

## Treasury Management Policy

<b>POLICY STATEMENT</b>	<p>1.1 The policy outlines the risks associated with treasury management and provides a framework that allows the Finance Department to manage those risks whilst minimising the cost of debt and maximising returns on surplus funds.</p> <p>1.2 The policy outlines how required borrowings will be raised and how cash and investments will be managed to fund Council operations.</p> <p>1.3 The policy ensures that all of Council’s bank instruments and authorities are appropriately authorised and signed by authorised Council Officers.</p>
<b>DEFINITIONS</b>	<p>2.1 <b>Credit Rating</b>          A credit rating is an evaluation of the credit risk of an institution, predicting their ability to pay back debt, and an implicit forecast of the likelihood of the debtor defaulting.          The credit rating represents an evaluation by a credit rating agency of the qualitative and quantitative information for a prospective debtor, including information provided by the prospective debtor and other non-public information obtained by the credit rating agency's analysts.</p> <p>2.2 <b>Credit Risk</b>          Credit risk is the risk of potential loss associated from default or insolvency of a financial institution. The Council’s credit risk arises from transactions entered into with financial institutions.</p> <p>2.3 <b>Funding Risk</b>          Funding Risk is the risk that Council has not, or is unable to arrange, adequate debt finance to fund future financial commitments.</p> <p>2.4 <b>Interest Rate Risk</b>          Interest rate risk is the impact of volatility in net interest income / expense on the financial position of Council.</p> <p>2.5 <b>Interest Rate Swaps</b>          An interest rate swap is a derivative transaction that gives you the ability to swap a stream of floating interest rate interest payments for interest payments at a fixed rate. The swap allows you to manage interest rate risk independently of your floating rate debt facility.</p> <p>2.6 <b>Liquidity Risk</b>          Liquidity risk is the risk that Council does not have access to sufficient available funds to enable it to make all payments as they become due.</p> <p>2.7 <b>Refinancing Risk</b>          Refinancing risk is the inability to rollover existing facilities as they mature.</p>
<b>OBJECTIVE</b>	<p>3.1 The objective of this policy is to set the principles and criteria with regards to Council’s treasury (cash) management in the context of its Strategic Plan, Long Term Financial Plan and Annual Budget with its associated projected cash receipts and expenditure.</p>
<b>SCOPE</b>	<p>4.1 This Policy will apply to all bank accounts, investment funds and loan funds controlled by Council and administered through the Finance Department.</p>

<b>PROCEDURE (POLICY DETAIL)</b>	<p><b>Risk Management</b></p> <p>5.1 Credit Risk</p> <p>Objective: To manage the overall level of credit exposure to individual financial institutions to acceptable levels of credit risk through institutional selection and diversification.</p> <p>Management: Bank deposits must be invested within the allocation constraints outlined in the 'Funds for Investment' section.</p> <p>Prior to any bank deposit transaction being placed, the current exposure to a counterparty must be checked to ensure the new transaction will not result in a breach of policy.</p> <p>5.2 Short Term Liquidity Risk</p> <p>Objective: To ensure the Council has the financial flexibility to meet all financial obligations as they fall due with surplus cash held specifically for this reason.</p> <p>Management: The Council will hold a minimum level of liquidity in cash or cash equivalents in line with its statutory reserves.</p> <p>5.3 Funding and Refinancing Risk</p> <p>Objective: To ensure the Council can obtain new debt and roll over existing debt in order to meet its financial requirements in a timely manner.</p> <p>Management: The long term financial plan will identify the possible need for debt funding, while the annual plan will detail the amount required during the next twelve months.</p> <p>The Chief Financial Officer (CFO) is required to develop and maintain management procedures relating to debt facilities.</p> <p>The CFO is to identify annual debt funding requirements with Treasury in the Loan Council Allocation survey.</p> <p>5.4 Interest Rate Risk</p> <p>Objective: To monitor and manage interest income and expense volatility to acceptable levels.</p> <p>Management: Council manages its interest rate risk on deposits by investing in short-term maturities.</p> <p>Council will seek to minimise the interest rate risk of borrowings by taking debt for the minimum amount of time or utilising interest rate swaps to reduce the level of risk.</p>
	<p><b>Investment Guidelines</b></p> <p>Funds for Investment</p> <p>6.1 Council's Direct Investments</p> <p>Council may deposit funds with any Commonwealth, State or Financial Institution having a rating as prescribed in Section 6.1.2.</p> <p>6.1.1 Quotations on Investments</p> <p>Not less than three quotations shall be obtained from authorised deposit-taking institutions whenever an investment is proposed. The best quote will be successful after allowing for administrative and banking costs, as well as having regard to the limits set in the Policy.</p> <p>6.1.2 Credit Rating</p> <p>With the exception of investments for which the principal and interest are guaranteed by the Federal Government or a State Government, the amount invested with any one financial institution shall not exceed 50% of the total funds invested, subject to the following spread of credit risk across the whole portfolio.</p>

