



## 5.0 Liability Management Policy

Borrowing under this Liability Management Policy includes internal as well as external borrowing (refer to the definition of borrowing in Section 112 of the Local Government Act 2002).

### 5.1 Objective

The objective of the Liability Management Policy is consistent with Council's objectives and with the LTCCP and Annual Plan. It is:

- to achieve the lowest possible net borrowing costs achievable within the policy parameters, by actively managing funding risk and interest rate risk within the overall limit control of maximising benefits (from favourable interest rate movements) while having levels of protection in place against prolonged and significant adverse interest rate movements.

#### 5.1.1 Active Management and Hedging

Active management of borrowing is the use of direct borrowing methods such as committed or un-committed facilities, bond issues, term loans, overdraft etc. (as detailed in Section 5.4 of this policy).

Hedging is the use of interest rate swap contracts, forward rate agreements, options or swaptions to manage Council's interest rate exposure on existing loans (interest rate risk). There is no purchase or exchange of capital borrowing involved in the use of hedging products (Sections 5.4, 5.4.1 and 5.4.2 of this policy provide details of hedging products).

#### 5.1.2 Definition of Treasury Risks

Council is exposed to a number of risks when borrowing or investing funds, and in the management of treasury functions. These treasury risks are:

- Interest rate risk (detailed in Section 5.2 of this policy).
- Funding risk — This is the risk of not having funding facilities spread over a reasonable period of years and being unable to source funding when required. To manage this risk Council has in place committed funding facilities with three banks and also issues term debt under its Debenture Trust Deed (further information is available in Section 5.3 of this policy).
- Settlement risk — Settlement risk is the risk that a counterparty fails to transfer funds or equities as agreed in a borrowing or investment contract. To manage this risk Council has become an associate member of Austraclear (a Reserve Bank operated facility to ensure simultaneous transfer of cash and securities at settlement) and only uses counterparties on the approved counterparty list (refer Section 5.6.1).
- Counterparty credit risk — Counterparty credit risk is the risk that a party to a transaction will default on its contractual obligations. This risk is managed by using only counterparties on the approved counterparty list (refer Section 5.6).



The Hamilton City Council will have a permanent net debt/borrowing position (refer Section 4.1 of Council's Investment Policy). Council's cash requirements are managed on a daily basis. These cash requirements are achieved by the use of long term funding facilities, term loans and debenture stock/bond issuances along with short-term bank funding lines and bank overdraft. Investments will only occur occasionally and for brief periods and will be managed according to Council's Investment Policy. Risks associated with cash management in addition to those above are those associated with internal controls of treasury functions. These are managed by the use of formal delegation of authority and authority limits (refer Section 5.4.3) and by the separation of duties so that one person does not initiate a transaction and check confirmations.

## 5.2 Interest Rate Risk Policy

Interest rate risk is the risk of significant unplanned changes to interest costs as a result of financial market movements.

The purpose of managing interest rate risk is to have a framework in place under which Council can actively manage its borrowings, within overall guidelines to spread and reduce risks. In this manner, Council has control on the level of financial market interest rate movement exposures, and can maintain a relative balance between such risk and other business investment risks that Council has in its normal course of business.

The control limits cover both the underlying physical borrowing risks and the use of synthetic instruments that may be used to limit, reduce, eliminate and re-profile these physical risks.

### 5.2.1 Currency Borrowings

Borrowings can only be made in New Zealand dollars (see Section 113 of the Local Government Act 2002).

### 5.2.2 Net Borrowings

Fixed/floating percentages are calculated on the 12-month projected external debt level based on Council's LTCCP and Annual Plan. This allows for pre-hedging in advance of projected physical drawdowns of new debt. When forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the policy minimums and maximums.

### 5.2.3 Fixed/Floating Mix

Fixed rate is defined as all debt with interest rate repricing beyond 12-months. It can be made up of fixed rate borrowings, interest rate swap contracts, swaptions, and caps, with more than 12-months to run. Interest rate caps with a rate more than 2 per cent above market rates cannot be considered as fixed rate. Floating rate is defined as all debt with an interest rate repricing within 12-months.

