TREASURY MANAGEMENT POLICY

Classification:	Statutory Policy.
Trim Container	B3292
Trim Document Number:	DOC/16/31769
First Issued / Approved:	14/4/2011
Last Reviewed:	9/06/2015
	C090615/129
Next Review:	1/06/2019
Responsible Officer:	Manager Finance
Date Placed on Web:	9/06/2015

1. PREAMBLE

1.1 *Background*

This policy establishes a decision framework to ensure that:

(a) Council is able to meet its financial obligations as they fall due and to provide appropriate funding capacity to meet unforseen events as they arise;

(b) Council procures funds at the lowest overall cost and with minimal impact of adverse movements in interest rates;

(c) Council's investments are with credit-worthy institutions to minimise the risk of loss.

1.2 *Purpose*

The purpose of this policy is to provide clear direction to management, staff and Council in relation to the treasury (funds) management and is designed to actively support Council's commitment to financial sustainability.

1.3 *Scope*

This policy applies to all Council activities.

1.4 *Definitions*

"Treasury Management" means managing borrowings, investments and cash flows.

"Financial Sustainability" means meeting long term service and infrastructure levels and standards without unplanned increases in rates or disruptive cuts to services.

The electronic version on the Internet/Intranet is the controlled version of this document.
Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the controlled version.

"Long Term Financial Plan" means the primary financial document linked to the Strategic Plan and informed by the Asset Management Plan expressing activities over at least 10 years providing guidance to formulate a financially sustainable business plan and budget.

"Net Financial Liabilities" means total liabilities less financial assets, where financial assets for this purpose include cash, investments, receivables and prepayments, but excludes inventories and land held for resale.

"Net Financial Liabilities Ratio" means Net Financial Liabilities as a percentage of Operating Revenue.

"Interest Cover Ratio" means the extent to which operating revenues are committed to net interest expense.

"Inter-generational Equity" means resources and assets do not belong to one generation but are administered and preserved for future generations.

"LGFA" means Local Government Finance Authority, being an authority established under the Local Government Finance Authority Act 1983. Under the Act the South Australia Government guarantees all of the Authority's liabilities, including monies accepted on deposit from clients. The Authority develops and implements borrowing and investment programs for the benefit and interests of Local Government.

"S&P" means Standard & Poors global credit rating agency which is independent and expresses an opinion about the ability and willingness of an institution such as a corporation or government, to meet its financial obligations in full and on time. An AA rating means the institution has a very strong capacity to meet financial commitments.

"Reserve Funds" means funds set aside in an account to meet any unexpected costs that may arise in the future costs of asset renewal or replacement.

1.5 *Strategic Reference*

Our Place Community Plan 2012-2015. A place that provides value for money.

2. POLICY STATEMENT

2.1 Treasury Management Strategy

Finances will be managed holistically in accordance with overall financial sustainability strategies and annually reviewed targets. This means that Council will:

(a) Maintain target ranges for Net Financial Liabilities and Net Financial Liabilities Ratio;
(b) Maintain target range for Interest Cover Ratio;

The electronic version on the Intranet is the controlled version of this document.
Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the controlled version.

(c) Not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
(d) Borrow funds in accordance with the requirements set out in its Long Term Financial Plan;
(e) Maintain a minimum amount of liquidity.

2.2 Liquidity

Council will maintain a minimum amount of cash on hand or at call to meet projected cash needs and maintain a $1million standby credit facility with the LGFA which can be accessed immediately on the approval of the Chief Executive Officer (or delegate) should the need arise.
Any funds that are not immediately required to meet approved expenditure or minimum liquidity will be applied in the following order of priority:

1. reduce existing borrowings where it is cost effective to do so;
2. defer the timing of new borrowings;
3. invest in accordance with this policy.

2.3 Borrowings

Council recognises the prudent use of borrowings to spread costs over time in support of the principle of intergenerational equity.

Borrowings will be managed in accordance with overall financial sustainability strategies and legislative requirements. This means that Council will:

(a) approve borrowings having regard to the annual budget, long term financial plan and financial targets;

(b) borrow in accordance legislative powers pursuant to section 44(3)(c) of the Local Government Act 1999;

(c) not attach borrowings to specific expenditure commitments or assets;

(d) maintain flexibility and capacity to borrowings comprising a mixture of:

  (i) maturity dates;
  (ii) variable and fixed interest rates;
  (iii) interest only and amortising loans;
  (iv) cash advance debentures that enable principal draw down and repayment without penalty;

(e) borrow from the LGFA (being the preferred financial institution) or the Commonwealth Bank, ANZ, NAB or Westpac;

(f) not borrow directly from any retail market through the issue of bonds or other debentures.

The electronic version on the Intranet is the controlled version of this document.
Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the controlled version.

(g) not deal in swaps and derivatives without Council approval.

Loans to community organisations must be approved by Council and will be funded by borrowings in accordance with this policy and Council's "Borrowing Guidelines for Community Organisations".

2.4 **Investments**

Council funds that are not immediately required for operational needs and cannot be applied to either reduce existing borrowings or to avoid raising new borrowings will be invested.

When investing funds Council will select the investment type which delivers the best value having regard to investment returns, transaction costs, future funding needs and other relevant factors. This means that council will invest surplus funds with:

(1) the LGFA (being the preferred financial institution);
(2) SA or Commonwealth Government Bonds;
(3) interest bearing deposits or bank accepted/endorsed bills with banks with:

  (i) short term credit rating from S&P of not less than A1 for investments of not more than 12 months;
  (ii) long-term credit rating from S&P of not less than AA- for investments greater than 12 months.

Investments will be made in accordance with this policy by the Chief Executive Officer (or delegate) in accordance with section 139 of the Local Government Act. Council approval is required for investments with a maturity date greater than 12 months.

2.5 **Reserve Accounting**

Council will not maintain cash-backed reserves unless required to by legislation or agreement with third parties.

Existing cash-backed reserves will be managed as follows:

(1) provisions for future capital expenditure will be included in Council's long term financial plan;
(2) existing cash reserve funds will be applied to reduce borrowings or to avoid raising new borrowings.

2.6 **Reporting**

Council will receive the following reports:

(1) annual long term financial plan projections including financial targets;
(2) annual review of borrowing and investment performance pursuant to section 140 of the Local Government Act;
(3) summary of the level of borrowings, investments and net financial liabilities at each budget review;

The electronic version on the Intranet is the controlled version of this document.
Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the controlled version.

(4) as required a schedule of borrowings and cash when considering new borrowing or investing surplus cash for greater than 12 months.

(5) as required, in instances of a breach of policy, an audit report to the CEO, chair of the Audit Committee and Internal Auditor.

(6) as required a report on adherence to treasury management internal controls including liquidity, borrowing and investing of surplus funds.

3. REFERENCES

3.1 Legislation

For borrowings:

(1) Local Government Act, 1999, sections 44, 122, 134.

(2) Regulations 5 and 5B of the Financial Management Regulations under the Act.

For investments:

(1) Local Government Act, 1999, sections 47, 139, 140.

3.2 *Other References*

Nil.

The electronic version on the Intranet is the controlled version of this document.
Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the controlled version.