Liability Management Policy

Policy status:	Adopted
Review due:	30 June 2024
Legal reference:	Local Government Act 2002 Section 102(2)(b) and 104

Objective

The Council's treasury liabilities are managed prudently and effectively.

Current Liabilities

Current Liabilities are those liabilities that will be repaid within 12 months, and include accounts payable, borrowings due to mature within 12 months, and other short-term liabilities. For the purposes of this section of the policy, the current portion of borrowings do not apply, these are to be considered as term liabilities.

Accounts payable are to be paid in full by the due date wherever possible. Those current liabilities that incur a late payment penalty are to be paid in full by the due date in all cases.

Term Liabilities

Term Liabilities are those liabilities which are for a term exceeding 12 months, and include Council borrowings, and liabilities associated with the Marlborough Regional Forestry joint venture.

Instruments or methods to raise debt

The following funding instruments and methods may be used by Council to raise external debt:

a) Committed bank facilities.
b) Uncommitted bank facilities.
c) Local Authority Bonds.
d) Medium Term Notes.
e) Instruments and facilities made available by the Local Government Funding Agency (LGFA) from time to time.

Interest rate risk management (credit exposure)

The interest rate exposure table below is the Council's guideline for interest rate exposure. This table does not incorporate the liabilities associated with the Marlborough Regional Forestry joint venture, as these are managed separately by that joint venture.

Fixed rate hedging banks		
	Minimum fixed rate	Maximum fixed rate
0 to 2 years	40%	100%
2 to 4 years	20%	80%
4 to 10 years	0%	60%

Authorised Interest Rate Risk Management Instruments

Council may use the following interest rate risk management instruments to manage externally sourced debt:

a) Interest rate swaps
b) Forward rate agreements
c) Interest rate options
d) Swaptions (options on swaps)
e) Fixed term bonds
f) Interest rate collar strategy (1:1 collars only)

Management of Credit Risks

All bank borrowing and interest rate hedging transactions must be undertaken with a New Zealand registered bank with a minimum Standard and Poor's long-term credit rating of at least A+ (or the Moody's or Fitch rating equivalents).

The Council will satisfy itself in all its borrowing transactions that counterparties are financially adequate, have an appropriate industry standing, and have an appropriate track record to give the Council reasonable certainty that obligations under concluded contracts will be performed.

Liquidity

The liquidity ratio is the total current assets that can quickly be converted to cash - cash, debtors, and pre-approved Committed Cash Advance Facilities (CCAF), divided by the current liabilities that need to be paid. The Council's policy is to maintain a liquidity ratio of a minimum of 1.1:1 at all times, (which means $1.10 is available for every $1.00 payable).

Note: Council's unused Committed loan facilities are to be considered as a liquid and current asset.

Internal borrowing

The Council uses its reserves and external borrowing to internally fund both capital expenditure and working capital. The primary objective in funding internally is to use funds efficiently, by eliminating the margin that would be paid through the Council separately investing and borrowing externally.

Internal borrowing arrangements will not be subject to the Interest Rate Exposure clause of this Policy.

Debt repayment

Reserve funds are set aside to repay the loan on maturity or when conditions are favourable to do so (whichever is the earliest).

Borrowing limits

As per the Council's Financial Strategy, the Council has set the following limits on its level of debt:

1) External borrowing will not exceed $15 million
2) Gross interest expense will not exceed 10% of total revenues

Security

The Council will grant a Debenture Trust Deed which includes a charge over rates and rates revenue in favour of a trustee. The Council's creditors can be conferred the benefit of that charge through the issuance of security stock under the Deed.

Any borrowing from LGFA will have the benefit of security stock (and therefore the charge over rates and rates revenue).

When arranging funding facilities from lenders other than LGFA, the Council will prefer unsecured facilities unless a cost benefit accrues from offering security.

Where security is to be provided, the Council's preference will be to offer security for borrowings over rates and rates revenue by issuing security stock. Finance leases for such assets as office equipment, information technology, and vehicles may be entered into provided that the interest rates are commercially advantageous.

New Zealand Local Government Funding Agency Limited (LGFA)

Despite anything earlier in this Liability Management Policy, the Council may borrow from LGFA. In connection with that borrowing, the Council 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 subordinate debt that could, in limited circumstances, be converted to equity if required by LGFA; and
b) Secure its borrowings from LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over Council's rates and rates revenue.