

LIABILITY MANAGEMENT POLICY

1. Local Government Act 2002 Requirements

Section 104 of the Local Government Act 2002 requires each local authority to have a liability management policy that includes policies for:

- interest rate exposure
- liquidity risk
- funding risk
- counterparty risk
- debt repayment
- specific borrowing limits
- giving of securities

2. Objectives

The objectives of the Liability Management Policy (“LMP”) are consistent with corporate best practice and will take into account the Council’s annual and strategic plans and its long-term financial strategy.

The key objectives of the Council’s Liability Management policy are to:

- ensure that the Council has an ongoing ability to meet its debts in an orderly manner as and when they fall due in both the short and long term, through appropriate liquidity and funding risk management.
- arrange appropriate funding facilities for the Council, ensuring they are at market related margins utilising the Local Government Funding Agency (“LGFA”), bank debt facilities and/or capital markets as appropriate.
- maintain lender relationships and the Council’s general borrowing profile in the local debt and, if applicable, capital markets, so that the Council is able to fund itself appropriately at all times.
- control the cost of borrowing through the effective management of its interest rate risks, within the interest rate risk management limits established by the LMP.
- ensure compliance with any financing/borrowing covenants and ratios.
- maintain adequate internal controls to mitigate operational risks.
- produce accurate and timely reports that can be relied on by senior management and the Council for control and exposure monitoring purposes in relation to the debt raising activities of the Council.
- prudently manage the Council’s borrowing activities.
- borrow only under the Council’s approved facilities and as permitted by this policy.
- maintain operational controls and procedures to protect the Council against financial loss, opportunity cost and other inefficiencies.

3. Concurrent Policies

The Council has an Investment Policy, and a funding policy for capital expenditure which should be read in conjunction with this policy.

4. Borrowing Management

The Council raises loans for the following primary purposes:

- specific debt associated with projects and capital expenditure.
- finance leases for fixed asset purchases.
- to fund assets with intergenerational qualities.
- general debt to help fund working capital.

When evaluating new borrowings (in relation to source, term, size, and pricing) the following factors will be considered:

- the size and the economic life of the project.
- earnings, if any, flowing from the project.
- the impact of the new debt on the borrowing limits
- relevant margins under each borrowing source.
- the overall cashflow requirements of the Council.
- the Council's overall debt maturity profile.
- prevailing interest rates and credit spreads relative to term for LGFA and capital markets sourced debt and bank borrowing and an assessment of future credit spreads and interest rate movements.
- available terms for LGFA, capital markets and bank debt.
- legal documentation and financial covenants.

4.1 Borrowing Authority

It is intended that all borrowings will be identified in the Long Term Plan ("LTP") or Annual Plan. The authority to carry out such borrowings may be exercised by any person with the delegated authority to do so.

Borrowings not in accordance with the LTP or Annual Plan must be authorised by resolution of the Council.

Borrowings raised on behalf of Council Controlled Organisations and for commercial activities will be assessed on the individual case basis. These borrowings must be authorised by the relevant Board (if applicable) and by the Council.

4.2 Borrowing Facilities

The Council may borrow from any New Zealand Registered Bank with a Standard and Poors short term rating of 'A-1' and a minimum long term rating of 'A'. There will be no limit set on the amount of funds which any of the authorised banks may lend the Council.

The Council may also authorise the issue of local authority bonds and debt sourced from the LGFA.

All borrowing facilities must be denominated in New Zealand dollars.

4.3 Borrowing Limits

The Council will adhere to the following limits (based on the Council's latest core financial statements):

- Net debt as a percentage of total revenue shall be less than 175%.
- Net interest as a percentage of total revenue shall be less than 20%.
- Net interest as a percentage of rates shall be less than 25%.

5. Debt Repayment Policy

The Council's policy on debt repayment is to ensure that the Council is able to repay debt on maturity with minimum impact on the Council's operations.

Repayment of debt (interest and principal) is governed by the:

- Affordability of debt servicing costs.
- Sustainability of debt over the long term.
- Maintenance of prudent levels of debt at all times.
- Preservation of flexibility in borrowing capacity to deal with community and Infrastructural needs which will arise in the future.
- Intergenerational equity principles (past, present and future).

The application of surplus cash will have the following priority:

1. Repayment of debt
2. Priority projects
3. Investment

6. Security Policy

The Council policy on security is to ensure that the Council is able to provide suitable security to investors, whilst retaining maximum flexibility and control over assets.

The security for most of the Council's debt will be the ability to levy rates. The Council may offer assets or rates as security for its borrowing.

The Local Government Act requires this security to be registered under the Companies Act. This registration is available for public inspection.

7. Interest Rate Exposure

7.1 Objectives

The key objectives of interest rate management are to:

- Prudently manage the Council's interest rate exposures.
- Maintain interest rate profiles as required by this policy.

7.2 Interest Rate Risk Management

The Council's borrowing gives rise to direct exposure to interest rate movements. It is the responsibility of the Chief Financial Officer to implement an interest rate risk management strategy in accordance with the parameters detailed in this policy taking account of the following:

- Future debt requirements.
- Permissible Interest rate risk management products available to convert floating rate borrowing into fixed or hedged borrowing and fixed rate debt into a floating rate.

