Nelson City Council
te kaunihera o whakatū

Investment Policy

Effective: **April 2015**

Review date: **April 2018**

Contact: Group Manager Corporate Services

Investment Policy

Purpose

Section 102(2)(c) of The Local Government Act 2002 requires Council to adopt an investment policy which, under Section 105, must state Council's policies for its investments, including:

- the mix of investments;
- the acquisition of new investments;
- an outline of the procedures by which investments are managed and reported on to Council;
- an outline on how risks associated with investments are assessed and managed.

This investment policy has been developed as a guide to control all Council investments and may be changed only by a formal resolution of Council.

Investment Principles

The Council makes investments when they offer strategic benefits or when they are necessary for the Council to effectively carry out its functions. The Council recognises that, as a responsible public authority, any investments it holds will have an element of risk and that risk will be appropriately managed. The overall investment approach of the Council is to balance risk against long-term returns, accepting that lower risk generally means lower returns.

Objectives and Strategies

The main aim of an investment policy is to ensure the portfolio is managed in a prudent and competent manner, in terms of the governing legislation. The Council's primary objectives for investments to effectively carry out Council functions are:

- To protect the Council's investments and ensure they are risk averse and secure;
- To ensure the investments benefit the Council's ratepayers.

To achieve these objectives, Council's primary strategies are:

- Protect investment capital value and minimise the risk of loss;
- Optimise the investment value and return;
- Ensure investments are of a type that provides Council with funds when required;
- Diversify the mix of financial instruments;
- Promote economic and business development in Nelson (while recognising other policy considerations);
- Achieve the goals and objectives set out in the Council's Long Term Plan and Annual Plan.

Policy

The Council's general policy on investments is that Council may hold property, forestry, and equity investments if there are strategic, economic or other valid reasons, such as when an investment is the most appropriate way to administer a Council function.

The Council will not be involved in investments for purely income earning purposes, except for short-term investment of surplus funds. In this case, it will aim for maximum return with minimum risk within the parameters of the Policy.

The Council will keep under review its approach to all major investments, the monitoring of equities and the credit rating of approved financial institutions.

Policy on Acquisition of New Investments

In deciding to acquire new investments, Council considers the following questions:

Legal Issues

- Is there a statutory requirement for this investment?
- Is there a statutory authority for this investment?
- Does the Council have any other binding legal commitments to it?

Effectiveness

- Does the investment contribute to the Council achieving community outcomes now and in the future?
- Is there enough community interest to justify the Council's involvement?
- Does the Council have the control and influence needed to ensure the desired outcome

Benefits

- What are the benefits – strategic, financial and others?
- Who benefits?

Risks

- What are the risks?
- Who bears them?
- How can they be managed?

Other Options

- What other options have been considered to achieve the same outcomes?

Treasury Investments

Background

The Council maintains treasury investments in order to invest:

- Surplus cash, and working capital funds;
- Funds allocated for the purpose of accumulating surplus;
- Funds allocated for approved future expenditure, implementing strategic initiatives, supporting intergenerational allocations and proceeds from the sale of assets.

Policy

The Council's policy for its treasury investments is to use only credit-worthy counterparties with a strong Standard and Poor's rating or equivalent credit rating agency as set out in the counterparty credit risk table later in this policy.

Rationale

The Council's primary objective is the protection of its investment. Council recognises that as a responsible public authority all investments held, should be low risk. Council also recognises that low risk investments generally mean lower returns.

Benefits

The main benefit of treasury investments is that they provide funds for operating and capital expenditure as needed.

Risk

The fixed rate investment is vulnerable to changes in interest rates and this can impact on both the returns available, and the capital value of the investment, if sold before maturity.

The amount invested and return is at risk from a counterparty default, where the party is unable to repay principal and interest amounts as they fall due. Accordingly, only approved credit worthy counterparties are acceptable.

The following principles capture the objectives outlined above and form the key assumptions of the operating parameters contained in the Counterparty Exposure Limits:

- Credit risk is minimised by placing maximum limits for each broad class of non-government issuer and by limiting investments to the LGFA and registered banks within prescribed limits.
- Liquidity risk is minimised by managing maturity terms to future expenditure requirements and ensuring that all securities are capable of being liquidated. Bank term deposits are restricted to a term of no more than three months.
- The Council's treasury investments are structured to provide sufficient funds to meet Council's cash flow and capital expenditure obligations as they fall due.

