

Report No:	RCN12-01-05
File No:	
Date:	16 January 2012
Decision Required	

REPORT SUMMARY

Report to: Full Council
Meeting Date: 26 January 2012
Report Author: Murray Staite, Corporate Services Manager
Subject: **Investment Policy**

EXECUTIVE SUMMARY

Separate Policies on Investments and Liability Management are now required by the Local Government Act 2002 to be included in Council's Long Term Plan and this report considers an Investment Policy for inclusion in Council's Draft Long Term Plan 2012–2022.

RECOMMENDATION

THAT the Tasman District Council receives this report (RCN12-01-05); and that the attached Investment Policy be adopted for inclusion in Council's Draft Long Term Plan 2012-2022.

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1. Purpose

- 1.1 To consider the attached Investment Policy for inclusion in Council's Draft Long Term Plan 2012-2022 (LTP).

2. Background

- 2.1 Separate policies on investments and liability management are now required by statute to be included in Council's LTP.
- 2.2 Previously Council's policy on investments was contained within Council's Treasury Management Policy. Accordingly, the proposed Investment Policy (Appendix 1) has been extracted from the former Treasury Management Policy (Appendix 2).
- 2.3 The attached Investment Policy follows largely the same format as when it was previously included within the former Treasury Management Policy.
- 2.4 Council's previous Treasury Management Policy is no longer required to be included in the LTP but given its importance the revised Treasury Management Policy (excluding the Investment and Liability Management Policies) will be formally presented to a future meeting of the Corporate Services Committee of Council for formal adoption.

3. Discussion

- 3.1 The key changes from the previous Investment Policy contained within the former Treasury Management Policy include.
- a) Additional comment around reporting back to Council and alignment with the current reporting requirements of various Statements of Intent (where required).

- b) Additional comment around risk management in regard to investments.
 - c) Revenue in regard to equity investments has been amended as appropriate to reflect each entities current statement of intent.
 - d) The investment in the Local Government Funding Agency has been included for the first time.
 - e) Reference to the Enterprise Subcommittee has been removed.
 - f) The investment in the New Zealand Local Government Insurance Corporation Ltd (Civic) has been included for the first time.
 - g) Under property the requirement that surplus funds generated from property activities are used as a contribution to reduce general rate.
 - h) Community Housing, Camping Grounds and Forestry required a regular retention review. This clause has been removed however removal does not preclude Council from requiring such a review when required.
- 3.2 For completeness and comparability attached as Appendix 2 is the previous Investment Policy as contained within the Ten Year Plan 2009-2019. The Council has asked the Chief Executive to review the Council's commercial investments, including the establishment of a holding company. This review has yet to be brought back to Council and is not reflected in the proposed Investment Policy.

4. Options

- 4.1 Accept the recommendation and include the policy for consultation via the Draft LTP 2012-2022.
- 4.2 Decline to accept the recommendation and suggest amendments to be considered and brought back to Council at a later date.

5. Significance

- 5.1 This is not a significant decision according to the Council's Significance Policy.

6. Recommendation

That the draft resolution be adopted.

7. Draft Resolution

THAT the Tasman District Council receives this report (RCN12-01-05); and that the attached Investment Policy be adopted for inclusion in Council's Draft Long Term Plan 2012-2022.

Appendices

Appendix 1 - Proposed Investment Policy 2012-2022

Appendix 2 – Investment Policy 2009-2019

Investment Policy 2012-2022

1.1 Investment Mix

The Council has a significant portfolio of investments comprising:

- Equity investments
- Asset investments
- Associated organisations

1.2 General Policy

Council's philosophy is to ensure that the return on investments in cash, realisable capital growth and/or public good over time, is equal to or greater than the average cost of Council's borrowings.

Council will not hold cash investments other than those involving special funds and cash management investments. In its cash investment activity, Council's primary objective when investing is the protection of its investment. Accordingly, any credit worthy counterparties will be acceptable.

Council's policy is to invest into banks with short-term rating minimum of A-1+ and long-term AA-, by Standard and Poor's Rating (or equivalent rating).

Within the above credit constraints, Council also seeks to:

- Ensure investments are negotiable and liquid.
- Manage potential capital losses.
- Maximise investment return.
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

1.3 Equity Investments

1.3.1 Port Nelson Limited

Nature of Investment

Council is a 50 percent shareholder in this company, with Nelson City Council holding the other 50 percent shareholding. Future investments in the port will be measured on their ability to return current market rates of return to the shareholders.

