

# LUMP SUM POLICY

## 1. Statutory authority for making policy

This Policy is made under Section 56 of the Local Government (Rating) Act 2002 in respect of sums that may be paid in a financial year in anticipation of a liability for one or more targeted rates or for targeted rates for one or more specified activities, in subsequent financial years.

## 2. Commencement

This Policy came into force on 1 July 2004.

## 3. Policy to apply at discretion of the Council

This Policy applies at the discretion of the Council.

## 4. Definitions

In this Policy, unless the context requires otherwise:

- **area of benefit** means the category or rating units, which, in the opinion of the Council, receives the benefit of a capital work;
- capital work includes the proportion of physical works, which the Council determines is to be funded by any repayment loan;
- loan charge means a targeted rate set and assessed to fund a repayment loan for a capital work;
- loan servicing costs, in relation to any repayment loan for a financial year, means payments of principal and interest for that year;
- lump sum means the amount of the loan charge for a particular rating unit in anticipation of the rating unit's liability for that loan charge for subsequent financial years less any applicable discount;
- Rating Act means the Local Government (Rating) Act 2002;
- rating unit means a rating unit as defined in Section 5 of the Rating Act;
- repayment loan means a loan or a series of loans on which interest and principal are paid annually so that at the end of a predetermined period all indebtedness under the loan or loans is repaid (and includes an internal loan with these features).

## 5. Principles

*The following principles are to govern the way in which this Policy is applied:*

- 5.1** This Policy should only be used for repayment loans where a loan charge has been or will be set and assessed over a defined area of benefit where the area of benefit has been approved by the Council.
- 5.2** The loan charge must be calculated by reference to:
  - a) the actual loan servicing costs plus an administration fee of 0.5% if the loan has been externally raised; or
  - b) the IRS rate plus an administration fee of 0.5% if the loan has been internally raised.
- 5.3** Whenever a lump sum is offered to ratepayers, the lump sum will be offered in respect of the current outstanding amount of the repayment loan. To avoid any doubt, this clause is subject to clause 6.2.
- 5.4** For the purpose of applying this Policy, the rating unit is the basis for setting and assessing loan charges and the loan charge must be set in accordance with Section 18(2) of the Rating Act. However, the Council may, in appropriate circumstances, determine that for a particular project, this Policy applies on another basis that is authorised under the Rating Act and provided in the Council's revenue and financing policy.
- 5.5** It is the Council's intention that the number of rating units within the area of benefit remains as constant as possible throughout the period that the loan charge is set and assessed for the repayment loan.
- 5.6** Where, as a result of a subdivision, one or more new rating units are created within the area of benefit, a 'development contribution' will be paid in respect of each of those new rating units. The sub-divider must nominate:
  - i) to which rating unit the original lump sum applied or a loan charge applies; and
  - ii) to which rating unit(s) the development contribution(s) apply.

- 5.7** The rating unit(s) to which the development contribution(s) apply will not be liable for the loan charge.
- 5.8** When a connection is created from holding capacity the Council will not offer lump sums in respect of a repayment loan, or part of a repayment loan. These connections are paid via development contribution(s).
- 5.9** The Council will enter into agreements to extinguish debt when rating units change ownership. Such agreements must be dealt with between the vendor and purchaser of the rating unit with the Council accepting their decision as to which party will be responsible for the debt.
- 5.10** If any lump sum offers have been made before the commencement of this Policy, the basis of calculation on which those previous offers were made remains unchanged even though further offers may be made under this Policy.

## **6. How this policy will be applied**

- 6.1** The Council will determine [by way of the Selwyn Community Plan, Annual Budget or process] whether or not it will offer ratepayers of a defined area of benefit the option of paying a lump sum instead of a loan charge in the following financial year or years.
- 6.2** (For example, the Council could determine as part of the 2009-2019 Selwyn Community Plan process that ratepayers will be offered the option of paying a lump sum in the 2009/2010 financial year instead of paying a loan charge in the 2009/2010 financial year and subsequent financial years).
- 6.3** The Council must determine the period over which the repayment loan will be fully paid off.
- 6.4** The lump sum will normally be calculated as a fixed amount for all rating units in the area of benefit, by dividing the current amount of the repayment loan by the number of rating units in the area of benefit. The difference between this amount and the total amount of loan charges the rating unit would have paid until the repayment loan was fully repaid.

- 6.5** If this Policy applies the Council must notify each eligible ratepayer in accordance with Section 136 of the Rating Act of the option to pay the lump sum, and of the option to pay it in one amount or in instalments as determined by the Council.

