



He Tauira Kaupapa Here Whakahaere Kawenga

Liability Management Policy

This policy outlines how the Council will manage its borrowings and other liabilities.



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1. Objectives

Liability management is based on the following key elements:

- liabilities must be maintained at a prudent level;
- borrowings provide a basis to achieve intergenerational equity;
- borrowings are made globally to fund the entire Council balance sheet; and,
- borrowings must be undertaken efficiently and in accordance with this policy.

Council will borrow as it considers appropriate. Generally, Council will approve borrowing and financing facilities as part of either the Long Term Plan or the Annual Plan.

The estimated debt levels are based on the cash flow projections in these plans.

A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:

- the period of indebtedness is less than 91 days; or
- the goods or 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 as detailed in the delegated authority manual.

Council delegates its borrowing powers to the Chief Executive and management of Council in accordance with the Instrument of Delegation and as set out in the Treasury Management Policy and Procedure Manual.

2. Borrowing limits

Council will manage external borrowing within the limits approved by Council as set out in the Treasury Management Policy and Procedure.

In managing borrowing limits Council will utilise the following measures¹:

| Ratio | GDC Limits | LGFA Lending Covenant |
|---|------------|-----------------------|
| Net External Debt* / Total Revenue *Net external debt is defined as total external debt less cash and near cash equivalents and less debt arising from CCTO arrangements. Cash or cash equivalents are defined as overnight bank deposits. Cash deposits must be unrestricted and freely available for liquidity purposes. | <175% | <175% |
| Net Interest / Total Revenue | <10% | <20% |
| Net Interest / Annual Rates Income | <15% | <25% |
| Liquidity | >110% | >110% |
| Net debt per capita (56,682 residents, figure based on 2027 projected population for 3YP modelling). This is based on a \$232m limit. | <\$4,500 | |
| Net external debt per rateable unit (Based 22,787 forecast 2027, projected from 2022/23 rateable units with 0.5% pa growth). This is based on a \$232m limit. | <\$10,250 | |

¹ Financial covenants are measured on Council only, not consolidated group.

3. Types of Borrowing

Council will utilise the most appropriate and cost effective borrowing source as determined by management. Approved sources for borrowing are:

- short-term and medium-term borrowing from the NZ banking market
- leasing and hire purchase (including sale and lease back where appropriate)
- issue of Local Authority stock and debentures to the wholesale/retail investor market
- issue of Commercial Paper, notes and bonds to the wholesale/retail investor market
- short-term, medium and long term borrowing through the Local Government Funding Agency (LGFA).

Council may approve other sources of financing as recommended by management which will be subsequently incorporated in to the Treasury Management Policy and Procedure Manual.

4. On-lending and direct lending to Council Controlled Organisations (CCO) and Council Controlled Trading Organisations (CCTO)

To better achieve its strategic and commercial objectives Council may provide financial support in the form of debt funding directly or indirectly to CCOs and CCTOs.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any on-lending or direct lending arrangement from Council to a CCO/CCTO must be approved by Council. In recommending an arrangement for approval the following considerations are taken into account:-

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amounts outstanding on due date;
- Impact on Council's lending covenants with the LGFA and other lenders and Council's future borrowing capacity;
- The form and quality of security arrangements provided;
- The lending rate given factors such as; CCO/CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.;
- Lending arrangements to CCO/CCTOs must be documented on a commercial arm's length basis. A term sheet, including matters such as; borrowing costs, interest payment dates, principal payment dates, security, expiry date is agreed between the parties; and,
- Accounting and taxation impact of on-lending arrangement

All on-lending arrangements must be executed under legal documentation (e.g. loan, guarantee) reviewed and approved by Council's independent legal counsel.

5. New Zealand Local Government Funding Agency Limited

The Council may borrow from the New Zealand Local Government Funding Agency (LGFA). 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, for example borrower notes

- 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
- 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
- subscribe for shares and uncalled capital in the LGFA.

6. Security

All Council loans and interest rate risk management instruments will be either unsecured, or secured under the Council's Debenture Trust Deed.

This security relates to any loan and to the performance of any obligation under any incidental agreement.

