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LIABILITY MANAGEMENT (BORROWING) POLICY

Introduction

In broad terms, the Council manages both current and term liabilities.

This policy includes a number of policy limits. As the Council currently has no external borrowings (June 2009), many of the limits will not be applicable until the 2009/2019 Selwyn Community Plan borrowing programme has commenced.

Current liabilities

Current liabilities reflect those obligations, expressed in monetary terms, which the Council has to meet within relatively short timeframes, at a maximum within the next 12 months. In respect of its day-to-day obligations for both operational and capital expenditure, the Council's policy is to pay these liabilities in full by the due date. This eliminates any credit exposure or risk. Current liabilities also include the maturing portions of any term liabilities that are due for repayment within the following 12 months.

Term liabilities

Term liabilities represent the Council's obligations which, in general terms, are not immediately payable, i.e. not due within the following 12 months.

The Council approves the borrowing programme for each financial year as part of the Selwyn Community Plan or Annual Budget. Additional borrowings may be approved by the Council on a case-by-case basis. The Council primarily borrows to fund its capital expenditure programme, including its property development activities. In approving new borrowings, the Council considers the impact of the proposed level of borrowings on its overall borrowing limits.

In considering this impact, the Council will implement its borrowing programme from either internal (its own cash reserves) or external sources. Whether borrowing will be from internal or external sources will be determined by the duration of borrowing required and the current and future assessed dollar value of the Council's cash reserves. (i.e. are there enough cash reserves to allow the proposed borrowing to be made internally).

Policy objectives

The Council primarily borrows to pay for the upgrading of existing assets or the construction/ purchase of new assets. These assets generally provide new or enhanced benefits to Selwyn District for many years. Borrowing is therefore considered the most cost-effective and equitable way to fund these assets as it spreads the cost of the asset over the future generations of ratepayers who will benefit from the use of the asset. Accordingly, borrowings have a strategic benefit of making the cost of the asset investment affordable to today's ratepayers. In practical terms, this does not mean that borrowings will extend over the estimated life of each asset e.g. 10 years (pumps) or 80 years (reticulation) but instead an averaged approach will be used as a practical length to the term of borrowing e.g. 20 years. Borrowing terms will be managed on a case-by-case basis. Borrowings are maintained at a prudent level, in accordance with the Council's overall borrowing policy (for specific limits, refer below).

Power to borrow

The Council borrows as it considers appropriate and in accordance with the provisions of the Local Government Act 2002. The Council approves the level of new borrowing in general terms as part of the Selwyn Community Plan or Annual Budget. The Council delegates the authority to officers to raise approved borrowings and working capital for liquidity purposes as and when the funding is required. Any additional borrowing beyond that approved in the Selwyn Community Plan or Annual Plan must be approved by the Council. The Council also delegates authority to officers to manage treasury related risks with appropriate financial instruments within the limits contained in this policy.

Interest rate exposure

Borrowings issued at variable (floating) interest rates expose the Council to a cash flow interest rate risk. The Council may manage its cash flow interest rate risk by using approved treasury risk management instruments such as floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Council has set specific limits for its interest rate exposure as set out below:

Fixed/floating interest rate risk control limit as percentage of 12 month forecast external borrowing		
Minimum Fixed Rate		Maximum Fixed Rate
50%		95%
The level of fixed interest rate cover at any point in time must be within the following maturity bands:		
Fixed rate maturity profile limit		
<i>Period</i>	<i>Minimum</i>	<i>Maximum</i>
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 to 10 years	0%*	60%

* This figure increases to 10% when actual external borrowing exceeds \$20 million.

Liquidity and funding risk

The Council minimises its liquidity risk by maintaining liquid investments or committed borrowing facilities at a level that exceeds 110% of projected peak borrowing levels over the following 12 months. The Council minimises funding risk by avoiding concentrations of debt maturity dates and will only draw down or borrow against these facilities as required.

Where special funds are maintained to repay borrowings, these investments are held for maturities not exceeding borrowing repayment dates.

The Council avoids exposure to liquidity and funding risk by managing the maturity of its debt and committed facilities within the following maturity limits:

Borrowing maturity profile limits		
<i>Period</i>	<i>Minimum</i>	<i>Maximum</i>
0 to 3 years	15%	60%
3 to 5 years	25%	60%
5 years plus	0%*	60%

* This figure increases to 10% when actual external borrowing exceeds \$20 million.

Credit/counterparty exposure

The Council transacts treasury instruments and borrows from institutions with satisfactory credit ratings. Borrowings are managed to ensure the Council is not exposed to material concentrations of counterparty risk and are therefore spread amongst a number of institutions to avoid concentrations of credit reliance. The Council will endeavour to spread its reliance on lenders/ investors and to this end will seek a minimum of two lending counterparties when debt exceeds \$20 million.

Borrowing repayment

The Council will repay borrowings from a combination of excess depreciation over and above renewals, capital revenue, sale of surplus or underperforming assets, operating surpluses, the levying of targeted or general rates specifically for the repayment of borrowings or from the renewal of borrowings.

Specific borrowing limits

In determining a prudent level of borrowings, the Council assesses the level of borrowing against the Council's total net assets and interest expense per annum against operating revenues.

Total Council borrowings will be managed within the following macro limits:

Ratio	Limit
Borrowing as a percentage of equity	<12%
Borrowing as a percentage of income	<175%
Interest as a percentage of income	<12%
Interest as a percentage of annual rates income	<28%
Liquidity (Term borrowing + liquid financial investments + committed loan facilities to 12 month peak net borrowing forecast)	>110%

Definitions:

Borrowing is gross debt.

Income is the Council's total income excluding vested asset revenue and revenue from development contributions.

Interest is the gross interest expense.

Annual rates income includes general and targeted rates.

Fixed rate debt is defined as re-pricing date beyond 12 months

Security

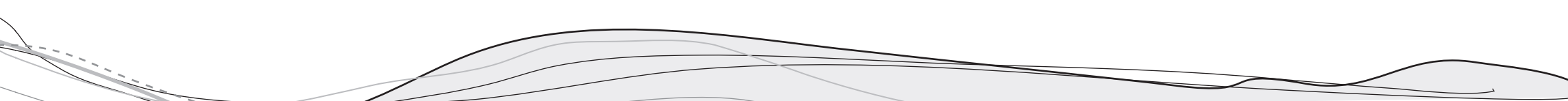
The Council's borrowings may be secured by way of a Debenture Trust Deed (representing a charge over the Council's rates revenue). This security relates to any borrowing and to the performance of any obligation under any incidental arrangement. However, if it is considered advantageous, the Council's borrowings and other financial arrangements may be undertaken on an unsecured basis, or secured by way of a charge over the physical assets.

Reporting to the Council

In addition to the disclosures made in the Annual Report each year, a report will be prepared for the information of the Council as soon as practical after the end of each quarter being 31 March, 30 June, 30 September and 31 December. These quarterly reports will include information on external borrowings as well as internal borrowings.

Implementation

The Council is moving from a position where it has no external debt and this policy will guide the Council as it implements its borrowing programme over the coming years. The programme will be structured with the aim of achieving borrowing in line with the policy limits within two years from the date of its implementation on 1 July 2009. Initial borrowing up to that point may not comply with all the policy limits.



"New Zealand Local Government Funding Agency Limited Investment"

Despite anything earlier in this Liability Management (Borrowing) Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (**LGFA**) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- (a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;
- (b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- (c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- (d) subscribe for shares and uncalled capital in the LGFA; and
- (e) 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."