

Archived Content

This document is provided online as a historical record for the time that it was published. It has since been superseded by more recent documents.

Please check our website www.selwyn.govt.nz for the latest documents of this type, for any current information.

INVESTMENT POLICY

1. Introduction - legal requirements

1.1 The Local Government Act 2002 requires all territorial and regional authorities to adopt an Investment Policy.

1.2 The requirements of the Local Government Act 2002 are stated in Sections 105 which states:

Section 105 Investment policy

A policy adopted under section 102(4)(c) must state the local authority's policies in respect of investments, including:

- (a) the objectives in terms of which financial and equity investments are to be managed; and
- (b) the mix of investments; and
- (c) the acquisition of new investments; and
- (d) an outline of the procedures by which investments are managed and reported on to the local authority; and
- (e) an outline of how risks associated with investments are assessed and managed.

1.3 The Council must be mindful that the investments it holds are held in trust for the citizens of Selwyn. As the investments are public money, risk adverse policy objectives must be adhered to.

1.4 All investments will expose the Council to risk. The managing of the risk element in an appropriate manner will ensure the investment value is not compromised.

2. Background to policy preparation

2.1 Previous reviews

2.2 Equity investments

The Selwyn Investment Holdings Limited (SIHL) is a 100% owned holding company of the Selwyn District Council.

The objectives of SIHL are to:

- Combine the Council's trading investments under one umbrella and thereby facilitate more effective management of the Council's investments.
- Separate the trading investments from the ordinary operations of the Council and to ensure that the Council relationships with its investment companies are handled in a commercial manner.
- Provide a funding vehicle for efficient and flexible Council borrowing in commercial markets using the investments as security.
- Provide a mechanism for the Council to raise funds other than through rate funded debt and to obtain financial benefit using the investments as security without realisation of that underlying security.

2.3 Infrastructure investments

Selwyn continues to experience strong population growth and this growth places pressure on the Council to provide services.

The Council's 2009/2019 Selwyn Community Plan identifies the capital works required to upgrade or extend existing infrastructure (e.g. roads, sewerage, water) to meet this growth.

In considering this policy, readers should also refer to the Council's development contribution policy which provides the detail guiding the Council decisions when investing in infrastructure.

2.4 Commercial properties

The Council adopted a Commercial Property Strategy (refer section 4.4) in December 2005. The objective of this strategy is to allow the Council to identify appropriate opportunities in which to invest in commercial property thus enhancing the Council's investment income.

2.5 Cash & bond policy

The Council will always require liquid investments to allow it to manage its operational cash flows. These investments though must be managed in a way that is prudent and provides an acceptable return.

A revised Cash and Bond Policy is included in this document.

3. Policy statements summary

The following is a summary of the Council's policies in relation to investments and borrowings. As they are a summary, the full discussion on each policy must be read to ensure a complete understanding of the policy is held.

Investments

1.	Management of equities	All equities will be managed to maximise returns and increase economic value of the investment.
2.	Central Plains Water Limited	The Council will continue to own its one share in Central Plains Water Limited and will review its options to either convert the \$1,184,723 of borrowings it has provided to the company into equity or seek repayment if and when the scheme is commissioned. This loan earns interest calculated on the interpolated 12 month Local Government Stock Rate plus a margin of 50 basis points. The Council will continue to be joint settlor of the Central Plains Water Trust.
3.	Central Plains Water Trust Policy Statement	The Council will continue to be a settlor of this Trust.
4.	Selwyn Education Trust Policy Statement	The Council will continue to be a settlor of this Trust.
5.	Road Safety Trust Policy Statement	The Council will continue to be a settlor of this Trust.
6.	Tramway Reserve Trust Policy Statement	The Council will continue to be a settlor of this Trust.
7.	Selwyn District Charitable Trust	The Council will continue to be a settlor of this Trust.
8.	Infrastructural Advances	Advances will be made available to ratepayers, existing and future, that create a market return.
9.	Commercial Properties	The Council will seek to establish a portfolio of commercial properties that provides appropriate market returns. Opportunities to invest in appropriate commercial properties will be considered on their merits.
10.	Working Capital	Cash held on call and in cheque accounts is not to exceed \$2,000,000 on any one day with the provision of monthly reports to the Council.
11.	Equity Acquisitions	All equity acquisitions that meet the major transaction (refer 9.1) definition must be approved by the Council.
12.	Equity Disposals	All equity disposals that meet the major transaction definition must be approved by the Council.
13.	Special Funds	The Council, by 30 June each year, will review the merit of each special fund.
14.	Community Body Loans	All community loans must be approved by the Council.
15.	Izone, Southern Business Hub	Although developed with the objective of creating employment opportunities within the district, Izone offers the opportunity to create investment returns as a secondary activity.
16.	Reporting	All investments are to be reported on monthly to the Council except for equities held by SIHL, which will be the subject of a report to the Council on a quarterly basis.

