

PROCEEDS FROM ORION SALE OF NORTH ISLAND GAS NETWORK ASSETS

Investment Fund

The prime reason for part (a) of the recommendation is to preserve a substantial portion of the capital for future generations. It is envisaged that a separate professionally managed fund, with its own governance procedures, be established, to invest in a balanced portfolio of securities. A portion of the annual returns would be added to the capital each year and reinvested to protect the fund against inflation. The balance of the returns would be available for the purposes of the fund as outlined in this report.

While the fund would be separate from the Council's normal operations, the Council would have legal ownership and control of the fund and the annual allocation of the net income would be part of the ordinary annual plan consultation process each year. As the current Council cannot legally bind future councils, the following measures are proposed to deter a future council from spending the capital of the fund without proper consideration of the undertaking being made to the public as part of this consultation:

- (a) The Council has resolved that the capital of the fund will not be used unless 80% of the Councillors vote in favour. (This is intended to deter a change in the operation of the fund, unless there is a case of real need; eg. a major civil emergency or a large investment over which there is general agreement).
- (b) A statement in the Council's funding policy and long term financial strategy will outline the structure and purpose of the fund. The intention is to protect the capital and the process of applying the income to projects for the benefit of the community. These documents are published every three years by the Council and will remind the Council and public of the commitments being made. This will legally require any significant variation to be reported in the Annual Report.
- (c) The Council will establish a practice of reporting on the fund in its Financial Plan and Annual Report as a separate activity each year.

Use of Income from the Capital Endowment Fund

In order to protect the value of the fund over the long term, it is proposed that an amount equivalent to the annual rate of inflation is reinvested into the fund on an annual basis.

The allocation of the remaining income from the fund would be subject to the full public accountability requirements of the Financial Plan process.

The Council proposes to apply the following rules to the way it will allocate the income each year:

- No more than 75% of projected income from the fund will be allocated more than 12 months in advance.
- The income from the fund will generally be allocated each year in the following proportions:

Economic development including business initiatives	35%
Central City economic development	20%
Civic Projects	25%
Any of the above categories	20%
- That the allocation proportions be reviewed on five yearly cycles.
- That, if desired, funding for a particular category may be carried forward to another year or up to 10%

reallocated to another category if there is no demand in that year for use in the primary category.

- Projects which have a cost of less than \$100,000 in any one year should not be funded from this source.
- No single project should be funded for more than five years except in exceptional circumstances.

The Council intends to request the Chairpersons of the Canterbury Development Corporation, Canterbury Employers Chamber of Commerce and Canterbury Manufacturers Association and other relevant persons to assist in developing criteria for prioritising the general economic development projects.

It is estimated that the Capital Endowment Fund would have available for allocation in 2001/02 a sum of \$2.3M and this will increase over the next four years from \$3.81M to \$4.04M after providing for inflation proofing of the fund.

In future years the Council will detail its proposals for the use of the income as part of its normal annual plan consultation process. In this first year the Council is considering the following projects which fall within the proposed purpose of the fund. These are subject to the outcome of public consultation. Other specific projects will be considered after public consultation on the concept.

The proposals currently being considered are:

- Various projects to enhance economic development of the Central City - \$500,000 in 2001/02, \$300,000 in 2002/03, \$200,000 in each of 2003/05 to 2005/06.
- CDC proposal for Central Plains Water Enhancement Feasibility study - \$200,000 in 2001/02
- Grant to Canterbury Museum to assist with major revitalisation Project - \$5.5M spread over five years commencing in 2002/03.

None of these projects will be committed until the consultation and subsequent decision making process are complete.

Debt Repayment Reserve

The second part of the recommendation is that the balance of the capital repatriation (\$100 million) is invested in the Council's Debt Repayment Reserve. This will significantly reduce the Council's servicing costs in future years and reduce the level of rates.

Other Options Considered

Establishing an independent "Community Trust-type" fund:

Detailed consideration was given to vesting an independent charitable trust with a substantial portion of the proceeds. The primary rationale for considering this option to protect the capital for future generations, and to provide an ongoing income stream for community projects.

On further examination, however, a number of complex legal and taxation issues arose which made this option less viable. In order to achieve charitable status for tax purposes, the trust would need to be largely independent of the Council. It could potentially weaken the governance of the City if the independent trust's activities were not co-ordinated with, or indeed opposed to, the Council's policies. It would also weaken the financial position of the Council, since it would involve the transfer of a large sum of capital outside the Council's financial reporting group. There would also be additional complexity and cost to address the legal and taxation issues.

For these reasons, the Council decided that this option was inferior to the one proposed.