LIABILITY MANAGEMENT POLICY

Document Type	Operational Policy
Adopted by	Full Council
Date Adopted	18 March 2025
Date Effective	1 July 2025
Responsible Department	Finance
Responsible Officer	Chief Financial Officer
To be reviewed	With the next Long-term Plan review or 1 June 2028, whichever is sooner

1. Purpose

1.1. The purpose of this policy is to outline the level and nature of risks that are acceptable to the Gore District Council (the Council), and to control and manage borrowing costs, liquidity requirements and risks associated with treasury management activities.

1.2. This policy adheres to the requirements in section 104 of the Local Government Act 2002 which requires each local authority to have a liability management policy that includes policies for:

- interest rate exposure; and
- liquidity; and
- credit exposure; and
- debt repayment.

1.3. This policy links to the Council's following strategic documents and policies:

- Financial Strategy;
- Annual Plan;
- Long-Term Plan (LTP);
- Strategic Plan;
- Investment Policy;
- Funding Policy for Capital Expenditure.

2. Objective

2.1. The objectives of this policy are consistent with corporate best practice and take into account the Council's annual and strategic plans, and its long-term Financial Strategy.

2.2. The key objectives of this policy are to:

- ensure that the Council has the ability to meet its debts in an orderly manner as and when they fall due, in both the short and long-term, through appropriate liquidity and funding risk management;
- arrange appropriate funding facilities for the Council, ensuring they are not above market related margins utilising the Local Government Funding Agency (LGFA), bank debt facilities and/or capital markets as appropriate;
- maintain lender relationships and the Council's general borrowing profile in the local debt and, if applicable, capital markets, so that the Council is able to fund itself appropriately at all times;
- control the cost of borrowing through the effective management of its interest rate risks;
- ensure compliance with any financing/borrowing covenants and ratios;
- maintain adequate internal controls to mitigate operational risks;
- produce accurate and timely reports that can be relied on by senior management and the Council, for control and exposure monitoring purposes, in relation to the debt raising activities of the Council;
- prudently manage the Council's borrowing activities;
- borrow only under the Council's approved facilities and as permitted by this policy; and
- maintain operational controls and procedures to protect the Council against permanent financial loss, opportunity cost and other inefficiencies.

3. Borrowing Management

3.1. The Council raises loans for the following primary purposes:

- specific debt associated with projects and capital expenditure;
- finance leases for fixed asset purchases;
- to fund assets with intergenerational qualities;
- general debt to help fund working capital.

3.2. When evaluating new borrowings (in relation to source, term, size, and pricing) the following factors will be considered:

- the size and the economic life of the project;
- earnings, if any, flowing from the project;
- the impact of the new debt on the borrowing limits;
- the overall cash flow requirements of the Council;
- the Council's overall debt maturity profile;
- prevailing interest rates and credit spreads relative to term for LGFA and capital markets sourced debt and bank borrowing, and an assessment of future credit spreads and interest rate movements;
- available terms for LGFA, capital markets and bank debt;
- relevant margins under each borrowing source;
- legal documentation and financial covenants.

Borrowing Authority

3.3. It is intended that all borrowings will be identified in the LTP or Annual Plan. The authority to carry out such borrowings may be exercised in line with the authorised delegations.

3.4. Borrowings not in accordance with the LTP or Annual Plan must be authorised by resolution of the Council.

3.5. Borrowings raised on behalf of Council Controlled Organisations and for commercial activities, will be assessed on the individual case basis. These borrowings must be authorised by the relevant Board (if applicable) and by the Council.

Borrowing Facilities

3.6. The Council may borrow from any New Zealand Registered Bank with a global credit rating with a minimum rating of "Strong". There will be no limit set on the amount of funds which any of the authorised banks may lend the Council.

3.7. The Council may also issue local authority bonds and debt sourced from the LGFA.

3.8. All borrowing facilities must be denominated in New Zealand dollars.

Borrowing Mechanisms

3.9. It is the responsibility of the Chief Financial Officer to manage the borrowing, liquidity risk management and funding risk management activities of the Council in line with this policy.

