He Tauira Kaupapa Here Haupūranga Moni

Investment Policy

This Policy looks at Council's mix of investments, management of risk where investment is concerned and our procedures for managing and reporting on investments.

Contents

1. Our objectives

Council will manage its investments in a prudent manner in accordance with legislation and this policy. Council will manage its investment portfolios to optimise the value of the investment and their returns in the medium to long term, while balancing risk and return considerations.

In managing and selecting investments Council will aim to:

- protect the investment value
- optimise the investment return
- ensure investments provide Council sustainable income flows from commercial investments
- diversifying the mix of investments to spread risk
- promote economic and business development within the district.

2. Scope of the policy

Council has a wide range of assets and investments that are used in different contexts. Council may make strategic, commercial and semi- commercial investments.

Council's commercial investments are made primarily for capital gain or maximum investment yield. The performance of these investments will be assessed on a purely financial basis. They are items where the primary goal is the generation of commercial returns to reduce the level of rates and increase the investment in infrastructure.

Strategic and semi-commercial investments are those made to promote economic and business development within the district and/or achieve other goals set out in the Council's Long Term Plan (LTP) or Annual Plan. These investments are not covered under this policy as they are a fundamental part of Council activity delivery and so are included within the activities that the assets support.

3. Our mix of investments

Council has a mix of investments for the purpose of fulfilling various strategic, economic development and financial objectives as outlined in the LTP. Council's investments include holdings in Council Controlled Trading Organisations (CCTO) and other entities (where there is a specific strategic objective for holding the investment or the investment is required to comply with legislation).

Council may maintain investments in:

- equity investments
- property investments
- forestry investments
- financial investments
- loan advances
- Council Controlled Trading Organisation (CCTO) and Council Controlled Organisations (CCO).

Equity Investments

Council equity investments includes minority share holdings, Council Controlled Organisations (CCOs) and Council Controlled Trading Organisations (CCTOs).

Council has a responsibility to ensure that the expenditure incurred by it and the Group is optimal. To do this Council need to review the performance of these investments on a regular basis to ensure strategic and economic objectives can be achieved.

Council Controlled Trading Organisations (CCTOs)

Council has one CCTO, Gisborne Holdings Ltd (GHL), which is wholly owned by Council (100% shareholder). Council seeks to regularly monitor the performance of GHL so that it remains confident that it is still an appropriate vehicle for holding Council's investments and to ensure that existing investment activities are achieving appropriate income generation and returning benefit to the community.

GHL dividends are an important income stream used to reduce the level of rates and to allow investment in infrastructure.

The primary focus of our investment in GHL is for the CCTO to be the main vehicle for Council's goal of operating profitably and providing a non-rates income stream to Council.

New Zealand Local Government Funding Agency investment

The Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency (LGFA), and may borrow to fund that investment.

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

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

Because of these dual objectives, 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 and be a Guarantor.

Council's small minority investments are outlined in the following table.

Equity Investment	Objectives
Civic Financial Services Limited	
Civic Financial Services was initially established as an insurance vehicle for local authorities, New Zealand Local Authority Protection Programme Disaster Fund (LAPP). Council is no longer a member of LAPP, but still retails shares.	Council initially invested in Civic Financials Services Ltd through Riskpool and LAPP schemes to provide disaster recovery and public and professional indemnity insurance.
Civic Financial Services provides financials services for the Super Easy and Super Easy Kiwi Saver superannuation schemes.	Council now sources these insurances through commercial brokers.
Council is a minority shareholder with 92 shares	Council is unlikely to purchase further shares
New Zealand Local Government Funding Agency (LGFA)	Access loan funding at lower rates

Equity Investment	Objectives
Council is a minority shareholder: holding 100 shares and 939 LGFA Notes	
The LGFA is owned by the Crown and local authority members	
BoPLASS LTD	
BoPLASS LTD is a Council Controlled Organisation (CCO) that was formed to investigate, develop and deliver shared services for its council members in the Bay of Plenty and Gisborne regions.	To deliver shared services more effectively and where possible financial savings from the group alliance
Council is a minority shareholder with 9 shares	

Financial investments

Council's financial investments include term deposits and borrower notes with banks and other financial institutions. These investments are held for medium term cash management and liquidity.

