



POLICY NO: CCC023

Policy for Debt Management

Version 0.4
Carlton Oldfield
6 April 2017



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CERTIFIED A TRUE COPY OF POLICY ADOPTED BY COUNCIL

COUNCIL RESOLUTION DATE	26 APRIL 2017
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History of Revisions:

Version	Date	TRIM Doc. #
	March 2017	D12669904

A Policy Summary

- A.1 This policy defines how Central Coast Council ("CCC") will manage its debt, including, but not limited to internal and external borrowing activities, defining key responsibilities, operating procedures and risk management requirements.

B Policy Background

- B.1 Council utilises debt to assist in funding facilities and services for our community. The funding of long dated assets requires Council to use debt finance to ensure there is intergenerational equity, that is, that current and future ratepayers both contribute towards the assets they utilise now and in the future.
- B.2 Council acknowledges there are various risks associated with managing debt including but not limited to interest rate, liquidity, funding and credit risk. Council will not incur unnecessary risk through its debt management and will mitigate/hedge any risk to tolerable levels as defined within this policy.
- B.3 Council is required to conform to the *Local Government Act 1993*, *Local Government (General) Regulations 2005* and *Borrowing Order dated 13 May 2009* pursuant to section 624 of the *Local Government Act 1993*.

C Definitions

- C.1 **Council** means the appointed administrator and/or the elected representatives, Councillors, who form the governing body of Central Coast Council at any given time.
- C.2 **The Act** means the *Local Government Act 1993*.
- C.3 **CCC** means Central Coast Council
- C.4 **Council policy** means policy created and approved by the Council, as well as any policy of either the former Gosford City Council or the former Wyong Shire Council that applies to Council by the operation of the *Local Government (Council Amalgamations) Proclamation 2016* under the *Local Government Act 1993*.
- C.5 **Floating rate debt** means debt where the borrowing cost fluctuates in line with a common banking index. E.g. Bank Bill Swap Rate or Commonwealth Bond Yield.
- C.6 **Fixed rate debt** means debt with borrowing cost that is fixed for the duration of the loan period.
- C.7 **CEO** means the person appointed to the position of Chief Executive Officer of the Council, who undertakes the functions of the General Manager under the Act.



D Policy Statements

Jurisdiction

- D.1 This Policy covers all elected members of Council, all personnel employed by CCC, any person or organisation contracted to or acting on behalf of CCC, any person or organisation employed to work on CCC premises or facilities and all activities of the CCC.
- D.2 This policy does not confer any delegated authority upon any person. All delegations to staff are issued by the CEO.
- D.3 It is the personal responsibility of all CCC employees and agents thereof to have knowledge of, and to ensure compliance with, this policy.

General

- D.4 Council will continually monitor and review Treasury credit limits and financial market exposures within these limits provided for in this policy.
- D.5 Council will manage its borrowing cost through effective hedging of its interest rate risk within the limits provided for in this policy.
- D.6 Council will ensure it meets its debt repayment obligations as they fall due through appropriate liquidity and funding risk management.
- D.7 Council will manage the spread of its debt maturities within the set funding/refinancing risk limits.
- D.8 Council will ensure it complies with internal and external borrowing covenants and ratios.
- D.9 Council will allow debt under interest only repayments where it meets the restrictions under this policy.

E Management of Policy Risks

Liquidity and Funding Risk Management

- E.1 The CCC Treasury team in managing its liquidity risk will ensure:
 - (a) Borrowing activities with external parties including committed term funding facilities and overdraft facilities shall be obtained from banks licensed by the Australian Prudential Regulation Authority (APRA) with a minimum Standard & Poors's (S&P) rating of 'A'. Equivalent ratings from Moody's Investor Services or Fitch Ratings are acceptable.
 - (b) Borrowings terms will balance off between obtaining funding facilities to match the underlying asset useful life with the cost of long dated funding.

- (c) The CCC Treasury team will ensure there is sufficient working capital to meet short and long term commitments of Council as they fall due in an orderly manner. The Treasury team aims to have immediate access to working capital of approximately 5 - 10% of the total projected long term core debt.
- (d) The CCC Treasury team will manage funding risk by ensuring that no more than 33% of external funding facilities expire within a 12 month period.
- (e) The CCC Treasury team will aim to have committed funding facilities in place that equate to 110-133% of projected long term core debt.

Interest Rate Risk Management

- E.2 The CCC Treasury team will manage the interest rate risk to mitigate unfavourable variations in the Council's borrowing cost but enable Council to take advantage of any favourable interest rate movements that may arise.
- E.3 The CCC Treasury team will be able to, upon CEO approval, hedge Council's interest rate exposures by obtaining either fixed rate debt or floating rate debt coupled with interest rate management instruments.
- E.4 The specific hedging operating parameters are outlined below. Any hedging outside of the operating parameters requires approval by Council:

Fixed Rate Hedging		
	Minimum Fixed Rate	Maximum Fixed Rate
0-2 years	50%	100%
2-5 years	30%	100%
5-10 years	0%	100%

- E.5 Authorised Interest Rate Management Instruments. Council may use interest rate management instruments such as interest rate swaps to manage Council bank floating rate debt and fixed rate debt.
- E.6 Interest rate management instruments with a maturity exceeding 5 years will be required to be approved by Council.
- E.7 Counterparties. Council may only enter into interest rate management instrument transactions with banks licensed by APRA with a minimum Standard & Poor's (S&P) rating of 'A'. Equivalent ratings from Moody's Investor Services or Fitch Ratings are acceptable.

Legal Risk Management

- E.8 Execution of all debt financing and interest rate management instrument legal agreements will be under the guidance of the legal advisors for Council.

F Internal Controls

F.1 Council is responsible for:

- Adopting this policy
- Approving the interest rate management activities outside the parameter detailed in this policy
- Approving all funding facilities
- Approving the use of any risk management products not authorised in this policy

F.2 The Chief Financial Officer and delegated staff are responsible for:

- Managing the relationships with banking counterparties
- Formulating and executing CEO approved interest rate risk management strategies in accordance with this policy
- Ensuring liquidity and funding risks are managed in accordance with this policy
- Ensuring hedging ratios are maintained in accordance with clause E.4 of this policy
- Ensure compliance with internal and external debt covenant ratios
- Ensure segregation of duties – Staff responsible for executing interest rate management instruments will not be responsible for the accounting treatment applied within the financial statements of CCC.
- Prepare the annual proposed borrowing return required by the Office of Local Government.

Variation

F.3 Council reserves the right to amend this policy from time to time in accordance with the policy for the establishment of policies.