1 Liability Management Policy

1.1 General Policy

Council borrows as it considers prudent and appropriate and exercises its flexible and diversified funding powers pursuant to the Local Government Act 2002. Council approves, by resolution, the borrowing requirement for each financial year during the Annual and Long Term planning processes. The arrangement of precise terms and conditions of borrowing is delegated to the Corporate Services Manager.

Council has significant infrastructural assets with long economic lives yielding long-term benefits. Council also has significant strategic investment holding. The use of debt is seen as an appropriate and efficient mechanism for promoting inter-generational equity between current and future ratepayers in relation to Council's assets and investments. Debt in the context of this policy refers to Council's net external public debt, which is derived from Council's gross external public debt adjusted for reserves as recorded in Council's general ledger.

Generally, the Council's capital expenditure projects with their long-term benefits are debt-funded. Council's other District responsibilities have policy and social objectives and are generally revenue funded.

Council raises debt for the following primary purposes:

- Capital to fund development of infrastructural assets.
- Short-term debt to manage timing differences between cash inflows and outflows and to maintain Council's liquidity.
- Debt associated with specific projects as approved in the Annual Plan or Long Term Plan (LTP). The specific debt can also result from finance, which has been packaged into a particular project.
- In approving new debt, Council considers the impact on its borrowing limits as well as the size and the economic life of the asset that is being funded and its consistency with Council's long-term financial strategy.

1.2 Borrowing Limits

In managing debts, Council will adhere to the following limit (based on Council's latest financial statements).

Net External Debt (2) not to exceed.	20% of Equity
Net External Debt not to exceed.	225% of Total Operating Revenues (1)
Net interest expense on external debt as a percentage of total revenue (debt secured) to be less than.	20%
Net interest expense on external debt as a percentage of total annual rates income (debt secured) to be less than.	25%
Liquidity (external term debt + committed loan facilities + cash or cash equivalents) over existing external debt, to be at least.	110%

(1) Operating revenue is defined as earnings from rates, government grants and subsidies, user charges, levies, interest, dividends, financial and other revenue and excludes non government capital contributions (eg developer contributions and vested assets).

(2) Net External Debt = Gross External Debt (aggregate borrowings of Council, including any capitalised finance leases, and financial guarantees provided to third parties) less any cash or near cash treasury investments held from time to time. Net external debt is defined as loan funds raised to meet Council activities, but does not include debt of Council's associate organisations or equity investments.

1.3 Borrowing Mechanisms

Council will be able to borrow through a variety of market mechanisms including issuing, commercial paper, stock and debentures, direct bank borrowing and Local Government Funding Agency (LGFA). Council accesses the short and long-term wholesale and retail debt capital markets directly and indirectly.

Finance leases are evaluated with financial analysis in conjunction with traditional on balance sheet financing. The evaluation should take into consideration ownership, redemption value and effective cost of funds.

In evaluating strategy for new borrowing (in relation to source, term, size and pricing) the Corporate Services Manager takes into account the following:

- Available terms from banks, LGFA, debt capital markets and loan stock issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at re-issue/roll over time.
- Prevailing interest rates and margins relative to term for: loan stock issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rates, as well as its own.
- For internal funded projects, to ensure that finance terms for those funded projects are at least equitable with those terms that could be obtained externally.
- Legal documentation and financial covenants.

Council uses 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.

1.4 Liquidity/Funding Risk Management

Cash flow deficits in various future periods based on long-term financial forecasts are reliant on the maturity structure of loans and facilities. Liquidity risk management focuses on the ability to borrow at that future time to fund the gaps without incurring penalty costs. The main requirements of this policy, in terms of liquidity, is for there to be sufficient funds available at any time to meet cash obligations as they fall due. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing facilities.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to maintain a strong balance sheet as well as its ability to rate, manage its image in the market and its relationship with bankers, brokers and investors.

Where possible, Council seeks a diversified pool of borrowing and ensures that bank borrowings are only sought from strongly rated New Zealand registered banks.

To ensure funds are available when needed Council ensures that:

- There is sufficient available operating cash flow, liquid investments and committed bank facilities to meet cash flow requirements between rates instalments as determined by the Chief Executive and Corporate Services Manager. Cash flow management will be used to identify

and manage maturity mismatches between external borrowings, internal loans and liquid investments.

- External term debt and committed debt facilities together with cash and cash equivalents must be maintained at an amount of at least 110% over existing external debt.
- Liquid investments (ie cash or cash equivalents) have a maturity of no more than three months.
- Council has the ability to pre-fund up to 12 months of forecast debt requirements including re-financings.
- The Chief Executive and Corporate Services Manager have the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be ratified and approved by Council at the earliest opportunity.

Council does not hold its reserves in cash. While reserves are not funded, Council anticipates and plans for draw-downs against reserves.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

To minimise the risk of large concentrations of debt maturing or being re-issued in periods where credit margins are high for reasons within or beyond Council's control, delegated debt maturities are generally spread widely over a band of maturities. Specifically, total committed funding in respect to all loans and committed bank facilities is controlled by the following system:

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	40%

A maturity schedule outside these limits requires specific Council approval.

1.5 Interest Rate Risk Management

Interest rate risk refers to the impact that movements in interest rates can have on Council's cash flows. Council's borrowing gives rise to direct exposure to wholesale interest rate movements. Generally, given:

- Council's desire to have predictable, certain, interest costs.
- The need to avoid large adverse impacts on general and special rates arising from interest rate related rises.
- The long-term nature of Council's assets and inter-generational factors.

Council's debt/borrowings are maintained within the following fixed/floating interest rate risk control limit:

Master Fixed/Floating Risk Control Limit	
Minimum Fixed Rate	Maximum Fixed Rate
55%	90%

"Fixed Rate" is defined as an interest rate re-pricing date beyond 12 months forward on a continuous rolling basis.

