NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

Napier Civic Building
231 Hastings Street
t +64 6 835 7579
e info@napier.govt.nz
www.napier.govt.nz

PROSPEROUS NAPIER COMMITTEE

Open Agenda

Meeting Date:	Thursday 8 February 2024
Time:	9.30am
Venue:	Chapman Room Level 1, Chapman Pavilion McLean Park Latham Street Napier
	Livestreamed via Council's Facebook page

Committee Members	**Chair:** Councillor Crown **Members:** Mayor Wise, Deputy Mayor Brosnan, Councillors Boag, Browne, Chrystal, Greig, Mawson, McGrath, Price, Simpson, Tareha and Taylor (Deputy Chair) Ngā Mānukanuka o te Iwi representatives – Joe Tareha and Evelyn Ratima
Officer Responsible	Deputy Chief Executive / Executive Director Corporate Services
Administration	Governance Team
	Next Prosperous Napier Committee Meeting **Thursday 28 March 2024**

2022-2025 - TERMS OF REFERENCE - PROSPEROUS NAPIER COMMITTEE

Chairperson	*Councillor Crown*
Deputy Chairperson	*Councillor Tayor*
Membership	*Mayor and Councillors (13)*
	Ngā Mānukanuka o te Iwi representatives (2)
Quorum	*8*
Meeting frequency	*At least 6 weekly (or as required)*
Officer Responsible	*Deputy Chief Executive / Executive Director Corporate Services*

Purpose

To provide governance oversight to the corporate business of the Council, monitor the Council's financial position and financial performance against the Long Term Plan and Annual Plan, and to guide and monitor Council's interests in any Council Controlled Organisations (CCOs), Council Organisations (COs) and subsidiaries.

Delegated Powers to Act

To exercise and perform Council's functions, powers and duties within its area of responsibility, excluding those matters reserved to Council by law or by resolution of Council, specifically including the following:

1. To monitor the overall financial position of Council and its monthly performance against the Annual Plan and Long Term Plan.
2. To adopt or amend policies or strategies related to the Committee's area of responsibility, provided the new or amended policy does not conflict with an existing policy or strategy.
3. To consider all matters relating to CCOs and COs, not reserved to Council, including to monitoring the overall performance of CCO's.
4. Provide governance to Council's property operations and consider related policy.
5. Consider applications for the sale of properties within the Leasehold Land Portfolio.
6. To resolve any other matters which fall outside the area of responsibility of all Standing Committees, but where the Mayor in consultation with the Chief Executive considers it desirable that the matter is considered by a Standing Committee in the first instance.

Power to Recommend

The Committee may recommend to Council and/or any standing committee as it deems appropriate.

The Committee may recommend to Council and/or the Chief Executive any changes to the funding or rating system for the City, any variation to budgets that are outside the delegated powers of officers and the approval of Statements of Intent for CCOs and COs each year.

To bring to the attention of Council and/or the Chief Executive any matters that the Committee believes are of relevance to the consideration of the financial performance or the delivery of strategic outcomes of Council.

The Committee must make a recommendation to Council or the Chief Executive if the decision considered appropriate is not consistent with, or is contrary to any policy (including the Annual Plan or Long Term Plan) established by the Council.

ORDER OF BUSINESS

Karakia

Apologies

Nil

Conflicts of interest

Public forum

Nil

Announcements by the Mayor

Announcements by the Chairperson including notification of minor matters not on the agenda

Note: re minor matters only - refer LGOIMA s46A(7A) and Standing Orders s9.13

A meeting may discuss an item that is not on the agenda only if it is a minor matter relating to the general business of the meeting and the Chairperson explains at the beginning of the public part of the meeting that the item will be discussed. However, the meeting may not make a resolution, decision or recommendation about the item, except to refer it to a subsequent meeting for further discussion.

Announcements by the management

Confirmation of minutes

Agenda items

Minor matters not on the agenda – discussion (if any)

Recommendation to Exclude the Public

Nil

AGENDA ITEMS

1. DIRECTION FOR THE PREPARATION OF THE THREE-YEAR PLAN 2024-27

Type of Report:	Legal and Operational
Legal Reference:	Local Government Act 2002
Document ID:	1730288
Reporting Officer/s & Unit:	Danica Rio, Senior Advisor Corporate Planning Stephanie Murphy, Programme Manager- Long Term Planning Jessica Ellerm, Deputy Chief Executive / Executive Director Corporate Services Caroline Thomson, Chief Financial Officer

1.1 Purpose of Report

Council has been providing direction for the preparation of NCC's Three-Year Plan 2024-27 through a series of workshops over 2023 and early 2024. The plan is being prepared under the Severe Weather Emergency Recovery Legislation (SWERL) and replaces the Long Term Plan due to the legislation. This report summarises the following for formal approval and adoption:

- Direction on the financial and infrastructure information that will underpin the combined Finance and Infrastructure Strategy
- Proposed topics for consultation that is scheduled to begin on 25 March 2024
- Direction on Strategic Priorities and Community Outcomes

Officer's Recommendation

The Prosperous Napier Committee:

a. **Receive** the report titled "Direction for the Preparation pf the Three Year Plan 2024-27" and confirm it as being a record of direction setting for the development of the Three-Year Plan 2024-27.

1.2 Background Summary

To enable the preparation of NCC's Three-Year Plan, Elected Members have attended workshops over the course of the last year to set direction on a range of components that will make up the plan. The context and direction provided is summarised in this report for adoption before a Consultation Document is finalised where Council will engage with the community on the Three Year Plan.

1.3 Context and Challenges

As work towards the Three-Year Plan has progressed, officers have communicated several challenges that we are facing as part of this process at Council meetings and workshops. Below is an overview of the current environment we are working within and the challenges we face in the development of our Three-Year Plan.

Severe Weather Emergency Recovery Legislation (SWERL): Due to the impacts of Cyclone Gabrielle, SWERL was introduced. The legislation allows NCC to produce a three-year unaudited plan, in place of a Long Term Plan. It is important to note that the plan must be recovery focused.

Change in Government: In October 2023 the New Zealand General Election was held, which saw a change in Central Government. This has had an impact on key elements of reform due to policy direction change.

Water reforms: Over the past few years, central government developed new legislation and operating reforms for how drinking water, wastewater and stormwater would be managed throughout New Zealand. This was to address the growing pressure all councils were facing to deliver water services efficiently, safely, and affordably. With the recent change of Government, the reform programme has stopped, and a new Local Water Done Well policy will be introduced.

This will establish a national regulator to oversee water infrastructure. The regulator will ensure water is managed sustainably, with fair pricing and quality standards. Local Water Done Well will require all councils to submit alternative water service delivery models to the Government for approval. There is flexibility for councils to choose a model that works best for them. The new policy will also introduce financial rules to councils for managing water.

In 2019/20, before the nationwide reform programme was rolled out, Hawke's Bay councils developed a regional model for jointly managing water services. This model proposed having a Council Controlled Organisation (CCO) owning Hawke's Bay's water assets. Now that councils have flexibility to choose their own operating model, Hawke's Bay councils are currently discussing whether a CCO is still the best option for Hawke's Bay communities, particularly considering the effects and challenges of Cyclone Gabrielle.

Until decisions are made about next steps, the Three-Year Plan 2024-27 will be prepared assuming that Napier City Council will continue to provide drinking water, wastewater and stormwater services to Napier residents.

Other Government reform: As at the time of writing, the new Government has rolled back the Natural and Built Environment Act 2023 and the Spatial Planning Act 2023 and has plans to replace the Resource Management Act 1991 with new resource management laws.

Impacts of Cyclone Gabrielle: Cyclone Gabrielle impacted the Hawkes Bay region and NCC in many ways. From the Wastewater Treatment Plant becoming inoperable and the loss of business our tourism sector experienced, to the resources Council had to make available to carry out recovery work that continues to this day. The cyclone impacted our ability to deliver, so it is as important as ever that we are realistic about what we can deliver in our Three-Year Plan by considering our capability and capacity.

Hangover from Covid-19 and November 2020 floods: Both events reduced our ability to deliver for an extended period of time. We continue to feel the resulting challenges of these events through carry forwards from undelivered capital work, reduced availability of resources, and reduced capacity.

Increasing inflation and affordability pressures: As part of the 23/24 Annual Plan development, it was noted that we are feeling the impacts of inflation and cost escalations through increasing insurance premiums and salary adjustments. The inflation rate factored into budgets in the LTP 2021-31 was 2.9%, whereas inflation was sitting at 7.2% when we set budgets for the 23/24 Annual Plan. To enable future financial sustainability, we need to live within our means and avoid setting budgets using unsustainable mechanisms such as borrowing for operating costs for extended periods.

Financial implications of historic decisions: Historically, Council have made decisions around a number of items that have resulted in financial implications that will need to be addressed as part of our Three-Year Plan. Loan funding the Housing Portfolio shortfall, the cost of servicing additional loans for the Aquatic Centre remediation, funding the shortfall between the initial and revised rates increase for the 23/24 Annual Plan, and bringing Ocean Spa back in house are a few examples of the unchangeable historic decisions that are contributing to the estimated rates increase for our plan. These along with other unchangeable decisions have essentially resulted in a minimum rates increase that is set in stone to some extent, meaning any additional decisions only add to the increase.

Discretionary activities and projects: Over the years the portfolio of services delivered by Council has grown. It includes 'discretionary' activities and projects, such as a number of those in the Business and Tourism portfolio. Given the current economic climate, a decision will need to be made in relation to whether we are prepared to continue funding the same number of discretionary activities, taking into consideration the impact this will have on rates.

Ageing infrastructure: To help keep rates low, we have previously taken a more risk-based approach to managing our infrastructure assets. However, we have reached a point where significant investment in our infrastructure assets is required to keep up with the growth of our city and enable us to continue to deliver standard levels of service to our community.

Investment in our people: To bring us in line with other local authorities and similar fields, we have committed to undertaking a Remuneration Project to implement true investment in our people. Significant investment is required in spaces such as training and developing leadership, salaries, and benefits.

Historical capital underspend and subsequent carry forwards: Year on year we continue to under deliver on our capital programme which results in significant carry forward amounts that add to the next financial year's budgets. We received an Emphasis of Matter from Audit NZ for our LTP 2021-31 as they noted 'there is uncertainty over the delivery of the programme due to a number of factors, including the significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could impact on levels of service.' It is important that this Three Year Plan is realistic and we have a high level of certainty over delivery. This has been a significant focus throughout the preparation.

Considering all factors, we are faced with the challenge of balancing a long list of competing priorities. We need to maintain a recovery focus, ensure the work we plan is in line with our Strategic Priorities, and strike the right balance between adequately funding the organisation and providing our community with a rates increase that will be manageable.

To provide transparency to the community, we must be clear about what we will achieve over the course of the plan and have confidence that we will deliver on all that we commit to. We need to take a back to basics approach to service delivery and focus on intergenerational equity to enable the affordability of key infrastructure investment now and in the future.

The direction that is outlined in the remainder of this paper has been given under the context of the above.

1.4 Financial Information Underpinning Development of Combined Strategy

Financial Strategies set out Council's overall financial goals, and where Council wants to be positioned during, and at the end of the planning period. For this Three Year Plan, officers have recommended preparing a combined Finance and Infrastructure Strategy that includes information across ten years to provide the community with more transparency over the long term.

Approach to Budget Development

Officers put a lot of work into budget development over the backend of 2023 to pin down both capital and operational budgets for the next ten years. Budget managers submitted their budgets and ELT worked through all budgets using different lenses (such as grouping based on top 20 projects in terms of spend for each year and focusing in on operational increases over certain values) to get an understanding of the baseline (what we must do). Consideration was given to how proposed capital projects aligned with Council's new Strategic Priorities, along with which of the following categories applied to them:

- Statutory – primary purpose is to ensure we meet legislative requirements.
- Recovery – primarily relates to Cyclone Gabrielle recovery work.
- Three Waters – primarily related to three waters services.
- Contracted – already in train and we are contractually bound to complete.
- External funding – external funding has been secured for the project.
- Discretionary – does not fall under any of the above.
- Renewals

There was an extensive review process undertaken within the organisation before draft budgets were taken to Elected Members in December for further direction.

While there is still further work to be done, this process resulted in officers receiving the following direction for preparing the financial section of the 2024 combined Finance and Infrastructure Strategy. Please note, all figures are indicative and may change as the detail of some elements are yet to be finalised.

- Council is in a strong financial position and is able to take on debt to fund the significant capital and renewal expenditure planned over the 10 years of the plan.
- Council has set an ambitious capital plan for the years covered by the plan. A significant component of the capital spend relates to the Te Aka and Civic accommodation projects (combined spend of $83.2m) and the construction of the Redclyffe bridge (NCC's share being $50m).
- We start the plan with $82m external debt and reach a peak of $253m by year 3. Longer term we are projecting debt to peak at $542m by year 10 due to significant expenditure on infrastructure resilience and renewals.
- We are facing cost escalations and inflationary pressures across the board which makes the delivery of core activities and our ability to fund discretionary activities more challenging. For year 1 of the Three Year Plan we are looking at a 10% increase in the cost of doing business before we even start.
- At a workshop, Council discussed the rates increases needed to achieve the growth and project requirements for the Three Year Plan and discussed options to smooth

rates for the first 3 years of the plan. Some of these rates smoothing options would require a mix of rates and debt, and would allow Council to gradually build up depreciation reserves over the remaining term of the plan. Following this approach would result in a rates increase in the low 20% range, but further elements need to be finalised before an indicative increase can be confirmed.

- Council have provided for a conservative allowance for growth in the rating base set at 0.3% per annum.
- Officers are working with Council to develop an Investment Strategy that maximises returns on assets with the intention that in the longer term, asset returns can be used to reduce the amount of funding that is required through general rates, or to fund key community priorities. If progressed, the financial benefits of this piece of work are expected to begin in year 4 of the plan and would be intergenerational, which supports Council's priority of being a financially sustainable Council.

Further Detail on Capital Budgets

Please note that we are still in the process of refining capital budgets. The following aims to provide indicative figures around where we are currently sitting, with the understanding that budgets may change once all elements have been finalised.

The capital plan includes a number of significant projects due to commence in the first three years of the plan such as Te Aka $39.7m, Civic accommodation $43.5m and Redclyffe bridge $50m. Capital expenditure for other major projects such as the Ahuriri Regional Park $11.8m, the Aquarium $15.6m and the Aquatic Centre $75m, is budgeted in years 4 – 10 of the LTP.

The following table sets out Council's capital plan by activity for the three years covered by the plan:

Council	FY 2024/25	FY 2025/26	FY 2026/27
City Strategy	218,000	713,000	844,000
Community and Visitor Experiences	26,607,448	22,134,694	18,091,161
Governance and Representation	-	-	-
Other Infrastructure	4,740,184	4,714,335	3,368,943
Property Assets	24,591,849	59,645,811	53,477,743
Rates and Special Funds	-	-	-
Stormwater	5,083,179	5,719,840	5,782,000
Support Units	4,980,000	4,260,000	4,133,000
Transportation	13,682,414	32,244,873	36,596,679
Wastewater	9,654,040	9,875,160	8,671,200
Water Supply	8,685,714	8,908,128	10,501,880
	98,242,829	148,215,842	141,466,607

The following table sets out Council's forecast capital spend for the remaining 10 years of the plan:

Council	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31	FY 2031/32	FY 2032/33	FY 2033/34
City Strategy	86,000	78,000	86,000	157,000	50,000	50,000	50,000
Community and Visitor Experiences	14,179,221	33,179,815	55,532,085	58,260,707	28,564,838	5,864,950	7,094,805
Governance and Representation	-	-	-	-	-	-	-
Other Infrastructure	5,050,458	2,843,966	2,180,646	2,781,646	1,820,518	1,806,646	1,906,646
Property Assets	7,309,625	7,244,743	2,333,125	24,000	24,000	498,000	1,446,000
Rates and Special Funds	-	-	-	-	-	-	-
Stormwater	14,573,336	15,339,000	5,773,000	5,720,000	16,064,000	17,018,000	16,849,000
Support Units	6,247,000	5,653,000	5,684,000	5,938,000	4,760,000	6,397,000	4,859,000
Transportation	39,197,491	15,754,307	17,296,850	22,440,594	15,869,135	16,917,530	18,283,026
Wastewater	16,454,000	16,441,000	18,887,000	24,627,000	22,806,000	19,873,000	17,086,000
Water Supply	13,500,200	11,973,520	10,465,000	8,213,000	8,817,000	5,201,000	4,330,000
	116,597,331	108,507,351	118,237,706	128,161,947	98,775,491	73,626,126	71,904,477

Council is forecasting total capital spend of $1.1B over 10 years (2024-34).

Projects that are high spend but require minimal officer input include:

Capex projects	Year 1	Year 2	Year 3	Notes
Vested assets	2,799,000	3,016,493	3,016,493	Acquisition via developments
Property purchases	2,961,375	5,000,000	5,000,000	Y1 MTG Storage Y2 Te Awa Y3 Te Awa
Omarunui	2,567,000	2,014,000	1,945,000	Landfill managed by HDC includes new land development & remediation
Parklands	13,902,267	9,322,960	6,608,547	Land development transferred to cost of sales
Grand Total	**16,863,642**	**14,322,960**	**11,608,547**	

1.5 Infrastructure Information Underpinning Development of Combined Strategy

Infrastructure strategies tell a story about the factors that drive demands for infrastructure, when the big decisions need to be made and the financial and service consequences of these demands and decisions. For this Three Year Plan, officers have recommended preparing a combined Finance and Infrastructure Strategy.

