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

The Christchurch City Council has adopted the following policies in relation to Financial and Debt Management of the Council and Christchurch City Holdings Ltd combined for 20 years to 2017/18.

"1. Over a period of five years commencing in 1994/95 the operating deficit of the Council will be progressively eliminated in accordance with the following targets:

Year ending	Original Policy $ million	Draft Plan 1997 $ million
June 1995	11.75	-
June 1996	10.0	-
June 1997	6.5	2.4
June 1998	2.5	.5
June 1999	NIL	(0.5) (surplus)

2. Cash surpluses will be phased in from 1998/99 so that from 2000/01 the surpluses will be no less than 1.5 times the level of debt repayment identified in clause 3 below. The formula for phase in of surpluses will be:

Year	Multiple of Debt Repayment	Dollar provision for surplus in 1997 Plan
1998/99	Fixed Amount	$500,000
1999/00	1.25 times	$5,944,954
2000/01	1.50 times	$8,739,960

3. 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, ie to fix a debt repayment time frame of 20 years for the City Council.
4. 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 1997/98 have been increased to 8.5% and from 1998/99 to 8.5% this is to reflect current market conditions. The threshold parameter will not be exceeded in the 20 year forecast period.)
5. Term Debt as a percentage of total assets of the Council and Christchurch City Holdings Ltd shall be no more than 12%.
6. 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%.
7. 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.)
8. 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.
9. 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.
10. 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.
11. Cash surpluses from any year will be applied to reduce the borrowing requirement of the subsequent year.
12. Consideration is being given to replacing depreciation on Infrastructural assets with Asset Management Plans which expense renewal and maintenance expenditures direct to the operating account in substitution for depreciation.
13. Net debt 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).

14. A Funding Policy study is being undertaken to determine the appropriate sources of revenue for the various Council activities."

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 8.7% for 1997/98 and 8.5% for subsequent years.)
2. Zero to 2% inflation parameter. (Operating and capital 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 of 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 1996 the Council consulted the public regarding the possible disposal of its shareholding in Selwyn Plantation Board Ltd. A decision is anticipated after the Council has considered an independent economic viability report. If the Council does decide to sell, consideration will also be given to the most appropriate time for the sale to take place.