

**WAITAKERE CITY COUNCIL DEBT PORTFOLIO AT
31 October 2002**

	TERM DEBT (to fund long term assets)	(\$000's)
<i>Budget year end term debt position per 2002/2003 Annual Plan</i>	Budget term debt	199,824
	Further term debt approved by Council during 2001/2002	-
	Budget 2002/2003 year end gross term debt	199,824
	Forecast year end Sinking Fund Commissioner assets	5,448
	Anticipated 2002/2003 Year End Net Term Debt	194,376

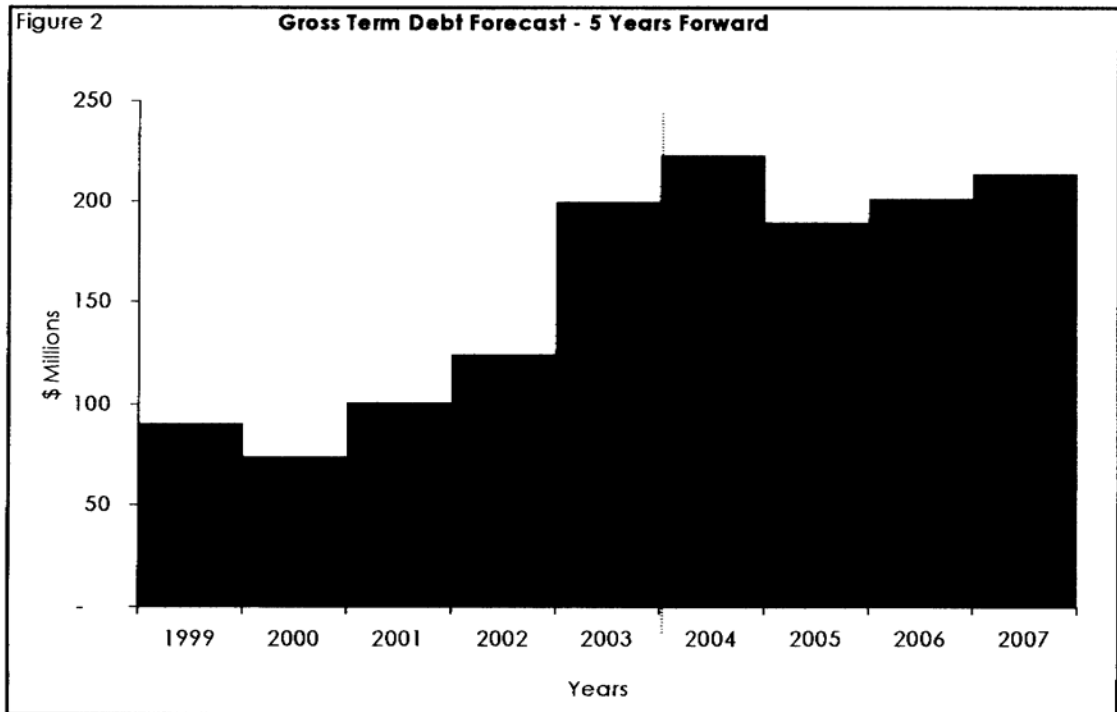
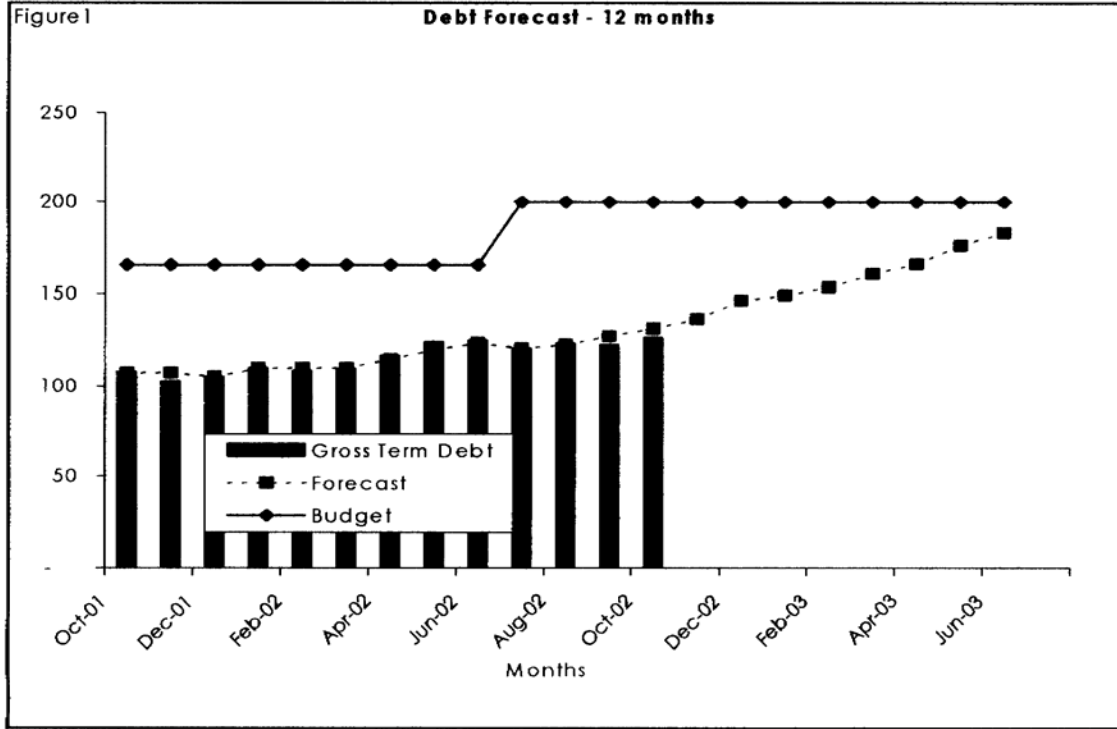
	October 02	September 02
	TERM DEBT PORTFOLIO	(\$000's)
<i>Term debt position at 31 October 2002</i>	Term debt borrowed externally	114,321
	Special funds (used to reduce Council's external borrowing)	12,007
	Gross term debt	126,328
	Total Sinking Fund Commissioner assets	4,824
	Net term debt	121,504