To match the fixed nature of the income that Council generates (i.e., rates), the mix of fixed borrowings at any one time is to be 50 per cent minimum and 95 per cent maximum.



To spread the interest rate risk on the profile of borrowings, the following controls/guidelines have been established:

- 1 — 3 years    20% (min) — 60% (max) of the Fixed Rate total
- 3 — 5 years    20% (min) — 60% (max) of the Fixed Rate total
- > 5 years        10% (min) — 60% (max) of the Fixed Rate total

The mix of floating borrowings at any one time is to be 5 per cent minimum and 50 per cent maximum.

Call Market borrowings cannot exceed \$30 million.

#### 5.2.4 Debt Ratios and Limits

Debt is categorised as follows:

- Total Debt (includes all external and internal borrowing)
- Total Council Debt (excluding debt funded by development contributions)
- Net Debt (equal to Total Debt less internal borrowing)

Debt will be sub-categorised on the basis of how its repayment and servicing costs are funded as follows:

- Debt funded by Access Hamilton
- Debt funded by rates
- Debt funded by development contributions

Total Debt ratios will be calculated and managed according to the following macro limits

Debt Ratio	Policy Limit
<b>Total Council Debt (excluding debt funded by development contributions)</b>	
Net interest on Total Council debt (excluding interest on DC debt) as a percentage of total annual rates income.	<20%
Total Council Debt as a percentage of income (excluding total DC contributions received p.a. in income).	<180%
Total Council Debt per capita (This limit is expressed in 2009 dollars)	<\$2,000
<b>Total Debt</b>	
Total Debt as a percentage of total assets	<25%
Total Debt as a percentage of income	<250%
Net interest on total debt as a percentage of income (including total DC contributions received p.a. in income).	<20%
Liquidity (term debt + committed loan facilities to existing net debt including working capital requirements).	>110%



Income is defined as earnings from rates, government grants and subsidies, user charges, total development contributions received p.a. (DC), interest and other revenue.

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

Information relating to the level of public debt and linkage to debt servicing performance targets has been applied to Council's LTCCP for the next 10 years.

### 5.3 Funding Risk Policy

Funding risk is the risk to Council of not having funding facilities spread over a reasonable period of years and being unable to source funding when required. The risks can be summarised as follows:

- (i) If the majority of facilities are maturing at or around the same time, there is a risk that it is an unfavourable time to be renewing facilities in the market due to high pricing/margins from lenders.
- (ii) If Council is having some difficulties by having all facilities maturing at one time, this may be detrimental to the ability to either renew the facilities or receive favourable conditions.
- (iii) There is a danger of saturating the market if all the facilities are maturing at the same time and Council has access to only one type of funding.

To spread this risk, it is prudent to have the total debt spread so that a certain proportion is maturing periodically.

The maturity profile of the total committed funding in respect to all loans and committed facilities is to be controlled by the following system:

Debt/facilities maturing 0— 3 years time	20	—	50%
Debt/facilities maturing 3— 5 years time	20	—	50%
Debt/facilities maturing 5 years and over	10	—	50%

- A maturity schedule outside these limits requires specific Council approval. A twelve-month phase-in non-compliance period is permitted.
- The Chief Executive has discretionary authority to refinance, rollover, re-negotiate existing debt on more favourable terms. Such action is reported to Council at the earliest opportunity.



## 5.4 Approved Financial Instruments and their Use

Dealing in interest rate products must be limited to financial instruments approved by Council.