A charge will be granted over assets only where:

- there is a direct relationship between the debt and the asset purchase/construction, for example operating lease or project finance
- the Council considers a charge over assets to be appropriate
- any charge must comply with the terms and conditions contained within the trust deed.

Before securing borrowings over specified assets or rates revenue, Council will consider all options and choose the preferred option balancing flexibility, overall cost of borrowing and terms/conditions. A register of charges is maintained at the Council's offices.

Any approved lending to a CCO or CCTO will be on a secured basis.

7. Debt repayment

The Council will manage debt on a netting basis, i.e. it will fund the balance sheet as a whole, netting off reserves and borrowings to minimise external borrowings.

The Council may repay borrowings from renewal loans or surplus funds.

Subject to any specific direction from Council, the funds from the disposition of fixed and investment assets will be applied in reduction of debt and/or borrowing requirements. Operating surpluses unless identified as being transferred to a reserve for a future purpose, it will also be applied to the reduction of debt.

8. Internal debt management

As external borrowings fund the entire Council balance sheet, Council utilises internal loans to allocate borrowing costs to the appropriate cost centre.

The Treasury function will be responsible for administering the Council's internal debt portfolio.

Internal loans are set up within the internal debt portfolio for each department's loan-funded expenditure.

9. Credit exposure

The Council is exposed to credit risk when there is a deterioration of the credit rating:

- of an entity with which the Council places its investments;
- of a counterparty with whom the Council may transact financial derivative contracts; or,

- of a contractual counterparty with whom the Council may have concluded major supply, construction or service contracts.

The Council limits its credit risks by:

- placing investments with approved organisations and within the maximum levels set out in the Treasury Management Policy and Procedure Manual.
- financial derivative contracts are only transacted with registered banks with a strong long-term credit rating issued by Standard and Poors (or an equivalent) and the maximum exposure to any one party will be limited as set by Council in the Treasury Management Policy and Procedure manual.
- all parties with whom Council intends to conclude a major contract will be subject to formal credit approval process as set out in the Treasury Management Policy and Procedure Manual.

10. Interest rate risk exposure

Interest rate risk is the risk that funding costs (due to adverse movements in market interest rates) will exceed the Annual Plan or the Long Term Plan cost projections. This would adversely impact on borrowing cost controls, capital investment decisions and the feasibility of some projects.

Interest rate risk management is carried out using approved financial instruments including:

- interest rate swaps
- forward rate agreements
- purchased interest rate options, including options on bank bills (caps) and swaps (swaptions)
- interest rate collars but only on a 1:1 basis.

Credit exposure on these financial instruments is restricted by specified counterparty credit limits set out in the Treasury Management Policy and Procedure Manual.

Any other financial instrument must be specifically approved by Council on a case-by-case basis.

Approved instruments cannot be sold outright for the purpose of generating income as this represents speculative investment which is prohibited by Council. Approved instruments can be dealt on a forward start basis but are limited to a forward start period of no more than 36 months, unless linked to the expiry date of an existing instrument and has a notional amount which is not greater than that of the existing instrument. This is in accordance with the limits set out in the Treasury Management Policy and Procedure Manual.

Interest rate risk control limits

Council's interest rate repricing risk on its forecast debt amounts are managed within the interest rate risk control limits set by Council. These limits are set out in the Treasury Management Policy and Procedure Manual.

A fixed rate maturity profile that is outside the above-mentioned limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile that is outside the above limits beyond 90-days requires specific approval by Council.

11. Liquidity risk

Council cash flows will have deficits in various periods and years as a result of working capital requirements, the nature of net cash flows, the capital expenditure programme and the maturity profile of loans and other advances.

Liquidity risk management focuses on the ability to borrow at these times to fund these deficits.

Funding risk management concentrates on the ability to refinance or raise new debt at these times in a cost effective manner (including fees, borrowing margins and the maturity profile).

Liquidity and funding risk control limits are set out in the Treasury Management Policy and Procedure Manual.