- 6.6** The notice under Clause 6.4 must state that:

- i) the ratepayer must, within 30 days, notify the Council whether the ratepayer accepts the offer and whether the ratepayer wishes to pay the lump sum in one amount or by instalments;
- ii) when the lump sum or the first instalment, as the case may be, must be paid, and
- iii) if that payment is not received by the due date the relevant loan charge will be assessed against the rating unit in the next financial year beginning on 1 July and subsequent financial years.

- 6.7** The Council must deliver an invoice to every ratepayer who has accepted the Council's offer. The invoice must contain the following information:

- i) the address of the Council;
- ii) the name and address of the ratepayer;
- iii) the legal description or valuation number of the rating unit;
- iv) the lump sum or instalment of the lump sum, which the ratepayer has notified the Council that he or she wishes to pay;
- vi) where the lump sum amount may be paid;
- vii) any other information that the Council thinks fit.

- 6.8** If the ratepayer does not pay the lump sum or instalment of the lump sum, as the case may be, the relevant loan charge will be set and assessed against the rating unit in the next financial year beginning on 1 July and subsequent financial years.
- 6.9** Despite Clause 6.6, the Council retains discretion to accept any payment that does not constitute the full amount of the lump sum or instalment of the lump sum.

## 7. Notes

- 7.1** The lump sum contribution provisions of Part IV (Sections 62 – 78) of the Rating Powers Act 1988 are not reproduced in the Local Government (Rating) Act 2002.
- 7.2** Instead there is provision in Section 56 for a policy for early payment of rates that will fall due in subsequent years. Section 55 authorises policies for early payment of rates in the current year.
- 7.3** Section 56 provides:
- “56 Policy for payment of rates for subsequent financial year*
- (1) A local authority may adopt a policy for the payment of rates in anticipation of rates for subsequent financial years.
  - (2) A policy of the kind referred to in subsection (1) may provide for either or both of the following circumstances:
    - (a) *any sum may be paid in a financial year in anticipation of a liability for general rates in subsequent financial years:*
    - (b) *any sum may be paid in a financial year in anticipation of a liability for 1 or more targeted rates, or for targeted rates for 1 or more specified activities or groups of activities, in subsequent financial years.*
  - (3) *If rates are paid in accordance with a policy adopted under subsection (1), the local authority must credit the payment in accordance with the policy and the instructions, if any, of the person making the payment.*

- (4) *Section 55(2) and (3) applies, with the necessary modifications, to a policy adopted under this section.*
- (5) *To avoid doubt, payments made under this section must be credited against future rates, whether or not the policy under which the payment was made is still in force when the rates are assessed.”*

### 7.4 Section 55 provides:

*“55 Policy for early payment of rates in the current financial year*

- (1) *A local authority may adopt a policy for the payment of some or all rates that are identified in the rates assessment before the due date or dates for those rates in the current financial year.*
- (2) *A policy adopted under subsection (1)*
  - (a) *must be adopted using the special consultative procedure; and*
  - (b) *may be included in the Selwyn Community Plan.*
- (3) *A policy adopted under this section may provide for the local authority to discount the amount of the rates if payment is made by a specified date before the due date or dates.”*

**7.5** The legislation lacks clear authority to exempt a property (which has paid the rates in advance) from all future rating liability for a particular work. In other words, there is no express provision along the lines of Section 67(2)(b) of the Rating Powers Act 1988.<sup>1</sup> It does not actually change the rating requirement for future years. Instead, it simply means that the Council has some of the money in advance to pay the rates.

**7.6** Because the legislation does not replicate the detailed provisions of Part IV of the Rating Powers Act 1988, it is necessary to include detail of the policy to achieve similar effect.

**7.7** 5.4 has the effect that unless the Council decides otherwise, the targeted rate will be a ‘uniform annual charge’.

<sup>1</sup> This Section provided that where an election had been made in respect of a separately rateable property to pay lump sum contributions, “no ratepayer shall be liable in respect of that property for any separate rate or separate uniform annual charge or annual charge under Section 30 of this Act or combination thereof, as the case may require, made and levied under this Act to meet the cost of the work or the annual charges in respect of any special loan raised to meet the cost of the work.”

