Treasury Management Policy

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Responsible Directorate:	Director City Corporate
Lead Reviewer:	Manager Finance
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Legislation:	*Local Government Act 1999 (SA)* *Local Government (Financial Management) Regulations 2011*
Related Documents:	*Annual Business Plan & Budget* *Long-Term Financial Plan* *Community Plan* *Asset Management Plans*

CITY OF PROSPECT

1. Purpose:

1.1 The Treasury Management Policy (the policy) sets the principles and procedures to ensure appropriate management of Council's cash, cash equivalents, investments and borrowings to fund Council's recurrent, operating projects and capital expenditure. This is considered in the context of its Annual Budget and Long-Term Financial Plan (LTFP).

1.2 The purpose of this policy is also to provide a clear decision-making framework so that:

1.2.1 Funds are available as required to support approved expenditure and strategic objectives;

1.2.2 Liquidity, interest rate, credit, concentration, refinancing and other treasury risks acknowledged and responsibly managed;

1.2.3 The net interest costs associated with borrowing and investing are reasonably minimised over the medium to longer term;

1.2.4 Surplus funds are managed prudently, with preservation of capital and liquidity taking priority over return; and

1.2.5 Council's treasury activities are undertaken in a manner that supports long-term financial sustainability and complies with legislative and common law responsibilities.

2. Scope:

2.1 This policy applies to all treasury management activities of Council, including borrowings, cash management, investments, associated cash flow forecasting, and related treasury reporting. It is to be applied in conjunction with Council's Annual Budget, Long-Term Financial Plan, Strategic Asset Management Plans, Prudential Management Policy, Delegations and other relevant financial policies and procedures.

3. Definitions:

Term	***Definition***
Cash Advance Debenture	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 Debenture	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. Usually the interest rate is fixed for the period of the loan, but can be variable.
Debenture	a type of debt instrument; in local government it is normally secured against future rates income of a Council. They can be either Cash Advance or Credit Foncier.
Inter-Generational Equity	the concept of spreading both the costs of large assets or the benefits of financial windfalls over the medium to long term so that not just a single generation of ratepayers either incur or benefit from the impacts of such events.
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	the extent to which net financial liabilities of a Council could be met by its operating revenue.
New Borrowings	the creation of a new borrowing facility whether it be a Credit Foncier Debenture or a Cash Advance Debenture. This does not include the management of pre-existing facilities.
Liquidity Risk	the risk that Council will not have sufficient cash or access to funding to meet its financial obligations as and when they fall due.
Credit Risk	the risk of financial loss arising from a counterparty failing to meet its obligations in full and on time.
Concentration Risk	the risk of over-exposure to a single counterparty, institution, product type or maturity period.
Interest Rate Risk	the risk that movements in market interest rates will adversely affect Council's borrowing costs or investment returns.
Refinancing Risk	the risk associated with a high concentration of debt maturities falling due within a short period.
Speculative Transaction	a transaction entered into primarily to generate profit from movements in interest rates, prices, indices, or market conditions rather than to manage Council's genuine funding, liquidity or investment requirements.

4. Legislative and Corporate Requirements:

4.1 The Treasury Management Policy is to be read and implemented in conjunction with Council's other relevant policies, strategy documents and other legislation, including but not limited to:

4.1.1 The Local Government Act 1999

4.1.2 The Local Government Financial Management Regulations 2011

4.1.3 Council's Annual budget

4.1.4 Council's Long-Term Financial Plan

4.1.5 Council's Strategic Asset Management Plans

4.1.6 Council's Prudential Management Policy

4.1.7 Council's delegations and related financial procedures

4.1.8 Australian Accounting Standards

4.2 This policy is approved by Council and no material amendment is to be made without Council approval. Management may establish administrative procedures and internal treasury limits consistent with this policy, approved delegations and Council resolutions.