Council holds the financial investments as part of the day to day working capital management as required by the Local Government Funding Agency (Borrower Notes). Council manages all of these investments together. This minimise the level of financial investments.

Council does not have an established level of cash investments, or fund separate reserves.

As a borrower from the Local Government Funding Agency, Council is required to buy borrower notes. The quantum of borrower notes is related to the level of borrowing from the LGFA, and the term of the notes mirrors the term of the loan.

Council will invest in financial investments in accordance with our Treasury Management Policy and procedures. Council will ensure that there is an appropriate spread of risks and maturities between the different entities.

Property investments

Council owns property investments for strategic, operational and commercial purposes. Property investments are predominantly for the delivery of activities. Council review ownership through assessing the benefits including financial returns, in comparison to other arrangements that could deliver similar results.

Surpluses generated from commercial and semi-commercial property investments are treated as an internal dividend. Other surpluses from property are treated as income in the related Council activity.

Property disposals are managed to ensure compliance with statutory requirements and where appropriate with Community Boards and Committees.

Councils owns land and buildings for the purposes of providing services and parks and reserves. Where the properties are owned for operational purposes or future operational purposes they are not considered to be an investment covered by this policy.

4. Loan Advances

Council may provide loan advances to CCOs, CCTOs, charitable trusts and community organisations for strategic, operational and commercial purposes.

New loan advances are approved by Council resolution. Council does not lend money, or provide any other financial accommodation, to a CCO or CCTO on terms and conditions that are more favourable than what would apply if Council were borrowing the money.

5. Our acquisition and disposal of investments

Acquisition or disposal of any non-day-to-day investment requires Council approval (excluding any financial investment). Council may consult with the public on an acquisition or disposal, depending on the significance of the proposal, or the intended use of the funds from that disposal.

Property acquisition and disposals are conducted under statutory requirements and, where appropriate, consultation with Council. Property acquisitions are supported by registered valuations and, where appropriate, a full business case analysis (depending on the significance of the acquisition).

Council will not purchase and sell investments on a speculative basis.

Council should be ethical and act with integrity when funding or acquiring investments.

Council should:

- act, and be seen to be acting, in a fair, open and unbiased manner;
- observe ethical standards, principles and behaviour throughout the investment process and while monitoring investments; and
- where possible, observe that the publicly available ethical profile of any potential investment aligns with Council.

Council will only make new investments and/or retain existing investments if all the following criteria are met:

- the investment has clear long-term benefits for the community or the district
- the risks associated with the investment can be managed within acceptable levels
- the investment will provide Council with funds when required, including sustainable income flows (where appropriate)
- it would not result in a material breach of the borrowing limits set out in the Liability Management Policy

6. Our investment management and reporting

In determining investment holding structures, Council will consider the following criteria:

- appropriate separation of management and governance
- imposing commercial discipline on the investment activity to produce an appropriate return by ensuring appropriate debt/equity funding; and requiring a commercial rate of return
- separation of Council's investment assets from Council's public good assets.

As part of managing the risk and performance of Councils CCTO investment, an annual Statement of Intent (SoI) is submitted by the Board of the CCTO for approval by Council. If Council does not agree to the contents of a SoI delivered, it has powers under the Local Government Act (LGA) to pass a resolution which requires the Board to modify the SoI. Another mechanism for managing and reporting on the CCTO investment is the half yearly and annual reports provided by the CCTO to the relevant Council committee[1].

The Finance and Performance Committee (the Committee) reviews performance of all investments on a regular basis to ensure strategic and financial objectives are being achieved.