Short Term Rating (Standard & Poors)	Long Term Rating (Standard & Poors)	Maximum Percentage of Total Investment
A1+	AAA to AA-	100%
A1	A+ to A-	50%
A2	BBB+ to BBB	20%

If any of the financial institutions are downgraded such that they no longer fall within Council's Investment Policy guidelines, they will be divested as soon as practicable, and in any case within 30 days of Council becoming aware of the downgrade.

Debt security definitions are the criteria given by Standard & Poors and are as follows:

Short Term Rating	Definition
A1+	Extremely strong degree of safety regarding timely payment
A1	A strong degree of safety for timely repayment
A2	A satisfactory capacity for timely repayment

Long Term Rating	Definition
AAA to AA-	Extremely strong capacity to repay
A+ to A-	A strong capacity to repay
BBB+ to BBB-	An adequate capacity to repay

#### 6.1.3 Term to Maturity

The term to maturity of any of Council's direct investments may range from 'at call' to '1 Year'.

#### 6.2 Investments with Fund Managers

Council may deposit funds with the manager of a cash fund, cash enhanced fund or bond fund, provided the manager invests the funds so that Council retains beneficial ownership in a security authorised by the Trustee Act.

The fund must have a rating as prescribed in **Section 3.2.1** or be guaranteed by the Commonwealth, State or a rated Financial Institution. Investments in guaranteed funds will be subject to the underlying credit rating of the guarantor.

##### 6.2.1 Credit Rating

With the exception of investments for which the principal and interest are guaranteed by the Federal Government or a State Government, no one fund manager shall hold more than 50% of the total funds invested, subject to the following spread of credit risk across the whole portfolio:

Cash Fund (Standard & Poors)	Cash Enhanced & Bond Fund (Standard & Poors)	Maximum Percentage of Total Investment
AAAm	AAAf	100%
AAm	AAf	80%
Am - BBBm	Af - BBBf	10%

If any of the Financial Institutions are downgraded such that they no longer fall within Council's Investment Policy guidelines, they will be divested as soon as practicable, and in any case within 30 days of Council becoming aware of the downgrade.

Cash fund rating level definitions are the criteria given by Standard & Poors and are as follows:

Cash Fund Rating	Definition
AAAm	Superior capacity to maintain principal value and limit exposure to loss
AAm	Strong capacity to maintain principal value and limit exposure to loss
Am - BBBm	Adequate capacity to maintain principal value and limit exposure to loss

Cash enhanced and bond rating level definitions are the criteria given by Standard & Poors and are as follows:

Cash Enhanced & Bond Fund Rating	Definition
AAAf	Fund assets exhibit extremely strong protection against losses from credit default
AAf	Fund assets exhibit very strong protection against losses from credit default
Af - BBBf	Fund assets exhibit satisfactory protection against losses from credit default

#### 6.2.2 Term to Maturity

Council's funds with an available investment term of 0 to 180 days should be invested in a cash fund, whilst funds which are available for 3 to 12 months or more should be invested in a cash enhanced or fixed interest (bond) fund. The maximum percentage is the maximum of the funds available subject to the restrictions imposed by Section 3.2.1.

#### 6.2.3 Performance Benchmarks

Type of Fund	Benchmark
Cash	11am Cash Rate
Cash Enhanced	UBS 90 Day Bank Bill Index
Fixed Interest	UBS Composite Bond Index

Type of Fund	Minimum Time Horizon	Maximum Percentage of Total Available Investment
Cash	0 – 90 days	100%
Cash Enhanced	3 – 12 months	100%
Fixed Interest	3 – 12 months	25%

#### 6.3 Reporting

A report on the performance of each investment shall when practicable form part of the monthly financial report presented to Council.

#### **Borrowing Guidelines**

7.1 Council manages its income and expenditure to ensure there is sufficient cash to service its operating requirements. Borrowings can be utilised to fund significant capital projects and should be repaid over a defined period.

