Summary of the Borrowing Management Policy

For the full Borrowing Management Policy see pages 71 to 73 of the Strategic Statement which is available from the Civic Offices or at www.ccc.govt.nz.

Introduction

This policy has been established to ensure the prudent financial management for the issuance and management of Council debt.

Principles

The following principles underlie the policy:

- Borrowed funds will be used to fund capital expenditure and investment. An allowed exception is for working capital overdraft under section 4.12. Debt will be used as a residual funds source after funds generated from depreciation are applied to renewal and new capital expenditure. The mix of debt and revenue funding for capital funding will be determined by the Financial Plan each year.
- Debt raised will be repaid over the economic life of assets restricted to a maximum of 20 years to ensure inter-generational equity.
- Interest costs are part of operating expenditure and will be funded from operating revenue.
- The annual debt repayment provision will be funded from operating revenue.
- Interest rate exposure will be managed consistent with the aim to:
  - have interest costs where possible at or below interest rates projected from time to time in the Council's Long Term Financial Strategy or the rates determined to be economically feasible for specific assets funded
  - hedging is only allowed for debt in place (or part thereof) or where there is a commitment to borrow in the near future and not for speculative purposes
  - remain risk averse
  - maintain a mix of both fixed and floating rates, where appropriate, to maintain flexibility and advantage in case of interest change.
- Debt financing is recognised as a component in the Council's Funding Policy and Long Term Financial Strategy to provide inter-generational equity which prevents costs being incurred by the current generation which are for the benefit of future generations.

Limits on Total Borrowing

- Total external debt as a percentage of total assets of the Council and Christchurch City Holdings Ltd, parent only, shall be no more than 12%.
- The total external debt of the Council and Christchurch City Holdings Ltd 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 Christchurch City Holdings Ltd combined will not exceed 8% of the consolidated gross revenue provided interest rates do not rise above 8.5%. Should rates rise then the Council will approve a further limit to contain interest costs.
- The ratio of net external debt of the Council and Christchurch City Holdings Ltd 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.

  Note: Funds flow from operations is the net cash surplus of gross revenue over operating cash expenses (excludes depreciation).

Borrowing

- Loans raised by the Council are to be secured by a charge on Rates revenue.
- The term of a loan must not be longer than the economic life of the capital assets it funds (as defined by the Council resolution) and in any event no more than 20 years.

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- A loan may be raised in several tranches for terms less than 20 years. Repayments at maturity of a tranche within the term of a loan may be refinanced without further Council resolution. Refinancing loans shall not add to the term of the original loan.

Repayment of Debt

- Debt may be repaid by one or a combination of:
  - Annual Sinking Fund instalments where the Sinking Fund Commissioners hold the funds as a separate trust, for the Council, for the sole purpose of debt repayment of specific loans.
  - Annual Contributions to a Loan Repayment Reserve to be held by the Council 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 Christchurch City Holdings Ltd, combined, shall be repaid annually in accordance with one or a combination of the options set out in the bullet point above. Initial Debt is defined as the original sum of any loan borrowed which has not been fully repaid.

Interest Rate Exposure

- The Council may have an exposure to both fixed and floating interest rates. Fixed Rate Debt may vary between 35% and 100% of total debt maintained by either direct borrowing under these terms or by interest rate hedging. There is a preference for fixed rate borrowing to fund long term asset acquisition.

Liquidity Policy

- The debt maturity profile shall be maintained so that no more than 35% of the relevant debt matures in either of the current or following fiscal year unless the total relevant debt outstanding is lower than $30,000,000. The relevant debt is the total external debt for the Council but excludes any leases, table loans, and floating rate short term loan issues.

Credit Exposure

- Hedging can only take place with counterparties who are credit rated 'A-' or better.
- Loan raising should be managed so that the impact of settlement default will not adversely affect the Council.

Deans Cottage at Riccarton Bush.