APPLICATION

This policy applies to Council. It does not apply to Council-controlled organisations or Trusts.

REVIEW DATE

This policy is to be reviewed triennially for input into the Long Term Plan (LTP).

TREASURY BORROWINGS

Council maintains Treasury borrowings to:

- Raise specific debt associated with projects and capital expenditures.
- Raise finance leases for fixed asset purchases.
- Fund assets whose useful lives extend over several generations of stakeholders.
- General Debt to fund Council's Balance Sheet eg vehicle purchases.

Council does not anticipate using short-term overdraft facilities for day-to-day liquidity.

PROCEDURES FOR BORROWING

Under this policy Council approves borrowing by resolution arising from the LTP and Annual Plan process.

In evaluating new borrowings (in relation to source, term, size and pricing) the Finance Manager will take into account the following:

- The size and the economic life of the project.
- The impact of the new debt on the borrowing limits.
- Relevant margins under each borrowing source.
- Council's overall debt maturity profile to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates relative to term for both stock issuance and bank borrowing and management's view of future interest rate movements.
- Available term from bank and stock issuance.
- Ensuring that the implied finance terms within the specific debt (e.g. project finance) are at least as favourable as Council could achieve in its own right.
- Legal documentation and financial covenants.

SPECIFIC LIABILITY MANAGEMENT POLICIES

Section 113 of the Local Government Act 2002 prohibits borrowing and other related incidental arrangements in foreign currency. This minimises the direct risks of foreign exchange movements to Council for borrowing.

1. INTEREST RATE EXPOSURE POLICY

1.1 Maturity Profile

Interest rate risk will be managed through diversifying the maturity profile of long-term debt. A flat maturity profile minimises Council's exposure to the particular set of interest rates that might prevail at any one time. The possibility of extreme gains and losses is avoided in favour of a long-run interest cost. A broad policy will allow:

- For a range of market circumstances.
- Recognition that the cost of raising or refinancing small amounts of debt to achieve a flat maturity profile may become excessive.

Liability Management Policy 1.1 – Maturity Profile
The total amount of debt should, in so far as it is possible and practical, be spread evenly across the range of possible maturity dates.

1.2 Fixed Versus Variable Interest Rates

The definition of fixed rate debt is any debt that has no interest re-setting (re-pricing) within twelve months. The definition of floating rate debt is any debt that has an interest rate re-setting (re-pricing) within twelve months.

In order to provide a structure to optimise movements in interest rates an appropriate mix of fixed and floating rate debt is required. The mix must be based on Council's perception of future interest rate trends. If interest rates are declining then it may be appropriate to have a high proportion of debt placed at a floating rate. This allows maturing debt to be refinanced at lower interest rates. If interest rates are likely to rise then it may be appropriate to capture the set interest rate available at that time.

However, there is a bias towards fixed interest rates as these provide more certainty of costs for funding purposes and can often be at a lower rate than variable interest rates.

The following limits are set to provide an appropriate mechanism for the mix of floating and fixed interest rate debt.

Liability Management Policy 1.2 – Fixed Versus Variable Interest Rates
Variable/floating interest rate debt: no greater than 50% of external debt.

1.3 Refinancing Debt

If current interest rates are substantially lower than those currently being paid on historic borrowings, then it may be appropriate to refinance. Refinancing costs must also be taken into account.

Liability Management Policy 1.3 – Refinancing Debt
In respect of existing borrowing, Council will review as appropriate, currently available costs of borrowing to see if significant savings are possible.

1.4 Hedging

If properly advised the use of hedges to offset risk may be to the Council's advantage.

The use of hedging techniques which include forward rate agreements, swaps, future markets and options, are only permissible upon specific approval of Council to minimise the interest rate exposure on special projects.

Liability Management Policy 1.4 – Hedging
Hedging is permissible. Before hedging an exposure, Council must obtain assurances from independent expert advisors and ensure that:

- Hedging does not increase overall risk.
- The cost of hedging is justified.

2. LIQUIDITY POLICY

Council's ability to readily attract cost effective borrowing is largely driven by its ability to maintain a strong balance sheet as well as by its ability to rate, manage its image in the market and its relationships with bankers. Where possible Council seeks a diversified pool of stock and bank borrowing and ensures that bank borrowings are only sought from the approved list of registered banks (see Appendix 2). Council ensures funds are available on repayment through:

- Treasury investments being maintained in liquid assets.
- Funds are available being committed bank facilities.

