

## APPENDIX 2

### Investment Policy

#### 4.1 Investment Mix

The Council has a significant portfolio of investments comprising:

- Equity investments (covered in Section 4.3).
- Asset investments (covered in Section 4.4).
- Associated organisations (covered in Section 4.5).

#### 4.2 General Policy

Council's philosophy is to ensure that the return on investments in cash, realisable capital growth and/or public good over time, is equal to or greater than the average cost of Council's borrowings.

The Council will not hold cash investments other than those involving special funds and cash management investments. In its cash investment activity, the Council's primary objective when investing is the protection of its investment. Accordingly, any credit worthy counterparties will be acceptable. The Council's policy on managing credit risk is contained in Section 7 of the Treasury Management Policy.

Council's policy is to invest into banks with short-term rating minimum of A-1+ and long-term AA-, by Standard and Poor's Rating (or equivalent rating) (see section 7).

Within the above credit constraints, Council also seeks to:

- Ensure investments are negotiable and liquid.
- Manage potential capital losses.
- Maximise investment return.

#### 4.3 Equity Investments

##### 4.3.1 Port Nelson Limited

###### Nature of Investment and Rationale for Holding

Council is a 50% shareholder in this Company, with Nelson City Council holding the other 50% shareholding. Future investments in the port will be measured on their ability to return current market rates of return to the shareholders.

###### Disposition of Revenue

The current directors policy is that a dividend equal to 50% of net profit after tax will be returned to shareholders annually.

###### Risk Management

Risks associated with Council's investment in Port Nelson Ltd are limited.

###### Management/Reporting Procedures

Quarterly reports are received and reviewed by Council. Election of Directors takes place at the Company's annual general meeting.

###### Specific Policy

To retain 50% investment in Port Nelson Ltd. This Company is regarded by Council as a strategic investment and is noted for its efficient and flexible operations.

##### 4.3.2 Nelson Airport Limited

###### Nature of Investment

Council is a 50 percent shareholder in this company, with Nelson City Council holding the other 50 percent shareholding. Future investments in the company will be measured on their ability to return current market rates of return to the shareholders.

Council's investment is represented by 1.2 million ordinary one dollar shares.

###### Rationale for Holding Investment

Council intends to maintain its 50 percent investment in Nelson Airport Ltd and aims with Nelson City Council to retain effective local body control of this strategic investment.

#### Disposition of Revenue

This Company has resolved to pay an annual dividend detailed in its Statement of Intent and adopted by the shareholders for each of the next three years.

#### Risk Management

Nelson Airport Ltd is an autonomous entity, with Directors appointed by the two local authorities. Directors are required to manage the company on behalf of the shareholders, in accordance with the requirements of the Companies Act 1993.

#### 4.3.3 Tourism Nelson Tasman Ltd

##### Nature of Investment

This Company was established on 1 July 1994 with a view to promoting and marketing tourism activities of the District to the potential tourism market throughout New Zealand, the Pacific basin and ultimately the rest of the world.

Tasman District Council and Nelson City Council each hold a 50 percent share in this company.

#### Disposition of Revenue

Council is not planning to receive a dividend from the shares in Tourism Nelson Tasman Ltd.

#### Risk Management

Risks associated with Council's investment in Tourism Nelson Tasman are limited.

#### Management/Reporting Policies

To retain and utilise strategic benefits of investment in this company.

#### 4.4 Asset Investments

##### 4.4.1 Forestry

##### Nature of Investment

The Council and its predecessor organisations have been involved in forestry for many years. Council's current forestry policy is that it will operate and maintain up to 3,000 planted hectares.

##### Rationale for Holding Investment

Forestry is a flexible investment – the resource can be manipulated to suit cash flow requirements and market conditions. Council has achieved economies of scale with 3,000 hectares. This provides a marketing advantage and cost savings in operations.

##### Disposition of Revenue

Current policy is to provide a fixed sum from net forestry revenue towards subsidising general rate in each financial year. Current statute requires that 10% of net forestry revenues be used for maintenance of Rabbit Island each year. Council's Enterprise Subcommittee currently contributes \$145,656 from forestry revenues to the maintenance of Rabbit Island each year. This figure is currently in excess of 10%. The forestry activity will from time to time contribute to Council's general rate – annual contributions are detailed in the 10 Year Activity Management Report.