<i>Term debt - source of funds at 31 October 2002</i>	Debenture stock - fixed rate (security: Debenture Trust Deed)	53,796	62,796
	Debenture stock - floating rate (security: Debenture Trust Deed)	40,025	40,025
	Secured bank loans (security: Debenture Trust Deed)	20,500	7,500
	Unsecured bank loans	0	11,903
	Finance Leases (security: associated asset)	0	376
	External borrowing	114,321	122,599
	Special funds (used to reduce Council's external borrowing)	12,007	-
	Gross term debt requirement	126,328	122,599

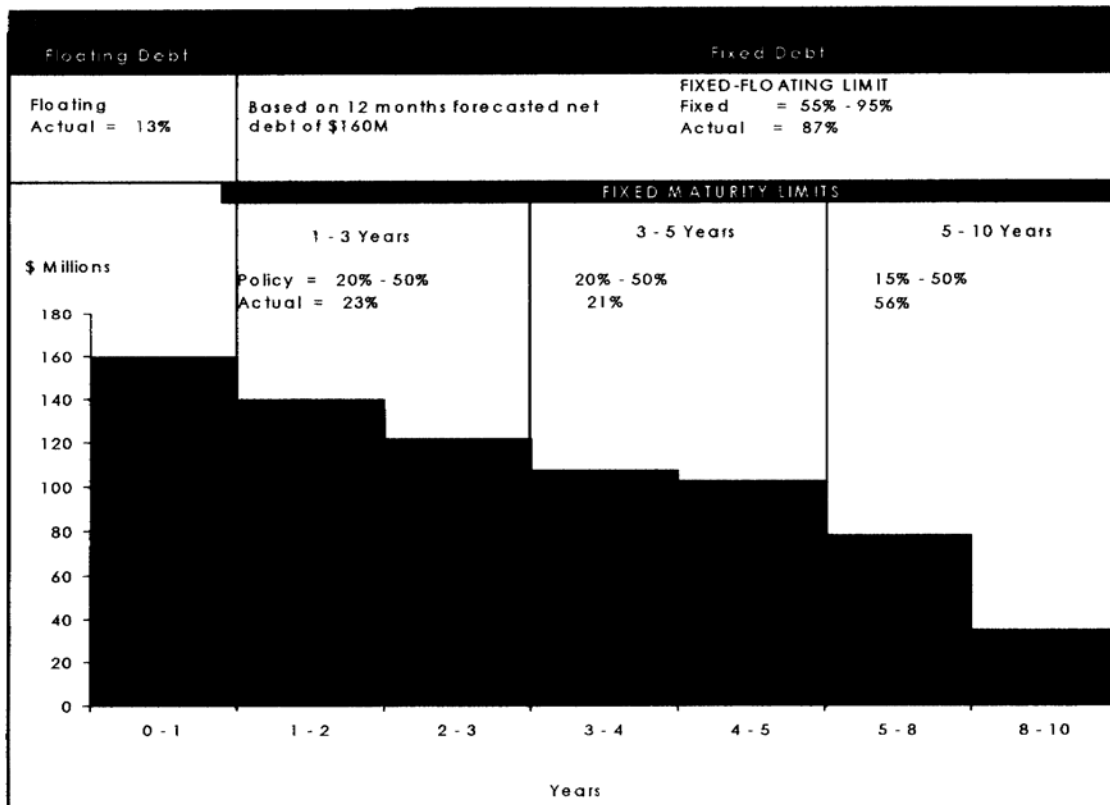
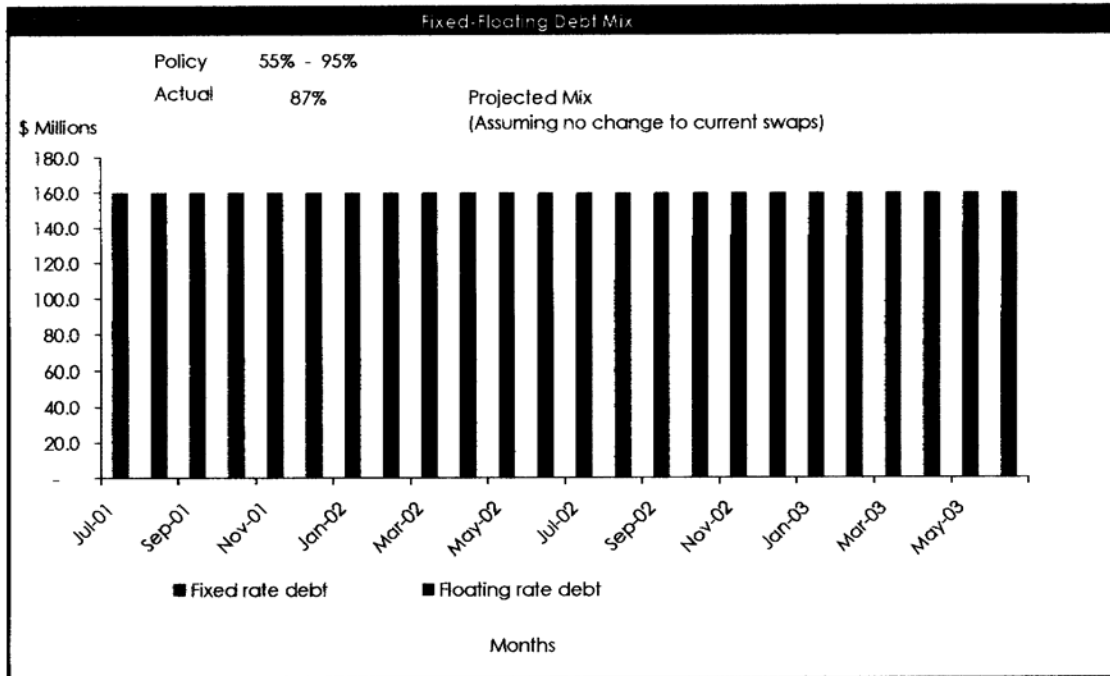
	WORKING CAPITAL	(\$000's)	(\$000's)
<i>Working capital borrowing at 31 October 2002</i>	Unsecured bank loans / (investments)	0	1,297
	Special funds (used to reduce Council's external borrowing)	1,317	11,634
	UNL Share Fund	19,500	0
	Council working capital borrowing requirement	20,817	12,931