Officers have worked with Elected Members to identify the following infrastructure issues. This information will form the basis of the direction that will be followed when preparing the infrastructure section of the 2024 combined Finance and Infrastructure Strategy:

- Balancing affordability and community expectations (what people want vs what they are prepared to pay for)
- Ability to borrow to fund significant projects (debt cap)
- Ageing assets
- Recovery of damaged infrastructure after Cyclone Gabrielle
- Preparing for climate change and increasing natural hazards
- Increased demand from growth on housing stock and municipal networks

- Demographic changes – ageing population
- More stringent regulatory and environmental standards, requiring significant investment in a relatively condensed timeframe
- Outdated systems and processes
- Limited knowledge of our assets and asset management maturity
- Limited capacity to deliver:
    - Even outsourcing to consultants requires touchpoints and direction from officers
    - Competition in the market
    - Difficulty attracting and retaining the right professionals
    - Striking the right balance between investing enough to have sufficient information to make informed decisions at the very initial gateways of a project vs not wanting to spend thousands/millions of dollars scoping a project that is not destined to ever progress
    - Complex projects involving multiple stakeholders, iwi engagement etc – can be years between scoping a project and implementation, by which time valid questions arise about the continued relevance of original feasibility studies/business cases
    - Lack of joined up systems means that information gathering, planning, scoping etc can take longer than necessary
- Wanting to unlock efficiency/economy of scale through partnership with regional neighbours, but that meaning we need to sacrifice some agility in our timing and funding
- Vulnerability of supply chain and limited ability to protect against major global disruptions
- Three year political term and priority shifts/swings from central government

1.6 Consultation Topics

The Three-Year Plan must be adopted using the special consultative procedure set out in the Local Government Act. This requires the preparation of a Consultation Document which seeks community input into the matters proposed for inclusion in the Three-Year Plan. As a result of the direction officers have received to date, the Consultation Document will focus on the following issues:

Subject	**Options/Notes**
Resilience rate	Implement a resilience rate of 2% to help NCC accumulate funds that can be used towards making the city more resilient **(preferred)**
	Do not implement a resilience rate
Investment Strategy and possible creation of a Council Controlled Trading Organisation (CCTO)	Further work to identify options will take place prior to adoption of the Consultation Document
Fees & Charges	Further work to identify options will take place prior to adoption of the Consultation

	Document, but a recommended increase in a range of fees and charges is expected
Revenue & Financing Policy	Further work to identify options will take place prior to adoption of the Consultation Document
Significance & Engagement Policy	Further work to identify options will take place prior to adoption of the Consultation Document
Business & Tourism - loan funding deficit of certain activities until they are commercially viable (maximum loan funding term of two years)	Fund deficit from loans **(preferred)**
	Fund deficit from rates increase
Office Accommodation	NCC led **(preferred)**
	Developer led

In addition, the following topics will be included in the Consultation Document as inform items:

- **Outcomes of Business & Tourism review:**
    - **Kennedy Park, Ocean Spa,** and the **Napier Conferences & Events Centre** to operate in a commercial manner.
    - We will create a new Arts, Culture & Heritage Unit that will include **Bay Skate** and the **Municipal Theatre.**
    - We will undertake further work on the **McLean Park** Strategy.
    - We will undertake further work to understand the appropriateness of the current **iSite** location and opportunities for reimagining how the site is used.
    - We will look to identify options for different uses of the current **National Aquarium of New Zealand** site and explore opportunities for reimagining how the site is used.
- **Napier Aquatic Centre:** We will develop a business case to explore options for building a new facility, with commencement of the project to begin in five years' time.
- **Te Aka (new library):** Provide an update on where the project is at and expected work for the course of the plan.
- **Te Aka (public realm):** Provide an update on the plan for the development of the public realm.
- **CBD development / Emerson Street:** We will undertake further option and cost assessments.
- **Faraday Centre:** We will not buy the building as part of this plan.
- **Te Pihinga:** We will not begin construction within the next 10 years and will reconsider the project at a later date.
- **Ahuriri Regional Park:** NCC will still be undertaking stormwater treatment work over the course of this plan, but we have realigned the joint funding aspect of the project to develop the park so that the timing of funding remains in line with Hawkes Bay Regional Council.

1.7 Strategic Priorities and Community Outcomes

Council is required by law to identify a set of 'Community Outcomes' in its Long Term Plan (replaced by a Three-Year Plan this time due to SWERL). This involves identifying outcomes that Council is aiming to achieve to promote the social, economic, environmental, and cultural wellbeing of the community (in the present and for the future).

Council's Strategic Priorities were set by Elected Members to best support the promotion of community wellbeing, and so they are also our Community Outcomes. They guide decision making and will underpin the contents of our Three-Year Plan. Guidance from Taituara notes that the process of setting Community Outcomes can be outward looking or inward looking. Council's Strategic Priorities are both outward and inward looking; Elected Members looked outwards to identify the needs of the community, while also looking inwards to identify what role council could play to help address these needs.

At the Council meeting on 31 August 2023, Council adopted our current vision and five Strategic Priorities as a replacement for any strategic direction previously set. The details of these priorities are included in Attachment 1 (which is the Council paper where the vision and priorities were adopted).

1.8 Significance and Engagement

Council must use the special consultative procedure in adopting the Three-Year Plan. This requires Council to prepare a Consultation Document which succinctly describes the key issues which will shape the final plan, and helps the community provide relevant feedback. The Consultation Document will be finalised early March with formal consultation planned over late March/April 2024.

1.9 Implications

Financial

The projects and initiatives set out in the Three-Year Plan have financial implications for Council in terms of both debt and rates. The long term planning process aims to balance the needs of the community against affordability.

Social & Policy

Preparation of the Three-Year Plan must meet the requirements of the Local Government Act 2002 and adhere to Council's own Significance and Engagement Policy.

Risk

N/A

1.10 Options

The options available to Council are as follows:

a. Confirm the contents of this report as an accurate summary of direction to date for development of the Three-Year Plan 2024-27.
b. Clarify any aspect of this report as a matter of priority, to be incorporated in the Three-Year Plan 2024-27 Consultation Document.

1.11 Attachments

1 Council's New Strategic Direction - Thursday, 31 August 2023 (Doc ID 1734466) ⇩

3. COUNCIL'S NEW STRATEGIC DIRECTION

Type of Report:	Operational
Legal Reference:	Local Government Act 2002
Document ID:	1682507
Reporting Officer/s & Unit:	Danica Rio, Senior Advisor Corporate Planning Talia Foster, Accounting Manager Heather Bosselmann, Senior Policy Analyst - Climate Resilience

3.1 Purpose of Report

Over the last couple of months, Elected Members have been working on developing the new strategic direction for Napier City Council. This report outlines the new vision and strategic priorities that have resulted from this work.

Once formally adopted, the new strategic direction will guide Council's decision-making and play a key role during the prioritisation process that will take place as part of the development of the 2024-34 Long Term Plan (LTP). It will replace the strategic direction previously set by Council, meaning that going forward, all work that Council plans to carry out as part of the 2024-34 LTP must support the achievement of the new strategic priorities.

Officer's Recommendation

That Council:

a. **Adopt** the new vision and strategic priorities for Napier City Council as outlined in this report.

b. **Endorse** that all work that Council plans to carry out as part of the 2024-34 Long Term Plan must support the achievement of the new strategic priorities.

3.2 Background Summary

The new strategic direction for Napier City Council includes a new vision and five new strategic priorities, as outlined below. Please note, the order in which the strategic priorities are listed has no significance and all priorities are equally important.

Vision: **Enabling places and spaces where everybody wants to be**

Strategic Priority: **Financially Sustainable Council**

Council has an operating model and financial strategy which is affordable for rate payers and enables us to achieve our objectives.

Strategic Priority: **A Great Visitor Destination**

Napier is a destination aspiring to provide 'world class' facilities and attract visitors to our city. We make it easy for people to invest in our city and create experiences that attract widespread participation.

Strategic Priority: **Spaces and Places for All**

Napier has spaces and places that everyone has access to and wants to use. We have a focus on accessibility, affordability, safety, and city vibrancy.

Strategic Priority: A Resilient City – The Ability to Thrive and Withstand Impacts, Knocks and Shocks

Council makes good future planning and investment decisions to prepare for a changing climate future and enables our community to build self-reliance. Our people, economy and infrastructure are resilient.

Strategic Priority: Nurturing Authentic Relationships with Our Community and Partners

Council fosters meaningful relationships, demonstrating our commitment to listen to our community's needs, concerns, and aspirations. Developing strong partnerships with mana whenua and tangata whenua ensures we uphold our obligations under Te Tiriti o Waitangi.

3.3 Attachments

Nil

2. DUE DILIGENCE REPORT OF CIVIC ACCOMMODATION BUSINESS CASE

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	1710275
Reporting Officer/s & Unit:	Darran Gillies, Strategic Programmes Manager Alix Burke, Strategic Programme Coordinator

2.1 Purpose of Report

To report on a robust due diligence process that ensures that the preferred option of Officer Accommodation Business Case continues to be the best course of action for council. This includes making sure that the work enables the best possible outcomes of the public-facing component of the programme, primarily the implementation of the design and construction of Te Aka - Library and Council Chambers.

Officer's Recommendation

The Prosperous Napier Committee:

a. **Receive** The Due Diligence Report of the Civic Accommodation Business Case

b. **Approve** option 5a from the Civic Accommodation Business Case – The NCC lead Redevelopment of the library to be the preferred option within the LTP consultation; and to proceed into the next stages of the programme of work to support that option.

2.2 Background Summary

On 21 September 2023, the Future Napier Committee endorsed the Civic Accommodation Business Case and approved that Officers progress due diligence development of preferred Option 2, as set out in the business case: NCC sells the ex-Library Tower for redevelopment and leases space back for NCC's own long-term occupation, with appropriate reporting back to Council.

Council also endorsed the Civic Accommodation Project Delivery Plan with the inclusion of Council decision-making gateways on the preferred option.

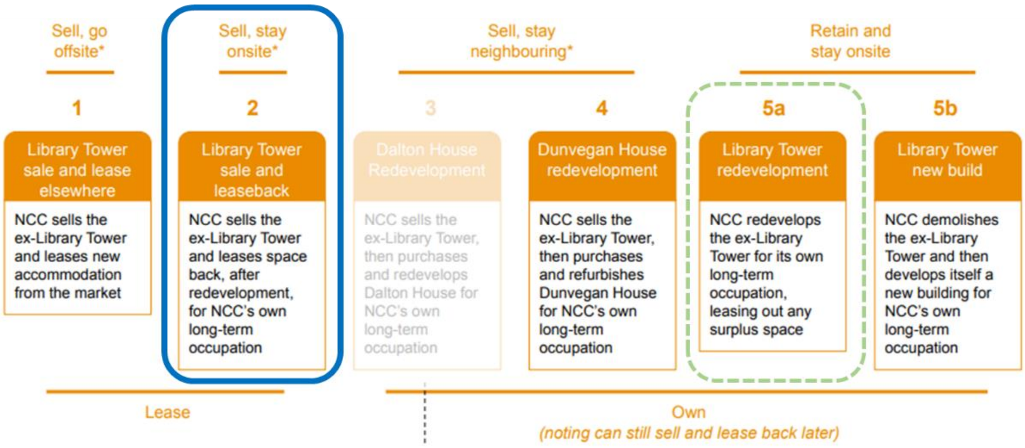
The due diligence entailed a wide range of areas. This included:

- Planning and Legal Obligations
- Structural
- Building Services
- Architectural Workplace Requirements
- Comparison between a new build and refurbishment option based on dues diligence information providing updated Quantity Survey estimates.
- Environmental Impact assumptions

- Whole of life cost comparison between the preferred business case option (2) and NCC owned and lead option (5a)
- An update of the Business Case assumptions, risks and opportunities.
- Consultation requirements

Summary of Preferred Option

The business case recommended option 2 where NCC sells the ex-Library Tower and leases back part of a redeveloped site for NCC's long-term occupation as the preferred option. Scoring highest on both the best outcomes score and the best value for money score.

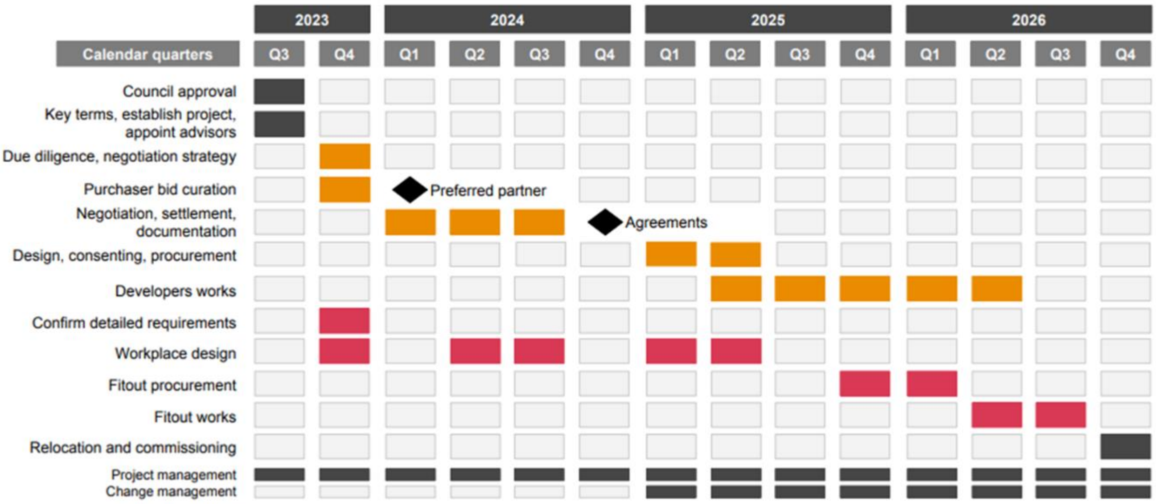


Key Assumptions

- Assumes a developer will likely demolish the building and construct new as the current library tower will cost $58+ million to refurbish.
- Complimentary relationship but no shared opportunities and efficiencies with Te Aka
- That the building and site is not a strategic asset, reducing the need for public Consultation.
- That a 90-year+ ground lease is needed to attract a developer

Preferred Option Indicative Timeline

The below, is a visual representation of what the programme timeline could be for successfully delivering the Business Case preferred option.



Development Advice – Planning and Legal Obligations

The Property Group (TPG) was engaged by NCC to provide advice around development options for the development of the preferred option on the site.

The report identifies that any ground lease in excess of 35 years is considered a subdivision of the land under the RMA. This could be achieved via a traditional subdivision or a process of setting apart the land under the PWA.

The images below from The Property Group's report show the existing site configuration of two parcels and the proposed configuration following subdivision of the library tower site:

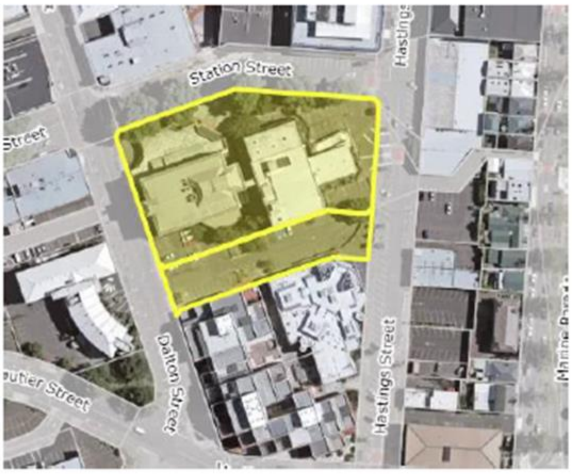


Figure 1: Existing Lot configuration

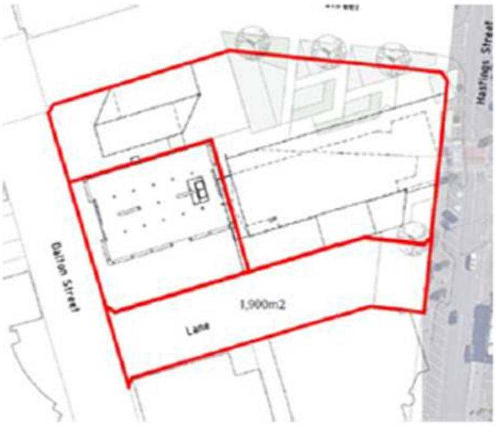


Figure 2: Proposed Lot configuration

Subdivision process

The proposed lot configuration shown in Figure 2 above indicates a new boundary line around the existing library tower building, splitting the title with an additional land parcel of approximately 1,870m² and a balance title of 4,580m².

TPG provided advice on the basis that the site is vacant land (i.e. the existing ex-Library Tower building is demolished by Council prior to subdivision) and advised that while subdivision can occur around existing buildings, the RMA requires buildings remaining on site to comply with the provisions of the Building Code, including a compliant means of fire escape, disability access and fire protection from adjacent properties. A lack of current compliance in these areas may require upgrades to the existing Library Tower building.

To conclude the subdivision process, Council would need to ensure each new lot created is provided with access to a legal road. If vehicle access from Dalton Street is to continue as a right of way, an easement would be required. Each new lot will need to connect to a Council water main and to stormwater and wastewater networks directly, or via an appropriate easement.

Setting Apart

Currently, the site is held by Council for the purposes of a Civic Centre. TPG advise as an alternative option to subdivision, Council could consider a process to set apart part of the land for municipal purposes, with the balance of land held for the purposes of a civic centre. The decision to set apart the land is ultimately made by the Minister for Land Information NZ.
"Civic Centre" and "municipal purposes" are general purposes and are not significantly different from one another. Therefore, there is a risk that the purpose of the land is not considered significantly different from the current purpose, and LINZ may consider that a subdivision is being created and decline the application.

The estimated time required for either the subdivision or setting apart process is 6 – 8 months.

Given the assumptions made around the land being vacant, and the associated compliance risks with any building that remains on site, Council sought additional legal advice around their obligations with respect to s40 PWA and subdivision of the site.

Legal Advice

Council's legal advisors, Rice Spier, was asked to provide further advice on:

a. If the land is leased under a ground lease to a developer (whether or not the building remains on the land), is sub-division of the title required?
b. Does a ground lease of 35+ years constitute a subdivision of the land (or what is the threshold, if any)? What is the effect of this?
c. Is sub-division/ separation of the title, or other similar mechanism needed in order to sell the ex- library tower building? i.e., can the building ownership change given the current title arrangement?
d. Can the building be sold in its current condition?
e. If the building remained on the site, 'as is' what extent of compliance with the NZBC would need to be met in order to progress with either sub-division or sale?
f. If a subdivision (or technical subdivision) is undertaken, does this trigger an 'Offer Back' process under S40?
g. How long is required for the 'Offer Back' process? Is this a definitive timeframe or subject to change? And what could or couldn't be progressed until this process had concluded, i.e., can an RFP be put to market?

