

EXTERNAL LIABILITY MANAGEMENT POLICY

As a result of but upcoming capital expenditure requirements outlined in the LTP, the Council is planning to raise up to \$4.5 million worth of debt. In the event of a major natural disaster, Council may also need to incur additional debt to qualify for Government emergency assistance. To date the Council¹ has not had any external debt.

General Policy

Council exercises its borrowing powers within the Local Government Act 2002, s113-122. The borrowing programme is approved by Council by way of resolution during the annual planning process. Resolutions of Council are not required in the cases of hire purchase, credit or deferred purchases of goods and services where:

- There is a period of less than three months indebtedness
- The goods and services are obtained in the ordinary course of operations, on normal terms, for amounts not exceeding in aggregate an amount determined by resolution of Council ie approved financial delegations as documented in Council's Delegations Manual.

When borrowing is required it is generally used for the following one purpose:

- To fund operational or infrastructural asset purchases that will benefit the Council and ratepayers over a long period of time.

Council may borrow through a variety of mechanisms. Council may obtain funding utilising the following methods:

- Bank debt
- Capital markets issuance comprising fixed rate bonds, medium term notes and floating rate notes.

When evaluating any new borrowing, the Finance Manager will take into account the following in relation to source, term, size and pricing;

- The size and economic life of the project
- The impact any new debt will have on the borrowing limits
- Council's overall debt maturity profile
- Interest rates prevailing relative to term for both stock issuance and bank borrowing
- Management's view, after consultation with qualified advisors, of future interest rate movements
- Term available from bank and stock issuance
- Legal documentation and financial covenants required

Borrowing Limits

These limits are covered in Council's Financial Strategy.

Fixed Rate Hedging Percentages

	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0 to 2 years	50%	100%
2 years to 5 years	30%	80%
5 years to 10 years	0%	60%

Debt Repayment

Council has agreed that any external debt should be repaid over a term no greater than 25 years. Most debt will be repaid using funded depreciation, but where necessary this will be supplemented by direct rate funding to meet the 25 year limitation.

Liquidity and Credit Risk Management

Council is able to attract borrowing at cost effective rates due to its ability to maintain a strong balance sheet and its ability to rate.

Council ensures debt is spread over a band of maturities to minimise the risk of large concentrations of debt maturing or being reissued in periods where credit margins are high by ensuring that not more than 75% of existing and forecast borrowing is subject to refinancing in any financial year.

¹ The Council itself has not had external debt, but it is a joint venture partner in the Downlands Water Supply scheme, and as such is responsible for its share (4%) of any external debt raised by that scheme.

Interest Rate Risk Management

The Chief Executive Officer approves interest rate risk management, as recommended by the Finance Manager, who seeks the appropriate advice and monitors interest rate markets on a regular basis.

Any borrowing done by Council gives rise to exposure to interest rate movements. Council's preference, to avoid adverse impact on interest rates, is to have a preference for a high percentage of long term fixed rates.

The use of interest rate risk management instruments requires Council approval.

Security

This is covered by Council's Financial Strategy.

Local Government Funding Agency

Despite anything earlier in this liability management policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (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.

Liability Management Policy

Adopted by: **Council**

Adopted date: 4 August 2015

Review date: As necessary