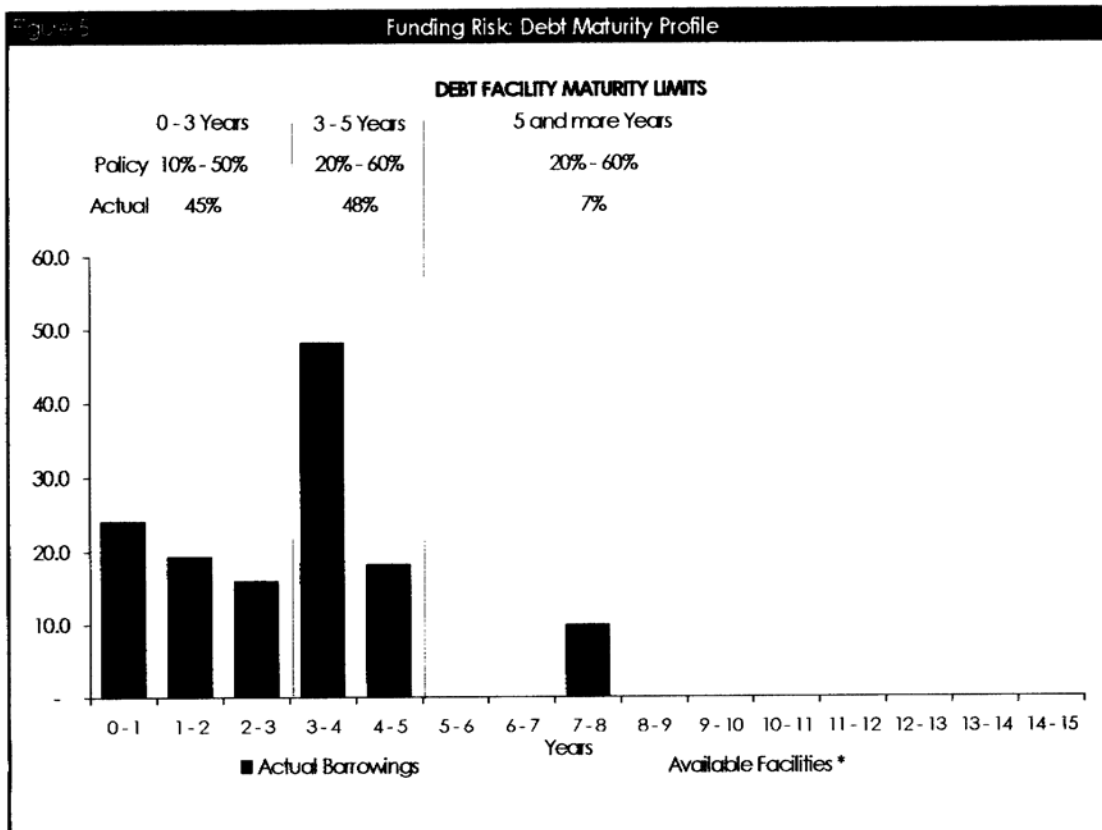
	CASH INVESTMENTS	(\$000's)	(\$000's)
<i>Cash investments held 31 October 2002</i>	UNL Share Fund	36,862	-
	Debt repayment fund	-	-
	ARST fund (excluding fund allocations)	1,108	1,103
	Total cash investments	37,970	1,103
	ARST Invested for 90 days - Current investment interest rate	5.86%	5.86%
	Weighted Average Interest Rate	%	%
	Gross Weighted Average Interest Rate	7.44%	7.58%

Debt Forecast



Fixed-Floating Debt Mix





* Note: (1) Available facilities net of 29.5m uncommitted borrowings
 (1) Council is in the unique position of having a \$50 million committed funding facility at zero cost for the non utilised portion of the facility. The nature of this facility may, depending on the utilisation, result in a breach of the funding maturity limits. As this facility is very much in Council's favour this is an acceptable breach of policy.

