

TREASURY MANAGEMENT POLICY

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Administered by:
General Manager of Business

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418604

Classification:
Financial Management

Strategic Plan link:

A Council that is actively responsive to community needs and delivers financial sustainability, governance and leadership.

Strategy 1.1.7 Ensure compliance of relevant Council policies and procedures with legislative requirements.

References and related Policies, Procedures and Forms:

Local Government Act 1999, Sections 44, 122, 134

Local Government (Financial Management) Regulations 2011, r5

For Investments: Local Government Act, 1999, Sections 47, 139, 140

1. Introduction

This Policy provides 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.

2. Policy Objectives

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; and,
- The net interest costs associated with borrowing and investing are reasonably likely to be minimized on average over the longer term.

3. Policy Statements

3.1 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 the target range for its Net Financial Liabilities and;
- 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 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 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 Exposure

Council has the flexibility to use a mix both fixed and variable interest rate borrowings in order to minimize net interest costs on average over the longer term and at the same time manage interest rate movement risks within acceptable limits.

Fixed Interest Rate Borrowings

To ensure an adequate mix of interest rate exposures, Council will structure its portfolio of borrowings to suit the market, and assess the interest rates prior to undertaking loans. When interest rates are low, Council should undertake a long term interest rate borrowings assessment, and when they are increasing, interest rate exposure may be minimised with a mix of short and long term borrowings. The mix should include fixed and variable rates.

In order to spread its exposure to interest rate movement, 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 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.

Variable Interest Rate Borrowings

Council will establish, and make extensive use of 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 and flexibility to pay down borrowings with excess funds

3.3 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.

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 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 specific above, the amount so invested will be cumulatively limited to no more than 0% of the average level of funds expected to be available for investment by Council over the duration of the specific authorised investments.

3.4 Reporting

At least once a year Council 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 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.

4. Records Management

All records shall be kept and disposed of in accordance with Councils Records Management Policy & procedure, the General Disposal Schedule 20 Version 5 and the General Disposal Schedule 21 – Digitised Records.

5. Availability of Policy

This policy will be available for inspection at the Council's principal office during ordinary business hours at no charge and Councils website. Copies of this policy may be obtained upon request at a cost to be determined by Council from time to time.