

LIABILITY MANAGEMENT POLICY

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Introduction

This liability management policy has been prepared pursuant to Sections 102(4)(b) and 104 of the Local Government Act 2002.

Generally Council borrows to provide funding for the following activities:

- Fund Council capital expenditure requirements.
- Manage timing differences between cash inflows and outflows.
- Cover special 'one-off' projects.
- Fund assets with intergenerational qualities.

Total debt levels are determined through Council's Long Term Council Community Plan and Annual Plans. Council approves this borrowing requirement for each financial year in the Annual Plan or LTCCP or by later resolution during the year.

Objectives

To ensure Council has appropriate working capital funds available to carry out its plans as outlined in its Long Term Council Community Plan and Annual Plan.

Council will manage its borrowing activities prudently to ensure the best interests of the district are maintained. To undertake this, the following will be considered in conjunction with every transaction undertaken:

- Cost minimisation.
- Cost stabilisation/Risk management.

Specific Borrowing Limits

Council's borrowing limits are:

- Gross interest expense on all borrowings will not exceed 30% of total annual rates income, being total general rates, penalties and targeted rates levied.
- Net Debt will not exceed 10% of Total Equity.

Interest Rate Exposure

Interest Rate risk management refers to managing the impact that movements in interest rates can have on Council's cash flows. This can have both a positive and/or negative impact.

Council will have a high percentage of fixed rate or hedged borrowing. Notwithstanding this, it may be appropriate from time to time, depending on the Council's outlook on interest rates, to have a floating rate profile.

Prudent selection of funding instruments and mix will help the Council achieve its low debt servicing costs and risk minimisation objectives.

Liquidity Policy

Liquidity management refers to the timely availability of funds to Council when needed, without incurring penalty costs. This takes into account the ability to re-finance or raise new debt at a future time at the same or more favourable pricing and terms of existing facilities.

The Council will strive to ensure the timely availability of funds to meet the Council's various expenditure needs, preferably without incurring penalties or holding unnecessary cash reserves.

Council will ensure that replacement funds are available no later than the debt repayment dates.

To minimise the risk of large amounts of debt maturing or being reissued in periods where credit margins are high, Council will avoid concentration of debt repayment dates.

Council will ensure an appropriate amount of accessible bank investments or uncommitted credit lines are available to cover working capital requirements as they fall due.

Credit Exposure

Council will only enter into any arrangements by which it has credit exposure with credit-worthy counter-parties based on Standard and Poors (or equivalent rating in Fitch or Moody's rating). Council approval is required to add to or delete from the counter-party exposure limits. The following table summarises these credit requirements and limits.

Institution	Minimum S & P Short Term Rating	Minimum S & P Long Term Rating	Total Exposure Limit (% of Total Portfolio)	Portfolio Limit (% of Total Portfolio)
Government	n/a	n/a	n/a	n/a
New Zealand Registered Banks	A2	A-	n/a	n/a
Strongly Rated Corporates	A2	A-	n/a	n/a
SOEs	A2	BBB	n/a	n/a
Local Authorities (rates security)	n/a	n/a	n/a	n/a

Council can also issue its own bonds. Where prudent the Council will consider the issuance of bonds to raise suitable debt funding to meet its funding requirements.

Debt Repayment

Total debt levels are indicated through Council's Long Term Council Community Plan or Annual Plans. Council's Annual Report will contain information to allow actual debt levels to be compared with those forecast.

Loans raised for specific projects will generally be repaid through user charges or rates. Loans raised for local purposes will generally be repaid by the ratepayers in the relevant local area. Surplus Council funds and proceeds from the sale of investments and assets will be reviewed periodically by Council with a view to repaying debt, or for funding capital projects.

The Council may repay debt before maturity in special cases where the circumstances suggest that this would be in the best interests of the district.

Security

It is Council's general policy to offer security for its borrowing by way of negative pledge or a charge over its rates.

In the normal course, the Council's policy is not to offer security over any of the other assets of the Council. However:

- 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, or
- where the Council considers doing so would help further its community goals and objectives.

The Council may decide to offer security over the asset.

Internal Loans

All Council investments may be used as a source for internal loans in relation to expenditure of a capital (or one off) nature related to any activity that would otherwise be funded by external loan.

The term of any internal loan shall not be more than 25 years and will be set after taking into account the ability to pay off the ratepayers affected, alternative uses of the funds, and the life of the assets to be funded. All terms of internal loans will be subject to review during the course of the loan.

The interest to be applied to internal loans for any given year will be determined in late November/December of the preceding year as part of Council's Long Term Council Community Plan or Annual Plan assumptions. The method of calculation and the rate will be resolved at this time by Council and will consider Council's present and future financial position as well as market conditions. It is permitted to apply rates of interest below that in specific cases, after taking into account fairness and equity.