

## 5. REPAYMENT OF DEBT

<b>Officer responsible</b> Director of Finance	<b>Author</b> Bob Lineham
Corporate Plan Output: Loan Systems Management/Borrowing Policy	

The purpose of this report is to recommend to the Council a change in the way that provision is made for repayment of Council loans.

### BACKGROUND

The Council's Borrowing Policy, adopted in July 1998, provides that the provision for repayment of debt will be by annually setting aside 3% of the aggregate external debt raised by the Council and Christchurch City Holdings Limited.

Currently the provision for repayment of debt is made separately by CCC and CCHL to comply with this policy.

CCHL has been progressively reducing its debt since it was established in 1993 by between \$3 and \$4 million per annum. The core debt is temporarily \$100 million returning to \$120 million when the capital repatriation takes place and CCHL considers that it would be financially inefficient for its level of debt to drop below this latter figure in the medium to long term.

### PROPOSED CHANGE IN APPLICATION OF POLICY

Subject to Council approval, CCHL intends to hold its level of debt at \$120 million. No further loan repayments will be made and instead there will be an increase in the level of dividends which are payable to CCC by the amount which has been provided in the CCHL budget for debt repayment.

It is proposed that the Council should earmark this additional dividend for appropriation to its Debt Repayment Reserve for additional reduction of Council debt. In this way the level of debt reduction required by the Borrowing Policy for the CCC/CCHL group will continue to take place except that it will be different loans within the group which are reduced.

The benefit to the group from this change is that the net profit after tax of CCHL will increase as it will retain its existing level of tax deductible interest expense. This expense would have otherwise progressively reduced.

It is emphasised that this is not a change of the overall Borrowing Policy but simply a change in the methodology of implementing that policy. Council approval of this change is requested.

#### **IMPACT IN 1999/2000**

CCHL have indicated the intention to increase the level of dividend to CCHL for the current year to \$30 million against a CCC budgeted dividend of \$24.8 million. This will include \$3 million which had been previously provided for debt repayment. Council should therefore appropriate \$3 million for this dividend for debt repayment purposes when the dividend is received.

- Recommendation:**
1. That Council provision in its forward budgets for the repayment of debt be calculated with reference to the combined debt of CCC and CCHL in accordance with the Council's existing borrowing policy.
  2. That an additional amount of \$3 million be appropriated to the Debt Repayment Reserve for 1999/2000.