Summary of Debt Sources

Council Approved Debt Sources	Total		
	Committed Funding Sources	Usage	Available
Bank Loans			
Short Term (uncommitted)	\$0.0	\$0.0	\$0.0
Long Term (committed)	\$50.0	\$20.5	\$29.5
Commercial Paper			
Bank Overdraft	\$1.0	\$0.0	\$1.0
Senior Bonds			
Retail	\$15.7	\$15.7	\$0.0
Wholesale	\$78.2	\$78.2	\$0.0
Other	\$0.0	\$0.0	\$0.0
TOTAL	\$144.8	\$114.3	\$30.5

Notes:

Working capital borrowing is necessary due to fluctuations in the timing of operating revenue and expenditure. The working capital borrowing requirement also includes internal deficits relating to prior years. External working capital borrowing is reduced by the use of internal special funds with any surplus requirement funded by way of unsecured bank loans.

Gross Term debt is the borrowing relating to long term loan funded capital works projects. External borrowing to fund term debt is reduced by the use of internal special funds with the surplus requirement funded by way of secured or unsecured short term bank loans, fixed or floating medium or long term bonds and finance leases.

The managed debt portfolio refers to the portion of Council's total debt portfolio that is managed to reduce interest rate risk, liquidity/funding risk, counterparty risk and operational and legal risk as defined in the Borrowing and Investment Policy. The portfolio is managed on the external net term debt requirement excluding finance leases. i.e. it is net of the special funds that have been used to reduce the external term debt requirement and the sinking fund balance. Working capital is not included in the managed debt portfolio.

Special Funds are cash funds either collected through rates or vested to Council that have been 'set aside' for specific future spending. The funds are used in the interim to reduce Council's requirement to borrow externally. The fund is managed via accounting entries and a monthly interest allocation is made to the funds based on the Council's weighted average cost of borrowing for that period.

Description of Graphs:**Figure 1**

Gross term debt (blue) is the actual gross term debt position of Council as defined in the notes above. The *Forecast* (orange) is the projected gross term debt level per month in the current financial year, the figures are obtained from capital works timing forecasts (provided by budget managers on a monthly basis) and the current debt maturity profile. The *Budget* (green) line represents the gross public debt as approved in the 2002/2003 Annual Plan.

Figure 2

The prior year gross term debt figures (blue section) are obtained directly from the 'Term Liabilities' disclosure in published Annual Reports. The orange section is the projected gross term debt as forecast in the Annual and Strategic Plan 2000/2001 - 2009/2010.

Figure 3

The fixed (blue) and floating (orange) interest rate mix, both historic and projected, based on the 12 month rolling forecast net debt requirement. The Borrowing and Investment Policy minimum is 55% fixed and maximum 95% fixed. The positioning of the portfolio between policy minimum and policy maximum is dependent on the current and forecast financial market outlook.

Figure 4

Interest rate risk profile. Figure 4 shows, given the current fixed/floating rate mix and the debt forecast (assuming no changes to current swaps), the percentage of current fixed rate debt that will mature in future years. This enables Council to recognise and reduce significant concentrations of interest rate risk that may arise in future years. As debt forecasts change the amount of fixed cover in place may have to be adjusted to comply with the policy limits.

