Tatiara
the good country

TATIARA DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY

1. Purpose

This Policy sets the principles and criteria with regard to Council's treasury (cash) management in the context of its Annual Budget, Long Term Financial Plan and associated projected and actual cash receipts and outlays. It outlines how required borrowings will be raised and how cash and investments will be managed to fund Council operations.

2. Policy Objectives

This Treasury Management Policy provides direction to management, staff and Council in relation to the treasury function and establishes a decision framework that:

- ensures funds are available as required to support approved outlays; and

- while ensuring that interest rate and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed:

    - is reasonably likely to minimise on average over the longer term, the net interest costs associated with borrowing and investing; and,

    - also ensures that outstanding debt is repaid as quickly as possible and therefore that the gross level of debt held by Council is minimised.

3. Power to Make the Policy

There is no specific section in the Local Government Act 1999 requiring Council to make this policy however the following need to be taken into consideration:

For Borrowings:
- Local Government Act 1999:
    - Section 44 – Delegations
    - Section 122 – Strategic Management Plans
    - Section 134 – Borrowing and Related Financial Arrangements
    - Section 135 – Ability of a Council to give security
- Local Government (Financial Management) Regulations 2011:
    - Regulation 5 – Long Term Financial Plans
    - Regulation 7 – Budgets

For Investments:
- Local Government Act 1999:
    - Section 47 – Interests in Companies
    - Section 139 – Investment Powers
    - Section 140 – Review of Investments

Strategic Plan Link
This Policy has the following link to Council's Strategic Plan 2012/13 to 2015/16:

To implement prudent & professional financial & operational management

4. Principles

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

- Cash is available as required to support approved outlays;
- Interest rates and other risks (eg liquidity and investment credit risks) are acknowledged and responsibly managed;
- The net costs associated with borrowing are reasonably likely to be minimised on average over the longer term.

5. 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.

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: 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.

Borrowing: Cash received from another party in exchange for future payment of the principal, which normally includes interest and other finance charges.

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).

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.

6. Policy

6.1 Treasury Management Strategy

Council's operating and capital expenditure decisions are made annually as part of the Annual Business Plan and Budget and at budget reviews during the financial year on the basis of:

- Community need and benefit relative to alternative expenditure options;
- Cost effectiveness - affordability with respect to Council's LTFP (Long Term Financial Plan);
- IAMP (Infrastructure and Asset Management Plan);
- Anticipated income.

The form and nature of any borrowings required is an entirely separate decision from the expenditure decisions above and is made in accordance with the criteria set out in this Policy.

Council manages its finances holistically in accordance with its overall financial sustainability strategies and targets. This means Council will:

- plan to achieve its adopted targets for its Net Financial Liabilities;
- apply any cash that is 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;
- borrow cash in accordance with the needs set out in its LTFP and budgets;
- not retain and quarantine money for particular for particular future purposes unless required by legislation or agreement with other parties.

6.2 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).

There are many types of borrowings available and Council will consider these when borrowing to minimise net interest costs on average over the longer term and to manage interest rate movement risks.

Council will manage its cash holistically within the constraints of its overall financial strategies and targets outlined in the LTFP. Council does not match borrowings with specific projects but rather will only borrow 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 Section 135 of the Local Government Act 1999 but will not directly issue its own debt.

Future movements in interest rates are uncertain in direction, timing and magnitude. Council recognises the importance of balancing risk management and costs and in an effort to minimise risk and net interest costs may utilise various borrowing mechanisms including:

- Fixed Interest borrowings (including credit foncier and interest only);
- Variable Interest borrowings (including cash advances and long term interest only).

Council's loan portfolio may have a mix of fixed and variable borrowings. In order to spread its exposure to interest rate movements, Council will aim to have a variety of maturity dates on its borrowings. Council will be mindful of these issues when making borrowing decisions, and will consider the mix of fixed and variable terms and interest rates. In order to ensure flexibility in changing circumstances, Council will not set range limits for the mix of fixed and variable borrowings.

- Council does not place a physical monetary limit on the level of borrowings it may hold however places an upper limit through its financial targets. When borrowing Council will consider its Net Financial Liabilities Ratio.