3.10. The Council may use the following external borrowing mechanisms:

- bank sourced debt available under a committed facility;
- commercial paper;
- floating rate notes;
- fixed rate bonds.

Borrowing Limits

3.11. The Council will adhere to the following limits (based on the Council's latest financial statements at the time new debt is taken out):

- net debt as a percentage of total revenue shall be less than 175%[1] (in line with LGFA lending covenant);
- net interest as a percentage of total revenue shall be less than 20%;
- net interest as a percentage of rates shall be less than 25%.

Internal Borrowing

3.12. General Council (including ward, community board or committee) investments may be used as a source for internal loans in relation to expenditure of a capital (or one-off) nature related to any activity that would normally be funded by an external loan.

3.13. The interest to be applied to internal loans will be determined at the commencement of the financial year based on, and not exceeding, the interest offered on a twelve-month investment by the Council's bank on 1 July. It is permitted to apply rates of interest below that or zero in specific cases, after considering fairness and equity.

3.14. All terms of internal loans will be subject to review during the life of the loan.

3.15. This section has been recommended for inclusion for completeness. The Council currently undertakes informal internal borrowing, and this inclusion reflects that.

[1] Note: This will be amended to 280% when the Council receives its credit rating from Fitch.

4. Debt Repayment

4.1. The Council's policy on debt repayment is to ensure that the Council is able to repay debt on maturity with minimum impact on the Council's operations. Note that in some instances repayment may be via new borrowings.

4.2. Repayment of debt (interest and principal) is governed by the:

- affordability of debt servicing costs;
- sustainability of debt over the long-term;
- maintenance of debt levels below prudent levels of debt at all times;
- preservation of flexibility in borrowing capacity to deal with community and Infrastructural needs which will arise in the future; and
- intergenerational equity principles (present and future).

4.3. The application of surplus cash will have the following priority:

1. Repayment of debt
2. Priority projects
3. Investment.

5. Security Policy

5.1. The Council's policy on security is to ensure that the Council is able to provide suitable security to lenders, whilst retaining maximum flexibility and control over assets.

5.2. The security for most of the Council's debt will be the ability to levy rates. The Council may offer assets or rates as security for its borrowing.

5.3. The Local Government Act requires this security to be registered under the Companies Act. This registration is available for public inspection.

6. Interest Rate Exposure

6.1. Interest rate risk refers to the impact that movements in interest rates can have on an organisation's financial performance. The Council prefers predictable interest income and expense to minimise the risk of adverse movements impacting the operating surplus. In some instances, the floating interest rates are more financially favourable to the Council.

Objectives

6.2. The primary objective of interest rate risk management is to reduce uncertainty around net interest income or expense as interest rates change.

Interest Rate Risk Management

6.3. Mechanisms used include matching the interest rate re-pricing profile of the Council's financial investment and financial liabilities and, within risk limits, fixing rates through fixed-rate borrowings and by using interest rate hedging instruments. The Council manages interest rate risk on its debt on a portfolio basis.

6.4. In recognition of the competing principles of flexibility and accountability, the Council will manage its interest rate risk via a Treasury Management Panel. This panel, which is a sub-committee of the Council's

Audit and Risk Committee, assists senior Council management in striking a balance between risk, certainty and minimising exposure to higher than necessary costs of finance.

6.5. The interest rate exposures of the Council shall be managed according to the hedging parameters detailed in the following table:

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate Amount	**Maximum Fixed Rate Amount**
0 – 2 years	0%	100%
2 – 4 years	0%	80%
4 – 10 years	0%	60%

7. Liquidity

Objectives

7.1. The key Liquidity Management objectives are to:

- manage short-term cash flows in an efficient and prudent manner;
- maintain a level of liquidity sufficient to meet both planned and reasonable unforeseen cash requirements;
- maintain accurate cash flow forecasts to increase efficiency in the Council's investment and borrowing decision making.

