



Treasury Management Policy

Policy Reference Number	52CP
Responsible Department	Corporate & Community Services
Related Policies	Nil
Related Procedures	Nil
Date of Initial Adoption	17 November 2009
Last Reviewed by Council	15 March 2011

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. 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
 - [Section 135](#)
- Local Government (Financial Management) Regulations [2011](#):
 - Regulation 5
 - Regulation [7](#)

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 [2010-2020](#):

[Goal 2 - Leadership](#)
 A Council [with](#) strong leadership and [excellent service delivery](#)

Formatted: Indent: Left: 0.97 cm

Deleted: the

Formatted: English (Australia)

Formatted: Normal, Justified, Indent: Left: 0.97 cm, Don't adjust space between Latin and Asian text, Don't adjust space between Asian text and numbers, Tabs: Not at 0 cm

Formatted: Indent: Left: 0.97 cm

Formatted: Indent: Left: 1.97 cm

Formatted: Indent: Left: 0.97 cm

Formatted: Indent: Left: 0.97 cm, Tabs: 1.94 cm, Left

Deleted: 1999

Formatted: Indent: Left: 3.24 cm

Formatted: Indent: Left: 1.94 cm

Deleted: 5B

Formatted: Indent: Left: 1.97 cm

Formatted: Indent: Left: 0.97 cm

Formatted: Indent: Left: 0.97 cm, Hanging: 0.97 cm, Bulleted + Level: 1 + Aligned at: 1.63 cm + Tab after: 2.27 cm + Indent at: 2.27 cm, Tabs: 1.94 cm, Left + Not at 2.27

Formatted: Indent: Left: 1.94 cm

Formatted: Indent: Left: 1 cm

Deleted: 05

Deleted: 1

Formatted: Font: Bold

Formatted: Bullets and Numbering

Deleted: 5

Deleted: Governance and Organisation

Formatted: Font: Bold, Not Italic

Deleted: -

Formatted: Font: Not Italic

Deleted: providing

Deleted: clear directions in partnership with the community and its stakeholders and supported by good governance and management practice

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 interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

Formatted: Font: Arial, 11 pt, Font color: Auto, English (Australia)

Formatted: Level 1, Left, Indent: Left: 0.97 cm, Line spacing: single, Adjust space between Latin and Asian text, Adjust space between Asian text and numbers, Tabs: Not at 10 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 0.97 cm

Formatted: Indent: Left: 0.97 cm, Tabs: 3.21 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 0.97 cm

Formatted: Indent: Left: 0.97 cm, Tabs: 3.21 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 0.97 cm

Formatted: Indent: Left: 0.97 cm, Tabs: 3.21 cm, List tab + Not at 0.97 cm

5. Definitions

Cash Advance: A loan where principal amounts can be repaid at any time and interest is only payable on 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 Borrowing: 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.

Interest Cover Ratio: Indicates the extent to which a Council’s operating revenues (excluding Natural Resource Management Levy) are committed to net interest expenses.

Interest only: Interest is repaid at regular intervals and the principal is due to be repaid at maturity.

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 land held for resale.

Net Financial Liabilities Ratio: Indicates the extent to which net financial liabilities of a Council could be met by its operating revenue (excluding Natural Resource Management Levy).

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 targets for both its Net Financial Liabilities and Interest Cover Ratios;
- borrow cash in accordance with the needs set out in its LTFP and budgets;
- 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.

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Font: 11 pt

Formatted: Font: 11 pt

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.49 cm, List tab + Not at 0.97 cm

Formatted: Font: Not Bold

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.49 cm, List tab + Not at 0.97 cm

Formatted: Font: Not Bold

Formatted: Indent: Left: 2.54 cm

Deleted: Whether Council requires borrowings and if so in what

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.49 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.49 cm, List tab + Not at 0.97 cm

Deleted: Annual B

Formatted: Font: Not Bold

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.49 cm, List tab + Not at 0.97 cm

Formatted: Font: Not Bold

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

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 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 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, balance outstanding, term and interest rates, to enable an informed decision to be made about the proposed loan.

Deleted: will

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Font color: Auto

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Deleted: <#>Net Financial Liabilities;¶ ¶

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Font color: Auto

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 1.27 cm

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 that will be used for specific future purposes however it will not have separate bank accounts for these reserves unless legally required to do so.

Formatted: Indent: Left: 1.27 cm, Tabs: 2.54 cm, List tab + Not at 1.27 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Font color: Auto

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Font color: Auto

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Font: 11 pt

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Deleted: ,

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)

Formatted: Indent: Left: 1.27 cm

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

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.

Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Tab after: 1.27 cm + Indent at: 1.27 cm, Tabs: 3.51 cm, List tab + Not at

Deleted: asset r

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Deleted: their

Formatted: Font color: Auto

Formatted: Indent: Left: 1.27 cm

Formatted: Indent: Left: 2.54 cm

Council will apply any cash it has, that is not immediately required to meet current expenditure, to reduce its level of borrowings or to defer or reduce the level of new borrowings that would otherwise be required.

Similarly, where cash is required to be expended for specific purposes, but is not required to be kept in separate bank accounts, Council will use such cash to reduce its borrowings or to defer raising additional borrowings.

As an example, Council will use cash traditionally earmarked, eg Asset Replacement Reserve as part of their overall financing strategies. Council can use this cash to "finance" other activities and thereby reduce its borrowing costs (because of the margin between borrowing and investment rates) until they are required for the original purpose. Borrowings would only be raised when additional cash is required.

Formatted: Font color: Auto

This does not prevent Council from raising Council rates for the purpose of allocating money to a reserve. For example Council may raise rates each year to smooth out the impact of future asset management spending requirements and allocate them to the Renewal and Replacement Reserve. This will avoid large rate increases in years where there is a peak spending requirement as dictated by the IAMP.

Deleted: however

Whilst the allocation will occur, 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.

Borrowings would then be taken out in future when the cash is required.

See Appendix 1 for further discussion.

It is important to note that whilst not 'cash backed', any reserves will be represented by net assets in the Balance Sheet.

Deleted: reserves

Deleted: other

Formatted: Indent: Left: 2.54 cm, Space After: 0 pt

Formatted: Indent: Left: 1.27 cm

6.5 Quotations

When seeking new borrowings, at least 3 quotations will be sourced and documented, where practicable. After considering all relevant factors the quote that delivers the best value to the Community will be accepted, subject to Council authorising the borrowings.

- Deleted: taking
- Formatted: Indent: Left: 2.54 cm
- Deleted: successful

When making a term investment (ie greater than 30 days), at least 3 quotes will be sourced and documented. After considering all relevant factors the quote that delivers the best value to the Community will be successful.

Investment of cash at call will not be subject to formal documented quotations and will be made with regard to the best value for the Community.

Council's banking services are subject to the requirements outlined in Council's Procurement Policy.

6.6 Reporting

At least once a year Council will receive 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 the relevant LTFP financial targets.

- Deleted: Contracts and Tenders
- Formatted: Font: Not Bold
- Formatted: Indent: Left: 2.54 cm, Space After: 0 pt
- Formatted: Indent: Left: 1.27 cm
- Formatted: Indent: Left: 2.54 cm
- Deleted: at least once a year
- Formatted: Indent: Left: 1.27 cm
- Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Space After: 0 pt, Tabs: 3.51 cm, List tab + Not at 0.97 cm
- Formatted: Indent: Left: 2.54 cm, Space After: 0 pt, No bullets or numbering
- Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Space After: 0 pt, Tabs: 3.51 cm, List tab + Not at 0.97 cm
- Formatted: Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm
- Deleted: expected
- Formatted: Indent: Left: 1 cm
- Deleted: he effectiveness of t

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.campbelltown.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.

- Formatted: Indent: Left: 0.97 cm
- Deleted:

Appendix 1: Treatment of Reserves

The definitions of the reserves outlined in 6.4 are set out below. 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 into 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. Prior to the establishment of this Policy, 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 or defer 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 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 than the net cost of the interest expense associated with borrowing and the investment interest received required to cash back its reserves.

Deleted: 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:

- <#>Required by Accounting Standards (eg asset revaluation reserve)
- <#>Statutory reserves (eg open space contributions)
- Council discretionary reserves (eg asset renewal and replacement reserve) .

Deleted:

Formatted: Indent: Left: 1.16 cm

Deleted:

Deleted:

Formatted: Indent: Left: 1.16 cm

Deleted:

Formatted: Indent: Left: 1.16 cm

Deleted: Historically

Formatted: Font color: Auto

Formatted: Indent: Left: 1.16 cm

Deleted: allocate

Deleted: to Council

Page 5: [1] Formatted	ltownsend	8/11/2011 9:55:00 AM
Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm		
Page 5: [2] Formatted	ltownsend	8/11/2011 9:55:00 AM
Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm		
Page 5: [3] Formatted	ltownsend	8/11/2011 9:55:00 AM
Indent: Left: 2.54 cm, Hanging: 0.95 cm, Tabs: 3.51 cm, List tab + Not at 0.97 cm		
Page 5: [4] Formatted	ltownsend	8/11/2011 9:51:00 AM
Indent: Left: 1.27 cm, Tabs: 2.54 cm, List tab + Not at 1.27 cm		