Current approved interest rate instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft  Committed cash advance and bank accepted bill facilities (term facilities) Uncommitted money market facilities Retail and wholesale Bond issuance Term loans
Investments	Short-term bank deposits Bank bills Bank certificates of deposit (CD) Treasury bills Local authority stock or state owned enterprise (SOE) bonds Corporate bonds Promissory notes/Commercial paper
Interest rate risk management	Forward rate agreements (FRA) on: <ul style="list-style-type: none"> <li>a) Bank bills</li> <li>b) Government bonds</li> </ul> Interest rate swaps including: <ul style="list-style-type: none"> <li>a) Forward start swaps (start date &lt;24-months)</li> <li>b) Amortising swaps (whereby notional principal amount reduces)</li> </ul> Interest rate options on: <ul style="list-style-type: none"> <li>a) Bank bills (purchased caps and one for one collars)</li> <li>b) Government bonds</li> </ul> Interest rate swaptions (purchased only)

Any other financial instrument must be specifically approved by Council on a case-by-case basis and only be applied to the one singular transaction being approved.



### 5.4.1 Definitions

#### Interest Rate Swap Contract (SWAP)

An interest rate swap contract is an agreement between two parties (one party typically being a bank) to exchange interest rate obligations on an agreed notional principal amount for an agreed time period. There is no physical exchange of principal amounts.

#### Forward Rate Agreement

A forward rate agreement is a contract between two parties whereby each party agrees to fix an interest rate for a specified contract period and a specified future date, based on an agreed notional amount. Neither party undertakes to lend or borrow a principal amount — it is only the obligation to make the interest payment that is agreed on.

#### Options

##### Interest Rate Option

An interest rate option is a contract between two parties where the buyer pays the seller a premium for the right, but not the obligation, to enter into a transaction at an agreed interest rate for an agreed notional principal, maturing on an agreed date.

##### Government Stock Option

A Government stock option is a specialist contract where the party buying the option has the right, but not the obligation, to purchase or sell Government stock.

##### Swaption

A swaption is an agreement where the party buying the option has the right, but not the obligation, to enter into an interest rate swap contract.

Counterparties who sell these treasury management products will require Council to sign a Master Agreement that covers all the legal terms, conditions, rights, responsibilities and liabilities under the contract. The Master Agreements protect both parties and cover all individual contracts entered between the counterparty and Council (these are normally confirmed by computer-generated confirmation letters only).

### 5.4.2 Financial Instrument Use

#### Interest Rate Swap Contracts (SWAP)

- SWAP contracts cannot exceed 10-years.
- Net outstanding/open interest rate swap contracts cannot exceed 100 per cent of total 12-month projected net debt.
- Existing interest rate swap contracts may be closed out or amended prior to maturity by cancellation/amendment with the same counterparty, or by an equal and opposite interest rate swap contract with another counterparty.



### Forward Rate Agreements

- Net outstanding/open forward rate agreement contracts cannot exceed 75 per cent of floating rate debt.
- Refer to interest rate swap contracts for transaction limits.

### Interest Rate Options, Government Stock Options and Swaptions

- Selling of interest rate options is only allowed as part of a combined strategy, including the simultaneous purchase of interest rate options with identical amount and maturity.
- Strike prices must be within 1 per cent of the appropriate SWAP rate.
- Refer to interest rate swap contracts for transaction limits.

### 5.4.3 Delegation of Authority and Authority Limits

Treasury transactions entered into by Council without the proper authority are difficult to cancel given the legal doctrine of 'apparent authority'. Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, the following procedures must be complied with:

- all delegated authorities and signatories must be reviewed at least every 12-months to ensure that they are still appropriate and current.
- a comprehensive letter must be sent to all bank counterparties at least every year that details all relevant current delegated authorities of Council and contracted personnel empowered to bind Council.

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing immediately to ensure that no unauthorised instructions are to be accepted from such persons.

Council has the following responsibilities, either directly itself, or via the following stated delegated authorities. (In the absence of individuals, delegated authorities revert upward to their immediate reporting officer).