Council will minimise its liquidity risk by:

- matching expenditure closely to its revenue streams and managing cash flow timing differences through its bank facilities.
- maintaining its cash management investments in liquid and negotiable instruments and unutilised committed bank facilities.
- ensuring that treasury investments are only made with approved institutions utilising approved financial instruments in terms of the Council's investment policy.
- avoiding a concentration of debt maturity dates.
- maintaining external debt and available committed debt facilities together with available liquid investments at an amount greater than 110% over existing external debt. Liquid investments is cash or near cash equivalents and must be unrestricted and freely available for liquidity purposes.
- establishing committed bank debt facilities with strong credit rated banks that are registered with the Reserve Bank of New Zealand.

Council has the ability to prefund up to 18 months in advance of forecast debt requirements including refinancing.

12. Operational risk

Operational risk arises from the nature of treasury activities.

These are principally financial transactions of often large denominations, regularly initiated verbally and often comprising complex instruments where simple mistakes can lead to significant loss.

Council will minimise losses arising from mistakes and lack of adherence to policies by:

- appropriate and clear delegation of authority to specified individuals within the organisation.
- clear cut division of responsibilities between authorising/executing and recording/settling transactions.
- timely and accurate reporting to allow monitoring of risk and policy adherence.
- annual reviews of Treasury Policy and Treasury operation.

Detailed procedures and controls are documented within the Treasury Management Policy and Procedure Manual.

13. Reserves

The Council has a number of reserves that have been created for specific purposes which the Treasury function is responsible for administering. The Council does not generally hold liquid assets to support reserves, rather funding is arranged as required to match withdrawals from reserves.

14. Contingent liabilities

Council provides financial guarantees to community and service organisations. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Should the guarantee be called up, Council takes immediate action to recover the money.

15. Foreign exchange risk

From time to time Council may have foreign exchange exposure through the occasional purchase of foreign currency denominated plant, equipment and services.

All foreign exchange exposures are recognised and hedged in accordance with the Treasury Management Policy and Procedure Manual when the exact timing and amount of the exposure is known. Exposures are hedged using foreign exchange contracts arranged by the Council or the supplier.

Council will not borrow or enter into incidental arrangements within or outside New Zealand in a currency other than the New Zealand dollar.

16. Other grants and advances

Council acts as a middleman for various community organisations. It receives grants from various sources and makes advances on these funds after relevant approvals.

17. Review

This policy will be reviewed and updated at least every three years as part of the update of the Council's Long Term Plan (LTP).

Definitions

Annual Rates Income

Defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

Financial Facilities

Defined as any debt facilities, arrangements, instruments, trust deeds, commercial paper facilities or overdraft facilities with banks, other financial institutions or investors.

Liquidity

Defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

Net External Debt

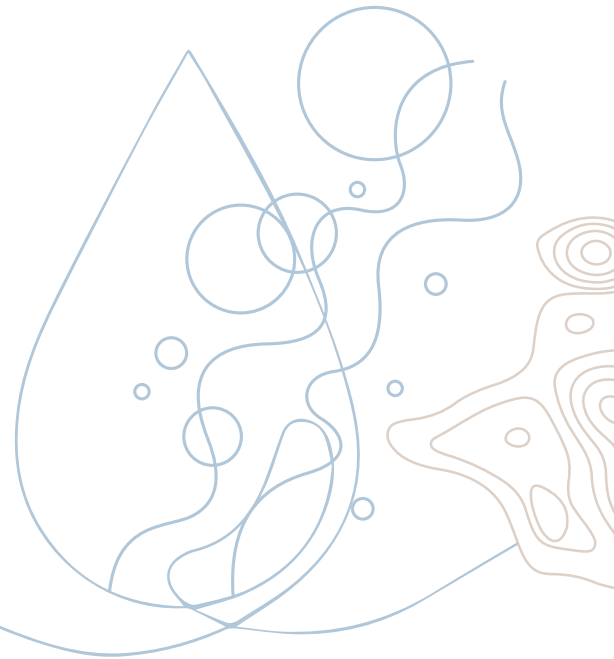
Defined as total external debt less unencumbered liquid financial assets. For the purposes of financial limits.

Net Interest

Defined as the amount equal to all interest and financing costs less interest income for the relevant period.

Total Revenue

Defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. Developer contributions and vested assets).



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