Liquidity and Funding Risk Management

7.2. The Chief Financial Officer is responsible for monitoring and managing liquidity by:

- forecasting, monitoring and managing daily cash activities;
- ensuring appropriate liquidity to meet unexpected cash expenditure or revenue shortfalls;
- arranging debt facilities and/or maintaining financial assets which can be readily converted to cash within a suitable time period; and
- having in place contingency plans to meet worst case scenarios.

7.3. To manage liquidity and funding risk the following shall apply:

- to avoid a concentration of debt maturity dates the Council will, where practicable, aim to have no more than 35% of debt subject to refinancing in any rolling twelve-month period, but may be up to 50%;
- the Council shall aim to maintain committed funding lines of not less than 110% of projected core debt for the coming year. Core debt is defined as that contained in the Annual Plan or as otherwise determined by the Chief Financial Officer.

8. Credit Exposure

Objectives

8.1. The key credit management objectives are to:

- prudently manage the Council's credit exposures;
- only borrow, invest, and otherwise transact with approved parties with pre-determined limits as permitted by this policy.

Credit Management

8.2. Prudent credit management can reduce the risk of loss due to a party failing to meet its obligations.

- the Council will only place investments with parties who have, at a minimum, a S&P Global Ratings ("S&P short term rating of 'A-1' and long-term rating of 'A' rating or Moody's Investors Service or Fitch rating equivalents);
- financial derivative contracts will only be held with registered banks, with a minimum S&P, or other equivalent agency rating, short term rating of 'A-1' and long-term rating of 'A' or Moody's Investors Service or Fitch rating equivalents.

9. Other Liabilities

Current Liabilities

9.1. Current liabilities reflect those obligations, expressed in monetary terms, which the Council has to meet within the next twelve months. For day-to-day obligations for its operational and capital expenditure, the Council's policy is to pay such in full (or to the full extent of any contractual obligations) by due date. This eliminates any credit exposure or risk.

Contingent Liabilities

9.2. The Council does not provide financial guarantees, with the exception of LGFA. Contingent liabilities may arise due to legal processes. These will be reported to the Council as soon as they become apparent. Provision for the likely financial implications of these liabilities will be made in accordance with the Council's policy.

10. Delegations

10.1. The delegated authority in respect of this policy is as follows:

- approvals required from the Council:
    - adoption of policies;
    - amendments to policies in the case of identification of any material error or proposed changes that are significant rather than of a technical or typographical nature.
- day to day management of the policy is delegated as per the Council's Delegation Register.

11. Reporting

11.1. A report each quarter will be complied which contains the following key details of the Council's debt and hedging profile, including:

- total current debt;
- interest rate hedging profile against percentage hedging limits (graphically illustrated);
- details of all interest rate derivative transactions;
- details of current funding tranches and maturity profile (graphically illustrated);
- weighted average cost of funds;
- a statement of policy compliance;
- details of any exception reports including remedial action taken or intended to be taken.

12. Local Government Funding Agency

12.1. Despite anything earlier in this policy, the Council may borrow from the New Zealand LGFA and 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;
- 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;
- subscribe for shares and uncalled capital in the LGFA;
- 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.

13. Treasury Advice

13.1. The Council will retain the services of an independent treasury advisor to assist with the management of this policy.

14. Policy implementation and review

14.1. It is the responsibility of the Chief Executive to deliver the objectives of this policy.

14.2. This policy is to be reviewed as a part of the Financial Strategy for the next Long-term Plan review, or 1 June 2028, whichever is sooner.

14.3. This policy comes into effect on 1 July 2025.

14.4. This policy was adopted by the Gore District Council at its meeting held on 18 March 2025.

Debbie Lascelles
Chief Executive
27 March 2025

Document History and Version Control Table				
Version	Action	Approval Date	Approval Authority	Due for Review
1.0	Creation of original document	January 2021	Chief Executive	2024
2.0	Review of document	June 2022	Chief Executive	2024
3.0	Review of document	February 2025	Chief Executive	2028