

# **LIABILITY MANAGEMENT POLICY**

The following is an outline of Council's Liability Policy. The full policy called the Treasury Liability and Investment Policy and Financial Manual is contained in Volume 2 of the 2003/2004 Annual Plan.

There are two types of liability - current liabilities and term liabilities

## **Current Liabilities**

Current liabilities are those obligations expressed in monetary terms that council has to meet in its day to day operations, and for which payment is expected to be made within the next twelve months to trade creditors. Council budgets to meet these liabilities in full as part of its annual budget and cashflow management. Unless in dispute, these liabilities are paid in full on an ongoing basis.

Current liabilities may also include that portion of term debt that is payable within the next twelve months. There are specific policies and procedures in place on debt management and these are addressed below under term liabilities.

## **Term Liabilities**

These are liabilities that Council have which in general terms are not immediately payable, ie are not due for payment within the next twelve months. These usually consist of public debt (loans) that have been taken up by Council to fund capital works, but may include long term leases, long term staff provisions and other deferred settlements.

## **Policy Objectives**

1. The borrowings selected are not detrimental to other areas of the Council's operations. This requires that guidelines are established to define the borrowing risks acceptable to Council.
2. Council's borrowing activities satisfy the legislation controlling the Council's ability to borrow, and the prudent person concept as per the Trustee Amendment Act 1988.
3. The Council's borrowing is managed so as to minimise total borrowing costs given the maturity profile chosen and within the risk constraints. The securing and repayment of debt is regulated.
4. Existing debt held by the Council, that does not meet the criteria contained elsewhere in the policy are reviewed individually, and are either disposed of or some justification is made in writing for their retention and that they be reviewed on a regular basis.

## **Borrowing Considerations**

In entering into a borrowing transaction sufficient inquiries should be made so as to enable the selection of the transaction that has the lowest total costs of those currently available. These costs include internal administrative costs, managerial resources, interest expense, advisory fees and the transaction costs specific to that form of debt.

At various times it may be possible to refinance a debt in such a way as to reduce the total costs of the transaction. Any such refinancing must take into account the additional costs of refinancing and how the new transaction fits within the context of other sections of this policy.

## **LIABILITY MANAGEMENT POLICY [Cont'd]**

Council will maintain an overdraft facility which will not exceed \$500,000 for day to day cash management purposes.

Council will consider both interest only and principle and interest repayment loans at the time of raising a loan. If Interest Only loans are raised then a funding reserve will be set up to accumulate funds until principle repayments are required as per the applicable loan agreement.

### **Giving of Security**

When possible, Council will secure borrowing against rates revenue in order to gain lower borrowing costs. Physical assets will only be pledged where:

1. there is a direct relationship between the debt and the asset purchase / construction e.g. operating lease or project finance;
2. the Council considers a pledge of physical assets to be more appropriate than a pledge of rates.

### **Internal Borrowing**

Council may borrow internally against the cash investment pool held by Council, in lieu of external borrowing. Considerations of internal borrowing versus external borrowing are:

- Market loan rates v investment pool rates
- Liquidity of investment pool, ie are funds available to use to finance borrowings
- The desired maturity profile for the debt and the investment
- Minimum levels of investment funds required to be held.

### **Reporting**

A three monthly cycle (currently 6 weekly), report will be tabled by the Finance Manager at the Finance and Corporate Services Committee summarising information on debt levels, interest rates and maturities. The level of debt will be held within the limits below.

### **Long Term Debt Limits**

Debt should be maintained within the following limits:

<b>Measure</b>	<b>Maximum</b>
Long Term Debt per Capita	\$1,200
Long Term Debt per Rateable Assessment	\$2,500
Fixed Rate Long Term Debt /Total Long Term Debt	100%
Floating Rate Long Term Debt / Total Long Term Debt	50%
<b>Measure</b>	<b>Minimum</b>
Times Interest Earned	10
Equity to Long Term Debt Ratio	15:1

[Adopted by Council 3/07/03]