4. Investments classes

4.1 Equity

4.1.1. Selwyn Investment Holdings Limited (SIHL) manages the Council's equity investments. It does so in a way that ensures the commercial imperatives are the guiding objectives of each investment.

SIHL currently holds the following equity investments:

- Orion Group Limited (10.725% owned)
- SICON Limited (100% owned)
- Selwyn Plantation Board Limited (60.68% owned)
- KB Irrigation Limited (100% owned)
- Ferguson Brothers Limited (75.1% owned)

The Council also holds an equity investment in Transwaste Canterbury Limited. This investment reflects the Council's contribution to the construction of a regional landfill. The Council's shareholding is 3%.

4.1.2. General policy on management of its investment

Policy Statement	All equities will be managed to maximise returns and increase the economic value of the investment.
------------------	---

The Council's policy is for SIHL to maximize its returns to the Council through the management of its equity investments. The Council does not have any specific policies in relation to the investments held by SIHL, although the shareholding in both SIHL and Orion are considered to strategic assets under section 90 of the Local Government Act 2002. The general policy of SIHL in the management of its investments is to maximise the returns and to increase the economic value of each investment it currently holds or will hold in the future.

The way to maximise the returns on each investment is to optimise dividend flows consistent with maintenance and enhancement of shareholder value. This additional income to SIHL will enable a higher dividend payout to its shareholder (Selwyn District Council). There are various means that an investment can increase its dividend payout to SIHL.

SIHL ensures that each investment adds economic value over the longer term to enable SIHL to use these investments as security for funding special projects of the Council. With a higher economic value (i.e. increases the value of the investment) it enables SIHL to borrow more external funds as required, subject to prudent ratios being maintained.

In all circumstances the general policy on management of its investments is viewed by SIHL as what is best for SIHL and the Council in the long term including the individual investment.

4.1.3. Procedures to manage each investment

SIHL has several procedures in place to manage the investments it controls. The most important procedure is to review and approve each investment's Statement of Intent (SOI) and business plan yearly. This enables SIHL to review the direction of each company/investment and have an input in these documents to ensure the investment does maximise its returns to the shareholders. At this point in time SIHL can also review the financial data included in each SOI to ensure the optimum result is achieved for SIHL and its shareholder.

Other procedures included:

- Reviewing quarterly, six-monthly and annual reports from each investment. These reports are analysed and compared with the annual budgets and SOI's of each investment. Any variations or other explanations required are brought to the attention of the Board of that investment.
- SIHL has regular meetings with the Chairman of the Board and Chief Executive of each investment to review their operations and future developments in the Company. These meetings are normally held each quarter of the year.
- Attend all Annual General Meetings and Special Meetings held by each company.
- Have professional advisors within and outside the Board to review the financial reports and markets within the industry to ensure that each investment is performing to the market standards.

The exact procedures that are used for each investment depends whether SIHL is holding the investment for short or long term.

