

TREASURY MANAGEMENT POLICY

Date and Reference of FRAC Authority Resolution	22 September 2017 / FRACA000106
Review Frequency	Biennial Review
Review Date	
Next Review Due	September 2019
Policy/File Number	
Related Documents	Fleurieu Regional Aquatic Centre Authority Charter Annual Budget Strategic Management Plans: <ul style="list-style-type: none"> • Strategic Plan (to be developed) • Long Term Financial Plan (to be developed) • Long Term Asset Management Plan (to be developed)
Applicable Legislation	Local Government Act 1999 Local Government (Financial Management) Regulations 2011

1. INTRODUCTION

This policy provides clear direction to guide the Fleurieu Regional Aquatic Centre Authority ('Authority') in relation to the treasury function. It underpins the Authority'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.

The Authority is committed to adopting and maintaining a long term financial plan and operating in a financially sustainable manner.

All investments and borrowings are to be made exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons.

The Authority Charter provides as follows:

2.1 Functions and Powers

2.1.3 to accumulate surplus funds for investment purposes;

2.1.4 to establish and maintain a reserve fund or funds clearly identified for the upkeep and/or replacement of fixed assets of the Authority or meeting any deferred liability of the Authority;

2.1.5 to establish and maintain a cash reserve development fund or funds clearly identified for future initiatives supported by the Strategic Plan;

2.1.7 to borrow funds and incur expenditure in accordance with Clause 2.6;

2.1.16 to invest any funds of the Authority in any investment provided that:

2.1.16.1 in exercising this power of investment the Authority must exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons; and

2.1.16.2 the Authority must avoid investments that are speculative or hazardous in nature;

2.1.16.3 any investments must be with the Local Government Finance Authority only;

2.5 Borrowings and Expenditure

2.5.2 Subject to Clause 2.5.3 the Authority has the power to borrow money as follows:

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2.5.2.1 *in accordance with a budget adopted by the Authority as required by the Act or this Charter;*

2.5.2.2 *in respect of an overdraft facility or facilities up to a maximum amount of \$100,000;*

2.5.2.3 *with the prior approval of the Constituent Councils.*

2.5.3 *Unless otherwise approved by both of the Constituent Councils, any and all borrowings taken out by the Authority:*

2.5.3.1 *must be from the Local Government Financial Authority; and*

2.5.3.2 *in the case of fixed loans, must be drawn down within a period of 24 months from the date of approval.*

2. POLICY OBJECTIVES

This 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;
- a process is in place to monitor cash and anticipated future cash flows with surplus funds invested or disbursed in accordance with this policy;
- the net interest costs, of the Authority and the Constituent Councils, 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

The Authority's operating and capital expenditure decisions are made based on:

- identified need and benefit relative to other expenditure options;
- cost effectiveness of the proposed means of service delivery; and,
- affordability of proposals having regard to the Authority's long term financial sustainability, including consideration of the cost of capital.

The Authority manages its finances holistically in accordance with its Charter and overall financial sustainability strategies and targets. This means the Authority will:

- 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 Exposure

The Authority has set range limits for both fixed and variable interest rate borrowings to minimise net interest costs on average over the longer term and at the same time manage interest rate movement risks within acceptable limits. In the initial years of the Authority's operation, additional consideration will need to be given to the composition of its loan portfolio in particular in regard to the use of fixed versus variable rate borrowings. The Authority may need to consider operating outside its range limits in the initial years of operation until their borrowings reach an appropriate threshold to warrant reducing interest rate risk.

3.2.1 Fixed Interest Rate Borrowings

To ensure an adequate mix of interest rate exposures, the Authority will structure its portfolio of borrowings to progressively achieve and thereafter maintain on average in any year, not less than 30% of its gross debt in the form of fixed interest rate borrowings.

To spread its exposure to interest rate movements, the Authority will aim to have a variety of maturity dates on its fixed interest rate borrowings over the available maturity spectrum.

In circumstances where the Authority needs to raise new fixed interest rate borrowings it will consider using medium to long-term borrowings (3 years or more duration) that:

- require interest payments only; and
- allow the full amount of principal to be repaid (or rolled over) at maturity.

The Authority also will ensure that no more than 30% of its fixed interest rate borrowings mature in any year.

3.2.2 Variable Interest Rate Borrowings

In circumstances where the Authority needs to raise new variable rate borrowings it will do so by utilising an *LGFA Cash Advance Debenture Facility* which enables principle to be repaid or redrawn at call. The Authority will structure its portfolio of borrowings 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.

3.3 Disbursements

The Authority's funds that are not required for operational needs and cannot be applied to either reduce existing borrowings or avoid the raising of new borrowings may be returned to the Constituent Councils as a Disbursement of Capital, subject to the following criteria:

- only cash reserves above \$250,000 shall be disbursed to allow sufficient working capital; and
- disbursement will occur on an annual basis between April and June based on the projections of the Annual Budget and Long Term Financial Plan.

3.4 Investments

Subject to 3.3 above, the Authority's 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.

The Authority's 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 the Authority's variable interest rate borrowing facility. Investments fixed for a period greater than 12 months are to be approved by the Constituent Councils.

When investing funds, the Authority will select the investment type which delivers the best value, having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors.

The Authority may from time to time invest surplus funds in:

- deposits with the Local Government Finance Authority; and/or
- bank interest bearing deposits.

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Any other investment requires the specific approval of the Constituent Councils. Where the Constituent Councils authorise any investments of a type outside of those specified above, the amount so invested will be cumulatively limited to no more than 20% of the average level of funds expected to be available for investment by the Authority over the duration of the specific authorised investments.

A Depreciation Reserve account has been established with the Local Government Finance Authority. Monies may be transferred on a quarterly basis for the purposes of funding future capital renewal.

Depreciation Reserve funds will be utilised to fund planned renewal and replacement of assets in line with the Long-Term Asset Management Plan and reflected in approved Annual Budgets. Should the Authority propose to utilise Depreciation Reserve funds for any form of expenditure that is outside of the Long-Term Asset Management Plan and approved Annual Budgets, approval will be required from both Constituent Councils.

3.5 Reporting

At least once a year the Authority Board shall receive a specific report regarding treasury management performance relative to this policy document.

The report shall highlight:

- for each borrowing and investment - the quantum of funds, its interest rate and maturity date, and changes in the quantum since the previous report;
- the average balance of funds held in non-investment accounts for the reporting period;
- 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.

RESPONSIBILITIES

The Authority Executive Officer has overall responsibility for ensuring that treasury management is conducted in accordance with legislation, Accounting Standard and Authority policies.

DELEGATIONS

The Authority Executive Officer has the authority to implement this policy.

AVAILABILITY OF POLICY

This Policy will be available on the [Fleurieu Aquatic Centre Website](#).

REVIEW

This policy shall be reviewed by the Authority at a minimum within two (2) years of issued date.

Non-English translations of this policy can be made available if required.

Document History

VERSION	DOCUMENT	ACTION	DATE
1.0	Approved version	FRAC Authority endorsement	22 September 2017