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<b>Next Review Date:</b>	February 2020
<b>Responsible Officer:</b>	Chief Executive Officer
<b>Applicable Legislation:</b>	<i>Local Government Act 1999</i>
<b>Relevant Policies:</b>	
<b>Related Procedures:</b>	
<b>Compliance Standard:</b>	

### **1. Purpose**

This Policy sets the principles and criteria with regard to Council's treasury 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 and how cash and investments will be managed.

This policy encompasses the previously adopted Investment Policy which is now considered obsolete.

### **2. 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
- Section 122
- Section 134

Local Government (Financial Management)

Regulations 2011:

- Regulation 5
- Regulation 5B

#### **For Investments:**

Local Government Act 1999:

- Section 47
- Section 139
- Section 140

### **3. Strategic Plan Link**

This Policy has the following link to Council's Strategic Plan 2014-2018:

*Governance/Financial Sustainability*

*Provide leadership, good governance, and efficient, effective and responsive Council services*

#### 4. Principles

The Treasury Management Policy establishes a decision 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 interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

#### 5. Definitions

<b>Cash Advance:</b>	A loan where principal amounts can be repaid at any time and interest is only payable on amounts of principal outstanding.
<b>Credit Foncier:</b>	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.
<b>Financial Sustainability:</b>	Is achieved where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.
<b>Fixed Interest Borrowing:</b>	A loan where the interest rate is fixed for the term of the loan. These loans commonly come in two formats: credit foncier and interest only.
<b>Interest Cover Ratio:</b>	Indicates the extent to which a Council's operating revenues are committed to interest expenses.
<b>Interest only:</b>	Interest is repaid at regular intervals and the principal is due to be repaid at maturity.
<b>Net Financial Liabilities:</b>	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 land held for resale.
<b>Net Financial Liabilities Ratio:</b>	Indicates the extent to which net financial liabilities of a Council could be met by its operating revenue.
<b>Variable Interest:</b>	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 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.

Whether Council requires borrowings and if so in what form 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 targets for both its Net Financial Liabilities and Interest Cover Ratios;
- Borrow cash in accordance with the needs set out in its LTFP and Annual Budget;
- 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.

## **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 will 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 decision. 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 indicators. When borrowing Council will consider these financial indicators:

- Interest Cover Ratio;
- Net Financial Liabilities;
- Net Financial Liabilities Ratio.

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

- The reason behind Council's cash shortfall;
- 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;
- 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, term and interest rates, to enable an informed decision to be made about the proposed loan.

### **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.

Investment decisions will be based on future cash requirements, projected interest rate movements, and transaction costs.

Cash investments will be limited to:

- Deposits with the LGFA (Local Government Finance Authority);
- Bank interest bearing deposits
- State/Commonwealth Government Bonds;
- Bank accepted/endorsed bank bills.

All investments will be in Australian dollars in Australian Banks.

All investments must be made exercising care and diligence and considering the following:

- The likely yield and term of the investment;
- The period in which the investment is likely to be required;
- The cost of making and maintaining the investment;
- An assessment of future interest rate movements;
- An assessment of future cashflow requirements.

#### **6.4 Reserves**

Reserves in a strictly financial sense are an 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:

- Required by Accounting Standards (eg asset revaluation reserve)
- Statutory reserves (eg open space contributions)
- Council discretionary reserves (eg asset 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 but this reserve is not required to be 'cash backed' by a separate bank account.

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.

#### **6.5 Quotations**

When taking new borrowings Administration is to obtain a quote from Local Government Finance Authority and where the amount of the loan is in excess of \$1million a quote from Council's Banker. After considering all relevant factors the quote that delivers the best value to the Community will be successful.

When making a term investment Administration is to obtain a quote from Local Government Finance Authority and where the amount of investment is in excess of \$1million a quote from Council's Banker. After considering all relevant factors the quote that delivers the best value to the Community will be successful.

Investment of cash at call will be made with regard to the best value for the Community.

## **6.6 Reporting**

Council will receive at least once a year a specific report regarding treasury management performance relative to the criteria specified in this Policy. This report will highlight:

- The amount of each Council borrowing and investment, its interest rate, maturity date, term 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;
- The actual financial result and a comparison to expected financial targets.

### **FURTHER INFORMATION**

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's internet site: [www.robe.sa.gov.au](http://www.robe.sa.gov.au)

Royal Circus, Robe SA 5276

Copies will be provided to interested parties upon request. Email [council@robe.sa.gov.au](mailto:council@robe.sa.gov.au)

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer of Council.

### **POLICY REVIEW**

This policy may be amended at any time and must be reviewed at least every four years since its adoption (or latest amendment).

## **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**

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.