4.1.4. Risks Associated with Investments

SIHL assess the risk of each investment based on the market risks for that type of industry. The market risks associated with each investment are noted to ensure that the returns are consistent with the risk taken. Market risks would include competitors' market share, competitors' strength and weakness and other external factors. e.g. Government.

Other type of risks are associated with the investment itself such as the expertise of the Board of Directors, products the company is producing, future investments made by the company, market share and structure of the company (both financial and organisational). These risks can be assessed by the financial returns of the company (i.e. the dividend SIHL receives from its investment).

SIHL's ongoing risk management procedures include:

- Appointment to the investment Board of Directors of external directors with expertise.
- Approving on an annual basis the investment's Statement of Intent and business plan.
- All other procedures as listed under management of investments.

4.1.5. Central Plains Water Limited (CPWL)

Policy Statement

The Council will continue to hold this investment.

The Council entered into a loan agreement for \$1,030,000 with the Central Plains Water Limited during the 2004 financial year to recognise the Council's share of scheme expenses incurred in the establishment of CPWL. Under the loan agreement the funds will be treated as suspensory loans unless and until the scheme is commissioned (and in the event that the scheme is commissioned in stages, then from the commissioning of the first stage).

The Council provided an extension to the loan facility of \$154,723 on 28 February 2005. The extension was provided on the same terms and conditions as the original loan balance. The total loan is \$1,184,723

Interest on the loan will accrue, from 25 October 2004 and 28 February 2005 for the respective loan balances, at an annual rate being the then current interpolated 12 month local government stock

rate plus a margin of 50 basis points. Interest will be calculated daily on the loan and shall be paid in arrears. Interest shall be included in part of the outstanding amount and shall not be capitalised.

If CPWL is not successful in gaining the necessary resource consents to proceed with construction of the scheme, the loans will be converted to ordinary shares in CPWL on a dollar for dollar basis.

The loans will not be repayable in cash until the scheme has been commissioned.

If the scheme proceeds and construction is funded by debt and equity finance the Council will have the option to convert the loan into shares (of an agreed) class in any associated and/or related company which may be or is to be the infrastructure-owing entity which will be associated with Central Plains Water Limited. Rights to water do not attach to these shares. If the Council does not elect to convert their loans into shares, the loan shall be repaid in cash over an agreed period of time.

If the scheme proceeds and construction is wholly debt financed the Council will have no right to convert the loan into shares in the associated and/or related company and the loans are to be repaid in cash over an agreed period of time.

There are no specific maturity dates for the loan as repayment depends on the progress of the scheme and options chosen by Central Plains Water Limited and the Council.

The Council owns one share in Central Plains Water Limited.

Provision for loan write down

The Council has provided support to the Central Plains Water Scheme in the form of a suspensory loan to Central Plains Water Limited as described above plus an extension to the loan facility during 2004/2005. The Council has made a provision for the possible non-repayment of the loan to recognise the suspensory nature of the loan. The Council will review the provision each year as the scheme progresses.

The Council in providing this provision has done so due to this being the appropriate technical accounting approach. The Council is extremely supportive of this project which has the potential to provide significant employment and economic benefits to the district.

4.1.6. Current Trusts

Central Plains Water Trust

Objectives

1. Central Plains Water Trust (CPWT) is a trust for charitable purposes for the benefit of the present and future inhabitants of the regions, being the respective areas within the geographical boundaries of the Councils;
2. CPWT will encourage, support and facilitate sustainable development of the water resources of the regions for the benefit of the inhabitants;
3. CPWT will provide and facilitate opportunities for agricultural and horticultural diversity in the regions;
4. CPWT will provide and facilitate education to the inhabitants of the regions in relation to water issues affecting the regions;
5. CPWT will appropriately balance enhancement of economic benefits for the regions with enhancement of ecological, social and recreational values for the regions.

Policy Statement

The Council will continue to be a settlor of this Trust.

Selwyn Education Trust

Objectives

The Trust's objective is to provide and support the education of students who are attending high schools in the Selwyn district and who are intending to undertake a course of tertiary education in New Zealand.

