Treasury Management Policy

Policy Reference Number	5080460
Responsible Department	Corporate Services
Related Policies	Nil
Related Procedures	Nil
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Last Reviewed by Council	5 December 2023

1. Purpose

This Policy sets the principles and criteria with regard to Council's treasury (cash) management in the context of its ABP&B (Annual Business Plan and Budget), LTFP (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 – 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

3. Strategic Plan Link

This Policy has the following link to Council's Strategic Plan 2024:

- Leading Our People (Goal 5)

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.

5. Definitions

Cash Advance	A loan where principal amounts can be repaid at any time and the calculation of interest payable is based 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 term the total principal would have been repaid
Financial Sustainability	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 Cover Ratio	Indicates the extent to which a Council's operating income is committed to its net interest expenses
Interest only	A loan where interest is repaid at regular intervals, with the principal not repaid until 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 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 income

Return	money made or lost on an investment over a period of time
Risk	the degree of uncertainty and/or potential loss inherent in an investment decision
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 preparation and adoption of the ABP&B and at Budget Reviews during the financial year on the basis of:

- Community needs and benefits relative to alternative expenditure options
- Cost effectiveness - affordability with respect to Council's LTFP
- AMP (Asset Management Plan) and asset replacement schedules
- Anticipated income.

The form and nature of any borrowings required is a 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 key financial targets. This means Council will:

- plan to achieve its adopted financial targets for both its Net Financial Liabilities and Interest Cover ratios
- manage any cash that is not immediately required to meet approved expenditure (including funds that are required to be expended for specific purposes, that are not required to be kept in separate bank accounts) will be used to reduce its level of borrowings, increase its investments, or to defer and/or reduce the level of new borrowings that would otherwise be required
- consider any penalties that may apply if Council elects to pay off any outstanding borrowings earlier than approved repayment schedules
- borrow cash in accordance with the needs set out in its LTFP and budgets.

6.2 Borrowings

Borrowings are not a form of income and do not replace the need for Council to generate sufficient operating income 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 its 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 key financial targets, which form the basis of its LTFP. Council does not match borrowings with specific projects and 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 and will not directly issue its own debt. No borrowing will occur for the purpose of investing funds without approval of Council.

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 the following borrowing mechanisms:

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

When borrowing Council will consider these key financial targets:

- Interest Cover Ratio
- Net Financial Liabilities Ratio.

Council does not place a physical monetary limit on the level of borrowings it may hold, however has an upper percentage limit in place through its financial targets.

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

- the reason for requiring 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 costs can be reduced 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 where timing of receipts does not match timing of payments. For this reason, Council may incorporate variable interest or short-term borrowings into its portfolio, such as Cash Advance Debentures or existing overdrafts.

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

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 equivalent to the official RBA (Reserve Bank of Australia) cash rate shall be kept at a level that is no greater than is required to meet immediate working capital requirements.

Taking into consideration the factors listed in Section 139(3) of the Local Government Act 1999, all investments must be made exercising care and diligence and with consideration of:

- 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 cash flow requirements

- the risk of the potential financial loss inherent in the investment decision

- the Government guarantee on the investment.

After taking into account the cash required to fund short term operations, such as payroll, Accounts Payable, cash received and other considerations, short term investments (ie up to 90 days) can be made using the following options:

- to access the government backed safety net, as offered through the Financial Claims Scheme (https://www.apra.gov.au/financial-claims-scheme-0), such that any investments held up to the value of $250,000 per ADI (Approved Deposit Institutions) may be made in the following manner:

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

For investments greater than $250,000, Staff can invest with the LGFA to access the State Government guarantee and any ADI that has a minimum Standard & Poor's rating of AA- to assist in achieving a higher rate of return.

Alternatively, Council can invest for a longer timeframe and be willing to forgo any Government guarantee to seek a higher return on its surplus cash and investments. The rate of return sought will be driven by Council's risk appetite, which in turn will determine the basis of the Council approved Investment Strategy.

The Council approved Investment Strategy will be developed by Investment Advisors and will confirm and consider the:

- type of asset allocation for investment, noting that the Investment Strategy will be set at a 'Conservative' or 'Moderate Conservative' portfolio
- framework for monitoring and reporting on investments
- risk, return, liquidity and legislative requirements of Council
- the requirements to undertake a prudential report.

The asset classes Council may use as part of its diversified investment portfolio include cash, term deposits, corporate bonds, subordinated notes, hybrid securities, fixed interest, listed property, and domestic and international shares.

Due to the specialised nature of this type of investment, in accordance with Section 139(5) of the Local Government Act 1999, Council will appoint independent Investment Advisors with the appropriate skills and experience to provide advice on its approved Investment Strategy.

The Investment Advisors appointed must be licenced by ASIC (Australian Securities and Investment Commission), be independent and confirm in writing that they have no actual or potential conflict of interest in relation to the investment products recommended, and are free to choose the most appropriate product within the terms of this Policy. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, unless these commissions or benefits are passed on directly to Council.

6.4 Reserves

Reserves are an allocation of Council's Accumulated Surplus. Council may establish various equity accounts called 'Reserves' to identify accumulated surpluses that will be used for specific future purposes. 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).

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 and an Urban Tree Fund under the Planning, Development and Infrastructure Act 2016. These Reserves are not required to be 'cash backed' by a separate bank account.

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

As an example, Council will use cash earmarked to be held in a Reserve as part of its 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 these funds are required for their original purpose. Borrowings would only be raised when additional cash is required.

This does not prevent Council from raising Council rates for the purpose of allocating money to a reserve. An example of this in the past has been Council raising rates to smooth out the impact of future asset management spending requirements and allocating them to the Renewal and Replacement Reserve. This has been used to avoid large rate increases in years where there is an expected peak spending requirement identified by the AMP or asset replacement schedules.

Whilst the allocation may 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/or defer borrowings.

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

It is important to note that whilst not 'cash backed', any Reserves will be represented by net assets in the Statement of Financial Position.

6.5 Quotations

When seeking new borrowings, at least three (3) quotations (one of which will be from the LGFA) 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.

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

6.6 Reporting

In accordance with Section 140 of the Local Government Act 1999, Council will receive a report summarising its borrowing and investments, which includes:

- the amount of each Council borrowing and investment, its interest rate, maturity date and term
- the proportion of fixed interest rate and variable interest rate borrowings at the end of the reporting period
- review of investment performance which compares returns to RBA cash rate or an appropriate benchmark.

7. Review & Evaluation

Within twelve months of each new Council term, Council will review this policy. Following this initial review, this policy will be reviewed at least biennially by Staff with minor administrative adjustments being approved by the Chief Executive Officer.

8. Availability of the Policy

Copies of this Policy will be available at Council's principal office during ordinary business hours and at Council's website www.campbelltown.sa.gov.au.

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 and are represented by net assets in the Statement of Financial Position.

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.

2. Statutory Reserves

Sections 198 and 200 of the Planning, Development and Infrastructure Act 2016 dictates that money received under these sections of the Act needs to be immediately accounted for in 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, however 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 where transfers may be made for specific purposes. Under the guidance of the Treasury Management Policy these Reserves will have amounts transferred to and from them, with the balance not necessarily cash backed at year end. Following the principles contained within this Policy, excess cash will be used to increase investments or to reduce or defer borrowings, where it is cost effective to do so. Borrowings 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. This is a cheaper alternative when comparing the net cost of the interest expense associated with borrowing with the investment interest received from any cash backed Reserves.