- 7.8** 5.5 may not be an issue. It is included to try to ensure that the amount of the annual targeted rate does not vary too much over the period of the repayment loan.
- 7.9** 6.1 and 6.4 to 6.8 are designed to ensure that the policy will only have to rely on Section 56 and not Sections 55 and 56. It sets up a timeline to ensure certainty. Different dates could be used so long as the Council has certainty before it has to set the rates for any given year. Any particular decision to use the policy probably does not have to be in the annual plan.
- 7.10** Holding Capacity (Policy T103) – As the name suggests, this is the dollar value or number of connections between what capacity is required to service the current population and what is being 'held' to service the future population. The Council, in making this decision to have holding capacity in a scheme, has to fund this cost until property owners, who create growth, repay it. Such a decision involves the Council owning an asset in infrastructure as opposed to having money in the bank. Although this decision is effectively swapping one asset 'cash' for another asset 'infrastructure', cash earns interest income while infrastructure does not. Interest income is used by the Council to reduce/subsidise the annual general rates levied. When the Council has reduced interest income, general rates either have to increase or general rates funded expenditure has to be reduced. For this Council, this causes an inequity. Approximately 50% of all Selwyn residents provide their own sewerage disposal system (e.g. septic tanks). It is not fair for the 50% to have a general rate increase because they are not getting the benefit of a Council provided sewerage system. To achieve equity, the Council makes an interest charge on those communities that have 'holding capacity' in their water and sewerage infrastructure. This interest charge is collected with the targeted rate that is levied to run/operate the infrastructure system. As more properties connect, and pay their development contribution, the holding capacity interest charge reduces.

# LIABILITY MANAGEMENT (BORROWING) POLICY

## Introduction

In broad terms, the Council manages both current and term liabilities.

This policy includes a number of policy limits. As the Council currently has no external borrowings (June 2009), many of the limits will not be applicable until the 2009/2019 Selwyn Community Plan borrowing programme has commenced.

## Current liabilities

Current liabilities reflect those obligations, expressed in monetary terms, which the Council has to meet within relatively short timeframes, at a maximum within the next 12 months. In respect of its day-to-day obligations for both operational and capital expenditure, the Council's policy is to pay these liabilities in full by the due date. This eliminates any credit exposure or risk. Current liabilities also include the maturing portions of any term liabilities that are due for repayment within the following 12 months.

## Term liabilities

Term liabilities represent the Council's obligations which, in general terms, are not immediately payable, i.e. not due within the following 12 months.

The Council approves the borrowing programme for each financial year as part of the Selwyn Community Plan or Annual Budget. Additional borrowings may be approved by the Council on a case-by-case basis. The Council primarily borrows to fund its capital expenditure programme, including its property development activities. In approving new borrowings, the Council considers the impact of the proposed level of borrowings on its overall borrowing limits.

In considering this impact, the Council will implement its borrowing programme from either internal (its own cash reserves) or external sources. Whether borrowing will be from internal or external sources will be determined by the duration of borrowing required and the current and future assessed dollar value of the Council's cash reserves. (i.e. are there enough cash reserves to allow the proposed borrowing to be made internally).

## Policy objectives

The Council primarily borrows to pay for the upgrading of existing assets or the construction/ purchase of new assets. These assets generally provide new or enhanced benefits to Selwyn District for many years. Borrowing is therefore considered the most cost-effective and equitable way to fund these assets as it spreads the cost of the asset over the future generations of ratepayers who will benefit from the use of the asset. Accordingly, borrowings have a strategic benefit of making the cost of the asset investment affordable to today's ratepayers. In practical terms, this does not mean that borrowings will extend over the estimated life of each asset e.g. 10 years (pumps) or 80 years (reticulation) but instead an averaged approach will be used as a practical length to the term of borrowing e.g. 20 years. Borrowing terms will be managed on a case-by-case basis. Borrowings are maintained at a prudent level, in accordance with the Council's overall borrowing policy (for specific limits, refer below).

## Power to borrow

The Council borrows as it considers appropriate and in accordance with the provisions of the Local Government Act 2002. The Council approves the level of new borrowing in general terms as part of the Selwyn Community Plan or Annual Budget. The Council delegates the authority to officers to raise approved borrowings and working capital for liquidity purposes as and when the funding is required. Any additional borrowing beyond that approved in the Selwyn Community Plan or Annual Plan must be approved by the Council. The Council also delegates authority to officers to manage treasury related risks with appropriate financial instruments within the limits contained in this policy.

## Interest rate exposure

Borrowings issued at variable (floating) interest rates expose the Council to a cash flow interest rate risk. The Council may manage its cash flow interest rate risk by using approved treasury risk management instruments such as floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Council has set specific limits for its interest rate exposure as set out below:

<b>Fixed/floating interest rate risk control limit as percentage of 12 month forecast external borrowing</b>		
Minimum Fixed Rate		Maximum Fixed Rate
50%		95%
The level of fixed interest rate cover at any point in time must be within the following maturity bands:		
<b>Fixed rate maturity profile limit</b>		
<i>Period</i>	<i>Minimum</i>	<i>Maximum</i>
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 to 10 years	0%*	60%

\* This figure increases to 10% when actual external borrowing exceeds \$20 million.

