Council Policy

Liability Management Policy

Effective Date:	**1 November 2024**
Date First Adopted:	**2003**
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File reference:	**Pol 11**
Responsibility:	**Group Manager, Finance and Corporate Services**
Associated Documents:	**N/A**

KAWERAU DISTRICT COUNCIL
Te Kaunihera ā rohe o Kawerau

1. Policy Objectives

Council's broad objectives in relation to liability management are as follows:

- Compliance with the Local Government Act 2002 and other relevant legislation.
- Develop and maintain professional relationships with the financial markets.
- Raise appropriate finance, in terms of both loan maturity and interest rate.
- Manage the overall cash position of Council's operations.

2. Policy Scope

When engaged in the borrowing activity, Council may:

- Use external advice, where there is a particular risk, or where it is prudent for the management of a particular borrowing.
- Consider the value of its investments against the size of its debt burden.

Council may borrow to finance:

- Specific projects
- The purchase or construction of assets
- Finance leases or hire purchases of assets[1]
- General operating expenses
- Any combination of the above

Council is a risk averse entity. Council intends to borrow prudently and maintain debt at a prudent level. Activity which may be construed as speculative in nature is expressly forbidden

3. Policy Statement

3.1 Interest Rate Exposure

Council's borrowing gives rise to direct exposure to interest rate movements. Given the long term nature of Council's assets, projects and intergenerational factors, Council's general tendency is to have a high percentage of fixed rate[2] borrowing. Council aims for no less than 60% of its borrowings outstanding at any given time to be at a fixed rate.

Interest rate risk is managed by adjusting the maturity of borrowings in line with interest

[1] This policy only applies to finance leases or hire purchase where the amount borrowed in any instance exceeds $50,000.

[2] Fixed rate borrowing is generally taken to mean that borrowing where the interest rate does not vary more often than yearly. The interest rate on floating rate borrowing may alter every 90 days.

rate predictions. The objective is to minimise Council's interest costs and uncertainty regarding the impact of interest rate fluctuations.

All matters that can be lawfully delegated concerning borrowings are delegated to the Chief Executive Officer and must be reported back to Council as they occur.

The use of hedging instruments for interest rate risk management on Council's borrowing is not possible, as Council has insufficient debt to be using hedging instruments. Should hedging instruments be required, an ordinary resolution approving use of these instruments will be adopted by Council. Council may consider hedging instruments as Council's debt levels reach the maximum allowed under this policy and only if the benefits outweigh the costs of hedging.

3.2 Debt Management

To manage Councils overall debt Council's limit for borrowing is that:

- Total debt will not exceed 50% of Council's fixed assets; and/or
- Gross interest expense of all borrowings will not exceed 10% of total revenue ($2.1 million for 2023/24).

Debt management includes Council's debt profile by spreading the concentration of debt, including re-financing, to reduce the risk that large concentrations of debt may mature when interest rates are high.

Where Council has a borrowing requirement for a specific project/asset, internal cash resources may be utilised first before funds are borrowed externally. Such internal loans are charged similar interest rates as Council's average return on bank investments and repayment periods for these loans may range from 1 to 15 years. Internal loan costs (interest and principal) are funded by the activity for which the loan was raised, and the corresponding revenue is recognised in interest revenue. Internal borrowings are eliminated on consolidation of activities in Council's financial statements.

3.3 Liquidity

To ensure funds are available for operational needs and the repayment of debt, maturities of investments and borrowings are matched through cash-flow forecasts and investments are maintained in liquid assets. Council aims for a liquidity ratio of not less than 1.5:1 at the end of each quarter[3].

[3] This ratio measures Council's ability to generate cash from assets in order to meet its obligations. The liquidity or acid test ratio consists of the sum of cash, marketable securities, short-term notes and receivables divided by current liabilities (excluding the current portion of term debt and current liabilities relating to Porritt Glade Residents Liability).

3.4 Credit Exposure

Council's ability to readily attract cost effective borrowing is largely driven by its:

- Ability to maintain a strong balance sheet.
- Ability to rate.
- Credit worthiness and image in the market.
- Successful communications with bankers.

Council may borrow from itself, New Zealand Local Government Funding Agency (LGFA), any registered bank, local authority or anyone else, by the issue of registered local authority stock or in any other manner that it considers appropriate.

3.5 Debt Repayment

Council repays borrowings from its general funds.

Council must consider and record how it intends to effect repayment at the time of borrowing.

The term of repayment of any borrowing will be determined after considering:

- The intergenerational benefit of the assets being financed.
- The cost of finance.

The maximum period over which borrowings are repaid is the lesser of 50 years or the expected life of the asset financed.