

SUMMARY OF THE BORROWING MANAGEMENT POLICY

Introduction

The full Borrowing Management Policy is printed in the Strategic Statement (see pages 22 and 23). This booklet was published as part of the 1998 Annual Plan and copies can be obtained from the Civic Offices. Alternatively you can access the booklet on the World Wide Web at:- <http://www.ccc.govt.nz/>

Limits on Total Borrowing

- Total external debt as a percentage of total assets of the Council and Christchurch City Holdings Ltd (CCHL) shall be no more than 12%.
- The total external debt of the Council and CCHL combined as a percentage of realisable assets (all assets excluding infrastructural and restricted assets) shall be no more than 33%.
- Net interest paid on term debt by the Council and CCHL combined will not exceed 8% of the consolidated gross revenue provided interest rates do not rise above 8.5%.
- The ratio of net external debt of the Council and CCHL combined to funds flow from operations shall not exceed five times, ie an ability to repay debt over five years (medium term) before net capital additions.

Borrowing

- All external debt including leases must be authorised by resolution of the Council.
- The amount of borrowing not requiring specific authorisation under Section 122Z (c) (ii) (A) is \$500,000.
- Loans raised by the Council are to be secured by a charge on rates revenue.
- All new loans required to fund expenditure which has arisen subsequent to the Annual Plan being confirmed shall require Council approval by a specific resolution which states the reasons why expenditure was not included in the Annual Plan.
- Debt may be raised in either fixed or floating rate terms, and for short (ie up to one year) or long maturity terms.
- The term of a loan must not be longer than the economic life of the capital assets it funds and in any event no more than 20 years.

Repayment of Debt

- Debt may be repaid by one or a combination of:
 - Annual Sinking Fund instalments where the Sinking Fund is held for the sole purpose of debt repayment of specific loans.
 - Annual contributions to a Loan Repayment Reserve which is held for the sole purpose of applying at appropriate opportunities to repayment or reduction of loans.
 - Annual table repayment instalments providing for full repayment over the term of a loan being 20 years or less.
 - Repayment from revenue or other sources.
- With the exception of table loans, a minimum of 3% of the aggregate of the initial external debt raised by the Council and CCHL combined, shall be repaid annually.
- The rate of 3% shall be reviewed from time to time to ensure that there are sufficient funds available to repay the initial loan tranche. At all times 3% shall be a minimum.

Interest Rate Exposure

- The Council may have an exposure to both fixed and floating interest rates. It may have up to 100% of the debt in fixed rates and up to 65% in floating rates, maintained by either direct borrowing under these terms or by interest rate hedging.

Liquidity Policy

- The debt maturity profile shall be maintained such that no more than 35% of the relevant debt matures in any one year. The relevant debt is the total external debt for the Council and CCHL combined but excludes any leases, table loans, and floating rate short term loan issues.
- Derivatives may be entered into to lock in the cost of and availability of known future borrowings in advance of physical borrowings.

Credit Exposure

- Hedging can only take place with counterparties who are credit rated 'A-' or better.
- Funds should be raised from brokers or major institutions where the risk of settlement default is minimised.
- Loan raising should be managed so that the impact of settlement default will not adversely affect the Council.

Specific Objectives	2000/01 Targets
Maintain adequate liquidity	<ul style="list-style-type: none"> - No more than 35% of debt maturing in any one year. - Liquidity ratio at not less than 1:1 (100%) excluding special purpose investments and the current position of term debt.
Provision for debt to be repaid by contribution to a debt repayment reserve	<ul style="list-style-type: none"> - 3%.
Maintain debt ratios within specified limits	<ul style="list-style-type: none"> - Refer to Long Term Financial Strategy.