##### Risk Management

Council's forests are currently managed under contract by consultants P F Olsen & Co Ltd. Forestry activities are reviewed quarterly by Council's Enterprise Subcommittee.

Significant risk management strategies include diversity of forest age classes, insurance against fire, mix of species, geographic spread of forests and controlled access.

##### Policies for Forestry

Retention of forestry investment is reviewable annually.

#### 4.4.2 Property Investments

##### Nature of Investment

Council currently has a range of investment property holdings defined within categories of:

- Ready saleable assets.
- Strategically placed land, precluding the sale of operational properties.
- Assets saleable after a specific process (often subdivision).
- Land with high community value.

Property investments do not include properties for operational purposes.

##### Rationale for Holding Investment

Council's current property holding, management and operational philosophies are contained within the Property Asset Management Plan. This policy clearly defines Council's statutory obligation, levels of service, tenancy requirements, maintenance scheduling, return on investments and any other pertinent property related matters.

##### Disposition of Revenue

Council policy requires that surplus funds generated from Council's property activities are utilised as a contribution against annual general rate.

Revenues are generated both from commercial property sources at negotiated market rentals and internally assessed occupational costs.

##### Risk Management

Council's property activities are managed by a Property Manager and specifically assigned staff.

Council has a delegated Enterprises Subcommittee which is regularly briefed on property related matters, considers all proposed property acquisition, property disposals and utilisation of revenues generated from Council's properties.

#### 4.4.3 Community Housing

##### Nature of Investment

Council currently has 97 community houses available for rental, generally to elderly or disabled persons. These houses are located in:

Croucher Street, Richmond	10
Hill Street, Richmond	20
Vosper Street, Motueka	27
Mears Haven, Motueka	18
Starveall Street, Brightwater	7
Edward Street, Wakefield	7
Commercial Street, Takaka	4
Fairfax Street, Murchison	4

##### Rationale for Holding Investment

Council continues to retain community housing to meet its considered obligation for the provision of rental accommodation, primarily for the elderly or people with disabilities.

Council's philosophies include ensuring that rental charges cover cost (excluding depreciation) and to continue to maintain the housing at its current high standard. There is no required rate of return on this investment.

##### Disposition of Revenue

Council operates its community housing activity in the nature of a "closed account" whereby revenues generated are utilised for debt repayment on loans outstanding on this asset and for meeting the annual maintenance schedules. A small dividend is returned to Council's Community Services Committee annually from this account.

##### Risk Management

Council's community housing activities are managed by staff in the Community Services Department.

Council's Community Services Committee regularly reviews Council's involvement in community housing, including assessment of the need for this asset within the community.

#### 4.4.4 Camping Grounds

##### Nature of Investment

Council owns four camping grounds within its District (Collingwood, Pohara, Motueka and Murchison) that are leased to private individuals.

##### Rationale for Holding Investment

Council's camping grounds are retained for the enjoyment of visitors to and residents of the District.

##### Disposition of Revenue

Council receives net revenue from these assets which it uses to subsidise general rating activities performed by its Parks and Reserves Department.

##### Risk Management

Council's Community Services Committee receives regular reports on the nature and activity of its camping grounds. Evaluation of these reports includes continued ownership which is evaluated on an ongoing basis as and when leases become available for renewal.

#### 4.5 Associated Organisations

##### 4.5.1 Nelson Regional Sewerage Business Unit

##### Nature of Investment

Tasman District Council and Nelson City Council equally share in ownership of this asset. Tasman District Council provides treasury advice and Nelson City Council provides some engineering and administrative services to the Business Unit, which has committee representation from both Councils.

##### Rationale for Holding Investment

To ensure continuity of wastewater services for the residents and ratepayers of both Tasman District and Nelson City.

##### Disposition of Revenue

Council does not receive any financial return from this Business Unit. Council's cash commitment to the Business Unit for the 2009/2010 financial year will be \$2,145,361.

##### Risk Management

The Business Unit is managed by a committee, with representatives from both Councils plus one external representative. This Committee is required to regularly report to the Councils.

Despite anything earlier in this Investment Policy, the Council may invest in shares and financial instruments issued by 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, where it is to the overall benefit of Council. Notwithstanding the Counterparty Credit Risk Limits set earlier in this Investment Policy the Council may invest in financial instruments issued by the LGFA up to a maximum of \$30 million.

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