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 Interest Cover ratios).

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 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;
• 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.

3.2 Interest Rate Risk Exposures

The 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.

3.2.1 Fixed Interest Rate Borrowings

To ensure an adequate mix of interest rate exposures the Council will restructure its portfolio of borrowings to maintain on average in any year not less than 30% of its outstanding loans in the form of fixed interest rate borrowings.

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

In circumstances where the Council need to raise new fixed interest rate borrowings it will consider using 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.

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

3.2.2 Variable Interest Rate Borrowings

The Council will restructure its portfolio of borrowings to maintain not less than 30% of its outstanding loans on average in any year in the form of variable interest rate borrowings.

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 the authorisation of the Council.
• The seeking of loan financing is to be regarded as a funding issue. Loans, as required, are raised to meet cash flow needs and are not raised to meet specific programs and projects expenditure.
• Loans funds may be raised on behalf community and sporting organisations that are situated within the Council area, the purpose of which should be for 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 organisations 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

The 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.

The 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.

The 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 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. A prudent person of business 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
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


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.

