

 NORTHERN AREAS COUNCIL	TREASURY MANAGEMENT POLICY	Version No:	1.00
		Last Adopted:	13 December 2022
		To be Reviewed	December 2024
Type	Governance		
Category	Corporate		
Responsible Officer	Manager Corporate Services		
First Issued / Adopted	13 December 2022		
Review Period	2 years		
Last Reviewed	13 December 2022		
Minute Reference	Carried 11105		
Next review Date	December 2024		
Applicable Legislation	Local Government Act, 1999 Local Government (Financial Management) Regulations, 2011 Australian Accounting Standards		
Public Consultation Required	No		
File Reference	190.3.2 - FINANCE, BANKS, BANKING, LGFA LOAN APPLICATIONS		

1. PURPOSE

This Policy has been prepared and adopted pursuant to section 262B of the *Local Government Act 1999* (the Local Government Act).

The Treasury Management Policy sets the guidelines for sound management of Council's financial transactions with regards to borrowings and investments, ensuring compliance with relevant legislation.

This Treasury Management Policy provides clear direction to management, staff and Council in relation to the treasury function and establishes that a decision framework ensures that:

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

2. GLOSSARY

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. Commercial credit foncier borrowings (including to local governments) usually have a fixed rate of interest.

Financial Assets – include cash, investments, receivables and prepayments. Equity held in a Council business is normally regarded as a financial asset but is excluded for the purpose of calculating Local Government published financial indicators. Also, inventories and land held for resale are not regarded as financial assets.

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 service.

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.

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

Non-Financial or Physical Assets – means infrastructure, land, buildings, plant, equipment, furniture and fittings, library books and inventories.

Operating Deficit – occurs where the value of operating revenues less operating expenses is negative and operating income is therefore not sufficient to cover all operating expenses.

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

Operating Revenues – are “operating revenues” as shown in the Income Statement but exclude profit on disposal of non-financial assets and grants and contributions received specifically for new/upgraded infrastructure and other assets.

Operating Surplus – occurs where the value of operating revenues less operating expenses is positive and operating revenue is therefore sufficient to cover all operating expenses.

Operating Surplus Ratio – is the operating surplus (deficit) expressed as a percentage of general and other rates net of rate rebates and revenues from the Landscape Levy. (Landscape Levy expenditure should also be removed from the surplus/ (deficit)

Rates Revenue – is general and other rates net of the impact of rate rebates and revenue from the NRM levy.

3. PRINCIPLES

This Treasury Management Policy provides clear direction to management, staff and Council in relation to the treasury function and establishes that a decision framework ensures that ensures:

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

4. SCOPE OF THE POLICY

This policy underpins Council's decision-making in the financing of its operations in the context of its annual budget & long-term financial plan and associated projected liquidity management.

Council will maintain a Long-term Financial Plan and is committed to operating in a financially sustainable manner.

The Local Government Act requires Council to approve all borrowings. Council may also discharge this responsibility by approving borrowings for the year at the time the annual budget is adopted. However Council may borrow unbudgeted loan funds during the year if the occasion arises and Council adopts the borrowing recommendation.

4.1 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).

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

- revise and maintain annual target ranges for its Net Financial Liabilities
- 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;

4. SCOPE OF THE POLICY

4.1 Treasury Management Strategy (Cont'd)

- apply any funds that are not immediately required to meet approved expenditure to defer and/or reduce the level of new borrowings that would otherwise be required.

4.2 Interest Rate Risk Exposure

4.2.1 Fixed interest rate versus Variable interest rate borrowings

Council may raise borrowings through the Local Government Finance Authority using any of the following options:

FIXED RATE

(i) Fixed Rate Loan

Fixed Credit Foncier borrowings are a loan with equal repayments (usually semi-annual) comprising principal and interest, over the life of the loan and where all the principal is repaid over the life of the loan. The repayment schedule is agreed on inception of the loan and fixed for the duration of the loan. The loan amount is drawn in one payment.

(ii) Fixed Rate Interest Only Borrowings

Fixed Rate Interest Only Borrowings are loans where only interest is paid over the life of the loan. The repayment schedule is agreed on inception of the loan and fixed for the duration of the loan. At the end of the loan the principal is repaid in a lump sum.

(iii) Split Term Fixed Rate Credit Foncier Borrowings

This is a loan where a residual or balloon repayment is required to be repaid or refinanced at maturity, as the periodic repayments do not fully repay the principal amount during the term of the loan.

