



Treasury Management Policy

Reference Number:	Section 1 No. 14
Responsible Department:	Finance Department
Related Policy/Procedure:	Nil
Date of Adoption:	15 July 2008
Current Review Date:	27 June 2023
Minute Reference:	OCM-2023/119
Version Number:	Amendment No. 6
Applicable Legislation:	<u>Borrowings:</u> s44,122 & 134 Local Government Act, 1999 s5 & 5b Local Government (Financial Management) Regulations 2011 <u>Investments:</u> s47, 139 & 140 Local Government Act, 1999
Next Review Date:	November 2024
Review Frequency:	Biennially

1. Purpose

This policy provides clear direction to management, staff and the 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. The Council is committed to adopting and maintaining a Long-term Financial Plan and operating in a financially sustainable manner.

This policy, from its date of issue, supersedes the content of Council's previously adopted Loans and Council Funding Policy and its Draft Investment Policy.

2. General Principles

This 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.

3. Policy Statements for Treasury Management Process

3.1 Treasury Management Strategy

The 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 the Council's long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on the Council's Net Financial Liabilities and Operating Surplus ratios).

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

- maintain target ranges for both its Net Financial Liabilities and Operating Surplus 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;
- 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 borrowing or to defer and/or reduce the level of new borrowing that would otherwise be required.

3.2 Interest Rate Risk Exposures

The Council recognises that future movements in interest rates are uncertain and that Council is exposed to risk whenever it takes out a borrowing, regardless of whether it involves fixed or variable interest rates. Therefore, to minimise net interest costs on average over the longer term, Council will manage borrowing holistically by considering a mixture of both fixed and variable interest rate borrowing. Council will review its mix of fixed versus variable borrowing upon a new borrowing and on an annual basis to actively minimise net interest costs.

To spread its exposure to interest rate movements the Council will aim to have varying maturity dates on its fixed interest rate borrowing over the available maturity spectrum.

The Council will make use of 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 the Council with access to liquidity when needed.

3.2.3 Borrowing and Funding Guidelines

- No officer of the Council is authorised to undertake the establishment of a new loan facility without an order to borrow resolution of the Council.
- The seeking of loan financing is to be regarded as a funding issue.
- Loans may be raised on behalf community and sporting organisations that are situated within the Council area, for the purposes of capital items or infrastructure. The Council shall take into account; the ability of the organisation to satisfactorily meet loan repayments; provision of security in the event that repayments cannot be met; a financial assessment must occur which shall include provision of the organisation's last three financial years activities and its projected activity following the provision of the loan funds. Each application made by a community or sporting organisation will be treated on a case- by -case basis. If approved, the Council shall disburse the funds to the organisation which shall provide an acquittal statement of use at the conclusion of the project being undertaken.

3.3 Investments

If 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 the Council's variable interest rate borrowing facility.

When investing funds the 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 the Council. Where the 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 the Council over the duration of the specific authorised investments.

3.3.1 Investment Guidelines

- The Council's general operating account is to be monitored each working day and kept at a level no greater than is required to meet its immediate working capital requirements.
- Investments are to be made exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons. Speculative or hazardous investments by their nature are to be avoided.

A **prudent person** of business:

- should be informed, exercise due care, be diligent and be skilful. A prudent person of business would act conservatively but not overly so, and would expect to receive a reasonable return on invested monies.
- would ensure that they are properly informed, have adequate professional knowledge, maintain appropriate documentation concerning each of their decisions, and maintain systems to monitor the Council's investments.
- All investments are to be made in accordance with the provisions of the Local Government Act 1999, with particular regard to the following:
 - ✓ The purpose of the investment

- ✓ The desirability of diversifying Council investments
- ✓ The nature of and risk associated with existing Council investments
- ✓ The desirability of maintaining the real value of the capital and income of the investment
- ✓ The risk of capital or income loss or depreciation
- ✓ The potential for capital appreciation
- ✓ The likely income return and the timing of income return
- ✓ The length of the term of a proposed investment
- ✓ The period for which the investment is likely to be required
- ✓ The liquidity and marketability of a proposed investment during, and on the determination of, the term of the investment.
- ✓ The aggregate value of the assets of the Council
- ✓ The likelihood of inflation affecting the value of the proposed investment
- ✓ The costs of making a proposed investment
- ✓ The results of any review of existing Council investments.

3.4 Reporting

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

- for each of the 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 this period along with key reasons for significant variances compared with the targets specified in this policy.

History of Policy Amendment

Policy adopted the Council Meeting dated 15 July, 2008.

1. Amendment 1 adopted at Council by inclusion of guideline statements at Items 3.2.3 and 3.3.1 following superseding of Loans and the Council Funding Policy, and Investment Policy, on Tuesday, 21 April 2009, page 2009/96.
2. Amendment 2 adopted at Council meeting held 26 August 2014 Item No. AUD9.2.2/2014 Page 2014/318.
3. Amendment 3 adopted at Council meeting 23 August 2016, Minute Reference AUD9.2.5/2016, page 2016/303
4. Policy amended at Council Meeting held 26 February 2019 Item No AUD9.2.3/2019, Page 2019/77.
5. Amendment No 5 adopted by Council on 24 November 2020, Minute Reference AUD9.2.3/2020, Page Reference 2020/206
6. Amendment No 6 adopted by Council on 27 June 2023, Minute Reference OCM-2023/119.

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