Treasury management policy

Classification	Policy
Strategic reference	Goal 4 Organisational : Effective governance and organisational culture
Relevant legislation	Local Government Act 1999 Local Government (Financial Management) Regulations 1999
Relevant documents	Rating Policy Funding Policy
Responsible officer	Manager Corporate Services
Previous Review date	February 2019
Date Adopted	January 2022
Next review date	January 2025

Introduction

The treasury management policy exists to provide 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 to ensure sound management of Council's financial transactions with regards to borrowings and investments, ensuring compliance with relevant legislation.

Council is committed to operating in a financially sustainable manner and maintains a Long-Term Financial Plan to assist it to determine affordable service levels and revenue raising needs. This Plan also provides projections of future cash flow availability and needs.

Policy Objective

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

- Funds are available as required to support approved outlays;
- Interest rates 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 minimized on average over the longer term.

Scope

The Treasury Management Policy covers the investments and borrowings of Council and is an important financial management tool that assists Councils processes relating to borrowings and investments

Policy Statement

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;

- 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).

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

- maintain and monitor target ranges for its Net Financial Liabilities Ratio;
- not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- borrow funds in accordance with the requirements set out in its Long Term Financial Plan;
- 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.

Interest Rate Risk Exposures

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.

Fixed Interest Rate Borrowings

When interest rates are low, Council may consider long term fixed interest rate borrowings. When interest rates are increasing, interest rate exposure may be minimised with a mix of short and long-term borrowings. This mix would also include fixed and variable interest rates.

To ensure an adequate mix of interest rate exposures, Council will structure its portfolio of borrowings to maintain on average in any year, not less than 30% of its gross debt in the form of fixed 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 borrowing s over the available maturity spectrum.

In circumstances where Council needs to raise new fixed interest rate borrowings it will consider using medium to long-term borrowings (3 years or more duration) that:

- have a fixed interest rate
- require interest payments only
- Allow the full amount of principal to be repaid (or rolled over) at maturity.

Council also will also aim to have no more than 30% of its fixed interest rate borrowings maturing in any year.

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Variable Interest Rate Borrowings

Council will structure its portfolio of borrowings to maintain on average in any year, not less than 30% of its gross debt in the form of variable interest rate borrowings. 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.
Investments

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.

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.

Reserves

Reserves in a strict financial sense are an allocation of accumulated surpluses. 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:

- Required by Accounting Standards (e.g. asset revaluation reserve)
- Statutory reserves (e.g. open space contributions)
- Council discretionary reserves (e.g. asset renewal and replacement reserve)

Policy Statement

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 Appendix 1 for additional information on reserves

Performance

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.

Reporting

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:

- for each Council borrowing or investment – the quantum of funds, its interest rate at maturity and changes in quantum since the previous report; and
- The proportion of fixed interest rate and variable interest rate borrowings at the end date of the reporting period and an estimate of the average of these proportions across the period along with key reasons for significant variances compared with targets specified in this policy.

Roles and Responsibilities

- Council is to approve all borrowings, as well as investments for a period of greater than 12 months/
- Manager Corporate Services is responsible for making recommendations with regards to borrowings.
- Finance consultant and Finance officer are responsible for ensuring all other tasks are conducted in accordance with this policy.

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)
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*

Section 50 of the Development Act 1993 dictates that money received under this section of the said Act needs to be immediately paid in to a special account established for the purposes of this section and applied by the Council for the purpose of acquiring or developing land as open space.

A reserve account is established for this purpose but the money is not required to be kept in a separate bank account. Hence this reserve is not cash backed.

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 the policy excess cash will be used to reduce borrowings and loans will only be taken out when required. Effectively this means that money may be required to be borrowed to cash the reserves when expenditure from those reserves is required.

3.2 Using the Reserves

When the decision is made to allocate 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 to Council than the net cost of the interest expense associated with borrowing and the investment interest received required to cash back its reserves.

Policy review

The effectiveness of this policy will be reviewed every three years or as necessary.

Further information

This document is available on Council's website www.southernmallee.com.au and at the principal office of the Southern Mallee District Council at Day Street, Pinnaroo SA 5304.

A copy of this document may be purchased from Council.