Liability Management Policy 2 – Liquidity
Council will ensure that it has, at all times, sufficient funds available to meet its obligations as they fall due.

Borrowing under this policy shall be used for the purpose of meeting temporary shortfalls in revenue and will not be used as a permanent source of funds.

Minimum level of available liquidity (committed facilities and/or liquid assets) will not be less than $500,000 in addition to the amount required to be held against special funds.

3. CREDIT EXPOSURE AND BORROWING LIMITS POLICY

3.1 Liability Management Policy – Specific Borrowing Limits

It is desirable to have predetermined benchmarks to manage debt levels and servicing costs. Whilst Council has the ability to charge and collect rates, it is still necessary to establish debt management guidelines.

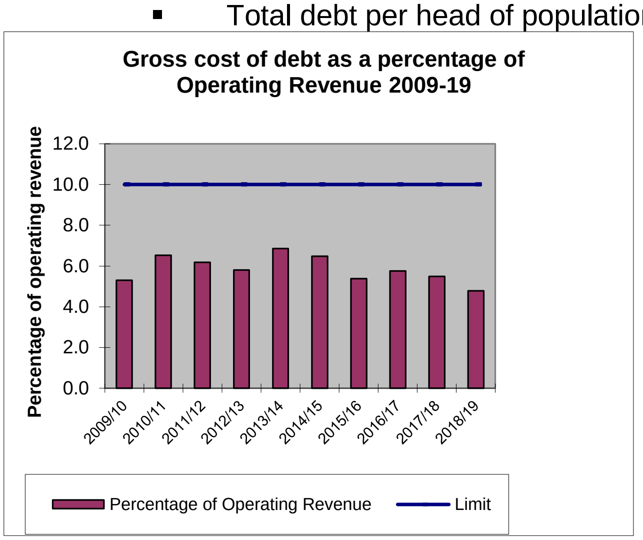
The following guidelines will assist in the process of prudent debt management.

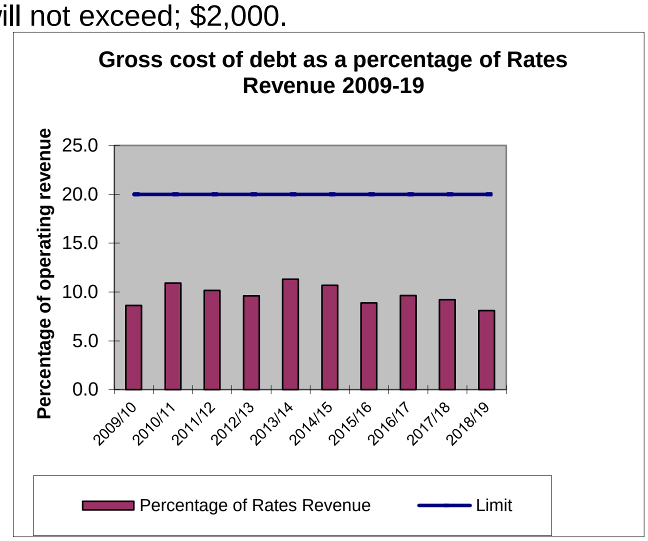
The debt/equity ratio measures long-term debt, (excluding the current portion repayable within 12 months) against ratepayers equity. It reflects the balance between long term borrowings and ratepayers equity in the capital structure.

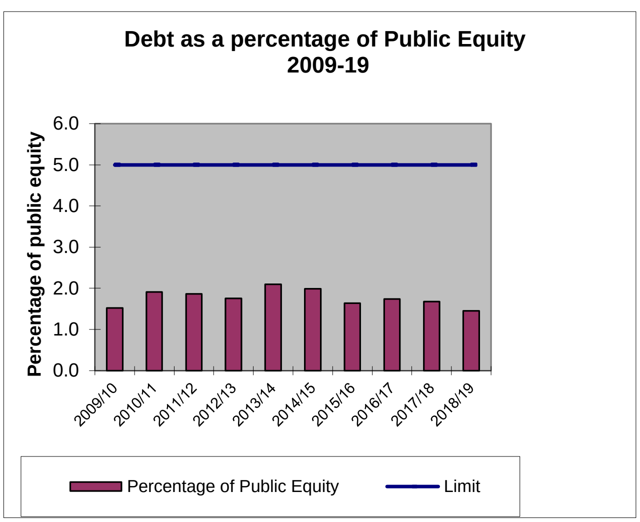
This is an important measure as it represents a significant portion of the infrastructure that is being developed through the capital works programme.