Activity	Delegated Authority	Limit
Approving and changing policy	Council	Unlimited
Borrowing new debt	Council  Chief Executive Officer (CEO) — delegated by Council  Deputy CEO — delegated by the Chief Executive Officer  Finance Manager (FM)— delegated by the Deputy CEO	Unlimited (subject to legislative and other regulatory limitations)  Subject to Council resolutions



Activity	Delegated Authority	Limit
Overall day-to-day risk management	CEO (delegated by Council) Deputy CEO (delegated by CEO) FM (delegated by Deputy CEO)	Subject to policy
Maximum daily transaction amount (borrowing, investing, interest rate risk management, foreign exchange rate risk management)  The limit excludes interest rate rollovers on existing swap transactions and rollovers of existing drawn debt	Council  CEO — delegated by Council  Deputy CEO — delegated by the CEO  FM — delegated by the Deputy CEO  ETOS <sup>1</sup>	Unlimited  \$50 million  \$40 million  \$30 million  \$5 million (limited to daily cash management)
Re-financing existing debt	CEO (delegated by Council) Deputy CEO (delegated by the CEO) FM (delegated by the GMC)	Subject to policy/Council resolutions
Approving transactions outside policy	Council	Unlimited
Adjust interest rate risk profile	Deputy CEO delegating to FM each adjustment individually signed off by the Deputy CEO	Fixed/floating ratio between 50% and 95%  Fixed rate maturity profile limit as per risk control limits
Managing funding maturities in accordance with Council approved facilities	Deputy CEO/FM	Per risk control limits

<sup>1</sup> ETOS provide treasury outsourcing services to Hamilton City Council in accordance with Schedule 1 of the outsourcing agreement between HCC and ETOS.



Activity	Delegated Authority	Limit
Maximum daily transaction amount (borrowing, investing, interest rate risk management)	Council Deputy CEO FM (delegated by the Deputy CEO) ETOS	Unlimited \$50 million \$15 million \$5 million (limited to daily cash management)
Authorising lists of signatories	Deputy CEO	Unlimited
Opening/closing bank accounts	Deputy CEO	Unlimited
Annual review of policy	FM	N/A
Ensuring compliance with policy	FM	N/A

#### 5.4.4 Derivative Financial Instrument Accounting Treatment and Valuation

Council uses derivative financial instruments within prescribed policies and limits (see Section 5.2). These derivative financial instruments are used to manage exposure to fluctuations in interest rates and exchange rates. All derivative financial instruments are valued to fair value at balance date and any resulting gains or losses are recognised in the Statement of Financial Performance. Council does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

## 5.5 Liquidity Policy

The objective of the liquidity policy is to ensure adequate financial resources are available to Council to meet all obligations as they arise.

The purpose of the Liquidity Policy is to analyse Council's cash flows, in both the short and long-term for all perceived requirements and contingencies, and arrangement of suitable sources of liquid resources.

### 5.5.1 Policy

Liquid resources are defined as:

- unencumbered financial assets which can readily be converted to cash in a short space of time to the best interests of Council;
- un-drawn committed or standby facilities which can be accessed in a suitable timeframe.

There are three aspects to liquidity management:

- short-term operational liquidity management, to be monitored and controlled through daily cash management activities;



- long-term operational liquidity management, to be monitored and controlled through long-term financial planning;
- contingency crisis management, to be monitored through the long-term and short-term planning process and arrangement of liquidity sources sufficient to meet worst case scenarios.

Council requires a minimum level of surplus liquidity to meet unexpected cash expenditure or revenue shortfall. Liquidity should be flexible enough to manage the rate payment cycle.

### 5.5.2 Committed Bank Facilities

To ensure the ongoing funding of Council and to manage funding risk (and hence liquidity), it is important that Council obtain committed bank facilities to ensure that sufficient funds can be called upon when required. This form of borrowing would usually be secured through the issuing of a security stock certificate under the Debenture Trust Deed. Committed borrowing facilities plus term debt will be maintained at 10 per cent above the existing net debt amount including working capital. This is deemed to include the value and terms of credit from suppliers including leases, hire purchase and deferred payments agreements.

