Investment Policy

The Council's general policy on investments under Sections 102 and 105 of the Local Government Act 2002 is set out below.

Council's detailed operational policy on investments is included in its Treasury Management Policy and Procedure Manual which includes Council's objectives, policies, strategies, monitoring and reporting procedures.

This policy will be reviewed and updated at least every three years as part of the update of the Council's Long Term Plan (LTP).

1. Objectives

The objective of this Investment Policy is to ensure that the Council's portfolio of investments is managed in a prudent and competent manner in accordance with the Local Government Act 2002.

Council will manage its investment portfolios to optimise investment value and 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 capital value and minimise the risk of loss
- optimise the investment value and return
- ensure investments are of a type that provide Council with funds when required, including sustainable income flows from commercial investments
- spread the risk by diversifying the mix of investments
- promote economic and business development within the district.

Council may make strategic, commercial and semi-commercial investments.

Commercial investments are those made primarily for capital gain or maximum investment yield. The performance of these investments will be assessed on a purely financial basis.

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 Ten Year Plan or Annual Plan. Strategic investments and semi-commercial investments may not provide a commercial return.

The current objectives and Targeted Rates of Return for all investments are set out in the Treasury Management Policy and Procedure Manual.

2. Investment mix

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 CCTOs 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
- infrastructural asset investments
- financial investments
- loan advances
- the New Zealand Local Government Funding Agency
- Council Controlled Trading Organisation (CCTO) and Council Controlled Organisations (CCO).

Equity investments

Council Equity Investments include interests in the Gisborne Airport Authority, Forestry Holdings, and Community Housing and may include other Council Controlled Organisations (CCOs) or Council Controlled Trading Organisations (CCTOs).

Council has a responsibility to ensure that expenditure incurred by it and the Group as a whole is optimal. To do this Council need to review the performance of these investments on a regular (twice yearly) basis to ensure strategic and economic objectives are being achieved.

Any disposition of these investments requires Council approval.

Dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

Property investments

Council owns property investments for strategic and commercial purposes. Council reviews 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 to Council.

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 consultation with Community Boards and Committees.

Property purchases are supported by registered valuations and where appropriate a full business case analysis. Council will not purchase properties on a speculative basis.

Council owns land and buildings for the purposes of providing services and parks and reserves. These holdings are not considered to be investments for the purposes of this policy.

Loan advances

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

New loan advances are by Council resolution only. 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 those that would apply if Council were borrowing the money or obtaining the financial accommodation.

Council-Controlled Trading Organisations (CCTOs) and Council-Controlled Organisations (CCOs)

Most local authorities use subsidiary companies or other entities such as trusts to conduct commercial and non-commercial activities on their behalf. The Local Government Act 2002 (the Act) introduced the term "council-controlled organisation" to describe these entities. The Act defines council organisations, council-controlled organisations (CCOs), and 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.

Council has one CCTO, Gisborne Holdings Ltd (GHL), of which Council is the 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.

3. Acquisition or disposal of investments

Any non-day-to-day acquisition or disposal of investments requires Council approval. At the time of disposal, Council determines the most appropriate use of the sale proceeds. 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.

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.

Commercial and semi-commercial investments

Council has a number of commercial and semi-commercial investments. Some are run on a commercial basis for the benefit of Council operations, while others are run to supplement Council's rates income. Council's semi-commercial assets are not primarily focused on profit.

Council also maintains a number of investments in Council-Controlled Trading Organisations. Its largest is Gisborne Holdings Ltd (GHL), and its wholly owned subsidiary Tauwhareparae Farms Ltd.

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

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

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 where appropriate sustainable income flows
- making or retaining the investment would not result in a material breach of the borrowing limits set out in the Liability Management Policy
- Council's overall investment risk is spread by ensuring that the overall 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 and Procedure Manual.

4. Management and reporting of investments

Council may delegate the power to approve individual transactions provided they are within the investment strategy as detailed in its Treasury Management Policy and Procedure Manual.

As each investment (or category of investments) will have its own unique characteristics, a specific management and return policy for each investment will be included in the Treasury Management Policy and Procedure Manual.

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 Council's 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. Half yearly and annual reports to be provided by the CCTO to the relevant Council-committee is another mechanism for managing and reporting on the CCTO investment, and also a requirement of the LGA (s.66 and 67).

The Finance and Audit Committee reviews performance of all investments on a regular basis to ensure strategic and economic 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.

5. Investment risk management

Council's 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 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 Council manages this risk as part of its overall management of interest rate risk.

Council recognises that there are risks associated with holding equity investments. To minimise these risks Council, through the Finance and Audit Committee, will monitor the performance of its CCTO and CCO equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

The Chief Financial Officer approves a risk management strategy. The Finance and Audit Committee reviews this strategy on a regular basis.

All investments will be made strictly 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.

Strategic and semi-commercial investments are subject to a narrower range of active commercial reviews given their infrastructural relationships. This includes business monitoring and long-term planning appropriate to the scale and complexity of each business.

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 strictly in accordance with the policies and procedures set out in Councils Treasury Management Policy and Procedure Manual.

6. Investment income

Income from investments will be utilised as determined by Council and incorporated in the Treasury Management Policy and Procedure Manual. In general, income will be utilised to support ongoing Council operations.

The Gisborne District Council Group (the “Group”) consists of the Gisborne District Council and its subsidiaries, Gisborne Holding LTD (100% owned), Tauwhareparae Farms Ltd (100% owned) and Tauwhareparae Forest Ltd (100% owned). All Council subsidiaries are incorporated in New Zealand.

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.

Optimising 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 Council's 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 (twice yearly) reporting and monitoring.

7. 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.