Policy Statement

The Council will continue to be a settlor of this Trust.

Road Safety Trust

Objectives

1. to encourage, facilitate and promote road safety programmes in the safe use of roads by all road users;

2. to encourage all forms of initiatives for the promotion of road safety and accident and collision prevention;
3. to establish and maintain a working relationship between the Board and other organisations and groups interested in promotion of road safety and accident prevention in the Selwyn and Banks Peninsula regions;
4. the provision, supply and furtherance of the above objects and any other charitable purpose related to the above objects which the Trustees deem desirable and which is acceptable to the Commissioner of Inland Revenue;
5. the objects or purposes of this Trust are or shall be charitable and shall be deemed not to include or extend to any matter or thing which is or shall be held or determined to be non-charitable and the powers and purposes of the Board and Trust hereby created shall be restricted accordingly.

Policy Statement

The Council will continue to be a settlor of this Trust.

Tramway Reserve Trust

Objectives

Tramway Reserve Trust is a Charitable Trust formed on 22 August 2003. The purpose of the Trust as set out in section 4.1 of the Trust Deed is to:

1. develop the area being Reserve 5020 and known as Tramway Reserve located at Tramway Reserve Road as a recreational, educational and scientific venue by:
 - a. restoring and enhancing the wetlands;
 - b. establishing and protecting a wide range of native flora, native fauna, game birds and sports fish;
 - c. providing walking tracks to facilitate public access to the restored wetlands;
2. promote the restoration of waterways of all types;
3. increase water dissipation via natural methods;

4. encourage planting to restore water quality;
5. encourage biodiversity;
6. restore the natural riparian habitat for aquatic species and bird life;
7. undertake any other activity incidental or conducive to the attainment of the purposes for activities of the Trust.

Governance

The Trust is managed by a Board of seven Trustees appointed by the Selwyn District Council (4), Te Taumutu Runanga (1), Department of Conservation (1) and the Fish and Game Council (1).

Policy Statement

The Council will continue to be a settlor of this Trust.

5. Cash and bond policy

Objectives

The objectives of this investment policy are:

- To ensure the Council has appropriate working capital funds available to carry out its strategic plans as outlined in the Annual Budget Selwyn Community Plan.
- To ensure that adequate funds are immediately accessible in the event of a disaster or unexpected failure of infrastructure.
- To ensure that the Council is able to meet its liability commitments as they fall due.
- To ensure that legally restricted funds are appropriately accounted for and invested so as to earn reasonable income towards their purposes. (Legally restricted funds include trust funds, and bonds/deposits etc.)
- To ensure that where the Council has resolved to set aside investments for particular purposes these funds earn interest towards those purposes and are readily available when called upon. (It should be recognised that these funds are by policy of the Council only and have no enduring legal status that would bind a future Council).
- To firstly protect the Council/ratepayers capital and to secondly earn an acceptable income.
- To ensure that all statutory requirements are met.

Investing priorities

The Council's priorities with regards to investing are:

- *Capital expenditure, especially water and sewerage that meets the Council goals and strategic plan criteria.*
- *Repayment of debt and internal loans (to reduce external risk exposures).*
- *Purchase of appropriate land and buildings.*
- *Financial instruments, risk or near risk-free, diversified in term and institution.*

Scope

This document is binding on the Council, Committees of the Council, Recreation Reserve Committees, Community Boards, Committees of Community Boards and any Trusts whose accounts are incorporated in the Council's Annual Report and Accounts. The term 'Council' includes all the above bodies.

Acceptable uses of investment funds

The following are the guidelines for permitted uses of the Council's investment funds:

Income/interest:

- *Reduction of rates.*
- *Capital expenditure and one-off projects.*
- *Add to capital to increase ability of fund to meet intentions.*

Capital:

- *Capital expenditure.*
- *One off projects.*
- *Disaster relief.*

Policy relating to short term investments

All cash funds for the time being 'surplus' are to be invested in a mixture of risk free or near risk free investments. The terms or maturities for short term investments will be a mixture of at call to up to 182 days, so that if necessary, the Council can call upon the funds at relatively short notice, after taking into account projected cash flows.

