

# 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 \$550 million and the net gain on sale was some \$187 million.

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

This Fund, to be known as the Capital Endowment Fund, will be used for the benefit of current and future generations. The Fund will be 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.

## Establishment of the Capital Endowment Fund

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.

## Allocating the Economic Development Stream of Income from the Capital Endowment Fund

The Council will in consultation with the Canterbury Development Corporation, the Canterbury Manufacturers Association and the Canterbury Employers' Chamber of Commerce develop a set of criteria for assessing economic development projects, together with appropriate evaluation mechanisms.

The Council will also ensure that the inclusion of a direct increase in economic activity and job creation are prime criteria in the assessment evaluation.

The Council has specified several projects to be funded from the Economic Development portion of the fund over the next two years (see the schedule on page 30). In 2001/02 \$850,000 remains for allocation by the process being developed in conjunction with the above-mentioned organisations.

## Allocating the Civic and Community Projects Stream of Income from the Capital Endowment Fund

The Museum Project was shown in the draft Plan as a potential project to be funded from the income of the Capital Endowment Fund. The amount provided for was \$5.5 million over five years commencing in 2002/03. In addition, a capital commitment of \$2.5 million from the Council's capital budget was also provided for making a total of \$8 million.

The total Museum Project cost is estimated at \$31.3 million and funding is being sought as follows:

Local Government	\$10.0 million
Central Government	\$12.5 million
Raised by Museum (sponsors etc.)	\$8.8 million

The Museum have sought a local commitment to this project so that they can approach Government with a realistic indication of local support. The Council has therefore made a significant commitment to this project over six years as it is considered to be exceptional and therefore requires a commitment to be made for more than three years.

It is proposed to provide funding for the Museum of \$3.5M from the Capital Endowment Fund over six years: 2001/02 - \$250,000; 2002/03 - \$532,500; 2003/04 - \$532,500; 2004/05 - \$732,500; 2005/05 - \$732,500; 2006/07 - \$732,500. In addition, the Financial Plan provides for \$2 million from ordinary revenue plus \$2.5 million capital for the overall project, making a total of \$8 million.

The Council has approved the allocation of \$200,000 in the next 3 years for upgrading special character precinct areas of the Central City and has set aside \$443,500 over 3 years for community projects which are yet to be specified. It has noted that the unallocated portion is also available for community projects in later years.

The Council has resolved that in the allocations to local community projects, the Council will follow the principle that all parts of the city will benefit, over a period, from local projects.

## 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.