Rationale for Holding Investment

Council intends to maintain its 50 percent investment in Port Nelson Ltd and aims with Nelson City Council to retain effective local body control of this strategic investment.

Revenue

The Company has agreed to pay an annual dividend detailed in its Statement of Intent for each of the next three years. The shareholders expectation is that a dividend of not less than 50% of net profit after tax will be returned to shareholders annually.

Risk Management

Port Nelson Ltd is an autonomous entity, with Directors appointed by the two local authorities. Directors are required to manage the company on behalf of the shareholders. Risks associated with Council's investment in Port Nelson Ltd are limited.

Management/Reporting Procedures

Six monthly reports are received and reviewed by Council. Election of Directors takes place at the Company's annual general meeting.

Specific Policy

To retain 50% investment in Port Nelson Ltd. This Company is regarded by Council as a strategic investment and is noted for its efficient and flexible operations.

1.3.2 Nelson Airport Limited

Nature of Investment

Council is a 50 percent shareholder in this company, with Nelson City Council holding the other 50 percent shareholding. Future investments in the Company will be measured on its ability to return current market rates of return to the shareholders.

Rationale for Holding Investment

Council intends to maintain its 50 percent investment in Nelson Airport Ltd and aims with Nelson City Council to retain effective local body control of this strategic investment.

Revenue

The Company has agreed to pay an annual dividend detailed in its Statement of Intent for each of the next three years. The Company will endeavour to pay an annual dividend of 5% of the opening shareholders funds for that year.

Risk Management

Nelson Airport Ltd is an autonomous entity, with Directors appointed by the two local authorities. Directors are required to manage the Company on behalf of the shareholders. Risks associated with Council's investment in Nelson Airport are limited.

Management/Reporting Procedures

Six monthly reports are received and reviewed by Council. Election of Directors takes place at the Company's annual general meeting.

1.3.3 Tourism Nelson Tasman Ltd

Nature of Investment

This Company was established on 1 July 1994 . Council is a 50 percent shareholder in this Company, with Nelson City Council holding the other 50 percent shareholding.

Rationale for Holding Investment

The Company is charged with promoting and marketing tourism activities of the District to the potential tourism market throughout New Zealand, the Pacific basin and ultimately the rest of the world.

Revenue

Council is not planning to receive a dividend from the shares in Tourism Nelson Tasman Ltd.

Risk Management

Tourism Nelson Tasman Ltd is an autonomous entity, with Directors appointed by the two local authorities. Directors are required to manage the Company on behalf of the shareholders. Risks associated with Council's investment in Tourism Nelson Tasman Ltd are limited.

Management/Reporting Procedures

Six monthly reports are received and reviewed by Council. Election of Directors takes place at the Company's annual general meeting.

1.3.4 New Zealand Local Government Funding Agency Limited Investment

Nature of Investment

Council along with the Crown and 18 other local authorities is a minority shareholder in the Local Government Funding Agency.

Rationale for Holding Investment

Council's objective in making any such investment will be to:

- (a) obtain a return on the investment; and
- (b) ensure that the Local Government Funding Agency has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for Council.

Because of this dual objective, Council may invest in Local Government Funding Agency shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments, where it is to the overall benefit of Council.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

Revenue

The company proposes to pay over the medium term a dividend that provides an annual return to shareholders equal to the Local Government Funding Agency cost of funds plus 2%.

Risk Management

Risks surrounding the Local Government Funding Agency are mitigated through the use of the New Zealand Government debt management office and appropriately qualified directors and staff.

Management/Reporting Procedures

Quarterly reports are received and reviewed by Council.

1.3.5 New Zealand Local Government Insurance Corporation Ltd

Nature of Investment

Council along with other local authorities is a minority shareholder in New Zealand Local Government Insurance Corporation Ltd.

Rationale for Holding Investment

Council invests in New Zealand Local Government insurance Corporation Ltd to ensure that the insurance market is competitive and that the local government sector is in a strong position to manage its own risk.

Revenue

As a result of the Christchurch earthquakes, the company does not envisage paying dividends until its capital base is restored.

Risk Management

Risks surrounding New Zealand Local Governance Insurance Corporation Ltd are mitigated with the use of suitably qualified staff and directors.