## Liquidity and funding risk

The Council minimises its liquidity risk by maintaining liquid investments or committed borrowing facilities at a level that exceeds 110% of projected peak borrowing levels over the following 12 months. The Council minimises funding risk by avoiding concentrations of debt maturity dates and will only draw down or borrow against these facilities as required.

Where special funds are maintained to repay borrowings, these investments are held for maturities not exceeding borrowing repayment dates.

The Council avoids exposure to liquidity and funding risk by managing the maturity of its debt and committed facilities within the following maturity limits:

<b>Borrowing maturity profile limits</b>		
<i>Period</i>	<i>Minimum</i>	<i>Maximum</i>
0 to 3 years	15%	60%
3 to 5 years	25%	60%
5 years plus	0%*	60%

\* This figure increases to 10% when actual external borrowing exceeds \$20 million.

## Credit/counterparty exposure

The Council transacts treasury instruments and borrows from institutions with satisfactory credit ratings. Borrowings are managed to ensure the Council is not exposed to material concentrations of counterparty risk and are therefore spread amongst a number of institutions to avoid concentrations of credit reliance. The Council will endeavour to spread its reliance on lenders/ investors and to this end will seek a minimum of two lending counterparties when debt exceeds \$20 million.

## Borrowing repayment

The Council will repay borrowings from a combination of excess depreciation over and above renewals, capital revenue, sale of surplus or underperforming assets, operating surpluses, the levying of targeted or general rates specifically for the repayment of borrowings or from the renewal of borrowings.

## Specific borrowing limits

In determining a prudent level of borrowings, the Council assesses the level of borrowing against the Council's total net assets and interest expense per annum against operating revenues.

Total Council borrowings will be managed within the following macro limits:

<b>Ratio</b>	<b>Limit</b>
Borrowing as a percentage of equity	<12%
Borrowing as a percentage of income	<175%
Interest as a percentage of income	<12%
Interest as a percentage of annual rates income	<28%
Liquidity (Term borrowing + liquid financial investments + committed loan facilities to 12 month peak net borrowing forecast)	>110%

### **Definitions:**

*Borrowing is gross debt.*

*Income is the Council's total income excluding vested asset revenue and revenue from development contributions.*

*Interest is the gross interest expense.*

*Annual rates income includes general and targeted rates.*

*Fixed rate debt is defined as re-pricing date beyond 12 months*

## Security

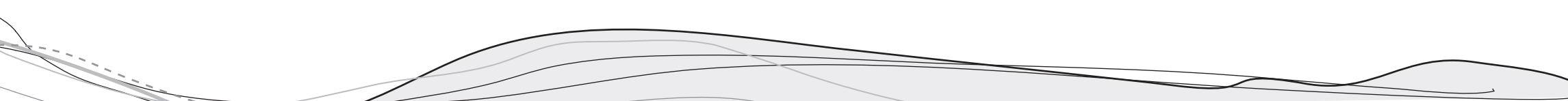
The Council's borrowings may be secured by way of a Debenture Trust Deed (representing a charge over the Council's rates revenue). This security relates to any borrowing and to the performance of any obligation under any incidental arrangement. However, if it is considered advantageous, the Council's borrowings and other financial arrangements may be undertaken on an unsecured basis, or secured by way of a charge over the physical assets.

## Reporting to the Council

In addition to the disclosures made in the Annual Report each year, a report will be prepared for the information of the Council as soon as practical after the end of each quarter being 31 March, 30 June, 30 September and 31 December. These quarterly reports will include information on external borrowings as well as internal borrowings.

## Implementation

The Council is moving from a position where it has no external debt and this policy will guide the Council as it implements its borrowing programme over the coming years. The programme will be structured with the aim of achieving borrowing in line with the policy limits within two years from the date of its implementation on 1 July 2009. Initial borrowing up to that point may not comply with all the policy limits.



# 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.
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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
<b>Total</b>	<b>100%</b>	<b>\$130,010</b>

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.
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### 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.
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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.
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# 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.
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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.
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## 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.

# POLICY ON PARTNERSHIPS WITH THE PRIVATE SECTOR

## Introduction

The Council is required to adopt a policy on partnerships between the Council and the private sector under section 102(4)(e) of the Local Government Act 2002.

The policy can only be amended as an amendment to the Selwyn Community Plan.

The responsibility for making decisions under this policy may from time to time be delegated by the Council pursuant to clause 32 of Schedule 7 of the Local Government Act 2002.

## Content and purpose of policy

The policy is linked to the statutory principle that a local authority should collaborate and cooperate with such local authorities and bodies, as it considers appropriate, to promote or achieve its priorities and desired outcomes, and make efficient use of its resources (section 14(e) of the Local Government Act 2002)

The policy states the Council's policies in respect of the commitment of the Council's resources to partnerships between the Council and the private sector. The policy includes the following sections:

- application 'Partnerships with the Private Sector';
- the circumstances in which the Council will consider a partnership;
- consultation;
- conditions to be imposed;
- risk assessment and management;
- monitoring and reporting to the council on provision of funding and resources; and
- assessing, monitoring & reporting on achievement of community outcomes.