5. Review

5.1 This policy establishes a framework to ensure sound treasury management, including how cash, cash equivalents investments and financial borrowings will be managed over the short, medium and long term to fund Council operations. Council will establish and adopt key financial indicators and target ranges as part of its Annual Budget and Long-Term Financial Plan. Prior to adoption, these indicators will be reviewed by the Audit and Risk Committee, having regard to industry benchmarks, including guidance from the Local Government Association, to support informed decision making and financial sustainability. Council will manage its treasury activities holistically in the context of its Annual Budget, Long-Term Financial Plan, projected cash flows and strategic objectives.

5.2 Inter-Generational Equity

A key challenge Council faces is the need to address principles of inter-generational equity. This is the concept of spreading both the costs and benefits associated with Council services, infrastructure and financial resources are shared fairly between current and future generations of ratepayers.

A fundamental element of inter-generational equity is ensuring that the consumption of Council's infrastructure and other assets through depreciation and ensuring appropriate provision is made for their renewal and replacement over time. This assists with ensuring that the costs of maintaining service levels are borne fairly by those who benefit from assets and services provided.

Treasury management supports this objective through the prudent management of Council's cash flows, investments and borrowings within the context of Council's Long-Term Financial Plan and broader financial sustainability objectives.

Borrowing may be utilised where appropriate to support Council's long-term infrastructure and service delivery objectives, while prudent investment of surplus funds or one-off financial gains, such as proceeds from the sale of major Council assets, can enable benefits to be realised over an extended period and support equitable outcomes across generations.

5.3 Treasury Management Objectives and Core Considerations

This Policy establishes a decision framework to ensure that funds are appropriately managed including that:

- interest rate, liquidity and investment credit risks are acknowledged and responsibly managed,
- net interest costs associated with borrowing are minimised on average over the longer term,
- net interest income from investments is maximised over the term of the investment product, and
- returns on surplus funds are maximised whilst safeguarding those funds from any losses.

In applying this policy, Council's treasury priorities are, in order:

1 - Preservation of capital

2 - Maintenance of adequate liquidity

3 - Management of financial risk and

4 - Optimisation of return, subject to the first three priorities

Council will not enter into speculative transactions. Treasury activities are to be undertaken within a controlled environment supported by appropriate segregation of duties, accurate records, reconciliations, reporting and oversight.

5.4 Treasury Risks

Council recognises the following principal treasury risks and will manage them prudently:

- Liquidity Risk – by maintaining sufficient cash at call, reliable cash flow forecasting and access to standby funding when required;
- Credit Risk – by limiting investment counterparties to those meeting Council's approved credit criteria;
- Concentration Risk – Council recognises that, in practice, a significant proportion of its borrowings and investments may be undertaken through the Local Government Finance Authority (LGFA), having regard to its role within the local government sector and its strong credit profile. While this may result in a

concentration of exposures to a single institution, Council considers this approach appropriate. Concentration risk will be managed through ongoing monitoring of the LGFA's financial position, credit standing, and the broader diversification of Council's treasury portfolio across maturity profiles, interest rate structures and funding sources where appropriate;

- Interest Rate Risk – by considering the mix of fixed and variable rate exposures across borrowings and investments;
- Refinancing Risk – by seeking to avoid an undue concentration of loan maturities in any one period; and
- Operational Risk – by ensuring treasury activities are undertaken in accordance with approved delegations, internal controls and reporting requirements

5.5 Roles and Responsibilities

Council:

- Adopts this policy and any material amendments.
- Approves new borrowings and overall borrowing levels, except where delegation has been lawfully made.
- Receives treasury management reporting and reviews treasury performance and risks.

Audit and Risk Committee

- Review treasury management reporting, monitor compliance with this policy and provide advice to Council and Management
- Does not undertake an executive treasury approval role unless expressly conferred by Council and legally appropriate

Chief Executive Officer (or delegate)

- Oversees implementation of this policy and compliance with Council decisions and delegations

Manager Finance

- Is responsible for the day-to-day treasury management function, including liquidity management, cash flow forecasting, implementation of approved borrowings and investment decisions, maintenance of treasury records and reporting under this policy

5.6 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 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. While borrowings may be undertaken to support specific capital projects, strategic land purchases or other Council-approved initiatives, borrowing decisions will be assessed having regard to Council's overall funding requirements, projected cash flows, debt capacity, financial sustainability objectives and the impact on key financial indicators.