Investment Limits and Controls

Policy and Rules

The Council ensures it receives amounts owed to it in full and on due dates by undertaking investments only with institutions that have a strong Standard and Poor's credit rating, or equivalent international credit agency, and by applying the following rules for investment counterparty controls:

- Limit total exposure to prescribed amounts, as set out in the matrix below.

Rules on Investment Risk

Approved financial instruments are as follows:

Category	Instrument
Cash management investments (up to three months)	Call and short term bank deposits Bank registered certificates of deposit (RCDs) Treasury bills
Investments	LGFA borrower notes

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

All unsecured investment securities must be senior in ranking.

Counterparty Credit Risk

Counterparty credit risk is the risk of losses, realised or unrealised, arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Council. Counterparties and limits can only be approved on the basis of long-term Standard and Poor's credit ratings, or equivalent international credit rating agency, being A+ and above or short term rating of A-1 or above. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits:

Counterparty/Issuer	Minimum long term/short term credit rating	Investments maximum per counterparts ($million)	Total maximum per counterparty ($million)
NZ Government	N/A	Unlimited	Unlimited
NZ Local Government Funding Agency	AA/A-1	20.0	20.0
NZ Registered Bank	A+/A-1	10.0	25.0

In determining the use of the above gross limits, the following product weightings will be used:

- Investments (e.g. Bank Deposits) – Transaction Principal x Weighting 100% (unless a legal right of set-off exists);

New Zealand Local Government Funding Agency

The Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

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

a) Obtain a return on the investment; and
b) Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for Council.

Because of this dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

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

Managing and Reporting on Investments

Council makes policies for property investments owned by Council, including Civic House, Ridgeways Joint Venture and Council Controlled Trading Organisations.
The key reporting on investments is through the Council's Annual Report, covering the previous financial year. This is audited by Audit NZ. There are also a number of other reports to the Governance Committee or the Joint Shareholders Committee, including the six-monthly report from each Council Controlled Trading Organisation (CCTO) and the Council monthly abbreviated balance sheet and treasury compliance report. Return in relation to risk is also managed through the Statement of Intent (SOI) for CCTOs, the appointment of independent directors and the auditing of annual accounts. Further background and objectives for each type of investment are outlined in more detail below.

Port Nelson Limited

Background

Port Nelson Limited (PNL), which includes the wharves and much of the reclaimed land at the port, is one of Nelson's significant strategic assets. Nelson's relative isolation means the port's activities are critical to both the economy and recreation of the region. Local government was re-organised in 1989 and the Nelson Harbour Board was corporatised. Ownership passed to the two local authorities so that 50% shares are held by each of Nelson City Council and Tasman District Council.

These shares are carried in the Nelson City Council's books at the cost, which is the share value determined by dividing the net assets of a company by the number of shares issued.

Port Nelson has consistently paid a dividend to its shareholders.

Ten Year Goal

Retain community control of the regional port recognising its strategic importance.

Policy

Nelson City Council's policy for Port Nelson is to:

- Retain the Council's 50% ownership for the present;
- Review future options while still retaining community control of the port;
- Continue using Port Nelson dividends to ease the burden on ratepayers;
- Continue using any special dividends or capital proceeds to reduce external borrowings.

Rationale

The Council recognises that this investment is its largest in relation to total investments. The strategic importance of this gateway to the region as a natural monopoly, together with probable benefits from dividends, currently justifies the financial risk, which itself is acceptable.

Benefits

The benefits of Council's investment in Port Nelson are ongoing and long term, though not guaranteed. The key strategic benefit is public control over a critical gateway to the region with significant economic benefits.

Financial Benefits

Dividends are used to ease the burden on ratepayers by being credited to the general rate account. Special dividends are used to reduce Council's external borrowings. The Council owns 50% of a valuable strategic asset, which is anticipated to continue to provide financial benefits to the community.

Risk

The risks of this investment are:

- Dividends depend on Port Nelson's ability to generate profit;
- There is some potential for competition from other ports to affect Port Nelson's business.

How the Investment Is Managed

The Council actively manages this investment by:

- Jointly appointing external directors with appropriate expertise to the Board of Directors;

- Appointing an external director with appropriate expertise to the Board of Directors;
- Annually approving and/or amending Port Nelson's Statement of Intent;
- Requiring a six-monthly report on Port Nelson's results and future outlook;
- Regularly considering the investment management options summarised below.

