Investment and Liability Management Policies

SCOPE OF AMENDMENTS

For 2009/10 the Council is proposing a number of minor amendments to its Investment and Liability Management Policies:

LIABILITY MANAGEMENT POLICY

- Interest Rate Risk Management

We propose to amend the Council's interest rate risk maturity profile limits, by increasing the minimum proportion fixed borrowing (maturing in greater than one year) falling in 5 to 10 year maturity profile from 15% to 20% and increasing the maximum cover in each of the 1 - 3, 3 - 5 and 5 -10 year profiles from 50% to60 %.

- Liquidity Management

The Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining committed borrowing facilities at a level that exceeds 110% of projected peak borrowing levels over the following twelve months. The Council only draws or borrows against these facilities as required.

The Council also avoids exposure to liquidity risk by managing the maturity of its borrowing programme within maturity limits. We propose to amend the maturity limits for the proportion borrowing that the Council can have in the zero to 3 year maturity profile from 10% - 50% to 20% - 60% and decrease the proportion in the 5 year + profile from 20% - 60% to 15% - 60%. These amended levels are consistent with sector benchmarks and reflect the movement in the sector risk profile since the policy was last reviewed.

GENERAL POLICY OBJECTIVES

The Council's general policy objectives relating to its investment and liability management are to:

- Minimise the Council's overall costs and risks associated with its borrowing activities and the general management of its other liabilities
- Manage its borrowings and cash assets on a "net borrower" basis in order to reduce the overall net cost to the Council

- Maximise the return on its investment portfolio and other financial assets
- Minimise the Council's exposure to adverse interest rate movements.
- Borrow and invest funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Management Policy
- Regularly review and consider the performance of the Council's financial assets and investments. Where appropriate, the Council will dispose of under performing assets or those assets and investments that are not essential to the delivery of services and activities set out in the Council's Long Term Council Community Plan (LTCCP).

More detail on the Council's investment and borrowing policies, operating procedures and associated internal controls is contained in the Treasury Management Policy.

INVESTMENT POLICY

Policy Statement

The Council generally operates as a "net borrower", and therefore does not separately maintain significant cash investments. The general policy is to utilise surplus cash to repay borrowings.

The Council currently maintains an equity interest in Wellington International Airport Limited (WIAL) and an ownership and financial interest in Ground Leases and Investment Properties. The Council will continue to review the level of investment as well as the return it receives on these investments.

Where appropriate, the Council may choose to dispose of investments/financial assets that no longer meet our investment objectives.

Investment Mix and Associated Objectives

The Council categorises its investments into 5 broad categories:

Cash and Cash Equivalents

The Council may invest funds with approved registered banking institutions. These investments generally mature in less than one year, and are held primarily for working capital/liquidity purposes.

Income generating commercial debt instruments

These are principally loans to other organisations (on commercial terms) which deliver a cashflow return to the Council.

Income generating commercial equity investments

Equity investments arise from the Council owning or controlling an equity holding (eg shares) in another entity. The Council currently maintains a 34%

shareholding in Wellington International Airport Limited (WIAL). From time to time WIAL may seek to fund its capital expenditure programme through the injection of capital from its shareholders. In the event that a call for capital is made by WIAL the Council's objective is to maintain its shareholding at 34% unless a specific resolution is passed not to do so. As a result, should the Council be required to inject additional capital in WIAL to maintain its existing shareholding, it will do so without further consultation.

Income generating commercial property investments

Investment Properties are the Council's ground leases and land and buildings held primarily for investment purposes. The Council regularly reviews its continued ownership of investment properties by assessing the benefits of continued ownership in comparison to other arrangements that could deliver similar benefits. This assessment is based on both the strategic benefit of the investment/ownership to the City and in terms of the most financially viable method of achieving the delivery of Council services.

Non income generating investments

This includes loans to other organisations, and equity investments in Council Controlled Organisations. The Council may consider the provision of loans to Community groups but only in exceptional circumstances. The Council's non income generating investments are held for strategic or ownership reasons.

In addition, to the above investment categories, the Council may assume financial risk associated with providing contributions, guarantees and underwrites, where these meet the Council's strategic objectives and outcomes. Such undertakings require a Council resolution.

Investment Acquisition/Addition/Disposal

Within the exception of the day to day investment of cash and cash equivalents, all new investments, additions to existing investments, and/or disposals of existing investments must be approved by the Council. The day to day management and investment of cash and cash equivalents may be made by Council officers in accordance with the approved Treasury Management Policy.

The Council will continue to maintain its current level of investment in WIAL (being a 34% equity interest) until it considers that it is financially and economically prudent to dispose of the investment.

Proceeds from the sale of investments will go to repay existing borrowings, unless the Council specifically directs that the funds be put to another use.

Reporting

Investments in CCOs

Monitoring of the Council's equity investment and ownership interest in Council Controlled Organisations (CCOs) is undertaken by the Council

Controlled Organisation Performance Sub-Committee. The Sub-Committee reports to the Strategy and Policy Committee and is responsible for:

- monitoring Council Controlled Organisations (CCOs), Council Controlled Trading Organisations (CCTOs), and Council Organisations (COs)
- reviewing the above organisations' quarterly reports, annual reports, business plans, strategic plans and statements of corporate intent
- monitoring the performance of members on CCOs.

All other investments

The Strategy and Policy Committee is responsible for monitoring all other investments and providing recommendations to the Council in regard to treasury management strategies, policy and guidelines in relation to those investments. The Strategy and Policy Committee will receive and review the quarterly Treasury report contained within the consolidated quarterly report.