"Floating Rate" is defined as an interest rate re-pricing within 12 months.

The percentages are calculated on the rolling 12 month projected net debt level calculated by management (signed off by the Chief Executive). Net external debt is the amount of total debt net of cash or cash equivalents. This allows for pre-hedging in advance of projected physical drawdowns of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have been adjusted to comply with the policy minimums and maximums.

The fixed rate amount at any point in time must be within the following maturity bands:

Fixed Rate Maturity Profile Limit		
Period	Minimum	Maximum
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

*Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.

Overall, the Corporate Services Manager sets the interest rate risk management strategy by monitoring the interest rate markets on a regular basis and evaluating the outlook for short-term and long-term interest rates in comparison to the rates payable on its fixed rate borrowing. Interest rate risk management must be administered with regard to the hedging parameters within the above limits. Council approval will be sought if the Corporate Services Manager believes that hedging outside of these parameters is warranted.

Interest rate risk strategy is managed through the use of approved interest rate risk management instruments (see Appendix II) to convert fixed rate borrowing into floating rate or hedged borrowing and floating rate borrowing into fixed or hedged borrowing. Any interest rate swaps with a maturity beyond 10 years must be approved by Council.

A current list of approved interest rate risk management instruments with appropriate definitions is included in the Risk Management Took Kit in Appendix II of the Treasury Management Policy. Additions to, and deletions from, this list are recommended by the Corporate Services Manager and approved by Council. The Corporate Services Manager is authorised to use Council approved interest rate risk management instruments on a case by case basis.

1.6 Security

In general, Council will secure its borrowings against its rates revenue as per section 115 of the Local Government Act 2002. Council has a Debenture Trust Deed arrangement which is offered to lenders/investors and providers of incidental arrangements as security. Other forms of security may be considered if they can lower the cost of borrowing.

Security may be offered over specific assets with prior Council approval. Council will offer security on infrastructure assets where special rating provisions apply.

A register of charges will be maintained by Council and will be available for inspection.

1.7 Repayment

Council repays borrowings from rates, surplus funds or proceeds from the sale of investments and assets.

Rates are defined as charges levied under the Local Government (Rating) Act 2002, subjected to Council’s Annual Plan or LTP process and duly advertised and levied on rating instalment notices.

Surplus funds and proceeds from the sale of investments and assets will be used to repay borrowing unless Council determines otherwise.

Council policy where it is to the advantage of ratepayers is to repay net external debt to a minimum level of $4 million per year.

1.8 Internal Debt Management

The treasury function is responsible for administering Council's internal debt portfolio. Loans are set up within the internal debt portfolio based on planned loan funded capital expenditure, and allocated to the department or project incurring the capital expenditure. The following operational parameters apply to the management of Council's internal debt portfolio:

- Capital expenditure details are extracted by the Accounting Manager at month end.
- A notional internal loan is set up for all new capital expenditure and allocated in the internal portfolio to the department incurring the expenditure.
- Interest is charged by treasury to departments on month end loan balances at average monthly funding costs incurred by Council.
- Treasury uses the internal debt portfolio as an input into determining its external debt requirements. Where possible, Council's reserves are used to reduce external debt, effectively reducing Council's net interest cost.

1.9 Reserves

Council has a number of reserves that have been created for specific purposes. Such reserves are used to reduce external borrowings in order to avoid the negative spread on interest rates between borrowed and invested money.

Reserve funds must be available subject to reasonable notice, to the respective committees of Council for specific use.

Council reserves are utilised for the internal funding of asset investments. They are not necessarily held as liquid assets. Council maintains committed lines sufficient to cover the sum of Council's contingency reserves.

1.10 Counterparty Credit Risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by Council. Exposures should be spread among a number of counterparties to avoid concentrations of credit exposure.

1.11 New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Liability Management Policy, 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:

(a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, for example Borrower Notes;

(b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;

(c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;

(d) subscribe for shares and uncalled capital in the LGFA; and

(e) 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.

Treasury Counterparty

2.1 Exposure Limits

Council ensures that all short-term investments of cash, interest rate risk management, as well as any foreign exchange activity is undertaken with institutions that are of a high quality credit standing to ensure amounts owing to Council are paid fully and on due date.

More specifically, Council minimises its credit exposure by:

- Ensuring all investment, cash management, interest risk management and any foreign transactions are undertaken with entities that have a Standard and Poor's (S&P) credit rating (or equivalent) no worse than the minimum levels stated in the table below.
- Limiting total exposure to prescribed amounts.
- Rigorously monitoring compliance against set limits.

Institution	Minimum S&P short-term issuer credit rating	Minimum S&P long-term credit rating	Total exposure limit for each counterparty
Government	N/A	N/A	Unlimited
Local Government Funding Agency (LGFA)	N/A	N/A	Unlimited
Registered Bank	A-1+	AA-	$30 million

If any counterparty's credit rating falls below the minimum specified in the above table then all practical steps are taken to reduce the credit exposure to that counterparty to zero as soon as possible. Exceptions are reported to the Chief Executive and reported to Council.

Exposures to each counterparty are computed as follows:

- On balance sheet.
- Total amounts invested with that counterparty.
- Risk Management instruments.

In determining the usage of the above gross limits, the following product weightings will be used:

- Interest Rate Risk Management (eg swaps, FRAs): Transaction Notional x Maturity (years x 3%).
- Investments (eg Bank Deposits) - Transaction Principal x Weighting 100%.
- Foreign Exchange:
  Transactional face value amount x (the square root of the Maturity (years)) x 15%

2.2 Netting Arrangements

Exposures computed above can be netted where there is a right to set-off which is enforceable by law, eg transactions entered into under a single master agreement.