Liability Management Policy

1. Legislative Provisions

The Local Government Act (LGA) 2002 requires:

- liabilities to be managed prudently and in a manner that promotes the current and future interests of the Community (Section 101(1));
- a Liability Management Policy to be adopted by Council (Section 102); and
- specific content of such a policy (Section 104).

2. Objectives

a. The objectives of the Liability Management Policy are to:
   - minimise the cost of borrowing (including interest, contracted services, staff, time and administration);
   - minimise the exposure to the risks associated with borrowing;
   - maintain strong financial ratios;
   - consider long term indebtedness as a means of creating intergenerational equity; and
   - maintain the integrity of Council's Long Term Plan (LTP).

b. The objectives of the Management of Liquidity and Funding Risk are to:
   - ensure Council's continued ability to meet its debts in an orderly manner as and when they are due in both the short and long term, through appropriate liquidity and funding risk management;
   - arrange appropriate funding facilities for Council, ensuring they are at market related margins utilising bank debt facilities and/or capital markets as appropriate; and
   - maintain lender relationships and Council's general borrowing profile in the local debt and capital markets, so that Council is able to fund itself appropriately at all times.

c. The objectives relating to Reporting are to:
   - produce accurate and timely information that can be relied on by senior management and the full Council for control, exposure monitoring, and performance measurement purposes in relation to treasury activity.

3. Current Liabilities

Current liabilities are those which Council has to meet within the following 12 months.

Council will arrange such terms and conditions as it considers necessary for the establishment and provision of normal trade credit to enable it to carry out its Activities. Such credit will not normally involve the issue of any security, undertaking, or collateral as a condition of the provision of such credit, except finance leases and hire purchase, which normally include a charge over the assets being purchased.

Council policy is to pay all routine expenditure obligations by the due date.

4. Borrowing

(For these purposes 'borrowing' does not include hire purchase, deferred payment, or the giving of credit for goods and services where the transaction is for less than 91 days or does not exceed $500,000).

4.1 Borrowing Limits

Debt will be managed within the following limits:

- Net annual interest costs will not exceed 20% of total annual operating revenue.
- Net annual interest costs will not exceed 25% of total annual rates revenue.
- Net debt shall not exceed 195% of total operating revenue.

Council will also monitor and report:

- The ratio of equity: debt.
- Debt per rateable property.

4.2 Instruments or methods to raise debt

The following funding instruments and methods may be used by Council to raise external debt:

- Committed bank facilities.
- Uncommitted bank facilities.
- Local Authority Bonds which includes fixed rate bonds and floating rate notes.
- Medium Term Notes.
- Local Government Funding Agency.

4.3 Management of Interest Rate Risk

Fixed Rate Hedging Percentages		
Years	**Minimum Fixed Rate Amount**	**Maximum Fixed Rate Amount**
0 - 2 years	45~~0~~%	100%
2 - 4~~5~~ years	25%	80%
4~~5~~ -8~~10~~ years	0%	60%

The fixed rate hedging percentages shall apply to the core debt of Council as detailed in the Annual Plan or as otherwise amended by the ~~Finance Manager~~Chief Financial Officer or in their absence the Finance Manager.

The ~~Finance Manager~~Chief Financial Officer or in their absence the Finance Manager after consulting with appropriate external advisors may use the following interest rate risk management instruments to manage the core debt of Council.

- Interest rate swaps.
- Swaptions (options on swaps).
- Interest rate options, including collar type structures but only in a ratio of 1 : 1.
- Forward rate agreements.

4.4 Management of Credit Risks

All bank borrowing and interest rate hedging transactions must be undertaken with a New Zealand Registered Bank with a minimum Standard and Poor's Long Term credit rating of at least A+ (or the Moody's or Fitch Ratings equivalents).

Council will satisfy itself in all its borrowing transactions that counterparties are financially adequate, have an appropriate industry standing, and have an appropriate track record to give Council reasonable certainty that obligations under concluded contracts will be performed.

4.5 Management of Liquidity Risks

Liquidity Risk Management has the objective of ensuring that adequate funding sources and liquid assets are available at all times to meet the short term commitments of Council as they arise. Appropriate cash flow reports will be maintained to monitor Council's estimated liquidity position over the next 12 months, with such reports being updated at least every three months.

The establishment of any overdraft facility is delegated to the ~~Group Manager~~Chief Financial Officer ~~– Finance~~ or Finance Manager.

4.6 Management of Funding Risk

- Council must maintain committed funding lines of not less than 110% of projected core debt.
- Where practicable n~~N~~o more than 50% of debt shall mature in any rolling 12 month period.

4.7 Debt Repayment

Loan Repayment Reserves will be established to ensure that sufficient funds are on hand to allow appropriate repayment and/or appropriate refinancing.

4.8 Provision of Security

When arranging funding facilities, Council will have a preference for unsecured facilities unless a cost benefit accrues from offering security.

Council's first choice will be to offer security for borrowings by way of a pledge of rates.

Physical assets will be pledged only where there is a direct relationship between the debt and the asset purchase or construction, or Council considers such a pledge to be more appropriate.

Finance leases for such assets as office equipment, information technology, and vehicles may be entered into provided that the interest rates are commercially advantageous.

4.9 Accountabilities

The management of approved borrowing and interest rate instruments will be carried out by the ~~Finance Manager~~Chief Financial Officer or in their absence the Finance Manager.

The quarterly debt reports shall detail Council's weighted average cost of funds as at the end of the relevant quarter.

The ~~Group Manager – Finance o~~r ~~Finance Manager~~Chief Financial Officer or in their absence the Finance Manager will report to the Finance, Audit and Risk Subcommittee or Council meetings on borrowing management transactions and any instances where the policy has not been able to be complied with, and on all aspects of the Liability Management Policy.

There will also be accountability through the Annual Report at the end of the year.

4.10 Internal Borrowing

Council may, from time to time, instead of raising loans or borrowing on overdraft, internally borrow from any Special Fund accounts on such terms and conditions as it thinks appropriate in any instance, but without interrupting the normal cash flow requirements of any such fund. Such terms and conditions may include, amongst other matters, a nil rate of interest and deferral or future waiving of repayments.

Repayments may be made directly to the source fund or through an Internal Loan Repayment Fund.

Internal borrowing arrangements will not be subject to clauses 4.1 or 4.2 of the Liability Management Policy.

The interest rate for internal borrowing will be the sum of the current three year swap bid rate as quoted by Council's principal bank, plus a margin (which includes a commitment fee) of 1.50%.

4.11 New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Liability Management Policy, Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) as a Principal Shareholding Local Authority. In connection with that borrowing, Council may enter into the following related transactions to the extent it considers necessary or desirable:

(a) Contribute a portion of its borrowing back to the LGFA as subordinate debt, convertible equity if required by LGFA;
(b) Provide a guarantee of the indebtedness of the LGFA;
(c) Commit to contributing additional equity to the LGFA if required;
(d) Subscribe for shares and uncalled capital the LGFA; and
(e) Secure its borrowings from LGFA, and the performance of other obligations to the LGFA or its creditors with a charge

over Council's rates and rates revenue.