TATIARA DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY

Version:	3
Last revised date:	11 April 2023
Minutes reference:	Agenda item 16.7, 11/4/23 Resolution # 2023/133
Next review date:	Council will endeavour to review this policy every 4 years
Applicable Legislation:	
Related Policies:	
Related Procedures:	
Other relevant documentation:	

1. Purpose

The Treasury Management Policy provides clear direction to management, staff, and Council in relation to the treasury function. The policy sets the principles and criteria with regard to Council's treasury (cash) management in the context of the Annual Budget, Long Term Financial Plan and associated projected and actual cash receipts and outlays. It outlines how required borrowings will be raised, when and how reserves are created and maintained and how cash and investments will be managed to fund Council operations.

2. POLICY OBJECTIVES

This Treasury Management Policy establishes a decision framework to ensure that:

- Funds are available as required to support approved outlays;
- Interest and other risks (e.g., liquidity and investment credit risks) are acknowledged and responsibly managed; and
- The net interest costs associated with borrowing and investing are reasonably likely to be minimised over the longer term.

3. SCOPE

This policy applies to all financial assets / liabilities and reserves, including finance leases and bank overdrafts except for the following specific exclusions:

- Creditors and Provisions.
- Bank Guarantees.
- Loans made to community groups where the predominant purpose of the loan is community benefit; and
- Asset Revaluation Reserve.

4. 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.

Borrowings: An amount of money or monies owed by Council to a lender for which the Council agrees to pay the lender interest.

Cash Advance: A loan where principal amounts can be repaid at any time and interest is only payable on the amounts of principal outstanding.

Credit Foncier Loan: A loan for a fixed term with regular repayments comprising principal and interest, such that at the end of the period the total principal would have been repaid.

Financial Sustainability: Is achieved where planned long-term service, and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

Fixed Interest: A loan where the interest rate is unchanged over the term of the loan.

Interest only: A loan on which interest is repaid at regular intervals but the principal is not repaid until maturity.

LGFA: Local Government Financing Authority. The Authority is a body corporate that was established under the Local Government Finance Authority Act

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: Equals total liabilities less financial assets, where financial assets for this purpose include cash, investments, receivables and prepayments, but excludes equity held in a Council subsidiary, inventories and assets held for sale.

Net Financial Liabilities Ratio: Indicates the extent to which net financial liabilities of a Council could be met by its operating revenue (excluding the Natural Resource Management Levy).

Reserve Funds: set aside from accumulated surplus earnings for anticipated specific future liabilities or payments where:

- A reserve is required under legislation; or
- Council has raised a separate rate for a specific purpose.

Treasury Management: functions include borrowings, investments, and the associated cash flow management.

Variable Interest: A loan where the interest rate fluctuates over the life of the loan.

4. PRINCIPLES

The Treasury Management Policy establishes a decision-making framework to ensure that

5.1. Investments

Any 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 in accordance with this policy and Sections 47, 139 and 140 of the Local Government Act 1999

5.2. Reserves

Reserves in a strictly financial sense are simply an allocation of accumulated surplus. In general, based on the principle of intergenerational equity, Council does not set aside funds for future purposes except where: • A reserve is required under legislation; or • Council has raised a separate rate for a specific purpose.

5.3. Borrowings

Borrowings are not a form of revenue and do not replace the need for Council to generate sufficient operating revenue to service its operating requirements. Undertaking borrowings gives rise to both an asset (the cash it provides) and a liability (the obligation to repay the money borrowed)

5.4. Authority to Borrow

Under Section 44 of the Local Government Act 1999, Council cannot delegate the power to borrow money.

5.5. Risk Profile

Council will have a mix of fixed and variable rate borrowings to provide a combination of security and flexibility whilst minimising exposure to interest rate risk.

5.6. Quotes

Council will utilise the Local Government Finance Authority as its primary supplier when undertaking new borrowings or investing surplus cash. The Local Government Finance Authority provides significant support to the industry and applies bonus return payments to councils from its profits.

6. POLICY STATEMENT

6.1. Investments

The balance of funds held in any operating bank account shall be kept at a level that is no greater than is required to meet immediate working capital requirements. Investments will be made in a prudent manner having regard for the prevailing economic climate, projected interest rate movements and future cash requirements.

Cash investments are to be limited to:

- Deposits with the Local Government Finance Authority
- Bank interest bearing deposits
- State / Commonwealth Government Bonds
- Bank accepted / endorsed bank bills
- Australian Financial Institution

Unless it is financially advantageous to do so, the maturity date for fixed term investments should not exceed a point in time where the funds could otherwise be applied cost effectively to either defer the need to raise new borrowings or reduce the level of Council's existing borrowings.