Management/Reporting Procedures

Six monthly reports are received and reviewed by Council.

1.4 Asset Investments

1.4.1 Forestry

Nature of Investment

Council and its predecessor organisations have been involved in forestry for many years. Council's current forestry policy is that it will operate and maintain up to 3,000 planted hectares.

Rationale for Holding Investment

Forestry is a flexible investment – the resource can be manipulated to suit cash flow requirements and market conditions. Council has achieved economies of scale with 3,000 hectares. This provides a marketing advantage and cost savings in operations.

Revenue

Current policy is to provide a sum from net forestry revenue towards subsidising general rate in each financial year. Current statute requires that 10% of net forestry revenues be used for maintenance of Rabbit Island each year. The forestry activity will from time to time contribute to Council's general rate or repayment of Council debt.

Risk Management

Council's forests are currently managed under contract by consultants P F Olsen & Co Ltd. Forestry activities are reviewed quarterly by Council.

Significant risk management strategies include diversity of forest age classes, insurance against fire, mix of species, geographic spread of forests and controlled access.

Management/Reporting Procedures

Reports are received and reviewed by Council on a quarterly basis.

1.4.2 Property Investments

Nature of Investment

Council currently has a range of investment property holdings defined within categories of:

- Ready saleable assets.
- Strategically placed land, precluding the sale of operational properties.
- Assets saleable after a specific process (often subdivision).
- Land with high community value.

Property investments do not include properties for operational purposes.

Rationale for Holding Investment

Council purchases and maintains property investments where:

1. The property has a strategic value for the community; or
2. Council has funds to invest and there are statutory limitations on the use or disposal of these funds;
3. There is an opportunity to invest funds and provide a return to the Council and/or community that is higher than the cost of the money invested.

Revenue

Council policy requires that surplus funds generated from Council's property activities are utilised as a contribution against general funds.

Revenues are generated both from commercial property sources at negotiated market rentals and internally assessed occupational costs.

Risk Management

Suitably qualified staff manage Council's property activities.

Management/Reporting Procedures

Reports are received and reviewed by Council on a regular basis.

1.4.3 Community Housing

Nature of Investment

Council currently has 97 community houses available for rental, generally to elderly or disabled persons.

Rationale for Holding Investment

Council continues to retain community housing to meet its considered obligation for the provision of rental accommodation, primarily for the elderly or people with disabilities.

Council's philosophies include ensuring that rental charges cover cost (excluding depreciation) and to continue to maintain the housing at its current high standard.

Council's policy is to obtain a small return on its investment in community housing, with the contribution rising from the current 5% of rentals received to 9% for Years 1 and 2, 13% for Years 3 to 5 and 15% for Years 6 to 10.

Revenue

Council operates its community housing activity in the nature of a "closed account" whereby revenues generated are utilised for debt repayment on loans outstanding on this asset and for meeting the annual maintenance schedules. A small dividend is returned to Council's Community Services annually from this account.

Risk Management

Suitably qualified staff manage Council's community housing activities.

Management/Reporting Procedures

Reports are received and reviewed by Council on a regular basis.

1.4.4 Camping Grounds

Nature of Investment

Council owns four camping grounds within its District (Collingwood, Pohara, Motueka and Murchison). Three are leased to private individuals.

Rationale for Holding Investment

Council's camping grounds are retained for the enjoyment of visitors to and residents of the District.

Revenue

Council receives net revenue from these assets, which it uses to subsidise general rating activities performed by its Parks and Reserves Department.

Risk Management

Suitably qualified staff manage Council's community housing activities.

Management/Reporting Procedures

Reports are received and reviewed by Council on a regular basis.

1.5 Associated Organisations

1.5.1 Nelson Regional Sewerage Business Unit

Nature of Investment

Tasman District Council and Nelson City Council equally share in ownership of this asset. Tasman District Council provides treasury advice and Nelson City Council provides some engineering and administrative services to the Business Unit, which has committee representation from both Councils.

Rationale for Holding Investment

To ensure continuity of wastewater services for the residents and ratepayers of both Tasman District and Nelson City.

Revenue

Council does not receive any financial return from this Business Unit.

Risk Management

A committee, with representatives from both Councils plus one external representative manages the Business Unit.

Management/Reporting Procedures

Quarterly reports are received and reviewed by Council.