The following advice was received:

- Subdivision or separate title ***is required*** in order to sell the building or lease the land under a long-term ground lease.
- A ground lease in excess of 35 years for the library building site on its own ***would be*** a subdivision.
- Section 40 of the Public Works Act requires Council to offer back the land to previous owners prior to divestment of the land.

It was identified that Section 42 of the Public Works Act allows land acquired for public works to be disposed of, but only if it is not required for public works. By definition, ***a*** *sale involving the lease back of the ex-Library Tower building may indicate the land is still required for public work***.**

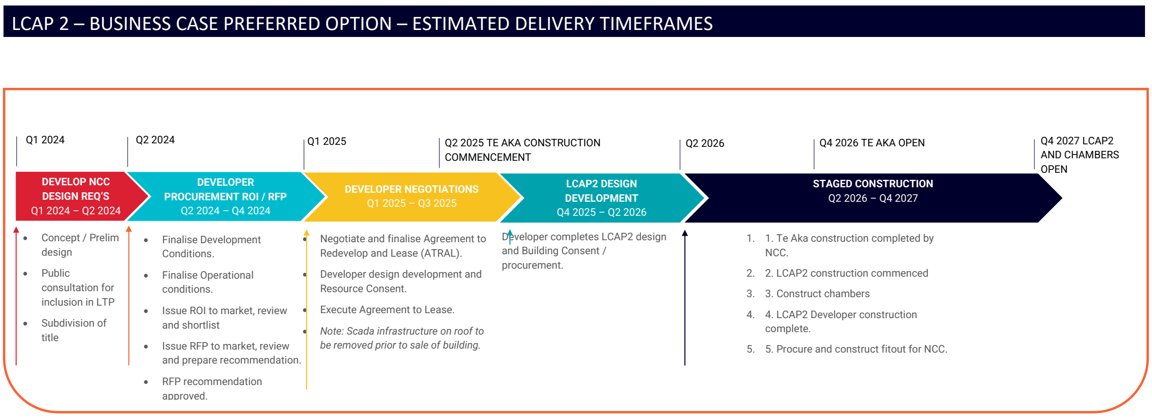
It was further noted that given the precinct is a prominent site which has been and is proposed to continue to be the city's civic centre, the site as a whole should be regarded as a strategic asset. Certain decisions, including a decision to transfer the ownership or control of a strategic asset to or from the local authority, cannot be made by a local authority unless the decision is explicitly provided for in its LTP, and the proposal for the decision was included in a consultation document.

Rice Spier's advice is that Public Consultation is required for Council to sell or lease any Strategic Asset. The precinct site should be considered a strategic asset therefore it would be prudent for Council to undertake consultation on the proposed divestment and leaseback proposal.

To date the proposal to divest and leaseback the site has not been contemplated in the LTPs, nor has it been the subject of the type of consultation required by S93E of the LGA. To that end, any future consideration for site divestment and lease-back should be included in future consultation before Council commences the process to divest any part of the site.

Timeline Changes

With the development and consultation requirements contemplated above an updated estimated timeline is provided below.



Due Diligence on the Library Tower Structure

The diagram below illustrates the framework in which the due diligence work has been undertaken on the library tower. The framework reflects the criteria of the Officer Accommodation Business case and the interdependencies with Te Aka and the opportunities that could bring.

Building Structure

A subset of the Te Aka design team was engaged to complete preliminary investigations on the ex-Library Tower Building, with the following objectives:

1. Assess the current condition of the building.
2. Clarify NCC requirements for the occupation of the building.
3. Undertake high-level cost estimates for a potential redevelopment to test previous cost assumptions.
4. The exploration of appropriate design direction for redevelopment, which will help shape the redevelopment requirements for the procurement process to enable an agreement with a developer.

The building investigation process included reviewing previous structural assessments and proposed remediation methodologies intending to achieve a minimum of 75% NBS.

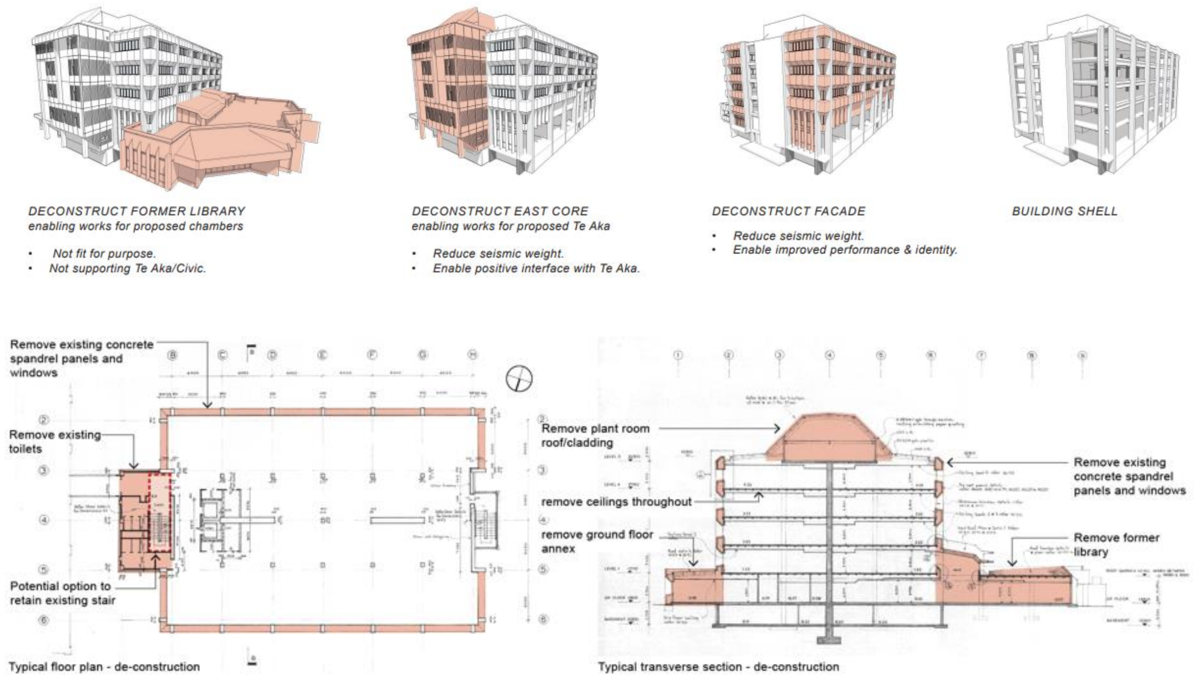
In brief, the building requires:

- Removal of precast façade panels.
- Tie slabs together with steel plates.

The team explored options to strengthen the building to 90% NBS, which would need the following additional interventions:

- Adding mass in the basement.
- Use of viscous dampers at upper levels

Below is an illustration of the structural interventions required to bring the building up to 70% plus NBS:



Building Services

Review the condition of existing services and associated compliance with current codes and define assumptions regarding the extent of building exterior upgrades required to meet a fit-for-purpose redevelopment. Our service engineer provider Beca has listed the baseline requirements and assumptions:

- Strip out all existing services, all at the end of life.
- Natural ventilation principles to align with Te Aka.
- Upgrade lifts to comply with the current Code.
- Upgrade fire protection to comply with the current Code.
- Opportunity to centralise Precinct building services from the three buildings on the roof / in the basement of the building.

Architectural Workplace Requirements

A process to test and explore workspace requirements that include office accommodation for up to 218 staff, based on an open-plan working environment. Based on expected space planning, NCC would occupy 3 of the 4 upper floors, with the ground floor being tenanted with complementary activity to Te Aka. This would allow the further floor to be made available to co-locate partner organisations.

In Summary:

- The structural requirement to replace the facade provides an opportunity to update the building and improve the connection to Te Aka.
- Upgrade fixtures and finishes, new gender-neutral toilets.
- Upgrade fire egress for compliance and to accommodate proximity to Te Aka.
- The redevelopment option aligns with Green Star objectives.
- Demolition of library annex including salvage of materials.
- NCC workplace requirements utilise 3 floors, with one floor available for lease to partner organisation(s)

Below are indicative illustrations provided by the architecture on how the library tower could be rejuvenated to provide fit-for-purpose office accommodation meeting the requirements of the Business Case. The illustrations also show how the building could be developed with a similar look and feel to Te Aka.


LARGE FORMAT PANEL/NARRATIVE


'HIT AND MISS' PATTERN

View from new public realm

View from northern approach

View from Dalton Street looking south


View from Dalton Street looking north


Greater Wellington Regional Council

AREA REQUIREMENT

For General Council Administration Workspace (Levels 1- 4)
(from PWC Business Case).

Assume:

- 218 people
- Transition towards agile workspace
- Density of 13m²/ person
- = 2890m² NLA ...assume 90% efficiency = 3211m² GFA

For Public Facing/ Service Centre functions (Ground Level)
(From Te Aka Brief)

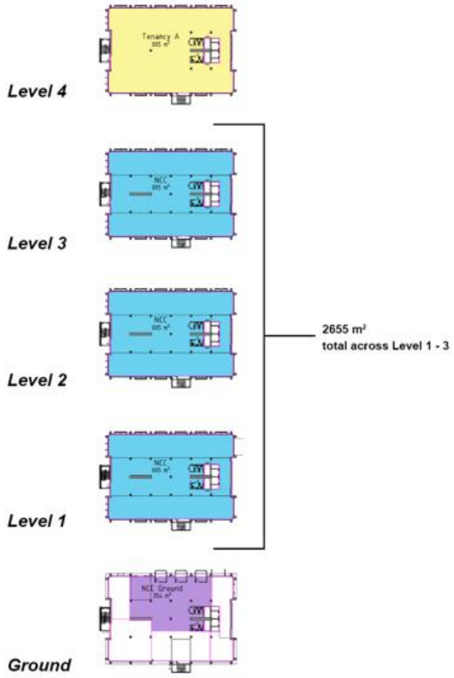
Assume:

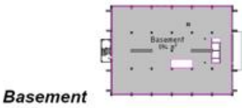
- Approx 405m² GFA

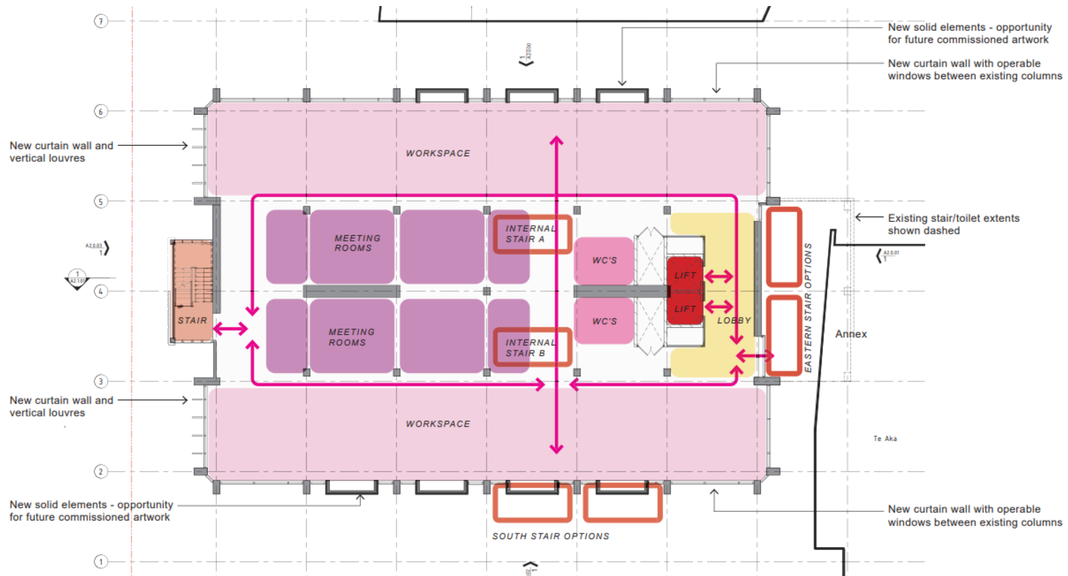
LCAP2 floors are approx. 885m² GFA, so this would imply **approx. 3 upper levels + approx. 40% of Ground Floor.**

This would leave **approx. 60% of Ground level free/available.**

Area Schedule (NCC Workplace)		
Level	Area	Name
Ground	$354\ m^2$	NCC Ground
Level 1	$885\ m^2$	NCC
Level 2	$885\ m^2$	NCC
Level 3	$885\ m^2$	NCC
	$3008\ m^2$	







TYPICAL UPPER LEVEL FLOOR PLAN 1:200 @A3

TYPICAL LONGITUDINAL SECTION DETAIL
1:50@ A3

TYPICAL TRANSVERSE SECTION DETAIL
1:50@ A3


Exposed Stalhton Rib & Infill

'Apples for Apples' Comparison

Below are the headline comparison points between a new build compared to a redevelopment of the existing structure. This is not a pros and cons list.

Redevelopment Option of Existing Structure	**New Build Option**
Structural upgrades are considerably more cost-effective than expected. Allowance for demolition of East Core and Library Annex currently costed in the LCAP1 budget. Overall cost estimate of $48.5M for redevelopment, compared with the previous estimate used by PWC of $69M	Based on a new build of equivalent area to the current building. Based on $/m^2 rates only – no design detail. Overall cost estimate of $53.7M for new building circa 5,000m^2. Estimated figures used by PWC for new build $24M, but based on a smaller footprint of circa 3,000m^2

Environmental Impact Comparison

An embodied carbon assessment for the proposed redevelopment was undertaken. This assumes a central services upgrade, façade replacement, internal fitout and structural upgrade. As a result of these upgrades, there will be a substantial initial investment in embodied carbon to deliver the refurbishments. The assessed range of upfront embodied carbon emissions for the redevelopment is largely dependent on the final scope of structural strengthening but is expected to be between **280-620 kgCO_2-e/m^2**.

By comparison, the estimated carbon emissions associated with a new building, assuming demolition of the existing structure and replacement with a new building of the same scale and function as the refurbished building scenario. The likely range of upfront carbon emissions associated with a new building is from **500-1250 kgCO_2-e/m^2** indicating a significantly lower level of upfront emissions associated with the redevelopment option.

Testing the Business Case Assumptions

As additional and more detailed information has arisen through the due diligence process it is important to test the assumptions made within the business case, alongside updating the risks and the mitigation put in place to reflect the updated position.

As those key assumptions were tested and with the cost between a new build and redevelopment of the existing library tower becoming closer, alongside accessing the risks and opportunities, option 5a in which NCC leads that redevelopment and retains ownership came into play.

Key Assumptions

- Assumes a developer will likely demolish the building and construct a new building, as the current library tower will cost $58+ million to refurbish.

  The updated estimate Overall cost estimate of $48.5M

- Complimentary relationship but non-dependant on adjacent precinct buildings/developments

  As Te Aka has been developed it has become clear that there are multiple positive outcomes from greater integration such as:

  Delivery of a high-quality integrated environment with clear civic identity and strong connections between civic-focused facilities, buildings, public realm landscape and adjacent parts of the city.

  Implementation of a cohesive cultural design strategy integral to the identity and function of the Civic Precinct.

  Establishment of a strong 'civic presence' with the range and critical mass of complementary civic functions and activities, particularly through the ground floors.

- That the building and site are not a strategic asset, reducing the need for public Consultation.

  The advice received recommends that due to the nature of the site council should treat it as a Strategic Asset and conduct public consultations accordingly.

- That a 90-year+ ground lease is needed to attract a developer

  This requires testing if council proceeds with the developer-led option

2.3 Implications

Financial

This due diligence exercise has tested the construction costs. Discussions around ROI would also extend to the minimum term of ground lease expected by a Developer, which is anticipated to be more than 35 years.

- The due diligence exercise indicates that a lower redevelopment cost of the existing Library can be expected, due primarily to the relatively simple structural remediation solution. Updated cost estimates for the redevelopment reduce the overall expected redevelopment cost by circa $10M, to $48.5M.
- That an average rental rate of Napier as $300-370/m2, indicating a difference in rental rates which has the potential to deter prospective co-location partners.
- Equivalent new build cost assessments total $53.7M, meaning it is expected to be approx. $5.2M cheaper to retain the existing building structure and strengthen/refurbish the building than to build new. Part of the additional cost in the new building option relates to the additional cost escalation which would be incurred due to a longer design and construction process.
- The whole-of-life cost analysis within the Business Case assumes a capital cost to NCC of $4M for the fit-out of the NCC civic accommodation leased space. This cost does not appear to consider the cost to fit out the ground floor, or any furniture, IT or AV costs, all of which would be required for a Developer-led solution.
- The quantity surveyor has estimated the total cost of NCC's fitout to be $7M. In addition to this, the cost of subdivision and costs to procure, negotiate and document the Agreement to Redevelop and Lease need to be considered. On this basis, the capital cost of the developer-led option is likely to be closer to $8M.

Below is a table illustrating a whole-of-life comparison of the cash flow of the sale and lease back option compared to council retaining ownership.

