

10. THE LIABILITY MANAGEMENT POLICY

Liability Management Policy	
Responsibility	Deputy Chief Executive
First adopted	10 July 2003 (265/03)
Historic revision dates	23 June 2005 (291/05), 10 July 2006 (347/06), 28 May 2009 (134/09), 28 June 2012 (236/12)
Next review date	2017
Review frequency	Every three years during the development of the Long Term Plan
Approval authority	Council
Consultation required	Special Consultative Procedure required by the LGA 2002
Record number	323711
Associated documents	Council's Long Term Plan and financial policies



10.1. Policy Objectives

To avoid all financial arrangements which could be described as speculative.

To maintain a risk adverse stance at all times.

10.2. Principles

Council must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

10.3. Definitions

Executive Team: The Chief Executive and Group Managers.

Internal Control: The adoption of sound and prudent treasury operational procedures, to minimise any financial risk Council may experience, due to unintentional actions, error, fraud or use of unauthorised activities or financial products.

10.4. Background

The Local Government Act 2002 requires Council to have a Liability Management Policy.

Section 104 of the Local Government Act 2002 provides for minimum information to be provided in the Liability Management Policy.

10.5. Policy Statement

10.5.1. Council

Approves the Liability Management Policy and any amendments of that policy.

10.5.2. Chief Executive – through Deputy Chief Executive

Prepares and presents treasury reports to the Executive Team and Council.

10.5.3. Executive Team

- Reviews treasury reports
- Ensures compliance with policy
- Monitors borrowing and assesses risk

- Recommends amendments to policy standards, management process and reporting standards
- Determines liability management direction within policy constraints.

10.5.4. Deputy Chief Executive

- Responsible for the management of the treasury function including Liability Management
- Ensures that all activities are within approved policy
- Ensures that internal control is adequate
- Develops and maintains professional relationships with staff of appropriate financial institutions.

10.5.5. General

Council will borrow funds as appropriate for the following purposes:

- To finance the purchase of assets which have inter-generational qualities
- To provide finance for specific capital and multi-year operational projects
- To raise finance for temporary shortfalls in Council general revenues.

10.5.6. Methods of borrowing

Council is able to borrow, issuing a variety of instruments, including:

- Direct bank borrowings
- Local Government Funding Agency borrowings
- Stock
- Debentures
- Direct access to the capital markets
- Hire purchase and leasing
- Internal borrowing.

In assessing the source of borrowings, the Deputy Chief Executive will take into account the following:

- The project; its size and economic life
- The nature of the assets to be financed
- How the additional borrowings will impact on total borrowing limits
- The margins being offered for each source of finance
- How new debt will affect the overall debt maturity profile
- The prevailing interest rates being offered for each source of finance
- The term being offered for each source of finance
- The legal documentation and financial covenants sought by each lending institution or required for the differing finance sources.

10.5.7. Legislation

Section 104 of the Local Government Act 2002 requires the Liability Management Policy to include:

- The Interest Rates Exposure Policy
- The Liquidity Policy
- The Credit Exposure Policy
- The Debt Repayment Policy
- Any specific borrowing limits

- Any specific policy as to the giving of security.

10.5.8. Interest rate exposure policy – Section 104(a)

Interest rates within the marketplace fluctuate. The maturity debt profile and the fixed/floating profile should be managed to allow for the benefit of favourable interest rate movements to be sought. To achieve this aim the maturing profile should depict Council's view of interest rate trends. This view is generally determined with assistance from management's professional treasury advisors.

Interest rate risk management tools may be used, subject to the documented approval of the Executive Team. These tools include interest rate swaps, forward rate agreements, interest rate option products and interest rate collar option strategies. The sale of interest rate options for primary gain is speculative and Council forbids this.

10.5.9. Liquidity and funding risk policy – Section 104 (b)

Council is to ensure that it has a strong balance sheet. By taking this position, it is able to attract strong effective borrowing, as well as manage its reputation and relationships with bankers and other financial institutions. Council is to manage its cash resources to ensure that it has the ability to repay debt on time. This is achieved by:

- Maintaining liquid assets
- Ensuring that funds are available through committed and approved bank borrowing facilities. These include, when applicable:
 - Overdrafts, money market deal limits, and term loans with fixed or variable interest rates
 - Any other lending arrangement approved by the bank
 - Avoiding concentration of debt maturity dates with the maximum level of debt repayable in any one year restricted to no more than 3% of total public equity.

3.5.10. Credit exposure policy – Section 104 (c)

Council will not impose a minimum credit rating requirement on lending institutions. However, interest rate risk management can only be undertaken using mechanisms transacted with New Zealand registered banks.

3.5.11. Debt repayment policy – Section 104 (d)

The nature of Council's debt is primarily, but not exclusively, related to the purchase or creation of long term assets. New loans are to be taken out for a term as detailed in the loan arrangements Council has with the bank at the time. For internal purposes the loan should be repaid in a timeframe appropriate to the asset for which the loan was raised, with a maximum term of 30 years. Surplus loan monies are to be repaid as soon as it is economically practical to do so.

