

	<b>Treasury Management Policy</b> <i>Policy No. FINPOL 15</i>	<b>Version No:</b>	1.0
		<b>Responsible Officer/s</b>	Deputy CEO
		<b>Issued:</b>	15 Dec 2014
		<b>Next Review:</b>	Dec 2016

## 1. Purpose

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

Council will maintain a Long-term Financial Plan and is committed to progressively taking the steps necessary to operate in a financially sustainable manner.

## 2. Scope

This Treasury Management Policy applies to all Council investment decisions and establishes a decision framework to ensure that:

- funds are available as required to support approved outlays;
- interest rate and other risks (e.g. liquidity risks 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; and,
- outstanding debt is repaid as quickly as possible and therefore that the gross level of debt held by Council at anytime is minimised.

## 3. Definitions

**Treasury:** refers to those activities that are related to the funding of Council operations. This includes cash flow, budgeting, borrowings and investments.

**Cash Advance:** A loan where principal amounts can be repaid at any time and interest is only payable on the amounts of principal outstanding.

**Credit Foncier:** A loan for a fixed term with regular repayments comprising principal and interest, such that at the end of the period the total principal would have been repaid.

**Financial Sustainability:** Is achieved where planned long-term service, and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

**Fixed Interest:** A loan where the interest rate is unchanged over the term of the loan.

**Borrowing:** Cash received from another party in exchange for future payment of the principal, which normally includes interest and other finance charges.

**Interest Cover Ratio:** Indicates the extent to which a Council's operating revenues (excluding the Natural Resource Management Levy) are committed to net interest expenses.

**Interest only:** A loan on which interest is repaid at regular intervals but the principal is not repaid until maturity.

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**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 a Council subsidiary, inventories and assets held for sale.

**Net Financial Liabilities Ratio:** Indicates the extent to which net financial liabilities of a Council could be met by its operating revenue (excluding the Natural Resource Management Levy).

**Variable Interest:** A loan where the interest rate fluctuates over the life of the loan.

## 4. Policy

### 4.1 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 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 both its Net Financial Liabilities and Interest Cover ratios;
- will only borrow funds when it needs cash and not specifically for particular projects;
- will not retain and quarantine money for particular future purposes other than The Airport Reserve, Saleyards Reserve and Progress Advisory Committee Reserves;
- will 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.

### 4.2 Interest Rate Risk Exposures

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.

#### 4.2.1 Fixed Interest Rate Borrowings

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 year, not less than 30% of its gross debt in the form of fixed interest rate borrowings.

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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 practically available maturity spectrum.

Council will reduce reliance on credit foncier borrowings, raising borrowings where required in future in other forms, until no more than 15% of its gross debt on average in any year is in the form of credit foncier borrowings. Thereafter credit foncier borrowings may be lower than, but will not exceed, this limit.

In circumstances where Council needs to raise new debt it will use the opportunity as necessary to increase its holdings of medium to long-term borrowings (3 years or more 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.

Council will progressively achieve and thereafter maintain a holding of such borrowings equal to at least 15% of gross debt on average in any year.

Council also will ensure that no more than 25% of its fixed interest rate borrowings mature in any year.

#### 4.2.2 Variable Interest Rate Borrowings

Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve, and then maintain, not less than 30% of its gross debt on average in any year in the form of variable interest rate borrowings.

Council will maintain, and make extensive use of, its \$5 million LGFA Cash Advance Debenture Facility (or a similar facility with another financial institution) that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The redraw feature of the facility will provide Council with access to liquidity at any time.

#### 4.3 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.

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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 within the above criteria, Council will select the investment type which 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 Local Government Finance Authority; and/or
- bank interest bearing deposits.

Any other investment requires the specific approval of Council. Where Council authorises any investments of a type outside of those specified above, the amount so invested will be cumulatively limited to no more than 20% of the average level of funds expected to be available for investment by Council over the duration of the specific authorised investments.

#### 4.4 Reporting

At least once a year Council shall receive a specific report regarding treasury management performance relative to the criteria specified in this policy document. 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 (split between interest only borrowings and credit foncier borrowings) 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. **Responsibilities**

The Deputy Chief Executive Officer is responsible for the implementation of this policy. Relevant Managers and Directors will be required to provide background information and recommendations in relation to applications covered in their areas of work.

### 6. **References:**

#### 6.1 For Borrowings

- Local Government Act, 1999
  - Section 44
  - Section 122
  - Section 134
- Regulation 5 of the Financial Management Regulations under the Act

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6.2 For Investments

- Local Government Act, 1999
  - Section 47
  - Section 139
  - Section 140

**7. Review**

This Policy shall be reviewed by the District Council of Grant at a minimum within two (2) years of issued date, (or on significant change to legislation or other matters which could affect this policy).

<b>Action</b>	<b>Date</b>	<b>Minute Reference</b>
Adopted	21 December 2009	09355.1.2
Reviewed	15 December 2014	14149.1.1