Options

Other options that Council has considered to reduce its exposure to risk include:

- The two Councils could sell a portion of their shareholding, though not to the extent that they would lose joint control; or
- The two Councils could sell their entire shareholding and exit the business completely.

Nelson Airport Limited

Background

Nelson Airport is a significant strategic asset. Nelson's relative isolation means the airport's activities are critical to both the economy and recreation of the region. Shares are currently held 50% by Nelson City Council and 50% by Tasman District Council.

Ten Year Goal

Retain community control of the regional airport.

Policy

The Council's policy for Nelson Airport is to:

- Retain the Nelson City Council's 50% ownership for the present;
- Review future options while still retaining community control of the airport;
- Continue using Nelson Airport dividends to ease the burden on ratepayers;
- Continue using any special dividends or capital proceeds to reduce external borrowings.

Rationale

The Council considers that it is important to retain control over the strategic services provided by the airport.

Benefits

The benefits of the investment in Nelson Airport are ongoing and long-term, but not guaranteed. . The key strategic benefit is public control over a critical gateway to the region with significant economic benefits

Financial Benefits

Financial benefits include that any dividends will be used to ease the burden on ratepayers by being credited to the general rates account, and that Council owns 50% of a valuable asset.

Risks

The risk of investing in the airport is that dividends depend on Nelson Airport's ability to generate profit.

How the Investment Is Managed

The Council manages this investment by:

- Jointly appointing external directors with appropriate expertise to the Board of Directors;

- Appointing an external director with appropriate expertise to the Board of Directors;
- Annually approving and/or amending the company's Statement of Intent;
- Requiring a six-monthly report on the company's results and future outlook.

Nelmac Limited

Background

Nelmac Limited was formed in 1995 and is 100% owned by the Nelson City Council. The company has around 60% of its contracts with the Council to provide essential utility services including:

- Solid waste collection in the central city and from Council-owned parks and reserves;
- Maintenance of gardens, parks, and wilderness areas;
- Maintenance of the water supply, stormwater, and wastewater systems.

The balance of Nelmac Ltd work is from non Nelson City Council clients sourced on the open market. It currently owns its base in Bullen Street, and has modern maintenance plant, vehicles, and equipment.

Ten Year Goal

Retain community control of Nelmac Limited with a modest growth goal.

Policy

Nelson City Council's policy for Nelmac Ltd is to:

- Retain Nelson City Council ownership;
- Negotiate an ongoing partnership agreement with Nelmac Limited for the provision of specified strategic services to the Council;
- Maintain a focus on Nelson City Council work by undertaking work for other clients only where:
  - The additional scale of work improves the level of service available to the Nelson City Council;
  - The work is clearly profitable;
  - After giving due consideration to Nelmac Limited's place in the market and the capital requirement.

Rationale

The Council believes it is important to retain control over the critical services that Nelmac Limited provides for the City. In addition, the company is performing well and Council considers it is desirable for several reasons to keep the company's business, profits, and spending within the Nelson community.

Benefits

The benefits of the investment in Nelmac Limited are ongoing, although these are not guaranteed. The strategic benefits are that Council retains control over critical services provided by Nelmac Limited. It also provides true and complete costing information on contractor performance.

Financial Benefit

Any dividends are used to ease the burden on the ratepayer by being credited to the general rates account.

Risks

The risks of this investment are:

- Returns depend on Nelmac Limited's ability to generate revenue and profit;
- The investment relies on Nelmac Limited's ability to provide an effective and efficient service to Council.

How the Investment Is Managed

The Council manages this investment by:

- Appointing all directors on Nelmac Limited Board of Directors;
- Annually approving and/or amending Nelmac Limited Statement of Intent;
- Requiring a six monthly report on Nelmac Limited results and future outlook.

Options

Council regularly reviews its investment in Nelmac Limited.

Nelson Tasman Tourism (Tourism Nelson Tasman Ltd)

The Council owns 100% of Tourism Nelson Tasman Limited (NTT). The company undertakes destination marketing, destination management and the provision of visitor information services in Nelson. It co-ordinates the marketing and promotion of the Nelson Tasman region as a visitor destination, provides tourism education and product development and manages the visitor information centres throughout the region.

Ten Year Goal

Council's goal is to take a coordinated approach with the Tasman District Council to stimulating the regional economy through investment in the tourism sector.