Council will generally only borrow to support long-term funding requirements associated with strategic land purchases, major upgrades, new assets or other Council-approved strategic purposes. Council also recognises asset renewal should generally be funded from operating revenues in accordance with its Asset Management Plans and Long-Term Financial Plan. Borrowing for asset renewal will generally only be considered where Council determines that there is a strategic benefit in bringing forward renewal works, responding to unforeseen asset failures, grant opportunities, or undertaking renewal expenditure that exceeds planned funding capacity.

Council will generally seek to fund its ongoing operating expenditure from recurring revenue sources. However, short-term borrowings may be utilised where necessary to manage working capital requirements, timing differences in cash flows, or other circumstances that are consistent with Council's Long-Term Financial Plan and broader financial sustainability objectives.

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 may utilise various borrowing mechanisms:

- Fixed Interest borrowings
- Variable Interest borrowings
- Interest only borrowings

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. Council may determine, review and monitor internal target ranges or other treasury parameters from time to time to support prudent management of interest rate and refinancing risk.

When borrowing Council will consider these financial indicators:

- Interest Cover Ratio
- Net Financial Liabilities Ratio

Council does not place a physical monetary limit on the level of borrowings it may hold however an upper limit through its key financial indicators is placed.

In approving borrowings, Council will also have regard to:

- The Annual Budget and LTFP;
- The affordability of debt servicing having regard to existing and forecast operating performance and cash flows;
- The useful life and strategic nature of the asset or purpose being funded, where relevant;
- The overall debt maturity profile and refinancing concentration; and
- Council's overall risk appetite and capacity to service debt.

All borrowings must be made exercising care and 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, and
- cost of making and maintaining the borrowing.

As there is usually a material margin between borrowing and investment rates, Management 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 the use of a cash advance debenture.

The length of the loan considered by Management on a case-by-case basis having regard to the purpose of the borrowing, projected cash flow, inter-generational equity, and the objective of balancing cost and flexibility.

When a new borrowing is being considered, Management will prepare a report for Council (or the relevant delegate, where lawful delegation exists) outlining the purpose, amount, term, type, indicative interest rate, impact on financial indicators, and consistency with the LTFP and this policy. The Audit and Risk Committee will review treasury management reporting and provide advice, but operational treasury decisions are to be exercised in accordance with Council-approved delegations.

5.7 Liquidity

5.7.1 Council will maintain sufficient liquidity to meet approved expenditure, forecast cash needs and reasonably foreseeable contingencies.

5.7.2 At all times Council will seek to maintain an appropriate level of cash at call and/or available facility capacity, having regard to cash flow forecasting, the timing of major receipts and payments, and the ability to avoid avoidable short-term borrowing costs.

5.7.3 Council may maintain a standby facility, overdraft, cash advance facility or equivalent arrangement where considered prudent for liquidity management purposes. Any such facility is to be established and managed in accordance with approved delegations and Council resolutions.

5.8 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.

5.8.1 Investments undertaken in the normal course of Council operations

After taking into account the cash required to fund the daily operations of Council, and all borrowings that can be repaid have been surplus cash will be invested will be invested in a 24 hour facility with the LGFA while maintaining a prudent cash balance at the bank.

Where Management considers that that there is a high probability that a surplus cash position will not be required within a 3 - 6 month period then the surplus will be invested in a 90 day, or equivalent facility, with the LGFA.

5.8.2 Investments undertaken outside the normal course of Council operations

When a surplus cash position occurs that is not required to meet daily operations and not envisaged by management to be required in the next 6 months then this surplus cash can be invested in

- Deposits with the LGFA,
- Bank interest bearing deposits, with the current Bank providing banking services to Council,
- State/Commonwealth Government Bonds, or
- Bank accepted/endorsed bank bills.

Council's investment priorities are, in order, preservation of capital, maintenance of liquidity and optimisation of return.

Council must not invest in products that it does not understand, in derivatives for speculative purposes, or in any investment that would expose Council to foreign currency risk unless expressly authorised by Council and supported by appropriate legal and financial advice.