3.5.12. Specific borrowing limits

Specific borrowing limits are stated throughout these policies. In addition:

- in any one financial year gross external interest expense on all external debt should not exceed 10% of total revenues
- net cash flows from operating activities (net cash flow before interest and taxation expense) are to exceed gross annual external interest expense by a minimum of two times
- gross external debt will not exceed 5% of equity.

Where circumstances prevail that restrict the achievement of these limits, the reasons for such departures must be included in the quarterly Treasury Management Report to the Executive Team and Council.

3.5.13. Policy as to giving of security

Council's preference is for unsecured financial facilities. Where there is a borrowing cost advantage in giving security, Council will first assign rates revenue to service the loan. However, if Council considers that security should be given by mortgaging or otherwise charging a physical asset instead of rates, it may do so (with the exception of Council's water assets, per Section 130(3)(a) of the Local Government Act) . Independent advice will be sought if considered necessary.

3.5.14. Guarantees

Council provides guarantees to banks for loans from the bank to sporting clubs and other community organisations. These guarantees are only to be provided where they are within the provisions of the appropriate Council policy and have been approved by Council resolution.

3.5.15. Leases

Council utilises operating leases (as opposed to finance leases) as a means of financing some property, plant and equipment, and in particular some office equipment. These arrangements are considered appropriate.

Outline of management and reporting procedures, risk assessment and management procedures

Council has delegated responsibility for quality control and risk management. The measures to be applied include:

3.5.16. Loan finance

- Adherence to policy
- Reporting of unplanned bank overdraft cost
- Interest cost, actual to budget
- Significant variances from standard.

3.5.17. Reports**Treasury Management Oversight Committee Quarterly Report**

Prepared: Quarterly

Prepared by: Deputy Chief Executive

Prepared for: Executive Team/ Audit and Risk Committee

Debt maturity

Prepared: Annually

Prepared by: Corporate Support

Prepared for: Executive Team/Council

Statement of public debt

Prepared: Annually

Prepared by: Corporate Support

Prepared for: Executive Team/Council

10.6. Relevant Delegations**10.6.1. Liability management policy**

- Alterations and amendments to policies and objectives - Council
- Approve new loans - Council
- Open or close bank accounts - Deputy Chief Executive/Chief Executive
- Approve bank relationships - Council
- Approve authorised signatories - Council
- Negotiate new loans - Deputy Chief Executive

10.6.2. Internal control in borrowing activity

Issuing stock

Normally, Council would issue directly by calling for competitive bids in a tender process. Where a broker/arranger/manager is used, correspondence with investors will be attended to by the broker/arranger/manager. Where placement is arranged internally, tender processes will be controlled by the Deputy Chief Executive. A "Notice of Intention to Issue Stock", together with written advice to successful bidders, will be arranged by the Deputy Chief Executive.

Stock is normally issued on a fixed rate basis, but also may be issued on a floating rate basis. Stock is normally issued at par, the issue yield being the same as the coupon rendering the purchase price equal to the face value of the stock. Coupons are paid on a semi-annual basis. The Reserve Bank of New Zealand acts as Registrar and paying agent on all Council stock.

Where stock placement is administered internally, the following procedures are to be followed:

- Bids for stock to be solicited verbally in addition to sending out a "Notice of Intention to Issue" to various parties
- Incoming bids to be recorded and collated by the Corporate Support staff.
- Bids to be approved by the Executive Team
- Successful bidders to be notified and forwarded an "Application for Subscription" form for their completion and return
- All deal records and related confirmations, authorities etcetera, relating to issuing stock are filled by the Corporate Support staff under the name of the loan
- At the time of issue, Council will provide the Reserve Bank of New Zealand with the relevant documentation
- Corporate Support staff is responsible for collating the appropriate material and forwarding it to the RBNZ.

A public float of stock requires a Council resolution to proceed. Each case will be judged on its merits, including costs.

10.6.3. Bank borrowing

The Deputy Chief Executive determines appropriate sources of borrowing and ensures the size and maturity of the loan is in accordance with the resolution and the borrowing limits are within the appropriate parameters.

The Deputy Chief Executive determines the appropriate borrowing bank and documentation from the approved list of registered banks.

10.7. References and Relevant Legislation

Section 104 Local Government Act 2002

10.8. Annotations

Res No	Date	Subject/Description
265/03	10/07/03	Policy adopted
235/04	24/06/04	Confirmed as part of LTCCP process
291/05	23/06/05	Confirmed as part of Annual Plan process
347/06	10/07/06	Policy amended/confirmed as part of Long Term Council Community Plan process
134/09	28/05/09	Policy amended/confirmed as part of Long Term Council Community Plan process
236/12	28/06/12	Policy amended/confirmed as part of Long Term Plan 2012-22 process