The Council is responsible for approving the Treasury Management Policy as recommended by the Strategy and Policy Committee.

Risk Management

The Council's principal exposure on its financial investments is credit risk. Credit risk is minimised by the Council investing in approved institutions with satisfactory credit ratings. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure.

Assessment and management of specific risks associated with the Council's investment in WIAL and investment properties will be performed on a regular basis. Any significant changes in the risk profile for these investments will be reported to the Strategy and Policy Committee.

Investment Ratios

For the purposes of setting its Borrowing and Investment Ratios, the Council defines investments as assets which are cash or readily convertible to cash (either through fixed repayment and maturity profiles, or through sale or exchange) and assets which are held **primarily** for investment purposes (either for capital growth, commercial rental or interest). This is likely to include:

- cash and cash equivalents (eg term deposits),
- Income generating commercial debt instruments
- Income generating commercial equity instruments
- Income generating commercial property instruments

Non income generating investments will not be included in Borrowing and Investment Ratios.

LIABILITY MANAGEMENT POLICY

In broad terms, the Council manages both current and term liabilities.

CURRENT LIABILITIES

Current liabilities reflect those obligations, expressed in monetary terms, which the Council has to meet within relatively short timeframes, at a maximum within the next 12 months. In respect of its day to day obligations for both operational and capital expenditure, the Council's policy is to pay these liabilities in full by the due date. This eliminates any credit exposure or risk. Current liabilities also include the maturing portions of any term liabilities that are due for repayment within the following 12 months.

TERM LIABILITIES

Term liabilities represent the Council's obligations which, in general terms, are not immediately payable, i.e. not due within the following 12 months. Borrowings comprise the majority of the Council's term liabilities.

The Council approves the borrowing programme for each financial year as part of the LTCCP or Annual Plan. Additional borrowings may be approved by Council on a case by case basis. The Council primarily borrows to fund its capital expenditure programme. In approving new borrowings the Council considers the impact of the proposed level of borrowings on its overall borrowing limits.

POLICY OBJECTIVES

The Council primarily borrows to pay for the upgrading of existing assets or the construction/purchase of new assets. These assets generally provide new or enhanced benefits to Wellington for many years. Borrowing is therefore considered the most cost-effective and equitable way to fund these assets as it spreads the cost of the asset over the future generations of ratepayers who will benefit from the use of the asset. Accordingly, borrowings have a strategic benefit of making the cost of the asset investment affordable to today's ratepayers. Borrowings are maintained at a prudent level, in accordance with the Council's overall borrowing policy (for specific limits, refer below).

POWER TO BORROW

The Council borrows as it considers appropriate and in accordance with the provisions of the Local Government Act 2002 and its Treasury Management Policy. The Council approves the level of new borrowing in general terms as part of the LTCCP or Annual Plan. The Council delegates the authority to officers to raise the approved borrowing during the financial year as and when the funding is required. Any additional borrowing beyond that approved in the LTCCP or Annual Plan must be approved by the Council.

INTEREST RATE EXPOSURE

Borrowings issued at variable (floating) interest rates expose the Council to a cash flow interest-rate risk. The Council manages its cash flow interest-rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Council has set the following specific limits for its interest rate exposure:

MASTER FIXED/FLOATING INTEREST RATE RISK CONTROL LIMIT

Minimum Fixed Rate	Maximum Fixed Rate
50%	95%

The level of fixed interest rate cover at any point in time must be within the following maturity bands:

FIXED RATE MATURITY PROFILE LIMIT

Period	Minimum Cover	Maximum Cover
1 to 3 years	20%	60%
3 to 5 years	20%	60%
5 to 10 years	20%	60%

LIQUIDITY

The Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining committed borrowing facilities at a level that exceeds 110% of projected peak borrowing levels over the following twelve months. The Council will only drawdown or borrowing against these facilities as required.

Where special funds are maintained to repay borrowings, these investments are held for maturities not exceeding borrowing repayment dates.

The Council avoids exposure to liquidity risk by managing the maturity of its borrowing programme within the following maturity limits:

BORROWING MATURITY PROFILE LIMITS

Period	Minimum	Maximum
0 to 3 years	20%	60%
3 to 5 years	20%	60%
5 years plus	15%	60%

CREDIT EXPOSURE

The Council borrows from approved institutions with satisfactory credit ratings. Borrowings are managed to ensure the Council is not exposed to material concentrations of credit risk. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure.

BORROWING REPAYMENT

The Council will repay borrowings from a combination of excess depreciation over and above renewals, sale of surplus or underperforming assets, operating surpluses or from the renewal of borrowings.

SPECIFIC BORROWING LIMITS

In managing its borrowings, the Council adheres to the financial principles contained with its Treasury Management Policy. In determining a prudent level of borrowings the Council assesses the level of net borrowing against the Council's recognised total realisable assets and net interest expense per annum against operating revenues.

Total Council Borrowings will be managed within the following macro limits:

RATIO	LIMIT
Net borrowing as a percentage of equity	<10%
Net borrowing as a percentage of income	<150%
Net Interest as a percentage of income	<15%
Net Interest as a percentage of annual rates income	<20%
Liquidity (Term borrowing + committed loan facilities to 12 month peak net borrowing forecast)	>110%

SECURITY

Council borrowings are secured by way of a Debenture Trust Deed (representing a charge over Council rates revenue). This security relates to any borrowing and to the performance of any obligation under any incidental arrangement. However, if it is considered advantageous, the Council's borrowings and other financial arrangements may be undertaken on an unsecured basis, or secured by way of a charge over its physical assets.