Council is not permitted to have borrowings from uncommitted bank facilities greater than unutilised committed bank facilities at any one point in time (i.e., used uncommitted facilities are not to exceed unused/available committed facilities).

A list of authorised counterparties is required. This list is approved by the Chief Executive Officer and any additions or deletions to this list require approval.

## 5.6 Counterparty Credit Risks

Counterparty credit risk is the risk that a party to a transaction will default on its contractual obligation. A counterparty credit risk is incurred whenever Council enters a transaction with a third party, which requires the third party to make a payment to Council. The degree of counterparty credit risk will vary according to the perceived creditworthiness of the counterparties.

The qualifying criteria for lenders on the approved list are that they must meet a minimum credit rating criteria, where appropriate. The counterparty credit limits are as follows:

Credit/Issuer/Authorised Counterparty	Minimum Long-term Credit Rating	Investments maximum per credit (\$m)	Interest Rate Risk management instrument maximum per credit (\$m)	Total maximum counterparty Limit per credit (\$m)
NZ Government	A -	unlimited	none	unlimited
State Owned Enterprises	A -	5	none	5
NZ Registered Banks	A -	***	***	15
ANZ National Bank	AA -	***	***	30
ASB Bank	AA -	***	***	30
Bank of New Zealand	AA -	***	***	30
Deutsche Bank AG	AA -	***	***	15



Westpac Banking Corporation	AA -	***	***	30
Corporate Bonds	A -	2*	none	2
Local Government Stock	A - (if rated) unrated	5** 2	none none	5 2
Local Authority Bond Trust	unrated	2	none	2
Local Government Finance Corporation	unrated	5	none	2
Members of Austraclear	n/a	none	none	none
Travelex	n/a	none	0.1	0.1

- \* Subject to a maximum of \$20m investment in corporate bonds/CP at any one point in time.
- \*\* Subject to a maximum of \$25m investment in Local Government stock at any one point in time, including Local Government Finance Corporation and Local Authority Bond Trust.
- \*\*\* These counterparty limits are interchangeable between investments and interest rate risk management instruments within the maximum counterparty limit.

Any changes to the above named counterparties must be approved by the Chief Executive Officer.

In determining the usage of the above gross limits, the following product weightings will be used:

- Money Market (e.g., Bank Deposits, Investments) — Transaction principal amount x Weighting 100%
- Interest Rate Risk Management (e.g., swaps, FRAs, collars) — Transaction principal amount x Maturity (years) x 3%
- Foreign Exchange (e.g. foreign exchange forward contracts, foreign exchange options, cross-currency interest rate swaps) — Transaction principal amount x the square root of the maturity (years) x 15%.

Each transaction is entered into a reporting spreadsheet and a monthly report prepared for the Finance Manager to show assessed counterparty actual exposure versus limits.

The Finance Manager on an ongoing basis reviews ratings and in the event of material credit downgrades, this is immediately reported to the Deputy CEO and the Chief Executive Officer and assessed against exposure limits. Counterparties exceeding limits are reported to Council.

### Risk Management

To avoid undue concentration of exposures, a range of financial instruments must be used with as wide a range of counterparties as possible. The approval process to allow the use of individual financial instruments must take into account the liquidity of the market the instrument is traded in and re-priced from.



### 5.6.1 Settlement Risk

Counterparty settlement risk is also incurred when a transaction is settled. Whenever there is a physical exchange of cash or securities, Council is at risk that the counterparty's cheque will not be honoured or the securities will not be legally transferred.

To avoid settlement risk, Council will require that all settlements are to be made by bank cheque or directed through Austraclear (a Reserve Bank operated facility), to an account in the name of Hamilton City Council. Austraclear is a real-time trade matching, transfer, clearance and settlement system for securities. Once ownership of the security and the ability to pay controls has been checked, the transfer is irrevocable. Transactions are not accepted by the system unless the paying member has sufficient credit provided by their banker within the system to allow the transaction to be completed.