The following interest rate risk management and debt instruments may be used to comply with the Fixed Rate Hedging Percentages detailed in this section:

- Forward rate agreements.
- Spot and forward starting interest rate swaps.
- Swaptions.
- Interest rate options, including collar type structures but only in a ratio of 1:1.
- Fixed Rate Bonds.
- Fixed Rate Term Loans.

Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.

The use of futures contracts is not permitted.

Interest rate hedging transactions shall only be transacted with New Zealand registered banks which have S&P Global Rating equal or higher than A- or Moody's Investors Service or Fitch rating equivalents.

The interest rate exposures of the Council shall be managed according to the hedging parameters detailed in the following table:

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0 – 2 years	50%	100%
2 – 4 years	25%	80%
4 – 10 years	0%	60%

The hedging parameters shall apply to the projected core debt of the Council. Core debt is defined as that contained in the Long Term Plan, Annual Plan or as otherwise determined by the Chief Financial Officer.

The hedging bands are cumulative, i.e. a 10 year swap falls within the 0-2 years, 2-5 years and 5-10 years bands, whereas a 5 year swap only falls within the 0-2 years and 2-5 years bands.

Fixed rate hedging in excess of 10 years is permissible provided that it is carried out in conjunction with, or aligns with, an underlying debt instrument

Any hedging arrangements outside of these parameters shall be approved by resolution of the Council.

Borrowing Mechanisms

It is the responsibility of the Chief Financial Officer to manage the Borrowing, Liquidity Risk Management and Funding Risk Management activities of the Council.

The Council may use the following external borrowing mechanisms.

- Bank sourced debt available under a committed facility.
- Commercial Paper.
- Floating Rate Notes
- Fixed Rate Bonds

8. Liquidity

8.1 Objectives

The key Liquidity Management objectives are to:

- Manage short-term cash flows in an efficient and prudent manner.
- Maintain a level of liquidity sufficient to meet both planned and unforeseen cash requirements.
- Maintain accurate cash flow forecasts to increase efficiency in the Council's investment and borrowing decision making.

8.2 Liquidity and Funding Risk Management

The Chief Financial Officer is responsible for monitoring and managing liquidity by:

- Forecasting, monitoring and managing daily cash activities.
- Ensuring liquidity to meet unexpected cash expenditure or revenue shortfalls.
- Arranging debt facilities and/or maintaining financial assets which can be readily converted to cash within a suitable time period.
- Having in place contingency plans to meet worst case scenarios.

To manage liquidity and funding risk the following shall apply:

- To avoid a concentration of debt maturity dates the Council will, where practicable, aim to have no more than 50% of debt subject to refinancing in any rolling twelve month period.'
- the Council shall aim to maintain committed funding lines of not less than 110% of projected core debt' for the coming year. Core debt is defined as that contained in the Annual Plan or as otherwise determined by the Chief Financial Officer.

9 Credit Exposure

9.1 Objectives

The key credit management objectives are to:

- Prudently manage the Council's credit exposures.
- Only borrow, invest and otherwise transact with approved parties with pre-determined limits as permitted by this policy.

9.2 Credit Management

Prudent credit management can reduce the risk of loss due to a party failing to meet its obligations.

- The Council will only place investments with parties who have, at a minimum, a S&P Global Ratings ("S&P short term rating of 'A-1' and long term rating of 'A' rating or Moody's Investors Service or Fitch rating equivalents.
- Financial derivative contracts will only be held with registered banks with a minimum S&P, or other equivalent agency rating, short term rating of 'A-1' and long term rating of 'A' or Moody's Investors Service or Fitch rating equivalents.

10. Other Liabilities

10.1 Current Liabilities

Current liabilities reflect those obligations, expressed in monetary terms, which the Council has to meet within the next twelve months. For day to day obligations for its operational and capital expenditure, the Council's policy is to pay such in full (or to the full extent of any contractual obligations) by due date. This eliminates any credit exposure or risk.

10.2 Contingent Liabilities

The Council does not provide financial guarantees. However, other contingent liabilities may arise due to legal processes. These will be reported to the Council as soon as they

become apparent. Provision for the likely financial implications of these liabilities will be made in accordance with the Council's policy.

11. Delegations

The delegated authority in respect of Liability Management Policies is as follows:

Approvals required from the Council

- Adoption of policies
- Amendments to policies in the case of identification of any material error or proposed changes that are significant rather than of a technical or typographical nature.

Day to day management of the policy is delegated as per the Council's Delegation Register.

12. Review

The Council will regularly review the LMP. The maximum time between reviews will be three years.

13. Reporting

A quarterly report should be compiled which contains the following key details of the Council's debt and hedging profile.

- Total current debt.
- Interest rate hedging profile against percentage hedging limits (graphically illustrated).
- Details of all interest rate derivative transactions.
- Details of current funding tranches and maturity profile (graphically illustrated).
- Weighted average cost of funds.
- A statement of policy compliance.
- Details of any exception reports including remedial action taken or intended to be taken.

14. Local Government Funding Agency

Despite anything earlier in this Liability Management Policy, the Council may borrow from the New Zealand 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;
- 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;
- Subscribe for shares and uncalled capital in the LGFA; and
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

15. Treasury advice

The Council will retain the services of an independent treasury advisor to assist with the management of this policy.