Periodically Council will review its investment holding structure to determine if it is still an appropriate vehicle for holding Council's investments and to ensure that existing investment activities are achieving appropriate income generation and returning benefit to the community.

7. Our investment risk assessment and management

There are three primary risks in relation to Council's investment portfolio:

- Investments may lose money and Council maybe required to provide additional funds to support the investment
- Investments do not provided the expected level of cash return, as forecast within the LTP risking the need for higher levels of rates funding
- Investments do not provide the community and social returns that justified the Council's investment

Council investments give rise to a direct exposure to credit, risk, interest rate risk, liquidity risk and market risk which can impact on the capital value of its investments.

Credit risk is managed by placing maximum limits for each class of investment by issuer, performing credit evaluations as appropriate, and investing funds with approved institutions that have satisfactory credit ratings.

Interest rate risk is managed by matching investment and borrowing maturities, and the use of interest rate instruments for interest rate risk management purposes.

Liquidity risk is managed by ensuring that all investments are capable of being liquidated in a readily available secondary market or that appropriate standby facilities have been established.

Market risk is managed as part of the overall management of interest rate risk[2].

Treasury investments are made from short-term surplus funds available to Council and typically made in the form of financial instruments. To minimise operational risks, these investments will be made in accordance with the policies and procedures set out in Councils Treasury Management Policy and Procedure Manual.

Council recognises that there are risks associated with holding equity investments. Council's overall investment risk is spread by ensuring that the value of any single investment does not exceed either the percentage of the total consolidated assets of Council or the percentage of total investments as set out by council from time to time, and detailed in the Treasury Management Policy.

[1] A requirement of s.66 and 67 of the LGA

[2] Market risk is the risk that arises from the potential change in the value of an investment. Market risk results primarily from changes in market interest rates.

The Finance and Performance Committee will monitor the performance of its CCTO and CCO equity investments to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

All investments will be made in accordance with the policies and procedures set out in Council's Treasury Management Policy and Procedure Manual. Commercial investments are subject to a broad range of active commercial reviews including regular hold/ sell reviews, portfolio analysis and comprehensive monitoring.

8. Group Tax Efficiency

To ensure that existing investment activities achieve appropriate income generation Council needs to be proactive in the way it manages the Group tax level to ensure it operates at maximum efficiency.

Optimizing the overall income tax position for Council and the Group members means that Council is not needlessly paying income tax.

The onus is on Council, as the ultimate owner of each entity within the Group, to take lead responsibility for decisions that impact on the level of income tax paid within the Group as a whole. As part of Councils due diligence to make sure review its investment holding structure is still the most appropriate vehicle for holding Council's investments, Council needs to regularly consider:

- The profits available within the Tax CCTOs for return to Council
- The most efficient method to extract profits from each entity within the Group and
- The capital funding requirements of each entity in the group, and how this could limit reserves available for distribution.

The Group tax position is dynamic and ongoing monitoring is required to ensure tax efficiency is optimal. This can be best achieved through a strong collaborative relationship with the entire group and a commitment to regular reporting and monitoring.

9. Review

This policy will be reviewed every three years as part of Council's LTP.

10. Definitions

Asset Investment

Investments held in physical capital assets rather than shares (equity investment). Council's holds investments in commercial and semi-commercial property, including community housing and forestry woodlots.

Equity Investment

An equity investment generally refers to the buying and holding of shares in anticipation of income from dividends and capital gains, as the value of stock rises. Council can also hold equity investments for strategic purposes.

CCTO, CCO

Council current equity investments include interests in the Gisborne Airport Authority, forestry and may include other Council Controlled Organisations (CCOs) or Council Controlled Trading Organisations (CCTOs). At its most basic level a CCO is a not-for-profit sharing arrangement with Council and a CCTO is a profit-making vehicle controlled by Council.

Uncalled Capital

Capital that a company has raised by issuing shares or bonds but that the company has not collected because it has not requested payment.