Longer term investments are entered into where:

- *The investments can be traded on an efficient market.*

Risk free and near risk free investments are:

- *New Zealand Government investments.*
- *New Zealand registered banks.*
- *Building Societies.*
- *Local Authority stock.*
- *State Owned Enterprises.*
- *Regional Health Entities.*
- *Corporates.*

Council will not consider investing with a body unless it meets an acceptable Standard and Poors (or equivalent) credit rating, where applicable.

Acceptable Standard and Poor ratings:

Short term rating	Long term rating	Explanation of rating
A1+	AAA, AA+, AA	Extremely strong to very strong
A-1	A+, A	Strong

Diversification

Maximum amount per institution as set out in the table below:

Short Term Investments (less than 12 months)

(Approved Issuers, Instruments and Limits)

Issuer	Overall portfolio limited (invest % to a portfolio maximum of)	Approved instruments	Minimum S & P short term credit rating of issuer	Limit for each issuer subject to overall portfolio limit for issuer class (nominal amount)
New Zealand Government	100%	Treasury Bills	Not applicable	No limit
New Zealand registered banks	100%	Call/term deposits, negotiable certificates of deposits, transferable certificate of deposit	A-1	\$15 million
Local authorities	50%	Promissory notes	Not applicable	\$7.5 million
State-owned enterprises	50%	Promissory notes	A-1	\$5 million
Regional health entities	50%	Promissory notes	A-1	\$5 million
Corporates	50%	Promissory notes	A-1	\$2 million
Building societies	50%	Call/term deposits	A-1	\$2 million

Long Term Investments (12 months and greater)

(Approved Issuers, Instruments and Limits)

Issuer	Overall portfolio limited (invest % to a portfolio maximum of)	Approved instruments	Minimum S & P short term credit rating of issuer	Limit for each issuer subject to overall portfolio limit for issuer class (nominal amount)
New Zealand Government	100%	Bonds	Not applicable	No limit
Local authorities	50%	Medium term notes, bonds	Not applicable	\$7.5 million
State-owned enterprises	50%	Medium term notes, bonds	A	\$5 million
New Zealand registered banks	50%	Medium term notes, bonds	A	\$5 million
Regional health entities	50%	Medium term notes, bonds	A	\$2 million
Corporates	50%	Medium term notes, bonds	A	\$2 million
Building societies	50%	Medium term notes, bonds	A	\$2 million

Interest rate risk and term profile

There is a trade off between availability of funds and interest rate risk. This policy accepts a greater degree of interest rate risk in order to have accessible funds.

Current account management

The current account credit balance should not exceed \$2,000,000 for more than two continuous working days.

It is permitted to go into overdraft for up to \$400,000 on a maximum of 10 days per year.

Average return - comparative benchmark

The emphasis is on capital protection rather than maximising returns. Nevertheless returns should be maximised within the parameters of this policy.

The short term portfolio will be benchmarked against the published 90 day bill rate.

The long term portfolio will be benchmarked by duration measurement, and this will be required to be within 2.5 and 3.5 years.

Working capital requirements

All organisations need to have adequate cash resources to fund their daily cashflow requirements.

Cash held for working capital requirements must be minimised to ensure the maximum level of cash funds are available for term investment.

The Council's working cash requirements must be managed. Cash held in cheque accounts and call accounts must not exceed a maximum daily limit of \$2,000,000.

The current agreement with Westpac is that interest is paid on the Council's cheque account.

6. Investments in infrastructure

This Council will be taking an active role via internal advances for investing in schemes for the public. The Council's Policy on such investments was adopted at the 8 October 1997 Council Meeting.