(iv) Low Start Fixed Rate Credit Foncier Borrowings

This is a loan where the initial payments (which may be zero) do not fully cover the principal and interest. The repayment schedule is structured to have increasing repayments so that loan is repaid in full by the end of the loan term.

VARIABLE RATE

(i) Convertible Cash Advance Debenture Facilities (CAD)

These are flexible facilities that can be used as a floating rate facility or fixed for varied periods on an interest only basis. South Australian councils predominately use these facilities on a floating rate of interest. The principal can be drawn down or repaid with 24 hours' notice.

4. SCOPE OF THE POLICY

4.2 Interest Rate Risk Exposure

4.2.1 Fixed interest rate versus Variable interest rate borrowings (Cont'd)

The first four loan types have a fixed interest rate for the term of the loan, while the CAD has a variable rate which is linked to the Reserve Bank cash rate.

Fixed rate loans are usually purpose driven, ie funding a capital project, and the term of the loan is matched to the expected service of the asset being funded. For example, a loan for a grader may be of 7 years duration and a loan for a building extension may be 15 years or longer.

Variable rate loans are used typically for shorter term liquidity management, and repaid when that additional liquidity is no longer required.

4.3 Investments

Council management may from time to time invest surplus funds in:

- Deposits with the Local Government Finance Authority
- Bank accepted / endorsed bank bills
- Bank negotiable Certificate of Deposits
- Bank interest bearing deposits
- State / Commonwealth Government Bonds
- Deposits with Credit Unions

Subject to the following exposure limits

4.3.1 Investment Limits

Investments shall not be made with institutions or products with a rating below that listed below, and nor should the amount invested exceed the following percentages of total short-term investments.

Type	S&P Short Term Rating	S&P Long Term Rating	Maximum Holding
LGFA Deposits	n/a	AA	100%
Other products and institutions	A-1+	AAA to AA-	75%
Other products and institutions	A-1+	A+ to A-	
Credit Unions	n/a	n/a	25%

4.3.2 Calculation of Maximum Holding

The Maximum Holding is the amount of the investment, plus any other investments of the same type, at the time of making the investment, as a percentage of the current total of council investments, or the anticipated total of investments in 5 working days' time.

Any other investment requires specific approval of Council.

Excess cash not required for immediate liquidity purposes is invested with the LGFA or an at call account with Councils current bank. The interest rate applied to those deposits is the Reserve Bank of Australia official targeted cash rate.

Accordingly, as there is usually a significant margin between borrowing and investment rates, Council will seek to avoid holding excess general cash investments in reserve. Council will retain a fixed level of investments for contingency purposes, which it will review during the annual budget process.

Council funds that are not immediately required for operational needs will be invested. The balance of funds held in any operating bank account that doesn't generate investment returns consistent with "at call" market returns, 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, may be invested for a fixed term.

When investing funds within the above criteria the investment which delivers the best value to Council is to be selected having regard to investment returns, transaction costs and other relevant and objectively quantifiable risk factors.

4.4 Financial Delegations

The CEO is responsible for the investment performance of the Council. The Manager Corporate Services is responsible for the daily operational liquidity management of the Council.

The CEO and the Manager Corporate Services will determine the financial delegations applicable to appropriate staff to ensure that financial transactions are able to be transacted when required.

4.5 Reporting

The Audit Committee will receive an Annual Treasury Review 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,

4. SCOPE OF THE POLICY

4.5 Reporting (Cont'd)

- 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.

5 RESPONSIBILITIES

The Manager Corporate Services is responsible for the updating, maintenance and review of the accounting policy to ensure that all accounting treatments are up to date and consistent with the Australian Accounting Standards.

It is the responsibility of the Audit Committee to review on an annual basis the report on Council's treasury management performance.

The external Auditor is responsible for the review of the financials to ensure consistency with Accounting Standards and with the above accounting policy.

6 FURTHER INFORMATION

This policy will be available for inspection at the Council office, 94 Ayr Street, Jamestown (Ph. 8664 1139) during ordinary business hours and available to be downloaded, free of charge, from Council's internet site: www.nacouncil.sa.gov.au

Copies will be provided to interested parties upon request.

Email admin@nacouncil.sa.gov.au

Date	Version No	Author	Reason for Amendment
13.12.22	1.00	DR	First adopted by Council