(As required by section 107(1)(b) of the Local Government Act 2002)

## Application: 'partnerships with the private sector'

This policy only applies to partnerships with the private sector. 'Partnership with the private sector' is defined in the Local Government Act 2002 to mean any arrangement or agreement that is entered into between one or more local authorities and one or more persons engaged in business; but does not include:

- arrangements or agreements to which the only parties are local authorities or one or more local authorities and one or more Council organisations; or
- a contract for the supply of goods or services to, or on behalf of, a local authority.

(section 107(2) of the Local Government Act 2002).

### As a consequence, this policy applies to:

1. Arrangements or agreements for provision of grants, loans, guarantees, or investments between the Council and persons engaged in business.
2. Arrangements or agreements for a venture where the Council participates with a person engaged in business with some joint objective, whether or not that venture also involves the supply of goods or services by the joint venturer to or on behalf of the Council.
3. Any agreement with a person engaged in business to form a Council organisation, or any agreement to sell shares in a Council organisation to a person engaged in business (this will be in addition to the requirements of section 56 of the Local Government Act 2002 if applicable).

### But does NOT apply to:

1. Contracts between the Council and its ordinary suppliers of goods and services (for example of office supplies or legal services).
2. Contracts for the supply of goods and services between the Council and its agents for undertaking activities of the Council (such as building or maintaining roads).
3. Borrowing by the Council and the investment of the Council funds purely for financial gain as these transactions will be addressed in the liability management and investment policies respectively.
4. Agreements with or grants to community organisations, charitable trusts and other community groups, government departments, not-for-profit-organisations, other local authorities and the Council controlled organisations.

## Circumstances in which the Council will consider a partnership

The Council will consider entering into a partnership with a private sector partner where the Council is satisfied that:

1. the proposed partnership will:
  - a) contribute to achieving the community outcomes identified in the Selwyn Community Plan in an integrated and efficient manner; and
  - b) promote the social, economic, cultural or environmental well-being of the district, in the present and for the future; and
  - c) be a prudent, efficient and effective use of the Council's resources in the interests of the district.
2. the objective of the partnership is desirable in the interests of the community, but the private sector is unwilling or reluctant to provide sufficient resources for the achievement of the objective of the partnership without Council support; and
3. the benefits of the proposed partnership (in terms of achievement of community outcomes and promotion of the four aspects of well-being now and in the future) will exceed the costs.

A decision to enter into a partnership with the private sector must also comply with the decision-making provisions set out in S 76 (and sections 77, 78, 80, 81 and 82 to the extent applicable) of the Local Government Act 2002.

## Consultation

Given that this policy was adopted/amended following consultation, no further consultation on a specific partnership proposal will be undertaken, unless:

1. the proposal involves a departure from this policy; or
2. the proposal amounts to a decision to which section 97 of the Local Government Act 2002 applies; or

3. the proposal will result in a significant change to the projected budgets, performance measures, outcomes or other objectives set out in the Selwyn Community Plan (or, for the year commencing 1 July 2004, the Annual Plan); or
4. the Council determines that public consultation should occur having regard to the significance of the partnership proposal.

If the proposal falls within one of the four categories above, the type of consultation required or deemed appropriate will depend on the context.

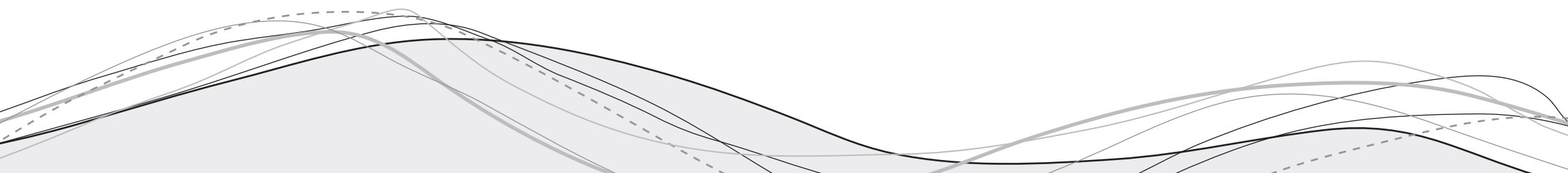
For example, if the decision is one to which section 97 applies, the decision is required to first be explicitly included in the Selwyn Community Plan and the proposal must have been included in a statement of proposal under section 84.