Resolved - Councillor Challies/Woods

"That the Council Policy in relation to future capital contribution be as follows:

- A separate account be established for each individual project to which investments by the Council in future capital contributions are charged.*
- That interest be charged annually at 30 June on the loan for 20 year advances as agreed to in the Annual Plan for that financial year.*
- That the capital contributions be adjusted annually on the 30 June by the CPI rate as at that date.*
- That the capital contributions be used to repay the annual interest charged to each account with the balance of new connections being applied to the outstanding balance of that account.*
- That all contributions received after the loan is repaid are credited to the scheme concerned.*
- That in the event of the capital contributions failing to meet the interest payment in any one year, the Council may apply an increase in the operations rate across all existing users to cover all or part of the annual interest charge of that particular scheme.*
- That the Council monitor the repayment of such capital contributions and make the appropriate adjustments to ensure the Council's investment will be repaid over a 20 year period."*

The Council's policy on investing in infrastructure is a sound one in that it shows a commitment to the community by the Council for the provision of such services. It is important to remember that cash investments over this period are being exchanged for investments in infrastructure generating a market rate of return. The key things for the Council to monitor are the split between cash investments and bond investments over this period to ensure that its risks are minimised.

7. Commercial property strategy

7.1 Introduction

The Selwyn District Council investments are focused on cash and bond investments and equities.

The Council has owned one significant commercial property being The Warehouse Distribution Centre at Izone Selwyn Industrial Park. This building was first purchased by the Council for \$13.5m in June 2003 and sold in February 2005 for \$15.2m. After allowing for sale costs the resulting \$1.5m surplus has been reinvested in the Council's cash and bond portfolio.

The successful management of the purchase and sale of the Warehouse building has demonstrated the ability of the Council to create higher annual cash flows (a gross rental stream of 10.25% compared to cash returns over the last 7 years, being an average of 5.9%). It also demonstrates an ability for the Council to diversify its investment risk into a wider ranging portfolio (i.e. commercial property) with the potential to generate capital gains.

The Council requested Industrial Park Project Team to develop a commercial property strategy because of the individual project team members experience with commercial property. This was adopted on 14 December 2005.

The strategy of the Council is to establish a portfolio value of \$30m with a weighting of 60% equity and 40% debt. (Being \$18,000,000 equity and \$12,000,000 debt).

The use of debt is important in the commercial property portfolio strategy as it will provide a discipline regarding investment decisions but also will ensure that the most efficient funding structure will be implemented.

In implementing this strategy the Council needs to be mindful to regularly review the strategy, understand the reasoning behind its implementation but also remember that commercial property, like most investments as a cyclical nature regarding returns which will vary over the period of an investments life.

7.2 Total portfolio value

In determining the value of commercial property the Council should hold one needs to consider the mix of its overall investment portfolio. As at 30 June 2008 the investment portfolio can be described as:

	Investment	\$'000s
Selwyn Investment Holdings Limited	82.2%	106,777
Transwaste (Canterbury) Limited	1.1%	1,500
Bond investments	2.0%	2,561
Cash investment	14.2%	18,471
Loans	0.1%	136
Investment property	0.4%	565
Total	100%	\$130,010

Converting cash and bond investments to commercial property changes the weighting and the risk assessment.

7.3 Funding of portfolio

New investments should not be fully funded from equity (in other words existing investments). There should always be a mix of equity and debt and in the situation of the commercial property portfolio the recommended balance is a 60/40 balance between equity and debt. The debt will be external debt for the Council and will be raised by using appropriate facilities that provide the lowest cost to Council. It should also minimise the type of security that needs to be provided i.e. rating security should be the most desirable. Security over buildings would increase the actual cost of the debt.

7.4 Annual return required from portfolio

The annual return is important because if the cashflow generated annually does not, at a minimum, exceed that which could be earned from existing cash and bond portfolio then there is no point in taking the risk of dealing in commercial property.

Historically, the Council has achieved investment returns on deposits in the range 5 to 8% and these rates will continue to fluctuate in line with interest rates in the future.

