

Liability Management Policy

Objectives

- To disclose Council's intentions regarding borrowing, debt and other liabilities to enable monitoring of Council's prudent financial management.
- To comply with Sections 102 and 104 of the LGA requiring Council to develop a Liability Management Policy.
- To maintain liquidity levels and manage cash flows within Council to meet known and reasonably unforeseen funding requirements.

Principles

The Liability Management Policy is developed pursuant to Section 102(4) of the LGA to meet the requirements of Section 104, for Council to adopt a policy disclosing the method by which it will manage its borrowing, issuing of securities, debt management and interest rate exposure. Council has two types of liabilities: current and non-current liabilities.

The following Community Outcome is targeted by this Policy:

CO 6 Leadership is respected, trusted, transparent, accountable, and visionary with integrity and a positive attitude.

Background

Section 104 of LGA states:

A policy adopted under Section 102(4)(b) must state the local authority's policies in respect of the management of both borrowing and other liabilities, including:

- Interest rate exposure
- Liquidity
- Credit exposure
- Debt repayment
- Specific borrowing limits
- The giving of securities.

Policy Statement

1. Scope

1.1 Current Liabilities

Current liabilities are Council's financial commitments that must be paid within 12 months from the date of the period under review. They include accounts payable, accrued expenses and the current portion of the Public Debt.

Council policy is to pay all routine obligations of its operational and capital expenditure in full (or to the full extent of any contractual obligations) by the due date.

1.2 Non-Current Liabilities

- Non-Current liabilities are also known as long term liabilities. They are financial commitments of Council that in general terms are not due to be paid within 12 months from the date of the period under review.
- Public debt is the most common example, but long term lease obligations or deferred settlements are also term liabilities in this section.
- Council is a risk-averse entity.
- Speculative activity is prohibited.
- Interest rate risk and credit risk are risks that Council seeks to manage by following the policy.

1.3 Public Debt Repayment

Council repays borrowings from reserves, available bank facilities or from general funds.

1.4 Public Debt Security

Public debt is secured by registered charge over Rates Revenue.

2. Risk Mitigation

2.1 Interest Rate Exposure

Objective: To mitigate the effect of interest rate increases and to stabilise interest costs.

Risk	Risk Management
Interest rate increases	Use of hedging transactions to reduce risk, adjust an undesirable maturity profile or a fixed versus floating interest rate position. No more than 20% of total debt may be at a floating interest rate.
High levels of public debt mature at the same time, leading to high refinancing rates (market dependant).	Council's targets are: No more than 40% of total debt may mature within any one annual planning cycle. Debt maturity levels should not exceed the guidelines outlined below.

2.2 Debt Maturity Levels: Investment Rate Exposure

Period to Maturity	Minimum %	Maximum %
0 - 12 months	10%	40%
12 months - 2 years	10%	40%
2-4 years	20%	50%
4 years +	10%	20%

2.3 Liquidity

Objective: To maintain access to funds so that Council's routine commitments can be met.

Risk	Risk Management
Disruption of cash flow. Major disruption to financial markets. Natural disaster affecting part of the District or Region that results in a severe disruption to Council's routine revenues.	Treasury investments shall not be invested in instruments maturing in more than 12 months time unless an appropriate resolution is obtained from Council. Maintenance of a bank standby facility at a level that will ensure that Council will have access to emergency funds. Maintenance of an adequate level of liquidity, including through a cushion of liquid assets. Retaining of membership to the Local Authority Protection Programme. Debt maturities are spread over a band of maturities to ensure that no more than 40% of total borrowing is subject to refinancing in any financial year.

2.4 Credit Exposure

Objective: To minimise credit risk to Council.

Risk	Risk Management
Deterioration of the credit rating of an entity with which Council has term debt or entered into a major contract.	Financial derivative contracts are only to be concluded with registered banks. All parties with whom Council intends to enter major contracts will be subject to a risk assessment undertaken by Council. Council will only enter into borrowing agreements with creditworthy counterparties. Low-risk, credit-worthy counter parties are selected on the basis of ratings from reputable credit agencies. Speculation with regard to using non-creditworthy parties is prohibited. Council will seek a diversified pool of creditworthy stock and borrowing institutions, and ensure that bank borrowing is sought from an approved list of registered banks.

3. Debt Repayment

The funds from all asset sales and operating surpluses will be applied to the reduction of debt and / or a reduction in borrowing requirements, unless Council specifically directs that the funds be put to another use.

Council will manage debt on a net portfolio basis at all times.

4. Limits on Borrowing

Objective: To maintain Council's borrowing within the parameters during the period of this LTP

Ratio	Acceptable Range	Limit
Interest/Operating Revenue	3% - 12%	15%
Total liabilities/Total Assets	< 12%	15%
Net Debt/Operating Revenue	1-1.5	2

4.1 Borrowing Exposure

Objective: To constrain borrowing to within limits outlined within this policy.

5. Borrowing Mechanism

Council is able to borrow through a variety of market mechanisms including issuing stock and debentures,

direct bank borrowing or assessing the short and long-term capital markets directly.

Council may use a mixture of short-term facilities (which generally have lower credit margins) as well as longer-term facilities to achieve an effective borrowing mix, balancing the requirements of liquidity and cost.

6. *The Giving Of Securities*

Objective: To enable Council to secure finance for borrowings

Risk	Risk Management
<p>Adequate funding for Council activities may not be raised without security.</p> <p>Security will not be given over one or more of Council's assets without prior Council resolution.</p>	<p>Security will be provided over rates (as per section 115 of LGA) revenue unless special circumstances require security over assets or specially deemed rates.</p> <p>Where borrowing is by way of finance lease, or some other form of trade credit under which it is normal practice to provide security over the asset concerned, Council may offer security over the asset.</p>

Delegations

The delegated authority regarding liability management is with the Chief Executive.