

## 10. LIABILITY MANAGEMENT POLICY

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### PURPOSE OF REPORT

1. The purpose of this report is to advise the Audit and Risk Subcommittee of the changes that are being proposed to the Liability Management policy (see Appendix 1).
2. These changes are reflected in the figures and ratios contained within the Financial Overview and form part of the basis of the calculations which determine the operating surplus.
3. This policy should be read in conjunction with the Investment policy (see Appendix 2).

### EXECUTIVE SUMMARY

4. As part of the preparation of the 2006/16 LTCCP, all financial policies have been reviewed along with the assumptions underlying the calculation of the operating surplus and the repayment of debt.
5. Listed below are the significant changes which have been made to the Liability policy:
  - (a) The maximum term for debt has been extended from 20 to 30 years, [clause 4.1.1(h)]; *“where a loan is raised to fund a specific asset its term must not be longer than the economic life of the asset it funds, except in the case of equity investments, and in any event the term of a loan must not be longer than 30 years”.*
  - (b) In line with the above, the debt repayment provisions have been reduced from 3% to 1.4%.
  - (c) The quantum of the borrowing considered not to be so significant as to require specific authorisation by Council has been increased from \$500,000 to \$1,000,000. (This clause relates to Hire Purchase and goods purchased in the normal course of business on terms and conditions generally available to parties of similar credit worthiness and has the effect of excluding such debt from the definition of borrowing.)
  - (d) A new clause, 4.1.1, has been added which builds on the existing risk control limits; “the Council shall maintain, as a minimum, sufficient approved financing facilities to cover at least 120% of the peak cumulative anticipated net debt requirements on a rolling 12 month basis.
6. The credit rating requirements for counterparties have been defined (clause 4.2.3)
7. The key financial management ratios have not been changed (clause 4.1.3).
8. Clause 4.1.3 (a) provides that the total external debt as a percentage of total assets of the Council/CCHL shall be no more than 12%.
9. At June 2005 the total Council debt was \$92.5m or 3%.
10. Clause 4.1.3 (b) provides that total external debt of the Council/CCHL combined as a percentage of realisable assets, (all assets excluding infrastructure and restricted assets) shall be no more than 33%.
11. At June 2005, the ratio of term debt to realisable assets was 6%.

### FINANCIAL AND LEGAL CONSIDERATIONS

12. The adoption of this policy will have an impact on the Council's debt. The effect will be detailed as part of the recommendation on the calculation of the operating surplus.

### STAFF RECOMMENDATION

13. That the Audit and Risk Subcommittee accept this report.

## **BACKGROUND ON LIABILITY MANAGEMENT POLICY**

12. A copy of the Liability Management Policy is attached as Appendix 1. The Investment Policy is currently still under review. Changes will be to the format only and the copy attached (Appendix 2) is from the 2004/14 LTCCP.

## **OPTIONS**

13. The only significant option available under this policy is the maximum term of debt and this will be discussed as part of the presentation on the Operating Surplus.
14. At this stage of the budget process, staff are not recommending a change to the financial management ratios.