

## Liability Management Policy

Council's general policy on Liability Management under Sections 102 and 104 of the Local Government Act 2002 is set out below. The Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4 is also relevant.

Council's detailed operational policy is included in its Treasury Management Policy and Procedure Manual which includes Council's detailed objectives, policies, strategies, monitoring and reporting procedures.

This policy will be reviewed and updated at least every three years as part of the update of Council's Long Term Plan (LTP).

### 1. Objectives

Council's policies on liability management are based on the following key elements:

- liabilities must be maintained at a prudent level
- borrowings provide a basis to achieve intergenerational equity
- borrowings are done globally to fund the entire Council balance sheet
- borrowings must be undertaken efficiently and in accordance with this policy.

Council will borrow as it considers appropriate. Generally, Council will approve borrowing and facilities as part of either the Long Term Plan or the Annual Plan.

The estimated debt levels are based on the cash flow projections in these plans.

A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:

- The period of indebtedness is less than 91 days (including rollovers); or
- The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding, in aggregate, an amount determined by resolution of Council.

Council delegates its borrowing powers and management of Council to the Chief Executive in accordance with the Delegation Manual and as set out in the Treasury Management Policy and Procedure Manual.

### 2. Borrowing limits

Council will manage external borrowing as required within the limits approved by Council as set out in the Treasury Management Policy and Procedure Manual. In managing borrowing limits Council will utilise the following measures:

Ratio	GDC Limits	Effective GDC External Debt Limit (30 June 2014)
Net external debt as a percentage of income	<95%	\$77m
Net external debt per capita (43,656 residents)	<\$1,700	\$74m
Net interest on external debt as a percentage of income (interest @ 6%)	<10%	\$135m
Net interest on external debt as a percentage of annual rates income (interest @ 6%)	<15%	\$126m
Liquidity (external debt + committed debt facilities, + cash or cash equivalents) over existing external debt	110%	110%

Council will adhere to the borrowing limit that is reached first and provides the lowest level of debt capacity. Council will report compliance to these limits on a quarterly basis.

### 3. Types of Borrowing

Council will utilise the most appropriate and cost effective borrowing source as determined by management. Approved sources for borrowing are:

- short-term and medium-term borrowing from the NZ banking market
- leasing and hire purchase (including sale and lease back where appropriate)
- issue of Local Authority stock and debentures to the wholesale investor market
- issue of Commercial Paper, notes and bonds to the wholesale investor market
- borrowing through the Local Government Funding Agency (LGFA).

Council may approve other sources of financing as recommended by management which will be subsequently incorporated into the Treasury Management Policy and Procedure Manual.

### 4. New Zealand Local Government Funding Agency Limited

Council may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, for example borrower notes

- provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself
- commit to contributing additional equity (or subordinated debt) to the LGFA if required
- secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over Council's rates and rates revenue
- subscribe for shares and uncalled capital in the LGFA.

## 5. Security

All Council loans and interest rate risk management instruments will be either unsecured, or secured under Council's Debenture Trust Deed.

This security relates to any loan and to the performance of any obligation under any incidental agreement.

A charge will be granted over assets only where:

- there is a direct relationship between the debt and the asset purchase/construction for example operating lease or project finance
- Council considers a charge over assets to be appropriate
- any charge must comply with the terms and conditions contained within the trust deed.

However, before securing borrowings over specified assets or rates revenue, Council will consider all options and choose the preferred option balancing flexibility, overall cost of borrowing and terms/conditions.

A register of charges is maintained at Council's offices.

## 6. Debt repayment

Council will manage debt on a netting basis at all times, i.e. it will fund the balance sheet as a whole netting off reserves and borrowings to minimise external borrowings.

Council may repay borrowings from renewal loans or surplus funds.

Subject to any specific direction from Council, the funds from the disposition of fixed and investment assets will be applied in reduction of debt and/or borrowing requirements.

Operating surpluses will also be applied to the reduction of debt.

## 7. Internal debt management

As external borrowings fund the entire Council balance sheet, Council utilises internal loans to allocate borrowing costs to the appropriate cost centre.

The Treasury function will be responsible for administering the Council's internal debt portfolio.

Internal loans are set up within the internal debt portfolio for each department's loan-funded expenditure.

## 8. Credit exposure

Council is exposed to credit risk when there is a deterioration of the credit rating:

- of an entity with which the Council places its investments
- of a counterparty with whom the Council may transact financial derivative contracts
- of a contractual counterparty with whom the Council may have concluded major supply, construction or service contracts.