Otherwise, the need for, extent and nature of any consultation will be as the Council considers appropriate, assessed in accordance with the significance of the matter as set out in sections 78 and 79 of the Local Government Act 2002.

## Conditions to be imposed

The Council will require, as condition of providing funding or other resources to any form of partnership with the private sector, that the private sector partner enter into a written agreement recording the terms of the arrangement or agreement, stating clearly:

1. the objectives of the partnership;
2. the parties' respective responsibilities and obligations under the agreement, including responsibility for obtaining any necessary consents, licences or other approvals, or to undertake any matter or do any thing;
3. details of the Council's agreement to provide funding or other resources to the partnership;
4. the Council's expectations in relation to the private sector partner's contribution to the achievement of the community outcomes (or strategic objectives for the year commencing 1 July 2004) or promotion of the aspects of community well-being, current and future including, where possible, target performance measures;



5. the Council's requirements in relation to monitoring and reporting of performance; and
6. consequences of non-performance by the private sector party.

The Council may impose any other conditions it considers appropriate in the circumstances.

## Risk assessment and management

In assessing every partnership proposal, the potential risks to the Council will be outlined and considered.

Risk will be assessed in terms of the probability of an adverse outcome, the cost/impact of that adverse outcome and the ability to, and cost of, mitigating that risk.

Potential risks include:

1. financial risk;
2. risk to the capacity of the Council to carry out its activities, now and in the future;
3. safety of persons and property;
4. protection of any intellectual property; and
5. any other potential loss.

If the risks are considered significant, in terms of probability and potential effect, the Council will decide whether the partnership should proceed at all, and if it decides it should proceed, a risk management strategy will be developed to minimise or provide cover for that risk to the satisfaction of the Council.

The strategy may include requiring contractual assurances from the private sector partner, such as indemnities and guarantees, and may require closer monitoring and control over the conduct of the partnership.

## Monitoring & reporting to the Council on provision of funding

At the end of every quarter, a report will be prepared and submitted to the Council outlining:

1. the value of funds or resources allocated to partnerships in total during that quarter;
2. in relation to each partnership, the amount of funds or resources allocated, the private sector partner/s involved, the objectives of the partnership and link to the community outcomes;
3. the estimated current market value of the funds or resources allocated, any significant possible variations in their future values and the probability/risks of such significant changes in value;
4. the returns received by the Council from the funds or resources allocated;
5. the current estimate of future returns from the funds or resources allocated.

## Assessing, monitoring & reporting on achievement of community outcomes

The Council's monitoring and reporting requirements in relation to any particular partnership will be tailored to reflect the significance of the proposal and the significance of resources allocated to the partnership.

The Council's monitoring and reporting requirements will be included in the written agreement with the private sector partner, and may include the following, as appropriate:

1. a requirement for quarterly financial reports on the partnership project;
2. a requirement for quarterly performance reports on the achievement by the partnership of the relevant community outcomes (or for the year commencing 1 July 2004, strategic objectives), and any impacts on the social, economic, cultural and environmental well-being of the community; and
3. a requirement to report on specifically agreed outcomes and objectives.

# RATES REMISSION POLICY INCLUDING MAORI FREEHOLD LAND

This policy is prepared under section 102(5) of the Local Government Act 2002 using the special consultative procedure laid down in section 83 of that Act.

## Background

The new Local Government (Rating) Act 2002 has changed the processes required for rating from 1 July 2003. Under the old legislation remission of rates was in some cases mandatory, with others at the discretion of the Council. Mandatory remissions do not exist under the new Act and the Council is required to develop its own remission policies and these need to be adopted through the Annual Plan process.

The new Act allows the Council to remit rates 'for any reason, on any land and to any extent', provided that the remission is in accordance with rules that the local authority sets for itself in a remission policy. Remission of rates involves reducing the amount owing or waiving the collection of rates altogether.

## Why have a rates remission policy?

Rate remissions can be used to assist in achieving the economic, social, environmental or cultural outcomes contained in the Council's Selwyn Community Plan, i.e. remissions for community facilities under its 'Community Events and Facilities' strategic plan outcomes. To mitigate individual circumstances i.e. remission of penalties.

## Principles to consider in setting a rates remission policy

Remissions should be linked to the objectives in the Council's Selwyn Community Plan. In other words the remission policy should assist in achieving the desired direction and outcomes contained in the Council's planning documents. The policy should be complimentary to the other programmes provided by the Council. The Council grants may be a more appropriate way of achieving the desired outcome than by way of a rate remission.

The policy should be clear, unambiguous, and easily understood. This is important as the remission policy is subject to the special consultative procedure.

The policy should be in terms of categories of rating units rather than individual rating units.