Calendar quarters	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028	2029	2030 - 2034	2035 - 2039	2040 - 2044	2045 - 2049	2050 - 2054	Total
OPTION 1, DEVELOPER-LED																								
Consultants fees / legal costs																								$0.0M
Site subdivision + design changes	$0.1M	$0.1M			$0.1M	$0.1M	$0.3M																	$0.7M
LCAP2 design briefing	$0.3M	$0.4M																						$0.7M
RFP process		$0.1M	$0.1M	$0.1M																				$0.3M
ATRAL negotiations					$0.1M	$0.1M	$0.1M																	$0.3M
Construction monitoring fees						$0.3M	$0.3M	$0.3M	$0.3M	$0.25M	$0.25M	$0.5M	$0.1M	$0.1M	$0.1M	$0.1M								$2.6M
Sub Total fees and legal	$0.40M	$0.60M	$0.10M	$0.10M	$0.20M	$0.50M	$0.70M	$0.30M	$0.30M	$0.25M	$0.25M	$0.50M	$0.10M	$0.10M	$0.10M	$0.10M	$0.00M	$0.00M	$0.00M	$0.00M	$0.00M			**$4.6M**
Capital																								$0.0M
LCAP2 construction (fitout)															$2.0M	$3.0M								$5.0M
LCAP2 FF&E																$1.0M								$1.0M
Pre-paid ground lease							-$3.0M																	-$3.0M
Sub total Capital	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	-$3.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$2.0M	$4.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M			**$3.0M**
Opex																								$0.0M
Rent on existing premises	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M								$4.6M
Rent in LCAP2																	$1.4M	$1.4M	$7.3M	$8.0M	$8.7M	$9.5M	$10.4M	$46.6M
Sub total Opex	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$1.4M	$1.4M	$7.3M	$8.0M	$8.7M	$9.5M	$10.4M	**$51.1M**
TOTAL	$0.7M	$0.9M	$0.4M	$0.4M	$0.5M	$0.8M	-$2.0M	$0.6M	$0.6M	$0.5M	$0.5M	$0.8M	$0.4M	$0.4M	$2.4M	$4.4M	$1.4M	$1.4M	$7.3M	$8.0M	$8.7M	$9.5M	$10.4M	**$58.7M**
OPTION 2, NCC-LED																								
Consultants fees / legal costs																								
LCAP2 design development	$0.3M	$0.4M	$0.7M	$0.7M	$0.7M	$0.7M																		$3.5M
Tender and Consent process					$0.4M	$0.1M	$0.3M																	$0.8M
Construction monitoring fees						$0.3M	$0.6M	$0.6M	$0.55M	$0.55M	$0.6M	$0.6M	$0.2M											$3.5M
Sub Total fees and legal	$0.3M	$0.4M	$0.7M	$0.7M	$1.1M	$1.1M	$0.9M	$0.6M	$0.0M	$0.6M	$0.6M	$0.6M	$0.2M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M			**$7.8M**
Capital																								
LCAP2 construction							$2.6M	$2.4M	$4.7M	$7.7M	$9.6M	$8.7M	$3.2M											$39.0M
LCAP2 FF&E												$1.0M												$1.0M
Terminal value of LCAP2 asset (cost from PWC)																							-$8.0M	-$8.0M
Sub total Capital	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$2.6M	$2.4M	$4.7M	$7.7M	$9.6M	$9.7M	$3.2M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	-$8.0M	**$32.0M**
Opex																								$0.0M
Rent on existing premises	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M												$3.4M
Operating costs LCAP2													$0.2M	$0.2M	$0.2M	$0.2M	$0.6M	$0.6M	$3.2M	$3.5M	$3.8M	$4.2M	$4.5M	$21.1M
Rent from Level 4													-$0.1M	-$0.1M	-$0.1M	-$0.1M	-$0.4M	-$0.4M	-$1.9M	-$2.1M	-$2.3M	-$2.5M	-$2.7M	-$12.7M
Sub total Opex	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.1M	$0.1M	$0.1M	$0.1M	$0.2M	$0.2M	$1.3M	$1.4M	$1.5M	$1.7M	$1.8M	$11.8M
TOTAL	$0.6M	$0.7M	$1.0M	$1.0M	$1.4M	$1.4M	$3.8M	$3.3M	$5.0M	$8.6M	$10.5M	$10.5M	$3.5M	$0.1M	$0.1M	$0.1M	$0.2M	$0.2M	$1.3M	$1.4M	$1.5M	$1.7M	-$6.2M	**$51.6M**

The table expresses a high-level assessment and is conservative in its view of the potential rental income and the terminal valuation of the asset in a council-owned option.

1.6 Risk

Below is a list of risks identified within the business case along with additional risks identified through the due diligence.

- The proposal to divest and lease back the site has not been contemplated in the LTPs, nor has it been the subject of the type of consultation required by s 93E of the LGA.
- If NCC relinquish control or ownership of land, within the Civic Precinct then there could be long-term adverse impacts on the vibrancy and use of the heart of the city.
- If economic rental rates of new or redeveloped sites are unaffordable or at a level that might be deemed unacceptable then the preferred option may not be tenable.
- If the recommended way forward is not approved then a long-term solution to NCC's office accommodation requirements will not be implemented, and NCC will continue to incur risks associated with the case for change highlighted in the Strategic Case.
- If a suitable developer partner cannot be sourced, then the preferred option cannot be implemented.
- If a suitable developer partner drops out during negotiations, significantly delaying or preventing implementation of the preferred option.
- Separate ownership will complicate the ability to physically connect between LCAP 1 and LCAP 2 buildings. This risk undermines the connectivity of the precinct, and particularly the Chambers, which would benefit from the direct interface with the ground floor of the Civic Administration building which would ideally be formed via a weather-protected connection.

Opportunities in option 5a, a NCC Lead Development

The business case assessment of options 2 and 5a against the Investment Objectives for the project did not identify any tangible difference, as all key investment objectives are met by the decision to consolidate staff within a new building on the Precinct. It was within the financial case that there was a substantial difference between the two leading options. As we have seen, as the due diligence progressed that differential decreased. It is also noted that all of the key risks listed above can be mitigated through an NCC-led redevelopment of LCAP2 as part of a wider Precinct redevelopment.

An NCC Led development could provide for the following benefits:

Centralised services. Te Aka concept and preliminary designs currently assume all three buildings on the precinct will be supplied with stand-alone central plant. This would result in a reduced central plant and associated capital and operational cost benefits and would involve developing a precinct-wide services infrastructure strategy encompassing electrical infrastructure, cooling and heating water infrastructure, and fire sprinkler infrastructure.

The procurement for construction of the entire Te Aka precinct. This is likely to attract greater interest from tier 1 construction capability, with the potential for higher quality assurance, and greater economies of scale through construction technology, materials, and supply chain aspects, resulting in reduced construction-related risk, and greater cost and time efficiencies.

On a long-term basis, Council would retain control of the precinct. This would enable the ability to execute the benefits identified in the Library Civic Area Plan:

- Delivery of a high-quality integrated environment with clear civic identity and strong connections between civic-focused facilities, buildings, public realm landscape and adjacent parts of the city.
- Implementation of a cohesive cultural design strategy integral to the identity and function of the Civic Precinct.
- Establishment of a strong ‘civic presence’ with the range and critical mass of complementary civic functions and activities, particularly through the ground floors.

Crime Prevention Through Environmental Design (CPTED)

As part of the resource consent process for Te Aka a CPTED report was commissioned. The overall objective of the CPTED is to ensure Te Aka within the receiving environment does not add to the security risk profile, and that the development addresses known CPTED risks.

The CPTED report highlighted the current library tower as a hot spot for a number of anti-social criminal activities. The report highlighted that even though Te Aka would address many of the issues any delay to the development of the tower would mean that many of the positive outcomes would be negated.

There are CPTED issues associated with unoccupied buildings which are challenging to mitigate. LCAP2 is a key part of the wider Library Civic Area Plan and there are interdependencies which have an impact on the CPTED risks, especially directly adjoining LCAP2. Without the LCAP2 development, key community-orientated facilities (such as all-hours public toilets and bus lounge) do not have certainty of delivery.

Council delivering the two phases of the project as one would mitigate these challenges and would lead to an optimal CPTED outcome.

2.7 Options

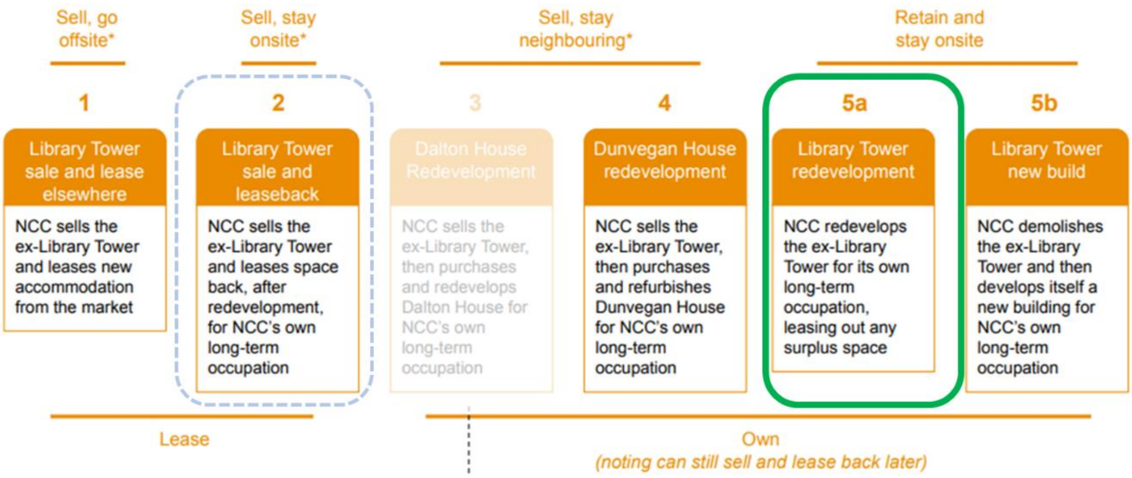
The options available to Council are as follows:

a. Receive The Due Diligence Report of the Civic Accommodation Business Case
b. Approve to proceed with the business case option **5a** – NCC lead Redevelopment of the library to be the preferred option within the LTP consultation for 2024 -2027 ; and to proceed into the next stages of the programme of work to support that option.

c. Approve to continue with the business case option **2** - NCC sells the ex-Library Tower for redevelopment and leases space back for NCC's own long-term occupation to be the preferred option within the LTP consultation for 2024 -2027 and to proceed into the next stages of the programme of work to support that option.
d. Do not approve to proceed with either of the above options and pause the project.

2.8 Development of Preferred Option

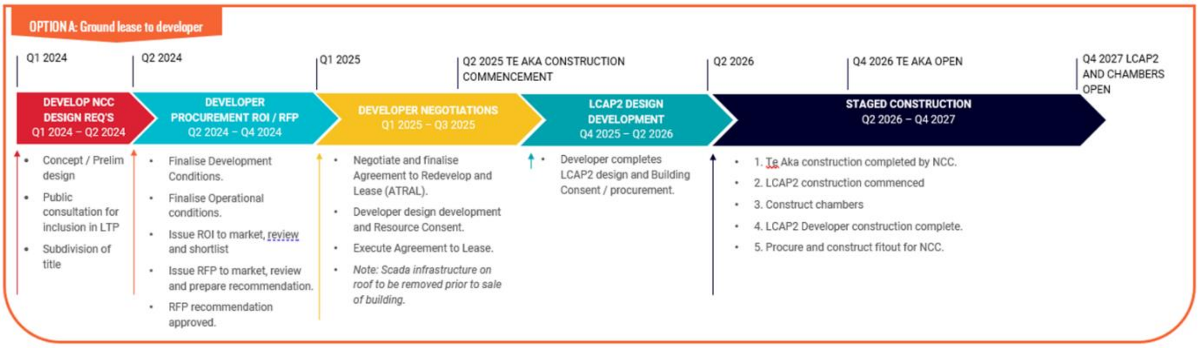
The due diligence to date confirms that with the additional information provided, the cost differential between the preferred option **2** and option **5a** has significantly reduced. This coupled with the multiple benefits and risk reductions outlined within the paper, it is thus recommended that we proceed with option **5a** as the preferred option within the Long-term Plan Consultation 2024 -27, and to proceed with the supporting work.



In brief, the benefits of option **5a** are it :

- Continues ownership and control of a strategic asset within the CBD.
- Maximizing opportunities with Te Aka.
- Has been previously consulted on in previous LTPs.
- Provides the most environmentally positive outcomes across the whole precinct.
- Enables shared services that will reduce overall build cost and ongoing running costs.
- The ability negotiate more competitive terms for the lead construction contract.
- Supports complete mitigation or reduction of risks identified in the business case option **2** such as risk to programme timeline.

The diagram below gives an updated estimate of the two options discussed throughout this memo. The key difference is the elimination of separate procurement and negotiation processes through a NCC led development.



On Going Programme

Below is a list of key tasks to support the development of option **5a** to enable it to be the preferred option within the LTP. The tasks are not abortive if the council decides through the LTP process to choose option **2** of the business case.

- The continuation of the architectural design process up to the end of the preliminary design stage to establish in detail the council's accommodation requirements.
- Development of a *Value Engineering* approach to the precinct-wide integration opportunities and to define and cost potential programme and cost efficiencies associated with NCC retaining control of the entire precinct.
- Refine requirements for public consultation and include within the Long-Term Plan considerations.
- Continue construction market soundings around the benefits of precinct wide development.
- Further testing of costs is undertaken to capture the total capital cost to NCC, along with the cost of any delays to the procurement process and the additional costs to LCAP1 associated with subdividing the site.
- Consider the ability to access Capital to fund either a Developer-led option or an NCC redevelopment.

2.4 Attachments

Nil

3. INVESTMENT POLICY REVIEW

Type of Report:	Legal and Operational
Legal Reference:	Local Government Act 2002
Document ID:	1732872
Reporting Officer/s & Unit:	Garry Hrustinsky, Corporate Finance Manager

3.1 Purpose of Report

The purpose of this report is to review the Investment Policy with consideration to proposed changes to Napier City Council's investment strategy.

Officer's Recommendation

The Prosperous Napier Committee:

a. **Approve** the amended Investment Policy.

3.2 Background Summary

On 9 June 2022, an amended version of the Investment Policy was presented to the Prosperous Napier Committee. A Statement of Investment Policies and Objectives (SIPO) was introduced into the Investment Policy to facilitate the establishment of an investment vehicle to receive the sale proceeds from leasehold property.

In response to increasing cost pressures being placed on Council and ratepayers, Council is exploring options to generate additional revenue and reduce that burden.

Proposed changes within the Investment Policy are part of a series of amendments across several policies that will allow Council to better explore, implement, and manage investment strategies for the benefit of the city.

Attached to this report is a copy of Council's current Investment Policy with the proposed changes marked up.

3.3 Issues

Council already engages in property development activity (e.g. Parklands residential development), but treats the activity as a function rather than a profit-making activity. At present there are several more years of development available in Parklands before it is completed. Council will lose a significant amount of revenue as a result. It is proposed that property development is specifically named as an investment activity within the policy (as follows):

Development Property

Property acquisitions and developments which provide Council with an opportunity to grow investment capital for the benefit of the city. By their very nature development property carries a medium to high risk as their eventual sale is dependent on factors affecting the property market. Council reviews development property ownership through assessing the benefits of each business case on its merits.

Council owns a significant property portfolio of leasehold land, property for social and community purposes, and strategic assets (e.g. land for pump stations). It is proposed that Council explore holding property as an investment asset with the policy (as follows):

Investment Property

Outside of development property, Council may own property to generate commercial returns for the benefit of the city. Prior to acquisition of investment property, a financial assessment to determine reasonable price and likely returns generated from ownership must be conducted. Regular reviews of investment property must be conducted to ensure ongoing financial viability of ownership.

If appropriate, Council is considering the use of Council Controlled Organisations (CCOs) and Council Controlled Trading Organisations (CCTOs) to potentially hold and/or manage select Council investment assets. The ability to invest in a CCO/CCTO and delegate decision-making to a CCO/CCTO has been included in the policy.

3.4 Significance and Engagement

The Investment Policy impacts on several hundred million dollars of Council assets.

Due to the specialised nature of investing, Council does not need to publicly consult on the Investment Policy (*refer to S.102 (1), (2), (4) and (5) of the Local Government Act 2002*).

Amendments to the policy are reflective of investment strategies workshopped by Council prior to presentation.

3.5 Implications

Financial

Increasing cost pressures are forcing Councils around the country to explore new ways of generating revenue (outside of rates). Proposed amendments to the policy will allow Council to behave more like an investor and reduce some of the rates burden.

Social & Policy

Policy amendments have been prompted from workshops conducted by Council to explore investment strategy and opportunities.

Risk

Without an amendment to the Investment Policy, Council will be limited in the investment activity it can undertake. This will put increasing pressure on ratepayers to meet the cost of running the city.

3.6 Options

The options available to Council are as follows:

a. Adopt the recommended changes to the Investment Policy
b. Adopt the Investment Policy with further amendments (in addition to, or in place of, those recommended).
c. Reject recommended changes to the Investment Policy.

3.7 Development of Preferred Option

The preferred option has been developed with reference to current best practice, consideration of policies from other local authorities and in response to wider economic conditions. Guidance has also been provided by specialists in the field of investment by councils.

3.8 Attachments

1 Investment Policy (Council Approved) (Doc Id 1735033) ⇩
2 Investment Policy (Draft) (Doc Id 1735035) ⇩
3 Current Investment Policy with proposed changes marked up (Doc Id 1735034) ⇩

PUBLIC POLICY

Investment Policy			
Adoption By	Council		
Department	Corporate Services - Finance		
Original Adoption Date	30 June 2015	**Review Adoption Date**	25 August 2022
Next Review Deadline	25 August 2025	**Document ID**	352769
Relevant Legislation	Section 102 and 105 of the Local Government Act 2002		
NCC Docs Referenced	Not applicable		Not Applicable

Purpose

The Investment Policy is adopted under Section 102(1) and 102(2)(c) of the Local Government Act 2002 and must state the local authority's policies in respect of investments.

Policy

Council generally holds strategic investments where there is some social, economic, environmental or cultural benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective.

Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's LTP;
- To reduce the current ratepayer burden;
- The retention of vested land;
- Holding short-term investments for working capital requirements and liquidity management;
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations;
- Holding assets (such as property) for commercial returns;
- Providing ready cash in the event of a natural disaster, the use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets;
- Investing amounts allocated to accumulated surplus, Council created restricted reserves and general reserves;
- Investing proceeds from the sale of assets.

Investments and associated risks are monitored and managed, and regularly reported to Council in accordance with this policy.

In its investment activities Council is guided by the principles outlined in the Trusts Act of 2019. When acting as a trustee or investing money on behalf of others, the Trusts Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

For banking and fixed interest investments relating to treasury activities, Council is a risk-averse entity and does not wish to incur excess risk relative to expected returns. With the exception of any portfolio established to receive the proceeds of leasehold property sales (detailed below), Council's broad objectives in relation to treasury activity are to manage all of the investments to meet known and reasonable unforeseen funding requirements. Surplus cash is invested in liquid securities and strongly credit-rated counterparties. Where possible returns should be optimised.

A separate Statement of Investment Policies and Objectives (SIPO) has been established for the receipt and reinvestment of the proceeds of leasehold property. As per the Investment Property Portfolio Policy (leasehold), sale proceeds are ring-fenced and reinvested to provide ongoing income and capital growth to replace that lost from property sales. With consideration to the prudent person test, a separate investment strategy with its own risk and return objectives have been set for these ring-fenced funds.