All investments are to be made exercising care, diligence, and skill in the consideration of:

- The purpose of the investment.
- The likely income return and timing of income return.
- The period in which the investment is likely to be required.
- The cost of making and maintaining the investment.
- An assessment / outlook on future interest rate movements.
- The liquidity and marketability of the proposed investment.
- An assessment of future cash flow requirements; and
- The Government guarantee on the investment.

6.2. Reserves

If Council establishes a reserve under either of the above two criteria, Council does not cash back those reserves but instead utilises such funds to temporarily reduce or defer its borrowings that would otherwise be required. When funds are required in relation to reserves that are not cash backed, Council utilises surplus cash in the first instance and then draws down on borrowings as the need arises.

6.3. Borrowings

Borrowings are a useful and valid mechanism to:

- Manage timing differences between operating cash inflows and outflows; or
- Manage timing differences between year-by-year renewal capital expenditure and the long-term average renewal requirements of the Asset Management Plan, which under Council's Financial Sustainability Policy are funded by operating revenue such as rates; or
- Establish new long-term assets that will service and be used / enjoyed by both current and future ratepayers.

Council manages its funds holistically within the constraints of its overall financial strategies and targets outlined in the Long-Term Financial Plan and Council's Financial Sustainability Policy. Having consideration for the Financial Sustainability Policy, Council will only borrow funds when it requires cash as a result of timing differences between cash inflows and outflows.

Council may borrow through any market mechanism under Section 134 and 135 of the *Local Government Act 1999* but will not directly issue its own debt.

All borrowings are to be made exercising care, diligence, and skill in the consideration of:

- Current risk profile.
- Current economic factors.
- The period over which the funds are likely to be required.
- Expected short- and long-term view of interest rate trends.
- Council's overall debt maturity profile and mix.
- Cost of funding.
- Cost differentials between fixed and variable facilities.
- Long term capacity for repayment of loans.
- The reason behind Council's cash shortfall; and
- The cost of making and maintaining the borrowing.

6.4. Interest Rate Risk Exposure

Council has set range limits for both fixed and variable interest rate borrowings in order to minimise net interest costs on average over the longer term and at the same time manage interest rate movement risks within acceptable limits.

To ensure an adequate mix of interest rate exposures, Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve and thereafter maintain on average in any year:

- Between 70% and 85% of its gross debt in the form of fixed interest rate borrowings.
- Between 15% and 30% of its gross debt in the form of 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. Council will ensure that no more than 25% of its fixed interest rate borrowings mature in any year.

6.5. Authority to Borrow

Council approves an annual borrowing limit each year as part of the annual budget and delegates to the Mayor and Chief Executive Officer the power to execute documentation in relation to borrowings for that financial year, up to and including the budgeted borrowing limit. A new Council approval process is required for any borrowings above that approved by Council as part of the original budget or subsequent budget revisions in any one year.

Budgeted borrowings that are not taken out within the financial year for which they are approved are not carried over into the following year and the delegated authority to borrow those funds lapses. A new budgeted borrowings limit is then established as part of the following year's budget.

Council does not place a physical monetary limit on the level of borrowings it may hold, however, places an upper limit through its financial indicator constraints contained within the Financial Sustainability Policy.

6.6. Risk Profile

Council recognises the importance of balancing risk management and cost and in an effort to maximise this balance will utilise various borrowing mechanisms including:

- Credit foncier loans.
- Variable interest borrowings; and
- Short term cash advance facilities.

Council recognises that there is usually a margin between borrowing and investment rates and that savings can be made by structuring its borrowings portfolio so cash inflows that are surplus to short to medium term requirements can be applied in the first instance to reduce the level of borrowings that would otherwise be necessary. This is more readily achievable with variable interest rate borrowings and cash advance facilities and for this reason Council will, where appropriate, incorporate a portion of variable interest borrowings in its loan portfolio.

There is no limit on the level of borrowing to which Council can commit from any one lender subject to the financial limits contained within the Financial Sustainability Policy and any lender constraints. There is also no limit imposed as to the ratio between fixed and variable interest rates in relation to Council's overall borrowings portfolio; however, the criteria listed above inform each decision made in relation to the balance between variable and fixed interest rates.

Council will only borrow or invest with Australian based entities (this does not preclude foreign ownership) and will only borrow or invest in Australian dollars.