The length of the investment will be considered by Management on an investment-by-investment basis having regard to forecast liquidity requirements, market conditions, diversification, the credit risk and the counterparty and Council's approved treasury limits.

Management may undertake investments in accordance with this policy and approved delegations. Investments outside management delegation, long-dated invested or investments in product classes not previously approved by Council are to be referred to Council for approval. The Audit and Risk Committee may review treasury reporting and provide advice as part of its oversight role.

5.8.3 Investment Process and Investment Counterparty Requirements

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 cash flow requirements
- credit quality and security of capital diversification by institution, maturity and product type, and
- consistency with Council's liquidity needs and treasury limits

All investment counterparties must have a Standard & Poor Global rating or at least AA-. Should the investment counterparty be downgraded then where possible efforts should be made to withdraw from the deposits as soon as practicable.

Council will seek to diversify its investment portfolio so as to avoid excessive exposure to any single counterparty or maturity date. Management may establish internal counterparty, term and concentration limits consistent with this policy and Council-approved risk appetite.

All Councils financial borrowings and investments will be held in Australian dollars.

No fewer than three written quotations should be obtained for each investment where practicable. Where three quotations are not practicable, the reasons are to be documented.

5.9 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 & Car Parking Contributions);
- Council discretionary reserves (eg Renewal and Replacement Reserve).

There are very few circumstances where a Council is legally required to quarantine cash. In order to receive contributions, Council is legally required to hold a Reserve for Open Space contributions and a Car Parking Reserve under the PDI Act. These Reserves are not required to be 'cash backed' by a separate bank account.

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 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 the funds are required for the 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 approach is where Council raises rates to smooth the impact of future asset management expenditure requirements and allocates those amounts to a Renewal and Replacement Reserve.

The Reserve may not be fully cash-backed at all times, as Council manages cash holistically and may utilise available cash to reduce or defer borrowings until the funds are required for their intended purpose.

Any Reserve balance will continue to be represented by Council's net assets and recognised within the equity in the Statement of Financial Position.

5.10 Valuation and Measurement

The City of Prospect shall comply with the Australian Accounting Standards.

Investment returns are calculated as gross returns, including interest earned, premiums and discounts.

Investments will be carried at market valuations or otherwise accounted for in accordance with the applicable Australian Accounting standards and Council's accounting policies

5.11 Annual Review, Reporting and Financial Ratio Monitoring

An annual review of the treasury management performance will be undertaken in accordance with section 140 of the Local Government Act 1999.

Each year a report will be prepared by Management and presented to the Audit and Risk Committee prior to presentation to Council, that summarises the performance of each investment and borrowing and the performance of the investment portfolio as a whole relative to this policy document.

The report will include:

- for each Council investment and borrowing – the name of the financial institution, the quantum of funds invested, the interest rate, the maturity date and the interest earned or paid;
- the proportion of fixed interest rate and variable interest rate borrowings at the end of the reporting period and commentary on the maturity profile of borrowings;
- a summary of compliance with this policy, approved delegations and any internal treasury limits;

- a summary of liquidity held and major treasury risk exposures
- details of any new borrowings or investments entered into during the period; and
- full details and explanation of any instances of deviation from this policy during the year.

The Manager Finance will monitor the Interest Cover Ratio and Net Financial Liabilities Ratio and report to the Audit Committee as part of the LTFP and budget preparation process.

The Manager Finance will report to Council and/or the Audit and Risk Committee, at the earliest practicable opportunity, and without undue delay , on treasury management matters, including where there has been a material market event, downgrade, breach, or other treasury issue requiring escalation.

6. Review

The Policy will be reviewed at least once every four years, or more frequently as required by legislation, organisational need, market developments, or material changes to Council's financial strategy, risk profile or treasury activities.

7. Access to the Policy

The Policy is available for public inspection on Council's website www.prospect.sa.gov.au and from Customer Service at the Payinithi, 128 Prospect Road, Prospect SA 5082.

8. Further Information

For further information about this policy please contact:

Director City Corporate
City of Prospect
128 Prospect Road
Prospect SA 5082

Ph 8269 5355
Email admin@prospect.sa.gov.au

Appendix