



# Treasury Management Policy

<b>Policy No:</b>	3.8
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<b>Version:</b>	4.0
<b>Responsible Officer:</b>	Manager Finance
<b>Strategic Plan Reference:</b>	The organisation has a corporate culture that delivers quality customer service, encourages innovation and has high standards of accountability.

### 1. POLICY STATEMENTS

- 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.
- 1.2 The policy outlines how required borrowings will be raised and how cash and investments will be managed to fund Council operations.
- 1.3 The policy ensures that all of Council's bank instruments and authorities are appropriately authorised and signed by authorised Council Officers.

### 2. DEFINITIONS

#### 2.1 Credit Rating

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.

#### 2.2 Credit Risk

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.

#### 2.3 Funding Risk

Funding Risk is the risk that Council has not, or is unable to arrange, adequate debt finance to fund future financial commitments.

#### 2.4 Interest Rate Risk

Interest rate risk is the impact of volatility in net interest income / expense on the financial position of Council.

#### 2.5 Interest Rate Swaps

An interest rate swap is a derivative transaction that provides the ability to swap a stream of floating interest rate interest payments for interest payments at a fixed rate. The swap allows interest rate risk to be managed independently of a floating rate debt facility.

#### 2.6 Liquidity Risk

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.

#### 2.7 Refinancing Risk

Refinancing risk is the inability to rollover existing facilities as they mature.

#### 2.8 Sustainability Risk

Sustainability risk is the inability to sustain financial outcomes while preserving the environment.

### 3. OBJECTIVE

- 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 (LTFP) and Annual Budget with its associated projected cash receipts and expenditure.

#### **4. SCOPE**

- 4.1 This Policy will apply to all bank accounts, investment funds and loan funds controlled by Council and administered through the Finance Department.

#### **5. PROCEDURE (POLICY DETAIL)**

##### **5.1 Risk Management**

###### **5.1.1 Credit Risk**

Objective: To manage the overall level of credit exposure to individual financial institutions to acceptable levels of credit risk through institutional selection and diversification.

Management: Bank deposits must be invested within the allocation constraints outlined in the 'Funds for Investment' section.

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.

###### **5.1.2 Short Term Liquidity Risk**

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.

Management: The Council will hold a minimum level of liquidity in cash or cash equivalents in line with its statutory reserves.

###### **5.1.3 Funding and Refinancing Risk**

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.

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.

The Director People & Finance (DPF) is required to develop and maintain management procedures relating to debt facilities.

The DPF is to identify annual debt funding requirements with Treasury in the Loan Council Allocation survey.

###### **5.1.4 Interest Rate Risk**

Objective: To monitor and manage interest income and expense volatility to acceptable levels.

Management: Council manages its interest rate risk on deposits by investing in short-term maturities.

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.

###### **5.1.5 Sustainability Risk**

Council gives preference to fossil fuel free Authorised Deposit-Taking Institutions when making deposits if:

- i. the rate of return on investment is greater than or equal to the rates of other Authorised Deposit-Taking Institutions which comply with Council's investment policy;
- ii. the financial institution and product is otherwise compliant with Council policy.

### 5.2 Investment Guidelines

#### Funds for Investment

##### 5.2.1 Council's Direct Investments

Council may deposit funds with any Commonwealth, State or Financial Institution having a rating as prescribed below.

##### i. Quotations on Investments

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.

##### ii. Credit Rating

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.

Short Term Rating (Standard & Poors)	Long Term Rating (Standard & Poors)	Maximum Percentage of Total Investment
A1+	AAA to AA-	100%, max. 50% for any one institution
A1	A+ to A-	50%
A2	BBB+ to BBB	30%

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-	Very strong to extremely strong capacity to repay
A+ to A-	A strong capacity to repay
BBB+ to BBB-	An adequate capacity to repay

##### iii. Term to Maturity

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

### iv. 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%

### 5.2.2 Reporting

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

### 5.2.3 Borrowing Guidelines

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.

#### i. Need for Borrowings

The need for borrowings will be identified in Council's LTFP, 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.

#### ii. 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 repayments of 30% of its revenue in the preceding financial year.

#### iii. 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.

iv. Reporting

Where additional borrowings are required, prior to any borrowing, the request will be included with the budget papers, or, a separate report will be prepared for Council's approval, highlighting 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.

5.2.4 Signatories Guidelines

i. Cheques

The authorising signatories for the signing of cheques shall be any two of the General Manager, Director People & Finance, Manager Finance or the Senior Finance Officer.

The authorising signatories for the countersigning of cheques shall be any of the other authorised signatories or any Executive Management Team member. Selected Departmental Managers or Systems Officer may also be used.

ii. Investments

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

The authorising signatories for the countersigning of investment documents and the withdrawal of investments shall be any of the other authorised signatories or any Executive Management Team member. Selected Departmental Managers or Systems Officer may also be used. Investments may only be undertaken in accordance with this Policy.

iii. Electronic Funds Transfer Payments

The authorising officers for the approval of electronic funds transfer payments shall be the General Manager, Director People & Finance, 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 any Executive Management Team member. Selected Departmental Managers or Systems Officer may also be used. .

iv. Loan Borrowings

Any loan borrowings can only be approved by the Council. The following signatories may sign loan borrowings documents, the General Manager, the Director People & Finance or the Manager Finance. All loan documents must incorporate the placement of the Council seal.

v. Any Other Bank Instruments

Any other bank instruments can only be approved by the Council. The following signatories may sign the documents associated with any other bank instruments, the General Manager, the Director People & Finance or the Manager Finance.

vi. Other Officers

No other Council Officer is authorised to sign any form of bank instrument or authority.

5.2.5 Policy Variations

The General Manager and the Director People & Finance 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.

Such variation will be reported to Council as soon as practicable. Any major variations to this policy will be submitted to Council for approval.

## 6. GUIDELINES

6.1 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:

6.1.1 Funds for Investment

Investments of Council's funds are to be in accordance with Council's power of investment under:

- i. *Local Government Act 1993 - Section 75.*
- ii. *The Trustee Amendment (Investment Powers) Act 1997*

6.1.2 Borrowing of Funds

Borrowings by Council will be in accordance with the following:

- i. *Local Government Act 1993 - Section 78-80.*

## 7. COMMUNICATION

7.1 Kingborough Councillors are informed of this policy.

7.2 A copy of the policy is available.

## 8. LEGISLATION

8.1 *Local Government Act 1993.*

8.2 *The Trustee Amendment (Investment Powers) Act 1997.*

## 9. RELATED DOCUMENTS

9.1 Nil.

## 10. AUDIENCE

10.1 Councillors.

10.2 Public.