NORTHLAND REGIONAL COUNCIL

Draft Liability Management Policy

March 2021

1.0 Introduction

This document presents the council's policies for managing its borrowing and other liabilities, including its policies on interest rate exposure, liquidity, credit exposure and debt repayment.

This policy should be read in the context of the council's Financial Strategy, which outlines the key financial parameters and limits the council operates within; and the Revenue and Financing Policy which covers how the council funds its activities.

This policy applies to all liability management activity undertaken by the council from 1 July 2021. We review this policy at least every three years.

2.0 Management of borrowings and other liabilities

The council's borrowings and other liabilities will be managed to meet the council's expectations of interest rates, liquidity and credit risk exposure.

Council	Approve **Liability Management Policy** Approve new lenders, new borrowing and changes to borrowing limits Review **liability management performance against policy**		
Investment and Property Subcommittee	Contribute to review of this policy	Audit & Risk Subcommittee	Monitor and review this policy and recommend any policy changes to council Recommend new borrowing to council Receive reports on, and monitor management of borrowings, report to council
CEO	Manage Liabilities (with Audit and Risk Sub-committee) Manage new borrowing and refinancing of existing debt Report on liability management performance		
GM - CX	Overall responsibility for liability management, including compliance with legislation Establish appropriate structures, procedures and controls, and reporting requirements, to support all liability management activities Develop Liability Management Policy and any policy changes		
Finance Manager	Manage and review liability management transactions within policy limits and delegated authorities Report to GM-CX, CEO, relevant subcommittees and council		
Finance Team	Perform day-to-day liability management transactions within policy limits and delegated authorities		

The council manages debt on a net portfolio basis. Net debt means financial liabilities less financial assets (excluding trade and other receivables)[1].

To fund its activities, the council can borrow externally through a variety of financial instruments, and from a range of market mechanisms, including from the Local Government Funding Agency. It can also access reserve funds internally.

The council may borrow from external sources, including the Local Government Funding Agency, to fund its investment in capital infrastructure.

To manage its credit exposure, the council will only borrow using widely used financial instruments with creditworthy counterparties. The council will not enter any borrowings denominated in a foreign currency[2].

The council considers and approves its forecast borrowing requirements by approving financial projections in each Long Term Plan and Annual Plan. The council borrows for capital and operational projects and work programmes as it considers appropriate and commercially prudent to do so.

The council will accumulate and hold funds to repays its borrowings.

3.0 Borrowing limits and interest rate exposure

Borrowing and interest rate exposure limits ensure compliance with any applicable covenants from external lenders. Although, the council may set limits lower than the lenders' covenant limits if it considers this to be prudent. Council's internal limits will be reviewed as economic conditions change

Without a credit rating, net external debt will not exceed 175% of total annual revenue. If the council obtains an external credit rating, this limit could increase to 280%.

Interest rate exposure is the impact that movements in interest rates can have on an organisation's financial performance. To manage interest rate exposure:

- net interest on external debt will not exceed:
    - 20% of total annual revenue
    - 25% of annual rates income.
- the council may target a mix of fixed and floating rate external debt to manage the council's expectations of risk and the cost of borrowing. The council shall determine the best mix of fixed and floating rate debt depending on market conditions at the time.

4.0 Liquidity

Liquidity management is the management of liquid assets and funding sources to meet both short and long-term commitments as and when they fall due.

The council minimises its liquidity risk by:

- ensuring that the sum of external debt, committed bank (loan) facilities, and liquid funds (liquid investments)[3] is at least 110% of external debt (liquidity ratio)[4]

---

[1] Section 22, Local Government (Financial Reporting and Prudence) Regulations 2014

[2] Section 113, Local Government Act 2002

- maintaining accurate cashflow forecasts and using these to ensure the council always has sufficient liquid funds available to meet both planned and reasonable unforeseen funding requirements
- avoiding maturity and interest rate re-pricing concentrations by (where appropriate) ensuring rates do not mature on the same dates.

5.0 Debt repayment

It is a council priority to reduce its long-term debt by ensuring that loan capital is repaid upon maturity, however, in cases where an asset funded by debt has an intergenerational useful life, intergenerational debt may be considered. (i.e. part repayment at time of maturity and concurrent drawdown of the remaining balance with a view to repay at maturity)

When the council raises debt:

1. The loan will be drawn down as required to fund activities
2. Targeted rates will be collected immediately and invested until needed to repay the loan
3. At the end of the loan term, the full loan will be repaid
4. Further loans may be raised while others are in progress.

Operating surpluses may be applied to the reduction of debt and/or a reduction in borrowing requirements.

---

[3] Liquid funds includes 75% of externally managed funds

[4] This ratio is required by the Local Government Funding Agency