

TREASURY MANAGEMENT POLICY

Type	Governance
Category	Finance
Responsible Officer	Manager Finance
First Issued / Adopted	24 June 2009 (Treasury Policy)
Review Period	2 Years
Last Reviewed	26 March 2019 23 March 2016 23 April 2014
Minutes Reference	OM 128/19, OM78/16
Next Review Date	December 2020
Applicable Legislation	Local Government Act 1999
Related Documents	Strategic plans, annual business plans and budget
Public Consultation Required	No
File Reference	17.14.1.2
Purpose	To establish a decision framework that ensures Council's borrowings and investments are managed efficiently to maximise financial return and to minimise risk.

1. INTRODUCTION

This policy is to provide clear direction to employees and Council in relation to the management of 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 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

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.

The Portfolio of Borrowings includes all current loans and the LGFA Cash Advance Debenture Facility line of credit to the maximum value.

3. POLICY STATEMENTS (cont'd)

3.2 Interest Rate Risk Exposures (cont'd)

3.2.1 Fixed Interest Rate Borrowings

To ensure an adequate mix of interest rate exposures, 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 20% of its gross debt in the form of fixed interest rate borrowings. This percentage allows Council to achieve an appropriate balance between interest cost, risk of interest rate change and optimum flexibility.

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 available maturity spectrum.

In circumstances where Council needs to raise new fixed interest rate borrowings it will consider using medium to long-term borrowings 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.

3.2.2 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. This percentage allows Council to achieve an appropriate balance between interest cost, risk of interest rate change and optimum flexibility.

Council will establish, and make extensive use of a Cash Advance Debenture facility with the Local Government Finance Authority 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 working capital requirements.

3. POLICY STATEMENTS

3.3 Investments (cont'd)

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 that 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 Financing Authority; and/or
- bank interest bearing deposits.

3.4 Reporting

At least once a year Council's Audit Committee 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. FURTHER INFORMATION

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's internet site: www.pirie.sa.gov.au

- Port Pirie Council Administration Centre, 115 Ellen Street, Port Pirie
- Crystal Brook Rural Office, Bowman Street, Crystal Brook.

Copies will be provided to interested parties upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.