POLICY DOCUMENT 7.63.9

Policy Name	**TREASURY MANAGEMENT**
Policy No	**7.63.9**
Reviewed By	Nicole Bichard Senior Finance Officer
CEO Authorisation	Rob Donaldson CEO
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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 operating in a financially sustainable manner and maintains a Long Term Financial Plan to assist it to determine affordable service levels and revenue raising needs. This Plan also provides projections of future cash flow availability and needs.

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;
- the net interest costs associated with borrowing and investing are reasonably likely to be minimised 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 ratio.)

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, agreement with other parties or resolved by Council;

- 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

Council has set range limits for both fixed and variable rate interest 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, Council will consider structuring its portfolio of borrowings to maintain on average in any year not less than 30% of its gross debt in the form of fixed interest rate borrowings.

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

If Council is required to raise 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;
- allow principal to be repaid during the term without penalty; and
- allow the full amount of principal to be repaid (or rolled over) at maturity.

3.2.2. Variable Interest Rate Borrowings

Council will consider structuring its portfolio of borrowings to maintain on average in any year not less than 30% of its gross debt in the form of variable interest rate borrowings.

If Council is required to raise borrowings, it will consider the establishment and use of a long term variable interest rate borrowing facility/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.

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 payroll and accounts payable 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 could otherwise be applied to cost-effectively defer the need to raise new borrowings or reduce the level of any existing 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.
- bank at call Cash Management account

3.4. Reporting

Council staff will prepare a specific report to Council in March of each year regarding treasury management performance relative to this policy document. This 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 last report; and
- the proportion of fixed interest rate and variable interest rate borrowings (if any) at the end date of the reporting period and an estimate of the average of these proportions across this period along with reasons for significant variances compared with the targets specified in this policy.

4. LEGISLATION

4.1. For Borrowings

Local Government Act, 1999

- Section 44 provides that Council can not delegate the power to borrow money or to obtain other forms of financial accommodation
- Section 122 provides that Council's strategic management plans must include an assessment of a Council's proposals with respect to debt levels
- Section 134 empowers a Council to borrow money and obtain other forms of financial accommodation and may take any form considered appropriate by Council.
- Section 134 also allows Council to enter into financial arrangements for the purpose of managing, hedging or protecting against interest rate movements and other risks associated with borrowing money but must obtain and consider independent and impartial advice before entering into a financial arrangement for this purpose.

4.2. For Investments

Local Government Act, 1999

- Section 47 prohibits Council from directly acquiring shares in a company.
- Section 139 empowers Council to invest money under its control. Council must ensure that its power of investment is exercised with the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons and avoid investments that are speculative or hazardous in nature.
- Section 140 requires that a Council review the performance of its investments, individually and as a whole, at least annually.

5. RELEVANT DELEGATED POWERS AND DUTIES

Any actions or decisions made regarding this policy, will be enacted upon as per Council's current Delegations Register.

6. <u>REVIEW</u>

This policy shall be reviewed within twelve months of a periodic election or upon significant change to legislation or aspects included within this policy.

7. <u>REFERENCES</u>

Local Government Act 1999

LGA Financial Sustainability Information Paper 15 – Treasury Management

Local Government (General) Regulations 2013

Local Government (Financial Management) Regulations 2011