There does still remain a bank-to-bank risk, hence counterparty limits need to be maintained. Transactions will only be entered into with those institutions on the approved counterparty list.

Council is an Associate Member of Austraclear. Should Council be approached by an investor who is not listed in the counterparty list, or is not a member of Austraclear, the Deputy CEO has the delegated authority to approve such Counterparties on a transaction-by-transaction basis, with subsequent reporting to Council.

## 5.7 Debt Repayment Policy

The objective of the debt repayment policy is to ensure that Council is able to repay debt on maturity with minimum impact on Council operations.

The purpose of the debt repayment policy is to provide a framework by which Council can manage its financial commitments for debt, through the establishment and maintenance of financial reserves and a suitable debt maturity profile.

### 5.7.1 Debt Repayment Policy

Debt repayment will occur at different levels for the sub-categories of total debt defined in section 5.2.4, as follows:

#### **Debt Funded by Access Hamilton or other reserves**

Debt repayment shall be budgeted to be either 4 per cent of the opening balance of net debt or an accelerated debt repayment programme in accordance with a Council resolution pertaining to the specific loans or programme for which the debt is raised. A mixture of both debt repayment profiles may occur under this debt category.

#### **Debt Funded by Rates**

Debt repayment shall be budgeted to be 4 per cent of the opening debt balance (including internal borrowing). Opening debt balance will be adjusted down for any lump sum debt repayments from asset sales in the budgeted year.

#### **Debt Funded by Development Contributions**

Debt repayment shall be budgeted to be the annual difference between budgeted contributions received and interest expense calculated by the Development Contributions model. The model ensures that all debt funded by development contributions is "ring-fenced" and the total debt



is paid in full at the end of the last year that growth capacity is provided by the projects which are funded by this debt.

### 5.7.2 Sale of Assets

Funds derived from the disposition of assets or investments (other than vehicles and light plant) are to be utilised for the purpose of repayment of debt as set out in Section 4.7.

### 5.7.3 Cost of Capital Policy

The liability policy is based on balance sheet funding, with all borrowings or debt deemed to be corporate debt. Debt repayments will be made from revenue. The cost of capital is to be spread over significant services on the basis of the book value of land and buildings employed, except where Council has provided for the costs to be recovered from specific activities.

## 5.8 Security Policy

The objective of the security policy is to ensure that Council is able to provide suitable security to lenders and investors, while retaining maximum flexibility and control over assets.

The purpose of the security policy is to establish a mechanism through which Council is able to monitor any security given.

All of Council's loans and interest rate risk management instruments will be secured by way of a charge over Council's rates and rates revenue, unsecured, or secured by way of charge over physical assets.

A charge on Council's rates and rates revenue will be granted in favour of a trustee. The trustee will hold the benefit of the charge for all parties to whom Council grants the benefit of the rates security under a debenture trust deed. Council will engage a trustee, a registrar, paying agent and advisors from time-to-time to act under the debenture trust deed.

Other security may be given under certain circumstances.

Physical assets will be pledged only where:

- there is a direct relationship between the debt and the asset purchase or construction (e.g., operating lease, or project finance);
- Council considers a pledge of physical assets to be appropriate;
- the Finance Manager ensures that the required register of charges and any associated documents are provided, filed and kept in accordance with the Local Government Act 2002 and the Securities Act 1978.

## 5.9 Foreign Exchange Risk Management Policy

Council does not incur large, ongoing, foreign exchange risks in a trading/operating sense, although regular foreign exchange transactions are made for the purchase of items such as library books, subscriptions and seeds. However, from time-to-time large 'one-off' imports such as the purchase of machinery do result in foreign exchange exposures.