Staff seek to develop and maintain professional relationships with Council's bankers, financial market participants and other stakeholders.

Acquisitions of New Investments

With the exception of treasury investments, new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

The authority to acquire treasury investments, with the exception of cash and term deposits (which are provided for in the Financial Delegations Register), is delegated to the Director Corporate Services.

Mix of Investments

Council maintains investments in the following mix of investments:

Equity Investments

Equity Investments are held for various strategic, economic development and financial objectives, as outlined in the Long Term Plan (LTP). Council Equity Investments include interests in the Hawke's Bay Airport Authority and Omarunui Landfill Operation, and may include other Council Controlled Organisations (CCOs) and Local Government Funding Agency shares. Council may also make advances to CCOs.

Council seeks to achieve an acceptable rate of return on all its equity investments, consistent with the nature of the investment and Council's stated philosophy on investments.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved. Any disposition of these investments requires Council approval. With the exception of specific ringfencing provisions for some assets (e.g. Omarunui Landfill), dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

New Zealand Local Government Funding Agency Limited (LGFA)

Council consulted on, and became a member of, the LGFA in March 2020.

Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of investment and/or debt funding for the Council.

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

Property Investments

Council's primary objective is to own property that is necessary to achieve its strategic or commercial objectives, or deemed to be a core Council function. Council therefore retains an investment in car parking, leasehold land, and rental and retirement housing.

Property purchases are supported by registered valuations and, where appropriate, a full business case analysis. Council does not purchase properties on a speculative basis.

Council provides car parking facilities which are operated on a commercial basis.

Rentals and ground rent from property investments, other than land covered by the HB Endowment Land Empowering Act 2002, is included in the consolidated rating account. Council's leasehold land portfolio was transferred from the Hawke's Bay Harbour Board in 1989 as part of the local government reorganisation and Council, by virtue of the Hawke's Bay Endowment Land Empowering Act 2002, is allowing lessees to freehold residential properties, which is diminishing the portfolio.

Council owns various Napier properties which it classifies as the 'Napier City Council Investment Property Portfolio'. The land held in the portfolio is leased to a variety of individuals and entities, and is managed in line with Council's leasehold land policy.

Property disposals are managed to ensure compliance with statutory requirements. Any disposition of a property investment requires Council approval. Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

<u>Leasehold Land</u>

Disposition proceeds from the sale of leasehold land after 30 March 2002 are unrestricted under the Hawkes Bay Endowment Land Empowering Act 2002, and ring-fenced as per the Investment Property Portfolio Policy (leasehold) and managed according to the SIPO established for this purpose.

<u>General Land</u>

Disposition proceeds from the sale of General Land (including Roading Land) are used firstly to retire any debt related specifically to that investment prior to use for other purposes.

Treasury Investments – Cash & Fixed Interest Investments

Please note that Local Government Funding Agency borrower notes, bonds and commercial paper are discussed elsewhere in this policy.

Council maintains treasury investments for the following primary reasons:

- to invest amounts allocated to loan redemption reserves, trusts, bequests and special funds.
- to invest surplus cash, and working capital funds.

Treasury Investment Philosophy and Objectives

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives while balancing risk and return considerations. Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

To provide the greatest benefit, Council utilises its surplus internal funds for internal borrowing to reduce external debt, thus effectively reducing net interest costs.

Council's primary objective when investing is the protection of its investment capital and liquidity of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poor's (S&P) or equivalent rating, which must be A- rated or better. Exposure to investments below a strong rating (A rated) are not recommended due to Councils Risk Framework and financial risk appetite.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with a suitable range of counterparties as practicable. Where possible, transaction notional and principal sizes and maturities should be well spread.

Within allowable credit constraints, Council also seeks to:

- Ensure investments are liquid
- Maximise investment return
- Manage potential capital losses due to interest rate movements and interest break costs if investments need to be liquidated before maturity.

Cash

Cash is defined as money held (physical or in a NZ registered bank) and term deposits.

A cash balance is maintained for liquidity purposes to meet operational needs. Council has daily cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments.

If practical, a targeted minimum of $5,000,000 is held at call to meet day-to-day operational cashflow requirements.

Term deposits must be held with NZ registered banks. Maturities are staggered to provide day-to-day cashflow requirements and to avoid early break penalties. Not more than $40,000,000 may be held with any one bank at any point in time.

Overdraft facilities are utilised as little as practical. Council maintains a $300,000 committed bank overdraft facility to meet interim cash and liquidity requirements.

Cash Interest Rate/Maturity Guide

An important objective of the financial investment portfolio is to match the portfolio's maturity term to planned expenditure, thereby ensuring that investments are available when required. This should be considered before applying the maturity guide (discussed below).

The following maturity guide is designed to manage interest rate risk and maturity risk on the treasury investment portfolio. The portfolio comprises both cash and fixed interest investments. Cash investments relate to matching investments with Council's working capital funding requirement and liquidity buffer amount requirements.

Period	Minimum	Maximum
0-6 months	30%	80%
6-12 months	20%	70%
1-3 years	0%	50%
3-5 years	0%	20%

<u>Cash - Foreign Exchange Policy</u>

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets approved through the capital planning process. Generally, all commitments over NZ$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, the purchase order is placed, and the exact timing and amount is known. Council uses both spot and forward foreign exchange contracts.

Council does not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Fixed Interest

Fixed interest is defined as debt instruments (other than those defined as cash). Fixed interest can include, but is not limited to, bonds, commercial paper, etc.

Fixed interest may be used to supplement cash investments where terms are more favourable than those offered for cash investments or where timeframes are greater than 5 years.

Council preference is for plain vanilla bonds although other structures may be considered on a case-by-case basis. All secured and unsecured investment securities should preferably be senior in ranking. The following types of investment instruments are expressly prohibited:

- No asset-backed securities are allowed
- Structured debt (e.g. CDOs, CLOs or synthetic instruments)
- Subordinated debt or unsecured junior debt
- Perpetual notes
- Debt/equity hybrid notes such as convertibles

<u>Fixed Interest - Credit, Liquidity and Interest Risk Management</u>

- Credit risk is minimised by placing limits for each broad class of non-Government issuer.
- Liquidity / Maturity risk is minimised by managing maturity terms within policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.
- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

<u>Fixed Interest - Credit, Liquidity and Interest Risk Management</u>

- Credit risk is minimised by placing limits for each broad class of non-Government issuer.
- Liquidity / Maturity risk is minimised by managing maturity terms within policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.

- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

Fixed Interest - Counterparty Limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. Credit ratings are as determined by Standard and Poor's, or equivalent rating. If any counterparty's credit rating falls below the minimum specified in the following table, then all practical steps are taken to eliminate the credit exposure to that counterparty as soon as practicable.

Fixed Interest Issuers	Approved Instruments	Minimum Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
NZ Government	Treasury bills Government stock	N/A	Unlimited	100%
NZ Local Government Funding Agency	LGFA Fixed and Floating Rate Bonds Promissory notes / Commercial paper Borrower Notes	N/A	$40.0m	50%
State-Owned Enterprises and Local Authority	Promissory Notes / Commercial Paper, Fixed Rate Bonds	A-	$5.0m	40%
Corporate Listed Bonds	Commercial Paper, Fixed Rate Bonds	A-	$5.0m	0%

Loan Advances

Council may provide advances to CCOs, charitable trusts and community organisations for strategic and commercial purposes only. New loan advances are by Council resolution only.

As outlined in Section 63 of the Local Government Act 2002, Council does not lend money, or provide any other financial accommodation to a CCO on terms and conditions that are more favourable to the CCO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

Loan advances are generally provided on an unsecured basis. Where possible, Council seeks security through a mortgage over land and buildings.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Investment Management and Reporting Procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long term cashflow through the annual Cashflow Forecast. To maintain liquidity, Council's short and long term investment maturities are matched with Council's known cashflow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
1	Investment and Funding Manager	NCC Long Term Plan 2015-2025, wording below was reviewed between March and May 2018, and published in the Long Term Plan 2018-2028	2019
2	Investment and Funding Manager	No change	May 2020
3	Investment and Funding Manager	Significantly restructured with provision for SIPO added.	May 2022

PUBLIC POLICY

Investment Policy			
Adoption By	Council		
Department	Corporate Services - Finance		
Original Adoption Date	30 June 2015	**Review Adoption Date**	TBD
Next Review Deadline	TBD	**Document ID**	352769
Relevant Legislation	Section 102 and 105 of the Local Government Act 2002		
NCC Docs Referenced	Not applicable		Not Applicable

Purpose

The Investment Policy is adopted under Section 102(1) and 102(2)(c) of the Local Government Act 2002 and must state the local authority's policies in respect of investments.

Policy

Council generally holds strategic investments where there is some social, economic, environmental or cultural benefit accruing from the investment activity.

Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's LTP;
- To reduce the burden on ratepayers;
- The retention of vested land;
- Holding short-term investments for working capital requirements and liquidity management;
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations;
- Holding assets (such as property) for commercial returns;
- Providing ready cash in the event of a natural disaster, the use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets;
- Investing amounts allocated to accumulated surplus, Council created restricted reserves and general reserves;
- Investing proceeds from the sale of assets.

Investments and associated risks are monitored and managed, and regularly reported to Council in accordance with this policy.

In its investment activities Council is guided by the principles outlined in the Trusts Act of 2019. When acting as a trustee or investing money on behalf of others, the Trusts Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

For banking and fixed interest investments relating to treasury activities, Council is a risk-averse entity and does not wish to incur excess risk relative to expected returns. With the exception of any portfolio established to generate an investment return, Council's broad objectives in relation to treasury activity are to manage all of the investments to meet known and reasonable unforeseen funding requirements. Surplus cash is invested in liquid securities and strongly credit-rated counterparties. Where possible returns should be optimised.

A separate Statement of Investment Policies and Objectives (SIPO) has been established for the receipt and reinvestment of the proceeds of leasehold property and any other investment activity of Council. As per the Investment Property Portfolio Policy (leasehold), sale proceeds are ring-fenced and reinvested to provide ongoing income and capital growth to replace that lost from property sales. With consideration to the prudent person test, a separate investment strategy with its own risk and return objectives have been set for these ring-fenced funds.

Staff seek to develop and maintain professional relationships with Council's bankers, financial market participants and other stakeholders.

Acquisitions of New Investments

With the exception of treasury investments, or where delegation has been given to Council officers or a Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO), new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

The authority to acquire treasury investments, with the exception of cash and term deposits (which are provided for in the Financial Delegations Register), is delegated to the Director Corporate Services.

Mix of Investments

Council can maintain ownership in the following mix of investments:

Equity Investments

Equity Investments are held for various strategic, economic development and financial objectives, as outlined in the Long Term Plan (LTP). Council Equity Investments include interests in the Hawke's Bay Airport Authority and Omarunui Landfill Operation, and may include other Council Controlled Organisations (CCOs), Council Controlled Trading Organisations (CCTOs), Local Government Funding Agency shares, private equity schemes, direct listed shares, and investment in shares via managed funds. Council may also make advances to CCOs and CCTOs.

Council seeks to achieve an acceptable rate of return on all its equity investments, consistent with the nature of the investment and Council's stated philosophy on investments.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved. Any disposition of these investments requires Council approval. With the exception of specific ringfencing provisions for some assets (e.g. Omarunui Landfill), dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

New Zealand Local Government Funding Agency Limited (LGFA)

Council consulted on, and became a member of, the LGFA in March 2020.

Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of investment and/or debt funding for the Council.

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

Property Investments

Council owns property that is necessary to achieve its strategic or commercial objectives, or deemed to be a core Council function. Council therefore retains an investment in land for development, investment property, car parking, leasehold land, and rental and retirement housing.

Property purchases are supported by registered valuations and, where appropriate, a full business case analysis. Council does not purchase properties on a speculative basis.

Council provides car parking facilities which are operated on a commercial basis.

Rentals and ground rent from property investments, other than land covered by the HB Endowment Land Empowering Act 2002, is included in the consolidated rating account. Council's leasehold land portfolio was transferred from the Hawke's Bay Harbour Board in 1989 as part of the local government reorganisation and Council, by virtue of the Hawke's Bay Endowment Land Empowering Act 2002.

Council owns various Napier properties which it classifies as the 'Napier City Council Investment Property Portfolio'. The land held in the portfolio is leased to a variety of individuals and entities, and is managed in line with Council's leasehold land policy.

Property disposals are managed to ensure compliance with statutory requirements. Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

<u>Leasehold Land</u>

Disposition proceeds from the sale of leasehold land after 30 March 2002 are unrestricted under the Hawkes Bay Endowment Land Empowering Act 2002, and ring-fenced as per the Investment Property Portfolio Policy.

<u>General Land</u>

Disposition proceeds from the sale of General Land (including Roading Land) are used firstly to retire any debt related specifically to that investment prior to use for other purposes.

<u>Development Property</u>

Property acquisitions and developments which provide Council with an opportunity to grow investment capital for the benefit of the city. By their very nature development property carries a medium to high risk as their eventual sale is dependent on factors affecting the property market. Council reviews development property ownership through assessing the benefits of each business case on its merits.

<u>Investment Property</u>

Outside of development property, Council may own property to generate commercial returns for the benefit of the city. Prior to acquisition of investment property, a financial assessment to determine reasonable price and likely returns generated from ownership must be conducted. Regular reviews of investment property must be conducted to ensure ongoing financial viability of ownership.

Treasury Investments – Cash & Fixed Interest Investments

Please note that Local Government Funding Agency borrower notes, bonds and commercial paper are discussed elsewhere in this policy.

Council maintains treasury investments for the following primary reasons:

- to invest amounts allocated to loan redemption reserves, trusts, bequests and special funds.
- to invest surplus cash, and working capital funds.

Treasury Investment Philosophy and Objectives

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives while balancing risk and return considerations. Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

To provide the greatest benefit, Council utilises its surplus internal funds for internal borrowing to reduce external debt, thus effectively reducing net interest costs.

Council's primary objective when investing is the protection of its investment capital and liquidity of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poor's (S&P) or equivalent rating, which must be A- rated or better. Exposure to investments below a strong rating (A rated) are not recommended due to Councils Risk Framework and financial risk appetite.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with a suitable range of counterparties as practicable. Where possible, transaction notional and principal sizes and maturities should be well spread.

Within allowable credit constraints, Council also seeks to:

- Ensure investments are liquid
- Maximise investment return
- Manage potential capital losses due to interest rate movements and interest break costs if investments need to be liquidated before maturity.

Cash

Cash is defined as money held (physical or in a NZ registered bank) and term deposits.

A cash balance is maintained for liquidity purposes to meet operational needs. Council has daily cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments.

If practical, a targeted minimum of $5,000,000 is held at call to meet day-to-day operational cashflow requirements.

Term deposits must be held with NZ registered banks. Maturities are staggered to provide day-to-day cashflow requirements and to avoid early break penalties. Not more than $40,000,000 may be held with any one bank at any point in time.

Overdraft facilities are utilised as little as practical. Council maintains a $300,000 committed bank overdraft facility to meet interim cash and liquidity requirements.

Cash Interest Rate/Maturity Guide

An important objective of the financial investment portfolio is to match the portfolio's maturity term to planned expenditure, thereby ensuring that investments are available when required. This should be considered before applying the maturity guide (discussed below).

The following maturity guide is designed to manage interest rate risk and maturity risk on the treasury investment portfolio. The portfolio comprises both cash and fixed interest investments. Cash investments relate to matching investments with Council's working capital funding requirement and liquidity buffer amount requirements.

Period	Minimum	Maximum

0-6 months	30%	80%
6-12 months	20%	70%
1-3 years	0%	50%
3-5 years	0%	20%

Cash - Foreign Exchange Policy

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets approved through the capital planning process. Generally, all commitments over NZ$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, the purchase order is placed, and the exact timing and amount is known. Council uses both spot and forward foreign exchange contracts.

Council does not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Fixed Interest

Fixed interest is defined as debt instruments (other than those defined as cash). Fixed interest can include, but is not limited to, bonds, commercial paper, etc.

Fixed interest may be used to supplement cash investments where terms are more favourable than those offered for cash investments or where timeframes are greater than 5 years.

Council preference is for plain vanilla bonds although other structures may be considered on a case-by-case basis. All secured and unsecured investment securities should preferably be senior in ranking. The following types of investment instruments are expressly prohibited:

- No asset-backed securities are allowed
- Structured debt (e.g. CDOs, CLOs or synthetic instruments)
- Subordinated debt or unsecured junior debt
- Perpetual notes
- Debt/equity hybrid notes such as convertibles

Fixed Interest - Credit, Liquidity and Interest Risk Management

- Credit risk is minimised by placing limits for each broad class of non-Government issuer.
- Liquidity / Maturity risk is minimised by managing maturity terms within policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.
- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

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- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

Fixed Interest - Counterparty Limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. Credit ratings are as determined by Standard and Poor's, or equivalent rating. If any counterparty's credit rating falls below the minimum specified in the following table, then all practical steps are taken to eliminate the credit exposure to that counterparty as soon as practicable.

Fixed Interest Issuers	Approved Instruments	Minimum Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
NZ Government	Treasury bills Government stock	N/A	Unlimited	100%
NZ Local Government Funding Agency	LGFA Fixed and Floating Rate Bonds Promissory notes / Commercial paper Borrower Notes	N/A	$40.0m	50%
State-Owned Enterprises and Local Authority	Promissory Notes / Commercial Paper, Fixed Rate Bonds	A-	$5.0m	40%
Corporate Listed Bonds	Commercial Paper, Fixed Rate Bonds	A-	$5.0m	70%

Loan Advances

Council may provide advances to CCOs, charitable trusts and community organisations for strategic and commercial purposes only. New loan advances are by Council resolution only.

