal of Assets

Any disposition of proceeds from the sale of assets or investments (other than vehicles and light plant) must be used in the first instance to repay any outstanding borrowings, to reduce the overall debt of Council unless otherwise specifically authorised by Council. If the assets are subject to legislative restrictions, the proceeds are to be used in accordance with the provisions of the appropriate legislation.

4.8 Reporting

For reporting on the Investment Policy, the following reports will be completed and presented to the Finance & Audit Committee through each quarterly meeting cycle:

- Funding Summary (Financial Overview)
- Funding Facilities/Liquidity Report
- Investments Report
- Counterparty Credit Report



4.9 Performance Targets

The table below summarises the performance targets set for the Investment Policy:

Objective	Target
To manage risks associated with the investments.	Investment policy Section 4.3 complied with.
To use the proceeds from the sale of assets to reduce the overall level of public debt.	Investment policy Section 4.7 complied with.