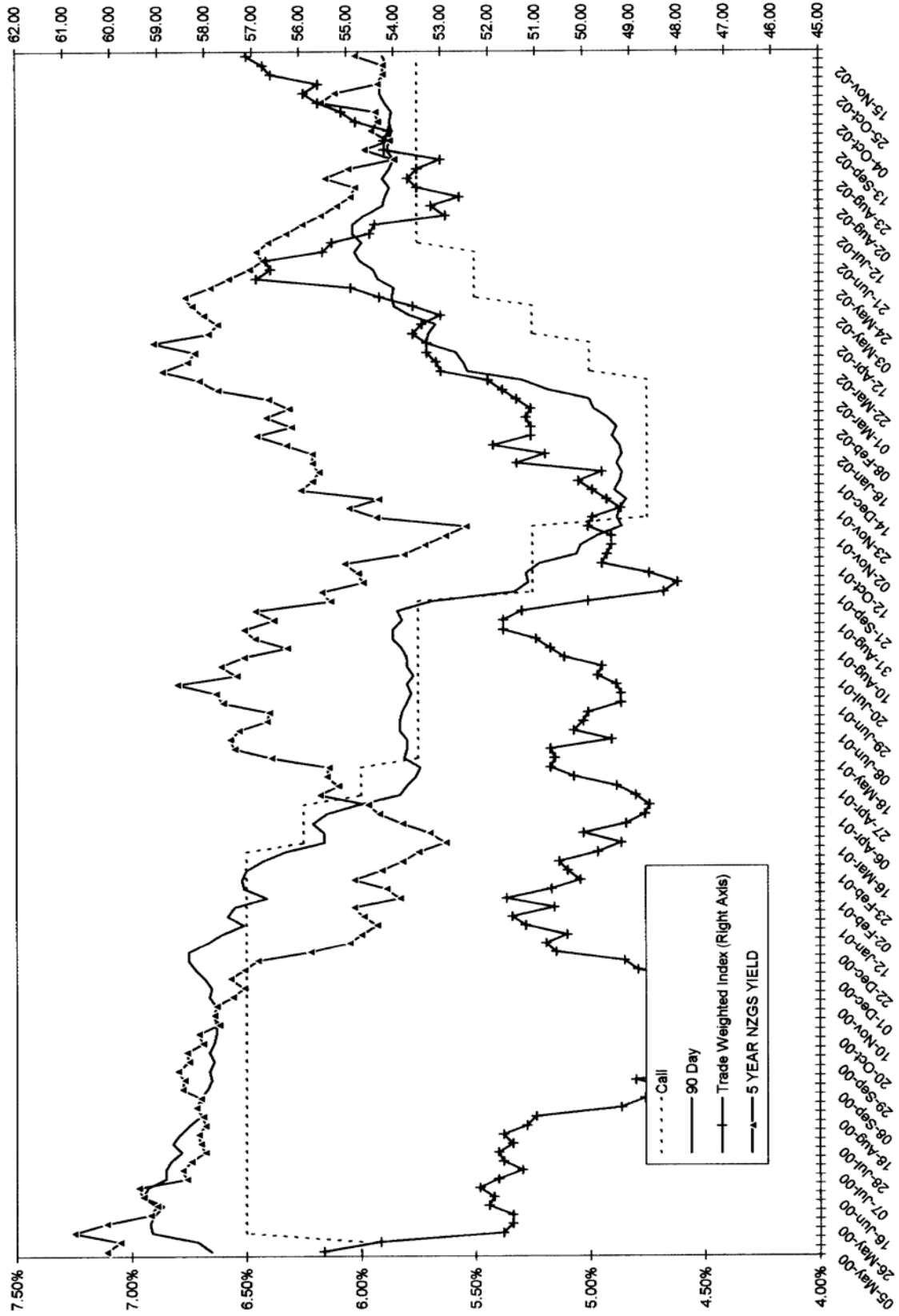
Figure 5

Funding and liquidity risk. Figure 5 varies from figure 4 in that it shows the actual maturity profile of current debt on issue as opposed to the profile of Council's exposure to interest rate risk arising when debt either reprices (in the case of floating rate debt or hedges) or matures. The debt maturity profile enables Council to identify significant concentrations of maturing debt and debt facilities. Where there are significant concentrations of debt maturing Council is at risk of not being able to re-borrow from the market at favourable rates.

Figure 6

In order to ensure Council has the ability to borrow from the market when funding is required committed funding facilities are arranged with approved debt sources. Figure 6 shows Council's committed funding sources and the current usage of these funds. In addition to the committed sources Council also uses uncommitted lines of funding as seen in short term bank loans and bonds, uncommitted funding is at times less expensive than committed funding however its availability is not guaranteed.

Wholesale Market Interest Rates and the Trade Weighted Index



Source: ASB Bank Economic Reports

18 **AIRPORT SHARE SALE PROCEEDS FUND – FINAL SUMMARY**

PURPOSE OF THE REPORT

This report is to advise Council that the proceeds received from the sale of Waitakere City Council's shareholding in the Auckland International Airport and subsequent interest earnings on the invested funds have now been fully utilised and provide a final summary of the use of the fund proceeds through 1998/1999 and 1999/2000.