The policy should be periodically reviewed to ensure it achieves the outcomes sought by the Council

It should be remembered that remissions shift the rate burden between properties. Remitting rates from one property means those remitted rates need to be collected from other properties. The policy needs to be fair and equitable.

Considerations made when developing the Rates Remission Policy

## Strategic goals

There are a number of Strategic Goals where rates remission is or may be a useful tool in assisting the Council to achieve those goals and outcomes.

*Identified Strategic Goals are as follows:*

1. strategies that promote a sense of community and support initiatives to enhance social well being;
2. strategies that are good for economic growth, promote and facilitate economic development and employment opportunities;
3. strategies, which manage our natural and developed environment and protect and enhance the visual character, heritage and cultural values of the rural area;
4. strategies that make our district a great place in which to live.

Grants are also available to foster community identity, participation and to encourage use of existing facilities.

## Remission of rates for economic development

Various Councils have in the past included a provision for the remission of rates in order to promote employment and economic development within their district. This Council has not had such a policy. Given that there has been a very limited number of requests for this type of remission may indicate that such a provision is unnecessary. Although a rate relief policy could assist in achieving strategy 2 above, a number of factors have led to this being excluded from the remission policy.



A new business given a rate remission can often be in direct or indirect competition with existing businesses that are paying full rates.

This district is currently having success in attracting new business without this type of rate remission.

## Remissions for community, sporting and other organisations

### **Objective**

To facilitate the provision of non-commercial (business) community services, facilities and recreational opportunities for the residents of the Selwyn District Council.

The purpose of granting rate remission to an organisation is to:

- assist the organisation's survival; and
- make membership of the organisation more accessible to the general public, particularly disadvantaged groups including children, youth, young families, aged people, and economically disadvantaged people.

### **Conditions and criteria**

This policy will apply to rating units owned by the Council or owned and occupied by a charitable organisation, which is used exclusively or principally for sporting, recreation, or community purposes.

The policy does not apply to organisations operated for private pecuniary profit, or which charge a commercial tuition fee, or commercial rent.

The maximum rate remission (other than for community halls) will be 50% of general rates.

(Note: The holding of a liquor licence will not disqualify an organisation from receiving a rate remission).

The Te Pirita, Irwell, Motukarara, Springston South and Sedgemere Halls are identified as playing a special role in the district's communities and shall therefore receive a 100% general rate remission.

(Community halls' remissions are covered under the Local Government (Rating) Act 2002).

## Remission of rates on Maori freehold land

The Council will consider applications for remission of rates on Maori Freehold Land in accordance with its existing policies.

## Postponement of rates

The Local Government (Rating) Act 2002 allows Councils to have a rates postponement policy for any reason on any land and to any extent.

The Council does not currently have a policy on postponement of rates but, if necessary, will treat each individual case on its merits.

## Remission of sewerage rates for schools

The Council rating policy for sewerage is that all properties connected to sewerage will pay one uniform rate for the first three pans located on a property with the 4th and all subsequent pans being levied at 25% of the first pan. The reduction to 25% was calculated to reflect the fact that residents who own a domestic dwelling may also at times use the sewerage facilities (mainly recreational) of properties that have a multiple pan charge. The reason for this lower charge was to reflect that the same sewerage effluent was being generated in a town, but was being disposed of at different sites within a town.

A number of submitters to the Council's draft 2003/2004 annual budget asked whether schools could receive a further lower charge due to their belief that children generally tend to use the sewerage facilities at home as opposed to those at school. They suggested that pan charges based on Ministry of Education guidelines as to the number of pans required to be supplied by schools for staff and students, as opposed to the actual pans installed by a school, should be used for charging schools sewerage.

The Council agreed to this suggestion and now provides rates remissions to ensure the annual sewerage rating reflects the number of pans required by the Ministry of Education guidelines.

## Rating hardship policy for capital contributions

1. The Council's rating hardship policy for capital contributions is as follows:
  - (a) the underlying principle of giving ratepayers assistance with their Capital Contribution is that the payment arrangement be fair and reasonable to the ratepayer concerned;
  - (b) ratepayers must enter into automatic payment or like arrangements to repay capital contributions;
  - (c) caveats over titles are to be registered wherever payment is to be deferred for a period greater than twelve months;
  - (d) the Council will meet all costs of lodging a caveat and its ultimate removal;
  - (e) ratepayers who can provide evidence that an assets sale is pending which will allow a lump sum, be given a maximum twelve month period to liquidate that asset and pay the capital contribution except where a complying system exists;
  - (f) each ratepayer applying for hardship assistance must provide an appropriate financial declaration to the Council and must show that they have sought assistance from other welfare agencies or financial institutions as appropriate;
  - (g) approval of all rating hardship applications under this Policy must be from the Council's Manager of Corporate Services or appropriate Councillor or Chairman of a Committee which has financial responsibilities and, where appropriate, consultation with the community representative.