6.7. Quotes

From time to time, at intervals of no more than every two years, at least two competitive quotes will be sourced, compared, and documented against the Local Government Finance Authority to ensure they continue to deliver the value to the community (after taking into account all relevant factors, including bonus amounts paid and bonus discounts received).

All deliberations and quotes are to be documented and filed.

6.8. Maintain Sufficient Funds to Meet Liabilities

In order to ensure liabilities are met as and when they fall due and to maintain business continuity, Administration shall monitor and maintain its cash advance facilities. A limit shall be considered when preparing the Annual Business Plan, Budget Reviews, and the Long-Term Financial Plan.

Administration will monitor the level of cash equivalents and the overdraft facility on a regular basis.

6.9. Reporting

Executive Reporting

The Executive Leadership Group shall receive information regarding treasury management performance relative to the criteria specified in this policy within three weeks of calendar month end. This will highlight:

- The amount of each Council borrowing and investment (including cash equivalents), its interest rate, maturity date and any changes in holdings.

Council Reporting

Council shall receive at the end of every financial year, via the Audit Committee, a specific report regarding treasury management performance relative to the criteria specified in this policy.

This report will highlight:

- Any breeches of the funds limits noted in Item 6.7.
- The amount of each Council borrowing and investment, its interest rate, maturity date and any changes in holdings since the previous report.
- The proportion of fixed interest rate and variable interest rate borrowings at the end of the reporting period, an estimate of the average of these proportions across the period; and
- The performance of Council's treasury portfolio over the period compared to the official RBA cash rate.

7. POLICY REVIEW

Council is committed to ensuring this policy and supporting framework remains current and effective.

This Policy will be subject to review every four (4) years or sooner at the discretion of the relevant Director Corporate and Community Services. The Chief Executive Officer will report to Council on the outcome of the review and make recommendations for amendment, alteration or a substitution of a new Policy if considered necessary.

The CEO has delegated authority to endorse any amendments to the Policy that do not vary the intent of the policy.

This Policy will be reviewed annually. The Chief Executive Officer will report to Council on the outcome of the review and make recommendations for amendment, alteration or a substitution of a new Policy if considered necessary.

8. AVAILABILITY OF POLICY

This Policy will be available for inspection at Council's principal office during ordinary business hours and at Council's website www.tatiara.sa.gov.au.

Copies will also be provided to interested members of the Community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

9. RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
6 July 2015	Rev: 00	Original Issue Draft prepared
11 August 2015	Rev: 01	Adopted by Council (Res # 451)
11 December 2018	Rev: 02	Adopted by Council (Res #71)
24 March 2023	Rev: 03	Policy renewal – refer to Council for adoption 11th April 2023.

Appendix 1: Treatment of Reserves

Reserves in a strictly financial sense are a notional allocation of accumulated surplus. Council may establish various equity accounts called 'reserves', in its balance sheet to identify accumulated surpluses for future purposes however it will not have separate bank accounts for these reserves unless legally required to do so.

There are three types of reserves:

1. Required by Accounting Standards (e.g., asset revaluation reserve).
2. Statutory reserves (e.g., open space contributions); and
3. Council discretionary reserves (e.g., asset renewal and replacement reserve)

None of these reserves are cash backed but are represented by various assets in the balance sheet.

1. Required by Accounting Standards

The Asset Revaluation Reserve is a reserve that is required by the Australian Accounting Standards. The purpose of this reserve is to record asset revaluation increments and decrements. This reserve is not cash backed.

2. Statutory Reserves

Sections 50 and 50(b) of the *Development Act 1993* dictates that money received under these sections of the Act need to be immediately accounted for a special account established for the purposes of these sections and applied by the Council for the purpose and interest of acquiring or developing land as open space or for the purpose of purchasing land for, or planting, significant trees. Reserve accounts are established for this purpose, but the money is not required to be kept in a separate bank account.

3. Council Discretionary Reserves

3.1 Creating the Reserves

Council has a number of discretionary reserves to which transfers may be made for specific purposes. Historically these have been fully cash backed. Under the guidance of the Treasury Management Policy these reserves will still have amounts transferred to them but will not necessarily be cash backed at year end. Following the principles contained within this Policy, excess cash will be used to reduce or defer borrowings and loans will only be taken out when required. This means that money will only be borrowed when there is insufficient cash to cover the expenditure required from those reserves.

3.2 Using the Reserves

When the decision is made to apply the amounts set aside in the reserve for a specific purpose, any available cash and investments should be used as the first option. Borrowings should only be used where there is insufficient cash and investments available. The first option is a cheaper alternative when comparing the net cost of the interest expense associated with borrowing with the investment interest received or any cash backed reserves.