Treasury Management Policy

Strategic Reference	Objective 4; Collaborative and respectful relationships amongst community, Elected Members and Council staff. Strategy 4.3; To continuously strive for open and accountable administration practices.
File reference	AR21/5199
Responsibility	Community & Corporate Department
Revision Number	4
Effective date	March 2011
Last revised date	April 2021
Minutes reference	074/21 103/18, 046/17, 131/14, 104/11
Next review date	March 2024
Applicable Legislation	Local Government Act 1999 s44,47,122,134,139,140 Local Government (Financial Management) Regulations 1999 Australian Accounting Standards
Related Policies	Rating Policy
Related Documents:	N/A

1. Introduction

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

Council is committed to operating in a financially sustainable manner and maintains a Long Term Financial Plan (updated at least annually) to assist it to determine affordable service levels and revenue raising needs. This Plan also provides projections of future cash-flow availability and needs.

All investments and borrowings are to be made exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons.

2. Policy Objectives

The Treasury Management Policy establishes a decision framework to ensure that:

- funds are available as required to support approved outlays;

- interest rate and other risks (e.g. 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;
- staff and Council Members must ensure that any borrowings and/or investments made by Council do not give rise to a conflict of interest. Any potential or perceived conflicts of interest must be declared.

3. Definitions

"Credit Foncier Borrowings" – are borrowings for a fixed period with regular repayments where each repayment includes components of both principal and interest, such that at the end of the period the principal will have been entirely repaid.

"Financial Sustainability" -: Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met and maintained without unplanned increases in rates or disruptive cuts to services.

"Net Financial Liabilities" – equals total liabilities less financial assets, where financial assets for this purpose include cash, investments, receivables and prepayments, but excludes equity held in Council business, inventories and land held for resale.

"Interest Cover Ratio" – indicates the extent to which Council's operating revenues are committed to interest expenses.

"Net Financial Liabilities Ratio" – indicates the extent to which net financial liabilities of Council could be met by its operating revenue.

"Operating Expenses" – are operating expenses including depreciation but excluding losses on disposal of non-financial assets.

4. Treasury management strategy

Operating and capital expenditure decisions are made based on:

- 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 and Interest Cover ratios).

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

- maintain target ranges for its Net Financial Liabilities Ratio
- not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties; the exceptions being certain grants conditions may dictate that the grant funds are to be deposited into separate bank accounts borrow funds when it needs cash in accordance with budgeted requirements set out in its Long Term Financial Plan and not specifically for particular projects (the only exception being when State/Federal Government or Local Government Finance Authority [LGFA] have provided discounted loans)

- apply any funds that are not immediately required to meet approved expenditure (including funds that are required to be expended for specific purposes and 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.

5. Interest rate risk exposures

Council, through the endorsement of this operational policy sets a range limit 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.

5.2 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 thereafter maintain on average in any one year, not less than 20% 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.

5.3 Variable interest rate borrowings

Council will restructure its portfolio of borrowings to maintain not less than 20% of its gross debt on average in any year in the form of variable interest rate borrowings.

Council will make use of a variable interest rate borrowing facility such as the LGFA's Cash Advance Debenture facility 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.

In the event that borrowing conditions (fixed or variable) are outside of established ranges, any borrowings being undertaken that will put Council outside of established target ranges will be presented to the Audit & Risk Committee for review and to make recommendations to Council for approval.

6. Investments

Council funds that are not immediately required for operational expenses and cannot be applied to either reduce existing borrowings or avoid the raising of new borrowings will be invested. The operating bank account balance of Council is to be kept at a level not significantly greater than is required to meet Council's immediate working capital requirements, with any surplus funds being firstly applied to repay any outstanding borrowing and then any excess is to be applied to investments.
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 rates, 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 is free from possible conflict of interest, delivers the best value., having regard to investment returns, transaction costs and minimising investment risk. When Council is in the situation that material amounts

of money is available for investing, a number of deposits will be considered with varying maturity dates to minimise the risk of interest rate movements.
Council management may from time to time invest surplus funds in the following low risk investments:

- Deposits with the LGFA (liabilities guaranteed by the State Government Treasurer as per section 24 of the Local Government Finance Authority Act 1983); and/or
- Bank interest bearing deposits

7. Reporting

At least once per year, Council and Council's Audit & Risk Committee shall receive a specific report regarding treasury management performance relative to this policy document. The report shall highlight:

- for each Council borrowing and investment – the quantum of funds, its interest rate and maturity change and changes in the quantum since the previous report;
- 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 this period, along with key reasons for significant variances compared with the targets specified in this policy
- budgeted end of financial year borrowings versus actual borrowings.

8. Availability/Accessibility

This Policy will be available for inspection at Council's offices during normal business hours and on Council's website.

9. Document History

This Policy shall be reviewed at least every thee (3) years or more frequently if legislation or Council requires.

Version	Adopted	Minute No	Description of change(s)
1	15 March 2011	104/11	New policy
2	24 June 2014	131/14	Cyclical review
3	21 March 2017	046/17	Cyclical review
4	26 June 2018	103/18	Cyclical review
5	20 April 2021	074/21	Consolidation of clauses Removal of 'fixed interest rate versus variable interest rate borrowings' Rewording of 'Investments' and 'Reporting' clauses