This commercial property strategy is based on a cash annualised return of a minimum of 7.5% from the Portfolio. No allowance is accordingly made for revaluation movements to be distributed as income. This return allows the commercial property portfolio to hold funds for future investment but, more importantly, to create a reserve from which this annual cash flow can be maintained even if decisions have been made for the long term benefit of the portfolio which will not allow the annual income stream to exceed 9.25% i.e. retained earnings in the property portfolio can be used to supplement the required annual cash flow.

7.5 Location of portfolio

Consideration has been given as to the type of structure that should be considered from a location perspective.

Currently the expertise in commercial property that the Council has available is predominantly located within the Canterbury area. Although experience exists on a more national basis within the Industrial Park Project Team, the purchasing of properties outside of the Canterbury area has a

higher risk in not being easily viewable and management on a practical basis and would also rely on external consultants to assist in this process.

That aside, opportunities outside the Canterbury area must be considered on their merits.

Accordingly, the location % for investment will be as follows:

Canterbury based	Balance of New Zealand
70% - 100% of total portfolio	0% - 30% of total portfolio

The Canterbury based allocation may include investment opportunities within the Izone development.

7.6 Client type for leasing

The type of client to whom the property will be leased heavily determines decisions on expected returns.

The assessments that the Council will need to make in determining the type of lessees will need to be focused on the following considerations:

- Quality of tenant
- Whether the client is:
 - International;
 - National;
 - Regional;
 - A family run business or a corporate structure.

The key parameter with regard to client type will be the lease term. Preference in the Commercial Property Portfolio Strategy will be to have lease terms that at commencement have a minimum of five years.

7.7 Maximum value in any one property

The weightings in terms of the maximum value of property held in the portfolio will heavily depend on other key assessments of the portfolio but the key issue will be that the property portfolio (including cash allocated) total value for any one property will not exceed 50% of the total property held (e.g. if the property portfolio totals \$40m (over time) then the highest value property in the portfolio would be \$20m.

Clearly flexibility has to be allowed for where a particular property has significantly increased in value due to location as opposed to lower returns on properties which, therefore, exceed the weighting of 50%.

In situations where the weighting is exceeded then the portfolio will have a twelve month period to assess the need to realign the portfolio to reflect the guideline of 50%.

7.8 Property types

This strategy will allow for investments in industrial, commercial, retail or vacant land as deemed appropriate by the Manager of the Property Portfolio. A good mix of property type along with strong client leases will minimise any risks from any particular property type.

7.9 Joint venture/partnership arrangements

Consideration will be given in this property strategy to involving other joint venture partners who have similar risk assessments and understanding of commercial property. .

Different rules and guidelines can be placed around joint venture partners in the development strategy but commonsense and prudence must be key considerations in identifying joint venture partners.

7.10 Establishing rental levels

The key factor in setting rental levels will be the market. Although no allowance is made to repay debt (principal) from annual income, consideration will be given to debt repayment on an annual basis.

7.11 Sale of Commercial Property

Commercial property will be sold:

- a) by public tender process; or
- b) by agreement with a preferred or selected purchaser with valuation evidence to support the sale price to be agreed on.

The Council recognises that opportunities to dispose of commercial property will arise from time to time.

In some situations a public tender process will be the most appropriate to allow for the market to determine the value. In other situations the specifics of a property to be sold, may be better

suited by direct approaches from potential purchasers or by the Council approaching a potential purchaser. In those situations valuation evidence will be used to support sales with the final decision as to which process to use being that of the Council.

8. Loans and guarantees to community organisations

Policy Statement	All community loans must be approved by the Council.
------------------	--

8.1 Background

It has been normal practice for local authorities, in certain circumstances, to provide support to local sporting and other community organisations by way of either a loan or guarantee.

Whilst this activity is not generally considered an investment in the usual sense, it does represent a commitment of ratepayer funds to organisations which may not be able to service interest and capital repayments as they fall due.

Many capital projects considered by such organisations could not proceed without the Council's assistance as these organisations are unable to satisfy commercial lending criteria.