BACKGROUND

The 1998/1999 Annual Plan allowed for the sale of Council's holding in the Auckland International Airport Limited and the shares were sold after advice from Bankers Trust during July and August 1998. Net proceeds from the sale realised \$31.74 million and a special dividend of \$5 million was also received.

FUND USE AND ALLOCATION

The 1998/1999 Annual Plan budgeted for the airport share sale proceeds to fund both the sinking fund contribution and the repayment of rates funded maturing debt, approximately \$5 million and \$14 million respectively. The interest earned on the fund in this year and the normal dividend as budgeted in the 1998/1999 Annual Plan was used to reduce the general rates requirement in 1998/1999.

Throughout the 1998/1999 financial year the surplus of the fund was used in the first instance to offset Council's overnight borrowing requirement, where this requirement was satisfied the remaining fund was invested to match Council's debt maturity profile. In 1998/1999 where Council used the fund to offset its overnight borrowing requirement an internal rate of interest (based on the current market overnight borrowing rate available to Council) was allocated to the fund.

The following table summarises the proceeds received and the use and allocation of the fund in 1998/1999.

	Fund Receipts (\$000's)
Proceeds received from sale of shares	36,748
Interest received on invested funds and overnight borrowing offset	1,058
Total receipts in 1998/1999	37,806

	Fund Allocation (\$000's)
Repayment of rates funded (fixed term) maturing debt	14,848
1998/1999 sinking fund contribution	4,994
1998/1999 Annual Plan budget requirement and payment of final dividend	1,740
Total fund use in 1998/1999	21,582

For the current financial year, any surplus fund was used in the first instance to offset Council's overnight borrowing requirement and the remainder was invested to mature and match Council's debt liabilities falling due. During 1999/2000 all interest earnings from the invested funds were capitalised back to the debt repayment fund. Because all interest earnings were directly applied to future debt repayment, where the fund was used to reduce the overnight borrowing requirement in 1999/2000 it was not necessary to allocate an internal rate of interest to the fund.

On 26 April 2000 the final \$771,701 of the fund was used to repay maturing debt and the fund expired. The following table summarises the proceeds received and the use and allocation of the fund in 1999/2000, the balance of the fund carried forward from 1998/1999 was \$16.224 million.

	Fund
Interest received on invested funds	532
Total receipts in 1999/2000	532

	Fund
Repayment of rates funded (fixed term) maturing debt	16,185
Repayment of rates funded (repricing) debentures	571
Total fund use in 1999/2000	16,756

SUMMARY

Council received \$36.748 million from the sale of its shareholding in the Auckland International Airport over a two week period in late July and early August 1998. From its investment of the surplus funds throughout 1998/1999 and 1999/2000 Council earned a total of \$1.59 million in interest.

A total of \$31.605 million of rates funded maturing debt was repaid over 22 months using the airport share sale fund. A further \$4.994 of the fund has been allocated to the future repayment of debt through a contribution to the sinking fund. The general rates requirement of the City was reduced by \$1.74 million in 1998/1999, through the use of interest earnings on the fund and an anticipated normal dividend as budgeted in the Annual Plan.

RECOMMENDATION

That the information be received.

Report prepared by: Kirsty Maxwell, Funds Accountant.



DEBT AND BORROWING CAPACITY

PURPOSE OF THE REPORT

The purpose of this report is to present to Council the currently adopted Borrowing and Investment Policy guidelines for debt ratios, and to represent these guideline against the current budget and adopted LTFS.

BACKGROUND

There are two basic methods of financing that any individual or organisation can use to purchase goods. These methods are referred to as either equity financing or debt financing. Equity financing assumes that the buyer has the ready cash, derived from income, or retained surpluses. Debt financing on the other hand is common when the cash is not available when a purchase is required. The choice of financing options is dependent on the organisations financial structure.

Waitakere City Council currently finances all new capital expenditure through debt financing. The philosophy being that future users of the purchased assets should ultimately be those that pay for them. If on the other hand such assets were purchased from current rate funds, then only today's ratepayers are effectively paying for the assets.