Policy

The Council's policy for Tourism Nelson Tasman is to enter into a contract of service with Tourism Nelson Tasman Ltd, on a three-year rolling basis, to establish baseline funding for the promotion of tourism in the region. Council considers the funding requirements for Tourism Nelson Tasman each year as part of its Annual and Ten Year Planning processes, to consider whether the baseline funding needs increasing.

Rationale

Tourism Nelson Tasman is an effective mechanism for Council to achieve its objective of promoting tourism and economic development in Nelson[1].

Benefits

The financial benefits of tourism promotion accrue to the regional community rather than directly to the Council. The strategic benefit is that Tourism Nelson Tasman Ltd promotes tourism in the region, coordinates various tourism marketing initiatives and therefore assists the development of the local economy.

Risks

This is a community company with no shareholders' funds and so there is no investment at risk.

How the Investment Is Managed

The Council's procedure for managing the investment in Tourism Nelson Tasman includes:

- appointing directors with appropriate expertise to the Board of Directors;
- approving and/or amending, on an annual basis, the Statement of Intent; and
- receiving a six-monthly report from the company that details results and its outlook.

[1] Currently an external review of NTT/EDA is being undertaken.

Forestry

Background

The Council has invested in and been involved in managing forestry interests since the 1940s and these are held as long term investments. Council-owned forests are located in the Brook, Marsden, Maitai and Roding. The total net stocked area as at 30 June 2014 is estimated at 649.4 hectares.

Policy

The Council's current policy for commercial forestry is:

- To not purchase land for forestry purposes nor plant more commercial forests other than replanting;
- Endorse and observe the provisions of the New Zealand Forest Accord (August 1991);
- Contract out forestry management to an independent Forest manager;
- To manage its forest estate on a sustainable basis and to maximise net present value.

Rationale

In the last few years the forestry and land management environment has changed considerably with a much greater emphasis on sustainability and the introduction of the Emissions Trading Scheme. 78% of Council forestry occurs on steep to very steep slopes, making harvesting a more challenging and expensive operation. Some blocks are on their first rotation and therefore will require the establishment of roading and skid sites. The negative impacts of climate change and the likelihood of more extreme weather events causing windthrow issues is also a consideration for the future. Council is yet to review strategic decisions on its forestry portfolio[2].

Benefits

The Council's forests are a significant resource, a means of generating revenue from public reserve land and provide for recreational use.

Financial Benefits

As well as revenue generation, there are also environmental and social benefits in that forests provide areas with public access for walking, biking, hunting and other recreation. Forestry operations contribute to local business operations including contract forestry management, logging contractors, silvicultural contractors, transport contractors and Port Nelson.

Risks

Forestry has performed poorly in recent years although is still expected to be a low risk investment in the medium to long-term.

Financial Risks

Any forest is at risk from natural disasters, fire, and disease. Prices fluctuate and at any given time depend on world markets, particularly those in Asia. As development is funded from retained earnings, any shortfall in earnings requires the Council to make additional external borrowings to fund development.

Environmental Risk

Poor management of logging operations could pose environmental risks, especially to water supply.

How the Investment Is Managed

[2] External review currently underway

The Council actively manages its investment in forestry by:

- Contracting out forest management to reputable consultants;
- Carrying out silviculture to a defined forestry management plan, which is reviewed every three years;
- Revaluing forestry assets at 30 June each year and crediting any increase to the asset revaluation reserve;
- Minimising the impact of short-term decline in prices by delaying harvesting as appropriate;
- Maintaining insurance cover for fire and wind damage.

Property Investments

Background

The Council owns a large number of properties but the majority of these are not held for investment purposes. Most Council properties are occupied by the Council for community facilities, to enable the delivery of services; conservation reserves; reserves for recreation; utilities; or roads. In most of these cases there is no intention to dispose of these properties because of their ongoing benefits to the community. A small number of Council properties are owned for investment purposes that include a component of investment benefit. These are:

- Civic House and State Advances buildings, on the corner of Halifax and Trafalgar Streets;
- Land in Akerston St, adjacent to the marina;
- Land and buildings at the Plant and Food site, Wakefield Quay;
- The land under the fishmonger/café site on Wakefield Quay;
- BP site on Haven Road.

Other properties that are held in anticipation of future use by Council, on behalf of the community, that could be considered to have an income-generating or investment component, include:

- The building at 23 Halifax Street adjacent to the library;
- The Millers Acre Centre Taha o Te Awa, which accommodates the Visitor Information Centre, Nelson Tasman Tourism, the Economic Development Agency and other organisations;
- Four residential properties adjacent to the Railway Reserve in the St Vincent Street area;
- The site at 46 Rutherford Street between Bridge and Vanguard Streets;
- Betts and Bridge Street leased carparks;
- The Hunters and Hunting & Fishing building in Wakatu Square;
- Anchor, Customhouse/Reliance Engineering/Four Seasons on Haven Road.

