STATEMENT OF FINANCIAL MANAGEMENT POLICIES

Principles

The following principles underlie the policies on financial and debt management:

1. Debt repayment programme over 20 years to ensure inter-generational equity.

2. - Ordinary renewal expenditure to be funded from depreciation charges.

   - New asset net additions funded both from loans and internal financing.

3. Operating expenditure will be funded from operating revenue.

Policies

In 1994 the Christchurch City Council adopted the following policies in relation to Financial and Debt Management of the Council and Christchurch City Holdings Ltd combined for 20 years to 30 June 2014. These policies continue to underpin the Council's Annual Plan projections for the next 20 years.

1. Over a period of five years the operating deficit of the Council will be progressively eliminated in accordance with the following targets:

Year ending	Original Policy $ million	Current Plan $ million *
June 1995	11.75	-
June 1996	10.0	-
June 1997	6.5	2.4
June 1998	2.5	.5
June 1999	NIL	(2.0)

Cash surpluses will be generated after year 5 (1998/99) to repay all Council loans over a 20 year rolling time frame.

* (The currently projected deficit reduction is in advance of the original policy. This has been made possible by recognising that cash in lieu of reserve contributions must be treated as revenue. The reduced deficit/surplus enables these funds to continue to be applied to reserves development projects.)

2. Provision by way of reserve/sinking fund will be made each year for repayment of all new loans raised by the Council, plus the existing debt of Christchurch City Holdings Ltd, at no less than 3% of the amount borrowed, i.e. to fix a debt repayment time frame of 20 years for the City Council.

3. 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 increase above 8.5%. This parameter would be reviewed in the event of interest rates rising above this level. *

   * (Although interest rates for 1996/97 were increased to 9.4% to reflect current market conditions, the threshold parameter will not be exceeded in the 20 year forecast period.)

4. Term Debt as a percentage of total assets of the Council and Christchurch City Holdings Ltd shall be no more than 12%.

5. Term Debt as a percentage of realisable assets (includes net trading enterprise assets but excludes Infrastructural and Restricted Assets) shall be no more than 33%.

6. The liquidity ratio (current assets: current liabilities) shall be not less than 1:1 at each year end. (Note: Current assets excludes for this purpose cash investments relating to specified reserve funds and current liabilities excludes the current portion of term debt.)

7. The operating expenditure of the Council shall be met from the operating revenues of the Council subject to the policy of reducing the operating deficit as outlined in point 1 above.

8. Sufficient expenditure will be applied to maintain the existing infrastructural asset base at least to current standards or to standards adopted through an asset management programme.

9. Cash generated from revenue derived to meet depreciation charges will be applied for funding renewal works in the first instance followed by capital works and Council debt.

10. Cash surpluses from any year will be applied to reduce the borrowing requirement of the subsequent year.

11. Consideration is being given to replacing depreciation on Infrastructural assets with Asset Maintenance Plans which expense renewal and maintenance expenditures direct to the operating account in substitution for depreciation.

12. Net debt to funds flow from operations shall not exceed five times, i.e. 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).

13. A revenue study is being undertaken to determine the appropriate sources of revenue for the various Council activities." [This is expected to have an impact on the structure of rates and revenue in future years.]

Underlying Assumptions

The Financial Management Policies outlined were based on the following underlying assumptions:

1. Interest rates no more than 7% per annum for short term borrowings and 8.5% per annum for borrowings of two years or longer. (Current interest rates are budgeted at 9.4% for 1996/97 and 8.5% for subsequent years.)

2. Zero to 2% inflation parameter. (Financial projections include 2% inflation per annum.)

Statement on Possible Variations in Share Holdings in Trading Activities

The Council is likely to be offered minority shareholdings in existing trading enterprises from time to time.

If it is likely to be advantage to ratepayers in the medium term consideration will be given to acquiring additional shares on a commercial basis.

Any decision to commit funds for such purchases will be balanced against other financial needs of the Council.

In recent months the Council has consulted the public regarding the possible disposal of its shareholding in Selwyn Plantation Board Ltd. A decision is anticipated after the Council has also considered an independent economic viability report.