BORROWING AND INVESTMENT POLICY

Debt is not something that anyone should be afraid of, though debt does introduce a number of risks that need to be managed. The primary risks are the exposures to adverse interest rate movements and the ability to obtain funds at a reasonable price some time in the future. The Council manages such risks by adopting a Borrowing and Investment policy that introduces limits for debt management. The policy is subject to review each year.

The limit guidelines have been set as follows.

Ratio	
Net debt as a percentage of equity	<20%
Net debt as a percentage of income	<150%
Net Interest as a percentage of income	<15%
Net Interest as a percentage of annual rates income	<20%

Also, an addition to the above financial guidelines, Waitakere City Councils Borrowing and Investment Policy undertakes to limit net debt to \$1,200 per capita.

The rational behind these was to maintain limits as set by Local Government Finance Corporation (LGFC). In some cases LGFC levels are more flexible, \$1800, net debt per capita and net interest as a percentage of rates less than 30%, for instance. As a result the ratios that have been adopted by the Council have been somewhat tighter than LGFC requirements.

Further to LGFC ratio requirements is the financial markets perceived risk of the Council. As with other Councils, Waitakere City has a Debenture Trust Deed that is used as security when raising debt. The deed gives the investor security through a charge over future rates. This effectively reduces the risk of default by Waitakere City Council when the loan matures, as the investor will have a charge over rates. Further more, if New Zealand financial markets became more illiquid than normal, Waitakere City Council can simply pursue financing options through committed cash facilities with commercial banks, as is the case with the \$50 million ANZ facility.

ANALYSIS OF CURRENT POLICY LIMITS

As debt increases, interest expense is likely to rise, and more ratepayer money is used to service the interest expense, meaning that if Council rate income stays fixed, then the Council may have to consider a decrease in service levels and activities. When we compare our current Annual Plan and Long Term Financial Strategy (LTFS) we do begin to see the current policy limits challenged. Attached at Page A is a table showing when and what current policy limits are likely to be affected.

Under the current adopted Annual Plan and LTFS some pressure is found in the 2003/04 year when net debt is forecast to reach \$218 million. This is only a short-term spike that should not cause concern as the following year the United Network shares become available for sale and the proceeds from this sale would ultimately reduce debt levels. However, pressure again is observed during the 2006/07 year and after in the net debt per capita ratio. Again this should not cause concern as the Council's ratios have some room to be increased, while still not breaching LGFC's recommended levels.

The existing ratio guidelines as adopted in the Borrowing and Investment Report are not intended to restrict Council from pursuing opportunities as they arise, though they are intended as a guide of the Councils current prudent financial management philosophy.

There is room to increase the ratios up to LGFC levels, or greater if desired. The cost of maintaining excessively loose ratio limits however, maybe the markets increased perceived risk, which will be reflected in the cost of future borrowing.

There are a number of other options the Council could consider when adopting future borrowing programmes which would not need substantial loosening of current borrowing ratio levels.

The rating for full cost of depreciation now rather than in 2005/06 would improve the Councils net debt position over the entire period reported as per the planned LTFS. By funding Depreciation sooner than later, some flexibility is obtained in increasing the future borrowing programme.

Another option is pursuing expenditure programmes that generate a return on investment to Council. This could mean clustering Council services with private sector services that are complimentary to each other. Council would raise the funds and complete the development. Return on investment for Council maybe in the form of rental from tenants. Such a return increases income for Council and increase the value of debt repayment, if directed that way.

CONCLUSION

Council borrows money in order to fund it's capital expenditure programme. Such a borrowing programme has guideline ratios contained within the Borrowing and Investment Policy. As debt increases, these ratios come under pressure. The ratios are not intended to restrict Councils ability to pursue future opportunities, however, excessively loose control may result in increased borrowing costs. As much as there is some flexibility to change the existing debt ratios, Council could consider other options of maintaining a debt programme that allows for a greater repayment programme.

RECOMMENDATIONS:

1. That the information be received.

Report prepared by Andrew Pollock, Director: Finance.