Reserves and Treasury
Ratified April 2021

Policy

Water New Zealand's policy is to:
- accumulate between 60% and 80% of annual expenses as reserves; and
- invest surplus funds in secure short-term fixed interest securities only.

For the purposes of this policy:
- 'secure' shall be defined as term deposits held with its banker; and
- 'short term' shall mean a period of not more than six months.

At least two months' expenses shall be held in an 'on call' account, available for immediate need.

The banker shall be determined by the Board. The banker shall hold a high credit rating with a reputable rating agency.

A high credit rating is defined as the equivalent of, or better than:

- A1+ (short term) and A (long term) with Standards and Poors; and/or
- Prime-1(short term) and A1 (long term) with Moody's.

Water New Zealand's banker is currently the Bank of New Zealand.

The Chief Executive has delegated authority to manage surplus funds in accordance with this policy. Decisions in relation to investing surplus funds (or changing the amount invested) in secure short-term fixed interest securities should be agreed with the President or designated alternate.

Explanation

The purpose of this policy is to:

- mitigate business risk;
- provide guidance for Water New Zealand directors and management investing surplus funds in ways that minimise risk;
- balance appropriate levels of liquidity against the opportunity to profit from investing surplus funds;
- provide for contingencies; and
- help protect directors and management.

As with other membership organisations, Water New Zealand is funded by a mixture of subscription income, profits from events, publishing, the provision of administrative services, and investments. Proportionately, its income from running events and publishing is significantly higher that that of similar organisations.

There is significant financial risk associated with this funding model, particularly associated with the underwriting of events. The financial failure of one major event would put the Association's funding at risk. This risk can be mitigated by the accumulation of adequate reserves.

Maintaining relatively liquid reserves mitigates against losses that might be incurred on realisation of longer-term investments, such as shares or long-term debt instruments.

Investment decisions are determined by the timeframes required for income, along with appetite for risk. Investments in cash are recognised as being appropriate for short and intermediate term requirements. For intermediate and long timeframes, bonds may be more appropriate. Shares and property provide greater returns as long term investments. The short-term volatility in values for bonds, shares and property limit their usefulness as reliable short-term investments.

While there are no guidelines for desired levels, the general rule of thumb for not-for-profit corporates is to accumulate between 50% and 100% of annual expenses as reserves.

Directors and management of corporates have fiduciary responsibilities under statutory and common law. Subject to the caveats of proper management execution, appropriate Board monitoring and accurate and timely financial Board reporting, this policy will assist Water New Zealand directors and management in meeting their fiduciary responsibilities.