Treasury Management Policy

Approved By:	**Council**	Document Code:	**CP-CBS-SG-038**
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1 PURPOSE

To provide clear direction to management, staff and Council in relation to the treasury function including borrowings and investment of community funds.

2 OBJECTIVE

To provide a decision framework to ensure that:

- Cash is available as required to support planned expenditure;
- Council's capital invested is to preserved (prevents any loss to the amount invested);
- The net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term;
- Council maximises its return on investments while maintaining an acceptable level of risk.
- Interest rate and other risks (e.g. liquidity and investment risks) are acknowledged and responsibly managed.

3 SCOPE

This policy underpins Council's decision-making regarding the financing of Council operations as documented in its annual budget and long-term financial management strategy and associated projected cash flow receipts and outlays.

The policy applies to the investment of Council funds that are surplus to immediate operational requirements. It is not intended to cover investment interests in associated entities and joint authorities.

4 DEFINITIONS

Financing refers to how payment for an outlay is accommodated (for example, paid from cash reserves).

Funding refers to the raising of revenue (for example rates, user charges, grants subsidies and contributions).

Intergenerational Equity is a term used for linking the payment for an asset (via debt repayments) to successive populations who receive the benefit of the asset over its useful life.

Treasury refers to those activities that are related to funding of Council operations. This includes cash flow, budgeting, borrowings and investments.

Treasury Management refers to the ways in which borrowings are raised and cash and investments are managed. Treasury management practices can have a significant effect on net interest costs and interest rate risk exposure.

5 POLICY STATEMENTS

5.1 Treasury Management Strategy

Council is committed to operating in a financially sustainable manner and maintains a Long-term Financial Management Strategy. Council manages the financing and funding of future wants and needs through forward financial planning and projections (updated annually). The Strategy also provides projections of future cash flow availability and needs.

Council does not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties.

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.

5.2 Interest Rate Risk Exposure

Council recognises that future movements in interest rates are uncertain. Council is exposed to interest rate risks whenever it borrows or invests.

It considers that by having a range of fixed and variable rate borrowings optimally meets its policy objective of minimising interest rate costs on average over the longer term and at the same time manages interest rate movement risks within acceptable limits.

Having regard to cost effectiveness Council, when taking out new borrowings, will achieve an optimal mix between fixed and variable borrowings. Council will consider risk management criteria and flexibility.

5.3 Borrowing Strategy

Council is dependent on a large investment in infrastructure assets to deliver its service objectives and is mindful of intergenerational equity in generating revenue to offset service costs.

Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to recurrent expenses being met from recurrent revenue (the full cost of the service it consumes).

Council aims to achieve an operating break even position. This means that on average over time it will generate sufficient funds to offset consumption of existing assets (through its depreciation expense). On average over time it will have sufficient capacity to accommodate asset renewal requirements without the need to raise additional borrowings.

Council may utilise borrowing to allow for potential timing mismatches between income and expenditure outlays to be overcome. Borrowings may also be used as an effective mechanism of linking the payment for assets (via debt repayments) to the populations who receive benefits over the life of that asset. This matching concept is frequently referred to as 'inter-generational equity'.

In considering new debt Council will consider the impact of borrowing costs on the sustainability of operating positions and its capacity to repay the debt. Council will maintain enough borrowing capacity to ensure that it has the capacity to deal with significant unexpected events.

Council will aim to keep debt levels low at any point in time as its annual budget and long term financial plan and associated cash flow projections allow. Any funds that are not immediately required to meet approved expenditure will be applied to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.

When borrowing Council shall raise all external borrowings at the most competitive rates available and from sources available as defined by legislation.

5.4 Borrowing Limit

In accordance with S.80 of the *Local Government Act 1993*, Council will not borrow money for any purpose if the annual payments required to service the total borrowings exceed 30% of its revenue of the preceding financial year. Grants made to a council for specific purposes are to be excluded in calculating 30% of revenue of the council.

5.5 Investment Strategy

Cash reserves require careful management to both achieve optimum investment incomes and to ensure that cash is available when needed for planned expenditures. Funds will be invested in a manner that allows them to earn interest for as long as possible while retaining flexibility in accessing those funds for Council purposes.

Council's Annual Plan and Budget Estimates and Financial Management Strategy will be used to provide direction on the term of investments to be placed. Council will ensure that enough funds are on hand to ensure that all current liabilities can be met.

Council will ensure that its investment portfolio maximises its return on investments while maintaining an acceptable level of risk.

5.6 Delegation of Authority for Investments

Authority for implementation of the Investment Policy is delegated to the General Manager in accordance with S.75 of the *Local Government Act 1993*.

The General Manager may delegate the authority to manage investments to an appropriately qualified senior staff member.

The investments of Council will be managed with care, diligence and skill. Officers are to manage the investment portfolio to safeguard it in accordance with the spirit of this policy and not for speculative purposes.

Officers with a delegated authority to manage investments are required to acknowledge that they have received a copy of this policy and understand their obligations.

5.7 Liquidity and Investment Maturity

Council will maintain sufficient liquidity to meet its financial obligations as and when they fall due.

The primary tool for deciding on how much and how long to invest is the cash flow budget. A buffer of funds will be retained in an interest bearing at call account to ensure funds are available to meet the Council's commitments.

