



*Agriculturally rich – Naturally beautiful*

# COUNCIL POLICY

## Treasury Management Policy

<b>Policy Number:</b>	PO139		
<b>Strategic Plan Objective</b>	Responsible Governance		
<b>Policy Owner:</b>	Director Corporate and Community Services	<b>Container Number:</b>	SC16/1568 16/14813[v5]
<b>Responsible Officer:</b>	Manager Financial Services	<b>Minute Reference:</b>	265/2017 (11/10/2017)
<b>Date Adopted:</b>	13/03/2019	<b>Next Review Date:</b>	March 2021

### 1. POLICY OBJECTIVES

This Treasury Management Policy establishes a framework to ensure that:

- funds are available as required to support approved outlays;
- interest rate and other risks (liquidity and investment credit risks) are acknowledged and responsibly managed;
- the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

### 2. SCOPE

This policy provides a clear direction to management, staff and Council in relation to the treasury function. It underpins Council's decision-making regarding the financing of its operations as documented in its annual budget and long-term financial plan and associated projected and actual cash flow receipts and outlays.

Council is committed to adopting and maintaining a Long-term Financial Plan and operating in a financially sustainable manner.

### 3. DEFINITIONS

Fixed Interest	A Loan where the interest is fixed for the term of the loan
Variable interest	A loan where the interest rate fluctuates over the life of the loan
Authorised Deposit-Taking Institution (ADI)	An Australian government term for a corporation which is authorised under the Banking Act 1959 to take deposits from customers. ADIs include banks, building societies and credit unions.

### 4. POLICY STATEMENT

#### 4 (a) Treasury Management Strategy

Council's operating and capital expenditure decisions are made on the basis of:

- identified community need and benefit relative to other expenditure options;
- cost effectiveness of the proposed means of service delivery; and,
- affordability of proposals having regard to Council's long term financial sustainability (including consideration of the cost of capital and the impact of the proposal on Council's Net Financial Liabilities ratio<sup>1</sup>.)

Council manages its finances holistically in accordance with its overall financial sustainability strategies and targets. This means Council will:

- maintain target ranges for both its Net Financial Liabilities and Interest Cover ratios;
- not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- borrow funds in accordance with the requirements set out in its Long-term Financial Plan or review its Long Term Financial Plan to reflect any other borrowings determined by Council;
- apply any funds that are not immediately required to meet approved expenditure (including funds that are required to be expended for specific purposes but are not required to be kept in separate bank accounts) to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.

#### **4 (b) Borrowing & Interest Risk Exposure**

Council has set range limits for both fixed and variable interest rate borrowings in order to minimise net interest costs on average over the longer term and at the same time manage interest rate movement risks within acceptable limits.

##### **4(b) (1) Fixed Interest Rate Borrowings**

To ensure an adequate mix of interest rate exposures, Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve and therein maintain on average in any one year not less than 80% of its gross debt in the form of fixed interest rate borrowings.

In order to spread its exposure to interest rate movements, Council will aim to have a variety of maturity dates on its fixed interest rate borrowings over the available maturity spectrum.

In circumstances where Council needs to raise new fixed interest rate borrowings it will consider using medium to long-term borrowings (3 or more years duration) that:

- have a fixed interest rate;
- require interest payments only; and
- allow the full amount of principal to be repaid (or rolled over) at maturity.

##### **4(b) (2) Variable Interest Rate Borrowings**

Council will restructure its portfolio of borrowings, as borrowings mature and new ones are raised, to progressively achieve, and then maintain, not more than 20% of its gross debt on average in any year in the form of variable interest rate borrowings. Typically variable interest rate borrowings should

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<sup>1</sup> The LGA's Financial Sustainability Information Papers 9 and 12 provide further information on these (and other) financial sustainability indicators and associated targets.

only be for a particular purpose, no more than a three (3) year term and facilitated through the LGFA's Cash Advance Debenture (CAD) facility. Excess funds should be used to pay down any CAD facilities to reduce interest expense, in the first instance before funds are invested in interest bearing deposits.

