

Treasury Management

Classification:	Council Policy
Policy Name:	Treasury Management
First Issued / Approved:	05/04/2011 (A0195)
Last Reviewed:	28/11/2017 (C11514) 10/03/2020 (C12475)
Next Review:	February 2023
ECM Tracking No.:	1244151
Responsible Officer:	General Manager Corporate and Development
Relevant Legislation:	Local Government Act 1999 Local Government Financial Management Regulations 2011
Related Policies / Policy:	Risk Management Policy

1. Introduction

This policy provides clear direction to management, staff and Council in relation to the treasury function. It underpins Council's decision-making regarding the financing of its operations as documented in its Annual Budget and Long-Term Financial Plan (LTFP) and associated projected and actual cash flow receipts and outlays. It outlines how required borrowings will be raised and how cash and investments will be managed to fund Council operations.

2. Strategic Plan Desired Outcomes

- 2.1 A financially sound Council that is accountable, responsible and sustainable.
- 2.2 Delivery of good governance in Council business.

3. Our Approach

- 3.1 Ensure the long-term financial sustainability of Council operations by monitoring and comparing to Local Government Association (LGA) recommended financial indicators.
- 3.2 Provide sufficient resources to meet current and future needs of the community.
- 3.3 Regularly review, update and adopt leading governance, risk management and administrative practices.

- 3.4 Consider principles of Inter-Generational Equity Funding. Inter-generational equity is effectively a user pay concept of how costs associated with capital expenditure should be allocated. Borrowing is a useful mechanism for spreading the costs of assets over the time frame that those assets are to provide services to ratepayers, thus ensuring to a large extent that the rate payers who benefit from the assets pay for their consumption. A loan term of between 15-20 years achieves a balance between this inter-generational equity principle and interest costs.

4. Legislative Requirements and Corporate Policy Context

Borrowings

4.1 The *Local Government Act 1999*:

Section 44: Delegations

Section 48: Prudential requirements for certain activities

Section 122: Strategic Management Plans

Section 134: Borrowing and related financial arrangements

Section 135: Ability of a Council to give security

4.2 *The Local Government Financial Management Regulations 2011*

Regulation 5 – Long Term Financial Plans

Regulation 7 - Budgets

Investments

4.3 The *Local Government Act 1999*: Section 47: Interests in companies

Section 139: Investment powers

Section 140: Review of investments

5. Interpretation

5.1. For the purpose of this policy:

5.1.1. *'Bank'* refers to corporations which are authorised under the *Banking Act 1959 (Cth)* including banks, building societies and credit unions.

5.1.2. *'Borrowing'* is where cash is received from another party in exchange for future payment of the principal, which normally includes interest and other finance charges.

5.1.3. *'Debt'* refers to the amount of money owed by the debtor as a result of a transaction with Council.

5.1.4. *'Deposits'* refers to the placement of cash either at call or for a fixed term that is not held in an operating account or invested in the investment pools.

5.1.5. *"Finance Lease"* means a lease taken out for use of an asset where all risk and benefits associated with ownership rest with the lessee.

5.1.6. *'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.

- 5.1.7. *'Fixed Interest'* is where the interest rate for a loan is unchanged over the term of the loan.
- 5.1.8. *'Interest Cover Ratio'* indicates the extent to which a Council's operating revenues (excluding the Natural Resource Management Levy) are committed to net interest expenses.
- 5.1.9. *'Investment'* refers to the placement of centrally managed Council investment funds in assets or items with the intent of generating income, return or appreciation in value.
- 5.1.10. *'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.
- 5.1.11. *'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)
- 5.1.12. *'New Borrowings'* refers only to the creation of a new borrowing facility whether it be a new credit foncier loan or a new cash *advance* debenture. This does not include the management of pre-existing facilities.
- 5.1.13. *'Variable Interest'* is where the interest rate for a loan fluctuates over the life of the loan.

6. Policy Objectives

- 6.1 This Treasury Management Policy establishes a decision framework to ensure that funds are required to support approved outlays;
 - 6.1.2 interest rate other risks (e.g. liquidity and investment credit risks) are acknowledged and responsibly managed;
 - 6.1.3 net interest associated with borrowing are minimised on average over the longer term;
 - 6.1.4 net interest from investments is maximised over the term of the investment product; and
 - 6.1.5 maximise returns on surplus funds whilst safeguarding those funds from any losses.
- 6.2 Accountability
 - 6.2.1 Responsibility for the treasury management function will be undertaken jointly by the General Manager Corporate and Development and Group Manager, Finance and Governance.
- 6.3 Treasury Management Strategy
 - 6.3.1 Council manages its finances holistically in accordance with its overall financial sustainability strategies and targets. This means the Council will:
 - 6.3.1.1 maintain Local Government Association (LGA) recommended target ranges for both its Net Financial Liabilities and Interest Cover ratios;
 - 6.3.1.2 maintain a Debt to (Total) Income Ratio of less than 50%;
 - 6.3.1.3 not retain and/or quarantine money for future purposes unless required by legislation or agreement with other parties;

6.3.1.4 borrow funds in accordance with the requirements set out in its Annual Business Plan and Budget and LTFP and in accordance to the scheduled works set out in its Infrastructure and Asset Management Plans (I&). All new borrowings are required to be approved by Council.

