

THE BAROSSA COUNCIL

TREASURY MANAGEMENT POLICY



Strategic Plan Outcome:	4.1 Governance and Organisation - Responsibility	Document Code:	TBCPOC4150
Policy Owner:	Director Corporate and Community Services	Last Revised Date:	20/10/09
Document Control:	Manager Financial Services	TRIM Reference:	15/28491
Date Approved:	21 July 2015	Next Review Date:	1/6/2019

1. Purpose

- 1.1 This Policy is designed to provide clear direction to Council and its Officers in relation to the Treasury Management function. It underpins Council's decision-making regarding the financing of its operations as documented in its Annual Budget and Business Plan (AB&BP) and Long Term Financial Plan (LTFP) together with associated projected/actual cash flow of receipts and payments.
- 1.2 This Policy establishes a decision framework to ensure that:
- funds are available as required to support approved payments;
 - the interest rate 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 minimised (on average) over the longer term.

2. Scope

- 2.1 This Policy is to be applied by Council and its Officers involved in the Treasury Management function.
- 2.2 This Policy covers the following areas of Treasury Management:
- Treasury Management Strategy
 - Borrowings
 - Investments
 - Reporting

3. Definitions

Asset Sustainability Ratio	The Asset Sustainability Ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with the asset renewal and replacement expenditure identified as warranted in Council's Infrastructure and Asset Management Plan's (IAMP). It is calculated by measuring capital expenditure on renewal or replacement of assets for a period, divided by the optimal level of such expenditure proposed in a Council's IAMP.
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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 without unplanned increases in rates or disruptive cuts to services.
Intergenerational Equity (or fairness)	Involves the costs associated with expenditure being spread over time in accordance with the distribution of the benefits that are generated. Hence, an equitable tax system is one under which the taxes paid by each generation is in proportion to the benefits that generation receives from Government spending. It is commensurate with spreading costs in relation to the pattern of benefits over time so that one generation is not excessively subsidising another generation.
Key Performance Indicators	Key Performance Indicators also known as Financial Indicators and associated targets have been developed both in the public and private sectors to assist organisations and others who are interested in an entity's financial performance, to understand the messages that its financial statements contain and help guide revenue and expenditure decisions and overall budget strategies.
LGFA	Local Government Finance Authority (LGFA) – A Government guaranteed statutory authority established for the benefit of councils and other Prescribed Local Government Bodies within the State.
Net Financial Liabilities Ratio	Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in Council businesses). The Net Financial Liabilities Ratio is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating income for the year.
Officer	An Officer of Council is a person employed pursuant to an employment contract and or engaged under a relevant industrial instrument such as the relevant enterprise agreement.
Operating Surplus Ratio	The operating surplus ratio is the operating surplus (or deficit) expressed as a percentage of operating income. An operating surplus (or deficit) arises when operating income exceeds (or is less than) operating expenses for a period (usually a year).
Reserves	Councils may use 'reserve accounting' as a useful means of recognising and planning for future proposals. A Council may therefore establish various equity accounts (or 'reserves') within its balance sheet to identify an allocation for future purposes. Reserves are not cash backed unless required by legislation or agreement with other parties.
Surplus Funds	Funds over and above a level which is required to meet Council's immediate working capital requirements.
Treasury Management	The management of Council cash, investments, Reserves, borrowings and other financing mechanisms.

4. Policy Statement

4.1 Treasury Management Strategy

4.1.1 Council's operating and capital expenditure decisions are made on the basis of:

- the identified community need and benefit relative to other expenditure options;
- the cost effectiveness of the proposed means of service delivery; and
- the 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 Operating Surplus Ratio, Asset Sustainability Ratio and Net Financial Liabilities ratio).

4.1.2 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, ie that the ratio will not exceed 100% of total operating revenue;
- not retain and quarantine money in Reserves for particular future purposes unless required by legislation or agreement with other parties;
- generally only borrow funds when it needs cash and not specifically for particular projects, ie use available surplus cash and investments before undertaking a new borrowing ; and
- consider the use of any funds that are not immediately required to meet approved expenditure for reducing the current level of borrowings.

4.2 Borrowings

4.2.1 Interest Rate Risk Exposures

4.2.1.1 Council should aim to keep debt levels both during a year and over periods of years as low as its AB&BP and LTFP allow (and its AB&BP and LTFP should be based on best meeting community needs in an equitable and Financially Sustainable manner).

