

Treasury Management Policy

Strategic Reference	Objective 4; Collaborative and respectful relationships amongst community, Elected Members and Council staff. Strategy 4.3; To continuously strive for open and accountable administration practices.
File reference	AR18/3243
Responsibility	Community & Corporate Department
Revision Number	3
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Applicable Legislation	Local Government Act 1999 s44,47,122,134,139,140 Local Government (Financial Management) Regulations 1999
Related Policies	Annual Budget / Business Plan Policy Funding Policy Annual Rating Policy
Related Documents:	N/A

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 in the annual budget and long-term financial plan and associated projected and actual cash flow receipts and outlays.

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

The Local Government Act requires Council to approve all borrowings. Council discharges this responsibility by approving borrowings for the year at the time the annual budget is adopted.

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2. Policy Objectives

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

- funds are available as required to support approved outlays;
- interest rate and other risks (e.g. liquidity and investment credit risks) are acknowledged and responsibly managed;
- subject to Council's capital expenditure decisions, the gross level of debt is minimised; and
- over the longer term it is reasonably likely to optimise the net interest costs associated with borrowing and investing.

3. Definitions

“Credit Foncier Borrowings” – Are borrowings for a fixed period with regular repayments where each repayment includes components of both principal and interest, such that at the end of the period the principal will have been entirely repaid.

“Financial Sustainability” -: A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met and maintained without unplanned increases in rates or disruptive cuts to services

“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 Council business, inventories and land held for resale.

“Interest Cover Ratio” – indicates the extent to which a Council's operating revenues are committed to interest expenses.

“Net Financial Liabilities Ratio” – indicates the extent to which net financial liabilities of a Council could be met by its operating revenue.

“Operating Expenses” – are operating expenses including depreciation but excluding losses on disposal of non-financial assets.

4. Treasury management strategy

Operating and capital expenditure decisions are made based on:

- identified community need and benefit relative to other expenditure options;
- cost effectiveness of the proposed means of service delivery; and,
- 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 and Interest Cover ratios).

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

- maintain target ranges for its Net Financial Liabilities Ratio and Interest Cover Ratio

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- 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 and 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.

5. Interest rate risk exposures

5.1 Fixed interest rate versus variable interest rate borrowings

In recognition that 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 to achieve its objective of minimising net interest costs over the longer term and at the same time managing interest rate movement risks within acceptable limits. Therefore Council has approved the range limits set out below.

Type of loan	Proportion of the Debt Portfolio	
	Minimum	Maximum
Floating Rate Debentures Borrowings	0%	80%
Fixed Rate Credit Foncier Borrowings	50%	100%

The above table is a departure from generally accepted local government sector Treasury Management. However, in the current climate of historically all time low interest rates council believes the above ranges to be more appropriate. This policy is reviewed on a biannual basis, accordingly the above table maybe subject to change in subsequent reviews.

5.2 Fixed interest rate borrowings

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 one year, not less than 20% 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 borrowings over the available maturity spectrum. Council will endeavour to have no more than one fixed interest rate borrowing maturing in any financial year

In circumstance 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

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Council also will ensure that no more than 25% of its fixed interest rate borrowings mature in any year.

5.3 Variable interest rate borrowings

Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve, and then maintain, not less than 30% of its gross debt on average in any year in the form of variable interest rate borrowings.

Council will make use of a variable interest rate borrowing facility and/or LGFA's 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 access to liquidity.

These borrowing facilities will have a long-term maturity date and an interest rate that will vary from time to time.

The outstanding level of draw downs on the facility may vary during a year and between years with the timing and extent of cash inflows and outflows. This requires internal controls and delegations endorsed by Council.

Draw downs and repayments to and from the Cash Advanced Debenture Facility are to be signed by a minimum of two staff members being the Chief Executive Officer or Director Community & Corporate, Finance Manager or Senior Finance Officer.

6. Investments

Council funds that are not immediately required for operational expenses 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 doesn't generate 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 rates.

When investing funds, Council will select the investment type that delivers the best value. In determining best value Council will consider 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 specific approval of Council. Where Council authorises any investment of a type outside of those specified above, the amount so invested will be 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.

7. Reporting

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With each budget review and when the Annual Accounts are finalised Council will receive a specific report regarding treasury management performance relative to the criteria specified in this policy document. The report shall highlight;

- the amount of each Council borrowing and investment and its interest rate and maturity date and changes in holdings since the previous report,
- the proportion of fixed interest rate (split between interest only borrowings and credit foncier borrowings) 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 and any key reasons for significant variances compared with the targets specified in this policy; and
- projections of committed and approved principal and interest payments for the next ten financial years

8. 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 website: www.coorong.sa.gov.au.

Coorong Civic Centre

95 - 101 Railway Terrace
Taillem Bend
Phone: 1300 785 277
Fax: 8572 3822

Meningie Information Hub

49 Princes Highway
Meningie

Tintinara Customer Service Centre

37 Becker Terrace
Tintinara

Copies will be provided to interested parties upon request. Email council@coorong.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.