All borrowings must be made exercising care and diligence and consider the following:

- the reason behind the need for additional cash;
- level of borrowings required;
- Council's overall debt maturity profile and mix;

- an assessment of future interest rate movements;

- the period over which the cash is likely to be required and subsequently repaid;

- cost of making and maintaining the borrowing.

As there is usually a material margin between borrowing and investment rates, Council recognises that savings can be made by structuring its loan portfolio so that surplus cash inflows can be applied in the first instance to reduce the level of borrowings that would otherwise be necessary. In addition, Council may need to access debt at times where timing of receipts does not match timing of payments.

For this reason Council may incorporate variable interest borrowings into its portfolio.

When a new loan is being considered Council will be provided with a comprehensive list of loans outstanding including details of loan type, balance outstanding, term and interest rates, to enable an informed decision to be made about the proposed loan.

Council has established and makes use of the Local Government Association's Finance Authority "Cash Advance Debenture" facility. This facility requires interest-only payments and enables any amount of principal to be repaid or redrawn at call. This provides Council with access to liquidity when needed and flexibility to pay down borrowings with excess funds. It is important to note that these are approved borrowing facilities and not an overdraft.

6.3 Investments

Cash that is not immediately required for operational needs and cannot be applied to 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.

The balance of cash 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.

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. Investments fixed for a period greater than 12 months are to be approved by Council.

When investing funds, Council will select the investment type which delivers the best value, having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors.

Council management may from time to time, invest surplus funds in:

- deposits with the Local Government Finance Authority, and/or
- bank interest bearing deposits.

Any other investment requires the specific approval of Council. Where Council authorises any investments of a type outside of those specified above, the amount so invested will be cumulatively limited to no more than 20% of the average level of funds expected to be available for investment by Council over the duration of the specific authorised investments.

When considering which financial institutions surplus funds will be invested with, Council will only invest funds with those with a long term credit rating of at least AA and a short term credit rating of A1.

6.4 Reserves

Reserves in a strictly financial sense are an allocation of Council's accumulated surplus. Council may establish various equity accounts called 'Reserves' in its Balance Sheet to identify accumulated surpluses that will be used for specific future purposes. However separate bank accounts will not be established for reserves unless legally required to do so.

There are three types of reserves:

- Required by Accounting Standards (eg Asset Revaluation Reserve);
- Statutory reserves (eg open space contributions);
- Council discretionary reserves (eg Renewal and Replacement Reserve).

There are very few circumstances where a Council is legally required to quarantine cash. Council is legally required to hold a reserve for Open Space contributions under the Development Act.

Where an allocation to a reserve occurs, the reserve will not necessarily be fully cash backed, as it would be more appropriate to use this cash to fund other expenditure and defer borrowings. However, it is important to note that reserves whilst not 'cash backed' will be represented by other assets in the Balance Sheet.

Council will apply any cash it has, that is not immediately required to meet current expenditure, to reduce its level of borrowings where possible and where excessive loan exit/penalties do not apply, or to defer or reduce the level of new borrowings that would otherwise be required.

Refer to Appendix 1 for further discussion on treatment of reserves.

6.5 Reporting

Performance relative to this policy can be determined using data available in the Council's Financial Statements. These are prepared on an annual basis and presented to the Audit Committee and Council. Information available includes:

- the value of fixed interest rate and variable interest rate borrowings at the beginning and end of the period;
- the weighted average interest rate for both fixed interest and variable interest rate borrowings at the beginning and end of the period;
- the timing that principle payments fall due broken down to; within the next 12 months, between 1 and 5 years and over 5 years.

In accordance with section 140 of the Local Government Act, at least once a year, Council shall receive a specific report regarding treasury management performance relative to this policy document. The report shall highlight:

- the amount of each Council borrowing and investment, its interest rate, maturity date and term and changes since the previous report;
- the proportion of fixed interest rate and variable interest rate borrowings at the end of the reporting period and an estimate of the average of these proportions across the period;
- review of investment performance which compares returns to RBA cash rate or an appropriate benchmark.

7. Review & Evaluation

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 the 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)

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 (eg asset revaluation reserve)
2. Statutory reserves (eg open space contributions)
3. Council discretionary reserves (eg 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.