As outlined in Section 63 of the Local Government Act 2002, Council does not lend money, or provide any other financial accommodation to a CCO on terms and conditions that are more favourable to the CCO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

Loan advances are generally provided on an unsecured basis. Where possible, Council seeks security through a mortgage over land and buildings.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Investment Management and Reporting Procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long term cashflow through the annual Cashflow Forecast. To maintain liquidity, Council's short and long term investment maturities are matched with Council's known cashflow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
1	Investment and Funding Manager	NCC Long Term Plan 2015-2025, wording below was reviewed between March and May 2018, and published in the Long Term Plan 2018-2028	2019
2	Investment and Funding Manager	No change	May 2020
3	Investment and Funding Manager	Significantly restructured with provision for SIPO added.	May 2022
4	Corporate Finance Manager	Significantly restructured with provision for a CCO/CCTO to invest and expansion of additional property assets for investment.	January 2024

PUBLIC POLICY

Investment Policy			
Adoption By	Council		
Department	Corporate Services - Finance		
Original Adoption Date	30 June 2015	**Review Adoption Date**	~~21 May~~xx xxxx ~~2020~~2024
Next Review Deadline	~~21 May 2023~~TBD	**Document ID**	352769
Relevant Legislation	Section 102 and 105 of the Local Government Act 2002		
NCC Docs Referenced	Not applicable		Not Applicable

Purpose

The Investment Policy is adopted under Section 102(1) and 102(2)(c) of the Local Government Act 2002 and must state the local authority's policies in respect of investments.

Policy

Council generally holds strategic investments where there is some social, economic, environmental or cultural benefit accruing from the investment activity. ~~Generating a commercial return on strategic investments is considered a secondary objective.~~

Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's LTP;
- To reduce the ~~current~~ burden on ratepayers~~s burden~~;
- The retention of vested land;
- Holding short-term investments for working capital requirements and liquidity management;
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations;
- Holding assets (such as property) for commercial returns;
- Providing ready cash in the event of a natural disaster, the use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets;
- Investing amounts allocated to accumulated surplus, Council created restricted reserves and general reserves;
- Investing proceeds from the sale of assets.

Investments and associated risks are monitored and managed, and regularly reported to Council in accordance with this policy.

In its investment activities Council is guided by the principles outlined in the Trusts Act of 2019. When acting as a trustee or investing money on behalf of others, the Trusts Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

For banking and fixed interest investments relating to treasury activities, Council is a risk-averse entity and does not wish to incur excess risk relative to expected returns. With the exception of any portfolio established to ~~receive the proceeds of leasehold property sales (detailed below)~~generate an investment return, Council's broad objectives in relation to treasury activity are to manage all of the investments to meet known and reasonable unforeseen funding requirements. Surplus cash is invested in liquid securities and strongly credit-rated counterparties. Where possible returns should be optimised.

A separate Statement of Investment Policies and Objectives (SIPO) has been established for the receipt and reinvestment of the proceeds of leasehold property and any other investment activity of Council. As per the Investment Property Portfolio Policy (leasehold), sale proceeds are ring-fenced and reinvested to provide ongoing income and capital growth to replace that lost from property sales. With consideration to the prudent person test, a separate investment strategy with its own risk and return objectives have been set for these ring-fenced funds.

Staff seek to develop and maintain professional relationships with Council's bankers, financial market participants and other stakeholders.

Acquisitions of New Investments

With the exception of treasury investments, or where delegation has been given to Council officers or a Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO), new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

The authority to acquire treasury investments, with the exception of cash and term deposits (which are provided for in the Financial Delegations Register), is delegated to the Director Corporate Services.

Mix of Investments

Council can maintain~~s~~ ~~investments~~ ownership in the following mix of investments:

Equity Investments

Equity Investments are held for various strategic, economic development and financial objectives, as outlined in the Long Term Plan (LTP). Council Equity Investments include interests in the Hawke's Bay Airport Authority and Omarunui Landfill Operation, and may include other Council Controlled Organisations (CCOs), Council Controlled Trading Organisations (CCTOs), ~~and~~ Local Government Funding Agency shares, private equity schemes, direct listed shares, and investment in shares via managed funds. Council may also make advances to CCOs and CCTOs.

Council seeks to achieve an acceptable rate of return on all its equity investments, consistent with the nature of the investment and Council's stated philosophy on investments.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved. Any disposition of these investments requires Council approval. With the exception of specific ringfencing provisions for some assets (e.g. Omarunui Landfill), dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

New Zealand Local Government Funding Agency Limited (LGFA)

Council consulted on, and became a member of, the LGFA in March 2020.

Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

Council's objective in making any such investment will be to:

- Obtain a return on the investment.

- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of investment and/or debt funding for the Council.

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

Property Investments

Council~~'s primary objective is to~~ owns property that is necessary to achieve its strategic or commercial objectives, or deemed to be a core Council function. Council therefore retains an investment in land for development, investment property, car parking, leasehold land, and rental and retirement housing.

Property purchases are supported by registered valuations and, where appropriate, a full business case analysis. Council does not purchase properties on a speculative basis.

Council provides car parking facilities which are operated on a commercial basis.

Rentals and ground rent from property investments, other than land covered by the HB Endowment Land Empowering Act 2002, is included in the consolidated rating account. Council's leasehold land portfolio was transferred from the Hawke's Bay Harbour Board in 1989 as part of the local government reorganisation and Council, by virtue of the Hawke's Bay Endowment Land Empowering Act 2002~~, is allowing lessees to freehold residential properties, which is diminishing the portfolio~~.

Council owns various Napier properties which it classifies as the 'Napier City Council Investment Property Portfolio'. The land held in the portfolio is leased to a variety of individuals and entities, and is managed in line with Council's leasehold land policy.

Property disposals are managed to ensure compliance with statutory requirements. ~~Any disposition of a property investment requires Council approval.~~ Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

Leasehold Land

Disposition proceeds from the sale of leasehold land after 30 March 2002 are unrestricted under the Hawkes Bay Endowment Land Empowering Act 2002, and ring-fenced as per the Investment Property Portfolio Policy~~ (leasehold) and managed according to the SIPO established for this purpose~~.

General Land

Disposition proceeds from the sale of General Land (including Roading Land) are used firstly to retire any debt related specifically to that investment prior to use for other purposes.

Development Property

Property acquisitions and developments which provide Council with an opportunity to grow investment capital for the benefit of the city. By their very nature development property carries a medium to high risk as their eventual sale is dependent on factors affecting the property market. Council reviews development property ownership through assessing the benefits of each business case on its merits.

Investment Property

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Outside of development property, Council may own property to generate commercial returns for the benefit of the city. Prior to acquisition of investment property, a financial assessment to determine reasonable price and likely returns generated from ownership must be conducted. Regular reviews of investment property must be conducted to ensure ongoing financial viability of ownership.

Treasury Investments – Cash & Fixed Interest Investments

Please note that Local Government Funding Agency borrower notes, bonds and commercial paper are discussed elsewhere in this policy.

Council maintains treasury investments for the following primary reasons:

- to invest amounts allocated to loan redemption reserves, trusts, bequests and special funds.
- to invest surplus cash, and working capital funds.

Treasury Investment Philosophy and Objectives

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives while balancing risk and return considerations. Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

To provide the greatest benefit, Council utilises its surplus internal funds for internal borrowing to reduce external debt, thus effectively reducing net interest costs.

Council's primary objective when investing is the protection of its investment capital and liquidity of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poor's (S&P) or equivalent rating, which must be A- rated or better. Exposure to investments below a strong rating (A rated) are not recommended due to Councils Risk Framework and financial risk appetite.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with a suitable range of counterparties as practicable. Where possible, transaction notional and principal sizes and maturities should be well spread.

Within allowable credit constraints, Council also seeks to:

- Ensure investments are liquid
- Maximise investment return
- Manage potential capital losses due to interest rate movements and interest break costs if investments need to be liquidated before maturity.

Cash

Cash is defined as money held (physical or in a NZ registered bank) and term deposits.

A cash balance is maintained for liquidity purposes to meet operational needs. Council has daily cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments.

If practical, a targeted minimum of $5,000,000 is held at call to meet day-to-day operational cashflow requirements.

Term deposits must be held with NZ registered banks. Maturities are staggered to provide day-to-day cashflow requirements and to avoid early break penalties. Not more than $40,000,000 may be held with any one bank at any point in time.

Overdraft facilities are utilised as little as practical. Council maintains a $300,000 committed bank overdraft facility to meet interim cash and liquidity requirements.

Cash Interest Rate/Maturity Guide

An important objective of the financial investment portfolio is to match the portfolio's maturity term to planned expenditure, thereby ensuring that investments are available when required. This should be considered before applying the maturity guide (discussed below).

The following maturity guide is designed to manage interest rate risk and maturity risk on the treasury investment portfolio. The portfolio comprises both cash and fixed interest investments.

Cash investments relate to matching investments with Council's working capital funding requirement and liquidity buffer amount requirements.

Period	Minimum	Maximum
0-6 months	30%	80%
6-12 months	20%	70%
1-3 years	0%	50%
3-5 years	0%	20%

Cash - Foreign Exchange Policy

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets approved through the capital planning process. Generally, all commitments over NZ$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, the purchase order is placed, and the exact timing and amount is known. Council uses both spot and forward foreign exchange contracts.

Council does not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Fixed Interest

Fixed interest is defined as debt instruments (other than those defined as cash). Fixed interest can include, but is not limited to, bonds, commercial paper, etc.

Fixed interest may be used to supplement cash investments where terms are more favourable than those offered for cash investments or where timeframes are greater than 5 years.

Council preference is for plain vanilla bonds although other structures may be considered on a case-by-case basis. All secured and unsecured investment securities should preferably be senior in ranking. The following types of investment instruments are expressly prohibited:

- No asset-backed securities are allowed
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Fixed Interest Issuers	Approved Instruments	Minimum Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
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As outlined in Section 63 of the Local Government Act 2002, Council does not lend money, or provide any other financial accommodation to a CCO on terms and conditions that are more favourable to the CCO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

Loan advances are generally provided on an unsecured basis. Where possible, Council seeks security through a mortgage over land and buildings.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Investment Management and Reporting Procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long term cashflow through the annual Cashflow Forecast. To maintain liquidity, Council's short and long term investment maturities are matched with Council's known cashflow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
1	Investment and Funding Manager	NCC Long Term Plan 2015-2025, wording below was reviewed between March and May 2018, and published in the Long Term Plan 2018-2028	2019
2	Investment and Funding Manager	No change	May 2020
3	Investment and Funding Manager	Significantly restructured with provision for SIPO added.	May 2022
4	Corporate Finance Manager	Significantly restructured with provision for a CCO/CCTO to invest and expansion of additional property assets for investment.	2024

4. INVESTMENT PROPERTY PORTFOLIO POLICY (LEASEHOLD) REVIEW

Type of Report:	Operational
Legal Reference:	Local Government Act 2002
Document ID:	1733205
Reporting Officer/s & Unit:	Garry Hrustinsky, Corporate Finance Manager

4.1 Purpose of Report

In addition to the requirement to review this policy at least every 3 years, the main purpose of this report is to review the Investment Property Portfolio Policy with consideration to proposed changes to Napier City Council's investment strategy.

Officer's Recommendation

The Prosperous Napier Committee:

a. **Approve** the amended Investment Property Portfolio Policy.

4.2 Background Summary

After public consultation as part of Council's Long Term Plan 2018-2028, Council resolved to allow freeholding of non-strategic land. As a decision of Council with recommendations from the Audit and Risk Committee, the proceeds were to be reinvested after the introduction of a vehicle to hold the funds.

In response to increasing cost pressures being placed on Council and ratepayers, Council is exploring options to generate additional revenue and reduce that burden.

Proposed changes within the Investment Property Portfolio Policy are part of a series of amendments across several policies that will allow Council to better explore, implement, and manage investment strategies for the benefit of the city.

4.3 Issues

When the policy was first written, Council was considering the process as a transaction initiated by the lessee only. Council is now reviewing this position with consideration to all possible buyers (including Council). This provides Council greater flexibility in managing leasehold property.

The current policy requires all decisions on freeholding to be made by Council. A proposed amendment provides options for how freeholding decisions can be made depending on whether a Council-owned organisation is established, a specialist investment team is created, or if the status quo is maintained. For the first two options an appropriate analysis and due diligence process (outside the scope of this policy) would also need to be established.

Two outdated reports (Boffa Miskell "*Napier City Investment Portfolio: Urban Landscape Strategic Review"* 2016 and PWC *"Investment Strategy Analysis Review"* 2016) are cited for guidance within the policy. Due to the time value of such information, reference to those reports has been removed.

4.4 Significance and Engagement

The policy impacts the remaining 69 leasehold properties (and lessors) held by Council

This is an internal policy. Council does not need to publicly consult on the Investment Property Portfolio Policy (Leasehold)

4.5 Implications

Financial

Increasing cost pressures are forcing Councils around the country to explore new ways of generating revenue (outside of rates). Proposed amendments to the policy will provide greater flexibility to Council in the management of leasehold property.

Greater emphasis will be put on generating favourable returns from freeholding leasehold properties.

Social & Policy

In addition to a policy review being required, policy amendments have been prompted from workshops conducted by Council to explore investment strategy and opportunities.

Risk

Without an amendment to the Investment Property Portfolio Policy, Council will be limited in how it can engage with lessees and other potential buyers of leasehold land. Council will also be referencing outdated reports when making decisions on leasehold property.

4.6 Options

The options available to Council are as follows:

a. Adopt the recommended changes to the Investment Property Portfolio Policy (Leasehold)
b. Adopt the Investment Property Portfolio Policy (Leasehold) with further amendments (in addition to, or in place of, those recommended).
c. Reject recommended changes to the Investment Property Portfolio Policy (Leasehold).

4.7 Development of Preferred Option

In addition to Council workshops, the preferred option has been developed with reference to current best practice, consideration of policies from other local authorities, and in response to wider economic conditions. Guidance has also been provided by specialists in the field of council investing.

4.8 Attachments

1 Investment Property Portfolio Policy (Leasehold) Draft (Doc Id 1735038) ⇩
2 Investment Property Portfolio Policy (Leasehold) Council Adopted (Doc Id 1735039) ⇩

INTERNAL POLICY

NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

Investment Property Portfolio Policy (Leasehold)			
Adoption By	Council		
Department	Corporate Services – Finance and City Strategy		
Original Adoption Date	18 September 2018	**Review Adoption Date**	TBD
Next Review Deadline	TBD	**Document ID**	603440
Relevant Legislation	Local Government Act 2002, Hawke's Bay Endowment Land Empowering Act 2002, Napier Borough Endowments Act 1876		
NCC Docs Referenced	NCC Long Term Plan 2018-2028 consultation process and subsequent Council resolutions 1 June 2018 and 29 June 2018. Council's adopted Investment Policy and Liability Management Policy pursuant to Section 102 (1) and Section 104 of the Local Government Act 2002.		

Purpose

The purpose of this policy is to outline the terms and conditions on which Council may sell non-strategic land included in the Napier City Council's Investment Property Portfolio. The policy also provides guidance relating to the investment of the proceeds of sale.

Description of Portfolio

The portfolio consists of the ownership of a lessor's interest portfolio, which comprises 69 leases (as at 22/01/2024) known as the Investment Property Portfolio. Council owns the lessor's interest in these properties and a number of individuals and businesses own the lessee's interest. The leases are perpetually renewable meaning that, subject to continuing to pay rental (which is reviewed at periodical intervals) the lessees have a perpetual right to occupy the land. The improvements on the land are owned by the lessees, not Council.

Freeholding essentially involves the lessees purchasing Council's interest in the land. Council has no automatic right to purchase the Lessees interest and any purchase would require agreement between both parties.

Background to Ownership

The Investment Property Portfolio was originally established from:

- Properties transferred to Council from the Hawke's Bay Harbour Board as part of the Local Government reorganisation in 1989. The reason for the transfer was to provide an income generating asset to offset the liability associated with the upkeep of the Inner Harbour and Foreshore Reserves, which transferred at the same time. The income generated from these properties has historically been applied by Council to fund in part the cost associated with these activities.
- Properties already owned by Council as a result of land development in conjunction with the Harbour Board.
- Other sundry properties which have been owned by Council for many years.
- Endowment Properties - Nine of the properties in the portfolio are subject to the Napier Borough Endowments Act 1876 and before freeholding of these can occur any

requirements under that Act and Sections 140 and 141 of the Local Government Act 2002 must be satisfied.

Policy

1. Overriding Principle

The Council's ability to sell non-strategic land under this Policy represents a discretion to be executed by Council on a case by case basis. Nothing in this Policy represents a right for any person to insist or require the Council to sell to them and the sale by Council of any land under this Policy does not create precedent or expectation that other land held by Council (whether of a similar nature or not) will be sold.

The above decision by Council sets no deadline for the expiry of the policy allowing consideration of freeholding on a case by case basis.

2. Party to whom Council may sell land to

There is no restriction on parties to whom Council may sell land to (including itself).

3. Valuation

Where land is sold it is to be sold at such price as determined by Council at its sole discretion. Full Market Value as determined by a registered valuer, commissioned by Council, is to be used as a guide. There is no right of appeal or right of arbitration.

4. Discount

Any discounts available through other Council policies regarding the sale of land do not apply here.

5. Payment Method

The purchase price will be paid as follows:

(a) A deposit of 15% upon signing a sale and purchase agreement; and

(b) The balance in full on settlement

The buyer will also be required to pay Council's costs of sale (including legal fees and disbursements). These costs will also be payable in full on settlement. Buyers will be required to meet all costs in seeking independent advice from their own professional advisors.

6. Factors which may be considered in determining the retention or sale of properties

<u>Adjacency to public amenity.</u>

Is the site adjacent to current or potential future public amenity e.g. coast/walkway? If it is adjacent, additional value may be able to be returned from the site by an investment in that amenity, or by undertaking re-development of the site to leverage value from a new form of activity or building.

<u>Potential for collective redevelopment</u>

Is the site isolated, or is it within a collection of Council sites that are large enough to enable a potential redevelopment if developed as a package? Larger sites generate opportunities for a collection of buildings and public space together whereas splitting sites reduces potential.

<u>Located in a transformational area</u>

Is it in an area where change is already occurring and where Council might want to consider using the land to help the area to change?

<u>Potential to improve connectivity + amenity</u>

Can the site be used to improve connections between streets or as part of an open space network, or can it be re-purposed to make a new amenity?

<u>Connections to infrastructure</u>

Is the site able to be utilised for new infrastructure such as sustainable urban storm water device or for new streets etc.?