Council limits its credit risks by:

- placing investments with approved organisations and within the maximum levels set out in the Treasury Management Policy and Procedure Manual
- financial derivative contracts are only transacted with registered banks with a strong long-term credit rating issued by Standard and Poor's (or an equivalent) and the maximum exposure to any one party will be limited as set by Council in the Treasury Management Policy and Procedure manual
- all parties with whom Council intends to conclude a major contract will be subject to formal credit approval process as set out in the Treasury Management Policy and Procedure Manual.

## 9. Interest rate risk exposure

Interest rate risk is the risk that funding costs (due to adverse movements in market interest rates) will exceed the Annual Plan or the Long Term Plan cost projections. This would adversely impact on borrowing cost controls, capital investment decisions and the feasibility of some projects.

Interest rate risk management is carried out using approved financial instruments including:

- interest rate swaps
- forward rate agreements

- purchased interest rate options, including options on bank bills (caps) and swaps (swaptions)
- interest rate collars but only on a 1:1 basis.

Credit exposure on these financial instruments is restricted by specified counterparty credit limits set out in the Treasury Management Policy and Procedure Manual.

Any other financial instrument must be specifically approved by Council on a case-by-case basis. Approved instruments cannot be sold outright for the purpose of generating income as this represents speculative investment which is prohibited by Council.

Approved instruments can be dealt with on a forward start basis but are limited to a forward start period of no more than 24 months, unless linked to the expiry date of an existing instrument and has a notional amount which is no greater than that of the existing instrument. This is in accordance with the limits set out in the Treasury Management Policy and Procedure Manual.

#### Interest rate risk control limits

Council's interest rate repricing risk on its 12 month forecast net debt/borrowings, must be within the fixed interest rate risk control limits, and the interest rate maturity time band limits set by Council. These limits are set out in the Treasury Management Policy and Procedure Manual.

A schedule outside these limits requires specific Council approval.

### 10. Liquidity risk

Council cash flows will have deficits in various periods and years as a result of working capital requirements, the nature of net cash flows, the capital expenditure programme and the maturity profile of loans and other advances.

Liquidity risk management focuses on the ability to borrow at these times to fund deficits.

Funding risk management concentrates on the ability to refinance or raise new debt in a cost effective manner (including fees, borrowing margins and the maturity profile).

Liquidity and funding risk control limits are set out in the Treasury Management Policy and Procedure Manual.

Council will minimise its liquidity risk by:

- matching expenditure closely to its revenue streams and managing cash flow timing differences through its bank facilities
- maintaining its cash management investments in liquid and negotiable instruments and unutilised committed bank facilities

- ensuring that treasury investments are only made with approved institutions utilising approved financial instruments in terms of the Council's investment policy

- avoiding a concentration of debt maturity dates

- establishing committed bank debt facilities with strongly credit rated banks that are registered with the Reserve Bank of New Zealand.

Council has the ability to prefund up to 12 months of forecast debt requirements including refinancings.

### 11. Operational risk

Operational risk arises from the nature of treasury activities.

These are principally financial transactions of often large denominations, regularly initiated verbally and often comprising complex instruments where simple mistakes can lead to significant loss.

Council policy is to minimise losses arising from mistakes and lack of adherence to policies by:

- appropriate and clear delegation of authority to specified individuals within the organisation
- clear-cut division of responsibilities between authorising/executing and recording/settling transactions
- timely and accurate reporting to allow monitoring of risk and policy adherence
- annual reviews of Treasury Policy and Treasury operation.

Detailed procedures and controls are documented within the Treasury Management Policy and Procedure Manual.

### 12. Reserves

Council has a number of reserves that have been created for specific purposes which the Treasury function is responsible for administering. Council does not generally hold liquid assets to support reserves, rather funding is arranged as required to match withdrawals from reserves. Council maintains committed loans and liquid bank deposits sufficient to cover the sum of its contingency reserves.

### 13. Contingent liabilities

Council provides financial guarantees to community and service organisations. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis.

Should the guarantee be called up, Council takes immediate action to recover the money.

## 14. Foreign exchange risk

From time to time Council may have foreign exchange exposure through the occasional purchase of foreign currency denominated plant, equipment and services.

All foreign exchange exposures are recognised and hedged in accordance with the Treasury Management Policy and Procedure Manual when the exact timing and amount of the exposure is known. Exposures are hedged using foreign exchange contracts arranged by Council or the supplier.

Council will not borrow or enter into incidental arrangements within or outside New Zealand in a currency other than the New Zealand dollar.

## 15. Other grants and advances

Council acts as a middleman for various community organisations.

It receives grants from various sources and makes advances on these funds after relevant approvals.