8.2 Lending criteria

The Council policy is:

- (i) That the Council establishes a special fund to be known as the Selwyn District Recreational and Cultural Reserve Fund.
- (ii) The funding of this account is set at \$100,000, funded by way of transfer from the Selwyn district special fund account 'General Funds'.
- (iii) The purpose of this fund will be to advance funds to qualifying recreational and cultural organisations for the provision of essential capital assets. In principle this fund should be utilised as a lender of last resort, i.e. once other avenues such as:
 - Lotteries Commission grants;
 - Hillary Commission grants;
 - Trust Ban guarantees and/or grants;
 - local fundraising;

have been explored.

- (iv) The capital asset or development which is the subject of the application must be physically domiciled within the Selwyn district area and be generally available for the use of the residents of the Selwyn district.
- (v) The Council may, at its discretion and in exceptional circumstances, vary the criteria to provide physical assets that are not fixed to the land and which may not be generally available to the residents of the district. Such cases must be however for the overall enhancement of the quality of life in the district.
- (vi) All applications for assistance from this fund must be fully documented for consideration and recommendation by the Council's Corporate Services Committee. Final confirmation of approval to be ratified by the Council.
- (vii) Funds to be advanced for a maximum period of five years.
- (viii) Interest on amounts advanced to be calculated on the basis of:
 - Year 1 - 0%;
 - Thereafter - 5%.
- (ix) Repayments to be made at six monthly intervals on the basis of equal aggregate repayment of principal and interest.
- (x) Security for any amount advanced shall be by way of mortgage over the property concerned or personal guarantee from members of the applicant organisation. All costs associated with the application shall be the responsibility of the applicant organisation.

9. Process of acquisition

9.1 Equity investments

Policy Statement	All equity investment purchases that meet the major transaction definition must be approved by the Council.
------------------	---

The constitution of SIHL states that all major transactions must be approved by the Council.

Major transactions are identified as being:

- a) the acquisition of, or an agreement to acquire, by the company, whether contingent or not, assets equivalent in value to the value of the assets or the greater part of the assets of the company before the acquisition; or
- b) the disposition of, or an agreement to dispose of, whether contingent or not, the whole or the greater part of the assets of the company; or
- c) a transaction which has, or is likely to have, the effect of the company acquiring rights or interests or incurring obligations or liabilities equivalent in value to the value of the assets or the greater part of the assets of the company before the transaction.

All requests for the Council to approve the acquisition of equity investments must be fully supported by an appropriate analysis. The overriding concern to the Council by approving any equity investment will be that the economic value of its investment is being increased.

Equity Investment for the reason of economic development of the district or for the provision of employment opportunities for Selwyn residents will be considered. Such investments must ensure the economic value of the Council is not adversely affected or compromised.

9.2 Infrastructure

All investments by the Council in infrastructure must be approved by the full Council.

Policy Statement	All investments in infrastructure must be approved by the Council.
------------------	--

10. Disposal process

10.1 Equity investments

Policy Statement	All equity investment disposals that meet the major transaction definition must be approved by the Council.
------------------	---

Decisions to dispose of equities must be fully supported by generally accepted financial analysis.

The concerns of the community must be considered. As the investments are held in trust for the community of Selwyn, any disposal must be in the best interests of the community. The inability of the Council to add economic value to its equity investments will be the key driver in any equity disposal.

The Council will seek appropriate advice on any decisions it makes.

11. Special funds

The Council holds a variety of special funds that have been set up for specific purposes.

Policy Statement	The Council, by 30 June each year will review the merit of each special fund.
------------------	---

12. Reporting

Reporting on:

- cash and bonds;
- infrastructural advances;
- working capital position;
- community body loans.

will be reported to the Council on a monthly basis.

Equity investments

SIHL manages the Council's investments in Orion, Selwyn Plantation Board and SICON and will report to the Council on a quarterly basis.

"New Zealand Local Government Funding Agency Limited Investment"

Despite anything earlier in this Investment Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (**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 become and remain viable, meaning that it continues as a source of debt funding for the 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."