

The Capital Endowment Fund

Background

In April 2000, Orion New Zealand Limited, the Council's energy company (87.6% owned by the Council), sold its North Island gas network and related assets. The gross proceeds of the sale were \$550M and the net gain on sale was some \$187M.

The Council's share of the amount being returned to shareholders is \$175M. The Council resolved to apply \$100M of this to debt reduction and the balance of \$75M to be invested in a protected long term fund called the Capital Endowment Fund.

The Fund is ring-fenced from the Council's other funds in order to protect the capital and provide an ongoing income stream to be used for economic development and civic and community projects. In establishing the Fund the Council resolved:

- That up to 100% of the available income from the fund be allocated in year 1 and up to 75% be allocated for subsequent years.
- That the income from the fund be allocated each year in the following way:
Economic development - 70%; Civic and community projects 30%.
- That the above general categories be reviewed on a three yearly cycle.
- That if desired, funding for a particular category be carried forward to another year.
- That civic and community projects which have a cost of less than \$100,000 in any one year not be funded from the Capital Endowment Fund.
- That no single project be funded for more than three years, except in exceptional circumstances.
- That the capital of the fund will not be used unless 80% of the Councillors vote in favour.
- That a statement in the Council's funding policy and long term financial strategy will outline the structure and purpose of the fund.
- That the intention is to protect the capital and the process of applying the income to projects for the benefit of the community.

- That the Council will establish a practice of reporting on the fund in its Financial Plan and Annual Report as a separate activity each year including any significant variations to the policy.

Investment Objectives

The Council will invest the assets of the fund in a broad range of investments designed to achieve the following objectives:

1. Maintain the real value of the capital of the fund with regard to inflation.
2. Maximise the value of the fund and therefore the amount that can be distributed from the fund over the long term, subject to a prudent level of portfolio risk.
3. Maintain a degree of consistency in the amounts that can be withdrawn on an annual basis.

Investment Policies

The Investment Policies adopted by the Council to achieve the above objectives are:

1. Responsibilities under common law and statute must be met.
2. The inflation-adjusted capital of the fund shall not be withdrawn.
3. An appropriate level of portfolio risk will be determined and accepted by the Council in consultation with professional advisers.
4. An appropriate level of diversification across securities, sectors, asset classes and countries must be maintained.
5. The portfolio will accept risks in a prudent manner and investment risk will be minimised for the expected level of return.
6. The capital of the portfolio will be preserved on a quarterly basis by adjusting for changes in the Statistics New Zealand All Groups CPI.

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7. An investment fluctuation reserve must be maintained to finance budgeted distributions from the fund. (\$3.5M of the initial capital will be further allocated within the fund as an investment fluctuation reserve).
8. Liquidity must be considered and maintained at an appropriate level.
9. The investment structure must be able to accommodate changes in the fund's requirements and the investment environment.
10. All aspects of the investment process and functions will be reviewed regularly. In particular:

- The performance of investment managers will be monitored against benchmarks at least monthly, and against the performance of other investment managers at least quarterly.
- Investment managers will be monitored on an ongoing basis with respect to their organisational structure, investment processes and personnel.
- Investment policies and objectives, asset allocation strategy and overall investment management structure will be reviewed at least once every three years.

The Council has resolved that a target of up to 10% of the Fund should be invested in South Island owned or based companies consistent with prudent investment practice.

Capital Endowment Fund - Funding Allocations

	2002/03 \$	2003/04 \$	2004/05 \$
Estimated Total Available Income from Fund	2,915,000	3,045,129	3,108,032
Less not to be allocated until later years (25%)		(761,282)	(777,008)
Total available for allocation this year	2,915,000	2,283,847	2,331,024
Economic Development 70%			
Less already allocated:			
Central City Project Team			
Unspecified Economic Development			
Domestic Marketing Campaign			
	2,040,500	1,598,693	1,631,717
	(100,000)		
	(1,765,500)		
	(175,000)		
Balance available for Economic Development Projects	0	1,598,693	1,631,717
Civic and Community 30%			
Less already allocated:			
Unspecified Community Projects*			
Special Character Area Precinct Upgrade			
Canterbury Museum Trust Board Building and Development Project Grant			
	874,500	685,154	669,307
	(142,000)	(100,500)	
	(200,000)	(200,000)	
	(532,500)	(532,500)	(732,500)
Balance available for Civic and Community Projects	0	(147,846)	(33,193)

* Unspecified provision for 2002/03 and 2003/04 to be accumulated and not specified out until at least 2004/05.