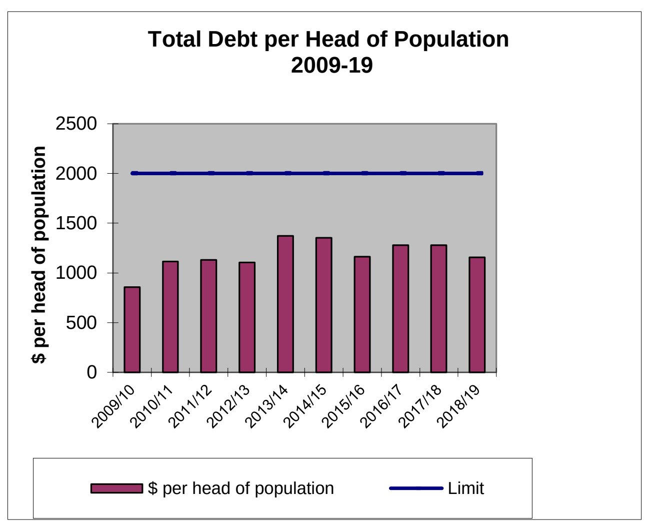
Liability Management Policy 3.1 – Specific Borrowing Limits
Debt will be managed within the following limits subject to:

- Council continuing to control and maintain its share of the roading network.
- Requirements in the event of civil emergencies:
- Gross cost of debt (interest and capital payments) in any financial year must not exceed as a percentage of Councils operating revenue; 10%.
- Gross cost of debt (interest and capital payments) in any financial year must not exceed as a percentage of rate revenue; 20%.
- Debt must not exceed as a percentage of total public equity and accumulated funds; 5%.
- Total debt per head of population will not exceed; $2,000.









3.2 Committed Borrowing Facilities

The following committed facilities must be available:

Liability Management Policy 3.2 – Committed Facilities

Overdraft facilities with Council's banker (if required) to a maximum limit of $200,000.

4. GIVING OF SECURITY

Lender's concerns over default risk will reduce if Council gives security over assets or future income flows. Consequently the existence and high quality of security will generally reduce the interest rate cost to Council.

Many of Council's assets are not readily saleable so will be less attractive as security items. Giving security over special rates is cost efficient and attractive to lenders. This is therefore the preferred method of providing security.

Liability Management Policy 4 – Giving of Security

- Council's first choice of giving security will be rates revenue.
- With Council permission - Council assets may be pledged as security where it is advantageous and cost effective to do so.

5. INTERNAL BORROWING OF SPECIAL FUNDS

Special Funds must generally be used for the purposes for which they have been set aside. Council may, however, modify such purposes from time to time.

Debt can come from external sources or internal borrowings from Council reserves. It may be prudent to utilise reserves while they are not required, instead of raising new debt. Otherwise the situation exists where interest is earned on reserve funds and at the same time interest is paid on debt. When the interest rate on debt is more than the rate being earned on reserves, borrowing internally ensures that net interest costs are minimised. This will become increasingly important as reserves increase to meet Asset Management Plan requirements, depreciation funding and loan repayment funding.

For reasons of cost distribution, records on internal borrowings will be maintained to ensure funds are not disadvantaged.

Liability Management Policy 5 – Internal Borrowing

Council may authorise use of a portion(s) of special funds to reduce the requirement for external debt where all the following are met:

- There is a financial benefit to borrow internally.
- The total of special fund liquid/cash investments will not fall below the level of Special Funds recorded plus $500,000.
- The Council is satisfied that the portion of reserves being used is not likely to be required within 12 months, and levels are reviewed annually.

The special funds used must be reimbursed for interest revenue lost.

Internal debt will be included as part of total debt for the calculations of Policy 4 on Specific Borrowing Limits.

6. CAPITAL WORKS FUNDING

Liability Management Policy 6 – Capital Works Funding
Capital works will be funded through raising new debt or by utilising depreciation reserves where such exist for the depreciable classes of assets.

7. DEBT PERIOD

Normally the period of debt raised for infrastructural capital works will not exceed the life of the asset being purchased or built, but in no case longer than 25 years.

Liability Management Policy 7 – Debt Period
Long term Debt (debt greater than one year) will not be used to fund annual operational expenditure.

The use of long-term loan funds will be restricted to capital items only.