

## TREASURY MANAGEMENT POLICY

Policy Type	Council Policy
Responsible Department	Finance
Responsible Officer	Manager Finance
Related Policies and Procedures	Procurement Policy Delegations Framework
Date adopted	15 December 2008; C386/08
Last Council review	26 September 2016; C600/15
Next review date	September 2019
ECM Doc Set ID:	1674821

### 1. POLICY STATEMENT

The Treasury Management Policy underpins Council's decision making regarding the financing of its operations as documented in its Long Term Financial Plan and Annual Business Plan & Budget together with associated projected and actual cash flow receipts and expenditure.

### 2. COMMUNITY GOAL

O5.3 Good governance and legislative framework

O5.5 A financially sustainable approach to business and planning activity

### 3. POLICY OBJECTIVES

The policy in which the treasury functions will operate will ensure that:

- Funds are available as required to support strategic objectives and approved expenditure;
- Interest rate and other risks e.g. liquidity and investment credit risks are acknowledged and responsibly managed;
- The net interest costs associated with borrowing and investing are reasonably minimised on average over the longer term;
- Medium to longer term objectives of the Long Term Financial Plan are not compromised;
- Where possible, that the structure of the borrowing is appropriate for the nature of the assets being funded; and
- Council's funding activities are in accordance with its legislative and common law responsibilities.

### 4. PRINCIPLES

The intention of the policy is to enable Council to manage its treasury functions – borrowings, investments and associated cash flow management **holistically** in a manner that ensures its financial sustainability and supports its strategic management plans.

This means Council will:

- Maintain a target range for its Net Financial Liabilities ratio;
- Generally only borrow funds to support cash flow;
- Only retain or quarantine money for a particular future purposes when required by legislation or part of an agreement;
- Apply where cost effective any funds that are not immediately required to meet approved expenditure, to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.
- **Not** borrow for funding annual operational expenditure

With reference to Borrowings, subject to meeting Net Financial Liabilities Ratio targets:

- Council aims to borrow 'long for long' and 'short for short', i.e. where possible, the structure of the borrowing is appropriate for the nature of the assets being funded. However, any borrowing arrangement still needs to meet the overall treasury objective of minimising the costs of borrowings in the medium term by also considering future capital receipts and outlays.
- it is appropriate to borrow for financing of strategic land purchases and to fund capital upgrading/new assets particularly if used for revenue generating purposes.
- Significant spikes in asset renewal expenditure can be considered for borrowing.

## **5. POLICY**

### **5.1 TREASURY MANAGEMENT STRATEGY**

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 (including consideration of the cost of capital and the impact of the proposal on Council's Net Financial liabilities ratio).

### **5.2 INTER-GENERATIONAL EQUITY FUNDING**

Council shall strive to achieve equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific capital expenditure and operations take into account the ratepayers who benefit from the expenditure and therefore on a user pay basis, who should pay for the costs associated with such expenditure.

### **5.3 LONG-TERM SUSTAINABILITY OF COUNCIL**

The level of borrowings shall be within the adopted Net Financial liabilities ratio to ensure the long-term sustainability of Council.

### **5.4. BORROWING**

All borrowings will be considered in the context of Council's strategic priorities and borrowing levels in line with Council's Long Term Financial Plan and adopted targets.

#### **5.4.1 Short Term Cash Flow Management**

Short term cash advance may be used to sustain the cash flows of Council having regard to anticipated receipts and expenditures and the annual cash flow budget. For this purpose Council may operate an overdraft on its bank account and/ or a cash advance facility from a financial institution.

#### **5.4.2 Interest Rate Risk Exposures**

For Council to minimise net interest costs on average over the longer term, and at the same time, manage interest rate movement risks within acceptable limits, both fixed and variable interest rate borrowings should be considered.

Management shall not speculate on interest rate movements.

#### **5.4.3 Fixed and Variable Interest Borrowings**

In order to ensure that there is an appropriate mix of interest rate exposure, as old borrowings mature and new borrowings are raised, Council will endeavour to restructure its portfolio of borrowings in order to progressively achieve and strive to maintain a mixture of fixed and variable interest rate borrowings.

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

Fixed and variable borrowing activities will comply with Council's Procurement Policy

#### **5.4.4 Risk Minimisation**

To reduce the level of risk:

- Council approval is required for all new loans.
- Loans are to be provided by institutions with long term credit ratings of "AA-" or better.
- All new loans are to be tendered to at least two lending institutions.

#### **5.4.5 Borrowing Redemption**

When surplus funds exist, the decision to repay borrowings shall be made based on the facts available at the time giving due regard to minimising the overall cost to Council.

### **5.5 INVESTMENTS**

Council funds that are not immediately required for operations and that cannot be applied to either reduce existing borrowings or avoid the arising 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.

All investments will be considered in the context of Council's strategic priorities to ensure Council maximises the return on surplus funds.

To manage the level of risk Council will limit its investments to secure organisations. In addition, Council is prohibited from directly acquiring shares in a company. Therefore, without Council approval, investments are limited to:

- Deposits with the Local Government Finance Authority;
- Bank interest bearing deposits
- Bank accepted/ endorsed bank bills
- Bank negotiable Certificate Deposits, and
- State / Commonwealth Government Bonds.