#### 7.2 Need for Borrowings

The need for borrowings will be identified in Councils LTFF, while the specific amount

required for the financial year will be included in the annual budget. The annual borrowing requirements will be included in the Loan Council Allocation survey to be determined by the Treasurer.

#### 7.3 Regulations

Council shall at all times conduct its borrowings in accordance with the requirements of the Local Government Act 1993, PART 8 – Financial Management, Division 2 – Borrowings. The Act places a maximum limit on Council borrowings of 30% of its revenue in the preceding financial year.

#### 7.4 Borrowing Terms

In undertaking borrowings Council will consider the period over which the funds are required and the potential future movements in interest rates in determining the loan term. Council recognises the importance of balancing risk management and costs and in an effort to minimise both risk and interest cost, may utilise various borrowing mechanisms including:

- Fixed interest borrowings (including credit foncier and interest only)
- Variable interest borrowings including cash advances and long term interest only).
- Interest rate swaps.

#### 7.5 Reporting

The Council will receive a report at the beginning of each financial year recommending the borrowing program for the next 12 months. The report will highlight the following:

- the reason behind the need for additional cash
- level of borrowings required
- Council's overall debt maturity profile and mix
- an assessment of future interest rate movements
- the period over which cash is likely to be required and subsequently repaid
- cost of the borrowings.

### **Signatories Guidelines**

#### 8.1 Cheques

The authorising signatories for the signing of cheques shall be the General Manager, Chief Financial Officer, Manager Finance or the Senior Finance Officer.

The authorising signatories for the counter-signing of cheques shall be any of the other authorised signatories or the Deputy General Manager. Selected Departmental Managers may also be used.

#### 8.2 Investments

The authorising signatories for the signing of investment documents and the withdrawal of investments shall be the General Manager, Chief Financial Officer, Manager Finance or the Senior Finance Officer.

The authorising signatories for the counter-signing of investment documents and the withdrawal of investments shall be any of the other authorised signatories or the Deputy General Manager and selected Departmental Managers. Investments may only be undertaken in accordance with this Policy.

#### 8.3 Electronic Funds Transfer Payments

The authorising officers for the approval of electronic funds transfer payments shall be the General Manager, Chief Financial Officer, Manager Finance or the Senior Finance Officer.

The authorising officers for the counter-approval of electronic funds transfer payments shall be any of the other authorised signatories or the Deputy General Manager, selected Departmental Managers and the Payroll Officer.

	<p>8.4 Loan Borrowings Any loan borrowings can only be approved by the Council. Any two of the following signatories may sign loan borrowings documents, the General Manager, the Deputy General Manager, the Chief Financial Officer or the Manager Finance. All loan documents must incorporate the placement of the Council seal.</p> <p>8.5 Any Other Bank Instruments Any other bank instruments can only be approved by the Council. Any two of the following signatories may sign the documents associated with any other bank instruments, the General Manager, the Deputy General Manager, the Chief Financial Officer or the Manager Finance.</p> <p>8.6 Other Officers No other Council Officer is authorised to sign any form of bank instrument or authority.</p> <p><b>Policy Variations</b></p> <p>9.1 The General Manager and the Chief Financial Officer are authorised to approve temporary variations to this policy in exceptional circumstances, if the investment is to Council's advantage and/or also due to revised legislation.</p> <p>9.2 Such variation will be reported to Council as soon as practicable. Any major variations to this policy will be submitted to Council for approval.</p>
<b>GUIDELINES</b>	<p>10.1 There is no specific section of the Local Government Act 1993 requiring Council to make this policy, however the following will be taken into consideration:</p> <p>10.1.1 Funds for Investment Investments of Council's funds are to be in accordance with Council's power of investment under:</p> <ul style="list-style-type: none"> <li>• Local Government Act 1993 - Section 75.</li> <li>• The Trustee Amendment (Investment Powers) Act 1997</li> </ul> <p>10.1.2 Borrowing of Funds Borrowings by Council will be in accordance with the following:</p> <ul style="list-style-type: none"> <li>• Local Government Act 1993 - Section 78-80.</li> </ul>
<b>COMMUNICATION</b>	<p>11.1 Kingborough Councillors are informed of this Policy</p> <p>11.2 A copy of the Policy is available.</p>
<b>LEGISLATION</b>	<p>12.1 The <i>Local Government Act 1993</i></p> <p>12.2 The Trustee Amendment (Investment Powers) Act 1997</p>
<b>AUDIENCE</b>	<p>13.1 Kingborough Councillors</p> <p>13.2 Community</p>