

# HURUNUI DISTRICT COUNCIL

## POLICY

### EXTERNAL LIABILITY MANAGEMENT



**Adopted:** Council meeting 28 June 2012

**Replaces:**

**Review date:**

#### Introduction

Council took on external debt for the first time in 2010. It is intended that the Council shall have a level of core debt for the period outlined in the Long Term Plan. Council's liabilities comprise borrowings and various other liabilities.

#### Debt ratios and limits

Debt will be managed within the following macro limits:

Ratio	Hurunui
Net debt as a percentage of equity	<10%
Net debt as a percentage of total revenue	<100%
Net Interest as a percentage of total revenue	<5%*
Net Interest as a percentage of annual rates income (debt secured under debenture)	<10%
Liquidity (External, term debt + committed loan facilities + liquid investments/cash equivalents to existing external debt)	>110%

*\*excludes non-government capital contributions (e.g. developer contributions and vested assets), from revenue and government contributions netted from debt but excluded from revenues.*

The ratios were developed with reference to the ratios required to borrow from the Local Government Funding Agency and the expected borrowing needs of the Hurunui District Council over the ten years.

Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue.

Net debt is defined as total debt less liquid financial assets/investments.

Debt will be repaid as it falls due in accordance with the applicable loan

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agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

Disaster recovery requirements are to be met through the liquidity ratio.

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**Asset Management Plans**

In approving new debt the Council considers the impact on its borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTCCP.

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**Borrowing Mechanisms**

Hurunui is able to borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, LGFA, accessing the short and long-term wholesale and retail debt capital markets directly or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the MFS, takes into account the following:

- Available terms from banks, LGFA, debt capital markets and loan stock issuance;
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time;
- Prevailing interest rates and margins relative to term for loan stock issuance, debt capital markets, LGFA and bank borrowing;
- The market's outlook on future interest rate movements as well as its own;
- Ensuring that the implied finance terms and conditions within the specific debt (e.g. project finance) are evaluated in terms such as cost/tax/risk limitation compared to the terms and conditions Hurunui could achieve in its own right;
- Legal documentation and financial covenants together with credit rating considerations

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with its investors and financial institutions.

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**Security**

Council's borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue. The utilisation of special funds and reserve funds and internal borrowing of special funds / reserve funds and other funds will be on an unsecured basis.

Under the Debenture Trust Deed Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act, excluding any rates collected by Council on behalf of any other local authority. In such circumstances, the security offered by Council ranks 'Pari Passu' for all stock issued by Council including any security stock issued.

Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council and Debenture Trustee approval, security may be offered by providing a charge over one or more of Councils assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance).
- Council considers a charge over physical assets to be appropriate.

Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Deed.

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**Debt Repayment**

The funds from all asset sales and operating surpluses will be applied to the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

**New Zealand Local Government Funding Agency Limited Investment**

Despite anything earlier in this Liability Management 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, for example Borrower Notes;
- (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.

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END OF POLICY