## Remission of penalty on overdue instalment

Ratepayers shall be allowed one overdue instalment in 24 months, penalty free, on application.

## Remission of penalty if rates paid on second instalment

If the full year's payment of rates is made on the second instalment in any year, any penalty incurred for late payment on the first instalment shall be remitted.

## Remission of rates penalties and other certain rates

Penalties on rates or levies may be remitted where the following criteria are satisfied.

1. A written application is made specifying the reason for non-payment and the period for which the application is made.
2. The reason for non-payment involves one of the following circumstances:
  - a. hospitalisation or other medical reasons (where confirmed by medical evidence);
  - b. deceased estates (where a deceased ratepayer's affairs have been delayed by statutory process);
  - c. land transfer or subdivision (where this has been delayed by the statutory process - this will need to be subject to limitations).
3. The Manager Corporate Services has the authority to remit penalties and levies in circumstances where it would be reasonable to do so other than those listed in (1) and (2) and shall report such remissions regularly to the Council or appropriate Committee.

## Remissions of targeted rates & uniform annual and general charges

The following are exempted from uniform annual general charges & targeted rates for libraries and recreation reserves:

1. sports, community-based or similar organisations;
2. ratepayers who own a dwelling and vacant land, the exemption to be on the vacant land;
3. ratepayers, where vacant land can be identified as integral to the operation of their business, the exemption to be on the vacant land;
4. ratepayers who own a dwelling and a commercial, industrial or service based property that does not have dwelling facilities, the exemption to be on the commercial, industrial or serviced based property.

The exemptions in clauses (a) to (d) above apply to ratepayers who own property in multiple library rating districts, as per section 20 of the Local Government (Rating) Act 2002, and are the decision of the Manager Corporate Services.

The exemptions in (a) to (d) above do not limit a ratepayer's entitlement to exemptions under the contiguous property rules of section 20 of the Local Government (Rating) Act 2002.

### **Remission of rates on plunket branches**

1. Properties owned by the Royal New Zealand Plunket Society shall not be charged the uniform annual general charge while used one hundred percent as a child care facility.
2. All properties of the Plunket Society shall be charged for all services as provided as separate items by the Council (e.g. water, refuse, sewer, etc).

### **Remission of rates on Masonic lodges**

50% remission of general rates on lodges owned by the Freemasons of New Zealand.

### **Remission of rates on open space covenants**

1. The Council shall grant rating relief to those properties or portions of properties that are granted open space covenant status by the Queen Elizabeth II trust where the covenanted land is:
  - a) excluded entirely from the normal farming practices on the rest of the property;
  - b) the term of the covenant is more than a period of 10 years;
  - c) the covenanted area is made readily available to the public when requested.
2. The Council shall grant rating relief of 50% to those properties or portions of properties which are granted open space covenant status but which do not exclude the covenanted areas entirely from the farming practices of the property and where (b) and (c) above still apply.
3. Application for rating relief shall be made by the individual property owners concerned in respect of their individual covenants.

### **Scout group hall rating**

The Council will allow a half remission of general rates for all Scout Groups.

### **School and service club endowment land**

School and service club endowment plantations within the Selwyn District Council that are planted on rateable property shall be granted a 50% rates remission.

### **Refuse rating through routes**

The uniform annual charge for availability of refuse collection shall be maintained, with exemptions being granted to those ratepayers who are on through routes, as defined by the current refuse route map and who can demonstrate acceptable alternative refuse disposal options.

### **Remission of rates on land protected for natural, historic or cultural conservation purposes**

The Council may provide rates remission to ratepayers who meet objectives, conditions and criteria of this policy.

#### ***Objective***

Rates remission is provided where it is necessary to preserve and promote natural resources and heritage by encouraging the protection of land held for a natural, historic or cultural purpose.

#### ***Conditions and criteria***

Ratepayers who own rating units which have some feature or cultural, natural or historic heritage which is voluntarily protected may qualify for remission of rates under this policy.

Applications should be supported by documentary evidence of the protected status of the rating unit, for example, the copy of the covenant or other legal mechanism.

In considering any application for remission of rates under this part of this policy, the Council will consider the following criteria:

- 1 the extent to which the preservation of natural, cultural or historic heritage will be promoted by granting remission of rates on the rating unit;
- 2 the degree to which features of natural, cultural or historic heritage are present on the land;
- 3 the degree to which features of natural, cultural or historic heritage inhibit the economic utilisation of the land.

In granting remissions under this policy, the Council may specify certain conditions before remission will be granted. Applicants will be required to agree in writing to these conditions and to pay any remitted rates if the conditions are violated.