In addition, other strategies and plans of Council will also be used to determine the strategic nature a property such as City Vision and the Ahuriri Masterplan.

Please note that this list is not exhaustive.

A financial analysis may also to be carried out to determine whether the land is strategic as an investment. Such analysis to include generally recognised measures and benchmarks in the property sector. Council may engage external professional advice on a case-by-case basis to assist in any evaluation.

7. Purchase of Lessees improvements

Consideration may be given to the purchase by Council of the Lessees interest in land held in the Investment Property Portfolio. This may be considered where this will result in a better outcome for the future of the property in the best interests of Council and City development.

8. Investment of sale proceeds

Internal borrowing from Council reserves may be considered in order to facilitate investment opportunities ahead of the receipt of freeholding funds. Sale proceeds are to be ring fenced and held for reinvestment within Council's accounts.

Investment decisions relating to these funds are to be made on a case by case basis and are to comply with Council's Investment Policy and Liability Management Policy adopted as a requirement under Section 102(1) and Section 104 of the Local Government Act 2002. Council may also seek guidance internally, and/or external professional advice on a case-by-case basis when evaluating investments.

The underlying goal is to ensure that any investments considered continue to generate sufficient income to replace that lost by properties sold and grow capital for further revenue opportunities. Where delegation or policy does not exist to authorise such activity, new investments will require a resolution of Council.

9. Process for freeholding:

Interested parties may make application in writing to have a leasehold property considered for freeholding or sale.

At the time of review of this policy, Council is considering investment strategies and legal structures for the ownership of investment.

a. Should a Council Controlled Organisation (CCO) or Council Controlled Trading Organisation (CCTO) be formed, then delegation will be given to that organisation to develop and manage the process for freeholding a property.

b. If Council decides to not form a CCO or CCTO, then an investment team will be established in Council for the purpose of managing the retention and sale of property – delegation will be given to this team to manage the process.

c. Until such time as the criteria for *a.* or *b.* occur, an evaluation will be undertaken by a panel of Council officers appointed by the Chief Executive to determine whether or not the property is strategic in terms of both location and as a financial investment. A market valuation will be conducted at this point in time. Council officers will then make a recommendation to the Audit and Risk Committee. All recommendations will flow through to the Finance Committee who in turn will make a recommendation to Council.

Should Council resolve to allow the freeholding of a specific property, then a written offer will be made by Council giving a 3-month deadline for the buyer to accept and sign an appropriate agreement. After the three-month deadline the offer will lapse.

Legal work to complete transactions will be made by Council's Solicitors. The purchaser will however pay these costs.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
2.0.0	Manager Property	Original policy development	August 2018
3.0.0	Corporate Finance Manager	Removal of outdated report references. Change of freeholding process to include other potential responsible parties.	January 2024

NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

Investment Property Portfolio Policy (leasehold)			
Approved by	Council as per resolution 18 September 2018		
Department	Corporate Services and City Strategy		
Original Approval Date	18 September 2018	**Review Approval Date**	18 September 2018
Next Review Deadline	18 September 2021	**Document ID**	603440
Relevant Legislation	Local Government Act 2002, Hawke's Bay Endowment Land Empowering Act 2002, Napier Borough Endowments Act 1876		
NCC Documents Referenced	NCC Long Term Plan 2018-2028 consultation process and subsequent Council resolutions 1 June 2018 and 29 June 2018. Council's adopted Investment Policy and Liability Management Policy pursuant to Section 102 (1) and Section 104 of the Local Government Act 2002.		

Purpose

The purpose of this policy is to outline the terms and conditions on which Council may sell non-strategic land included in the Napier City Council's Investment Property Portfolio. The policy also provides guidance relating to the investment of the proceeds of sale.

Background

After public consultation as part of Council's Long Term Plan 2018-2028, Council resolved on 1 June 2018 and confirmed on 29 June 2018:

> That the resolutions from the Strategy and Infrastructure Committee meeting on 30 January 2018 be updated to reflect the following:
>
> a. To allow freeholding of non-strategic land using as a guide the June 2016 Boffa Miskell report *"Napier City Investment Portfolio: Urban Landscape Strategic review"* on a case by case basis.
> b. That recommendations on the freeholding of all identified non-strategic land be considered by the Audit and Risk Committee in the first instance for recommendation to Council.
> c. That the sale of leasehold land be a Decision of Council.
> d. That a divestment and investment policy for the sale proceeds is established and approved by Council resolution prior to the release of any leasehold land.

For the reasons that:

1. The current policy provides no flexibility for freeholding specific, non-strategic assets that if sold, could assist in the redevelopment of industrial and/or commercial land in Napier and stimulate private investment.
2. Introducing some flexibility in the policy will allow Council to consider each leasehold property on its merits so that any decisions relating to such land is made with the best intentions for the future of Napier.
3. Freeholding specific properties will enable diversification of the Council's investment portfolio which will reduce market exposure risks.

Using the Boffa Miskell report as guidance to determine the strategic nature of each property and performing an investigation into sale and reinvestment opportunities on a case by case basis, gives Council the ability to adapt to current market conditions whilst also providing the ability for Council to secure better community outcomes and value from the area through project design, urban design, up-zoning the land to encourage better development potential or a combination of these, whilst also ensuring maximum benefit to ratepayers.

Description of Portfolio

The portfolio consists of the ownership of a lessor's interest portfolio, which comprises 74 leases known as the Investment Property Portfolio. Council owns the lessor's interest in these properties and a number of individuals and businesses own the lessee's interest. The leases are perpetually renewable meaning that, subject to continuing to pay rental (which is reviewed at periodical intervals) the lessees have a perpetual right to occupy the land. The improvements on the land are owned by the lessees, not Council.

Freeholding essentially involves the lessees purchasing Council's interest in the land. Council has no automatic right to purchase the Lessees interest and any purchase would require agreement between both parties.

Background to ownership

The Investment Property Portfolio was originally established from:

- Properties transferred to Council from the Hawke's Bay Harbour Board as part of the Local Government reorganisation in 1989. The reason for the transfer was to provide an income generating asset to offset the liability associated with the upkeep of the Inner Harbour and Foreshore Reserves, which transferred at the same time. The income generated from these properties has historically been applied by Council to fund in part the cost associated with these activities.
- Properties already owned by Council as a result of land development in conjunction with the Harbour Board.
- Other sundry properties which have been owned by Council for many years.
- Endowment Properties - Nine of the properties in the portfolio are subject to the Napier Borough Endowments Act 1876 and before freeholding of these can occur any requirements under that Act and Sections 140 and 141 of the Local Government Act 2002 must be satisfied.

Policy Statement

1. **Overriding Principle**

   The Council's ability to sell non-strategic land under this Policy represents a discretion to be executed by Council on a case by case basis. Nothing in this Policy represents a right for any person to insist or require the Council to sell to them and the sale by Council of any land under this Policy does not create precedent or expectation that other land held by Council (whether of a similar nature or not) will be sold.

   The above decision by Council sets no deadline for the expiry of the policy allowing consideration of freeholding on a case by case basis. The discretion regarding triggering a freeholding request therefore rests with the lessee.

2. **Party to whom Council may sell land to**

   Sales are only to be made to the registered Lessee at the time of sale.

3. Valuation

Where land is sold it is to be sold at such price as determined by Council at its sole discretion. Full Market Value as determined by a registered valuer, commissioned by Council, is to be used as a guide. There is no right of appeal or right of arbitration.

4. Discount

No discount is to be applied irrespective of whether or not the land is used in full or in part for residential accommodation. The 30% discount on market value applied, as per Council policy, to the freeholding of residential land shall not apply to the land held in the Investment Property Portfolio

5. Payment Method

The purchase price will be paid as follows:
(a) A deposit of 15% upon signing a sale and purchase agreement; and
(b) The balance in full on settlement

The lessees will also be required to pay Council's costs of sale (including legal fees and disbursements). These costs will also be payable in full on settlement. Lessees will be required to meet all costs in seeking independent advice from their own professional advisors.

6. Factors which may be considered in determining the strategic nature of properties

The 2016 Boffa Miskell report may be used as a guide in determining on a case by case basis the strategic nature of each property. The five site assessment criteria used in the report were:

- Adjacency to public amenity.
  Is the site adjacent to current or potential future public amenity e.g. coast/walkway? If it is adjacent, additional value may be able to be returned from the site by an investment in that amenity, or by undertaking re-development of the site to leverage value from a new form of activity or building.
- Potential for collective redevelopment
  Is the site isolated, or is it within a collection of Council sites that are large enough to enable a potential redevelopment if developed as a package? Larger sites generate opportunities for a collection of buildings and public space together whereas splitting sites reduces potential
- Located in a transformational area
  Is it in an area where change is already occurring and where Council might want to consider using the land to help the area to change?
- Potential to improve connectivity + amenity
  Can the site be used to improve connections between streets or as part of an open space network, or can it be re-purposed to make a new amenity?
- Connections to infrastructure
  Is the site able to be utilised for new infrastructure such as sustainable urban storm water device or for new streets etc.?

In addition, other strategies and plans of Council will also be used to determine the strategic nature a property such as City Vision and the Ahuriri Masterplan.

A financial analysis may also to be carried out to determine whether the land is strategic as an investment. Such analysis to include generally recognised measures and benchmarks in the property sector. Council may engage external professional advice on a case by case basis to assist in any evaluation.

7. **Purchase of Lessees improvements**
Consideration may be given to the purchase by Council of the Lessees interest in land held in the Investment Property Portfolio. This may be considered where this will result in a better outcome for the future of the property in the best interests of Council and City development. Any such purchase will require a resolution of Council.

8. **Investment of sale proceeds**
It is recognised that by allowing lessees to freehold with no deadline, Council will have no control over when the proceeds will be realised. This potentially impacts timing issues surrounding the ability for Council to sell down non- strategic properties and make desired investments.

Internal borrowing from Council reserves may be considered in order to facilitate investment opportunities ahead of the receipt of freeholding funds. Sale proceeds are to be ring fenced and initially credited to an interest bearing special fund within Council's accounts.

Investment decisions relating to these funds are to be made on a case by case basis and are to comply with Council's Investment Policy and Liability Management Policy adopted as a requirement under Section 102(1) and Section 104 of the Local Government Act 2002. Council may also refer for guidance to the Investment Strategy Analysis Review Report dated October 2016 prepared by PricewaterhouseCoopers for Council. Updates to this report may be periodically required along with external professional advice on a case by case basis when evaluating investments.

The underlying goal is to ensure that any investments considered continue to generate sufficient income to replace that lost by properties sold. New investments require a resolution of Council.

9. **Process for freeholding:**
Current registered lessees may make application in writing to have their property considered for freeholding.

An evaluation will then be undertaken by a panel of Council officers appointed by the Chief Executive to determine whether or not the property is strategic in terms of both location and as a financial investment. A market valuation will be conducted at this point in time.

Council officers will then make a recommendation to the Audit and Risk Committee. All recommendations will flow through to the Finance Committee who in turn will make a recommendation to Council.

Should Council resolve to allow the freeholding of a specific property, then a written offer will be made by Council giving a 3-month deadline for the lessee to accept and sign an appropriate agreement. After the three-month deadline the offer will lapse.

Legal work to complete transactions will be made by Council's Solicitors. The purchaser will however pay these costs.

Policy Review Period
The review timeframe of this policy will be no longer that every three years.

Document Control History

Version	Reviewer	Change Detail	Date
2.0.0	Bryan Faulknor	Original policy development	20 August 2018

5. INVESTMENT STRATEGY NEXT STEPS

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	1713691
Reporting Officer/s & Unit:	Richard Munneke, Commercial Director Garry Hrustinsky, Corporate Finance Manager

5.1 Purpose of Report

The purpose of this report is to obtain a decision from the Council on a proposal to establish a Council Controlled Trading Organisation (CCTO) to manage Napier City Council's (NCC) core financial investments and to consult on its establishment through the 2024-34 Long Term Plan.

Officer's Recommendation

The Prosperous Napier Committee:

a. **Receive** the report titled "Investment Strategy Next Steps".

b. **Explore** the establishment of a Council Controlled Trading Organisation for the management of Council's Investment Portfolio being Parklands development, development sites, commercial and residential leasehold properties, investment related deposits and managed investment portfolios.

c. **Include** the proposal to create a Napier City Council investments trading organisation within its 2024-34 Long Term Plan to fulfil the statutory requirements in creating a Council Controlled Trading Organisation.

d. **Endorse** Council building investment capability within it's team to address immediate investment activity needs.

5.2 Background Summary

NCC has activities/assets whose sole function is to supply a revenue stream to offset rates. This includes a collection of investment assets for commercial return and property development.

There are other revenue generating activities within NCC, however they don't have the single focus on generating financial return (i.e., do not share the same corporate intent).

It is common for councils to generate income from non-ratepayer sources. The Productivity Commission review of Local Government Funding in 2019[1] indicated an average of 6% of Council revenues across New Zealand comes from assets where the sole function is to provide a revenue stream, or investment income.

Council assets such as, Parklands, leasehold property are Council's *'family silver'*. This paper looks at how Council can ensure that it both maximises the potential of these assets,

[1] **The New Zealand Productivity Commission**. *Local government funding and financing*. November 2019. Chapter 3. p.44.

and how the value of these inherited assets can serve as an endowment for both the current and future generations of ratepayers.

In this paper, Council's investment assets for commercial return and development assets are referred to collectively as the *'Investment Portfolio'*.

Investment Assets for Commercial Return

Council holds a number of assets that are commercially focussed. The list includes land development sites, commercial and residential leasehold properties and term deposits.

The core of these revenue generating assets are the Parklands land development and the leasehold land portfolio.

These two assets were bestowed on the Napier City Council largely as a consequence of land created during the 1931 earthquake, and the 1989 reorganisation of local government; which dissolved the harbour board and vested leasehold land with Council in exchange for managing the inner harbour.

<u>Current Situation</u>

Council's leasehold land portfolio earned $1.6 million (cash before expenses) on a $103 million asset value in 2023.

Legislative changes such as the Hawkes Bay Endowment Land Empowering Act 2002 gave Council greater discretion over its inherited land. However, Council process, and it's own policies have not changed to allow Council to benefit fully from the assets it has. Management of investment assets within Council continue to be undertaken as a small part of broader responsibilities around delivering core council services and support functions.

Therefore, the endowment assets that Council has are not benefiting from a commercial focus on returns and ensuring that Council has the right asset mix to manage it's own risks and exposures - to provide both income and resilience for current and future generations.

Land Development

Council commenced land development activities in 2005 with the development of Area 1 of Parklands Residential Development. This land was received as part of the 1989 local government reorganisation.

Since 2009, over $94 million has been realised by Council through the sale of land at Parklands. Council has also incurred significant costs to develop this land and realise these sales.

Council has, since the commencement of Parklands, acquired other land blocks including Pirimai education land and the Mataruahou reservoir site; which may also hold future development potential.

The budgeted net benefit of land development to Council is estimated at around $3 million per annum.

<u>Current Situation</u>

Parklands development has commenced for Area 4. This is the final Area of the initial Parklands development, with all sections anticipated to be sold by 2028.

Council can, and has, successfully delivered infrastructure and development of the Parklands residential development through it's own infrastructure and teams. Although Council has expertise in land development delivery, there is little development pipeline beyond the completion of Parklands Area 4.

A lack of commercial ownership within Council means that the returns achieved by Council for ratepayers on development is lower than that the commercial market would target.

Parklands is run as a finite financial resource, with the proceeds of sales being used at Council's discretion, and little consideration given to reinvestment. This means that the legacy of Parklands benefits this generation of rate payers only.

Workshop Outcomes

Council's investment assets are not geared toward sustaining or achieving growth of the asset base. The assets are also managed internally and individually.

NCC currently lacks a governance vehicle to manage core investments in a strategic and transparent way. Indicators to measure performance and assist with strategic decisions (either for individual investments or the portfolio as a whole) are also required. Developments such as Parklands are siloed as an activity, dedicated to developing a certain number of sections each year. The Leasehold land portfolio is treated as a fixed legacy of properties. Leases are sold periodically to occupiers meaning the leasehold asset base dwindles.

Council's overall investment strategy is in transition. Two workshops focussed on strategic direction for Council's Investment Portfolio. At these workshops Council indicated a desire for change – namely:

- In setting rates Council exercises an intergenerational view. Council's commercial assets should realise a similar intergenerational benefit.
- To ring-fence commercial investments and manage them with a financial return focus (maximise returns). Ensure the best use of those assets.

This report concludes by recommending that the establishment of a Council Controlled Trading Organisation (CCTO) be considered in the 2024–34 Long Term Plan.

5.3 Issues

The leasehold portfolio and Parkland development are currently not managed in a focused way. Council is currently unable to make strategic decisions to acquire land or buildings, or maximise profits according to market conditions.

There are three main issues with the current situation:

1. Land development as an income stream is currently managed as a finite resource.
2. The return objectives from Councils investments is inconsistent and lacks a commercial strategy and an intergenerational focus.
3. Land development and investment assets for commercial return require greater commercial expertise to realise their full potential for Council.

The current approach to these revenue-generating assets does not recognise an inter-generational value that can sustain Napier City into the future. Both the Parklands estate and leasehold land were gifted to Napier City Council. The value of these assets is fundamentally financial (i.e. not social, cultural or environmental), and it follows that there is a legacy consideration to ensure that the financial benefit is felt by current *and* future ratepayers.

The Long Term Plan provides an opportunity for Council to address these issues and to provide a greater long-term benefit for ratepayers from it's Investment Portfolio. This includes:

1. A review of Investment Policy, to enable Council the flexibility to derive appropriate returns from it's commercially-focused Investment Portfolio.

2. A review of Council's Strategic Assets under it's Significance and Engagement Policy, to ensure the right assets are protected under the Act. This may include any position Council wishes to take on protecting the value of the Investment Portfolio for future generations.
3. Determining how to best achieve the commercial objectives associated with Council's Investment Portfolio. This paper recommends accessing commercial expertise through the establishment of a Council Controlled Trading Organisation (CCTO).

5.4 Significance and Engagement

The Local Government Act 2002 provides guidance as to the steps that are required to form a CCTO. The approach recommended within the report will satisfy those requirements.

