

# STAFF REPORT

**TO:** Chair and Members, Corporate Services Committee

**FROM:** Murray Staite

**DATE:** 21 November 2007

**SUBJECT:** **Port Nelson Share Buy-back Fund**

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## REASON FOR REPORT

To seek approval from Council to repay \$12.5 million of debt from the Port Nelson Share Buy-back fund.

## BACKGROUND

At the meeting of 25 July 2007 staff were asked to report back on whether the share buy-back fund would be better utilised repaying debt or being invested.

## DISCUSSION

To help answer this question, Asia and Pacific Risk Management (APRM), in conjunction with staff, were commissioned to review both options. APRM have undertaken considerable work for local authorities in New Zealand and are widely respected in their field. Any such review of options needed to take into account the risk associated with investments. The old adage the higher the return the higher the risk is still true today.

Council is naturally risk averse and this is reflected in our treasury policy and the advice being provided today.

I am aware as we all are of some councils with significant investment funds that are achieving high returns. However, these councils had significantly higher starting capital to invest and have accepted a higher level of risk.

To maintain an appropriate level of risk, Council would need to invest in strong credit-rated securities over the long term. These securities would need to return margins significantly over the cost of borrowing and provide a strong cashflow that could be used to offset rates.

While these securities would provide good returns they are lower than the cost of debt. Accordingly, Council can provide a better return to ratepayers at a lower risk through the repayment of debt rather than investing.

I have concluded that the appropriate option to Council considering risk and return is to repay debt. Further work needs to be undertaken as to which parts of our community should benefit from this debt reduction.

## **RECOMMENDATION**

That the \$12.5 million share buy-back fund be used to repay existing debt and staff be requested to prepare a report on which debt should be repaid.

Murray Staite  
Corporate Services Manager