SOUTH WAIRARAPA DISTRICT COUNCIL
Kia Reretahi Tātau

Liability Management Policy

Date of Approval	29 June 2009
Revised	30 June 2021
Policy Number	M300
Next Review	30 June 2024

Liability Management Policy

1. General policy

The borrowing management policy will be consistent with Council's overall objectives and plans. The amount of borrowing is driven on a project by project basis. Council approves borrowing by resolution as part of the Annual and Long Term Planning processes.

Council may borrow from itself, any registered bank or wholesale investor by the issue of local authority stock, or the Local Government Funding Agency or in any other manner which it considers appropriate.

2. 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 policy is to have a high percentage of fixed rate borrowing, however in certain circumstances it may be prudent to consider a more even balance between floating and fixed rate instruments. Interest rate risk is managed by adjusting the maturity of borrowings to avoid a concentration of debt reissues or rollovers in line with interest rate predictions.

All matters concerning borrowing which can be lawfully delegated are delegated to the Chief Executive.

The use of hedging instruments for risk management on Council's borrowing is not appropriate. Should Council wish to use hedging instruments an ordinary resolution approving their use will be adopted by Council.

3. Liquidity

Liquidity refers to the availability of cash resources to meet all obligations as they arise.

Short term liquidity management is monitored and controlled through daily cash management activities with long term liquidity being monitored and controlled through the Annual Plan and Long Term Financial Strategy processes.

Council ensures debt maturity is spread widely to minimise the risk of large concentrations of debt maturing at any one time. Council may maintain an overdraft facility to meet short term cash requirements as and when necessary.

4. Credit exposure

Council is readily able to attract cost effective borrowing because of the strength of security offered by its powers to rate, and the very low historical incidence of default by local authorities.

5. Debt repayment

Council has traditionally entered into two types of loans. These comprise reducing balance and interest only loans. Reducing balance (table mortgage) loans are repaid from operational funds over the life of the loan. Council can liquidate these loans at any point of time if allowed under the terms of the loan agreement. Interest only loans are taken out over the life of the project and refinanced at three-to-five-year intervals.

Council has not forecast to make any repayments of principal on interest only loans, as the loans are intended to be for the same length of time as the asset life. Most of the loans are for assets that have a life of between 7 years and 35 years and as a result some of these mature within the period of the current Long Term Plan (LTP).

Council's goal is to spread the principal and interest costs related to asset purchases evenly over the period of the asset's life, and therefore achieve inter-generational equity for ratepayers. While the loan principal is not paid off progressively, Council sets aside deposits to accumulate progressively to prepare for repayment of the loans.

Council has introduced a policy of building up its cash reserves in order to meet future renewals of its assets and repayment of its interest only loans.

Terms of repayment should be determined after consideration of the cost of finance and any intergenerational benefits of the assets being financed.

The maximum period over which borrowings are to be repaid is the lesser of 35 years or the life of the project, unless otherwise resolved by Council.

6. Specific borrowing limits

The gross interest expense of all borrowings will not exceed 12% of rates income.

7. Security

Council does not offer assets as security for borrowings.