Although the Council has taken part in subdivision developments in the past, it does not currently pursue further subdivision opportunities as an investment. The Ridgeways Joint Venture is discussed later in this policy and is nearing conclusion.

Policy

The Council's general policy on property investments is:

- The Council will not be involved in property investments purely for income earning purposes;
- There might be strategic, social, or other valid reasons for Council to be involved in property ownership or investment, for example when it is the most appropriate way to administer a Council function or achieve community outcomes
- The Council will not become involved in any further property development or major subdivisions unless there are Council objectives or social benefits arising from the investment that cannot be achieved by other means.

Subject to the first two policies above, the Council may take a facilitating role in subdivisions, whether or not it owns all the land to be subdivided.

Ridgeways Joint Venture

Background

The Council owned rural land in the hills behind Stoke for many years and leased it out for grazing. In 1993, the Council called for expressions of interest in the property. Having received no reasonable offers for an outright sale, a 50/50 joint venture was set up with Residential Land (Nelson) Limited since replaced by Homedale Holdings Limited to subdivide the property into 202 sections. Nine sections in the final stage are on the market and remain to be sold. Due to the slow property market, it is not known how long it will take to sell the last of the sections. With all initial costs covered each sale provides additional profit for Council.

Policy

The Council's policy for the Ridgeways Joint Venture is to complete the sale of remaining sections in the development.

Rationale

Council has inherited this venture and intends to complete the sales process for the remaining sections to realise its financial benefit for ratepayers.

Benefits

The initial proceeds from the development were used to fund later stages. Any profits are used to repay debt within Council.

Significant financial benefits were expected from this investment and these were realised, largely due to the timing of property market growth. The venture netted several million dollars in profits for Council, and these benefits are anticipated to continue until sales are complete. The strategic benefits include the development expanding the Council's rating base. It also provided a water reservoir that can be used to service future development.

Risk

The Council has already recovered its initial investment. The remaining risk is that it might not sell the remaining sections at the budgeted level, or it might take longer than anticipated to achieve these sales.

How the Investment Is Managed

Council manages this investment by:

- Sharing 50% of the risks with its joint venture partner;
- Funding future development of the subdivision from sales of earlier stages;
- Annual Statement of Intent and reporting requirements.

Loans and Advances to Community Groups and Ratepayers Miscellaneous Loans and Advances

Background

The Council occasionally provides loans and advances to assist a community group or ratepayer to fund a capital work that is in the best interests of the Council and community. These loans and advances are provided only on rare occasions, and only with the prior agreement of the Council. As at 30 June 2014, the total balance of loans and advances outstanding was $5.256m, compared with $5.755m in 2013.

Policy

The Council's policy for miscellaneous loans and advances to community groups and ratepayers is to continue providing loans and advances but only as a means to achieve a particular objective consistent with the Council's strategic goals and policies and with the prior approval of the Council. Where loans relate to buildings on Council land, the Council will take security over the building and chattels.

Risks

Risks are specific to each loan and are mainly around the ability of the community group or ratepayers to repay the loan.

How These Investments Are Managed

Loans are monitored by Council management and recommendations are made to Council if action is considered to be required.

New Zealand Local Government Insurance Corporation Limited (Trading As Civic Assurance)

Background

Civic Insurance was set up as a national corporation to ensure local authorities have access to adequate insurance arrangements at a reasonable cost. Almost all local authorities became shareholders. The value of shares held by Nelson City Council, which was $140,000 as at 30 June 2014, is not significant relative to the Council's total investment holdings. As shares are not readily transferable it is unlikely a reasonable offer for their purchase would be received by Council.

Rationale

Council invests in Civic Assurance to ensure that the insurance market is competitive and that the local government sector is in a strong position to manage its own risk[3].

Risks

Risks associated with Civic Assurance are mitigated with the use of suitably qualified staff and directors of the company.

How the Investment Is Managed

The investment is managed through the Statement of Intent and Annual Reporting process as well as voting for directors.

[3] Local Government New Zealand is currently reviewing the appropriate structure of local government insurance provision (currently referred to as the Local Government Risk Agency)