6.3.1.5 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.

6.4 Borrowings

6.4.1 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

6.4.2 Future movements in interest rates are uncertain in direction, timing and magnitude. 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 manage interest rate movement risks within acceptable limits.

6.4.3 To ensure an adequate mix of interest rate exposures, Council will structure its portfolio of borrowings to:

6.4.3.1 Progressively achieve and thereafter maintain not less than 30% of its gross debt on average in any year in the form of fixed interest rate borrowings.

6.4.3.2 Progressively achieve and thereafter maintain no more than 25% of its fixed interest rate borrowings mature in any year.

6.4.3.3 Progressively achieve and thereafter maintain not less than 30% of its gross debt on average in any year in the form of variable interest rate borrowings.

6.4.4 Council will establish, and make extensive use of, a Local Government Finance Authority (LGFA) Cash Advance Debenture facility that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The redraw facility will provide Council with flexibility and access to liquidity when needed.

6.5 Leases

6.5.1 Where Council enters into a Finance Lease this is in essence a borrowing transaction and should be considered holistically in accordance with Council's overall borrowing strategy. An evaluation of Lease versus Debt will be performed to determine the best return to Council.

6.5.2 Disclosure of leasing costs is to be provided in the annual financial statements in accordance with Australian Accounting Standards.

6.6 Investments

6.6.1 Council 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.

6.6.2 Council 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 Council's variable interest rate borrowing facility.

6.6.3 When investing funds, Council will select the investment type that delivers the best value, having regard to investment returns, transaction costs, other relevant and objectively quantifiable factors and the requirements of this Policy.

6.6.4 Council administration may from time to time invest surplus funds in either:

6.6.4.1 Local Government Finance Authority or

6.6.4.2 Bank interest bearing deposits

6.6.5 Approved Investment Types may include:

6.6.5.1 Deposits with the LGFA

6.6.5.2 Bank accepted / endorsed bank bills

6.6.5.3 Bank negotiable Certificate of Deposits

6.6.5.4 Bank interest bearing deposits

6.6.5.5 State / Commonwealth Government Bonds

6.6.6 Investment Quality

To ensure that the price, credit, liquidity and cash flow risks associated with investing activities are managed, only investments that meet the following criteria may be made:

6.6.6.1 With the exception of investments with the LGFA, at the time of making the investment, total investments in any one bank will not exceed 75% of the value of short-term investments, when the value of Council's short-term investments exceeds \$1,000,000.

6.6.6.2 Investments will have the minimum Standard & Poor's rating of A-1.

6.6.6.3 If the Standard & Poor's rating of any Council investments are downgraded, such that they no longer fall within these investment policy guidelines, arrangements will be made to withdraw the deposit as soon as practicable.

6.6.6.4 For bank investments, no less than three quotations are to be obtained from authorised institutions whenever an investment is proposed.

6.6.6.5 The annual performance of the Investment Portfolio shall be compared to the official Reserve Bank of Australia cash rate.

6.6.7 Valuation and Measurement

- 6.6.7.1 The City of Burnside shall comply with the Australian Accounting Standards.
- 6.6.7.2 Investment returns are calculated as gross returns, including interest earned, premiums and discounts.
- 6.6.7.3 Investments will be carried at market valuations.

6.6.8 Annual Review and Reporting

- 6.6.8.1 An annual review of the treasury management performance will be undertaken in accordance with section 140 of *Local Government Act 1999*. Each year a report will be prepared by the Finance Department that summarises the performance of each investment and the performance of the investment portfolio as a whole relative to this policy document. Borrowings will also be reviewed.
- 6.6.8.2 The report will include:
 - 6.6.8.2.1 for each Council investment – the name of the financial institution, the quantum of funds invested, the interest rate, the maturity date and the interest earned or paid;
 - 6.6.8.2.2 the proportion of fixed interest rate and variable interest rate borrowings at the end date of the reporting period along with key reasons for significant variances compared with the targets specified in this policy;
 - 6.6.8.2.3 full details and explanation of any instances of deviation from this policy during the year.

7. Availability

- 7.1 The Policy is available to be downloaded, free of charge, from Council's internet site www.burnside.sa.gov.au
- 7.2 The Policy will be available for inspection without charge at the Civic Centre during ordinary business hours and a copy may be purchased at a fee as set annually by Council.

City of Burnside
401 Greenhill Road, Tusmore SA 5065

Telephone: 8366 4200
Email: burnside@burnside.sa.gov.au

Office hours: Monday to Friday, 8.30am to 5.00pm (except public holidays)