4.2.1.2 On average over time, fixed interest rate borrowings normally are slightly more expensive than variable rate ones because of the certainty they offer. When assessing new external loan borrowings (after utilisation of internal cash reserves in accordance with this Policy), consideration will be given to the following to minimise net interest costs:

- Term of loan (including consideration of Inter-Generational equity issues and matching the life of the loan with the projected useful life(s) of the associated assets where the funds are being utilised to Finance major projects requiring a prudential report pursuant to Section 48 of the Local Government Act 1999 and the Prudential Management Policy).
- Fixed vs Variable rate of interest (including consideration of utilising the Cash Advance Debenture facility from the Local Government Finance Authority of SA that requires interest payments only and enables any amount of principal to be repaid or redrawn at call).
- Target / threshold levels for Council's Key Financial Performance indicators.

4.2.1.3 Council monitors its Net Financial Liabilities Ratio incorporating Council's Borrowings as projected through the LTFP and AB&BP and then assessed in the Mid-year Budget Review, Annual Financial Statements and Report on Financial Results to the adopted target range.

4.2.2 Loans to/Guarantor for Community Groups

4.2.2.1 From time to time Community Groups approach Council for financial support by way of self-supporting loans or as Guarantor for an external loan. Council must not provide financial services to the market and therefore cannot provide access to loans except in specific circumstances.

- 4.2.2.2 Council may consider applications where there are no other funding options available or where the external financial arrangement is not an appropriate option for the Community Group (evidence must be provided to demonstrate that other options have been exhausted).
- 4.2.2.3 Community self-supporting loans and/or Council being Guarantor for an external loan will only be considered for capital asset acquisition or development which is consistent with Council's Strategic Plan and not for operational equipment or operating expense purposes and which only benefit the community, not individuals or businesses.
- 4.2.2.4 Applications for Community Loans or for Council to be a Guarantor for an external loan will be submitted on the Community Loan Proposal Form and guided by the Community Loan guidelines.
- 4.2.2.5 Approved Community Loan arrangements will be governed in accordance with agreed memorandum of understanding between the parties and formal loan repayment arrangements.

4.3 Investments

- 4.3.1 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.
- 4.3.2 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.
- 4.3.3 When investing funds Council will select the investment type that delivers the best value, having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors. This policy does not stipulate that the highest rate should be accepted, but that the investment which delivers the best value to Council should be selected.
- 4.3.4 Officers appointed under the Sub Delegation Register Section 48 may, from time to time, invest surplus funds in:
- deposits with the Local Government Financing Authority; and/or
 - bank interest bearing deposits or investment accounts with Council's current banking service provider.
- 4.3.5 Any other investment(s) require the specific approval of Council.

Legislative Requirements

All investments are to be made in accordance with the provisions of the Local Government Act 1999, with particular regard to the following:

- The purpose of the investment
- The desirability of diversifying Council investments
- The nature of and risk associated with existing Council investments
- The desirability of maintaining the real value of the capital and income of the investment
- The risk of capital or income loss or depreciation
- The potential for capital appreciation
- The likely income return and the timing of income return
- The length of the term of a proposed investment
- The period for which the investment is likely to be required
- The liquidity and marketability of a proposed investment during, and on the determination of, the term of the investment
- The aggregate value of the assets of the Council
- The likelihood of inflation affecting the value of the proposed investment
- The costs of making a proposed investment
- The results of any review of existing Council investments.

4.5 Reporting

At least once a year Council (through the Audit Committee) shall receive a specific report regarding Treasury Management performance relative to this policy document. The report shall highlight:

- for each Council borrowing and investment - the quantum of funds, its interest rate and maturity date, and changes in the 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.

5.	Supporting Documentation
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- Treasury Management Process
- TBCFOR4152 – Community Loan Proposal Form [15/12163](#)
- TBCUSG4153 – Community Loan Guidelines [15/13439](#)
- Banking Services Manual [15/8005](#)

6.	Related Policies
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- TBCPOC4200 – Funding Policy
- TBCPOC4700 – Prudential Management Policy
- TBCPOC4400 – Budget and Business Plan and Review Policy

7.	References
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The Barossa Council Sub Delegations

- Ability to Give Security
- Investment Powers
- Review of Investments

Local Government Act 1999

- Section 44
- Section 47
- Section 48
- Section 121
- Section 122
- Section123
- Section 133
- Section 134
- Section 135
- Section 139
- Section 140

Local Government (Financial Management) Regulations 2011

- Part 2

8.	Review
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This Policy shall be reviewed by the Council in consultation with the relevant stakeholders, within four years or more frequently if legislation or Council needs change.

9.	Further Information
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This policy is available on Council’s website at www.barossa.sa.gov.au. It can also be viewed electronically at Council’s principal office at 43-51 Tanunda Road, Nuriootpa and all Council branches, during ordinary business hours. A copy of this Policy can be obtained at those venues upon payment of a fixed fee.

Any complaint in relation to this Policy or its application should be forwarded in writing addressed to the Chief Executive Officer, PO Box 867, Nuriootpa SA 5355.

SIGNED:

Mayor

DATED: ____/____/____