This policy does not insist that the highest interest rate should be accepted, but that the investment which delivers the best value to Council should be selected.

### **5.6 HEDGING & OTHER FINANCIAL ARRANGEMENTS**

Council may consider the use of hedging and other financial arrangements but **only** as a mechanism to **reduce interest rate risk exposure** and not for speculative trading.

## 5.7 REPORTING

At least once a year Council via the Audit & Governance Committee shall receive a specific report regarding treasury management performance relative to this policy document.

This report shall highlight:

- For each Council borrowing and investment- the quantum of funds, its interest rate and maturity date, and changes in the quantum since the previous report
- The portion of fixed interest rate and variable interest rate borrowings at the end date of the reporting period, and
- Full details and explanation of any instances of deviation from this policy during the year.

## 6. DEFINITIONS

### **Annual Business Plan**

In accordance with s123 of the Local Government Act 1999 Council must have for each financial year a plan and budget that outlines annual and long term objectives, annual activities and measures of performance.

### **Financial Sustainability**

A Council's long term financial performance and position is sustainable where planned long term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

### **LGFA – Local Government Financing Authority.**

A Government guaranteed statutory authority established to develop and implement borrowing and investment programs for the benefit of Councils and prescribed local government bodies within the State.

### **Long Term Financial Plan**

In accordance with s122 of the Local Government Act 1999 Council must develop and adopt a long term financial plan for a period of at least 10 years.

### **Net Financial Liabilities (NFL)**

NFL equals total liabilities less financial assets, where financial assets for this purpose include cash, investments, receivables and prepayments, but exclude equity held in a Council subsidiary, inventories and assets held for sale. The Net Financial Liabilities Ratio is calculated by expressing net financial liabilities at the end of the year as a percentage of total operating revenue for the year.

### **Surplus Funds**

Funds over and above a level which is required to meet Council's immediate working capital requirements

### **Treasury Management**

Refers to those activities which are related to the funding of Council operations. This includes funds management, cash flow budgeting, investment of surplus funds and borrowings

## 7. LEGISLATION/REFERENCES

### ***Local Government Act 1999***

Chapter 8 Sections 122 and 123, provides that a council should have strategic plans and an annual budget.

### **Borrowings**

Chapter 9 Sections 133 and 134 provides that a council can:

- Obtain funds from a range of sources, including taxation and borrowing appropriate to the Council carrying out its functions;
- Borrow funds and enter into arrangements to protect against;
- adverse interest rate movements on borrowings; and
- Invest Council funds.

Section 44(3)(c) of the Act provides that a council must approve all loans and clearly states that the power to borrow money cannot be delegated from the Council itself.

### **Investments**

Chapter 9 Sections 139 and 140 provides that a council:

- Empowers councils to invest money;
- Council must exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons;
- Avoid investments that are speculative or hazardous in nature; and
- A council must review the performance of its investments at least annually.

Section 44 enables a council to delegate this function.

Section 47 prohibits a council from directly acquiring shares in a company.

### ***Local Government (Financial Management) Regulations 2011***

Regulation 5 requires the preparation of a Budgeted Statement of Cash Flows covering Council's Long Term Financial Plans and Budgets as part of the Council's annual budget papers.

### ***LGA Financial Sustainability Information Papers***

Information Paper 9 Financial Indicators - Revised May 2015

Information Paper 10 Debt - Revised February 2015

Information Paper 15 Treasury Management - Revised February 2015.

## **8. POLICY DELEGATIONS**

Section 44(3)(c) of the Act provides that a council must approve all loans and clearly states that the power to borrow money cannot be delegated from the Council itself.

In terms of Investments, there is no restriction upon the delegation of the powers at Section 139 or the duty at Section 140 of the Act.

Investment/Loan Transactions within new facilities which must be within the debt levels approved by Council have been delegated to the following:

- CEO
- All General Managers
- Manager Finance

Or two of

- Manager Finance
- Senior Accountant
- Management Accountant

Investment/Loan Transactions within existing approved facilities are delegated to:

- CEO
- All General Managers
- Manager Finance
- Senior Accountant
- Management Accountant

## **9. ROLES/RESPONSIBILITIES**

- Manager Finance

## **10. AVAILABILITY**

The policy is available for public inspection during normal office hours from;

Civic Centre  
181 Unley Road  
Unley SA 5061

A copy may be purchased for a fee as determined annually by Council.

It is also available for viewing, download and printing free of charge from the Council's website, [www.unley.sa.gov.au](http://www.unley.sa.gov.au)

## 11. DOCUMENT HISTORY

<b>Date:</b>	<b>Council/Committee/Internal</b>	<b>Comment:</b>
25 Nov 2008	Audit Committee; 18/08	
15 Dec 2008	Council; C386/08	
19 July 2010	CSP Committee; 341/10	
26 July 2010	Council; C701/10	
3 May 2011	Audit Committee; 19/11	
23 May 2011	Council; C133/11	
14 May 2012	CSP Committee; 108/12	
28 May 2012	Council; C420/12	
30 Aug 2016	Audit & Governance Committee: 38/16	Was Policy no.CO15
26 Sept 2016	Council; C600/16	