Funds will be reasonably accessible and will not have maturity dates of greater than two years. Investments greater than two years need to be approved by Council.

5.8 Risk Management for Investments

Council's main objective in investing funds is to preserve the capital (prevent any loss to the amount invested) while gaining the most advantageous rate of return with minimum risk.

Council's exposure to an individual institution will be restricted by its credit rating and by ensuring Council's investment portfolio will be diversified. No more than 40% of Councils total investment portfolio will be invested in any one institution.

Council will be mindful of limiting its exposure to institutions with a credit rating of less than A1 and will not invest more than $3,000,000 with any one institution with a credit rating of less than A1.

To control the credit quality of the entire portfolio the limits on the percentage of the portfolio exposed to any particular credit rating category must be within the following table:

Short Term Rating	Investment Maximum
A1+	100%
A1	100%
A2	50%
Standard & Poors Rating Definitions: *A1+ - Extremely Strong Capacity to Pay* *A1 - Strong Capacity to Pay* *A2 - Satisfactory Capacity to Pay*	

If any of Council's investments are downgraded to a rating whereby the investment no longer falls within this policy they will be divested as soon as practicable but in a manner that does not give rise to an unnecessary loss to Council.

5.9 Approved Investments

Council's investments will be limited to State/Commonwealth bonds; interest bearing deposits and deposits with the Tasmanian Public Finance Corporation (Tascorp).

5.10 Prohibited Investments

This policy prohibits the use of leveraging (borrowing to invest) of an investment and investments carried for speculative purposes.

The following investments are specifically prohibited:-

- Derivative based instruments
- Principal only investments or securities that provide nil or negative cash flow; and
- Stand-alone securities issued that have underlying futures, option, forwards contracts and swaps of any kind.

5.11 Measurement and Performance

The Benchmark Rate for the purposes of measurement of the portfolio's performance will be the rate set in the applicable financial year's budget. This rate will be determined by reference to interest rate forecasting as provided in bulletins produced by the Commonwealth Bank.

As the budget figure is based on predicted investment levels and expectations about future interest rates, using it as the sole comparison may be misleading, therefore an external benchmark must also be used.

The external benchmark rate for short term investments will be the average 90 day bill rate (this information can be obtained from the Commonwealth Bank). Long term benchmark should be the composite bond index.

5.12 Reporting and Review

An investment register must be maintained with all movements to be reconciled at least monthly.

The investment register is to include:-

- List all investments in Council's investment portfolio;
- Current rate of return on individual investments;
- Credit Rating of Institution
- Percentage of total portfolio allocation with each institution
- Maturity dates
- Weighted average rate of return for the portfolio

The investment register should be supported by documentary evidence clearly outlining the information disclosed in the register and provide evidence of Council's legal title over the investment.

Comparisons to benchmarks will be disclosed at the end of each financial year and included in Council's General Purpose Financial Statements.

The investment portfolio must be reviewed at least monthly and at the time of each investment decision. Documentary evidence is to be kept to support each investment decision and to demonstrate that the investment provides the maximum return to Council whilst working within the requirements of this policy.

This policy is to be reviewed every three years or as required in the event of significant market or legislative changes.

5.13 Use of External Investment Advisors

Where Council obtains the services of an external investment advisor, the advisor must be licensed by the Australian Securities and Investment Commission.

The advisor must be independent and advise Council in writing that they do not have any conflicts of interest in relation to the investments that they are reviewing or recommending including confirmation that they are not receiving commissions and/or benefits pertaining to the related investments.

6 LEGISLATION

There is no specific section in the *Local Government Act 1993* requiring Council to make this policy.

S.75 of the *Local Government Act 1993* needs to be considered for Council's investment activities.

S.78 and 80 of the *Local Government Act 1993* needs to be considered for Council's borrowing activities.

7 RELATED DOCUMENTS

Financial Management Strategy 2028 (2018) CD-CBS-FIN-001
General Manager's Schedule of Delegations REG-CBS-SG-100

8 OTHER REFERENCES

Australian Accounting Standards

Australian Centre of Excellence for Local Government (ACELG) & Institute of Public Works Engineering Australasia (IPWEA) 2014, *Debt is Not a Dirty Word, Role and Use of Debt in Local Government*

Policy Endorsement	
Responsibility:	It is the responsibility of the General Manager to ensure Council's compliance with this policy. It is the responsibility of the Executive Manager Corporate Finance to administer and review this policy as required. It is the responsibility of the Governance Unit to maintain this policy within the Corporate Document Framework.
Minute Reference:	Item AO24-18
Council Meeting Date:	18 September 2018
Strategic Plan Reference:	Strategy 7.4.2 Demonstrate financial accountability and ensure strong internal controls underpin performance. Strategy 7.1.1 Formulate policy that is equitable, inclusive and responsive to current needs, and ensure decision-making is informed and accountable.
Previous Policies Replaced:	This policy replaces the previous policy *Treasury Policy* version 3.0 dated 17 February 2015 (Minute AO034-15).
Date of Commencement:	19 September 2018
Publication of policy:	Members of the public may inspect this policy at the City Offices, or access it on Council's website (www.burnie.net)