The policy is as follows:

- Council cannot borrow in foreign currencies (see Section 113 of the Local Government Act 2002).
- All foreign exchange transactions over \$20,000 must be reported to the Financial Accountant prior to the placement of a firm order/signing of sale and purchase contract.
- Prior to the placement of a firm order/signing of sale and purchase contract, Council is not allowed to enter forward exchange contracts, but may purchase currency options as an insurance protection over the period leading up to the firm order. The option term may be no longer than three-months. The purchase of the option is to be approved by the Finance Manager. If the order does not go ahead, the only loss is the premium paid up front in cash. If a forward contract is entered and the plant purchase does not take place, the potential loss on the unneeded forward contract is unlimited and unknown.
- Within seven-days of an order being placed with an overseas supplier of \$25,000 or greater, a minimum of 75 per cent of the foreign currency exposure is to be covered forward by way of forward exchange contracts. The remaining 25 per cent may be left open to gain from any favourable trend in the market, but must be covered within three-months of the firm order.
- All foreign currency forward contracts and option contracts are only to be entered into with banks on the approved counterparty list.
- The Financial Accountant in consultation with the Finance Manager will decide whether or not to cover transactions under \$25,000.
- In reviewing compliance with counterparty limits, foreign exchange forward contracts will be given a weighting equivalent to the transaction principal amount x the square root of the maturity (years) x 15%.

### 5.9.1 Risk Management Policy on other forms of pricing risk

Foreign exchange pricing risk is not the only source of significant pricing variability which can adversely impact on Council's operating and capital expenditure programs. Fluctuations in the spot price of a range of commodities can have a direct impact on Council operating costs. For example fluctuations in crude oil prices flow directly through to fuel prices and bitumen prices which in turn feed into the cost of Council's fleet operations and road resealing contracts.

Council's policy on other forms of pricing risk is to consider the use of hedging contracts when ever a reliable link can be established between changes in the value of the hedging contract and offsetting changes in specific budgeted expenses.

Any use of such hedging contracts requires prior approval of the Finance and Audit Committee.

## 5.10 Reporting

For reporting on the Liability Management Policy, the following reports will be completed and presented to Council's Finance and Audit Committee through each quarterly meeting cycle:

- Funding Facilities Report/Liquidity Report
- Interest Rate Management Summary



- Cost of Funds Report
- Summary of Funding and Interest Rate Risks
- Actual and Forecast Debt (current year)
- Debt Performance Targets Report
- Funding Summary (Financial Overview)

## 5.11 Performance Targets

The table below summarises the performance targets set for the funding policy. For definitions refer to Section 5.2.4.

Objective	Target
To manage interest rate risk exposure.	Minimum (50%) and maximum (95%) level of fixed borrowing is not exceeded.
To maintain debt within specified limits and ensure adequate provision for repayments to maintain adequate liquidity.	<p><b>For: Total Council Debt (excluding DC funded debt)</b></p> <p>Net debt interest payments on Total Council debt (excluding interest on DC debt) do not exceed 20% of the total rating income for the year.</p> <p>Total Council Debt does not exceed 180% of total income (excluding total DC contributions received p.a. in income) for the year.</p> <p><b>For: Total Debt</b></p> <p>Total Debt does not exceed 25% of total assets.</p> <p>Total Debt does not exceed 250% of total income for the year.</p> <p>Net interest payments on total debt do not exceed 20% of the total income for the year (including total DC contributions received p.a. in income).</p> <p>Liquidity ratio to exceed 110%. Liquidity ratio defined as: Term debt and committed borrowing facilities is not less than 110% of the existing net debt, including working capital requirements.</p>
To report annually Council net debt against the population of the city.	<p><b>Total Council Debt (excluding DC funded debt)</b></p> <p>Debt does not exceed \$2,000 per capita (This limit is expressed in 2009 dollars)</p>
To maintain security for public debt by way of a charge over rates through the Debenture Trust Deed, or registered mortgage over specific assets.	Security documentation is reviewed to ensure compliance.
To ensure that transactions involving foreign currency exceeding \$25,000 in value are hedged by way of forward cover contracts.	Compliance with this policy is monitored by reviewing payments in foreign currency.