5.5 Implications

Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost–effective for households and businesses.

To be cost-effective, Council seeks to sustainably maximise returns from financial investments so that services can be delivered for current, and future, generations.

Council investments are not currently geared toward growing the asset base. Financial returns from investments will dwindle over time and provide a declining rates offset for future generations. This is best illustrated by the Parklands development which is being developed as a finite resource, and forecast to be completed by 2028. Council has used revenue from Parklands as it has been generated – this benefits the current generation of ratepayers only.

A prudent approach would encourage financial growth of the overall asset base. Increasing financial return would enable Council to continue in delivery of it's social, infrastructural environmental, and cultural agenda.

In order to achieve a positive outcome for Council, the expectations (Statement of Intent) for financial performance of the asset base need to be clear and free from any potentially conflicting social or environmental objectives. The assets need to be tradeable (as required) within a strategy that grows the financial asset base.

The Office of the Auditor General has identified the benefits of a holding company as follows:

"A holding company can be effective for monitoring the performance of operating subsidiaries. In our view, essential elements of an active and informed monitoring function are:

- *consideration of draft Statement of Corporate Intent by the boards of operating subsidiaries;*
- *detailed analysis of quarterly, six-monthly and annual reports from operating subsidiaries; and*
- *regular strategic reviews of individual investments and of the local authority's trading portfolio as a whole.*

- *regular reviews are essential for proper management of a local authority's investments in commercial trading enterprises. Holding companies are well placed to perform these reviews on behalf of the local authority parent.*

The value of the holding company role was well illustrated in the case of one local authority we visited. The local authority had made a commitment in its Borrowing Management and Investment Policy to periodically review the rationale and status of its equity investments against strategic and financial parameters. The holding company was:

- *acting as the investment vehicle, responsible for managing the local authority's investments in a professional and commercial manner; and*
- *commissioning regular valuations of its three subsidiary companies, measuring movements in value over time.*

Estimates of market value provided the local authority shareholder with a valuable benchmark against which to assess the ongoing costs and benefits of each investment, including alternative investments or opportunities for expenditure in the community.

Effective monitoring and liaison requires analysis and support. The holding company may have this expertise or may employ a contractor. Each holding company we reviewed had access to resources to perform these tasks. Two of the three holding companies used parent local authority staff for advice and support, reflecting the local authority's close working relationship with its holding company. This arrangement can also provide a useful means of integrating the financial strategies of the holding company and the parent local authority."[2]

Introducing a CCTO structure can:

- Preserve the operating autonomy of the local authority's commercial investments;
- Apply business disciplines to the professional management of the local authority's commercial investments;
- Act as a channel of communication between the local authority and the subsidiaries/partners;
- Promote best practice in corporate governance; and
- Provide a source of information and analysis for local authority review of investment options.

For Napier City Council, provided the CCTO has the scope and associated Statement of Corporate Intent, a CCTO can assist to:

1 Maximise land endowments

- Further land developments
- Actively manage the leasehold land portfolio

2 Develop Income streams

- Managed funds
- Mclean Park housing

[2] Internet article: **Office of the Auditor General**. *Local Authority Governance of Subsidiary Entities*, Part 7: Commercial Trading Enterprises. 2001. https://oag.parliament.nz/2001/local-auth-governance/part7.htm (Accessed 2024-01-18)

3 Expand on core strength of Parklands

- Land development
    - Residential land
    - Commercial land
- Vertical builds

4 Collaborate with Investors for the benefit of Napier City

- Mana Ahuriri
- HBRIC
- Other

Financial

As discussed, the financial implications of continuing with the current approach mean that the Investment Portfolio is likely to shrink.

The current investment management and governance system has opaque objectives, and lacks the agility and single financial return focus to realise opportunities within the Investment Portfolio. For these two reasons the status quo is not considered tenable.

The financial modelling of returns assumes that some existing land assets may be sold and reinvested into other investment assets as part of the management on the Investment Portfolio. This continues a current practice, where both land at Parklands is sold, and some leasehold land is sold annually as part of Council operations. Assets that are deemed *Strategic* under the Local Government Act are not proposed for any type of asset sale but will be subject to greater commercial oversight.

The financial model for the Investment Portfolio is based on the following Council assets, leasehold land, Parklands, land development, residential rental properties (not social or pensioner housing), and selected undesignated bare land sites. The assets are currently valued by Council at $160m.

Social & Policy

There are a number of consequential amendments required dependent to some degree on whether or not the community supports a CCTO approach to the management of Council's core financial investments. These are (among others):

Investment Policy: at present the policy primarily allows Council to invest for strategic purposes. Additional amendments are required to expand the type of property Council can own (i.e. investment property and development property), and emphasise holding investment for the purpose of deriving income and capital returns.

Significance and Engagement Policy: the assets listed in Schedule 2 are too broad. Relabelling and providing additional sub-categories will allow the treatment of some assets without triggering a review of the whole asset group (e.g. housing broken down into housing sub-groups).

Investment Property Portfolio Policy: a change in the approval process is required to reduce the burden on Council. Changes in delegations for Council officers and Council-owned entities (i.e. CCOs/CCTOs) recommended to streamline the process. Further due diligence and reporting will be required once an approach has been agreed.

Risk

Ratepayer Risk

The risk of eroding an intergenerational endowment asset by continuing the current approach to investment management is high. Moving to an intergenerational approach will ensure benefit to ratepayers of both current and future generations.

Asset Risk

Council currently holds most of it's Investment Portfolio in single investment asset classes (such as leasehold land). As an example, through the sale of some leasehold land and reinvestment of the proceeds into other investment assets, Council can retain investment value, create alternate sources of income, and lower it's overall risk exposure (concentration risk).

Focus

The current piece-meal management approach lacks commercial focus. There is a high risk that opportunities to increase revenue are not being realised.

Mixed Governance objectives

Governance is currently structured within the general Council framework and community well-being agenda. There is a risk that this governance arrangement places greater emphasis on well-being over revenue generation for investment assets.

Risks associated with a CCTO

There is a risk that a CCTO operates in a way that is misaligned to Councils objectives for the assets that it holds. Clarity of purpose through a Statement of Intent (SOI) is essential to ensure both parties remain on the same page.

There is a risk that assets placed under the responsibility of the CCTO have different objectives and different management needs. Whilst this can be addressed through specific provisions in the SOI, the risk is best mitigated by ensuring that the activities and assets held reflect a single SOI as much as possible.

Mixing elected members with a professional board also poses a risk to the success of the CCTO. Because the CCTO will be focused on inter-generational financial returns, it will require independence from Council, and an ability to attract the right expertise to the board.

5.6 Options

Status Quo Council (i.e. NCC today)

- Resourced in-house on a "part of role" basis.
- Each investment is managed separately within an unintegrated long term plan framework.
- Few available levers to grow the overall asset base.
- In-house governance through general committee structures and reporting
- Revenue from investments used for social returns.
- Dwindling asset base and inconsistent returns
- Mixed commercial returns, strong social returns

Enhanced Status Quo

- Resourced in-house, with focus on commercial returns.
- LTP provides an integrated framework to manage core investments for financial return that can be sustained over time

- In-house dedicated management, integrated reporting.
- Passive diversification of asset base
- Unlikely to be fully mandated to protect the value asset base, or provide a consistent return to Council over time
- Average commercial returns and some social returns

Independent Operations CCTO

- In-house resource (active and commercially driven)
- Mixed majority independent governance with a financial performance objective
- Active diversification of asset base to enhance returns and manage overall risk
- Fully mandated to protect the value asset base to provide a consistent return to Council over time

	Analysis
Strategic Considerations	
Strategic focus on inter-generational financial performance	• Assets are looked at on an asset-by-asset basis, not as a portfolio. • Approach to asset management is reactive. • Limited likelihood of replacement of Parklands revenue stream when Area 4 development is completed. • Council policies target protecting the status quo, rather than seeking opportunities. • Core financial investments have not been clarified for single focussed financial performance. • Council ownership and wellbeing objectives often override commercial objectives. • Mixed objectives and influences make Council an unlikely partner.
Risk Management	• Current SIPO is balanced, potentially resulting in lower long-term return outcomes. • Council current risk appetite for reinvestment in new assets is contrary to its risk view on inherited assets. • Passive and unconsolidated performance monitoring • The lack of a portfolio approach means little consideration is managing risk through building resilience through diversifying leaving an over reliance on Napier property as the core investment
Ownership and Controls	• Council has 100% ownership of all Investment Assets • Council has 100% ownership of all Development Assets • Controls in LTP are functionally restrictive and insufficiently flexible or agile to enable decisions to buy sell or reinvest. • Council through policies and delegations influences control over asset management.
Operating Considerations	
Governance Skillset	• Councillors have ultimate decision-making authority. • Councillors' greatest collective strength is in the delivery of community services, not strategic investment decision-making. • Role of Councillor is wide ranging, and often involves competing priorities.
Operating Skillset	• Council management of investment assets and development assets is spread across the Executive Leadership Team and based on service delivery. • Parklands has been delivered to plan by experts in service delivery. Limited commercial oversight is applied.

	• Management of investment and development assets are a small part of a wider service or operational role. • Conflicting objectives result in higher social benefits at the expense of commercial income for Council.
Net Operating Income	• Investment assets provide an indicative cash return of 1.3% to Council. • The operating cost to derive this return is unknown; given the method of delivering services. • Development income is focused on sales rather than development margin.
Other Operating Considerations	• Development income has significant volatility, ranging from $0m to $20m per annum. • In NCC's 2022 Annual Report, the greatest income and expenditure variances were related to investment assets.

Enhanced Status Quo

	Analysis
Strategic Considerations	
Strategic direction on inter-generational financial performance	• Assets are reviewed individually, not as a portfolio. • Approach to asset management is reactive • Limited likelihood of replacement of Parklands revenue stream when Area 4 development is completed. • Council policies reviewed as part of LTP to ensure that Council can take opportunities. • Core financial investments have not been clarified for single focussed financial performance. • Council ownership and wellbeing objectives often override commercial objectives. • Potential for mixed objectives and influences make Council an unlikely partner.
Risk Management	• Renewed SIPO permitting risk reward commensurate with Council's position as an intergenerational investor. • Passive and unconsolidated performance monitoring • Greater risk management awareness, but limited skillset to change. • The lack of a portfolio expertise means little consideration is managing risk through building resilience.
Ownership and Controls	• Council has 100% ownership of all investment assets. • Council has 100% ownership of all development assets. • Council, through policies and delegations, influences control over asset management. • Investment committee and internal financial oversight reports to Council.
Operating Considerations	
Governance Skillset	• Councillors have ultimate decision-making authority. • Investment committee would have some independent representation but would likely be a minority influence and remain subject to Council politics and process. • Councillors' greatest collective strength is in the delivery of community services, not strategic investment decision making. • Role of Councillor is wide ranging, and often involves competing priorities.

Operating Skillset	• Greater awareness of investment assets will bring focus. Greater use of internal committees and projects to manage value and costs. • Council management of investment assets and development assets is spread across the Executive Leadership Teams based on service delivery. Oversight may change. • Parklands has been delivered to plan by experts in service delivery. Increased commercial oversight will add initial value. • Current operating structure with no single owner creates and influencing role, rather than a specialist managing role. • Some management of conflicting objectives result in higher social benefits at the expense of commercial income for Council.
Net Operating Income	• Investment assets return will grow, but slowly. • Additional operating costs likely to compensate for lack of specialist skills. • Development income is focused on development margin, not just land sales.
Other Operating Considerations	• Development income volatility will reduce with a focus on returns not just sales.

Investment and Development Assets Managed Through a CCTO:

	Analysis
Strategic Considerations	
Strategic Direction on inter-generational financial performance	• Strategic focus and core financial investments articulated in a Statement of Corporate Intent (SCI) • Investment assets are managed as a collective portfolio for return and risk management. • Approach to asset management is proactive. • Land development focus moves to an enduring workstream, seeking new development blocks from new land investment and existing Council land. • Council policies reviewed as part of LTP to ensure that Council / CCTO can take opportunities. • CCTO provides a degree of independence from Council and clarity of mandate for management of assets.
Risk Management	• Renewed SIPO permitting risk reward commensurate with Councils position as an intergenerational investor. • Staggered diversification of non-strategic assets to grow both income and lower overall portfolio risk. • Focussed performance monitoring as per SCI and board • Strategic approach to building resilience through asset management and consistency of income.
Ownership and Controls	• Council owns 100% of CCTO. • Letter of Expectation and Statement of Intent define mandate and parameters for CCTO. • Ability for CCTO to acquire its own commercial assets in time. • Council through policies and delegations (to CCTO) influences investment management, including status of strategic assets. • CCTO interface into Council through Council, Deputy CEO and Council presentations. • Board of CCTO delegated decision-making responsibility.

Opportunity for partnerships	• Partnership and co-investment potential with iwi, developers, or similar organisation through commercial CCTO interface. • Future expanded partnership if CCTO eventually owns assets directly.
Operating Considerations	
Governance Skillset	• Councillors have ultimate decision-making authority through delegations, Letter of Expectation, and Statement of Intent. • CCTO often have a governance structure targeting a majority independent board, and bringing in commercial (specialist) expertise. • Clear separation of Council function and investment function.
Operating Skillset	• Commercial investigation, decision, and ability to procure specialist resources as required • Commercial decision process leads development and sale of Parklands Area 4 and future developments. • Council staff continue to deliver function services, as requested. • Focus of investment assets is in growing and diversifying the investment return.
Net Operating Income	• Investment assets targeted towards long term cash return of 3% per annum to Council. • Development assets moved towards profit target (preserving the value of the inherited land asset) and annual growth over life of Long Term Plan (including beyond 2028). • Establishment costs and operating costs provide net annual cash benefit from year 3, steadily growing net revenue to Council by a targeted 60% over the LTP.
Other Operating Considerations	• Development income smoothed through reserving to ensure Council has steadily growing revenue stream. • Portfolio approach creates size and scale to attract skilled staff, governors, and partners. • Existing assets continuance of Council ownership retains current taxation status.

5.7 Development of Preferred Option

The preferred option has been developed through workshops with Councillors, assistance from external specialists, research into the operations of other councils around New Zealand, and Government reports concerning local government funding streams.

The preferred option is to include the proposal to establish the CCTO within the 2024-34 Long Term Plan for consultation.

Given the issues and risks around the financial implications for Council, status quo is not seen as a viable option; meaning that enhanced status quo and CCTO options may be pursued in tandem.

5.8 Attachments

Nil

PROSPEROUS NAPIER COMMITTEE

Open Minutes

Meeting Date:	Thursday 7 September 2023
Time:	11.02am - 11.08am *(Open)* 11.10am - 12.20pm *(Public Excluded)*
Venue	The Ocean Suite East Pier Hotel 50 Nelson Quay Napier
	Livestreamed via Council's Facebook page

Present	**Chair:** Councillor Crown **Members:** Mayor Wise, Councillors Boag, Browne, Chrystal, Greig, Mawson, McGrath, Price, Tareha and Taylor (Deputy Chair) Ngā Mānukanuka o te Iwi representative – Joe Tareha
In Attendance	Chief Executive (Louise Miller) Deputy Chief Executive / Executive Director Corporate Services (Jessica Ellerm) Executive Director City Services (Lance Titter) Executive Director City Strategies (Rachael Bailey) Executive Director Infrastructure Services (Russell Bond) Executive Director Community Services (Thunes Cloete) Manager Communications and Marketing (Julia Atkinson) Pou Whakarae (Mōrehu Te Tomo) Programme Manager – Long Term Planning (Stephanie Murphy) Corporate Finance Manager (Garry Hrustinsky)
Administration	Governance Advisors (Carolyn Hunt and Anna Eady)

PROSPEROUS NAPIER COMMITTEE – Open Minutes

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ORDER OF BUSINESS

Karakia

Apologies

Councillors Mawson / Tareha

That the apologies from Deputy Mayor Brosnan, Councillor Simpson and Ngā Mānukanuka o te Iwi representative (Evelyn Ratima) be accepted.

Carried

Conflicts of interest

Nil

Public forum

Nil

Announcements by the Mayor

Nil

Announcements by the Chairperson

Nil

Announcements by the management

Nil

Confirmation of minutes

Councillors Mawson / Greig

That the Minutes of the meeting held on 15 June 2023 were taken as a true and accurate record of the meeting.

Carried

AGENDA ITEMS

1. LONG TERM PLAN FY24-27 UPDATE

Type of Report:	Information
Legal Reference:	Local Government Act 2002
Document ID:	1690580
Reporting Officer/s & Unit:	Stephanie Murphy, Programme Manager- Long Term Planning

1.1 Purpose of Report

To provide the Committee with an update on the Long Term Plan FY24-27 preparation.

At the meeting

The Programme Manager – Long Term Planning, Ms Murphy took the paper as read. Ms highlighted the key attachments to the report being the "Plan on a Page and the Schedule" a high level programme to illustrate the independencies of lots of different aspects across Council leading into the work plan for the Long Term Plan.

One of the key aspects is the Financial Strategy, with quite a lot of work currently underway which needs to be completed prior to commencing the LTP.

Ms Murphy confirmed that the Order in Council was made on Monday, 4 September 2023.

COMMITTEE RESOLUTION

Councillors Browne / Taylor

The Prosperous Napier Committee:

a. **Receive** the report titled "Long Term Plan FY24-27 Update" dated 7 September 2023.

Carried

Minor matters

There were no minor matters.

RESOLUTION TO EXCLUDE THE PUBLIC

Councillors Tareha / Mawson

That the public be excluded from the following parts of the proceedings of this meeting, namely:

1. Request for Rates Remission for Special Circumstances

Carried

The general subject of each matter to be considered while the public was excluded, the reasons for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution were as follows:

General subject of each matter to be considered.	Reason for passing this resolution in relation to each matter.	Ground(s) under section 48(1) to the passing of this resolution.
1. Request for Rates Remission for Special Circumstances	7(2)(a) Protect the privacy of natural persons, including that of a deceased person	48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.

Mayor Wise left the meeting at 11.08am

The meeting adjourned at 11.08am and reconvened in Public Excluded at 11.10am

The meeting closed with a karakia at 12.20pm

Approved and adopted as a true and accurate record of the meeting.

Chairperson ....

Date of approval ....