After Council's cash reserves are reduced, Council will establish, and make use of, the Local Government Finance Authority (LGFA) Cash Advance Debenture (or similar product) that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The redraw facility will provide Council with access to liquidity when needed.

#### **4 (c) Investments**

Council funds that are not immediately required for operational needs and cannot be applied to either reduce existing borrowings or avoid the raising of new borrowings will be invested. The balance of funds held in any operating bank account that does not provide investment returns at least consistent with 'at call' market rates shall be kept at a level that is no greater than is required to meet immediate working capital requirements.

Council funds available for investment will be lodged 'at call' or, having regard to differences in interest rates for fixed term investments of varying maturity dates, may be invested for a fixed term. In the case of fixed term investments the term should not exceed a point in time where the funds otherwise could be applied to cost-effectively either defer the need to raise a new borrowing or reduce the level of Council's variable interest rate borrowing facility.

When investing funds Council will select the investment type that delivers the best value, having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors.

Council management may from time to time invest surplus funds in:

- deposits with the LGFA; and/or
- interest bearing deposits with Authorised Deposit-Taking Institutions (ADIs),

All investments with the LGFA must be communicated to two signatories currently listed in the Delegations Register, in any written form (being email or letter).

Any investments proposed to be made with any organisation other than the LGFA must be approved by two signatories currently listed in the Delegations Register, in any written form (email or letter). These proposed investments must be reviewed by both signatories for conflict of interest prior to finalisation of the investment. Investments with a perceived conflict of interest must be approved by the Elected Body prior to any such investment being made.

Conflict of interest is determined to be applicable where either of the individuals approving the investment have an interest (financial or otherwise) in the investment institution in which the investment is to be made.

Conflict of interest should be determined by applying the following steps:

- Are you deciding where council funds are to be invested other than with the LGFA?

- If yes, do you have any interest (financial or not) in the proposed investment institution, or have you had any prior involvement with the institution that could be construed as generating a conflict of interest?
  
- If not, general investment rules apply.

If yes, you must disclose this interest in writing to your immediate supervisor, and the investment decision must be approved by the Elected Body prior to any investment being made.

#### **4 (d) Reporting**

At least once a year Council shall receive a specific report regarding treasury management performance relative to this policy. The report shall highlight:

- for each Council borrowing and investment – the quantum of funds, its interest rate and maturity date, and changes in the quantum since the previous report; and,
- the proportion of fixed interest rate and variable interest rate borrowings at the end date of the reporting period and an estimate of the average of these proportions across the period along with key reasons for significant variances compared with the targets specified in this policy.

### **5. COMPLAINTS**

Complaints in relation to this policy can be directed to the Director Corporate and Community Services and will be managed in accordance with Council's PO147 Complaints Policy.

### **6. REVIEW**

Biennially

### **7. TRAINING**

Council is committed to supporting employees in complying with this policy.

Training needs will be reviewed annually, during individual performance reviews and as necessary in consideration of any changes to legislation and relevant standards, codes and guidelines.

### **8. RELATED COUNCIL POLICIES AND DOCUMENTS**

Council's Delegations Register

### **9. REFERENCES AND LEGISLATION**

#### **For Borrowings**

- a) Local Government Act, 1999
  - i) Section 44
  - ii) Section 133
  - iii) Section 134
  - iv) Section 122
- b) Regulations 5 and 5B of the Financial Management Regulations under the Act.

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### **For Investments**

- c) Local Government Act, 1999
  - i) Section 44
  - ii) Section 47
  - iii) Section 139
  - iv) Section 140

### **10. COUNCIL DELEGATION**

<b>Details of Delegation:</b>	Investments
<b>Delegate:</b>	Signatories as listed in delegations register

### **11. VERSION HISTORY**

<b>Archived Policy Name</b>	<b>Policy Number</b>	<b>Date Adopted</b>	<b>Last Reviewed</b>
Treasury Management Policy	PO139	10/3/2009	8/6/2010
Treasury Management Policy	PO139	12/3/2014	12/3/2014
Treasury Management Policy	PO139	11/10/2017	11/10/2017
Treasury Management Policy	PO139	13/03/2019	13/03/2019